

AUTUMN WORKSHOP SERIES

UNITED KINGDOM – 24 NOVEMBER 2021



ON TODAY'S CALL



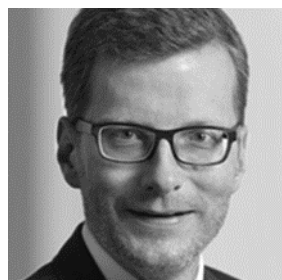
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AGENDA

WELCOME AND INTRODUCTION

- Dr. Christian Thun, European DataWarehouse

UPDATE ON REPORTING REQUIREMENTS IN THE UK

- Markus Schaber, European DataWarehouse Ltd.

UPDATE ON EDW REPORTING SOLUTIONS

- Sergio Rodas Sanchez, European DataWarehouse

STATUS OF THE UK SECURITISATION REGULATION AND THE UPCOMING HMT REPORT

- Maria Green, Allen & Overy

LATEST DEVELOPMENTS ON STS VERIFICATIONS OF SYNTHETIC SECURITISATIONS

- Ian Bell, PCS

CLIMATE POLICY AND TRANSITION RISK IN THE HOUSING MARKET

- Benjamin Guin, Bank of England

UPDATE ON REPORTING REQUIREMENTS IN THE UK

MARKUS SCHABER, EUROPEAN DATAWAREHOUSE LTD.

UPDATE ON REPORTING REQUIREMENTS IN THE UK



FCA enters examination stage in the registration of first UK securitisation repositories

The Financial Conduct Authority (FCA) announces that it has assessed completeness and now reached the examination stage in the assessment process of applications received from Securitisation Repositories (SRs) under the UK Securitisation Regulation.

The obligation to report public securitisations within the scope of the UK Securitisation Regulation to a SR that is registered and supervised by us will apply as soon as one SR is registered. The FCA will inform market participants when the registration of the first SR(s) is completed. The FCA has 40 working days in which to examine the application for registration and, if favourable, the entity will be registered as a SR.

The FCA encourages reporting entities to take all necessary preparatory measures to comply with their reporting obligations to a SR.

First published: 19/11/2021 | Last updated: 19/11/2021

Source URL: <https://www.fca.org.uk/news/statements/fca-enters-examination-stage-registration-first-uk-securitisation-repositories>

- EDW Limited is fully set up as UK securitisation repository
 - Stand-alone character with separate UK database and IT support elements
 - Operational setup including staffing completed
- UK regulatory developments
 - FCA has announced that it has assessed completeness and has now reached the examination stage in the assessment process of applications received from Securitisation Repositories (SRs) under the UK Securitisation Regulation
 - 40 day period is now relevant for examination stage
 - UK XML schema disclosure (TBC)
 - HMT call for evidence
 - EDW response
 - AFME response

UPDATE ON REPORTING REQUIREMENTS IN THE UK

- **Product developments**

- XML schema not yet officially published by FCA however
 - Testing by EDW based on new schema has been completed
 - EDW converter tool csv to XML available for FCA template
- Extended template for Rating agency reporting also for FCA template
- EDW supports template conversions to ESMA/FCA template
 - E.g. BoE to ESMA/FCA - Common fields, list field adjustments, new field requirements
- Other support elements

UPDATE ON EDW REPORTING SOLUTIONS

SERGIO RODAS SANCHEZ, EUROPEAN DATAWAREHOUSE

UPDATE ON REPORTING REQUIREMENTS

DISCLOSURE REQUIREMENTS

Everything you need to know about public securitisation reporting to a Securitisation Repository under the UK Securitisation Regulation

Disclosure Requirements - Documents to Report



Before Pricing

Documentation



Item Code	Document
[3]	Final offering document; prospectus; closing transaction documents, excluding legal opinions
[4]	Asset sale agreement; assignment; novation or transfer agreement; any relevant declaration of trust
[5]	Derivatives and guarantees agreements; any relevant documents on collateralisation arrangements where the exposures being securitised remain exposures of the originator
[6]	Servicing; back-up servicing; administration and cash management agreements
[7]	Trust deed; security deed; agency agreement; account bank agreement; guaranteed investment contract; incorporated terms or master trust framework or master definitions agreement or such legal documentation with equivalent legal value
[8]	Inter-creditor agreements; derivatives documentation; subordinated loan agreements; start-up loan agreements and liquidity facility agreements
[9]	Any other underlying documentation that is essential for the understanding of the transaction
[10]	STS Notification



Quarterly (Non-ABCP); Monthly (ABCP)

XML Data Templates



[1]	Underlying exposures or underlying receivables or credit claims XML	
[2] [11] or [12]	Investor report Inside Information or Significant Event	Common XML file to report [2] and [11]/[12] in a single XML file XML

WRITTEN CONFIRMATION

Reporting Entities (RE) are obliged to provide a written confirmation to the Securitisation Repository (SR) in line with the Regulatory Technical Standards (RTS) on operational standards for SRs.



When should it be submitted?

Within 5 working days of the first issuance of securities for securitisations

Upon any material changes to documents uploaded to the SR

On an annual basis



How should it be submitted?

Via upload to EDW's SR platform through EDITOR (web and SFTP) under item code – 13

As an email attachment to enquiries@eurodw.co.uk with the subject: "Written Confirmation - <SecID or DealName>"



What about Due Diligence?

EDW shall review the written confirmation document to ensure it reflects the underlying documentation uploaded

EDW shall verify that the document has been signed by a legal representative or authorized person of the RE

*Applicable to any public deal that has documents uploaded against items 3-9



Which privacy measures are in place?

The written confirmation document will be stored in a secure location accessible only by EDW

Data users will be made aware that a written confirmation has been received and verified by EDW, but will not gain access to the actual document itself

EDW CSV2XML CONVERTER

CSV2XML CONVERTER ENHANCEMENTS

Streamlined conversion and upload process

Prepare

- Prepare ESMA / FCA files easily from CSVs
- **Automatically correct errors in the LEI names**
- **Sign CSVs for a seamless upload experience**

Deliver

- **Automatic upload of converted XMLs to EDITOR**
- **Choose to upload to EDITOR as Draft or Published**
- Automatic delivery to Rating Agencies of choice

Prepare and Upload XML Data Templates

Valid Zip File Name: <SecuritisationIdentifier>_<CutOffDate>.zip (e.g. 9857106A0EDK9899AM17N192215_2018-05-31.zip)
Sorting of Loan IDs: Loans and collaterals must be sorted in the same order using the "New Underlying Exposure Identifier" field
Signature File: Optional; Directly publish XML files to EDITOR by digitally signing your CSVs using your EDW Key-Pair

Data File (CSV, .zip): 222100WLX...21-03-07.zip
 ☒ Autocorrect GLEIF Name-LEI Mismatch

Signature File (.asc): 222100WLX...03-07.zip.asc
 XML Schema ☒ ESMA ☐ FCA

Invalid LEI	ND LEI	Correct Legal Name	Autocorrected Legal Name	Total
0	0	0	5	5

Invalid LEI - number of LEIs that cannot be found in the GLEIF database
ND LEI - number of LEIs with ND values
Correct Legal Name - number of legal names that were already correct
Autocorrected Legal Name - number of legal names that were incorrect and updated to the correct names
Total - total number of LEI / legal name pairs that were validated

Autocorrection of legal names

CSV2XML CONVERTER ENHANCEMENTS

Streamlined conversion and upload process



Monitor

- Track EDITOR Upload status real-time
- Download Feedback files in Excel
- Reminders for timely uploads

Data Uploads due in the next 7 days

Hurray! No data uploads due this week.

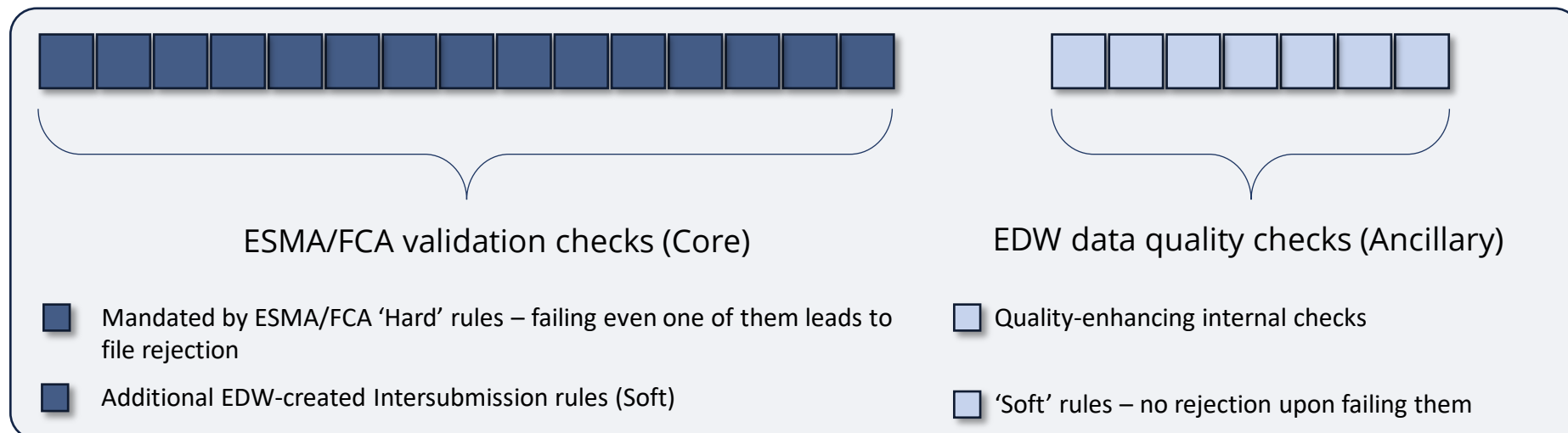
Live view from EDITOR Refreshes every 60 seconds 

SECURITISATION	SECID	PCD	UE	IR	SE	SCORE	STARTED_AT	PUBLISHED_ON	FEEDBACK
Sanity 2021-10-27	391200CADUOGJA7YWC76N202104	2021-10-31	Published	Published	Published	A1	2021-11-03 14:22	2021-11-03 14:33	
Sanity 2021-10-27	391200CADUOGJA7YWC76N202104	2021-10-22	Failed	Failed	Failed		2021-10-27 11:34		
Sanity 2021-10-27	391200CADUOGJA7YWC76N202104	Signature Verification Failed					2021-10-27 11:22		
Sanity 2021-10-27	391200CADUOGJA7YWC76N202104	2021-09-15	Published	Published	Draft	A1	2021-11-11 16:48		

FOCUS ON EDW DATA QUALITY PLUS

NEW ANCILLARY DATA QUALITY RULES – COMING SOON

- EDW is in the process of creating 1,000+ new data quality rules applicable to the ESMA/FCA templates:
 - Underlying Exposures
 - Investor Report
 - Significant Event / Inside Information
- Similar to the ECB-style rules
- Consistently applied among all asset classes
- ‘Soft’ rules resulting in ‘Warnings’
- Applicable only on structured uploads
- To be rolled out by the end of 2021 / beginning of 2022



EDW PRIVATE AREA

DISCLOSURE REQUIREMENTS

Differences between public and private securitisations in EDITOR – EDW's Securitisation Repository solution

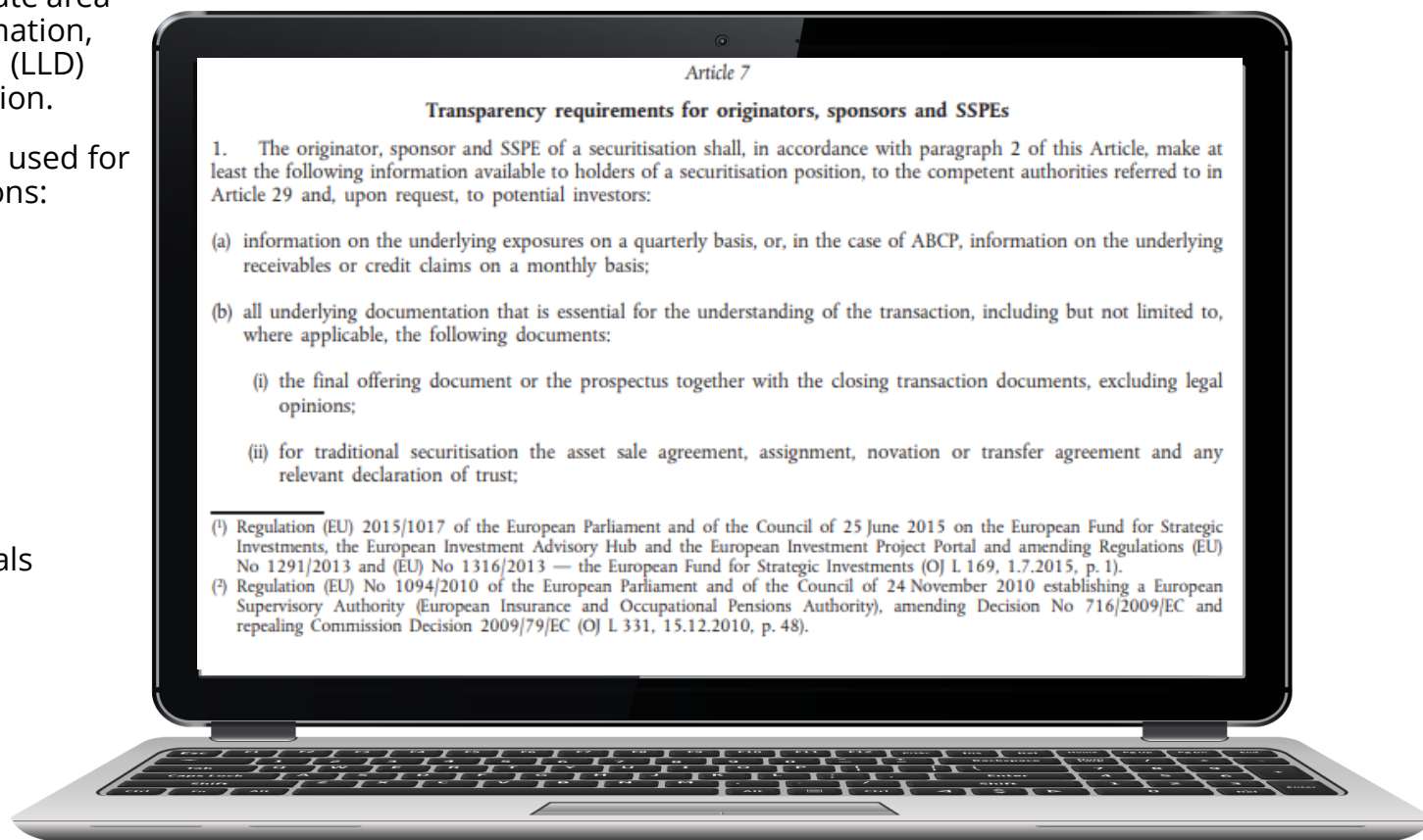
ESMA/FCA Reporting Templates	Public	Private
Underlying Exposures	✓	✓
Investor Report	✓	✓
Inside Information / Significant Event	✓	–

Disclosure requirements based on the RTS/ITS on operational standards for SR	Public Securitisation Repositories (SR)	Private (exempted from reporting to SR)
XML format	✓	✓
XML Schema checks	✓	–
ESMA/FCA Scoring	✓	–
Content checks (validation rules)	✓	–
ND Thresholds	✓	–

PRIVATE TRANSACTION DISCLOSURE REQUIREMENTS

Private securitisation transactions use the EDW private area to comply with disclosure requirements under Art. 7 of the Sec. Reg.

- EDW implemented a private area solutions to collect information, including Loan Level Data (LLD) and relevant documentation.
- The private area could be used for the following securitisations:
- ABCP
- Non-ABCP such as:
 - ABS
 - CLOs
 - NPL deals
 - Synthetic deals
 - Tranched cover deals



STATUS OF THE UK SECURITISATION REGULATION AND THE UPCOMING HMT REPORT

MARIA GREEN, ALLEN & OVERY

TOPICS FOR DISCUSSION

- 1. UK Sec Reg review / HMT call for evidence and what we expect in the terms of the next steps**
- 2. UK Recast risk retention**
- 3. End of the post-Brexit transitional relief/TTP at the end of March 2022**

LATEST DEVELOPMENTS ON STS VERIFICATIONS OF SYNTHETIC SECURITISATIONS

IAN BELL, PRIME COLLATERALISED SECURITIES (PCS)

PCS

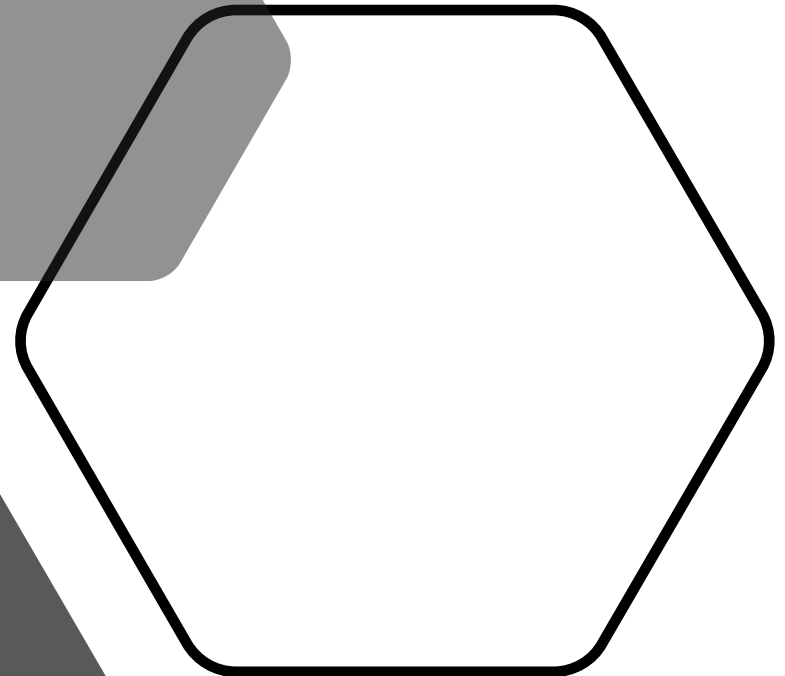
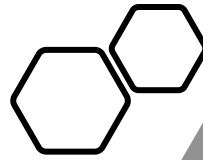
Setting the Standard for Securitisation

Synthetic STS – the new rules
EDW Workshop – United Kingdom



Agenda

- Synthetics – a (very brief) overview
- The new STS synthetic regime





Public Service Announcement

Key notions

Synthetic securitisations

“Synthetic securitisations” are called “on-balance-sheet securitisations” in the legislation

They are the exact same thing but someone obviously thought “on-balance-sheet” sounded less sinister than “synthetic”

In this presentation we will use the more common term of “synthetic”, but bear this identity in mind when you read documents from the public sector



Synthetics an overview

Key notions

How do they work?

The Classic Three

The *vast majority* are structured using one of 3 legal devices.

- **Guarantees** – where the protection sellers issue a guarantee of the reference pool for which they receive a stream of regular premia
- **Credit Derivatives** – usually a credit default swap where the protection sellers agree to swap the defaulted amounts against a stream of agreed payments
- **Credit Linked Notes** – where the protection sellers purchase a limited recourse debt instrument (e.g., a bond) issued by the protection buyer or an SPV and receive interest on that instrument. The principle is repaid net of any defaults on the reference pool

Note: Remember this slide when we discuss collateral and the STS Regulation



Synthetics an overview

Key notions

How do they work?

Funded or Unfunded?

In a funded transaction that is not a CLN:

- the protection sellers put up cash
- the cash is used as collateral for the protection sellers' obligations
- the unused cash is returned at the end of the deal
- this allows the protection buyer to avoid the protection sellers' credit risk
- this allows the regulator to remove the risk from the protection buyer's balance sheet *rather* than substitute that of the protection sellers

In a funded transaction that is a CLN:

- the CLN is a debt instrument, so the cash is simply the principal under the note
- the principal can either be taken as such by the protection buyer or can be set aside to collateralise the protection buyer's obligations to repay the CLN

In an unfunded transaction:

- the protection sellers put up no cash
- the protection buyer relies on the protection sellers' credit when calling on them to compensate it for a default



Synthetics an overview

At the heart of the risk transfer

“the Credit Event”
and the
“compensation for losses”
by the protection provider

The Credit Event – Loss Payments

Credit Event: an event that triggers a payment by the protection seller e.g.:

- Payment default of reference obligation
- Insolvency of reference obligor
- Restructuring of the reference obligation
- Further credit events are possible

Credit Protection Payment: a payment by the protection seller to the protection buyer on the occurrence of a credit event

- First: Interim loss payment (bank's accounting loss, 180 days after credit event)
- When the loss is finally determined: realized loss payment (can mean additional loss payment or reimbursement)
- After sched. maturity, a maximum time for workout of up to two years: payment of losses if the workout is still ongoing,
- The affected principal remains outstanding, although the investor does not receive any coupons any more

Verification Agent: an independent agent who checks the occurrence of the credit event and confirms all the conditions for a credit protection payment are met

Synthetic STS Regime

THE LAW

- EU 2017/2402 – General framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation (“STS Regulation”)

amended by
- (EU) 2021/557 – amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis (“Synthetic STS Regulation”)

STS Regime

Synthetic STS

- Synthetic securitisations were not allowed to be STS in the original 2017 legislation
- But the European legislators instructed the European Commission to look into creating a “synthetic STS” category
- In 2021, this was done by passing an amending regulation which came into force on 9th April 2021
- The new regulation also amended certain provisions of the STS Regulation relating to retention and NPLs to make NPL securitisations easier
- Reminder: in the new regulation, “synthetic securitisations” are called “on-balance-sheet securitisations” and “true sale securitisations” are called “traditional securitisations” – just so you should know.

STS Regime

Synthetic STS Why the change?

CRR impact of a synthetic securitisation

- CRR includes a “non-neutrality” principle for securitisations
- Under non-neutrality, if a pool X is securitized into three tranche (A,B,C), under the CRR, $K_A + K_B + K_C$ is substantially more than K_X
- If you enter into a synthetic securitisation removing the credit risk of tranche B, you should “mathematically” achieve a large reduction of capital requirement for pool X **but...**
- ...by doing so, the originator “creates” a new securitisation corresponding to the unprotected tranche A. Since tranche A is usually retained by the originator, the new capital requirement for this part A of the pool (K_A) can be almost the same (and in some cases larger!) than the old K_X
- By allowing the synthetic securitisation to access the lower STS CRR capital requirements for tranche A, the new regulation softens the impact of “non-neutrality” and makes (many) more pools capable of meaningful risk transfer.

STS Regime

Synthetic STS Key provisions

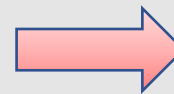
- Synthetic STS is only available to prudentially regulated European banks
- Synthetic securitisations are subject to the **same retention requirements** as true sale securitisations
- The only regulatory benefit provided for synthetic STS is access for the **senior retained tranche** to the lower STS CRR capital calibrations
- No regulatory benefits are available to the investors/protection sellers
- No Solvency II benefits are available for synthetic STS
- The criteria for synthetics are (with a couple of exceptions) the same as for true sale securitisation plus additional ones
- There are around **145 to 160 criteria** for synthetics vs 103 for “true sale”
- Third-party verification agents are available for synthetic STS securitisations on the same basis as for “true sale” transactions.

STS Regime

Synthetic STS Criteria

Original 2017 STS Criteria
for true-sale securitisations

Art.20	Simplicity
Art.21	Standardisation
Art.22	Transparency



New 2021 STS criteria for
synthetics

	Art.26.e	Synthetic additions
Art.20	Art.26.b	Simplicity plus
Art.21	Art.26.c	Standardisation plus
Art.22	Art.26.d	Transparency plus

STS Regime

Synthetic STS Criteria High and Lowlights

Article	Heading	Key Provisions
Art. 26.b	Simplicity	<ul style="list-style-type: none"> • Originator=EU Bank • Only on-balance sheet exposures • SRT only (i.e. art.249 CRR compliant) • Homogeneity (via new RTS) • No credit impaired borrowers
Art. 26.c	Standardisation	<ul style="list-style-type: none"> • Pro-rata amortisation allowed but with triggers • Duties of the verification agent
Art. 26.d	Transparency	<ul style="list-style-type: none"> • AUP requirement • Art. 7 disclosure requirements
Art. 26.e	Synthetic rules	<ul style="list-style-type: none"> • Minimum mandatory credit events • Nominated Verification Agent • Limited originator call options • Very limited investor call options • Limited use of synthetic excess spread (SES) • Restricted list of synthetic structures • Specific rules on collateral usage

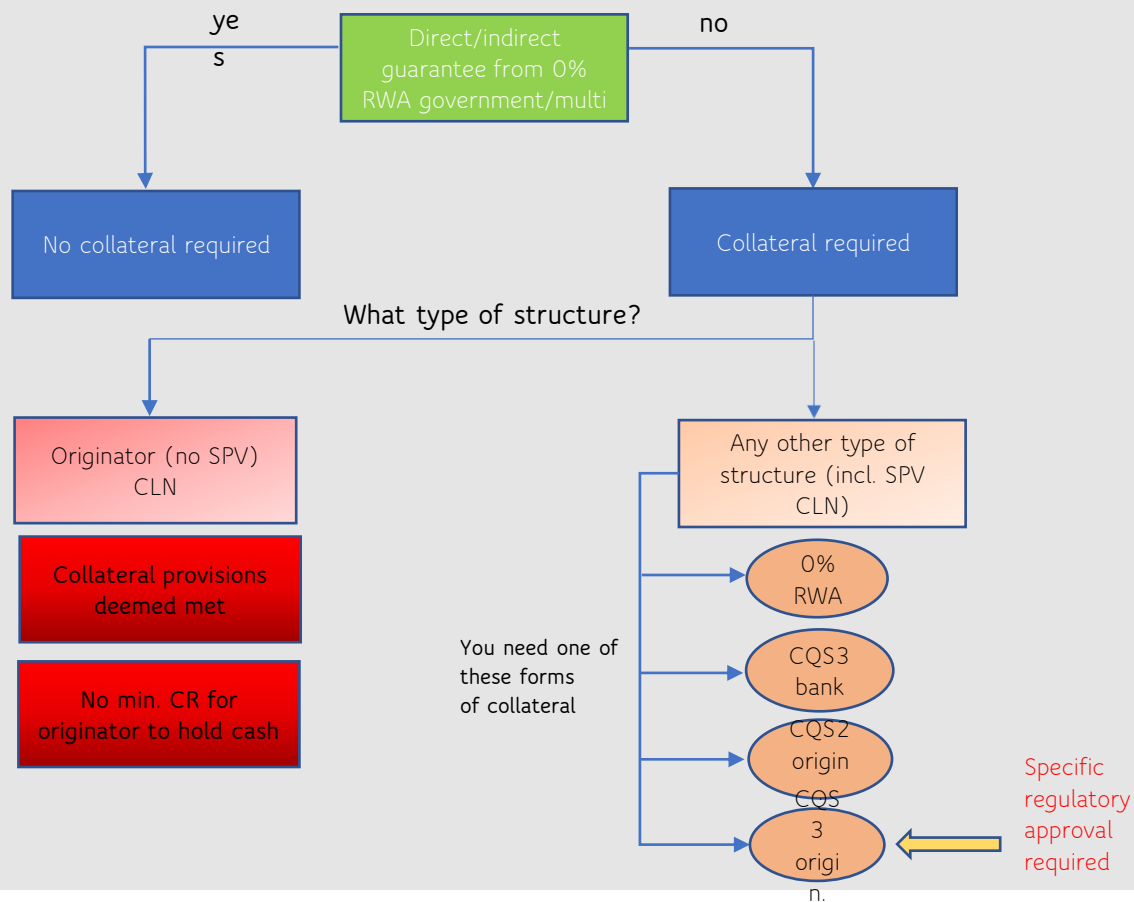
STS Regime

Synthetic STS Criteria High and Lowlights

- *Originator calls limited to*
 - Investor default
 - Regulatory call
 - Time call (but with justification to regulator)
 - Clean up call
- *Investor calls limited to*
 - Originator failure to pay
 - Originator material breach
- *Restricted list of possible structures*
 - Guarantees from 0% RWA entities
 - Guarantees guaranteed by 0% RWA entities
 - Guarantees OR credit derivatives OR CLN **but only if collateralised**
- *SES can be used but*
 - Fixed amount or percentage
 - “use it or lose it” rule
 - Must be equal to or less than one-year EL

STS Regime

Synthetic STS Collateral Requirements



STS Regime

Synthetic STS
Still pending

- Homogeneity
 - The EBA has until 10th October to publish a draft RTS defining "homogeneity"
 - The existing "true sale" Homogeneity RTS will be the starting point
- Pro-rata triggers
 - The EBA has until 30th June to publish a draft RTS on the specification and calibration of performance-related triggers
- Sustainable Disclosure
 - The ESAs had until 10th July to publish a draft RTS on the disclosure of sustainability information
 - Only impacts a voluntary disclosure
 - The deadline was missed
- SES
 - The EBA will need to publish a draft amendment to the CRR to allocate capital to SES
 - The level will crucially determine the feasibility of all synthetics using excess spread
- Green securitisation?
 - The EBA has until 1st November to publish a report on how to structure a Green securitisation framework.

STS Regime

Synthetic STS Grandfathering

- Article 43(a) 3 of the new regulation allows for synthetic transactions entered into before April 9th, 2021 to be STS
- To be grandfathered, the synthetic STS transaction must meet all the synthetic STS criteria
- Some criteria must have been met at the time of creation (26b. 1,2,3,4,5,7,8,9,11,12; 26c.1 and 3; 26e.1,2,3,6,7,8 and 9)
- Special rules exist for transactions that benefited from special treatment under the old article 270 of CRR (certain synthetic SME securitisations). Those transactions are automatically grandfathered as STS irrespective of whether they meet the new STS criteria

PCS

Setting the Standard for Securitisation

PCS - Who we are





PCS

Prime Collateralised Securities (PCS) was set up by market stakeholders as an independent, not-for-profit initiative to help rebuild a safe securitisation market in Europe

Setting the Standard for Securitisation pcsmarket.org



Our Mission

- The aim of the Prime Collateralised Securities (“PCS”) initiative is to strengthen the securitisation market as a sustainable investment and funding tool for both investors and originators, promote growth in the real economy and improve market resilience by supporting standards of quality, transparency, and simplicity
- The PCS initiative – as an independent entity – has, since its foundation in 2012, sought to define and promote standards of “best practice” in both the “true sale” and “risk transfer” asset backed markets: standards of quality, transparency and simplicity. It did this initially through its labels and now through its work as a verification agent but also through its advocacy and thought leadership
- PCS is committed to retaining its not-for-profit status

Setting the Standard for Securitisation pcsmarket.org



Strong Team of Securitisation Experts

- We are a team of experts with an average experience of 25 years in securitisation markets
- We are based in 7 cities across Europe and have offices in London and Paris
- Our team members speak on average three languages including English, French, German, Italian, Spanish

Market Outreach Team



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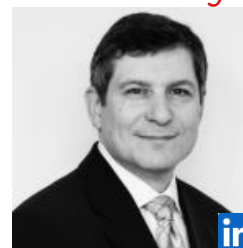


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Analytics Team



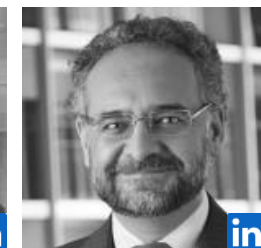
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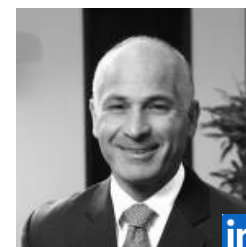
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for the full CV please
click on the photo

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PCS Members & Permanent Observers

PCS Members

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PCS Permanent Observers

Association for Financial Markets in Europe (AFME)	Irish Debt Securities Association (IDSA)
Dutch Securitisation Association (DSA)	KfW
Eurofinas	LeaseEurope
European Bank for Reconstruction and Development (EBRD)	
European Banking Authority (EBA)	
European Central Bank (ECB)	
European Fund and Asset Management Association (EFAMA)	
European Financial Services Round Table (EFR)	
European Investment Bank (EIB)	
European Investment Fund (EIF)	
European Securities and Markets Authority (ESMA)	
Insurance Europe	
International Association of Credit Portfolio Managers (IACPM)	



Thank you for your attention

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CLIMATE POLICY AND TRANSITION RISK IN THE HOUSING MARKET

BENJAMIN GUIN, BANK OF ENGLAND



Climate Policy and Transition Risk in the Housing Market

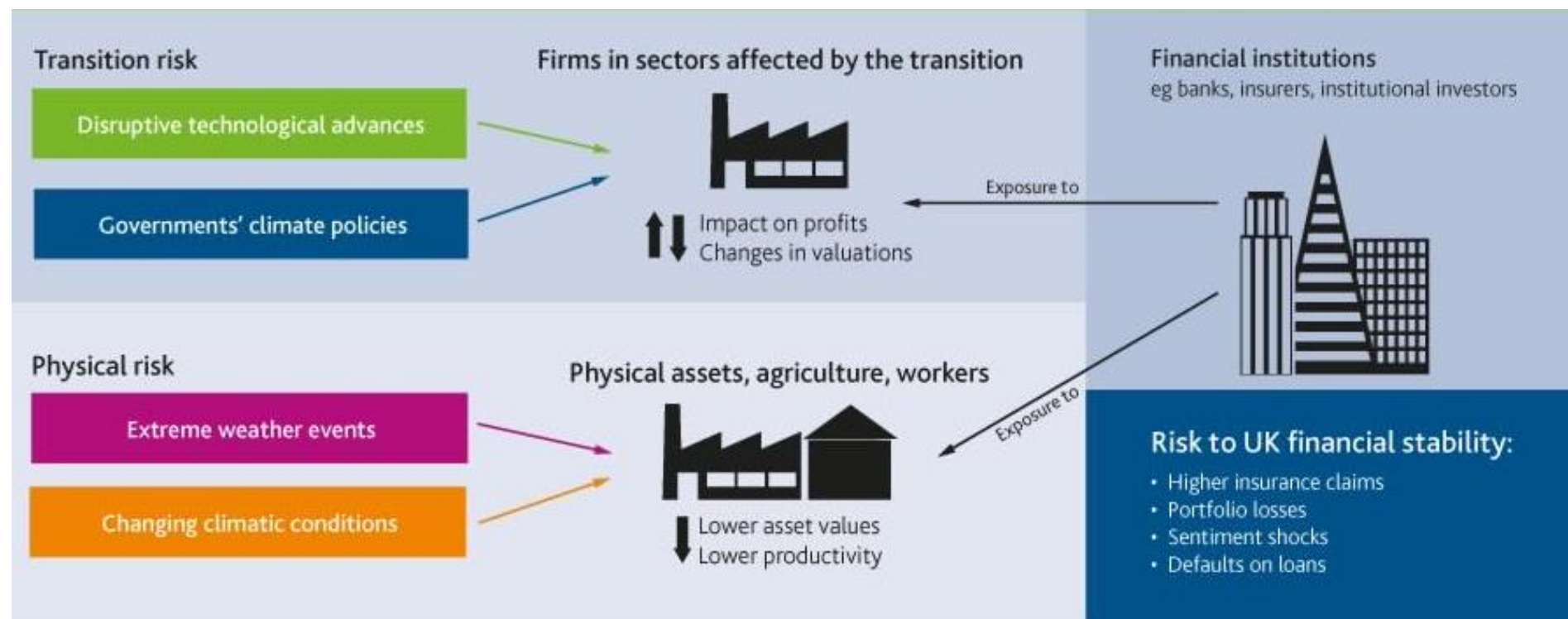
Benjamin Guin

(joint work with Alex Gibberd and Konstantinos Ferentinos)

European DataWarehouse UK Virtual Workshop on 24 November 2021

Any views expressed are solely those of the authors and so cannot be taken to represent those of the Bank of England or the Prudential Regulation Authority.

Motivation: Are concerns of transition risk from climate change justified?



Source: Bank of England

In this paper we look at a government intervention in the UK housing market



Government

introduces a climate policy addressing greenhouse gas emissions in the UK housing market.



Houses and flats

may affect prices of properties that are under the scope of the policy.



Banks

may affect collateral values of mortgages in the banking book.

We study the introduction of the Minimum Energy Efficiency Standard (MEES 2018) in England and Wales in April 2018



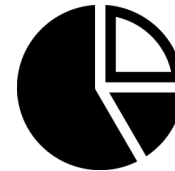
We examine three implications of this policy intervention



Change in property prices?



Loan-to-value distribution
of mortgages?



Wealth distribution
among homeowners?

We use transaction-level data from 2015 to 2019



Property transactions

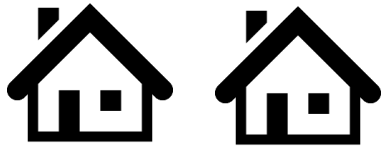
includes the transaction date and the price paid.



Energy efficiency rating

for all properties that have been constructed,
sold or let since 2008.

We employ a Difference-in-Difference design with matching



Propensity score matching

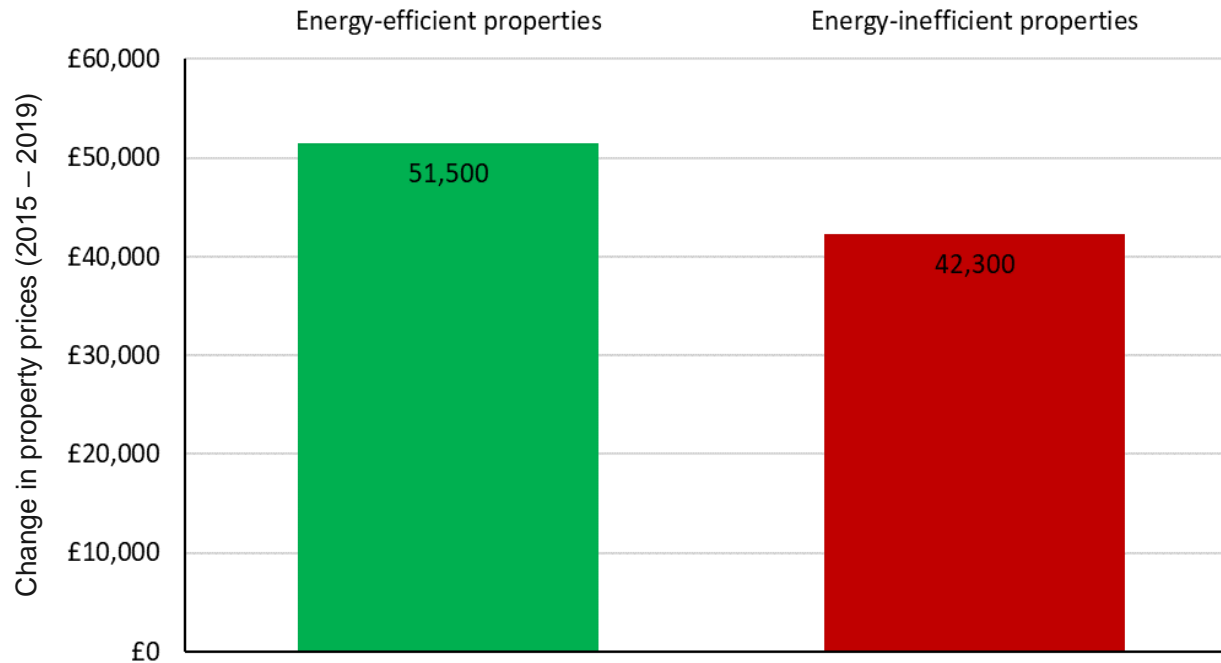
ensures that we compare only properties that are like-for-like.



Difference-in-difference analysis

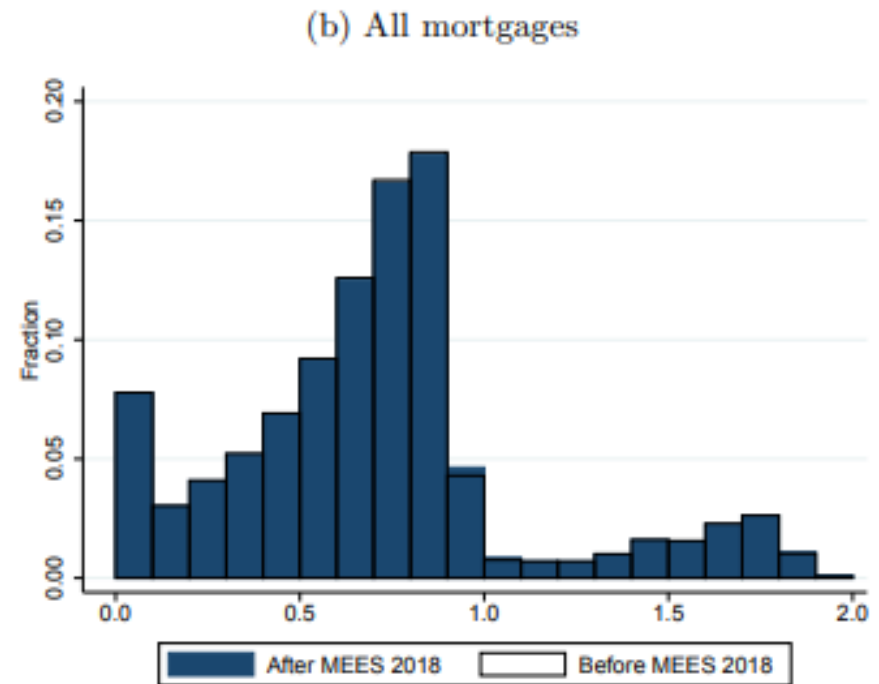
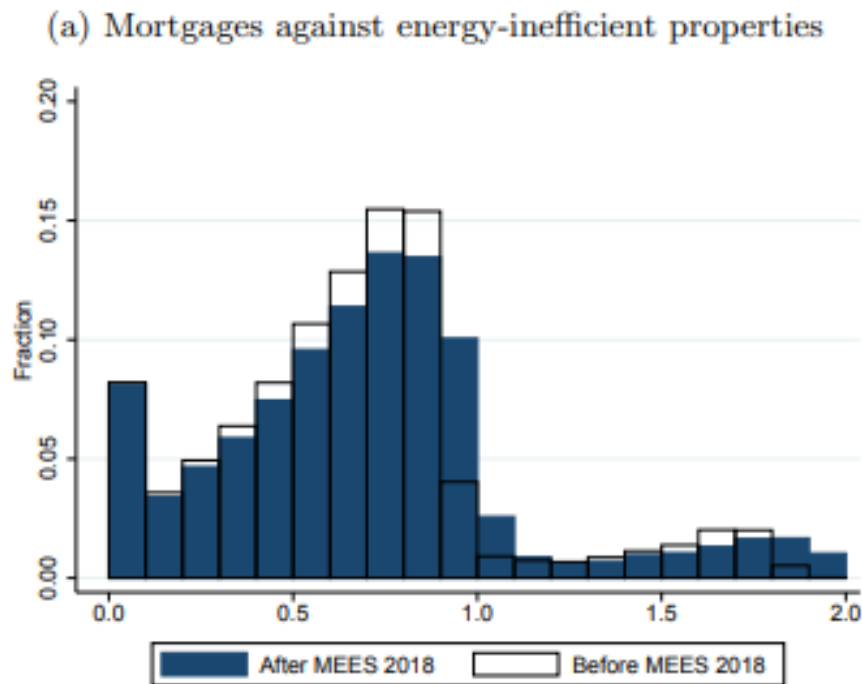
estimates the causal effect of the MEES 2018 on property prices.

There is evidence of transition risk in the housing market



Prices of energy-inefficient properties affected by the MEES 2018 increased about £9,200 less relative to unaffected ones.

There are limited implications for the LTV distribution of mortgages



There are moderate increases in wealth inequality among UK homeowners

	Gini coefficient
	(1)
Before MEES 2018	34.40%
After MEES 2018	33.40%
After MEES 2018 + £9,000 (treatment)	32.23%

Our key takeaways

- This paper provides **novel evidence of transition risk in the housing market**
 - relevant for market participants with respect to uncertainty of collateral values to climate shocks.
 - relevant for the calibration of climate stress tests which can include climate shocks.
- This specific policy intervention had
 - only **moderate implications for financial stability**
(as the policy only slightly raises the share of high LTV mortgages).
 - some implications in terms of **increases in wealth inequality** among UK homeowners.



Thanks

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