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EBF response to EBA consultation on homogeneity of underlying assets

Key points:

- ◆ **Well established securitisations considered as high-quality under current market practices must be preserved** and considered as simple, transparent and standardised under the new securitisation framework. EBA itself recognises in its paper that the aim of the new proposal on homogeneity is not to alter current market practices.
- ◆ **A definition of homogeneity based on asset classification already exists for ABS to be eligible as collaterals to the ECB** (ECB Guideline EU 2015/510). Securitisations that comply with this definition are currently considered as high quality, homogeneous and simple operations of which the underlying exposures can be easily assessed by the investors.
- ◆ **The EBF would recommend ensuring consistency between the EBA proposal and the ECB Guidelines**, therefore removing the requirement to consider a list of risk factors for each asset category in order to avoid the creation of a complex global framework where some securitisations would be considered as homogeneous for the ECB but would not be granted with the STS stamp.
- ◆ **In case that the risk factors are finally maintained:**
 - It is worth noting that **a strict interpretation of the EBA proposal would not recognise most of the well-established securitisations as homogenous**. If all the risk factors defined as “to be considered” by EBA for any asset category end up being binding and must be applied to determine whether the underlying assets of a securitisation can be considered as homogeneous, most of the existing securitisations would be disqualified even if they are currently deemed as high-quality according to the ECB definition.
 - The EBF recommends further clarifying that **all the risk factors listed as to be considered should not automatically be applied**.

European Banking Federation aisbl

Brussels / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711 / info@ebf.eu
Frankfurt / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany
EU Transparency Register / ID number: 4722660838-23


www.ebf.eu

- It is also important to specify that **the supervisor should focus his ex-post assessment of banks' application of the homogeneity criteria on the reasons why banks consider a pool of assets as homogeneous.** Banks should not be automatically required to justify why they did not consider some of the risk factors which would make all these risk factors binding.
- The EBA RTS should take into consideration that some **securitisations are backed by a pool of securitised exposures constituted by homogenous sub-portfolios that belong to the same asset category but that would not fulfil the homogeneous requirement if the entire pool is considered.** This kind of securitisations should not be disqualified.
- ◆ **Regarding the proposed classification by asset categories,** it is worth noting that it is a common practice for banks to issue securitisations that are backed by a mixed pool of assets including for example both loans to natural persons and loans to SMEs. The EBF would recommend the **introduction of a materiality threshold** similar to the one proposed for the consideration of risk factors, that would allow a certain degree of diversification in terms of asset category.

EBF position:

Part 1: General approach

1. Do you agree with the focus of the RTS, general approach and underlying assumptions on which the RTS are based? Does the proposed approach provide sufficient clarity and certainty on the interpretation and application of the criterion of homogeneity?

General comments:

Well established securitisations considered as high quality under current market practices must be preserved. We understand that the purpose of this RTS is to guide the assessment of homogeneity but not to disrupt the markets setting new additional constraints on well established securitisations. In this sense, it is essential to preserve existing transactions that are currently considered as high quality. Those securitisations must be considered as simple, transparent and standardised (STS) under the new securitisation framework. Therefore, for each one of these transactions, the pool of underlying assets backing the operation must be deemed as homogeneous.

The EBA proposal could lead to a fragmentation of the securitisation market which may severely constrain the effectiveness of securitisations as a funding tool. EBA itself recognises that the homogeneity requirement should not provide incentives that would prevent the originator from structuring a diversified portfolio, nor should it lead to excessive concentration in the portfolios, for example to exposures to obligors in a specific geographical area, or to a specific type of obligors (Recital 3). Indeed, if applied as currently contemplated, only the predominant players - those that have the highest market shares in specific segments - will have the sufficient critical mass to structure a homogeneous securitisation. This leads to the deprivation of this valuable financing tool for those originators with more diversified exposures but smaller market share in each segment, thus damaging the free competition in the market.

It is noteworthy that if a portfolio is too concentrated and less granular, the transaction is intrinsically riskier. Granularity is positive in securitisation. The more granular a portfolio, the better it behaves when stressed. The proposed definition of homogeneity will necessarily involve the fragmentation of transactions that are currently structured as one, in two or more, thus making them smaller and less granular. These transactions would not present an advantage for the investor when compared to their bigger, older, pre-STS sisters, but the opposite.

Comments on the EBA proposal

It is worth reminding that a definition of homogeneity already exists for ABS in order to be eligible as collaterals to the ECB. The definition is specified in the ECB Guideline (EU) 2015/510 of 19 December 2014. In order for ABSs to be eligible, all cash-flow generating assets backing the ABSs shall be homogenous, i.e. it shall be possible to report them according to one of the existing loan-level templates, which shall be one of the following:

- a) residential mortgages;
- b) commercial real estate mortgages;
- c) loans to small and medium-sized enterprises (SMEs);
- d) auto loans;
- e) consumer finance loans;
- f) leasing receivables;
- g) credit card receivables.

Securitisations that comply with this definition are currently considered as high quality, homogeneous and simple operations of which the underlying exposures are able to be easily assessed by the investors. In this sense, investors are considered to be able to perform robust due diligence.

The EBA proposal is more restrictive than the ECB definition of homogeneity since it introduces a list of risk factors to be considered for each of the asset categories. It is worth noting that current market practices are based on this ECB definition and that most of the current well-established securitisations are structured according to it. EBA itself explains in its consultation paper that the proposal is intended to broadly reflect the current market practices and, in essence, is not intended to impose additional requirements.

The EBF would recommend ensuring consistency between the EBA proposal and the ECB Guidelines (EU) 2015/510 and therefore eliminating the requirement to consider a list of risk factors for each asset category in order to avoid the creation of a complex global framework where some securitisations would be considered as homogeneous for the ECB but would not be granted with the STS stamp. This adjustment would also reflect current market practices.

In case that the risk factors are finally maintained:

It is very important to take into account that **a strict interpretation of the EBA proposal would not recognise most of the well-established securitisations as homogenous.** If all the risk factors defined as "to be considered" by EBA for any asset category end up being binding and must be applied to determine whether or not the underlying assets of a securitisation can be considered as homogeneous, most of the existing securitisations would be disqualified even if they are currently deemed as high-quality according to the ECB definition.

We understand that EBA intention is that banks apply at least one of the proposed risk factors that must be considered for each asset category. However, it is noteworthy that the consultation paper is not clear enough at this regard and that the reader can misinterpret the framework and believe that all the risk factors to be considered must

be applied for any asset category. Since the application of all the risk factors to be considered would automatically discard most of the existing securitisations even if they are considered as high-quality operations, **the EBF recommends further clarifying that all the risk factors listed as to be considered should not automatically be applied** in case that the risk factors are finally maintained.

In addition, EBA must take into account that in case that banks must justify ex-post why some of the risk factors defined as “to be considered” for any specific asset category have not been applied, their application ex-ante would somehow become binding. Indeed, perfect homogeneity does not exist, and each of the risk factors would imply a certain deviation from a perfect homogeneous situation. Taking into account the legal consequences that could entail an ex-post disqualification by the supervisor of a securitisation initially considered as STS by the originator, banks would finally be constrained ex-ante and encouraged to apply all the risk factors listed as to be considered. This would alter current market practices and discard the issuance of most of the existing securitisations. In this sense, **it is important to specify that the supervisor should focus his assessment of banks’ application of the homogeneity criteria on the reasons why banks consider a pool of assets as homogeneous. Banks should not be automatically required to justify why they did not take into account some of the risk factors listed as to be considered.**

EBA should also consider that **there is an important risk that the markets end up requiring that all the risk factors defined as “to be considered” are applied.**

Furthermore, the EBA RTS should take into consideration that some securitisations are backed by a pool of securitised exposures constituted by homogenous sub-portfolios that belong to the same asset category but that would not fulfil the homogeneous requirement if the entire pool is considered. This kind of securitisations should not be disqualified.

. In these cases, the sub-portfolios all belong to the same asset category and can be easily assessed even if the entire pool did not fulfil the homogeneity requirements.

Many well-established securitisations might be excluded from the STS-regime, because it would not be cost-effective and economically beneficial to securitise each sub-pool separately. The reason is that for each transaction a separate securitisation documentation, separate prospectus, separate legal opinions, separate assessments by mandated rating agencies and separate swap contracts etc. would be necessary. The duplication of costs would nullify scale effects. Hence, the issuance of STS-securitisations would be in many cases uneconomically although a simple assessment of sub-portfolios within a robust due diligence process would be feasible.

Comments on the classification by asset categories:

Regarding the proposed classification by asset categories, it is worth noting that it is a common practice for banks to issue securitisations that are backed by a mixed pool of assets including for example both loans to natural persons and loans to SMEs i.e. auto loan securitisations commonly include loans to natural persons and to small businesses. They are underwritten, scored and serviced by the same teams and have very similar performance characteristics. However, these securitisations would be disqualified under the current proposal since the underlying assets belong to two different asset categories. These practices do not imply that the investors will meet greater difficulties in undertaking their own assessment of the underlying risks since

most of the time the risk profile of the SMEs and the natural persons corresponding to these mixed pools can be deemed as similar. The EBA proposal would unjustifiably penalize those securitisations that are backed by this kind of mixed pools. **All in all, it is important that EBA considers allowing the constitution of mixed pools of assets** when the underlying assets show a similar risk profile that can be assessed on the basis of common methodologies and parameters. In this sense, **the EBF would recommend the introduction of a materiality threshold similar to the one proposed for the consideration of risk factors, that would allow a certain degree of diversification in terms of asset category.**

All in all, the homogeneity requirement should not create incentives towards excessive concentration and new barriers to the constitution of well diversified pool of assets.

2. Do you agree with the assessment of the homogeneity of underlying exposures based on criteria specified under (a) to (d)? Should other criteria be added or should any of the criteria be disregarded?

We mostly agree with the criteria (a) and (b).

(a) the underlying exposures have been underwritten according to similar underwriting standards, methods and criteria;

(b) the underlying exposures are serviced according to uniform servicing procedures with respect to monitoring, collection, administration and allocation of cash receivables, which enable the investor to assess the cash flows generated by the underlying exposures on the basis of a common methodology;

Regarding a) it is important that the requirement for "similar underwriting standards" is interpreted to refer to underwriting standards designed to measure similar types of risks in the overall credit assessment, rather than the same underwriting criteria precisely. This is necessary to allow appropriate diversification of pools and to avoid preventing similar pools originated separately from being part of the same securitisation (e.g. for mortgages originated at a different time or by a different lender whose assets have been acquired).

Equally, different vintages (of long-dated assets in particular) will inevitably have been originated based on slightly different underwriting standards as a result of the normal evolution of these standards and their adaptation to the then-prevailing economic climate. The requirement for "similar" underwriting standards should not be interpreted so rigidly as cause these incremental changes in underwriting standards to result in a non-homogeneous pool. In addition, the EBA RTS should take into consideration that some securitization are backed by a pool of securitised exposures constituted by homogenous sub-portfolios. In these cases, the sub-portfolios all belong to the same asset category and can be easily assessed even if the entire pool did not fulfil the homogeneity requirements with regard to the criteria a), b) and d).

Regarding (b) the "uniformity" of servicing procedures should be interpreted servicing with some kind of flexibility. In presence of multiple servicers using the same or similar servicing standards, there will be inevitably be some differences among servicing procedures. Consequently, it is important that servicing procedures are defined as "similar" rather than "uniform".

Regarding (c), “the underlying exposures all fall within the same asset category”, as explained in the response to Q1, the proposed classification by asset category may be somehow too restrictive. EBA should consider allowing the constitution of mixed pools of assets when the underlying assets show a similar risk profile that can be assessed on the basis of common methodologies and parameters. The adoption of a materiality threshold **similar to the one proposed for the consideration of risk factors, that would allow a certain degree of diversification in terms of asset category** could be a good solution.

As regards (d), “the underlying exposures take into account the relevant risk factors from among those that need to be considered for each asset category in accordance with Article 3”, as explained in the response to Q1, EBA should take into account the following elements:

- **It is worth reminding that a definition of homogeneity already exists for ABS in order to be eligible as collaterals to the ECB.** The definition is specified in the Guideline (EU) 2015/510 of the ECB of 19 December 2014 and is based only on asset categories.
- **Securitisations that comply with this definition are currently considered as high quality, homogeneous and simple operations** of which the underlying exposures are able to be easily assessed by the investors. In this sense, investors are considered to be able to perform robust due diligence.
- **The EBA proposal is more restrictive than the ECB definition of homogeneity** since it introduces a list of risk factors to be considered for each of the asset categories. It is worth noting that current market practices are based on this ECB definition and that most of the current well-established securitisations are structured according to it
- **The EBF would recommend ensuring consistency between the EBA proposal and the ECB Guidelines (EU) 2015/510 and therefore eliminating the requirement to consider a list of risk factors for each asset category** in order to avoid the creation of a complex global framework where some securitisations would be considered as homogeneous for the ECB but would not be granted with the STS stamp. This adjustment would also reflect current market practices.

In case that the risk factors are finally maintained:

- It is very important to take into account that **a strict interpretation of the EBA proposal would not recognise most of the well-established securitisations as homogenous.** If all the risk factors defined as “to be considered” by EBA for any asset category end up being binding and must be applied to determine whether or not the underlying assets of a securitisation can be considered as homogeneous, most of the existing securitisations would be disqualified even if they are currently deemed as high-quality according to the ECB definition.
- We understand that EBA intention is that banks apply at least one of the proposed risk factors that must be considered for each asset category. However, it is noteworthy that the consultation paper is not clear enough at this regard and that the reader can misinterpret the framework and believe that all the risk factors to be considered must be applied for any asset category. Since the application of all the risk factors to be considered would automatically discard most of the existing securitisations even if they are considered as high-quality operations, **the EBF recommends further clarifying that all the risk factors listed as to be considered should not automatically be applied** in case that the risk factors are finally maintained.

- In addition, EBA must take into account that in case that banks must justify ex-post why some of the risk factors defined as “to be considered” for any specific asset category have not been applied, their application ex-ante would somehow become binding.
- **It is important to specify that the supervisor should focus his assessment of banks’ application of the homogeneity criteria on the reasons why banks consider a pool of assets as homogeneous.** Banks should not be automatically required to justify why they did not take into account some of the risk factors listed as to be considered.
- EBA should also consider that **there is an important risk that the markets end up requiring that all the risk factors defined as “to be considered” are applied.**
- The EBA RTS should take into consideration that some **securitisations are backed by a pool of securitised exposures constituted by homogenous sub-portfolios that belong to the same asset category but that would not fulfil the homogeneous requirement if the entire pool is considered.** In these cases, each of the sub-portfolios all belong to the same asset category and can be easily assessed even if the entire pool did not fulfil the homogeneity requirements. **This kind of securitisations should not be disqualified.** Many well-established securitisations might be excluded from the STS-regime, because it would not be cost-effective and economically beneficial to securitise each sub-pool separately. The reason is that for each transaction a separate securitisation documentation, separate prospectus, separate legal opinions, separate assessments by mandated rating agencies and separate swap contracts etc. would be necessary. The duplication of costs would nullify scale effects. Hence, the issuance of STS-securitisations would be in many cases uneconomically although a simple assessment of sub-portfolios within a robust due diligence process would be feasible.

3. Are there any impediments or practical implications of the criteria as defined? Are there any important and severe unintended consequences of the application of the criteria?

In addition to the comments explained in the response to Q1 and Q2, it is noteworthy that the fragmentation created by the application of the risk factors may lead to smaller pools which will not be securitised anymore because of a lack of economies of scale. This defeats the purpose of the Capital Market Union project itself of which one of the main objectives consists in reaviving the securitisation market in the European Union.

The EBA proposal is too constrictive and may lead to a fragmentation of the securitisation market, which is not positive. EBA itself recognises that the homogeneity requirement should not provide incentives that would prevent the originator from structuring a diversified portfolio, nor should it lead to excessive concentration in the portfolios, for example to exposures to obligors in a specific geographical area, or to a specific type of obligors (Recital 3). Indeed, if applied as currently contemplated, only the predominant players - those that have the highest market shares in specific segments - will have the sufficient critical mass to structure a homogeneous securitisation. This leads to the deprivation of this valuable financing tool for those originators with more diversified exposures but smaller market share in each segment, thus damaging the free competition in the market.

It is noteworthy that if a portfolio is too concentrated and less granular, the transaction is intrinsically riskier. Granularity is positive in securitisation. The more granular a portfolio, the better it behaves when stressed. The proposed definition of homogeneity will necessarily involve the fragmentation of transactions that are currently structured as one, in two or more, thus making them smaller and less granular. These transactions would not present an advantage for the investor when compared to their bigger, older, pre-STS sisters, but the opposite.

- 4. Do you agree that when considering the relevance of the risk factors, the asset category, type of securitisation (non-ABPC or ABCP), and specific characteristics of the pool of exposures, should be taken into account? Should other elements be considered as important determinants of the relevance of the individual risk factors?**

As explained in the response to Q1, the EBF recommends basing the homogeneity assessment on asset classification and not on risk factors. If risk factors are finally maintained, the EBF recommends further clarifying that all the risk factors listed as to be considered should not automatically be applied and that the ex-post supervisory assessment must focus on the reasons why homogeneity is achieved. Banks should not have to justify why they did not apply some of the proposed risk factors to be considered.

Any differentiation between ABCP and non-ABCP is not necessary.

- 5. Do you agree that the same set of criteria should be applied to non-ABCP and ABCP securitisation? Or do you instead consider that additional differentiation should be made between criteria applicable to non-ABCP and ABCP securitisation, and if so, which criteria?**

We would suggest not to differentiate criteria applicable to ABCP and non-ABCP securitisation

Part 2: Asset categories

6. Do you agree with providing a list of asset categories in the RTS? Do you agree with the asset categories listed? Should other asset categories be included or some categories be merged? For example, should separate asset categories of project finance, object finance, commodities finance, leasing receivables, dealer floor plan finance, corporate trade receivables, retail trade receivables, credit facilities to SMEs and credit facilities to corporates, be included? Please substantiate your reasoning.

As explained in the response to Q1, the proposed classification by asset category may be somehow too restrictive. EBA should consider allowing the constitution of mixed pools of assets when the underlying assets show a similar risk profile that can be assessed on the basis of common methodologies and parameters. The adoption of a materiality threshold similar to the one proposed for the consideration of risk factors, that would allow a certain degree of diversification in terms of asset category could be a good solution.

It is worth reminding that a definition of homogeneity already exists for ABS in order to be eligible as collaterals to the ECB. The definition is specified in the Guideline (EU) 2015/510 of the ECB of 19 December 2014. In order for ABSs to be eligible, all cash-flow generating assets backing the ABSs shall be homogenous, i.e. it shall be possible to report them according to one of the existing loan-level templates, which shall be one of the following:

- a) residential mortgages;
- b) commercial real estate mortgages;
- c) loans to small and medium-sized enterprises (SMEs);
- d) auto loans;
- e) consumer finance loans;
- f) leasing receivables;
- g) credit card receivables.

Securitisations that comply with this definition are currently considered as high quality, homogeneous and simple operations of which the underlying exposures are able to be easily assessed by the investors. In this sense, investors are considered to be able to perform robust due diligence. It is worth noting that current market practices are based on this ECB definition and that most of the current well-established securitisations are structured according to it. EBA itself explains in its consultation paper that the proposal is intended to broadly reflect the current market practices and, in essence, is not intended to impose additional requirements. **The EBF recommends ensuring consistency between the EBA RTS and the ECB definition of homogeneity.**

In addition, it is worth noting that several categories are missing from the EBA proposal (Project Finance, Whole Business Securitisation). However, these would not qualify as STS anyway.

All in all, the homogeneity requirement should not create incentives towards excessive concentration and new barriers to the constitution of well diversified pool of assets.

7. Do you agree with the definitions of the asset categories provided? For example, do you consider that the asset category of credit facilities to SMEs and corporates should be further specified and for the SMEs should refer to the definition provided in the Commission Recommendation 2003/361/EC, or should other reference be used (for example to Art. 501 of the CRR)? Please substantiate your reasoning.

Further specification of the definitions is not needed. It is relevant that assets are originated and serviced according to common standards, not that they comply with a theoretical definition. A too strict definition, could rule out ABS that are based on SME, which would be undesirable, as SMEs have been stable during the crisis in 2008.

We would note, however, that while the defined asset categories in Article 2 of the Draft RTS are appropriate, some of the corresponding explanations at paragraph 23 of the CP are incorrect. Notably, the description of auto loans and leases as being "secured by automobile vehicles" is not correct and does not reflect the general industry understanding of what constitutes an auto loan/lease securitisation. In auto finance securitisation transactions, it is relatively rare that there should be security taken over the "metal" or the vehicles themselves. The value (net book value, the contractually agreed repurchase price or the market value, as the case may be) of the vehicles may be an important part of the borrowing base for the securitisation, but security will generally only be taken over payment streams related to the vehicles rather than the vehicles themselves.

Part 3: Risk factors

8. Do you agree with the approach to determination of the homogeneity based on the risk factors, and the distinction between the concept of risk factors to be considered for each asset category, and relevant risk factors to be applied for a particular pool of underlying exposures, as proposed? Are there any impediments or practical implications of the risk factors as defined? Are there any important and severe unintended consequences of the application of the risk factors?

As explained in the response to Q1 and to Q2, EBA should take into account the following elements:

- **It is worth reminding that a definition of homogeneity already exists for ABS in order to be eligible as collaterals to the ECB.** The definition is specified in the Guideline (EU) 2015/510 of the ECB of 19 December 2014 and is based only on asset categories.

- **Securitisations that comply with this definition are currently considered as high quality, homogeneous and simple operations** of which the underlying exposures are able to be easily assessed by the investors. In this sense, investors are considered to be able to perform robust due diligence.
- **The EBA proposal is more restrictive than the ECB definition of homogeneity** since it introduces a list of risk factors to be considered for each of the asset categories. It is worth noting that current market practices are based on this ECB definition and that most of the current well-established securitisations are structured according to it
- **The EBF would recommend ensuring consistency between the EBA proposal and the ECB Guidelines (EU) 2015/510 and therefore eliminating the requirement to consider a list of risk factors for each asset category** in order to avoid the creation of a complex global framework where some securitisations would be considered as homogeneous for the ECB but would not be granted with the STS stamp. This adjustment would also reflect current market practices.

In case that the risk factors are finally maintained:

- Furthermore, it is very important to take into account that **a strict interpretation of the EBA proposal would not recognise most of the well-established securitisations as homogenous**. If all the risk factors defined as “to be considered” by EBA for any asset category end up being binding and must be applied to determine whether or not the underlying assets of a securitisation can be considered as homogeneous, most of the existing securitisations would be disqualified even if they are currently deemed as high-quality according to the ECB definition.
- We understand that EBA intention is that banks apply at least one of the proposed risk factors that must be considered for each asset category. However, it is noteworthy that the consultation paper is not clear enough at this regard and that the reader can misinterpret the framework and believe that all the risk factors to be considered must be applied for any asset category. Since the application of all the risk factors to be considered would automatically discard most of the existing securitisations even if they are considered as high-quality operations, **the EBF recommends further clarifying that all the risk factors listed as to be considered should not automatically be applied** in case that the risk factors are finally maintained.
- In addition, EBA must take into account that in case that banks must justify ex-post why some of the risk factors defined as “to be considered” for any specific asset category have not been applied, their application ex-ante would somehow become binding.
- **It is important to specify that the supervisor should focus his assessment of banks’ application of the homogeneity criteria on the reasons why banks consider a pool of assets as homogeneous**. Banks should not be automatically required to justify why they did not take into account some of the risk factors listed as to be considered.
- EBA should also consider that **there is an important risk that the markets end up requiring that all the risk factors defined as “to be considered” are applied**.
- The EBA RTS should take into consideration that **some securitisations are backed by a pool of securitised exposures constituted by homogenous sub-portfolios that belong to the same asset category but that would not fulfil**

the homogeneous requirement if the entire pool is considered. This kind of securitisations should not be disqualified.

- In these cases, each of the sub-portfolios all belong to the same asset category and can be easily assessed even if the entire pool did not fulfil the homogeneity requirements. **This kind of securitisations should not be disqualified.** Many well-established securitisations might be excluded from the STS-regime, because it would not be cost-effective and economically beneficial to securitise each sub-pool separately. The reason is that for each transaction a separate securitisation documentation, separate prospectus, separate legal opinions, separate assessments by mandated rating agencies and separate swap contracts etc. would be necessary. The duplication of costs would nullify scale effects. Hence, the issuance of STS-securitisations would be in many cases uneconomically although a simple assessment of sub-portfolios within a robust due diligence process would be feasible.

We also note that in Art. 1 states that exposures “shall be deemed to be homogenous where they have similar risk profiles and cash flow characteristics”. If (g) would be included as a risk factor, cash flow characteristics should be deleted from this general description (so leaving just “similar risk profiles”).

Including “similar cash flow characteristics” as a pre-condition for homogeneity implies that none of the asset classes as defined will be homogeneous, since in all categories there will be a mix of amortising, revolving etc. exposures.

9. **Do you agree with the distribution of the risk factors that need to be considered for each asset category, as proposed? What other risk factors should be included for consideration for which asset category?**

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10. **Do you agree with the definition of the risk factor related to the governing law, which refers to the contractual arrangements with respect to the origination and transfer to SSPE of the underlying exposures, and with respect to the realisation and enforcement of the credit claims? Do you consider that the risk factor of the governing law should be further specified, or further limited (e.g. to the realisation and enforcement of the financial collateral arrangements securing the repayment of the credit claims)?**

The governing law should not be considered as a risk factor per se. In public transactions we normally see asset governed by the same law. However, in private transactions and in particular transaction funded through ABCP programs can fund portfolio of receivables whose contractual agreements are based on different governing laws. These are transactions that mostly relate to trade receivables as asset type and are of great benefit to corporate originators in order to get better funding conditions thanks to the diversification of the financed portfolios. We are of the opinion that these types of transactions should not be excluded from the benefit of reaching the STS homogeneity requirement.

- 11. Do you consider prepayment characteristics as a relevant risk factor for determining the homogeneity? If yes, based on which concrete aspect of the prepayment characteristics of the underlying exposures should the distinction be made, and for which asset categories this risk factor should be considered and should be most relevant?**

Prepayment changes over time, which cannot be captured by an up-front risk factor and prepayment differs per jurisdiction, which is (indirectly) covered by risk factor (i). Therefore we suggest to not include this risk factor.

- 12. Do you consider seniority on the liquidation of the property or collateral a relevant risk factor for determining the homogeneity? If yes, do you consider the distinction between the credit claims with higher ranking liens on the property or collateral, and credit claims with no higher ranking liens on a different property or different collateral, as appropriate for the purpose of determination of homogeneity?**

Seniority on the liquidation of the property or collateral should not be considered as a pre-requisite for homogeneity. These could be useful types of information to be disclosed as part of transaction assessment by investors.

- 13. Do you agree with the approach to determining the homogeneity for the underlying exposures that all do not fall under any of the asset categories specified in the Article 3?**

Yes we do agree with this approach

- 14. Do you believe that materiality thresholds should be introduced with respect to the risk factors i.e. that it should be possible to consider as homogeneous also those pools which, while fully compliant with requirements under Article 1 (a), (b) and (c), are composed to a significant percentage (e.g. min 95% of the nominal value of the underlying exposures at origination), by underlying exposures which share the relevant risk factors (e.g. by 95% of general residential mortgages with properties located in one jurisdiction and 5% of income producing residential mortgages located in that and other jurisdictions)? Please provide the reasoning for possible introduction of such materiality thresholds.**

Regarding the consideration of risk factors, it is important to take into account the comments explained in responses to Q1 and Q2. In addition, if risk factors are finally maintained, the introduction of the materiality threshold would be a necessary mitigating factor in order to avoid altering current

market practices and disqualifying high quality securitisations. In this sense, the EBF proposed to increase this materiality threshold from 5% to 10%.

15. Alternatively, do you see merit in introducing synergies with IRB modelling, enabling the IRB banks to rely on risk management factors validated for modelling purposes, when assessing the similarity of the underwriting standards, or assessing relevant risk factors? Please provide the reasoning and examples for possible introduction of such synergies.

IRB models should follow as much as possible the asset classes, and not the other way around, reason why we would like to limit the fragmentation of asset classes, since IRB models will not be available on a very fragmented scale.

Part 4: Alternative option with respect to the determination of homogeneity and application of the risk factors

16. Which option from the two (the existing proposal as described in this consultation paper, and the alternative option as described in this box) is considered more appropriate and provides more clarity and certainty on the determination of homogeneity? Please substantiate your reasoning.

See responses to Q1 and Q2.

17. Please provide an assessment of the impact of the two proposed options, on your existing securitisation practices and if possible, provide examples of impact on existing transactions.

With regard to Auto-ABS, for instance, under option 1 or 2, many transactions that are well established in the market would be excluded from the STS-regime.

With regard to RMBS in the Netherlands, for instance, the 13 public transactions in this jurisdiction in 2017, 3 might have suffered to meet the requirements. The reasons: either legacy portfolios, where selection options are limited, or transactions of small originators that have to combine different asset types in order to get to the required critical mass. For the other transactions we assume that the first option might have worked.

In relation to the existing proposal, if we apply risk factors strictly including (e), object of financing, no multi-asset Italian lease receivable would meet the homogeneity requirements, and so would be excluded from the STS perimeter. This is not desirable, as having leases financing also motor vehicles and equipment help to diversify and reduce the risk of the securitised leasing portfolios, which are generally made up also by leases on real estate assets.

Same for standard auto loans or leases pools in other countries, such as Germany or Spain, whose suitability for STS eligibility would be harmed if risk factors (a), (d), (g) would be taken into account.

Therefore, it is important to take into account the comments explained in the responses to Q1 and Q2.

At the investor level there would be little to no impact.

18. Alternatively, do you believe that a hybrid option, combining the existing proposal and the alternative proposal, would be most appropriate? The hybrid option could envisage that all the risk factors would need to be taken into account in the underwriting, and for those risk factors that are not taken into account in the underwriting, (i) either adequate justification would need

to be provided that it is not required for the purpose of the homogeneity, (ii) or if the justification cannot be provided, the risk factor would still need to be taken into account when determining the exposures in the pool (on the top of the requirements related to underwriting, servicing, and asset category). Or, should other hybrid option be envisaged? Please substantiate your reasoning.

See responses to Q1 and Q2.

19. What are the advantages, disadvantages and unintended consequences of this alternative option, in particular compared to the existing proposal?

See responses to Q1 and Q2.

20. Are there any impediments or practical implications of this alternative option as defined? Are there any important and severe unintended consequences of the application of this option?

The concept of taking the risk factors into account and reflected in the underwriting standards, methods and criteria may need some further clarification and elaboration in the final version of the RTS.

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For more information contact:

Saïf Chaïbi
Policy Adviser
s.chaibi@ebf.eu
+32 2 508 37 23