

The potential development of a High Quality Securitisation market in the EU

**The answers of the True Sale International GmbH (TSI),
Germany**

Part One – Term ABS

Preamble

Seven years have passed since the outbreak of the financial crisis. In the period to date, more than 90% of European securitisations have demonstrated their quality under crisis conditions. A mere 1.5% of the European securitisations outstanding in mid-2007 have defaulted. The quality of "version 1.0" European securitisations can therefore be described as excellent. A high degree of alignment of interest, responsible lending and servicing standards, clear and comprehensive representations and warranties in the prospectus and high transparency with regard to the underlying assets and transaction structure have been the key to success. On the one hand, those strengths of European securitisations have since been continually developed by the industry (TSI, PCS), as well as together with the ECB (low-level data initiative, European DataWarehouse). On the other hand, by virtue of Article 122a of the CRD II and Article 405 et seq of the CRR, the practice in Europe has now also become a formal regulatory benchmark.

By contrast, the transaction structures that led to high losses were based on re-securitisation, originate to distribute or substantial inherent refinancing risks. In Europe, however, they were the exception.

Regulation should address the exceptions but also promote high quality ABS so that this market can increase and develop. The time is therefore ripe for a securitisation regulation which is forward looking and has a differentiated impact by promoting high quality ABS and driving back securitisation structures that lack transparency. Initiatives of that kind can also contribute to growth and create jobs, while at the same time reducing systemic risks as a result of the greater diversification of refinancing sources.

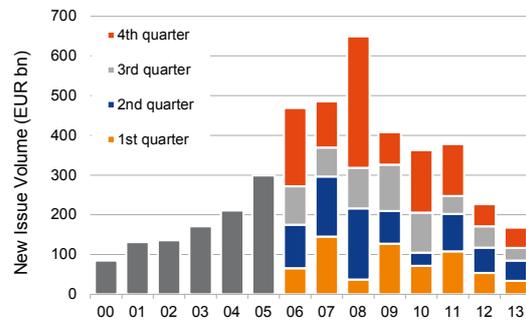
From that perspective, TSI supports the idea of defining and establishing separate regulatory rules for a high quality ABS segment. Through the DEUTSCHER VERBRIEFUNGSSTANDARD (German Securitisation Standard), TSI has been working since 2004 to create a high quality ABS label. It has also actively supported the European PCS process since 2010.

Current state of the securitisation market in the EU

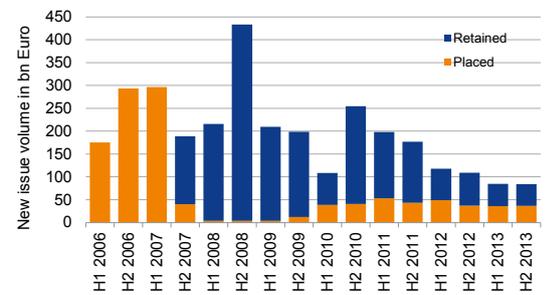
1. Please provide an overview on the current state of play of securitisation in the European financial sector (outstanding, volume, issuance, types of issuances).

In 2013 the total volume in the primary market was around €168 billion. Unfortunately, it thus failed to build on the volume of new emissions in 2012 of around €227 billion, recording the equivalent of a decline of around €59 billion (26%). Actual sales “only” declined from €86 billion to €72 billion, i.e. by 16%.

NEW ISSUE VOLUME SINCE 2000



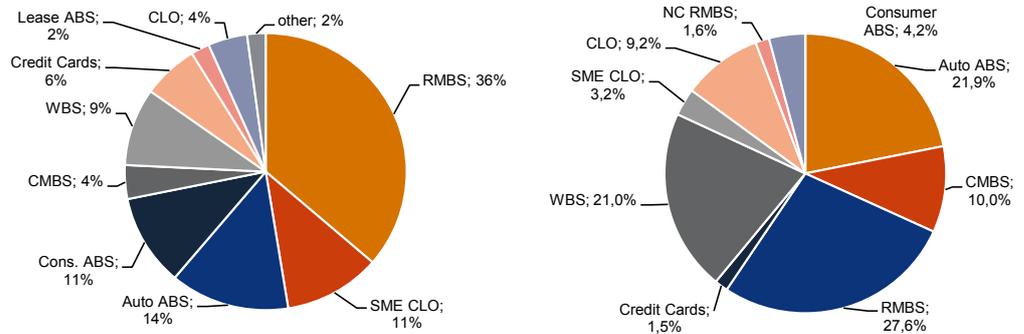
RETAINED VS. PLACED NEW ISSUE VOLUME



Source: DZ BANK Research

Compared with previous years, the viability of the primary market, which includes the marketable asset classes of auto ABS, British prime RMBS, Dutch RMBS, British credit card securitisations and whole business securitisations (WBS), fortunately improved in the sense of expanding to include the asset classes of EU CLOs and CMBS.

TOTAL NEW ISSUE VOLUME BY ASSET CLASS IN 2013 (LEFT) AND PLACED VOLUME BY ASSET CLASS IN 2013 (RIGHT)

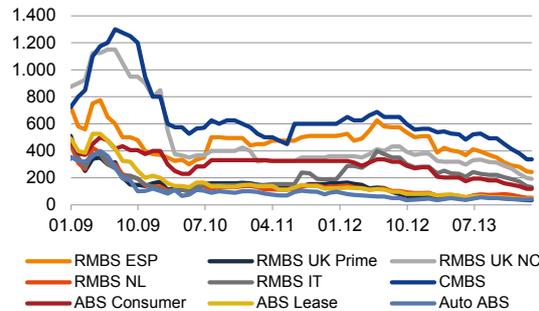


Source: DZ BANK Research

In the secondary market in 2013, spreads tightened by more than 100 basis points on average across all asset classes compared with 2012.

SPREADS – LONG-TERM MOVEMENT IN SPREADS

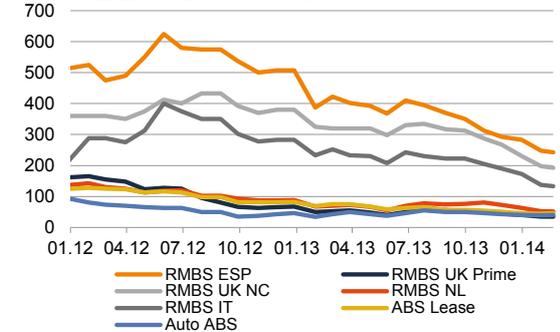
AAA SPREADS IN BASIS POINTS



Source: DZ BANK Research

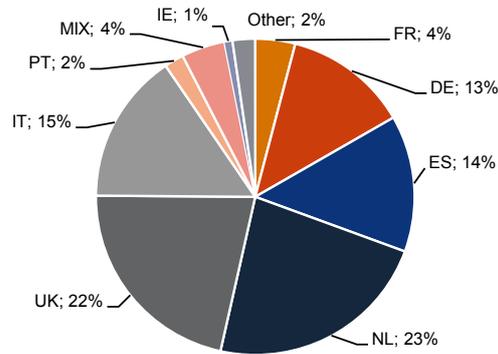
SPREADS – SHORT-TERM MOVEMENT IN SPREADS

AAA SPREADS IN BASIS POINTS

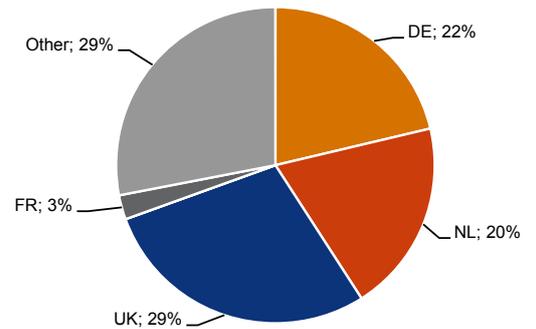


In the course of the euro crisis, Spanish and Italian RMBS were almost fully retained again in 2013 and used as collateral for the ECB, while UK and NL RMBS and German auto ABS were mostly placed in the market.

TOTAL NEW ISSUE VOLUME BY ORIGIN OF ASSETS IN 2013



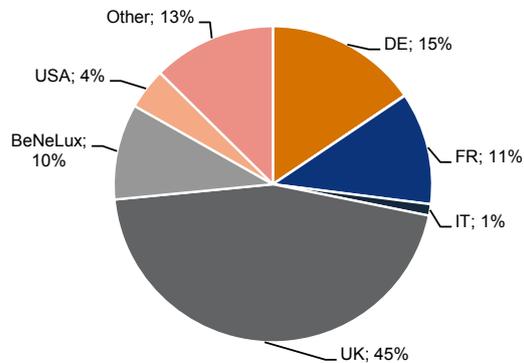
PLACED VOLUME BY ORIGIN OF ASSETS IN 2013



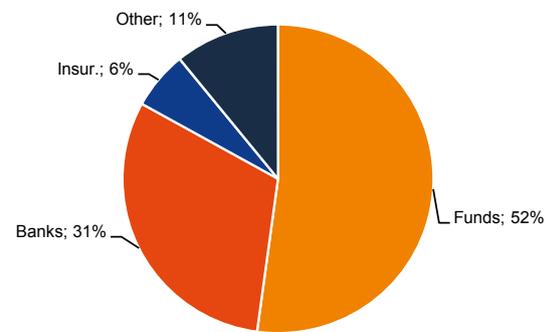
Source: DZ BANK Research

2. Please provide an overview of the investor base for securitisation products.

INVESTOR BREAKDOWN BY COUNTRY OF DOMICILE 2013



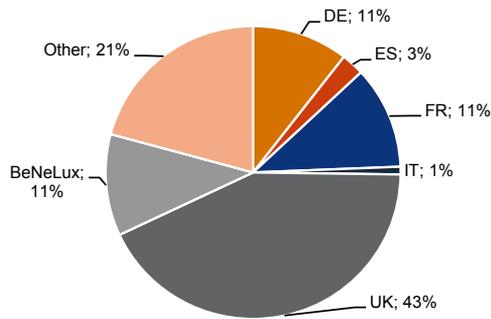
INVESTOR BREAKDOWN BY TYPE 2013



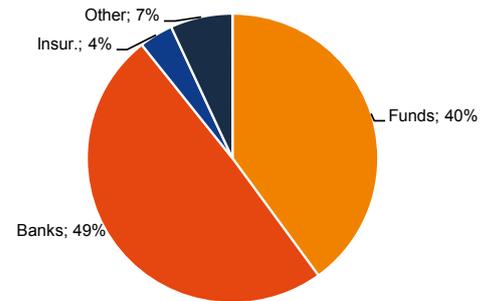
Source: Informa, DZ BANK Research

For 2013, the average allocation of investors into the groups funds/ asset managers, banks and insurance companies was 52%, 31% and 6% respectively (see chart above right). The remaining 11% of investors are classified under central banks, state institutions, supras and enterprises.

INVESTOR BREAKDOWN BY COUNTRY OF DOMICILE 2011

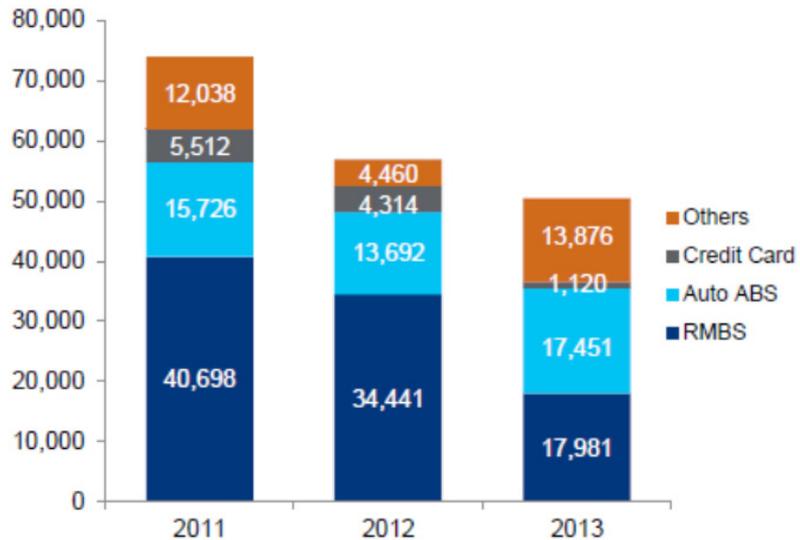


INVESTOR BREAKDOWN BY TYPE 2011



Source: Informa, DZ BANK Research

Public Issuance Volumes by Product – 2011, 2012 and 2013
€ in Million Equivalent



Source: Source: City Bank Report as of 9 January 2014

3. Following on from the previous question, securitisation products may be purchased by banks, insurers and certain other parties. Each of these investors may be exposed to different risks (credit risk, spread risk, etc), depending on whether they are trading or holding to maturity. Can you provide evidence to support the relative split of activity in these types (for example, share of ABSs held to maturity, share of ABSs held for trading; split by banks, insurers, as well as other investor types)?

In terms of auto ABS, we do not have exact data but according to our

experience and talks with investors most securities are held to maturity due to their relatively short average weighted lifetime and good quality. The main investors are banks and insurance companies. While the share of bank investors is estimated to be roughly half, insurance investors account for around 25%. The rest are mainly funds or other investors. Bank investors in auto ABS mainly appreciate holding auto-ABS as a safe-haven investment with a low credit risk and as liquidity reserves at the same time. Insurance companies appreciate the amortisation profile of term structures that gives insurance companies a permanent liquidity inflow. Trading activities by investors tend to play a minor role. As a result, the main risk for investors is the credit, i.e. default, risk. This holds true both for bank and insurance investors. Spread risks are not generally expected to be of significance when trading auto ABS or when being forced by a liquidity bottleneck because banks can pledge auto ABS to the ECB when they need liquidity and for insurance companies the share of ABS in their total investments is negligible.

Impact of current and expected regulation on the revival of the EU securitisation market

4. Please specify all current and expected regulation in the EU and international that is impacting on the revival of the securitisation market. Please specify why and how each specific regulation (CRR, Solvency II, EMIR, AIFMD, Basel, etc) of the regulation is impacting on the recovery of the securitisation market.

Regulatorisches Projekt	Verfasser	Veröffentlichung	Datum	Verfahren	Umsetzung
Regulierung Rating-Agenturen (CRA III)	EP / ER	Regulation (EU) No 462/2013 of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies	Mai 13	ESMA muß 21. Juni Draft RTS an die EU KOM liefern. EU KOM erläßt delegierten Rechtsakt - keine explizite Frist	2015* (Berichtspflicht an die Europäische Rating-Plattform tritt nicht vor dem 21. Juni 2015 in Kraft)
		Discussion Paper on CRA3 Implementation	Jul 13		
	ESMA	Consultation Paper on CRA 3 implementation - hier: Draft regulatory standards on information on structured-finance instruments	Feb 14		
Liquidity Coverage Ratio (LCR)	BCBS	Basel III - The Liquidity Coverage Ratio and liquidity risk monitoring tools	Jan 13	EU KOM erläßt delegierten Rechtsakt bis 30. Juni 2014	Phase In 2015 bis 2018 (60% bis 100%; plus 10% p.a.)
	EBA	Discussion Paper - On Defining liquid assets in the liquidity Coverage Ratio under the draft Capital Requirements Regulation	Feb 13		
		quality liquid assets (HQLA) and on operational requirements for liquid assets under Article 509(3) and (5) CRR	Dez 13		
		Report on impact assessment for liquidity measures under Article 509(1) of the CRR	Dez 13		
Solvency II	EP / ER	Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)	Dez 09	n/a	2016/17*
	EIOPA	Technical Specifications for the Solvency II valuation and Solvency Capital Requirements calculations	Okt 12		
		Errata to the Technical Specifications for the Solvency II valuation and Solvency Capital Requirements calculations	Okt 13		
		Discussion Paper on Standard Formula Design and Calibration for Certain Long-Term Investments	Apr 13		
		Technical Report on Standard Formula Design and Calibration for Certain Long-Term Investments	Dez 13		
Revision Verbrieferahmenwerk (Basel III.5)	BCBS	Consultative Document - Revisions to the Basel Securitisation Framework	Dez 12	1. Konsultationsrunde beendet	n/a
		Working Paper No. 22 - Foundations of the proposed modified supervisory formula approach	Jan 13		
		Working Paper No. 23 - The proposed revised ratings based approach	Jan 13		
Schattenbankenbanken (hier: Geldmarktfonds)	FSB	Consultative Document - Revisions to the Basel Securitisation Framework	Dez 13	2. Konsultation bis 21.03.2014	2016/2017*
	EU KOM	Strengthening Oversight and Regulation of Shadow Banking	Nov 12		
	EU KOM	Mitteilung zum Schattenbankwesen und Ankündigung weiterer Maßnahmen	Sep 13		
Kreditnehmereinheiten und Großkredite	EU KOM	Proposal for a Regulation of the European Parliament and the Council on Money Market Funds	Sep 13	EP verhandelt den Vorschlag nebst Änderungsanträgen - keine explizite Frist	2015*
	BCBS	Consultative Document - Supervisory framework for measuring and controlling large exposures	Mrz 13		
	EBA	Consultation Paper - Draft Regulatory Standards: On the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets under Article 379 of the proposed Capital Requirements Regulation	Mai 13		
EBA FINAL - Draft Regulatory Technical Standards - On the determination of the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets under Article 390(8) of Regulation (EU) No. 575/2013		Dez 13			
Risikoeinbehalt	EBA	Consultation Paper on Draft Regulatory Technical Standards: On the retention of net economic interest and other requirements relating to exposures to transferred credit risk (Articles 394, 395, 397 and 398) of Regulation (EU) No [XX/2013]	Mai 13	EU KOM erläßt delegierten Rechtsakt - keine explizite Frist	2014*
		EBA FINAL - Draft Regulatory Technical Standards: On the retention of net economic interest and other requirements relating to exposures to transferred credit risk (Articles 405, 406, 408 and 409 of Regulation (EU) No 575/2013			
		EBA FINAL - Draft Implementing Technical Standards: Relating to the convergence of supervisory practices with regard to the implementation of additional risk weights (Article 407) of Regulation (EU) No 575/2013	Dez 13		
Marktpreisrisiken im Handelsbuch	BCBS	Fundamental review of the trading book: A revised market risk framework	Okt 13	Konsultation bis 31.01.2014	2015/2016*
Risikotransfer	EBA	Consultation Paper - Draft Guidelines - On Significant Credit Risk Transfer relating to Article 243 and Article 244 of Regulation 575/2013	Dez 13	Konsultation bis 17.03.2014 - keine explizite Frist.	EBA soll Praxis beobachten und bis 31.12.2017 eine Empfehlung an die EU KOM abgeben, ob ein verbindlicher technischer Standard erforderlich ist.
		Absicherung von Verbriefungspositionen	BCBS	Consultative Document - Recognising the cost of credit protection purchased	

Stand: März 2014

*: Schätzung

CRA III: Duplication of existing information and the risk of information overload among investors as well as a disproportionate burden for originators. No level playing field with covered bonds.

LCR: Risk of a self-fulfilling prophecy because liquidity is defined with its future impact and high quality paper that are not recognised as highly liquid are expected to lose liquidity. This holds true, in particular, for bank investors that will be forced by the new liquidity regulation that is to be adhered to from 2015 onwards to hold liquid assets as a liquidity buffer. The extent of those required holdings could prevent bank investors from investing in auto ABS if these securities were not eligible at least as highly liquid assets. In addition, greater funding costs to offset the increase in the liquidity premium are to be expected for non-eligible assets.

In addition, this new regulation means that high quality ABS are discriminated against compared to covered bonds, although the regulations for covered

bonds are very different throughout Europe and govern a range of different instruments from high quality German Pfandbrief to covered bonds with significant lower requirements. This will result in the lack of a level playing field for ABS and covered bonds.

Solvency II: Results of the standard approach have a prohibitive impact on ABS investments by insurance companies. For ABS the underlying equity is many times higher than for other bond classes, especially when compared with covered bonds but also with corporate bonds, and for conventional loans. There is clearly no level playing field.

Revision of the securitisation framework: Investments in senior tranches are still relatively unattractive compared with covered bonds. In the mezzanine area, ABS tranches are less attractive than all other bond classes, which makes it difficult, if not impossible, to outpace risks in order to ease the regulatory burden on equity. In addition, capital requirements for retail ABS transactions that contain loans to SMEs are too high compared with wholesale transactions when investors use the IRB-approach for ABS. Permanent exceptions enabling use of the external rating based approach need to be envisaged.

5. Please illustrate the differences in regulatory treatment of loans, covered bonds and securitisation of the same asset type, and the consequences of such differences?

For illustration we refer to the synopsis given by BoAML in its European SF & Cross Products Weekly dated 24 March 2014.

The consequences are evident and self-explanatory. Due to a lack of level playing field and asymmetric regulatory treatment of similar risks there will (continue to) be massive effects on institutional investor's portfolio allocation, i.e. they will shy away from ABS and be attracted by whole loans/portfolios of whole loans and Covered Bonds.

This development will massively hinder a recovery of the securitisation market and will be to the detriment of financial stability and transparency.

Table 3: Comparing the three secured forms of investment in Europe

	Securitisation	Whole Loan Portfolios (secured to unsecured)	Covered Bonds
Structures	<ul style="list-style-type: none"> Pass-thru, soft bullet, scheduled repayment Revolving /amortising Single trust or master trust (UK Only) Mainly floating rate bonds, limited fixed rate issuance Tranched, shorter and longer maturity tranches (of same or not rating) to reflect pool characteristics and investor interest in risk and maturity profile 	<ul style="list-style-type: none"> Whole loan portfolio sale Secured senior or junior financing Deal specific covenants, servicing, agents, etc. Recourse or non-recourse depends on specific deal features 	<ul style="list-style-type: none"> Law – based (traditional) vs. contract – based (structured) (Soft) bullet or conditional pass-thru (CPT) Mainly fixed, recent increases in floating rate Over-collateralisation: legal and contractual, issuer and rating agencies discretion Recourse to issuer bank (first source of payment, cover pool maintenance) and for any shortfall of cover pool vs. covered bond if bank default (pari passu senior unsecured)
Collateral	<ul style="list-style-type: none"> Non –recourse / limited exceptions – no implicit support Dominated by residential mortgages and consumer credit in the past, more recently pick up in auto loans and decline in residential mortgages; also leveraged loans, commercial real estate loans, leases, etc. SME can span resi mortgages, small CRE, equipment and auto leases, unsecured loans, trade receivables, corporate and leverages loans, high yield bonds, etc. 	<ul style="list-style-type: none"> Any type of exposures; mainly trade receivable, residential and commercial mortgages, NPLs, etc. 	<ul style="list-style-type: none"> Dominated by residential mortgages and public sector debt, possibility for mixed (residential and commercial mortgage, but not usual practice) pools; few shipping and aircraft loans (Germany) loans Recent expansion of eligible cover pool assets (SME, factoring trade receivables, etc.) under hybrid securitisation/CB law in Spain and Italy
Credit risk transfer	<ul style="list-style-type: none"> Not a consideration post crisis - deals executed for financing purposes SRT requirements and retention and accounting rules may be difficult to reconcile Reg. capital for underlying assets = UL vs. for securitisation = EL+UL Requirement for regulatory assessment of risk transfer and regulatory approval of capital reduction 	<ul style="list-style-type: none"> Degree of risk transferred varies with deal specific characteristics No requirement for regulatory assessment of risk transfer in regulatory capital requirements 	<ul style="list-style-type: none"> None in normal course of business as assets remain on balance sheet
Operational issues	<ul style="list-style-type: none"> Issuer: IT systems, reporting, retention, rating Investor: due diligence, retention, reputation 	<ul style="list-style-type: none"> Case specific 	<ul style="list-style-type: none"> Issuer: cover pool maintenance, ALM, primary and contingent asset encumbrance, rating Investors: declining CB market homogeneity
Maturity contraction/ extension risk	<ul style="list-style-type: none"> Transferred to investors In most structures, some tranches may contract in if pool credit quality deteriorates Clean-up call (10%) Step-up and call (UK and Dutch RMBS) 	<ul style="list-style-type: none"> Deal dependent, but likely partially or fully transferred, rules for put back or other restrictive features 	<ul style="list-style-type: none"> 1-yr maturity extension if “soft bullet” CB in case of issuer default (not issuer discretion), except multi –cedulas (as long as 10-12 yrs) Conditional pass- through (CPT) may lead to maturity extension in some cases in case of issuer default (not issuer discretion); CPT are recent structures (better OC & rating) Except pass-through in Denmark subject to auction failure and interest rate jump (5%)
Market risk	<ul style="list-style-type: none"> MtM of securities MtM of embedded swaps (?) Market value of collateral in case of refinancing default in commercial real estate 	<ul style="list-style-type: none"> None or deal specific requirements for portfolio MtM 	<ul style="list-style-type: none"> MtM of securities Embedded swaps exempt Cover pool MV if originator insolvency and no white knight; if cash flow shortage and need to sell assets; possible time subordination risk
Swaps	<ul style="list-style-type: none"> External or internal provider Rating requirements Swap-less deals Explicit swap counterparty replacement arrangements 	<ul style="list-style-type: none"> Deal specific Hedging may depend on pool buyer or financier 	<ul style="list-style-type: none"> Internal (prevail) or external provider Rating requirements Swap –less deals Explicit swap counterparty replacement or collateral posting requirements
Collateral transparency (public, regulatory)	<ul style="list-style-type: none"> Loan-by-loan 	<ul style="list-style-type: none"> Deal specific 	<ul style="list-style-type: none"> Aggregate pool summary given dynamic pools (relevant credit or ALM risks)
Servicing	<ul style="list-style-type: none"> Explicit servicing arrangement, back-up servicer requirements in some cases - operational risk 	<ul style="list-style-type: none"> Deal specific 	<ul style="list-style-type: none"> Specific servicing arrangement for CB SPV structures; otherwise, administrator taking over cover pool management
Due diligence and stress testing under CRR/ Solvency II/ AIFMD	<ul style="list-style-type: none"> Detailed due diligence and stress testing requirements in all three frameworks 	<ul style="list-style-type: none"> No regulatory requirement 	<ul style="list-style-type: none"> No explicit regulatory requirement Reliance on bank issuer/ originator and compliance with legal requirements (for ‘traditional’ covered bonds)
Complexity (legal, structural, collateral, originator insolvency)	<ul style="list-style-type: none"> High ←————→ Low 	<ul style="list-style-type: none"> Moderate ←————→ Low 	<ul style="list-style-type: none"> High ←————→ Low

Table 3: Comparing the three secured forms of investment in Europe

	Securitisation	Whole Loan Portfolios (secured to unsecured)	Covered Bonds
Regulatory requirements for transparency	<p>ECB • Loan by loan disclosure Via EDW requirements</p> <p>BOE • Loan-by-loan disclosure for securitisation pool</p> <p>CRR • Disclosure requirements for originators, sponsor and lender of all materially relevant information on credit quality and performance of individual underlying exposures, cash flows and collateral, needed to conduct a comprehensive stress tests; data is determined as of date of deal closing.</p> <p>ESMA • Requirements for detailed disclosure of ALL aspects /documents of ALL transactions</p>	<p>• None</p> <p>• Deal specific</p> <p>• None</p> <p>• None</p>	<p>• Legal framework requirements set up at national level</p> <p>• New ECBC label</p> <p>• Loan-by-loan disclosure for cover pool according to UK legal framework</p> <p>• At least semi-annually: Value of the cover pool and outstanding covered bonds; geographical distribution and type of cover assets, loan size, interest rate and currency risks; maturity structure of cover assets and covered bonds; percentage of loans more than ninety days past due</p> <p>• None</p>
LCR	<p>• AA and above RMBS included in level 2B, max 15%</p> <p>• Questions about inclusion of auto ABS in Level 2B</p>	<p>• None</p>	<p>• AA- and above CB (issued under CB law) included in level 2A, max 40%</p> <p>• Questions about the inclusion of some/ all CBs in Level 1 (extremely HQLA)</p>
Swaps (treatment under EMIR)	<p>• Some uncertainty about the exemption of swaps in securitisation structures from clearing obligation and bilateral collateral posting</p>	<p>• Unclear</p>	<p>• Exemption of covered bond derivatives from central clearing obligation (designed to survive issuer insolvency);</p> <p>• Unilateral collateral posting (CB issuer does not post collateral, while counterparty post collateral), while CCP requires bilateral exchange of collateral</p> <p>• Counterparty has access to cover pool (preferential claim pari passu with CB holders); posted collateral are the high quality assets as defined by law so not sure what you mean here; own CB acceptable if repo eligible</p>
Regulatory Capital Example under BIS/CRR (more details of regulatory capital charges in attached tables for BIS/CRR and Solvency II)	<p>• Proposed BCBS: under ERBA</p> <p>• Senior tranches (1 – 5 yr): AAA 15%-25%; AA 15% - 55%; A 40% to 90%; BBB 75% to 170%; BB 140% to 290%, B 250% to 440%</p> <p>• Non-senior tranches (1 – 5 yr): AAA 15% to 80%; AA 15% to 150%; A 60% to 220%; BBB 170% to 430%; BB 470% to 870%; B 900% to 1130% - explicit maturity adjustment at tranche plus to pool level; UL + EL</p> <p>• Solvency II – differentiation between HQ and not securitisations, yet punitive capital requirements across all</p>	<p>• BIS: Residential mortgages 35%, Retail exposures 75%, Corporate loans AAA-AA 20%, A 50%, BBB+ to BB- 100%, B+ to below B 150% - UL only, no explicit maturity adjustment</p> <p>• Solvency II – preferential capital treatment for residential mortgages, all corporate loans treated same as bonds based on credit quality and duration</p>	<p>• CRR: CB rating regardless of maturity AAA/AA 10%, A+ to BBB- 20%, BB+ to B- 50%, CCC 100% (limited differentiation) under Standardised Approach; UCITS compliant vs. CRD compliant covered bonds;</p> <p>• Solvency II – preferential capital requirements for highly rated covered bonds (AAA and AA), otherwise treatment same as corporate bonds, based on rating and duration (and contribution to diversification)</p> <p>• Preferential regulatory capital – double counting (rating definition)?</p>
Repo eligibility and haircuts	<p>ECB</p> <p>• Category V</p> <p>• Senior AAA to A- regardless of maturity and asset class – 10%</p> <p>• Senior BBB+ to BBB- regardless of maturity and asset class – 22%</p> <p>BoE</p> <p>• Senior UK/EEA RMBS/ABS/CMBS A3/A- or above; haircuts of 12%/15%/25%/20% (floating-rate only) for discount window, indexed long term repo, contingent term repo facility and FLS</p>	<p>• Deal and asset class specific</p> <p>• Not widely transparent</p> <p>• Non-marketable securities?</p> <p>• Deal and asset class specific</p> <p>• Not widely transparent</p> <p>• Non-marketable securities?</p>	<p>• Category II and III</p> <p>• AAA to A- maturity dependent range from 1.0% to 9.0%</p> <p>• BBB+ to BBB- maturity dependent range from 7% to 35%</p> <p>• Long term repo operations: UK, French, German & Spanish regulated CB with AAA rating – minimum size £1bn or €1bn (own name CB not accepted), with underlying assets=social housing loans, public sector debt, prime residential mortgages</p> <p>• Discount window: UK, US & EEA CB (own name CB accepted –with minimum A3/A- rating); underlying assets = UK, US or EEA public sector debt, social housing loans, SME loans or commercial mortgages, or UK or EEA residential mortgages</p>
Ratings	<p>• Rating methodology specific to each asset class and reflective of deal structure</p> <p>• Swap counterparty and servicer ratings</p> <p>• Sovereign ceiling</p>	<p>• Not rated</p> <p>• Private rating assessment</p> <p>• Dependent on deal structure</p> <p>• RA's sovereign ceiling less relevant</p>	<p>• Rating methodology changes in light of new bank resolution regime and reduced systemic support for banks</p> <p>• Fitch: bank rating + up to 2 notches due to systemic importance of the bank and/or covered bond market in the country; size of senior unsecured debt</p> <p>• Moody's: bank issuer SUR + up to 1 notch or adjusted BCA + up to 2 notches</p> <p>• Sovereign ceiling</p>

Source: BofA Merrill Lynch Global Research, Solvency II, BCBS, CRR

6. Following on from the previous question, is it justifiable for whole loan portfolios to attract less regulatory capital than senior tranches of such portfolio securitisation – why or why not? Should the regulatory treatment of whole loan portfolios and of their securitisations be harmonised – why, how, consequences?

For high quality securitisations, the regulatory capital for the senior tranche should never be higher than for the corresponding unsecuritised portfolio. Full synchronisation and full homogeneity between securitised and unsecuritised loans must be assumed. The senior tranche benefits from the structural collateralisation mechanisms of the securitisation transaction. The transparency that exists in the case of high quality securitisations, which is based on obligations for the originator to provide information coupled with the investor's due diligence obligations, eliminates the model risk often used as an argument; that risk exists only at the level of the rating agency as comprehensive internal quantitative and qualitative analyses are carried out independent of external credit ratings. Moreover, for high quality instruments there is empirical evidence that a theoretical model risk has never occurred to date.

Apart from that, it seems plausible for securitisations outside the high quality segment to provide evidence of the inherent additional risk components through corresponding – global – regulatory add-ons with the result that the case formulated in the question would be justifiable.

Rationale for public authorities developing a “high quality” securitisation product

7. How would you define a “high quality” and “low credit risk” securitisation product/tranche (without reference to external ratings)? Please provide historical performance evidence to justify your answer.

The experience of the financial crisis and the regulatory rules that have already been derived from it and implemented, such as Article 405 et seq. of the CRR and existing securitisation quality standards (PCS, TSI, ECB) should be taken as the starting point for defining “high quality”.

On that basis, an abstract, general list of criteria should be worked out. It should contain both negative criteria for high quality securitisation, in the sense of exclusion criteria that are sufficient individually and in isolation, and positive criteria in the sense of requirements that have to be fulfilled cumulatively.

All negative phenomena that materialised in connection with securitisations during the crisis can be reduced to a few characteristic forms or structural

elements. We consider it – also from a regulatory perspective – indispensable and imperative to exclude these characteristic forms and structural elements from the “high quality category.”

Bearing that in mind, it is evident that all low quality security translations of which we are aware had some features in common: they were re-securitisations, originate-to-distribute transactions or securitisations with a substantial inherent refinancing risk. Those aspects are included on our “negative list” of high quality exclusion criteria. Furthermore, most bad securitisations also demonstrated very poor transparency. As it would seem consistent with the existing rules as well as not very practicable to define “inadequate transparency” in regulatory terms, we have included this aspect on our “positive list” of high quality criteria.

Exclusion criteria (negative list)

- Originate to distribute (OtD)
- Re-securitisations
- Transactions with the following features:
 - o Structural leverage
 - o Maturity transformation and refinancing risk¹
 - o Active portfolio management (“arbitrage”)

By contrast, we consider the following to be essential features of high quality securitisation transactions:

Requirement criteria (positive list)

- Balance sheet securitisation²
- Compliance with Article 405 et seq. of the CRR³
- Compliance with minimum requirements regarding representations and warranties, especially with regard to asset backed securities⁴
- Compliance with transparency requirements for the sales prospectus and investor reporting⁵
- Compliance with the ECB collateral criteria
- Compliance with the minimum performance requirement during the term⁶

Override by guarantee

As an exception from the basically required additive and complete fulfilment of the above-mentioned positive list and by analogy with Article 129 of the CRR (1a and b), the high quality status should be conferred on securitisations by

specific guarantees.

The best and most informative evidence of the excellent performance of European securitisations during the crisis is, as far as we are aware, a regularly updated research study by S&P, the most recent version of which was published on 6 December 2013⁷; a copy is enclosed with these Q&As. We are also enclosing a continually updated analysis by Moody's on the collateral performance of the most important asset classes⁸. Lastly, to illustrate the performance effect of balance-sheet securitisations as opposed to originate transactions taking German SME securitisations as an example, we refer to the enclosed article from 2010⁹.

¹ Refinancing risks could, however, be offset with regard to follow-up financing – for example, by specific guarantees such as by the originator.

² Essential features of a balance sheet securitisation through which a high alignment of interest between the originator and the investor is established and secured and which would need to be specified further, see "tbd": (1) No OtD; (2) No differences in the treatment of securitised and unsecuritised assets in the context of distribution channels, incentive structures, lending, servicing, internal/external auditing, compliance with the relevant national and European supervisory standards in the loan process, etc; (3) Compliance with an upper limit for the securitised balance-sheet share (tbd) in order to avoid a unilateral dependence on just a few sources of funding.

³ Rules covering, in particular, risk retention, lending standards, the provision of information and the due diligence obligation.

⁴ Approval with regard to asset backed securities should include at least the following aspects: (1) At the time of selection or on the pool cut-off date, no asset was in arrears or exceeded the loan commitment or the established limit; (2) Statements on the origination (edible jurisdiction, applicable law); (3) Statements on the method of sale or transfer as well as the risks related to the sale and transfer of the underlying assets; (4) Assurance that a third-party review will be made of a random sample of the assets.

⁵ Most of all, details of the transaction structure and of all loan collateralisation mechanisms such as a cash flow waterfall must be provided. Transparency should also include information about the performance of corresponding unsecuritised assets in the sense of an "internal benchmark" and on the performance of compatible transactions in the sense of an "external benchmark". In that connection it should be pointed out that since 2013 it has been compulsory to provide loan-level data for all securitisation transactions that are intended to be eligible for the Eurosystem.

⁶ There should be no significant [tbd] difference from the internal/external benchmark as defined under the transparency requirements and/or performance triggers [tbd].

⁷ S&P, "Six Years On, Only 1.5% of European Structured Finance Has Defaulted", 6 December 2013.

⁸ Moody's, "Global Structured Finance Collateral Performance Review", 28 February 2014.

⁹ Cerveny / Schmidtchen, "Performance deutscher Mittelstandsverbriefungen in den Jahren der Krise", ZfgK 19/2010.

8. Do you think the public authorities should set out criteria for a particular set of "high quality" securitisations? What do you consider the benefits of this approach would be?

Overall, every average treatment of the whole market or – excessive – gearing to negative phenomena such as US sub-prime and originate-to-distribute models inevitably leads to an inappropriate view of high quality securitisations, not least also by comparison with other bond segments such as government, bank and corporate bonds and covered bonds.

With regard to the discussion about the need to revive the securitisation market, preferential regulatory treatment of high quality ABS could give a decisive impulse. It would be a clear signal to market players that securitisations are "wanted" by the (regulatory) authorities and would therefore be a far-reaching confidence-building measure.

A standard regulatory treatment and a standard understanding of "good" and "bad" securitisations would make the work of supervisors and standard setters easier, particularly with regard to impact analyses. It would make it easier for market players to form an opinion, as at the core of a relatively complex regulatory environment, the risk of wrongly assessing or failing to take account of contrary or possibly mutually neutralising regulatory effects would be reduced.

Securitisation transactions that can be accordingly classified in the high quality segment would consequently be given preferential treatment over other securitisation transactions by virtue of this regulatory filter, regardless of the specific regulatory topic, e.g. underlying equity at banks and insurance companies, liquidity provisions for banks, investment guidelines for asset managers. As a result, this would lead, in particular, to the following:

- An abstract, in the sense of not being dependent on an asset class, regulatory division of the securitisation market into two segments, which would then also have a corresponding signalling effect for market players;
- The basis for consistent, cross-sectoral financial supervision;
- Framework conditions that would favour a revival of the (high quality) securitisation market and that would consequently (1) enable the pursuit of multiple goals with regard to financing and balance sheet structure management in the broad sense, and (2) help to enhance the future stability of the financial system;
- Framework conditions enabling specific phenomena of the crisis to be targeted and curbed and ideally avoided without having to break the regulatory rules in an attempt to take account of the not more

precisely specified "better portion" of the securitisation market.

9. What type of firms would you consider the most appropriate investor base for "high quality" securitisation?

Basically and cross-sectorally, high quality securitisations are suitable for institutional investors which have expertise in handling credit instruments (particularly financials and covered bonds). High quality securitisations are an alternative, in particular, to "congeneric" covered bonds (above all, relevance of the transaction structure and the collateral pool).

10. Are there any trades-offs between encouraging low risk securitisations and encouraging securitisation as a funding tool to benefit the real economy? Both topics are closely linked together.

Experience in Germany tends to show that there is a positive interdependence between high quality securitisations and securitisation as a funding and risk transfer tool benefiting the real economy.

In Germany over the past 10 years, for example, most securitisations have been of real economy credit risks. Apart from the securitisations of trade and leasing receivables (see the second response sheet) from the real economy, banks and captives of major automobile manufacturers have securitised a considerable volume of SME loans, auto loans and auto leasing receivables. More than 90% of the market complied with the high quality standards presented above. A few securitisations of real economy credit risks, however, contained originate-to-distribute structures, some of which were even linked to not inconsiderable refinancing risks (mezzanine securitisations, CMBS).

By contrast with the high quality structures that dominated the market, however, those structures had far higher default rates and negative rating migrations and therefore no longer have any significance in the present German ABS market.

We refer to our comments on performance under questions Nos 7 and 11.

Historical performance of different classes of securitisations

11. Historical default/impairment data is one of the criteria commonly used to evaluate the performance of different securitisation classes. Data on default/impairment for the 2007-2009 period clearly show that certain classes of securitisation performed differently. a. Where certain classes of securitisation suffered few losses over this period, what were the key drivers of their better performance?

b. Where certain classes of securitisation suffered greater losses over this period, what were the key drivers of their worse performance?

As stated in response to question 10, the key drivers of good performance in Germany were primarily what we refer to as balance sheet securitisations (see question 7). Some SME transactions performed badly, however; those transactions were those in which the underlying assets were specially originated for the securitisation and were either not shown on the bank balance sheet or, if the bank was involved in the origination stage, the rules and standards departed clearly from the bank's usual criteria and procedures. In all those cases originate-to-distribute was the main cause of the poor performance. Moreover, all the transactions revealed considerable refinancing risks. The latter is also the primary cause of the markedly negative difference in performance of many CMBS transactions compared with the market average.

The differences in the performance of securitisation in the high quality category on the one hand and others securitisations, particularly the "originate-to-distribute" category, can generally be illustrated by the S&P report referred to above¹⁰.

¹⁰ See footnote 8 above

Figure: Rating transition, default and withdrawals from mid 2007 to Q3 2013

Asset class	Total (bil. €)	Ratings transition rate* (%)			Defaulted	Withdrawn
		Upgraded	Stable	Downgraded		
ABS	169.6	4.9	66.7	28.4	0.05	82.1
Credit cards	33.2	0.0	97.0	3.0	0.00	94.3
Other consumer ABS	68.0	8.9	61.5	29.6	0.13	87.8
Other ABS	68.4	3.3	57.2	39.4	0.00	70.6
Structured Credit	535.2	2.5	54.0	43.6	4.58	72.7
Synthetic corporate	254.3	3.2	62.5	34.2	2.86	92.1
Leveraged loan CLOs	71.3	1.9	29.8	68.3	0.10	20.2
SME CLOs	103.0	0.8	52.9	46.4	0.41	69.4
CDO of ABS	28.9	0.4	10.7	88.9	40.40	22.3
Other CDOs	77.8	3.4	65.6	31.0	6.51	80.3
CMBS	163.3	1.9	30.5	67.6	9.89	43.9
Corporate securitizations	64.9	8.2	49.7	42.0	0.13	21.6
Covered bonds	1,085.0	0.1	80.2	19.8	0.00	68.9
RMBS	756.0	1.1	58.7	40.2	0.10	59.7
All consumer transactions	1,942.2	0.8	71.4	27.8	0.04	66.4
All corporate transactions	831.8	2.9	49.3	47.8	4.90	62.9
Overall	2,774.0	1.4	64.8	33.8	1.50	65.4
Overall U.S.	5,823.9	1.1	39.9	59.0	18.42	39.8

Note: For ratings outstanding in mid-2007. Based on original issuance volume. *We classify withdrawn ratings according to their levels immediately before withdrawal. ABS--Asset-backed securities. SME--Small and midsize enterprise. CLO--Collateralized loan obligation. CDO--Collateralized debt obligation. CMBS--Commercial mortgage-backed securities. RMBS--Residential mortgage-backed securities.

Source: S&P

Key transparency components are the sales prospectus, the ongoing investor reporting and loan-level data. Extensive standardisation is important, e.g. with regard to structure and terminology. Beyond the information specified in the industry standard at present, it would seem desirable in future also to prepare information about the performance of originators' unsecuritised loans. It would make sense for this to be done by the European DataWarehouse. It would make it possible to benchmark securitisations of specific asset classes in relation to the general collateral market and, overall, macroanalysis by investors and supervision would be easier. As a result, indices for individual credit market segments (e.g. auto, leasing, SME and CRE financing) could be calculated in a way that is not done at present.

Criteria for differentiating among securitisations

14. Which are the main **structural features** of the transaction relevant to the overall safety and quality of securitisation products from an investor perspective?

The main structural features of the securitisation transaction with regard to collateral and quality of a securitisation transaction are, in addition to the securitised portfolio, the cash flow waterfall, the totality of all credit enhancement mechanisms and the involved transaction parties, with a special account being taken of the originator/service.

15. Are there any **originator characteristics** that are relevant to the overall safety and quality of securitisation products from an investor perspective?

Originators should generate the loans, leasing or trading receivables as part of their normal business operations. They should not have the securitisation market as their only source of refinancing; the receivables used in a securitisation transaction should in no way differ systematically from those of the unsecuritised loans/receivables.

Where there is significant maturity transformation and refinancing risk, this should, however, be covered by the sponsoring bank's guarantee or liquidity facility.

16. Which are the main features of the **underlying assets** in the transaction to the overall safety and quality of securitisation products from an investor perspective? If you are in favour of including/excluding specific underlying asset types, which ones would you include/exclude?

This question is possibly easier to answer by a negatively defined differentiation. We consider tranches and derivatives (because of re-securitisation), assets with considerable market price risks dominating the credit components (e.g. raw materials), assets with considerable structural

refinancing risk (e.g. CRE portfolio), and basically all assets for which no sufficient data history exists (primarily concerns future new asset variants, which would have to be assessed on a case-by-case basis) as incompatible with high quality securitisation.

17. Are the existing **transparency requirements** in EU legislation and other market standards sufficient to ensure the overall safety and quality of the securitisation products from an investor perspective?

Transparency plays an important role in securitisation transactions. Before 2007 there were only market standards (including by TSI); since then a lot has been done at the legal level and under the Eurosystem's eligibility criteria. Supported by the current regulatory requirements, in particular Articles 406 and 409 of the CRR, which have already been implemented in national laws via Article 122(a), as part of the CRD II package, as from 1 January 2011, the rigorous analytical framework as well as the availability of unbiased information within and outside the securitisation market has already established benchmark status for all capital market-based credit instruments. Because infringements of the above-mentioned requirements were, and still are, severely penalised on the basis of Article 122(a) of CRD II and Article 407 of the CRR, bank investors in securitisation transactions are careful to comply with them.

Furthermore, in 2012 the ECB started a re-activation of European ABS markets by promoting transparency. The provision of loan-level-data became an obligatory requirement for Eurosystem-eligibility of ABS.

The European DataWarehouse, the central data handling infrastructure for the ECB loan-level data-initiative, has been operating since 2013 and for all ECB eligible transactions – which includes more than 90% of the total market – provides detailed transaction and loan-level data for each transaction on a monthly or quarterly basis.

18. Are **concentration / granularity** of portfolios relevant to the overall safety and quality of securitisation products? Would a definition of granularity based on economic sector and/or geographical location be useful?

Granularity is, as we see it, a quality feature because it gives securitisations a risk profile that can be analysed more easily and by a greater number of investors than in the case of a non-granular portfolio. In the latter case, regular specific special knowledge on the part of the investor is required,

the erroneous assessment with regard to individual assets would have considerable consequences for the performance of the transaction, and the risk of information asymmetry is higher. Easier analysability and a broader investor base tend to lead to more liquidity.

Investors in granular securitisation transactions tend to take a systematic rather than an idiosyncratic risk, which, however, if there is sufficient transparency, would seem manageable via the collateral markets (see above, high quality and transparency).

Instead of establishing specific granularity thresholds for individual asset classes, we consider that it would make sense – also in the interest of comparability and clarity – for an agreement to be reached on standard values. The view of TSI and the German securitisation market is that the experience of working with a lower limit of at least 100 securitisation assets in the portfolio and an upper limit of a maximum 1.5% portfolio share of the individual securitised assets has been good.

19. Does the **synthetic vs “true sale”** type of transaction affect the overall safety and quality of the securitisation product?

While synthetic and true sale securitisations basically differ according to the originator’s underlying motive (risk transfer as opposed to financing – depending on the structure, extensive overlapping is possible), the general quality criteria for high quality securitisations should, in our view, apply to both types of transaction.

Synthetic structures have been used in Germany with great success over the two KfW platforms PROMISE (SME) and PROVIDE (MBS). Problems relating to other synthetic structures have not occurred in the past because of synthetic structural elements but for other reasons, particularly re-securitisations, (actively managed) arbitrage transactions and structural leverage. The synthetic structuring approach was simply a means to an end. In the future, those kinds of transactions would be excluded by the corresponding high quality criteria.

20. Does the level of **leverage** affect the safety and quality of the securitisation products? In which asset classes?

Leverage as we understand it, is an inherent feature of securitisation and a function of a tranche’s position in the capital structure. As such, it is unavoidable and by the same token unquestionable. If we look at the overall

securitisation transaction, liabilities equal assets and hence there is no leverage.

In a broader sense and with a different meaning, leverage stems from disproportionality between overall assets and overall liabilities as we have seen in the past, i.e. in single tranche CDOs, CPDOs and re-securitisations.

21. Does the level of **maturity mismatch (re-financing risk)** between underlying assets and liabilities affect the safety and quality of the securitisation products? In which asset classes?

That depends on a few specific factors. First, in the case of maturity mismatch, granular portfolios are far less likely to be affected by refinancing or follow-up refinancing risk than portfolios with low granularity. For portfolios with low granularity, it also depends on the type of underlying assets. SME financing which a bank offers enterprises as part of its normal business operations, which all remain in the customer and credit relationship and which hence may also only securitise a part of their overall loan exposure are – as experience shows – barely exposed to refinancing risk.

This is undoubtedly different in the case of commercial property financing in which the borrower is a special purpose company or in purely originate-to-distribute SME securitisations.

22. Do you consider the **criteria proposed by EIOPA** in their Technical report on Standard Formula Design and Calibration for Certain Long Term Investments (published on 19 December 2013) to differentiate between securitisations by Type A and Type B appropriate? What are the main benefits and drawbacks of this approach?

The EIOPA approach is commendable because it constitutes the first comprehensive move on the part of the regulator towards a differentiated treatment of the securitisation market. It also contains many good and important aspects. However, slight adjustments of detail are required.

We recommend, however, not to lose sight of the central and determinative problem and risk. That was what ultimately caused the US subprime crisis, i.e. the risk of moral hazard in originate-to-distribute structures. At the same time, this is the decisive point at which to make a clear and precise definition and differentiation of high quality securitisations.

23. How do the **PCS label criteria** differ from the **EIOPA criteria**?

The PCS criteria are more detailed.

24. Do you consider the PCS label criteria an appropriate way to identify 'high quality' securitisations? What are the main benefits and drawbacks of this approach?

This is a tried and tested market standard, on which a definition of high quality ABS can be based. Drawback: sometimes too much detail. The focus should lie on the most important elements that determine the difference and account for quality.

25. Are there any other criteria (in the EU or abroad) that could inform the discussion?

The TSI developed the "Deutscher Verbriefungsstandard" (German Securitisation Standard) in 2013. It is founded on clearly defined rules for transparency, disclosure, lending and loan processing. The German quality brand "Deutscher Verbriefungsstandard" has been granted since 2013 in nearly 50 transactions.

To some extent, the Eurosystem's eligibility criteria also have the effect of a quality standard.

Preferential treatment for "high quality" securitisations

26. Should EU regulators differentiate the prudential treatment of securitisations by treating different product categories differently? If yes, please explain why.

Basically, the securitisation market should be subject to a differentiated regulatory treatment. The average view distorts the picture and inevitably punishes the high quality segment of the securitisation market.

As for covered bonds, in our view a regulatory breakdown into two groups is sufficient. Accordingly, a distinction should be made between high and lower quality and subsequently between preferential regulatory treatment or not. As a matter of principle, the quality criteria should be formulated in such a way that they fit all ABS segments on the one hand and are appropriate to differentiate between high quality and lower quality on the other hand. As far as exceptions to this principle are necessary or reasonable, the ABS segment such as RMBS should be explicitly addressed, as EIOPA did in its report. In any case, care should be taken to avoid formulating criteria that do not tally with market requirements and fail to differentiate between high and low quality. On the basis of these quality criteria, it can be useful to conduct a more differentiated quantitative calibration on the same supervisory risk model for certain ABS segments in order to achieve greater risk sensitivity

when determining the capital requirements.

27. In which regulatory areas (capital, liquidity, collateral, other) should preferential treatment be given to "high quality" securitisations?

We recommend a generally binding definition of high quality securitisations which forms the standard basis for the regulatory treatment of securitisations across all sectors (banks, insurance companies and asset managers).

In our view what is decisive is less the absolute than the relative regulatory treatment of securitisations. This reflects investors' relative value view. Therefore, wherever a regulatory differentiation on the basis of quality is made between fixed income instruments, equal treatment of high quality securitisations and covered bonds with preferential regulatory treatment will follow. For investors, it is most appropriate to compare the two products from the point of view of relative value aspects, which is why a corresponding regulatory level playing field is of the utmost importance.

28. How would you differentiate between the capital requirements of "high quality" securitisation and other securitisations? How would you calibrate the credit risk of "high quality" securitisations to the regulatory capital requirements?

The capital requirements for high quality securitisations should match those for covered bonds with preferential regulatory treatment.

29. If you consider that preferential capital treatment for "high quality" securitisations is appropriate, is this differentiation appropriate regardless of the overall level of calibration of securitisation capital requirements? If yes, why and how would you calibrate the capital requirements both in relation to the Basel II framework and the proposals currently under consultation?

As stated above, our view is that the investor's assessment is not determined by the absolute but by the relative regulatory treatment of a financial instrument within its peer group.

Account should be taken of the fact that by far the largest share of the European securitisation market is classed as "high quality" and the capital requirements are accordingly calibrated so that they evolve on the level of comparative instruments such as covered bonds with preferential regulatory treatment.

Accordingly, it is irrelevant whether the framework of Basel II or Basel III.5 is taken as the benchmark. What is decisive is the regulatory level playing field

between high quality securitisations and covered bonds.

30. Should “high quality” securitisations be treated differently in aspects other than regulatory capital such as due diligence, retention, liquidity, reporting? If yes, please explain why, in which areas and how?

If the above-mentioned list of examples is considered, a difference needs to be made between regulatory requirements that define essential features of high quality securitisations and those that are made in a subsequent step of the high quality securitisations thus determined.

The requirements under Article 405 et seq. of the CRR referred to in the question – due diligence, retention and reporting – are used to determine high quality securitisations. They should therefore be used as a test criterion for all securitisations. **We also recommend, again based on the need to establish a regulatory level playing field, to extend the above-mentioned and similar requirements – if applicable – to other loan instruments, especially covered bonds.** A similar volume of transparency and analysis obligations, etc also seems necessary without restriction with a view to protecting the stability of the financial system.

In our opinion, the treatment under regulatory liquidity ratios such as the LCR is simply a consequence of whether a securitisation is classified as high quality or not. It would need to be differentiated accordingly and retain the regulatory level playing field vis-à-vis covered bonds.

Impacts of developing a “high quality” securitisation market in the EU

31. Do you see any risks or adverse impacts if different securitisation products receiving the same external rating are subject to different prudential treatment?

Generally, different financing instruments with the same rating are frequently treated differently from a regulatory perspective, e.g. with regard to the underlying capital requirements. Essentially, this also applies to very similar types of instruments such as bank and corporate bonds or to an instrument, such as covered bonds, for which Article 129 of the CRR provides for differentiated regulatory treatment.

Similarly to covered bonds and Article 129 of the CRR, the intention is accordingly for a binary regulatory differentiation to be applied to securitisations. If the securitisations have the same rating and depending on whether they are classed as high quality or not, this can clearly lead to two

securitisation positions being given a different regulatory treatment.

32. There is regulatory activity affecting banks/insurers/money markets funds/other entities, as well as on topics relating to capital/liquidity/transparency/other requirements, and further regarding securitisations/covered bonds/other fixed income. In your view, how can preferential treatment be granted in a consistent manner for securitisations across these various requirements?

We suggest an all-encompassing, generally binding regulatory definition of high quality securitisation with cross-sector applicability. In other words, definition and hence understanding of high quality securitisations should be the same for banks, insurers and asset managers as well as for their respective regulators and supervisors. This is necessary because of sectoral interdependence and interconnectedness as well as in order to avoid regulatory arbitrage.

As a general rule, a preferential regulatory treatment should be granted to high quality securitisations, no matter what regulatory aspect is dealt with. As pointed out above, Covered Bonds should always be considered as benchmark.

33. Following on from the previous question, do you see any risks or adverse impacts if differentiation criteria are proposed, in banking prudential regulation, which are different from the criteria proposed in the insurance sector (EIOPA) or other sectors?

For consistent cross-sectoral regulatory treatment of securitisations, a standard differentiation between high and low quality securitisation is essential. Otherwise, arbitrage options arise which can be consciously exploited by market players and misallocations driven by regulation, e.g. accumulation of "bad" bank risk is in the securitisation sector.

Cross-sectoral consistency would seem essential because of the interwovenness of these sectors. Asset managers and insurance companies invest to a large extent in collateralised and uncollateralised bank bonds. Therefore, a regulatory level playing field vis-à-vis other credit should also exist for uniformly differentiated high quality securitisations across all sectors.

In order to revive the securitisation market, it would be best if regulatory criteria in different sectors could be harmonised, as otherwise the offer side (originator), in particular, would be faced with requirements that are slightly contradictory and that, in certain circumstances, cannot be applied or can only be applied with a disproportionate amount of effort, which would undermine

the relative attractiveness of the instrument considerably.

34. How would the EU securitisation market develop if "high quality" securitisation was introduced in the CRR following the EIOPA criteria and if those "high quality" securitisations received the same regulatory treatment as covered bonds? Please include expected growth and volumes level per asset class.

A pan-European, standard regulatory definition of high quality ABS as the basis for regulation in line with quality would restore confidence in the securitisation market, put an end to regulatory insecurity and dispel negative effects arising from the current drafts of LCR and Solvency II. We therefore believe that we can expect the following long-term volume effects per annum:

- Auto ABS + €30 billion;
- SME + €30 – 50 billion;
- RMBS depends on deleveraging and substitution effects vis-à-vis covered bonds and is therefore difficult to predict.

35. How would preferential treatment of certain securitisations benefit the long-term financing of the EU economy?

As part of the considerations on reviving the long-term finance and infrastructure finance market, securitisation assumes importance, as the key regulatory features of a securitisation transaction apply also for many of the financing forms needed for such form of long term finance as well (tranching, waterfall, etc). However, whether these securitisations would fall into a high quality ABS class that has yet to be defined and its regulatory preferences depends on how the new financing forms (e.g. project bonds) are structured and supported by government authorities.