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Strengthening the role of securitisation in the EU

The macro-economic and financial market shock caused by the COVID-19 pandemic puts additional emphasis on the securitisation market and on the need to contribute to the Capital Markets Union objectives. On 24 July 2022, the Commission proposed targeted amendments to the securitisation framework[1]. On the basis of the work of the European Banking Authority[2] and the Basel Committee on Banking Supervision[3], the Commission proposed to amend the Securitisation Regulation (SECR) and the Capital Requirements Regulation (CRR) to encourage a broader use of securitisation in the recovery phase.

The proposal defines STS criteria for on-balance-sheet synthetic securitisations that are consistent with those for traditional STS securitisations, and introduces new criteria to capture the specificities of using guarantees or similar instruments to tranche and transfer credit risk. This is coupled with a more risk-sensitive capital treatment for the senior tranche, held by the originator bank. The reduced capital charge reflects the fact that agency and modelling risks are substantially mitigated by the adherence to the STS criteria, and that these securitisations are no riskier than traditional securitisations. This proposal aims to provide additional incentives for securitisation to take place within the robust EU framework for STS securitisation, and help banks find ways to share risk with capital market actors.

As regards securitisation of non-performing exposures (NPE), the proposal recognizes that, by definition, this type of securitisation differs from typical securitisations because the securitised loans are already defaulted at the issuance of the instrument. The discount on the purchase price of the NPEs at the inception of the transaction is the key element in the valuation of the loans that are securitised. Thus, the proposals adjust the risk retention requirement so that the 5% material net economic interest is calculated on the basis of the discounted value of the exposures. In addition, a new prudential treatment of NPE securitisations is proposed in the CRR. The senior tranche of a traditional NPE securitisation would be subject to a flat risk weight of 100%, provided that the price discount applied when the underlying exposures were sold is at least 50% of the notional value of those exposures in the securitisation. This would be in line with the approach on which the BCBS is currently consulting. The proposal also clarifies how to calculate the maximum capital requirement provided for in Article 268 of the CRR for NPE securitisations.

The Commission remains fully committed to revive EU securitisation on a sustainable basis. The EU securitisation framework will also be subject to a comprehensive review, which is planned to take place in the course of 2021 accompanied, if appropriate, by legislative proposals. In addition, the EBA is working on a report on significant risk transfer in securitisation, which will also feed in the broader review. ●

1. https://ec.europa.eu/info/publications/200722-proposal-capital-markets-recovery_en
2. https://eba.europa.eu/eba-proposes-framework-sts-synthetic-securitisation;
   https://eba.europa.eu/eba-publishes-opinion-regulatory-treatment-non-performing-exposure-securitisations
3. https://www.bis.org/bcbs/publ/d504.htm