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PROPOSAL

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
the European Union

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Subject: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND
OF THE COUNCIL amending Regulation (EU) 2017/2402 laying down a
general framework for securitisation and creating a specific framework for
simple, transparent and standardised securitisation to help the recovery
from the COVID-19 pandemic

Delegations will find attached document COM(2020) 282 final.

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2020/0151 (COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 pandemic

(Text with EEA relevance)

{SWD(2020) 120 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Reasons for and objectives of the proposal**

Regulation (EU) 2017/2402 (the Securitisation Regulation¹) together with Regulation (EU) 575/2013 (the CRR Regulation²) establish a general EU framework for securitisation and create a specific framework for simple, transparent and standardised (STS) securitisation. The objective of the framework is to promote a safe, deep, liquid and robust market for securitisation, which is able to attract a broad and stable investor base to help allocate finance to where it is most needed in the economy. The new securitisation regime is in place since January 2019 and it is a cornerstone of the EU's efforts to establish a Capital Markets Union.

The severe economic shock caused by the COVID-19 pandemic and the exceptional containment measures are having a far-reaching impact on the economy. Businesses are facing disruption in supply chains, temporary closures and reduced demand. Public authorities at Union and Member State levels have taken decisive actions to support solvent undertakings to withstand this severe but temporary slowdown in economic activity and the liquidity shortages that it will cause.

The European Commission's summer 2020 economic forecast³ points to a very deep recession as economic activity collapsed in the first half of 2020 and real GDP for 2020 as a whole in the EU is projected to decline by 8.3%. The magnitude of the economic decline is thus expected to be much more severe than the one observed in 2009, while the recovery prospects are uneven and uncertain. This is why the immediate emergency measures should be complemented by targeted measures of more medium-term effect that can support a speedy recovery.

It will remain key for the banks to be able to continue lending to corporates also in the coming months once the immediate shock of the COVID-19 crisis will have passed. Therefore, it is important to prepare or upgrade any tools allowing banks to maintain and even enhance their capacity to lend to the real economy, in particular to SMEs. Securitisation can be a key enabler in this respect. By transforming loans into tradable securities, securitisation could free up bank capital for further lending and allow a broader range of investors to fund the economic recovery.

The current framework does not reach its full potential in two respects, which are very important for fostering economic recovery: the framework does not cater for on-balance-sheet

¹ Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 – (OJ L 347/35, 28.12.2017)

² Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions.

³ https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/summer-2020-economic-forecast-deeper-recession-wider-divergences_en.

synthetic securitisation and it is not entirely fit for purpose for the securitisation of non performing exposures (NPEs).

The securitisation framework will be subject to a comprehensive review with possible legislative amendments if appropriate due by January 2022. Nevertheless, the present proposal lays out targeted amendments now, given their usefulness for economic recovery. Waiting for the review of the framework in 2022 and possible legislative amendments would lead to desirable legal adjustments probably only in a few years' time and thus frustrate the goal to use securitisation in the most efficient manner to promote the economic recovery in the coming months.

The current proposal does not substitute or diminish in any way the scope of the aforementioned review, which is mandated to take a broad look at the effects of the new regime, including issues such as the risk retention modalities, the use of private securitisations, the impact of the disclosure regime and others. The upcoming review will also take into account the recommendations of the High-Level Forum of the Capital Markets Union⁴ on scaling up the European securitisation market.

Moreover, these targeted amendments will not only make a contribution to funding the recovery, but they will also contribute to the resilience of our financial system: by extending the STS framework also to balance sheet securitisations it can be expected that the STS label with its additional requirements ensuring less complexity and more transparency will be used for a broader share of the EU securitisation market. This way we can provide additional incentives for securitisation to take place within the robust EU framework for Simple, Transparent and Standardised Securitisation and help banks find ways to share risk with capital market actors, which is one of the objectives of the Capital Markets Union project.

- **Consistency with existing policy provisions in the policy area**

The EU securitisation framework is in place since January 2019. The proposed amendments are fully consistent with the existing policy provisions in the field of securitisation. Provisions are also included in delegated and implementing acts. The proposed amendments are also in line with the prudential requirements for institutions and their supervision.

- **Consistency with other Union policies**

This proposal is part of the broader response by the European Commission to facilitate economic recovery post-COVID-19 pandemic, including the amendments to MiFID and Prospectus Regulation adopted at the same time as this proposal (insert right reference). It is fully consistent with the Commission Communication on the economic aspects of the coronavirus crisis issued on 13 March 2020⁵, with 'COVID 19 – Economic package – Using every available Euro' launched on 2 April 2020⁶ as well as with Commission Interpretative

⁴ https://ec.europa.eu/info/files/200610-cmu-high-level-forum-final-report_en.

⁵ Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup on Coordinated economic response to the COVID-19 Outbreak, COM(2020) 112 final of 13.03.2020.

⁶ Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions on Coronavirus Response - Using every available euro in every way possible to protect lives and livelihoods, COM(2020) 143 final of 02.04.2020.

Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending (Supporting businesses and households amid COVID-19)⁷.

The securitisation framework is already an important building block of the Capital Markets Union. The CMU is one of the Commission's priorities to ensure that the financial system supports jobs and growth for an economy that works for people. It aims at better linking savings with growth and provide more options and better returns for savers and investors. It intends to offer businesses more funding choices at different stages of their development and to channel investment to where it can be used most productively, increasing the opportunities for Europe's companies and projects. Today's proposal will reinforce and enlarge this framework bringing more opportunities. These amendments will help provide additional funding sources for companies, strengthen banks' ability to support the economy, diversify source of investments, expand investors' base and spread risks across market participants, while avoiding the excesses that led to the financial crisis.

Finally, this initiative, in particular by removing regulatory obstacles to securitisation of NPEs, is in line with the Action Plan to tackle non-performing loans in Europe adopted by the ECOFIN Council in July 2017⁸ as well as with the Commission Communication on completing the Banking Union⁹. They both call for the development of secondary markets for distressed assets. The need to take determined action to address NPEs has also been underlined in some European Semester recommendations to Member States.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Legal basis

The legal basis of the STS Regulation is Article 114 of the Treaty on the Functioning of the European Union (TFEU) which confers to the European institutions the competence to lay down appropriate provisions that have as their objective the establishment and functioning of the single market. Those Regulations can only be amended, including by reducing their scope on a temporary basis, by the Union legislator, in this case on the basis of Article 114 of the Treaty.

• Subsidiarity

The amendments concern changes to Union rules in response to the COVID-19 pandemic and to foster economic recovery. The objectives pursued by the envisaged amendments can be better achieved at Union level rather than by different national initiatives. The proposal does not go beyond what is necessary to achieve those objectives.

The existing legal framework introducing an EU Securitisation framework was set up at Union level. Given the cross-border nature of securitisation, the scope of the proposed rules needs to be sufficiently aligned, coherent and consistent at Union level to be truly effective.

⁷ Commission Interpretative Communication on the application of the accounting and prudential frameworks to facilitate EU bank lending (Supporting businesses and households amid COVID-19).

⁸ <https://www.consilium.europa.eu/en/press/press-releases/2017/07/11/conclusions-non-performing-loans/>.

⁹ Communication to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on completing the Banking Union of 11 October 2017.

Improving the existing legal framework cannot be achieved by Member States acting autonomously. The ability of Member States to adopt national measures is limited, given that the Securitisation Regulation already provides for a harmonised set of rules at EU level and changes at national level would conflict with Union law currently in force. In the absence of action by the Union the existing regulatory framework would be less effective in supporting the various measures taken by public authorities at both Union and national level and less reactive to exceptional market challenges. If the Union were to cease regulating those aspects, the internal market for securitisation would become subject to different sets of rules, leading to fragmentation and undermining the recently build single rulebook in this area. This would lead to an uneven playing field and to regulatory arbitrage.

Furthermore, action at national level cannot effectively create a more risk-sensitive treatment for securitisations, since the prudential treatment is already laid down in EU law, nor can it ensure consistency and standardisation of those provisions that are currently covered by different EU legal acts such as those regarding disclosure, due diligence and risk retention.

- **Proportionality**

This Union action is necessary to achieve the objective of expanding credit institutions' and investment firms' capacity to lend to corporates and SMEs and to free their balance sheets of non-performing exposures whilst maintaining the consistency of the prudential framework following the COVID-19 crisis. The proposed amendments are limited to what is necessary to achieve these objectives and build on rules already in force, in line with the principle of proportionality. The proposed amendments do not go beyond addressing selected provisions in the Union's securitisation framework for credit institutions and investment firms that target exclusively measures aimed at ensuring support for the recovery of the economy in the months after the immediate COVID crisis. Moreover, the proposed amendments are limited to those issues which cannot be addressed within the existing margin of discretion the current rules provide for.

The Commission considers that the proposed rule changes are proportionate to the objectives.

- **Choice of the instrument**

The current proposal is an amendment of the Securitisation Regulation and, therefore, it is a Regulation. No alternative means – legislative or operational – can be used to attain the objectives of this proposal.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Collection and use of expertise**

The proposal is based on two reports by the European Banking Authority – the Report on STS framework for Synthetic Securitisation under Article 45(1) of the Securitisation regulation

(‘the STS synthetics report’)¹⁰ and the Opinion on the regulatory treatment of NPE securitisations (‘the NPE Opinion’)¹¹.

The **STS synthetics report** is mandated by Article 45(1) of the Securitisation Regulation, which asks the EBA to analyse the feasibility of a specific framework for STS synthetic securitisation, limited to balance-sheet synthetic transactions.

On the basis of the analysis therein, the EBA **STS synthetics report** makes three recommendations:

- to establish a cross-sectoral framework for simple, transparent and standardised synthetic securitisation, limited to balance-sheet securitisation;
- that to be eligible for the ‘STS’ label, synthetic securitisation shall comply with the proposed criteria on simplicity, standardisation and transparency;
- to consider the risks and benefits of establishing a differentiated capital treatment for STS balance sheet synthetic securitisation.

The Commission prepared a report, under Article 45(2) of the Securitisation Regulation, on the creation of a specific framework for simple, transparent and standardised synthetic securitisation, limited to balance-sheet synthetic securitisation. The Commission report accompanies this proposal. The Commission report agrees with the analysis conducted by the EBA, which shows that it is possible to set standards for synthetic securitisation that allow mitigating the main drivers of structuring risk, such as agency and model risks, in the same way as for traditional securitisation, thereby creating a subset of synthetic securitisation that is comparable to STS traditional securitisation. Furthermore, there seems to be no evidence that would suggest that synthetic securitisation structure inherently results in higher losses than traditional securitisation structure. The analysis does not point to any material negative consequences that could be foreseeably generated by the creation of a specific STS framework for balance-sheet synthetic securitisations.

The **NPE Opinion** by EBA examined the role of securitisation as a funding tool for removing NPEs from the balance sheets of banks. The EBA analysis found a number of constraints in the Securitisation Regulation and in the Capital Requirements Regulation that restrict the market capacity to absorb non-performing assets from the balance sheets of banks, thus largely limiting the market to bilateral sales only.

With regard to the Securitisation Regulation, the constraints on NPE securitisations result from certain elements of the risk retention and credit-granting standards requirements. Using nominal values for risk retention purposes overstates the intended requirement as it disregards the price discount at which the underlying assets are transferred and which represents the actual risk loss for investors. In addition, the text does not allow the risk retention requirement to be fulfilled by the special servicer, who usually has more substantive interest than the originator in the workout of the assets and value recovery and thus its interests are better aligned with those of the investors. Finally, the existing credit-granting standards requirement in Article 9 of the Securitisation Regulation also does not cater for NPE securitisations. The

¹⁰ <https://eba.europa.eu/eba-proposes-framework-sts-synthetic-securitisation>.

¹¹ <https://eba.europa.eu/eba-publishes-opinion-regulatory-treatment-non-performing-exposure-securitisations>.

proposal clarifies the verification duties on originators when it comes to securitising non-performing exposures. In fact, the requirements have to take into account the specific circumstances of the purchase of the assets and the type of securitisation. In these cases, it may not be possible to gain certainty around the circumstances in which the assets were created, but it is nonetheless possible to carry out a due diligence on the quality and performance of the assets in order to make a sensible, well-informed investment decision.

- **Impact assessment**

Due to the urgent nature of the proposal, no impact assessment was carried out. However, the main cost and benefits resulting from the amendments were analysed in a separate staff working document. Moreover, this proposal is based on the two aforementioned EBA documents, the STS synthetics report and the NPE opinion, both of which analyse in detail the appropriateness of the proposed amendments and were subject to extensive discussions with stakeholders.

The proposed amendments do not alter the substance of the Regulation and do not therefore impose any additional obligations on businesses.

- **Fundamental rights**

The proposal is not likely to have a direct impact on the rights provided in the the Charter of Fundamental Rights of the European Union.

4. BUDGETARY IMPLICATIONS

This proposal does not have any budgetary implications.

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

Since the instrument proposed is a Regulation that is based to a significant extent on existing EU law, there is no need to prepare an implementation plan. By January 2022, the legislative act that is being amended will be subject to a complete evaluation in order to assess, among other things, how effective and efficient it has been in terms of achieving its objectives. The evaluation will be accompanied by a legislative proposal, if appropriate. In that context, the reviewing and reporting requirements would be aligned, if needed.

- **Detailed explanation of the specific provisions of the proposal**

A) Interaction and consistency between elements of the package

This Regulation forms a legislative package with the amendments to the Capital Requirements Regulation. As pointed out by many stakeholders, the development of STS eligibility criteria for balance sheet synthetic securitisation and addressing regulatory obstacles affecting NPE securitisations would not be sufficient on their own to achieve the objective of optimising the role that securitisation can play in the economic recovery. They need to be accompanied by a new prudential treatment, including in the area of capital requirements, better reflecting the specific features of these types of securitisations.

Addressing shortcomings in the regulatory framework for securitisation of non-performing exposures

Definition of an NPE securitisation (Article 2)

In order to tackle comprehensively the regulatory shortcomings of NPE securitisation, this proposal puts forward a definition of NPE securitisation, which is aligned with the work of the Basel Committee on Banking Supervision.

Risk retention (Article 6)

NPE securitisations are made subject to a special regime when it comes to fulfilling the risk retention requirement in order to better take account of their special characteristics. Namely, it is proposed that the risk retention requirement is calculated on the basis of the discounted value of the exposures transferred to the securitisation special purpose entity. In addition, the servicer in NPE transaction is allowed to take on the risk retention slice, given its special position in the deal that ensures the alignment of its interests with those of the investors.

Verification of credit-granting standards (Article 9)

The proposal clarifies the verification duties on originators when it comes to securitising non-performing exposures.

Creating a specific framework for balance-sheet synthetic securitisations

A new Section contains the criteria for Simple, Transparent and Standardised ("STS") balance-sheet synthetic securitisation. As with true-sale STS securitisations, the synthetic STS label should not be understood to mean that the securitisation is risk-free, but rather that the product respects a number of criteria and that a diligent protection seller and buyer, as well as a national competent authority, will be able to analyse the risk involved. The proposed criteria are aligned as much as possible with those for traditional STS securitisation, but they also take into account the specificities of the synthetic product and the different objectives of synthetic securitisations and therefore seek to ensure protection for both originators and investors (as the originator is also an investor in the transaction, retaining the senior tranche).

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 pandemic

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank,

Having regard to the opinion of the European Economic and Social Committee

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) The COVID-19 pandemic is severely affecting people, companies, health systems and the economies of Member States. The Commission, in its Communication to the European Parliament, the European Council, the Council, the European economic and social committee and the Committee of the regions of 27 March 2020 entitled ‘Europe's moment: Repair and Prepare for the Next Generation’^[1] stressed that liquidity and access to finance will be a continued challenge in the months to come. It is therefore crucial to support the recovery from the severe economic shock caused by the COVID-19 pandemic by introducing targeted amendments to existing pieces of financial legislation. This package of measures is adopted under the label “Capital Markets Recovery Package”.
- (2) The severe economic shock caused by the COVID-19 pandemic and the exceptional containment measures have a far-reaching impact on the economy. Businesses are facing disruption in supply chains, temporary closures and reduced demand, while

^[1] COM/2020/456 final of 27.5.2020.

households are confronted with unemployment and a fall in income. Public authorities at Union and Member State level have taken decisive actions to support households and solvent undertakings in withstanding the severe but temporary slowdown in economic activity and the resulting liquidity shortages.

- (3) It is important that credit institutions and investment firms ('institutions') employ their capital where it is most needed and the Union regulatory framework facilitates their doing so while ensuring that institutions act prudently. In addition to the flexibility provided in the existing rules, targeted changes to Regulation (EU) No 2017/2402 should ensure that the Union securitisation framework provides for an additional tool to foster economic recovery in the aftermath of the COVID-19 pandemic.
- (4) The extraordinary circumstances of the COVID-19 crisis and the unprecedented magnitude of challenges triggered a call for immediate action to ensure that institutions have the ability to channel sufficient funds to businesses and so to help absorbing the economic shock caused by the COVID-19 pandemic.
- (5) As pointed out by the European Banking Authority ('EBA') in its Opinion on the Regulatory Treatment of Non-Performing Exposure Securitisation¹², the risks associated with the assets backing non-performing asset (NPE) securitisations are economically distinct from those of securitisations of performing assets. The NPEs are securitised at a discount on their nominal or outstanding value and reflect the market's assessment of, inter alia, the likelihood that the debt workout process will generate sufficient cash flows and asset recoveries. The risk for investors is, therefore, that the debt workout of the assets generates insufficient recoveries to cover the net value at which those NPEs have been purchased. The actual risk loss for investors does, therefore, not represent the nominal value of the portfolio, but the discounted value, net of the price discount at which the underlying assets are transferred. It is therefore appropriate, in the case of NPE securitisations, to calculate the amount of the risk retention on the basis of that discounted value.
- (6) The risk retention requirement aligns the interests of issuers and investors in the performance of the underlying assets. Typically, in securitisations of performing assets, the prevalent interest on the sell-side is that of the originator, who is often also the original lender. In NPE securitisations, however, originators seek to offload the defaulted assets from their balance sheets, as they may no longer wish to be associated with those defaulted assets in any way. In those cases, the special servicer of the assets has more substantive interest in the workout of the assets and value recovery.
- (7) Before the financial crisis, some securitisation activities followed an "originate to distribute" model. In that model, assets of inferior quality were selected for securitisation to the detriment of investors, who ended up with more risk than they might have intended to undertake. The requirement to verify the credit granting standards used in the creation of the securitised assets was introduced to prevent such practices for the future. For NPE securitisations however, that verification of credit granting standards should take into account the specific circumstances including the purchase of those non-performing assets and the type of securitisation. It is therefore necessary to amend the verification of credit granting standards to enable the investor

¹² Opinion of the European Banking Authority to the European Commission on the Regulatory Treatment of Non-Performing Exposure Securitisations, EBA-OP-2019-13, published on 23 October 2019.

to carry out a due diligence on the quality and performance of the non-performing assets in order to make a sensible and well-informed investment decision.

- (8) An on-balance-sheet synthetic securitisation involves transferring the credit risk of a set of loans, typically large corporate loans or SME loans, by a credit protection agreement where the originator buys credit protection from the investor. The credit protection is achieved by the use of financial guarantees or credit derivatives while the ownership of the assets remains with the originator and it is not transferred to a securitisation special purpose entity, as is the case in traditional securitisations. The originator as protection buyer commits to pay a credit protection premium, which generates the return for investors. In turn, the investor as protection seller commits to pay a specified credit protection payment at the occurrence of a pre-determined credit event.
- (9) It should be ensured that the overall complexity of the securitisations structures and associated risks are appropriately mitigated and that no regulatory incentives are provided to originators to prefer synthetic securitisations over traditional securitisations. The requirements for simple, transparent and standardised (STS) on-balance-sheet synthetic securitisations should therefore be highly consistent with the STS criteria for traditional true sale securitisations.
- (10) However, there are certain requirements for STS traditional securitisations that do not work for STS synthetic securitisation transactions due to inherent differences between those two types of securitisation, in particular due to the fact that in synthetic securitisations the risk transfer is achieved via a credit protection agreement instead of a sale of the underlying assets. Therefore, the STS criteria should be adapted where necessary in order to take these differences into account. Furthermore, it is necessary to introduce a set of new requirements, specific to synthetic securitisations, to ensure that the STS framework only targets on-balance-sheet synthetic securitisations and that the credit protection agreement is structured to adequately protect the position of both the originator and the investor. This new set of requirements should seek to address counterparty credit risk for both the originator and the investor.
- (11) Object of the credit risk transfer should be exposures originated or purchased by a Union regulated institution within its core lending business activity and held on its balance sheet or, in the case of a group structure, on its consolidated balance sheet at the closing date. This requirement of the originator to hold the securitised exposures on the balance sheet should exclude arbitrage securitisations from the scope of the STS label.
- (12) The originator should make sure that it does not hedge the same credit risk more than once by obtaining credit protection in addition to the credit protection provided by the synthetic securitisation. In order to ensure its robustness, the credit protection agreement should meet the credit risk mitigation requirements laid down in Article 249 of Regulation (EU) No 575/2013 of the European Parliament and of the Council¹³ that have to be met by institutions seeking significant risk transfer through a synthetic securitisation.

¹³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 Text with EEA relevance (OJ L 176, 27.6.2013, p. 1).

- (13) To avoid conflicts between the originator and the investor and to ensure legal certainty in terms of the scope of the credit protection purchased for underlying exposures, such credit protection should reference clearly identified reference obligations, giving rise to the underlying exposures, of clearly identified entities or obligors. Therefore, the reference obligations on which protection is purchased should be clearly identified at all times, via a reference register, and kept up to date. This requirement should also be indirectly part of the criterion defining the balance-sheet securitisation and excluding arbitrage securitisation from the STS framework.
- (14) Credit events triggering payments under the credit protection agreement should include at least those referred to in Article 178 of Regulation (EU) No 575/2013. Those events are well-known and recognisable from the market's perspective and should serve to ensure consistency with the prudential framework. Forbearance measures, which consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments, should not preclude the triggering of the credit protection event. Restructuring should be excluded as a credit event in the case of financial guarantees in order to avoid that the financial guarantees could be treated as a derivative in accordance with the relevant accounting standards.
- (15) The right of the originator as protection buyer to receive timely payments on actual losses should be adequately protected. Accordingly, the transaction documentation should provide for a sound and transparent settlement process for the determination of actual losses in the reference portfolio to prevent the originator from being underpaid. As working out the losses may be a lengthy process and to ensure timely payments to the originator, interim payments should be made at the latest six months after such credit event has occurred. Furthermore, there should be a final adjustment mechanism to ensure that interim payments cover actual losses and to prevent that those interim losses do not overpay to the detriment of investors. The loss settlement mechanism should also clearly specify the maximum extension period that should apply to the workout process for those exposures and such extension period should be no longer than two years. That loss settlement mechanism should, thus, ensure the effectiveness of the credit protection arrangement from the originator's perspective, and give investors legal certainty on the termination date of their obligation to make payments, contributing to a well-functioning market.
- (16) Having a third-party verification agent is a widespread market practice that enhances legal certainty in the transaction for all parties involved, thus decreasing the likelihood of disputes and litigations that could arise in relation to the loss allocation process. To enhance the soundness of the transaction's loss settlement mechanism, a third-party verification agent should be appointed to carry out a factual review of the correctness and accuracy of certain aspects of the credit protection when a credit event has been triggered.
- (17) Credit protection premiums should depend only on the outstanding size and credit risk of the protected tranche. Non-contingent premiums should not be permitted in STS on-balance-sheet securitisations as they could be used to undermine the effective risk transfer from the originator as protection buyer to the protection sellers. Other arrangements, such as up-front premium payments, rebate mechanisms or overly complex premium structures, should also be prohibited for STS on-balance-sheet securitisations.

- (18) To ensure the stability and continuity of credit protection, the early termination of an STS balance-sheet synthetic securitisation by the originator should only be possible in certain limited, well-defined circumstances. Whilst the originator should be entitled to close out the credit protection early upon the occurrence of certain specified regulatory events, those events should constitute actual changes in legislation or taxation with a material adverse effect on the originator's capital requirements or the economics of the transaction relative to the parties' expectation at the time of entering the transaction and provided that such changes could not have been reasonably anticipated at that time. STS balance-sheet synthetic securitisations should not feature complex call clauses for the originator, in particular very short-dated time calls with the aim of temporarily changing the representation of their capital position on a case by case basis.
- (19) Synthetic excess spread is widely present in certain types of transactions, and it is a helpful mechanism for both investors and originators, in order to reduce the cost of the credit protection and the exposure at risk respectively. In this regard, synthetic excess spread is essential for some specific retail asset classes, such as small and medium-sized enterprises (SME) and consumer lending, that show both higher yield and credit losses than other asset classes, and for which the securitised exposures generate excess spread to cover for those losses. However, where the amount of synthetic excess spread subordinated to the investor position is too high, it is possible that under no realistic scenario the investor in the securitisation positions will experience any losses, resulting in no effective risk transfer. To mitigate supervisory concerns and further standardise this structural feature, it is important to specify strict criteria for STS balance-sheet synthetic securitisations and to ensure full disclosure on the use of synthetic excess spread.
- (20) Only high quality credit protection arrangements should be eligible for STS balance-sheet synthetic securitisations. In the case of unfunded credit protection, this should be ensured by restricting the scope of eligible protection providers to those entities that are eligible providers in accordance with Regulation (EU) No 575/2013 and recognised as counterparties with a 0% risk-weight in accordance with Title II, Part Three, Chapter 2 of that Regulation. In the case of funded credit protection, the originator as protection buyer and the investors as protection sellers should have recourse to high quality collateral, which should refer to collateral of any form which may be assigned a 0% risk weight under the Title II, Part Three, Chapter 2 of Regulation (EU) No 575/2013, subject to appropriate deposit or custody arrangements. When the collateral provided is in the form of cash, it should be held either with a third-party credit institution or on deposit with the protection buyer, subject in both cases to a minimum credit quality standing.
- (21) Member States should designate the competent authorities that would be responsible to supervise the requirements that on-balance-sheet synthetic securitisation have to meet in order to qualify for the STS designation. The competent authority could be the same as the one designated to supervise the compliance of originators, sponsors and SSPEs with the requirements that traditional securitisations have to meet in order to acquire the STS designation. Like in the case of traditional securitisations, such competent authority could be different from the competent authority responsible to supervise the compliance of originators, original lenders, SSPEs, sponsors and investors with the prudential obligations incumbent under Articles 5 to 9 of Regulation (EU) 2017/2402, and the compliance of which, given the prudential dimension of

those obligations, was specifically entrusted to the competent authorities in charge of the prudential supervision of the relevant financial institutions.

- (22) Regulation (EU) No 2017/2402 should therefore be amended accordingly.
- (23) Since the objectives of this Regulation, namely to extend the STS securitisation framework to on-balance-sheet synthetic securitisation and to remove regulatory obstacles to securitisation of NPEs to further increase lending capacities without lowering the prudential standards for bank lending, cannot be sufficiently achieved by the Member States but can rather, by reason of their scale and effects, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve those objectives,

HAVE ADOPTED THIS REGULATION:

Article 1

Amendment to Regulation (EU) No 2017/2402

Regulation (EU) No 2017/2402 is amended as follows:

- (1) in Article 2, the following points (24), (25), (26), (27) and (28) are added:
- “(24) ‘non-performing exposure (NPE) securitisation’ means a securitisation backed by a pool of non-performing exposures that meet the conditions set out in Article 47a(3) of Regulation 575/2013 and the value of which makes up at least 90% of the pool’s value at the time of origination;
- (25) ‘credit protection agreement’ means an agreement concluded between the originator and the investor to transfer the credit risk of securitised exposures from the originator to the investor by the use of credit derivatives or financial guarantees, whereby the originator commits to pay a credit protection premium to the investor and the investor commits to pay a credit protection payment to the originator in case one of the contractually defined events occurs;
- (26) ‘credit protection premium’ means the amount the originator has committed under the credit protection agreement to pay to the investor for the credit protection promised by the investor;
- (27) ‘credit protection payment’ is the amount the investor has committed under the credit protection agreement to pay to the originator in case a credit event defined in credit protection agreement has occurred;
- (28) ‘synthetic excess spread’ means the amount committed in the transaction documentation by the originator to cover losses of the referenced portfolio that might occur during the life time of the transaction.”
- (2) Article 6 is amended as follows:

- (a) in paragraph 1, the following subparagraph is added:

“In case of NPE securitisations, the requirement of this paragraph may also be fulfilled by the servicer.”;

- (b) The following paragraph [3a] is inserted:

“3a. By way of derogation from points (b) to (e) of paragraph 3, in the case of NPE securitisations, the retention of a material net economic interest for the purposes of those points shall not be less than 5% of the net value of the securitised exposures that qualify as non-performing exposures as referred to in Article 47a(3) of Regulation 575/2013.

The net value of a non-performing exposures shall result from deducting the non-refundable purchase price discount agreed at the time of origination from the exposure’s nominal value or, where applicable, its outstanding value at the same time.”;

- (3) in Article 9(1), the following subparagraph is added:

“The requirement set out in this paragraph shall not apply to underlying exposures that are non-performing exposures as referred to in Article 47a(3) of Regulation 575/2013 at the time the originator purchased them from the relevant third party.”

- (4) in Article 18(1), point (a) is replaced by the following:

“(a) the securitisation meets all the requirements of Section 1, Section 2 or Section 2a of this Chapter, and ESMA has been notified pursuant to Article 27(1).;”

- (5) Article 19 is amended as follows:

- (a) the title of the article is replaced by the following:

“**Simple, transparent and standardised traditional securitisation**”;

- (b) paragraph 1 is replaced by the following:

“(1). Securitisations, except for ABCP programmes and ABCP transactions, and on-balance sheet securitisations that meet the requirements set out in Articles 20, 21, 22, shall be considered STS.”;

- (6) the following Section 2a is inserted:

“SECTION 2A REQUIREMENTS FOR SIMPLE, TRANSPARENT AND STANDARDISED ON-BALANCE SHEET SECURITISATIONS

Article 26 a

Simple, transparent and standardised on-balance-sheet securitisation

1. STS on-balance-sheet securitisations are synthetic securitisations that meet the requirements set out in Articles 26b to 26e.
2. The EBA, in close cooperation with ESMA and EIOPA, may adopt, in accordance with Article 16 of Regulation (EU) No 1093/2010, guidelines and recommendations on the harmonised interpretation and application of the requirements set out in Articles 26b to 26e.

Article 26 b

Requirements relating to simplicity

1. The originator shall be an entity that is authorised or licenced in the Union. It shall be the originator with respect to the underlying exposures.

An originator that purchases a third party's exposures on its own account and then securitises them shall apply to the purchased third party's exposures policies with regard to credit, collection, debt workout and servicing that are no less stringent than those that the originator applies to comparable exposures that have not been purchased.

2. The underlying exposures shall be originated as part of the core business activity of the originator.
3. At the closing date, the underlying exposures shall be held on the balance sheet of the originator or of an entity of the same group of which the originator belongs.

For the purposes of this paragraph, a group shall be either of the following:

- (a) a group of legal entities subject to prudential consolidation in accordance with Part One, Title II, Chapter 2 of Regulation (EU) No 2013/575;
 - (b) a group as defined in point (c) of Article 212(1) of Directive 2009/138/EC.
4. The originator shall not double hedge the credit risk of the underlying exposures of the transaction.
 5. The credit protection agreement shall comply with the credit risk mitigation rules laid down in Article 249 of Regulation (EU) No 2013/575, or where that Article is

not applicable, with requirements that are no less stringent than the requirements of that Article.

6. The originator shall provide representations and warranties that the following requirements have been met:
 - (a) the originator or an entity of the group to which the originator belongs has full legal and valid title to the underlying exposures and their associated ancillary rights;
 - (b) where the originator is a credit institution as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013, or an insurance undertaking as defined in point (1) of Article 13 of Directive 2009/138/EC, the originator or an entity which is included in the scope of supervision on a consolidated basis keeps the credit risk of the underlying exposures on their balance sheet;
 - (c) each underlying exposure complies, at the date it is included in the securitised portfolio, with the eligibility criteria and with all conditions, other than the occurrence of a credit event as referred to in Article 26e, for a credit protection payment;
 - (d) to the best of originator's knowledge, the contract for each underlying exposure contains a legal, valid, binding and enforceable obligation to the obligor to pay the sums of money specified in that contract;
 - (e) the underlying exposures comply with underwriting criteria that are no less stringent than the standard underwriting criteria that the originator applies to similar exposures that are not securitised;
 - (f) to the best of originator's knowledge, none of the obligors are in material breach or default of any of their obligations in respect of an underlying exposure on the date on which that underlying exposure is included in the securitised portfolio;
 - (g) to the best of originator's knowledge, the transaction documentation does not contain any false information on the details of the underlying exposures;
 - (h) at the date of the closing of the transaction or when the underlying exposure is included in the securitised portfolio, the contract between the obligor and the original lender in relation to that underlying exposure has not been amended in such way that the enforceability or collectability of that underlying exposures has been affected.
7. The underlying exposures shall meet predetermined, clear and documented eligibility criteria that do not allow for active portfolio management of those exposures on a discretionary basis.

For the purpose of this paragraph, the substitution of underlying exposures that are in breach of representations or warranties or, where the securitisation includes a replenishment period, the addition of exposures that meet the defined replenishment conditions, shall not be considered active portfolio management.

Any exposure added after the closing date of the transaction shall meet eligibility criteria that are no less stringent than those applied in the initial selection of the underlying exposures.

An underlying exposure may be removed from the transaction where that underlying exposure:

- (a) has been repaid or matured otherwise;
- (b) has been disposed of during the ordinary course of the business of the originator, provided that such disposal does not constitute implicit support as referred to in Article 250 of Regulation (EU) No 575/2013;
- (c) is subject to an amendment that is not credit driven, such as refinancing or restructuring of debt, and which occurs during the ordinary course of servicing of that underlying exposure;
- (d) did not meet the eligibility criteria at the time it was included in the transaction.

8. The securitisation shall be backed by a pool of underlying exposures that are homogeneous in terms of assets type, taking into account the specific characteristics relating to the cash flows of the asset type including their contractual credit-risk and prepayment characteristics. A pool of assets shall comprise only one asset type.

The underlying exposures shall contain obligations that are contractually binding and enforceable, with full recourse to debtors and, where applicable, guarantors.

The underlying exposures shall have defined periodic payment streams, the instalments of which may differ in their amounts, relating to rental, principal or interest payments, or to any other right to receive income from assets supporting such payments. The underlying exposures may also generate proceeds from the sale of any financed or leased assets.

The underlying exposures shall not include transferable securities, as defined in point (44) of Article 4 (1) of Directive 2014/65/EU, other than corporate bonds that are not listed on a trading venue.

9. The underlying exposures shall not include any securitisation positions.
10. The underwriting standards pursuant to which the underlying exposures are originated and any material changes from prior underwriting standards shall be fully disclosed to potential investors without undue delay. The underlying exposures shall be underwritten with full recourse to an obligor that is not an SSPE. No third parties shall be involved in the credit or underwriting decisions concerning the underlying exposures.

In case of securitisations where the underlying exposures are residential loans, the pool of loans shall not include any loan that was marketed and underwritten on the premise that the loan applicant or, where applicable, intermediaries were made aware that the information provided might not be verified by the lender.

The assessment of the borrower's creditworthiness shall meet the requirements set out in Article 8 of Directive 2008/48/EC or paragraphs 1 to 4, point (a) of paragraph 5, and paragraph 6 of Article 18 of Directive 2014/17/EU, or where applicable, equivalent requirements in third countries.

The originator or original lender shall have expertise in originating exposures of a similar nature to those securitised.

11. The underlying exposures shall not include, at the time of the selection of those exposures, exposures in default within the meaning of Article 178(1) of Regulation (EU) No 575/2013, or exposures to a credit-impaired debtor or guarantor who to the best of the originator's or original lender's knowledge:
 - (a) has been declared insolvent, had a court grant his creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within three years prior to the date of the origination, or has undergone a debt-restructuring process with regard to his non-performing exposures within three years prior to the date of the selection of the underlying exposures, except where:
 - (i) a restructured underlying exposure has not presented new arrears since the date of the restructuring, which must have taken place at least one year prior to the date of the selection of the underlying exposures;
 - (ii) the information provided by the originator in accordance with point (a) and point (e)(i) of the first subparagraph of Article 7(1) explicitly sets out the proportion of restructured underlying exposures, the time and details of the restructuring and their performance since the date of the restructuring;
 - (b) was at the time of origination of the underlying exposure, where applicable, on a public credit registry of persons with adverse credit history or, where there is no such public credit registry, another credit registry that is available to the originator or the original lender;
 - (c) has a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable exposures held by the originator which are not securitised.
12. The debtors shall, at the time of the inclusion of the exposures in the transaction, have made at least one payment, except where:
 - (a) the securitisation is a revolving securitisation, backed by exposures payable in a single instalment or having a maturity of less than one year, including without limitation monthly payments on revolving credits;
 - (b) the exposure that represents the refinancing of a exposure that is already included in the transaction.

13. The EBA, in close cooperation with ESMA and EIOPA, shall develop draft regulatory technical standards further specifying which underlying exposures referred to in paragraph 8 are deemed to be homogeneous.

The EBA shall submit those draft regulatory technical standards to the Commission by [6 months after the date of entry into force of this amending Regulation].

The Commission is empowered to supplement this Regulation by adopting the regulatory technical standards referred to in this paragraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.

Article 26 c

Requirements relating to standardisation

1. The originator or original lender shall satisfy the risk retention requirements in accordance with Article 6.
2. The interest rate and currency risks arising from the securitisation and their possible effects on the payments to the originator and the investors shall be described in the transaction documentation. Those risks shall be appropriately mitigated and any measures taken to that effect shall be disclosed. Any collateral securing the obligations of the investor under the credit protection agreement shall be denominated in the same currency in which the credit protection payment is denominated.

In case of a securitisation using a SSPE, the amount of liabilities of the SSPE concerning the interest payments to the investors shall at any time be equal to or be less than the amount of the SSPE's income from the originator and any collateral arrangements.

Except for the purpose of hedging interest rate or currency risks of the underlying exposures, the portfolio of underlying exposures shall not include derivatives. Those derivatives shall be underwritten and documented according to common standards in international finance.

3. Any referenced interest rate payments in relation to the transaction shall be based on any of the following:
 - (a) generally used market interest rates, or generally used sectoral rates that are reflective of the costs of funds, and shall not reference complex formulae or derivatives;
 - (b) income generated by the collateral securing the obligations of the investor under the protection agreement.

Any referenced interest payments due under the underlying exposures shall be based on generally used market interest rates, or generally used sectoral rates reflective of the cost of funds, and shall not reference complex formulae or derivatives.

4. Following the occurrence of an enforcement event in respect of the originator, the investor shall be permitted to take enforcement action, terminate the credit protection agreement or do both.

In case of a securitisation using a SSPE, where an enforcement or termination notice of the credit protection agreement is delivered, no amount of cash shall be trapped in the SSPE beyond what is necessary to ensure the operational functioning of that SSPE, the payment of the protection payments for defaulted underlying exposures that are still being worked out at the time of the termination, or the orderly repayment of investors in accordance with the contractual terms of the securitisation.

5. Losses shall be allocated to the holders of a securitisation position in the order of seniority of the tranches, starting with the most junior tranche.

Sequential amortisation shall be applied to all tranches to determine the outstanding amount of the tranches at each payment date, starting from the most senior tranche.

Transactions that feature non-sequential amortisation shall have triggers for the performance of the underlying exposures changing the amortisation to sequential in order of seniority. Such performance-related triggers shall include the deterioration in the credit quality of the underlying exposures below a pre-determined threshold.

As tranches amortise, an amount of the collateral equal to the amount of the amortisation of those tranches shall be returned to the investors, provided the investors have collateralised those tranches.

Where a credit event as referred to in Article 26e has occurred in relation to underlying exposures and the debt workout process for those exposures has not been completed, the amount of credit protection remaining at any payment date shall be at least equivalent to the outstanding notional amount of those underlying exposures, minus the amount of any interim payment made in relation to those underlying exposures.

6. The transaction documentation shall include appropriate early amortisation triggers for a termination of the revolving period, where a securitisation is a revolving securitisation, including at least the following:

- (a) a deterioration in the credit quality of the underlying exposures to or below a predetermined threshold;
- (b) a rise in losses above a predetermined threshold;
- (c) a failure to generate sufficient new underlying exposures that meet the predetermined eligibility criteria during a specified period.

7. The transaction documentation shall clearly specify:
- (a) the contractual obligations, duties and responsibilities of the servicer, the trustee, other ancillary service providers or the third-party verification agent referred to in Article 26e(4), as applicable;
 - (b) the provisions that ensure the replacement of the servicer, trustee, other ancillary service providers or the third-party verification agent referred to in Article 26e(4) in the event of default or insolvency of either of those service providers, in a manner that does not result in the termination of the provision of those services;
 - (c) the servicing procedures that apply to the underlying exposures at the closing date and thereafter and the circumstances under which those procedures may be modified;
 - (d) the servicing standards that the servicer is obliged to adhere to in servicing the underlying exposures within the entire maturity of securitisation.
8. The servicer shall have expertise in servicing exposures of a similar nature to those securitised and shall have well-documented and adequate policies, procedures and risk-management controls relating to the servicing of exposures.
- The servicer shall apply servicing procedures to the underlying exposures that are at least as stringent as the ones applied by the originator to similar exposures that are not securitised.
9. The originator shall maintain an up-to-date reference register to identify the underlying exposures at all times. That register shall identify the reference obligors, the reference obligations from which the underlying exposures arise, and, for each underlying exposure, the notional amount that is protected and that is outstanding.
10. The transaction documentation shall include clear provisions that facilitate the timely resolution of conflicts between different classes of investors. In case of a securitisation using a SSPE, voting rights shall be clearly defined and allocated to bondholders and the responsibilities of the trustee and other entities with fiduciary duties to investors shall be clearly identified.

Article 26 d

Requirements relating to transparency

1. The originator shall make available data on static and dynamic historical default and loss performance such as delinquency and default data, for substantially similar exposures to those securitised, and the sources of those data and the basis for claiming similarity, to potential investors before pricing. Those data shall cover a period of at least five years.

2. A sample of the underlying exposures shall be subject to external verification prior to the closing of the transaction by an appropriate and independent party, including verification that the underlying exposures are eligible for credit protection under the credit protection agreement.
3. The originator shall, before the pricing of the securitisation, make available to potential investors a liability cash flow model that precisely represents the contractual relationship between the underlying exposures and the payments flowing between the originator, investors, other third parties and, where applicable, the SSPE, and shall, after pricing, make the model available to investors on an ongoing basis and to potential investors upon request.
4. In case of a securitisation where the underlying exposures are residential loans or auto loans or leases, the originator shall publish the available information related to the environmental performance of the assets financed by such residential loans, auto loans or leases, as part of the information disclosed pursuant to point (a) of the first subparagraph of Article 7(1).
5. The originator shall be responsible for compliance with Article 7. The information required by point (a) of the first subparagraph of Article 7(1) shall be made available to potential investors before pricing upon request. The information required by points (b) and (d) of the first subparagraph of Article 7(1) shall be made available before pricing at least in draft or initial form. The final transaction documentation shall be made available to investors at the latest 15 days after closing of the transaction.

Article 26 e

Requirements concerning the credit protection agreement, the third-party verification agent and the synthetic excess spread

1. The credit protection agreement shall cater for the following credit events:
 - (a) failure to pay by the underlying obligor, which includes the default referred to in point (b) of Article 178(1) of Regulation (EU) No 575/2013;
 - (b) bankruptcy of the underlying obligor, which includes the elements referred to in points (e) and (f) of Article 178(3) of Regulation (EU) No 575/2013;
 - (c) for a credit protection agreement other than by a financial guarantee, restructuring of the underlying exposure, which includes the elements referred to in point (d) of Article 178(3) of Regulation (EU) No 575/2013.

All credit events shall be documented.

Forbearance measures, as referred to in Annex V, Section 30, paragraphs 163 to 183, to Commission Implementing Regulation (EU) 2015/227* that are

applied to the underlying exposures shall not preclude the trigger of eligible credit events.

2. The credit protection payment following the occurrence of a credit event shall be calculated based on the actual realised loss suffered by the originator or the lender, as worked out in accordance with their standard recovery policies and procedures for the relevant exposure types and recorded in their financial statements at the time the payment is made. The final credit protection payment shall be payable within a specified period of time following the end of the debt workout process for the relevant underlying exposure where the end of the debt workout process occurs before the scheduled legal maturity or early termination of the credit protection agreement.

An interim credit protection payment shall be made at the latest six months after a credit event as referred to in paragraph 1 has occurred in cases where the debt workout of the losses for the relevant underlying exposure has not been completed by the end of that six months period. The interim credit protection payment shall be at least the higher of the following:

- (a) the impairment recorded by the originator in its financial statements in accordance with the applicable accounting framework at the time the interim payment is made;
- (b) where applicable, the Loss Given Default as determined in accordance with Part Three, Title II, Chapter 3, of Regulation (EU) No 575/2013.

Where an interim credit protection payment is made, the final credit protection payment referred to in the first subparagraph shall be made in order to adjust the interim settlement of losses to the actual realised loss.

The method for the calculation of interim and final credit protection payments shall be specified in the credit protection agreement.

The credit protection payment shall be proportional to the share of the outstanding notional amount of the corresponding underlying exposure that is covered by the credit protection agreement.

The right of the originator to receive the credit protection payment shall be enforceable. The amounts payable by investors under the securitisation shall be clearly set out in the credit protection agreement and limited. It shall be possible to calculate those amounts in all circumstances. The credit protection agreement shall clearly set out the circumstances under which investors shall be required to make payments. The third-party verification agent referred to in paragraph 4 shall assess whether such circumstances have occurred.

The amount of the credit protection payment shall be calculated at the level of the individual underlying exposure for which a credit event has occurred.

3. The credit protection agreement shall specify the maximum extension period that shall apply for the debt workout process for underlying exposures in relation to which a credit event as referred to in paragraph 1 has occurred, but where the debt

workout process has not been completed upon the scheduled legal maturity or early termination of the credit protection agreement. Such an extension period shall not be longer than two years. The credit protection agreement shall provide that by the end of that extension period a final credit protection payment shall be made on the basis of the originator's final loss estimate as recorded by the originator in its financial statements at that time.

In case of a termination of the credit protection agreement, the debt workout process shall continue in respect of any outstanding credit events that occurred prior to that termination in the same way as that described in the first subparagraph.

The credit protection premiums to be paid under the credit protection agreement shall be structured as contingent on the performance of the underlying exposures and reflect the risk of the protected tranche. For those purposes, the credit protection agreement shall not stipulate guaranteed premiums, upfront premium payments, rebate mechanisms or other mechanisms that may avoid or reduce the actual allocation of losses to the investors or return part of the paid premiums to the originator after the maturity of the transaction.

The transaction documentation shall describe how the credit protection premium and any note coupons, if any, are calculated in respect of each payment date over the life of the securitisation.

The rights of the investors to receive credit protection premiums shall be enforceable.

4. The originator shall appoint a third-party verification agent before the closing date of the transaction. The third party verification agent shall verify all of the following for each of the underlying exposures for which a credit event notice is given:
 - (a) that the credit event referred to in the credit event notice is a credit event as specified in the terms of the credit protection agreement;
 - (b) that the underlying exposure was included in the reference portfolio at the time of the occurrence of the credit event concerned;
 - (c) that the underlying exposure met the eligibility criteria at the time of its inclusion in the reference portfolio;
 - (d) where an underlying exposure has been added to the securitisation as a result of a replenishment, that such a replenishment complied with the replenishment conditions;
 - (e) that the final loss amount is consistent with the losses recorded by the originator in its profit and loss statement;
 - (f) that, at the time the final credit protection payment is made, the losses in relation to the underlying exposures have correctly been allocated to the investors.

The third-party verification agent shall be independent from the originator and investors, and, where applicable, from the SSPE and shall have accepted the appointment as third-party verification agent by the closing date.

The third-party verification agent may perform the verification on a sample basis instead of on the basis of each individual underlying exposure for which credit protection payment is sought. Investors may however request the verification of the eligibility of any particular underlying exposure where they are not satisfied with the sample-basis verification.

The originator shall include a commitment in the transaction documentation to provide the third-party verification agent with all the information necessary to verify the requirements set out in the first subparagraph.

5. The originator may not terminate a transaction prior to its scheduled maturity for any other reason than any of the following events:
- (a) the insolvency of the investor;
 - (b) the investor's failures to pay any amounts due under the credit protection agreement or a breach by the investor of any material obligation laid down in the transaction documents;
 - (c) relevant regulatory events, including:
 - (i) relevant changes in Union or national law, relevant changes by competent authorities to officially published interpretations of such laws, or relevant changes in the taxation or accounting treatment of the transaction that have a material adverse effect on the amount of capital that the originator is required to hold in connection with the securitisation or its underlying exposures, in each case compared with that anticipated at the time of entering into the transaction and which could not reasonably be expected at that time;
 - (ii) a determination by a competent authority that the originator or any affiliate of the originator is not or is no longer permitted to recognise significant risk transfer in accordance with Article 245(3) of Regulation (EU) No 575/2013 in respect of the securitisation;
 - (d) exercise of an option to call the transaction at a given point in time (time call), when the time period measured from the closing date is equal to or greater than the weighted average life of the initial reference portfolio at closing;
 - (e) the exercise of a clean-up call option as defined in point (1) of Article 242 of Regulation (EU) No 575/2013.

The transaction documentation shall specify whether any of the call rights referred to in points (d) and (e) are included in the transaction concerned in.

For the purposes of point (d), the time call shall not be structured to avoid allocating losses to credit enhancement positions or other positions held by investors and shall not be otherwise structured to provide credit enhancement.

6. The originator may commit synthetic excess spread, which shall be available as credit enhancement for the investors, where all of the following conditions are met:
 - (a) the amount of the synthetic excess spread that the originator commits to using as credit enhancement at each payment period is specified in the transaction documentation and expressed as a fixed percentage of the total outstanding portfolio balance at the start of the relevant payment period (fixed synthetic excess spread);
 - (b) the synthetic excess spread which is not used to cover credit losses that materialise during the payment period shall be returned to the originator;
 - (c) for originators using the IRB Approach referred to in Article 143 of Regulation (EU) No 575/2013, the total committed amount per year shall not be higher than the one-year regulatory expected loss amounts on the underlying portfolio of underlying exposures, calculated in accordance with Article 158 of Regulation (EU) No 575/2013;
 - (d) for originators not using the IRB Approach referred to in Article 143 of Regulation (EU) No 575/2013, the calculation of the one-year expected loss of the underlying portfolio shall be clearly determined in the transaction documentation;
 - (e) the transaction documentation specifies the conditions laid down in this paragraph.

7. The credit protection agreements shall meet one of the following conditions:
 - (a) a guarantee meeting the requirements set out in Chapter 4 of Part Three, Title II, of Regulation (EU) No 575/2013, by which the credit risk is transferred to any of the entities listed in points (a) to (d) of Article 214(2) of Regulation (EU) No 575/2013, provided that the exposures to the investor qualify for a 0% risk weight under Chapter 2 of Part Three, Title II, of that Regulation;
 - (b) a guarantee meeting the requirements set out in Chapter 4 of Part Three, Title II, of Regulation (EU) No 575/2013, which benefits from a counter-guarantee of any of the entities referred to in point (a) of this paragraph;
 - (c) other credit protection not referred to in points (a) and (b) of this paragraph in the form of guarantees, credit derivatives or credit linked notes that meet the requirements set out Article 249 of Regulation (EU) No 575/2013, provided that the obligations of the investor are secured by collateral meeting the requirements laid down in paragraphs 9 and 10 of this Article.

8. The other credit protection referred to in point (c) of paragraph 7 shall meet the following requirements:

- (a) the right of the originator to use the collateral to meet protection payment obligations of the investors is enforceable and the enforceability of that right is ensured through appropriate collateral arrangements;
- (b) the right of the investors, when the securitisation is unwound or as the tranches amortise, to return any collateral that has not been used to meet protection payments is enforceable;
- (c) where the collateral is invested in securities, the transaction documentation sets out the eligibility criteria and custody arrangement for such securities.

The transaction documentation shall specify whether investors remain exposed to the credit risk of the originator.

The originator shall obtain an opinion from a qualified legal counsel confirming the enforceability of the credit protection in all relevant jurisdictions.

9. Where other credit protection is provided in accordance with point (c) of paragraph (7) of this Article, the originator shall have recourse to high-quality collateral, which shall be either of the following:

- (a) collateral in the form of 0% risk-weighted debt securities referred to in Chapter 2, of Part Three, Title II, of Regulation (EU) No [575/2013](#) that meet all of the following conditions:
 - (i) those debts securities have a remaining maximum maturity of three months which matches the payment dates;
 - (ii) those debt securities can be redeemed into cash in an amount equal to the outstanding balance of the protected tranche;
 - (iii) those debt securities are held by a custodian independent of the originator and the investors;
- (b) collateral in the form of cash held with a third-party credit institution or in the form of cash on deposit with the originator, subject to a minimum credit quality step 2 as referred to in Article 136 of Regulation (EU) No [575/2013](#).

For the purposes of point (b), where the third-party credit institution or the originator no longer satisfy the minimum credit quality step 2, the collateral shall be promptly transferred to a third-party credit institution with a credit quality step of 2 or higher or the collateral shall be invested in securities meeting the criteria laid down in point (a) of this paragraph. The requirements set out in this point (b) shall be deemed satisfied in the case of investments in

credit linked notes issued by the originator, in accordance with Article 218 of Regulation (EU) No 575/2013.

* Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 48, 20.2.2015, p. 1).”;

(7) Article 27 is amended as follows:

(a) paragraph 1 is amended as follows:

(i) in the first subparagraph:

- the first sentence is replaced by the following:

“Originators and sponsors shall jointly notify ESMA by means of the template referred to in paragraph 7 of this Article where a securitisation meets the requirements of Articles 19 to 22 or Articles 23 to 26 or Articles 26b to 26e (‘STS notification’).”;

- the following sentence is added:

“In case of an on-balance-sheet synthetic securitisation, only the originator shall be responsible for the notification.”;

(ii) the second subparagraph is replaced by the following:

“The STS notification shall include an explanation by the originator and sponsor of how each of the STS criteria set out in Articles 20 to 22 or Articles 24 to 26 or Articles 26b to 26e has been complied with.”;

(b) paragraph 2 is amended as follows:

(i) in the first subparagraph, the first sentence is replaced by the following:

“The originator, sponsor or SSPE may use the service of a third party authorised under Article 28 to check whether a securitisation complies with Articles 19 to 22 or Articles 23 to 26 or Articles 26b to 26e.”;

(ii) in the second subparagraph, the first sentence is replaced by the following:

“Where the originator, sponsor or SSPE uses the service of a third party authorised pursuant to Article 28 to access whether a securitisation complies with Articles 19 to 22 or Articles 23 to 26 or Articles 26b to 26e, the STS notification shall include a statement that compliance with the STS criteria was confirmed by that authorised third party.”;

- (c) paragraph 4 is replaced by the following:
- “4. The originator and, where applicable, sponsor, shall immediately notify ESMA and inform their competent authority when a securitisation no longer meets the requirements of Articles 19 to 22, Articles 23 to 26, or Articles 26b to 26e.”;
- (d) in paragraph 5, the first sentence is replaced by the following:
- “ ESMA shall maintain on its official website a list of all securitisations which the originators and sponsors have notified to it as meeting the requirements of Articles 19 to 22, Articles 23 to 26, or Articles 26b to 26e.”.
- (e) in paragraph 6, the second subparagraph is replaced by the following:
- “ESMA shall submit those draft regulatory technical standards to the Commission by [6 months after the date of entry into force of this amending Regulation].”;
- (f) in paragraph 7, the second subparagraph is replaced by the following:
- “ESMA shall submit those draft implementing technical standards to the Commission by [6 months after the date of entry into force of this amending Regulation].”;
- (8) in Article 28(1) the first sentence is replaced by the following:
- “1. A third party as referred to in Article 27(2) shall be authorised by the competent authority to assess the compliance of securitisations with the STS criteria provided for in Articles 19 to 22, Articles 23 to 26, or Articles 26b to 26e.”;
- (9) in Article 29(5), the second sentence is replaced by the following:
- ““Member States shall inform the Commission and ESMA of the designation of competent authorities pursuant to this paragraph by [...]”;
- (10) in Article 30(2), the following point (d) is added:
- ‘(d) for STS on-balance sheet securitisations, the processes and mechanism to ensure compliance with Articles 26 (b) to 26(e).’;
- (11) in Article 32(1), point (e) is replaced by the following:
- ‘(e) a securitisation is designated as STS and an originator, sponsor or SSPE of that securitisation has failed to meet the requirements provided for in Articles 19 to 22 or Articles 23 to 26 or Articles 26b to 26e.’;
- (12) the following Article 43a is inserted:

Transitional provision for on-balance sheet synthetic securitisations

1. In respect of on-balance-sheet synthetic securitisations for which the credit protection agreement has become effective before [*date of entry into force*], originators and SSPEs may use the designation ‘STS’ or ‘simple, transparent and standardised’, or a designation that refers directly or indirectly to those terms, only where the requirements set out in Article 18 and the conditions set out in paragraph 3 of this Article are complied with at the time of the notification referred to in Article 27(1).
 2. Until the day of application of the regulatory technical standards referred to in Article 27(6) and, originators shall, for the purposes of the obligation set out in point (a) Article 27(1), make the necessary information available to ESMA in writing.”;
- (13) Article 45 is deleted.

Article 2

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President