Dear Sirs,

We are pleased to have the opportunity to respond to the European Commission’s consultation on a potential EU framework for simple, transparent and standardised securitisation.

BlackRock is a leading provider of asset management, risk management, and investment advisory services to institutional, intermediary, and individual investors worldwide. As of 31 March 2015, the assets BlackRock manages on behalf of its clients totalled €4.40 trillion across equity, fixed income, cash management, alternative investment and multi-investment and advisory strategies including the iShares® exchange traded funds.

BlackRock has a pan-European client base serviced from 22 offices across the continent. Public and private sector pension plans, insurance companies, third-party distributors and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals invest with BlackRock.

BlackRock represents the interests of its clients by acting in every case as their agent. It is from this perspective that we engage on all matters of public policy. BlackRock supports policy changes and regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analysis, preserves consumer choice.

BlackRock is registered in the EU Transparency Register with ID number 51436554494-18.

Introduction and Summary of Views

BlackRock is supportive of a regulatory approach to securitisation that incorporates a distinction between qualifying securitisations and other securitisations, and supports the development of clear criteria, jointly adopted by policymakers, regulators and central banks across all relevant pieces of the regulatory framework. Because consistency and coherence across a range of legislative and regulatory instruments is critical to underpinning a robust market for securitisation in Europe, we welcome the work by the European Commission in this regard.

Securitisation is rightly considered a key piece of the Capital Market Union initiative – we believe that it is one of the best ways for capital market investors ('investors’ intended in this document to refer to both asset managers and asset owners) to help remove assets from bank balance sheets in order to free up more capital for lending.

Presently, and for the immediate future, we believe that the biggest barrier to a vibrant securitisation market has been the prevailing macroeconomic conditions, which have impacted both the supply and demand for credit. This has resulted in low volumes of credit originated, as banks remain under pressure to de-lever and improve their capital positions, and so have been reluctant to originate new loans. This has limited the amount of available
assets to be securitised. Furthermore, European banks’ easy access to “cheap funding” from central banks makes securitisation seem comparatively expensive as a source of funding.

As macroeconomic conditions improve, and banks make loans that can be securitised, it is vital that such securitisations meet the investment needs of the main investor segments, insurance companies and pension funds. However, in our experience, while end investor demand for securitisation in Europe appears to be relatively robust, capital requirements and difficult-to-comply-with investor rules represent a structural barrier that deters many.

BlackRock believes that identifying appropriately structured ‘qualifying’ securitisations especially if they are given a more favourable regulatory capital treatment on the basis of such a designation, will address these issues.

The Commission’s Green Paper is therefore an important contribution to the revival of securitisation markets in Europe, and to building an appropriate definition for qualifying securitisation. On the latter point, our starting point has been that the qualifying criteria should set the bar for securitisations that broadly meet the following guiding principles:

1. Set out high-quality, prudent underwriting standards that are evaluated and administered properly.
2. Establish quality servicing standards.
3. Ensure transparent and accessible asset and transaction information.
4. Ensure conflicts of interest are identified and managed properly.
5. Ensure structures are clear, complete and presented in an understandable manner.
6. Appropriately align originator, sponsor or original lender and investor interests (with originator, sponsor or original lender risk retention, where appropriate).

Our comments on the consultation in regard to the qualifying criteria are derived from these principles.

As a final point, we would caution that there is a risk of adverse market consequences if the definition and criteria of the qualifying securitisation framework is too restrictive or inappropriately designed. This would potentially exclude certain types of well-structured securitisations from the scope of the qualifying securitisation framework and the related regulatory treatment.

We appreciate the opportunity to address, and comment on, the issues raised by this discussion paper and we will be happy to assist the European Commission in any way we can on improving final public policies enhancing a better functioning securitisation market in the EU. We would welcome any further discussion on any of the points that we have raised.

Yours faithfully,

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Responses to specific questions

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’)?*

Broadly speaking, we find the identification criteria that are set out in the paper to be useful to delineate qualifying securitisations. BlackRock believes that the ‘foundation criteria’ should focus on setting standards that allow investors to more clearly understand the risks and returns of a potential investment, for example:

- Clear and understandable structures
- Improved transparency and disclosure to investors
- Strong underwriting and asset servicing standards

We have followed the work that has been done at the EU and international levels on developing identification criteria, and we are broadly supportive of the focus. Our responses to the individual criteria consulted upon by the respective bodies can be found here:


**Simplicity**

BlackRock fully agrees that qualifying securitisations should have characteristics that are understandable and clear for the investor. However, ‘simplicity’ is a relative concept, and one that can be misleading if not understood within the broader context of the securitisation market. We understand ‘simplicity’ to broadly mean ‘not over-engineered’ – and take this to mean that structures should be clear, complete and presented in an understandable manner.

We believe that more complex structuring practices and complicated payout rights make it difficult for investors to assess likely risk and return, especially in times of market stress, and should be resisted. Given that the ability to analyse and demonstrate understanding of securitised vehicles is a fundamental requirement for investors (as made more explicit in EU regulations such as AIFMD, Solvency II and the latest Basel rules), disclosure of all structural characteristics to investors should be clear and complete. Credit enhancement and structural features such as hedging and liquidity provision should be appropriately designed to mitigate the risks in the transaction.

**Transparency**

We believe that transparent disclosure of information to investors is of fundamental importance, and should be perhaps the most important criteria in establishing any form of qualifying securitisations. In order for investors to make well-informed decisions about the likely credit performance and cash-flows from an asset pool, the principle of transparency should be evidenced in the timely disclosure of performance data on underlying assets.
Investors should have timely and accurate information on the composition and performance of the asset pool, both at the point of issuance and on an ongoing basis. Originators or sponsors should publish regular performance updates on the underlying asset portfolio (typically such updates should coincide with the payment frequency of the notes). Investor reports should include detailed liability side reporting, allowing all cash flows to be reconciled, as well as details on how the securitisation satisfies any specific regulatory requirements (such as risk retention). All underlying transaction documents should be freely available to current and prospective investors.

We would highlight, however, that data alone is not sufficient in meeting the criteria of transparency. Investors also require qualitative information, for example, regarding an originator’s criteria and underwriting processes, in order to reach a final investment decision.

Although BlackRock’s clients are predominantly ‘buy and hold’, the availability of information on an ongoing basis is critical to developing a liquid secondary market to allow future purchasers to adequately assess securitisation programmes. It is critical that information be made available on a timely basis through means that are not impacted by any conflict with or control by the sponsor, the servicer or other parties to the transaction.

**Standardisation**

We agree with all of the examples of standardisation criteria set out in the Green Paper. As with the term ‘simplicity’, we do have some concern that ‘standardisation’ can be misunderstood without proper context. We are in favour of standardised principles in this regard – for example, that qualifying securitisations should have recourse to the ultimate obligors – however, as we discuss further in Q5, we do not believe that a standardised specific product structure would be beneficial for the pan-European market.

We believe that this foundation criterion should also include elements that reflect the following principles:

- **Setting out high-quality, prudent underwriting principles, which are properly administered and evaluated**

  The funding and securitisation process must start with the introduction of high-quality underlying receivables. Underwriting standards must be prudent, as well as properly administered and evaluated.

- **Quality servicing standards should be established**

  Servicing agreements should clearly lay out the responsibilities of the servicer in ensuring the receivables are serviced in accordance with good market practice and all relevant regulatory requirements and codes of conduct. Clear reporting requirements are needed for all aspects of asset performance (including borrower and/or originator fraud in addition to the regular arrears/loss, etc. detail) and cash flows.

- **Conflicts of interest should be identified and managed properly**

  Any potential conflicts between the sponsor and/or the servicer and investors should be clearly identified and their impact should be mitigated through careful commercially documented terms that are fully disclosed. The potential conflicts that may arise over time between different classes of holders in the asset-backed transaction should be recognised and contractual procedures to address such conflicts should be identified and clearly disclosed. This includes full and democratic dissemination of information to decrease the impact of any information arbitrage between the parties.

- **Appropriate alignment of originator, sponsor or original lender and investor interests**
Recognising that securitisation is a risk transfer between the original lender and the investors in the resultant securities, it is critical to ensure that their interests are aligned to the greatest extent possible. In our opinion, full and clear disclosure of the nature of all risks being transferred, both at the asset level and as a consequence of the structural characteristics of the securitisation’s terms is perhaps the most fundamental piece in maintaining this alignment.

**Additional risk features**

We believe it would be useful to look at additional risk factors – however, we would caution against the focus becoming on the credit quality of the underlying assets, rather than on the securitisation itself. In our opinion, a qualifying securitisation should be one where the risks and related returns are clear and understandable. In our experience, investors are comfortable with investing in a potentially lower-credit quality securitisation, as long as the risk-reward proposition is appropriate, and the structure, transparency, and disclosure are suitable.

**Question 2:**

A. To what extent should criteria identifying simple, transparent, and standardised short-term securitisation instruments be developed? What criteria would be relevant?

B. Are there any additional considerations that should be taken into account for short-term securitisations?

There is merit in looking more closely at certain types of assets that fall outside the scope of a qualifying securitisation as defined above and by other policymaking bodies.

Although they would not fit into the concept of a ‘short-term securitisation’, it would make sense to look at actively managed pools, such as collateralised loan obligations (CLOs) – which would be excluded by the current criteria – but which can be of great benefit to both investors, and to the economy. We believe they could also potentially benefit as an asset class from standards such as the ones set out for term securitisations.

The most common asset class generally discussed when referring to ‘short-term securitisation’ is Asset-Backed Commercial Paper (ABCP). ABCP is a key funding tool for many SMEs and unlisted companies – the underlying assets in the pool generally include things like commercial and consumer receivables, equipment leases and loans. We would be very supportive of looking more closely at ABCP, as we believe certain types of ABCP would benefit from similar regulatory treatment in line with qualifying securitisations. However, any criteria that effectively differentiate between types of ABCP will be different from those set out for term securitisations.

Further work on ABCP should look primarily at two types of programmes:

- For ‘fully supported’ ABCP programmes (i.e. where the sponsoring bank takes all the credit risk as well as providing liquidity support): A fully supported ABCP programme is really no different to a short-term covered bond, in that the investor has dual recourse (firstly to the sponsoring bank and then, only if the bank fails, to the underlying assets). A specific regime for this segment of the market should be based more closely on comparable rules for covered bonds, rather than based on the work around identifying qualifying term securitisations.

- For ‘partially supported’ ABCP conduits: in a partially supported ABCP programme, the sponsoring bank provides liquidity support and programme-wide credit enhancement (usually in the form of an irrevocable Letter of Credit), but investors
remain exposed to the default risk on the underlying pool of assets for the term of the commercial paper.

Nevertheless, given the very short-term nature of ABCP and the liquidity support provided (typically by the sponsoring bank), the main issue in differentiating between partially supported ABCP programmes would be around the credit quality and liquidity position of the bank sponsor (a significant difference between the characteristics that would differentiate between term securitisations). Because of this, we do not feel that the criteria developed for term securitisations would be a useful starting point to look more closely at partially supported ABCP programmes.

We would also like to highlight that the European ABCP market could be heavily impacted by a legislative proposal currently under discussion: the Money Market Fund (MMF) Regulation. We are concerned that, as drafted, the Regulation risks cutting off this critical investor base for ABCP (according to leading bank sponsors of ABCP, MMFs represent roughly 70% of the investor base for ABCP). If the final regulation unduly restricts MMFs ability to invest in ABCP, a key funding source to European companies could be greatly impaired.

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?

Blackrock fully supports the objective of aligning interests between originators and end investors. However, we also note that credit risk retention means different things in different jurisdictions globally, both in terms of intent, and in actual requirements – for example, the scope of retention requirements differs in the US and Europe.

As part of the qualifying securitisation criteria, we believe that alignment of interest should be the goal, and that this can be achieved in a variety of ways – including, but not exclusively, by risk retention. The issues of the past – poor transparency, poor quality collateral, leading to misaligned incentives – are only partly addressed by risk retention.

We are concerned that the assumption that a qualifying securitisation must retain credit risk (as set out in section 2.3 of the Green Paper) would lead to the de facto exclusion of many high quality non-EU assets. In fact, such a requirement may have the (we believe) unintended consequence of excluding some US transactions with the highest quality underlying assets – even if they were to meet all of the foundation criteria of being simple, transparent and standard. We think it is fair to say, that in order to meet the definition for a qualifying transaction, a securitisation should only need to comply with retention rules in force in the relevant jurisdiction of the sponsor-originator.

Moving forward (perhaps as part of further work on looking at sub-sets of securitisation – especially those such as CLOs which are actively managed and so do not fit within the qualifying securitisation criteria), we would encourage the Commission and other policymaking organisations to consider whether retention is always the best way to align interest between certain types of issuers and investors.

With regard to the verification of ongoing retention, BlackRock believes that this responsibility should be shared equally between investors and issuers, throughout the life of the transaction.
Placing the onus (and penalties for non-compliance) solely on the investor to judge whether risk retention constructions are in line with the rules means that some transactions carry potential regulatory risk making them less appealing and less liquid.

Originators could verify their compliance by issuing an attestation declaring how risk retention rules have been met within the seller representation and warranties. We would gain comfort from the fact that most originators are regulated and/or externally audited on an annual basis, and would face legal penalties, fines, and reputational damage for incorrectly reporting this. If the administration burden increases through the requirement of an additional external certification or oversight, over and above existing annual audits, costs will likely be passed on to end investors.

Issuer attestation should not, however, detract from due diligence responsibility that always remains with the investor.

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?

Needless to say, proper implementation of the criteria starts with ensuring they are clear and achievable from the outset. As with the issues around verifying ongoing retention in Q3, we believe that both issuers and investors have an equal role to play in ensuring that transactions meet the EU criteria for qualifying instruments on an ongoing basis.

We can understand concerns with a pure issuer self-certification process as regards implementation of the qualifying criteria – however, we do believe that this can be part of the process. We could also see a role for independent third parties – for example, an existing body such as Prime Collateralised Securities (PCS) – to be involved in the certification process (which should be done prior to closing).

Ultimately, we believe that issuer certification in the seller representations and warranties (whether or not it is verified by a specialist third party body) will be an investor’s most important point of ensuring that the transaction has put together in compliance with the qualifying criteria. We would also expect to see a detailed outline of exactly how this has been achieved (e.g. details of product structure and governance, relationships with third parties, data availability).

Question 5:
A. What impact would further standardisation in the structuring process have on the development of EU securitisation markets?
B. Would a harmonised and/or optional EU-wide initiative provide more legal clarity and comparability for investors? What would be the benefits of such an initiative for originators?
C. If pursued, what aspects should be covered by this initiative (e.g. the legal form of securitisation vehicles; the modalities to transfer assets; the rights and subordination rules for noteholders)?
D. If created, should this structure act as a necessary condition within the eligibility criteria for qualifying securitisations?

BlackRock does not believe that the creation of a standardised product structure is necessary – attempting to impose a single product structure on every jurisdiction would be challenging and potentially disruptive, given each country has its own legal framework.
However, we believe that an investor’s confidence in originators’ underwriting and origination practices is fundamental to the investment decision. We recommend setting out high-quality, prudent underwriting standards that are evaluated and administered properly, and establishing quality servicing standards. We support standardised principles of governance and transparency of processes as part of the foundation criteria for qualifying securitisation.

This should include full and clear disclosure of all relevant parties, their roles and responsibilities in ensuring the receivables are serviced in accordance with good market practice and all relevant regulatory requirements and codes of conduct. We would also urge the adoption of best practice requirements for the independence of the trustee, servicer, auditor and other ancillary service providers to act in the best interest of the securitisation.

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?

BlackRock believes that transparency and disclosure to investors throughout the life of the transaction should be the fundamental principle in establishing any form of qualifying securitisations.

We have seen an improvement in information provision on the underlying assets on a loan-by-loan level since the crisis and we believe that continued focus on improving data quality and ease of access will be beneficial to investors.

As a general rule of thumb, we believe that all data underlying credit rating decisions should be given to investors. While we appreciate that truly proprietary information must be kept confidential, we believe all other information received by rating agencies during the rating process should be available to investors.

Information we consider of value to investors would include (non-exhaustive):

- Most of the performance information (i.e. Account Status, historic Arrears / Litigation, Redemption date, Default and Foreclosure) would contribute to investors’ assumptions on the loan’s future performance and any likely future prepayments, arrears, defaults or losses.
- Collateral valuation information would help investors form prepayment and “loss given default” assumptions.
- Product information such as interest rate, repayment type, prepayment penalties would also aid investors’ prepayment assumptions.
- Any relevant historical performance data that would help predict when certain ‘performance’ related triggers may be reached during the estimated life of the tranche that an investor is invested in.
- Additionally, for more detailed cash flow analysis independent of third party models, loan characteristics such as rate, term and repayment type would feed base case amortisation assumptions.
At the tranche level, the disclosure of the amount of credit enhancement (over-collateralisation, subordination, reserves, and excess spread) would also be meaningful for the investors.

Minimum levels of information standardisation can provide benefits to investors, but we would also caution that standardisation can give a false level of comfort. For investors, the key outcome is that the prospectus (and investor reports) are concise, understandable and contain all relevant information.

As a final caveat, as we have highlighted in Q1, we do not believe that the disclosure of data alone is sufficient. Investors also require qualitative information, for example, regarding an issuer’s criteria and underwriting processes, in order to reach a credit decision.

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?

As a general principle, we agree that investors should not mechanistically rely on third party credit ratings. While they are important data points, these should only be one input to the investment process and not a substitute for the investor’s own comprehensive assessment of creditworthiness. As we state in our answer to Q6, while we appreciate that truly proprietary information must be kept confidential, we believe all other information received by rating agencies during the rating process should also be made available to investors, to support the process of conducting their own analysis. This includes data on country risk.

Post-closing, we believe it would be useful for ratings agencies to publish the combined impact of country ceilings and other caps such as counterparty rating caps applied to a credit rating, so that the underlying credit can be separated from the ratings impact of the associated links. We note that the press release accompanying most ratings actions specifies the rationale for the action, allowing investors some ability to differentiate the ratings and understand where rating caps have been applied.

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?

We believe that appropriate calibration of the qualifying securitisation criteria will be a positive development for the market, and will have knock on effects of a deeper secondary market. We therefore see the current priority as refining these qualifying criteria, rather than necessarily developing further specific market infrastructure.

We would however, be pleased to see the future development of centralised credit bureaux in relevant jurisdictions with both positive and negative information shared on a standard basis between all lenders. With this in place, originators would be better able to supply the details that investors require on securitised pools.
While the question of swap collateralisation requirements – which is, in our view, mainly driven by rating agency expectations – relates more to issuers than investors, BlackRock would welcome simpler structures with less use of derivatives, as this would reduce counterparty risk.

**Question 9:**

- **With regard to the capital requirements for banks and investment firms, do you think that the existing provisions in the Capital Requirements Regulation adequately reflect the risks attached to securitised instruments?**

While for certain asset classes (e.g. US Subprime), the existing provisions in the Capital Requirements Regulation (CRR) were not sufficient during the financial crisis to cover losses in some cases exceeding capital buffers, most European structured finance products have consistently performed well. CRR provisions adequately addressed fundamental credit risk for most European structured finance products even during the crisis. However, we agree that the mechanistic reliance on external ratings and the existence of cliff effects in capital requirements should be addressed in a revised framework tailored to the risk and historic performance characteristics of individual securitised product types.

BlackRock would welcome a framework that is more risk sensitive, in particular for senior securitisation tranches, providing properly calibrated incentives for end investors to allocate capital to securitised instruments.

It is important that policy makers recalibrate the proposals better to reflect historic performance, and to bring securitisation into line with the capital requirements for other fixed income securities and underlying asset pools.

Under the Credit Requirement Directive IV (CRD IV), the Liquidity Coverage Ratio (LCR) allows for the inclusion of highly rated Residential Mortgage Backed Securities (RMBS) as long as the underlying loans have a Loan to Value Ratio (LTV) that is below 80% and all the loans are full recourse. This requirement is an arbitrary measure of risk, focusing on just one predictor of default (i.e. the LTV) out of many and will deter banks from investing in pools of RMBS that historically have low losses and may also have higher LTVs. We would also recommend that the LCR allows for the inclusion of qualifying ABS a high-quality liquid asset (HQLA).

More broadly, we believe that policymakers should provide properly calibrated incentives for end investors to allocate capital to securitised instruments in the areas of capital (Basel III RWA and leverage ratio and Solvency II Solvency Capital Requirements), liquidity and collateral regulation. To achieve this, clear distinctions are needed between appropriately structured securitisations, which are to benefit from any more favourable treatment, and those reflective of some of the poor practices that were the problem during the financial crisis. In this regard, the initiative on qualifying securitisation is of significant importance to reviving a properly functioning securitisation sector.

Properly calibrated regulatory treatment for appropriately structured securitisations will enable insurance companies to re-enter the securitisation market – increasing the range of their investment opportunities and contributing to a larger, more stable and more liquid securitisation market.
Question 10
• If changes to EU bank capital requirements were made, do you think that the recent BCBS recommendations on the review of the securitisation framework constitute a good baseline? What would be the potential impacts on EU securitisation markets?

The revised BCBS securitisation framework from December 2014 addresses several shortcomings of the Basel II framework, including the reliance on external ratings and cliff effects mentioned above in our response to Q9.

However, BlackRock believes that the calibration for securitisation capital is based on the poor performance of certain market sub-segments and jurisdictions, and is inadequate as a baseline for better performing segments. We believe that capital charges for senior tranches of qualifying securitisations should be implemented in a manner consistent with the regulatory treatment of other instruments that represent a comparable level of risk (e.g. covered bonds or corporate bonds with a similar credit quality). BlackRock accepts that the tranching of securitisations implies a greater risk as you move down the capital structure and this would justify progressively higher capital charges for each sequential tranche. However BlackRock would expect the capital charge of the entire securitisation to be broadly similar to that on the underlying pool of mortgage loans (such that there is no arbitrage between investing in a 'whole-loan pool' versus investing in the entire capital stack of a securitisation of the same underlying loans).

Question 11:
• How should rules on capital requirements for securitisation exposures differentiate between qualifying securitisations and other securitisation instruments?

Preferential treatment for qualifying securitisations should be implemented in a consistent manner across different legislations including capital, liquidity and collateral regulations. This is important, as otherwise secondary market liquidity may become impaired, and the market may segment further.

BlackRock also believes that capital charges for qualifying securitisations should be determined in the context of other funding instruments that represent a comparable level of risk. Senior tranches of qualifying securitisations should benefit from significantly better capital treatment, in line with highly rated covered bonds with a similar risk profile. Mezzanine and junior tranches of qualifying securitisations should be better treated than equivalently rated non-qualifying securitisations – however the capital charge should be set to reflect the greater risk inherent in tranching the underlying exposure. The overall capital charges of all tranches should not exceed the capital charge of the underlying pool of assets, such that there should be no arbitrage from holding whole loans to holding the entire securitisation. Moreover, a framework for qualifying securitisation should leave enough flexibility and take into account the evolving surrounding environment to account for the fact that securitisation remains a bespoke product that cannot be fully standardised.

Country- or borrower-specific aspects like accounting and tax frameworks require a certain degree of flexibility. At the same time, non-qualifying securitisation should not be stigmatised as ‘poor quality’.

Question 12:
• Given the particular circumstances of the EU markets, could there be merit in advancing work at the EU level alongside international work?

One of our over-arching concerns in the recent securitisation debate in Europe has been the need for consistency between the different policymaking institutions’ approaches to setting out standards for qualifying securitisations. We are concerned that divergent standards could balkanise an already small market, which would in turn have a significant
impact on secondary market liquidity. With that in mind, we equally see merit in global
coordination of a qualifying securitisation definition (especially given the importance of
international standards – such as the BCBS securitisation framework – in dictating investor
appetite and investment capacity – as has been outlined above).

However, it may be of more pressing importance to ensure that any regional or national
approaches do not unduly restrict investor choice in qualifying securitisations on the basis
of where they are issued (we outline in our response to Q3 how requiring risk retention for
qualifying securitisation could have this effect).

**Question 13:**

**Are there wider structural barriers preventing long-term institutional investors from
participating in this market? If so, how should these be tackled?**

Beyond the prudential treatment of securitisation in some pieces of legislation and differing
requirements for different types of investors that are addressed elsewhere in this paper, we
do not see wider structural barriers in the market.

In fact, we see robust demand amongst our institutional client base for investment in
securitisations that present appropriate risk-return profiles. In contrast, we see a lack of
availability of securitised products with the yield and risk profile they require as
securitisation in the recent past has largely been used by banks as liquid collateral to
obtain funding from other banks and/or central banks. As a result, the risk reward profile
and structure of the securitisation is not always attractive to end investors. The volume of
issuance placed with end-investors remains relatively low.

**Question 14:**

A. **For insurers investing in qualifying securitised products, how could the
regulatory treatment of securitisation be refined to improve risk sensitivity? For
example, should capital requirements increase less sharply with duration?**

B. **Should there be specific treatment for investments in non-senior tranches of
qualifying securitisation transactions versus non-qualifying transactions?**

The regulatory treatment of securitisation, in particular through Solvency II, represents a
significant barrier to investment from insurers. Solvency II rules significantly increase the
amount of capital that insurance companies are required to put aside for certain securitised
exposures vs. had they held the underlying loans directly. In our experience, this has
already deterred insurance companies from allocating new capital to securitisations and
insurance companies’ exposures to securitisation are falling considerably and will continue
to fall if Solvency II provisions remain unaltered.

We would see the capital charges on securitisations under Solvency II as punitive in
comparison to other asset classes. Recalibrating this starting point is more important than
accounting for the impact of duration. With that in mind, we have more detailed comments
on how Solvency II could be revisited as regards the calibration of capital charges for
securitisation:

- In our view, the regulatory treatment of senior tranches of qualifying securitisations
  should be no different to that of covered bonds.

- The overall capital charges of all tranches should not exceed the capital charge of
  the underlying pool of assets: senior tranches of a qualifying securitisation should
  have a lower capital charge than the underlying pool, and junior tranches should be
  higher. This corresponds to the relative risks, however, if an investor held all the
tranches of a securitisation, this should be indifferent to holding the underlying assets, from a capital perspective.

- Subject to further work on short-term securitisation (as per Q2), ABCP and other short-term securitisations should be treated as cash instruments.

We agree that non-senior tranches in qualifying securitisations should receive better capital treatment versus non-qualifying securitisations. If a securitisation is deemed qualifying, that should relate to the entire transaction, not just the senior tranche.

**Question 15:**
A. *How could the institutional investor base for EU securitisation be expanded?*
B. *To support qualifying securitisations, are adjustments needed to other EU regulatory frameworks (e.g. UCITS, AIFMD)? If yes, please specify.*

BlackRock believes that changes outlined in Q14 to Solvency II will have considerable impact in ensuring there is a robust institutional investor base for securitisation in Europe. Because of their long-term liabilities and investment horizons, insurers are an incredibly important investor base alongside pension funds.

We believe that the establishment of meaningful qualifying securitisation criteria, and the corresponding accommodation for those types of assets in the existing EU regulatory framework will be an important development that will also give investors greater clarity and certainty over an asset class that has at times been stigmatised since the financial crisis.

In this regard, we would reiterate that it is critical that the various policy measures that affect securitisation in Europe, including capital requirements, are consistent, properly calibrated and do not deter the responsible use of securitisation.

In our experience, the principal difficulty presented by the AIFMD has been the requirement for managers to ensure that securitisations in which they invest meet the retention requirements. More specifically, this has posed challenges for investing in non-EU securitisations, where there may not equivalent retention rules, or if there are, it may be difficult for an EU-based investor to verify that retention requirements are met on an ongoing basis.

To address this, we believe it is important the qualifying securitisation criteria are appropriately calibrated, not made impossible to comply with for non-EU securitisations, and have appropriately balanced verification requirements on both issuers and investors. We discussed this further in our responses to Q3, Q4 and Q6, respectively.

**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 securitisation 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?*

We do not believe there have been unaddressed market failures surrounding SME securitisation. While BlackRock is mandated by some clients to invest in this asset class, we believe it will be challenging to attract a wide range of end investors into the market. In
addition, most asset managers do not have the specialist resources to invest in SME securitisations

SME Securitisation is a complex asset class, underlying assets are very heterogeneous, and have different, more specific, risks than more mainstream types of asset pools. This means that conducting the appropriate due diligence on an investment in an SME securitisation is considerably more intensive and complex than on a more mainstream asset class (such as residential mortgages or auto loans).

We see potential benefits of the broader initiatives associated with the Capital Markets Union to improve the standardisation of SME lending, and give investors access to meaningful information on the SMEs. This could help get a wider group of end investors more comfortable with the underlying assets – but SME Securitisation will always require more analysis of a wider range of risks, even if there is more information available, and so we believe the investor base will always be smaller than for more mainstream asset classes.

We would highlight that SMEs can benefit directly and indirectly from improvements in the wider securitisation market. The securitisation of leasing assets (auto and to a lesser extent, equipment) whose underlying obligors are primarily (or even completely) SMEs and corporates, in the wider ABS market will benefit many European companies. Indirectly, securitisation of the more mainstream asset classes frees up bank balance sheets so that banks are able to make new loans to their SME clients.

Finally, as we pointed out in Q2, the role of Asset Backed Commercial Paper (ABCP) in financing SME loans is important. ABCP allows banks to finance the loans and receivables of SMEs from a broad range of countries in which they might find difficult to lend to directly.

**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?*

We do not believe it is necessary to develop a single EU securitisation legislative framework. In our mind, the focus rather should remain on obtaining a level regulatory playing field amongst the different types of investors by ensuring that the qualifying securitisation criteria are applied consistently across the application pieces of European regulation.

**Question 18:**

A. *For qualifying securitisation, what else could be done to encourage the further development of sustainable EU securitisation markets?*

B. *In relation to the table in Annex 2 are there any other changes to securitisation requirements across the various aspects of EU legislation that would increase their effectiveness or consistency?*

We believe the questions above are comprehensive and have no further comment.