

European Securities and Markets Authority
103, rue de Grenelle
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April 11th, 2014

Dear Sirs,

Re: Consultation Paper on CRA3 Implementation ESMA/2014/150

We welcome the opportunity to comment on the discussion paper published by ESMA. Our overarching feedback on the proposed RTS can be summarised as follows:

- We truly appreciate the drive to enhance the functioning of the ABS market; however, we believe it is essential to strike the balance between the greater transparency pursued and the additional regulatory burden imposed on market participants, in order not to discourage future issuance. As a general comment, we think that disclosure requirements should primarily aim at providing investors with information that they wouldn't otherwise have access to, i.e. asset performance and transaction documents.
- We do not believe that broadening the scope to include bilateral, private transactions fulfils the aim of increasing transparency for the benefit of investors. In fact, it is difficult to envisage an investor conducting a due diligence on bespoke transactions closed in the past in order to purchase them: a large share of bilateral transactions only exist because of the

particular relationship between the counterparties (e.g. parent-subsidary) or because of the specific role of one party in the financial market (e.g. multilateral lending institutions).

The following pages report specific comments on sections of the consultation paper.

We would like to thank you for last week's helpful call on these matters, and we are happy to answer any further questions you may have.

Yours sincerely,



EUROPEAN INVESTMENT FUND

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Definitions

1. We understand that most of the terminology is borrowed from previous regulation. However, we think it might be useful to add some guidance in the final RTS, especially with respect to the following concepts:
 - a. financial instruments: does it refer to MIFID? Which instruments are meant to be within the scope? Could you please exemplify what “resulting from a securitisation transaction or scheme” means?
 - b. sponsor: would it be possible to exemplify when a counterparty is deemed to be a sponsor? Is this meant to refer to arrangers / lead managers in a securitisation transaction?
 - c. scheme: could you please exemplify what “resulting from a securitisation transaction or scheme” means? What are the differences between a securitization scheme and a securitization transaction?
 - d. exposure purchasing: in the definition of sponsor it is made reference to “securitisation schemes that purchases exposures from third party entities”. This seems to be right for cash transactions where receivables are bought by the issuer (SPV). Would this also apply to protection buyers in synthetic transactions?

Annex I: Draft regulatory technical standard on information on structured finance instruments (p. 30)

2. Clause (6) of the preamble provides for disclosure to investors of *“any significant change or event either likely to affect the creditworthiness, or the risk characteristics of the underlying exposures, or representing a breach of transaction documentation of the SFI”*.
 - a. As we welcome ESMA’s proposition, we believe that the prompt notification to investors should occur not only in the circumstances outlined in (6), rather, each and every time an SFI undergoes an amendment to the transaction documentation. This could be achieved by way of summarizing which documents have been amended and when, as well as disclosing the new collated and black-lined documents on ESMA’s platform. The rationale behind our recommendation relies on the fact that the investors should be able to apply their own judgement in determining whether an amendment affects the creditworthiness and/or the risk characteristics of the transaction. For instance, amendments to renegotiation limits included in the servicing agreement could seem to have no impact in the eye of the originator, while being material for investors. We would also like to draw the attention of ESMA to the need to disclose the intervention of the originator in a deal, should this exceed typical

levels of management activity. For instance, the disclosure of large buybacks of both performing and defaulted loans, would allow the investors to better analyse the risk profile of the portfolio as well as to better interpret the past performance of the transaction.

3. Article 6(3) in chapter III provides that the information set out in Article 4(d) – which governs the disclosure of the investor report – shall be provided monthly.
 - a. We believe that timely reporting is essential to achieving transparency, but we would consider sufficient a quarterly reporting frequency, unless the notes payment dates are more frequent. Clearly, the quarterly reporting would be supplemented by ad-hoc reporting of significant events under Clause (6).
4. Article 6(4) in chapter III repeats clause (6) of the preamble
 - a. Consistent with comment #1 about clause (6) of the preamble, we believe a notification to investors should be required each and every time an SFI undergoes an amendment to the transaction documentation.

Annex 3 to the draft RTS on information on SFI – loan level data for SME (p. 85)

5. We would recommend including or aligning the following definitions to match those in the ABS leasing template of Annex 7. Assets: Backup Servicer Name, Last Internal Obligor Rating Review (date of last internal rating update/review), Payment Method (e.g. direct debit ...), All Reserve Accounts at Target Balance, Average CPR replaced by Annualised Constant Prepayment Rate. Bonds: Interest Payment Date, Principal Payment Date. Section heading 'Lease characteristics' could be renamed 'Loan characteristics'. Field 'Postcode' could be substituted with 'Geographic Region' for consistency.
6. Field **"BORROWER IDENTIFIER"**: We would suggest requiring the disclosure of the Group Company Identifier, as it is envisaged in the ECB template. This would be beneficial to the concentration analysis of the pool.
7. We would suggest adding the **"BANK INTERNAL RATING"** field. Coupled with the LGD field, would provide the investor a comprehensive view on the expected losses of the pool over a

one year horizon. We would also suggest including a field to identify if the loan has been restructured.

Annex 8 to the draft RTS on SFI (p.130)

8. The “asset performance” item of the “investor report” does not specify the information to be provided.
- a. We would expect the investor report to provide a breakdown, for each sub-pool, of cumulative defaults and recoveries occurred since closing. The report should also feature typical stratification tables describing the portfolio and its performance, such as (but not limited to):
 - i. weighted average life, maturity, margin/coupon for each sub-pool;
 - ii. current balance of delinquent loans, per bucket of arrears;
 - iii. distribution of the pool by internal rating and by sector;
 - iv. distribution of the recoveries by open/closed recovery process; and
 - v. details on the top 10 non-defaulted obligors, i.e. delinquency status, PD, LGD, sector.

Moreover, we believe it would be relevant to provide information concerning the last rating actions on the issued notes.

9. Concerning the disclosure requirements provided by item (f), we believe that reporting the target values (where applicable) of the account balances would be beneficial to investors. Moreover, requiring the disclosure of the computation of the target values would add to clarity. As most transactions feature elaborate formulae, which take into account several ratios and performance metrics, we deem it pivotal to provide investors with a drill-down of how the target values are computed.

Annex II: draft RTS on the European Rating Platform (p.146)

10. Field “CRA METHODOLOGY”: we believe that it is not convenient to summarise a CRA’s methodology in the field of a table, moreover, given that the CRA will be required to attach a press release for each and every rating action, the methodology followed will be disclosed in such document, by way of reference to applicable criteria.

Answers to specific questions (p.133)

Q1) Yes we believe it makes sense that ESMA's platform is fed by only one data provider rather than by a multitude of sources for every transaction.

Q2) We believe that national laws on protection of data will not impact the disclosure requirements as they are aligned with the ECB template.

Q3) Please see comments above.

Q4) Please see comments above.