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EU securitisation revival requires CMU level-playing field

Re-launching the securitisation market has been a long-standing objective in the context of the deepening of the EU CMU. Measures adopted in recent years with much fanfare have not delivered the desired results. The market data informs us that 2020 recorded a third-year-in-a-row decline in both placed and retained securitisation volume. STS framework has been in operation for about 2 years now, but we are yet to see a pick-up in its use by new issuers. Over the years total prime Euro area RMBS supply declined to reach €45bn in 2020 (down almost 40% inthe last 5 years), while annual mortgage covered bond supply varied between €412bn and €612bn in the last decade. Other ABS volume has been volatile around the €50bn mark from one year to the next. The potential introduction of ESN (e.g. auto loan covered bonds) will likely replicate the negative experience of prime RMBS issuance in auto ABS space.

We must note the increase in direct loan portfolio investments by insurance companies and pensions fund, eschewing the more protected and liquid structured finance bond format. We are also observing a shift away from use of securitisation to use of credit claims pools as general collateral since the changes that ECB introduced in April 2020. We observe a declining use of prime quality asset cash securitisations with the increase of synthetic balance sheetsecuritisations, including that of SME loans thanks to the support of EIB/EIF. That contrasts with the pick-up in NPL and in non-conforming (non-prime) mortgage loan securitisations, along with higher-yielding leveraged and commercial real estate loans. The decline of broadly available securitisation market expertise and its concentration in a small group of investors is underway; a smaller investor base is a challenge to the EU securitisation market revival.

In many EU quarters there is a support for securitisation market re-launch as part of the deepening the CMU, turbo-charging the post-pandemic recovery, transitioning to a sustainable economic model and in response to Basel 3 roll-out. Last year the High Level Forum on CMU prioritised the steps necessary to achieve that goal. Without enumerating them here, we emphasise that they are only partly addressing **the undeniable need for a level playing field across capital market instruments on the EU capital markets** in terms of their political, capital, liquidity and monetary treatment. The regulatory treatment of securitisation must reflect the strong credit, price and liquidity performance of EU securitisation bonds without much external support when compared with instruments that were subject to very favourable - in every respect - regulatory treatments. The systemic risk consideration of the use of such other instruments should not be overlooked.

In short, the revival of the securitisation market in the EU requires as a minimum a realignment of its regulatory,political and monetary treatment with that of other fixed income markets. Additional targeted support for certain securitisation market sectors (SME, project finance, green and social finance) is necessary to help EU securitisationachieve its full potential for the benefit of the EU economy and the long-term objectives of EU CMU.