

Regulatory Blog

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ESMA consultation on the revision of the securitisation reporting framework

With this consultation, the ESMA proposes different reform options and aims to obtain an in-depth assessment from the various stakeholders of the securitisation market until March 15, 2024.

In December 2023, the European Securities and Markets Authority (ESMA) has published a **Consultation Paper (CP)** on potential amendments to the securitisation reporting framework according to Article 7 of the Securitisation Regulation (SECR).^[1] With this consultation, the ESMA proposes different reform options and aims to obtain an in-depth assessment from the various stakeholders of the securitisation market until March 15, 2024.

Background and motivation

With over 1300 data fields across all templates, the currently applicable ESMA reporting framework for securitisations requires extensive data and leads to burdensome data gathering and reporting processes especially for originators of securitisation transactions. Albeit it is not necessary to populate all data fields for each securitisation transaction or type, a staggering number of 600 unique data fields exists, including a detailed loan-by-loan reporting capturing the characteristics of the underlying portfolio.

However, even though such an amount of data (fields) is to be reported, evidence has been obtained that the current disclosure regime has its shortcomings.^[2] Especially the usefulness of the reported information was put into question even from the main addressees of the reporting – the investors. Many investors are considering the reporting to be not fully fit for purpose. Some of the provided information is assessed to be of low relevance and too detailed and sometimes even difficult to handle given its predefined xml-format. That's why in practice it is quite usual that investors still ask for a less comprehensive and easy-to-digest reporting tailored to their specific needs which makes originators or sponsors to produce two reports, one according to the ESMA templates and requirements and one according to the needs of the individual investors.

At the same time, the securitisation reporting framework still does not provide for clear and aligned reporting requirements for private securitisation transactions although private transactions are also subject to Art. 7 SECR. This leads to the situation that, by law, originators have to produce the information according to the ESMA templates, but the available technical reporting standards and guidelines are not clear on *how* and *where* to report that information. Again, this facilitated the development of various bilateral reporting arrangements between originators and investors. For the same reason, supervisory authorities do not have a common foothold to obtain information regarding private and third-country securitisation transactions, which hampers the monitoring of the EU securitisation market.

In a nutshell, there are diverging considerations of the various stakeholders, but they have one thing in common: the current securitisation reporting regime is considered to be not sufficiently effective for the different purposes while, at the same time, it constitutes a significant cost burden especially for entering the securitisation market.

EU Commission's recommendations:

Based on these key findings and further shortcomings, the EC invited the ESMA to review the current reporting (template) framework. The EC also provided four recommendations:

1. Drafting a tailor-made, simple and dedicated private securitisation template, particularly for supervisory purposes.
2. Assessing the loan-level reporting for pools of underlying exposures which are highly granular.
3. Aligning and streamlining required information for both supervisors' and investors' needs, while taking into account technical and practical difficulties in information provision.
4. Assessing whether additional dedicated templates for asset classes not yet covered are needed.

Thus, the EC's recommendations are to some extent ambivalent: on the one hand it is recommended to streamline the existing reporting (template) framework, while at the other hand it shall be assessed whether additional reporting requirements might be necessary.

ESMA's consultation request

This ambivalence is also reflected in the four options for which the ESMA seeks input from securitisation market stakeholders. The four options range from maintaining the status quo and postponing any revision of the disclosure framework until the SECR is reviewed (Option A) to a complete overhaul of the current reporting framework (Option D).

Option

Key Aspects

Option A: Preserving the current framework

- Postponing any revision of the current disclosure framework until a review of the SECR is conducted

Option B: Introducing few refinements to the current framework

- Reducing the use of No-Data-Options (ND Options) by decreasing the number of fields for which ND Options are available, with a focus on ND5, and increasing the acceptance criteria for reports regarding their completeness (for ND1-4 Options), thus expecting more data to be provided.

Option C: Undertake a targeted revision of the templates

- Addition of new data (fields) which are not yet included. Such data fields could be e.g. loan-level PD or payment schedule information, but also sustainability related indicators.
- Introduction of a template for private securitisations for supervisory purposes replacing the existing ESMA templates for private transactions.
- Drafting new templates for asset classes (e.g., trade receivables) or transaction types (synthetics) as those are not yet covered by dedicated templates.

Option D: Undertake a complete and thorough review of the reporting framework

- Streamlining reporting for highly granular asset classes by permitting/using aggregated data for eligible underlying assets (revolving, highly granular & short-term maturities) instead of individual loan-level data.
- Streamlining reporting templates through removal of either data fields or complete templates.
- Standardising and simplifying templates regardless of their general characteristics (public/private, true-sale/synthetic)
- Streamlining reporting for highly granular asset classes by permitting/using aggregated data for eligible underlying assets (revolving, highly granular & short-term maturities)
- Replacing ND Options by a Mandatory/Optional-System, thereby aligning with other EU reporting regimes

Next steps

After years of criticising and debating, the ESMA CP is a great opportunity for all stakeholders to provide holistic and elaborated feedback to the shortcomings and inefficiencies of the current reporting framework, taking into account the various interests and needs of originators, sponsors, investors and supervisors. Furthermore, for parties which are interested in securitisations as originator, sponsor, or investor, but do not participate yet due to the high entry barrier set by the reporting requirements, the CP provides an option to express their view whether and to what extent a revision would ease the market entry. But, as it is the case for any regulatory amendments, such a revision would lead to change and implementation efforts for existing market participants. Therefore, ESMA also asks for feedback regarding potential implementation impediments which may occur because of a significant revision of the reporting framework.

Against this background, we highly encourage current stakeholders and interested parties to participate in this consultation. From our point of view, transparency should be a key element of a robust and efficient securitisation market rather than a significant market entry barrier. This becomes even more relevant as a vitalised securitisation market can play a substantial role to unlock private capital to finance the necessary transition of the EU economies in the next decade.

You have questions regarding the consultation paper or want to discuss your views? Please reach out to us. Our team of securitisation and reporting experts is happy to support you!

^[1] Article 7 Securitisation Regulation (SECR), ITS and RTS on Securitisation Disclosure (Commission Delegated Regulation (EU) 2020/1224, Commission Implementing Regulation (EU) 2020/1225) and applicable Guidelines

^[2] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0517

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