### **Basic information**

## 2020/0156(COD)

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

Amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis

Amending Regulation 2013/575 2011/0202(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

### Legislative priorities

Joint Declaration 2021

The EU's response to the Covid-19 pandemic

Procedure completed

### Key players

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	KARAS Othmar (EPP)	07/09/2020
	Shadow rapporteur	
	FERNÁNDEZ Jonás (S&D)	
	GARICANO Luis (Renew)	
	LAMBERTS Philippe (Greens/EFA)	
	VAN OVERTVELDT Johan (ECR)	
	ZANNI Marco (ID)	
	MACMANUS Chris (GUE /NGL)	
		ECON Economic and Monetary Affairs  KARAS Othmar (EPP)  Shadow rapporteur FERNÁNDEZ Jonás (S&D) GARICANO Luis (Renew) LAMBERTS Philippe (Greens/EFA)  VAN OVERTVELDT Johan (ECR) ZANNI Marco (ID) MACMANUS Chris (GUE

## **European Commission**

Council of the European Union

Commission DG	Commissioner
Financial Stability, Financial Services and Capital Markets Union	MCGUINNESS Mairead

European Economic and Social Committee

Date	Event	Reference	Summary
24/07/2020	Legislative proposal published	COM(2020)0283	Summary
14/09/2020	Committee referral announced in Parliament, 1st reading		
10/11/2020	Vote in committee, 1st reading		
10/11/2020	Committee report tabled for plenary, 1st reading	A9-0213/2020	Summary
10/11/2020	Committee decision to open interinstitutional negotiations with report adopted in committee		
11/11/2020	Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 71)		
13/11/2020	Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 71)		
14/01/2021	Approval in committee of the text agreed at 1st reading interinstitutional negotiations	PE663.107	
24/03/2021	Debate in Parliament	<u>@</u>	
25/03/2021	Decision by Parliament, 1st reading	T9-0100/2021	Summary
25/03/2021	Results of vote in Parliament	<u></u>	
30/03/2021	Act adopted by Council after Parliament's 1st reading		
31/03/2021	Final act signed		
31/03/2021	End of procedure in Parliament		
06/04/2021	Final act published in Official Journal		

Technical information		
Procedure reference	2020/0156(COD)	
Procedure type	COD - Ordinary legislative procedure (ex-codecision procedure)	
Procedure subtype	Legislation	
Legislative instrument	Regulation	
Amendments and repeals	Amending Regulation 2013/575 2011/0202(COD)	
Legal basis	Treaty on the Functioning of the EU TFEU 114	
Mandatory consultation of other institutions	European Economic and Social Committee	
Stage reached in procedure	Procedure completed	
Committee dossier	ECON/9/03675	

Documentation gateway  European Parliament					
					Document type Committee Reference Date Summa

Committee draft report	PE658.799	05/10/2020	
Amendments tabled in committee	PE658.993	14/10/2020	
Committee report tabled for plenary, 1st reading/single reading	A9-0213/2020	10/11/2020	Summary
Text agreed during interinstitutional negotiations	PE663.107	16/12/2020	
Text adopted by Parliament, 1st reading/single reading	T9-0100/2021	25/03/2021	Summary

## Council of the EU

Document type	Reference	Date	Summary
Draft final act	00073/2020/LEX	31/03/2021	

## **European Commission**

Document type	Reference	Date	Summary
Legislative proposal	COM(2020)0283	24/07/2020	Summary
Document attached to the procedure	SWD(2020)0120	27/07/2020	
Commission response to text adopted in plenary	SP(2021)260	27/04/2021	

## National parliaments

Document type	Parliament /Chamber	Reference	Date	Summary
Contribution	ES_PARLIAMENT	COM(2020)0283	23/10/2020	
Contribution	PT_PARLIAMENT	COM(2020)0283	28/10/2020	
Contribution	IT_CHAMBER	COM(2020)0283	08/03/2021	

## Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
ECB	European Central Bank: opinion, guideline, report	CON/2020/0022 OJ C 377 09.11.2020, p. 0001	23/09/2020	
EESC	Economic and Social Committee: opinion, report	CES3577/2020	29/10/2020	
				•

Additional information		
Source	Document	Date
EP Research Service	Briefing	01/07/2021

Regulation 2021/0558 OJ L 116 06.04.2021, p. 0025

## Amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis

2020/0156(COD) - 24/07/2020 - Legislative proposal

PURPOSE: to amend the capital requirements regulations to maximise the capacity of institutions to lend and to absorb losses related to the COVID-19 pandemic, while still ensuring their continued resilience.

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) No 575/2013 of the European Parliament and of the Council, known as the Capital Requirements Regulation (the CRR), establishes together with Directive 2013/36/EU, known as the Capital Requirements Directive (the CRD), the prudential regulatory framework for credit institutions operating in the Union. One set of amendments, contained in Regulation (EU) 2017/2401, has implemented the revised securitisation framework adopted by the BCBS in December 2014 (the revised Basel framework).

In order to further promote the development of a high quality EU securitisation market based on sound practices, Regulation (EU) 2017/2401 also included amendments aiming at providing for a more risk-sensitive regulatory treatment for simple, transparent and standardised (STS) securitisations.

Securitisation can play an important role in enhancing the capacity of institutions to support the economic recovery, providing for an effective tool for funding and risk diversification for institutions. It is therefore essential in the context of the economic recovery post COVID-19 pandemic to reinforce that role and help institutions to be able to channel sufficient capital to the real economy.

As highlighted by the European Banking Authority (EBA) in its report of 6 May 2020 on the STS framework for synthetic securitisations, there is a need to introduce a specific framework for simple, transparent and standardised on-balance-sheet (STS) securitisations, which will free up regulatory capital and ultimately further strengthen the lending capacity of institutions in a prudentially sound manner. Specific treatment should also be introduced for non-performing exposures (NPE) securitisations.

This proposal 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 Securitisation Regulation.

CONTENT: the proposed amendments to the CRR and to the securitisation regulations will enable institutions to maintain a high volume of lending to the economy in the coming months and therefore will provide an important contribution to the absorption of the impact of the shock of the COVID-19 crisis.

The Commission proposes three targeted amendments aiming at increasing the overall risk sensitivity of the EU securitisation framework that would make the recourse to the securitisation tool more economically viable for institutions within a prudential framework adequate to safeguard the EU financial stability.

### More risk-sensitive treatment for STS on-balance-sheet securitisation

STS on-balance-sheet securitisation allows institutions to transfer credit risk through funded or unfunded credit protection bought or granted by other investors, freeing capacity for new lending to the real economy and ensuring a more efficient risk sharing among financial actors.

Following the recommendations of the EBA report, it is also proposed to introduce a targeted and limited in scope preferential treatment for STS onbalance sheet securitisation exposures, which focuses on the senior tranche. This would be done by extending the treatment currently provided in Article 270 of the CRR to a wider range of underlying assets.

## Removal of regulatory constraints to the securitisation of non-performing exposures (NPEs)

When applied to NPE securitisations, this framework yields capital requirements that proved to be disproportionate, in particular for the so-called 'formulaic approaches' (i.e. the SEC-IRBA and SEC-SA). It is therefore proposed to amend the treatment of NPE securitisations by providing for a simple and sufficiently conservative approach based on:

- a flat 100% risk weight applicable to the senior tranche of traditional NPE securitisations and;
- on the application of a floor of 100% to the risk weights of any other tranches of both traditional and on-balance-sheet synthetic NPE securitisations that remain subject to the general framework for the calculation of risk-weighted exposures.

### Recognition of credit risk mitigation for securitisation positions

It is proposed to amend Article 249(3) of the CRR which introduces an additional eligibility criterion for the recognition of unfunded credit protection for institutions applying the standardised approach to calculate capital requirements for securitisation exposures.

The proposal imposes a minimum credit rating requirement for almost all types of providers of unfunded credit protection, including central governments. This amendment will enhance the effectiveness of national public guarantee schemes assisting institutions' strategies to securitise NPEs in the aftermath of the COVID-19 pandemic.

# Amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis

2020/0156(COD) - 25/03/2021 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 474 votes to 172, with 62 abstentions, a resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support economic recovery in response to the COVID-19 pandemic.

The proposed regulation aims to maximise the capacity of institutions to lend and absorb losses related to the COVID-19 pandemic, while continuing their resilience.

The Commission has proposed three targeted amendments to the Capital Requirements Regulation (CRR) to increase the overall risk-sensitivity of the EU framework for securitisations so that the use of securitisation becomes a more economically viable tool for institutions within a supervisory framework that preserves EU financial stability.

The position adopted by the European Parliament at first reading amends the Commission proposal as follows:

#### Securitisations of non-performing exposures

The introduction of a specific treatment for securitisations of non-performing exposures should be based on the advice of the European Banking Authority (EBA) as well as internationally agreed standards.

Since the market for NPEs is very likely to grow and change quite substantially as a result of the COVID-19 crisis, the NPE securitisation market should be closely monitored and the prudential framework for NPE securitisation should be reassessed in the future in the light of a potentially larger pool of data.

EBA should assess the regulatory capital treatment of securitisations of non-performing exposures taking into account the state of the market for non-performing exposures in general and the state of the market for securitisations of non-performing exposures in particular and report its findings to the Commission no later than 18 months after the date of entry into force of the amending regulation.

No later than two years after the entry into force of the amending regulation, the Commission should submit a report to the European Parliament and the Council accompanied, if appropriate, by a legislative proposal.

### Grandfathering of senior securitisation positions

The amended text provides for the introduction of grandfathering for senior positions in synthetic securitisations that met the conditions for the preferential prudential treatment that applied before the date of entry into force of this amending Regulation.

## Review of the Standardised Approach for Counterparty Credit Risk (SA-CCR)

As the SA-CCR approach could have adverse effects on the availability and cost of financial hedges for end-users, the Commission should review the application of the SA-CCR approach before 30 June 2021, taking into account the specificities of the European economy and banking sector, the international level playing field and any developments in international standards and fora.

### Prudential treatment of synthetic excess spread

The amended text introduces provisions on the specific supervisory treatment of synthetic excess spread in order to prevent synthetic excess spread from being used for regulatory arbitrage purposes.

Synthetic excess spread (SES) is a mechanism commonly used in the securitisation of certain asset classes for originators and investors to reduce the cost of protection and the exposure at risk, respectively.

EBA should be mandated to develop draft regulatory technical standards to ensure a harmonised determination of the exposure value of SES. Those regulatory technical standards should be in place before the new prudential treatment becomes applicable. In order to avoid disruptions to the synthetic securitisations market, institutions should be given sufficient time to apply the new prudential treatment of SES.

#### Collective investment undertakings (CIUs) with an underlying portfolio of euro area sovereign bonds

The Commission should, in cooperation with the European Systemic Risk Board (ESRB) and the EBA, produce a report by 31 December 2021 to assess whether changes to the regulatory framework are needed to promote the market and bank purchases of exposures in the form of units or shares of collective investment undertakings (CIUs) with an underlying portfolio composed exclusively of sovereign bonds of Member States whose currency is the euro, where the relative weight of each Member State's sovereign bonds in the total portfolio of the CIU is equal to the relative weight of each Member State's capital contribution to the ECB.

#### Sustainability

After consultation with the ESRB, the EBA should assess, on the basis of available data and the findings of the Commission's High Level Expert Group on Sustainable Finance, whether a dedicated prudential treatment of exposures related to assets, including securitisations, or activities associated substantially with environmental and/or social objectives would be justified.

# Amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis

2020/0156(COD) - 10/11/2020 - 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 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 pandemic

The proposed regulation aims to maximise the capacity of institutions to lend and to absorb losses related to the COVID-19 pandemic, while ensuring their continued resilience

The Commission proposed three targeted amendments to the Capital Requirements Regulation (CRR) increasing the overall risk-sensitivity of the EU securitisation framework that would make the recourse to the

securitisation tool more economically viable for institutions within a prudential framework adequate to safeguard the EU financial stability.

The committee recommended that the European Parliament's first-reading position should amend the Commission proposal as follows:

### Securitisation of non-performing exposures (NPEs)

A specific treatment for the securitisation of NPEs should be introduced building on the European Banking Authority's (EBA) opinion and taking due account of the Union specificities of the NPE securitisation market and the market for NPEs as well as of the developments in the international standards for exposures to NPE securitisations.

To allow for the due assessment of the relevant Basel standard once it is published, the Commission should be mandated to review the prudential treatment of NPE securitisations.

The EBA should be mandated to monitor the market for securitisations of non-performing exposures and to report to the European Parliament and the Commission on the convenience of reviewing the regulatory capital treatment of NPE securitisations, having regard to the state of the NPE securitisation market, in particular, and the market for NPEs, in general, following the COVID-19 crisis.

### Specific framework for simple, transparent and standardised (STS) on-balance sheet securitisations

The regulation would introduce a risk-sensitive calibration more appropriate for on-balance sheet STS securitisations, building on the current preferential regulatory treatment of senior tranches in SME portfolios.

The amended text also provides for the application of a 'grandfathering' rule to the outstanding senior positions in synthetic on-balance sheet securitisations to which originator institutions applied the current Article 270 of the CRR before the entry into force of this Regulation.

### Review of the Standard Approach to Counterparty Credit Risk (SA-CCR)

Given that the SA-CCR approach could have adverse effects on the availability and cost of financial hedges to end-users, the Commission should review before 30 June 2021 the application of the SA-CCR approach taking into account the specificities of the European banking sector and economy, the international level-playing-field and any developments in international standards and fora.

## Collective Investment Undertakings (CIUs) with an underlying portfolio of eurozone sovereign bonds

In close cooperation with the European Systemic Risk Board (ESRB), the Commission should, as part of the upcoming implementation of the Basel III framework, produce a report by 31 December 2021 to duly assess the preferential regulatory treatment of exposures in the form of units or shares in Collective Investment Undertakings (CIUs) with an underlying portfolio consisting of sovereign bonds of euro area Member States, whose relative weight for each Member State's bonds equals the relative weight of each Member State's capital contribution to the European Central Bank (ECB).

In doing so, it should consider the European Parliament's position on the Sovereign Bond-backed Securities Regulation adopted on 23 March 2019.