

## Compromise Amendment C (CA C)

If CA B is adopted, the following amendments fall:

### Recitals:

- Recital 2: AMs 59 to 60;
- Recital 3: AMs 61 to 62;
- Recital 4: AMs 63 to 65;
- Recital 5: AM 1; AMs 66 to 68;
- Recital 6: AM 2; AMs 69 to 73;
- ~~Recital 6a: AM 74;~~
- Recital 7: AM 75 to 76;
- Recital 8a: AM 77;
- Recital 9: AM 78 to 79;
- Recital 10a (new): AM 80 to 81;
- Recital 11a (new): AM 3; AMs 82 to 84;
- ~~Recital 14a (new): AM 85;~~

**Commented [AM1]:** Note: Recital 74 Winzig and 85 Ferber now covered in grandfathering COMP B

Whereas:

- (1) Securitisation transactions are an important part of well-functioning financial markets as they help to diversify credit institutions' funding sources and enable the release of regulatory capital which can then be reallocated to support additional lending. Furthermore, securitisations provide credit institutions and other market participants with additional investment opportunities with specific risk-return trade-offs. This makes possible both greater portfolio diversification and the redistribution of risk in the wider financial system. It also facilitates the flow of funding to businesses and individuals both within Member States and on a cross-border basis throughout the Union.
- (2) The Union needs significant investment to remain resilient and competitive. The securitisation framework can contribute to a more diversified financial system and greater risk-sharing. However, there are material impediments to the issuance of and investment in securitisations. These impediments weigh on the development of the securitisation market. The regulatory capital requirements laid down in Regulation (EU) No 575/2013 of the European Parliament and of the Council<sup>1</sup> for institutions originating, sponsoring or investing in securitisations are not sufficiently risk sensitive, **and they also incorporate an unjustified level of conservatism**. The current requirements fail to accurately recognise the good credit performance of Union securitisations and the risk mitigants that have been implemented in the Union's regulatory and supervisory frameworks for securitisation. These frameworks have significantly reduced the agency and model risks embedded in securitisation transactions.

[AM 60 Heinäluoma et al]

- (3) Capital requirements for securitisations under Regulation (EU) No 575/2013 should be amended to increase the risk sensitivity **and reduce excessive capitalisation** by better aligning the capital treatment with the underlying risks. In addition, targeted amendments should be introduced to mitigate undue discrepancies between the capital requirements under two different approaches: the securitisation internal ratings-based approach (SEC-IRBA) and the securitisation standardised approach (SEC-SA). Such mitigation should increase the participation of smaller and medium-sized credit institutions that make use of the standardised approach.

[AM 62 Heinäluoma et al]

- (4) Risk weight floors are minimum risk weights that credit institutions must apply to their **senior** securitisation exposures, even where the capital calculations suggest a lower risk weight could be applied. Risk weight floors for senior positions of securitisations should be made more risk sensitive, making it possible to reflect the riskiness of the underlying pool of exposures of each specific securitisation. Senior securitisation positions of securitisation of low-risk portfolios should be allowed to benefit from lower risk weight floors than senior securitisation positions in securitisations of higher-risk portfolios. This new approach, which would mean that risk weight floors **for senior securitisation positions** are calculated based on a specific formula, should replace the existing approach **for senior positions** where risk weight floors are set at flat levels, irrespective of the credit quality of the underlying pool of exposures. The new formula should make

<sup>1</sup> 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 (OJ L 176, 27.6.2013, p. 1, ELI: <http://data.europa.eu/eli/reg/2013/575/oj>).

it possible to reflect the simple, transparent and standardised (STS) or non-STS status of a securitisation. To avoid excessive reductions of the capital requirements, a minimum threshold to the risk weight floors should be introduced.

- (5) To provide for more risk sensitivity in the securitisation framework, while maintaining a prudent regulatory treatment, it is necessary to adjust, under the SEC-IRBA approach, the formula for the (p) factor to reduce the floor and to reduce the scaling factor, and to introduce a cap to the (p) factor, ~~mainly for the senior securitisation positions of originator/sponsor credit institutions~~. For the same reason, under the SEC-SA approach, it is necessary to reduce the (p) factor, for senior securitisation positions. Changes to the (p) factor for non-senior securitisation positions should **not occur-be minimal**, to prevent undercapitalisation of these positions. Changes to the (p) factor for positions of investors in non-STS securitisations ~~and in non-senior securitisation positions of STS~~ securitisations should be minimal, as those positions do not feature reduced agency and model risks.
- (6) Senior securitisation positions are resilient if the securitisation satisfies a set of eligibility criteria at the origination date **and on an ongoing basis thereafter**. This set of eligibility criteria ensures the protection of the senior securitisation position and mitigates agency and model risks. Such resilient securitisation positions should benefit from additional reductions to the risk weight floors and to the (p) factor, compared with positions that do not satisfy the eligibility criteria. ~~Positions of credit institution investors in senior securitisation positions of non-STS securitisations should not be allowed to benefit from those further reductions, as they are not characterised by reduced agency and model risk.~~

[AM 2 Seekatz]

- (7) Because of the changes to the risk weight floor for senior securitisation positions and to the (p) factor under the SEC-IRBA and SEC-SA approaches, the risk weights in the look-up tables under SEC-ERBA should be recalibrated accordingly.
- (8) Changes to the framework for significant risk transfer (SRT) should be introduced to address limitations identified in that framework in relation to the current mechanical tests measuring the significance of the risk transferred through securitisation, specific structural features of securitisation transactions that may be detrimental to complying with the SRT requirements, and processes applied by competent authorities to assess SRT, and to make that framework more consistent and predictable. The predictability of the SRT supervisory assessments should be increased by laying down the main elements of the SRT assessment in Regulation (EU) No 575/2013, including the broad design of the new SRT test. The way in which the technical details of the test should be implemented, the requirements for the structural features of the transactions, and the principles of the assessment process should all be specified in regulatory technical standards developed by the European Banking Authority (EBA).
- (9) A new principle-based approach test should be introduced to replace the existing mechanical tests, to measure the significance of the risk transferred through securitisation. **Competent authorities should in individual cases be able to increase the minimum amount of transferred unexpected losses under the PBA**. Given its very limited use, the current permission-based approach, where the SRT is achieved through a permission granted by the competent authority, should be removed and should no longer be allowed. To further streamline the SRT assessment, and to increase transparency and predictability for originators, a new requirement should be introduced for originators to submit a self-assessment to demonstrate that the requirements related

to the SRT are met, including in stress conditions. As part of the self-assessment, originators should develop a cash-flow model analysis to provide evidence on the resilience of the SRT.

[AM 79 Seekatz]

- (10) To increase the efficiency of the SRT supervisory assessments, the principles of SRT supervisory assessments should be harmonised at Union level. The EBA should specify such principles in the regulatory technical standards, which should also include high-level principles for a fast-track process for qualifying securitisations.
- (11) Targeted amendments should be introduced in specific provisions of Regulation (EU) No 575/2013 to improve technical consistency and provide further clarifications on the rationale underlying certain provisions of the current framework. To ensure the consistent interpretation of Article 254(2) by the competent authorities and credit institutions across the Union, it should also be specified that that Article is aimed at avoiding the mandatory use of SEC-ERBA in relation to transactions for which the rating is capped due to the sovereign ceiling – and not the risk profile of the transactions – is the prevalent driver in determining the risk weights under that approach.

**(11b) *Public financing through the issuance of government bonds denominated in the domestic currency of another Member State has been necessary to support public measures to fight the consequences of the severe, double economic shock caused by the COVID-19 pandemic and Russia’s war of aggression against Ukraine. These consequences are still perceptible and adequate public financing may remain necessary. The concerned Member States should also have sufficient time to regularise the level of public financing that has been necessary to address these exceptional situations. Therefore, to avoid unnecessary constraints on institutions investing in such bonds, it is appropriate to prolong the transitional arrangements for exposures to central governments and central banks of non-euro Member States, where those exposures are denominated and funded in euro, with respect to the treatment of such exposures under the credit risk framework and under the large exposure limits.***

[AM 82 Muresan et al, AM 83 Kubin]

- (12) Regulation (EU) No 575/2013 should therefore be amended accordingly.
- (13) Since the objective of this Regulation cannot be sufficiently achieved by the Member States and, by reason of its scale and effects, can be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as 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 that objective.
- (14) By 5 4 years after the entry into force, the Commission, after consulting the EBA, should consider whether a more fundamental change to the risk weight formulae and functions should be introduced in the medium/long-term to make it possible, in a comprehensive manner, to allow for more risk sensitivity, to achieve more proportionate levels of capital non-neutrality, to mitigate cliff effects, and to address the structural limitations of the current framework,

**Commented [AM2]:** Note: the Winzig Recital concerning the grandfathering was removed here. This will be addressed in a separate COMP B.