Response to EBA Discussion Paper on simple, standard and transparent securitisations

Frankfurt am Main, January 2015

Europe’s banks must deleverage; Europe’s businesses are slowly freeing themselves from bank lending; and capital market financing for Europe’s business sector will be strengthened as a logical consequence. Yet none of this will happen without securitisations backed by real economy assets. Revitalising the European securitisation market for all types of business-related securitisations should therefore be a main focus in the creation of a European capital markets union.

True sale and synthetic corporate debt securitisation, as well as the securitisation of sales financing, leasing (especially in the car sales industry), factoring and trade receivables have the potential to play a decisive role in shaping the future of Europe’s business financing.

TSI therefore welcomes the approach proposed by the EBA that involves the use of simple, standardised and transparent true sale securitisations to create secure and attractive framework conditions for investors and originators. We fundamentally agree with the principles, but when looking at the detail we consider there to be a need for alterations so that marketable securitisations, which, from the investor’s perspective, already meet the requirements of simple, standardised and transparent securities, are not excluded from being recognised as “qualifying securitisations”. Otherwise there could be negative consequences for these securities that have been successfully established on the securitisation market. We particularly welcome and support the development that sees the “qualifiying securitisation” classification not being defined by the seniority of the securitisation and would like to encourage the EBA to continue along these lines. This will prevent “cliff effects” from occurring in capital requirements.
However, we also believe that, given the need to improve the framework conditions, which is the subject of intensive debate in Europe, this can only be the first step.

- The following procedures are all used to raise business finance:

    1. Term true sale ABS transactions, mainly in the fields of auto finance and SME loans on banks’ balance sheets;
    2. Synthetic securitisation of SME loans;
    3. Securitisation of trade and leasing receivables;

4. Securitisation of commercial real estate financing and infrastructure financing by banks, which is far less clear and straightforward to regulate.

The EBA paper deals only with the first point. This makes sense because clear experience can be drawn upon in that respect. Tried and tested criteria have also been established through the work of the standard setters TSI and PCS in these areas.

Moreover, the initial impression is that the types of securitisations listed under 2 and 3 are more difficult to standardise and to typify. However, for these securitisations there are also powerful arguments in favour of establishing clear compliance criteria, which would allow such securitisations to benefit from a corresponding regulatory regime. What is more, currently bank funding is not the main problem being faced by European banks; their reluctance to issue long-term loans and to deleverage is mainly driven by a shortage of equity capital.
There is a real need for regulatory equity relief in Europe. This can be achieved more easily and less expensively through synthetic securitisation rather than through true sale securitisation. In addition, Germany's experience with KfW's PROMISE/PROVIDE platform has shown that it is relatively straightforward to enforce standardisation criteria even in the case of synthetic securitisations. Likewise, only synthetic securitisations can help to give smaller, regional banks, such as Germany's savings and cooperative banks, whose customer relations would be seriously strained by true sale securitisation, new scope to grant loans to their customers in the SME sector and to prevent them from being hampered by concentration risks.

The securitisation of leasing and trade receivables is currently well established in many European countries. In Germany it contributes some EUR 13-14 billion to business financing. Analyses show that developments in the performance of such transactions in recent years has been outstanding; even in cases of seller insolvency, no defaults were recorded.

Our view is that it would be fairly achievable to include the two securitisation instruments in a regulation for a safe and stable securitisation market. We have therefore taken the liberty of including some initial corresponding proposals for both market segments in our comments. Further input should be collated by the EBA in the near future through structured workshops. From a practical perspective, there are indeed arguments that support limiting the definition of simple, standardised and transparent criteria to true-sale transactions to begin with. However, we believe that, against the background of the EU's efforts to supplement the banking union with a capital markets union, this approach falls far too short.

It is undoubtedly even more difficult to define corresponding, simple, clear and unambiguous criteria for the securitisations listed under point 4. Given the importance of this kind of securitisation transaction for business and infrastructure financing in Europe, however, the door should not be closed too hastily on this type of financing approach. In the light of the various European initiatives to promote private infrastructure financing and to establish a European capital market union, it would seem to us to be crucial for these asset classes to be included, from a forward-looking perspective, in an SST regime and for the market to be required to develop corresponding quality criteria for underlyings, transaction structures and transparency.

Further details with regard to EBA´s proposed criteria as well as EBS´s questions can be obtained from the enclosed spreadsheet.

Please click on the following link to download TSI´s answers with regard to the transaction types "term", "synthetic" and "trade and leasing".

Link

» SST securitisation_EBAs propopsed criteria_V1.0

TSI – What we do

Securitisation in Germany and TSI – the two belong together. True Sale International GmbH (TSI) was set up in 2004 as an initiative of the German securitisation industry with the aim of promoting the German securitisation market.

In the last nine years TSI has strongly supported the development of the German securitisation market. Its concern has always been to give banks an opportunity to securitise loans under German law on the basis of a standardised procedure agreed with all market participants. Another objective is to establish a brand for German securitisation transactions which sets a high standard in terms of transparency, investor information and market making. And finally the goal is to create a platform for the German securitisation industry and its concerns and to bridge the gap to politics and industry.

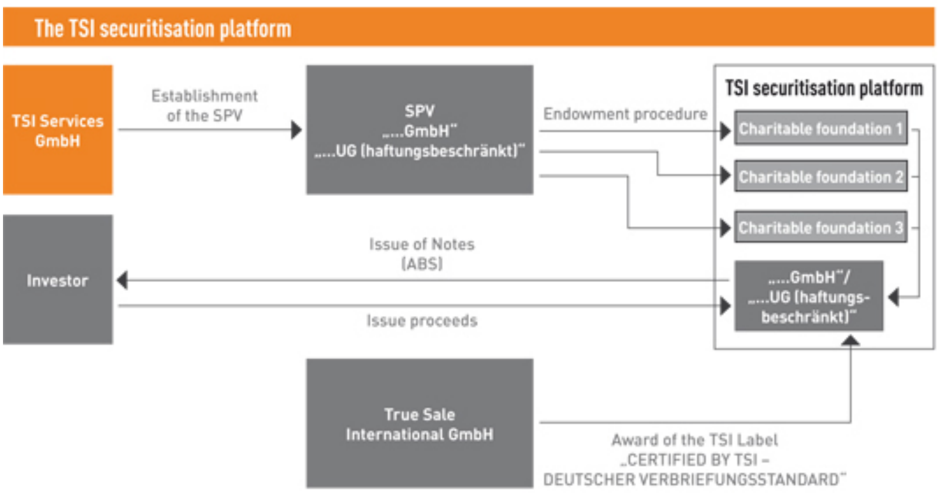
Nowadays TSI Partners come from all areas of the German securitisation market – banks, consulting firms and service providers, law firms, rating agencies and business associations. They all have substantial expertise and experience in connection with the securitisation market and share a common interest in developing this market further. TSI Partners derive particular benefit from TSI's lobbying work and its PR activities.

TSI securitisation platform

TSI has been providing special purpose vehicles (SPVs) under German law since 2005. Approximately 100 transactions (as of January 2015), German and other originators have already taken advantage of German SPVs as part of the securitisation process.
The TSI securitisation platform comprises three charitable foundations, which become shareholders in the SPVs set up by TSI. The charitable foundations provide support for academic work in the following fields:

- Capital market research for Germany as a financial centre
- Capital market law for Germany as a financial centre
- Corporate finance for Germany as a financial centre

The three charitable foundations are committed to promoting scholarship and science with a focus on capital market and corporate finance topics.



CERTIFIED BY TSI – DEUTSCHER VERBRIEFUNGSSTANDARD

The high quality of German securitisation transactions reflects the high quality of the standards applied to lending and loan processing.

The brand label DEUTSCHER VERBRIEFUNGSSTANDARD is founded on clearly defined rules for transparency, disclosure, lending and loan processing. Detailed guidelines and samples for investor reporting ensure high transparency for investors and the Originator guarantees, by means of a declaration of undertaking, the application of clear rules for lending and loan processing as well as for sales and back office incentive systems. The offering circular, the declaration of undertaking and all investor reports are publicly available on the TSI website, thus ensuring free access to relevant information.

Events and Congress of TSI

Events of TSI provide opportunities for specialists in the fields of economics and politics to discuss current topics relating to the credit and securitisation markets. The TSI Congress in Berlin is the annual meeting place for securitisation experts and specialists from the credit and loan portfolio management, risk management, law, trade and treasury departments at banks, experts from law firms, auditing companies, rating agencies, service providers, consulting companies and investors from Germany and other countries. Many representatives of German business and politics and academics working in this field take advantage of the TSI Congress to exchange professional views and experience. As a venue, Berlin is at the pulse of German politics and encourages an exchange between the financial market and the world of politics.