

Amending Regulation (EU) No 575/2013 as regards adjustments to the securitisation framework to support the economic recovery in response to the COVID-19 crisis

2020/0156(COD) - 24/07/2020 - Legislative proposal

PURPOSE: to amend the capital requirements regulations to maximise the capacity of institutions to lend and to absorb losses related to the COVID-19 pandemic, while still ensuring their continued resilience.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: [Regulation \(EU\) No 575/2013](#) of the European Parliament and of the Council, known as the Capital Requirements Regulation (the CRR), establishes together with Directive 2013/36/EU, known as the Capital Requirements Directive (the CRD), the prudential regulatory framework for credit institutions operating in the Union. One set of amendments, contained in Regulation (EU) 2017/2401, has implemented the revised securitisation framework adopted by the BCBS in December 2014 (the revised Basel framework).

In order to further promote the development of a high quality EU securitisation market based on sound practices, Regulation (EU) 2017/2401 also included amendments aiming at providing for a more risk-sensitive regulatory treatment for simple, transparent and standardised (STS) securitisations.

Securitisation can play an important role in enhancing the capacity of institutions to support the economic recovery, providing for an effective tool for funding and risk diversification for institutions. It is therefore essential in the context of the economic recovery post COVID-19 pandemic to reinforce that role and help institutions to be able to channel sufficient capital to the real economy.

As highlighted by the European Banking Authority (EBA) in its report of 6 May 2020 on the STS framework for synthetic securitisations, there is a need to introduce a specific framework for simple, transparent and standardised on-balance-sheet (STS) securitisations, which will free up regulatory capital and ultimately further strengthen the lending capacity of institutions in a prudentially sound manner. Specific treatment should also be introduced for non-performing exposures (NPE) securitisations.

This proposal is part of a ‘Capital Markets Stimulus Package’ to facilitate economic recovery post-COVID-19, which also includes legislative proposals to amend the [Prospectus Regulation](#), the [Markets in Financial Instruments Directive](#) (MIFID II) and the [Securitisation Regulation](#).

CONTENT: the proposed amendments to the CRR and to the securitisation regulations will enable institutions to maintain a high volume of lending to the economy in the coming months and therefore will provide an important contribution to the absorption of the impact of the shock of the COVID-19 crisis.

The Commission proposes three targeted amendments aiming at increasing the overall risk sensitivity of the EU securitisation framework that would make the recourse to the securitisation tool more economically viable for institutions within a prudential framework adequate to safeguard the EU financial stability.

More risk-sensitive treatment for STS on-balance-sheet securitisation

STS on-balance-sheet securitisation allows institutions to transfer credit risk through funded or unfunded credit protection bought or granted by other investors, freeing capacity for new lending to the real economy and ensuring a more efficient risk sharing among financial actors.

Following the recommendations of the EBA report, it is also proposed to introduce a targeted and limited in scope preferential treatment for STS on-balance sheet securitisation exposures, which focuses on the senior tranche. This would be done by extending the treatment currently provided in Article 270 of the CRR to a wider range of underlying assets.

Removal of regulatory constraints to the securitisation of non-performing exposures (NPEs)

When applied to NPE securitisations, this framework yields capital requirements that proved to be disproportionate, in particular for the so-called ‘formulaic approaches’ (i.e. the SEC-IRBA and SEC-SA). It is therefore proposed to amend the treatment of NPE securitisations by providing for a simple and sufficiently conservative approach based on:

- a flat 100% risk weight applicable to the senior tranche of traditional NPE securitisations and;
- on the application of a floor of 100% to the risk weights of any other tranches of both traditional and on-balance-sheet synthetic NPE securitisations that remain subject to the general framework for the calculation of risk-weighted exposures.

Recognition of credit risk mitigation for securitisation positions

It is proposed to amend Article 249(3) of the CRR which introduces an additional eligibility criterion for the recognition of unfunded credit protection for institutions applying the standardised approach to calculate capital requirements for securitisation exposures.

The proposal imposes a minimum credit rating requirement for almost all types of providers of unfunded credit protection, including central governments. This amendment will enhance the effectiveness of national public guarantee schemes assisting institutions’ strategies to securitise NPEs in the aftermath of the COVID-19 pandemic.