

## AFME LCR Survey in relation to Securitisation

4 June 2024



- I. Background
- II. AFME Survey: Description and Key Findings
- III. AFME Proposals: Improving the treatment of securitisation under the LCR
- IV. AFME Survey: Findings in detail
- V. Annex: Participating bank treasuries

The [Commission's call for advice](#) to the Joint Committee of the ESAs (JC) for the purposes of the review of the securitisation prudential framework applicable to banks published on 18 October 2021 sought feedback (amongst else) on a potential amendment to the [Liquidity Coverage Ratio \(LCR\) Delegated Regulation](#) as regards the treatment of securitisation positions as high-quality liquid assets (HQLA), considering their market performance during the recent years, especially during the Covid-19 pandemic.

The [JC advice](#), published on 12 December 2022, decided against upgrading securitisation from level 2B to level 2A based on the following observations:

- No LCR stress period in the banking system has been observed during the last years including the period covering the COVID-19 pandemic; and
- Since the introduction of the LCR, the share of ABS in credit institutions' liquid assets has been negligible ranging from a minimum 0.2% to a maximum 0.7%, while credit institutions regularly hold very high LCR levels above the minimum required.

The JC then considered that based on the above observations:

- There is a reasonable assumption that credit institutions have very small appetite to use securitisation positions as part of the LCR stress buffers or perceive a low marketability of securitisation positions during LCR stress scenarios.
- An upgrade of securitisations from level 2B to level 2A would mean that credit institutions would be allowed to hold securitisations from 15% to up to 40% of their buffer for liquidity stress periods. However, without a test under stress, such upgrade could lead to non-prudent results and jeopardise the sound liquidity position of credit institutions for stress periods.
- Under Basel III's LCR, only the senior tranches of residential mortgage-backed securities (RMBS) with an external rating AA or higher qualify as level 2B HQLA, subject to a 25% haircut. The Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 (the "LCR DA") expanded level 2B eligibility beyond RMBS to the senior tranches of securitisations backed by SME loans, auto loans and leases and consumer loans, subject to certain specific conditions, including increased haircuts.
- The LCR DA was subsequently amended by the Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018 to restrict the eligibility of securitisations as level 2B HQLA to transactions rated AAA and backed by the same asset classes, provided that they qualify as STS securitisations. An upgrade of securitisations from level 2B to level 2A would, therefore, further enlarge deviation from Basel III standards.

AFME members believe that the LCR is a critical part of the EU securitisation prudential framework, which, if properly calibrated, can create the right market conditions that will assist the restoration of the EU securitisation market. Contrary to the JC advice which found the current framework to be fit for purpose, AFME has been advocating for the revision of the treatment of securitisation under the LCR, and it has consistently cautioned against drawing definitive conclusions about market participants' appetite for securitisation based solely on the current (low) levels of investment activity. Direct engagement with bank treasury departments is also needed for one to be truly able to understand asset allocation drivers. In this context, **AFME has surveyed 25 bank treasuries across the EU and the UK** over the months of April and May 2024.

**Key findings** of the survey are:

- Of the 25 respondents, 80% invest in securitisation in general and 80% of those invest in securitisation for 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.

## AFME Proposals: Improving the treatment of securitisation under the LCR

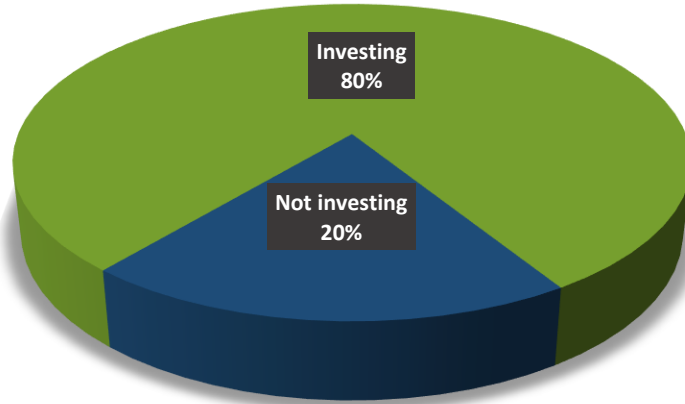
AFME members believe that improving the treatment of securitisation under the LCR is critical for banks to be better able to access diversified liquidity through more equitable regulatory treatment of the asset class. Such improvements could be:

- Expanding eligibility to cover not only Simple, Transparent and Standardised (STS) ABS but non-STS ABS as well. Basel III's LCR does not restrict eligibility to Simple, Transparent and Comparable (STC) securitisations.
- Upgrading senior STS classes from level 2B to level 2A and making senior non-STS securitisations, such as non-STS RMBS and Collateralised Loan Obligations (CLOs), eligible at level 2B, with the application of commensurate haircuts at Level 2A and 2B respectively.
- Expanding eligibility to cover securitisations rated down to AA-. This is already recommended by the JC in recognition that earlier amendments to the LCR Delegated Regulation did not intend to limit the eligibility to AAA rating only.
- Removing the Weighted Average Life (WAL) limit.

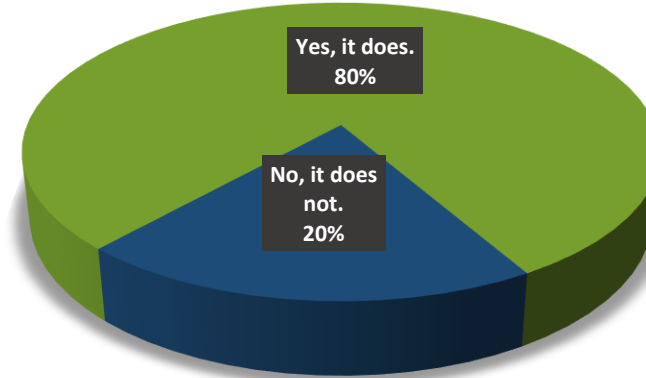
# AFME Survey: Findings in detail

## Bank treasuries' investment activity in securitisation

**Q: "Does the treasury function of your institution invest in securitisation?"**



**Q: "If the answer to the previous question is "yes", please indicate if securitisation forms part of your HQLA."**

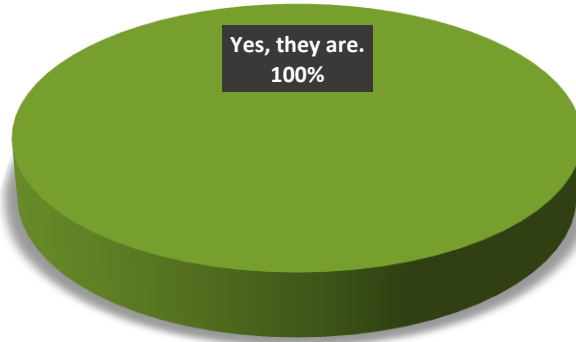


- Of the 25 bank treasuries that responded to the survey, 80% invest in securitisation in general, of which 80% invest in securitisation for HQLA purposes.
- Of the 25 respondents, 12% no longer invest in securitisation, whilst they used to in the past. They might resume investment in ABS, if regulatory hurdles were to become more commensurate with the risk, and supply – currently subdued – were to increase.

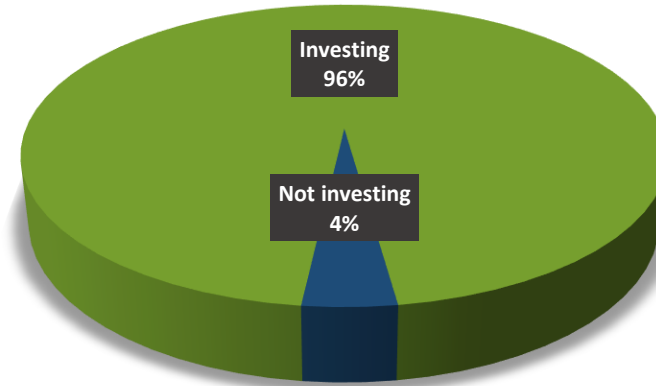


## Bank treasuries' investment activity in covered bonds

*Q: "Does the treasury function of your institution invest in covered bonds?"*



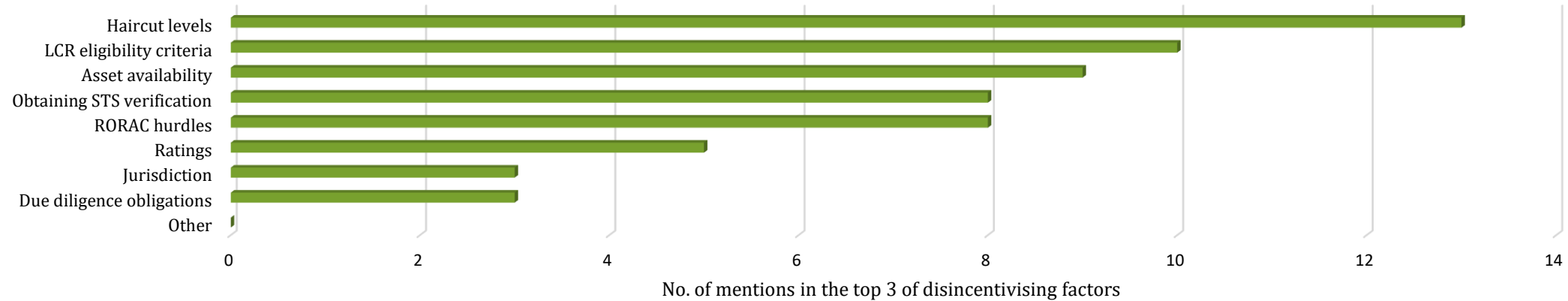
*Q: "If the answer to the previous question is "yes", please indicate if covered bonds form part of your HQLA."*



- Of the 25 bank treasuries that responded to the survey, all of them invest in covered bonds in general, 96% of which invest in covered bonds for HQLA purposes.
- While size of allocations vary across different institutions, all investments seem to fall into the Level 1 and Level 2A bucket. In other words, none of the respondents invest in the Level 2B bucket.

## Factors that disincentivise investments in securitisation

*Q: “Do any of the following factors disincentivise you from investing in securitisation for HQLA purposes?”*

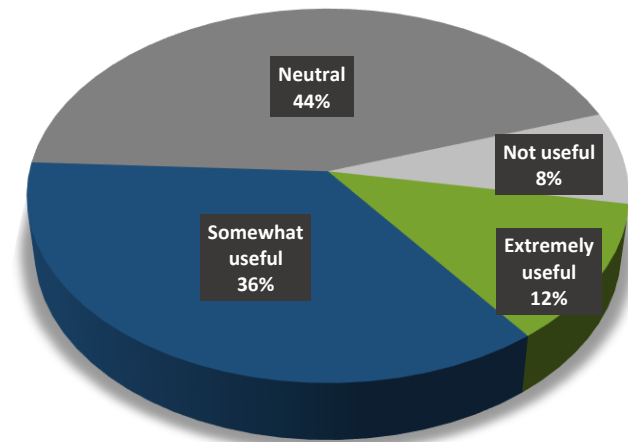


The **top 3 factors** that disincentivise investments in securitisation for HQLA purposes are: (1) **Haircut levels** (i.e. access to liquidity); (2) **LCR eligibility criteria**; and (3) **Asset availability** (i.e. low supply). This is reflective of AFME members’ long-standing concerns around the liquidity framework and indicates which changes need to be prioritised, so that bank treasuries have appropriate access to diversified liquidity through the inclusion of securitisation. It is worth mentioning that respondents are currently long liquidity, hence less focused on constraints. However, their focus on return on capital and haircut levels will no doubt become stronger post QT. Meeting central banks’ eligibility criteria on top of the LCR eligibility criteria is another constraint that some respondents mentioned as a disincentivising factor.

In respect of a potential improvement of securitisation's treatment under the LCR and whether this would assist banks to manage large exposure concentrations,

- 36% of respondents thought it would be somewhat useful and 12% of respondents thought it would be extremely useful, on the basis that supply and potentially liquidity in the secondary market could increase, and asset diversification as well as the economics in general could also be improved, if haircuts were to be lowered;
- 44% of respondents found such potential improvement to be neutral mainly due to the existing excess of liquidity in the market; and
- 8% of respondents found it would not be useful.

*Q: "if the treatment of securitisation under the LCR were improved, how useful would you find securitisation in terms of assisting you to manage large exposure concentrations?"*



**Buy-to-Let RMBS** are STS eligible, but not LCR eligible. Respondents were asked if they would invest in this asset class, if it were to become LCR eligible.

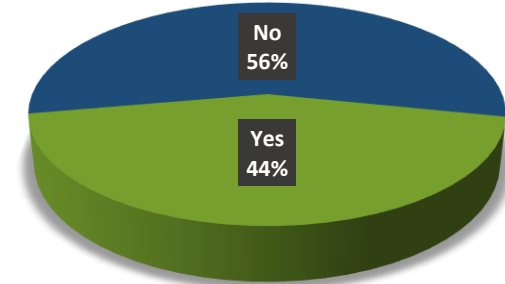
- 56% of respondents answered “no”.
- 44% of respondents answered “yes”.

**CLOs and Commercial Mortgage-Backed Securities (CMBS)** are non-STs asset classes and therefore ineligible under the LCR. Respondents were asked whether they would include them in their HQLA, if they were to become LCR eligible.

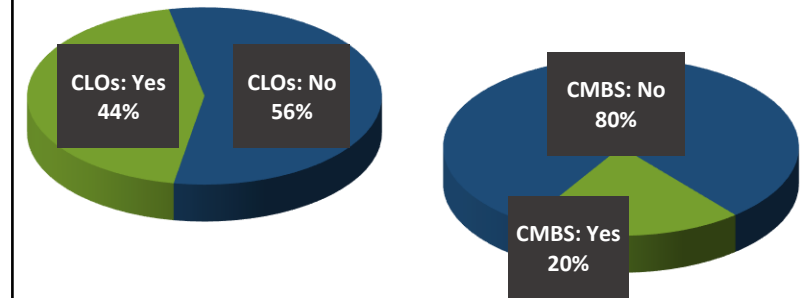
- 44% of respondents would invest in CLOs, 56% would not.
- 20% of respondents would invest in CMBS, 80% would not.

Negative responses relate mainly to CMBS’ liquidity and participants’ risk appetite.

*Q: “Buy-to-Let RMBS are STS eligible but not LCR eligible. If they were to become LCR eligible, would you invest in them?”*

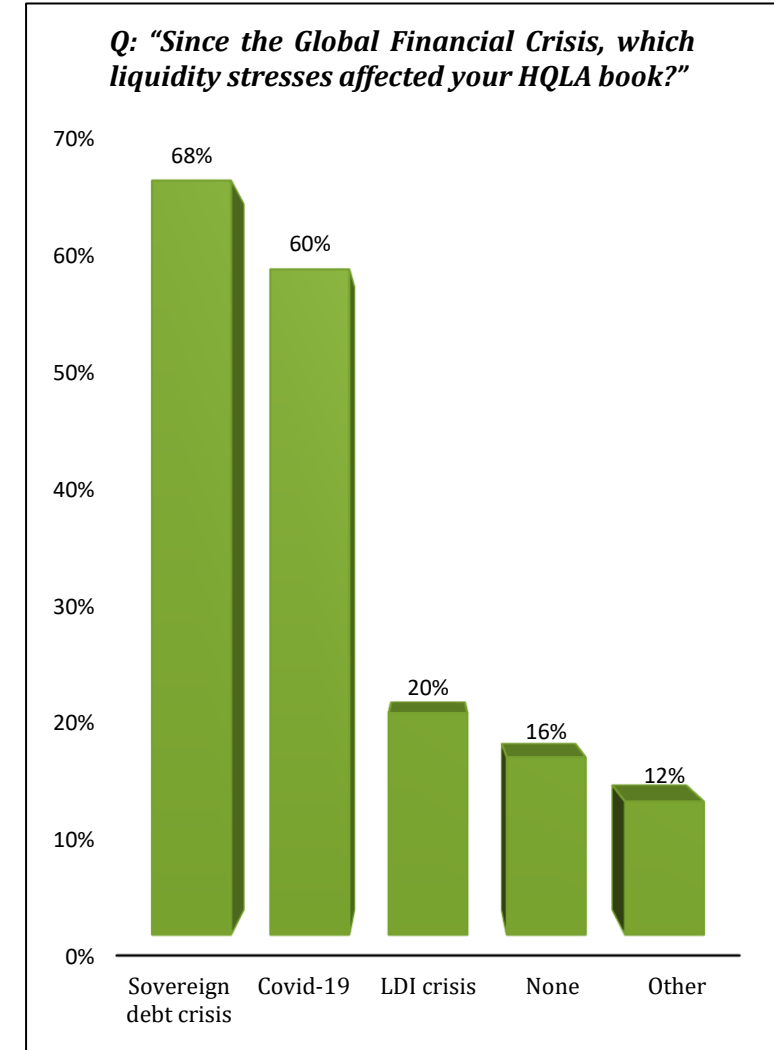


*Q: “CLOs and CMBS are non-STs asset classes and therefore ineligible under the LCR. If they were to become eligible, would you include them in your HQLA?”*



Respondents were asked to identify all the liquidity stresses which affected their HQLA book since the Global Financial Crisis.

- The majority of respondents (68%) were affected by the **sovereign debt crisis**;
- 60% of respondents were affected by **Covid-19**; and
- 20% of respondents were affected by the **UK's LDI crisis**.
- 16% of respondents were not affected by any of the above liquidity stress events, while 12% of respondents identified other liquidity stresses, such as recent **geopolitical conflicts**, like the war in Ukraine.



Subsequently, respondents were asked to evaluate ABS' liquidity compared to other asset classes over the liquidity stressed periods mentioned previously. Mixed views on ABS 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:

- ABS are less liquid than covered bonds or government bonds, but they are much more liquid compared to non-HQLA assets. (The majority of respondents found government bonds to be the most liquid asset over a stressed period.)
- Despite their decreased liquidity in general, ABS proved to be very liquid during the UK's LDI crisis. At the time, UK Prime RMBS were the most liquid asset class compared to UK Gilts which was the least liquid one.
- ABS liquidity is neither too good or too bad, but spreads do widen to accommodate stresses. Bid-ask spread is higher for ABS than for covered bonds or there may even be no bids for some ABS. For example, Prime RMBS have been easier to trade in stressed periods compared to legacy RMBS.

## **Annex: Participating bank treasuries**

## Participating bank treasuries (in alphabetical order)

- |  |                          |
|--|--------------------------|
| 1. Alpha Bank                                | 13. La Banque Postale    |
| 2. Bank of Ireland                           | 14. Lloyds Banking Group |
| 3. BBVA                                      | 15. Nationwide BS        |
| 4. Banque Fédérative du Crédit Mutuel (BFCM) | 16. NatWest              |
| 5. BNG Bank                                  | 17. NIBC Bank            |
| 6. Caisse des Dépôts et Consignations (CDC)  | 18. Rabobank             |
| 7. Commerzbank AG                            | 19. Santander UK         |
| 8. Crédit Agricole                           | 20. Société Générale     |
| 9. Deutsche Bank                             | 21. Starling Bank        |
| 10. EBRD                                     | 22. UniCredit            |
| 11. HSBC                                     | 23. Virgin Money         |
| 12. Intesa Sanpaolo                          |                          |

Of the 25 participating banks, 2 have asked to remain anonymous.



## Contacts

**Shaun Baddeley**

Managing Director, Securitisation

[Shaun.baddeley@afme.eu](mailto:Shaun.baddeley@afme.eu)

+44 (0)20 3828 2698

**Maria Pefkidou**

Associate Director, Securitisation

[maria.pefkidou@afme.eu](mailto:maria.pefkidou@afme.eu)

+44 (0)20 3828 2707

**Remi Kireche**

Director, Advocacy

[Remi.Kireche@afme.eu](mailto:Remi.Kireche@afme.eu)

+32 2 883 55 53

**London Office**

Level 10  
20 Churchill Place  
London, E14 5HJ  
United Kingdom  
+44 (0)20 3828 2700

**Brussels Office**

Rue de la Loi 82  
1040 Brussels  
Belgium  
+32 (0)2 883 5540

**Frankfurt Office**

Große Gallusstraße 16-18  
60312 Frankfurt am Main  
Germany  
+49 (0)69 710 456 660



Follow AFME on Twitter  
@AFME\_EU



## Disclaimer

Your receipt of this document is subject to paragraphs 3, 4, 5, 9, 10, 11 and 13 of the Terms of Use which are applicable to AFME's website (available at <http://www.afme.eu/Legal/Terms-of-Use.aspx>) and, for the purposes of such Terms of Use, this document shall be considered a "Material" (regardless of whether you have received or accessed it via AFME's website or otherwise).

AFME is registered on the EU Transparency Register, registration number 65110063986-76

This report can be found on the AFME website [here](#).



Association for Financial Markets in Europe  
[www.afme.eu](http://www.afme.eu)