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The STS label has kicked off to a good start, but fine-tuning needed

Securitisation plays a key role in the Capital Markets Union (CMU) creating a bridge between bank lending and the CMU objectives. Overall, it is expected to contribute significantly to unlocking the benefits of the Single Market for EU businesses and households by providing more innovative, sustainable and diversified sources of funding. When soundly structured, which was one of the aims of the overhaul of its legislative and regulatory framework, securitisation allows banks to transfer assets to institutional investors and free up capital for new lending, while providing markets with a broader scope of investment opportunities.

The EU securitisation market got off to a slow start in the beginning of 2019, in the first months of application of the new framework, but activity picked up thereafter. The authorisation of third-party verifiers seems to have had a very important positive effect on the STS market, helping operators navigate the new framework. The first STS deal, a private RMBS securitisation, was notified to ESMA on 22 March 2019. Thereafter, originators started 'taking the plunge' and nearly 200 STS deals were notified to ESMA by mid-March this year.

It is early to make definitive conclusions about the state of the market and the impact of the new framework after just one year of application. The take-up of the STS label does point to strong demand among investors. Thus, the new label has helped to reduce the stigma among investors. However, the fact that we have not yet seen a broadening of the investor base and, more generally, a significant rebound in the securitisation market suggests that additional action might be needed.

The European Commission is finalising the Level 2 measures which, together with the Q&As by the ESAs, should dispel any lingering uncertainty about the application of the new rules. To support issuance, the Commission will explore extending the STS label to synthetic deals and facilitating securitisations of non-performing exposures, based on input from the EBA. The upcoming comprehensive review of the securitisation framework, mandated to take place by January 2022, will look carefully at all of its aspects, including the Level 2 measures. Moreover, The CMU High Level Forum is preparing recommendations with the objective to relaunch and scale up EU securitisation as it can bring considerable benefits to the European financial system.

With regard to the capital treatment of securitisation exposures, there is widespread acknowledgement that it needs to be adapted to the specific features of non-performing exposures. The EBA and BCBS are already actively working on possible adjustments in particular to the formulaic approaches for the calculation of capital charges. Another area requiring potential improvement is that of the recognition of significant risk transfer where stakeholders claim a more uniform interpretation and application of CRR provisions by supervisors. The EBA is expected to produce a report by the beginning of 2021 that could serve as a basis for a delegated act by the Commission. The Commission is also working on the adoption of the RTS that will allow a more widespread use of the Internal Ratings Based Approach, the most risk-sensitive method for the calculation of capital charges for securitisation exposures.

Supporting the EU securitisation market remains a priority for the Commission. The aim of the securitisation framework is that the market functions on a solid and sustainable footing, subject to clear criteria and appropriate supervision and prudential rules, in order to ensure that the securitisation duly contributes to the CMU objectives. ●