

Basic information

2015/0225(COD)

COD - Ordinary legislative procedure (ex-codecision procedure)
Regulation

Prudential requirements for credit institutions and investment firms

Amending Regulation (EU) No 575/2013 [2011/0202\(COD\)](#)

See also [2015/0226\(COD\)](#)

Subject

2.50.03 Securities and financial markets, stock exchange, CIUTS, investments

2.50.04 Banks and credit

2.50.05 Insurance, pension funds

2.50.08 Financial services, financial reporting and auditing

2.50.10 Financial supervision

Procedure completed

Key players

European Parliament

Committee responsible

ECON

Economic and Monetary Affairs

Rapporteur

KARAS Othmar (PPE)

Appointed

28/11/2016

Shadow rapporteur

FERNÁNDEZ Jonás (S&D)

SWINBURNE Kay (ECR)

THEURER Michael (ALDE)

KARI Rina Ronja (GUE/NGL)

SCOTT CATO Molly (Verts /ALE)

VALLI Marco (EFDD)

MONOT Bernard (ENF)

Committee for opinion

JURI

Legal Affairs

Rapporteur for opinion

The committee decided not to give an opinion.

Appointed

Council of the European Union

European Commission

Commission DG

Financial Stability, Financial Services and Capital Markets Union

Commissioner

HILL Jonathan

Key events			
Date	Event	Reference	Summary
30/09/2015	Legislative proposal published	COM(2015)0473 	Summary
14/10/2015	Committee referral announced in Parliament, 1st reading		
08/12/2016	Vote in committee, 1st reading		
08/12/2016	Committee decision to open interinstitutional negotiations with report adopted in committee		
19/12/2016	Committee report tabled for plenary, 1st reading	A8-0388/2016	Summary
11/07/2017	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE607.909	
25/10/2017	Debate in Parliament		
26/10/2017	Decision by Parliament, 1st reading	T8-0416/2017	Summary
26/10/2017	Results of vote in Parliament		
20/11/2017	Act adopted by Council after Parliament's 1st reading		
12/12/2017	Final act signed		
12/12/2017	End of procedure in Parliament		
28/12/2017	Final act published in Official Journal		

Technical information	
Procedure reference	2015/0225(COD)
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)
Procedure subtype	Legislation
Legislative instrument	Regulation
Amendments and repeals	Amending Regulation (EU) No 575/2013 2011/0202(COD) See also 2015/0226(COD)
Legal basis	Treaty on the Functioning of the European Union TFEU 114
Mandatory consultation of other institutions	European Economic and Social Committee
Stage reached in procedure	Procedure completed
Committee dossier	ECON/8/04620

Documentation gateway				
European Parliament				
Document type	Committee	Reference	Date	Summary
Committee draft report		PE583.904	06/06/2016	

Amendments tabled in committee		PE587.498	06/09/2016	
Committee report tabled for plenary, 1st reading/single reading		A8-0388/2016	19/12/2016	Summary
Text agreed during interinstitutional negotiations		PE607.909	28/06/2017	
Text adopted by Parliament, 1st reading/single reading		T8-0416/2017	26/10/2017	Summary

Council of the EU

Document type	Reference	Date	Summary
Draft final act	00038/2017/LEX	13/12/2017	

European Commission

Document type	Reference	Date	Summary
Legislative proposal	COM(2015)0473 	30/09/2015	Summary
Document attached to the procedure	SWD(2015)0185 	30/09/2015	
Document attached to the procedure	SWD(2015)0186 	30/09/2015	
Commission response to text adopted in plenary	SP(2017)766	06/12/2017	

National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	RO_CHAMBER	COM(2015)0473	04/01/2016	
Contribution	CZ_SENATE	COM(2015)0473	12/01/2016	

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES4971/2015	20/01/2016	
ECB	European Central Bank: opinion, guideline, report	CON/2016/0011 OJ C 219 17.06.2016, p. 0002	11/03/2016	Summary

Additional information

Source	Document	Date
EP Research Service	Briefing	
EP Research Service	Briefing	
European Commission	EUR-Lex	

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 securitisations 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.

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.

Prudential requirements for credit institutions and investment firms

2015/0225(COD) - 12/12/2017 - Final act

PURPOSE: facilitate the development of a securitisation market in Europe.

LEGISLATIVE ACT : Regulation (EU) 2017/2401 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

CONTENT: this Regulation amending [Regulation \(EU\) No 575/2013](#) **lays down capital requirements for positions in a securitisation**. It amends the regulatory capital requirements for institutions acting as initiators, sponsors or investors in securitisation transactions, in order to **adequately reflect the specific features of simple, transparent and standardised (STS) securitisations** when such securitisations also meet the additional requirements to reduce risk laid down in this Regulation.

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

The Regulation defines the **methods for calculating the capital requirements for securitisation positions**. It should make it possible to address the shortcomings which became apparent during the financial crisis, namely mechanistic reliance on external ratings, excessively low risk weights for highly-rated securitisation tranches and, conversely, excessively high risk weights for low-rated tranches, and insufficient risk sensitivity.

The new rules are part of the EU's plan to build a fully functioning Capital Markets Union by the end of 2019.

By 1 January 2022, the Commission will report to the European Parliament and the Council on the application of the Regulation in the light of developments in securitisation markets, including from a macroprudential and economic perspective.

ENTRY INTO FORCE: 17.1.2018.

APPLICATION: from 1.1.2019.

Prudential requirements for credit institutions and investment firms

2015/0225(COD) - 11/03/2016 - European Central Bank: opinion, guideline, report

OPINION OF THE EUROPEAN CENTRAL BANK on (a) a [proposal for a regulation](#) laying down common rules on securitisation and creating a European framework for simple, transparent and standardised securitisation; and (b) a **proposal for a regulation** amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

The ECB welcomed the objectives of the proposed regulations of promoting the further integration of Union financial markets, diversifying funding sources and unlocking capital for sound lending to the real economy. It supported the establishment of criteria to identify a subset of securitisations which can be classified as simple, transparent and standardised (STS) and welcomed the proposed CRR amendment's adjustment to capital charges to provide for a more risk-sensitive treatment for STS securitisations.

As regards the proposed amendment of [Regulation \(EU\) No 575/2013](#) on prudential requirements for credit institutions and investment firms, the ECB made the following recommendations:

Capital treatment for STS securitisations: the ECB strongly supported the incorporation of the STS criteria in the banking regulatory capital framework through the proposed CRR amendment, as an enhancement to the December 2014 revisions to the Basel securitisation framework. It considered that the calibration, which reduces capital charges for STS securitisations, is appropriate, considering their lower risk profile.

In relation to the hierarchy of approaches, the ECB considered the proposed changes to be a positive first step towards a more equal regulatory treatment of STS securitisations issued in different Union jurisdictions. As drafted, it effectively permits credit institutions to cap capital charges under the securitisation external ratings-based approach (SEC-ERBA) at the level applicable under the securitisation standardised approach (SEC-SA), subject to certain conditions.

The ECB recommended **disallowing the use of SEC-ERBA for STS securitisations only**. This would provide equality of treatment across Union STS securitisations and between Union STS securitisations and non-Union securitisations issued in jurisdictions where the use of external ratings and, consequently, the application of SEC-ERBA, is not permitted.

Competent authorities should nevertheless retain their discretion to impose capital charges higher than those resulting from the application of SEC-SA for STS securitisations (as for non-STs securitisations), where justified on a case-by-case basis, e.g. due to residual structural complexities or other relevant risk drivers not sufficiently captured in all cases under the standardised approach.

Importantly, the ECB's recommendation to disallow the application of SEC-ERBA is, however, contingent on the maintenance of high standards for asset quality and self-attestation.

Capital treatment for qualifying synthetic securitisations: the proposed CRR amendment introduces a differentiated capital treatment for senior tranches of synthetic securitisations meeting certain criteria.

The ECB noted that, from a prudential perspective, the arguments for reducing capital charges for certain synthetic securitisations are not as strong as for traditional STS securitisations. Notably there is currently limited data available on both the volume and performance of synthetic securitisations due to their private nature. The ECB therefore acknowledges the cautious approach taken by the Commission, whereby the preferential treatment is strictly limited to a subset of synthetic securitisation structures.

It recommended that the **prudence of the framework for qualifying synthetic structures should be further strengthened** by developing criteria specifically adapted to synthetic securitisations.

Strengthening the significant risk transfers (SRT) assessment: the ECB recommended that the proposed CRR amendment should be used as an opportunity to both clarify and strengthen the current CRR provisions with regard to significant risk transfer and implicit support. First, the conditions for recognising SRT (38) in Articles 244 and 245 should be linked to the conditions for implicit support in Article 250, as they address the same issues. In addition, the quantitative significant risk transfer tests should be reviewed by the EBA as they are insufficient and open to regulatory arbitrage in certain cases.

Prudential requirements for credit institutions and investment firms

PURPOSE: to establish a revised regulatory framework on capital charges for exposures to securitisations within the objective of reviving EU securitisation markets.

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.

CONTEXT: securitisations are an important constituent part of well-functioning financial markets. The Commission considers that **promoting the development of a securitisation market** based on sound practices will contribute to a return to sustainable growth and job creation. Furthermore, a **common, high quality EU securitisation framework** will promote further integration of financial markets in the Union, help diversify funding sources and unlock capital, making it easier for credit institutions to lend to households and businesses.

In order to attain this objective, **two steps** must be taken:

1) to develop a common substantive framework for securitisations for all participants in this market and identify a subset of transactions meeting certain eligibility criteria: simple, transparent and standardised (STS) securitisations or STS securitisations. This is the subject of the [Commission Proposal for a Securitisation Regulation](#).

2) to make amendments to the regulatory framework of securitisations in EU law, including in the area of capital charges for credit institutions and investment firms originating, sponsoring or investing in these instruments, to provide for a more risk-sensitive regulatory treatment for STS securitisations.

The global financial crisis revealed a number of shortcomings in the current securitisation framework. In order to address these shortcomings and contribute to enhancing the resilience of institutions to market shocks, the Basel Committee on Banking Supervision (BCBS) adopted in December 2014 a recommendation for a revised securitisation framework ("the **Revised Basel Framework**"). The measure has been designed to reduce the complexity of the current regulatory capital requirements, reflect better the risks of positions in a securitisation and allow the use of the information available to institution to allocate capital requirements based on their own calculations, thus reducing reliance on external ratings.

At an European level, the European Banking Authority (EBA) issued a report on qualifying securitisations on 7 July 2015 which recommended lowering capital charges for STS securitisations to a prudent level relative to those set out in the Revised Basel Framework and to amend the regulatory capital requirements for securitisations set out in the [Regulation \(EU\) No 575/2013 \(CRR\)](#) in line with the Revised Basel Framework. For STS securitisations, the EBA re-calibrated downwards the 3 approaches developed by the BCBS for the Revised Basel Framework.

The Commission now proposes to **amend the regulatory capital requirements for securitisations in the CRR** in order to:

- implement the regulatory capital calculation approaches set out in the Revised Basel Framework;
- introduce a re-calibration for STS securitisations, consistent with the recommendation of the EBA.

IMPACT ASSESSMENT: the impact assessment accompanying the Securitisation Regulation clearly shows the benefits in terms of efficiency and effectiveness of:

- introducing a revised regulatory framework on capital charges for exposures to securitisations, and
- differentiating the treatment of STS securitisations having regard to the overall objectives of the Commission legislative package on securitisation, i) remove stigma attached to securitisations among investors; ii) remove regulatory disadvantages for STS products; and iii) reduce or eliminate unduly high operational costs for issuers and investors.

CONTENT: this Regulation forms a **legislative package with the proposed Securitisation Regulation** which aims to restart securitisation markets on a more sustainable basis and making this a safe and efficient instrument for funding and risk management.

The proposed Regulation aims to **review the regulatory capital requirements laid down in Regulation (EU) No 575/2013 (CRR)** for institutions originating, sponsoring or investing in securitisations should be amended to **reflect adequately the specific features of STS securitisations** and address the shortcomings of the framework which became apparent during the financial crisis, namely its mechanistic reliance on external ratings, excessively low risk weights for highly-rated securitisation tranches and, conversely, excessively high risk weights for low-rated tranches, and insufficient risk sensitivity.

The amendments to the existing regulatory framework should take account of the **regulatory capital calculation approaches set out in the Revised Basel Framework**. Under this framework:

- institutions may calculate capital requirements for their securitisation positions in accordance with a **single hierarchy of approaches**, which starts with the Internal Ratings Based Approach (IRB Approach) at the top;
- if an institution cannot use the approach based on internal ratings, it must use a **External Ratings-Based Approach** ("SEC-ERBA" Approach), provided the exposure has an external credit assessment which meets a series of operational requirements;
- in the case where the Institution cannot use the External Ratings Based Approach, either because is located in a jurisdiction that doesn't permit its use or because it lacks the information needed to use that approach, it shall use a **Standardised Approach** (the "SEC-SA" Approach) based on a supervisory-provided formula.

No later than 3-years from the entry into force of this Regulation, the Commission will review the proposed approach to capital requirements for securitisation exposures, including the hierarchy of approaches, taking into account its impact on securitisation markets developments and the need to preserve financial stability in the EU.