

AUTUMN WORKSHOP SERIES

FRANCE – 6 OCTOBER 2021



ON TODAY'S CALL



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AGENDA

WELCOME AND INTRODUCTION

- Dr Christian Thun, European DataWarehouse

UPDATE ON DATA QUALITY AND REPORTING REQUIREMENTS

- Nicolas Deschamps, European DataWarehouse

UPDATE ON EDW SERVICES

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LATEST REGULATORY DEVELOPMENTS

- Vincent Danton, Herbert Smith Freehills

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- Michael Osswald, STS Verification International

RESEARCH ACTIVITIES

- Ludovic Thebault, PhD, European DataWarehouse

WELCOME AND INTRODUCTION

DR CHRISTIAN THUN, EUROPEAN DATAWAREHOUSE

EUROPEAN DATAWAREHOUSE REGISTERED AS A SECURITISATION REPOSITORY BY ESMA IN JUNE 2021

Frankfurt, Germany— 25 June 2021

European DataWarehouse (EDW) today announced it has been designated as a Securitisation Repository by the European Securities and Markets Authority (ESMA).

More than three years after the Securitisation Regulation (EU)2017/2402 came into force, and following an extensive application process, the registration of the first Securitisation Repositories closes the final gap in the disclosure framework.

In January 2018, European DataWarehouse announced its intention to become a Securitisation Repository under ESMA, and in September 2020 submitted its application.

The designation is another milestone in EDW's almost 10 years of operation as the only Eurosystem designated Securitisation Repository. It is also in line with EDW's mission to enhance transparency in the securitisation market and demonstrates the company's strong commitment to delivering market-leading regulatory reporting solutions.

In the course of 2021, EDW has worked closely with the reporting entities and provided them with access to a fully RTS-compliant EDITOR platform in a sandbox environment to assist them in meeting the Securitisation Repository requirements and ensure a smooth transition into the new disclosure era.

EUROPEAN DATAWAREHOUSE IN APPLICATION TO BECOME A SECURITISATION REPOSITORY REGISTERED AND SUPERVISED BY THE FCA

EUROPEAN DATAWAREHOUSE

PRESS RELEASE

European DataWarehouse Submits Application to FCA to be Registered as a UK Securitisation Repository

FRANKFURT, GERMANY – 18 December 2020 – European DataWarehouse (EDW) today announced it has submitted its application to become a Securitisation Repository in the UK registered and supervised by the Financial Conduct Authority (FCA).

The extensive application describes in detail the sound operational and technical aspects of the company and its market-leading reporting solutions which are necessary for EDW to collect and maintain UK securitisation records.

Prof. José Manuel González-Páramo, Chairman of European DataWarehouse stated: "Building on its proven track record as the designated securitisation repository of the Eurosystem, I am confident that EDW will submit a successful application and be named as a securitisation repository with the FCA".

This release follows earlier announcements [from European DataWarehouse regarding the establishment of a UK subsidiary, European DataWarehouse Ltd](#), as well as a UK office. These developments, along with today's press release, demonstrate European DataWarehouse's ongoing commitment to its UK customers before and beyond Brexit.

European DataWarehouse was established as part of the implementation of the European Central Bank's ABS loan-level initiative. Since its inception as an initiative by the leading participants of the European securitisation market, EDW acted as a repository that has collected loan-level data and relevant documentation for over 1,600 transactions.

About European DataWarehouse GmbH

European DataWarehouse (EDW) is the first and the only centralised data repository in Europe for collecting, validating and distributing detailed, standardised and asset class specific loan-level data for Asset Backed Securities (ABS) and private whole loan portfolios. EDW stores loan-level data and

"European DataWarehouse (EDW) today announced it has submitted its application to become a Securitisation Repository in the UK registered and supervised by the Financial Conduct Authority (FCA)."

"The extensive application describes in detail the sound operational and technical aspects of the company and its market-leading reporting solutions which are necessary for EDW to collect and maintain UK securitisation records."

UPDATE ON DATA QUALITY AND REPORTING REQUIREMENTS














































NICOLAS DESCHAMPS, EUROPEAN DATAWAREHOUSE

UPDATE ON DATA QUALITY

DIFFERENCES BETWEEN ECB AND ESMA REPORTING ON SELECTED FIELDS (1/4)

Sample of 9 French RMBS transactions

Delta between ECB & ESMA reporting
(based on % of total number of loans, latest
PCD available as of 2021-09-24)

| Transaction | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|-------------------------------------|--|---|---|--|---|---|---|---|---|
| % of similar loan IDs (ECB vs ESMA) |  |  |  |  |  |  |  |  |  |
| Borrower IDs (RREL5) |  1% |  5% |  |  |  |  15% |  12% |  10% |  13% |
| Collateral IDs (RREC4) |  21% |  21% |  |  |  |  |  |  |  |
| Origination date (RREL23) |  12% |  10% |  |  |  |  |  |  |  |
| Maturity date (RREL24) |  11% |  9% |  |  |  |  1% |  1% |  1% |  1% |

Source: European DataWarehouse



No delta between the ECB and the ESMA reporting



[X]%

Delta > 0% and < 15% (percentage indicated)

























































[X]%

Delta >= 15% (percentage indicated)

DIFFERENCES BETWEEN ECB AND ESMA REPORTING ON SELECTED FIELDS (2/4)

Sample of 9 French RMBS transactions

Delta between ECB & ESMA reporting
(based on % of total number of loans, latest PCD
available as of 2021-09-24)























































| Transaction | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|-------------------------------------|--|--|---|--|---|---|---|---|---|
| % of similar loan IDs (ECB vs ESMA) |  |  |  |  |  |  |  |  |  |
| Original balance (RREL29) |  12% |  10% |  |  |  |  |  |  |  |
| Current balance (RREL30) |  c.0% |  c.0% |  c.0% |  c.0% |  |  |  |  |  c.0% |
| Payment due (RREL39) |  12% |  10% |  |  |  |  4% |  4% |  3% |  2% |
| Current interest rate (RREL43) |  12% |  10% |  |  |  |  c.0% |  c.0% |  |  |
| Primary income (RREL16) |  10% |  10% |  |  |  |  |  |  |  |

Source: European DataWarehouse

DIFFERENCES BETWEEN ECB AND ESMA REPORTING ON SELECTED FIELDS (3/4)

Sample of 9 French RMBS transactions

Delta between ECB & ESMA reporting
(based on % of total number of loans, latest PCD
available as of 2021-09-24)

| Transaction | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|--|---|---|---|---|---|
| % of similar loan IDs (ECB vs ESMA) |  |  |  |  |  |  |  |  |  |
| OLTV (RREC16) |  12% |  10% |  100% |  100% |  100% |  |  |  |  |
| CLTV (RREC12) |  12% |  10% |  100% |  100% |  100% |  |  |  |  |
| Arrears balance (RREL67) |  12% |  10% |  |  |  |  |  |  |  |
| Default amount (RREL71) |  12% |  10% |  |  |  |  |  |  |  |
| Geographic region (coll.) (RREC6) |  100% |  100% |  100% |  100% |  100% |  |  |  |  |

Source: European DataWarehouse

DIFFERENCES BETWEEN ECB AND ESMA REPORTING ON SELECTED FIELDS (4/4)

Sample of 9 French RMBS transactions

- In this sample, most of the differences stem from:
 - The use of 'ND' values in the ECB reporting but not in the ESMA reporting (where numerical values or '0' may be reported), and vice versa. This is the most common issue.
 - The use of '0' in the ECB reporting vs numerical values in the ESMA reporting, and vice versa.
 - Incorrect encoding (not UTF-8) of the original CSV files before conversion to XML, leading to special characters not recognised in the ESMA reporting.
 - Additional spaces (e.g. [XYZ] vs [XY Z]) or '0' (e.g. [XYZ] vs [0XYZ]) in the ESMA reporting.
 - Non-identical values with little deltas (e.g. data provided with a 1 basis point difference in one reporting vs the other).

UPDATE ON REPORTING REQUIREMENTS

DISCLOSURE REQUIREMENTS

Everything you need to know about public securitisation reporting to a Securitisation Repository under the EU 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.eu 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

CHANGES TO THE EUROSISTEM'S LOAN-LEVEL DATA REQUIREMENTS (1/2)

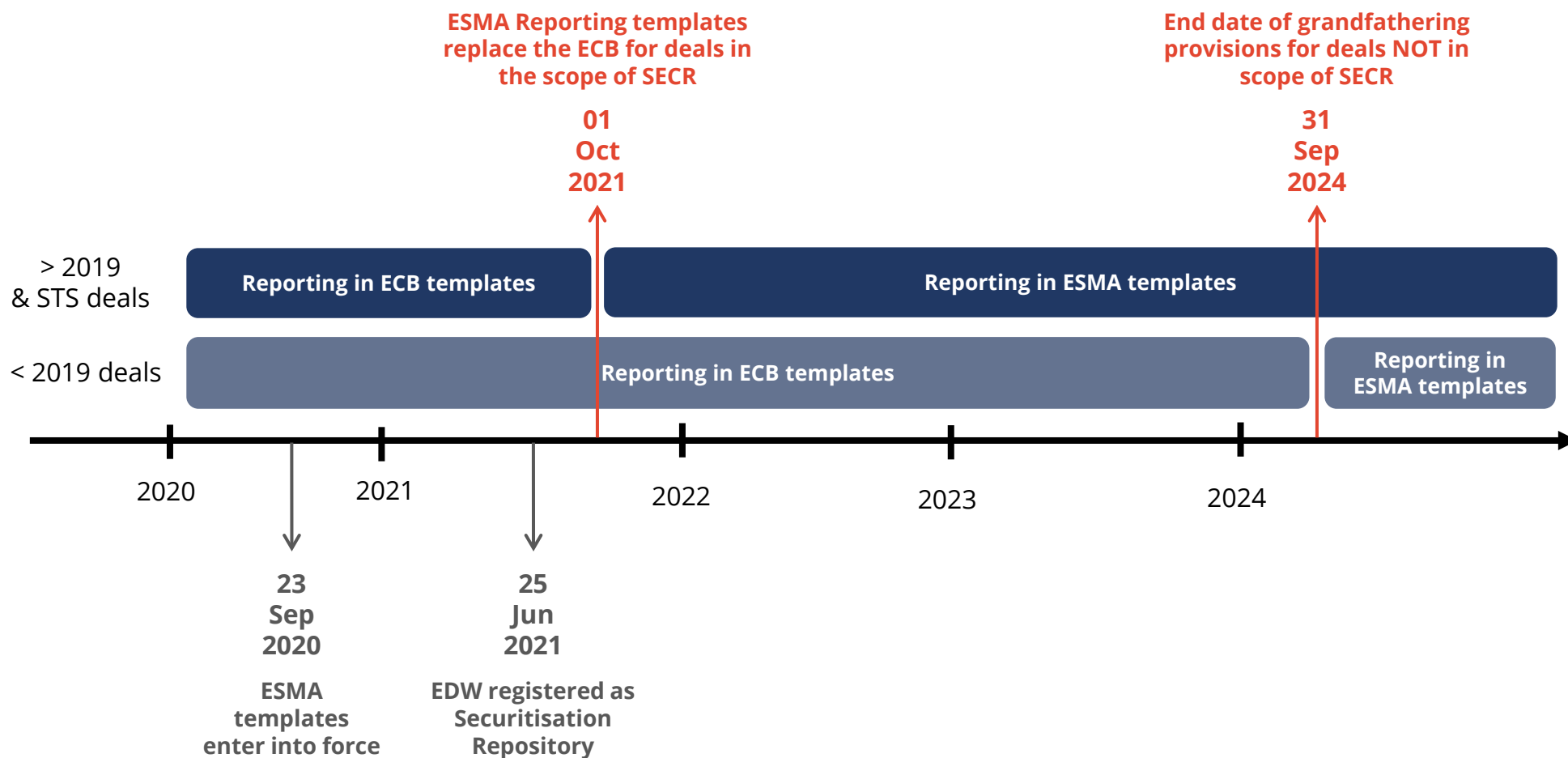
On 28 June 2021, the ECB published a press release surrounding changes to the Eurosystem's loan-level data requirements. This communication follows the [ECB's announcement](#) that the transparency requirements of the EU Securitisation Regulation will be incorporated into the Eurosystem collateral framework.

The main changes can be summarised in the following points:

- The ESMA reporting templates have replaced the current ECB templates from the 1st of October 2021, for the transactions under the scope of the Securitisation Regulation
- The same Eurosystem loan-level data requirements apply to all asset-backed securities (ABSs) seeking collateral eligibility, irrespective of any disclosure exemption under the Securitisation Regulation (it entails the submission of the Underlying Exposures, Investor Report, and Inside Information / Significant Event templates)
- A specific ECB SME DECC reporting template has been created for non-marketable debt instruments backed by eligible credit claims (DECCs)

Source: ECB [press release](#) as of 28 June 2021

CHANGES TO THE EUROSISTEM'S LOAN-LEVEL DATA REQUIREMENTS (2/2)



Source: Timeline is based on the information provided in the ECB [press release](#) as of 28 June 2021

UPDATE ON EDW SERVICES

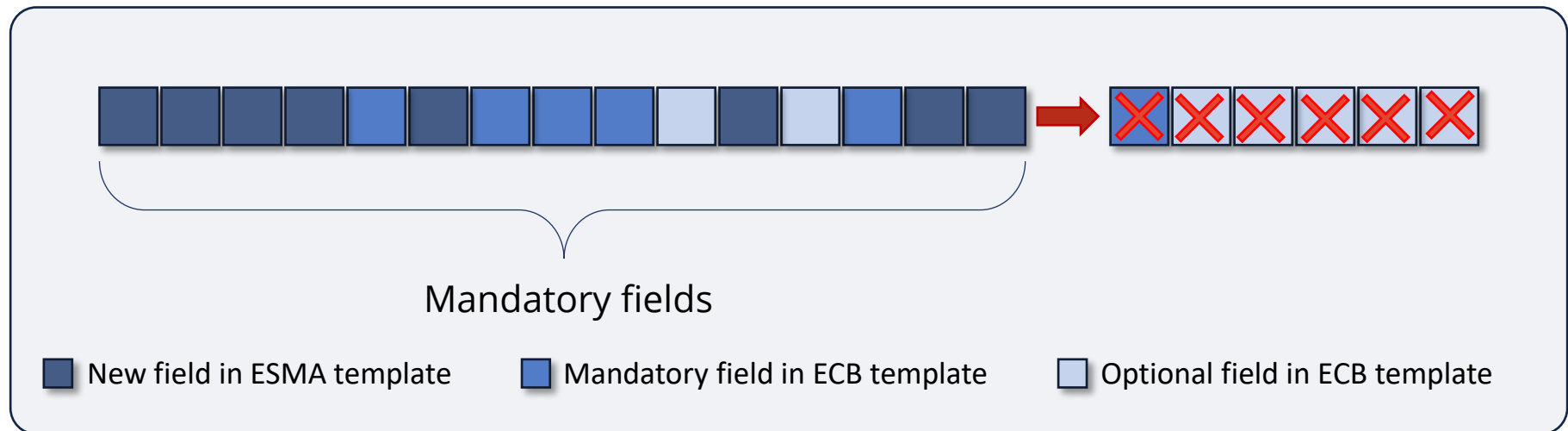
MARINE MAITRE, EUROPEAN DATAWAREHOUSE

EDW EXTENDED TEMPLATES

LOSS OF INFORMATION

- Removal of some fields from ECB templates
- Loss of valuable information with the new reporting templates, notably for credit rating agencies

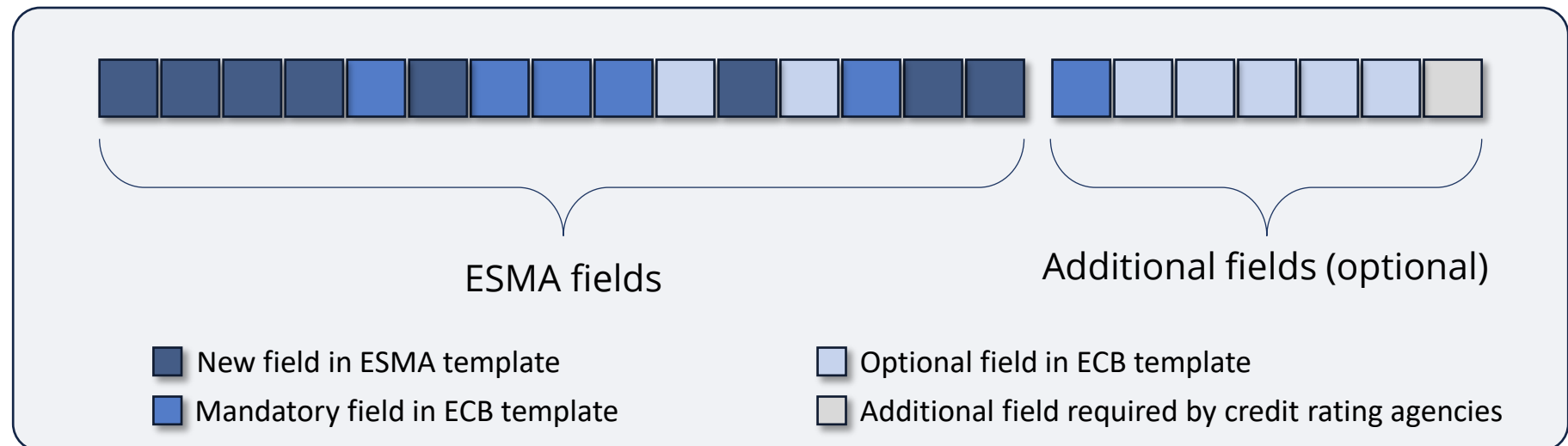
Structure of ESMA templates



CRUCIAL DATASET FOR CREDIT RATING AGENCIES

- Extended templates launched in collaboration with the 4 leading credit rating agencies (Moody's, S&P, Fitch, and DBRS)
- Regulatory-required data fields and critical additional information

Structure of EDW Extended Templates



SEVERAL KEY BENEFITS USING EDW'S EXTENDED TEMPLATES

Easy-to-use format

The data can be submitted in CSV-format

Save time and resources

No need to prepare a second loan tape for credit rating agencies

Free of charge

The templates are available free of charge to EDITOR users

Restricted access only

Templates provided via SFTP with access for selected parties only



A SEAMLESS UPLOAD PROCESS

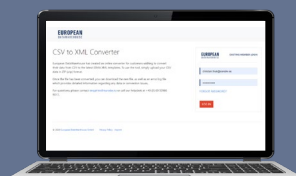
1

Upload EDW
Extended Templates
in CSV-format to the
converter



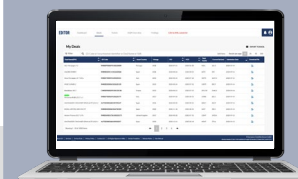
2

The ESMA fields are
automatically
converted into an
XML file



3

The XML files to be
published in EDITOR for
ESMA-regulatory compliance



The EDW Extended
Templates are automatically
stored in CSV-format for
credit rating agencies



4

NEW ECB TEMPLATE: SME DECC

ECB DECC TEMPLATE

- Became applicable as of the 1st of October
- Same as ECB SME Template, except the field numbers

| ECB Loan Level Data - Reporting Template for SME - December 2012 | | |
|---|--------------------------|---|
| <i>Newly Added Assets - Initial Rating Point, Substituted Assets, Product</i> | | |
| Field number | Field Name | Field Definition & Criteria |
| AS1 | Pool Cut-off Date | Current pool or Portfolio cut-off date. |
| AS2 | Pool Identifier | The unique transaction or pool identification string / transaction name |
| AS3 | Loan Identifier | Unique identifier for each loan |
| AS4 | Originator | Lender that advanced the original loan |
| AS5 | Servicer Identifier | Unique identifier per servicer to flag which entity is servicing the loan |
| AS6 | Servicer Name | Servicer name |
| AS7 | Borrower Identifier | Unique identifier per borrower - to enable borrowers with multiple loans in the pool to be identified (e.g. further advances / other loans shown as |
| AS8 | Group Company Identifier | Unique group company identifier which identifies the borrowers ultimate parent company |



| ECB Loan Level Data - Reporting Template for SME DECC | | |
|---|--------------------------|---|
| <i>Newly Added Assets - Initial Rating Point, Substituted Assets, Product</i> | | |
| Field number | Field Name | Field Definition & Criteria |
| AD1 | Pool Cut-off Date | Current pool or Portfolio cut-off date. |
| AD2 | Pool Identifier | The unique transaction or pool identification string / transaction name |
| AD3 | Loan Identifier | Unique identifier for each loan |
| AD4 | Originator | Lender that advanced the original loan |
| AD5 | Servicer Identifier | Unique identifier per servicer to flag which entity is servicing the loan |
| AD6 | Servicer Name | Servicer name |
| AD7 | Borrower Identifier | Unique identifier per borrower - to enable borrowers with multiple loans in the pool to be identified (e.g. further advances / other loans shown as |
| AD8 | Group Company Identifier | Unique group company identifier which identifies the borrowers ultimate parent company |

EDW PRIVATE AREA

DISCLOSURE REQUIREMENTS

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

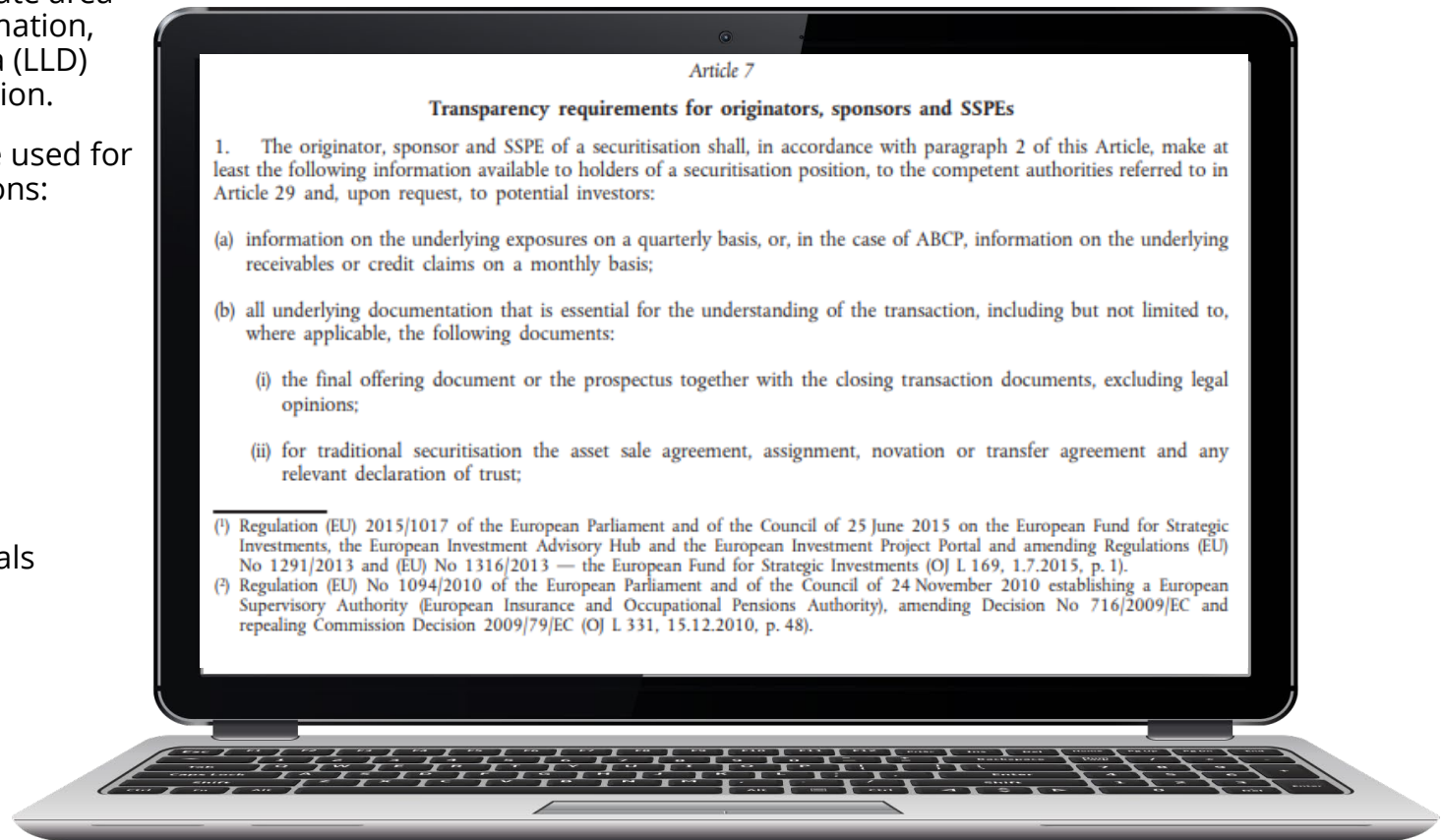
| ESMA Reporting Templates | Public | Private |
|--|--------|---------|
| Underlying Exposures | ✓ | ✓ |
| Investor Report | ✓ | ✓ |
| Inside Information / Significant Event | ✓ | – |

| 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 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



LATEST REGULATORY DEVELOPMENTS

VINCENT DANTON, HERBERT SMITH FREEHILLS



HERBERT
SMITH
FREEHILLS

Recent legal aspects in securitisation

Improvements made to the Securitisation Regulation

6 October 2021

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The take aways

- ✓ Securitisation Regulation has been recently adapted for NPL transactions (servicer can now be the retainer)
- ✓ Label STS now available for synthetic securitisations
- ✓ No green label for securitisations at this stage

Some basics about the Securitisation Regulation

- SR is a EU Regulation that does not need national implementation (it is not a EU Directive). This means that all EU countries shall have the same interpretation. Some guidelines are already available made by EBA and ESMA (*i.e.* at EU level).
- SR has broadly two parts:
 - ❖ Common rules for **all** securitisations (public, private, synthetic, NPL...etc...).
 - Due diligence requirements for investors (investors shall check some key features such as credit granting)
 - Transparency requirements = make key information available to investors (holders of securitisation position) so that investors make their due diligence
 - Risk Retention
 - Ban of resecuritisation
 - Same sound and well-defined criteria for credit-granting in respect of (i) securitised exposures and (ii) non-securitised exposures
 - ❖ STS label
 - One stage approach for non ABCP transactions (in practice, public deals of financial receivables such as RMBS or CMBS)
 - Two stage approach for ABCP transactions (in practice, trade receivables refinanced by ABCP)
 - Not available for NPL
 - Available for synthetic securitisations since very few time

Bird eye view of what is new with the Securitisation Regulation

Securitisation has been recently strengthened to facilitate certain type of transactions.

- Two EU regulations were published on 31 March 2021:
 - (i) Regulation (EU) 2021/557 of 31 March 2021 amending the Securitisation Regulation (the "**SR Amendment**"); and
 - (ii) Regulation (EU) 2021/558 of 31 March 2021 amending the CRR (the "**CRR Amendment**").
- The purpose of the SR Amendment is to:
 - (i) remove obstacles to the securitisation of **NPL transactions** (without, however, allowing NPL transactions to be STS); and
 - (ii) extend the STS securitisation framework to **synthetic securitisation**.
- **No green label at this stage**

SR has been adapted to NPL transactions

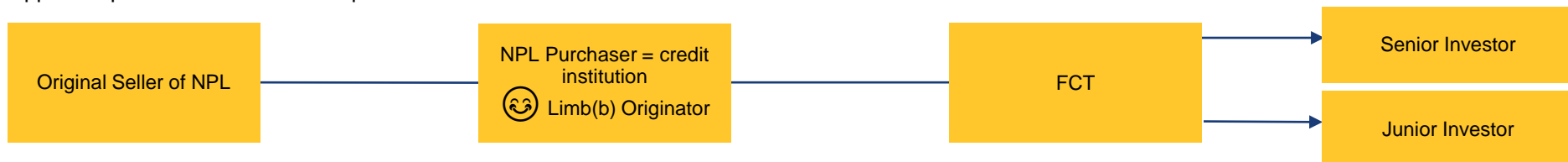
Securitisation Regulation as published on 2019 and NPL transactions did not articulate well with each other.

- **Eligible retainer:**

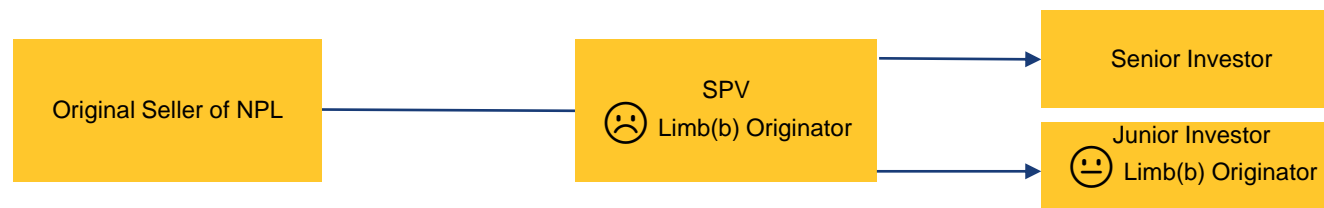
- ❖ Original seller (not possible in NPL context)
- ❖ Sponsor (burdensome and needs to be credit institution or investment firm where NPL leading purchasers are most often not licensed)
- ❖ Originator limb(b) = *purchases a third party's exposures on its own account and then securitises them* :
 - sole purpose test requirement = *an entity shall not be considered to be an originator where the entity has been established or operates for the sole purpose of securitising exposures*
 - In some pass through structures, this was sometimes a bit artificial for this reason

- **Structures seen in the markets**

Approach possible where the NPL purchaser holds a licence of credit institution



If the NPL purchaser is not regulated – a more “risky” approach: “pass through” approach



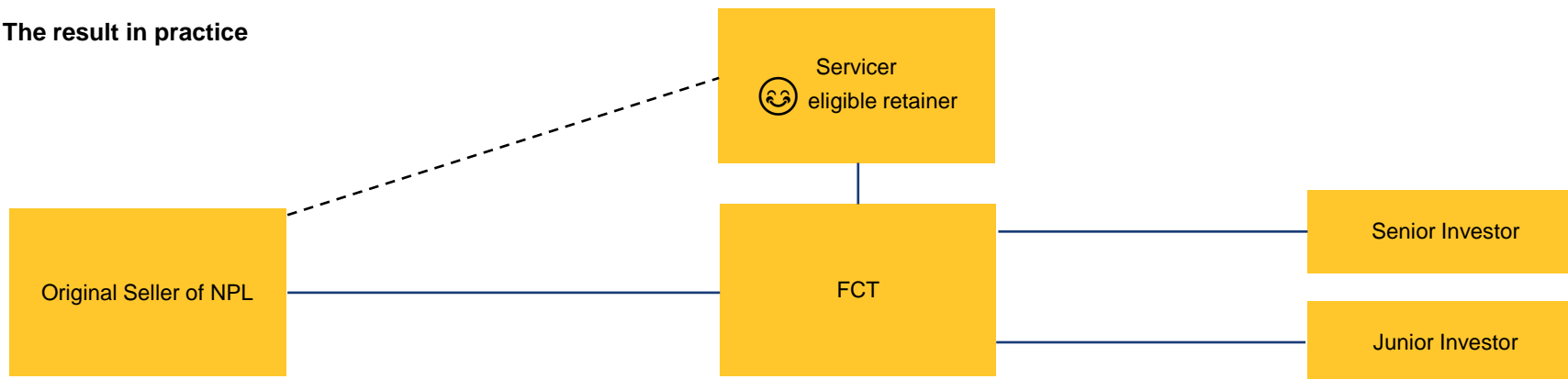
- **Standard clause in each NPL sale agreement entered in to by original sellers: avoiding to “involve” the seller of non-performing exposures at any cost.**
- **Questions that were unanswered:**
 - ❖ Nominal value vs net value in the context of risk retention of NPE securitisations
 - ❖ Credit granting requirements = *originators, sponsors and original lenders shall apply to exposures to be securitised the same sound and well-defined criteria for credit-granting which they apply to non-securitised exposures*. Limb(b) originators shall check this criteria for the original seller (not really relevant in NPL context)

SR has been adapted to NPL transactions

- **What are the changes ?**

- ❖ **Servicer can now be the eligible retainer** if it can demonstrate that it has expertise in servicing exposures of a similar nature to those securitised and that it has well-documented and adequate policies
- ❖ **Amount to be retained: confirmation that it is 5% of the discounted value of the receivables** (i.e. not the nominal value) (*The actual risk of loss for investors does, therefore, not represent the nominal value of the portfolio, but the discounted value, namely, net of the price discount at which the underlying assets are transferred. It is therefore appropriate, in the case of NPE securitisations, to calculate the amount of the risk retention on the basis of that discounted value.*)
- ❖ **Credit granting requirements: onus is now put on the selection and pricing of the exposures, NOT the credit granting** (or NPE securitisations, however, the credit granting standards applicable at the origination of the securitised assets are of minor importance due to the specific circumstances including the purchase of those non-performing assets and the type of securitisation. Instead, the application of sound standards in the selection and pricing of the exposures is a more important factor with respect to investments in NPE securitisations)

- **The result in practice**



- **Our experience so far**

- In France, usual NPL purchasers are servicers. They need now to team up with other unlicensed investors (e.g. US or UK funds) in co-investment structures. Some of such new investors do not wish their « partner » acquire receivables from the NPL seller, they only need them for servicing.
- « Pass through approach » is however still used

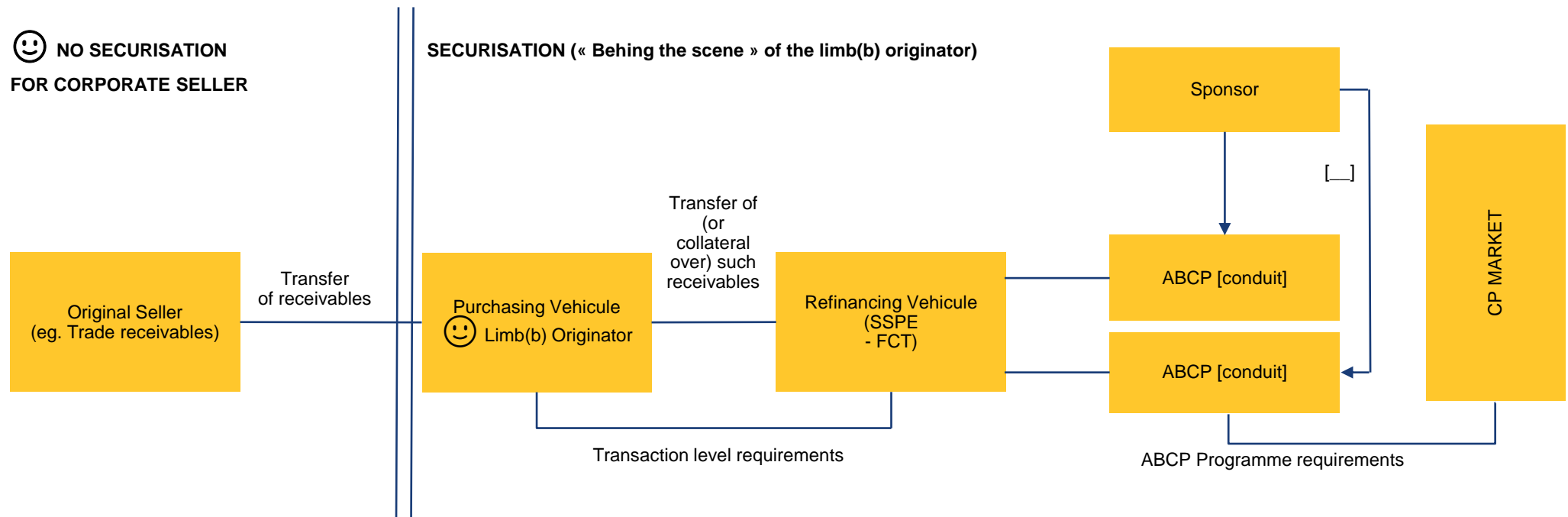
Green securitisations: where do we stand ?

- What currently exists: article 22(4) of the SR: *"In the case of a securitisation where the underlying exposures are residential loans or auto loans or leases, the originator and sponsor shall publish the available information related to the **environmental performance** of the assets financed by such residential loans or auto loans or leases, as part of the information disclosed pursuant to point (a) of the first subparagraph of Article 7(1)"*.
- In line with the current trend to give more importance to ESG criteria and accountability in the financial sector, new article 45bis of the SR provides that an EBA report on *"developing a specific sustainable securitisation framework for the purpose of integrating sustainability-related transparency requirements into the [Securitisation Regulation]"* shall be published on November 2021. This report shall also provide guidance as to the synergies between the SR and (i) the Taxonomy Regulation (Regulation (EU) 2020/852) and (ii) the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088), which both aim at establishing a framework for ESG criteria as applied by financial market players.
- **As such, for the time being, there is no green label per se for securitisation transactions.**
- From a practical standpoint, and despite there not being an 'official label', several market players have already labelled transactions as "sustainable" or "green" securitisations. See for example CA-CIB issuance of a green ABCP note, raising USD 25 million, financing electric vehicles in client auto loan and lease pools (7 July 2020) – the "green" factor lies in the fact that the refinancing relates to receivables which contribute to energy and environmental transition.

Focus on reporting requirements for private transactions

- In private transactions (i.e. no offering circular), the wish of the market is rather simple: avoid to burden corporate originators with reporting requirements to the extent possible
- If a private transaction is **not** an ABCP Transaction
 - ❖ **First strategy:** avoid the qualification of securitisation to avoid common rules under the SR that are "over the top" for originators (corporates in particular): risk retention and transparency requirements – "*no securitisation opinions*"
 - ❑ A securitisation is transaction is "*a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranced*" (not the same approach than in the US). Tranching = securitisation. **No tranching = no securitisation**
 - ❑ A securitisation does not necessarily involve a transfer if the SSPE originates its own underlying exposures and securitises them by issuing debts instruments that are tranced
 - ❖ **Second strategy:** draft a "simplified prospectus"
- If a private transaction is an ABCP Transaction
 - ❖ **First: avoiding to "involve" the corporate seller of securitised exposures at any cost:** the purchasing entity between the corporate seller and the refinancing vehicle having access to the CP markey shall qualify at "Limb(b) Originator". Such "Limb(b) Originator" will be applied common rules under the SR (not the corporate seller which stays outside the securitisation)
 - ❖ **Second: the burden of reporting requirement is for the Sponsor of ABCP programmes** (article 25(6) of the SR): "*The sponsor shall be responsible for compliance with Article 7 at ABCP programme level and for making available to potential investors before pricing upon their request*"
 - ❖ **Third: key is that some information may be communicated on an aggregate form** – article 7 of the SR: "*In the case of ABCP, the information described in points (a), (c)(ii) and (e)(i) of the first subparagraph shall be made available in aggregate form to holders of securitisation positions and, upon request, to potential investors*"

Focus on reporting requirements for private transactions – ABCP Transactions



- ✓ Articles 7(1) and 25 (6) of the SR: transparency requirements shall be complied with **by the Sponsor**
- ✓ the Original Seller:
 - Agrees that the purchasing entity communicates any information required to obtain the appropriate prudential treatment (no mention of securitisation at its level)
 - Representations given by the Original Seller (i.e. eligibility criteria) are mirrored between the Purchasing Entity and the Refinancing Vehicle
- ✓ Data are given by the Sponsor to ABCP investors on an aggregate basis as per article 7 of the SR (cash flow, credit enhancement, credit quality, performance...) – EBA have produced templates

LATEST DEVELOPMENTS ON STS VERIFICATIONS

MICHAEL OSSWALD, STS VERIFICATION INTERNATIONAL



THE STS VERIFICATION PROCESS – THE STRUCTURED PATH TO YOUR SUCCESS.

Latest Developments on STS Verifications

Michael Osswald

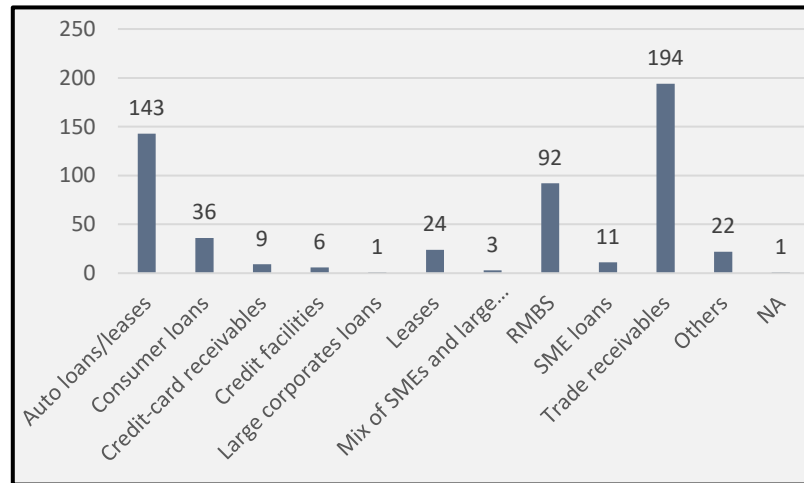
STS Verification International GmbH ("SVI")

European Data Warehouse French Virtual Workshop, 6 October 2021

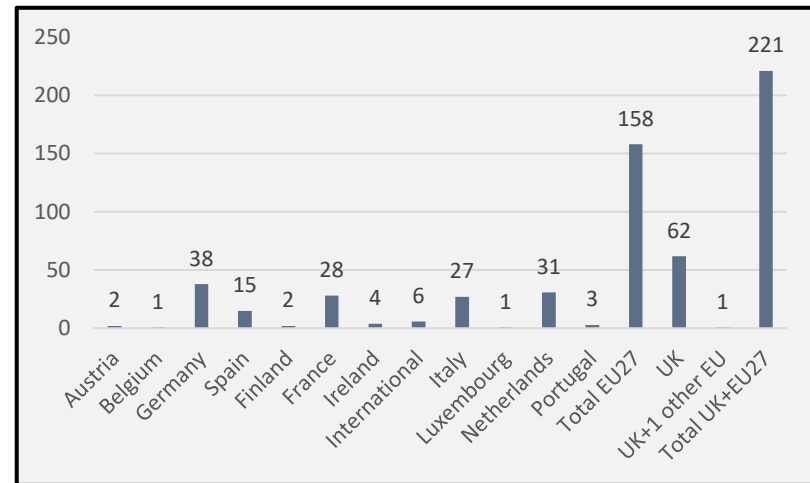


DEVELOPMENT OF THE MARKET FOR STS TRANSACTIONS

Distribution of all STS-notified Securitisations by Asset Class (2019-2021YTD)*)



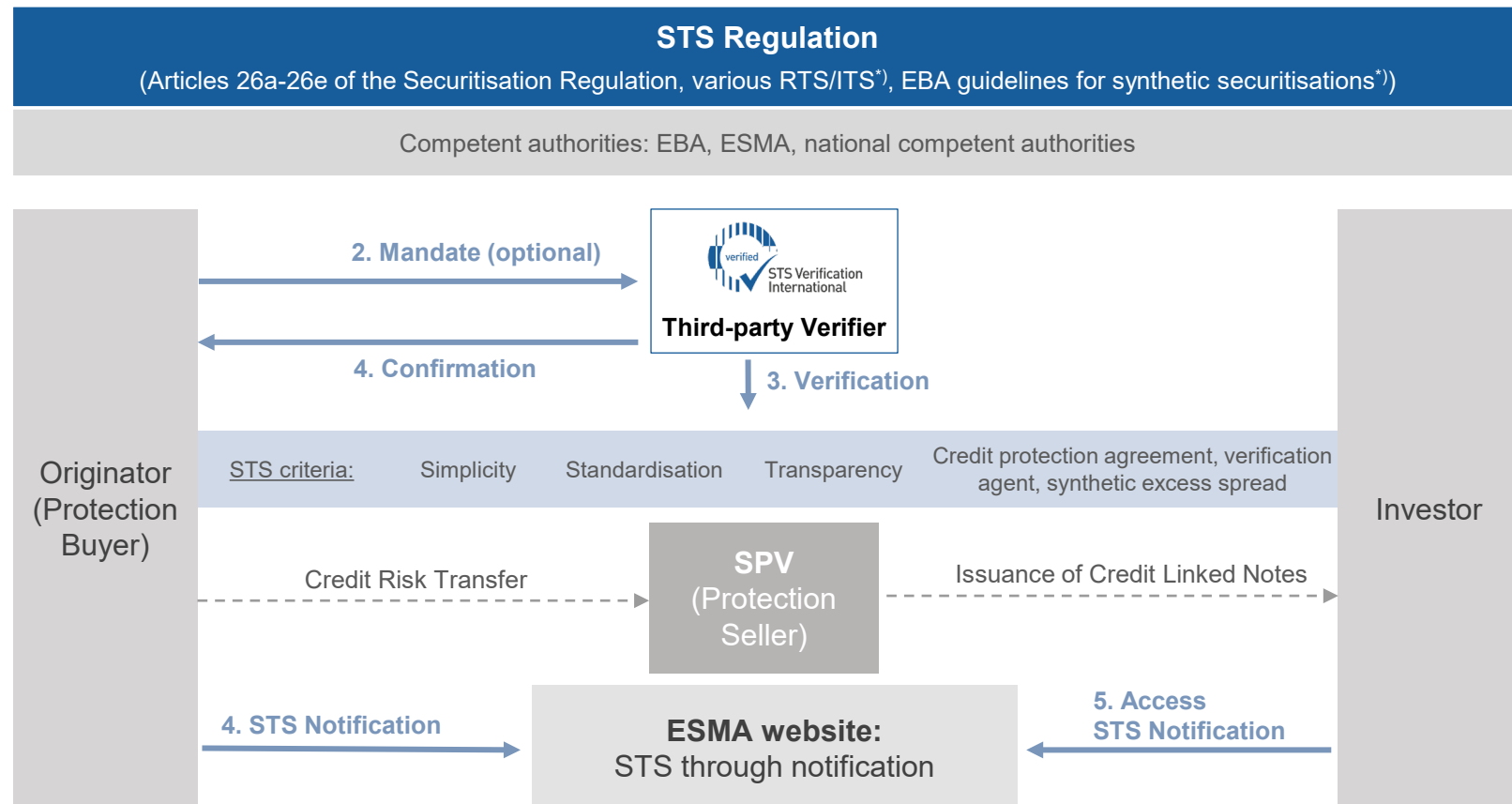
Distribution of public STS-notified Securitisations by Jurisdiction (2019-2021YTD)*)



*) Period 1.1.2019 – 30.08.2021; Source: ESMA Website

- Since the introduction of the STS-segment, 543 securitisations have been notified as STS-compliant (266 non-ABCP vs. 273 ABCP vs. 4 Synthetic, 224 public vs. 319 private transactions)
- STS-compliant transactions can be notified to ESMA as either “public” or “private” transactions, with resulting vastly different level of disclosure
- Following Brexit, more than 80 UK securitisations have been removed from the ESMA list of STS-notified transactions in a „clean-up exercise“ at the end of 2020/early 2021

SYNTHETIC ON-BALANCE SHEET SECURITISATIONS



^{*)} Currently in preparation or requested to be prepared

STS FOR SYNTHETIC ON-BALANCE-SHEET SECURITISATIONS

Comparison between the STS Criteria for synthetic on-balance-sheet securitisations and the STS Criteria for non-ABCP traditional securitisations

DELETED STS CRITERIA

- Art. 20 (1) – (5): True sale criteria
- Art. 20 (13): repayment of the securitisation positions not predominantly dependent on the sale of assets securing the underlying exposures
- Art. 21 (9): Clear terms for defaulted receivables and priority of payments

NEW STS CRITERIA

- Art. 26b (1) – (2): Originator requirements and origination of underlying exposures
- Art. 26b (3): On-balance-sheet holding of the underlying exposures by the originator or a group entity
- Art. 26b (4): No further credit hedging of the portfolio
- Art. 26b (5): Compliance with credit risk mitigation rules of the CRR
- Art. 26c (9): Reference register
- Art. 26e (1): Credit events
- Art. 26e (2): Credit protection payment
- Art. 26e (3): Credit protection agreement (extension period for workout, credit protection premiums)
- Art. 26e (4): Third-party verification agent
- Art. 26e (5), (6): Transaction termination provisions (originator, investors)
- Art. 26e (7): Synthetic excess spread
- Art. 26e (8) – (10): Type of credit protection agreements, collateral requirements

STS FOR SYNTHETIC ON-BALANCE-SHEET SECURITISATIONS

Comparison between the STS Criteria for synthetic on-balance-sheet securitisations and the STS Criteria for non-ABCP traditional securitisations (continued)

(VIRTUALLY) UNCHANGED STS CRITERIA

- Art. 26b (8): Homogeneity, defined payment streams, no transferable securities
- Art. 26b (9): No securitisation positions
- Art. 26b (10): Underwriting standards, originator experience
- Art. 26b (11): No defaulted exposures or exposures to credit-impaired debtors
- Art. 26b (12): At least 1 payment made by debtor
- Art. 26c (1): Risk retention
- Art. 26c (2): Appropriate hedging of interest rate and currency risks
- Art. 26c (8): Experience of the servicer
- Art. 26c (10): Clear rules in the event of conflicts between noteholders
- Art. 26d (1): Historical performance data
- Art. 26d (2): Asset audit
- Art. 26d (3): Liability cashflow model
- Art. 26d (4): Environmental performance data on the financed assets or information on adverse impacts of the financed assets on sustainability factors
- Art. 26d (5): Disclosure requirements (Art. 7)

(SLIGHTLY) AMENDED STS CRITERIA

- Art. 26b (6): Reps & warranties of the originator on the underlying exposures
- Art. 26b (7): Eligibility criteria, no active portfolio management
- Art. 26c (3): Generally used reference rates for interest payments
- Art. 26c (4): Requirements in the event of an enforcement
- Art. 26c (5): Pro-rata vs. sequential amortization and triggers
- Art. 26c (6): Early amortisation provisions/triggers for termination of the revolving phase
- Art. 26c (7): Clear rules in the Transaction documentation on obligations of key transaction parties

ESG AND (STS) SECURITISATION

- **Initial Securitisation Regulation (as of 12 Dec 2017):** Since the inception of the STS-segment, the transparency criteria for non-ABCP securitisations have included the requirement to publish environmental performance data of the assets financed by residential mortgage loans and auto loans & leases, provided that such information is available to the originator and captured in its IT systems
- **Amended Securitisation Regulation (as of 31 March 2021):**
 - Art. 22 (4): Originators may alternatively decide to publish „the available information related to the principal adverse impacts of the assets financed by the underlying exposures on sustainability factors“. At the same time, the European Supervisory Authorities shall develop an RTS on the content, methodologies and presentation of the above mentioned information, in respect of the sustainability indicators in relation to adverse impacts on the climate and other ESG-related adverse impacts.
 - Art. 45a: The ESAs shall, by 1 November 2021, publish a report on the development of a sustainable securitisation framework. The EU Commission shall submit such report together with the report on the functioning of the Securitisation Regulation as per Article 46 to the European Parliament and to the Council, in order to prepare a „specific sustainable securitisation framework“.
- **Potential Sustainable Securitisation framework (EBA report due in November 2021):**
 - **Type of transaction qualifying as a sustainable securitisation:** Share of sustainable assets in the securitised portfolio, use of proceeds approach, sustainability-linked bonds
 - **Interaction with EU sustainable finance regulations:** EUR taxonomy as a starting point and Green Bond standard setting the minimum requirements that should apply also to sustainable securitisation
 - **Specifics of securitisation:** Non-recourse nature and great variety of underlying asset classes and structures used

RESEARCH ACTIVITIES

LUDOVIC THEBAULT, PHD, EUROPEAN DATAWAREHOUSE

NEXT RESEARCH UPDATE

NEXT RESEARCH WEBINAR

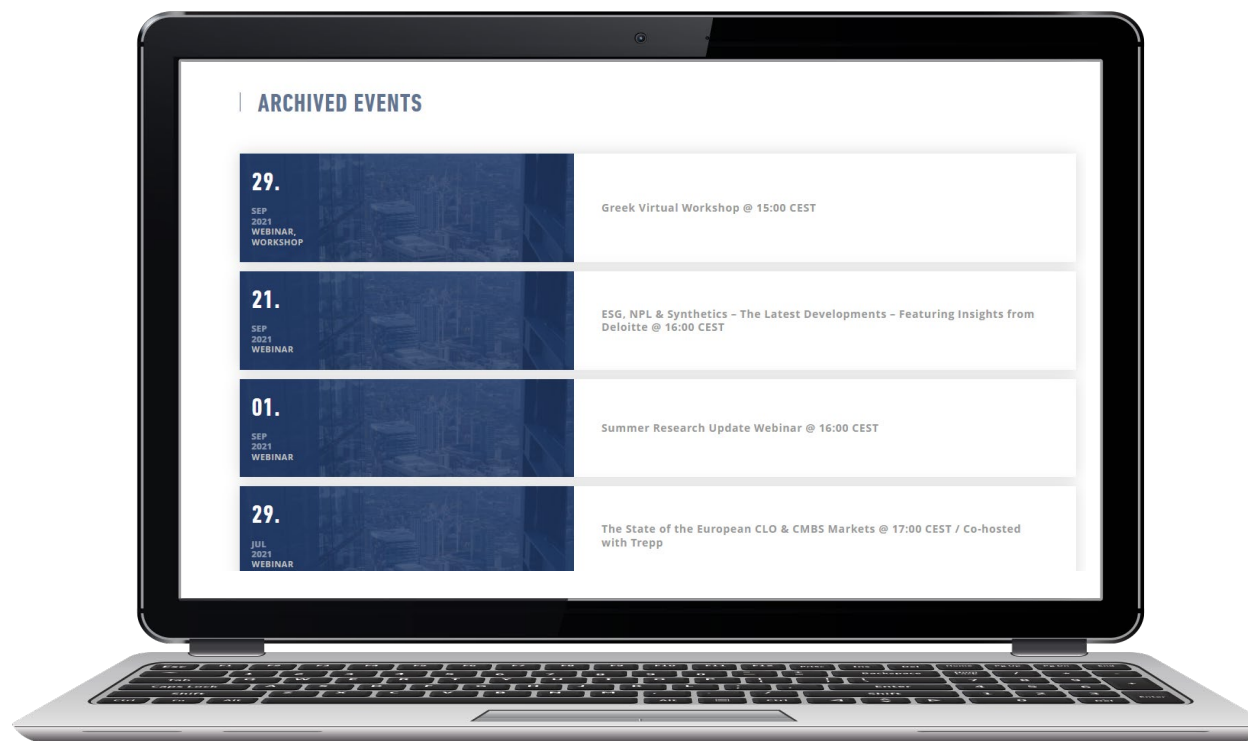
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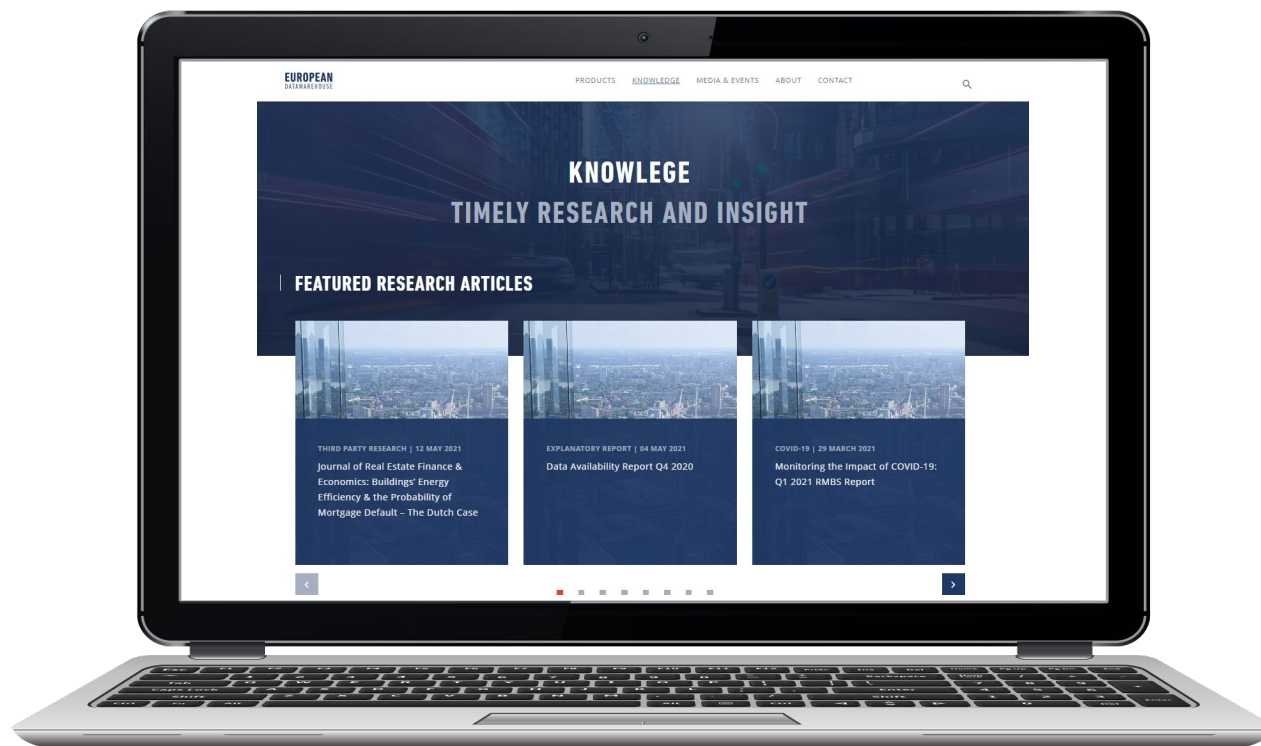
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PLEASE NOTE: The December 2020 results published in this report were calculated with the data available as of mid-February 2021 and these are thus based on an incomplete data set due to the reporting lag¹. Our results are also based on securitisation data, which does not fully represent lenders' assets:

- Securitised loans tend to be of better quality than non-securitised loans.
- Securitisation is not equally important in all countries and to all lenders.
- Large securitisations may disproportionately affect the overall statistics².

To view and download the Excel version of our [RMBS COVID-19 Tracker](#), please click on the link.

From mid-March 2020, most European countries enacted social distancing measures to control the COVID-19 pandemic. Despite the severity of the crisis, mortgage delinquencies generally increased only moderately in Q2 2020, and receded to pre-COVID-19 levels in most markets afterwards.

In such circumstances, loan moratoria/payment holidays, are a fairer indicator of performance than arrear levels.

Given the lack of reporting homogeneity for moratoria/payment holidays, we have therefore

identified three types of loan modifications likely to indicate a payment holiday or moratorium.

We find that periodic loan modifications peaked in March/April/May 2020 and decreased over the summer. From September 2020, loan modifications were trending back towards their pre-pandemic levels.

Additionally, payment holiday observations differ widely across European countries, likely reflecting the varying severity levels of the crisis and the measures implemented to counter its effects. Loan modifications due to COVID-19



¹ See: [Data Timing and Timeliness Report](#)

² See: [Data availability report](#) for details on data availability and deal concentration by market

PROXY DATA TO COMPLY WITH ARTICLE 22 FOR THE STS TRANSACTIONS

EDW can help your organisation comply with relevant performance requirements

- With over 1300 transactions, EDW offers solutions for the issuers/originators/SSPEs to comply with the STS requirements relating to transparency.
- EDW can perform on-demand SQL queries to extract historical performance data from its database across asset classes for a period of at least five years. The performance data includes historical arrears, defaults for exposures similar to those being securitised.

L 347/62

EN

Official Journal of the European Union

28.12.2017

Article 22

Requirements relating to transparency

1. The originator and the sponsor shall make available data on static and dynamic historical default and loss performance, such as delinquency and default data, for substantially similar exposures to those being securitised, and the sources of those data and the basis for claiming similarity, to potential investors before pricing. Those data shall cover a period of at least five years.

PERFORMANCE TABLES

5 Years of Historical Arrears of a Sample of Substantially Similar Mortgage Receivables (Source: European DataWarehouse)

| Date | Outstanding Balance | 0-30 days | 30-60 days | 60-90 days | 90-120 days | 120-150 days | 150-180 days | 180+ days |
|-------------------|---------------------|-----------|------------|------------|-------------|--------------|--------------|-----------|
| 31 March 2014 | 886,240,154 | 0.59% | 0.12% | 0.05% | 0.02% | 0.03% | 0.02% | 0.23% |
| 30 June 2014 | 872,109,172 | 0.74% | 0.27% | 0.12% | 0.14% | 0.02% | 0.02% | 0.18% |
| 30 September 2014 | 860,784,118 | 0.25% | 0.10% | 0.03% | 0.00% | 0.02% | 0.00% | 0.00% |
| 31 December 2014 | 843,694,237 | 2.92% | 0.23% | 0.12% | 0.06% | 0.04% | 0.02% | 0.13% |
| 31 March 2015 | 810,849,986 | 2.09% | 0.21% | 0.14% | 0.01% | 0.07% | 0.03% | 0.13% |
| 30 June 2015 | 818,402,751 | 2.90% | 0.28% | 0.06% | 0.03% | 0.15% | 0.04% | 0.11% |

PROXY DATA TO COMPLY WITH ARTICLE 22 FOR THE STS TRANSACTIONS

Result: Static Default and Loss statistics

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X |
|----|---|-------|-------|-------|-------|-------|-------|---|-------|-------|-------|-------|-------|-------|--|-------|-------|-------|-------|-------|-------|---|---|---|
| 1 | Cumulative Default Rates (3+ months definition) | | | | | | | Cumulative Default Rates (transaction definition) | | | | | | | Cumulative Loss Rates (transaction definition) | | | | | | | | | |
| 2 | Year of Securitisation | | | | | | | Year of Securitisation | | | | | | | Year of Securitisation | | | | | | | | | |
| 3 | Quarters after securitisation | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Quarters after securitisation | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Quarters after securitisation | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | | | |
| 4 | 0 | | | | | | | 0 | | | | | | | 0 | | | | | | | | | |
| 5 | 1 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 1 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 1 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | |
| 6 | 2 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 2 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 2 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | |
| 7 | 3 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 3 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | 3 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | |
| 8 | 4 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 4 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 4 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | | |
| 9 | 5 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 5 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 5 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | | |
| 10 | 6 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 6 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | 6 | X.XX% | X.XX% | X.XX% | X.XX% | X.XX% | | | | |
| 11 | 7 | X.XX% | X.XX% | X.XX% | X.XX% | | | 7 | X.XX% | X.XX% | X.XX% | X.XX% | | | 7 | X.XX% | X.XX% | X.XX% | X.XX% | | | | | |
| 12 | 8 | X.XX% | X.XX% | X.XX% | X.XX% | | | 8 | X.XX% | X.XX% | X.XX% | X.XX% | | | 8 | X.XX% | X.XX% | X.XX% | X.XX% | | | | | |
| 13 | 9 | X.XX% | X.XX% | X.XX% | X.XX% | | | 9 | X.XX% | X.XX% | X.XX% | X.XX% | | | 9 | X.XX% | X.XX% | X.XX% | X.XX% | | | | | |
| 14 | 10 | X.XX% | X.XX% | X.XX% | | | | 10 | X.XX% | X.XX% | X.XX% | | | | 10 | X.XX% | X.XX% | X.XX% | | | | | | |
| 15 | 11 | X.XX% | X.XX% | X.XX% | | | | 11 | X.XX% | X.XX% | X.XX% | | | | 11 | X.XX% | X.XX% | X.XX% | | | | | | |
| 16 | 12 | X.XX% | X.XX% | X.XX% | | | | 12 | X.XX% | X.XX% | X.XX% | | | | 12 | X.XX% | X.XX% | X.XX% | | | | | | |
| 17 | 13 | X.XX% | X.XX% | | | | | 13 | X.XX% | X.XX% | | | | | 13 | X.XX% | X.XX% | | | | | | | |
| 18 | 14 | X.XX% | X.XX% | | | | | 14 | X.XX% | X.XX% | | | | | 14 | X.XX% | X.XX% | | | | | | | |
| 19 | 15 | X.XX% | X.XX% | | | | | 15 | X.XX% | X.XX% | | | | | 15 | X.XX% | X.XX% | | | | | | | |
| 20 | 16 | X.XX% | X.XX% | | | | | 16 | X.XX% | X.XX% | | | | | 16 | X.XX% | X.XX% | | | | | | | |
| 21 | 17 | X.XX% | X.XX% | | | | | 17 | X.XX% | X.XX% | | | | | 17 | X.XX% | X.XX% | | | | | | | |
| 22 | 18 | X.XX% | | | | | | 18 | X.XX% | | | | | | 18 | X.XX% | | | | | | | | |
| 23 | 19 | X.XX% | | | | | | 19 | X.XX% | | | | | | 19 | X.XX% | | | | | | | | |
| 24 | 20 | X.XX% | | | | | | 20 | X.XX% | | | | | | 20 | X.XX% | | | | | | | | |
| 25 | 21 | X.XX% | | | | | | 21 | X.XX% | | | | | | 21 | X.XX% | | | | | | | | |

THANK YOU // CONTACT US

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