Consultation Paper

Draft Implementing Technical Standards

amending Commission Implementing Regulation (EU) 680/2014 with regard to securitisations
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.5.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 27.11.2018. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

Regulation (EU) No 575/2013 (‘the CRR’) mandates the EBA, in Article 99(5), to develop uniform reporting requirements. These reporting requirements are included in Regulation (EU) No 680/2014 (Implementing Technical Standards on supervisory reporting ‘ITS on supervisory reporting’). These standards aim at collecting information on institutions’ compliance with prudential requirements as put forward by the CRR and related technical standards as well as additional financial information required by competent authorities to perform their supervisory tasks. As such the ITS on supervisory reporting need to be updated whenever prudential or supervisory requirements change.

This consultation paper proposes amendments to the ITS on supervisory reporting with regard to the new securitisation framework.

Changed securitisation framework

A new EU securitisation framework came into force in January 2018. This comprises of the Securitisation Regulation (Regulation (EU) No 2017/2402) and of the Regulation (EU) No 2017/2401 amending the CRR containing targeted amendments to the CRR with regards to securitisation, which together aim at building and reviving a sound and safe securitisation market in the EU. It is proposed to amend the ITS on supervisory reporting to integrate the changes in the new securitisations framework and, at the same time, fostering consistency between reporting and disclosure requirements.

Next steps

After a consultation period of 3 months the EBA will deliver the ITS to the EU Commission in order for the implementation date to be aligned to the end of the transition period of the new securitisation framework.

The EBA’s submission of the final updated ITS to the EU Commission will take place after the consultation and publication of the data-point model, XBRL taxonomy and validation rules in April/May 2019. The first reference date for the application of these technical standards is foreseen to be on 31.03.2020. The expected implementation period for the proposed changes is approximately 1 year.
3. Background and rationale

Importance of uniform reporting requirements

The aim of the EU common supervisory reporting framework and the EBA ITS is offering a single framework of requirements for the prudential reporting due by each and any credit institution and investment firm in the EU, thereby reducing costs and fostering a level playing field across EU institutions. It provides the foundation for the full harmonisation of reporting on the prudential requirements, the so called Pillar 1 requirements; with one single set of templates, one single embedded dictionary using common definitions and even one single set of instructions to fill the templates using a unique IT solution.

Part of a Single Rulebook

One of the main responses to the latest financial crisis was the establishment of a Single Rulebook in Europe aimed at ensuring a robust and uniform regulatory framework to facilitate the functioning of the internal market and to prevent regulatory arbitrage opportunities. A Single Rulebook also reduces regulatory complexity and firms’ compliance costs, especially for institutions operating on a cross-border basis. The ITS on supervisory reporting form part of this Single Rulebook in Europe and become directly applicable in all Member States once adopted by the European Commission and published in the Official Journal of the EU.

Maintenance and update of the ITS

The ITS on supervisory reporting reflect the Single Rulebook at the reporting level. Hence, the ITS on supervisory reporting needs to be updated whenever the underlying requirements of the Single Rulebook change.

3.1 Current requirements as regards the reporting of information on securitisations

1. Current requirements included in the ITS on supervisory reporting as regards to the specific reporting of securitisations information are defined in templates C 12.00, C 13.00 and C 14.00 for credit risk and C 19.00 and C 20.00 for market risk. While templates C 12.00, C13.00, C19.00 and C 20.00 refer to aggregate data on securitisations, template C 14.00 gathers information on a transaction basis.

2. Securitisations in the banking book for which a significant risk transfer is recognised shall be reported in templates C 12.00 and C 13.00 whilst securitisations in the trading book shall be reported in templates C 19.00 and C 20.00. Template C 14.00 shall contain all securitisations.

3. In the current securitisations framework there are two hierarchies of approaches for credit risk – Standardised Approach (SA) and Internal Ratings Based Approach (IRB). Securitisations treated
under SA shall be reported in template C 12.00 and securitisations treated under IRB shall be reported under C 13.00.

3.2 Changed securitisation framework

4. The new EU securitisation framework came into force in January 2018. This comprises the Regulation (EU) No 2017/2402 (Securitisation Regulation) and of the Regulation (EU) No 2017/2401 amending the CRR containing targeted amendments to the CRR with regards to securitisation, which together aim at building and reviving a sound and safe securitisation market in the EU.

5. The Securitisation Regulation is a cross-sectoral regulation, which lays down common rules of due diligence for institutional investors (banks, insurance companies, pension funds, investment funds, alternative investment funds, and money market funds) and risk retention and transparency for originators, sponsors, original lenders and securitisation vehicles. It also implements the Basel simple, transparent and comparable criteria into the European simple, transparent and standardised (STS) securitisation framework, also for ABCP conduits.

6. The amendment to the CRR implements the revised Securitisation framework approved by the Basel Committee in December 2014 and the STS specific capital framework and establishes preferential treatment for STS securitisations and certain SME synthetic securitisations. It sets out a framework for a more risk-sensitive regulatory treatment of exposures to securitisations complying with such criteria.

7. One of the main changes in the new framework is the revised hierarchy to reduce the reliance on external ratings as well as to simplify it and limit the number of approaches. This is translated into a single hierarchy of approaches replacing the previous two (SA and IRB).

3.3 Transitional provisions concerning outstanding securitisation positions

8. The new securitisation framework sets out a transitional period applying from 1 January 2019 and lasting for the whole year. In respect of securitisations the securities of which were issued before 1 January 2019, institutions shall continue to apply the provisions set out in the CRR until 31 December 2019 in the version applicable on 31 December 2018. For securitisations the securities of which were issued on or after 1 January 2019, institutions shall apply the new securitisations framework.

9. In order to tackle the transitional period, in version 2.8 of the ITS on Supervisory Reporting (applicable for reports as of 31 December 2018) already some provisions have been made. Rows were added in template C 02.00 to accommodate securitisations under the new framework and new columns were added in template C 14.00 to gather information, such as securitisations qualifying for preferential capital treatment. The securitisations under the previous framework shall be reported under the same templates as before.
3.4 Proposal for revised reporting requirements

10. It is proposed to amend the ITS on supervisory reporting to integrate the changes in the new securitisations framework mentioned in 3.2. The changes made due to the transitional provisions mentioned in 3.3 need to be replaced by a different set of data points in order to accommodate the new fully-fledged framework.

11. The requirement for institutions to submit the information included in templates C 12.00 and C 13.00 will cease to exist and these templates need to be replaced by a new one - the proposed C 13.01 - which will include the new single hierarchy instead of the two previous ones (SA and IRB). In this new template, *inter alia*, the following information needs to be included:

   a. The previous approaches need to be replaced by the new ones (SEC-IRBA, SEC-SA and SEC-ERBA);

   b. The previous credit quality steps need to be replaced by the new ones (short and long term);

   c. Securitisations qualifying for differentiated capital treatment, due to the STS criteria (Art. 243 of CRR) and the senior positions in SMEs securitisations (Art. 270 of CRR);

   d. Deductions from the exposure value of securitisation positions which are assigned 1250 % risk weight or deducted from Common Equity Tier 1;

   e. Reductions in the risk-weighted exposure amount due to the risk-weight cap and the overall cap.

12. Furthermore, additional granularity was added in template C 14.00 to facilitate supervisory analysis and due to the need of monitoring the impact of the new framework and, specially, the new single hierarchy of approaches. Moreover, some of the new aspects included in C 14.00 come from the alignment between the reporting and disclosure requirements mentioned in 3.5.

13. Templates C 19.00 and C 20.00 were amended in order to reflect the new framework. Additionally, template C 09.04 was subject to a minor amendment as well to reflect the single hierarchy of approaches.

3.5 Fostering consistency between reporting and disclosure requirements

14. The information included in the reporting framework is the basis for supervisors to form a clear picture on the situation of an institution in terms of business model / profitability, solvency / risk profile, liquidity and relevance for the financial system. Similarly, the information disclosed by institutions is the basis for market participants to understand and assess the institutions' situation.
in order to exercise market discipline. Information relevant for supervisors should be equally relevant for market participants thereby emphasizing the importance of striving for congruency.

15. The revised reporting requirements were designed also to be consistent with the disclosure requirements. Improving the consistency between the reporting and disclosure requirements, including a standardisation of formats and definitions, should also increase the efficiency and reduce the burden both with regard to institutions’ reporting and disclosure obligations, and therefore facilitate the compliance with both.

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

COMMISSION IMPLEMENTING REGULATION (EU) …/…

of XXX


THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012¹ and in particular the fourth subparagraph of Article 99(5), the fourth subparagraph of Article 99(6), the third subparagraph of Article 394(4) the fourth subparagraph of Article 415(3) and the third subparagraph of Article 430(2) thereof,

Whereas:

(1) Commission Implementing Regulation (EU) No 680/2014² specifies the modalities according to which institutions are required to report information relevant to their compliance with Regulation (EU) No 575/2013. Given that the regulatory framework established by Regulation (EU) No 575/2013 is gradually being supplemented and amended Implementing Regulation (EU) No 680/2014 needs to be updated accordingly to reflect those rules.

(2) By Regulation (EU) No 2017/2402 a framework for securitisation, including a specific framework for simple, transparent and standardised securitisation has been created.

(3) By Regulation (EU) No 2017/2401 the revised Securitisation framework approved by the Basel Committee in December 2014 and the STS specific capital framework have been implemented into the Union law. It establishes preferential treatment for STS securitisations and certain SME synthetic securitisations and among others sets out a framework for a more risk-sensitive regulatory treatment of exposures to securitisations complying with such criteria.

(4) Further amendments to Implementing Regulation (EU) 680/2014 are also required to reflect competent authorities’ ability to effectively monitor and assess the institutions’ risk profile and to obtain a view on the risks posed to the financial sector.

(5) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority (EBA) to the Commission.

(6) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based that relate to securitisations, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 in relation to those.

(7) Implementing Regulation (EU) No 680/2014 should therefore be amended accordingly, HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EU) No 680/2014 is amended as follows:

(1) Point (7) of Article 5(a) is deleted:

(2) point (8) of Article 5(a) is replaced by the following:

‘(8) the information on securitisation exposures as specified in template 13.01 of Annex I, according to the instructions in Part II point 3.7 of Annex II; ’

(3) point (1) of Article 5(b) is replaced by the following:

‘(1) the information on all securitisation exposures as specified in templates 14 and 14.01 of Annex I, according to the instructions in Part II points 3.8 of Annex II;’

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Question 1: There is a need to have the breakdown by approach of the exposure values, RWAs and capital charge after cap. The current template C 14.00 cannot address this for cases where there is more than one approach in the same securitisation.

Our proposal is to split template C 14.00 in two parts, where the first part is the information that does not change with different approaches and the second part (C 14.01) is the information that changes with different approaches. Template C 14.01 would be broken down by sheets, where each sheet would be a different approach. This option leads to more lean templates, it does not provide additional burden for cases where only one approach is used in the same securitisations and it delivers relevant supervisory insight on how the new framework is functioning regarding the new hierarchy of approaches.

Do respondents agree with this option?
As an alternative, we propose to add 12 new columns in template C 14.00 - the four possible approaches as a breakdown of exposure value, RWAs and capital charge after cap.

(4) Templates No 12.00 and 13.00 are deleted from Annex I of Regulation (EU) No 680/2014.

(5) Templates No 13.01 and 14.01 of Annex I of this Regulation are added to Annex I of Regulation (EU) No 680/2014.


Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union. It shall apply from 1 March 2020.

This Regulation shall be binding in its entirety and directly applicable in all Member States. Done at Brussels,

For the Commission
The President

On behalf of the President
[Position]
[ANNEX I]
[Templates added to Annex I of Commission Implementing Regulation (EU) N0 680/2014]

[ANNEX II]
[Instructions added to Annex II of Commission Implementing Regulation (EU) N0 680/2014]
5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

As per Article 16(2) of Regulation (EU) No 1093/2010 (EBA Regulation), any guidelines and recommendations developed by the EBA shall be accompanied by an Impact Assessment (IA), which analyses ‘the potential related costs and benefits’.

The analysis presented in this section focuses on the implications of the revision to the securitisation framework, which has taken place both at global and at European level, on some of the COREP templates. At the EU level, a revised CRR (Regulation EU 2017/2401) and securitisation legislation (Regulation EU 2017/2402) entered into force in January 2018, with direct applicability in January 2019. These revisions have implications also on the reporting side, specifically for COREP templates C 12.00-C 14.00 and C 19.00-C 20.00, as described in the CP above. Given the nature and the scope of the revisions, the IA is qualitative in nature.

A. Problem identification

As part of its Capital Markets Union (CMU) project and following a revised Basel securitisation framework, the European Union published a revised Securitisation Regulation (Regulation EU 2017/2402) and an amendment to the CRR (Regulation EU 2017/2401). These amendments imply significant reform of the EU’s securitisation legislation in many aspects.

Inter alia, they include aspects such as risk retention, transparency and create a framework for simple, transparent and standardised (STS) securitisation. Relevant for the proposed template changes, the revisions represent a transposition of the revised Basel standards from December 2014 (Basel III) with respect to the hierarchy of rating approaches. Specifically, the revisions reduce reliance on external ratings and aim to simplify and limit the number of approaches used for establishing the risk weights of securitisation exposures. The calibration of the revised Basel securitisation framework aims to preserve the hierarchy of the approaches; that is lower capital requirements under the SEC-IRBA, and the same capital requirements under SEC-ERBA and SEC-SA.

Under Basel II there was a clear separation of treatment between securitisation exposures under the SA and IRB. Both approaches in the first instance relied on external ratings for rated exposures. If no external ratings were available for the securitisation, assessments were different under the two approaches (i.e. Look-through Approach under SA versus Internal Assessment Approach under IRB).

The new framework reduces this reliance on external ratings and enhances the framework’s risk sensitivity. The two approaches are merged into just one hierarchy: (i) securitisations with underlying IRB exposures rely on internal models (if sufficient information is available, otherwise
the SA applies); (ii) securitisations with underlying SA exposures are treated under the SA. (iii) There are various exceptions under which the exposures are still treated using external ratings.

Hence, the Look-through Approach versus and the Internal Assessment Approach have been removed and replaced by the same set of approaches to be applied for all exposures. Therefore, reporting requirements under SA and IRB do not need to be different any longer, but can be treated in the same template. Further, the calibrations in the external ratings look-up tables have been revised.

The reporting framework V 2.8, applicable as of reference date 31 December 2018, already partially reflects the revised securitisation framework introduced in January 2018, and will apply as of 2019 for a one-year transition period. COREP templates had to be amended swiftly to allow at least the minimum level of information needed under the new framework to be reported starting already from January 2019. As a result, additional rows were temporarily added to COREP template C 02.00. They include basic information on the risk weight amounts for securitisation exposures under the various new approaches (i) – (iii) above. This additional information is however not granular enough (e.g. no on versus off-balance sheet information) to get a complete picture of the entire new framework.

The significant changes to the European securitisation framework call for a more fundamental change to the EBA COREP template to ensure reporting is aligned and produces the most efficient and effective way for data to be disseminated and as a consequence ensures that it can be used in a reliable way.

B. Policy objectives

The revised templates aim to fully align the reporting under COREP with the provisions under the revised EU securitisation framework. The changes made predominantly relate to the hierarchy of rating approaches described above.

Further, the revisions of the templates proposed in the CP present an opportunity to begin collecting data items identified as data gaps. Given the importance of securitisation for supporting the European bank funding market, and in particular the EU’s priorities to develop this segment further as part of the CMU project, availability of detailed data for analysis and monitoring of trends is crucial.

C. Options considered

This section presents the main policy options discussed and the decisions made during the development of the updated templates. Advantages and disadvantages, as well as potential costs and benefits of the policy options and the preferred options resulting from this analysis are also reported.
Option 1: No action: do not revise/update the COREP templates but keep the transitional templates which include some additional rows only in template C 02.00.

Option 2a: Intervention: Change the reporting templates by in particular merging the SA and IRB templates (templates C 12.00 and C 13.00) in order to fully align them with the revised securitisation framework, and changing the content of C 14.00 and C 19.00-C 20.00. Moreover, the transitional rows in template C 02.00 would be removed.

Option 2b: Intervention: Change the reporting templates by in particular merging the SA and IRB templates (templates C 12.00 and C 13.00) in order to fully align them with the revised securitisation framework, and changing the content of C 14.00 and C 19.00-C 20.00. In addition, improve the level of information and granularity in the COREP templates (C 12.00-C 14.00). Moreover, the transitional rows in template C 02.00 would be removed.

D. Assessment of the options and preferred options

The reporting framework under V 2.8 on securitisation already reflects the revised securitisation framework introduced in January 2018, but only partially. When the securitisation framework was amended, COREP templates had to also be amended swiftly to allow at least the minimum level of information needed under the new framework, to be reported starting from 2019. This resulted in a temporary solution where additional rows were introduced into the existing template C 02.00 under ‘Other risk exposure amounts’. These additional rows include basic information on the risk weighted exposure amounts under each of the new approaches. The original rows 220 and 430 on securitisation exposures under IRB and SA remain in the temporary template to accommodate securitisations treated under the previous framework.

2019 will be a transitional year, where securitisation exposures originated before 2019 will be treated under the old framework and will be reported in rows (220 and 430 in template C 02.00) and templates C 12.00 and C 13.00, while exposures originated from January 2019 onwards will be treated under the new framework and reported in the new additional rows in template C 02.00. From 2020 onwards, all securitisations will be treated under the new framework, rendering templates C 12.00 and C 13.00 obsolete.

However, the transitional solution for reporting does not fully reflect the new framework of one single hierarchy and does not provide all relevant information. More information on the various approaches SEC-IRBA, SEC-SA, SEC-ERBA is needed in the long-run, also to re-align the level of information on securitisations again with the COREP information on other exposure classes, given that the current templates C 12.00 and C 13.00 with more granular securitisation information will no longer be applicable to the new hierarchy. Information such as the institutions’ role (i.e. originator/sponsor/investor), CQS, exposure values, caps, etc. would then be missing. This implies that the do nothing option should be discarded since it would not allow to get the information needed for supervisors to assess whether banks comply with the new prudential framework.
In Option 2a, the proposed revised templates merge COREP template C 12.00 and C 13.00 into one, to reflect the new structure of having one hierarchy only. Both securitisation exposures under SA and under IRB would be reported in this new template. The column headings are adjusted to reflect the reduced number of approaches used under the revised framework. Moreover, changes to the Basel framework had to also be reflected with some changes to templates C 14.00 and C 19.00-C 20.00. It is to be noted that under Option 2a, the changes in reporting simply reflect changes in the underlying prudential regulation, with little discretion for the reporting standard setter.

In fact, to ensure full consistency, it is crucial that changes in the Level 1 text are reflected appropriately and fully in the related templates. Transparency and clarity is essential for effective reporting. Whilst initially this will potentially imply some adjustments in the reporting for institutions (in the form of for example more time needed for filling in the templates as cells will have changed); in the long run it is assessed that the benefit of the improved clarity and consistency will significantly outweigh the cost.

Concluding from the above reasoning, **Option 2a** is superior to Option 1.

Requiring more detailed information than is currently provided in COREP templates C 12.00-C 14.00 was considered under another Option 2b.

A higher level of granularity implies an increased reporting burden for banks. Nevertheless, this is expected to be limited since banks should have this kind of information readily available already. However, feedback on this will be sought again as part of the public consultation.

Restarting the securitisation market in Europe is crucial. The segment has remained subdued since the 2008 financial crisis. This is likely to be the result of both the remaining negative stigma attached to this market, as well as structural issues inherent in this segment. Securitisation can be an important tool to increase and channel funding to the real economy, especially SMEs which are heavily dependent on bank funding in Europe and which at the same time form the backbone of the EU economy and could benefit from a well-functioning securitisation market.

At the same time, the pre-crisis situation where supervisors were unable to monitor developments and banks’ positions needs to be avoided. It will therefore be important to be able to monitor developments in securitisation exposures and related capital requirements and to monitor and assess current regulation’s prudential impact on the EU banking sector. This will in turn allow regulators and legislators to make a judgement if further amendments might be needed.

In addition, the report on the financial stability implications of the securitisation market which is to be written by the ESRB and EBA at least every three years, mandated under the securitisation legislation (Regulation EU 2017/2402) Article 31, would also benefit from an increased level of granularity of information collected.

The current COREP templates C 12.00-C 14.00 lack some key information for monitoring the impact of the hierarchy of approaches as set out in Article 254 of the CRR and for the calculation of the...
risk-weighted exposure amounts of securitisation positions as set out in Articles 258 to 266 of the CRR.

Therefore, **Option 2b** – to improve the level of information and granularity in COREP templates C 12.00-C 14.00, as currently presented in the CP, is superior to Option 2a and is the preferred option in terms of costs and benefits.

**D. Conclusion**

Based on the above considerations, the overall impact from the implementation of these revised templates is justified as supervisors and regulators need to have the correct set of data in line with the new framework. The benefits from improved clarity through alignment with recent framework revisions are assessed to outweigh the costs.

**5.2 Overview of questions for consultation**

**Question 1:** There is a need to have the breakdown by approach of the exposure values, RWAs and capital charge after cap. The current template C 14.00 cannot address this for cases where there is more than one approach in the same securitisation.

Our proposal is to split template C 14.00 in two parts, where the first part is the information that does not change with different approaches and the second part (C 14.01) is the information that changes with different approaches. Template C 14.01 would be broken down by sheets, where each sheet would be a different approach. This option leads to more lean templates, it does not provide additional burden for cases where only one approach is used in the same securitisations and it delivers relevant supervisory insight on how the new framework is functioning regarding the new hierarchy of approaches.

Do respondents agree with this option?

As an alternative, we propose to add 12 new columns in template C 14.00 - the four possible approaches as a breakdown of exposure value, RWAs and capital charge after cap.

**Question 2:** Are the instructions and templates clear to the respondents?

**Question 3:** Do the respondents identify any discrepancies between these templates and instructions and the calculation of capital requirements set out in the underlying regulation?

**Question 4:** Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?