

Introductory statement for ECON scrutiny session on Level 2 measures under the EU Securitisation Regulation.

Steven Maijoor – Chair, ESMA

Introductory statement

Dear Chairman, honourable Members of the Parliament,

Thank you for giving ESMA the opportunity to participate in today's ECON meeting scrutinising Level 2 measures under the Securitisation Regulation. As you will be aware, the Regulation is a key pillar of the Capital Markets Union project, and places a number of key tasks under ESMA's responsibility. Since the Regulation's entry into force last January, ESMA has worked hard to support its smooth implementation before the Regulation applies on 1 January 2019. In doing so, ESMA's goal has been, and will remain, to ensure that the objectives of the co-legislators are achieved. In my contribution today, I will summarise the main elements of ESMA's recent activities.

To begin with, I would like to underline that the overarching principle that has guided ESMA's policy work on securitisation is to ensure a high level of transparency and investor protection and at the same time limit, to the extent possible, any additional regulatory burden on parties to the securitisation transaction. The need to ensure a high level of transparency is one of the important lessons of the financial crisis and the performance of securitisations under stressed conditions. In my view, the increased transparency of the securitisation market and cross-sectoral consistency of regulatory requirements will further improve confidence in the securitisation market, enhance the investor base for securitisation transactions and ultimately boost the financing of the real economy.

On 16 July 2018, ESMA submitted a first set of technical standards to the Commission that helps implement the Regulation's Simple Transparent and Standardised (STS) criteria. These draft technical standards specify the information and format that securitisation originators and sponsors should use when notifying ESMA that their transaction meets the STS criteria.

ESMA also submitted, on 16 July 2018, a second set of technical standards to the Commission, related to the STS criteria. These draft rules set out the information that national competent authorities (NCAs) must receive when a firm applies for authorisation to provide assessments of a securitisation's compliance with the STS criteria. The Securitisation Regulation foresees that on the basis of a single point of authorisation by an NCA a firm can provide these assessment services across the Union.

In addition, last week, ESMA published another set of technical standards on the information to be disclosed for securitisations. As you may know, our deadline for submitting these standards to the Commission is only 18 January 2019. However, ESMA decided to re-prioritise its resources in order to bring this work forward, as explained in my letter to the Commission and co-legislators last April. In this way, ESMA paves the way for a solution which would avoid the unnecessary burden of market participants having to implement two sets of templates, given the transitional provisions of the Securitisation Regulation. While appreciating that the disclosure templates are highly detailed, to achieve this solution it is of utmost importance that the Commission adopts these technical standards as soon as possible. I also expect that ESMA's efforts to develop templates that are consistent with existing market practices, such as the ECB's loan-level reporting initiative, will help reduce the costs of implementation for market participants.

One issue ESMA faced when developing these disclosure templates was how to treat public and private securitisations. In the end, following a careful reading of ESMA's mandates, we believe that there are some aspects of these standards that are also aimed at private deals, and this is reflected in the technical standards.

The disclosure requirements aim to provide investors, potential investors, competent authorities, and other public authorities with sufficient information to meet their due diligence and supervisory obligations in the Regulation. Because securitisations are so heterogeneous, ESMA developed dedicated templates to cover the most common types of underlying exposures in EU securitisation markets, including residential mortgages, SME loans, and automobile loans. The templates also aim to cover extensive information on the tranches and bonds of the deal, on its structure, and on its performance.

Given the high level of detail of the templates, ESMA also needed to explore arrangements for when data cannot be reported. For example, a securitisation can include loans that were originated many years ago, when lending standards and corresponding regulatory requirements were different. This is not necessarily a problem, because old loans that are performing well now are statistically likely to perform well in the future. But it does mean that the proposed disclosure standards needed to address situations where data cannot be reported. The standards thus introduce a system of standardised codes, in order for reporting entities to explain to data users why information cannot be provided for a specific field.

Moving briefly to a different Regulation, as a reminder the Securitisation Regulation introduced some amendments to EMIR, which include two joint mandates to the European Supervisory Authorities (ESAs). The two mandates relate to the clearing obligation and the risk mitigation techniques for non-centrally cleared OTC derivatives. The consultation by the ESAs closed in June and the ESAs have since been working together in order to finalise the related draft technical standards swiftly.

Furthermore, I think it is useful to give you an overview of ESMA's remaining deliverables under this Regulation in the upcoming months. Between now and the 18 January 2019, we will be:

- a. Submitting technical standards on securitisation repositories' operational standards and access conditions regarding the data reported to them;
- b. Submitting technical standards on the information to be provided by firms seeking to register with ESMA to provide securitisation repository services;
- c. Submitting technical advice to the Commission on the fees to be charged by ESMA for supervising securitisation repositories; and
- d. Submitting technical standards on the cooperation arrangements between national competent authorities and the European Supervisory Authorities.

Lastly, I would like to update you also on other activities that ESMA has been performing in parallel to developing the single rulebook in order to ensure proper implementation of the Securitisation Regulation requirements. Primarily, we have been working to build ESMA's capabilities to receive and publish the STS notifications, as a securitisation can only be confirmed as having the STS label, and thus lower capital requirements, if it appears on ESMA's official website. We are aiming to set up a system that is robust but also as user-friendly as possible. We will publish reporting instructions in the next few months, so that originators and sponsors have sufficient time to prepare before the start of next year.

Once the Regulation is in force, ESMA will continue supporting the NCAs, and engage in regular supervisory convergence activities with the aim to further facilitate the harmonisation of the application and enforcement of the new European STS framework.

Finally, capitalising on ESMA's existing supervisory expertise, ESMA will follow the mandate initially proposed by this Committee and implement an effective supervisory framework for the securitisation repositories. Having said that, I would like to draw your attention to the insufficient resource allocation in the 2019 budget proposal by the European Commission. As the budgetary process for the next year is still ongoing, I would very much hope that the European Parliament will support ESMA's corresponding resource request and so allow ESMA to deliver successfully and on time, on this important task under the Securitisation Regulation.

I would like to thank you again for inviting ESMA to join today's ECON meeting. I remain at your disposal should you have any questions.