

Reviving the EU securitisation market: Key priorities for the coming months

As the Commission and the ESA's joint committee recently issued their reports on the securitisation framework and as the reviews of CRR and Solvency II continue, a window of opportunity opens up to address some of the issues affecting the EU securitisation market's development. In this context, Germany and France wish to draw the attention of the Commission to this critical issue for the achievement of the CMU. Securitisation is an essential and currently under-used tool for financing the real economy and managing banking risks. To harvest its potential for the European economy, consensual and targeted adjustments could be adopted swiftly, both at level 1 and 2. In the longer run, these measures could pave the way for a comprehensive review of the securitisation regulatory framework.

1. Acknowledging its potentially significant contribution to the European economy, we share the ambition shown by the Commission to revive the EU securitisation market. Coupled with proper regulations to ensure an effective management of risks, securitisation is an essential tool to diversify corporate funding sources, free up capacity on banks' balance sheets and provide access to investment opportunities for long term investors. In 2015, the Commission estimated that a well-functioning securitisation market could allow a rise in bank's loans to private investors of more than 100 Bn€¹. On this basis, the EU securitisation market was identified as a key building block for a Capital Markets Union in the Commission's action plan. Today, this tool appears all the more relevant to finance the energy transition and gather the additional investments required on top of existing financing requirements for the real economy. It would also enable the markets to take their share in the financing of households and corporates in a context of tightening liquidity conditions. This ambition, to which we fully subscribe, was reaffirmed in the recent Commission's report on the functioning of the SECR².

2. Though EU securitisations were not part of the problem during the great financial crisis, the reputation of all securitisation got tarnished. The high hopes for a dynamic revival at the time when the EU agreed its new legal framework in 2017 have not materialised and almost 15 years after the great financial crisis, the EU securitisation market remains sluggish. According to the European Stability Mechanism (ESM), the volume of European securitisation has almost continuously decreased relative to the US, going from 75 % of the US volumes in 2008 to 20 % in 2014 and 6 % in 2020³. Although some data sources (e.g. COREP) suggest a slight increase in the volume of outstanding transactions since 2018, interest in securitisation has overall declined in the EU since the great financial crisis. This missed opportunity appears clearly with regard to overall green issuances: according to the European Banking Agency (EBA)⁴, securitisation only amounts to 1% of green bonds issuance in Europe, compared to 50% in the US and 11% in China. The current environment of increasing rates makes a relaunch of the European securitisation market more urgent.

3. Among the many factors which contribute to this situation, imbalances in the regulatory framework seem to play an important role. Starting in 2015, the regulatory framework of securitisation was redesigned in the EU. The SECR in particular was an important step forward in addressing the fundamental risks associated with these transactions (notably through the ban on re-securitisations, as well as risk retention and due diligence requirements). In parallel, a new prudential framework for securitisation was introduced in Solvency 2 and CRR. However, this post crisis regulatory framework appears to be rather conservative. Of course, a wide variety of structural (e.g. the existence of a liquid and dynamic covered bonds markets) and cyclical factors (e.g. accommodative monetary policy) opened up alternative sources of financing and eventually hindered the development of this market. But the responses to the 2021 consultation by the

¹ EC, *Action plan on building a capital markets union*, Sept. 2015 ([link](#))

² COM(2022) 517 final ([link](#)) : see in particular the answers to question 1 which demonstrate a shared perception that the regulatory framework has gone a long way in advancing investor protection but has fallen short of what was needed with regards to the revival of the market.

³ ESM, *Reviving securitisation in Europe for CMU*, July 2021 ([link](#))

⁴ EBA, *Developing a Framework for Sustainable Securitisation*, March 2022 ([link](#))

Commission suggest that imbalances in the regulatory framework have contributed to the under-development of the EU securitisation market:

- from a sell-side perspective, transactions are reported to remain excessively burdensome, especially given the very conservative prudential charges: some deem STS criteria too complex and most consider transparency requirements to lack proportionality, notably by failing to adequately tailor obligations to public and private transactions. The benefits of such transactions had been hampered by the lack of fluidity and predictability of the SRT test and by overly conservative capital requirements that increase the cost of retained tranches;
- from a buy side-perspective, the prudential treatment of securitized assets is considered to be a major obstacle: for banks, beyond capital requirements, eligibility to the LCR ratio is deemed too restrictive; for insurers, shocks may be too high overall and remain, in any case, insufficiently segmented and risk-adjusted according to data-driven evidence;

4. Although, more fundamental changes of the regulatory framework may not be opportune in the short term, the coming months will provide opportunities to achieve meaningful progress nevertheless. Key milestones still need to be achieved to consider a comprehensive reform. Regarding SECR, as noted by the Commission's report, a longer period of implementation and further consultation may be needed to move forward on important topics such as a potential finetuning of the definition of private securitisation, or of the supervisory set-up. Regarding prudential requirements, the advice of the Joint Committee of the ESAs⁵, published on 12 December 2022, should be an important input upon which we expect the Commission to act swiftly – keeping in mind the need to develop financing sources.

Targeted amendments are achievable in the short term, as level 1 and level 2 procedures will unfold in the coming months:

- regarding SECR, we welcome the Commission's decision to mandate ESMA to review the **disclosure templates**. ESMA should go as far as level 1 allows to ensure proportionate transparency requirements mirroring investors' and supervisors' information needs, particularly in the case of private transactions;
- regarding banking prudential requirement, the on-going review of CRR offers an opportunity for a targeted recalibration. With the ESAs advice published, the Commission should prepare amendments that enact its recommendations. At the same time, the Commission should examine the possibility of further measures for **recalibrating appropriately the risk weights**. On level 2, we strongly encourage the Commission to ensure that, while **harmonizing the SRT test** through a delegated act (DA) based on the EBA's recommendation, this DA leads to improving the process and not to overburdening and complicating it and takes into account feedback from relevant stakeholders;
- regarding insurance prudential requirements, the review of Solvency II is an opportunity to reassess the capital requirements associated with securitisation investments. At level 2, the Commission should consider the policy option mentioned by EIOPA that seeks to improve the alignment with CRR: the **segmentation of junior and senior tranches for non-STS transactions** and the **addition of a mezzanine tranche to STS transactions**, in each case associated with an evidence-based calibration of the capital requirements that would mirror the new segmentation of risks;
- finally, the ongoing EU GBS legislative procedure offers a major opportunity to foster green securitisation. To seize it, **EU GBS requirements should be applied at the originator's level**, so that green securitisation can be defined on the basis of the use of the funds raised, rather than the nature of the securitized assets.

In the longer run, these measures could pave the way for a comprehensive review of the securitisation regulatory framework. Work should start now in order to be ready to move forward when the Commission's next term begins. In that context, further work at the Basel Committee should be promoted as a matter of urgency. Specific attention should be dedicated to further demonstrating and communicating the benefits of

⁵ ESMA, EBA, EIOPA, *Joint Committee advice on the review of the securitisation prudential framework*, December 2022 ([link](#)).

securitisation for the financing of the real economy. Consultations and technical work will also be needed to design a comprehensive and balanced set of measures which could gather the support of a wide majority of Member States.

