Prudential requirements for credit institutions and investment firms

2015/0225(COD) - 19/12/2016 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Othmar KARAS (EPP, AT) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

In brief, the proposed Regulation seeks to revise amend Regulation (EU) No 575/2013 (CRR) for institutions originating, sponsoring or investing in securitisations to reflect adequately the specific features of **simple, transparent and standardised (STS) securitisations** when such securisations also meet the additional requirements laid down in this Regulation, and address the shortcomings of the framework which became apparent during the financial crisis.

The committee recommended that the European Parliament's position adopted at first reading following the ordinary legislative procedure should amend the Commission proposal as follows:

Securitisations: it is highlighted that securitisations are an important constituent part of well-functioning financial markets insofar as they contribute to diversifying institutions' funding sources and releasing regulatory capital which can then be reallocated to support further lending. Members considered that **financial stability should be guaranteed and that the capital be used to fund the real economy** rather than for speculative activity.

Revised Basel Framework: the amendments to Regulation (EU) No 575/2013 should take into account the provisions of the Revised Basel Framework. Members made reference to the fact that on 11 July 2016, the Basel Committee on Banking Supervision (BCBS) published an updated standard for the regulatory capital treatment of securitisation exposures that includes the regulatory capital treatment for "simple, transparent and comparable" securitisations. That standard amends the Committee's 2014 capital standards for securitisation.

Calculation of regulatory capital requirements: an amendment stated that a securitisation **standardised approach** ("SEC-SA") should then be available to institutions that may not use the SEC-IRBA in relation to their positions in a given securitisation.

The SEC-SA should rely on a supervisory-provided formula using as an input the capital requirements that would be calculated under the Standardised Approach to credit risk (SA) in relation to the underlying exposures if they had not been securitised ("Ksa"). When the first two approaches are not available or the use of the SEC-SA would result in incommensurate regulatory capital requirements relative to the credit risk embedded in the underlying exposures, institutions should be able to apply the Securitisation External Ratings Based Approach (SEC-ERBA).

Under the SEC-ERBA, capital requirements should be assigned to securitisation tranches on the basis of their external rating.

Members also proposed to **ban re-securitisations** given their higher level of complexity and risk.

Macroprudential oversight of the securitisation market: the amended text stipulated that the European Systemic Risk Board (**ESRB**) shall be responsible for the macroprudential oversight of the Union's securitisation market and European Banking Union (EBA) shall be responsible for the microprudential oversight, while taking into account the specificity of market segments and asset classes.

The STS Regulation provides for the publication of the biennial report on the securitisation market. In order to reflect changes in market circumstances, to prevent asset bubbles from developing in different market segments or asset classes and to prevent parts of the Union's securitisation market from closing down in times of crisis, the Commission shall consider, within six months after the publication of the report and every two years thereafter, adjusting the following, where applicable:

- the risk floor levels for securitisations;
- the leverage ratio, liquidity coverage ratio, net stable funding ratio for credit institutions and investment firms active in the securitisation market.

Following the publication of the report, the ESRB shall make recommendations to the Member States.