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## Press release

### AFME Survey on the Liquidity Coverage Ratio (LCR) shows revision of treatment of securitisation is needed to restore market

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The Association for Financial Markets in Europe (AFME) has today published the results of a survey undertaken to examine bank treasuries' asset allocation drivers in relation to securitisation. The results of the survey demonstrate, amongst others, how various regulatory constraints prevent bank treasuries from fully utilising securitisation as part of their liquidity stress buffer.

AFME has been advocating for the revision of the treatment of securitisation under the LCR and has consistently cautioned against drawing definitive conclusions about market participants' appetite for securitisation based solely on the current (low) levels of investment activity. The LCR, which forms a critical part of the EU securitisation prudential framework, can play a key role in assisting the restoration of the EU securitisation market, if properly calibrated.

Key findings of the survey are:

- Of the 25 respondents, 80% invest in securitisation in general and 80% of those invest in securitisation for High Quality Liquid Assets (HQLA) purposes.
- Reduced appetite for securitisation for HQLA purposes is predominantly due to regulatory constraints, such as haircut levels, LCR eligibility criteria and limited eligible asset availability.
- The sovereign debt crisis, Covid-19 and UK's Liability-Driven Investment (LDI) crisis are all recent liquidity stress events which affected respondents' HQLA books.
- Mixed views on ABS' liquidity were expressed, likely driven by a recognition that on the one hand, lack of supply and reduced investor base create a shallow secondary market, whilst on the other hand, an investment grade floating rate product can be a strong source of liquidity in certain stressed scenarios, such as the UK's LDI crisis during which ABS proved to be very liquid.
- Lastly, respondents noted that the following factors would facilitate future investments in ABS, namely (a) better treatment of securitisation under the LCR; (b) increased issuance; (c) better return on regulatory capital; and (d) a larger investor base.

Speaking on the opening day of [Global ABS](#), the largest annual gathering of the securitisation industry and policy makers taking place this week in Barcelona, **Adam Farkas, Chief Executive of AFME**, said: *"In recent months, it has become clear that European policymakers recognise the vitally important role that securitisation needs to play in order for Europe to remain competitive and to be economically prosperous. The results of the survey give insight into one facet of the challenges arising from non risk sensitive prudential frameworks. This is just one of a package of reforms needed to foster the return of a healthy securitisation market, which is needed to support the significant funding needs of Europe in over the coming years".*

**Shaun Baddeley, Head of Securitisation at AFME**, added: *"It is clear from the survey that lack of appetite by bank treasury functions for securitisation post implementation of LCR is directly linked to the overly onerous requirements and haircuts applied to the product in LCR and indirectly linked to the impact of overarching*

**Association for Financial Markets in Europe**

**London Office:** 39<sup>th</sup> Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

**Brussels Office:** Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

**Frankfurt Office:** Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany T: +49 (0)69 153 258 963

[www.afme.eu](http://www.afme.eu)

*securitisation regulation upon supply and demand. It is important we find regulatory solutions that ultimately create the right conditions for the return of a vibrant securitisation market."*

AFME this week also published its Q1 2024 Securitisation Data report. Key findings include:

- In Q1 2024, EUR 60.7 bn of securitised product was issued in Europe, an increase of 43.8% from Q4 2023 and an increase of 69.2% from Q1 2023. Of the EUR 60.7 bn issued, EUR 33.3 bn was placed, representing 54.9% of the total, compared to 67.3% of issuance in Q4 2023 and 55.4% of issuance in Q1 2023.
- Outstanding volumes (including CLOs) increased to EUR 1162.4 bn at the end of Q1 2024, a decrease of 1.5% QoQ and an increase of 2.4% YoY.
- Credit Quality: In Europe, upgrades comprised 87% of total rating actions by the main CRAs during Q1 2024, down from 90% of total rating actions during Q4 2023.
- STS issuance: In Q1 2024, EUR 14.4 bn of securitised product was notified as STS to ESMA and the FCA, representing 23.7% of the total issued volume in Q1 2024 (EUR 60.7 bn). Out of the EUR 14.4 bn in STS issuance, EUR 11.7 bn was placed, representing 35.1% of total placed issuance in Q1 2024 (EUR 33.3 bn).

AFME's [LCR Securitisation Survey](#) and [Q1 2024 Securitisation Data report](#) are both available.

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#### **AFME Contacts**

Rebecca O'Neill

Head of Communications and Marketing

[Rebecca.oneill@afme.eu](mailto:Rebecca.oneill@afme.eu)

+44 (0)20 3828 2693

#### **Notes:**

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). Follow us on Twitter [@AFME\\_EU](https://twitter.com/AFME_EU)