EUROFI VIEWS MAGAZINE - BERLIN SEPTEMBER 2020

Philippe Bordenave

Chief Operating Officer, BNP Paribas

A true revival of securitization is now urgent

The need to relaunch securitization has been discussed for quite some time, without any concrete progress. Now is urgent time to transform intentions into workable solutions, as banks see their balance sheets loaded by Covid-related loans and will have to play a central role in the financing of the recovery.

Indeed, securitization enables private risk-sharing by taking risks out of the banking sector and transferring them to other investors, thereby increasing the diversification of funding available to the economy. In these times of crisis, scaling-up the European securitization market by addressing the regulatory obstacles to their development must be a top priority.

The relaunching of the Capital Market Union provides an opportunity for a drastic change in mindset, from considering securitization as a toxic product (when used to securitize badly originated sub-prime mortgage loans in the US), to recognizing that securitization in Europe has been used for healthy risk transfer from banks to educated investors, and should be given an important role in the post-Covid toolkit.

I strongly support the set of proposals on securitization recently presented in the HLF report, which results from extensive technical work, in particular to:

- Unlock the Significant Risk Transfer Assessment process
- Recalibrate capital charges applied to senior tranches, in line with their risk profile
- Enlarge STS benefits to synthetic securitisation beyond SMEs
- Upgrade eligibility of senior STS tranches in the LCR ratio
- Review the Solvency II calibration of senior tranches
- Simplify disclosure requirements for private transactions

I am grateful to the Commission and the EBA that some of those measures are already on the table, in the targeted package submitted by the Commission in July and in the upcoming SRT report by the EBA. However, these proposals should not derail from their initial objective to address the current flaws. While the extension of the STS framework to non-SME synthetic securitizations is a concrete step in the right direction, even if limited to a better treatment for the senior tranches only, the other proposals in their current form do not address the real issues:

- NPE securitization: while the EBA's October 2019 opinion was recognizing the excessive conservatism of the current framework, and recommending useful adaptations to the NPL securitization framework, the BCBS has in the meantime made proposals that would make this instrument value destroying for the issuing bank, and hence de facto eliminate NPL securitization from the post crisis toolkit.
- SRT assessment: the initial proposals presented by the EBA to the industry are driven by a welcome intention to make the SRT assessment process more transparent and predictable. However, the process proposed, whereby the ECB has a 3-months delay after origination to remove its ex-ante approval is totally counterproductive, as it creates a major regulatory risk. No bank would want to issue an instrument in the market, at a significant cost, without having certainty that the risk transferred to investor will result into a commensurately lower capital charge. We sincerely hope that further dialogue with the industry can help converge on a workable process.

The currently proposed amendments have to be significantly improved to achieve their intended goal. This first step needs also to be followed promptly by a holistic implementation of HLF securitization recommendations as all those proposals are jointly necessary to create a viable securitization ecosystem. I urge the Commission to reconsider its target of Q4 2021 for the broader securitization package and to rather give it priority over the implementation of Basel IV, in order to pragmatically fuel the most needed economic recovery in 2021. ●