



EUROPEAN CENTRAL BANK
EUROSYSTEM

PUBLIC CONSULTATION ON THE PROVISION OF ABS LOAN-LEVEL INFORMATION IN THE EUROSYSTEM COLLATERAL FRAMEWORK

1. Introduction

According to Chapter 6 of the ECB publication “The implementation of monetary policy in the euro area: General documentation on monetary policy instruments and procedures”, asset-backed securities (ABSs) are, subject to the eligibility criteria established by the ECB, eligible assets in the current Eurosystem collateral framework. To ensure an adequate risk assessment of the ABSs that the Eurosystem accepts as collateral, the Eurosystem is considering the ongoing availability of loan-by-loan information on the underlying assets backing the ABSs as a factor to be taken into account in the eligibility criteria.

ABSs account for an important part of the collateral that counterparties post in Eurosystem credit operations. The Eurosystem expects that this asset class, among the wide range of collateral assets that the Eurosystem currently accepts in its collateral framework, will continue to be significant in the future for Eurosystem counterparties.

The Eurosystem believes that securitisation markets need to raise their disclosure standards from current levels. As the recent crisis demonstrated, investors did not correctly assess the risks of the underlying asset pools of ABSs and relied too heavily on third-party assessments. The latter, in turn, were not always based on sufficiently detailed information. More transparent and timely information on the underlying loans and their performance, in a standardised format, would help rating agencies and investors in their due diligence. Better transparency would also be an important contributory factor to restore the weakened confidence in the securitisation markets and bring back investors who are needed to secure a robust and sustainable development of these markets.

The Eurosystem has investigated the usefulness of having ABS loan-by-loan information in its collateral framework with a number of market participants, such as rating agencies, investors, industry bodies and originators. The Eurosystem would now like to consult the wider market about this issue and about the envisaged modalities of the provision of loan-level data. In the remainder of this note, a description of the loan-by-loan data is presented, along with some questions on which the Eurosystem would like to receive feedback from affected parties (see section 5). The Eurosystem has discussed and maintained an exchange of information on the elements of the initiative with the Bank of England.

2. Description of the ABS loan-by-loan data

The Eurosystem intends to take into account loan-level data in its eligibility criteria used to determine whether to accept ABSs as collateral in its credit operations. Loan-level data should flow not only to the

Eurosystem, but also to the wider market. Furthermore, the submission of the data should not only be at the primary issuance point, but also through the life of the transaction. The submission of historical loan-by-loan data is not covered by this consultation.

The submission of such data would be done using standardised templates. The templates will differ depending on the specific assets underlying the ABSs. For example, a loan-level template has already been prepared for the largest asset class, residential mortgage-backed securities (RMBSs) (see the appended document “RMBS loan-level reporting template – Version 9”). The aim is to have loan-level data for the different asset classes in the Eurosystem collateral framework. This does not mean that loan-by-loan information would be required for all asset classes because for some of the more granular and well-diversified ABSs, such as consumer loan ABSs, pool or summarised loan-level information may suffice. This would be assessed asset class by asset class, taking into account the views of market participants, rating agencies, investors and originators. Templates for other asset classes will also be prepared, e.g. for commercial mortgage-backed securities (CMBSs), loans to small and medium-sized enterprises, credit card debt, automobile loans, leases, unsecured personal loans, etc., taking into account their specific characteristics.

By using templates, standardised data can be collected. The RMBS template will thus ensure that standardised data are gathered for all European RMBS transactions. The RMBS template has been prepared with the aim of improving transparency, giving investors access to loan-level data, as well as ensuring that rating agencies have the information they need to update the results of their credit and cashflow models. In this sense, all the information required should be available as this information is currently provided to the rating agencies when the securities are issued. All of the applicable fields of the template should be completed, bearing in mind that in certain markets some fields will not apply. The RMBS template has been designed to ensure compliance with the requirements of data protection, banking secrecy and confidentiality regulations, which require notably the anonymity of the individual borrowers. The templates for other asset classes should also satisfy this requirement of anonymity.

In order to provide the ABS loan-by-loan information, a data-handling infrastructure will be needed to collect and store the information and to distribute it to the market. So-called data portals should be set up to perform this function. Various options could be considered with regard to the number and organisation of the data portals (see the “Data-handling infrastructure” section below). The data portal(s) should be provided by independent parties external to the Eurosystem and its counterparties. The data portal(s) will ensure that the data are made available to the market and, in this way, will increase the transparency of existing ABS transactions. The independent portal provider(s) would also establish all of the various processes and systems necessary for the originators and/or servicers to submit the loan-level data electronically. This data will be processed to check for compliance with the Eurosystem requirements, as well as for accuracy and consistency. The portal provider(s) would enter the data into a database on a quarterly basis, whereby the quarterly files would be linked so that the performance of the individual loans can be tracked over time. This would enable time-series reports to be produced for anything from one individual loan to the entire portfolio. It could be envisaged that access to the portal(s) would be by

means of a subscription. In such a case, all market participants (investors, rating agencies, originators, data providers, etc.), as well as the Eurosystem central banks, should be able to subscribe to the portal(s).

- 1. What would be in your view the foreseeable benefits and costs of having loan-level data available on an ongoing basis to market participants? Do you see alternative ways of achieving a major improvement in ABS transparency?**
- 2. Is the concept of different but standardised loan-level reporting templates for all European ABS transactions and for each asset class valid (see the attached document “RMBS loan-level reporting template – Version 9”)? For what ABS classes could there be problems?**
- 3. In relation to the RMBS loan-level reporting template, what fields would not be applicable in certain national markets? Why? What additional fields would be required, if any?**
- 4. What impediments, if any, would originators face in submitting loan-by-loan information to fulfil the loan-level data requirements?**

3. Data-handling infrastructure

In order to provide the ABS loan-by-loan information, a data-handling infrastructure would be needed to collect, store, handle and process the information and to distribute it to the market.

Two different scenarios could be considered that would leverage existing market solutions. In scenario 1, a single data portal would be created to perform the envisaged tasks. In scenario 2, several eligible data portals would compete to offer the service to the market. These two models can be seen as two opposite extremes. Between these, other combinations could also be possible. In whichever case, the Eurosystem would like to rely on market solutions and would therefore neither take part in the implementation of the solution nor in its operation.

In scenario 1, originators/servicers would have a clear single entry point for submitting the data. The single data portal could be selected from among existing market data platforms that are willing to take up the role of portal provider. The portal would need to ensure that the data are made available to other data providers and that the users of the portal services would be charged an appropriate price.

In scenario 2, originators/servicers would have the option to choose from a set of registered portal providers. A list of registered data portal providers would be established using a set of broad criteria against which the potential portal providers would be evaluated and selected. In this scenario, the registered portal providers would compete to provide the best service at the lowest cost to their users.

- 5. Which of the scenarios presented, or combination thereof, would provide the best solution to the market, taking into account considerations such as data consistency and quality, competition, governance, cost, ease of data transmission, etc.?**

4. Timing

The Eurosystem will consider the results of this public consultation before taking any further steps in the assessment of the loan-level data as an eligibility criterion in the Eurosystem collateral framework. If approved by the Governing Council of the ECB, loan-level data would have to be provided from a particular date (i.e. the **implementation date**) onwards. From this date onwards, loan-level data would be submitted for every RMBS using the standardised template. Further asset classes would be phased in over time. The data submitted would include not only new ABS transactions, but also all existing ABS transactions that are used as collateral with the Eurosystem. The loan-level data would be provided on a quarterly basis from that date onwards. In addition to the implementation date, the Eurosystem would need to decide on the **announcement date**, which would be the starting point for all market participants (in particular originators/servicers and rating agencies) to commence the adaptations of their own systems to comply with the requirements.

Before the above dates are selected, certain steps will have to be completed. The initial legal review would need to be concluded and any outstanding issues resolved. It is expected that originators/servicers will have at least 12 months to adapt their data systems to provide loan-level data. The implementation date is expected to be in the spring of 2011 and will depend on the data-handling infrastructure finally selected. The selection of the portal(s) will commence after the announcement date.

- 6. Is an envisaged preparation time of 12 months after the announcement date sufficient to adapt to the loan-level data requirements? If not, why?**

5. Procedural matters

All market participants (e.g. originators, issuers, service providers, rating agencies, etc.) are invited to express their views on the ideas and questions presented in this public consultation. The Eurosystem would like to encourage credit institutions to channel their replies through trade associations.

The individual comments received will not be published by the Eurosystem. Instead, a general summary of the replies received will be made public. This summary will not divulge the sources of the replies.

Replies can be sent in English or in another official EU language to the ECB at the address below:

European Central Bank
Secretariat Division
Kaiserstrasse 29
D-60311 Frankfurt am Main
Germany
Fax: +49 69 1344 6170
E-mail: ecb.secretariat@ecb.europa.eu

or to the relevant national central banks of the Eurosystem.

The deadline for contributions is **26 February 2010**.

Further information on the collateral framework of the Eurosystem can be found in the publication “The implementation of monetary policy in the euro area: General documentation on monetary policy instruments and procedures” of November 2008, which is available on the ECB’s website.

Annex: RMBS loan-level reporting template.