

# PCS

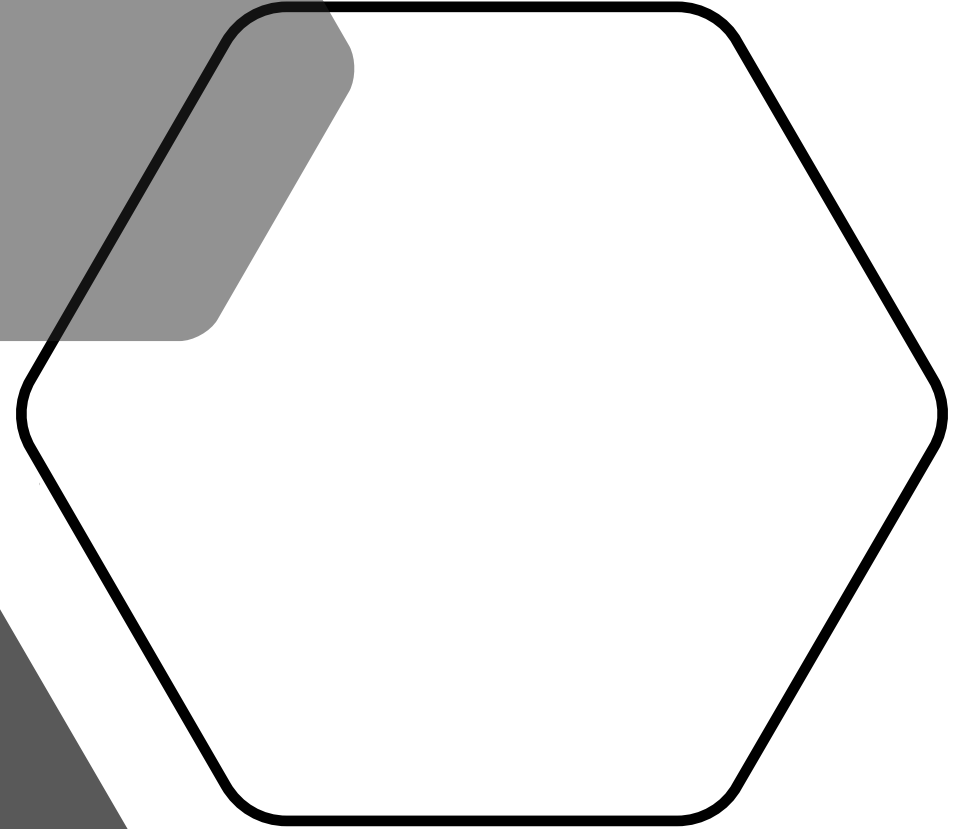
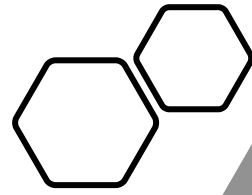
Setting the Standard for Securitisation

Buy-to-let & STS



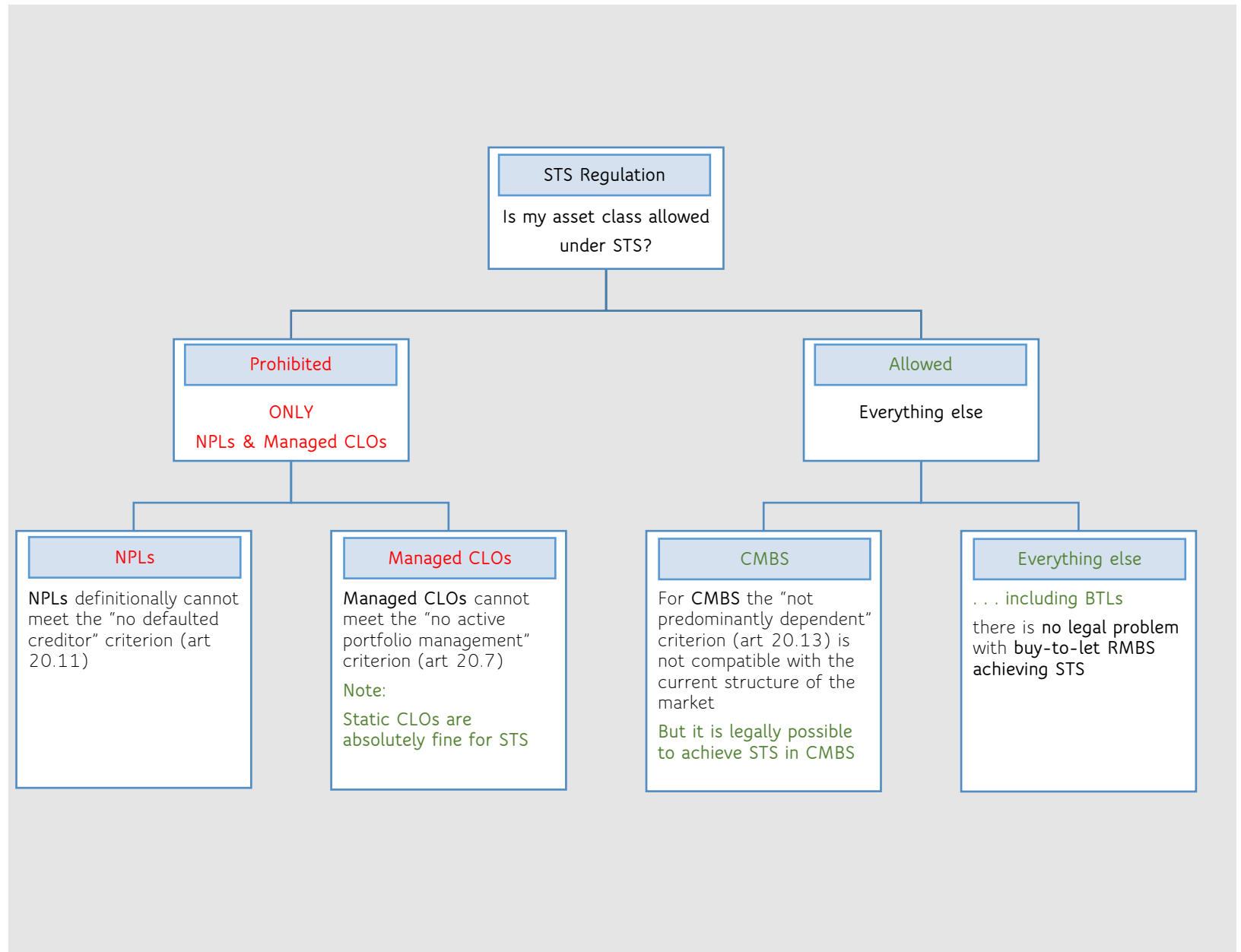
# Agenda

- Buy-to-let & STS
- Who we are
- Our services



# STS & Buy to let

Is BTL prohibited  
from STS?



# STS & Buy to let

Why so few STS  
BTLs?

To date, there have only been a handful of BTL STS transactions  
**Why?**

## LCR

BTL RMBS, even when STS, is explicitly excluded from eligibility for a bank's liquidity coverage ratio pool. This raised doubts over the extent of likely bank investor bid

## Lack of pricing differential

for the first year to 18 months of STS, it was not clear whether there was a price differential between an STS and a non-STS issue, primarily because of a total lack of overlap between the two categories

But pricing differential is now apparent and the bank bid is not the only bid!

# STS & Buy to let

Key pressure point  
Homogeneity

Pools in STS securitisations must be “homogeneous”

Homogeneity” has a very specific definition for STS. It even has its own special Regulatory Technical Standard

“Homogeneity” requires:

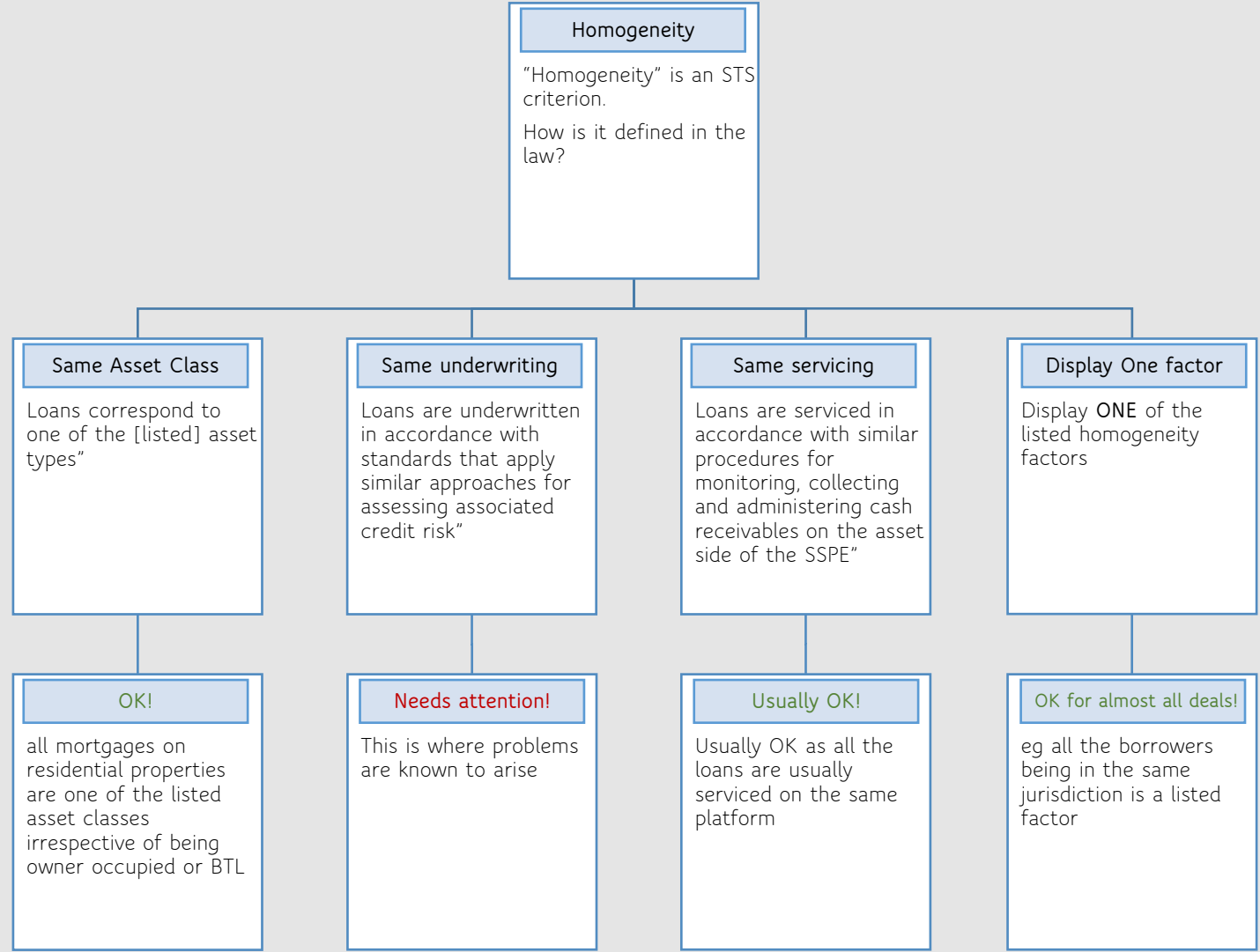
- *Same asset class* - “They correspond to one of the listed asset types”
- *Same underwriting* - “They are underwritten in accordance with standards that apply similar approaches for assessing associated credit risk”
- *Same servicing* - “they are serviced in accordance with similar procedures for monitoring, collecting and administering cash receivables on the asset side of the SSPE”
- Display *ONE* of the listed homogeneity factors

BTL RMBS *may* have homogeneity pressure points in two ways:

- Mixing in the pool buy-to-let and owner occupier mortgages
- Mixing in the pool buy-to-let loans to individuals and to semi-professional BTL corporations

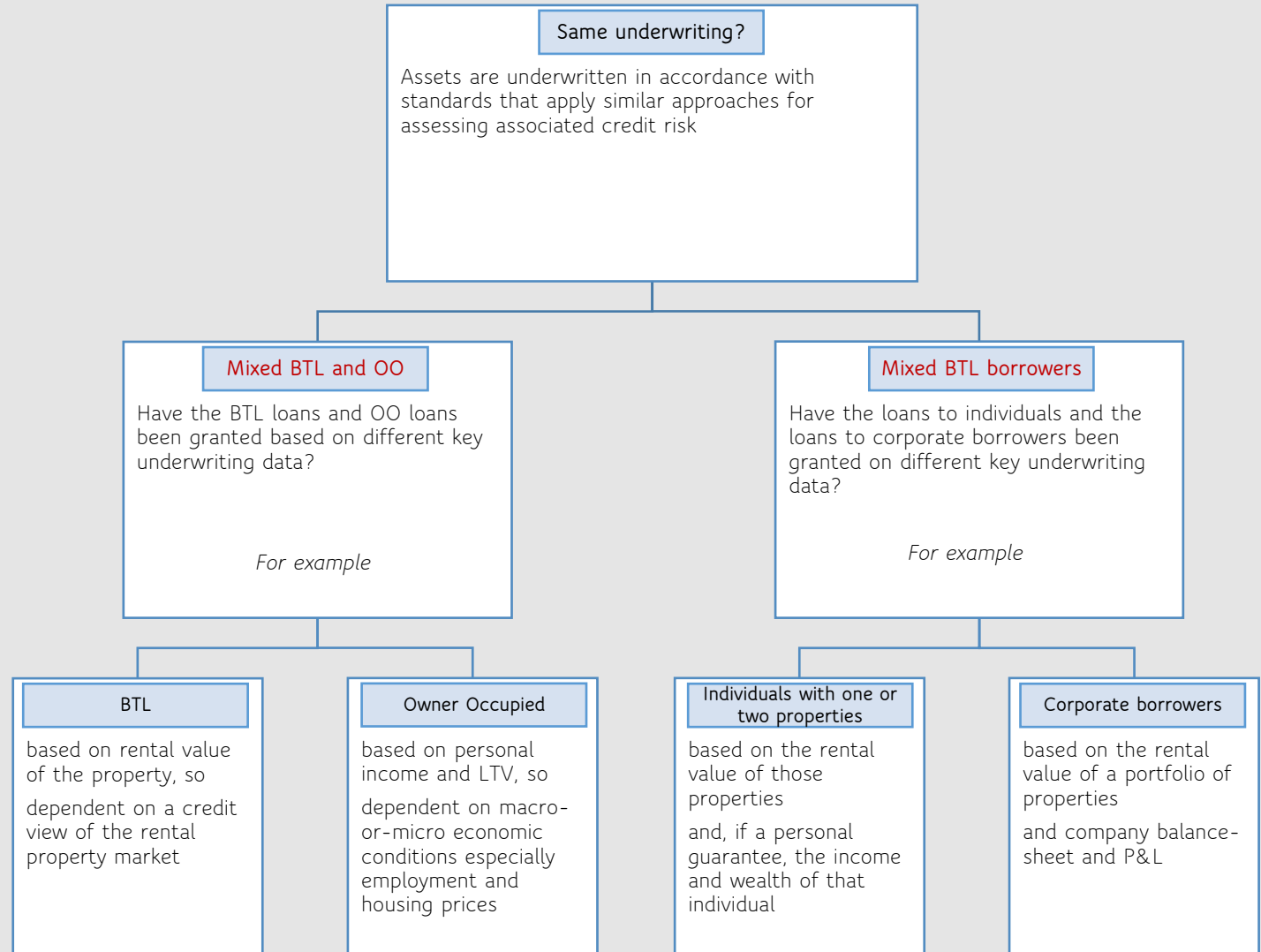
# STS & Buy to let

Key pressure point  
Homogeneity



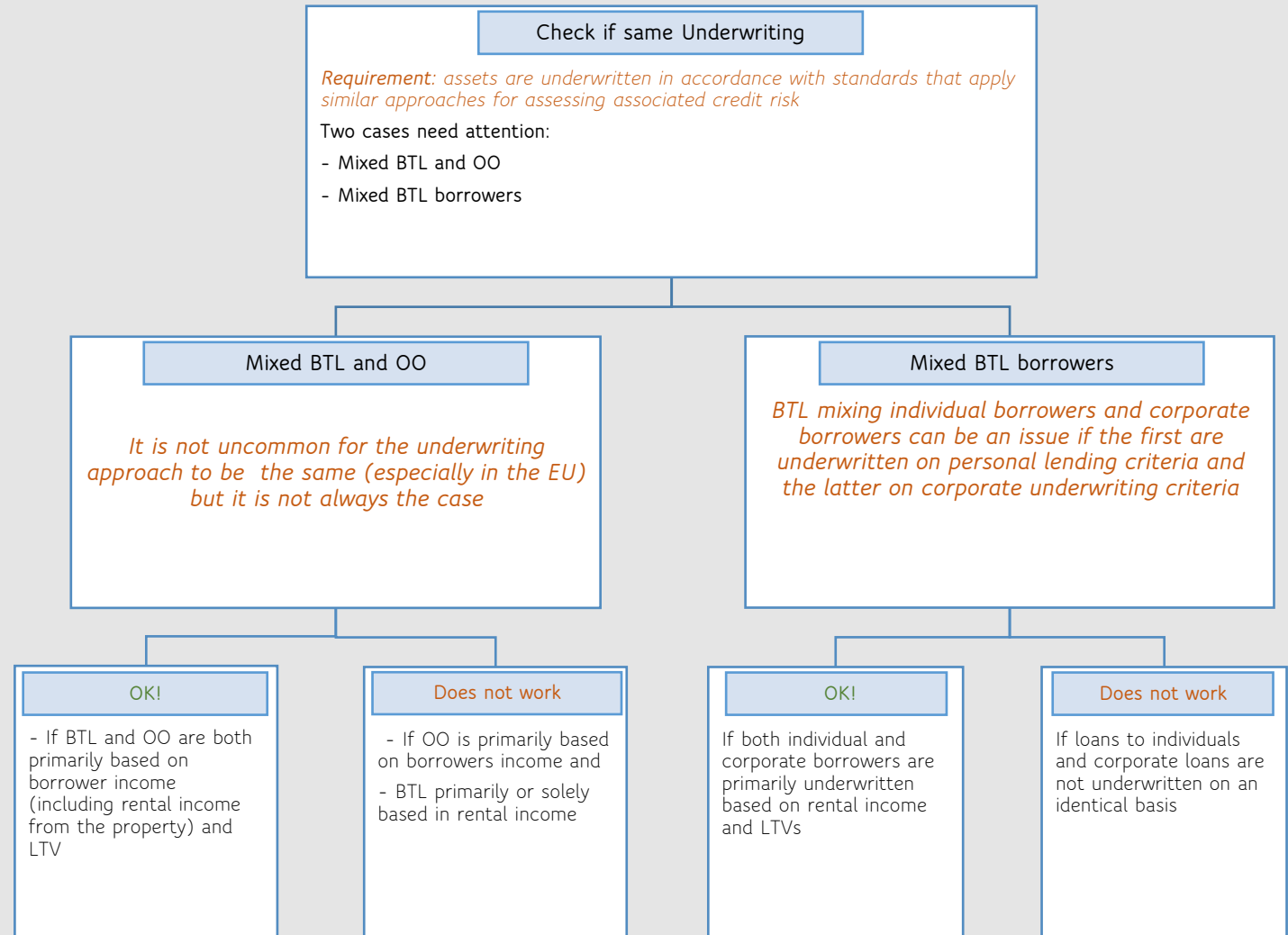
# STS & Buy to let

Key pressure point-  
underwriting



# STS & Buy to let

Key pressure point-  
underwriting





# STS & Buy to let

Underwriting –  
a guide to  
approaching the  
challenge

*Same underwriting* - “They are underwritten in accordance with standards that apply similar approaches for assessing associated credit risk”

- The rationale given by policy makers for the homogeneity criterion is that *investors should not have to bring two different conceptual tools and modelling approaches* to perform the credit analysis a single pool.
- Homogeneity is a *simplicity* criterion
- In BTL transactions that were successfully verified by PCS, a detailed examination of the underwriting criteria indicated that the approach to BTL and owner occupied properties was similar
- This though requires a very good knowledge both of the law, the RTS and the rationale behind the law and RTS and a careful examination of the actual underwriting criteria

# STS & Buy to let

Homogeneity is  
not the only  
criterion

- All the other STS criteria must be met!
- Some things to pay attention to:
  - No credit impaired borrowers
    - Even if the property rental income is solid
    - What is a credit impaired borrower is very jurisdictionally dependent

# STS & Buy to let

## Challenges outside of STS

- LCR - BTL RMBS is not eligible for including in LCR pools even if STS
- CRR - Under the CRR, for a bank investor to obtain the lower capital requirement for an STS securitisation, there is a 2% granularity requirement
  - No single obligor is more than 2% of the pool at closing
  - Calculated by borrower and not on individual loans
  - *This can be an issue if one or more big BTL company or individuals has a number of loans over multiple properties*
  - Risk weighting even in borrower is a corporate maybe not be 100%

# STS & Buy to let

## Conclusions

STS BTL RMBS is legal  
and entirely feasible

But some criteria need  
some special attention

- Homogeneity
- Granularity
- Credit impaired
- First payment

But once homogeneity  
is cleared STS for BTL  
RMBS is a standard  
process

# PCS

## Setting the Standard for Securitisation

PCS - Who we are





# PCS

Prime Collateralised Securities (PCS) was set up by market stakeholders as an independent, not-for-profit initiative to help rebuild a safe securitisation market in Europe



## Our Mission

- The aim of the Prime Collateralised Securities (“PCS”) initiative is to strengthen the securitisation market as a sustainable investment and funding tool for both investors and originators, promote growth in the real economy and improve market resilience by supporting standards of quality, transparency, and simplicity
- The PCS initiative – as an independent entity – has, since its foundation in 2012, sought to define and promote standards of “best practice” in both the “true sale” and “risk transfer” asset backed markets: standards of quality, transparency and simplicity. It did this initially through its labels and now through its work as a verification agent but also through its advocacy and thought leadership
- PCS is committed to retaining its not-for-profit status



# Strong Team of Securitisation Experts

- We are a team of experts with an average experience of more than 25 years in securitisation markets
- We are based in 7 cities across Europe and have offices in London and Paris
- Our team members are fluent in several European languages including English, French, German, Italian, Spanish & Greek

## Market Outreach Team



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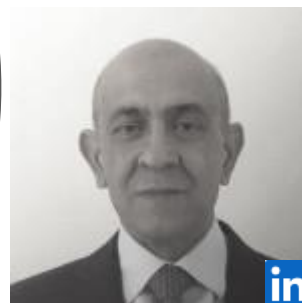


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## Analytical Team



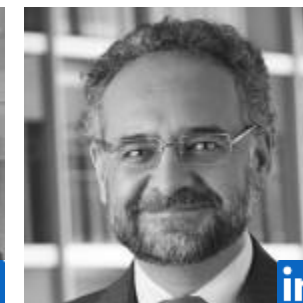
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You can click on the photo for the CV



# PCS Members & Permanent Observers

## PCS Members

Allen & Overy	Linklaters
Allianz	Lloyds Banking Group
Amundi	Intesa San Paolo
APG	Mayer Brown
Ashurst LLP	Moody's
AXA	Morgan Lewis
Baker & McKenzie	National Bank of Greece
Banca Sella Holding S.p.A.	Nationwide Building Society
Barclays	NIBC Bank
BBVA	NN Investment Partners
Bishopsfield Capital Partners	Obvion
Bloomberg	Rabobank
BNP Paribas	RBS
BNY Mellon	Robeco
Clifford Chance	Santander
Credit Suisse	Securitisation Services
Deutsche Bank	Societe Generale
DLA Piper	Swiss Re
European Banking Federation	TwentyFour Asset Management
Freshfields Bruckhaus Deringer	UBS
Hengeler Mueller	UniCredit
Hogan Lovells	Vieira De Almeida
ING	Weil, Gotshal & Manges
J.P.Morgan Asset Management	

## PCS Permanent Observers

Association for Financial Markets in Europe (AFME)	Hellenic Financial Stability Fund (HFSF)
Dutch Securitisation Association (DSA)	Insurance Europe
Eurofinas	International Association of Credit Portfolio Managers (IACPM)
European Bank for Reconstruction and Development (EBRD)	Irish Debt Securities Association (IDSA)
European Banking Authority (EBA)	KfW
European Central Bank (ECB)	LeaseEurope
European Fund and Asset Management Association (EFAMA)	
European Financial Services Round Table (EFR)	
European Investment Bank (EIB)	
European Investment Fund (EIF)	
European Securities and Markets Authority (ESMA)	

# PCS

actively  
supports  
European  
securitisation

How does PCS  
support the  
market?

- Provider of thought leadership & advocacy
- Third Party Verification Agent
- Provider of LCR and CRR assessments
- Information resource

Since the introduction of STS in 2019, we have provided more than 350 STS verifications across Europe covering a wide range of deal types and asset classes in every jurisdiction from which an STS notification has been done.

# PCS

has an active role in European securitisation markets

How does PCS contribute?

- Responding to consultations
- Publications
- Newsletters
- White Papers
- Webinars and seminars
- Criteria Papers
- Active dialogue & advocacy with policy makers
- Active dialogue with prudential and market regulators

# STS

## Third Party Verification Agent

What do third  
party verification  
agents do?

- A third party verification agent verifies the STS status of a securitisation at the request of an originator
- The verification agent does this by checking each and every STS criterion to ensure that it has been met
- In checking each criterion, the third party verification agent brings into play its expertise of both securitisation and the STS rules, derived from its experience over many transactions as well as its ongoing dialogue with regulatory authorities
- By informing investors and potential investors of the independent third party verification of its transaction, the originator provides comfort to investors but also assists *all investors* (regulated or not) to fulfill their legally required due diligence obligations

# STS

Third  
Party  
Verification  
Agent

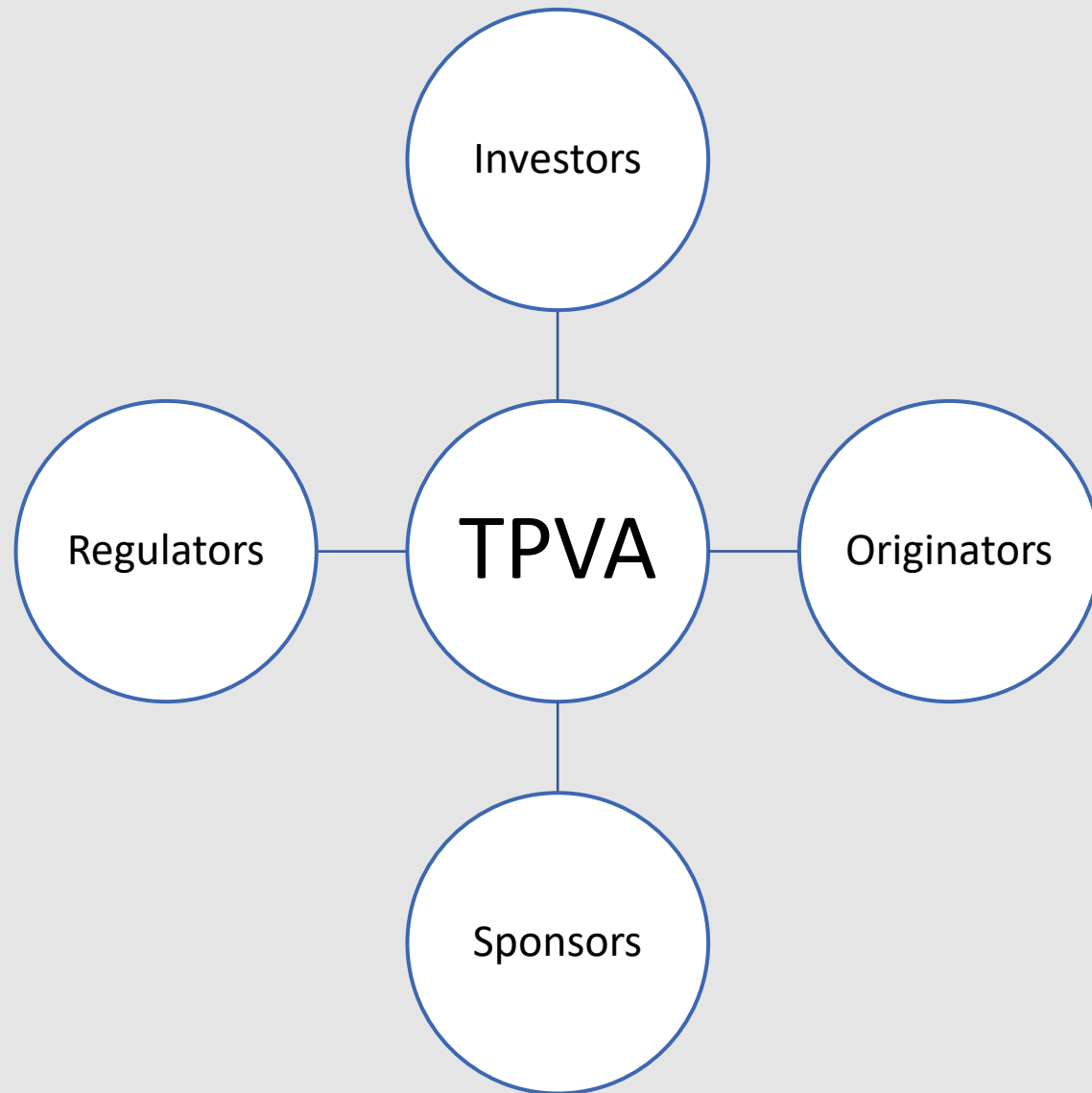
How are third  
party verification  
agents  
regulated?

- Only authorised entities may be third party verification agents
- In authorising a third party verification agent, the national competent authority checks its internal governance and codes of conduct as well as the verification agents processes and procedures
- To guarantee the independence of third party verification agents, the regulations prohibit them from providing any advisory or other services to originators and requires them to have an internal code of conduct that prevents or manages any conflict of interest
- The authorisation of a third party verification agent by any national competent authority in the European Union entitles that agent to operate in all other member states of the EU
- Only third party verification agents authorised by the UK FCA can verify UK STS securitisations
- PCS is authorised as a third party verification agent by the French Autorité des Marchés Financiers and the British Financial Conduct Authority

# STS

Third  
Party  
Verification  
Agent

Who does it  
help?



# STS

## Third Party Verification Agent

Who does it help  
and how?

### Originators & Sponsors

#### As an expert verification

- Lowers recharacterisation risk
- Adds to the internal compliance process
- Brings cross-border, cross-asset class and regulatory knowledge to the table

#### As a mitigant to the threat of sanctions

- 10 % of worldwide turn-over
- €5,000,000 personal fines
- Requirement of deliberate act or negligence

### Investors

- Socialises the cost of compliance (art.5.3.c)
- Is the answer to the question of what lies between relying “to an appropriate extent” and not “solely or mechanistically” (art. 5.3.c)
- Brings cross-border, cross-asset class and regulatory knowledge to the table
- Produces a report that allows an investor to double-check either a factual assertion or an interpretation
- The reports are public so available pre-pricing, at closing and in the secondary market

### Regulators

- Criteria interpretations lies with NCAs
- Third party verification agents, as regulated independent bodies, can have interpretation discussions for the whole market on a basis of trust
- Risk of regulatory fragmentation undermining the European benchmark status of STS
- Third party verification agents operating cross-border and cross-asset class can identify inconsistencies before they become a threat to the system

# PCS

## Setting the Standard for Securitisation

Our Services





# PCS

## Services

What do we  
offer?

WE offer the following Verifications and Assessments:

- True Sale STS Verification
- ABCP STS Verification
- CRR Assessment
- LCR Assessment
- PCS+ (Verification + CRR and/or LCR)
- Mixed Transaction STS Verification
- Synthetic STS Verification



# PCS

## Third Party Verification Agent

## Why use PCS?

- We have verified more than 600 transactions including more than 350 STS transactions
- We have extensive experience of the STS criteria grounded in our constant interaction with regulators and market participants
- Our experience across countries and asset classes allows originators to join in the market and regulatory consensus around STS
- There are 103 criteria in true sale and between 145 and 160 in synthetics. We go through every one of them on every deal
- There is no de minimis rule. Failure to meet even one criterion will make a transaction ineligible
- We prepare a detailed checklist covering each criterion and make it available before pricing

PCS is authorised by



# PCS

Third Party  
Verification  
Agent

## Why use PCS?

We have verified transactions for the following deal types

Private/Public

ABCP/Non-ABCP

Warehouses

On-balance sheet lending

Portfolio acquisition financing

Risk Transfer (Article 270)

Synthetic securitisations



# PCS

Third Party  
Verification  
Agent

## Why use PCS?

We have verified transactions for the following asset types

Auto Leases

Auto Loans

BTL Loans

Consumer Loans

Corporate Loans

Credit Cards

Equipment Leases

Fleet Leases

RMBS

Salary Loans

SME Loans

Trade Receivables

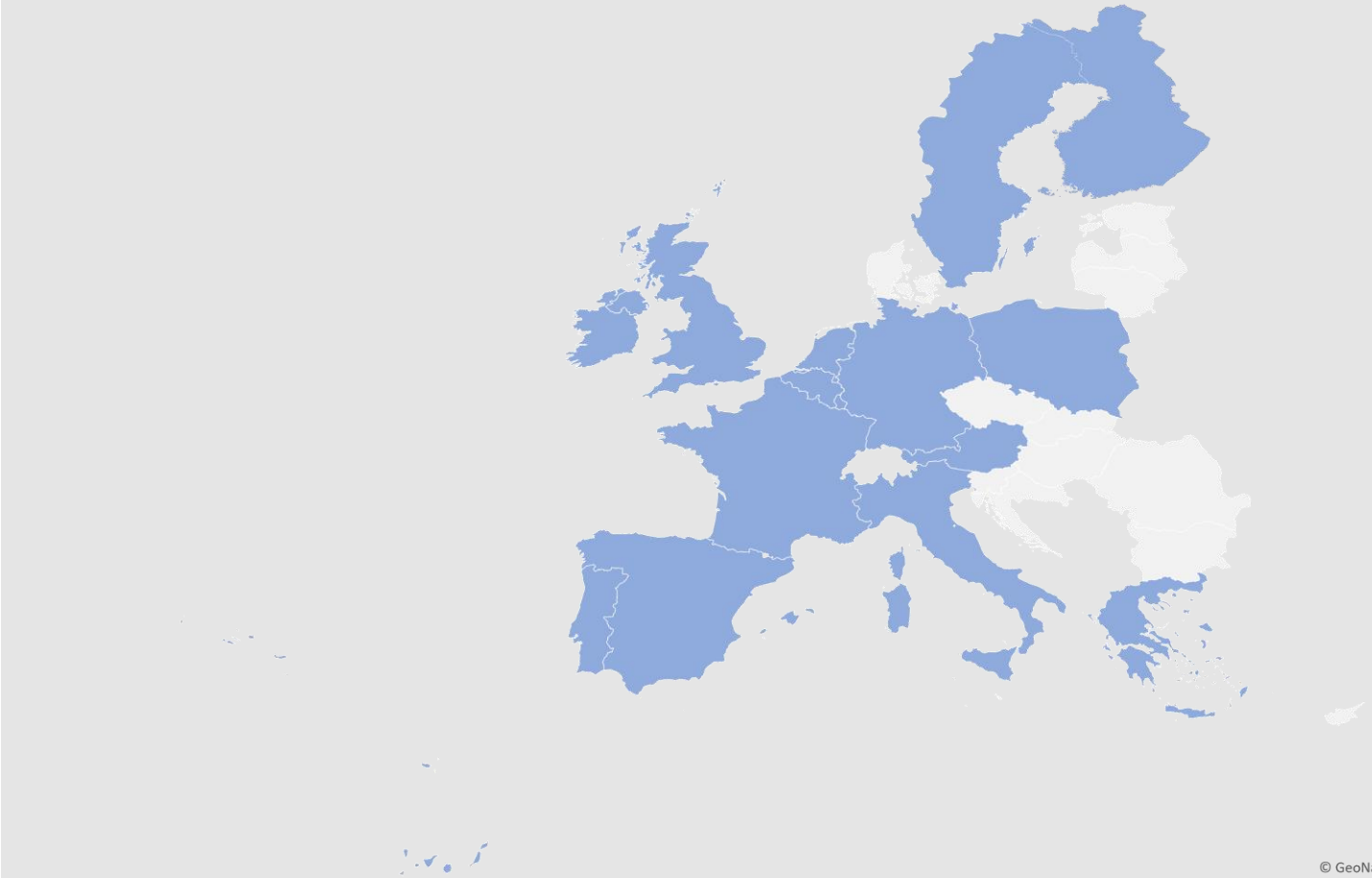


# PCS

Third Party  
Verification  
Agent

## Why use PCS?

We have verified STS transactions across Europe



● Jurisdictions where PCS has verified STS transactions



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# PCS

## Verification & Assessment

### How PCS assures analytical integrity?

PCS has implemented a Chinese wall policy between its market outreach and its analytical team

This ensures that the analysis performed by our team is

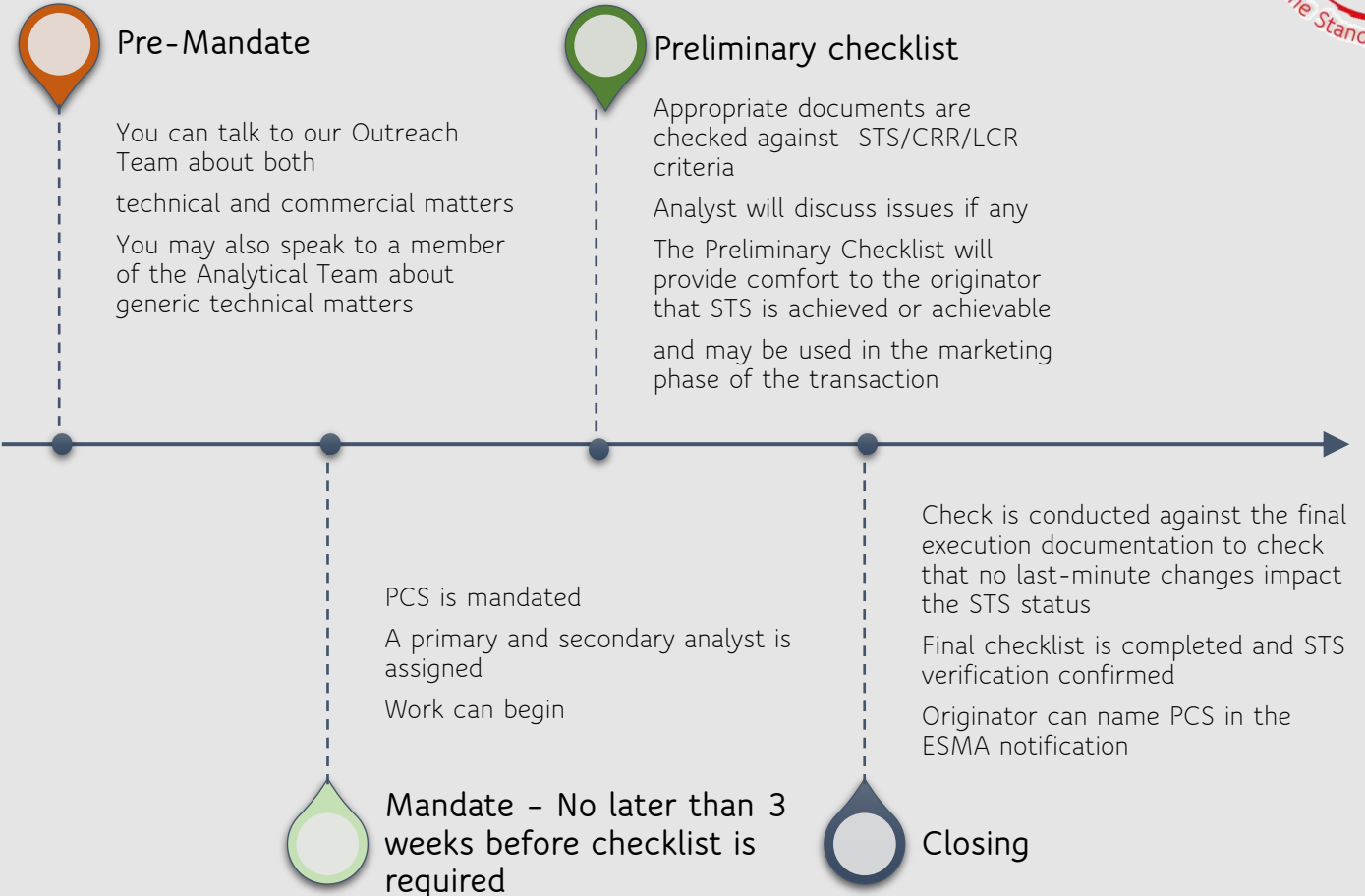
- Impartial
- Not affected by conflicts of interest or commercial considerations
- In conformity with the requirements of the Regulation



# PCS

## Verification & Assessment Process

When should  
you engage PCS?



# PCS<sup>+</sup>

True Sale  
STS  
Assessments

## Why request a CRR Assessment?

### CRR Assessment

#### What is a CRR Assessment?

- For a bank treasury investing in a securitisation to allocate to it a lower capital amount, the Capital Requirement Regulation (CRR) requires that:
  - the securitisation be STS and
  - an additional four criteria be met
- To assist bank investors contemplating the purchase of an STS securitisation in fulfilling their internal compliance diligence on the CRR, an originator can mandate PCS to complete a CRR Assessment
- The CRR Assessment is the independent verification of the additional four criteria required to achieve a lower capital requirement

PCS has provided more than 180 CRR assessments since 2019





# PCS<sup>+</sup>

True Sale  
STS  
Assessments

## Why request a LCR Assessment?

### LCR Assessment

#### What is an LCR Assessment?

- For a securitisation to count towards a bank's Liquidity Coverage Ratio (LCR), the Capital Requirement Regulation (CRR) requires that:
  - the securitisation be STS and
  - an additional eight criteria be met
- To assist bank investors contemplating the purchase of an STS securitisation in fulfilling their internal compliance diligence on the eligibility for an LCR pool, an originator can mandate PCS to complete an LCR Assessment
- The LCR Assessment is the independent verification of the additional eight criteria required for that securitisation to count towards the bank's LCR

PCS has provided more than 140 LCR assessments since 2019



# PCS

## On Balance Sheet Assessment

## Why request an Synthetic STS Verification?

### Synthetic STS Verification

#### What is a Synthetic STS Verification?

- Under the amended Regulation (EU) 2021/557 which came into force in April 2021, synthetic securitisations (also called “on-balance-sheet securitisations”) may now be STS. This allows originators to allocate a lower capital amount to the retained senior tranche under the CRR
- To be included in this class, these synthetic securitisations need to meet nearly all the STS criteria as well as an additional 40-60 criteria
- STS synthetic securitisations must be notified to ESMA in the same way as STS true sale securitisations and may benefit from the same verification process by authorised third party verification agents
- PCS has been authorised by the French AMF to verify synthetic securitisations
- PCS has been mandated in 10 jurisdictions
- PCS verified or is verifying more than 20 Synthetic STS securitisations



# PCS

## Fees

How much does it cost?

SERVICE		EU		UK	
		UPFRONT FEE AMOUNT	DEFERRED FEE AMOUNT (ANNUAL)	UPFRONT FEE AMOUNT	DEFERRED FEE AMOUNT (ANNUAL)
STS True Sale Verification	Term Transaction (including Master Trust Transactions)	€16,000	€ 6,000	£ 14,000	£ 5,000
	Small Term Transactions	€10,000	€ 5,000	£ 8,000	£ 4,000
	Continuous Issuance Programs	€16,000	€ 6,000	£ 14,000	£ 5,000
ABCP STS Verification	Sponsor Led ABCP Transaction	€9,500	€ 6,000	£ 8,000	£ 5,000
	Seller Led ABPC Transaction	€9,500	€ 6,000	£ 8,000	£ 5,000
	Small ABCP Transaction	€6,000	€ 6,000	£ 5,000	£ 5,000
CRR Assessment		€1,500	-	£ 1,500	-
LCR Assessment		€1,500	-	£ 1,500	-
Synthetic STS Verification		€20,000	€ 6,000	N/A	-

For complete Terms and Conditions consult our website  
Duration of annual payments for Synthetic STS Verification - Original WAL of Senior Tranche



Thank you for your attention

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