Setting the standard for securitisation

Press Release – Thursday 22nd February 2018

PCS starts to provide analysis for market participants in first step to the market's transition to the new STS Regime

In December 2017, the European Parliament passed a Regulation creating a new category of securitisations: "simple, transparent and standardised securitisations" also known as STS securitisations. This development is a key element of the European Capital Markets Union (CMU) project and seeks to revive the weak European securitisation market so that it can, as its counterpart has in the United States, help finance growth.

Once a securitisation achieves STS status, it will be eligible for lighter capital treatment when held by European banks. Also, the European Commission has issued a consultation on inserting STS securitisations into the Liquidity Cover Ratio (LCR) rules which determine what investments European banks must hold to meet liquidity requirements. Finally, the Commission has indicated that it would revisit Solvency 2 capital requirements for European insurance companies to make it commercially feasible for them to invest in high quality European securitisations.

Many issuers have indicated their current intention is to issue STS securitisations from 1st January 2019 (when the regulation comes into force) and, in the case of some, to issue in 2018 securitisations that are capable of being grandfathered under the STS Regulation.

However, to achieve STS status, a securitisation is required to meet an extensive set of regulatory criteria. Many are complex and not always straightforward to analyse. It must be recognised that transitioning from current market practice to the new STS regime will pose legal, structural, informational and IT challenges to issuers and investors

In line with its mission to strengthen the securitisation market as a sustainable investment and funding tool for both investors and originators, PCS has committed itself to assist market participants in transitioning to the new regime.

To do this, PCS will offer STS Reports in which we will analyse a securitisation transaction, against the criteria set out in the STS Regulation to determine whether the transaction meets those criteria and, if it does not, what criteria are not met and why.

PCS has been very closely involved in all the stages of development of the new STS regime from its inception in 2012 through the technical work done by the EBA in 2014, the EU Commission's proposals in 2015, the amendments of the Council and the EU Parliament in 2016 and the trilogue process in 2017. As such it is ideally placed to help market participants understand and transition to the new STS regime.

KEY POINTS

- The new STS securitisation regime is a key plank of the EU's Capital Market Union.
- The new STS regime seeks to revive securitisation in Europe so that the economy may get the finance it needs to grow without creating systemic risks to the banking system.
- The new STS regime may lay the foundations for a strong European securitisation but it is complex and transitioning to it will pose multiple challenges to issuers, investors and regulators.
- PCS, as a not-for-profit initiative, will – as part of its overall mission - be assisting market participants and regulators in achieving a smooth transition to the new STS world.
- To do this, PCS will – amongst other activities – provide on request an analysis of individual transactions against the multiple STS criteria. This will allow issuers, in particular, to see how much needs to change in their existing structures and allow them to anticipate the new rules.
- PCS is ideally placed to provide this assistance because of its extremely close involvement in all stages of the new law's development.
- PCS is a not-for-profit initiative set up in 2012 to assist in rebuilding a strong and safe European securitisation market. More details may be found at pcsmarket.org and specifically at: http://pcsmarket.org/about-pcs/

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Contact

Ian Bell

Head of the PCS Secretariat

Tel: +44 20 3440 37 21

Mob: +44 7500 55 80 40