

ECON meeting

Brussels, 29 August 2018

Introductory Statement by Piers Haben, Director of the Banking Markets, Innovation and Consumers Directorate at the EBA

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

The EBA's role in the implementation of the new EU securitisation framework

Dear Members of the ECON Committee,

It is my pleasure to represent the EBA at the meeting today, thank you very much for your invitation. We are standing at an important milestone, with the new 'STS' securitisation framework fully entering into application in January 2019, seeking to promote a sound and resilient securitisation market in the EU.

The 'STS' securitisation regulation and supporting work will, in my opinion, help address the stigma attached to the whole securitisation market created by pre-crisis poor performance of certain subprime and complex securitisation products, particularly in the US. It will promote an understanding of, and confidence in, a sound securitisation product. By establishing a truly harmonised cross-sectoral regulatory framework and definitions, it is expected to facilitate cross-border and cross-sector lending and investment by banks and enterprises, in line with the wider objectives of the Capital Market Union.

As a follow-up to the lessons learned from the financial crisis, many regulations at international and EU level have been introduced to address the shortcomings of the securitisation market, which has also led to a development of a fully-fledged and comprehensive EU securitisation framework. The

EBA has played an active and essential role in the development of these regulatory initiatives both at European and at International level since the start of this reform in 2014.

The new EU securitisation framework builds on the EBA recommendations back from 2015 where we proposed to introduce the concept of a qualifying securitisation and a more risk sensitive capital treatment, and which are indeed at the core of the EU securitisation reform. The securitisation framework also takes into account most of EBA's recommendations on risk retention proposed in our 2014 report, including the 'direct' approach and 'sole purpose' provision for originators, which will make the rules on the alignment of the interests of investors and originators more prudent, effective and impossible to circumvent.

Together with ESMA and EIOPA, we are now working towards effective implementation through our regulatory, monitoring and oversight roles that the legislators assigned to us as part of this new framework.

With respect to the regulatory work, the EBA has in total 28 regulatory mandates to deliver as part of implementation of the new framework, including technical standards, guidelines and reports, either under the EBA leadership or together with the other two ESAs. This year we are focusing on six important mandates, which we believe are necessary to ensure the well-functioning of the securitisation market and a smooth implementation of STS.

The publication of the EBA's technical standards in July on the homogeneity in securitisation and on risk retention – which we have developed under challenging legal deadlines of six months - marks the first step in this regard.

The RTS on homogeneity have been particularly awaited by the securitisation market, both on the origination and investor side. Homogeneity of assets is not only a core requirement for securitisation to be assessed as 'STS', but it is also a key element in investors' assessment of the underlying risks and their due diligence. The conditions of the homogeneity specified in the draft RTS have been designed from the perspective of investors as specified in the mandate, so as to facilitate the investors' assessment of the underlying risks on the basis of common methodologies and parameters, and contribute to the 'simplicity' of the securitisation product.

The draft RTS are the result of extensive discussions and thorough analysis conducted by the EBA. Importantly, they aim to strike the right balance between, on the one hand, introducing sufficiently strict rules that respect the legal mandate for homogeneity and to prevent the possibility of mixing of loans with substantial different credit quality and characteristics into one securitisation. On the other hand, the draft RTS aim to ensure that the rules do not lead to excessively concentrated pools or disproportionately favour banks with large balance sheets, which would cause unintended disruptions to the potential size and use of STS securitisation market.

The four conditions for the homogeneity as specified in the RTS are tailored to ensure that the legal mandate is fully reflected: the requirements on underwriting and homogeneity factors address the contractual, credit risk and prepayment characteristics of exposures; the requirement on servicing

deals with the cash flows characteristics; and lastly, the requirement on asset category reflects the asset type characteristics of the pool.

The draft RTS on risk retention, which replace the existing RTS, are a continuation of extensive previous regulatory work that the EBA has done on this topic. They contain various new provisions, for example: (i) to specify the so-called 'sole purpose test', which sets out conditions ensuring that the originator is not established for the sole purpose of securitising exposures (ii) they further clarify and make operational the requirement which disallows securitisation of 'adversely selected' assets, and (iii) to specify exceptional circumstances under which the retainer could be changed. These provisions should provide more legal certainty, promote a more harmonised implementation of the rules and eliminate regulatory arbitrage possibilities.

Following the publication of risk retention and homogeneity, our focus is now on delivering other mandates that are necessary for a successful launch of the STS securitisation market at the beginning of the next year. The work is underway on the EBA Guidelines on interpretation of the STS criteria as a whole. The Guidelines will play a critical role, as they will provide a single point of consistent interpretation of the STS criteria not only to originators, sponsors and investors, but also to competent authorities and third party certifiers throughout the Union. We are working hard to secure the publication of the guidelines by the end of the year.

I would also like to highlight two additional EBA products in the pipeline, which will have an important direct impact on the capital treatment of securitisation transactions under the new framework. First, the RTS on calculation of KIRB, currently under consultation, that we aim to deliver by spring next year, which will facilitate the use of internal rating based model for calculation of securitisation capital, by investors. And second, the guidelines on the calculation of the weighted average life maturity of securitisation tranches, which we aim to deliver ahead of the legal deadline of end of next year.

Lastly, I would like to highlight a close cooperation with ESMA and EIOPA on all the projects, and our endeavor to enhance a cross-sectoral consistency and operability of the rules we produce.

I will close my introductory remarks by reassuring you of the EBA commitment to improving the functioning and soundness of the securitisation market in Europe, in the context of the Capital Markets Union project, and for the benefit of the European economy and its citizens.

Thank you for your attention. I am happy to respond to your questions.