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What is next for EU securitisation?

When structured in a sound way, securitisation provides a tool for efficient risk and capital management, diversifies funding sources for banks and companies and enables a broader range of investors to fund the economy. However, as the Global Financial Crisis demonstrated, poorly regulated securitisation can be a source of risk for the financial system. Therefore, regulation and supervision of securitisation need to walk the fine line of ensuring that we continue to draw the lessons from the crisis so that risks do not re-emerge while, at the same time, supporting a beneficial expansion of the market to the benefit of companies and the economy as a whole.

As one of the priorities of the CMU project, the EU aimed to do just that with the securitisation framework that became applicable on 1 January 2019. The new framework is meant to promote the revival of the EU market, in particular through the creation of the STS (Simple-Transparent-Standard) quality label and the prudential benefits attached to it, while also drawing the lessons from the financial crisis by adequately protecting investors and managing potential systemic risks.

Last December's agreement on the Capital Markets Recovery Package (CMRP) amplifies the potential benefits that securitisation can bring for the economy by extending the STS label to on-balance-sheet (synthetic) securitisations and removing regulatory obstacles to the securitisation of non-performing loans. The swift conclusion of the political trilogues shows that the legislators share the Commission's ambition to revive this important market, provided that legislative proposals are based on a solid analysis and thorough preparatory work.

As markets and policy makers gain experience with the framework, we also note that the appetite for its reviews is growing. The Council Conclusions on the renewed CMU Action Plan mentioned a review of the securitisation framework as one of the important and urgent deliverables for 2021. This was echoed also by the European Parliament in its own initiative report on the CMU from September 2020.

In any event, the legislation in force requires the Commission to review the functioning of the securitisation framework and deliver a report to the legislators by 1 January 2022. Like the CMRP, the upcoming review – and any

legislative proposals that may follow – will have to be based on thorough preparatory work by and input from the European Supervisory Authorities. Further technical work should identify areas where the rules could be improved in order to foster the market, without compromising on investor and consumer protection. While we are still gaining experience with the framework and its practical effects, the review will be the next important stepping-stone for the market after the CMRP. The review will also look at the important issue of green securitisations, to see what can be done to encourage this market segment to grow further and support the green transition. The Commission stands ready and is looking forward to the work with the European Supervisory Authorities and all relevant stakeholders to continue to develop EU's securitisation framework in the context of the CMU and beyond.