Europe needs stronger capital markets to serve the real economy and fill the funding gap caused by regulatory constraints affecting banks’ lending, according to a new report from the Association for Financial Markets in Europe (AFME).

The report on *High-quality securitisation for Europe* comes out as policymakers and central banks are increasingly calling for the revival of the European securitisation market to unlock vital long-term financing and fuel growth. The latest such call is a joint paper by the Bank of England and the European Central Bank (ECB). Despite these high-level statements, there is now widespread recognition that the final regulatory framework risks preventing the market from flourishing.

"High-level statements of support from central banks and policymakers are extremely welcome,” comments Simon Lewis, AFME Chief Executive, “but they need to be translated into positive developments in the reality of regulation. AFME is calling for urgent coordinated action by European policymakers to reconsider the treatment of securitisation."

The call comes as key regulators, policymakers and the structured finance community are getting ready to meet at the Global ABS 2014 conference organised by AFME and the Information Management Network in Barcelona on 10-12 June.

**Five practical steps to revive securitisation**

In order to save Europe's securitisation market, AFME proposes a five step action plan:

- Recalibrate the rules for risk-weighted assets for bank investors in securitisation set out in the December 2013 Basel Committee re-proposal, so as to reflect the good historic performance in Europe, and bring securitisation into line with other fixed income securities and underlying asset pools
- Lower the capital charges for insurance companies seeking to invest in securitisation, set out in the December 2013 EIOPA report, to create a comparable playing field with other fixed income securities such as corporate and covered bonds, and direct investment in the same assets
- Include a wider range of high quality securitisations as High Quality Liquid Assets under the Liquidity Coverage Ratio. Until now only certain types of RMBS have been proposed for eligibility
- Acknowledge the progress already made in improving transparency and disclosure, build on this work, and avoid new and intrusive regulations that are not aligned with existing practice and which create duplication and confusion in a market which already has very high standards of transparency
- Ensure better coordination between regulators and internationally to prevent the "layering" effect of overlapping regulations and promote mutual recognition of equivalent standards
An attractive yet shrinking market

Despite the strong fundamentals of European securitisation, with default rates of only around 1.4% between mid 2007 and Q1 2013, compared to 17.4% in the US according to Standard & Poor’s, regulatory uncertainty and broader macro-economic issues are causing the market to shrink in Europe. According to AFME statistics:

- For the first quarter of 2014, the volume of placed issuance fell to only €13.6 billion
- In 2013, total issuance in Europe was €181 billion – a fall of 28% from 2012
- Less than half of this, only €76.4 billion, was placed with investors, as the rest was retained by issuers (and used for repo purposes with the ECB or national central banks)

If securitisation regained even the issuance volumes of a decade ago, this could release up to €150 billion a year of funding for Europe, and this figure could be even larger with the right regulatory choices.

About Global ABS 2014

 Initiated in 2012, Global ABS is an annual conference focused on ways to rebuild the European securitisation market to deliver sound growth and performance. The speakers at this year’s event include key representatives of central banks and the regulatory and policymaking community, such as Yves Mersch, Member of the Executive Board of the European Central Bank, and Adam Farkas, Executive Director at the European Banking Authority, as well as decision-makers from the banking and asset management industry in Europe.

In AFME’s report, representatives of key sectors of the economy – including the car industry, small and medium-sized enterprises (SMEs) and mortgage lenders, have joined with investors to voice their concerns over access to capital and to call for a well-balanced regulatory treatment.

Visit the event [website](#) and follow the conference live on @news_from_afme.

The report on *High-quality securitisation for Europe* is available [here](#).

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Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, [www.afme.eu](http://www.afme.eu)

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