

ESG, NPL & SYNTHETIC SECURITISATIONS FEATURING INSIGHTS FROM DELOITTE

21 SEPTEMBER 2021



TODAY'S SPEAKERS



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UPCOMING EVENTS – REGISTER VIA WWW.EURODW.EU

Autumn Virtual Workshop Series – for all the latest updates & developments relating to securitisation in your market of interest.

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Greece

29 September @ 15:00 CEST



Spain

20 October @ 16:00 CEST



Ireland

10 November @ 16:00 CET



France

6 October @ 16:00 CEST



Italy

27 October @ 16:00 CEST



Germany

17 November @ 16:00 CET



Portugal

13 October @ 16:00 CEST



Netherlands

3 November @ 16:00 CET



United Kingdom

24 November @ 16:00 CET

OVERVIEW OF CURRENT ACTIVITIES

Regulated activities	Continental Europe (GmbH)	United Kingdom (Limited) / Subsidiary
Securitisation Repository (SR)	ESMA SR nominated and operational since 30 June 2021	FCA designation in progress
Public transactions (such as Auto ABS, RMBS, SME, etc.)	EDITOR	EDITOR UK
Private transactions (such as CLOs, synthetic ABS, tranche covered, NPEs et.)	Dedicated website solution based on EDITOR	Dedicated website solution based on EDITOR
Ancillary / unregulated activities	Continental Europe (GmbH)	United Kingdom (Limited) / Subsidiary
Eurosystem ABS eligibility	With the ESMA template from 1 st Oct. 2021 for deals issued after 1 st Jan. 2019. 31 st Sept. 2024 for all other deals issued before 2019	Bank of England has access to EDITOR UK
Eurosystem pool of Additional Credit Claims eligibility	France, Greece, Ireland, Italy and Portugal using dedicated ECB ACC templates	British Business Bank for SME only
Covered bond reporting to rating agencies	Using the ECB RMBS template	FCA dedicated template
Whole loan NPLs	EBA template under revision	Documentation repository solution via EDITOR UK
Proxy data for STS and non STS transactions	Extraction based on client specifications	Extraction based on client specifications
Energy Performance Certificate enrichment for mortgages	Giuditta solution for France, Netherlands and Italy	Giuditta solution for the UK Ministry of Housing

SPECIALIST ASSET CLASSES

Key Drivers:

- Pandemic is a global game changer
- Influencing every aspect of economy and daily life
- Huge disruption and uncertainty
- Innovation and diversification are key solutions
- Securitisation as a solution for banks and other financial institutions
- New asset classes are emerging
- Regulatory support and incentives

- ESG
- NPLs
- Synthetics

ESG/GREEN SECURITISATION MARKET

- Focus on ESG considerations
- Both issuers and investors
- Use of proceeds market prime for ABS
- Direct investment in green assets
 - Conventional assets (e.g. autos, leasing, SME loans, mortgages) and new assets (e.g. wind turbines, solar power)
- Some asset classes reaching critical mass (e.g. autos)
- Regulatory changes on the way:
 - FCA & EC consultations ended in Sep 2021
 - Initiatives and solutions are expected in 2022

Remaining Challenges:

- Data availability
- Quantum of assets reaching critical mass
- Evidence the Greenium is waning
- Changing regulatory landscape

UK & EU RMBS – GREEN AND SOCIAL

Yorkshire BS – Brass (Mar 2021)

- Provision of credit to ‘underserved’ borrowers

Kensington - Finsbury Square Green (Jun 2021)

- Senior tranche labelled as green
- Backed by mortgages with minimum EPC rating of B

BPCE HOME LOANS FCT 2021 GREEN UOP (Sep 2021)

THE NPL SECURITISATION MARKET

Key Trends

- Adverse credit environment
- Effects of pandemic not been evenly distributed
- Banks motivation to improve capital ratios
- Certain jurisdictions more experienced with NPLs – Spain, Italy (GACS), Ireland, Greece (Hercules)
- Could see issuance from new jurisdictions
- Performance – slowing of collections → influenced ratings (particularly in Italy, Spain)
- Securitisation ‘quick fix’ – improvements in risk retention (use book value rather than nominal)

THE SYNTHETICS MARKET

1. Expect more difficult credit environment

- Protects against credit events
- Considerable uncertainty

2. Flexible tool

- Effects risk transfer
- Suitable for assets not
- Low cost + search for yield
- Broadening of asset classes

3. Regulatory Support

- EIB / EIF Guarantee
- Securitisation 'quick fix' → STS for synthetics
- Greater transparency

European Commission Synthetic Securitisation Scheme

- EIB acts as protection seller, provides guarantee on a tranche of loans for a subsidised fee
- Freeing up lender to lend to SMEs involved in sustainable initiatives
- Aims to mobilise €13bn of new lending
- Nordea - €1.8bn deal (Sep 2021)

EC APPROVES EUROPEAN GUARANTEE FUND FOR SYNTHETIC SECURITISATIONS



State aid: Commission gives green light to new synthetic securitisation product under the European Guarantee Fund to further support SMEs affected by the coronavirus outbreak in 22 Member States

Brussels, 16 August 2021

The European Commission approved, under EU State aid rules, the introduction of a new product in the form of guarantees on synthetic securitisation tranches under the European Guarantee Fund managed by the European Investment Bank Group (consisting of the European Investment Bank, "EIB" and the European Investment Fund, "EIF") to support companies affected by the coronavirus outbreak in the 22 participating Member States. With an envisaged dedicated budget of €1.4 billion, the new product is expected to mobilise at least €13 billion of new lending to small and medium-size enterprises (SMEs) affected by the outbreak. This is a significant contribution to the overall target for the European Guarantee Fund to mobilise up to €200 billion of additional financing in the 22 participating Member States.

Source: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4204

EU CAPITAL MARKETS RECOVERY PACKAGE (EU) 2021/557 (CMRP)

In April 2021, the Securitisation 'quick fix' amended the SECR in the following three areas:

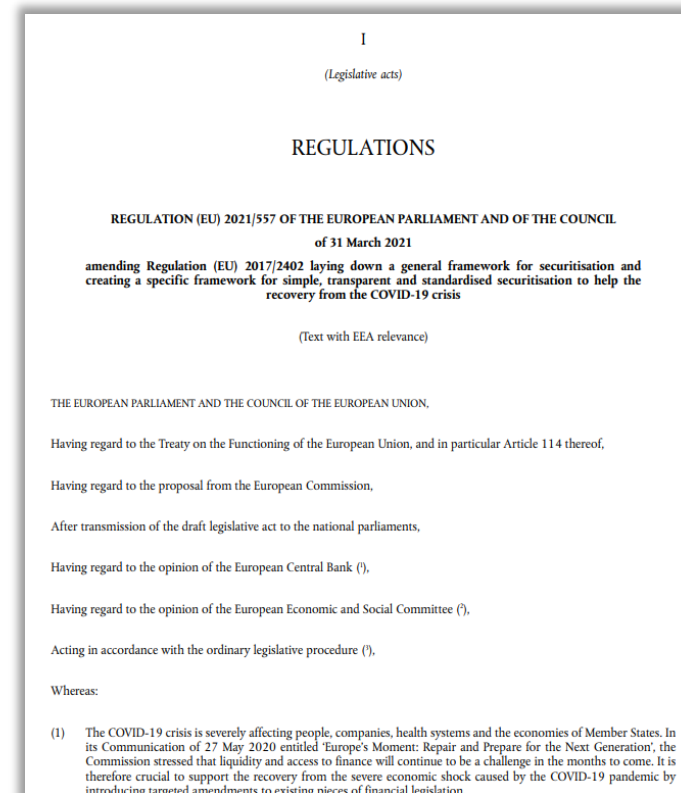
- **extended the STS framework to on-balance-sheet synthetic securitisations**
- **removed the regulatory obstacles to securitisation of non-performing exposures (NPE)**
- **proposed the development of a sustainable securitisation framework**

More specifically, the STS framework has been extended to synthetic securitisations **by creating a specific framework for balance-sheet synthetic securitisations**. The proposed STS criteria are aligned as much as possible with those for the traditional STS securitisations taking into consideration the specificities of synthetic securitisations (Art. 26-27).

Another set of proposals aim to address the regulatory shortcomings of NPE securitisations by:

- putting forward a **definition of NPE securitisation** which is also in alignment with the work of the Basel Committee on Banking Supervision (Art. 2)
- introducing **risk retention requirements for NPE securitisations** that take into account the special characteristics of NPE securitisations (Art. 6)
- adding a **clarification on the verification of credit granting standards when securitising NPE underlying exposures** (Art. 9)

Source: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0557&from=EN>



DIFFERENCES BETWEEN PUBLIC AND PRIVATE & DATA REPORTING CHALLENGES

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	✓	–

ONGOING DATA CHALLENGES

Thanks to EDW's launch of a testing environment and the intensified efforts of our data quality analysts ahead of the introduction of the new Securitisation Repository (SR) regime, the transition has been smooth overall. There are, however, still some common reporting data challenges.

These can be summarised in the following broad categories:

- Reporting of the Legal Entity Identifiers (LEI)
- Date inconsistencies (Pool addition, Default, Redemption etc.)
- NACE code classification
- Geographic region code
- Negative values (Arrears Balance etc.)
- Format errors (percentage fields)

SUMMER 2021 CONSULTATIONS

EC TARGETED CONSULTATION ON THE REVIEW OF THE SECR

[EC Targeted consultation on the functioning of the EU securitisation framework](#) which aims at collecting stakeholders' view on the on a broad range of topics among others the effects of the SECR, private securitisations, equivalence regime for STS securitisations, environmental performance and sustainability disclosures. The EC also seeks feedback on the issues identified and raised by the Joint Committee of the ESAs in the report pursuant to Article 44.

Key points:

- **Private securitisations** - Improved transparency and market standardisation is a solid foundation for the growth and well-functioning of the securitisation market. The definition of what constitutes private and public securitisations is a key element. Transparency of private securitisations should take into consideration the 'privacy' aspects.
- **Due diligence** – Loan by loan information is useful for asset classed such as RMBS, Corp/SME and Auto ABS whereas granular information for trade receivables may be less relevant. On this note, EDW has also identified some data fields in the current disclosure templates that seem to be problematic or challenging for the reporting entities.
- **Jurisdictional scope** – Further clarity required for the third-country sell-side entities. From a SR perspective, any EU or third country sell-side entity could register and use its services to meet the respective regulatory reporting requirements.
- **Sustainability disclosure** – in order to promote a sound and safe development of the EU sustainable securitisation market, there is a need for clear and standardised definition of sustainable securitisation and alignment of sustainability disclosures across different regulatory reporting regimes. For the disclosure of environmental performance of assets there should be a phased approach as well as grandfathering arrangements for legacy assets/securitisations.

EBA DISCUSSION PAPER

[EBA Discussion Paper on NPL Data Templates](#) which aims at collecting stakeholders' feedback on the review of the standardised NPL data templates. The deadline for the responses was on the 31 August 2021.

Key points

- The revised EBA templates have a simplified data structure which is more in line with the current market practices
- Due to its longstanding experience with the technical implementation of various reporting templates, EDW has provided feedback to EBA on the format of data fields (Text). Changing the format fields for certain data fields would ensure standardisation and comparability to facilitate data analysis
- Data fields related to the legal procedures and the timing of such procedures could be further improved taking into consideration that in some jurisdictions such as e.g. Italy the recovery process is lengthy

EC TARGETED CONSULTATION ON IMPROVING TRANSPARENCY AND EFFICIENCY IN SECONDARY MARKETS FOR NPLS

[EC Targeted Consultation on improving transparency and efficiency in secondary markets for non-performing loans \(NPLs\)](#) which aims at collecting stakeholders' view on the remaining obstacles to the proper functioning of secondary markets for NPLs as well as possible enable actions that it could take to foster these markets by improving the quantity, quality and comparability of NPL data

Key points:

- EU NPL data hub – EDW believes that market transparency is key for the further development and well-functioning of the NPL market followed by the relevant regulatory incentives
- Leveraging on existing market infrastructures by means of a public tender would make sense
- Regulatory action (incentives or disclosure requirement) is important for the reporting of data to the EU NPL data hub
- Robust data governance
- Harmonised data definition and structure with the ability to link to other regulatory NPL data
- Potential extension of the scope of disclosures should take into consideration any existing regulatory or supervisory reporting and any new requirements to be introduced in a phased approach and with grandfathering provisions

THANK YOU // CONTACT US

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