Securitisations to make a welcome return!!.

The EC published its proposed securitization regulation on 30 September 2015. The proposed regulation imposes enhanced disclosure requirements on all originators, as well as creates a pan-European framework for 'safe, transparent and standardised' ("STS") securitisations.

This signals a major commitment by the EC to promote securitisation, despite historical regulatory concerns related to complex structures and the potentially misaligned incentives of originators and investors.

The following are the top takeaways:

- **Europe is signaling strong support for the revitalisation of securitisation markets**: Securitisation reform has become central to the EC's transition towards a pro-growth agenda, and this new regulatory framework is intended to incentivise the origination of structurally sound securitisations.

  Consequently, the focus on creating a class of "simple, transparent and standardised" securitisations is an attempt to develop a securitisation brand within the EU.

- The securitisation regulation proposes that **heightened due diligence and risk retention requirements** for all securitisations will actually spur growth by providing a common level of comfort, familiarity and expectation.

  The EC's tactical "carrot and stick" approach, whereby special incentives for "high quality" securitisations are coupled with enhanced regulatory coverage of all securitisations, drives the overall premise behind the Capital Markets Union – that regulation can stitch European capital markets more closely together.

- The proposed regulation **defines securitisations broadly**, to include any tranched pool of exposures whereby payments in the transaction are dependent on the performance of the exposure and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. Consequently, pools of vehicle loans, residential and commercial mortgages would be included.

- The proposed regulation imposes **heightened disclosure requirements for originators and sponsors**, including providing information on the exposures underlying the securitisation on a quarterly basis and providing a detailed description of the priority of payments in final offering documents or prospectuses.

- **The proposed regulation strengthens risk retention requirements for ALL securitisations**. Risk retention under current EU regulation is primarily focused on investor due diligence, as opposed to direct, mandatory origination criteria.

- The proposed regulation **would encompass institutional investors** not currently covered by these requirements, including UCITS funds.

- **The policy is aimed at enhancing differentiation between complex/opaque & high quality securitisations**: The proposed regulation outlines the additional criteria for simple, transparent and standardised (STS) securitisations, thereby creating an arguably safer instrument class with consistent characteristics that can form the basis of a European-wide market.

- In order to unlock institutional investment, the EC concurrently published proposed CRR amendments so as to establish **differentiated capital requirements for STS securitisations** that reflect a clear preference from a risk perspective.

Built into the proposed regulation is a three year review period, comparable to the current EMIR review, intended to provide a process for assessing the new regime.

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