
Press release

AFME comments on STS securitisation vote: Europe risks losing a vital financing tool

8 December 2016

Following the vote on the Simple Transparent and Standardised (STS) Securitisation package, announced today in the European Parliament, Richard Hopkin, Head of Fixed Income at AFME, said:

“As the trade association that represents all the leading industry participants in European securitisation markets - including originators, sponsors and issuers, underwriters, investors - we welcome the fact that the European Parliament and Council have now endorsed the establishment of an STS framework and that MEPs support in principle the introduction of a regime for both third country STS securitisations and for non-EU participants.”

“However, we are concerned that many aspects of the proposals run counter to the objective of reviving securitisation in Europe and, if adopted as currently proposed, will discourage the use of securitisation as a funding and risk transfer technique. Unless these concerns are addressed in the trilogue discussions, this key component of the Capital Markets Union will not succeed.”

European securitisation has performed very well through and since the financial crisis. Yet with issuance in Europe as low as EUR40.2bn at the end of Q3 2016, the market remains moribund – largely because of the lack of a level playing field with similar fixed income products created by punitive regulation which does not recognise this strong performance.

If key provisions of the final text of the Parliament’s compromises are not significantly recalibrated then all securitisation – not just STS securitisation - will become prohibitively burdensome in Europe, the STS framework is likely to fail and securitisation as a whole – whether STS or not – will not be able to provide much-needed funding to the real economy.

In particular, the following key areas should be addressed:

Capital and “proxy data”: allowing European banks to use proxy data will help to reinforce a true Capital Markets Union by opening up a much wider range of potential investors across Europe and establishing a more level playing field globally;

Proper recognition of private transactions: including appropriately adjusted, yet prudent standards for disclosure for private transactions, which play a key role for businesses and consumers, is key;

Transparency: standards of disclosure in European securitisation are already very good and much better than for other fixed income products. The market is not failing to revive because of shortcomings in disclosure. Proposals for controversial new requirements like investor name-give up will further dissuade investors and increase costs for issuers, as well as risk conflict with already existing and well-functioning regimes and regulations;

Restrictions on market participants: permitting only regulated entities to undertake securitisation will reduce rather than expand the use of this technique and exclude many real economy corporate issuers from

the market. Allowing only institutional investors to participate will concentrate, not diversify, risk - and risk damage to financial stability;

Risk retention: increasing risk retention for all securitisations, not just STS, will damage the efficiency of securitisation as a funding tool and make it more difficult for banks to transfer risk, thereby reducing their ability to lend to the real economy. Further, for some sectors of the market, such an increase poses an existential threat. These changes to prudential regulation are being proposed in the absence of any evidence supporting change, without any impact assessment and in the face of opposition from the ECB, the EBA and the European Commission - as well as the industry. They should be dropped – the existing regime has been reviewed many times over the years, and shown to work well.

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About AFME:

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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