

PCS

Setting the Standard for Securitisation

Warehousing & STS



STS & Warehousing

Why are we
discussing?

Article 2.(1) of the Securitisation Regulation

'securitisation' means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranced, having all of the following characteristics:

payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures

the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme

the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013

Note: The last point is the last minute exemption for project financing

STS & Warehousing

Definition of securitisation

Article 2.(1) of the Securitisation Regulation

applies to any “transaction or scheme” meeting the three characteristics

does not require any issuance of securities, bonds or commercial paper and so

can and does cover straight bank financings via loans

STS & Warehousing

The upside

Article 2.(1) of the Securitisation Regulation covers straight bank financings via loans means:

Lenders can end up with a securitisation without intending to or even realising

If the loan is a "securitisation" as defined in article 2.1 it must meet all the requirements of the Securitisation Regulation

- Retention
- Disclosure
- Ban on re-securitisations

STS & Warehousing

The upside

Article 2.(1) of the Securitisation Regulation covering straight bank financings via loans also means:



That the loan can achieve **STS status**



If the loan achieves STS status,
it may benefit from the improved **CRR capital requirements***
available for STS securitisations for “bank investors” ie the lending bank

*see slide 15

STS & Warehousing

The STS capital
benefit



STS & Warehousing

What facilities
can benefit?



STS & Warehousing

Key Issues Disclosure

Securitisations require mandatory disclosure under article 7 of the Securitisation Regulation

The disclosure requirements are mandatory *whether you have an STS or a non-STS securitisation*

Any warehouse lending is a “private” transaction subject to lighter disclosure requirements, incl. an exemption from the use of a Repository

STS & Warehousing

Key Issues One Payment

Article 20.12

The debtors shall, at the time of transfer of the exposures, have made at least one payment, except in the case of revolving securitisations backed by exposures payable in a single instalment or having a maturity of less than one year, including without limitation monthly payments on revolving credits.

STS & Warehousing

Key Issues One Payment

One payment.
What exactly does that mean?

When we talk about one payment this can be:

- Loan instalment
- Any fee related to the loan
- Made at origination or later

STS & Warehousing

Key Issues One Payment

In classic warehouse lending, where assets are financed at the point of origination, a first payment may not yet have been made

There are structural solutions to this problem that have been adopted by the market

STS & Warehousing

Credit impaired
borrowers
The scary slide

Article 20.11

The underlying exposures shall [...] not include [...], exposures in default within the meaning of Article 178(1) of Regulation (EU) No 575/2013 or exposures to a credit-impaired debtor or guarantor, who, to the best of the originator's or original lender's knowledge:

- a. has been declared insolvent or had a court grant his creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination or has undergone a debt restructuring process with regard to his non-performing exposures within three years prior to the date of transfer or assignment of the underlying exposures to the SSPE, except if:
 - i. a restructured underlying exposure has not presented new arrears since the date of the restructuring, which must have taken place at least one year prior to the date of transfer or assignment of the underlying exposures to the SSPE; and
 - ii. the information provided by the originator, sponsor and SSPE in accordance with points (a) and (e)(i) of the first subparagraph of Article 7(1) explicitly sets out the proportion of restructured underlying exposures, the time and details of the restructuring as well as their performance since the date of the restructuring;
- b. was, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to the originator or original lender; or
- c. has a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable exposures held by the originator which are not securitised.

STS & Warehousing

Credit impaired
borrowers
The simple slide

When the **assets** go into the pool, they **cannot**:

- be in default

When the assets go into the pool, the **borrowers** cannot:

- be insolvent or have been insolvent in last three years
- be a bad payer in the last three years
- be on a credit registry as a problem
- be known to the lender to be a risky proposition

WARNING!

- this is a summary of an extremely complex technical, regulatory and legal provision. Do not do this at home using this slide as a guide as the consequences could be unfortunate.

STS & Warehousing

Also don't miss

Article 20.11

The underlying exposures shall [...] not include [...], exposures in default within the meaning of Article 178(1) of Regulation (EU) No 575/2013 or exposures to a credit-impaired debtor or guarantor, who,

to the best of the originator's or original lender's knowledge:

- a. has been declared insolvent or had a court grant his creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of origination or has undergone a debt restructuring process with regard to his non-performing exposures within three years prior to the date of transfer or assignment of the underlying exposures to the SSPE, except if:
 - i. a restructured underlying exposure has not presented new arrears since the date of the restructuring, which must have taken place at least one year prior to the date of transfer or assignment of the underlying exposures to the SSPE; and
 - ii. the information provided by the originator, sponsor and SSPE in accordance with points (a) and (e)(i) of the first subparagraph of Article 7(1) explicitly sets out the proportion of restructured underlying exposures, the time and details of the restructuring as well as their performance since the date of the restructuring;
- b. was, at the time of origination, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to the originator or original lender; or
- c. has a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable exposures held by the originator which are not securitised.

STS & Warehousing

Key Issues Concentration Limits and RW

There are two non-STS requirements which are necessary to obtain the lower capital charges under the CRR

```
graph TD; A[There are two non-STS requirements which are necessary to obtain the lower capital charges under the CRR] --- B[There is a maximum concentration limit of 2% on borrowers in the securitised pool]; A --- C[There is a maximum risk weight of 100% under the CRR Standardised Approach for any asset in the securitised pool]
```

There is a maximum concentration limit of 2% on borrowers in the securitised pool

There is a maximum risk weight of 100% under the CRR Standardised Approach for any asset in the securitised pool

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



Ian Bell
CEO
ian.bell@pcsmarket.org



Max Bronzwaer
Investor Liaison
max.bronzwaer@pcsmarket.org



Rob Koning
Issuer Liaison
rob.koning@pcsmarket.org



Harry Noutsos
Issuer Liaison
harry.noutsos@pcsmarket.org

Analytical Team



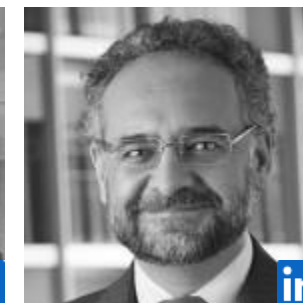
Fazel Ahmed
Analyst
fazel.ahmed@pcsmarket.org



Robert Leach
Analyst
robert.leach@pcsmarket.org



Martina Spaeth
Analyst
martina.spaeth@pcsmarket.org



Daniele Vella
Analyst
daniele.vella@pcsmarket.org

Mark Lewis
Head of Analytics
mark.lewis@pcsmarket.org



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

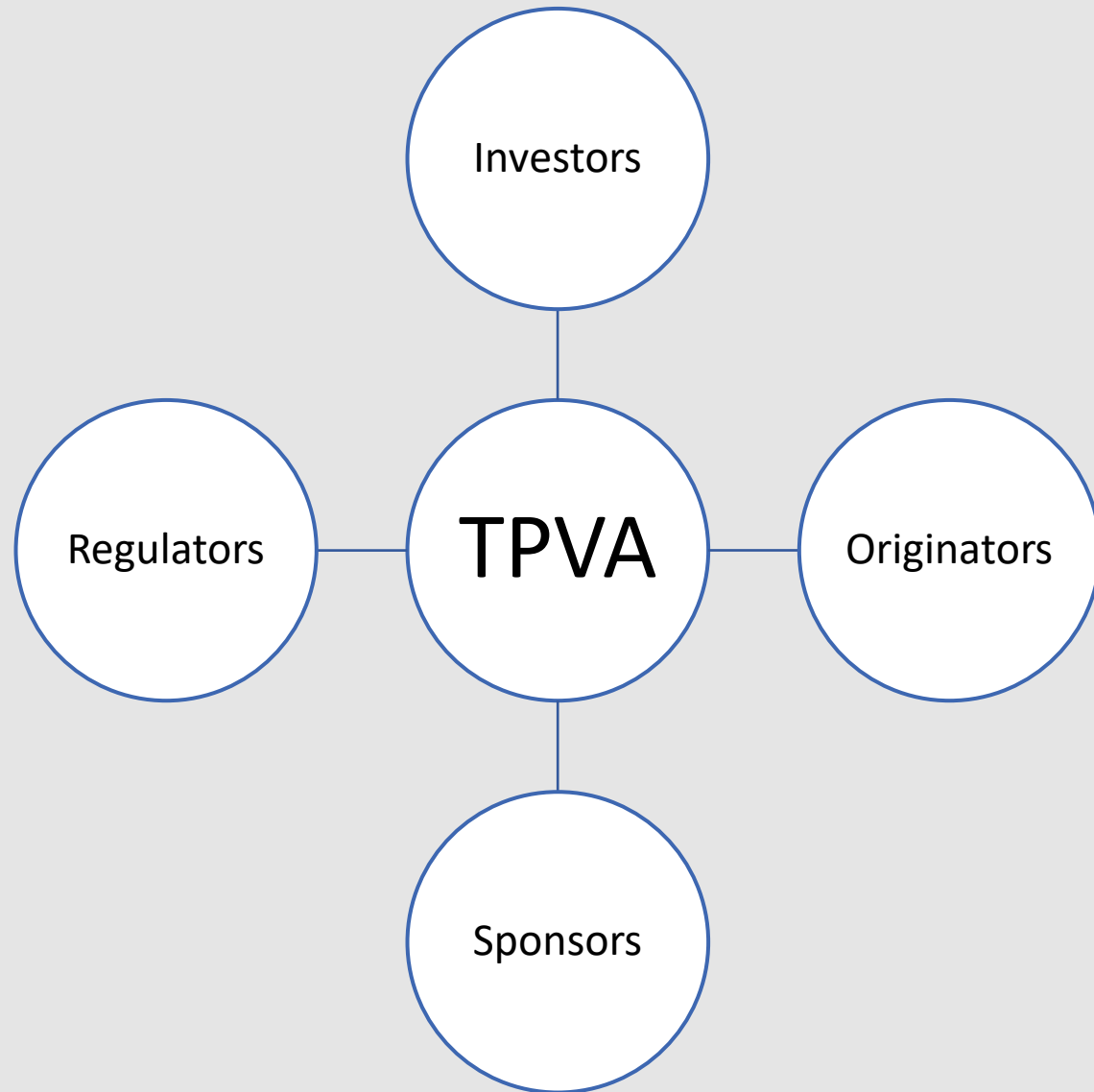
How are third
party verification
agents
regulated?

- 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

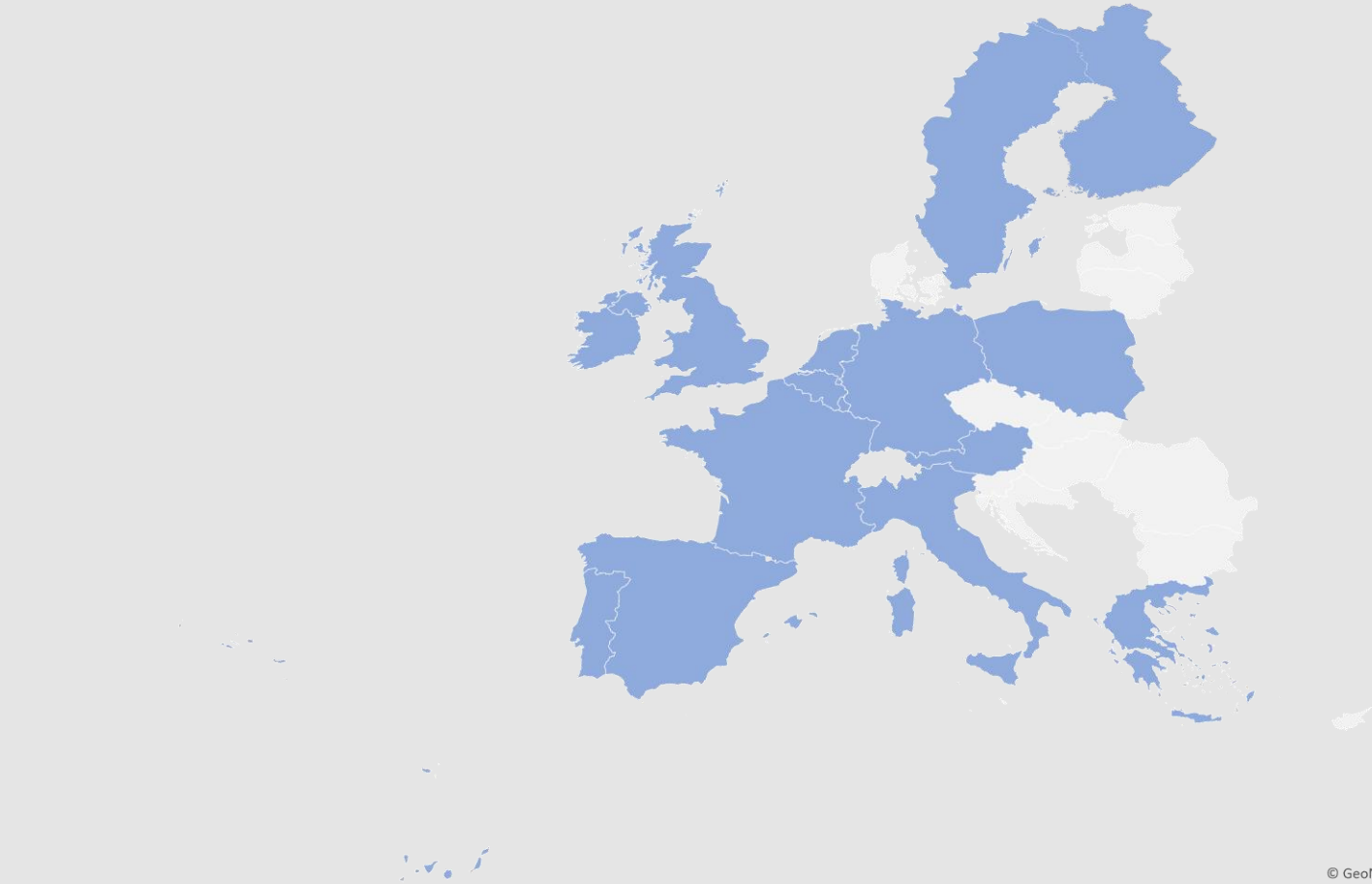


PCS

Third Party
Verification
Agent

Why use PCS?

We have verified STS transactions across Europe



● Jurisdictions where PCS has verified STS transactions

Powered by Bing
© GeoNames, Microsoft, TomTom

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

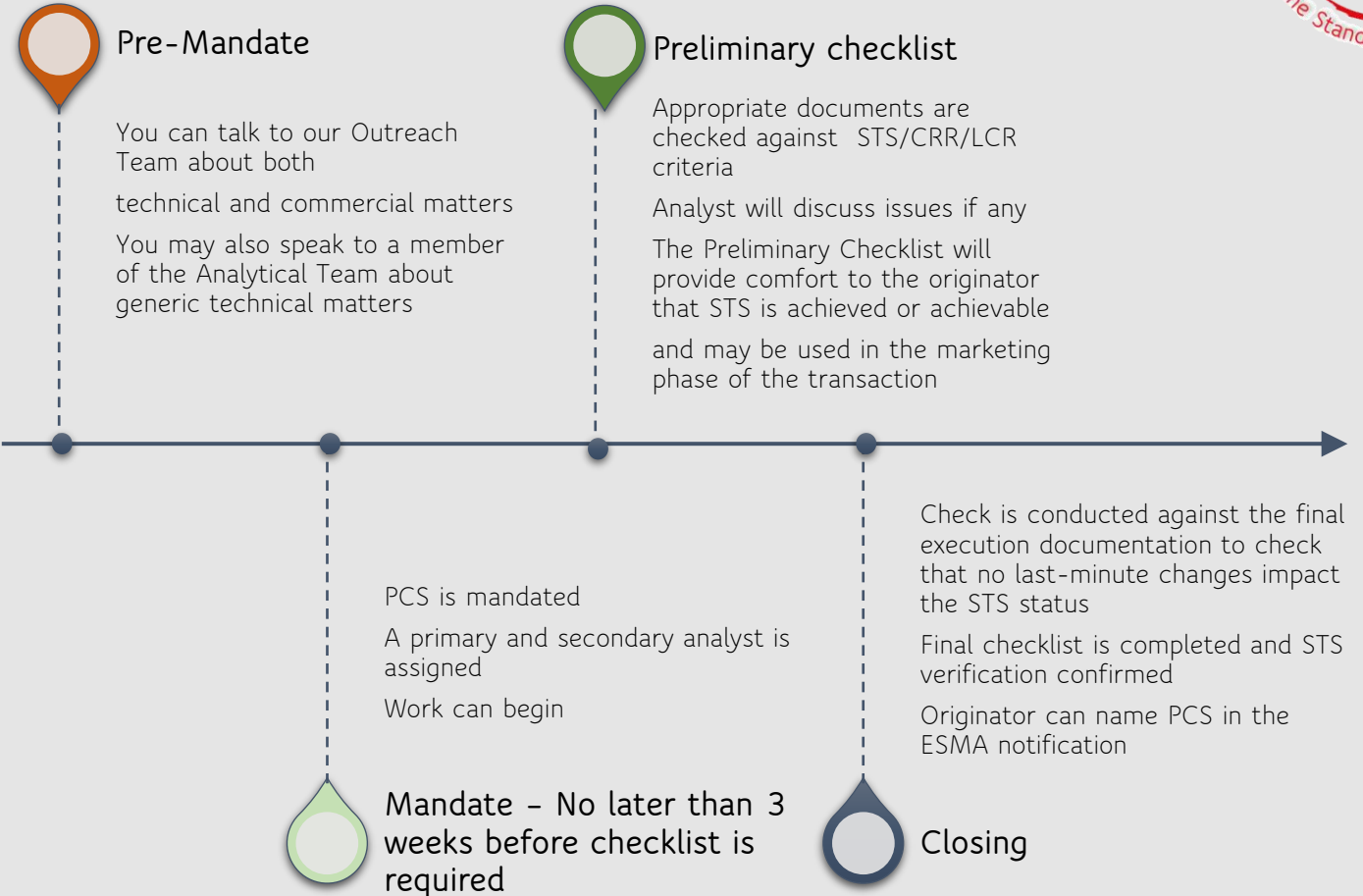
- Impartial
- Not affected by conflicts of interest or commercial considerations
- In conformity with the requirements of the Regulation



PCS

Verification & Assessment Process

When should
you engage PCS?



PCS⁺

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⁺

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

follow us on 