

Prudential requirements for credit institutions and investment firms

2015/0225(COD) - 26/10/2017 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 458 votes to 135 with 26 abstentions, a legislative resolution 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** and address the shortcomings of the framework which became apparent during the financial crisis.

Securitisations: the amended text highlights that **securitisations are an important constituent part of well-functioning financial markets** insofar as they contribute to diversifying the funding and risk diversification sources of credit institutions and investment firms and releasing regulatory capital which can then be reallocated to support further lending, in particular the funding of the real economy. **Those benefits should, however, be weighed against their potential costs and risks**, including their impact on financial stability.

Revised Basel Framework: amendments to Regulation (EU) 575/2013 should take into account the provisions of the Revised Basel Framework. Parliament made reference to the fact that the Basel Committee on Banking Supervision published, on 11 July 2016, 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 standards applicable to securitisations published by the Committee in 2014.

Calculation of regulatory capital requirements: Parliament stated that a **standardised approach** ("SEC-SA") for securitisation should be available to institutions that may not use the **SEC-IRBA** (Internal Ratings Based Approach) in relation to their positions in a given securitisation. The SEC-SA should rely on a formula using as an input the capital requirements that would be calculated under the Standardised Approach to credit risk in relation to the underlying exposures as if they had not been securitised ("Ksa").

When the first two approaches are not available, institutions should be able to apply the Securitisation External Ratings Based Approach (**SEC-ERBA**). However, institutions should always use the SEC-ERBA as a fall-back when the SEC-IRBA is not available for low-rated tranches and certain medium-rated tranches of STS securitisations identified through appropriate parameters.

Moreover, competent authorities should be able to **prohibit the use of the SEC-SA** when the latter is not able to adequately tackle the risks that the securitisation poses to the solvability of the institution or to financial stability. Upon notification to the competent authority, institutions should be allowed to use the SEC-ERBA in respect of all rated securitisations they hold when they cannot use the SEC-IRBA.

Re-securitisations: since re-securitisations exhibit greater complexity and riskiness, Parliament stated that only certain forms of re-securitisations are permitted under [the Regulation](#) creating a European framework for simple, transparent and standardised securitisation.

Lower risks for STS: the amendments made to Regulation (EU) No 575/2013 provide for an appropriately risk-sensitive calibration for STS securitisations, provided that they also meet additional requirements to minimise risk.

Furthermore, lower capital requirements applicable to STS securitisations should be limited to securitisations where the ownership of the underlying exposures is transferred to a securitisation special purpose entity or SSPE ("traditional securitisations").

Report and review: by 1 January 2022, the Commission shall report on the application of the regulation in the light of developments in securitisation markets, including from a **macroprudential and economic perspective**, accompanied by a legislative proposal if appropriate. It shall, in particular, assess the following points:

- the impact of the **hierarchy of methods** and of the calculation of the risk-weighted exposure amounts of securitisation positions;
- **the effects on the financial stability** of the Union and Member States, with a particular focus on potential immovable property market speculation;
- what measures would be warranted to reduce any negative effects of securitisation on financial stability while preserving its positive effect on financing, including the possible introduction of a **maximum limit on exposure** to securitisations; and
- the effects on the ability of financial institutions to provide a **sustainable and stable funding channel to the real economy**, with particular attention to SMEs.

The report shall also take into account regulatory developments in international fora, in particular those relating to international standards on securitisation.