

PCS

Setting the Standard for Securitisation

The STS Regime



STS Regime

Origins

2007-2008

- Financial crisis engulfs the world
- Securitisation is considered a key culprit

2008-2009

- Tsunami of new financial regulations across the world
- Securitisation “punished” (Basel 2 changes, Solvency II, etc.)

2009-2011

- Financial crisis becomes a sovereign crisis - EU deeply concerned about the future of European finance
- But EU securitisations weather the crisis extremely well - public authorities start to wonder (ECB, BoE, EC...)

2012-2014

- “Good securitisation” becomes rehabilitated in policy circles
- Official sector looks to soften the regulatory punishment but only for “high quality” securitisations

2015

- EBA Report and European Commission legislative proposal
- A new definition of high-quality securitisation is proposed: STS

2017-2019

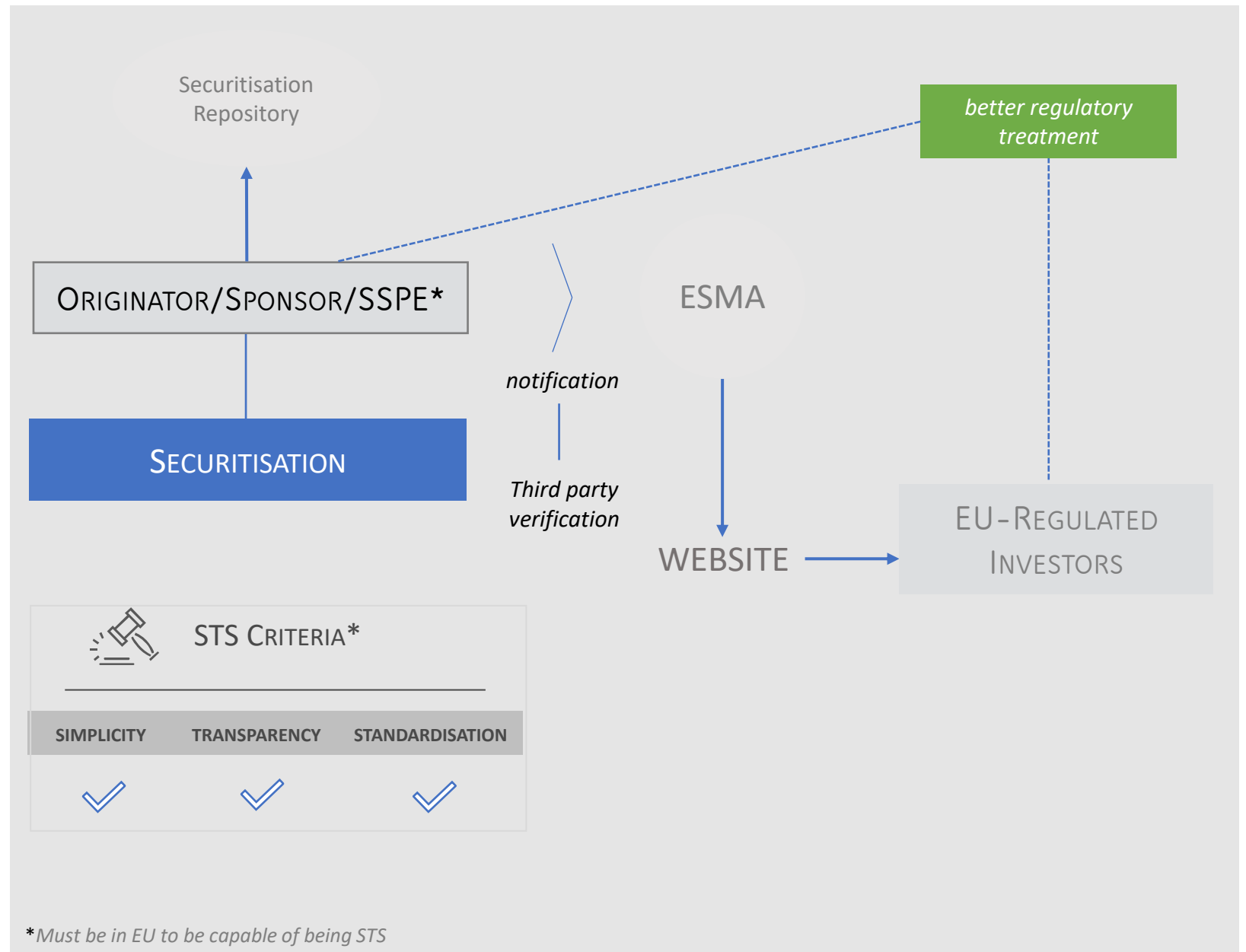
- Law is passed in December 2017
- Law comes into force on 1st January 2019

2021

- Law is amended to include synthetic securitisations and to fix some issues with NPLs, in force since April 2021

STS Regime

Why do it and what is involved?



STS Regime

THE LAW Benefits of STS

- The CRR Regulation provides for **lower capital requirements for EU bank investors** holding STS securitisations that also meet some additional requirements
- The Money Market Funds Regulation provides that **money market funds** can only invest 10% of their holding in securitisations. This limit is increased to 15% for STS securitisations
- The Solvency 2 legislation provides for **EU insurance companies** to hold substantially less capital against the senior tranches of STS securitisations
- An amendment to the Liquidity Cover Ratio (“LCR”) rules changed the **eligibility rules for LCR** to the benefit of STS

The Securitisation Regulation

THE LAW Structure

- The “STS Regulation” is also called, probably more accurately, the “Securitisation Regulation” as it sets out the rules for all securitisations in the European Union
- The STS Regulation is therefore two sets of rules in one legislative text
- The first part of the Regulation (articles 5 to 17) sets out the rules applicable to all securitisations and market participants
- The second part (articles 18 to 28), sets out the rules for the STS regime
- The third part (articles 29 to 48) is concerned with procedural and regulatory matters (including the respective powers of various regulatory bodies and sanctions)
- *Note: the new 2021 regulation allowing synthetic STS transactions amended article 26 of this regulation but left the structure broadly unchanged*

The Securitisation Regulation

Article 5 Due Diligence

“institutional investor” needs to do the following:

- verify :
 - credit-granting based on sound and well-defined criteria and clearly established processes;
 - compliance with risk retention;
 - originator, sponsor or SPV has, where applicable, made available information as required by Article 7 (transparency)
- assess risk characteristics, structural features and, if applicable, compliance with STS requirements
- monitoring, stress tests, internal reporting, be able to demonstrate understanding of the securitisation position, risk management procedures

The Securitisation Regulation

Article 6 Risk Retention

How can risk-retention be achieved?

- Acquiring 5% of all tranches sold to investors
- Originator's interest in 5% of securitised exposures (revolving securitisations or exposures)
- Retaining randomly selected exposures on balance sheet (5% of securitised nominal amount)
 - Granularity: Pool must comprise at least 100 receivables
 - Random selection (subject to scrutiny)
- 5% securitised nominal in form of first loss piece (or, if too small, of the next higher tranche)
- 5% first loss position of every securitised exposure
- No hedging by originator against retained risk

The Securitisation Regulation

Article 7 Disclosure

- “Public” deals (securities listed on an EU regulated market):
 - Disclosure to a securitisation repository
- “Private” deals:
 - Disclosure to be made available to investors, potential investors (upon request), and to competent authorities
 - Local law notifications to competent authorities
- Designation of reporting entity
- ESAs’ opinion/report
- Technical standards now in force – specify information and reporting templates for non-ABCP (by asset class) and ABCP

Overview of STS Regime

Articles 18-28

Obligations relating to:

- due diligence, AUP
- risk retention
- disclosure
- credit-granting standards
- homogeneity
- ban on re-securitisation, no active portfolio management
- only certain asset classes

STS - “simple, transparent and standardised” (EU) 2017/2402

Has applied from 1 January 2019 to:

- New true sale securitisations and new securitisation positions issued

(EU) 2021/557 - amending original STS

Has applied from April 2021

- New synthetic (on-balance sheet) securitisations

STS Regime

True sale versus
Synthetics

Original (2017)
STS criteria for true-sale securitisations

Art.20	Simplicity
Art.21	Standardisation
Art.22	Transparency



New (2021)
STS criteria for synthetic securitisations

Art.20	Art.26.b	Simplicity plus
Art.21	Art.26.c	Standardisation plus
Art.22	Art.26.d	Transparency plus
	Art.26.e	Synthetic additions

Synthetics: Key Provisions

Article 26a: The Rules for Synthetics

Article	Heading	Key Provisions
Art. 26.b	Simplicity	<ul style="list-style-type: none"> • Originator=EU Bank • Only on-balance sheet exposures • SRT only (i.e. art.249 CRR compliant) • Homogeneity (new and final RTS from Feb 2023) • No credit impaired borrowers
Art. 26.c	Standardisation	<ul style="list-style-type: none"> • Pro-rata amortisation allowed but with triggers (new RTS on triggers from Sept. 2022) • Duties of the verification agent
Art. 26.d	Transparency	<ul style="list-style-type: none"> • AUP requirement • Art. 7 disclosure requirements pre-pricing apply • new ESMA notification template since Oct. 2022 • Model • Sustainability reporting to be expected
Art. 26.e	Synthetic additions	<ul style="list-style-type: none"> • Minimum mandatory credit events • Nominated Verification Agent • Limited originator call options • Very limited investor call options • Limited use of synthetic excess spread (SES) • Restricted list of synthetic structures • Specific rules on collateral usage • Rating requirements for Originators and deposit banks

Note: EBA Guidelines for Synthetics to be expected in 2023

STS Regime

Issuance so far..

You can find up to date information on STS issuance [here](#)



Thank you for your attention

follow us on 