

Targeted consultation on the functioning of the EU securitisation framework

Additional comments

Our private markets business is serving both institutional and private clients. Combining a global perspective with local market expertise and networks, our offering spans the breadth of the private markets universe, providing access to investment capabilities across four pillars: Private Debt and Credit Alternatives (PDCA), Real Estate, Private Equity and Infrastructure. Our Securitised Products & Asset Based Finance (SP&ABF) team, within the Private Debt and Credit Alternatives pillar, is a market leading securitisation investor with over \$17.5bn assets under management in a broad range of structured credit, securitisation and direct lending mandates and funds. Supported by the resources, experience, and global institutional framework of one of the world's leading asset managers, we're dedicated to helping our clients achieve their investment goals and are at the forefront of product innovation to meet evolving investor needs.

Schroders' SP&ABF team has invested in European securitisations for over 25 years, with a number of the members of the team involved in European securitisation for 25-30 years. Our competitive position as an investor is demonstrated by our dedication of resource to this market: we have extensive infrastructure to support our investment in European securitisations, part of which has been put in place in order to comply effectively with the constraints placed upon such investment as a result of the EU SecReg.

We believe there are **currently two major hindrances** to fulsome participation for any investor in the European securitisation market:

- (a) the **retention of asset backed securities (ABS) by banks** to use as repo collateral in the European Central Bank lending scheme; and
- (b) the **overly prescriptive regulation of disclosure/transparency and risk retention** requirements.

In the first case, in 2023 alone, EUR 100 billion of ABS issuance was retained by banks for use as repo collateral; to suggest that this consultation will support a EUR 1.2 trillion market is thus not correct as less than a quarter of that market is available to investors. There are several consequences for the EU securitisation market: because the funding rate of the ECB underpins this retained issuance, the pricing of such ABS is not a true reflection of the market price; further, there has been a lack of scrutiny of these transactions through true market lenses arising out of "real" investor demand. This schism created by ECB purchase scheme has resulted in the suppression of a competitive EU securitisation market for the past decade and a half. This issuance retention also means that the risk embedded in the securitisations has not moved out of the banking system.

The second issue is that European investors are largely prevented from purchasing securitisations issued by non-EU originators, reducing diversification opportunities. Overly prescriptive transparency requirements result in global investors making allocation decisions for securitisation investments in part based on whether or not data templates are available or on risk retention rules (which are not aligned with those in other jurisdictions). Corporate and covered bonds, and syndicated loans, are not subject to such barriers to competitiveness.

Further, and possibly more detrimental to future growth in use of securitisation technology as a funding tool in the European Union, the current regulatory landscape does not distinguish between public market, broadly distributed, highly-rated issuance (whether by EU issuers or non-EU issuers) and transactions where an issuer and an investor build a securitisation together. Such transactions can be by way of cash or synthetic exposure to a pool of assets which the issuer and investor(s) negotiate and curate a fulsome information package whereby disclosure and transparency are assessed and priced according to the risk shared. Private transactions need to be afforded the scope to be commercially agreed, without prescription which in many cases does not afford investors better understanding of the risks they are taking on.

Our view is that securitisation is key to improved conditions for the European financial markets: an improved disclosure and transparency regime will enable more substantive and proportionate investment diligence, resulting in both a more fulsome understanding of risks associated with securitised investments as well as a more level playing field compared to other securitisation markets. This will increase capital allocated to European securitisations, affording a broader, less risky role for securitisation as financing tool.

From Schrodgers' perspective, therefore, we would welcome both review of the ECB asset-backed securities repo schemes, as well as clarification and simplification of the transparency and risk retention regimes.

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