



REGULATORY DEVELOPMENTS IN THE FIELD OF SECURITISATION

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- Overview of the work at the Economic and Monetary Affairs (ECON) Committee
- Common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation (STS securitisation)
- Prudential requirements for credit institutions and investment firms (CRR amendment proposals)
- Adopted positions from the Council and the ECON Committee on STS securitisation and CRR
Main divergent points
- Conclusion



Reports adopted in the ECON Committee 2015 – 2017

- Harmonised Indices of Consumer Prices
- Money Market Funds
- European Fund for Strategic Investments
- Reporting and transparency of securities financing transactions
- Indices used as benchmarks in financial instruments and financial contracts
- Common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation (STS securitisation proposal)
- Prudential requirements for credit institutions and investment firms (CRR amendment proposal)
- Prospectus to be published when securities are offered to the public or admitted to trading
- Banking Union Annual Report for 2016
- Establishing a Union programme to support specific activities enhancing the involvement of end-users and other financial services end-users in Union policy-making in the field of financial services for the period of 2017-2020



Work in progress in ECON 2017

- European Deposit Insurance Scheme (EDIS)
- Structural measures improving the resilience of EU credit institutions (Banking Structure Reform = BSR)
- FinTech
- Revision of the European Venture Capital Fund and European Social Entrepreneurship Fund Regulations (EUVECA & EUSEF)
- Recovery and resolution of central counterparties (CCPs)
- Implementation of European Fund for Strategic Investments (EFSI)
- Ranking of unsecured debt instruments in insolvency hierarchy (Subordination)
- Loss absorption and recapitalisation capacity of credit institutions and investment firms and amending the Banking Recovery and Resolution Directive (BRRD)
- Exemptions, financial holding companies, mixed financial holding companies, supervisory measures and powers and capital conservation measures (CRD)
- Amending Regulation (EU) No 575/2013 (CRR) and Regulation (EU) No 648/2012 (EMIR)
- Level II legislation on MiFID; MAD/MAR; EMIR; BRRD; Benchmarks; PRIIPs; DGSD; CRDIV/CRR



Reports Agreed with the Council 2015 – 2017

- Payment accounts: comparability of fees, switching and access (PAD)
- Key information documents for investment products (PRIIPS)
- Regulation on indices used as benchmarks in financial instruments and financial contracts
- Regulation on the prospectus to be published when securities are offered to the public or admitted to trading
- Regulation on Money Market Funds

Reports in negotiation with the Council (Triologue procedure)

- Common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation (STS securitisation proposal)
- Prudential requirements for credit institutions and investment firms (CRR amendment proposal)



Commission's STS securitisation reform is presented:

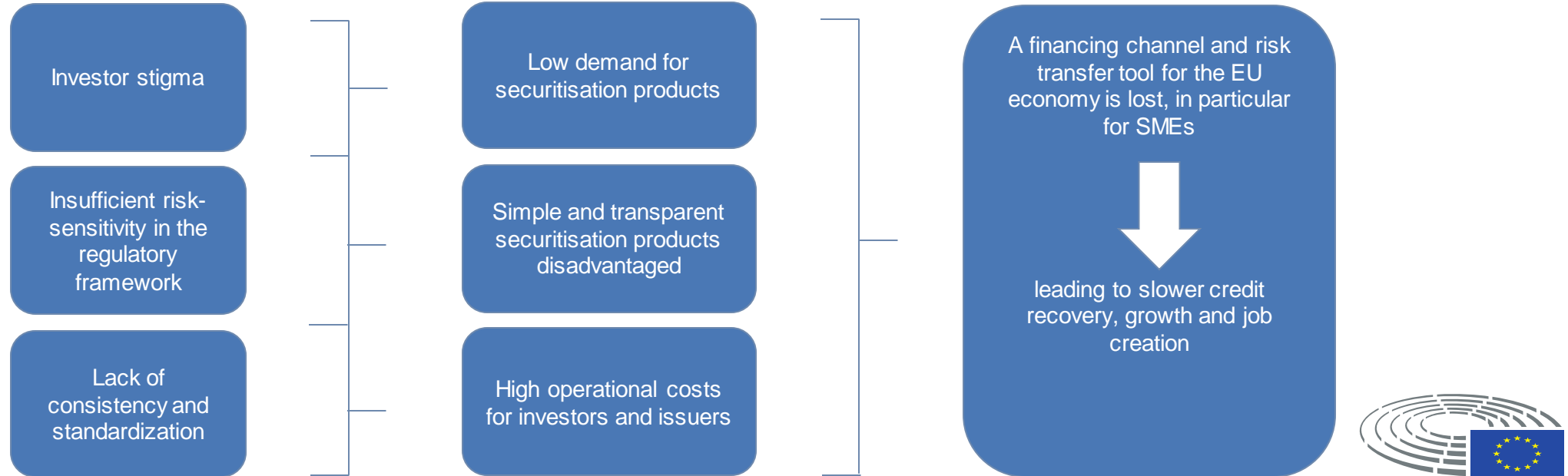
→ In the context to built a Capital Markets Union;

→ With the aim to:

- simplify and standardise the current framework for all securitisations; and
- create a framework to identify simple, transparent and standardised securitisations (STS securitisations)

→ Accompanied by a proposal to amend the treatment of regulatory capital requirements for credit institutions that originate, sponsor or invest in securitisations.

Why?



Commission's STS proposed amendments include:

- Changes to the existing rules on due diligence requirements for investors;
- Changes to the risk retention requirements;
- Changes to the transparency requirements for originators, sponsors and SSPEs;
- New requirements criteria to define simple, transparent and standardised securitisations;
- New specific requirements for short-term programmes (ABCP);
- New provisions covering the powers of supervisors;
- New provisions concerning administrative sanctions for breach of the regulation




Commission's CRR proposed amendments include:

- New capital requirements for positions in securitisation, including the more risk sensitive treatment for STS securitisations;
- Implementing a new hierarchy of applicable approaches for the calculation of risk-weighted assets, i.e. to know the minimum capital needs for securitisation exposures;
- New hierarchy of risk-based approaches (defined three different approaches);
- The establishment of a risk weight floor of 15% for all securitisation exposures and 10% for STS securitisations;
- A more risk-sensitive prudential treatment for STS securitisations;
- New maximum capital requirements;
- The elimination of the special treatment for certain exposures;
- The establishment of a special treatment for specific exposures (e.g., re-securitisations and Senior positions in SME securitisations).




Main divergent points

STS Regulation

Issues	ECON	Council
Definitions: Parties to the securitisation market	<ul style="list-style-type: none"> Proposes a new amendment defining the parties to the securitisation market: they need to be a "regulated entity" and an "institutional investor"; and lists a number of conditions when a non-EU country SPPE cannot be used. 	<ul style="list-style-type: none"> Refers only in the recitals that securitisation instruments are not appropriate for retail investors.
Risk-retention	<ul style="list-style-type: none"> The minimum risk retention levels increase from the current 5% to 10% for each risk retention option, except for: (i) the first loss tranche approach, where the minimum level remains at 5%; and (ii) the retention of a first loss exposure of every securitised exposure, where the minimum level will be 7.5% of every securitised exposure in the securitisation. 	<ul style="list-style-type: none"> The risk retention level should be not less than 5% net economic interest measured at the origination.
Transparency requirements	<ul style="list-style-type: none"> The transparency requirements are extended to include investors. 	<ul style="list-style-type: none"> Follows the COM approach where the transparency requirements apply only to originators, sponsors and SSPEs, but extends the necessary information to all documentation needed to understand the transaction.
	<ul style="list-style-type: none"> Suggest the establishment of a European Securitisation Data Repository as the central storage facility and defines the general requirements that a securitisation repository must oblige. 	<ul style="list-style-type: none"> Defends the set up of a centralised website by ESMA for the storage of requested information.
Re-securitisation	<ul style="list-style-type: none"> Proposes a ban on re-securitisations 	
Macro-prudential oversight of the regulatory market	<ul style="list-style-type: none"> Defines the SRB as the entity responsible for the macro-prudential oversight of the securitisation market, while EBA shall be responsible for the micro-prudential oversight. Power is given to EBA and the SRB to revise the level of risk retention within the range of 5% to 20%. 	
Third-country regime	<ul style="list-style-type: none"> Defines the conditions for equivalence and recognition of third countries regulatory frameworks. 	

CRR Regulation

Issues	ECON	Council
Hierarchy of methods	<ul style="list-style-type: none"> ● 1st: the institutions shall use the Securitisation Internal Ratings-Based Approach (SEC-IRBA); 2nd: Institutions shall use the Securitisation Standardised Approach (SEC-SA) and; 3rd: Institutions use lastely the Securitisation External Ratings-Based Approach (SEC-ERBA) when the SEC-SA method cannot be used or where its application results in a risk-weighted exposure amount of 25% in excess of the amount if SEC-ERBA 	<ul style="list-style-type: none"> ● 1st: the institutions shall use the Securitisation Internal Ratings-Based Approach (SEC-IRBA); 2nd: Institutions shall use the Securitisation External Ratings-Based Approach (SEC-ERBA); and; 3rd: lastely Institutions shall use the Securitisation Standardised Approach (SEC-SA).
	<ul style="list-style-type: none"> ● Give power to Competent authorities to prohibite, on a case-by-case basis, the use of the SEC-SA Approach. 	<ul style="list-style-type: none"> ● Establishes the conditions under which an institution may use the SEC-SA Approach instead of the SEC-ERBA Approach.
Exposure value calculation		<ul style="list-style-type: none"> ● Adds new conditions in order for a securitisation position to benefit from a 0% conversion factor
Ban on re-securitisation	<ul style="list-style-type: none"> ● In line with the ECON STS report a ban on re-securitisation is included. 	
Senior positions in SME securitisations	<ul style="list-style-type: none"> ● To be considered a senior position in SME secutitisation, the securitisation has to be backed by a pool of exposures to undertakings where at least 70% (amended from 80% proposed by the COM) of those in terms of portfolio balance qualify as SMEs at the time of issuance of the 	<ul style="list-style-type: none"> ● Keeps the COM's proposed level of 80%
Macro-prudential oversight of the regulatory market	<ul style="list-style-type: none"> ● In line with the ECON STS report the amended text establishes the SRB as the entity responsible for the macro-prudential oversight of the securitisation market, while EBA shall be responsible for the micro- 	

Conclusion

- Soundly structured, simple and standardised securitisation is an important channel for diversifying funding sources, enabling a broader distribution of risk and provide additional investment opportunities
- The right balance between prudential requirements and flexibility has to be achieved
- Trialogues between the Council and European Parliament are under way to bridge differences and reach a common well-balanced position that will allow the revive of a safer securitisation market and the improvement of the financing to the real economy

