PCS Setting the standard for securitisation

PCS STS Fees Schedule

June 2020

GENERAL RULES AND PRINCIPLES

Not for profit principle

The PCS initiative was set up and remains a not-for-profit institution. The parent of both PCS UK and PCS EU, the operating companies in the group, is a Belgian not-for-profit association which is legally prohibited from upstreaming profits in any way.

The not-for-profit aspect of PCS' operations is set out in our financial policy. The financial policy requires us to set our fees at a level that, on reasonable accounting assumptions, leads the PCS group to hold one year's operating expenses in cash at the end of a rolling three year cycle.

If business volumes increase or expenses decrease so that PCS may expect reasonably to show more than a year's expenses in cash at the end of the three years cycle, PCS will decrease its prices to revert to the target. Conversely if expectations show that this one-year cash buffer will not be reached, prices would increase.

(For full disclosure, the financial policy contains some tolerances as well as some provisions to deal with emergency circumstances to avoid having to change our prices continuously. If any stakeholder wishes to receive the policy, we will be happy to send a copy.)

Annual fees

The fees structure of most PCS services (but not all) is to charge a fee upfront and ongoing annual fees.

The annual fees do not reflect annual maintenance or further work anticipated to be done by PCS (although we do draw attention to the next two paragraphs). This fees structure, which has been in place since 2012, reflects the fact that PCS is a small not-for-profit operation. As such it is very vulnerable to temporary market shut-downs. As a not-for-profit, it has no margin that can be compressed to take it through dramatic market volume declines. Owned by a not-for-profit association, it has no deep-pocketed shareholders to inject additional capital. Prohibited by regulation and regulators from providing any other services beyond a very restricted set, PCS has no portfolio of other activities to fall back on if securitisation volumes drop precipitously.

Accordingly, PCS has found that the annual fees structure provides it with an annuity income that can tide it over in times of market volume downturn.

Such fees structure reflects the conservative approach of an institution with a vocation as a market utility.

Ongoing work is included in the fees

It is common in the case of programs (ABCP or other) and not unknown even in the case of more traditional term deals that the originator and funders will, from time to time, make small amendments to the documentation of an STS transaction. The STS Regulation envisages that changes that lead to a transaction no longer meeting the STS criteria must be notified to ESMA. Therefore where PCS has verified the transaction, the originator may wish to enquire of PCS whether we could refresh the verification. This would be done by looking at the changes and confirming that none of them, in PCS' opinion, affect the existing STS status of the transaction.

Providing the changes are fairly few in number, PCS will perform such a refresh at no additional cost.

PCS does, however, reserve the right – in cases where the changes are so numerous, and complex as effectively to amount to a new verification – , at our sole discretion, to charge accordingly.

Communication with investors and potential investors

For so long as an annual fee is paid, PCS will also agree that it will make itself reasonably available to discuss the STS nature of any transaction and any STS criterion as it pertains to that transaction with any investor or potential investor.

PCS is committed to providing that service to the investor community whether the investor or prospective investor is introduced to PCS by the originator or approaches PCS of its own initiative.

Non-discriminatory fees

The STS regulation which governs third party verification agents explicitly requires our fees to be non-discriminatory. Any breach of these rules could lead to PCS being, at best, sanctioned and, at worst, barred from STS verification.

This means that it is impossible for PCS to negotiate special deals with individual clients and prospective clients. Any change to the fees schedule must be applied equally to all market participants.

But regulation is not the only reason we are not able to negotiate fees. The PCS initiative is a not-for-profit initiative explicitly committed to treating all market stakeholders fairly.

As a not-for-profit, PCS does not have a profit margin that can be negotiated. In a traditional market context, a company that provides a discount to a valued customer will usually do so by accepting a smaller margin on that trade in exchange for volume or prestige or the chance to enter an otherwise closed market. In PCS' case, the only way we can provide such a discount – in the absence of a profit margin – is by raising the fees for all our other clients.

This is not only difficult to explain to our other clients but contradicts our commitment to fairness and our vocation as a transparent market utility.

This does not mean that, if a prospective client has a unique issue we will not discuss this and, within the principles set out in this paragraph, see how we can accommodate them. We have done this before. But we have also always extended the benefits of any such changes to all our clients through changes to our overall fees structure.

Fees not dependent on results

It is a regulatory requirement that PCS' fees cannot be dependent on the result.

Therefore, it is a contractual term that once PCS has started work on any transaction, the fees become payable. ***Because this is a regulatory requirement, it has been made clear to PCS by the regulators that we have no right to waive fees once they have become payable.***

This is the case even if we cannot complete the verification, or if the transaction goes out verified by another verification agent, or if the transaction goes out without any verification agent – whether it is notified as STS or not. This applies even if the transaction never closes.

Obviously, this requirement does not apply if the failure to complete the verification is due to PCS' own failure to do the work. Also, for the avoidance of doubt, this requirement does not apply if PCS has not received any documents and/or not done any work on the transaction.

It was also an explicit and specific additional requirement of the regulator that, even if a PCS verification is not granted, all the fees must be paid, including annual fees.

If the transaction never closes, no annual fees fall to be paid. The regulatory requirement is that PCS is paid the fees it would have been due if the transaction has proceeded to a positive verification. Had PCS issued a positive verification but the deal had been terminated before or immediately after issuance, no annual fee would have been due. So if no deal occurs no annual fees are required in cases where PCS' mandate was terminated.

Who pays the fees?

For a variety of legal and regulatory reasons, PCS may only contract with an originator or sponsor. The fees are the legal obligation of the contracting counterparty. However, PCS is aware that it is often more convenient to have fees – especially annual fees – paid out of the waterfall. Therefore, PCS is happy to send invoices to SSPE's. If this is the desired approach, clients must inform PCS at the time of the application though to avoid unnecessary work, duplication and delay.

DEFINITIONS

ABCP Transaction: a transaction which meets the definition set out in the STS Regulation as being an “ABCP transaction” and is therefore required to meet the STS criteria set out in Articles 24 to 26 of the STS Regulation. These will be checked against the PCS ABCP Master Checklist. If clients or prospective clients are not certain of whether their transaction is an ABCP transaction, they are advised to seek confirmation from their counsel.

Term Transaction: means any securitisation that is not an ABCP Transaction as defined in the STS Regulation. This includes any kind of financing that meets the definition of securitisation but is not funded by asset-backed commercial paper. It therefore covers not only stand-alone bond issues but also bank loans, including warehousing facilities, privately placed notes, MTNs etc… All these transactions are required to meet the STS criteria set out in articles 20 to 22 of the STS Regulation. These will be checked against the PCS Term Master Checklist. If clients or prospective clients are not certain of whether their transaction is a term transaction, they are advised to seek confirmation from their counsel.

Mixed Transactions: mean a securitisation where the funding comes from multiple sources, some of which are ABCP Transactions and some of which are Term Transactions.

Evergreen Commitment: means a commitment which has no set end term but which rolls on until notice is given of termination by one party. Evergreen Commitment’s have no Commitment Period.

Commitment Period: means the length of time that funding is committed to the originator by the lender or sponsor or, in the case of an ABCP conduit, the liquidity facility is committed to a particular transaction by the sponsor.

Master Trust: means a structure where individual stand alone issuances are backed by a single collective pool also backing (or intending to back) other individual stand alone issuances.

Master Trust Transaction: means a stand alone transaction out of a Master Trust.

Master Trust Initial Verification: means a request to perform simultaneous STS verifications on a number of transactions within a Master Trust where this is the first request for a PCS verification in respect of that particular Master Trust.

Continuous Issuance Program: means a program where notes are issued off the program multiple times a year with no changes to the documentation, usually in small amounts and often rolled over short maturities to the same investors. In Continuous Issuance Programs, there are usually no new roadshows upon each incremental issuance and the investors are the same each time (with additions over time). When new issues take place a very brief deal sheet is published. These transactions display great similarities with MTN note issuance programs. This does not include programs where there may be a few issuances a year but each issuance is a stand alone issuance separately marketed and with a discreet set of investors each time. PCS will need to determine on a case by case basis whether a program meets the definition.

Seller Led ABCP Transaction: means an ABCP transaction for which STS verification is sought by the seller/originator. Many Seller Led ABCP Transactions are also Mixed Transactions.

Sponsor Led ABCP Transaction: means an ABCP transaction for which STS verification is sought by the conduit sponsor. Many Sponsor Led ABCP Transactions are part of multiple transactions in the same conduit.

Art.270 Assessments: means an assessment of whether the transaction meets the requirements of Article 270 of the Capital Requirements Directive as described on the PCS website.

LCR Assessment: means an assessment of whether the transaction meets the additional requirements for eligibility to liquidity cover ratio pools under the Capital Requirements Directive as described on the PCS website.

CRR Assessment: means an assessment of whether the transaction meets the additional requirements for lower capital requirements under the Capital Requirements Directive as described on the PCS website.

Small Term Transaction: means a transaction involving a funding commitment (all tranches included) of less than €100 million or £100 million or the equivalent in another currency.

Small ABCP Transaction: means a transaction involving a ***conduit*** which at the time the STS verification is requested has outstanding less than €100 million or £100m or the equivalent in another currency.

FEES

Applicable VAT will be added to all fees if required by law taking into account the cross-border VAT charging rules.

To calculate how long annual fees are payable, please refer to paragraph (a) below the table

Fees will be invoiced prior to closing and are payable on closing of the transaction.

Annual fees will be invoiced on or about the anniversary of the transaction and are payable with 30 days.

Transaction	**Sterling** (see (b))	**Euro** (see (b))
Term Transaction (including Master Trust Transactions)	£13,000 upfront £ 5,000 annual	€15,000 upfront € 6,000 annual
Master Trust Initial Verification	£13,000 upfront £ 5,000 annual (subject to caps – see (c) below)	€15,000 upfront € 6,000 annual (subject to caps -see (c) below)
Small Term Transactions	£8,000 upfront £3,500 annual	€10,000 upfront € 4,000 annual
Continuous Issuance Programs	£13,000 upfront £ 5,000 annual both per program	€15,000 upfront € 6,000 annual both per program

Sponsor Led ABCP Transaction	£8,000 upfront £5,000 annual (subject to caps and tiering – see (d) below and the multiple transactions' rules – see (e) below)	€9,500 upfront €6,000 annual (subject to caps and tiering – see (d) below and the multiple transactions' rules – see (e) below)
Seller Led ABPC Transaction	£8,000 upfront £5,000 annual (subject to the multiple transactions' rules – see (e) below)	€9,500 upfront €6,000 annual (subject to the multiple transactions' rules – see (e) below)
Small ABCP Transaction	£5,000 upfront £5,000 annual (subject, in respect of annual fees, to caps and tiering – see (d) below and the multiple transactions' rules – see (e) below)	€6,000 upfront €6,000 annual (subject, in respect to annual fees, to caps and tiering – see (d) below and the multiple transactions' rules – see (e) below)
Mixed Transactions	£13,000 upfront £5,000 annual and subject to the multiple transactions' rules – see (e) below	€15,000 upfront € 6,000 annual and subject to the multiple transactions' rules – see (e) below
CRR Assessment	£1,500 upfront No annual fee	€1,500 upfront No annual fee
LCR Assessment	£1,500 upfront No annual fee	€1,500 upfront No annual fee

Art. 270 Assessment	£13,000 upfront £5,000 annual	€15,000 upfront €6,000 annual

Explanations

(a) Annual Fees

- Annual fees are payable in arrears on or about the anniversary of the transaction.
- In the case of bonds or notes, annual fees are payable for each year there are notes outstanding.
- In the case of lending facilities or of ABCP Transactions, annual fees are payable for each year of the Commitment Period. So a liquidity facility renewable after a year will require the payment on one single annual fee at the anniversary of the transaction.
- For transactions which redeem or where the commitment period ends part way through the year, where this occurs within 3 months of the anniversary, 75% of the annual fee falls to be paid. If this occurs within 6 months of the anniversary, 50% of the annual fee falls to be paid. If this occurs earlier than 6 months from anniversary, the full amount of the annual fee falls to be paid.
- In the case of facilities with Evergreen Commitments, PCS will charge the annual fees twice on the first and second anniversary of the verification.
- Although our annual fees structure is an important feature of our finances, in circumstances where an originator or sponsor has genuine technical problems with paying over time, PCS would be prepared to consider a single upfront fee set at a level designed to be equivalent to the value of the upfront plus annual fees otherwise payable.

(b) Currency

- The currency in the second and third columns is the currency in which the transaction is denominated. This will be the currency of the invoice.
- If the transaction is denominated in more than one currency or in a currency other than sterling or euros, the currency of the invoice will depend on the PCS entity contracted to do the verification (sterling for PCS UK and euros for PCS EU).

(c) Master Trust Initial Verification

- If a Master Trust approaches PCS to have multiple transaction verified at the same time, although such verification requires some additional work for each transaction, the bulk of the work is fairly similar. So to avoid charging multiple times for the same work, fees are subject to the following caps:

Number of simultaneous transactions	**Sterling fee cap**	**Euro fee cap**
One to six	£24,000 upfront £10,000 annual	€30,000 upfront €12,000 annual
Seven to twelve	£48,000 upfront £20,000 annual	60,000 upfront €24,000 annual
More than twelve	£72,000 upfront £30,000 annual	€90,000 upfront €36,000 annual

- These fees only apply to simultaneous verifications. Thereafter, as each individual transaction in a Master Trust must be individually verified, the normal Term Transaction fees apply.

(d) Multiple transactions in the same conduit – Sponsor Led ABCP Transactions

- The fees set out above fall to be paid on each transaction brought to PCS from one ABCP conduit. However, reflecting the similarity of transactions within a conduit and the financial structure of conduits, these fees are subject to the following *per conduit* cap.

Number of PCS verified transactions in the conduit	**Upfront fee per transaction**	**Annual fee cap per conduit**
One to five	£8,000/€9,500	£13,000/€18,000
Six to ten	£7,500/€9,000	£35,000/€40,000

Eleven to twenty	£6,500/€8,000	£50,000/€60,000
Twenty one or more	£6,500/€8,000	£80,000/€90,000

- To clarify the table by an example: the annual payment for a conduit with one PCS verified deal will be €6,000, for two €12,000 and for three, four or five €18,000. When one moves to the sixth transaction, the new €40,000 cap applies so the annual fee for the conduit becomes €36,000 – in other words, 6 times €6,000 – and the seventh will hit the cap of €40,000. These fees are calculated based on the cumulative number of verified transactions in a conduit which remain outstanding and notified to ESMA as STS.

(e) Multiple funders in the same transaction

- Transactions which have more than one funder will be charged as a single transaction. This means that for transactions where there are more than one funding conduit ***but only one set of documentation*** both the upfront and the annual fees will be charged only once.

- In the case of Sponsor Led ABCP Transactions, the fees will be divided equally between the funders. For the avoidance of doubt, this division is made based on the number of the funding sources and is not proportional to the amount of funding provided by these sources.

- In the case of Seller Led ABCP Transactions, the seller will be invoiced in full and may absorb the costs or divide them as it sees fit.

- In the case of Mixed Transactions if PCS has been mandated by the Seller, the seller will be invoiced in full and may absorb the costs or divide them as it sees fit. If PCS has been mandated by the lenders/sponsors the fees will be divided in the same manner as in the case of Sponsor Led ABCP Transactions.

(f) Exceptions

- If a client believes that there are exceptional circumstances which result in our fees schedule departing from the requirements that we charge fairly and on a costs based approach, the client is welcome to discuss these matters with PCS. If PCS determines that this is indeed the case, PCS may be prepared to modify its pricing schedule. But, consistent with our commitment and the regulation's requirements of fairness, such modifications will apply thereafter to all similar cases.