It is not often that the Bank of England and European Central Bank feel sufficiently exercised about a problem to issue a joint statement. Recently they did, and what was on their minds was the anaemic state of the market for European securitisation – the financing technique whereby income streams from mortgages, auto, consumer and business loans are packaged by banks into securities and bought by investors.

Last month’s joint statement read: “Securitisation, if appropriately structured and regulated, can complement long-term wholesale funding sources for the real economy, including for small and medium-sized enterprises.”

Issuance of asset-backed securities has been shrinking in Europe. Total issuance in 2013 was €181 billion, down 28% on 2012 and well below pre-crisis levels.

The Association for Financial Markets in Europe, which represents the leading global and European banks and other significant capital market players, has found this trend is continuing. Our statistics show that in the first quarter of this year, the volume of placed issuance fell to €13.6 billion.

In this context, the high-level statements of support from central banks and policymakers are very welcome. But when the day-to-day reality of regulation is examined, the picture is still one of heavy calibration and overly broad scope.

Here are five suggestions to address what still needs to be done to bring the market back to life.

1. Risk-weighted assets

In December 2013, the Basel Committee on Banking Supervision issued a re-proposal of its rules for risk-weighted assets for bank investors in securitisation. This is a significant improvement on the original proposal, yet the capital requirements set out in the re-proposal are still unjustifiably high. The record of European securitisations through and since the crisis has been very good. According to Standard & Poor’s, the cumulative default rate on European residential mortgage-backed securities from mid-2007 until the third quarter of 2013 was just 10 basis points.

What is needed is a recalibration of the proposals to reflect the good historic performance in Europe, and to bring securitisation into line with other fixed income securities and underlying asset pools.
2. Capital requirements

The European Insurance and Occupational Pensions Authority issued a report at the end of 2013, outlining capital requirements for insurance companies seeking to invest in ABS. Again, there were positive aspects to the proposals; for example, Eiopa cut its original calibration for AAA high-quality securitisations from 7% per year of duration to 4.3%. This looks like a significant reduction, but the level is still too high. The contrast with direct investments in a “whole loan” portfolio, rather than in the form of a securitisation, is striking. In many such cases, even though the assets are the same, the capital requirement for direct investment is zero.

Our case is for still lower capital charges to create, at the very least, a comparable playing field with other fixed income securities such as corporate and covered bonds, and direct investment in the same assets.

3. Liquidity coverage ratio

The European Banking Authority’s report on the liquidity coverage ratio generally treats ABS poorly; only RMBS, subject to certain conditions, are suggested for inclusion as high-quality liquid assets. We are arguing for the inclusion of a wider range of assets as high-quality liquid assets.

4. Transparency and disclosure

Standards of transparency on European securitisations have always been good. Yet regulations continue to be proposed that create duplication, confusion and intrusion into the free choices of issuers and investors, further hindering the revival of the market.

5. Practical steps

The recent announcement by the International Organization of Securities Commissions and Basel Committee of a joint working group “to look at how the securitisation markets are working, and to see whether new thinking is needed” is very welcome. But again, such encouraging statements from high-level policymakers need to be translated into positive developments on the ground – in all of the fields referred to above.

This is a pivotal year for European securitisation. Sensible outcomes on capital, liquidity and transparency are within reach. The right regulatory choices will enable securitisation to play its full role in funding Europe’s real economy, strengthening our capital markets and broadening the investor base to support our banking system.

--Simon Lewis is chief executive of the Association for Financial Markets in Europe