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Deepening the EU securitisation market: a key step for the Capital Markets Union

Securitisation can play a decisive role to support the objectives of the Capital Markets Union but needs to be properly regulated to address financial stability considerations. The EU financing market still relies heavily on banks. Securitisation, through diversification of funding sources, risk diversification and liquidity upgrade, can help deepen the Capital Markets Union. Banks that outsell or protect assets through securitisation may benefit from liquidity and/or preferential risk weights and get more flexibility to provide funding to the real economy. However, securitisation is a complex product that can endanger the financial stability when inappropriately used and hence deserves a robust framework.

To this end, **increased attention has been paid to the regulation of the EU securitisation market in the wake of the Great Financial Crisis**. A new simple, transparent and standardised (STS) framework has been adopted to fix the weaknesses identified during this crisis. This framework has been crucial in strengthening the investors' confidence. EU legislators also intend to improve further the framework in 2021 by introducing (i) a more risk sensitive approach to deal with the securitisation of non-performing loans and (ii) a differentiated regulatory treatment of STS synthetic securitisations.

However, the market has not yet fulfilled its potential. In 2020, primary public ABS issues in Euro fell by ca 40% from 2019 (from €39 bn to €22 bn). The low level of holdings by insurers is also a striking feature. Although the new framework entered into force in January 2019,the market is far from mature. The Covid-19 crisis has played a role in this regard. However, apart from short-term considerations, wehave to admit that the securitisation framework has not reached all its promises yet and still needs some fine-tuning to help support its revival.

Refining the securitisation regulatory framework remains a priority. Securitisation, in its well-designed form, may be part of the solutions to face post Covid-19 crisis challenges, such as: accompanying NPL off-loading, capital freeing, through an efficient significant risk transfer (SRT) assessment, and further expansion of the ABCP segment in order to support the European real economies and meet their financing needs. Developing green securitisation is also a promising tool. Accordingly, EU regulators should continue improving the framework by implementing a risk-based approach, consistently with financial products subject to similar credit, liquidity and agency risks. This would facilitate origination and investment in a wider range of operations. Areas of improvements may include: (i) developing a EU label for sustainable securitisations; (ii) removing remaining barriers, through a careful risk sensitivity evaluation, by reassessing the calibration of capital and liquidity requirements to encourage investments by banks and insurers.

The upcoming reviews of Solvency II and the securitisation framework provide the ideal opportunity to progress on these questions.