Commission Legislative Proposal – Capital Impact Analysis

July 2025

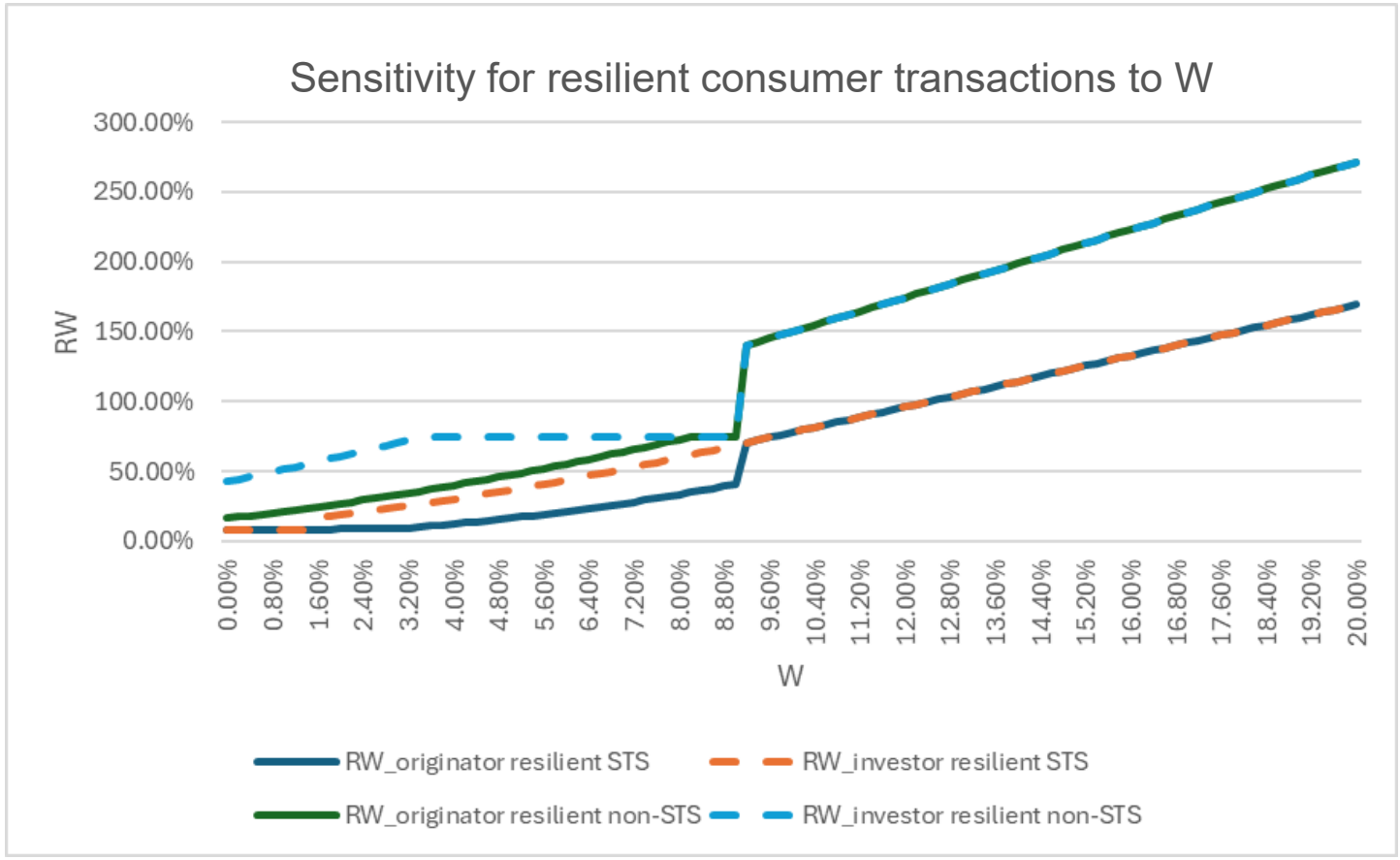
Preamble

- This impact analysis focuses on banks using the Standardised Approach for securitisation (SEC-SA) in roles as originator, sponsor and investor. The scope of transactions intends to cover both cash (traditional) and synthetic (SRT) transactions
- This analysis assesses the impact upon the capital of the senior securitised exposure from the interaction of the following elements – the revised “Senior” defined term, the concept of “Resilient”, the introduction of the Risk-Sensitive Risk Weight Floor and the revisions to the P Factor – to changes in delinquencies in the securitised portfolio and changes in credit enhancement to the securitised senior tranche.
- The objective of this analysis is to assess any cliff effects for banks arising from the introduction of these definitions and subsequent instability in the prudential framework.
- We have referenced a consumer portfolio within this analysis. Whilst we would expect similar effects to be observed when analysing wholesale portfolios, there is merit in analysing relative sensitivity across the array of securitised products to develop a comprehensive picture.

Preliminary findings

- In the majority of base case scenarios reviewed for banks securitising standardised portfolios under SEC-SA, the combined effect of the CRR-related proposals from the Commission are generally supportive of their objective of improving risk sensitivity to the Bank Prudential Framework.
- In certain cases, the effect of these reforms is to create limited prudential instability over an exposure's lifetime. AFME's view is that these unintended consequences can be addressed with specific adjustments to the proposals.
- One such example would be an institution that uses traditional securitisation for funding purposes rather than for risk transfer. Tranching of these transactions is derived from the institution's historical loss experience rather than the portfolio risk weight. As such, where losses have historically been very low, the most senior tranche may attach below Ka.
- AFME's proposals to mitigate any prudential instability arising from these proposals can be found here.

Impact for resilient transactions of an increase in % portfolio delinquencies



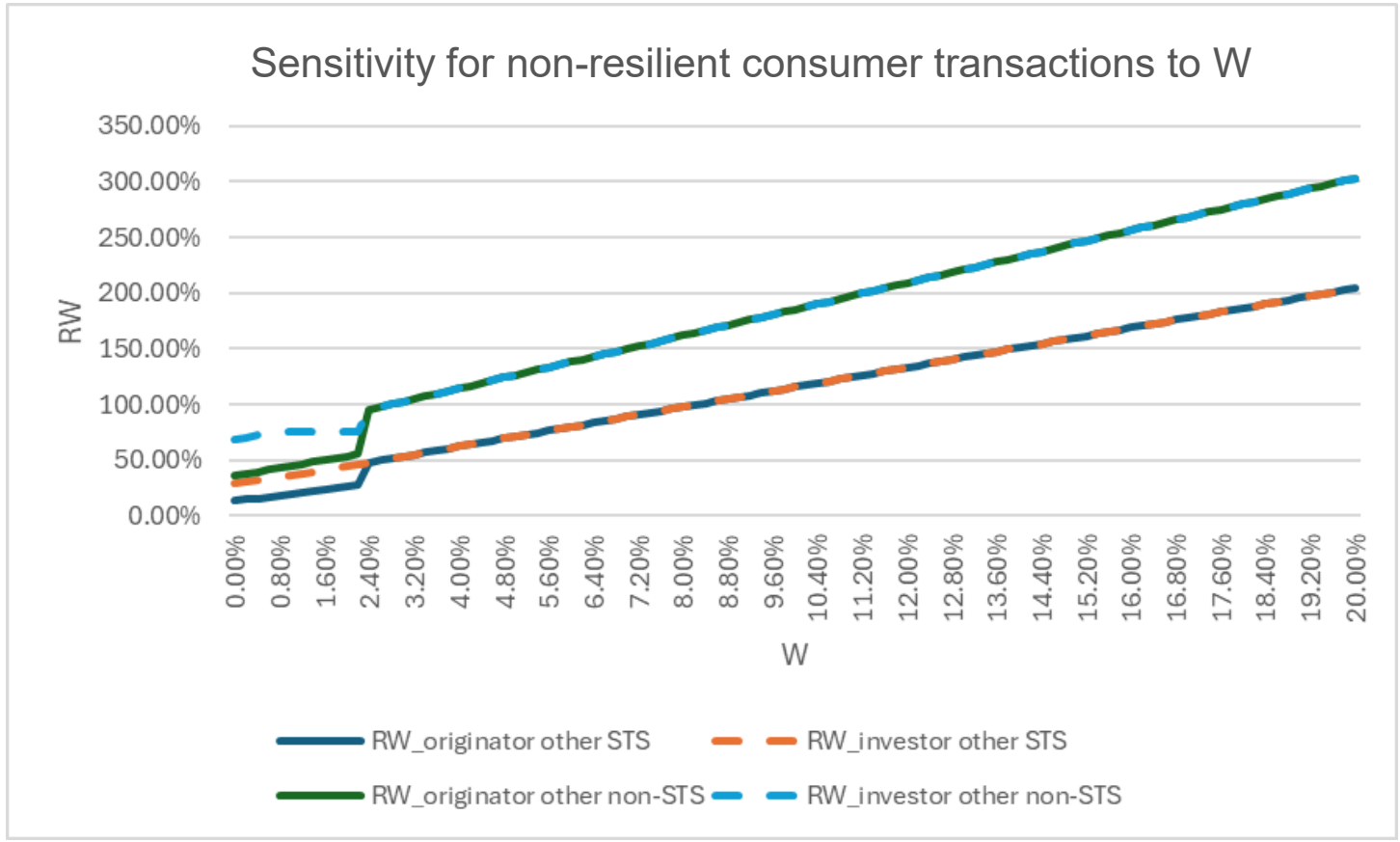
Inputs

- Consumer portfolio: 75% RW
- KSA: 6%
- Senior Attachment Point (SAP) Test: 6%
- Resilient Attachment Point (RAP) Test: 9%
- Credit Enhancement (CE): 10%

Comments

- Senior exposure at T=0 therefore is eligible to be both Senior and Resilient
- As delinquencies increase above 1.5%, transactions cease to be Resilient, with the effect of doubling RWs for banks acting as investor on STS transactions
- As delinquencies increase above 9%, the transaction ceases to be Senior, with the effect of near doubling RWs for banks acting as originator

Impact for non resilient transactions of an increase in % portfolio delinquencies



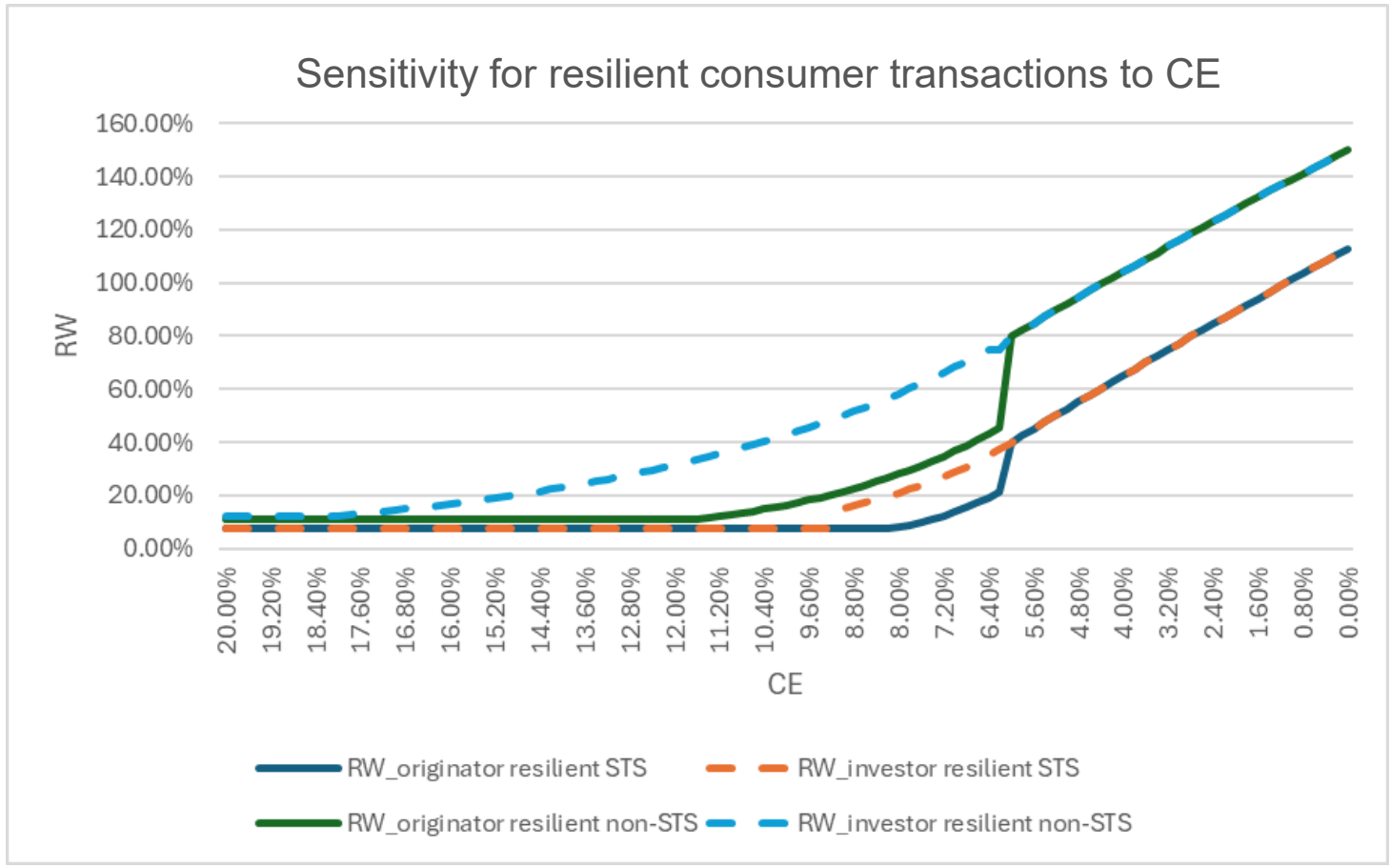
Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- CE: 7%

Comments

- Senior exposure at T=0 therefore is eligible to be defined as Senior but not Resilient
- As delinquencies increase above 2%, the transaction ceases to be Senior, with the effect of near doubling RWs for banks acting as originator, with impact also for banks acting as investor for non-STS transactions
- Non-Senior exposure RWs are not capped at the portfolio RW, unlike Senior exposure RWs, despite the fact that in this circumstance, the non-Senior exposure is unlevered and overcollateralised

Impact for resilient transactions of a decrease in % CE



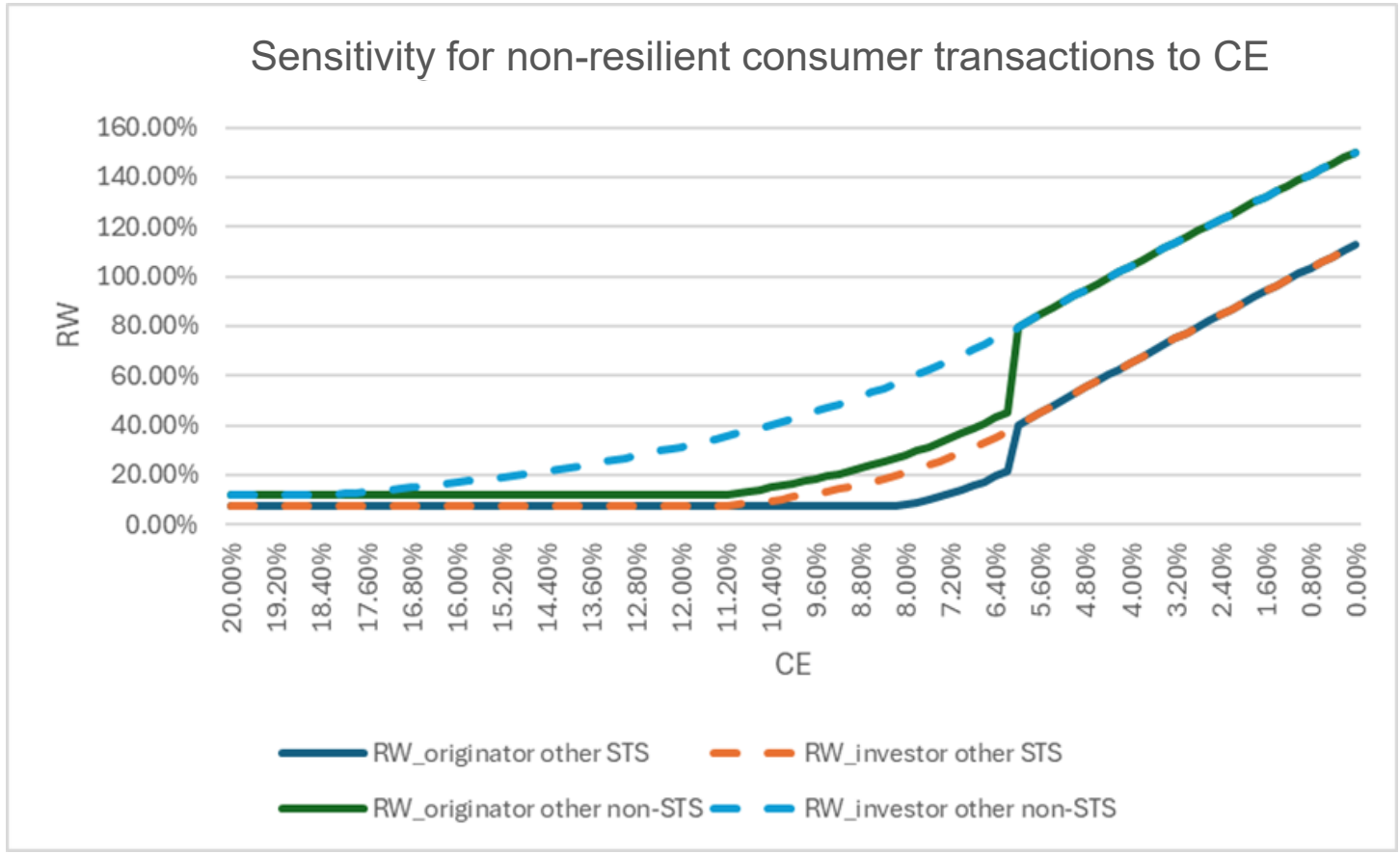
Inputs

- Consumer portfolio: 75% RW
- Senior Attachment Point Test: 6%
- Resilient Attachment Point Test: 9%
- Delinquencies: 0%

Comments

- As Credit Enhancement falls below threshold of 6%, RWs of securitised exposures held by banks acting as originator double
- As CE falls below threshold of 9%, banks acting as investors in resilient STS transactions lose Resilience with the effect of RWs doubling
- Differences are limited between Resilient and non-Resilient given that the level of P are the same, save Resilient STS for banks as investors
- The Risk-Sensitive RW Floor is the driver of the floor and as such, given that the formulae for Resilient and non-Resilient are the same, there is no impact

Impact for non-resilient transactions of a decrease in % CE



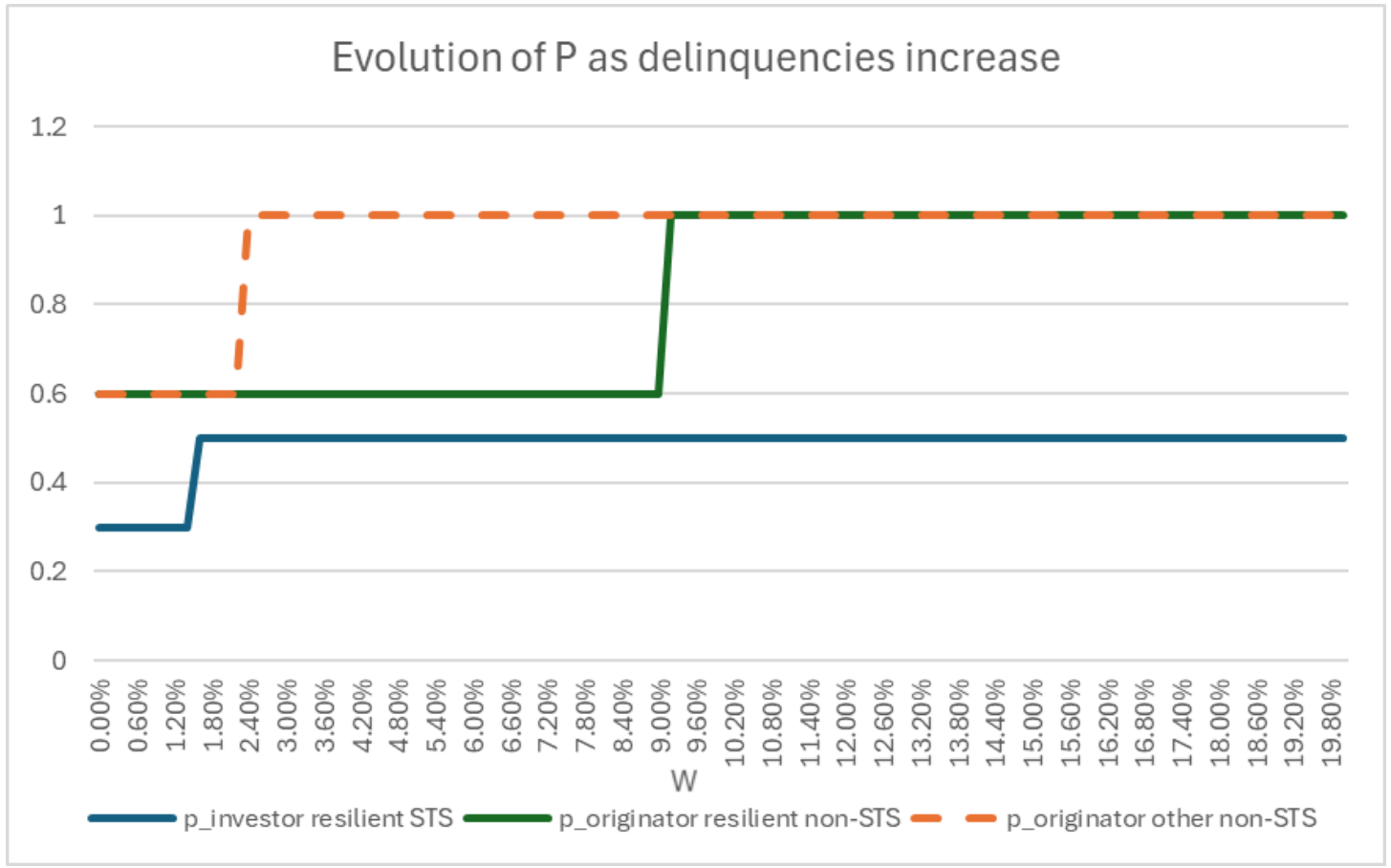
Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- Delinquencies: 0%

Comments

- As Credit Enhancement falls below the threshold of 6%, RWs of securitised exposures held by banks acting as originator double
- Differences are limited between Resilient and non-Resilient given that the level of P are the same, save Resilient STS for banks as investors.
- The Risk Sensitive RW Floor is driver of the floor and as such, given that the formulae for Resilient and non Resilient are the same, there is no impact.

The impact upon the P factor of an increase in delinquencies



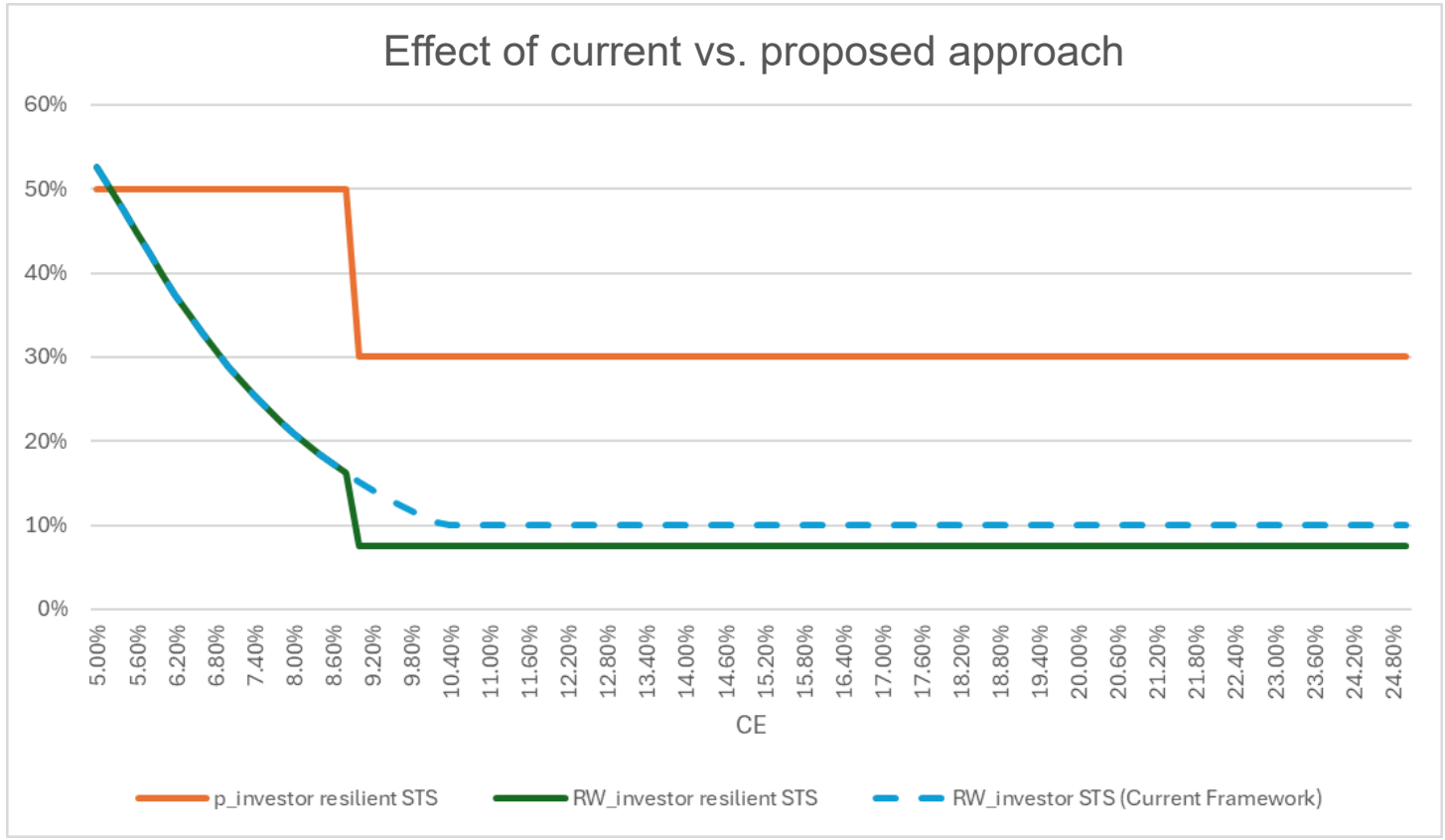
Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- Credit Enhancement Resilient: 10%
- Credit Enhancement Non-Resilient: 7%

Comments

- P increases for banks acting in role of originator upon loss of Senior definition
- P increases for Banks acting in role of investor in Resilient STS transactions upon loss of Resilience

Risk weight of a senior tranche: current vs. proposed approach



Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- Delinquencies: 0%

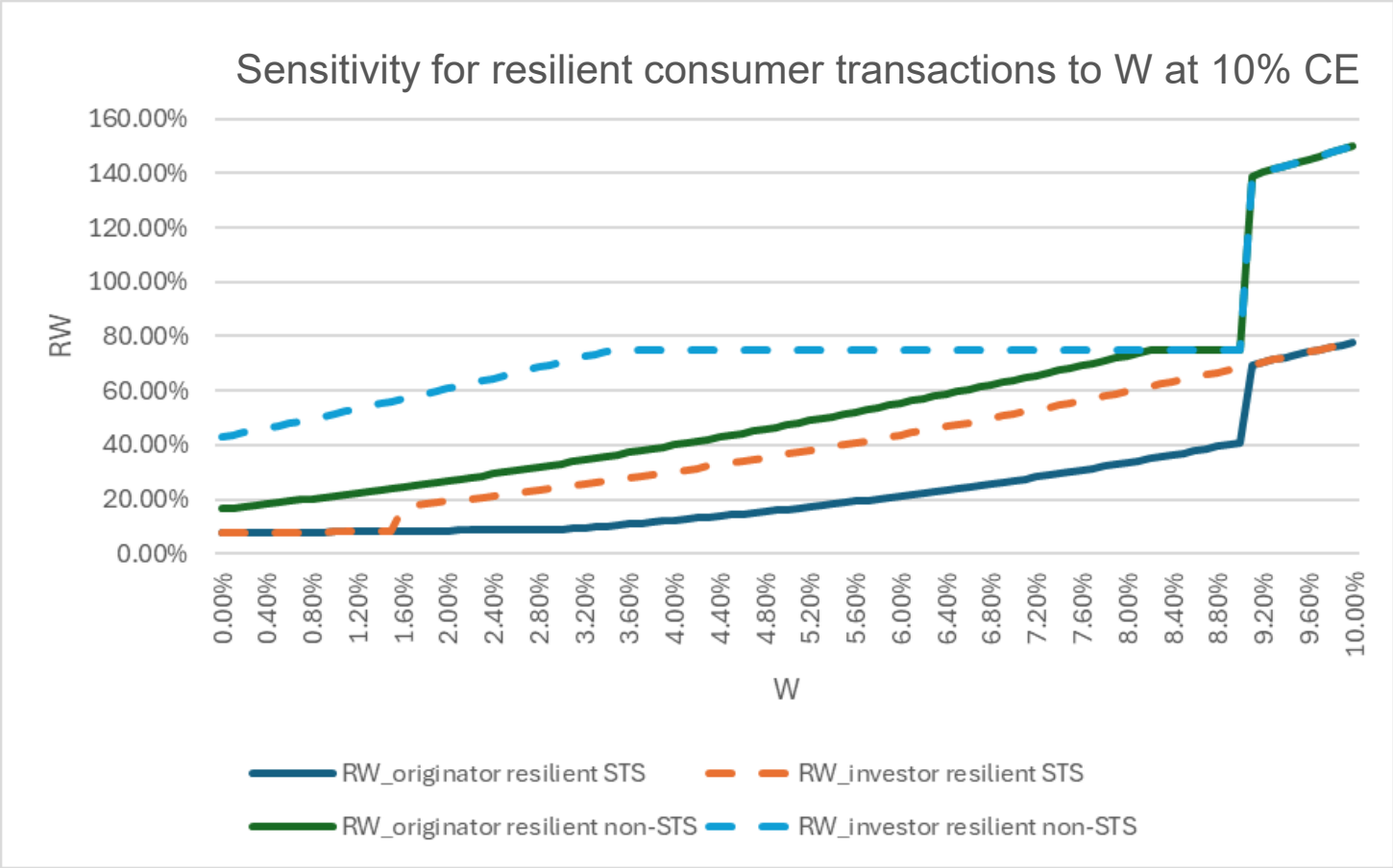
Notes

- This chart compares the RW curve of a senior tranche across a range of CE under current regulation (blue curve) against the RW curve of the same tranche under the proposal (green curve)
- It illustrates well a framework challenge arising from funding transactions structured with:

1. Structural subordination provided by excess spread not recognized by CRR
2. Tranched based on historical loss experience rather than RW density

- P is illustrated under the proposed approach, stepping up upon loss of "Resilient"

Impact upon RW of exposure attaching at 10% of increasing delinquencies



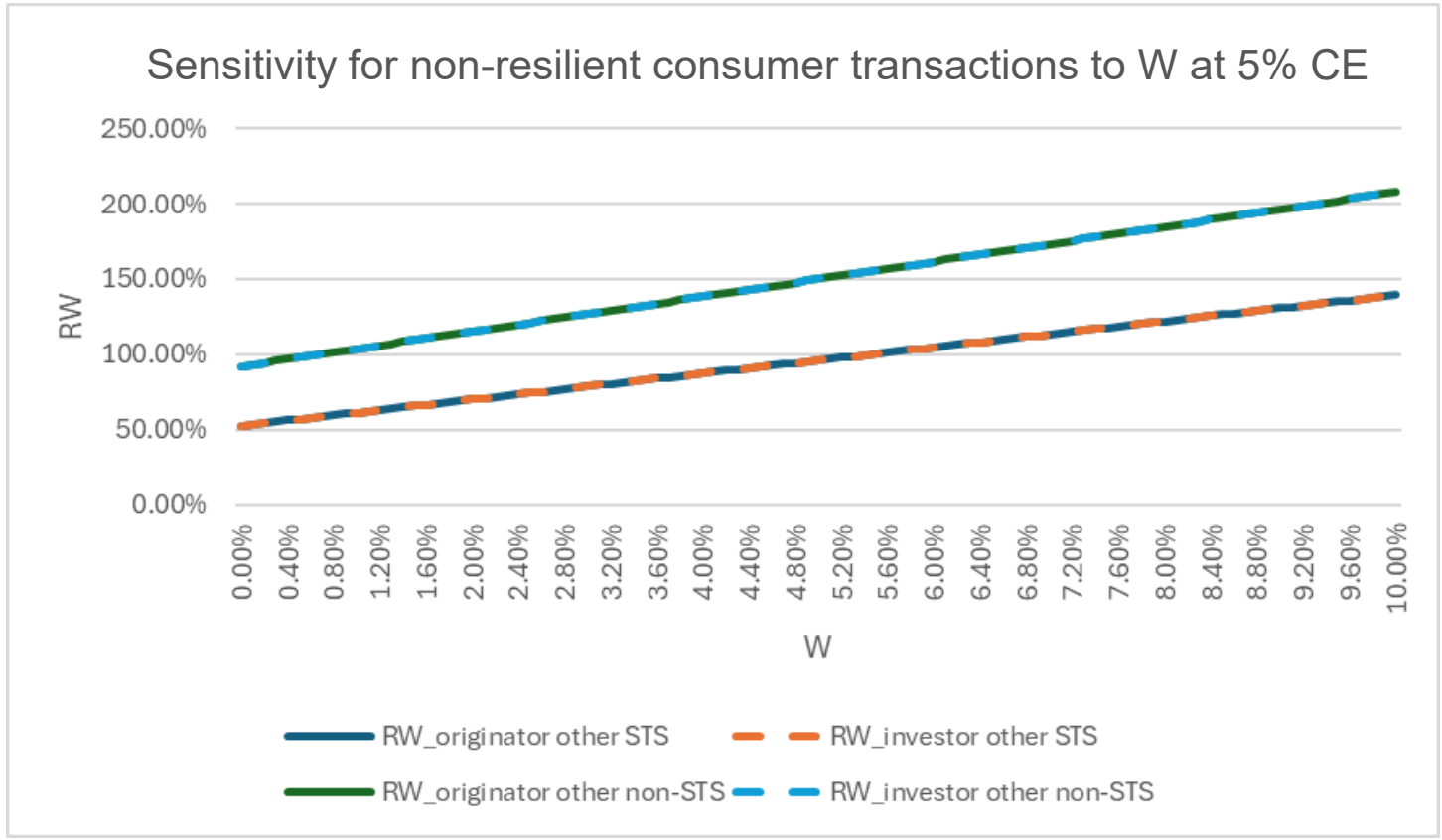
Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- CE: 10%

Comments

- A traditional securitisation whose most senior tranche were rated AAA, based on historical losses experienced, may well fail both the Senior and Resilient Test under CRR under the proposed approach unless restructured with twice the subordination
- These transactions are the most liquid and frequently traded exposures demonstrating strong resilience over 40 years and therefore counterintuitively fail both tests
- Loss of resilience will also have a significant impact under the LCR proposals
- As currently drafted one counterparty may consider an exposure resilient whilst another may not, based on capital treatment and role

Impact upon RW of exposure attaching at 5% of increasing delinquencies



Inputs

- Consumer portfolio: 75% RW
- SAP Test: 6%
- RAP Test: 9%
- CE: 5%

Comments

- A traditional securitisation whose most senior tranche is rated AAA, based on historical losses experienced, in marginal situations may fail both the Senior and Resilient Test under CRR under the proposed approach at transaction close.
- These transaction types are deemed the most liquid and frequently traded exposures demonstrating strong resilience over 40 years. It is therefore counterintuitive that they fail both tests.