



**Single
Rulebook
Q&A**

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Paragraph	1
Subparagraph	(61), (67)
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	n.a.
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Name of institution / submitter	German Banking Industry Committee
Country of incorporation / residence	Germany
Type of submitter	Industry association
Subject matter	Classification of a vertical security in a traditional securitisation
Question	Is a vertical security as defined below in a traditional securitisation which refers to x% of the cash flows of the securitised exposures a securitisation position?

<p>Background on the question</p>	<p>In a traditional securitisation, one SSPE holds a certain pool of assets. The following securities are issued:</p> <ul style="list-style-type: none"> • A security referencing 5% of the cash flows of the pool assets ('vertical security') and • Three securities referencing 95% of the cash flows of the pool assets with different subordination levels (these three securities with different subordination levels are classified as securitisation positions). <p>Article 4(1)(61) CRR provides a definition of 'securitisation': "securitisation means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranced, [...]"</p> <p>Article 4(1)(67) CRR provides a definition of 'tranche': "a contractually established segment of the credit risk associated with an exposure or a number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, [...]"</p> <p>Q&A 2472 states the following: "[...] if an originator institution retains [...] a vertical tranche which has a nominal value of no less than 5% of the total nominal value of all the issued tranches of notes [...], the retained tranche(s) are part of the securitisation and should be treated under the securitisation framework."</p> <p>Article 1(d) of the Commission Delegated Regulation 625/2014 provides the definition of 'vertical tranche': "Vertical tranche means a tranche which exposes the holder of the tranche to the credit risk of each issued tranche of the securitisation transaction on a pro-rata basis".</p> <p>Based on these definitions, a bank would classify the vertical security in this traditional securitisation referencing 5% of the cash flows of the pool assets as a non-securitisation position since it (i) does not refer to x% of the cash flows of other tranches in this traditional securitisation and (ii) does not fulfil the 'tranching requirement' since it is not part of a subordination waterfall. In addition, the credit risk of the vertical security is linear to the credit risk of the underlying pool, i.e. it is therefore not tranced. Effectively, this represents a retention of x% of each loan, although this retention is achieved in a security format. Typically the bank acting as originator would retain the vertical security. Retention via such a vertical security is a common market practice for US risk retention purposes. In the US regulatory framework such a vertical security does not qualify as a securitization position. The question is relevant for EU banks acting as originator in the US market for group level reporting purposes.</p>
<p>EBA answer</p>	<p>In the case given, the underlying exposures are transferred to an SSPE. The SSPE issues different securities, all of which refer to the underlying exposures transferred to the SSPE.</p> <p>All but one security issued by the SSPE are referencing 95% of the cash flows of the underlying exposures with different subordination levels. The remaining one security issued by the SSPE (in the following referred to as 'vertical security') is referencing 5% of the cash flows of the underlying exposures.</p> <p>The vertical security does not constitute a securitisation position within the meaning of Article 2(19) SecR, because the 5% share of the cash flows to</p>

	<p>which the vertical security relates is not part of the securitisation, the subject of which is exclusively the tranching of credit risk of the remaining 95% share of the cash flows of the exposures that have been transferred to the SSPE. Consequently, the vertical security is not part of the cash flow waterfall of the securitisation and is not part of the subordination of tranches within the meaning of Article 2(1)(b) SecR that is established by the securitisation.</p> <p>The vertical security does also not constitute a vertical tranche within the meaning of Article 1(d) Delegated Regulation (EU) 624/2014, because it is not exposed to the credit risk of each issued tranche of the securitisation transaction on a pro-rata basis. This is similar to the case described Q&A 2015_2472 insofar as the tranching only relates to the 95% share of exposures.</p>
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