Relaunching the EU securitisation market

1. A partial and cautious reform fails to match the scale of Europe's financing needs

1.1 A welcome but insufficient proposal: ambition and political boldness are lacking

The Chair explained that European Commission proposal on relaunching the securitisation market includes a revision of the Securitisation Regulation and adjustments to the prudential treatment of exposures held by banks and insurers. Securitisation is a key instrument for bank capital management, risk sharing across the financial system and provision of funding for Europe's transformations but continues to be underused in the EU, particularly in comparison with other jurisdictions, such as the US, Japan, Canada and Australia. While broadly welcomed for addressing both regulatory and prudential dimensions, the proposal has been criticised for not being ambitious enough to reignite the market in a meaningful way.

An industry representative stated that the Commission's initiative is welcome, noting that it addresses several long-standing barriers to market development. Nevertheless, while the proposal includes many of the right elements, it ultimately does not go far enough. The desire to grow the securitisation market is not ambitious enough. Issuance in Europe, excluding the UK, is currently €90 billion per annum. The recent proposal will likely increase demand for triple-A and marginally increase demand for non-STS, with the market expected to grow to around €120 billion. However, a market of €300-500 billion per annum is needed to satisfy the demands of European transition, growth and defence.

An industry representative observed that the Commission has taken a cautious, compromise-driven approach rather than a bold one. The EU must take decisive action to improve the proposal in several areas.

A regulator remarked that the proposal is a policy compromise. The Commission has attempted to strike a balance between enabling market development and safeguarding financial stability and investor protection.

An industry representative commented that, although the proposal is a step forward, it has led to widespread disappointment among investors, particularly given high initial expectations for market revitalisation.

A public representative argued that the Commission's proposal lacks the boldness required to meet the EU's strategic financing needs. Although market participants are keen for the securitisation market to grow, this is not a policy objective. Policymakers value the market not for its inherent worth but instead as a tool to drive the European economy.

1.2 Political compromises undermine effectiveness and send weak signals to investors

An industry representative stated that a key concern is the introduction of punitive administrative sanctions for due diligence lapses, which do not exist in other countries and are redundant as existing disciplinary measures are applicable to those institutional investors. These sanctions would make the EU market unattractive and be a deterrent to investor participation.

A regulator suggested that, while larger market players may have expected more, the current proposal reflects what is currently feasible for policymakers. The legislative process involving the Council, Parliament, and trilogues could provide an opportunity for further progress.

A public representative noted that the recurring EU pattern of over-compromising at the drafting stage leaves no room for ambition once political negotiations begin. The proposal identifies the problem accurately but is not ambitious enough in the current economic and geopolitical context. The proposal is a compromise between effectiveness and political feasibility, and a different attitude will be needed going forward.

1.3 Europe's excessive regulatory caution deters market growth and weakens competitiveness

An industry representative highlighted Europe's continued aversion to securitisation, likening post-crisis regulatory conservatism to keeping planes grounded indefinitely after an accident. Overregulation has discouraged activity without solving underlying problems. Other jurisdictions do not have such a fearful attitude and have relaunched securitisation up to pre-GFC level after having addressed structural issues in line with recommendations from the Financial Stability Board (FSB) and international standard setters post-GFC. The irrationally risk-averse approach has not served the EU well in past years. The Commission's recent proposal is another example of this.

An industry representative noted that each positive measure appears to be offset by a constraint. For instance, the move to principal due diligence is counterbalanced by severe legal liabilities for delegating parties and the inclusion of securitisation in the liquidity coverage ratio is undermined by excessive haircuts.

A regulator cautioned that weakening prudential safeguards at a time of heightened macroeconomic and geopolitical risks would be unwise.

2. Prudential treatment remains a core obstacle, despite targeted improvements

2.1 Limited capital relief under CRR and Solvency II hampers investor participation

The Chair noted that the prudential aspects of the Securitisation Regulation are divisive. The Commission has introduced a new category of resilient securitisations. These would benefit from reduced capital charges, thereby avoiding preferential treatment limited only to simple, transparent and standardised (STS) positions. Questions remain around whether the relief is sufficient and whether the scope is broad enough to make securitisation attractive again.

A regulator stated that they oppose the reduction of capital charges under Solvency II for insurance investors. An analysis of market data found insufficient evidence to support this change. From the perspective of a prudential supervisor on insurance making this change without evidence would be unsatisfactory.

An industry representative remarked that the combination of overly prescriptive rules and underwhelming adjustments will likely limit the impact on investor appetite. The demand side of the equation is being ignored when considering market competitiveness. The investor must be included. The aim is not just to 'grow the size of the pie', but also to grow the size of each of the 'slices'. Growing investor demand will drive the supply side to find the best marginal capital for their businesses. As the market grows, liquidity grows. Market making will improve this liquidity. Increasing investor demand will ultimately support European growth and competitiveness.

An industry representative noted that capital charges for mezzanine tranches remain excessively high, which discourages insurers from investing. Depending on the rating of the duration, the capital charges could be 8 to 10 times higher than comparably rated corporate bonds

2.2 Recalibrating capital charges is essential to unlock insurance and banking demand

An industry representative commented that both technical adjustments, for example recalibrating CRR formulas for STS and non-STS tranches, and more substantive reforms, especially in the Solvency II regime and the treatment of subordinated tranches, are needed.

An industry representative advised that there should be a significant reduction in the p-factors used in the securitisation internal ratings-based approach (SEC-IRBA) and better alignment with the output floor under the standardised approach (SEC-SA). This will eliminate the excessive capital non-neutrality in the framework. Regarding insurance, capital charges under Solvency II should be recalibrated to align them with corporate bonds and loans of equivalent quality across the full risk spectrum, beyond just senior STS tranches.

An industry representative observed that disproportionate requirements disincentivise investment. Even for insurers that use an internal model, this model is based on the standard formula. The standard formula therefore has a disproportionate impact.

2.3 Simplifying rules is helpful, but does not address underlying disincentives

A regulator stated that specific elements, such as streamlined due diligence, enhanced transparency, reduced reporting obligations and the amendment of homogeneity requirements for STS pools from 100% to 70% were extremely welcome. Although it is understandable that market participants want more dramatic and far-reaching changes, these will come in time. This proposal aims to promote development of the securitisation market while also safeguarding financial stability and investor protection.

A regulator commented that the Commission's focus on easing due diligence and transparency obligations is appropriate and will potentially be effective.

3. Aligning EU rules with global standards is key to unlocking scale and competitiveness

3.1 Divergence from global frameworks generates complexity and investor reluctance

An industry representative emphasised the need for the EU to close regulatory gaps with other jurisdictions, particularly those where a deep and active market is already present, such as the US, UK, and Japan.

An industry representative noted that European investors have access to a significantly narrower investable universe. In practice, when building portfolios for EU clients, the company excludes up to 70% of the global securitisation market. This leads to less diversification, less liquidity and lower risk-adjusted returns, resulting in a suboptimal portfolio. The EU's approach, particularly to third-country due diligence requirements, risks isolating its investors further from global markets.

3.2 Broader eligibility and risk alignment needed for securitisation to scale

An industry representative advised that the range of eligible underlying assets should be expanded. In higher-risk segments where capital charges under the new formula are even greater than under current rules, adjustments are needed to preserve economic viability.

3.3 US experience shows the role of insurers and depth of mezzanine markets

An industry representative noted that, in the broad, deep and diverse US market, approximately 17% of insurance assets are invested in securitisations, mainly in mezzanine tranches rated BBB to AA. In the EU however, this figure is less than 1%. These numbers demonstrate the vital importance of the insurer bid to foundationally healthy securitisation markets. The presence of an active insurer bid in the mezzanine layer supports pricing and enhances the viability of the broader capital stack, including AAA tranches.

4. Securitisation must serve strategic EU goals, including SME financing and transition

4.1 Securitisation is essential but not sufficient: part of a broader Savings and Investments Union (SIU) agenda

A regulator observed that securitisation's potential to mobilise private capital and relieve pressure on bank balance sheets will be valuable but is only one part of a broader SIU agenda. Securitisation also creates the diversification that investors need and increases financial inclusion. The framework will support not only the large member states that are already part of the securitisation market, but also the smaller member states that need financing. This is especially important because small and medium-sized enterprises (SMEs) are concentrated in the smaller member states and need extra capital and not bank lending.

4.2 Mobilising private capital is key to reducing bank dependence and avoiding stagnation

An industry representative remarked that securitisation will provide the investment and credit formation that is essential for growth. The banking system alone cannot provide the necessary capital for the increasing level of financing needed for defence and GDP expansion. Capital markets and, in particular, securitisation, need to expand. The only other option to avoid a funding gap would be to grow the size of banks, which would increase systemic risks during downturns.

An industry representative noted that current regulations ensure that securitisation is a transparent, liquid and tradable instrument. Without a viable securitisation market, risk will migrate to less transparent and less regulated corners of the financial system. There is a view in Europe that securitisation is bad, regardless of the historical evidence. Securitisation is nothing more than a derivative of the underlying asset. Securitisation will not perform well if lending is bad. If lending is good, as it was during the financial crisis, securitisation in Europe performs well.

4.3 Smaller member states need tailored reforms to access the securitisation market

A regulator explained that, in Cyprus, the banking sector sells non-performing loans (NPLs) into asset management companies to remove them from their balance sheets, but securitisation is effectively absent. Securitisation could be a great opportunity, with benefits including transferring credit risk and freeing up banks' resources to enable them to lend more. Due to legacy issues resulting from the global financial crisis (GFC), the framework in Europe is conservative, costly and burdensome. This has led to the securitisation market being concentrated in a few EU countries. Measures in the Commission proposal should aim to facilitate market entry for jurisdictions where financial systems are dominated by smaller banks and SMEs.

5. The path forward: from marginal improvements to transformational change

5.1 Platform approaches and structural reforms should complement legislative updates

A public representative suggested that earlier proposals, such as creating a European securitisation platform to facilitate scale and standardisation, should be revisited. Radical solutions will be needed in order to grow the market to the extent required to finance Europe's aims.

5.2 A bolder and more holistic vision is needed to meet Europe's capital market ambitions

A public representative commented that, from a policymaker's perspective, growth in securitisation is justified only if it supports long-term competitiveness, investment, and economic sovereignty. The EU needs to radically rethink how it addresses barriers and avoid layering solutions, such as capital requirements, transparency and due diligence, in a way that compounds cost without resolving core problems.

The Chair summarised that, although the proposal provides a good basis for political discussion and is moving in the right direction, there is a general view that it requires significant strengthening to meet Europe's economic ambitions.

5.3 Rebuilding trust in securitisation is key to restoring a healthy, transparent market

A regulator observed that the crucial task is to 'enlarge the cake'. If the proposal results in insurers and pension funds investing more in securitisation but people are not convinced to channel savings, via pensions and insurance, into the capital market, the result is merely that some investment is moved out of government bonds or other instruments. If people do not invest more the 'cake' remains small and the massive investment in securitisation will not make a difference. The supervisory community is continuing to take a cautious stance. EIOPA will monitor market developments and intervene if necessary.

An industry representative highlighted the need to allow EU banks to play their part as active secondary market counterparts to deepen the secondary market. This will involve a much-improved treatment of securitisation senior positions in the banks' securities buffers. Banks should be market makers in the market and need to have working inventories.

A public representative commented that non-bank financial institutions (NBFI) growth is at least in part driven by a lack of an alternative, in particular in the securitisation space. Financial stability must be considered in a holistic way, rather than focusing analysis on specific subsectors, because everything is interlinked. If the EU fails to act decisively and holistically, it risks both a persistent funding shortfall and increased systemic risk through unregulated substitutes.