

General framework for securitisation and specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis

2020/0151(COD) - 24/07/2020 - Legislative proposal

PURPOSE: to amend the regulation on securitisations with a view to facilitating the use of securitisation in the context of Europe's recovery from the COVID-19 pandemic.

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 and on an equal footing with the Council.

BACKGROUND: Regulation (EU) 2017/2402 on securitisations and Regulation (EU) 575/2013 on capital requirements establish a general EU framework for securitisation and a specific framework for simple, transparent and standardised securitisations (STS).

The new securitisation regime has been in place since January 2019 and is the cornerstone of the EU's efforts to create a capital market union. Its objective is to promote a safe, deep, liquid and robust market for securitisation, which is able to attract a broad and stable investor base to help allocate finance to where it is most needed in the economy.

It will remain key for the banks to be able to continue lending to corporates also in the coming months once the immediate shock of the COVID-19 crisis will have passed. Therefore, it is important to prepare or upgrade any tools allowing banks to maintain and even enhance their capacity to lend to the real economy, in particular to SMEs. Securitisation can be a key enabler in this respect. By transforming loans into tradable securities, securitisation could free up bank capital for further lending and allow a broader range of investors to fund the economic recovery.

The securitisation framework shall be subject to a comprehensive review by January 2022, including possible legislative changes if necessary. However, this proposal introduces targeted changes now, given their usefulness for economic recovery. It is part of a 'capital markets stimulus package' to facilitate economic recovery post-COVID-19, which also includes legislative proposals to amend the [Prospectus Regulation](#), the [Markets in Financial Instruments Directive \(MiFID II\)](#) and the [Capital Requirements Regulation](#).

CONTENT: the proposed amendments aim to (i) extend the STS securitisation framework to on-balance-sheet synthetic securitisation and; (ii) remove regulatory obstacles to securitisation of NPEs to further increase lending capacities without lowering the prudential standards for bank lending.

Creation of a specific framework for on balance-sheet synthetic securitisations

On-balance-sheet synthetic securitisation is a type of securitisation where the originator continues to own the underlying exposures (while normally in traditional securitisation the underlying exposures are sold to another entity). They are an important risk management tool for bank lending to corporates, in particular SMEs.

The proposal encourages a broader use of securitisation in the recovery phase, by freeing up bank capital and supporting banks in their effort to enhance lending to households and businesses. Investors wishing to participate in such securitisations shall also benefit from increased simplicity, standardisation and transparency. The amendments will not undercut the high standards of the current securitisation framework for investor protection in any way. The proposal neither changes the issuers' extensive disclosure requirements nor does it weaken the far-reaching restrictions that, as a general rule, ban the selling of securitisation to retail clients.

The proposed criteria are aligned as much as possible with those for traditional STS securitisation, but they also take into account the specificities of the synthetic product and the different objectives of synthetic securitisations and therefore seek to ensure protection for both originators and investors.

Securitisation of non-performing exposures (NPEs)

The proposal pursues the objective of expanding credit institutions' and investment firms' capacity to lend to corporates and SMEs and to free their balance sheets of non-performing exposures whilst maintaining the consistency of the prudential framework following the COVID-19 crisis.

In order to tackle comprehensively the regulatory shortcomings of NPE securitisation, this proposal puts forward a definition of NPE securitisation, which is aligned with the work of the Basel Committee on Banking Supervision.

In addition, the proposal:

- subjects securitisations of non-performing exposures to a special regime when it comes to fulfilling the risk retention requirement in order to better take account of their special characteristics;
- clarifies the verification duties on originators when it comes to securitising non-performing exposures.