

The EBA logo consists of the letters 'EBA' in a bold, white, sans-serif font. To the left of the letters is a vertical bar with a blue-to-orange gradient and a wavy pattern. The background of the slide is a low-angle photograph of modern skyscrapers with glass facades, rendered in a light blue, semi-transparent style.

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Draft Regulatory Technical Standards specifying and, where relevant, calibrating the performance-related triggers pursuant to Article 26c(5) of Regulation (EU) 2017/2402 as amended by Regulation (EU) 2021/557

Public Hearing, 26 January 2022

Public Hearing on draft RTS on performance related triggers

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Background and mandate

Background

- The CMRP amends the Securitisation Regulation in several aspects, including creating a **specific framework for simple, transparent and standardised (STS) on-balance-sheet securitisation** to ensure that the Union securitisation framework provides for an additional tool to foster economic recovery in the aftermath of the COVID-19 crisis
- With the purpose of standardisation, the amended Securitisation Regulation sets out that **sequential amortisation shall be applied to all tranches of STS on-balance-sheet securitisations**
- However, Recital 17: ‘**STS on-balance-sheet securitisation might feature non-sequential amortisation in order to avoid disproportionate costs** for protecting the underlying exposures and the evolution of the portfolio. **Certain performance-related triggers should determine the application of sequential amortisation in order to ensure that tranches providing credit protection have not already been amortised when significant losses occur at the end of the transaction, thereby ensuring that significant risk transfer is not undermined**’

Mandate

EBA shall develop draft regulatory technical standards on the **specification, and where relevant, on the calibration** of the performance-related triggers.

Article 26c(5) Securitisation Regulation

Sequential amortisation shall be applied to all tranches to determine the outstanding amount of the tranches at each payment date, starting from the most senior tranche

By way of derogation, transactions which feature **non-sequential priority of payments shall include triggers related to the performance of the underlying exposures** resulting in the priority of payments reverting the amortisation to sequential payments in order of seniority

Such **performance-related triggers shall include as a minimum**:

- (a) either the increase in the cumulative amount of defaulted exposures or the increase in the cumulative losses greater than a given percentage of the outstanding amount of the underlying portfolio;
- (b) one additional backward-looking trigger; and
- (c) one forward-looking trigger.

These draft RTS further specify the triggers under point (a), set out the triggers under points (b) and (c), and only calibrates the trigger under point (b).

Backward-looking performance-related trigger under point (a)

“Either the **increase in the cumulative amount of defaulted exposures** or the increase in the **cumulative losses greater than a given percentage of the outstanding amount of the underlying portfolio**”.

RTS:

The **level** of the trigger under point (a) shall be **determined by the parties** to the securitisation, as the trigger under point (a) is **transaction specific** and depends on the assessment made by the parties of the **riskiness of the underlying exposures at inception**.

It is **appropriate to specify** the point in time to which the outstanding amount refers to.

Art 2 RTS: the outstanding amount of the underlying portfolio shall refer to the **outstanding amount at the time of origination**, and the **increase in the cumulative amount of defaulted exposures or the increase in the cumulative losses shall be calculated from that moment**.

Additional backward-looking performance-related trigger under point (b)

“one additional backward-looking trigger”

RTS:

Two possible triggers were considered the most meaningful and the draft RTS include the **preferred and the alternative option.**

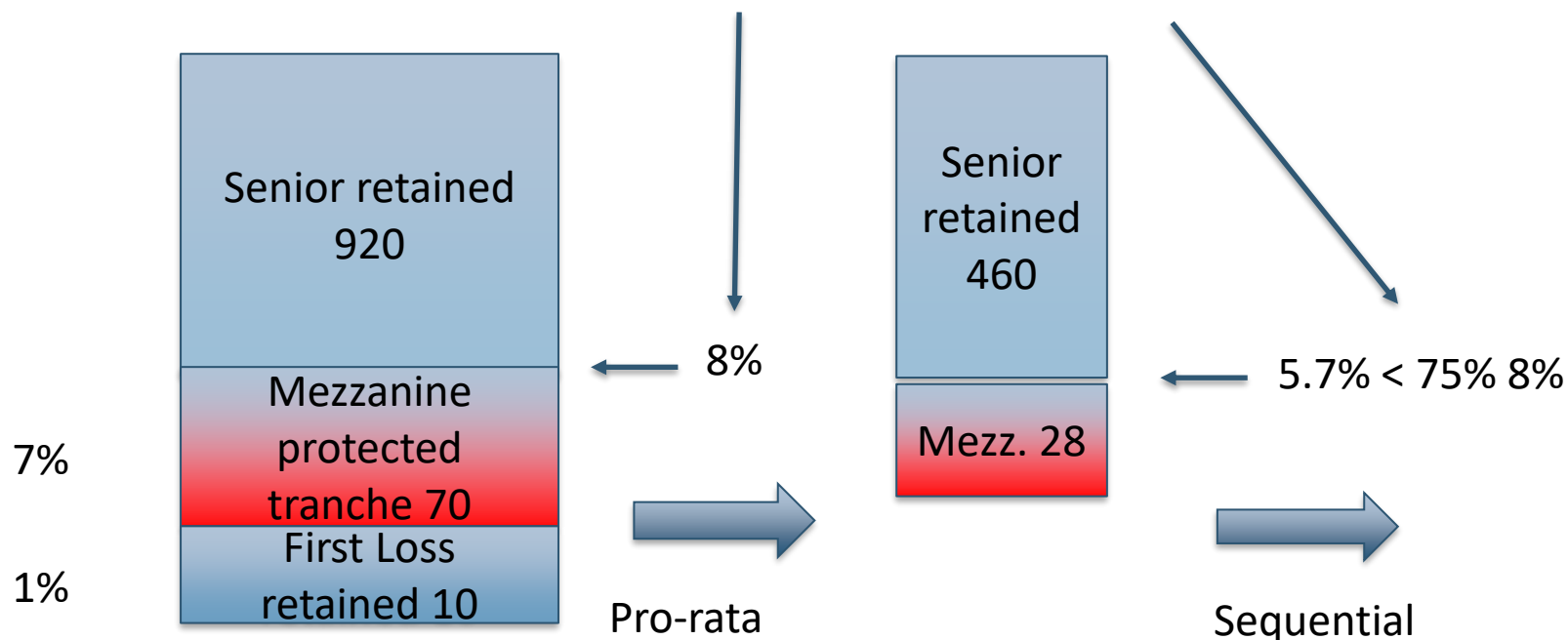
Art 3 RTS:

“... the **decrease**, at any point in time after origination, **of the detachment point**, ..., **of the most senior protected tranche below [50% - 75%] of the detachment point of the most senior protected tranche at origination.**”

- [“Alternative option: ... the **increase**, at any point in time after origination **of the sum of all interim and final credit protection payments made by the investor(s)** under the credit protection agreement(s) of the protected tranche(s) **above [25%-50%] of the sum of the nominal amount of these protected tranche(s) at origination minus the corresponding amortisation of the protected tranche(s).**]

Additional backward-looking performance-related trigger under point (b) Preferred option

Detachment point most senior protected tranche



Senior tranche. Amortise 50% (460)

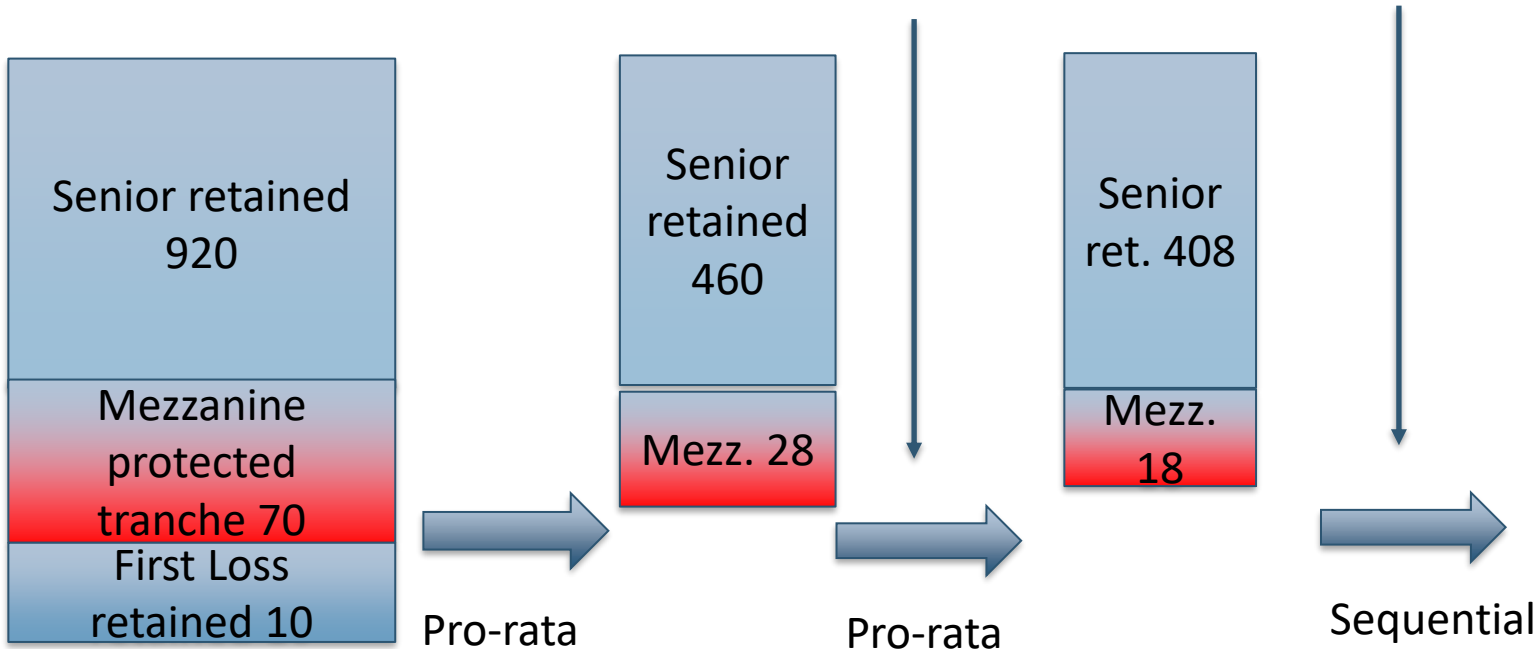
Mezz tranche. Amortise 50% (35) Absorbs losses (7)

First Loss. Amortise 50% (5) Absorbs losses (5)

Trigger works independently of the number of tranches subordinated to the senior tranche (i.e. First Loss only, or several mezzanine tranches plus a first loss tranche)

Additional backward-looking performance-related trigger under point (b) Alternative option

$7 / (70-35) = 20\% < 25\%$ $10 / (70-42) = 35\% > 25\%$

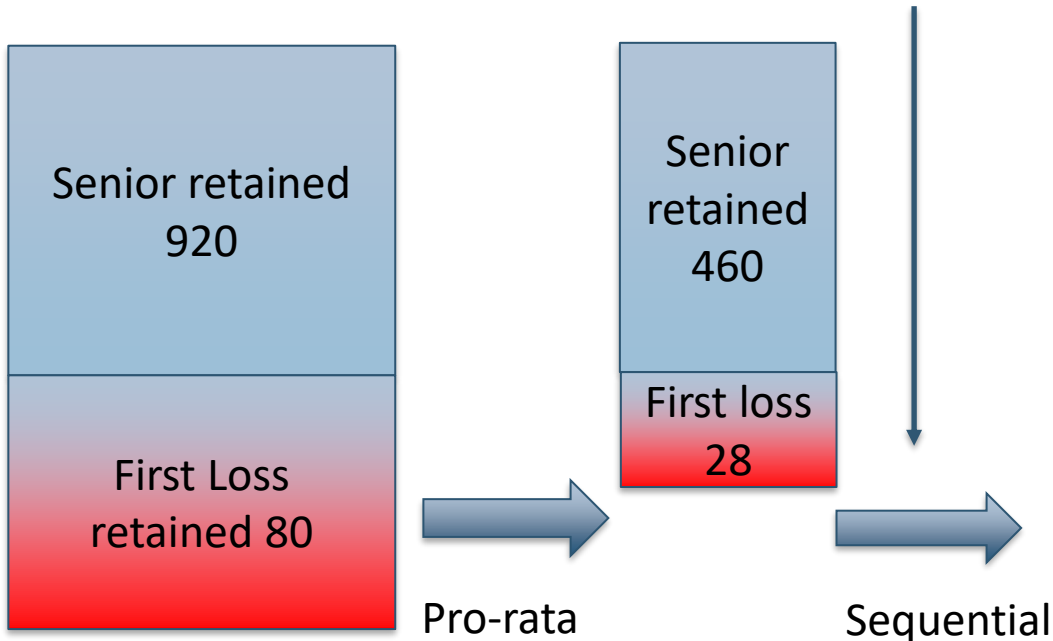


Senior tranche. Amortise 50% (460)
 Mezz tranche. Amortise 50% (35) Absorbs losses (7)
 First Loss. Amortise 50% (5) Absorbs losses (5)

Senior tranche. Amortise 60% (552)
 Mezz tranche. Amortise 60% (42) Absorbs losses (10)
 First Loss. Amortise 50% (5) Absorbs losses (5)

Additional backward-looking performance-related trigger under point (b) Alternative option

$$12 / (80-40) = 30\% > 25\%$$



Senior tranche. Amortise 50% (460)
 First loss tranche. Amortise 50% (40) Absorbs losses (12)

Although this trigger provides different results depending on the structure of the transaction, it aligns better with the wording of Recital 17 as it targets the tranches providing credit protection

Forward-looking performance-related trigger under point (c)

“one forward-looking trigger”

RTS:

The **level** of the trigger shall be **determined by the parties to the securitisation**, as the relevant threshold would very much depend on the starting point of the risk distribution at inception (i.e. the same percentage of migration to higher risk buckets of a portfolio with very low risk at inception in comparison with that of a portfolio with medium or high risk would not have the same effect in the trigger).

Art. 4 specifies

- Where the originator estimates a PD for all exposures of the underlying portfolio of a securitisation ... the **increase in the exposure-weighted average PD** of the underlying portfolio compared to the corresponding value at the time of origination is **greater than a given percentage**.
- In **all other cases, ...the increase in the ratio of:**
 - (a) the outstanding **amount of underlying exposures assigned to higher credit risk buckets to**
 - (b) **the outstanding amount** of the underlying portfoliocompared to the corresponding proportion at the time of origination is **greater than a given percentage**

Rules on the differentiation between individual credit risk buckets

- Possibility to revert to non-sequential if the ratio falls below the given percentage, under strict conditions

Questions for consultation

Q1. Do you agree with the specification made in **Article 2**?

Q2. Do you agree with the aim of Article 3 with regard to ensuring that **the credit enhancement of the senior tranche does not fall below a certain threshold because of the non-sequential amortisation**?

Q3. Do you agree with the trigger set out in the Article or **would you prefer the alternative option in order to meet the aim of this additional backward-looking trigger**? Please justify your answer, providing, if possible, evidence of the outcome of both triggers based upon your past experience.

Q4. Which **level of the trigger** would you consider more appropriate and why?

Q5. Do you agree with the specification of the **forward-looking trigger in Article 4**? In your view, will the **possibility of switching back to non-sequential**, as set out in paragraph 6, be detrimental for the simplicity of the specific transaction and the objective of standardisation of STS on-balance-sheet securitisations?

Q6. According to market practice, is it common that **performance-related triggers can change several times the amortisation system of the tranches throughout the life of a synthetic securitisation**? If so in your view, please provide concrete examples of triggers, distinguishing between backward-looking and forward-looking triggers.

Q7. Do you agree that the **information that the originator shall provide under Articles 7 and 26d of the Securitisation Regulation includes the information needed by the investor providing protection** to understand and verify the functioning of the performance-related triggers in an STS on-balance-sheet securitisation?

Q8. Since as a first step before specifying the triggers above, the EBA reassessed the **triggers included in recommendation 2 on Amortization Structure of the EBA 2020 Report on significant risk transfer in securitisation** (see Section 5.2), and some elements from them were taken on board in the draft RTS, stakeholders are also invited to comment on the suitability of other triggers included in that recommendation for the purpose of these draft RTS.

Q9. Do you have **any other comments** on these draft RTS?

Next steps

Date	Milestone
20 December 2021	Publication Consultation Paper
28 February 2022	Closure Consultation Period
	Review Comments in response to the Consultation Paper and preparation final revised draft RTS
2022 Q2/Q3	Approval process final revised draft RTS
	Submission revised draft RTS to the Commission

Q&A

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