Sovereign bond-backed securities

2018/0171(COD) - 22/03/2019 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Jonás FERNÁNDEZ (S&D, ES) on the proposal for a regulation of the European Parliament and of the Council on sovereign bond-backed securities.

The proposal aims to provide a framework for the market-led development of sovereign bond backed securities (SBBS). SBBSs might be able to help banks and other financial institutions better diversify their sovereign exposures, further weaken the bank-sovereign nexus and enhance the supply of low-risk euro denominated assets facilitating the implementation of monetary policy.

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

Surveillance by ESMA

The amended Regulation assigns to the European Supervisory Authority (European Securities and Markets Authority) established by Regulation (EU) No 1095/2010 of the European Parliament and of the Council (ESMA) the duty of monitoring the markets for SBBSs and the underlying government bonds for signs of disruption.

On the basis of ESMA’s observations and supported by their reports, the Commission shall be empowered to provide a clear definition of “market liquidity” and a method for its calculation, and to determine the criteria by which ESMA shall assess whether a Member State no longer enjoys market access for the purposes of this Regulation.

Given that SBBSs are new products, whose effects on the markets for the underlying sovereign debt securities is unknown it is appropriate that the European Systemic Risk Board (ESRB) and the national competent and designated authorities for macroprudential instruments oversee the SBBSs market.

To that end, the ESRB shall avail itself of the powers conferred on it under Regulation (EU) No 1092/2010 of the European Parliament and of the Council and, if appropriate, should issue warnings and make suggestions for remedial actions to the competent authorities.

Structure of tranches, payments and losses

Under the Regulation, SBBSs issue shall be composed of one senior tranche and one or more subordinated tranches. The outstanding nominal value of the senior tranche shall be seventy percent of the outstanding nominal value of the entire SBBSs issue. The number and the outstanding nominal values of the subordinated tranches shall be determined by the SPE, subject to the limitation that the nominal value of the junior tranche shall be at least five percent of the outstanding nominal value of the entire SBBSs issue.

Issuance of SBBS and obligations of special purpose entities

SBBS shall be developed by private entities created for the sole purpose of issuing and managing these instruments.

Member States shall ensure that holdings of sovereign bonds by SPEs enjoy the same treatment as any other holdings of the same sovereign bond or of other sovereign bonds issued with the same terms.

SBBS notification requirements

An SPE shall submit an application for certification of an SBBS issue by notifying ESMA at least one week before issuance of an SBBSs issue by means of the template that an SBBSs issue meets the requirements of the Regulation.

ESMA shall certify an SBBS issue only where it is fully satisfied that the applicant SPE and the SBBS issue comply with all the requirements laid down in this Regulation. ESMA shall inform the applicant SPE without undue delay whether certification has been granted or refused.

ESMA shall withdraw the certification for an SBBS issue if for example the SPE has obtained the certification by making false statements or by any other irregular means or no longer meets the conditions under which it was certified.

The withdrawal of the certification shall have immediate effect throughout the Union.

Supervisory fees

ESMA shall charge the SPE fees. Those fees shall be in proportion to the turnover of the SPE concerned and shall fully cover ESMA’s necessary expenditure relating to the licensing of SBBSs and supervision of SPEs.