



EBA technical advice on Qualifying Securitisations

Public Hearing Event - London 26 June 2015

Mandate

European Commission Call for Advice (Jan 2014):

*'[...] promoting the development of safe and stable securitisation markets could also contribute to unlocking additional sources of long-term finance. [...] EBA is invited to identify which **characteristics would be the most appropriate to designate 'high-quality' transactions**, having particular regard to:*

- (a) categories of underlying assets;*
- (b) structural features;*
- (c) transparency features.*

*'[...] EBA could then assess the appropriateness, from a prudential perspective, of granting **future preferential treatment to certain securitisation transactions qualified as 'high quality'** transactions in order to foster EU securitisation markets'.*

A holistic approach to regulation of securitisation markets

RECOMMENDATION 1: Recommendation for a holistic (cross-product and sector) review of the regulatory framework for securitisations and other investment products. Following the review, action should be taken where appropriate.

A systemic detailed review of the entire regulatory framework for securitisation across all different regulations and regulatory authorities on a stand-alone basis and in conjunction with the regulatory framework applicable to other investment products (covered bonds, whole loan portfolios) is recommended. Such a review should take into account the different objectives of the existing regulations.

With the increasing complexity of the regulatory framework investors, or example insurance companies, managers of UCITS or AIFs, banks or other regulated investors need to consider many different regulatory factors, including:

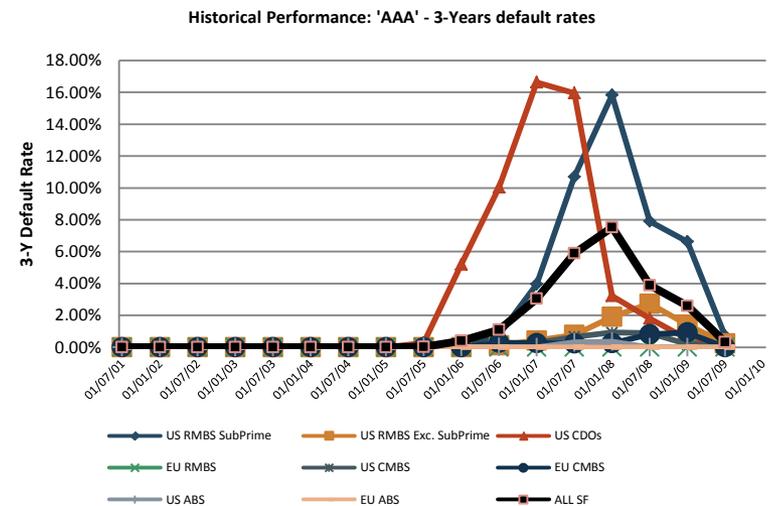
- Regulatory capital charges
- Liquidity regulation
- Operational requirements (retention, retaining entity, disclosure, due diligence including stress testing, reporting).

Each of these requirements implies both costs and benefits that investors and issuers, as appropriate, take into account when making decisions to invest or issue securitisations.

Overall consistency with sector-specific regulations should also be preserved

Underpinnings of the ‘qualifying securitisation’ project

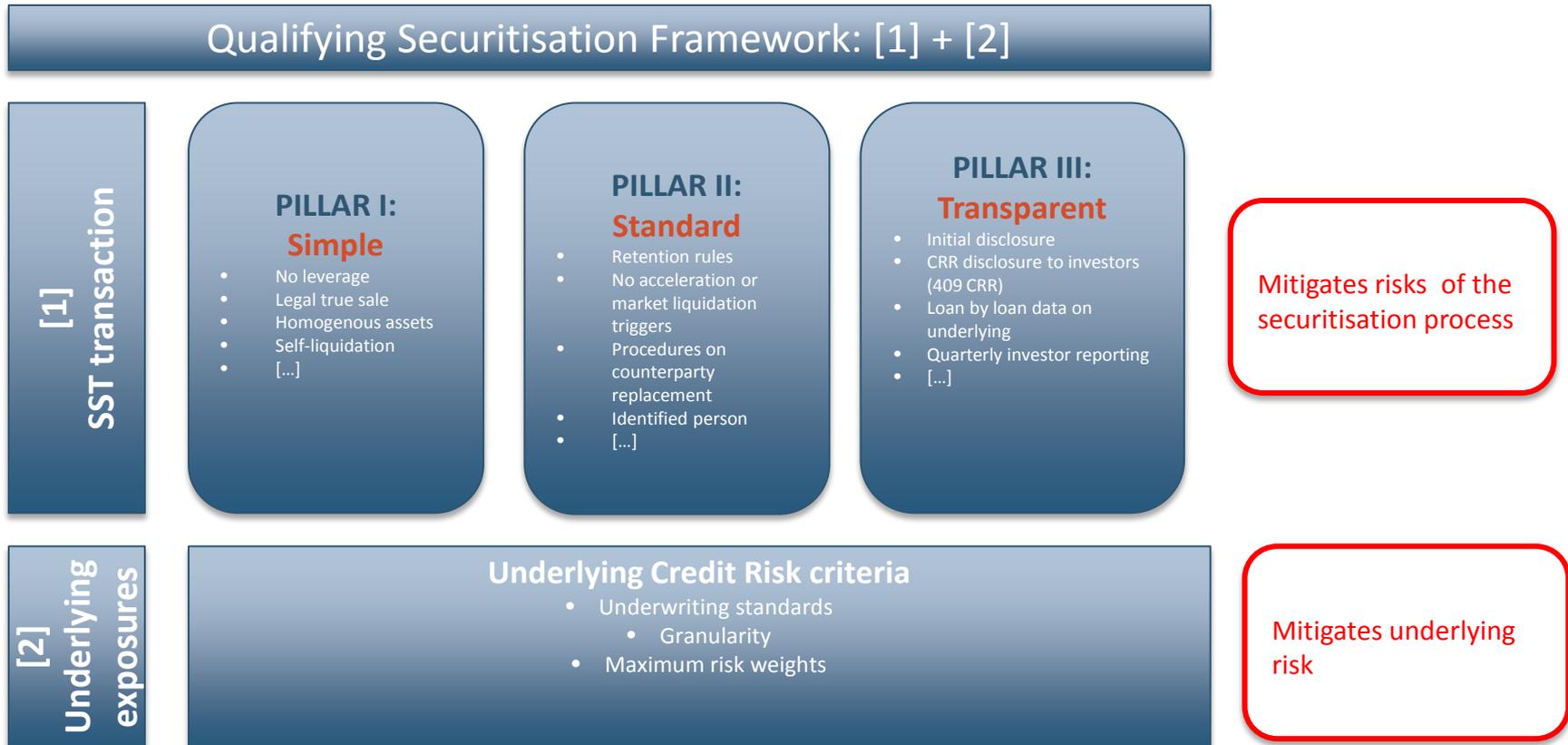
- The **securitisation market** is still suffering from a crisis stigma due to certain specific products’ bad performance during the recent turmoil (US sub-prime RMBS and US CDOs in the chart);
 - A one-size-fits-all prudential approach calibrated to the crisis (**black line**) does not acknowledge different levels of complexity and risk;
 - The EBA proposes **Simple Standard and Transparent** securitisations (aligned BCBS/IOSCO work on this) alongside criteria of contained **underlying credit risk** for potential **regulatory recognition**;
- More risk-sensitive regulatory capital may contribute to revive investment/issuance



Two-stage approach to ‘qualifying’ securitisation

RECOMMENDATION 2: Recommendation to create a framework for ‘qualifying’ securitisations

A ‘qualifying’ securitisation framework should be defined in accordance with what can be called a two-stage approach, as follows:



Term securitisation qualifying framework

RECOMMENDATION 3: Recommendation on criteria defining 'qualifying' term securitisations

Simple, Standard and Transparent (SST) term securitisations and 'qualifying' term securitisations as defined in EBA DP (October 2014) and fine-tuned following stakeholders' consultation, inter alia:

- *Removed EEA restrictions to allow for any jurisdiction where regulatory framework is assessed as equivalent;*
- *Removed compliance with Prospectus Directive and included minimum content of initial disclosure as in Annexes of Prospectus Regulation;*
- *Removed requirement of allocating voting rights to most senior noteholders;*
- *Modified asset performance history disclosure requirement: 5 years (retail) 7 years (other);*
- *Introduced 'to the knowledge of securitiser' within credit impairment criterion;*
- *Introduced sufficient expertise requirement for originator/original lender;*
- *Allowed for cash-flow model to be provided by third party;*
- *Explanatory boxes to clarify terminology e.g. homogenous pools, significant risk of default, appropriate mitigation of risks, 'at the time of inclusion', common interest rates, final offering documents etc.;*

Credit Risk criteria: *almost unchanged*

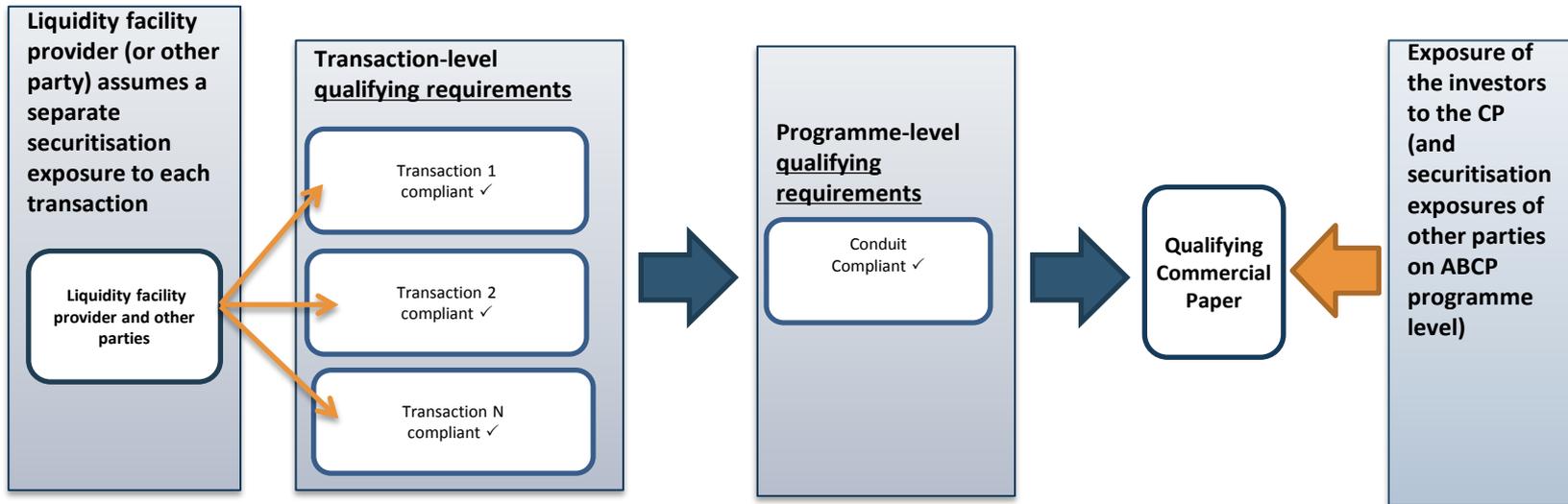
ABCP securitisation qualifying framework

RECOMMENDATION 4: Recommendation on criteria defining ‘qualifying’ ABCP securitisations

Based on ‘qualifying’ framework for term securitisations adapted to recognise many specificities of the ABCP segment, including:

- *the possibility of **becoming exposed to an ABCP securitisation either at the transaction level or at the programme level**, for which different sets of requirements ought to be envisaged;*
- *the focus on **(multi)-seller programmes**, where several different ‘non-regulated’ corporate entities sell exposures into a conduit;*
- *the existence of **full support liquidity facilities provided by credit institutions** to the benefit of investors in ABCP programmes;*
- *the **capped maturity of the liability** issued by the ABCP conduit (as per CRR) and the maturity transformation activity embedded in the ABCP assets and liabilities structure.*

Focus on the ABCP framework (1)



Orange arrows represent ABCP **securitisation positions**:

- Liquidity facility provider and other parties are exposed at transaction-level → transaction-level requirements determine eligibility to qualifying regulatory capital treatment;
- Market investor and other parties are exposed at programme level → Transaction-level & Programme-level requirements determine eligibility to qualifying regulatory capital treatment;

Focus on the ABCP framework (2)

Transaction-level SST + underlying credit risk criteria:

Based on term securitisation criteria with amendments including but not limited to:

- Homogeneity of currency and legal system does not apply (asset type does apply)
- Portfolio granularity threshold does not apply
- Disclosure: Annex VIII (not VII) of Prospectus Regulation / any requirement under CRA Art. 8b to be developed by ESMA / investor reporting on monthly (not quarterly) basis
- Mortgages are not eligible and any underlying maturity capped at 1 year

Programme-level criteria including but not limited to:

- Each transaction within a qualifying programme has to be a qualifying transaction (as above)
- No programme-level credit enhancement should determine re-tranching (no potential re-securitisation)
- Sponsor of the programme => full support (credit, liquidity, other costs) liquidity facility provider to each transaction;
- Disclosure: Annex VII (not VIII) of Prospectus Regulation / at least stratified data on underlying / investor reporting on monthly (not quarterly) basis
- 1% portfolio granularity threshold applies

Re-calibration proposal (1)

RECOMMENDATION 5: Recommendation on the re-calibration of the BCBS 2014 framework applicable to ‘qualifying’ securitisation positions

The EBA re-calibration proposal takes the BCBS Dec 2014 Securitisation Framework as baseline and adds the ‘qualifying’ dimension as an additional dimension of risk-sensitivity

BCBS 2014 Framework	Re-calibration proposal
SEC-IRBA	The ‘p’ parameter is re-scaled by a factor of 0.5 while preserving the prudential 0.3 floor value: $P_{\text{qualifying}} = \max[0.3; 0.5 \times (A+B * (1/N)+C*Kirb+D*LGd+E*Mt)]$
SEC-SA	The supervisory parameter p is rescaled to from 1 to 0.5 .
SEC-ERBA (long-term ratings)	Risk-weights of the ERBA look-up table for each long-term rating grade are re-scaled to keep consistency with re-scaled average risk-weights in the SEC-SA approach resulting from proposal above. The 1250% requirements of the BCBS 2014 framework remain unchanged.
SEC-ERBA (short-term ratings)	Risk-weights of the ERBA look-up table for each short-term rating grade are re-scaled to keep consistency with re-scaling proposed for the SEC-ERBA approach for long-term ratings. The 1250% requirements of the BCBS 2014 framework remain unchanged.
Risk-weight floor	For senior qualifying tranches only: SEC-IRBA and SEC-SA: the risk-weight floor is lowered from 15% to 10% SEC-ERBA: the one-year and five-year risk weight floors are reduced from 15% to 10% and from 20% to 15% , respectively.

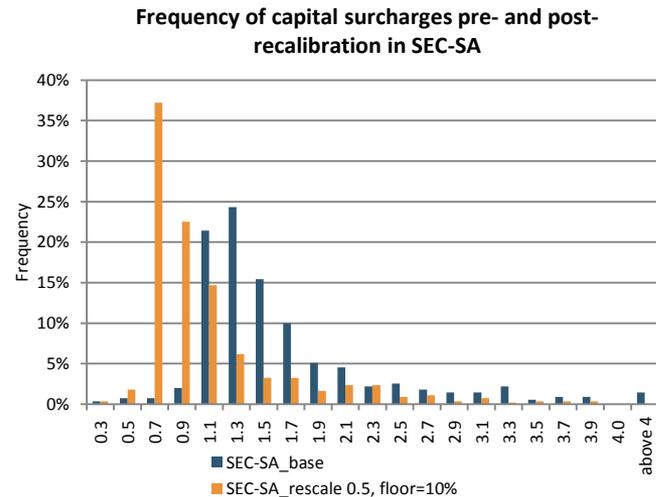
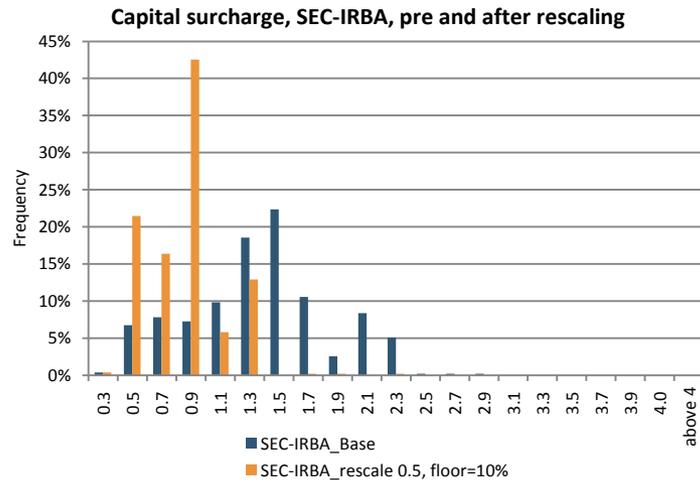
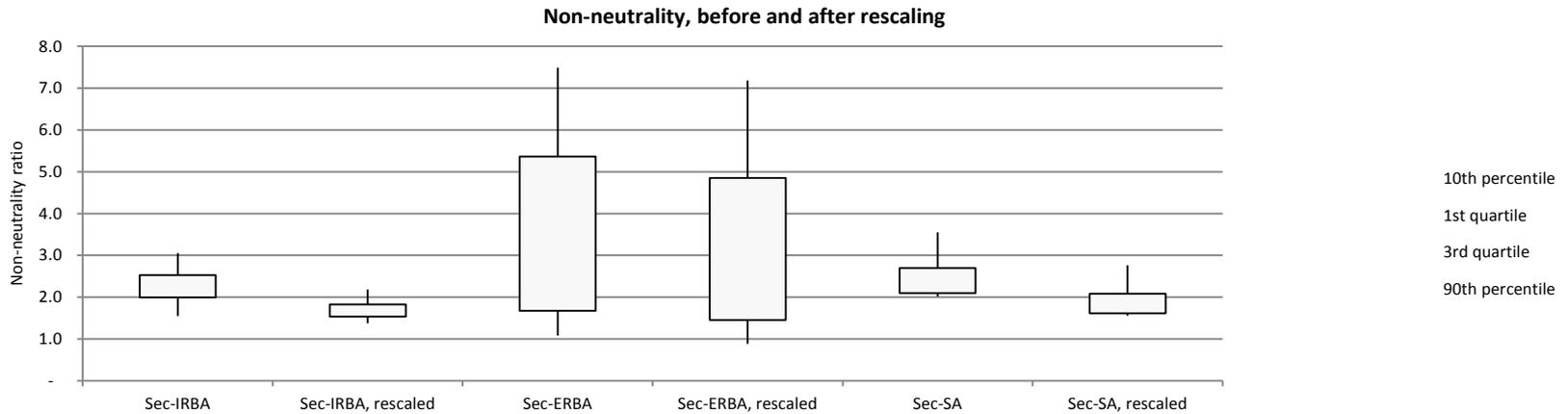
Recalibration proposal (2)

Long-term rating	Senior tranche		Non-senior (thin) tranche	
	Tranche maturity		Tranche maturity	
	1 year	5 year	1 year	5 year
AAA	10% (15%)	15% (20%)	15% (15%)	50% (70%)
AA+	10% (15%)	20% (30%)	15% (15%)	55% (90%)
AA	15% (25%)	25% (40%)	20% (30%)	75% (120%)
AA-	20% (30%)	30% (45%)	25% (40%)	90% (140%)
A+	25% (40%)	35% (50%)	40% (60%)	105% (160%)
A	35% (50%)	45% (65%)	55% (80%)	120% (180%)
A-	40% (60%)	45% (70%)	80% (120%)	140% (210%)
BBB+	55% (75%)	65% (90%)	120% (170%)	185% (260%)
BBB	65% (90%)	75% (105%)	155% (220%)	220% (310%)
BBB-	85% (120%)	100% (140%)	235% (330%)	300% (420%)
BB+	105% (140%)	120% (160%)	355% (470%)	440% (580%)
BB	120% (160%)	135% (180%)	470% (620%)	580% (760%)
BB-	150% (200%)	170% (225%)	570% (750%)	650% (860%)
B+	210% (250%)	235% (280%)	755% (900%)	800% (950%)
B	260% (310%)	285% (340%)	880% (1050%)	880% (1050%)
B-	320% (380)	355% (420%)	950% (1130%)	950% (1130%)
CCC+/CCC/CCC-	395% (460%)	430% (505%)	1250% (1250%)	1250% (1250%)
Below CCC-	1250% (1250%)	1250% (1250%)	1250% (1250%)	1250% (1250%)

Short-term rating	
A-1/P-1	10% (15%)
A-2/P-2	35% (50%)
A-3/P-3	70% (100%)
All other ratings	1250% (1250%)

The impact of the recalibration: European QIS

Capital charges are lowered within the perimeter of prudential surcharges



Global developments

Our advice to the Commission is to take into account potential developments of the global discussion on STC securitisations.

It should be noted that the recommendations provided in this report in relation to the implementation of a qualifying securitisation framework in Europe will have to be revisited depending on the progress and decisions taken by the Basel and IOSCO Committees over the definition of a Simple Transparent and Comparable securitisation framework, at the global level, and the potential recalibration of the BCBS 2014 Securitisation Framework to provide regulatory recognition to STC securitisations.

Two important issues

No framework for synthetic securitisations at this stage

*The framework proposed in this report does not cover synthetic securitisation transactions as the EBA acknowledges that defining a synthetic securitisation-specific qualifying framework requires further work of analysis and market assessment, given the different nature of synthetic transactions and the variety of market practices that currently exist in this segment. **EBA will be assessing characteristics and practices of the synthetic securitisation market.***

How to implement the qualifying framework (assess compliance) in the market?

The EBA report does not formulate any concrete recommendation on this matter. However the following considerations are provided to the Commission:

- 1) *Any setting excluding a role of the **investor** in determining/attesting compliance is likely to lead to over-reliance by the investor on other parties' attestations and certifications, potentially implying excessive risk-taking relative to the investor's risk appetite and uninformed investment decisions. A lack of appropriate due diligence has already been observed in the history of some securitisation segments;*
- 2) *Any setting excluding a role of the **originator** institution in determining compliance is likely to lead to a more burdensome implementation process, as originator institutions are in most of the cases holding the information and data that are needed to determine compliance with the framework;*
- 3) *The well-functioning of the new regulatory framework in the securitisation market, as well as the liquidity of the qualifying securitisations on the secondary market, given in particular the frequency with which issuance and investment decisions are normally taken, may be facilitated by envisaging some role of third parties. E.g. the publication of information on transactions' characteristics and compliance status, and the provision of the infrastructure needed to collect and process all the data and information that market participants will have to consider when assessing such compliance. **Irrespective of the role that a third party or parties may play in assisting issuers and investors to attest compliance with the qualifying framework, issuers and investors retain responsibility for the ultimate compliance with the criteria and, in the case of investors, carry out the appropriate due diligence analysis.***

Comments ? Questions?

It is advised to discuss in the order:

- Qualifying term securitisation
- Qualifying ABCP securitisation
- Calibration
- Compliance assessment and other issues