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Association for Financial Markets in Europe

Press release

AFME disappointed by ESAs' inaction on securitisation – EU legislators should provide leadership to address regulatory imbalances

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Commenting on the publication of the European Supervisory Authorities' (ESAs) response to the European Commission's Call for Advice on the review of the securitisation prudential framework, **Shaun Baddeley, Managing Director of Securitisation at the Association for Financial Markets in Europe (AFME)**, said:

"We are very disappointed on first reading of the report. There is a weight of evidence supporting recalibration of both the bank and insurance prudential frameworks, but the ESA's recommendations conclude that no real change is needed at this stage. Postulating that it is probably not worth making calibrations more risk sensitive and proportionate because they cannot quantify the benefit is no justification for inaction.

Regarding advice on the banking sector:
"There is a wide consensus among issuers and investors that existing regulatory imbalances have been a decisive factor in the stagnation of securitisation in Europe. It is fundamental to address aspects of the regulatory framework which remain miscalibrated and are holding back the tool's potential to support the economy.

"The EBA makes eight recommendations to the Commission, which primarily focus on resolving inconsistencies with Basel standards. None of these deal head on with two key prudential challenges for banks that are holding back the securitisation market in Europe, including the miscalibration of bank capital for securitisation and the disproportionate treatment of securitisation within the Liquidity Coverage Ratio. Both of these challenges disincentivise banks from participating in this asset class. What is needed here is a temporary adjustment to the p factor until a review of the securitisation standardised formula is concluded and any long-term adjustments are made.

"On a positive note, the EBA does recognise the merit in rethinking the formulation behind securitisation risk weights if this is done at the Basel level.

"One of the EBA's recommendations is to reduce the risk weight floor for originators of "resilient" transactions to support issuance of significant risk transfer transactions of granular SME and corporate portfolios, for example. However, this change will be negated for banks impacted by the phase in of Basel III, due to major distortions created by the output floor formulation for securitisation, as evidenced by recent AFME and Risk Control Ltd research[1].

Regarding advice on the insurance sector:
"EIOPA's section provides no recommendations but posits that while there may be logic in developing a risk sensitive framework, there is little point in doing so, given the limited impact the implementation of a proportionate framework would have. AFME disagrees with this view as it disregards the evidence that in the run up to the implementation of Solvency II, substantial insurance ABS assets under management were sold as a result of the impact of Solvency II on their own capital positions. What is needed here is for EIOPA to deliver on many of their findings and introduce a risk-based framework that recognises the difference

[1] https://www.afme.eu/publications/reports/details/Research-Report-Impact-of-the-SA-Output-Floor-on-the-European-Securitisation-Market

between senior, mezzanine and junior risk for both simple, transparent and standardised (STS) and non-STS securitisations and assign appropriate capital charges at each level.

“The report also suggests that there may be other elements, regulatory or other, that need to be considered, which likely inhibit the resurgence of the market, i.e. it argues that the prudential framework is not the sole factor driving a decade of decline in Europe. While this is true, it ignores the fact that European prudential frameworks are disproportionately punitive when compared with comparable asset classes within Europe or with prudential frameworks across the world.

“EU legislators should use the opportunities provided by the CRR 3 discussions and Solvency 2 discussions to acknowledge the importance of a well-functioning securitisation market and introduce targeted adjustments to support proportionate and risk-sensitive requirements for this mechanism in Europe.”

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About AFME

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. Follow us on Twitter @AFME_EU