Press Release

Contact: Anzhelika Mayer
Phone: +49 (0) 69 95 11 19 6 8
press@eiopa.europa.eu

EIOPA PROPOSES CHANGES TO CAPITAL REQUIREMENTS FOR DEBT SECURITISATION

- *EIOPA advises different risk charges for securitisations with higher and lower risk profiles;*
- *Instead of the currently proposed uniform 7% spread risk charge for AAA-rated securitisations, EIOPA recommends to decrease the charges for less risky issues to 4.30% while increasing them for riskier ones to 12.50%;*
- *Risk charges for other investments analysed by EIOPA are confirmed.*

Frankfurt, 19 December 2013 - The European Insurance and Occupational Pensions Authority (EIOPA) published today the Technical Report on Standard Formula Design and Calibration for Certain Long-Term Investments.

The Report was prepared upon the request of the European Commission. In view of the current economic situation, its purpose was to examine whether the capital requirements for certain long-term investments under Solvency II can be reduced without jeopardising the prudential nature of the regime.

The key proposal of EIOPA is to introduce a more granular treatment of securitisations. Instead of the currently proposed uniform 7% spread risk charge for AAA-rated securitisations, EIOPA recommends to decrease the charges for less risky issues to 4.30% while increasing them for riskier ones to 12.50%.

For identifying less risky securitisations EIOPA has developed a set of criteria related to the structure of securitisation, the quality of the underlying assets, the underwriting processes and the transparency for investors. (*More details on the proposed classification are available in the Note for Editors*).

The Report also confirms the currently proposed risk charges for a number of investments including private equity, loans to small and medium sized enterprises and socially responsible investments.

The study was conducted with the input from a range of experts from industry, regulatory bodies and the academic world. In the course of the research EIOPA was confronted with a challenge that is typical for the assets analysed - the lack of comprehensive, reliable and publicly available performance data (especially for infrastructure investments). The Authority intends to work on closing these data gaps in cooperation with the relevant parties.

Gabriel Bernardino, Chairman of EIOPA, said: *"Our analysis has shown that those securitization issues meeting a set of quality criteria have a good track record of performance and from a supervisory perspective should meet lower capital requirements. We are confident that the new classification of debt securitisation allows for a better alignment between risk and capital management and, therefore, can support the long term growth objectives in a prudent way".*

Click here to access the Report: https://eiopa.europa.eu/consultations/consultation-papers/2013-closed-consultations/april-2013/discussion-paper-on-standard-formula-design-and-calibration-for-certain-long-term-investments/index.html

Note for Editors:

Securitization refers to the process when an issuer creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors. The process can encompass any type of financial asset.

Classification of securitizations suggested in the Report:

Securitisations have to meet a number of criteria to qualify for the lower capital requirements. Only securitisations with the following underlying assets are eligible:

- Loans to small and medium-sized enterprises (SME)
- Leasing
- Residential mortgages
- Auto loans
- Consumer finance
- Credit card receivables.

A number of the criteria are based on the eligibility criteria for securitisations that the European Central Bank (ECB) uses in its refinancing operations.

The **European Insurance and Occupational Pensions Authority (EIOPA)** was established on 1 January 2011 as a result of the reforms to the structure of supervision of the financial sector in the European Union.

EIOPA is part of the European System of Financial Supervision consisting of three European Supervisory Authorities, the National Supervisory Authorities and the European Systemic Risk Board. It is an independent advisory body to the European Commission, the European Parliament and the Council of the European Union.

EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries.