Capital Markets Union: Common EU rules on securitisation will apply as of 1 January

The new harmonised securitisation rules, which will apply as of 1 January, are an important building block of the Capital Markets Union. They will help provide additional funding sources for companies, strengthen banks' ability to support the economy and spread risks across market participants, while avoiding the excesses that led to the financial crisis.

Drawing heavily on the work of the international supervisory community, the new **Securitisation Regulation** creates common rules and sets the criteria for simple, transparent and standardised (STS) securitisation in the EU. These are a new class of high-quality securitisation. The new rules will make it easier to issue and invest in securitisations in the EU and will help ensure financial stability and investor protection.

Valdis **Dombrovskis,** Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, said: *"This legislation is one of the cornerstones of the Capital Markets Union, the Commission's pivotal project to build a single market for capital in the EU. It will help build a sound and safe securitisation market in the EU, bringing real benefits to investment, jobs and growth. It will free up bank lending so that more financing can go towards supporting our companies and households."*

This EU-wide initiative on 'high-quality' securitisation will ensure high standards of process, legal certainty and comparability across securitisation instruments through a higher degree of standardisation of products. This will notably increase the transparency, consistency and availability of key information for investors, including in the area of SME loans, and increase liquidity. In turn, this should facilitate the issuance of securitised products and allow institutional investors to perform a thorough due diligence, which helps to identify those products that match their asset diversification, return and duration needs.

These rules will become directly applicable in all EU Member as of 1 January 2019.

Background

Securitisation is the process where a financial instrument is created, typically by a lender such as a bank, by pooling assets (for example car-loans or SME-loans) for investors to purchase. This facilitates access to a greater range of investors, thereby increasing liquidity and freeing up capital from the banks for new lending.

In September 2015 the European Commission proposed new rules on simple, transparent and standardised securitisation as part of the CMU Action Plan.

According to the Commission’s estimates at the time, if EU securitisation issuance was built up again to the pre-crisis average, it would generate about €150 billion in additional funding for the economy.

This new EU legal framework bears no relation to the securitisation of subprime mortgages created in the US that contributed to the financial crisis. The European Commission does not intend to go back to the days of opaque and complex subprime instruments. Instead, the new rules clearly differentiate between simple and more transparent securitisation products and other products which do not satisfy such criteria. This will restore an important funding channel for the EU economy without endangering financial stability.

Other **financial rules** that will come into effect **in 2019**:

- On **13 January 2019**, a revised Directive on occupational pension funds, known as **IORP2** will come into effect.
- The revision of the **Shareholders’ rights Directive** takes effect on **10 June 2019**.
- The new **Prospectus Regulation**, launched as part of the CMU Action Plan to improve access to finance for companies and simplify information for investor, takes effect as of **21 July 2019**.
- Rules on **strong customer authentication** that will make electronic payments in shops and online safer, come into effect on **14 September 2019.**

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