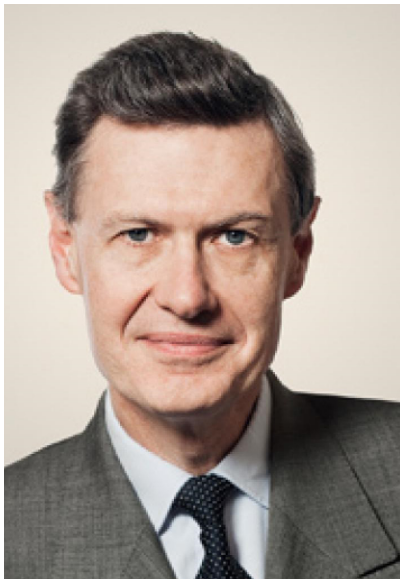
**EUROFI VIEWS MAGAZINE** - ZAGREB APRIL 2020

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# Five "game-changers" to scale-up securitisation in Europe

Following the implementation of a burdensome STS regime, European issuance dropped to EUR 131 bn in 2019[1], down by 6% y/y, compared to USD 2.5trn in the US. As long as such a gap exists, every banking regulation will have a disproportionate impact on the EU compared to the US.

While the goal should be to develop pan-european home loan securitization, this can only be a mid-term project. In the short term, the current EU prudential framework should be urgently adjusted, with five regulatory changes needed as "game-changers" to scale-up the EU securitisation market:

**1. Unlock the Significant Risk Transfer Assessment process**

This process is essential, for issuing banks to benefit from a reduction in capital charges, commensurate with the risk transferred to the market. While the CRR defines specific quantitative and qualitative criteria to meet this Significant Risk Transfer, the additional discretion provided to competent authorities has turned into a major obstacle, with multiple metrics added.

- When the level 1 quantitative and qualitative criteria are met, banks should be considered as achieving significant risk transfer, with no additional supervisory scrutiny.
- Such simplified rule would still result in a very prudent framework, given the conservativeness of the RW of the retained tranches, even after the proposed recalibration as per below.

**2. Recalibrate capital charges applied to senior tranches, in line with their risk profile, for originating and sponsor banks**

The implementation of the STS framework aimed at defining strict criteria for a safe securitization, but instead of reducing the RWs of the senior tranches, it has actually increased them. Also, it did not address the issue of "non-neutrality", whereby the cumulated RWA of securitized tranches is between 2 and 4 times the RWA of the loan pool prior to securitization, making securitization economically unviable.

- The non-neutrality should be reduced by recalibrating the "p factor" that drives this multiple
- The RW floor applied to senior tranches should be reduced for originators and sponsors, as they have a perfect knowledge of the securitized pool.

**3. Enlarge STS benefits to synthetic securitisation beyond SMEs**

Synthetic securitizations are easy to execute, standard, and very useful to transfer risks and release capital. Protection sellers are highly specialized, and they perfectly understand the risk.

- The same RW should apply as for cash securitizations.
- STS synthetic securitisations scope (currently limited to SME's) should be extended to all corporates and retail exposures.

**4. Upgrade eligibility of senior STS tranches in the LCR ratio**

The revision of the LCR Delegated Act has not improved the treatment of senior STS tranches.

- Senior STS tranches should be promoted to Level 1 (for residential and auto loans, the most liquid types of securitization) and Level 2a (SME loans and other consumer loans), with same haircuts as for covered bonds.

**5. Review the Solvency II calibration of senior tranches**

Insurance companies should be able to invest in senior tranches instead of investing directly in the underlying assets with no credit enhancement.

- The credit spread shocks applied to senior STS securitization positions could be aligned with those applied to the bonds and loans.

Finally, removing ESMA disclosure constraints on private transactions also appears as a pressing issue.

Those five measures are needed to rebuild a functioning ecosystem for securitization, allowing for a significant scale up of issuance, far above recent levels, which represent only about 1% of EU banking assets. Given the upcoming Basel III regulatory pressure, the need to finance the energy transition, while reducing the over-reliance on bank funding, the EU should take prompt action to significantly scale-up the securitization market. ●

[1] Figures based on SIFMA, BNPP data. European securitisation placed issuance (EUR bn); scope: ABS, CDO/CLO, CMBS, RMBS, SME.