



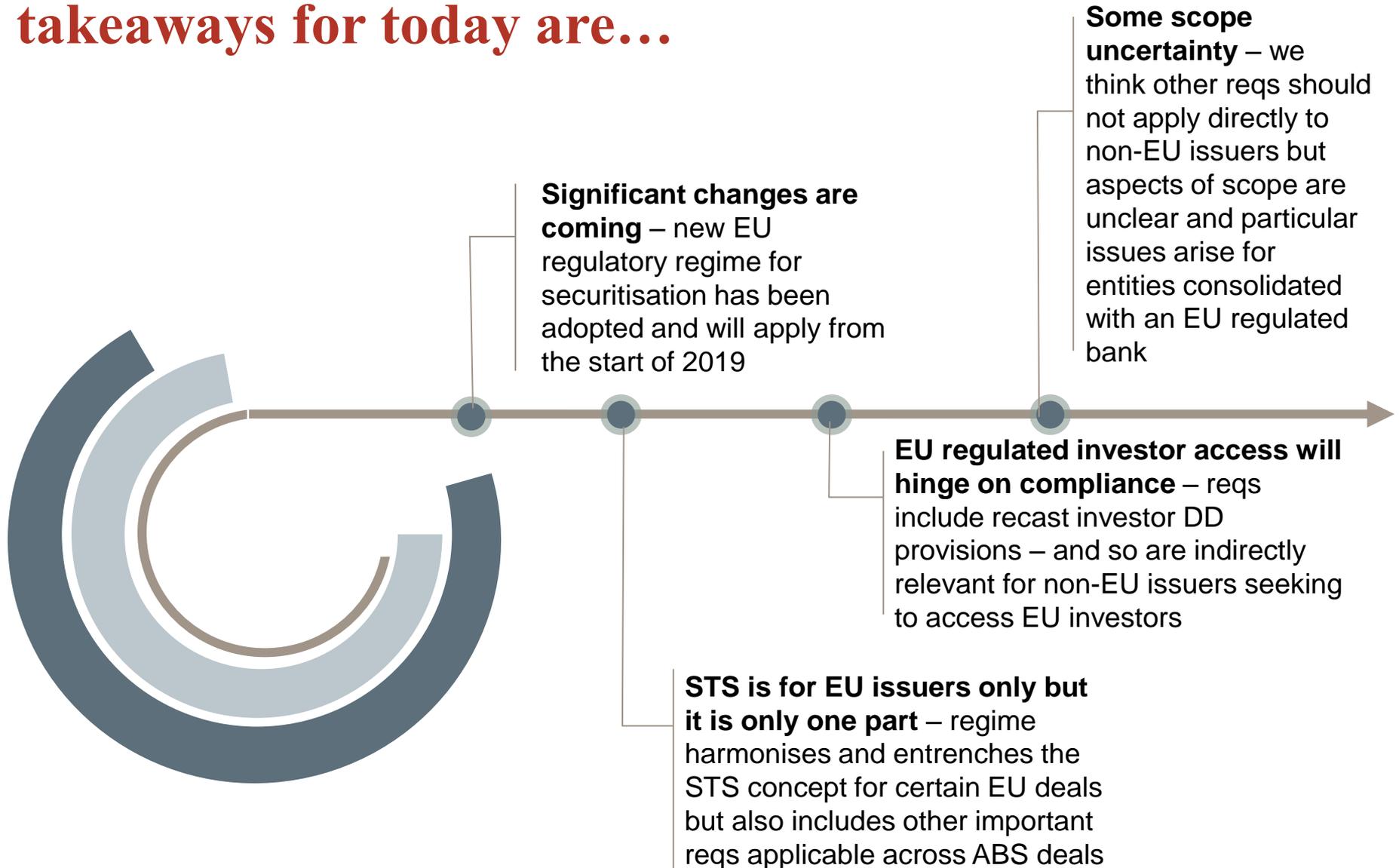
Scoping it out: EU securitisation regulation and what you need to know about the coming new regime from a cross-border perspective

April 2018

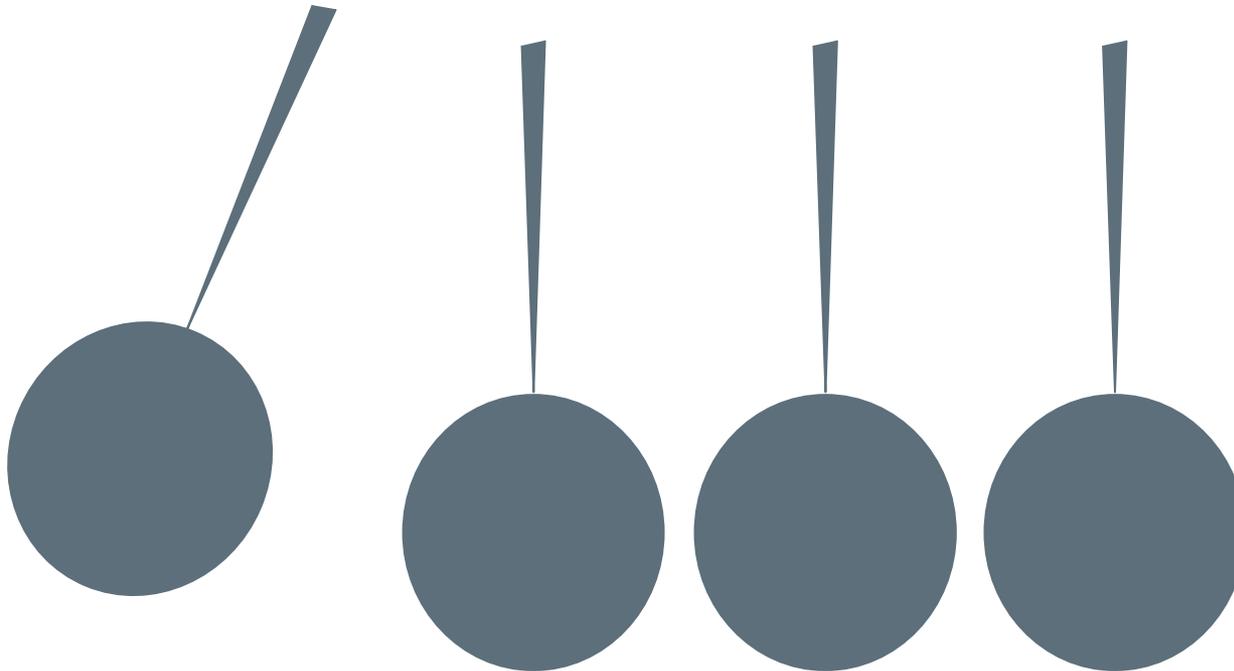
Overview – there is a fair bit of ground to cover...

- Key messages
- Setting the scene
- Current status and timing
- Basics
- Key general requirements
 - Recast investor DD
 - Credit granting standards
 - Recast risk retention
 - Disclosure and reporting
- STS framework
- Final thoughts

Key messages – boiling it down, the important takeaways for today are...



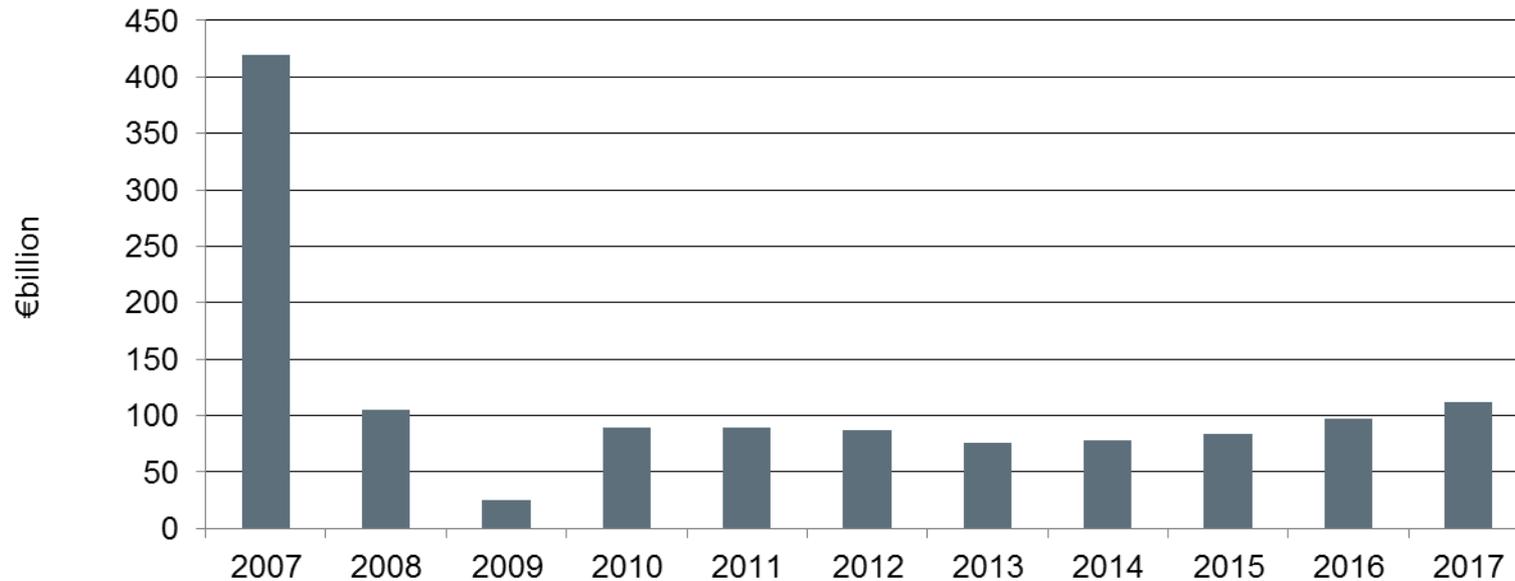
Setting the scene – position of the authorities on ABS and appropriate regulation has gone back and forth...



**Swinging in a more helpful direction in the EU (and the US) at present?
More supportive regime needed in the EU**

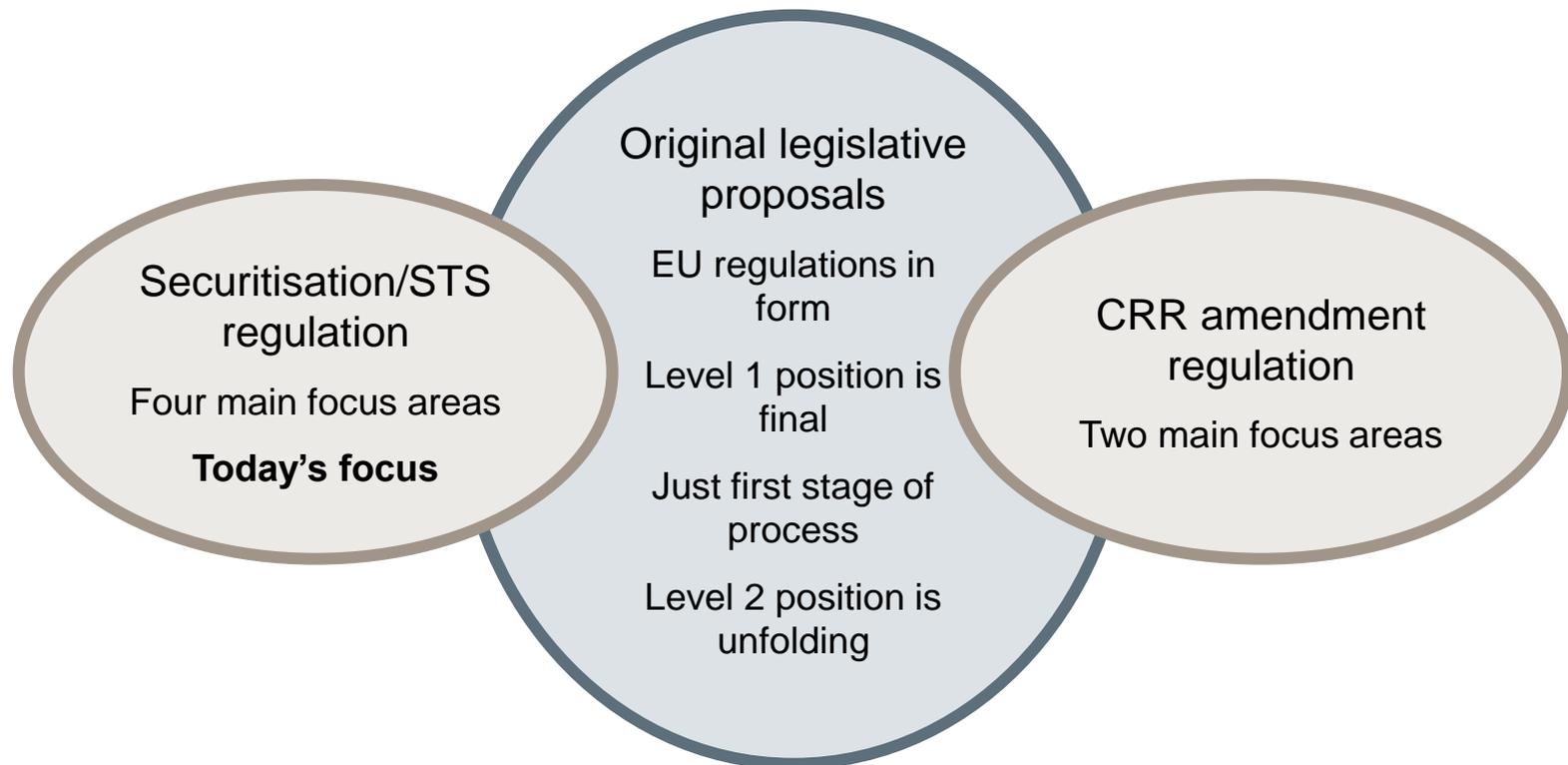
Setting the scene – impairment of EU market continues, although charts do not reflect private deals

European placed issuance



Values in EUR bn	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
European placed	419.2	105.5	24.7	89.8	88.9	87.0	75.9	78.2	83.2	96.7	111.7
European retained	175.7	713.2	399.3	288.1	287.9	170.9	104.8	138.8	133.5	142.1	123.3
European retention (%)	30%	87%	94%	76%	76%	66%	58%	64%	62%	60%	52%
Total European	594.9	818.7	423.9	378.0	376.8	257.8	180.8	217.0	216.6	238.6	235.0
Total US	2,080.5	967.3	1,447.2	1,245.9	1,068.8	1,609.0	1,565.1	1,190.9	1,744.5	1,860.4	1,712.5
Total Australian	34.3	6.6	9.7	15.5	20.4	14.8	22.4	22.1	19.9	16.4	29.2

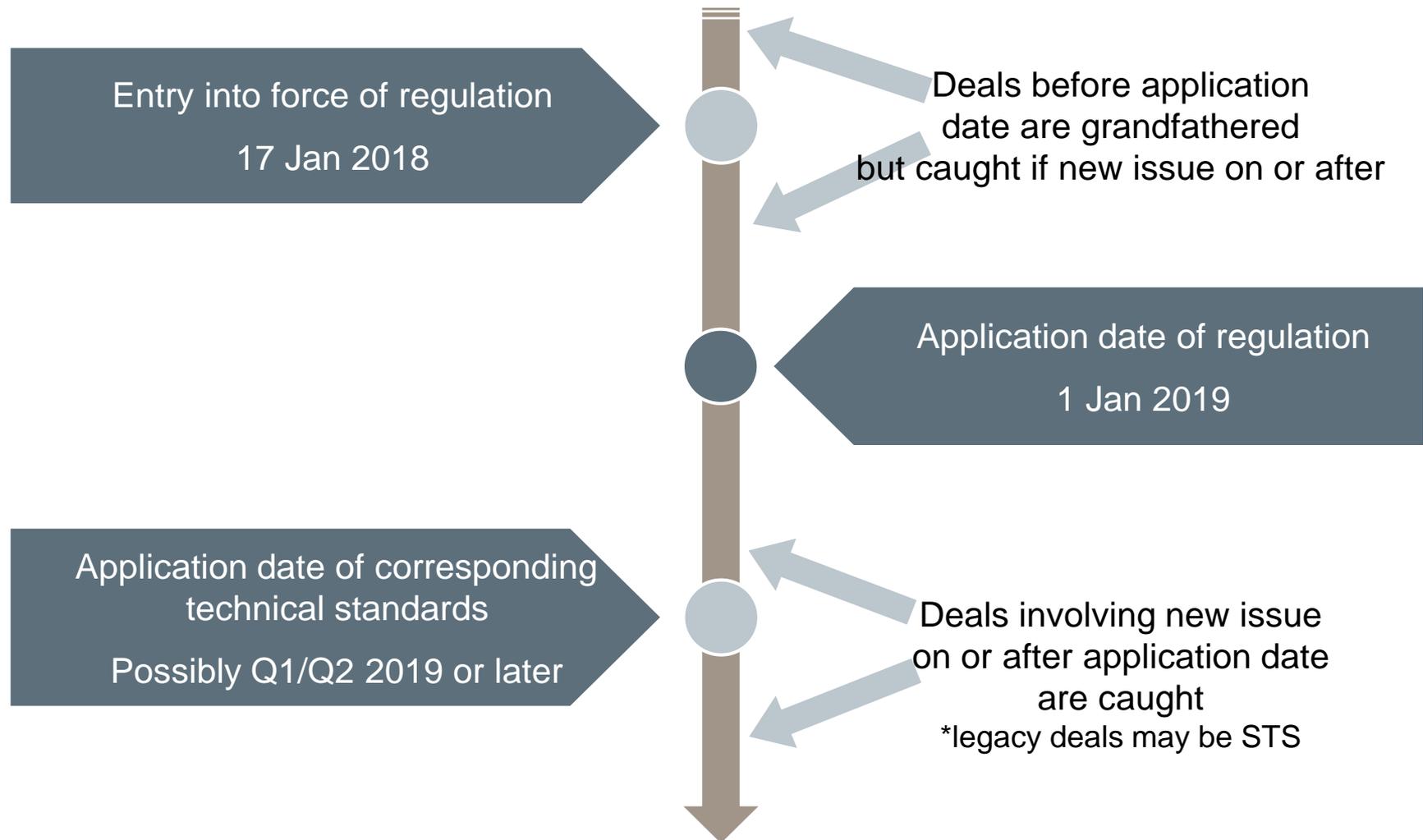
Setting the scene – CMU-securitisation initiative – today's focus is on the securitisation/STS regulation



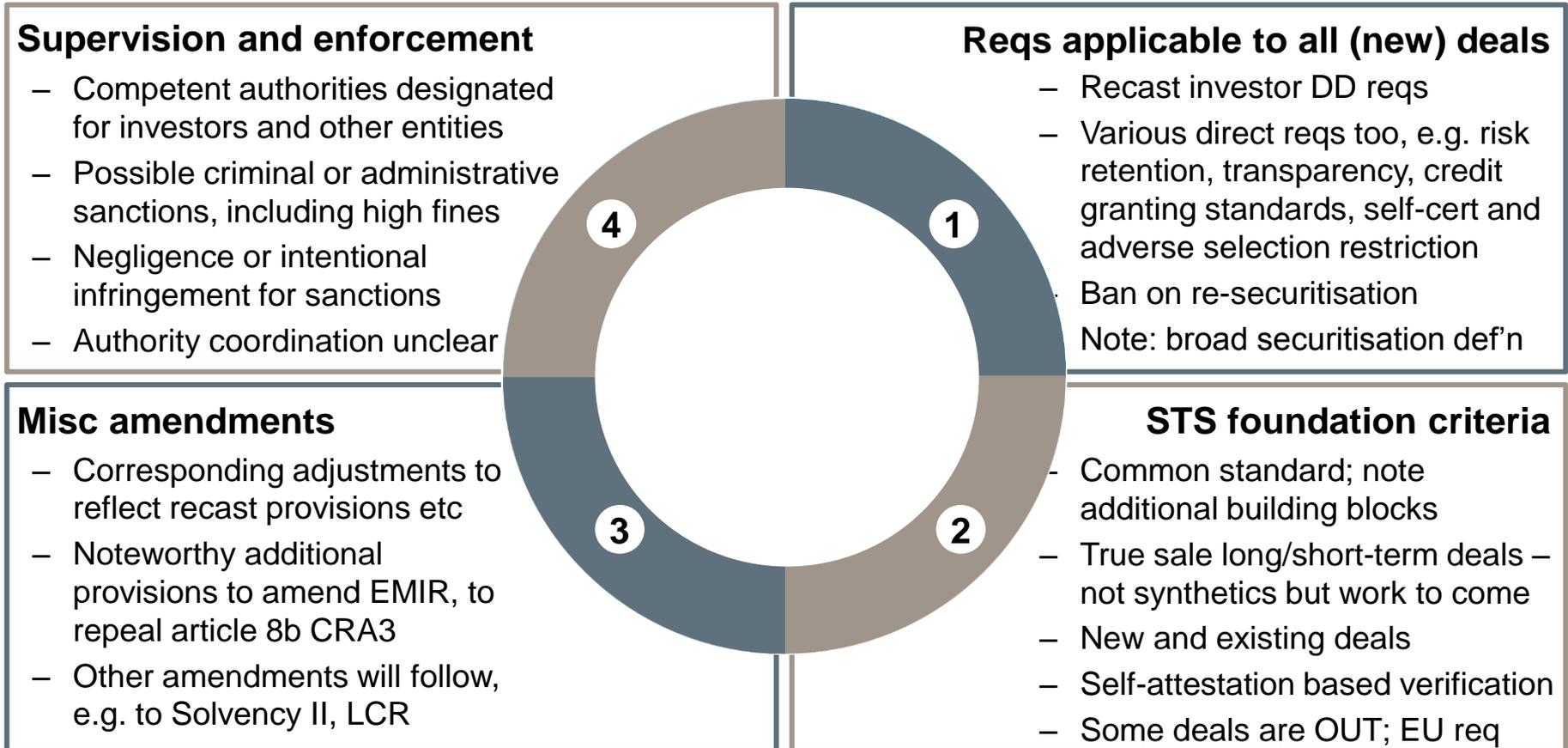
Current status and timing – political negotiation process has concluded – for stage one



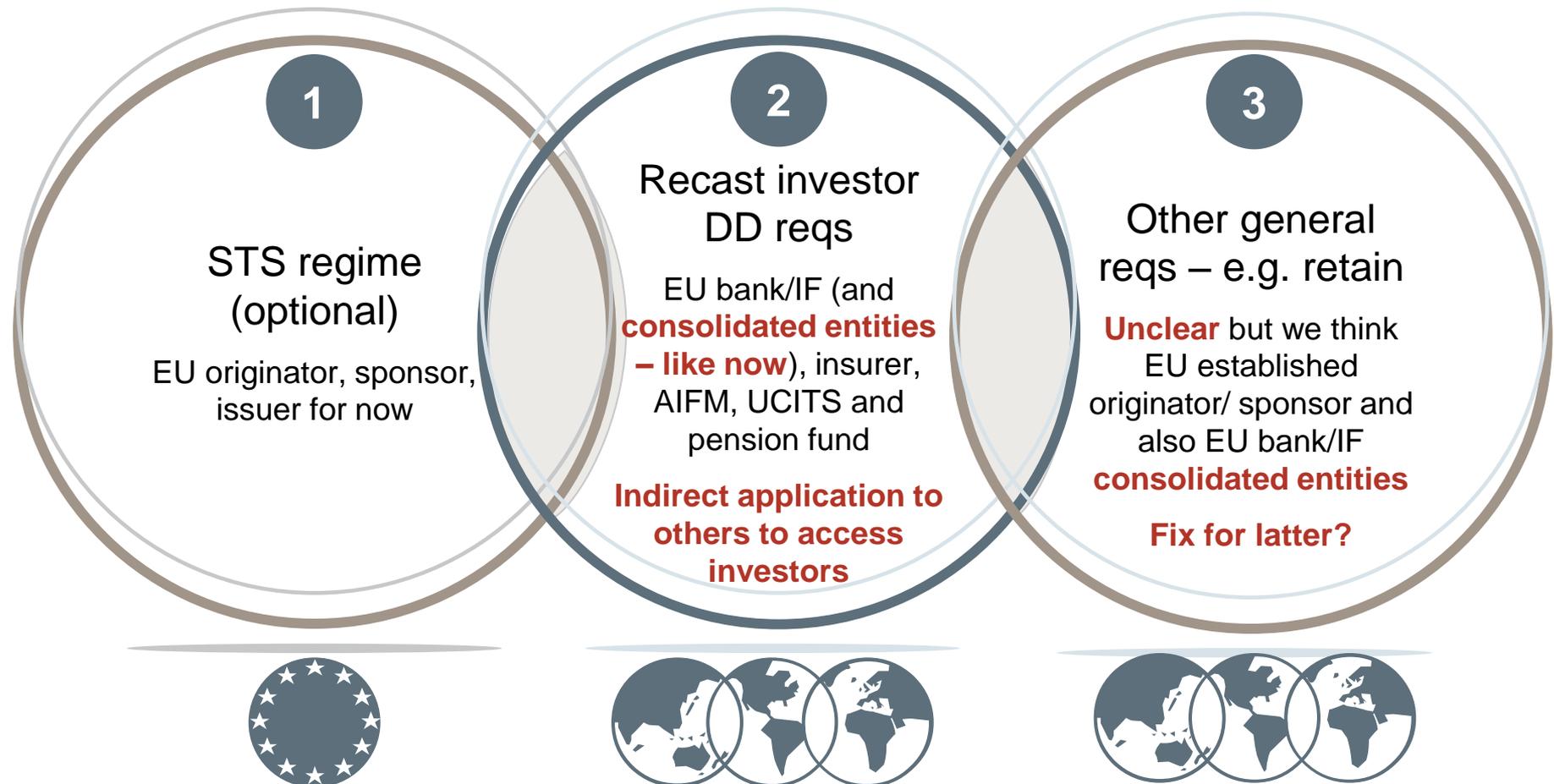
Current status and timing – what are the key dates and which deals will be subject to the new requirements?



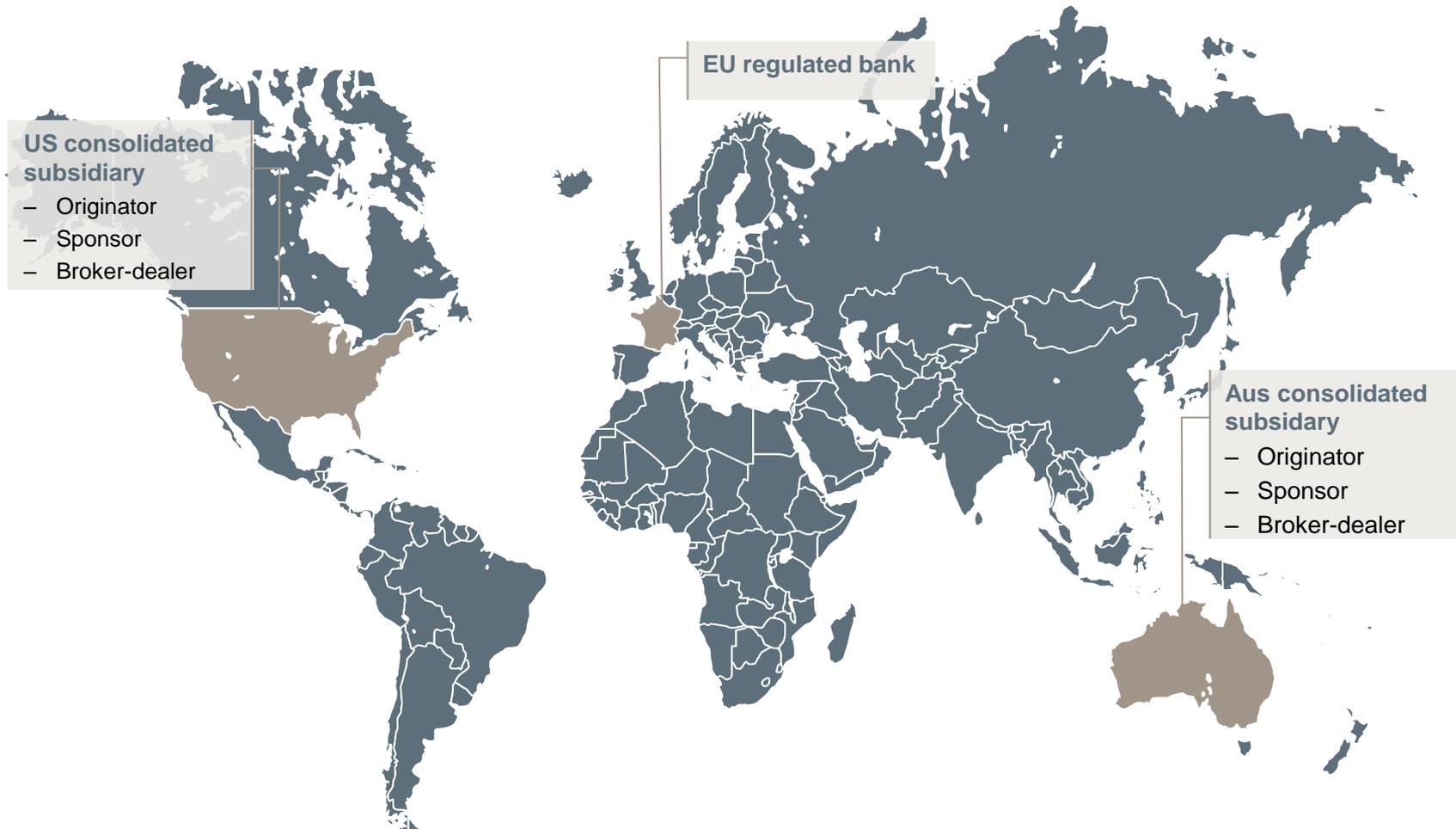
Basics – securitisation regulation can be broken down into four main sections



Basics – jurisdictional scope varies between different sections of new regime



Basics – jurisdictional scope – consolidated application point may draw in non-EU activities



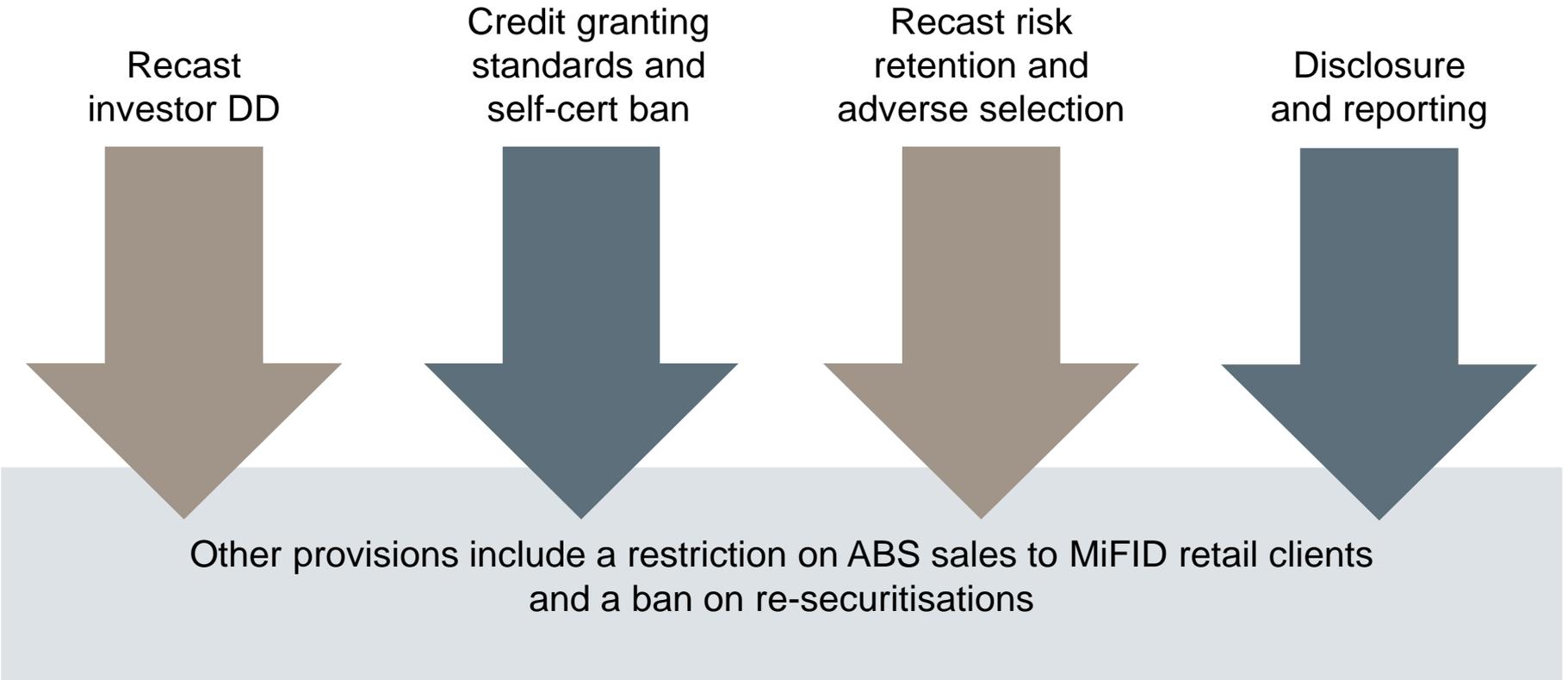
Key general reqs – focus on four key provisions – other provisions in the package may be relevant in some cases

Recast
investor DD

Credit granting
standards and
self-cert ban

Recast risk
retention and
adverse selection

Disclosure
and reporting



Other provisions include a restriction on ABS sales to MiFID retail clients
and a ban on re-securitisations

Key general reqs – recast investor DD – only certain provisions should apply indirectly re non-EU deals but more than current regime



1

Credit granting standards

Ongoing monitoring

6

STS notification

2

5

Assets and structure risk assessment

3

Disclosure and reporting

Risk retention

4

**Disclosure position unclear – subject to relevant investors applying the same reading
Market participants are trying to get clarification**

Key general reqs – recast investor DD – let's keep score of possible non-EU application as we go...

Possible DIRECT application to non-EU entity?		Possible INDIRECT application to non-EU entity?
<p>Only if consolidated entity with EU bank/IF</p> <p>Advocacy efforts to ensure existing flexibility carried over</p>	<p>Investor DD</p>	<p>Not relevant</p>
	<p>Credit granting standards</p>	
	<p>Self-cert loan restriction</p>	
	<p>Risk retention</p>	
	<p>Adverse selection</p>	
	<p>Disclosure</p>	

Key general reqs – credit granting standards – EU investors will be looking for info on this



- Expanded reqs compared to current EU CRR
- Different reqs between direct and indirect obligations
- Indirect obligation more limited as focused on securitised exposures
- Scope – (i) direct obligation re EU entities and relevant consolidated entities and (ii) indirect obligation via investor DD re other entities including non-EU



What is required?

Indirect req

- Investor check that EU non-bank or non-EU originator grants all credits re securitised assets on basis of sound and well defined criteria and processes for approving etc and has effective systems to ensure credit based on assessment obligor creditworthiness

Direct req

- Originator/sponsor req to apply same credit criteria between securitised and not as well



What are the remaining risks?

- Scope/application uncertainty – seeking fix for consolidated entities
- Unclear what level of info relevant investors will consider necessary for verification
- Concerns under direct and indirect obligation re deals involving non-asset creators
- Heightened concerns under direct obligation given non-securitised assets relevant too
- Relevant direct obligation article also includes a **restriction on securitising self-certified residential mortgage loans** – although carve-out for legacy assets

Key general reqs – credit granting standard requirements – direct obligation detail

Article 9(1)

- Originator, sponsor and original lender
- Same sound and well defined credit granting criteria across assets
- Clearly established processes and effective systems to apply criteria to ensure credit granting is based on a thorough assessment of creditworthiness
- DD and STS connection

Article 9(3)

- Limb (b) originator shall verify matters in (1) re asset creator

Article 9 – criteria for credit granting

Why all the fuss?
What are the consequences of non-compliance?

Article 9(2)

- Operative elements and scope unclear
- Securitisations of residential loans
- Ban on securitising any loan “that is marketed and underwritten on the premise that the loan applicant or, where applicable, intermediaries were made aware that the information provided by the loan applicant might not be verified by the lender”
- STS criteria carry-over

Amendments made through review process – but not a full fix on all fronts

Key general reqs – credit granting standards and self-cert ban – updated scorecard

Possible DIRECT application to non-EU entity?		Possible INDIRECT application to non-EU entity?	
<p>Only if consolidated entity with EU bank/IF</p> <p>Advocacy efforts to ensure existing flexibility carried over</p>	<p>Investor DD</p>	<p>Not relevant</p>	
<p>Unclear but we think only if consolidated entity with EU bank/IF</p> <p>Possible fix</p>	<p>Credit granting standards</p>	<p>Yes, if seeking to access EU regulated investors</p>	
<p>Same as credit granting response above</p>	<p>Self-cert loan restriction</p>	<p>Unclear but we think should not apply</p>	
	<p>Risk retention</p>		
	<p>Adverse selection</p>		
	<p>Disclosure</p>		

Key general reqs – recast risk retention – lots of overlap and few remaining risks despite drama



- Recast and harmonised reqs
- Substantially the same reqs btw direct and indirect obligations
- Key provisions same – e.g. 5% level, holding options, forms – despite scares
- Scope – (i) direct obligation re EU entities and relevant consolidated entities and (ii) indirect obligation via investor DD re other entities including non-EU



- What is changing?
 - Direct obligation and sanctions but note scope; indirect application remains
 - Originator restriction; sole purpose test
 - Sponsor definition wider
 - **Adverse selection restriction on originators** but note scope
 - New guidance via updated regulatory technical standards/RTS



- What are the remaining risks?
 - Direct obligation scope – some uncertainty and issue re consolidated entities
 - Eligible originator retainers
 - Adverse selection provision for NPLs etc but note scope
 - Possible RTS inconsistency – although positive signals so far – need to get this right

Key general reqs – recast risk retention reqs – where we think we will end up

Disclosure

Retention commitment statement at outset; must be sufficient for investors to perform required DD
Ongoing disclosures on same frequency as investor reporting and at least annually
Any change must be disclosed

Consolidated retention

Not permitted in general
Limited scope for retention by related entity of originator/asset creator
Limited scope for retention on basis of EU regulatory consolidation position

Multiple originators or sponsors

Proportionate retention in general
One originator may retain where it (i) has established and is managing the scheme or (ii) has established and contributed over 50% of the total assets
One sponsor may retain where economic interest most appropriately aligned with investors on basis of involvement, fees etc

Interest level

Minimum interest of 5% to be retained
No top-up in general but must maintain for revolving pool
Synthetic/contingent form ok but reqs for non-banks
Hedging/transfer restriction; full recourse financing ok
No sunset provision

Holding options and measurement

Same (5) holding options – including random selection
Based on nominal value/principal amount of assets other than vertical slice which is based on nominal value of tranches
Excess spread may not be taken into account

Retainer

One of originator, sponsor or original lender
Sponsor defined as bank or investment firm which establishes and manages scheme ★
Originator defined as (i) asset creator or (ii) purchaser for its own account which then securitises ★
Sole purpose test for originator retainers ★
Limited provision for retainer change in exceptional circumstances ★

Key general reqs – recast risk retention and adverse selection – updated scorecard

	Possible DIRECT application to non-EU entity?		Possible INDIRECT application to non-EU entity?	
	Only if consolidated entity with EU bank/IF Advocacy efforts to ensure existing flexibility carried over	Investor DD	Not relevant	
	Unclear but we think only if consolidated entity with EU bank/IF Possible fix	Credit granting standards	Yes, if seeking to access EU regulated investors	
	Same as credit granting response above	Self-cert loan restriction	Unclear but we think should not apply	
	Same as above	Risk retention	Yes, if seeking to access EU regulated investors	
	Same as above	Adverse selection	No	
		Disclosure		

Key general reqs – disclosure and reporting – expected to be less relevant for non-EU entities



- Expanded reqs compared to EU CRR; to be repealed
- Similar to article 8b EU CRA Regulation; to be repealed
- Scope – (i) direct obligation re EU entities and relevant consolidated entities and (ii) indirect obligation via investor DD but we think this should not be relevant where no EU originator/sponsor/issuer is involved



- What is required?
 - Direct req – detailed disclosure and reporting obligations
 - Initial disclosures prior to pricing and then ongoing reporting
 - Required info extends to LLD, transaction documents and, for private deals, transaction overview – plus STS notification for relevant deals
 - Standard templates to be used for LLD and investor reporting; but not private deals – and **defined as non-PD compliant**



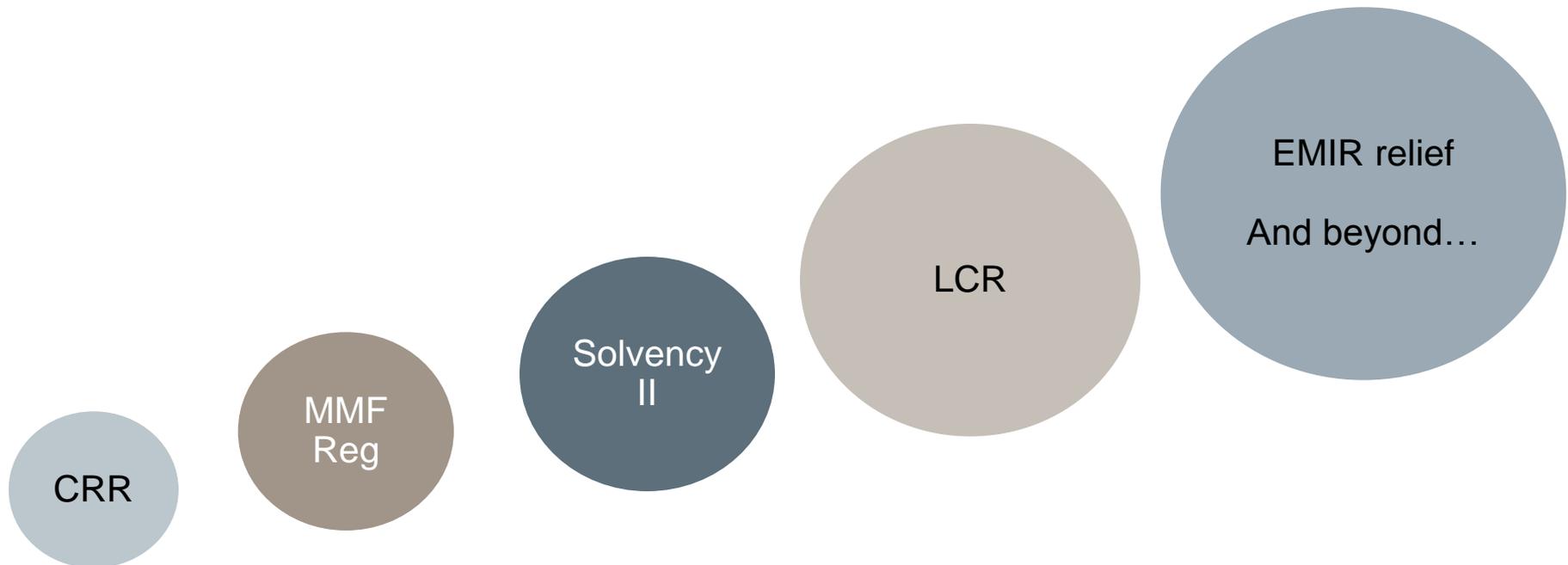
- What are the remaining risks?
 - Scope/application uncertainty – seeking fix for consolidated entities
 - Need to get templates for LLD disclosures and reporting right but note scope
 - Need flexibility for existing assets where info not available but note scope
 - Timing concerns re application; need sufficient transition period but note scope

DISCLOSURE	BoE transparency requirements	ECB reporting requirements	Part Five Capital Requirements Regulation**	Article 8b Credit Rating Agency Regulation **	Article 7 Securitisation Regulation
Nature of obligation	Eligible collateral requirement for liquidity-providing operations Not all ABS accepted as eligible collateral subject to requirements	Eligible collateral requirement for standard liquidity-providing operations and for ABSPP	Direct disclosure obligation under article 409 on EU regulated institutions in respect of securitisations Indirect obligation arising as a result of due diligence obligations on EU regulated investors	Direct disclosure obligation on issuers, originators and sponsors May delegate reporting function to one party (third party or not) but responsibility remains with all three	Direct disclosure obligation on SSPEs, originators and sponsors; designate one Indirect verification obligation arising as a result of due diligence obligations on EU regulated investors
Scope of application	Operations available to BoE eligible counterparties See general collateral requirements, relevant re ABS backed by certain assets	Operations available to Eurosystem eligible counterparties See general collateral requirements, relevant re ABS backed by certain assets	Assumption of credit risk exposure to/investment in any CRR securitisation by EU regulated entity	To start, new issue from 26 January 2015 in respect of a public CRR securitisation involving an EU established issuer, originator or sponsor where underlying assets of a relevant type	New issue from 1 January 2019 in respect of a CRR securitisation Public and private deals Aspects of scope are unclear, e.g. jurisdictional scope
Loan-level reporting	Yes, BoE developed templates At least quarterly Comply or explain flexibility	Yes, ECB developed templates At least quarterly Limited comply or explain flexibility	General obligation to consider materially relevant data Flexibility re highly granular asset pools	Yes, based on ECB template mandatory fields Quarterly No comply or explain flexibility	Yes, templates to be developed – but proposed not to apply to private deals ESMA CP – timing point Quarterly for non-ABCP and monthly for ABCP
Deal documents	Yes, list of example documents provided	No	General obligation as above	Yes, based on BoE provisions	Yes, based on BoE provisions
Investor reports	Yes, monthly reports with standard set of minimum information	No, except for loan-level reporting and rating surveillance reports	General obligation as above	Yes, based on BoE provisions Quarterly	Yes, quarterly reports with standard set of information – ESMA CP
Cashflow model	Yes, waterfall cashflow model Via website/platform	No	General obligation as above Note related stress testing obligation on investors	No	No – but STS requirement which may be relevant to some deals
Deal summary	Yes, BoE developed templates	No, but new issue rating report required	No	Yes, but only where non-PD compliant OC and no form	Yes, for private deals and based on Article 8b provisions
Website	Yes, secure website managed by or on behalf of info provider	Yes, via designated data repository e.g. EU Data Warehouse	No specified method of information delivery	Yes, ESMA SFI website - but never set up	Yes, via registered data repository except for private deals

Key general reqs – disclosure and reporting – completed scorecard – our best guess at this point!

Possible DIRECT application to non-EU entity?		Possible INDIRECT application to non-EU entity?	
Only if consolidated entity with EU bank/IF Advocacy efforts to ensure existing flexibility carried over	Investor DD	Not relevant	
Unclear but we think only if consolidated entity with EU bank/IF Possible fix	Credit granting standards	Yes, if seeking to access EU regulated investors	
Same as credit granting response above	Self-cert loan restriction	Unclear but we think should not apply	
Same as above	Risk retention	Yes, if seeking to access EU regulated investors	
Same as above	Adverse selection	No	
Same as above If applied, standardised templates may not be relevant if no PD listing	Disclosure	Unclear but we think should not apply	

STS framework – concept expected to have increasing EU regulatory significance for ABS



**Unfortunately – EU establishment requirement for originator, sponsor and issuer
Incentives for EU investors re STS but remains to be seen if regime will work**

STS framework – criteria for non-ABCP ABS – EU req*

- Asset transfer; no severe clawback risk; **perfection triggers**
- No portfolio management; no predominant dependence on sale
- Originator expertise in originating exposures of similar nature
- **Assets homogeneous**; seasoned; full recourse to debtor; **no securities**; no re-secs
- Assets originated in ordinary course; credit granting standards
- **No default assets/credit impaired obligors**; no self-certs

Simple

- Risk retention as required by regulation
- **Interest rate/currency risks appropriately mitigated**; no other swaps
- Non-complex interest payments
- Sequential payment after default event; triggers for revolving pool deals
- Continuity of servicing, liquidity, swaps, account bank; servicer expertise

Standard

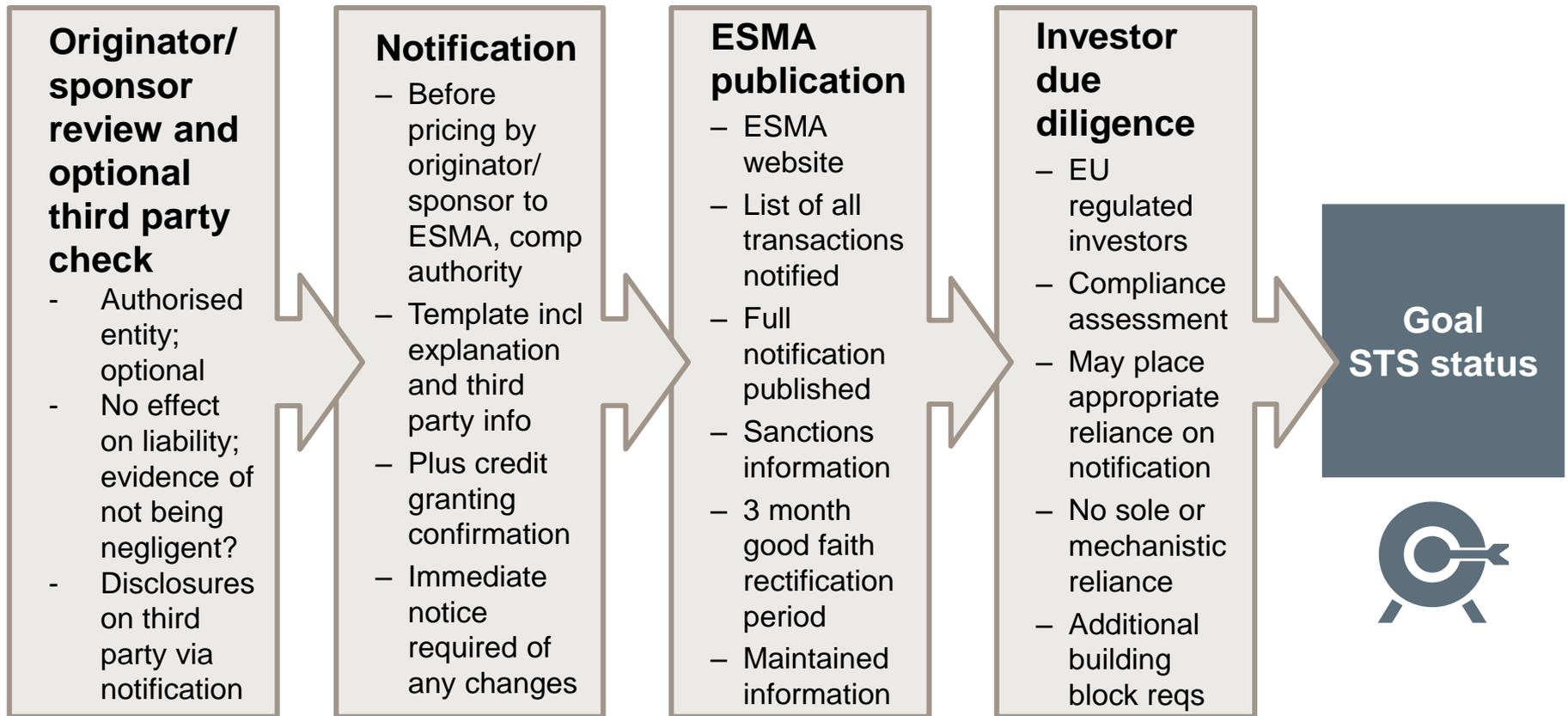
- **Historical data for similar exposures for at least 5 year period**
- Third party verification asset sample
- Liability cashflow model before pricing/ongoing; draft docs before pricing
- **Disclosure of LLD, docs and other info as required by regulation**
- **Disclosure of available environmental performance info for autos, resi**

Transparent

- Depends on relevant context; CRR provisions meant to focus on credit risk matters
- Granularity req/asset concentration limit – does not exceed 2%
- Asset risk weight under SA equal to or smaller than (i) 40% resi mortgages, (ii) 50% commercial mortgages, (iii) 75% retail exposures, (iv) 100% any other exposures
- No seconds; no loan with an LTV higher than 100% at time of inclusion in deal

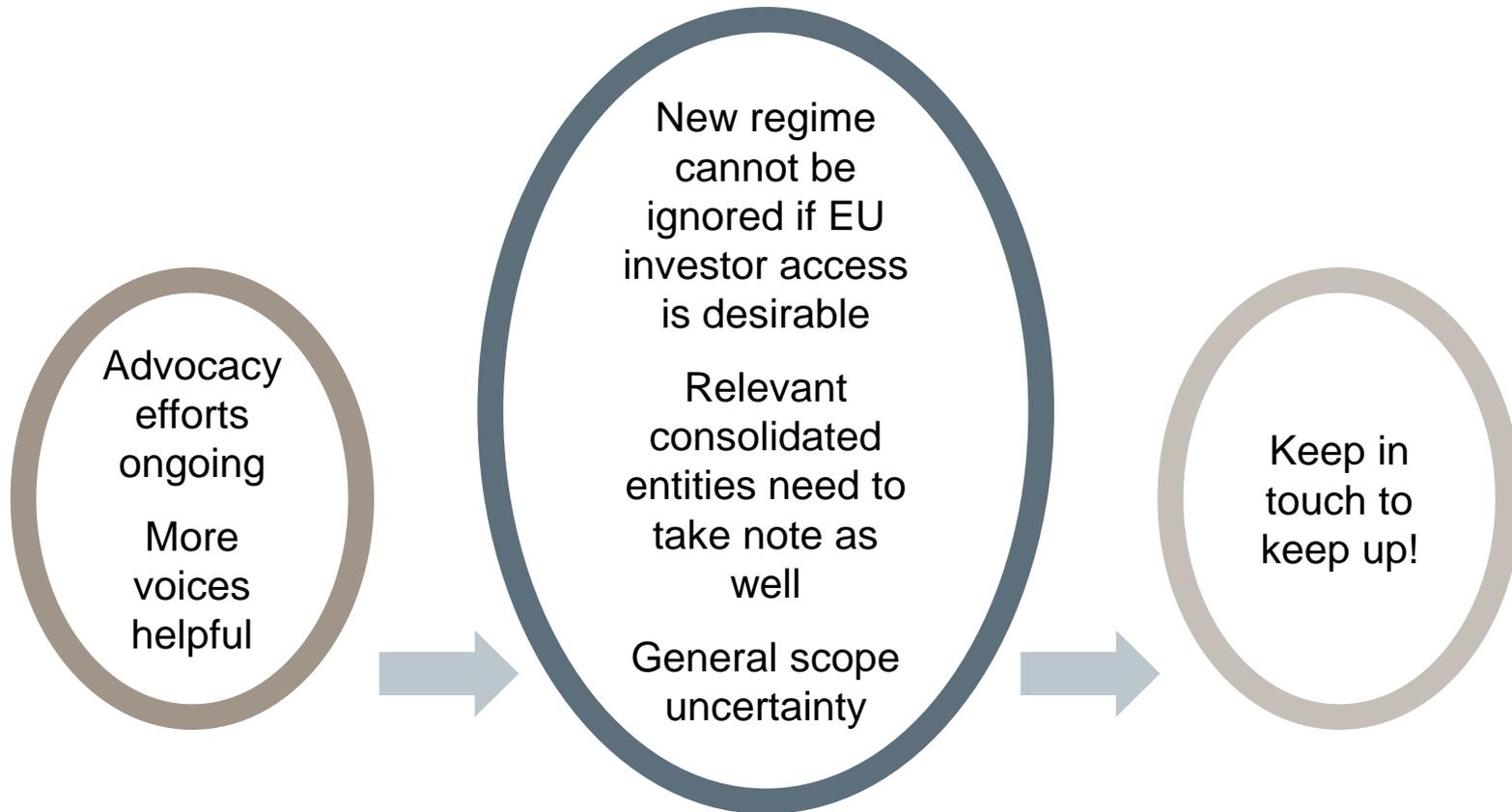
Additional building
block
requirements, e.g.
CRR

STS framework – verification – various parties and steps involved but originator/sponsor attestation focus



**Expectation that prospectus disclosures will shift to reflect STS – ESMA CP
Note PCS has started offering preliminary STS report services**

Final thoughts



Thank you!

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