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## Consultation Response

### Commission call for feedback on targeted amendments to the Liquidity Coverage Ratio Delegated Regulation

15 July 2025

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the [European Commission's call for feedback on targeted amendments to the Liquidity Coverage Ratio \("LCR"\) Delegated Regulation](#). Please find our feedback below:

- We applaud the Commission's engagement with industry feedback and ambition in the interests of the EU real economy.
- The restoration of bank treasuries as buyers of low-risk senior EU ABS paper is an important component of normalisation of the demand side for securitisation, and, via securitisation, increased, and more competitively priced lending to the EU real economy. Proportionate haircuts and eligibility criteria for securitisations as high-quality liquid assets ("HQLA") for liquidity purposes will facilitate this and also give bank treasury functions options to diversify their exposures in what is currently a very limited pool of high-grade floating rate fixed income, thus supporting financial stability in a rising interest rate environment (cf. the recent LDI Crisis in the UK and the US regional banking crisis). Please see further, in this context, AFME's publication "Myth busting – liquidity in ABS"<sup>1</sup> and, as to the robust track record of EU Securitisation in terms of performance, meeting investor expectations over the past 40 years, AFME's publication "Myth busting – Performance of European securitisation over 40 years".<sup>2</sup>
- In particular, we applaud:
  - The removal of EU specific gold plating in terms of ratings, haircuts and residual maturity. Specifically, that:
    - all asset classes within the bucket of traditional simple transparent and standardised (STS) securitisations are now proposed to be eligible for the Basel 25% Level 2B HQLA haircut;
    - the higher 35% haircut currently applied to specified asset classes is proposed to be eliminated;
    - the erroneous AAA ratings requirement is proposed to be replaced with the more appropriate threshold of AA- under the 25% haircut; and
    - the 5-year residual maturity requirement is proposed to be removed.
  - The mitigation of ratings cliff effects with eligibility helpfully proposed to be extended down to A- (at an increased 50% haircut); and

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<sup>1</sup> <https://www.afme.eu/Portals/0/DispatchFeaturedImages/LCR.pdf?ver=gtvkHYrQtWHWu2nyHvBHBg%3d%3d>

<sup>2</sup> [https://www.afme.eu/Portals/0/DispatchFeaturedImages/European%20ABS%20performance.pdf?ver=D2bPfmTTB7\\_q6o-s4Q3iZQ%3d%3d](https://www.afme.eu/Portals/0/DispatchFeaturedImages/European%20ABS%20performance.pdf?ver=D2bPfmTTB7_q6o-s4Q3iZQ%3d%3d)

- The expansion of eligible asset classes to include all types of STS traditional securitisations.
- We also note the Commission’s efforts to better align the treatment of senior tranches in traditional ABS with that of Level 2A Covered Bonds (“CBs”) in terms of the proposed preferential 15% haircut which would apply to securitisations that are:
  - “resilient” (meaning, in an HQLA context where transactions are necessarily STS, compliant with a minimum credit enhancement/tranche thickness requirement<sup>3</sup>),
  - ECAI rated AAA to AA-, and
  - whose senior tranche issue size is  $\geq$  EUR 250 million or domestic equivalent).
- As flagged in our feedback on the Commission’s CRR and Securitisation Regulation proposals, we regard the concept of “resilience” as adding significant complexity and operational challenge to the framework. We also have specific doubts about the relevance of this ostensibly credit related concept to liquidity and note that, in an LCR context, the effect of the proposed resilient attachment points for senior securitisation positions may be to fragment senior tranches thereby reducing market liquidity, rather than to supporting it. We note, further, that the proposed resilient attachment points for senior securitisation positions (conceptually tied to current ECB requirements for SRT/synthetic securitisation structuring, rather than to non-SRT cash securitisations) would render many senior securitisation positions in the market today ineligible for HQLA inclusion. However, for purposes of the response below, it is assumed that the concept remains part of the Commission’s LCR proposals.
- Notwithstanding our appreciation for the Commission’s helpful efforts, as indicated above, in line with previous AFME feedback, we consider that the proposed EU-specific requirement for ABS HQLA to be STS continues to gold-plate Basel, without this being, in AFME members’ view, appropriate, or adequately reflected in the applicable haircuts. Basel does not require ABS to comply with its premium simple transparent and comparable (“STC”) label in order to be eligible as HQLA. The EU STS label is, moreover, much more detailed and onerous in terms of its eligibility requirements than the Basel STC equivalent.<sup>4</sup>
- If STS status is required for all EU ABS HQLA, this will greatly restrict the portion of the market that can qualify (total STS issuance accounted for only 27% of total European ABS issuance in 2024)<sup>5</sup> and the rule will itself negatively impact liquidity (and issuance incentives) for transactions that are non-STS and so artificially bisect the market. Conversely, the eligibility of non-STS securitisations would, itself, enhance the liquidity of EU ABS HQLA. Despite being safe and useful, many securitisations, by their very nature, will never meet all 100+ STS criteria. The exclusion of these transactions does not appear to be based on quantitative evidence as to the differential liquidity of STS and non-STS transactions (at least not evidence shared with the industry). If LCR improvements are focussed only on STS, they will fail to engender sufficient impact on the market to meet the Commission’s ambitions and will leave entire segments on the sidelines. The Commission’s proposed new “resilience” premium label could play a helpful role in this context. **If “resilience” continues to form part of the LCR framework proposals (even as a temporary safeguard – see below), members believe that non-STS transactions that are “resilient”** (in line with

<sup>3</sup> A minimum attachment point (A) for the senior securitisation position at  $1.5 \times KA$  under the SEC-SA and SEC-ERBA, or at  $1.1 \times ((EL \times WAL \text{ of the initial portfolio}) + UL)$  under the SEC-IRBA

<sup>4</sup> [AFME Paper Securitisation Adjustments CRR3 \(final\).pdf](#)

<sup>5</sup> AFME Securitisation Data Report Q4 2024 & 2024FY ([here](#) and [here](#))

the proposed CRR definition save for the exclusion of investors from benefits in non-STS transactions and the crucial technical point below re prudential cliff effects inherent in the current calculation mechanics),<sup>6</sup> **should be eligible for inclusion in L2B HQLA subject to a 25% haircut, a minimum issuance size of EUR 250 million and a AA- or better rating requirement.**

For non-STS non-ABCP traditional securitisations, the eligibility requirements for “resilience” are a minimum credit enhancement/tranche thickness requirement,<sup>7</sup> the STS requirement for specified triggers to be present to switch from non-sequential to sequential amortisation where amortisation is non-sequential, the CRR prudential STS requirement for a maximum 2% portfolio concentration limit and a requirement excluding positions held by investors.

- **Where EU ABS HQLA is STS, this gold-plating should be reflected in an improvement on the Basel haircut. AFME members believe that a haircut of 15%, aligned with Level 2A CBs, should be the standard haircut applicable to STS EU ABS HQLA** to adequately reflect the premium nature of the STS label (where Basel does not even require STC eligibility with its much “lighter” requirements).
- **If “resilience” continues to form part of the LCR framework proposals (even as a temporary safeguard – see below), members agree that STS transactions meeting additional requirements for “resilience” (so combining two “best in class” labels) as well as the requirements relating to rating and senior tranche issue size proposed by the Commission, should benefit from a preferential haircut**, but consider that this should be below the 15% haircut for STS EU ABS HQLA. Based on the current, proposed, additional eligibility requirements, including the “resilience” definition, **AFME members would propose a preferential haircut of 10% for such positions.** This would still exceed the 7% haircut applicable to L1 CBs (which can be rated AA-).
- In relation to the Commission’s proposed mitigation of ratings cliff effects with eligibility extended down to A- (at an increased 50% haircut), we applaud this aim, but believe that the jump to the 50% haircut continues to create cliff risk that would be better smoothed through a graduated increase in haircuts. **Members propose a graduated increase in haircuts for positions in Standard STS securitisations rated below A-, from 35% at A+, through 42% at A, to 50% at A-.**
- While the applicable haircut level is the primary challenge associated with the current Level 2B status of securitisations within the HQLA framework, members note that this status also subjects securitisation to the overall 15% cap on L2B assets within the HQLA buffer. The cap forces securitisation to compete with other L2B eligible assets for inclusion in the 15% available for L2B (including corporate debt securities rated BBB- or better, certain shares on major indices, and covered bonds ineligible for higher HQLA levels), and, as such, is a constraint on bank investment in securitisation for HQLA purposes.<sup>8</sup> The higher yield and better return on capital associated with such non-securitisation L2B HQLA assets (the pricing for which reflects their greater risk relative to extremely low risk, high rated, highly regulated, senior securitisation positions) makes them more attractive than securitisation for inclusion in the L2B HQLA buffer. The

<sup>6</sup> Positions in own-originated securitisations are in any case not eligible HQLA. If resilient positions were limited to originator/sponsor positions in this context, the extension of HQLA eligibility to STS securitisations would be meaningless

<sup>7</sup> A minimum attachment point (A) for the senior securitisation position at  $1.5 \times KA$  under the SEC-SA and SEC-ERBA, or at  $1.1 \times ((EL \times WAL \text{ of the initial portfolio}) + UL)$  under the SEC-IRBA

<sup>8</sup> A minimum of 60 % of the HQLA is to be composed of level 1 assets; a minimum of 30 % of the HQLA buffer is to be composed of level 1 assets excluding L1 covered bonds; and a maximum of 15 % of the HQLA buffer may be held in level 2B assets.

inequitable treatment of securitisation positions relative to similarly rated and sized (but less onerously regulated) covered bonds - which is reduced by the Commission's proposals but remains present, notably in the L2B classification - also signals to the market a continued stigma in relation to the securitisation product which is (as previously described) at odds with its performance. The elevation of certain securitisation positions to L2A HQLA status would mitigate these issues and encourage bank investors back into this space. **Members believe that Standard STS securitisation positions rated AA- or better and Resilient STS securitisation positions should be associated with Level 2A status.**

- At present, securitisation positions represent less than 1% of EU banks' HQLA buffers. However, **if the Commission has concerns about the elevation of certain securitisation positions to L2A HQLA status** (as proposed by members above) **resulting in excessive growth of securitisation as a share of HQLA, a securitisation-specific cap could be considered.**
- In summary, AFME members advocate eligibility as follows:

Type of securitisation	LCR eligibility requirements	Applicable haircut	HQLA Level
<b>Qualifying Resilient Non-STS</b>	<p>Senior tranche in traditional securitisation</p> <p>"Resilient" (as per Commission CRR proposals save for exclusion of investors in non-STS transactions and the crucial technical point below re prudential cliff effects inherent in the current calculation mechanics<sup>9</sup>)</p> <p>Minimum senior tranche issue size EUR 250m (or equiv.)</p> <p>Rated AA- or better</p>	25% haircut	L2B

<sup>9</sup>Positions in own-originated securitisations are, in any case, not eligible HQLA. If resilient positions were limited to originator/sponsor positions in this context, the extension of HQLA eligibility to STS securitisations would be meaningless.

Type of securitisation	LCR eligibility requirements	Applicable haircut	HQLA Level
<b>Standard STS</b>	Senior tranche in traditional securitisation that satisfies the EU STS requirements applicable under SECR <sup>10</sup>	15% haircut if rated AA- or better	L2A
	Minimum senior tranche issue size EUR 100m  Minimum rating requirements apply (see “Applicable haircuts” column)	35% haircut if rated A+ 42% haircut if rated A 50% haircut if rated A-	L2B
<b>Resilient STS</b>	Senior tranche in traditional securitisation that satisfies the EU STS requirements applicable under SECR  “Resilient” (as per CRR proposals save for the crucial technical point below re prudential cliff effects inherent in the current calculation mechanics)  Rated AA- or better  Minimum senior tranche issue size EUR 250m	10% haircut	L2A

<sup>10</sup> For this category (other than rating requirements) there is no other gold-plating of the SECR STS criteria.

- AFME members consider the above proposals to be consistent with the excellent liquidity data for senior tranches in traditional ABS,<sup>11</sup> including or as exhibited recently in stressed liquidity scenarios within Europe.
- In relation to the proposed mechanics for calculation of the minimum attachment point associated with “resilience” in Article 243(3), (4) and (5) of the CRR (“Resilient A”), the definition of Resilient A means that A will vary over time with defaults in the portfolio/portfolio performance. If “resilience” is tested on an ongoing basis, as proposed (which members oppose – see below), this will create significant prudential instability and cliff effects. Transactions will potentially lose “resilient” status as deals evolve post-closing, resulting in very significant adverse changes in prudential treatment. Specifically, in an LCR context, there could be very large changes in the applicable haircut under the existing proposals (and, under AFME members’ proposals, also ineligibility, altogether, of non-STS transactions as HQLA) for small changes in portfolio defaults/portfolio performance. Treasury departments contemplating inclusion of low-risk senior tranches in traditional securitisations in their HQLA buffers are highly unlikely to be able to tolerate such risks and uncertainties and may even divest securitisation paper rather than increasing their holdings in response to the Commission’s LCR reforms.
- A related but even more pronounced issue in terms of prudential instability and cliff effects flows from the proposed definition of the term “senior securitisation position” in Article 242(6) CRR as incorporating a requirement for attachment above  $K_{IRB}$  or  $K_A$ . AFME opposes amendment of the “senior securitisation position” definition to incorporate a requirement re attachment point. This amendment to the existing definition is understood to be potentially problematic, in particular, in relation to trade receivables securitisations in conduits, risk weighted using the SEC-IAA, which could, as a result, be left without a senior securitisation position. If the amendment to the definition is implemented and applies on an ongoing basis (which members oppose – see below), a tranche that is the “senior securitisation position” at inception of a transaction can lose that status post-closing due to defaults in the portfolio over time / portfolio performance, without any restructuring of the capital stack. The securitisation will be left without a “senior securitisation position” and the benefits associated with “senior securitisation position” status will be lost. In an LCR context, this means loss of eligibility altogether for the position as HQLA - a binary change potentially flowing from small changes in defaults. Again, treasury departments contemplating inclusion of low-risk senior tranches in traditional securitisations in their HQLA buffers are highly unlikely to be able to tolerate such risks and uncertainties and may even divest securitisation paper rather than increasing their holdings in response to the Commission’s LCR reforms as currently drafted.
- **To avoid the prudential instability, cliff effects and securitisation HQLA divestment incentives relative to today’s holdings flowing from the proposed calculation of (1) Resilient A in the resilience definition and (2) the required attachment point in the “senior securitisation position” definition, on an ongoing basis, AFME members recommend that Resilient A, and the “senior securitisation position” definition (if amended to include a requirement re attachment point, which – as indicated above - AFME opposes altogether) should be tested upfront and not brought down.** This would be in line with the new approach to SRT assessment (intended to avoid precisely this

<sup>11</sup> See RCL Research Report commissioned by AFME, “Comparing CB, ABS and Corporate Bond Liquidity” [Comparison of ABS CB and Bond Corp Liquidity 22-123a 4-8-22 v13.pdf](#) and AFME’s publication “Myth busting – Performance of European securitisation over 40 years” [https://www.afme.eu/Portals/0/DispatchFeaturedImages/European%20ABS%20performance.pdf?ver=D2bPfmTTB7\\_q6o-s4Q3iZQ%3d%3d](https://www.afme.eu/Portals/0/DispatchFeaturedImages/European%20ABS%20performance.pdf?ver=D2bPfmTTB7_q6o-s4Q3iZQ%3d%3d)

prudential instability) and the existing approach to testing maximum asset risk weights and portfolio granularity for CRR STS prudential benefits. **If upfront testing is, for any reason, not possible, Resilient A and the “senior securitisation position” definition should be calculated on a basis which is not affected by portfolio defaults/portfolio performance.**

- AFME members greatly value the availability of SEC-IRBA based mechanics within the calculation of Resilient A, but note that – in a liquidity context specifically – it is surprising to have an eligibility requirement/label, the satisfaction of which depends on the calculating entity, i.e. it is not wholly objective. Further consideration and testing are needed in this respect.
- Should the proposed CRR definition of “resilience” change materially during trilogues and in the course of reaching a political agreement on the CRR amendments, AFME members would welcome the opportunity to comment further on the interaction of the concept with the LCR HQLA framework.
- AFME members also note that the “resilience” concept may be regarded as a temporary guard rail necessary pending more fundamental reform of the CRR risk weighting hierarchy for securitisation positions (which will be reviewed in line with mandates proposed in the CRR reforms) and that the interaction of any future deletion of the concept with the LCR HQLA framework would need to be considered.
- We remain, of course, at your disposal should you wish to discuss these matters further, and we look forward to a productive dialogue.

## About AFME

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. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA), 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) in Asia.

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

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