



Capital Markets Union

Securitisation and Covered Bonds

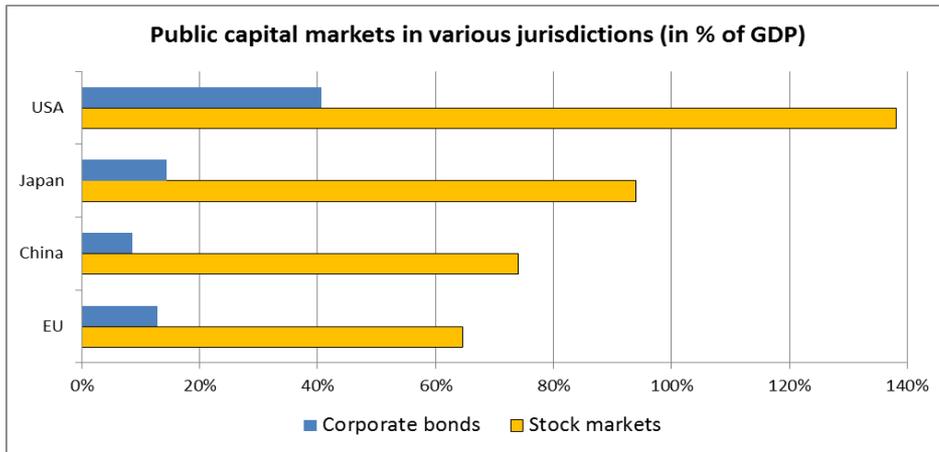


Capital Markets Union: A Commission priority

- **Growing businesses critical to jobs and economic growth in Europe**
- The tightening of bank lending **has reduced financing**
- **Opportunity** for a bigger range of financing options, **particularly for SMEs**
- **Can help the financing of the Commission's Investment Plan**
- **Free movement of capital:** a fundamental Treaty freedom

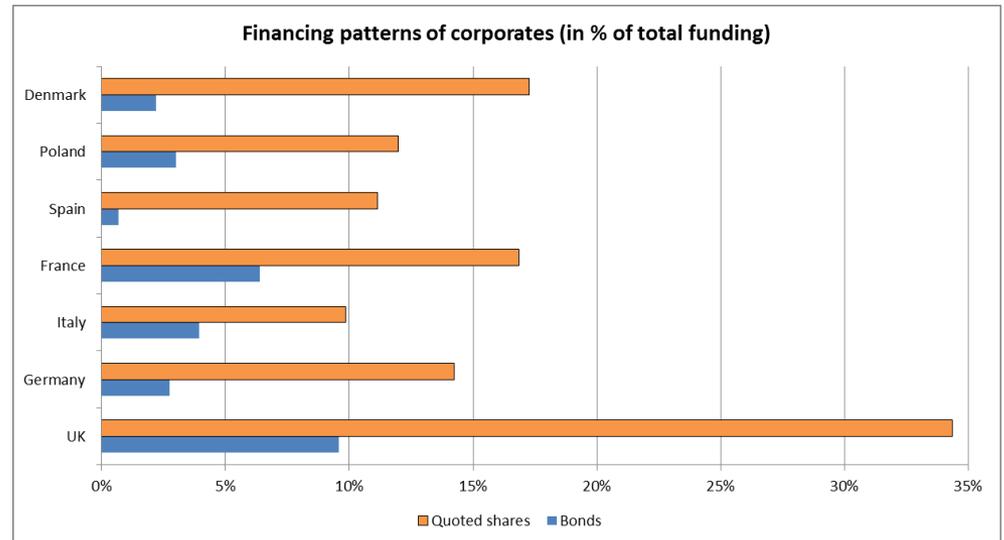
A single market project for all 28 Member States

Where are we now?



EU capital markets are less developed than many other countries

There are different levels of market development across the EU



Why does it matter?

- Mid-sized companies **receive five times as much funding from capital markets in the US**
- Venture capital markets **as deep as the US could have been worth an additional €90bn over the past five years and 4000+ additional companies financed**
- **Safely reviving** SME securitisation markets **half way back to previous levels equivalent to over €25bn of additional funding**

Where do we want to get to?

- No barriers to international investment into the EU or investment cross border
- Accessible information about investment opportunities and risks especially for SMEs
- Proportionate regulatory burdens and similar costs of investing across the Union
- Investors (especially retail) better able to understand risk
- CMU to be built on the foundations of financial stability created by the Banking Union and other financial reforms of the last five years, but it is not about bank funding

CMU- Green Paper's approach

**Increasing
the supply
of
investment**



**Making
markets
work better**



**Increasing
access to
finance**

**Improving single rulebook, supervisory
convergence, competition & financial stability**

CMU's short term priorities

- Lower barriers to access capital markets through a review of the Prospectus Directive
- Widen the investment base for SMEs through improving credit information on SMEs
- **Build sustainable securitisation through a more comprehensive approach to securitisation in the EU**
- Boost long-term investment by encouraging investors to take up ELTIFs
- Develop EU private placement markets

EUROPEAN SECURITISATION: STATE OF THE MARKET

Chart 2: European securitisation outstanding ^(a)

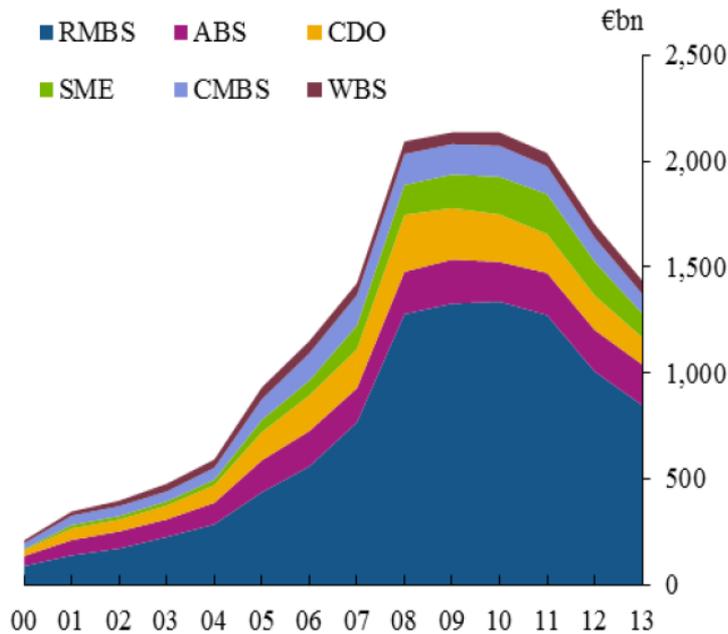
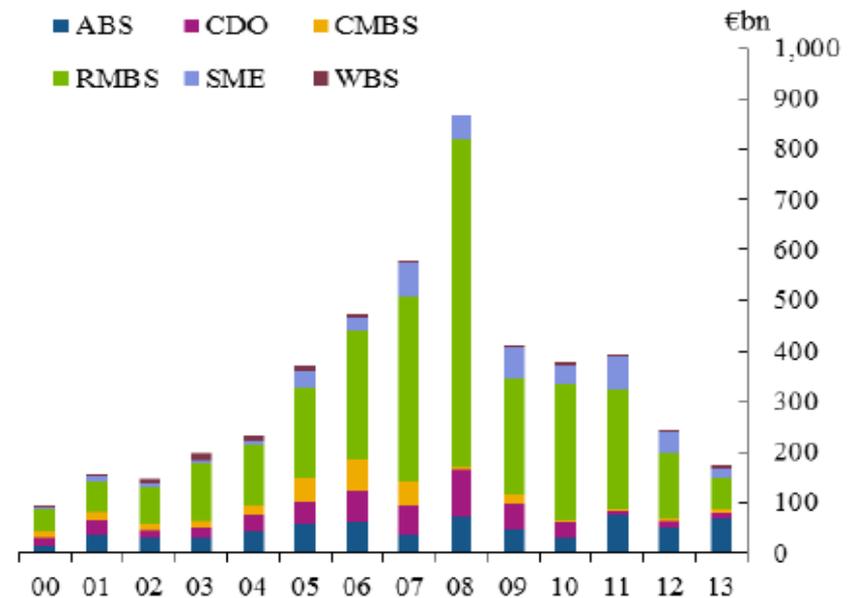


Chart 5: European securitisation issuance ^(a)



Sources: SIFMA and Bank calculations.
(a) Includes retained deals

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Securitisation: Problem Definition

On the buy-side:

- Lack of investor confidence / negative perception arising from the subprime crisis /collapse of ABS investor base;
- Absence of a liquid secondary market;
- Regulatory uncertainty with regard to prudential treatment of securitisations.

On the origination-side:

- Availability of alternative cheaper refinancing sources (eg. central banks);
- Macroeconomic factors (ie. low-level of yields, weak credit growth, deleveraging process reducing the amount of available assets to be securitised).

CMU and Securitisation

Specific consultation launched in parallel to the Green Paper

- The objective is to work towards an EU framework on simple, transparent and standardised securitisation
- Transparency, consistency and availability of key information should be enhanced
- A higher degree of standardisation of the products
- All these steps should increase the comparability across securitisation instruments

Securitisation CP: Main Topics

- **Identification criteria for qualifying securitisation instruments**
 - i. Special criteria for short term instruments?
 - ii. What about synthetic structures?
 - iii. Risk retention requirements
- **Compliance mechanism for qualifying securitisations?**
- **Transparency and information disclosure**
 - i. How to deal with existing disclosure requirements? Loan level data?
 - ii. Interaction ESMA Website / European Datawarehouse / Central Bank requirements?
 - iii. Position on credit rating country ceilings



Securitisation CP: Main Topics

- **Harmonised EU securitisation structures?**
- **Secondary markets, infrastructures and ancillary services**
 - i. Measures to support secondary trading?
 - ii. Development of venues and benchmarks and availability of pricing information
- **Role of securitisation for SMEs**
 - i. Standardisation, collection and dissemination of comparable credit information: could this help kick-off this product?
 - ii. Otherwise, what else can be done?
- **Prudential treatment of qualifying securitisations**

CMU Timeline

- 18 February – adoption of the CMU Green Paper
 - **Deliberately broad, covering key areas where feedback is needed**
 - **Specific consultation on early priorities (e.g. prospectus, securitisation)**
- 13 May – deadline for responses to consultation
- Until summer: discussions at EU and national level, with Member States, parliamentarians, interested parties; workshops on technical issues e.g. SME credit information
- 8 June – conference in Brussels
- Summer – publication of CMU Action Plan
 - **Short term and medium term actions needed 2015-2019**
 - **Possible proposals on early priorities**

WHAT ABOUT COVERED BONDS?



Covered Bond Yields (in % MTS indices)
(Source: Bloomberg)

COVERED BONDS CP: ANOTHER CMU INITIATIVE

- A Consultation Paper is being prepared – Publication expected in June
- Why a consultation?
 - **Examine performance of covered bond markets**
 - **Discuss the feasibility of an "integrated" covered bond framework**
- Potential structure and content of CP
 - **Economic analysis**
 - **Policy options: from doing nothing to a 29th Regime**
 - **Potential elements for an EU framework – based on EBA's report**
- Where are we now and what are the challenges?
 - **Draft being discussed within the Commission**
 - **Sensitive and political issue: markets have performed unevenly**
 - **There is support for action but no consensus on what to do exactly**