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Securitization the key instruments for a post Covid recovery

Europe is currently lacking capital markets comparable to the depth and strength of the US market. As we experienced during the last financial crisis, this can have severe implication on the recovery prospects of the European economy, which still relies heavily on banking financing.

So, why would securitization be not only helpful, but actually the key instrument to ensure a sustainable recovery from the upcoming crisis? I would like to stress 3 points to back up my statement:

- Given the current setup of the European capital markets, banks will continue playing a central role to finance the real economy. Banks have the expertise and network to support local businesses. The question is: how to bring capital markets to those businesses? In my opinion, the answer is securitizations. They are the link between the Banking Union and the Capital Market Union. With securitizations, banks can reinforce their role as intermediaries between the real economy and international investors.
- In a time of turmoil, stability of the financial sector is critical. Securitizations allow redistributing risks across market participants, while increasing investing opportunities for national and international investors. As a consequence, banks become safer while improving their lending capacities to the real economy.
- The European economy and its labor market are built on the strength of its small and medium enterprises. SMEs do not, at the moment, engage actively in capital markets, and rely heavily on banking financing. Securitization would allow that the money flows from international investors can reach those who are at the core of our economic activity.

European securitization is and must continue being transparent and understandable for issuers and investors alike. But it is time that we acknowledge their critical role to build the capital markets, especially for a banking-based economy like ours, and we make sure that our legislative framework incentivizes the right usage of this financial instrument.

There are several areas of the prudential and supervisory treatment of securitizations that should be improved, both for STS and non-STS. Priority should be given to improve the LCR treatment of securitizations and to remove the risk weight floors for originator positions. It is also key that STS with preferential capital treatment should be granted to qualifying synthetics.

The various regulations introduced since the last crisis, such as the banning of re-securitizations, the retention rules, the investor due diligence rules, and the STS criteria, have made securitizations significantly safer, even though European securitizations have a history of very low defaults even during the last crisis. ●