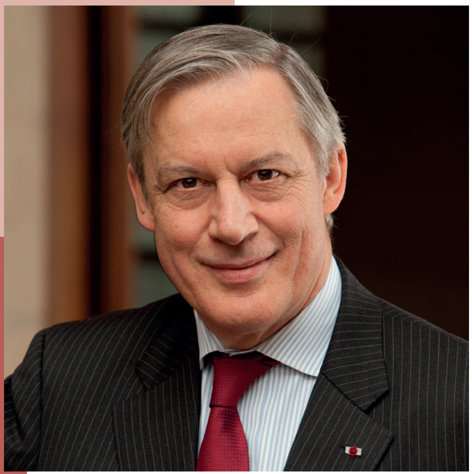
RELAUNCHING THE EU SECURITISATION MARKET



CHRISTIAN NOYER

Honorary Governor – Banque de France

Reviving EU securitisation: overcoming regulatory conservatism to finance growth

Contrary to a widespread perception shaped by the 2008 financial crisis, the EU securitisation market has never been a source of systemic instability. Unlike in the US, where opaque structures triggered widespread financial turmoil, EU securitisation maintained a robust performance throughout the crisis, with virtually zero defaults recorded between 2008 and 2015 on senior AAA-rated tranches of EU residential mortgage-backed securities (RMBS). This resilience stemmed from the quality of underwriting standards and structuring.

Securitisation is not risk-free, of course, but its specific risks, like moral hazard, agency and model risks, justify targeted safeguards, not excessive constraints. The EU's regulatory response after the Great Financial crisis focused on mitigating these vulnerabilities, by introducing relevant provisions, such as risk retention rules, the ban on re-securitisation and the strict oversight of credit rating agencies. The creation of the STS (Simple, Transparent and Standardised) regime also stemmed from the idea of promoting a "best-in-class" approach, to restore confidence in this financial structuring method.

However, while well-intentioned, the cumulative effects of other additional safeguards imposed on originators and investors, especially following the adoption of the Securitisation Regulation in 2017, have resulted in an excessively conservative regulatory and prudential environment. Disproportionately high capital charges on securitisation exposures compared to actual observed risks, both for banks and insurers, coupled with overly prescriptive due diligence and reporting obligations, have not only dampened the attractiveness of securitisation per se. They have limited market access, especially for smaller players, and deprived the EU of a key channel to finance its strategic priorities. As a result, public issuances remain 80% below pre-crisis levels in the EU, whereas other jurisdictions, such as the US and UK, have successfully continued to use securitisation effectively.

In this regard, the European Commission's recent legislative proposal, outlined in June, does not aim to completely overhaul the regulatory and prudential frameworks, but rather to introduce the necessary adjustments needed to unlock the market's potential without compromising on financial stability, and to allow securitisation to effectively compete with other funding tools in a low-rate world. These include greater risk sensitivity in capital requirements, especially for securitisations that present low agency and model risks – the so-called new category of "resilient securitisations" – through refinements such as risk sensitive risk-weight floors, and a drastic simplification of due diligence and reporting rules, to cut issuance and investor costs. By activating both supply and demand levers, this proposal aims to make securitisation more attractive for both originators and investors, without weakening investor protection.

While the general direction of the Commission's proposal is sound, several adjustments will be needed to ensure its objectives are fully met. In particular, the prudential calibration for banks remains a concern, since the current design risks falling short of making mortgage and SME securitisations economically viable, although these asset classes are critical in terms of financing the economy. The definition of "resilient securitisations" and the calibration of risk-weight floors might need revisiting in this regard. On the regulatory side, it will be essential to ensure that newly created reporting requirements do not nullify the proposed simplification efforts. The proposed extension of the definition of public securitisations will require further scrutiny from this perspective. This is where the legislative process matters: refining these points, to make sure that securitisation becomes an effective tool for funding the economy.

If appropriately calibrated, securitisation can once again deliver its full value.

Reviving securitisation requires collective engagement: banks to supply quality assets; insurers and pension funds to provide long-term investment; asset managers to diversify portfolios. Aligning incentives across these actors is essential. If appropriately calibrated, securitisation can once again deliver its full value: freeing up bank capital, channelling institutional savings into the economy, and strengthening Europe's strategic autonomy. The question is no longer whether securitisation poses systemic risk — it clearly does not in Europe — but whether we can create a framework that recognises this reality. The Commission's proposal sets the tone; it is now up to co-legislators to complete the job.

FAUSTO PARENTE

Executive Director – European Insurance and Occupational Pensions Authority (EIOPA)

Securitisation in Insurance: Balancing securitisation growth with prudence

The relaunch of the EU securitisation market remains a political priority on the Capital Markets Union (CMU) agenda, intended to mobilise private capital and strengthen financial integration. However, for insurers—key long-term investors in the European economy—this market continues to play only a marginal role. It is essential to assess securitisation's role with a clear prudential lens, ensuring that any efforts to revitalise the market do not compromise financial stability or policyholder protection. Policyholder protection must guide any evolution of the prudential framework.

Securitisation can offer benefits, including portfolio diversification and risk transfer. Yet, these benefits must be carefully weighed against the structural complexity and historical vulnerabilities inherent to these products. The global financial crisis showed how securitisation can act as a channel for systemic contagion. It is with these lessons in mind that the current Solvency II framework takes a balanced approach—rewarding high-quality securitisation with reduced capital requirements while maintaining a rigorous, risk-sensitive prudential treatment.

While some argue that capital charges should be further reduced to make securitisation more attractive for insurers, such calls must be met with robust scrutiny. Any rebalancing of capital requirements should be based on sound, empirical risk analysis—not driven by market demand or competitive considerations. The Joint Committee of the ESAs confirmed the current level of capital requirements for insurers' securitisation investments in 2022. No new evidence has emerged that would justify further changes in capital calibrations. We would be concerned if reviving the securitisation market introduces more risk into the insurance sector, while at the same time reducing capital to deal with potential impact of the risk. Prudence is not resistance to innovation—it is a safeguard to ensure that investor confidence and policyholder security are not undermined by a push for short-term market growth.

Improvements to the Securitisation Regulation are certainly possible. The Joint Committee has made recommendations to enhance the requirements, including to advance proportionality of the due diligence and transparency requirements. We find a lot of that reflected in the legislative proposal. But also with regard to the Securitisation Regulation EIOPA has reservations about unfunded credit protection by insurers for synthetic securitisation. Compared to funded protection, unfunded protection increases the counterparty default risk, may increase the systemic risk and could be detrimental to policyholder protection. Limiting the scope of the insurers that can provide unfunded credit protection would address that concern only partially.

Policyholder protection must guide any evolution of the prudential framework.

A fundamental question also persists: does securitisation, in its current form, genuinely meet the asset-liability management needs of insurers? The relatively short-dated, often illiquid nature of securitised assets, combined with complexity and limited issuance volumes, makes them a less natural fit for insurers' long-term commitments. Encouraging demand through eased prudential treatment would not resolve these structural mismatches—it would simply introduce new risks.

Supervisory authorities must remain vigilant. EIOPA's focus remains firmly on ensuring that prudential standards are respected, risks are appropriately priced, and policyholders remain protected. At the same time, EIOPA is supportive of measures that improve market functioning, increase transparency, and foster convergence across the EU—measures that strengthen the securitisation market without lowering the regulatory bar.

In the broader CMU context, progress must be consistent with the EU's stability and consumer protection objectives. Deepening capital markets and diversifying sources of funding should not come at the cost of diluting supervisory safeguards. EIOPA remains committed to a strong, stable, and transparent securitisation framework—one that earns investor trust and reinforces the resilience of the financial system.

In conclusion, securitisation may play a role in insurers' investment strategies—but only to the extent that it aligns with their long-term horizons and meets the prudential standards of Solvency II. The road to CMU must be built on solid ground. As the EU reflects on the future of securitisation, it should do so with prudence, perspective, and the unwavering principle that financial stability and policyholder protection are non-negotiable.

GEORGE THEOCHARIDES
Chairman – Cyprus Securities and Exchange Commission

Proposed reforms under the STS directive

Effective securitization markets are at the centre of the drive to boost Europe's capital markets capabilities which are urgently needed, so it is very encouraging that this was amongst the first legislative actions taken by the Commission under the new mandate.

The ongoing revision of Regulation (EU) 2017/2402 on securitisation and the Simple, Transparent and Standardised (STS) framework is anticipated to introduce significant reforms to the operational environment of EU securitisation markets. The Cyprus Securities and Exchange Commission (CySEC), in its role as the competent authority for capital market supervision, recognises the potential of this revised framework to support the development of the domestic capital market and to enhance the capacity of its supervised entities to participate in structured finance mechanisms.

The revised framework is expected to generate benefits for Cyprus by:

- Enhancing access to alternative sources of financing for the real economy, particularly small and medium-sized enterprises (SMEs), through improved credit risk transfer mechanisms.
- Freeing up regulatory capital on bank balance sheets, facilitating increased lending capacity.
- Attracting institutional investors by establishing a transparent and standardised market for securitised instruments, thereby creating secondary market depth for CySEC-supervised asset managers, investment firms (IFs), and collective investment schemes (UCITS and AIFs).

The framework has the potential to complement traditional bank lending and reinforce Cyprus's efforts to establish itself as a regional investment services and fund management hub.

Under the current framework, the complexity and compliance costs associated with securitisation remains a barrier to entry for many smaller or mid-sized market participants. The proposed harmonisation and standardisation of reporting templates, due diligence procedures and legal documentation, are anticipated to support the effective participation of CySEC-supervised entities in securitisation transactions.

This can be affected through a number of ways:

- UCITS and AIF managers will be able to invest in securitised products with greater confidence given the proposed improvement in transparency, leveraging uniform information standards.
- Investment firms may see opportunities to assume roles as arrangers, advisors, or investors in STS-compliant transactions, expanding their service offerings.
- Institutional investors will benefit from improved comparability, enhanced risk assessment capabilities, and lower due diligence overheads.

CySEC remains committed to monitoring European regulatory developments.

Standardisation is also expected to enhance cross-border capital flows, from which Cyprus, as a small open economy, stands to benefit considerably.

The Role of the Regulators

ESMA, together with the National Competent Authorities, which include CySEC, has a pivotal role to play in promoting the use of the STS label, reducing issuance complexity, and building market confidence.

The National Competent Authorities will also have a role in the provision of technical guidance and regulatory clarity on the proposed reforms to their regulated entities participating in the securitisation market and organise capacity-building activities, such as workshops and information sessions.

Regulators will also have an active role as intermediaries between supervised entities and ESMA, particularly with regard to notification and compliance procedures for STS transactions; and monitor market practices to ensure both investor protection and market integrity.

ESMA's actions to facilitate broader market participation include automated tools for STS compliance and notification, maintaining a public STS transaction register and issuing detailed technical standards to ensure consistent application across jurisdictions. This will assist markets such as Cyprus, where the securitisation ecosystem is still developing and regulatory certainty is critical to foster market growth.

The prioritisation of STS is a good example of effective targeting of the issues that are most needed, for which all member states can benefit, and for which EU regulation is the right tool to address the obstacles, which in this case are not tax or cultural, but simply regulatory.

In conclusion, the revised EU securitisation framework can serve as a catalyst for expanding the Cypriot capital market, with measurable benefits including, improved financing channels for the real economy, enhanced investment opportunities for CySEC-supervised entities, and greater operational and regulatory efficiency through standardisation.

CySEC has a key role in ESMA and remains committed to monitoring European regulatory developments and supporting its supervised market participants in effectively integrating the revised securitisation framework into their operations.

PHILIPPE BORDENAVE

Senior Executive Advisor to General Management and the Chair of the Board – BNP Paribas

Securitisation: EU at the crossroads

Europe must trust itself

The Commission's proposal of 17 June is its second attempt to revive Securitisation, after the 2017-2019 framework review. The latter strengthened transparency and investor protection, by creating the Simple, Transparent and Standardised (STS) label, but it also produced excessive regulatory and prudential obstacles, in contrast with the safety of EU securitisation products: in Europe, defaults remained extremely low, before, during and after the Global Financial Crisis. The framework is safe but the market is asleep.

The Commission's new ambition is to address the rules hindering market developments and to boost the EU securitisation market. It is indeed high time to catch up with the other regions and create the conditions for a buoyant SIU, able to play its full part in the 1 trillion euros annual additional financing needed for the EU transition, in the areas of defence, innovation, digital, energy and transports. A new failure would be very detrimental for the EU economy.

The Commission is very right when it says that *"the main goal of securitisation is to allow banks and other financial institutions to use the loans and debts they grant or hold (), to pool them together, and turn them into different types of securities that investors can purchase. By doing this, banks free up their resources, allowing them to lend more to businesses and citizens, while making it possible to move portions of credit risk to interested investors beyond the banking system."* And while in the EU, banks remain the main source for financing the economy, they are indeed stifled by ever increasing capital requirements, contrary to other regions.

Given the stakes, the Commission's proposal is surprisingly lukewarm. Its timid measures, further hampered by administrative safeguards, will in the opinion of professionals not be powerful enough to have the required impact.

As regards the prudential capital treatment for banks, the proposal introduces measures to recalibrate the risk weight floors and the non-neutrality factor for certain categories of transactions. These undoubtedly go in the right direction; however, the proposed calibrations will still not allow banks to securitise certain types of assets in viable economic conditions (notably low risk-weighted assets and high risk-weighted assets). These limited improvements come at the price of an additional level of complexity, differentiating between bank roles. To make the reform impactful, the prudential parameters must be further improved for banks and better aligned between originators and investors' roles.

What is the purpose of being shy in such a safe framework?

The proposals of the LCR Delegated Regulation, which define eligibility criteria for banks' liquidity buffers, remain in the middle of the river. If securitisation assets are not usable for LCR purposes, the conditions for banks to decisively increase their involvement as key secondary market participants in this asset class will not be met. Yet this is critical, as a deep secondary market is a prerequisite to attract new investors, such as insurers.

The positive moves in the Securitisation Regulation, notably in terms of simplification of transparency and due diligence requirements, are outweighed by several dissuasive measures, such as disproportionate administrative sanctions (up to 10% of global revenues!) imposed on institutional investors for failure to comply with due diligence requirements, or the new definitions enlarging too much the scope of public transactions. These dissuasive measures must be removed as they are in themselves a poison pill for existing and new investors, despite the additional asset quality requirements introduced by the Commission.

In the same spirit, despite the Commission's clear ambition on the key role to play by EU insurers in the financing of the economy, including through securitisation, improvements proposed in the Solvency II Delegated Act review consultation are not sufficiently bold. The proposed full alignment of capital charges when investing in senior STS securitisations and when investing in covered bonds is a necessary but not sufficient condition to convince EU insurers to come back to the Securitisation market. Capital charges should be decreased and aligned with those for loans and bonds across the whole spectrum of credit ratings and for both STS and non-STS tranches.

To avoid dependence on foreign financing (mostly US) for its vital needs, the EU needs a true relaunch of its securitisation market. The current framework has produced very good securitisation assets with excellent track record throughout global crises and the proposed reform will further improve this via the 'Resilient' criteria. What is the purpose of being shy in such a safe framework?

At this critical juncture, Europe and all policymakers must trust themselves and transform the Commission initial proposal into a true 'Ariane launcher' of the new European securitisation market.

EDWIN WILCHES

Managing Director, Co-Head of Securitized Products – PGIM Fixed Income

From banks to investors: A policy reset for securitisation

The European Union's ambition to build a globally competitive Savings and Investments Union (SIU) hinges on its ability to unlock capital, deepen markets, and empower investors. The ongoing review of the European Securitisation Regulation (SECR) is a critical test of this ambition. Done right, it can revive a once-vibrant market and support the EU's broader goals of economic growth, market resilience and strategic autonomy. Done poorly, it risks entrenching fragmentation, failing to support greater economic growth, decreasing financial stability as overreliance on banks is exacerbated, all while undermining investor confidence.

However, the debate around SECR reform has disproportionately focused on the banking sector—particularly on the role of originators and sponsors—while neglecting the perspective of end investors. Institutional investors such as pension funds, insurance companies, and asset managers (as fiduciaries for other asset owners) are critical to the success of the Savings and Investments Union. Their ability to access diversified, high-quality securitisation assets is essential for delivering long-term returns to European savers. A regulatory framework that overlooks their needs risks undermining the very goals it seeks to achieve.

Securitisation—when functioning effectively—offers a powerful tool for risk transfer, credit intermediation, and portfolio diversification. Yet, despite the EU's efforts to revive this market post-crisis, European securitisation volumes remain a fraction of their global peers. The regulatory framework, particularly the investor due diligence regime under Article 5 of the SECR, has played a central role in this stagnation.

PGIM, like many institutional investors, supports the European Commission's intention to simplify the SECR. However, the current reform proposals fall short of what is needed to level the playing field for EU investors. While the Commission proposes easing due diligence requirements for EU-based issuers, it leaves intact the burdensome and prescriptive requirements for non-EU securitisations. This asymmetry effectively acts as a "backdoor ban" on the €2.5 trillion global securitisation market outside the EU, limiting EU investors to a much smaller €1.1 trillion pool.

This is not just a technical oversight—it is a strategic misstep. By failing to address Article 5(1)(e), which requires EU investors to obtain full Article 7 transparency from non-EU issuers (who are not subject to SECR), the EU is placing its own investors at a competitive disadvantage. Investors in the US, UK, and Asia face no such constraints. The result: reduced diversification, lower returns, and diminished capital efficiency for EU funds.

If EU investors are not empowered to compete globally, the entire reform effort risks falling short.

Moreover, this approach undermines the EU's asset management industry and discourages global capital inflows into EU-domiciled funds. It also sends a contradictory signal: while the EU champions open markets and simplification, it imposes duplicative and overly cautious rules on its own investors—rules that are not mirrored in other jurisdictions.

Importantly, the SECR's investor due diligence regime is not only excessive but redundant. Sectoral legislation such as UCITS and AIFMD already imposes robust risk management and due diligence obligations across all asset classes, including securitisation. There is no compelling reason to single out securitisation for additional scrutiny—especially when this scrutiny disempowers investors rather than protecting them.

The introduction of an administrative sanctions regime under Article 32(1) further complicates matters. It duplicates existing supervisory powers and risks chilling investment activity. Rather than simplifying the regulatory landscape, it adds another layer of uncertainty and compliance burden.

To truly revive European securitisation and support the SIU, reforms must be bolder and more balanced. PGIM recommends the following:

Remove the prescriptive "tick-the-box" due diligence model in favour of a principles-based approach.

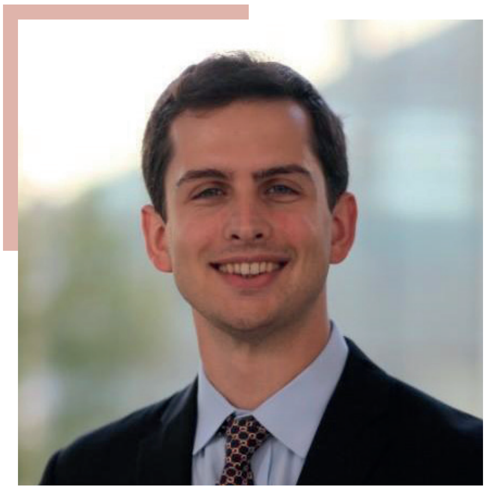
Amend Article 5(1)(c) to make template-based reporting optional for both EU and non-EU issuers.

Allow EU investors to assess risk, based on sufficient information, rather than requiring full SECR compliance from non-EU entities.

Clarify the role of sanctions to avoid duplication and ensure proportionality.

These changes would not weaken the EU securitisation market—they would strengthen it. By expanding the investable universe, they would boost demand, encourage issuance, and enhance the EU's role in global capital markets. Crucially, they would restore confidence that the EU is serious about building a competitive and investor-friendly SIU.

The SECR reform is more than a technical adjustment—it is a litmus test for the EU's broader financial strategy. If EU investors are not empowered to compete globally, the entire reform effort risks falling short. The EU must act now to ensure that its capital markets are not only resilient—but also globally competitive and investor-driven.



VINCE MARRIOTT
Financial Regulation – Apollo Global Management

Unlocking the full potential of EU insurer investment in securitisations

Securitisation represents a powerful means of mobilizing private capital. Private capital mobilization, in turn, offers a compelling economic symbiosis – promoting greater real economy investment and generating improved returns for policyholders and investors. Securitisation facilitates financing for the full breadth of the real economy – in the U.S., for example, securitisation markets finance a broad array of assets, including solar, fibre optic, data centres and a myriad of other assets. The U.S. issued ~$58B of data centre and solar securitisations from 2018 to 2024.

We applaud the European Commission's proposed measures to facilitate increased securitisation activity in the EU, including its proposed updates to Solvency II, which demonstrate recognition of the economic benefits of securitisation and the importance of insurer participation in securitisation markets. In our view, further updates could encourage even greater insurer participation.

In our response to the Commission's December 2024 consultation, we highlighted the need for a holistic examination of the EU's Securitisation Framework and Solvency II capital charges. We noted that since the Global Financial Crisis, securitisation has been underutilized in the European economy, contributing to a current ~€12.7T gap vs. the U.S. in private capital formation, including a ~€3.3T gap in capital provided by insurers alone. By reinvigorating its securitisation markets, the EU can capture what we estimate to be a €1T+ financing opportunity.

Insurers play a critical role in supporting vibrant securitisation markets. Insurers invest in securitised assets to capture safe incremental yield, while in turn providing the real economy with financing backed by stable, long-dated liabilities. Specifically, insurers are important holders of investment-grade mezzanine tranches (i.e., tranches rated AA to BBB). In the U.S., approximately 40% of institutional holdings of AA to BBB rated securitisations are held by domestic insurers. A strong insurer bid is therefore critical to support the economic viability of the entire securitisation "stack." In the EU, however, insurers are not meaningful participants in securitisation markets due to current Solvency II Standard Formula capital charges for securitisations that make them uneconomical as investments. Today, securitisations comprise only ~0.33% of EU insurer assets (vs. ~17% in the U.S.).

The Commission's current proposal to reduce Solvency II capital charges goes a long way to address the insurer bid for investment-grade securitisations. However, while the proposed updates would materially lower capital charges for STS and senior non-STS tranches, non-senior, non-STS tranches – which comprise the bulk of U.S. insurer securitisation holdings by way of example – remain challenging for insurer investment.

By reinvigorating securitisation markets, the EU can capture a €1T+ financing opportunity.

Historical performance data bears out that investment-grade tranches are not inherently riskier than comparably rated corporate bonds – years of data from before and after the Global Financial Crisis demonstrate that many investment-grade securitisations experience lower impairment rates than comparably rated corporate bonds.

The current changes considered by the Commission pertaining to the Securitisation Framework and Solvency II demonstrate encouraging recognition of the benefits of securitisation for private capital formation and real economy investment, as well as the importance of insurer participation in securitisation markets. However, they may limit the EU's potential to fully unlock the €1T+ financing opportunity offered by vibrant securitisation markets.

In our view, the Commission has two avenues through which it can further help the EU capture the full €1T+ opportunity:

Expand the STS perimeter to include a broader array of well-understood, historically high-performing securitizations, including CLOs and CMBS assets.

Materially lower Solvency II capital charges for investment-grade non-senior, non-STS securitisations so that capital charges reflect the true economic risk of these assets.

We applaud the Commission's efforts to revitalize EU securitisation markets. By making one or both of these updates alongside the changes it has already proposed to Solvency II Standard Formula capital charges, the Commission would further enable EU insurers to fulfil their natural role as key owners of investment-grade securitisation tranches in line with their U.S. peers, thereby incenting greater capital formation throughout the European economy and greater returns for policyholders.

ALEXANDER BATCHVAROV

Managing Director and Head of International Structured Finance Research – Bank of America

EU securitisation regulation amendments: the jury is in recess

Securitisation is a technique that allows pools of illiquid assets to be funded via tradeable bonds. The credit performance of such bonds depends on the credit performance of the securitised asset pools and the structural features of the bonds. The GFC revealed sources of risk associated both with the securitisation bond structures and the underlying assets. The latter were addressed via EU legislation (e.g. mortgage and consumer loan lending standards, consumerprotection). The former risks were addressed at the global level by BIS securitisation guidelines adopted after the GFC (e.g. higher risk weights, mandatory risk retention, disclosure and due diligence). Subsequently, the BIS realized that one size risk weight (RW) does not fit all types ofsecuritisations, and it dialled back somewhat via the introduction of an STC (simple, transparent, comparable) securitisation regime.

The EU subsequently 'steel-plated' the BIS guidelines by establishing, in our view, overly prescriptive sector regulation unparalleled in any other market with severe penalties for non-compliance. While the regulatory capital for banks is broadly aligned with the BIS, regulatorycapital for insurers is well above levels applied anywhere else. The EU is the only jurisdiction to introduce the STS regime with numerous strict criteria, notification, verification and disclosure requirements. The EU due diligence requirements are so time consuming that many European investors do not venture onto the secondary market, thus reducing securitisation bondliquidity. As we have mentioned before, from a regulatory perspective it is easier for EU investors to buy a 10yr NPL or HY portfolio than a 1yr AAA STS auto ABS.

Overall, the EU adopted the most onerous securitisation regime (EUSR) globally, without much justification in our view for this in any referenced period before, during and after the GFC. Overall, we think the EU regulatory regime imposes imbalances between capital and non-capitalrequirements, between bank and insurer capital requirements, between risk sensitivity and proportionality, and undermines the much-needed EU capital markets level playing field. This is the starting point for the reform initiated by recently published EComm amendments of EUSR and CRR, and the consultations on amending LCR, Solvency II and UCITs.

Our analysis suggests that the proposed amendments are likely to stimulate only a modest EU securitisation market recovery, falling short of the ambitious targets set by the EU, and the Draghi, Letta and Noyer reports. Why is that?

Proposed amendments are likely to bring only a modest EU securitisation recovery.

In our view: 1/ the regulatory capital reduction favours mostly the STS and senior most tranches of securitisation; 2/ the introduction of 'resilient' securitisation not only adds to the complexity of the CRR capital framework, but also the 'formula' for resilience may introduce volatility in the capital treatment; 3/ the reduction of p-factor and capital floor favours mostly the originator bank and the execution of synthetic securitisations; 4/ the growth of synthetic securitisation does not offer safe investments to bond hungry EU demographics; 5/ the shift to principle-based duediligence is countered by heavy penalties for non-compliance as determined byNCAs; 6/ the flexibility to delegate due diligence to an EU registered asset manager is countered by the retention of legal responsibly/ penalties by the delegating party; 7/ the reduction in Solvency II charges is unlikely to stimulate strong demand by insurers for IG mezzanine tranches; 8/ the implicit assumption of sufficient foreign demand for EU Mezz tranches is unjustified; better EU treatment for mezzanine tranches is needed; 9/ the failure to create a deep functioning EU securitisation market is likely be offset by the growth of the non-transparent and highly concentrated private credit.

If the above hurdles are overcome, more banks and insurers venture down the securitisation route, and at least a conditional capital relief is granted to mezzanine tranches, we believe the primary market will pick up volume and pace, and provide more financing to the EU economy. The higher issuance volume, the extension of due diligence documentation timing for secondary market trades and the improvement in LCR treatment for securitisation bonds would likely stimulate secondary market activity and boost liquidity.

This is the desired scenario, but there are many uncertainties to be addressed before the new EUSR is voted on, with timing unclear. Many details must be worked out once the new EUSR is adopted, for example the RTS for SRT, and new templates for public and private securtisations. Will the EU market have a fully functional and functioning new securitisation regime by 2027? Global capital markets are evolving rapidly and other countries are modifying their regulations to gain economic advantage. We believe that the risk of EU capital markets falling further behind is a close and real danger.