European Commission Consultation, as part of the Securitisation Package of 17 June, on amending Delegated Regulation (EU) 2015/61 as regards the eligibility conditions for securitisations in the liquidity buffer of credit institutions

This document provides the response of the Dutch Securitisation Association ("DSA") on the Consultation.

We welcome the opportunity to respond on this Consultation. Individual DSA members may respond as well.

General comments

The LCR is an important building block of the Securitisation Package. Due to several restrictive requirements, banks have used securitisations as HQLA's to only a limited extent.

One of the main reasons for the limited usage was the classification as level 2B with the associated haircuts. Unfortunately, level 2B still applies in the proposal.

This is partly remedied by the lower haircut of 15% for "resilient" transactions. However, the conditions to qualify as resilient, as described in the CRR amendments as proposed by the EC in the Securitisation Package, are very hard to meet for public transactions in an economically viable way.

On the other hand we are see a lot of positive elements in the proposals with regard to ratings, asset classes and the elimination of the WAM restriction.

Level 2B securitisations and haircuts

The main problem of securitisations as HQLA's is the haircut of 25% which is not competitive with Level 2A (15%), let alone Level 1 (Covered Bonds: 7%).

So a haircut of 15%, as proposed, would be a step in the right direction but not create a level playing field with Covered Bonds, which seems to be contrary to the intentions of the Securitisation Package.

But also the 15% haircut may be hard to achieve, since it depends on the "resilient" status of a transaction. The formulas for the attachment point of a resilient transaction do not take excess spread into account which may lead to uneconomic outcomes; a AAA tranche that is smaller than required for rating agency purposes, but needed to be resilient, will increase the average spread of a transaction to a level where the benefit of being resilient is fully eliminated.

Another limitation of the resilient concept is that it only applies to banks subject to the CRR (and maybe also insurance companies under Solvency II, depending on what the Solvency II Consultation will propose)), so not to non-bank financial institutions. Some kind of equivalence for non-CRR institutions would be really helpful.

And a final negative on resilient, it does not apply to legacy transactions, unless by coincidence.

On the positive side, we do not see the minimum € 250 mln as an impediment.

Ratings
The widening of the CQS requirements eliminates the cliff effect for transactions that lose their AAA status, since the resulting haircuts will still be compatible with Level 2 status. Allowing CQSs all the way down to investment grade would have been a better option, but with a 50% haircut lower rated positions will not be attractive to hold in de HQLA anyway.

More asset classes
The widening of the eligible asset classes to the full spectrum of senior-STS is certainly appreciated; also adding non-STS with sufficient ratings to Level 2B might have been consistent with overall Level 2B eligibility, but is not a major omission. Removing the 35% haircut (and replacing it by 25%) for certain securitisations is a welcome alignment.

Homogeneity
Replacing the very specific LCR homogeneity clauses by the STS homogeneity requirement is a welcome streamlining, irrespective of the (in the Securitisation Package) proposed broadening of SME homogeneity, since this will be less relevant for public transactions anyway.

WAM < 5 year
Since the Securitisation Package is targeting the lowest risk categories in securitisation, like prime RMBS, the deletion of the 5 year WAM requirement is a key improvement of the LCR criteria.