SEMINAR ON THE SECURITISATION MARKET. FACED WITH A NEW STARTING POINT

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Good morning everyone.

I would like to thank Haya Titulización, and on its behalf, Carlos Abad, for inviting me to participate in this Seminar, and I would also like to express my deep appreciation to all of you for attending.

Despite the ups and downs of the securitisation market over the last 10 years, today securitisation continues to be a critical factor in the smooth operation of financial markets, in that it helps expand the sources for funding and risk diversification of credit institutions as well as release regulatory capital which can be used to foster credit, in particular to finance the real economy.

Furthermore, securitisations offer entities and other market participants new investment opportunities, which allow them to diversify portfolios and facilitate the flow of financing to companies and individuals.

However, within these advantages, the potential costs and risks for institutions and, in particular, their impact on financial stability must be considered.

As witnessed during the international financial crisis which began back in the summer of 2007, certain irresponsible practices carried out in some securitisation markets posed a serious threat to the integrity of the financial system, in particular due to excessive leverage and the creation of complex and non-transparent structures that made it difficult to discern their underlying risks.

In this context and within the framework of the Capital Markets Union, the role of securitisation is being analysed in order to revive high-quality securitisation markets without repeating the mistakes that were made in the past, which has led to the processing of European regulations.

Before going into the new developments in this player, let me give you some information about the progression of securitisation transactions in recent years.

Until the international financial crisis in 2007-2008, securitisations grew in Spain at a faster rate than in other EU countries, placing our country as one of the benchmarks in Europe, as it reached a record 143.8 billion euros issued in 2007.

The outbreak of the financial crisis drastically reduced this mechanism's appeal, and in 2008 a downward trend began both in terms of amounts and the number of constituted

funds, reaching the lowest point in 2012 when 29 billion euros were issued. In 2013 and 2014, the total amounts issued remained at around 30 billion euros.

The revision of the securitisation legal regime carried out in the Law on the Promotion of Corporate Financing of 2015 has not been enough to revitalise this market.

In that fiscal year, 35.2 billion euros were issued and 2016 closed with 37.4 billion euros issued. The amounts include both the funds subject to the obligation to approve and register a prospectus at CNMV and the non-prospectus funds, also known as private funds.

In 2016, 32 prospectuses on securitisation funds and five private funds were registered. The most up-to-date data based on CNMV statistics indicates that up to August 18 prospectuses and nine private funds, together totalling 14.8 billion euros, were registered.

With these modest issue amounts, the outstanding amount of asset-backed Securities in Spanish organised secondary markets has declined steadily since the financial crisis began to stand at 210.8 billion euros in August of this year.

In general terms, considering the nature of the assigned asset, securities in Spain are essentially mortgage-backed (52% of the amount issued in 2016), but with a consolidated segment of loans to SMEs and to other companies which are not necessarily SMEs in second place (20%), and with consumer loans (8%) being the third most frequently used type of asset.

Given these types of assigned assets, it is understood that almost all of the assigning entities are financial entities, essentially banks.

As you all know, we are in the final stage for the creators of the new regulation to finally see the light.

Its culmination is the result of a long and arduous two-year process in which the conflicting interests within the various European Institutions (the Commission, Council and Parliament) have had to subside in order to find the necessary balance between due investor protection and the galvanisation of a market excessively damaged as a consequence of the financial crisis.

It is foreseeable, therefore, that once the technical review by the legal/linguistic experts and the approval by the Parliament, we will be able to say close this year or start 2018 with the regulation already published.

However, its full entry into force is not expected until 1 January 2019, a time frame which is, moreover, necessary to develop the Tier 2 work derived from the regulation.

In fact, ESMA is already working through a working group created for this purpose on the relevant developments of the Technical Standards that must be submitted to the European Commission for the adoption of subsequent Delegated Regulations that allow full implementation of the regulation on the scheduled date.

The regulatory package processed consists of two basic regulations, a Regulation establishing a general framework for securitisation and the creation of a European framework for Simple, Transparent and Standardised Securitisation (better known as STS), and unavoidably an amendment to Regulation 575/2013 (also known as CRR) on the prudential requirements of credit institutions and investment firms that change the

regulatory capital requirements applicable to originators, sponsors and investors in these transactions, adapting it to the developments introduced by the STS regulation.

Similarly, as has been the case with the recently approved prospectus regulation, the regulation has been processed in the form of a European Regulation, so that, unlike Directives, its implementation in Member States must be direct without any transposition being necessary.

This leads us to the first of the issues that will need to be addressed in the short term, its compatibility with the securitisation regime established in the Law on the Promotion of Corporate Financing which, moreover, after more than two years of being in force, has already revealed issues that need to be remedied.

Among other matters and as a priority issue, the scope in the application of Spanish law and its adaptation to the European regulation must be addressed, so that the vehicles and structures that we have in our market can continue to exist.

The Spanish securitisation market is very relevant and we cannot pass up this opportunity, on the one hand, to make our system compatible and, on the other, to take advantage of the new business opportunities that will be offered by securitisation with its new roles.

It is also important to assess the coexistence of more restrictive additional requirements in Spain that could penalise Spanish transactions with respect to European ones.

The European Regulation consists of two separate parts; on the one hand, it establishes a set of requirements common to all securitisations in terms of investor due diligence, retention of originator risk and market transparency, and access to information.

In addition, the conceptual framework of simple, transparent and standardised securitisations is defined on the basis of existing criteria published by the Basel Committee on Banking Supervision, the International Organisation of Securities Commissions (known as IOSCO) and the European Banking Authority (EBA).

The most relevant requirements of those included in the general framework applicable to all these processes include most notably: 1. The obligation for originators to retain a significant net economic interest of no less than 5%, a percentage that has undergone multiple changes and which in the European Parliament's text reached as high as 20% in certain circumstances.

2. The transparency requirements applicable to participants in the transactions to be complied with are added through the role of the securitisation repositories which are created as legal persons established in the European Union subject to the regime of registration and supervision by ESMA.

Both the functions of these new repositories and the technical requirements, for their operation, take as their reference point the trade repositories of the EMIR Regulation and the reporting of securitisations to the European Central Bank through the European DataWarehouse.

As for the requirements for a securitisation to be considered STS, a distinction is made between ABCP and non-ABCP transactions, or in other words, securitisations in which promissory notes and the others whose issues are of the usual type are issued.

Recalling what these types of transactions represented in the Spanish market, almost from its inception, and to a great extent caused by the legislation, which is considered by many to be restrictive in relation to others approved in other countries of the European Union, coupled with the rigour of CNMV in the verification of securitisation transactions, it could be stated that a very high percentage of our transactions would have originally complied with the STS requirements, which is why it is expected that their entry into force will not have a relevant impact on the recognition of the quality of our securitisations. Although it will be necessary to wait for the final draft of the Tier 2 regulations of both ESMA and the EBA.

It is the responsibility of the latter to adopt the guidelines and recommendations on the interpretation and harmonised application of the STS requirements as well as the Technical Standards on the regulation of the homogeneity of securitisations.

In addition, the Regulation includes the possibility for an independent third party authorised by the Competent Authorities designated in each Member State to confirm compliance with the STS criteria, which, conversely, should under no circumstances prevent investors from performing their own assessment, taking responsibility for their investment decisions and not relying mechanically on those third parties.

In this regulatory process, Tier 2 developments are very relevant. These include most notably requirements to allow securitisations to be classified as STS, as well as requirements to be considered a third party upon their qualification and, finally, the conditions to be considered a Repository and the information that must be submitted.

This whole new set of general and more specific requirements in the case of STS securitisations will require Member States to designate competent authorities with broad supervisory, investigative and sanctioning powers, which will lead to a necessary coordination between them in order to be able to achieve a high degree of consistency in their decisions, especially in the event of breach of regulations.

Moreover, the recent draft regulation published by the European Commission known as Omnibus III, which I suppose you have all heard about in recent weeks, includes the proposal to notify ESMA of the approval of securitisation prospectuses.

In short, in view of all the new elements incorporated into the regulation, we have ahead of us more than a year of intense work for all of us to collaborate in the pending developments that enable us to align as much as possible the interests of the industry with those of the regulatory and supervisory authorities.

In this respect, it is fundamental that participants in this market and their professional associations actively participate in the public consultation processes carried out by both ESMA and the EBA.

Non-participation in these processes as an industry carries with it the risk of others recommending or imposing structures that may not fit into this already consolidated market. Therefore, we insist that the degree of participation and collaboration of the sector must be a priority.

As I have already said, within the working group created for this purpose in ESMA, three documents are already at an advanced stage of preparation, and will be made public for consultation once the Regulation is published:

- One will be a Delegated Regulation on the content and format of the STS notification that originating entities must send to ESMA. This notification will be

standardised through a template that will serve to demonstrate compliance with all STS requirements, with different degrees of detail (for some requirements confirmation from the originator will suffice and for others an explanation will be necessary).

- A second Delegated Regulation will develop the information that third parties must provide to the Competent Authority so that they authorise them to provide the service for assessment of compliance with the STS requirements.

Demonstrating independence and integrity in the assessment is key. For that reason, they will inform the Competent Authority about their fees (which cannot be discriminatory and shall be based on the expenses incurred), the organisational and shareholder structure, the qualification of the members of the governing body, of which at least a third will be independent (and no less than two), as well as policies to detect and prevent possible conflicts of interest.

- The third of the current developments concerns the information to be sent to the Securitisation repositories, under the transparency obligation of the new EU Regulation for all these transactions (STS or otherwise).

This will oblige all securitisations defined in the new Regulation which are subject to the obligation to register a prospectus to periodically communicate to the Securitisation repositories the details of all the securitised assets and reports submitted to investors. Private securitisations will not be reported to these repositories. This will be done through standardised templates with loan-to-loan detail (in line with the information sent to the European Central Bank).

We at CNMV still believe that, despite the vicissitudes experienced, this industry has a long way ahead, and it is up to everyone involved in it to ensure that this European initiative produces the expected results and returns the Spanish securitisation market to the status it once held and which it deserves.

At CNMV we also wish to offer, above all to Securitisation Management Companies, common ground in order to be able to discuss your concerns and we are at your disposal to help you achieve these objectives.

Thank you very much to you all for your attention.