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Securitisation at the service of the European economy

While significant progress has been made to restore the place of securitisation in Europe, securitisation issuance fell under €200bn in 2020, its lowest level since 2013. This is explained by conjectural reasons like the pandemic but there are fundamental reasons at work.

Tremendous effort to restart the market

EU securitisation has been significantly reshaped after the financial crisis and the subsequent adoption of new regulations, providing notably for a new label for «simple transparent and standard» (STS) securitisation. New regulation was also needed to overcome deficiencies, in particular a lack of risk alignment and comparability in structures and reporting. Since its entry into force in 2019, STS has been largely adopted for asset classes by design eligible to STS. Significant effort has been made in reporting for public and private transactions and ABCP.

Public volumes falling short of expectations

In 2020, publicly placed issuance was €81.4bn after €116.8bn in 2019 and €135.8bn in 2018 (record year post crisis). Overall, €194.7bn of public securitisation was issued in 2020, a decrease of 10.4% from 2019. 2019 was a transition year for adapting to the new framework. 2020 has been clearly hit by the pandemic, especially placed issuance.

More fundamentally, bank-led securitisation issuance is impacted by the availability of cheaper alternatives like the TLTRO scheme of the ECB, which has been loosened again and extended until 2024.

Strong latent potential

Public volumes do not reflect the entire market. Banks often use private securitisation for managing their balance sheet. Private securitisation also accommodates diverse non-bank issuers and asset classes (transport assets, trade receivables etc.), with banks providing critical funding to this market, directly or through ABCP.

Finally, securitisation is growingly used in sustainable green finance. Social securitisation is also emerging as a way to support disadvantaged borrowers or projects with social utility.

Which priorities to improve the situation

While securitisation is well equipped to support the CMU, its development is hindered by significant obstacles. In order to make it attractive to banks, it must remain economic and manageable. Therefore, measures should focus onReducing punitive capital charges: measures should focus on reducing the non-neutrality of the capital regime and lowering capital floors for senior tranches. Solvency 2 should also be recalibrated, in particular for STSFacilitating significant risk transfer (SRT): the process for SRT should be improved to ensure consistency and better predictability. Visibility is also needed on key features such as synthetic excess spreadImproving liquidity treatment (LCR): securitisation should be treated equally to covered bonds – e.g., senior STS qualified as Level 1 for most liquid assetsRevisiting disclosure requirements: full disclosure templates should apply only to public issues in line with the proportionality principle

Generally, measures should ensure level playing field with other products and sustainability of the operating environment over time. **EU banks need well-functioning securitisation in their toolbox to contribute to recovery and assist in the strategic redeployment of their balance sheets.**