Securitization: Risk Weightings and Risk Retention – Approaches in the EU and US

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1. Presentation
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7 October 2015
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Basel Treatment of Securitisations

• In December 2014, Basel published its revised securitisation framework. The revised framework aims to address certain shortcomings in the Basel II securitisation framework and to strengthen capital standards for securitisation exposures held in the banking book, and will come into effect in January 2018.

• Certain weaknesses were perceived in the Basel II securitisation framework during the financial crisis, such as:
  - mechanistic reliance on external ratings;
  - excessively low risk weights for highly-rated securitisation exposures;
  - excessively high risk weights for low-rated senior securitisation exposures;
  - cliff effects; and
  - insufficient risk sensitivity of framework.
The revised framework is now intended to be more risk-sensitive, more prudent in terms of its calibration, to be broadly consistent with the underlying framework for credit risk and to be as simple as possible. In addition it aims to incentivise improved risk management by assigning capital charges using the best and most diverse information available to banks.

- Gain on sale to be deducted fully from capital.
- Non-compliant securitisation positions to be 1250% risk-weighted.
Basel Treatment of Securitisations - Hierarchy

• Basel II framework consists of two hierarchies:
  ➢ standardised approach (SA) for banks that apply the SA credit risk framework for the asset class comprising the underlying pool of securitised exposures;
  ➢ internal ratings based approach (IRB) for banks that apply IRB approach to credit risk framework for the relevant underlying asset class.

• Basel III framework revises the hierarchies to reduce reliance on external ratings, simplify the hierarchy and limit the number of approaches

• Revised hierarchy:
  ➢ securitisation internal ratings-based approach (SEC-IRBA); then
  ➢ securitisation external ratings-based approach (SEC-ERBA); then
  ➢ securitisation standardised approach (SEC-SA).
• SEC-IRBA uses the Simplified Supervisory Formula Approach (SSFA) and uses $K_{IRB}$ information as a key input. $K_{IRB}$ is the capital charge for the underlying exposures using the IRB framework (either the advanced or foundation approaches). To use SEC-IRBA, a bank needs to have the same information as under the Basel II Supervisory Formula Approach, including a supervisory-approved IRB model for the type of underlying exposures and sufficient information to estimate $K_{IRB}$.

• If a bank cannot calculate $K_{IRB}$, it would have to use the SEC-ERBA (assuming this method has been implemented by its national regulator).

• If not, or if the tranche is unrated, the bank would have to use SEC-SA, using $K_{SA}$ as input. $K_{SA}$ is the capital charge for underlying exposures, using the Standardised Approach for credit risk.

• If none of the above can be used by a bank, the exposure would have a risk weight of 1250%.
Basel Treatment of Securitisations – Approaches

• Existing Basel II SFA gives rise to sharp cliff effects in marginal capital charges, partly due to maturity not being fully incorporated into the calculations. SEC-IRBA will incorporate tranche maturity as an additional driver of risk.

• SEC-ERBA will consider additional risk drivers, such as:
  ➢ tranche thickness (in comparison with the entire securitisation) – not currently taken into account under Basel II RBA; and
  ➢ tranche maturity.

• In summary:
  ➢ simpler hierarchy compared to Basel II;
  ➢ hierarchy the same whether bank is originator or investor – does not depend on the credit risk approach applied to underlying exposures, but to information available to the bank and type of analysis it can perform on a specific transaction;
  ➢ reduction of mechanistic reliance on external credit ratings; and
  ➢ capital requirements increased, though senior tranches backed by good pools can achieve 15%.
Following a December 2014 consultation, Basel Committee and IOSCO in July 2015 published final criteria for identifying simple, transparent and comparable securitisations.

- Aim is to assist securitisation transaction parties to evaluate the risks of a particular securitisation across similar products.
- Should assist investors with their due diligence, but not act as a substitute for due diligence.
- Non-binding.
- Basel Committee has agreed it will consider how to incorporate these criteria into the securitisation capital framework.
• The final criteria proposed by Basel and IOSCO are split into various sections.
• Asset risk:
  ➢ nature of the assets – the assets should be claims or receivables that are homogenous in terms of asset type, jurisdiction, legal system and currency. Receivables for more exotic asset classes should have contractually identified periodic payment streams relating to rental, principal, interest or principal and interest payments. Referenced interest payments should be based on commonly encountered market interest rates – not complex formulae or exotic derivatives;
  ➢ asset performance history - verifiable loss performance data (such as delinquency and default data) should be available to investors in respect of receivables with substantially similar risk characteristics to those underlying the securitisation, for a long enough time period to allow meaningful evaluation. Sources, and the basis for claiming similarity, should be clearly disclosed to all market participants;
  ➢ payments status – receivables being transferred to the securitisation may not, at the time of inclusion in the pool, include defaulted or delinquent obligations or those for which parties to the securitisation are aware of evidence of a material increase in expected losses or enforcement actions;
consistency of underwriting – the originator should demonstrate to investors that the receivables have been originated in the ordinary course of the originator’s business to materially non-deteriorating underwriting standards. Where underwriting standards change, the originator should disclose the timing and purpose of such changes and underwriting standards should not be less stringent than those applied to receivables retained on the balance sheet;

asset selection and transfer – receivables transferred to a securitisation should satisfy clearly defined eligibility criteria and those transferred to a securitisation after the closing date may not be actively selected, managed or otherwise cherry-picked on a discretionary basis, so that investors should be able to assess the credit risk of the asset pool prior to their investment decisions;

the securitisation should effect a true sale such that the underlying receivables are:

- enforceable against the obligor and their enforceability should be included in the representations and warranties for the securitisation;
- should be beyond the reach of the seller, its creditors or liquidators and not subject to material re-characterisation or clawback risk;
- not effected through credit default swaps, derivatives or guarantees but by a transfer of the credit claims or receivables to the securitisation; and
Simple, Transparent and Comparable Securitisations (cont’d)

- demonstrate effective recourse to the ultimate obligation for the underlying receivables and must not be a securitisation of other securitisations.

- securitisations employing transfers of receivables by other means must demonstrate the existence of material obstacles that prevent true sale at issuance and must clearly demonstrate the method of recourse to the ultimate obligors. In such jurisdictions any conditions where the transfer of the credit claims or receivable is delayed or contingent on any events should be clearly disclosed, as should be any factors affecting timely perfection of claims;

- the originator should represent that the transferred receivables are not subject to any condition or encumbrance that could adversely affect enforceability of collections;

- initial and ongoing data – sufficient loan-level data or (in the case of granular pools) summary stratification data, on the relevant risk characteristics of the underlying pool should be available to potential investors before securitisation pricing. Timely loan-level data on the risk characteristics of the underlying pool should be readily available to current and potential investors at least quarterly throughout the life of the securitisation. The initial portfolio should be reviewed for conformity with the eligibility requirements by an appropriate legally accountable and independent third party.
Simple, Transparent and Comparable Securitisations (cont’d)

• Structural Risk

➢ redemption cash flows – there should be no reliance on the sale or refinancing of the underlying credit claims or receivables in order to repay liabilities, unless the underlying pool of receivables is sufficiently granular and has sufficiently distributed repayment profiles;

➢ currency and interest rate asset and liability mismatches – interest rate and foreign currency risks should be appropriately mitigated at all times, and any hedging transaction should be documented according to industry-standard master agreements. Only derivatives used for genuine hedging of asset or liability mismatches of interest rate and/or currency should be allowed;

➢ payment priorities and observability – priorities of payments should be clearly defined at the time of securitisation and appropriate legal comfort regarding their enforceability should be provided. Junior liabilities should not have payment preference over senior liabilities which are due and payable. The securitisation should also not be structured as a reverse cash flow waterfall such that junior liabilities are paid where due and payable senior liabilities have not been paid. All triggers affecting the cash flow waterfall, payment profile or priority of payments should be clearly and fully disclosed in offering documents and in investor reports. Investor reports should clearly identify the breach status, the ability for the breach to be reversed and the consequences of the breach;
Securitisations featuring revolving periods should include provisions for early amortisation events and/or triggers of termination of the revolving period, such as:

- deterioration in the credit quality of the underlying exposures;
- a failure to acquire sufficient new underlying exposures of similar credit quality; and
- the occurrence of an insolvency-related event with regard to the originator or service.

After a performance-related trigger, event of default or acceleration event, the securitisation positions should be repaid in accordance with a sequential amortisation priority of payments, in order of tranche seniority, and there should be no provisions requiring immediate liquidation of the underlying assets at market value.

The originator or sponsor should make available to investors, both before pricing and on an ongoing basis, a liability cash flow model, or information allowing appropriate modelling of the securitisation cash flow waterfall.

Policies and procedures, definitions, remedies and actions relating to delinquency, default or restructuring of underlying debtors should be provided in clear terms so that investors can clearly identify debt forgiveness, forbearance, payment holidays, restructuring and other asset performance remedies on an ongoing basis.

Voting and enforcement rights – all voting and enforcement rights relating to the receivables should be transferred to the securitisation upon insolvency of the originator or sponsor;
documentation disclosure and legal review – sufficient initial offering and draft underlying documentation should be made available to investors within a reasonably sufficient period of time prior to pricing (or when legally permissible). The terms and documentation of the securitisation should be reviewed by an appropriately experienced third party, such as legal counsel already instructed by one of the transaction parties;

alignment of interest – the originator or sponsor of the receivables should retain a material net economic exposure and demonstrate a financial incentive in the performance of the assets following their securitisation.

• Fiduciary and Servicer Risk

fiduciary and contractual responsibilities – servicers should be able to demonstrate expertise in servicing the underlying claims or receivables and should at all times act in accordance with reasonable and prudent standards. Policies, procedures and risk management control should be well documented and should adhere to good market practices and relevant regulatory regimes;

a party or parties with fiduciary responsibility should act on a timely basis in the best interests of the securitisation noteholders and the documentation should contain provisions allowing timely resolution of conflicts between different classes of noteholders by the trustees, to the extent permitted by applicable law;
the parties with fiduciary responsibility to the securitisation and to investors must demonstrate sufficient skills and resources to comply with their duties of care, and their remuneration should be such that these parties are incentivised and able to meet their responsibilities in full and on a timely basis;

transparency to investors – the contractual obligations, duties and responsibilities of all key parties to the securitisation should be defined clearly in the initial offering and underlying documentation. There should be provisions for the replacement of servicers, bank account providers, derivatives counterparties and liquidity providers in the event of breach or insolvency or other deterioration of credit worthiness;

performance reports to investors should distinguish the securitisation’s income and disbursements, such as scheduled principal, redemption principal, scheduled interest, pre-paid principal, past due interest and fees and charges, delinquent, defaulted and restructured amounts under debt forgiveness and payment holidays.
Simple Securitisation in Europe

• The European Banking Authority in October 2014 published a discussion paper on simple, standard and transparent securitisations and, in July 2015, its advice to European Commission on European framework for qualifying securitisations.

• Followed on 30 September 2015 by a legislative proposal from the European Commission, as part of its Capital Markets Union initiative.

• EBA and Commission acknowledge that a one-size-fits-all regulatory approach to securitisation is no longer appropriate – both because it may result in overly lenient treatment of transactions that are structurally risky and also in overly conservative treatment of transactions that are “simple, standard and transparent”, as well as backed by less risky exposures.

• EBA proposed a new regulatory definition of a qualifying securitisation, which should be a two-stage definition. Firstly, the transactions should meet a list of criteria relating to simplicity, standardisation, and transparency and secondly the underlying exposures should meet a certain minimum credit quality.

• One aim is that qualifying securitisations should be entitled to preferential treatment (for risk weighting purposes, as well as for other regulatory purposes) compared to non-qualifying securitisations.
Simple Securitisation in Europe (cont’d)

- EBA recommended:
  - a cross product and cross sector review of the regulatory framework for securitisations and other investment products, such as covered bonds and whole loan portfolios – the EBA considers that some of the differences in the regulatory treatment between securitisation and other investment instruments may not be fully justified;
  - creating simple, standard and transparent securitisations to address many of the drawbacks and risks observed during the financial crisis such as complexity and opaqueness, and many inherent risks of securitisation, such as model and agency risk;
  - agreement on criteria to identify a simple, standard and transparent securitisation (listed on the next slide);
  - in order to be a qualifying securitisation potentially qualifying for differentiated regulatory treatment, the securitisation positions should meet both the simple, transparent and standard criteria and also the credit risk criteria (as listed on the following slides); and
  - a “qualifying” securitisation framework should provide for risk weights for qualifying positions that are lower than the risk weights for non-qualifying positions.
As a general point, the following slides focus on non-ABCP securitisation. There are different criteria applicable to ABCP.

The securitisation should involve payments that are dependent upon the performance of underlying exposures and the subordination of the different tranches should determine the distribution of losses during the life of the transaction.

The proposed scheme only extends to “traditional” securitisations (i.e. involving the economic transfer of the underlying exposures), and excludes synthetic securitisations.

It excludes re-securitisations, i.e. securitisations where the risk associated with the underlying pool of exposures is tranched and at least one of the underlying exposures is itself a securitisation position.

There should be no active portfolio management on a discretionary basis (does not prevent substitutions for breach of warranties).

It should be characterised by a legal true sale of the assets, with a legal opinion confirming the true sale and the enforceability of a transfer of assets without any severe insolvency claw back provisions, and with representations confirming no encumbrances or impediments to enforceability.
EU Criteria for Simple Securitisation – Pillar 1 - Simple (cont’d)

• The exposures should be homogeneous in terms of asset type. They should:
  ➢ arise from obligations with defined terms as to rental, principal and interest payments;
  ➢ be consistently originated in the ordinary course of the lender’s business pursuant to uniform and non-deteriorating underwriting standards;
  ➢ contain a legal and valid binding obligation of the obligor, enforceable against any third party, to pay the sums of money specified; and
  ➢ be underwritten with full recourse to an obligor that is an individual or corporate (and not a special purpose entity) and on the basis that the repayment of the obligation is not reliant on refinancing of the underlying exposures.

• Underlying exposures should not be in default or in dispute, nor should the underlying borrower be credit-impaired and the underlying exposures should not include (generally) any transferable securities or derivatives.

• Except in the case of personal overdraft facilities, credit card receivables, trade receivables or dealer floorplan finance loans, at least one payment should have been made by the borrower.
EU Criteria for Simple Securitisation – Pillar 2 - Standard

- The securitisation should fulfill new risk retention rules, based on “direct approach” retention.
- Interest rate and currency risks should be appropriately hedged according to standard industry master agreements.
- Referenced interest payments on the underlying assets should be based on commonly encountered market interest rates.
- Documentation for transactions involving a revolving period should include minimum early amortisation events.
- Following an occurrence of a performance-related trigger, event of default or acceleration event, the securitisation positions should be repaid in accordance with a sequential amortisation payment priority which reflects the seniority of the tranche and there must be no provision requiring immediate liquidation of the underlying assets at market value.
The contractual obligations and responsibilities of the trustee, servicer and other ancillary service providers should be clearly specified to ensure that the default of the current servicer will not lead to a termination of servicing of the underlying assets, that upon default and specified events the derivative counterparties should be able to be replaced and the liquidity facility provider or account bank should be able to be replaced.

Investors should be represented by an identified person with fiduciary responsibilities on their behalf and there should be clear voting rights in terms of instructing the identified person.

The servicer of the securitisation should demonstrate appropriate expertise in servicing the underlying loans.
EU Criteria for Simple Securitisation – Pillar 3 - Transparent

- The securitisation should meet the requirements of the Prospectus Directive (whether this is required by the PD or not).
- The securitisation should meet the requirements of the CRR (see separate slide) and the Credit Rating Agency regulation (see separate slide) on disclosure to investors of data relevant for them to carry out the necessary risk and due diligence analysis.
- Investors should have access to all underlying transaction documents.
- Provisions relating to debt forgiveness, delinquency or default of underlying debtors, debt restructuring and forbearance etc. should be clearly specified in the transaction documentation (where legally possible).
- The transactions should be subject to mandatory external verification on a sample of underlying assets (confidence level of at least 95%) at issuance by an appropriate independent party, other than the credit rating agency.
EU Criteria for Simple Securitisation – Pillar 3 – Transparent (cont’d)

• Investors should have readily available access to data on historical default and loss performance for substantially similar exposures to those being securitised, covering a historical period representing a significant stress (or where such period is not available, at least five years for retail exposures and at least seven years for non-retail exposures).

• Investors should have readily available access to data on the underlying individual assets on a loan-by-loan level at inception, before the pricing of the securitisation and on an ongoing basis.

• Investor reporting should occur at least on a quarterly basis including as to credit quality and performance of underlying assets, data on cash flows generated by underlying assets and breach of any waterfall triggers.

• Originator or sponsor must provide a liability cash flow model to investors, both before pricing and on an ongoing basis.
EU Qualifying Securitisation-Credit Risk Criteria

- Underlying exposures should be originated in accordance with sound and prudent credit granting criteria, including at least an assessment of the borrower’s credit worthiness, in accordance with prudential regulation for the relevant asset class.
- The pool of exposures should not contain aggregate exposures to a single obligor in excess of 1% of the value of the aggregate outstanding balance.
- At the time of inclusion they must meet the conditions for being assigned a risk weight under the standardised approach of no greater than 40% for residential mortgage loans, 50% for loans secured by commercial mortgages, 75% where the exposure is a retail exposure and 100% for any other exposures.
EU Simple Securitisation – Current Position

- A draft securitisation regulation was published by the European Commission on 30 September 2015, along with a draft securitisation capital requirements regulation.
- The draft regulations implement, fairly closely, the recommendations of the EBA.
- In addition to criteria for STS securitisations, and conditions related to designation and registration of such transactions, due diligence requirements for institutional investors and sanctions for breaches, the draft securitisation regulation replaces existing risk retention rules by imposing direct obligations on originators, sponsors and original lenders.
The draft securitisation capital requirements regulation provide that the senior tranche of a qualifying STS securitisation can potentially obtain a risk weighting of 10% (compared to the current 15% floor under the revised Basel securitisation regime).

This would match the lowest possible risk weighting for a qualifying covered bond.

The criteria for STS are intended to be consistent with existing EU regulations in relation to the Basel liquidity cover ratio and the Solvency II Directive, and the STS provisions will apply across all financial sectors, eligible assets and transaction structures. However, certain amendments will need to be proposed to the Solvency II legislation to reflect the proposed new regulations, as well as to the LCR delegated act.
European Disclosure Requirements - CRR

• Article 409 Capital Requirements Regulation requires EU banks and investment firms who are originators, sponsors or original lenders to disclose to investors their identity, the capacity in which they are retaining risk and the level of their risk retention commitment under Article 405.

• Sponsors and originators also to ensure prospective investors have readily available access to all materially relevant data on:
  ➢ credit quality and performance of individual exposures;
  ➢ cash flows; and
  ➢ collateral,

as well as information necessary to conduct comprehensive and well-informed stress tests on cash flows and collateral values.
European Disclosure Requirements - CRA

• Article 8(b) of the CRA III Regulation related to credit rating agencies requires same information as required by Article 409 CRR (plus information on the structure of the securitisation) to be published by the issuer, originator and sponsor of a structured financial instrument on a website established by ESMA.
• To apply from 1 January 2017.
• European Commission adopted delegated regulation in September 2014, specifying in detail the information required to be published:
  ➢ Loan level information in the form and content prescribed by a standardised disclosure term plate for each asset class:
    o residential mortgages (prime, non-prime, home equity loans);
    o commercial mortgages (retail or office property loans, hospital loans, care residences, storage facilities, hotel laws, nursing facilities, industrial loans, multi-family properties);
    o SME loans;
    o auto loans;
    o consumer loans;
    o credit card receivables; and
    o leases to individuals/businesses.
the following documents ("Transaction Documents"), including a detailed description of the waterfall of payments:

- final offering document, together with closing transaction documents (not legal opinions);
- asset sale agreement;
- servicing, back-up servicing, administration, cash management agreement;
- trust deed, security deed, agency agreement, account bank agreement, guaranteed investment contract, incorporated terms or master trust framework or master definitions agreement;
- inter-creditor agreements, swap documentation, subordinated loan agreements, start-up loan agreements and liquidity facility agreements; and
- other underlying documents essential for understanding the transaction.
European Disclosure Requirements – CRA (cont’d)

• Where no Prospectus Directive-compliant prospectus has been prepared, a transaction summary including:
  ➢ deal structure;
  ➢ asset characteristics, cashflows, credit enhancements and liquidity support features;
  ➢ noteholder voting rights, relationship between holders and other creditors;
  ➢ all triggers and events referred to in the Transaction Documents that could have a material impact on the performance of the instruments; and
  ➢ structure diagrams, including transaction overview, cash flows and ownership structure.

• Investor reports, drawn-up in accordance with prescribed content requirements.
U.S. Disclosure Rules

• Under the final U.S. risk retention rules, sponsors must disclose to investors in both public and private securitisations detailed information regarding retained interests, as well as the “fair value” of retained horizontal interests and the methodology for calculation of fair value.

• Additional detailed disclosures regarding SEC-registered public securitisations are spelled out in Regulation AB, as amended in August 2014 (known as “Regulation AB II”), including:
  ➢ information regarding both required and non-required risk positions retained by sponsor;
  ➢ detailed information regarding the transaction structure; and
  ➢ detailed information regarding the underlying assets, both at the time of the offering and in ongoing reporting, including specifically prescribed asset-level data points for a number of asset classes, including RMBS, CMBS and auto loan and lease securitisations.

• Asset-level disclosure requirements become effective in November 2016.
IOSCO - Disclosure

• IOSCO highlighted some additional disclosure issues which hamper the development of a harmonised cross border securitisation market.

• Ongoing disclosure - although ABS issuers in the U.S. must provide ongoing disclosure reports for the life of the security (including loan level data for many asset classes), there is no such requirement in the EU under the Prospectus Directive. However, where the securities are listed on a regulated exchange, there are limited periodic reporting rules under the Transparency Directive, although these do not provide loan level data. However, the due diligence rules contained in section 406 of the CRR apply on an ongoing basis, so that EU regulated investors need securitisation issuers to provide certain ongoing reporting for investors to be able to satisfy their due diligence obligations.
IOSCO - Disclosure (cont’d)

• IOSCO is concerned that information regarding results of testing of the structure or regarding scenario analysis on underlying assets is not required to be disclosed to investors in most jurisdictions. Many investors will not have a comprehensive tool to test the performance of the securitisation under economic stress.

• IOSCO considers it essential for investors to have the means to assess issuer disclosure, in particular by receiving comprehensive data on underlying assets from the issuer.

• It also considers that investors should have the ability and adequate tools to challenge the assumptions that relate to the structure’s performance, by conducting their own stress testing and that where necessary the issuer should be providing the investor with the necessary tools. (Note that, in the U.S., the SEC has to date not adopted a proposal to require issuers to provide investors with a computer program by which investors may model waterfall provisions, but the SEC is reportedly continuing to consider such a rule.)
A number of initiatives have been advanced by public institutions, such as the loan-level initiatives of the European Central Bank and the Bank of England, in the context of the collateral framework under these central banks’ refinancing operations.

The ECB has arranged for such loan-level data to be available publicly via a central repository (the European Data Warehouse).

Under the Credit Rating Agencies regulation in Europe, European issuers, originators and sponsors of structured finance issuances must publish, on an ESMA website, information on the credit quality and performance of the underlying assets, the structure of the securitisation, the cash flows and any collateral supporting the securitisation, as well as any further information necessary to conduct comprehensive stress tests on the cash flows and collateral values.
In the U.S., securitisation industry trade groups initiated a project called RESTART, to identify detailed disclosure and reporting to be provided by issuers for private-label or MBS transactions. These included loan-level information to be disclosed prior to the initial offering and updated monthly by servicers during the life of the transaction.

The project is now in its third generation, known as “RMBS 3.0”. These efforts have to some extent been overshadowed in the case of SEC-registered offerings by Regulation AB II, which requires disclosure of loan-level information in specific standardised formats.

Association for Financial Markets in Europe issued best practice principles in 2009 for RMBS transactions, “RMBS Issuer Principles for Transparency and Disclosure”, relating to pre-issuance disclosure (marketing materials, prospectuses, other offering documents) and post-issuance investor reports.

Commercial Real Estate Finance Council (Europe) issued best practice principles for CMBS transactions, “Market Principles for Issuing European CMBS 2.0”, covering pre and post-issuance information, investor reporting and investor notices and valuations, revenue extraction, CMBS structural features and the roles of servicers and other transaction counterparties.
Due Diligence in the EU

• Under Article 406 of the CRR a credit institution or investment firm subject to the CRR must demonstrate a full understanding of the transaction structure and of the underlying portfolio, including:
  ➢ the risk retention mechanism applied;
  ➢ the risk profile of the securitisation position it will be exposed to;
  ➢ the reputation and loss experience of the originator or sponsor in earlier securitisations of the same asset class;
  ➢ the statements and disclosures made by the originators or sponsors about their due diligence on the securitised exposures and on the quality of the collateral support in the securitised exposures; and
  ➢ all the key structural features of the securitisation, such as the cashflow waterfall and waterfall-related triggers, credit enhancements, liquidity enhancements, market value triggers and deal-specific definitions of default.

• Failure to comply with either the disclosure or due diligence requirements, by reason of the institution’s negligence or omission, will lead to the imposition of a punitive additional risk weight on the securitisation position of between 250% and 1250%.
Due Diligence in the U.S.

- In U.S., the responsibility for conducting asset-level due diligence and disclosing the results thereof is imposed on issuers and, to some extent, on underwriters.

- For SEC-registered transactions, in 2011 the SEC adopted Rule 193 and Item 1111 of Regulation AB pursuant to Section 945 of the Dodd-Frank Act.

- Rule 193 – requires issuers to perform a review of the assets that is designed and effected to provide reasonable assurance that the disclosure regarding pool assets in the prospectus is accurate in all material respects:
  - no specific type of review required;
  - sampling may be used when appropriate;
  - third party may be hired to perform review; and
  - if hired for review, third party either has to be named in prospectus and consent to be deemed an “expert” under Section 7 of the ‘33 Act and Rule 436 and subjected to Section 11 liability, or the issuer has to attribute to itself the findings and conclusions of the independent third party review.
Due Diligence in the U.S. (cont’d)

- Item 1111 of Reg AB – prospectus disclosure of Rule 193 review
  - identity of party that performed review; whether sampling was used, and if so, what sampling technique was employed; findings and conclusions of review; whether any assets in pool deviate from underwriting criteria; and provide data on assets for which compensating or other factors were used

- Additionally, in August 2014, as part of a rulemaking on credit rating agencies, the SEC adopted rules requiring that issuers and underwriters of ABS make publicly available the findings and conclusions of any third-party due diligence report obtained by the issuer or underwriter.

- Unlike EU rules, failure to comply with disclosure or due diligence requirements does not result in increased risk-weighted capital requirements for investors.
IOSCO - Risk Retention

Risk retention requirements, or “keeping skin in the game”, were mandated by the G20 Pittsburgh summit in September 2009. They were intended as a means of addressing the misalignment of incentives that were inherent in many of the “originate to distribute” securitisation products.

They aim to provide issuers and sponsors with an incentive to maintain robust origination and due diligence processes as part of the securitisation.

The EU and the U.S. have adopted different approaches to the issue of risk retention.

IOSCO has focused in particular on three types of differences between the European and the U.S. requirements:

- the overall approach to risk retention;
- different permissible forms of risk retention; and
- the scope of the risk retention requirements, including exemptions.
The European Approach to Risk Retention

- Article 405 of the Capital Requirements Regulation (CRR) focuses on investors and provides that a credit institution or investment firm may only become exposed to the credit risk of a securitisation position if the originator, sponsor or original lender has explicitly disclosed to the institution that it will retain, on an on-going basis, a material net economic interest which, in any event, shall not be less than 5%.

- Note that, although the risk retention takes place on the part of the originator/sponsor or original lender, the regulatory restriction in fact applies to regulated investors or other parties taking on exposure to a securitisation position.

- Similar restrictions on taking on exposure to securitisation positions apply to EU alternative investment fund managers and to insurers pursuant to the Solvency II Directive.
The European Approach to Risk Retention (cont’d)

• The net economic interest is measured at the origination and is to be maintained on an on-going basis.
• It must not be subject to any credit risk mitigation or any short positions or other hedge, and shall not be sold.
• The European Commission in June 2014 published a delegated regulation, which provides further detailed interpretation of the basic risk retention provisions.
Risk Retention in the U.S.

- Under Section 941 of the Dodd-Frank Act, securitisers must retain at least 5% of the credit risk of any asset pool that is securitised.

- On October 22, 2014, U.S. federal regulators adopted final risk retention rules. The rules become effective in December 2015 for RMBS and in December 2016 for all other ABS.

- The final rules require that at least a 5% interest in the transaction’s overall credit risk be retained in both public and private offerings by either the sponsor of an ABS transaction or one of its consolidated wholly-owned affiliates.

- In limited circumstances the final rules permit a sponsor to allow a third party to retain the required credit risk, such as a third party purchaser in CMBS transactions, originators/sellers in asset backed commercial paper conduit transactions, or the lead arranger of senior syndicated loans included in open-market CLO transactions. However, even in these circumstances the sponsor is still responsible for compliance with the risk retention requirements.
IOSCO Recommendations Relating to Approach to Risk Retention

• We can see that the U.S. approach is to protect all investors wherever they are located by focusing on the sponsor of the securitisation, whereas the EU approach is more indirect in that it seeks to protect EU regulated investors (and ultimately EU tax payers) from exposures to securitisations, wherever in the world those securitisations are originated.

• European approach reflects the fact that during the financial crisis European securitisation assets performed well, and that losses suffered were due to exposure to securitised assets from other jurisdictions, such as the U.S., over which European authorities can have no direct control.

• The European approach is not without its problems, though, as it is difficult for European investors to ascertain whether or not the originator or sponsor is complying with the risk retention requirement and, in practice, this factor prompts requests for additional representations and undertakings in relation to risk retention where regulated EU investors are involved.
IOSCO is concerned that these differences can cause potential problems and has recommended trying to reconcile the different approaches to risk retention so that incentive alignment can be achieved in the most efficient and cost effective way, and in a way that does not put up barriers to cross border securitisation markets.

The EBA in December 2014 issued a report and an opinion recommending keeping the European “indirect approach” to risk retention, but supplementing that with a “direct approach” retention methodology.

In April 2015, the Bank of England and the European Central Bank responded to the EBA opinion, agreeing with this suggested approach.

The European Commission’s draft securitisation regulation proposes to delete the CRR provisions relating to risk retention, due diligence and disclosure and to replace them with provisions which effect such concepts, based on a direct approach to risk retention.
Permissible Forms of Risk Retention in EU

• Under article 405 of the CRR, there are five permissible options for retaining risk:
  - retention of no less than 5% of the nominal value of each of the tranches sold (vertical slice);
  - for securitisations of revolving exposures, retention of the originator’s interest of no less than 5% of the nominal value of the securitised exposures (originator’s interest);
  - retention of randomly-selected assets that would otherwise been included in the portfolio equal to at least 5% of the nominal value of the securitized portfolio, so long as the pool from which the selection is made comprises at least 100 assets (on-balance sheet);
  - retention of the most subordinated class or classes of notes (in reverse order of priority and with at least the same maturity as non-retained classes) equal to at least 5% of the nominal value of the portfolio (first loss (notes)); and
  - retention of at least 5% of the nominal value of each portfolio asset (first loss (individual assets)).
U.S. Risk Retention Options

- Final rules permit the following “standard” methods of risk retention:
  - a single vertical security or interest in each class of securities issued as part of the securitisation that constitutes the same portion of each such class (eligible vertical interest), valued based on the nominal value of the retained securities;
  - an interest in one or more classes of securities that bears the first loss in the transaction, and has the most subordinated claim to payments of principal and interest (eligible horizontal residual interest), valued based on the “fair value” of the retained securities; and
  - any combination of an eligible vertical interest and an eligible horizontal residual interest, of at least 5% (hybrid interest) (valuing the vertical interest based on nominal value and the horizontal interest based on fair value).

- There are also “special”, optional methods of risk retention for certain transaction structures and asset classes:
  - revolving pool securitisations;
  - eligible ABCP conduits;
  - commercial MBS;
  - Fannie and Freddie ABS;
  - open market CLOs; and
  - qualified tender option bonds.
Differences between Risk Retention Options

• IOSCO’s consultation highlights certain concerns about the different methods of risk retention allowed under the EU and U.S. rules, for instance:
  
  ➢ in the EU in the context of an asset-backed commercial paper conduit, risk retention can be provided by the sponsor providing a liquidity facility to the conduit that ranks senior to other obligations in the contractual waterfall and covers 100% of the credit risk of the underlying exposures. In the U.S., the sponsor or an ABCP conduit or originators/sellers must retain a 5% risk position even though a 100% liquidity facility is provided;
  
  ➢ in the EU, risk retention can be satisfied by holding a representative sample of assets outside of the securitisation, or by retaining a 5% first loss position in individual securitised assets. Such methods are not generally available in the U.S.; and
  
  ➢ in the EU, the 5% risk retention represented by a retained subordinated horizontal interest is measured by reference to nominal, or “par”, value of the interest. In the U.S., such retention is measured by the “fair value” of the retained interest, which ordinarily will require a larger retained interest in the U.S.
Scope of Exemptions and Safe Harbour Provisions

- Also of concern to IOSCO is the amount of difference between exemptions granted from the EU risk retention requirements and those granted from the U.S. requirements.

- In the EU the only types of transactions which are exempted from the risk retention requirements are securitisations of exposures to (or that are guaranteed by) the following entities:
  - central governments or central banks;
  - regional governments, local authorities and public sector entities of EU member states;
  - credit institutions and investment firms to which a 50% risk weight or lower is assigned under the standardised approach to risk-weighted assets under the Capital Requirements Regulation; and
  - multi-lateral development banks.
• In contrast, the U.S. rules, in addition to exempting securitisations backed by government-insured or guaranteed assets, also provide exemptions for the following types of securitisations:
  ➢ securitisation of qualifying residential mortgage loans, commercial loans, commercial real estate loans, auto loans and leases, and certain resecuritisations and bond “repacks” where the underlying assets satisfy specified underwriting criteria and other conditions;
  ➢ certain foreign-related securitisations;
  ➢ certain first-pay-class securitisations structured to reallocate prepayment risk and not credit risk;
  ➢ securitisations consisting solely of “seasoned” loans and related servicing assets;
  ➢ certain public utility securitisations;
  ➢ securitisations sponsored by the FDIC acting as conservator or receiver of a financial institution; and
  ➢ reduced risk retention requirements for certain student loan securitisations.
U.S. Foreign Safe Harbour

• The final U.S. risk retention rule includes a limited exemption, or “safe harbour,” excluding from the risk retention requirement certain predominantly foreign securitisations.
• The foreign securitisation safe harbour is available only if all of the following conditions are met:
  ➢ registration of the ABS interests is not required under the Securities Act of 1933;
  ➢ not more than 10 percent of the value of all classes of ABS interests (including ABS interests retained by the sponsor) are sold to U.S. persons;
  ➢ neither the sponsor nor the issuing entity is organized under U.S. law or is a branch located in the U.S. of a non-U.S. entity; and
  ➢ not more than 25 percent of the securitised assets were acquired from an affiliate or branch of the sponsor organized or located in the U.S.
Problems of Different Risk Retention Requirements and Solutions

- Differences between the risk retention requirements of the U.S. and the EU, if not addressed, could lead to further fragmentation of cross border securitisation markets.
- For some structures, compliance with both EU and U.S. risk retention requirements may be problematic, e.g. for managed CLOs sold to European investors, U.S. portfolio managers cannot provide the required risk retention, as they cannot fall within the definition of “sponsor” under the CRR.
- Some possible solutions are:
  - decisions as to equivalent/substituted compliance / mutual recognition agreements – in other words U.S. joint agencies could make an affirmative declaration that EU rules are equivalent to the U.S. rules, and EU legislation could be amended to adopt a system of recognition of equivalent risk requirements in the U.S., so that EU regulated investors could invest in a U.S.-issued securitisation without a penalty capital charge;
  - safe harbours or exemptions, such as a safe harbour in the U.S. for non-US securitisers that have already retained risk in accordance with similar rules or practices to those in the U.S. (including the EU), irrespective of the amount of the U.S. piece of the offering, and both jurisdictions granting relief to securitisations of foreign government–guaranteed assets (which is already the case under the EU rules).
- Note that the U.S. regulators have stated that it would not likely be practicable to construct a mutual recognition framework that would comply with current U.S. law.
Basel Treatment of Securitisations – Liquidity Treatment

- Basel III introduced a liquidity cover ratio ("LCR") which is intended to measure whether banks hold an adequate level of unencumbered, high quality liquid assets to meet predicted net cash outflows under a stress scenario that lasts for 30 days. Once fully implemented, banks would be expected to maintain an LCR of at least 100% i.e. it would hold stocks of liquid assets sufficient to meet all net cash outflows under a 30 day stress scenario.

- In Europe, the Basel III LCR has been implemented through the Capital Requirements Regulation and the LCR will be phased in over four years, starting at 60% from 1 October 2015 and rising to 100% as from 1 January 2018 (although the European Commission has power to adopt a delegated act delaying the full 100% application of the ratio until 1 January 2019).
In the original proposals by the EBA, only certain residential mortgage backed securities were to be treated as liquid assets for the purpose of the LCR. However, the final regulation adopted in October 2014 now broadens the scope of securitisation assets that can be considered liquid for this purpose.

The final regulation currently applies only to banks and the European Commission is required to report by 31 December 2015 on whether and how the LCR should apply to investment firms that are subject to the CRR.
EU LCR Provisions

- Liquid assets are divided into level 1 assets (assets of extremely high liquidity and credit quality) and level 2 assets (assets of high liquidity and credit quality).
- Level 2 assets are further subdivided into level 2A and 2B assets.
- Covered bonds of extremely high quality are included within level 1 assets (up to 70% of level 1 assets) and are subject to a minimum haircut of at least 7% and lesser quality covered bonds may be included in level 2A assets, with a haircut of at least 15%, or in level 2B assets, with a haircut of at least 30%.
- Certain asset backed securities that meet the requirements in article 13 of the delegated regulation can be included as level 2B assets (which may compose up to 15% of the overall liquidity buffer).
- At least 60% of the LCR buffer must consist of level 1 assets.
Asset-backed securities as liquid assets under EU LCR

- Asset-backed securities need to meet the following requirements for eligibility for level 2B:
  - the securitisation position has been assigned a credit assessment of at least credit quality step 1;
  - the position is the most senior tranche of the securitisation;
  - the underlying exposures must have been acquired by the issuer in a manner that is enforceable against any third party and beyond the reach of the originator, sponsor, or original lender and its creditors, including in the event of insolvency;
  - the transfer of the underlying exposures to the issuer may not be subject to any severe claw-back provisions in the jurisdiction where the seller is incorporated;
  - the underlying exposures are governed by a servicing agreement which includes continuity provisions which ensure that a default or insolvency of the servicer does not result in termination of servicing;
  - the documentation includes continuity provisions that ensure the replacement of derivatives counterparties and liquidity providers upon their default or insolvency;
Asset-backed securities as liquid assets under EU LCR (cont’d)

- the securitisation is backed by a pool of homogeneous underlying exposures, all belonging to only 1 of the following sub categories:
  - residential loans secured with a first ranking mortgage, granted to individuals for acquisition of their main residence (subject to the loans in the pool meeting certain loan to value requirements and the national law of the member states where the loans were originated providing for a loan-to-income limit on the amount that an obligor may borrow in a residential loan);
  - residential loans fully guaranteed by an eligible protection provider and meeting certain collateralisation requirements and average loan to value requirements;
  - commercial loans, leases and credit facilities to EU undertakings to finance capital expenditures or business operations other than commercial real estate, where at least 80% of the borrowers in the pool are small and medium sized enterprises;
  - auto loans and leases to EU borrowers or lessees; and
  - loans and credit facilities to EU individuals for personal, family or household consumption purposes.

- the position is not in a resecuritisation or synthetic securitisation;

- the underlying exposures do not include:
  - transferable financial instruments or derivatives;
  - exposures to credit-impaired obligors; or
  - exposures in default within the meaning of article 178 (1) of CRR.
Asset-backed securities as liquid assets under EU LCR (cont’d)

- The repayment of the securitisation positions must not depend predominantly on the sale of assets securing the underlying exposures.
- Where no revolving period is in effect, principal receipts from the underlying exposures must be passed to the holders of the securitisation positions on each payment date via sequential amortisation of the positions with no substantial amount of cash being trapped in the issuer; and
- During any revolving period, the documentation must provide for appropriate early amortisation events including a deterioration in credit quality of the underlying exposures, a failure to generate sufficient new underlying exposures of a similar credit quality, and the occurrence of an insolvency related event with regard to the originator or servicer. At the time of issuance of the securitisation, the borrowers must generally have made at least 1 payment.
- In the case of residential loans, the pool of loans must not include any “self certified” loans.
Asset-backed securities as liquid assets under EU LCR (cont’d)

- In the case of underlying exposures that are residential loans, the assessment of the borrower’s creditworthiness must meet the requirements in article 18 of the Mortgage Credit Directive.
- Where the underlying exposures are auto loans and leases and consumer loans and credit facilities the assessment of the borrower’s creditworthiness must meet the requirements set out in article 8 of the Consumer Credit Directive.
- Where the originator sponsor or original lender of the securitisation is established in the EU, it must comply with the requirements set out in part 5 of CRR (in relation to due diligence and disclosure of information).
- For originators, sponsors and original lenders established outside the EU, comprehensive loan level data must be made available to existing and potential investors and regulators, both at issuance and on a regular periodic basis.
- The exposures must not have been originated by the institution that is required to comply with the LCR or its affiliates.
Asset-backed securities as liquid assets under EU LCR (cont’d)

- The issue size of the tranche must be at least EUR100 million or equivalent.
- The remaining weighted average life of the tranche shall be 5 years or less.
- The originator of the exposures must be a credit institution or investment firm subject to CRR, or an undertaking whose principal activity is to pursue lending or other financial activities specified in certain paragraphs of annex 1 to the CRD 4 directive.
- Securitisations of residential loans and auto loans and leases are subject to a minimum 25% haircut and securitisations of commercial loans, leases and credit facilities and individual loans and credit facilities are subject to a minimum haircut of 35%.
- These provisions will need to be amended when the final form of the draft EU securitisation regulation is known.
U.S. Liquidity Coverage Ratio

- Adopted by FRB, OCC and FDIC in September 2014
- Generally follows Basel III, but stricter in certain respects
- Effective Jan. 1, 2015 and fully phased in Jan. 1, 2017
- Establishes liquidity requirements for
  - Large internationally active banking holding companies
    - Total consolidated assets of $250 billion or more
  - Lesser requirements for $50 billion or more in consolidated assets
- High Quality Liquid Assets $\div$ Total Net cash outflow $\geq 1$
- Daily calculation
High Quality Liquid Assets

• Three tiers of high quality liquid assets
  ➢ Level 1 – 100%
  ➢ Level 2A – 85%
  ➢ Level 2B – 50%
• Level 2 capped at 40% of total
• Level 2B capped at 15% of total
• No financial sector entity obligations:
  ➢ regulated financial companies, investment companies, non-regulated funds, pension funds, investment advisers, or consolidated subsidiaries
  ➢ no covered bonds
• No ABS, no municipal securities
HQLA in the U.S.

- HQLA –
  - Level 1
    - Reserve bank balances
    - U.S. government obligations or guarantees
    - Foreign sovereign, BIS, IMF, ECB, EU, or multilateral bank if 0% RW and liquid and readily marketable
    - Certain foreign sovereigns not 0% RW
  - Level 2A - 85%
    - GSE securities investment grade and senior to preferred stock
    - Other foreign sovereigns if 20% RW and meet stress tests
  - Level 2B – 50% if meet stress tests
    - Corporate debt investment grade
    - Corporate stock
# EU:US LCR Comparison

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<tr>
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<th>U.S.</th>
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<td><strong>HQLA</strong></td>
<td>No absolute restrictions on financial sector assets</td>
<td>No financial sector entity assets permitted</td>
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<tr>
<td><strong>Level 1</strong></td>
<td>EU member state central banks/sovereigns</td>
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<td>Non-EU central bank/sovereigns 0% RW</td>
<td>Sovereign, BIS, IMF, ECB, EC or multilateral development bank if 0% RW</td>
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<td>Very high quality EU covered bonds (10% RW)</td>
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<td><strong>Level 2A</strong></td>
<td>EU Covered bonds – 20 % RW</td>
<td>85% of fair value -</td>
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<tr>
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<td>Non-Eu Covered bonds – 10% RW</td>
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<td>Sovereigns/public sector 20% RW</td>
<td>Sovereign 20% RW</td>
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<td>High Quality corporate bonds</td>
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<td></td>
<td>40 % cap</td>
<td>40 % cap</td>
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<td>Qualifying ABS</td>
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<td>Certain corporate debt/shares</td>
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<td>Certain other EU covered bonds</td>
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### Variations between U.S. and EU Rules

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<td><strong>Mortgage Loan Quality:</strong></td>
<td>• Extensive U.S. residential mortgage industry reforms for originators, products, servicers</td>
<td>• No widespread targeted mortgage loan reforms</td>
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<td>• In the UK some tightening of mortgage lending rules, intended to prevent housing asset bubble</td>
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<td>• Obligation on EU financial institution investors to monitor compliance by securitization sponsors, originators and original lenders</td>
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<td></td>
<td>• 3 methods of retention</td>
<td>• 5 methods of retention</td>
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<tr>
<td></td>
<td>• L-shaped retention permitted</td>
<td>• No L-shaped retention</td>
</tr>
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<td></td>
<td>• Limited sharing of retained interest permitted</td>
<td>• Sharing of the retention permitted, but not between different types of entity</td>
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<td>• Many asset class exemptions</td>
<td>• Limited exemptions</td>
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Securitisation positions as collateral

- In recent years securitisation positions have been used (both by investors in those securitisations and by the originators of those securitisations) as collateral for central bank credit and liquidity facilities.

- The eligibility of certain securitisation positions for such collateral will continue to be an important factor in the ability of the originator to securitise the underlying exposures.

- The Bank of England recognises 3 pre-defined categories of acceptable assets types - levels A, B and C.

- Level B, as well as including certain sovereign and central bank debt, corporate bonds and regulated bonds, also includes the most senior tranches of specific categories of high quality, liquid RMBS and asset backed securities backed by credit cards and auto loans. It does not include retained securitisation bonds.
Securitisation positions as collateral for the Bank of England

- Level C collateral includes less liquid ABS, retained securitisation bonds, the most senior tranches of CMBS, ABCP, CBOs of corporate bonds (excluding high yield) and CLOs of high credit quality, non-leveraged loans to SMEs

- Level A collateral will be subject to smaller haircuts than level C collateral

- For all classes of collateral, the Bank of England requires anonymised loan-level data (no more than 1 month old) to be made available on Bank of England templates to investors, potential investors and other market professionals in a recognisable spreadsheet format on at least a quarterly basis via a subscription-only secure online data site.
Securitisation positions as collateral for the European Central Bank

• Since before the financial crisis the ECB has accepted a broad range of asset backed bonds as collateral.

• Broadly speaking it will accept as collateral the following:
  ➢ ABS backed by auto loans;
  ➢ ABS backed by leases;
  ➢ ABS backed by consumer finance loans;
  ➢ ABS backed by credit card receivables;
  ➢ RMBS;
  ➢ CMBS; and
  ➢ CLOs of loans to SMEs.

• It will accept retained securitisation bonds of eligible securities, but does not accept ABS backed by other tranched securities, such as CDOs or CBOs.
Securitisation positions as collateral for the European Central Bank (cont’d)

- Like the Bank of England, it has certain requirements as to transparency and these include very specific loan-level data reporting requirements.
- Simultaneously with the introduction of loan-by-loan information requirements, the ECB encouraged the private sector to establish an electronic data-handling warehouse which culminated in the creation of the European Data Warehouse in June 2012, and which became operational in January 2013.
- In order to stimulate the flow of capital within the European economy, the ECB has also set up an asset-backed securities purchase programme (“ABSPP”) under which the ECB will purchase qualifying ABS in both the primary and secondary markets. This was launched in October 2014 and is expected to run for 2 years.
Securitisation positions as collateral for the European Central Bank (cont’d)

• In order to be eligible for the ABSPP, securities must:
  ➢ be denominated in euro and issued by an issuer established in the euro zone;
  ➢ be eligible under the general euro system collateral framework;
  ➢ form part of a portfolio of which no less than 90% of the obligors are non-financial entities or natural persons;
  ➢ be secured by claims against non-financial private sector entities resident in the euro area, of which a minimum share of 95% is euro-denominated and of which a minimum share of 95% are resident in the euro area
  ➢ have a minimum second best credit assessment of credit quality step 3 (equivalent to BBB-/Baa3/BBB, at the time of the launch of the ABS PP)

• It is fair to say that the market has so far been underwhelmed at the level of ECB activity under the ABS purchase program
ABS as Collateral for Fed

- The guidelines for collateral eligible at the U.S. Federal Reserve are at http://www.frbdiscountwindow.org/FRcollguidelines.pdf?hdrID=21&dtlID=81
- The list includes:
  - ABS
    - rated AAA – haircut 2% to 10%
    - Rated AA–BBB – haircut 4% to 23%
  - CDOs rated AAA – haircut 17% to 22%
  - Private-label CMOs rated AAA – haircut 10% to 14%
  - Domestic covered bonds
    - Rated AAA – haircut 2% to 7% if USD denominated, else 2% to 12%
    - Rated BBB–AA – haircut 4% to 8% if USD denominated
  - German Jumbo Pfandbriefe rated AAA – haircut 2% to 6% if USD denominated, else 6% to 8%
- Collateral margin tables are available at http://www.frbdiscountwindow.org/discountmargins.cfm?hdrID=21&dtlID=83
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