

# Reviving the European securitisation market

## 1. Europe's underinvestment paradox: securitisation is the missing plumbing between abundant savings and a real economy starved of investment

### 1.1 A market six times smaller than the US and only a third of the way to pre-GFC recovery: the case for rejuvenation is undeniable

An official opened the session by pointing to significantly lower market volumes in the EU compared to the US and other non-EU regions as the core justification for the term 'reviving'. The topic is timely: in June 2025 the Commission delivered a proposal on the subject, ending years of stagnation. The Council adopted its position at year-end 2025; the focus now shifts to Parliament and the forthcoming dialogue.

A regulator framed the debate around three acknowledgements. The post-crisis framework was a genuinely important step, establishing a regulatory structure centred on transparency, mandatory risk retention and the simple, transparent and standardised (STS) label. Despite those reforms, securitisation has never fully shed its reputational baggage of complexity and systemic instability. Most critically, the market still operates below its potential: a deep and well-functioning securitisation system is a prerequisite for a savings and investment union (SIU) that can channel financing effectively toward the real economy. The challenge hinges on striking the right balance: simplifying wherever possible while maintaining robust safeguards.

An official characterised Europe's underinvestment as a paradox highlighted by the Noyer, Draghi and Letta reports: despite higher household savings rates than the US, Europe fails to deploy those savings productively. Excluding government-backed securitisation, the European market remains six times smaller than the US relative to GDP. An industry representative reinforced this: while the US and Australia have exceeded their pre-GFC levels in private-label and non-agency securitisation, Europe is only approximately one third of the way to recovery, and its synthetic market stands at barely half of pre-GFC levels. Even returning to pre-GFC metrics would represent a very strong contribution to banking, capital market development and the financing of the real economy.

### 1.2 A risk distributor, shock absorber and ecosystem mobiliser: securitisation is not a silver bullet, but a critical pillar for financing the transitions

An official described securitisation as the essential 'plumbing' — the connecting element between banking and financial markets. The task for regulators and supervisors is to build the channels that direct savings toward digitalisation, innovation, venture capital, the green transition and defence. Securitisation enables banks to free up capital, achieve better risk diversification, create new

asset classes aligned with risk tolerance, and act as a risk distributor and shock absorber. After the great financial crisis, regulation tightened considerably; that pendulum must now swing back — but not to the other extreme.

An industry representative stressed that securitisation's greatest strength lies in mobilising the entire ecosystem. It does not merely finance corporates: it reaches consumers, funds critical infrastructure, and supports SME lending, housing, defence and energy transition projects. It brings together banks, insurers, asset owners, asset managers and capital markets, enabling each to contribute its specific expertise. Banks originate and service loans; investors assess and manage risk; capital markets provide scale, liquidity, diversification and resilience. Securitisation is not a silver bullet for all of Europe's growth ambitions, but it is a critical pillar for achieving them.

### 1.3 The structural risk: replicating the RMBS/covered bond imbalance

An industry representative warned of a structural risk emerging from Europe's continued inaction. Private debt has grown from an estimated 10 billion in 2010 to approximately 2 trillion in 2025, a large share involving asset-based lending and finance. The collateral lost to covered bond issuance equates to more than 20 times the volume of prime RMBS issuance, and significant further collateral has migrated to private credit and direct lending. Europe now risks replicating the same structural imbalance it once created between RMBS and covered bonds — this time between asset-backed securities (ABS) and asset-backed lending (ABL).

An industry representative complemented this: securitisation is above all a universal instrument that frees up lending capacity for households, SMEs and corporates alike. The key priority is to finance the environmental, ecological, digital and demographic transitions across a broad range of activities. The objective is explicitly not deregulation; it is to make rules more risk-sensitive, more proportionate and better calibrated to safeguard financial stability, while maintaining the robustness that builds market confidence.

## 2. Rules too prescriptive and not proportionate to risk: EU investors effectively locked out of 70% of the global market

### 2.1 Excessive prescriptiveness increases costs for EU banks and restricts EU investors' access to global markets: a shift toward principle-based obligations is the priority

Another industry representative identified the over-prescriptive nature of the current framework as the root problem. Leaning on formal requirements rather than

principle-based obligations produces two tangible effects: it increases the cost for EU banks to execute securitisation transactions, and it significantly restricts EU investors' access to global securitisation markets. Non-EU issuers are generally unwilling to adopt EU-specific requirements such as ESMA reporting templates. International investors, meanwhile, simply operate outside the EU regulatory perimeter to avoid these obligations. The result is a loss of EU jobs and expertise in asset management, and a structural lack of global diversification for EU investors.

An industry representative reinforced this: EU institutional investors are effectively locked out of close to 70% of the global market — not because those assets carry greater inherent risk (non-EU eligible assets are currently performing strongly), but because the due diligence framework makes investment outside the EU extremely difficult and sometimes impossible. Another industry representative confirmed that the European framework is the most prescriptive and detailed of any major market, with a level of specificity frequently disproportionate to actual investor risk. Recent proposals from the UK's PRA and FCA point in the right direction; the EU risks falling further behind. The goal is not to remove guardrails, but to remove excessive prescriptiveness.

## **2.2 A playing field unbalanced in favour of covered bonds: disclosure gaps, unlimited asset encumbrance, due diligence paradoxes and the missing mezzanine investor base must all be addressed**

An industry representative identified four dimensions of the covered bond asymmetry. On disclosure, there is no comparability between the level required for covered bonds and for RMBS within the EU — a disparity absent in the UK and Australia, where standards are aligned. On asset encumbrance, the EU imposes no limits, allowing banks to encumber up to 50% of their balance sheet to support covered bond programmes, redirecting their best assets from unsecured debt; Australia, Canada and the UK all set explicit limits. The Netherlands illustrates the scale of the shift: broadly comparable RMBS and covered bond issuance in 2006 has become near-total dominance of covered bonds today.

On due diligence, the EU framework imposes penalties on securitisation with no equivalent elsewhere: under current rules, analysing a CCC-rated portfolio requires less reporting than analysing an AAA-rated primary RMBS portfolio — a paradox that penalises the highest-quality assets. Finally, without recovering the mezzanine investor base in Europe, restarting the market will be impossible. The UK mini-budget crisis of September–October 2022 is instructive: UK pension funds sold large volumes of Australian ABS and RMBS paper, and only the immediate presence of domestic buyers in Australia prevented serious spread widening. For strategic autonomy, Europe cannot rely on a purely foreign mezzanine investor base.

## **2.3 European insurers allocate 3% of AUM to securitisation versus 17% for US insurers: restoring a deep investor base requires removing barriers, not guardrails**

The industry representative underlined the disparity: European insurers allocate on average only 3% of assets under management to securitisation when using

internal models, and just 0.5% under non-internal models, compared with 17% for US insurers. Australian pension and superannuation funds are similarly active. Restoring active participation by pension funds and insurance companies is the first structural priority for the European market.

Another industry representative provided a compelling benchmark: in the US mortgage credit risk transfer (CRT) market managed by Fannie Mae and Freddie Mac, regulation explicitly accommodates unfunded risk transfer to insurers. Since inception, 70 insurers have participated, now accounting for approximately 30% of the market, creating significant depth, competition and resilience. In the EU, by contrast, insurance participation in significant risk transfer (SRT) remains below 10%, with only around 15 insurers involved. The current reform rightly proposes to address this imbalance, but certain proposed safeguards risk inadvertently narrowing the investor base rather than broadening it, increasing concentration and EU reliance on non-EU credit funds. An industry representative confirmed that low allocation levels signal not a lack of interest but an accumulation of regulatory barriers making meaningful participation uneconomical, and called for placing insurance companies, UCITS funds and long-term institutional investors at the centre of the debate alongside banks.

## **3. A package moving in the right direction but requiring critical adjustments before the triologue**

### **3.1 Paradoxically penalising the highest-quality assets: risk weight floors, ERBA tables, variable coefficients and ABCP treatment must be corrected**

An industry representative acknowledged that the proposal is moving in the right direction but stressed that several technical parameters require fundamental revision. On risk weight floors for non-rated corporates and SMEs, the Commission's proposal increases floors by 18%, and the Council's proposal offers only partial improvement; in fact, for this category, the status quo would be preferable to the current draft text. On low-risk assets such as residential mortgages, the current framework renders securitisation economically unviable precisely because these assets are too safe: legislative floors do not allow risk to be sold at a cost of RWA release that makes economic sense. A genuinely risk-sensitive framework requires lower floors for lower-risk assets.

On corporate and SME securitisation, the external-ratings-based approach (ERBA) tables must be modified to improve the treatment of the highest credit ratings, which are currently penalised. Without these amendments, the proposal would result in higher risk weights than today, particularly through asset-backed commercial paper (ABCP) programmes — the very asset class that provides immediate liquidity to corporates and benefits SMEs throughout the value chain. Variable floor coefficients also need further reduction. On UCITS, certain Members of the European Parliament have proposed raising the investor concentration limit from 10% to 17%, which would risk

enabling large managers from third countries to build dominant positions and damage market liquidity; the Commission's more proportionate adjustment to 15% should prevail.

### **3.2 Insurance integration works in theory but not in practice: aligning Solvency II, STS and CRR-LCR eligibility remains achievable in the dialogue**

An industry representative confirmed that the political intention is sound, but that the interaction effects between Solvency II, solvency capital requirements (SCR), the STS framework and the liquidity coverage ratio (LCR) could collectively continue to block effective insurance demand. On the Solvency II asset side, punitive post-GFC capital charges pushed European insurers out of traditional securitisation. The delegated act represents a positive step, aligning senior STS assets including prime RMBS with covered bonds and unlocking capacity for life insurers, but Mezzanine STS and all non-STS positions remain excessively penalised. If the CRR were to introduce the concept of a 'resilient position', this would provide the natural mechanism to revisit Solvency II calibration beyond senior STS and align it with actual investor risk.

On STS eligibility and the liability side, non-life insurers could free up bank capital through unfunded credit protection and synthetic SRTs without impacting their own liquidity risk as part of the asset liability management. The Commission is right to intend to recognise this channel, but proposed safeguards inadvertently exclude well-capitalised existing providers, producing a framework that works in theory but not in practice. Two principles must guide eligibility design: strategic autonomy — underwriting entities should be EU-based — and workable eligibility assessed at group level under solvency-equivalent regimes, with the resilience test focused on relevant topics such as granularity and the thickness of the junior tranche rather than on bolt-ones such as collateralisation that do nothing for senior risk. Consistently applying risk-sensitive flows across STS and non-STS, and recognising liquid senior tranches under LCR, would reduce friction and support two-way markets. The industry

representative expressed optimism about the EU Parliament's direction, noting that the necessary alignment still remains achievable in the dialogue with all involved parties being sufficiently ambitious and willing to listen to key stakeholders.

### **3.3 A transformative element, not a nice to have: a European platform with harmonised standards and temporary guarantees as an accelerator trigger for market development**

An official reiterated that securitisation is fundamentally a mechanism for transferring risk to those best placed to bear and manage it and cautioned that securitisation is inherently complex because efficiency requires it to be — simplification has real limits. To build a genuinely Europe-wide securitisation market, regulators, policymakers and development banks must work together to create a platform that draws in member states not currently active in the market and small banks that remain intimidated by the process. Such a platform would establish harmonised eligibility rules and data standards and develop common structuring practices to increase participation on both the supply and demand sides. This is not a 'nice to have': it is a transformative element that belongs in the recipe for a larger European securitisation market. Implementation must be European, not national — otherwise the target will be missed entirely.

Temporary, market-compatible European guarantees targeting specific asset classes — SME lending, green assets, energy-efficient projects and defence — could serve as the accelerator trigger needed to overcome initial market failures and collective action problems. Once the market reaches a self-sustaining level of activity, public support can be withdrawn. Italy's experience with non-performing loans offers a relevant precedent: the state established a guaranteed-backed system with DG COMP-ratified market terms, then discontinued it once the market was functioning efficiently on its own.