## General framework for securitisation and specific framework for simple, transparent and standardised securitisation

2015/0226(COD) - 30/09/2015 - Legislative proposal

PURPOSE: to restart a sustainable securitisation market that will improve the financing of the EU economy, while ensuring financial stability and investor protection.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure on an equal footing with the Council.

BACKGROUND: securitisation involves transactions that enable a lender – typically a credit institution – to refinance a set of loans or exposures such as loans for immovable property, auto leases, consumer loans or credit cards, by transforming them into tradable securities.

Securitisation can be an important channel for diversifying funding sources and allocating risk more efficiently within the EU financial system. Overall, it can improve efficiencies in the financial system and provide additional investment opportunities. Securitisation can create a bridge between credit institutions and capital markets with an indirect benefit for businesses and citizens (through, for example, less expensive loans and business finance mortgages and credit cards).

In the <u>Investment Plan for Europe</u> presented on 26 November 2014, the Commission announced its intention to restart high quality securitisation markets, without repeating the mistakes made before the 2008 financial crisis. The Commission considers that the development of a simple, transparent and standardised securitisation market constitutes a building block of the Capital Markets Union (CMU) and contributes to the Commission's priority objective to support job creation and a return to sustainable growth.

In its <u>resolution of July 2015 on the Capital Markets Union</u>, the European Parliament noted that the **development of simple, transparent and standardised securitisation should be exploited better** and welcomed the initiative to establish a sustainable, transparent securitisation market by developing a specific regulatory framework with a uniform definition of high-quality securitisation, combined with effective methods for monitoring, measuring and managing risk.

IMPACT ASSESSMENT: the effects of the initiative are likely to change through time. The Commission considers that if the securitisation market would return to pre-crisis average issuance levels, credit institutions could provide an **additional amount of credit to the private sector ranging between €100-150bn**. This would represent a 1.6% increase in credit to EU firms and households. The policy options taken in this proposal should have **several positive effects on SME financing**.

CONTENT: this proposal is based on what has been put in place in the EU to address the risks inherent in highly complex, opaque and risky securitisation. It should help to better differentiate simple, transparent and standardised (STS) products which can provide a channel of sustainable finance to the EU economy from more opaque and complex products. This framework should provide confidence to investors and a high standard for the EU, to help parties evaluate the risks relating to securitisation (both within and across products).

The proposal forms a legislative package with the <u>legislative proposal</u> amending Regulation (EU) No 575 /2013 of the European Parliament and of the Council concerning prudential requirements for credit institutions and investment firms. It aims to:

- restart markets on a more sustainable basis, so that simple, transparent and standardised securitisation can act as an effective funding channel to the economy;
- allow for efficient and effective risk transfers to a broad set of institutional investors as well as banks:
- allow securitisation to function as an effective funding mechanism for some longer term investors as well as banks:
- protect investors and manage systemic risk by avoiding a recurrence of the flawed "originate to distribute" models.

Essentially, this proposal contains two main parts. The first part is devoted to rules that apply to all securitisation, whilst the second part focuses only on STS Securitisation. Its main elements are as follows:

- **Due diligence rules for investors**: since securitisations are not always the simplest and most transparent financial products and can involve higher risks than other financial instruments, institutional investors are subject to due diligence rules. The proposal also requires investors to perform appropriate due diligence before investing in STS securitisations. They also remain responsible for assessing risks inherent to their exposure to the securitisation position and whether the securitisation is suitable and appropriate for the needs of the investor.
- **Risk retention**: the proposal imposes a direct risk retention requirement and a reporting obligation on the originator, sponsor or the original lenders. Investors will thus in a simple manner be able to check whether these entities have retained risk.
- Transparency rules: the proposal ensures that investors will have all the relevant information on securitisations at their disposal. It covers all types of securitisations and applies across sectors. It requires originators, sponsors and Securitisation Special Purpose Entities (SSPEs) to make freely available the information to investors, via standardised templates, on a website that meets certain criteria such as control of data quality and business continuity.
- STS securitisations: there will be two types of STS requirements: one for long-term securitisations and one for short-term securitisations (ABCP). To a large extent the requirements are however similar. This proposal only allows 'true sale' securitisation to become STS. The Commission will assess whether some synthetic securitisations that have performed well during the financial crisis and that are simple, transparent and standardised should be able to meet the STS requirements.
- STS notification and disclosure: originators, sponsors and SSPEs take responsibility for their claim that the securitisation is STS and that there is transparency on the market. Originators and sponsors shall be liable for any loss or damage resulting from incorrect or misleading notifications under the conditions stipulated by national law.
- Surveillance: the proposal requires Member States to designate competent authorities in accordance with existing EU legal acts in the area of financial services to ensure effective surveillance of the securitisation market.
- **Third country dimension**: this proposal provides essentially for a system that is open to third country securitisations. EU institutional investors can invest in non-EU securitisations and will have to perform the same due diligence as for EU securitisations. Moreover, non-EU securitisations can also meet the STS requirements.

BUDGETARY IMPLICATIONS: this legislative proposal would have limited consequences on the EU budget (**EUR 1,733 millions**). It will imply further policy development within the Commission and in the three ESAs (EBA, ESMA and EIOPA).

DELEGATED ACTS: the proposal contains measures empowering the Commission to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union.