



Federation of Finnish Financial Services represents banks, insurers, finance houses, securities dealers, fund management companies and financial employers operating in Finland. Its membership includes employee pension, motor liability and workers compensation insurers, all three providers of statutory insurance lines that account for much of Finnish social security. The Federation has about 460 members who employ a total of 43,000 people.

to European Commission

PUBLIC CONSULTATION ON AN EU FRAMEWORK FOR SIMPLE, TRANSPARENT AND STANDARDISED SECURITISATION

1 General Comments

Federation of Finnish Financial Services (FFI) welcomes the European Commission (EC) consultation on “EU framework for simple, transparent and standardised securitisation” and the opportunity to contribute to it. FFI supports the encouragement of high quality securitisations to help fund the European real economy.

FFI considers it important that current legislation is evaluated – and where necessary, amended – to facilitate the growth of the securitisation market. In FFI’s view, regulation should also be made more specific with regard to risk-weighting, risk retention procedures and reporting obligations, while considering the competitiveness of the European market.

2 Detailed comments on questions raised in the consultation

Question 1:

- A. Do the identification criteria need further refinements to reflect developments taking place at EU and international levels? If so, what adjustments need to be made?**
- B. What criteria should apply for all qualifying securitisations (“foundation criteria”)?**

FFI agrees that the criteria of high-quality securitisation can be defined consistently with the Solvency II and LCR criteria insofar as they support the development and growth of the securitisation market in Europe. However, all criteria should not be copied as they are, because LCR regulation has been designed for liquidity management purposes solely. In FFI’s view, regulation at this early stage should not be formulated so that it automatically narrows down a very restricted definition of high-quality securitisation.

Solvency II primarily regulates solvency while LCR primarily regulates liquidity management. For this reason, the definition of high-quality securitisation shouldn’t necessarily include all proposed LCR criteria, because they would then exclude other products besides bonds. This would rule out the use of alternate investment funds (AIF) as



a securitisation instrument. Regulation should not be made primarily from a liquidity perspective. An investment can be prudent from Solvency II perspective even if it is not liquid from LCR perspective.

FFI does, however, support the application of certain of the principles of LCR regulation. For example, collateral pool homogeneity and the separation of various asset classes would be excellent criteria also for high quality securitisation.

Delegated Act on LCR defines certain minimum criteria which a securitisation product must fulfil in order to be counted in banks' liquidity buffers. These criteria include e.g. credit rating and minimum issuance of €100m. LCR regulation focuses primarily on the product's liquidity, which is understandable considering the goals of LCR regulation. But in the context of securitisation, FFI believes these criteria may lead to unnecessarily narrow results.

The definition of high quality securitisation should also include products such as AIF units that invest, for example, pro rata in low-risk mortgage-backed loans. A fund unit would thus count as a securitisation instrument that follows both "true sale" and "look through" principles.

Question 3:

- A. Are there elements of the current rules on risk retention that should be adjusted for qualifying instruments?**
- B. For qualifying securitisation instruments, should responsibility for verifying risk retention requirements remain with investors (i.e. taking an "indirect approach")? Should the onus only be on originators? If so, how can it be ensured that investors continue to exercise proper due diligence?**

Risk weighing should reflect the structure and quality of the transaction better. Current regulation allows for very little capital gain for banks, since the issuing bank needs to hold 5% of the securitisation position and must practically deduce it from its own funds. The risk retention requirement therefore all but eliminates the capital gain from securitisation, which further reduces the appeal of what is already a complicated and costly operation.

Securitisation has the potential of being a good instrument for banks' risk diversification if regulation doesn't erase all its benefits. Securitisation would also free up capital, which would increase banks' capacity to fund the growth of the real economy.

In addition, it should be noted that disclosure obligations should be in line with other disclosure requirements currently in use. It is also important to maintain the investor's duty of investigation to avoid laying all responsibility on the issuer.

Question 4:

- A. How can proper implementation and enforcement of EU criteria for qualifying instruments be ensured?**
- B. How could the procedures be defined in terms of scope and process?**
- C. To what extent should risk features be part of this compliance monitoring?**



FFI points out that the current regulation already requires comprehensive disclosure of securitised receivables, and there is no need for increased disclosure obligations.

We also believe that the most cost-effective way to handle monitoring is to have it done by the original creditor or the special purpose vehicle.

Question 6:

- A. For qualifying securitisations, what is the right balance between investors receiving the optimal amount and quality of information (in terms of comparability, reliability, and timeliness), and streamlining disclosure obligations for issuers/originators?**
- B. What areas would benefit from further standardisation and transparency, and how can the existing disclosure obligations be improved?**
- C. To what extent should disclosure requirements be adjusted – especially for loan-level data – to reflect differences and specificities across asset classes, while still preserving adequate transparency for investors to be able to make their own credit assessments?**

FFI supports the proposition of disclosing information based on the actual need of the end investor. It is generally important to ensure quality of the disclosed information and efficiency of the involved processes.

Question 7:

- A. What alternatives to credit ratings could be used, in order to mitigate the impact of the country ceilings employed in rating methodologies and to allow investors to make their own assessments of creditworthiness?**
- B. Would the publication by credit rating agencies of uncapped ratings (for securitisation instruments subject to sovereign ceilings) improve clarity for investors?**

In FFI's opinion, an external credit rating should not be an absolute requirement for high quality securitisation. It is quite common for banks to use the internal-ratings-based (IRB) approach. The approach has been approved by the competent authorities, gives the banks the possibility to hold e.g. junior tranches, and also informs investors of the collateral's risk position.

Question 8:

- A. For qualifying securitisations, is there a need to further develop market infrastructure?**
- B. What should be done to support ancillary services? Should the swaps collateralisation requirements be adjusted for securitisation vehicles issuing qualifying securitisation instruments?**
- C. What else could be done to support the functioning of the secondary market?**

FFI does not support mandatory listing requirement. It would increase securitisation regulation and make transactions more costly. It would also categorically exclude



alternative investment fund units from being classified as securitisation instruments. AIF managers are regulated and supervised. Liquidity should not be a primary requirement. An investment may be prudent from the insurance company's point of view even if it's not liquid. Insurance companies often hold investments until maturity. This means that marketability and listing are not absolutely necessary for all investors.

Question 16:

- A. What additional steps could be taken to specifically develop SME securitisation?**
- B. Have there been unaddressed market failures surrounding SME securitisation, and how best could these be tackled?**
- C. How can further standardisation of underlying assets/loans and securitization structures be achieved, in order to reduce the costs of issuance and investment?**
- D. Would more standardisation of loan level information, collection and dissemination of comparable credit information on SMEs promote further investment in these instruments?**

FFI agrees that the Commission's goal of a more diversified financing system and better availability of corporate funding is a welcome and supportable idea. Moving securitised corporate loan portfolios from a highly leveraged banking system into other sectors could decrease systemic risk in the financing system.

To ensure a level playing field, the starting point should be that similar operations are regulated and supervised in a similar fashion, regardless of the operating institution. This approach would also reduce opportunities for regulatory arbitrage.

An alternative investment fund could be a securitisation instrument under circumstances in which the bank hands some of its corporate loan portfolio to an asset manager, who then offers it to investors as an investment product. This would give institutional investors new opportunities, particularly in the SME sector, which would support the Commission's goals of improving the availability and diversity of SME funding.

In many small countries, typical SME loan baskets are not worth credit rating or listing, because the loan basket may be small, very heterogeneous, or under constant change.

To enable alternative investment fund units as high quality securitisation instruments, the AIFs should have the option to create a junior tranche that would correspond to the equity tranche, i.e. the current bond-based securitisation that covers first losses. The AIF junior tranche would be "non-senior" in the Solvency II framework and could not be redeemed before other tranches. The sponsor of the fund could be obligated to invest in junior tranche so as to avoid suspicion of possible cherry-picking.

The best solution would be to keep different collateral classes apart and to ensure that securitisation instruments don't always require large volumes to cover expenses. This is often a problem for bonds, because credit rating and listing are expensive operations.

Question 17:

To what extent would a single EU securitisation instrument applicable to all financial



sectors (insurance, asset management, banks) contribute to the development of the EU's securitisation markets? Which issues should be covered in such an instrument?

It would be good to clarify what parts of regulation concern securitisation and what parts concern boundary conditions for investing. An alternative investment fund and a special purpose vehicle for securitisation may carry out very similar operations.

Securitisation operations should not be defined too narrowly, because an alternative investment fund could be considered as a securitisation instrument in itself. Boundary conditions for investing should not be regulated so strictly that only specific product types are allowed.

FEDERATION OF FINNISH FINANCIAL SERVICES

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