
Press release

AFME says potential for green securitisation is huge

11 September 2019

AFME has today published a new paper outlining the key factors needed to boost the growth of a green securitisation market in Europe.

While demand for green securitisation bonds is still relatively low, many institutional investors have increased their commitment to investing in green assets and AFME members are also seeing an increasing number of queries around green securitisations. AFME therefore expects this market to grow considerably in the near term.

Anna Bak, Associate Director of Securitisation at AFME, said: *“There is huge potential for green securitisation to help expand environmentally sustainable investments in the short term. Green securitisation could play an important role in helping to achieve the EU’s 2030 climate and energy targets by financing deals and investment in low-carbon assets, which would help to close the investment gap estimated at EUR 180 billion per year. However, there is still more work to do to help make this market more attractive and user-friendly for investors.”*

According to AFME’s paper, the following factors will be key to the future growth of the green securitisation market:

- **Clear definition**
A simple and clear definition of green securitisation will help to encourage the market to develop more quickly. More work is also needed on more systematic reporting and the tracking of underlying data to make green securitisation more tangible for investors;
- **More political support and regulatory and financial incentives**
The introduction of regulatory and other initiatives will be fundamental to support the growth of the green securitisation market. For example, the introduction of improved regulatory capital treatment for Green Securitised Bonds or tax incentives (at national level) for investing in green securitisations would help to promote green securitisation to all securitisation investors, not only those with a green mandate.
- **Establishing green eligibility criteria**
Green securitisation transactions will need to contain green eligibility criteria in order to police the green credentials of the underlying collateral upfront to ensure investments are genuinely sustainable and to avoid “greenwash”.
- **Considering the evolution of green technology over time**
As standards evolve over time a transaction originally considered to be green could lose its green status, which would impact pricing and liquidity in the secondary market. Ongoing reporting and transparency where standards have changed on legacy transactions will therefore be important. Therefore, any regulatory capital or similar incentives introduced for green securitisations should include grandfathering for legacy transactions that have ceased to be considered green over time as a

result of the evolution of technology to mitigate any sudden detrimental impact on pricing and liquidity in the secondary market.

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AFME Contact

Rebecca Hansford

Head of Media Relations

rebecca.hansford@afme.eu

+44 (0)20 3828 2693

About AFME:

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. 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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