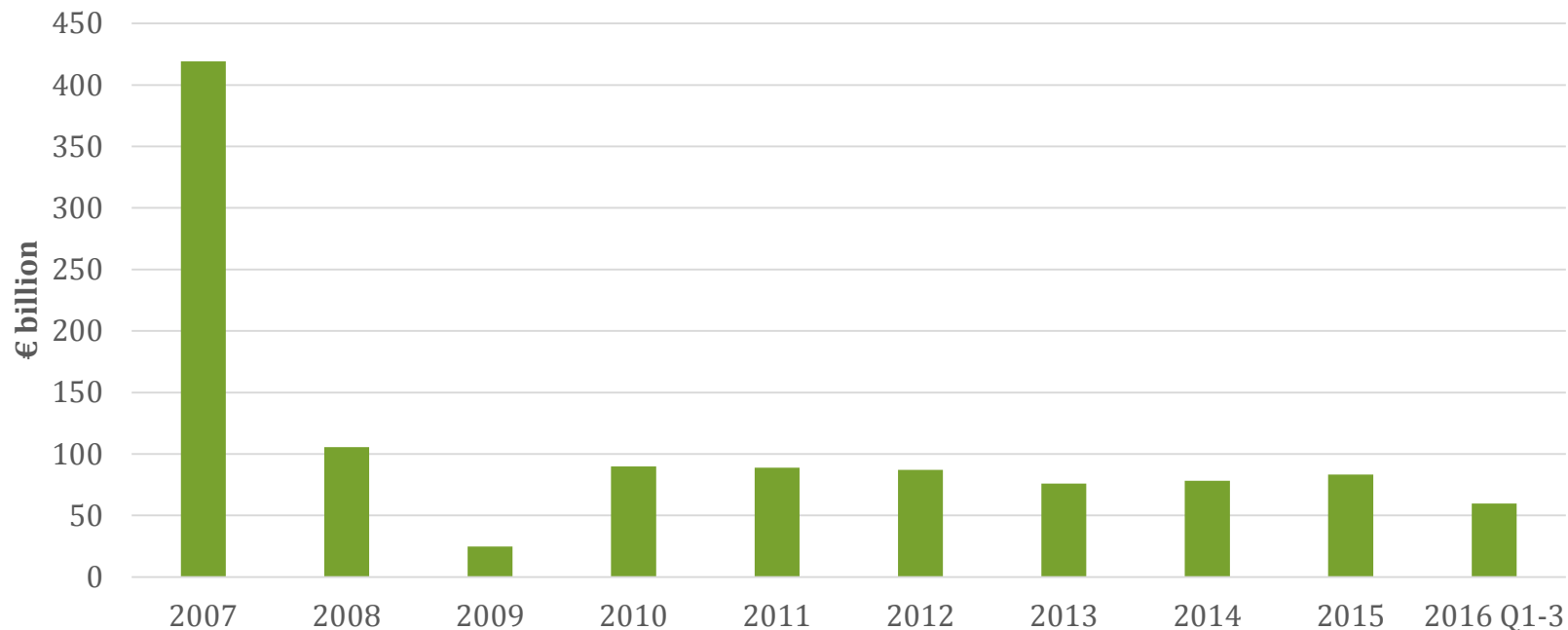


STS Securitisation: will the new framework deliver for Europe?

31 October 2016

AFME Members' Briefing Call
Richard Hopkin, Anna Bak, Alex Hunt

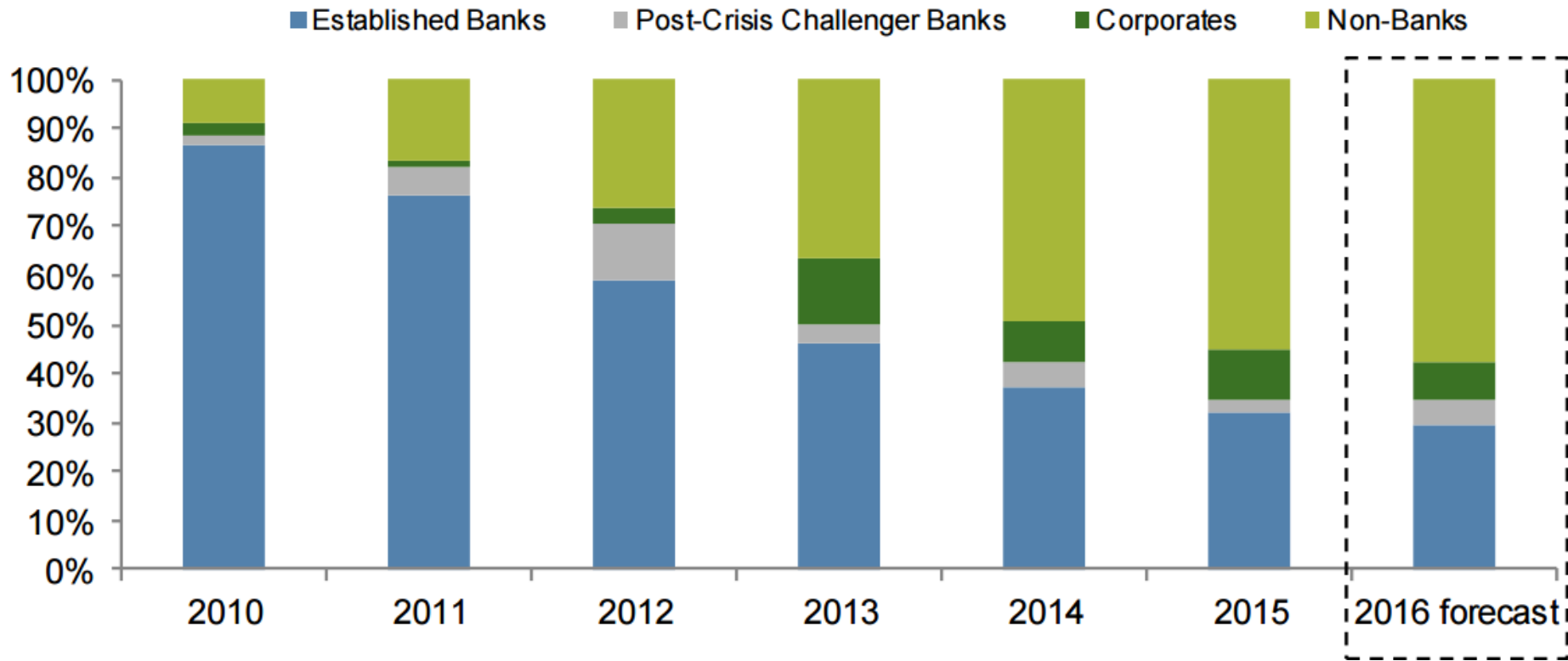
European Placed Issuance



Values in EUR bn	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 Q1-3
European placed	419.2	105.5	24.7	89.8	88.9	87.0	75.9	78.2	83.2	59.7
European retained	175.7	713.2	399.3	288.1	287.9	170.9	104.8	138.8	133.2	112.4
European retention (%)	30%	87%	94%	76%	76%	66%	58%	64%	62%	65%
Total European	594.9	818.7	423.9	378.0	376.8	257.8	180.8	217.0	216.4	172.2
Total US	2,080.5	934.9	1,385.3	1,203.7	1,056.6	1,579.2	1,515.1	1,131.5	1,620.7	1,339.8

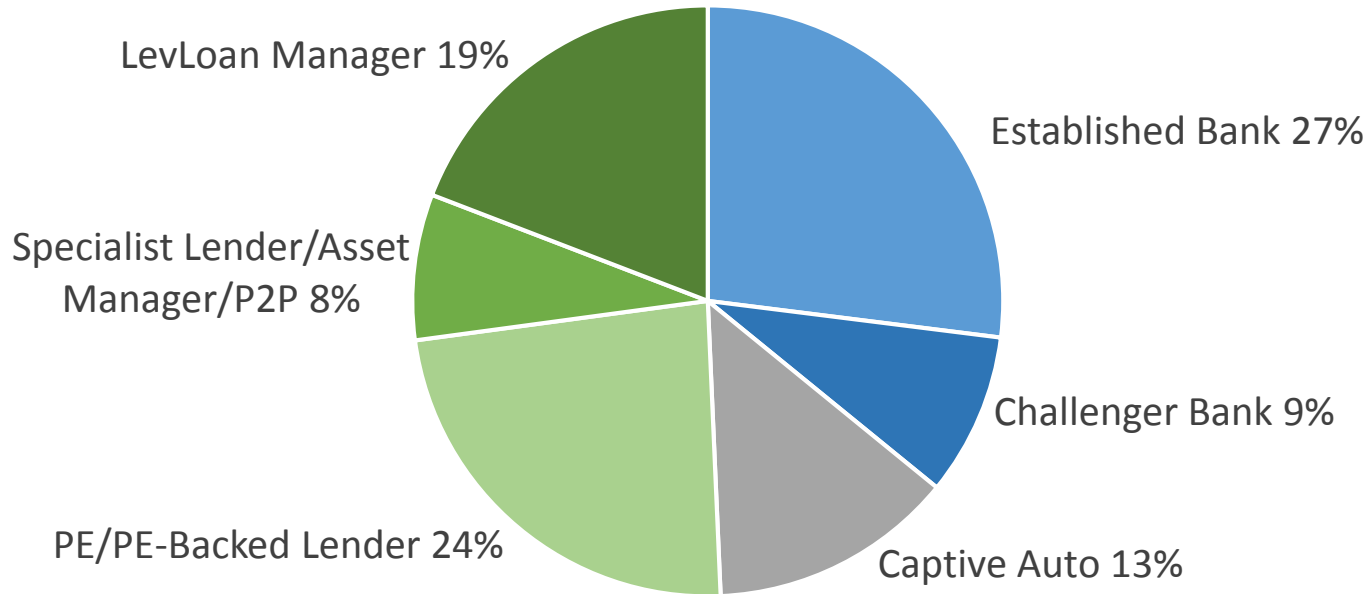
Source: AFME Q3 2016 Securitisation Data Snapshot

Primary supply by issuer type



Source: RBS Securitised Products Strategy

Total EU ABS Issuance in 2016 YTD



Source: RBS Securitised Products Strategy

Some market participants also see a shift from public to private issuance

Negotiations now well underway in the European Parliament

- Rapporteurs and Shadow Rapporteurs were appointed in December 2015:
 - STS regulation: Dr. Paul Tang, Netherlands, S&D group
 - CRR amendments: Pablo Zalba Bigedain, Spain, EPP
- ECON Committee public hearing took place in June 2016 followed by publication of the draft reports by the Rapporteurs on both regulations.
- The STS draft report proposed significant changes to the EC proposals; the CRR draft report somewhat less so.
- The most contentious topics included a 20% risk retention rate, disclosure, STS notification and the hierarchy of approaches.

MEPs subsequently proposed nearly 700 amendments to both regulations

- In the STS dossier, amendments focused on the key political issues:
 - Risk retention:
 - some called for maintenance of the existing 5% level, consistent with the Commission proposal and international standards
 - others support an increase to as much as 25%
 - Establishment of European Securitisation Data Repository
 - Application of full disclosure standards to private securitisation
 - ABCP conduits – variety of amendments on maturity cap
 - Some support for a balance sheet synthetics framework contrasted with calls for an outright ban from S&D, Greens and GUE
 - Ban on re-securitisations
- In the CRR dossier, the hierarchy of approaches and capital calibration remain at the centre of discussions.

- A new portal to hold various items of information on securitisation transactions.
- While AFME strongly supports transparency initiatives any new requirements should build upon existing work.
- Building an entirely new additional portal would be time-consuming, costly and create confusion for investors and further burdens for issuers.
- Securitisation in Europe is not failing to recover because of shortcomings in disclosure.

- Given the global nature of the securitisation markets, care must be taken to ensure that cross-border market access and real economy financing is not adversely impacted.
- In particular, any jurisdictional limitations adopted as part of the new regime with respect to key transaction parties (including originators, sponsors, issuers and/or investors) and their participation in EU securitisations would be highly problematic and risks a further suppression of the EU securitisation market.
- If securitisations from outside the EU cannot be designated STS then this would result in exposures with similar levels of credit risk being treated differently in terms of regulatory capital.

Treatment of legacy transactions is becoming a key political issue

- Without treatment for legacy transactions, many securitisation transactions, which have performed well, will not meet the STS criteria for purely technical reasons.
- This could subject existing investor holdings to harsher capital requirements, LCR ineligibility, harsher NSFR treatment and other disadvantages compared with STS transactions.
- This would damage investor confidence and lead to fire sales of assets.
- Careful grandfathering provisions are needed to ensure that existing transactions can be eligible for STS.

- An increase in risk retention above 5% would cause a divergence of European securitisation from the global standard, creating barriers to cross-border investment and unnecessary stigma.
- The existing 5% level has been reviewed by CEBS in 2009, the Commission in 2010 and the EBA in 2014, all of whom concluded that no change was necessary.
- A higher risk retention level would be contrary to the policy objectives of the STS framework, which seeks to revive the securitisation market, as it would reduce the efficiency of funding.
- AFME strongly supports the views of the Council and Commission that risk retention should be maintained at 5%.

The hierarchy of methods remains a key issue on the CRR Amendment

- EPP Rapporteur and S&D shadow rapporteur champion an approach aiming to lower the influence of Credit Rating Agencies via a total deletion of the External Ratings Based Approach.
- Strong resistance to this from ALDE who are proposing to retain ERBA while allowing a swap to SA after supervisory approval (similar to the Council text)
- SEC-ERBA is also important because it supports the IAA approach used for ABCP Conduits.
- Latest Compromises suggest a new hierarchy (Art. 254):
 - Internal Ratings Based Approach (SEC- IRBA)
 - Standardised approach (SEC-SA)
 - External Ratings Based Approach (“SEC-ERBA”) (a fallback option)
- Mandate for an EBA RTS to detail how institutions can use the calculation method for capital requirements for purchased receivables (including how to use proxy data).

- The CRR amendments display many adjustments to calibration for both STS and non-STS; and for the different calculation methods.
- Some seek to calibrate downwards; while others call for higher capital requirements.
- Overall, the capital calibration remains conservative and the floors remain as proposed by the Commission (in September 2015)
 - 10% for STS Securitisation
 - 15% for non-STS Securitisation
- This may be the most workable solution

- AFME Position Papers:
 - Making simple, transparent and standardised securitisation a success: detailed comments on the draft STS regulation and CRR Amendments (*January 2016*)
 - Towards a new European Securitisation Framework – Key principles and priorities (*January 2016*)
 - AFME Comments on MEP proposals on STS Regulation and CRR Amendments (*September 2016*)
- “Investor and issuers unite to support Simple Transparent and Standardised securitisation” (Joint Paper, *March 2016*)
- “European securitisation: an essential tool to fund economic growth” (*June 2016*)
- “The importance of securitisation for jobs and growth in Europe” (Joint Paper, *October 2016*)

Our constructive engagement has been welcomed by interlocutors

- AFME's public position papers have been shared with the key regulators, legislators and policymakers.
- “Understanding Securitisation and its role in the European economy”: AFME Seminar for the MEPs and their assistants held in January 2016, followed by a webinar in June 2016.
- European Securitisation Co-Ordination Group:
 - Co-ordinated by AFME & EFAMA to act as an “umbrella” body to share information and co-ordinate the industry’s advocacy efforts with a view to reviving the market for STS Securitisation in Europe
- Focus on key MEPs including the Rapporteurs and Shadow Rapporteurs and representatives of key political groups in the European Parliament (ALDE, ECR and EPP)
- Participate in milestone events, such as the stakeholders meeting organised by Paul Tang MEP and ECON Committee public hearings.

- Consolidation of Amendments in the EP: October - November 2016
- Vote in ECON: December 2016
- Scheduled vote in Plenary session: 17 January 2017
- Start of trilogues: January 2017 (TBC) during Maltese Presidency (Estonia Presidency from June 2017)

- “The development of a simple, transparent and standardised securitisation market constitutes a building block of the CMU and contributes to the Commission’s priority objective to support job creation and a return to sustainable growth. A high quality framework for EU securitisation can promote integration of EU financial markets, help diversify funding sources and unlock capital, making it easier for credit institutions and lenders to lend to households and businesses.” *European Commission proposal “laying down common rules on securitisation and creating a European framework for STS securitisation”*.
- AFME wholeheartedly concurs with this important policy objective and urges EU legislators in particular to bear these objectives in mind as the debate progresses.