

Regulatory News Alert

Banking Union: Consultation from the European Commission on the sovereign bond-backed securities initiative

07 February 2018

Overview

On 23 January 2018, the European Commission launched an impact assessment on a new initiative aiming at enabling a regulatory framework for the development of **sovereign bond-backed securities (SBBS)**. SBBS are novel financial instruments that consist in securitizing a portfolio of euro-area central government bonds.

The European Systemic Risk Board (ESRB) already proposed these instruments in a working paper in 2016 (#21/2016); it was then relayed by the EU Commission as a possible measure to advance the completion of the Banking Union and the deepening of the Economic and Monetary Union.

With the SBBS, banks and other investors would have access to a new type of investment product that aims at facilitating the diversification in sovereign exposures and thus improving the management of risks.

Aim of the initiative: Adapt current regulatory framework to SBBS

According to the European Commission, the current regulatory framework discourages the issuance of such securitized instruments by failing to adequately reflect their characteristics. Under current rules, SBBS would be treated as regular securitization products, and hence significantly less favorably than their standing would authorize (such as capital requirements, eligibility for liquidity coverage and collateral, etc).

In the new text, the EU Commission proposes to amend the current regulatory framework by including the following content:

1. A legal definition of SBBS, including a list of features required for any (privately produced) securitization of euro area national government bonds to qualify as SBBS.
2. Provisions to ensure that regulation treats investments in SBBS and in government bonds in a consistent manner.



The Commission is expecting feedback from citizens and stakeholders on this initiative before 21 February 2018.

How can Deloitte help?

Deloitte can help you navigate today's complex environment through its RegWatch Kaleidoscope service. We bring regulatory updates to your attention in order to help you define the optimal strategy for your organization.

Deloitte can help you implement strategies and identify opportunities related to the creation of new financial instruments and the treatment from prudential capital perspective.

Our teams have outstanding expertise in regulatory reporting as well as tax treatment.

Your contacts

Jean-Philippe Peters

Partner – Risk Advisory
Tel : +352 45145 2276
jppeters@deloitte.lu

Simon Ramos

Partner – Advisory & Consulting IM Leader
Tel : +352 45145 2702
siramos@deloitte.lu

Ekaterina Volotovskaya

Partner – Audit & Assurance
Tel : +352 45145 2387
evolotovskaya@deloitte.lu

Arnaud Duchesne

Director – Risk Advisory
Tel : +352 45145 4852
aduchesne@deloitte.lu

Benoit Sauvage

Senior Manager – Strategy Regulatory &
Corporate Finance
Tel : +352 45145 4220
bsauvage@deloitte.lu

Deloitte Luxembourg

560, rue de Neudorf
L-2220 Luxembourg

Tel: +352 451 451
Fax: +352 451 452 401
www.deloitte.lu

Deloitte is a multidisciplinary service organisation which is subject to certain regulatory and professional restrictions on the types of services we can provide to our clients, particularly where an audit relationship exists, as independence issues and other conflicts of interest may arise. Any services we commit to deliver to you will comply fully with applicable restrictions.

Due to the constant changes and amendments to Luxembourg legislation, Deloitte cannot assume any liability for the content of this leaflet. It shall only serve as general information and shall not replace the need to consult your Deloitte advisor.

About Deloitte Touche Tohmatsu Limited:

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/lu/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

© 2018 Deloitte General Services

Designed and produced by MarCom at Deloitte Luxembourg