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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

laying down common rules on securitisation and creating a European framework for simple and transparent securitisation and amending Directives 2009/65/EC, 2009/138/EC, 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012

and

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms

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Executive Summary Sheet
Impact assessment on the Proposal for a Regulation on Securitisation
A. Need for action
Why? What is the problem being addressed?
Before the crisis the securitisation market was a growing channel of funding to the European economy. This market performed well during the crisis, generating negligible losses. However, its post-crisis reputation was severely tarnished by practices and events taking place elsewhere, mainly in the US. This stigma is reflected in investors' perception of EU securitisation's riskiness as well as in its regulatory treatment, which has been calibrated mainly on losses in US markets. Since these have been a multiple of EU securitisation losses, the latter are disadvantaged by the regulatory treatment. As a consequence of the stigma and the regulatory treatment, the EU securitisation market is now stalled. A financing channel for the EU economy is thus lost. Without securitisation, banks' ability to sell assets is constrained. As a consequence, the current need for deleveraging often imposes banks to shrink their balance sheets by reducing credit provision. In the European context, where 80% of financial intermediation takes place through banks, the implications for growth are substantial. The creditless recovery is protracted, slowing growth and job creation.
What is this initiative expected to achieve?
The general objective of the initiative is to revive a safe securitisation market that will improve the financing of the EU economy, weakening the link between banks deleverage and credit tightening in the short run and creating a more balanced and stable funding structure of the EU economy in the long run. Specifically, this is to be achieved differentiating simple, transparent and standardised securitisation (STS) products that can provide a sustainable funding channel for the EU economy from more opaque and complex ones. Secondly, the standardisation of processes and practises in securitisation markets as well as tackling regulatory inconsistencies will be pursued. The degree of achievement if these objectives will be measured against the difference in price and issued quantities of STS versus non-STS products.
What is the value added of action at the EU level?
Securitisation products are part of EU financial markets which are open and integrated. Securitisation links different financial institutions from different Member States and non-Member States: often banks originate the loans that are securitised, while financial institutions such as insurers and investment funds invest in these products and they do so across European borders. Furthermore, the regulatory framework on securitisation is largely based on EU legislation. Differentiation of STS products can therefore only be introduced with an initiative at EU level.
B. Solutions
What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?
A range of options have been considered to introduce STS criteria: to adapt the regulatory framework to reflect the different risk profile of STS products and to standardise the building blocks of the securitisation legislation (i.e. definitions, disclosure and due diligence requirements). In each field a no action option, a non-legislative and a legislative action have been considered. The preferred option is a legislative action that would introduce STS criteria, introduce a differentiated regulatory framework for STS products and standardise the building blocks of the securitisation legislation (i.e. definitions, disclosure and due diligence requirements). This option should achieve differentiation and render the regulatory treatment more risk-sensitive than currently. Furthermore, it should standardise currently heterogeneous provisions in EU legislation on securitisation definition,

disclosure and due diligence requirement. All this should in turn fight stigma and foster the revival of a safe and sustainable securitisation market.
Who supports which option?
The vast majority of stakeholders are supportive of this initiative. There is no difference in terms of category of respondents, in the sense that the vast majority of legislators, central banks, regulators, supervisors, market players and think tanks support the initiative.

C. Impacts of the preferred option
What are the benefits of the preferred option (if any, otherwise main ones)?
To the extent that the proposed policies will create a new channel of financing for the EU economy, one that is less dependent on banking sector constraints, they will reduce the effect of financial crises on credit provision and thus on growth and employment. The social costs of such crises will be reduced. Furthermore, by fostering the spread of securitisation structures whose risks can be analysed, understood and priced, the policy options will foster a securitisation market conductive to better funding of the economy in a context of financial stability. Nothing would suggest that the proposed policy will have any direct or indirect impacts on environmental issues.
What are the costs of the preferred option (if any, otherwise main ones)?
Beyond the costs for market participants and public authorities to adapt to the new regulatory framework, there should be no relevant social and economic cost. Nothing would suggest that the proposed policy will have any direct or indirect impacts on environmental issues.
How will businesses, SMEs and micro-enterprises be affected?
The policy options chosen should have several positive effects on SME financing. First, the inclusion of short-term securitisations such as ABCP in the STS framework, with consequential improvement in their capital treatment, should foster the growth of this important source of SME financing. Secondly, the initiative should provide banks with a tool for transferring risk out of their balance sheets. As a consequence, freed capital should be increasingly used by banks to provide new credit to families and firms, most of which are SMEs in the EU. Finally, by introducing a single and consistent EU securitisation framework and encouraging market participants to develop further standardisation, the initiative should reduce operational costs for securitisations. Since these costs are higher than average for the securitisation of SME loans, the fall should have an especially beneficial effect on the cost of credit to SMEs.
Will there be significant impacts on national budgets and administrations?
No
Will there be other significant impacts?
No
D. Follow up
When will the policy be reviewed?
The forthcoming legislation will be subject to a complete evaluation (about 4 years after its implementation deadline) in order to assess, among other things, how effective and efficient it has been in terms of achieving the objectives presented in this report and to decide whether new measures or amendments are needed.