REVIVING THE EUROPEAN SECURITISATION MARKET

CHRISTOPHE BORIES

Assistant Secretary for Financial Services and Regulation – Direction Générale Du Trésor, Ministry of the Economy, Finance and Industrial and Digital Sovereignty, France

Securitization: going beyond the tradeoff between competitiveness and regulation

Regulation is often seen as balancing act between conflicting objectives. Applied to the subject of securitization, this perspective leads to the view that securitization is a mechanism that poses risks to financial stability but is profitable for banks and the financing of the economy, and that the regulator's goal should be to find a middle ground between the two. Given that the securitization market in the EU is at an extremely low level compared to other advanced economies, it can be argued that this balance has not yet been achieved and that an adjustment to ease constraints somewhat is necessary.

However, merely tweaking the prudential and regulatory constraints on securitization is not enough. The objective of policymaking should be more proactive: identifying where securitization is useful for the economy as a whole and boldly reform our framework to enable the development of such use cases.

The legislative proposal presented by the Commission last June is a significant step in this direction. It should not be reduced to a simple slight relaxation of constraints. For example, it identifies the key conditions for limiting the risks associated with securitization and, on this basis, creates a straightforward category — "resilient" securitizations — which provides an important alternative to the much more complex STS (Simple, Transparent, and Standardised) securitisation certification. The proposed review of the risk weight floors, to make them "risk-sensitive", is another measure that goes in the right direction by providing more adequacy between the prudential framework and the real risks of the transactions.

In addition, the proposal streamlines the regulatory requirements applicable to securitization, through a simplification of the obligations imposed on originators and investors. Many of those were overly detailed, thereby creating unnecessary frictions and discouraging broader market participation. By recalibrating due diligence and transparency requirements so that they are more proportionate to the actual risk profile of transactions, the proposal seeks to restore economic viability without compromising prudence. Crucially, this is not a deregulatory exercise: core safeguards will remain firmly in place, including the prohibition of re-securitisation, as well as risk-retention requirements, which continue to ensure alignment of interests and financial stability.

As discussions in the Parliament progress, and in line with the debates that have taken place in the Council, our objective should be to get an even more ambitious text. The relevant question to focus on seems to be: what are the most relevant use cases for securitisation in Europe, and how can we adapt our framework to enable their development? Loans to SMEs or for infrastructure projects are a prime example. Enabling their securitisation under the right conditions would increase banks' appetite to offer these essential financings, which are crucial for the EU's competitiveness and energy transition. However, the Commission's proposal, as initially drafted, risks to fail to improve sufficiently the framework for such securitisations. The Council has made some improvements. Let us hope that the Parliament will continue in this vein.

> **EU policymaking must seize concrete opportunities to safely unlock the financing our economy needs.**

Another example is the securitisation of very safe assets, such as mortgage loans or loans to highly rated companies. These assets are often already well financed. The challenge here seems to be to facilitate banks' ability to free up liquidity and capital when needed. This would help to make them more efficient, agile, and better able to continue providing essential services in the face of tough international competition. On this point, the Council failed to improve on the Commission's proposal, which itself seems insufficiently ambitious. It is therefore up to the Parliament to make the necessary changes to reflect the very low risks of these securitisations.

In seeking to distinguish between good and bad securitisation, we must be careful not to target the wrong enemy. For example, some people recently argued that synthetic securitisations—that is, securitisations where a bank transfers a portion of credit risk by insuring a tranche of its portfolio without transferring the assets themselves—are riskier than traditional securitisations.

However, this is in not supported by empirical evidence. Each approach offers specific benefits, provided they are properly structured and regulated. Synthetic securitisation, in particular, enables the targeted transfer of credit risk—especially on junior tranches— to investors better equipped to bear it, while often being simpler with roles more clearly distributed, and less costly to implement.

In the current context, EU policymaking must seize concrete opportunities to safely unlock the financing our economy needs. The securitisation package has made good progress in this regard. A few remaining obstacles still need to be overcome in order to send a strong signal for the rest of the SIU agenda.

STEFANO CAPPIELLO

Director General, Directorate V, Regulation and Supervision of the Financial System – Ministry of Economy and Finance, Italy

Unlocking Europe's investment capacity through a scaled securitisation market

Europe has faced a persistent underinvestment problem for more than a decade. Weak productivity growth, limited capital deepening and a strongly bank-centric financial system have all contributed to this outcome. While bank lending will remain a cornerstone of European finance, it is no longer sufficient on its own to meet the scale of investment required for the green and digital transitions, defence modernisation and strategic infrastructure. Closing this gap requires a broader set of financing channels, capable of mobilising private savings more effectively within the Single Market and of strengthening European capital markets through the development of a genuine Savings and Investments Union. In this context, a well-functioning securitisation market stands out as one of the most powerful tools available.

Securitisation enables risk to be distributed across a wider investor base, frees up bank balance-sheet capacity and channels additional funding to the real economy. Yet, despite these advantages, the European securitisation market remains structurally underdeveloped. Issuance volumes are well below those observed in other major jurisdictions and activity is highly concentrated in a small number of Member States. As a result, large parts of the Union have limited or no effective access to securitisation, constraining investment precisely in those regions where bank balance sheets tend to be smaller or more vulnerable to economic cycles.

Current regulatory discussions – covering more risk-sensitive capital treatment, streamlined disclosure requirements and more proportionate due-diligence rules – represent an important step in the right direction. However, regulatory fine-tuning alone will not be sufficient to bring the market to the scale Europe needs. Deep-seated structural barriers continue to limit growth, including the operational complexity of securitisation transactions, persistent market fragmentation and the lack of standardised, repeatable issuance channels that can support large volumes across borders.

A European securitisation platform could play a decisive role in addressing these challenges. Beyond gains in transparency and cost efficiency, such a platform would help reduce market concentration by allowing smaller and mid-sized banks – particularly those located in cohesion regions – to access securitisation on competitive terms. Today, fixed costs and technical requirements often make market access prohibitively expensive for these institutions. A common platform would lower these barriers and significantly broaden participation.

A European securitisation platform is key to scaling markets and mobilising investment.

By pooling assets and applying harmonised eligibility criteria, data standards and structuring practices, the platform would make securitisation viable for originators that currently lack sufficient scale. This would, in turn, expand the supply of investable assets for insurers, pension funds and other long-term investors, while supporting the emergence of a deeper and more diversified European investor base, better aligned with the financing needs of the real economy.

SME loans provide a natural starting point, given their relative homogeneity and their relevance across all Member States. Over time, the platform could be extended to include green assets, energy-efficiency portfolios and infrastructure-related exposures—areas where securitisation can meaningfully reduce funding costs and accelerate project implementation. Carefully designed European guarantees, applied on a temporary and market-compatible basis, could further enhance the quality of senior tranches and support the creation of a new class of high-quality European assets.

The costs of inaction would be significant. A persistently weak securitisation market would leave Europe overly reliant on bank balance sheets, slow the pace of investment, undermine the objectives of the Savings and Investments Union and perpetuate regional disparities in access to finance. At a time of heightened geopolitical tension, rapid technological change and unprecedented climate-related investment needs, this vulnerability is increasingly difficult to justify.

Reviving securitisation is therefore not a purely technical exercise but a strategic imperative. Regulatory improvements must be complemented by operational solutions, including a European securitisation platform that broadens participation, reduces fragmentation and allows the market to reach its full potential. Only through such a comprehensive approach can Europe mobilise the scale of private capital required to meet its long-term priorities and strengthen its economic resilience.

VASILIKI LAZARAKOU

Chair of the Management Board – Hellenic Capital Market Commission (HCMC)

Deepening Europe's financing capacity through targeted securitisation reform

In the recent years, drawing on the lessons of the global financial crisis, Europe has built an extensive regulatory framework for securitizations centered on enhanced transparency, mandatory risk retention, and rigorous due diligence. The introduction of the Simple, Transparent and Standardized (STS) label in 2019 was intended to clearly distinguish higher-quality, more straightforward transactions from the complex structures that characterized the pre-crisis era. Yet, securitization has never fully shed the reputational baggage associated with complexity and systemic instability, despite these significant reforms. Displaying this stigma will require sustained and constructive dialogue with the industry, enabling supervisors to understand, monitor and mitigate risks as securitisation markets evolve and new asset classes or schemes emerge.

Securitisation market is still operating below its former strength while the potential of securitization could support significantly the growth of the EU markets. The decision thus is clear: to revive the securitization market and the EU to move into a different stage — one defined by thoughtful, targeted adjustment rather than sweeping reform. The aim is straightforward: to strengthen securitization as an effective channel for funding and risk distribution, while avoiding a return to past excesses and keeping investor protection at the forefront. Policymakers are no longer debating its legitimacy; instead, their priority is to ensure it functions more effectively and investor protection is safeguarded.

On 31 March, the Joint Committee of the ESAs released its review of the Securitisation Regulation, following an intensive process led by the Joint Committee Sub-Committee on Securitisation that involved extensive engagement with market participants and supervisory bodies. The ESA report takes a technical and careful approach, drawing on several years of practical experience. It recommends clarifying important definitions - particularly the distinction between public and private transactions - streamlining disclosure and due diligence requirements, and aligning supervisory practices across jurisdictions. It also identifies areas where the framework could be improved to help develop strong and sustainable securitization markets in Europe.

The aim is to reduce unnecessary obstacles without weakening investor protection. For instance, while the report suggests easing certain investor due diligence requirements related to STS criteria, it also stresses the importance of strengthening supervision of those criteria and/or involving properly supervised third-party verifiers in transactions.

Done right, securitisation can boost EU investment and competitiveness.

The JC of the ESAs has identified supervisory issues that, if left unaddressed, could hinder the long-term revival of the securitisation markets, including: (i) fragmentation and reporting burden, (ii) cross-border coordination challenges, (iii) possible resource constraints and (iv) the need for further convergence in supervision.

On 17 June, the European Commission presented a wider legislative package addressing securitisation, bank capital requirements and liquidity rules. Both initiatives pursue simplification, greater predictability, and supervisory alignment, against the backdrop of an already intricate and compliance-intensive regime. The Commission's proposal is part of a broader strategy to channel EU savings into productive investments, a central objective of the SIU. The intention is to make Europe's financial system more effective in supporting the real economy, while safeguarding financial stability and maintaining investor trust. What is at stake is the way Europe finances its long-term development. Thus, securitisation can contribute meaningfully to broader policy priorities, including supporting the green and digital transitions, deepening capital markets, and distributing risk more efficiently throughout the financial system

But, a healthy securitisation market does not emerge automatically. It depends on transparent disclosures, robust due diligence and trustworthy supervision working together. As the market develops, investor protection must remain a core principle — confidence in the system relies on it.

With the right framework in place, Europe can unlock securitization's long-standing yet underused potential: a transparent and resilient and financing tool that protects investors while expanding long-term investment capacity. Achieving this will require effective and proportionate supervision – ideally, in my view, with ESMA as a single financial conduct supervisor - and a regulatory approach that supports Europe's competitiveness.

EDWIN WILCHES

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

Europe's securitisation challenge: why investors must come first

There is no shortage of political ambition in Europe when it comes to revitalising securitisation. Policymakers recognise its potential to support lending, diversify funding sources and strengthen capital markets. Yet despite years and many attempts at reforms, Europe's securitisation market remains stubbornly small. The issue is no longer whether securitisation matters — it is whether the regulatory framework is actually built to let it grow.

From an investor perspective, the answer today is still no.

PGIM has long argued, including in our 2024 *Reviving European Securitisation* paper, that Europe's framework places too much emphasis on process and too little on outcomes. The result is a regime that is complex and operationally heavy. This creates a chilling effect for many investors. If Europe wants a deeper and more resilient market, it must start by putting investors — not box-ticking — at the centre of reform.

The contrast with the UK is becoming increasingly stark. Through its recent securitisation consultation, the UK has made clear that it wants to regulate for growth as well as for risk. The direction of travel is unmistakable: fewer prescriptive rules, more reliance on principles, and a clearer focus on whether investors are genuinely able to assess and manage risk. In doing so, the UK is moving closer to normal global practices for regulating securitisation.

That shift matters. By streamlining investor due diligence and taking a more pragmatic approach to non-UK transactions, the UK is materially improving investors' ability to access global markets and diversify portfolios. Importantly, this is being done without lowering standards of investor protection. The message is simple: good regulation should enable informed investment, not get in its way.

The EU, by contrast, risks moving in the opposite direction. Despite acknowledging the need to revitalise securitisation as part of the Savings and Investments Union (SIU), recent reform proposals have not gone far enough in addressing the real constraints facing EU investors. In key areas — particularly third country due diligence — EU rules remain highly prescriptive and uniquely restrictive. As the UK aligns itself more closely with international regulatory norms, the EU increasingly stands out as a global outlier.

This matters because diversification is not a nice-to-have — it is central to sound risk management. Yet today, EU investors are effectively locked out of large parts of the global securitisation market. The burden of obtaining EU-specific disclosures from non-EU issuers often makes investment impractical or impossible, even where ample information and protections exist. The result is a much smaller opportunity set and weaker diversification for European savers.

The EU increasingly stands out as a global outlier.

Regulation is only part of the story. Securitisation in Europe also continues to suffer from a lingering postcrisis stigma. Many investors still view it as a "risky" or exceptional asset class, despite strong evidence of resilience and performance over time. Unfortunately, the regulatory framework reinforces that perception by treating securitisation as something fundamentally different — and more problematic — than other fixed income instruments. Under the current EU framework, investors can more easily gain exposure to complex derivatives with leverage and non-linear risk than to many securitisations.

If Europe wants broader participation, securitisation needs to be normalised. That means reducing unnecessary operational friction, aligning its treatment more closely with other asset classes, and allowing investors to focus on credit risk rather than compliance box-ticking. A simpler, more proportionate framework would do far more to support market confidence than layers of additional rules.

Europe still has a window to act – a few months probably. By embracing genuinely investor-centric reform — and by learning from the UK's move toward global regulatory norms — the EU can unlock capital, improve diversification and support the real economy. Without that shift, securitisation will remain under-used, and Europe's capital markets ambitions will remain just that: ambitions.

ALEXANDER BATCHVAROV

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

What can the EU learn from the US and Australian securitisation markets?

EU GDP is about 66% of the USA's and about 11 times bigger than Australia's. EU annual placed securitisation issuance is about a tenth of the USA's (excluding agency MBS) and double Australia's; EU MBS issuance is smaller than Australia's by a factor of 2.

US has agency MBS, which under EU regulations do not qualify as securitisations. Australia has mortgage covered bonds, subject to asset encumbrance limit, which is absent in the EU. In the US and Australia, non-banks play a prominent role in consumer asset securitisation, similar to the role of the EU banks. Unlike the US, Australia and the EU have small volumes of corporateasset securitisations.

The pre-GFC RMBS issuance was transformed into Agency MBS in the US and mortgage covered bonds in Europe, but has broadly been maintained in Australia with non-bank issuers' share now higher than that of banks. Private capital related securitisations play a big role in the markets of US and Australia, but a limited one in the EU. Annual issuance volume, a proxy forsecuritisations contribution to funding of the economy, has recovered and exceeded pre-GFC peaks in the US and Australia, but it still languishes at about a third of the pre-GFC peak in the EU.

Insurance companies and pension funds are large and consistent investors in the US and Australian securitisation, but their role is very limited in the EU. Unlike Australia, the US and the EU have developed synthetic securitisation, but while in the US it is a funded quasi-publictransparent market, in the EU it is usually a private unfunded risk transfer with no public disclosure.

Neither the US nor Australia have adopted the BIS guidance on STC* securitisation, while the EU developed a detailed STS* framework. The lack of STC securitisation did not affect market growth in the former; STS introduction did not bring a securitisation market recovery to the EU.

In the US and Australia, most of private securitisation regulations are principles-based, developed and enforced by the national supervisors; some aspects such as disclosure and reporting are developed by the industry. EU regulations are detailed, highly prescriptive, and imposed by legislation.

The above concise comparison of the US and Australian securitisation markets to that of the EU suggest that there are many easily transferrable features and practices from the former to the latter. But securitisation market development cannot be considered only in a securitisation market context; a capital markets level playing field matters.

Markets comparisons suggest easily transferrable securitisation practices from USA/ Australia to Europe.

Simplification of the regulatory frame-work is a good starting point. Regulation is a tax onsecuritisation activities, not imposed on other capital markets instru-ments. The just launched securitisation regulation consultation in the UK points the way to regulation amendments with-out compromising guardrails.

The industry can establish – together with the EU regulators – best market practices for due diligence and disclosure. That could eliminate multiple reporting templates and realign reporting with investors' and central banks' needs. Unpalatable as it may be, a bank asset encumbrance cap is positive for both systemic risk and capital markets. So would be a change in the execution format of synthetic securitisations.

A market needs buyers in competition to set realistic pricing. EU needs active participationof insurers and pension funds. Encouraging EU insurers to write protection on, say, BB/BBB tranched risk but preventing them from investing in AAA-BBB securitisation bonds is not a practice we have observed anywhere else. Neither have we seen regulations to discourageinvestors from the secondary market to the detriment of liquidity and price discovery.

Introducing an US-style agency model just when the US is considering privatising them is a possibility, but it needs justification, an implementation plan and time, which the EU economy and capital markets likely cannot afford at present. It may be much easier and more appropriate for the EU to facilitate non-bank lenders to meet borrower needs that banks no longer satisfy; securitisation is a part of the non-bank lenders' business model as we have seen in the US andAustralia.

Multiplicity of jurisdictions and formats was not a barrier to the EU securitisation market reaching annual supply of EUR300bn at its peak pre-GFC. It should not be a barrier today. The US and Australian securitisation markets are now at or above the pre-GFC peak issuance levels, proving financing of their national economies. Their regulatory and market practices point the way forward to the EU securitisation regulatory reform.

**BIS - simple, transparent and comparable (STC) securitisation;*
**EU – simple, transparent and standardised (STS) securitisation*

ANSGAR WEST

Managing Director, Global Head of Direct Credit – Munich Re

Dual role of insurers in securitisation: Europe's potential engine for growth

Europe's growth challenge is not a shortage of savings; it is a shortage of capital – more exactly, of risk-bearing channels that turn savings into bank lending headroom and productive investment. On 17 June 2025, the European Commission proposed its Securitisation Package, the first legislative initiative of the Savings & Investments Union (SIU), to simplify the framework, make it more risk-sensitive and shift credit risk from bank balance-sheets to capital markets. That diagnosis is right.

The economic rationale is straightforward. Securitisation with significant risk transfer (SRT) creates capital velocity, freeing scarce bank capital for new lending to households, SMEs and large corporates without diluting existing shareholders. This is the Package's policy backbone. But calibration matters. The new risk-sensitive risk-weight floor for senior tranches in the CRR is the flagship change, anchoring the capital rules in data rather than stigma. Its calibration should be coherent across four buckets (STS Resilient; STS Non-Resilient; Non-STS Resilient; Non-STS Non-Resilient) so the framework works with the grain of risk, not against it. The Council's consistency and Parliament's efforts to lower overly conservative floors point the right way. Trilogue should now deliver consistency and appropriate levels on the supply side.

On the demand side, (re)insurers invest under a liability-driven philosophy: assets must align with liabilities by duration, inflation sensitivity and currency, which limits flexibility. Non-life (re)insurers, facing volatile claims cash flows and catastrophe risk, must keep strong liquidity: assets prioritise high-quality, liquid credit such as government bonds, covered bonds, investment-grade corporates and senior tranches of traditional securitisations – while liabilities absorb sub-investment-grade and illiquid credit risk such as synthetic SRT.

The underuse of securitisation by EU (re) insurers is a policy gap, not a capacity gap:

- Getting market-risk calibration right is key to lifting the share of traditional securitisations; the Commission's proposal to align Senior STS with covered bonds in the Solvency II Delegated Act is a major step in the right direction. Life (re)insurers, with more predictable liabilities, should increase structural allocations to mezzanine (non-senior) tranches of traditional securitisations. This will need additional calibration improvements.
- The removal of barriers preventing non-life (re)insurers from providing unfunded credit protection with the STS label is one of the Package's major advances – but the details must ensure a diverse set of stable, long-term participants with deep global experience in unfunded securitisation. Insurers can remain integral to Europe's SRT ecosystem.

The underuse of securitisation by EU (re) insurers is a policy gap, not a capacity gap.

The motivation behind prudential and regulatory improvements in the Package for banks and (re)insurers rests not only on the strong performance record of European securitisations (which led to the STS label), but also on the recognition that many European senior positions are inherently 'resilient', provided that: (1) the underlying pool is sufficiently granular, (2) the tranche hierarchy is respected via conditional sequential amortisation, and (3) the senior tranche has thick credit enhancement (i.e., a high attachment point). These three good criteria target the true drivers of resilience.

Two additional criteria proposed in the Package would undermine the concept: a fourth, 'bad' one reserves the 'resilient position' idea largely for the supply side, excluding investors unless a deal is already STS; a fifth, 'ugly' one would require collateralising the credit enhancement in synthetic transactions – a feature with no bearing on the credit risk of a senior synthetic position. "The Good, the Bad and the Ugly" is a fine title for cinema, not for prudential design. A future-proof definition of 'Resilient position' should retain only the three good criteria, focusing on what actually protects senior tranches and avoiding foreseeable market distortions. Not every securitisation will, or should, qualify as 'Resilient', but with clear guardrails a majority of future issuance (STS and Non-STS) will, or should, qualify.

If Europe's traditional and synthetic securitisation markets grow materially, it will confirm the Commission can calibrate rules to deliver the outcomes Europe needs: deeper risk-sharing, stronger bank lending and broader institutional demand. With banks originating, markets distributing, this is the practical route to turn abundant policyholder savings from life insurance into lending and non-life (re) insurers bearing risk. In their dual role, Solvency II (re)insurers are long-term, stability-enhancing investors and credit underwriters whose appetite for housing-related, granular credit aligns with the EU's strategic autonomy, the SIU, and housing priorities. With modest fine-tuning, securitisation becomes a quiet, reliable engine of competitiveness in bank lending, not a headline-grabbing experiment.