
Press release

AFME comment on the Delegated Act for Solvency II adopted by the European Commission

10 October 2014

Commenting on the adoption by the European Commission of a Delegated Act containing implementing rules for Solvency II today, Sidika Ulker, Director, Capital Markets at the Association for Financial Markets in Europe (AFME), said:

“There is much to welcome in the proposed Solvency II Delegated Act. To start with, this is the first official recognition by both the European Commission and EIOPA that high quality securitisation should receive a more favourable regulatory treatment. In addition, the Delegated Act deliberately seeks consistency with related regulations such as the definition of High Quality Liquid Assets for bank investors. Consistency is key in this context.

“While these are positive steps, unfortunately key provisions of the Delegated Act mean that insurance companies will remain disincentivised to invest in high quality securitisation, which helps fund the real economy, for the following reasons:

- The charges for type 1 securitisations (AAA-rated), despite having been substantially reduced, remain too high: securitisation spreads will not be sufficient to make investments attractive once the capital charges are applied.
- The classification of all non-senior tranches as Type 2 securitisations creates severe cliff effects between the capital charge treatment of senior and non-senior securitisations. For example, the senior tranche of a 5-year AAA-rated RMBS would receive a capital charge of 10.5% and the non-senior would receive a charge of 67%. This distortion is even more marked for securitisations which require greater credit enhancement, such as SME securitisations.
- The concept of look-through, which aims to cap the capital charges for Type 1 to be no greater than 3% (the charge of underlying loans), will not be effective for mortgages. Direct investment in pools of mortgage loans will continue to receive significantly lower capital charge treatment, creating adverse investment incentives. For example, a 5 year AAA-rated RMBS will receive a capital charge of 10.5%; however, direct investment in a whole loan pool comprised of the same mortgages will receive a capital charge of just 0-3%.

“Further, we believe, as the ECB and Bank of England have recognised, that if a securitisation is high quality, the whole transaction (not just the senior tranche) should be treated as such. We very much hope that the European Commission will review the treatment of securitisation at the first possible opportunity in order that Solvency II may truly achieve the broader objective of reviving the high quality securitisation market to help support growth in Europe.”

-ENDS-

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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
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