

Securitisation Regulation (“EU SR”)

December 2018

EU Securitisation Regulation

Key points

- Published in the Official Journal in December 2017, the Securitisation Regulation (Regulation (EU) 2017/2402) of December 12th 2017, introduces a uniform regulatory regime for all in-scope EU securitisations.
- It consolidates the pre-existing patchwork of legislation governing European securitisations, and creates a “simple, transparent and standardised” (“STS”) securitisation framework.
- UCITS Management Companies are now in scope of the securitisation due diligence requirements.
- The regulation will become effective January 1st 2019.

OVERVIEW

What is the EU Securitisation Regulation (“EU SR”)?

EU SR introduces a “simple, transparent and standardised” (“STS”) securitisation framework and mandates due diligence obligations on “institutional investors”. It also introduces a uniform regulatory regime for in-scope EU securitisations, consolidating the existing patchwork of legislation governing EU securitisations as illustrated below (Fig. 1).

Who do these requirements apply to?

EU SR applies to originators, sponsors, original lenders securitisation special purpose entities and “institutional investors” as defined in EU SR.

Who is an “Institutional Investor”?

“Institutional Investor” for the purpose of EU SR means an insurance undertaking; reinsurance undertaking; an institution for occupational retirement provision (or its investment manager); an alternative investment fund manager (AIFM); an undertaking for the collective investment in transferable securities (UCITS) management company; an internally managed UCITS; and certain credit institutions or certain investment firms.

Context

FIG. 1

Institutional Investors	Effective date Jan 1 st 2019	
	Prior Regulation / Directive	New Applicable Regulation
Insurance and Reinsurance undertakings	Solvency II →	Securitisation Regulation →
Alternative investment fund managers	AIFMD →	
Credit Institution & Investment Firms	CRR →	
Institutions for occupational retirement provision (NEW)		
UCITS Management Company (NEW)		
Certain internally managed UCITS (NEW)		

What is considered a securitisation within EU SR?

“Securitisation” means a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranching, having all of the following characteristics:

- payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures;
- the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme;
- the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013.

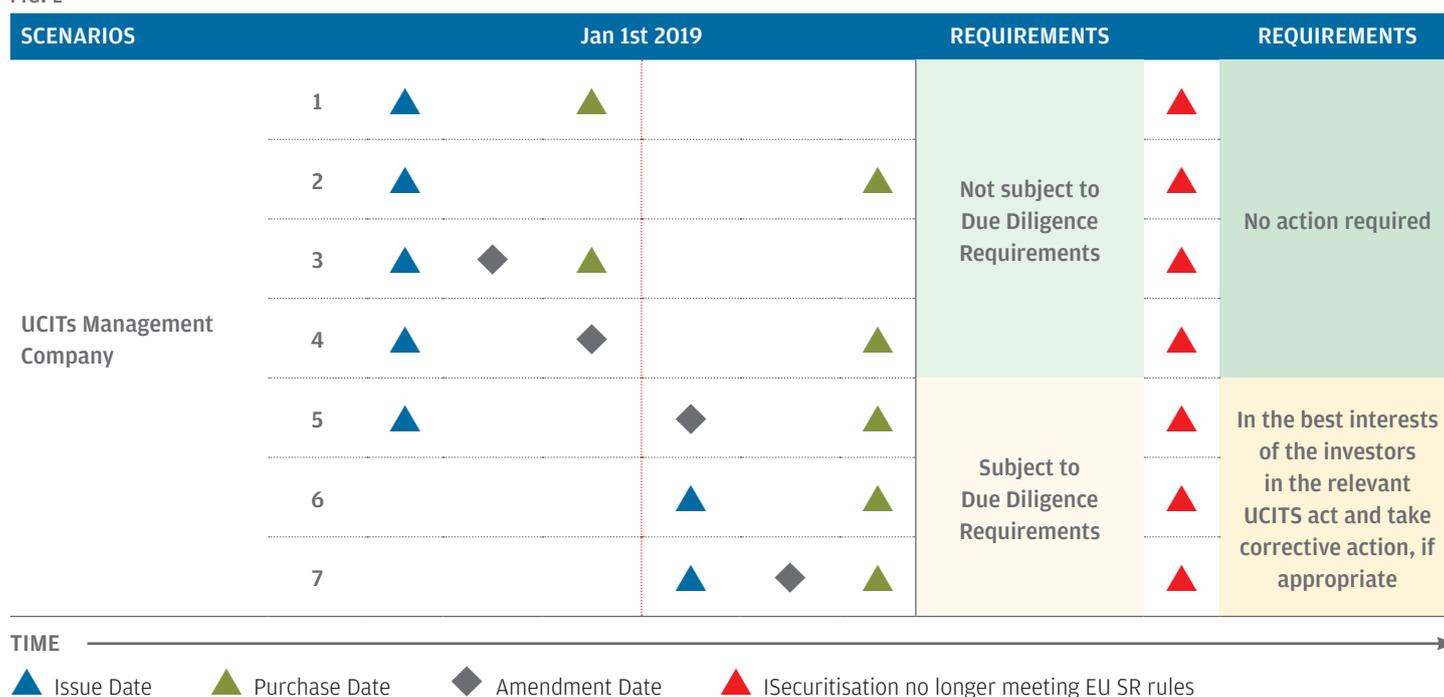
How does EU SR apply to Institutional Investors?

EU SR enforces quantitative and qualitative due diligence requirements on Institutional Investors. These due diligence requirements must be met ahead of purchasing in-scope securitisations.

How does the regulation apply with regards to the holding of in-scope securitisations in UCITS?

- EU SR includes transitional provisions that limit the scope of the regulation.
- Based on guidance we have received from external sources, we understand at this time that the due diligence requirements will only apply to UCITS in relation to investments in securitisations issued on or after January 1st 2019 or securitisation transactions issued prior to January 1st 2019 where new securities are issued on or after January 1st 2019.
- How the rules apply relative to when a securitisation is issued, amended and purchased as outlined below (Fig. 2).

FIG. 2



Note - the above is a simplified schema and subject to change

What is considered a securitisation within EU SR?

Does the investment approach within J.P. Morgan Asset Management's UCITS funds need to be adapted to meet EU SR?

Based on our interpretation of the transitional provisions of EU SR (see Fig. 2 on Page 2) we are of the view that our UCITS funds can continue to invest in securitisations on or after January 1st 2019 without needing to apply the mandated due diligence requirements, on the condition that such assets have been issued on or prior to 31st December 2018 (and not amended post that date).

For those securitisations in scope of EU SR, but not captured by the transitional provisions, J.P. Morgan Asset Management will need to comply with the due diligence requirements of EU SR.

What is the impact of EU SR on J.P. Morgan Asset Management's UCITS funds?

Given the current difference in the rules that apply to originators/issuers of securitised assets in the US and other non EU countries versus the EU (in particular with regards to the risk retention requirements), it is unlikely that a UCITS Management Company will be able to meet the EU SR due diligence rules with respect to non-EU securitisations.

As a result, for those in scope securitisations issued on or after January 1st 2019, until such time as non-EU securitisation markets, in particular the US, evolve to support the EU due diligence requirements, J.P. Morgan Asset Management will not purchase non-EU securitisations for its UCITS funds.

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