The Dutch Securitisation Association (DSA), representing the Dutch issuers of securitisations, would like to provide you with the following feedback:

1) Calibration of non-senior tranches of STS Securitisations:

The level of and steepness (when moving to lower ratings) of the increases in risk factor stresses for non-senior tranches have decreased substantially. We acknowledge this downward recalibration, but this still seems to be punitive for investors subject to Solvency II. STS criteria are supposed to make the risks of securitisations more transparent, which reduces the requirement to impose high capital charges to cover “hidden risks”. However, examples like:

1) an AAA investment in non-senior attracting the same stress (of 2,8) as a BBB senior; or
2) the difference between a BBB non-senior and a BBB senior (7,9 versus 2,8)

reflect calibrations that seem to be at odds with the fact that STS criteria are supposed to make the risks of securitisations more transparent.

In our view, the increased transparency of STS should reduce these kind of cliffs between credit quality steps or, within a certain credit quality step, between different levels of seniority.

Also, as a consequence of the relative high non-senior risk factor stresses, an investor under Solvency II that buys a pro rata share of all tranches of a single securitisation on Dutch residential mortgages has to take into account higher risk factor stresses in total than in case this investor was directly exposed to the underlying pool of residential mortgages. This is odd given that the actual exposure is exactly the same in both cases.

In this respect, we also would like to point to the importance of not having just AAA investors being attracted to securitisations.

One of the reasons why securitisation is such an important instrument in the financing through capital markets, as also emphasized in the plans for a European Capital Markets Union, is that it allows investors to add different risk/reward profiles to their portfolio, and banks to effectively reduce their balance sheets and capital requirements by selling the different tranches of a securitisation.

The proposed calibrations of Solvency II however may on the one hand very well bring insurance companies back in investing in the highest rated, senior classes of STS transactions, but on the other hand most likely not in the non-senior classes.

As a final point on calibrations, we note some inconsistencies in the new tables. The capital charge for a AAA 28 year senior STS tranche would be higher (18.8 %) than the charge for a comparable AA tranche (18.5%).

2) Unchanged calibrations for non-STS (and legacy type 2):

Also for non-STS/legacy type 2 transactions we expect (insurance) investor appetite to continue to be minimal as long as capital charges are not reduced. This is especially problematic since, while we are strong advocates of STS, we fear that initially many transactions will not be able to achieve STS status for the following reasons:

- For a large number of “pre 1-1-2019” transactions, grandfathering will not apply because of Art 178a.2.: “no new underlying exposures were added or substituted after 31 December 2018”. This problem could be addressed by adding “for active portfolio management”, which would align this limitation with the STS criteria (Art 20(7) of Regulation (EU) 2017/2402). Also, we would appreciate if you could confirm that “new underlying exposures” are not intended to include further advances under existing exposures.

-For new transactions, fulfilling the CRR Art 243 requirements will be a challenge. Specifically for Dutch RMBS meeting the 100% LTV condition will take time: until 2017, mortgages were originated with higher LTV's and RMBS transactions cannot just be composed of newly originated mortgages, but have to contain a mix of vintages.
A solution could be to allow grandfathering for the LTV requirement for STS transactions until 31 December 2025, just like the current Art 177(5) provides grandfathering for LTV and LTI requirements for type 1 transactions until 31 December 2015.

For those transactions that will not be able to qualify for STS status or grandfathering, we see differences in capital charges that seem hard to justify (like a 5 year senior AAA STS tranche, 5%, compared to a similar non-STS, 62.5%). A possible improvement could be to apply the current type 1 capital charges to non-STS tranches; this would reduce the difference to 5% for STS compared to a more realistic 10.5% for non-STS.

3) <u>Reference to CRR Art 243</u>

Apart from our comments on fulfilling the CRR Art 243 requirements for issuers, we also wonder how cumbersome it can be to require (insurance) investors subject to Solvency II, to interpret CRR banking regulation and f.i. calculate CRR risk weighting under the standardised approach, as required by the reference to CRR Art 243.