



Introductory statement of the Executive  
Director of the European Banking  
Authority (EBA), Committee on Economic  
and Monetary Affairs (ECON) of the  
European Parliament

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## Introductory statement by Adam Farkas, Executive Director of the EBA

Brussels, 13 June 2016

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Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Dear Members of the ECON Committee of the European Parliament,

On behalf of the European Banking Authority, I would like to thank you for the invitation to take part in this public hearing on securitisation, a topic of great importance for a well-functioning financial system.

Securitisation has been under spotlight on both the global and the European regulatory agenda for a number of years now -- in the EU driven primarily by the objective to foster the development of capital markets and thereby to boost the EU economy.

I am pleased to see that both the European and the global proposals in the Basel context on the qualifying securitisation framework build substantially on the EBA recommendations specified in

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the advice published in July 2015. Indeed, the STS – or simple, transparent and standardised -- securitisation framework is one of the few dossiers developed at the EU level that has inspired global regulators at the Basel and IOSCO tables, and that will be implemented internationally, and we are glad that EBA advice represents the core pillar of both the European and international proposals.

We strongly welcomed the EU legislative proposals on securitisation which the European Commission presented last autumn, and which now are subject to the negotiations at the European Parliament. We consider the proposals to be comprehensive, prudentially sound and technically very well-structured.

In particular, I would like to stress the following general achievements of the proposals: (i) first, they define a new 'STS' securitisation asset class, and enshrine in the regulation its features of simplicity, standardisation and transparency that aim to capture and mitigate the major drivers of risk of securitisation, as illustrated by the crisis (in the securitisation regulation); (ii) second, they enhance risk sensitivity of bank capital requirements, and propose more risk sensitive treatment of the 'STS' transactions so as to recognise the lower riskiness of such high quality transactions (in the file amending the CRR); (iii) third, they enhance the consistency of the regulation across sectors and lay down the necessary conditions for a well - functioning cross-sectoral securitisation market.

Securitisation is an important topic for EBA as it is mainly a bank specific product. Banks are the core players in the securitisation market, being the main originators of securitisation, and alongside other type of investors are also relevant investors in these products. Furthermore, securitisation is an important channel for diversifying funding sources of banks, and for transferring credit risk from the banking system to other actors in the financial market. Last but not least, the core element of the 'STS' securitisation framework is the establishment of a more risk sensitive prudential treatment of STS securitisation. The design of a rigorous set of criteria is essential for setting sound and risk sensitive prudential requirements for securitisation holdings by banks.

The EBA has been one of the leading European regulatory bodies with extensive technical expertise in the area of securitisation, both in traditional structures as well as in developing a synthetic framework. We have published a number of reports and guidelines on this topic, including most recently: (i) report in July 2015 on the 'STS' securitisation, in which we designed the criteria for high quality securitisation, and developed framework for preferential prudential treatment of these products; (ii) report on synthetic securitisation in December 2015, which provides a detailed overview of the market and fundamental of synthetics, and analyses the proposal on preferential prudential treatment of some specific types of synthetic securitisation backed by SME loans; (iii) report and supervisory best practices on securitisation risk retention, disclosure and transparency in April 2016; (iv) report on securitisation risk retention in December 2014; and (v) guidelines on signification risk transfer for securitisation in July 2014.

Given the technical expertise, the work done so far and the banking focus of the securitisation, we trust to be well fitted to provide policy support to the development of an EU securitisation framework during the legislative process, and stand ready to continue to do so going forward.

We have followed closely the developments on securitisation at the European Parliament, and have read with great interest the proposals by Rapporteurs of this Committee published last week. I would like to take this opportunity to provide our views on some specific suggestions enshrined in these proposals.

First, as regards the issue of certification of compliance with 'STS' criteria, we are content with the general approach taken by the draft report that the liability in relation to the compliance stays with the originators and investors. We also agree that that determination of compliance with the 'STS' criteria, and ensuring supervisory and regulatory consistency, are crucial for effective functioning of the framework. In this regard, we believe that the EBA is well placed to play a role in ensuring such compliance with the STS criteria, as well as to provide guidance on their interpretation, taking into account the technical expertise of the EBA in the field, detailed knowledge of the respective criteria as designed by the EBA, banking nature of securitisation, as well as EBA's access to all originators, sponsors and investors including in ABCP transaction level securitisation or bilateral synthetic securitisation.

Second, as regards the synthetic securitisation, we support the mandate for an EBA report on the establishment of a framework for STS synthetic securitisation. Also, we are content to see that our technical proposals regarding the preferential treatment of some specific synthetic securitisations, which we specified in our report on synthetic securitisation published last December, have been taken on board by the draft report, in particular extension of the preferential treatment to transactions in which private investors provide credit protection in the form of cash. We are looking forward to developing the report on the framework for STS synthetic securitisation, and ideally we would welcome more time for its development, which would allow us to gain further evidence from the market and further information on the implementation of the securitisation framework.

Third, concerning the risk retention, we note with satisfaction that significant majority of the EBA recommendations on risk retention, as specified in the EBA technical advice from December 2014, have been taken on board by the rapporteurs. As regards the calibration of the percentage of the risk retention, we believe that the 5% retention requirement strikes a right balance as it keeps the issuers' "skin in the game" and thereby aligns the interests of issuers and investors, while it still allows the issuers to transfer sufficient credit risk so as to meet the regulatory rules for achievement of significant risk transfer, or accounting rules for de-consolidation. Increasing the level of risk retention should be considered with caution: a right balance needs to be found between establishing a prudential treatment on one hand, and preventing unintended consequences on the functioning of the market on the other hand. Also, I would like to mention the conclusions of a CEBS study carried out in 2009, following the Commission's call for advice, which couldn't find evidence that a change in the retention percentage from 5% to any other

single alternative number would consistently result in an improved degree of alignment of interest.

In the end, let me say that we very much support the securitisation package and believe that if the proposal strikes the right balance between both the prudential objectives on one hand, and prevents unintended consequences on the market on the other hand, this securitisation package is an essential component in the process to revive the securitisation market.

I would like to thank you again for the opportunity to share with you EBA's views on the topic of securitisation and look forward to continuing the support of EU institutions in their policy deliberations.