

**CONSULTATION TITRISATION 2024 - Commission Européenne**

**“TARGETED CONSULTATION**

**ON THE FUNCTIONING OF THE EU SECURITISATION FRAMEWORK”**

<https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-functioning-eu-securitisation-framework-2024_>en

Clôture des contributions - 4 dec 2024

1. **Effectiveness of the securitisation framework**

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| --- | --- | --- | --- | --- | --- | --- |
|  | Fully agree | Somewhat agree | Neutral | Somewhat disagree | Fully disagree | No opinion |
| 1. Revival of a safer securitisation market |  |  |  |  | X |  |
| 2. Improving financing of the EU economy by creating a more balanced and stable funding structure of the EU economy |  |  |  |  | X |  |
| 3. Weakening the link between banks’ deleveraging needs and credit tightening |  | X |  |  |  |  |
| 4. Reducing investor stigma towards EU securitisations |  |  |  | X |  |  |
| 5. Removing regulatory disadvantages for simple and transparent securitisation products |  |  | X |  |  |  |
| 6. Reducing/eliminating unduly high operational costs for issuers and investors |  |  |  |  | X |  |
| 7. Differentiating simple, transparent and standardised (STS) securitisation products from more opaque and complex ones |  |  |  | X |  |  |
| 7.1 Increasing the price difference between STS vs non-STS products |  |  |  | X |  |  |
| 7.2 Increasing the growth in issuance of STS vs non- STS products |  |  |  | X |  |  |
| 8. Supporting the standardisation of processes |  | X |  |  |  |  |
| 8.1 Increasing the degree of standardisation of marketing and reporting material |  |  | X |  |  |  |
| 8.2 Reducing operational costs linked to standardised securitisation products |  |  |  | X |  |  |
| 9. Tackling regulatory inconsistencies |  |  | X |  |  |  |
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| ***Questions*** | ***FBF Answers*** |  |
| 1.1. Do you agree that the securitisation framework (including the Securitisation Regulation and relevant applicable provisions of the CRR, Solvency II and LCR) has been successful in, or has contributed to, achieving the following objectives: | See above. |  |
| ***Questions*** | ***FBF Answers*** |  |
| 2.1. Have you come across any impediments to securitise SME loans or to invest in SME loan securitisations?  • Yes  • No  • No opinion  Please explain. | Yes,  On a broader perspective, the SME sub securitisation market is facing the same impediments faced by issuers for other underlyings . Thus, a coordinate and cumulative approach of the below quick wins will foster the securitisation market as a whole and thus the SME sub-market:  1/ on STS and non-STS exposures: recalibration of the risk-weighting of securitization tranches when the bank is originator  2/ on eligibility for the LCR: improvement of the treatment of securitizations in the LCR through improved HQLA eligibility  3/ recalibration of the prudential treatment of securitisations in Solvency II to encourage insurers to invest in senior or mezzanine tranches  4/ due diligence for investors should be more proportionate and “principal based only”  Besides, focusing on niches, given the diversity of the securitisation market (by asset class, by type of issuers, investors, structuring features…), a cherry-picking approach, consisting in targeting a specific market segment, would be counterproductive as it would not offer the critical mass that issuers and investors need to invest in resources.  Specifically, SME loans are more difficult to securitise in traditional ('true sale') securitisations because of contractual restrictions on transfer and heterogeneity of the loan formats. For this reason, SME loans are often securitised in synthetic format, where the credit risk is transferred via a guarantee or a credit derivative. Synthetic securitisations are less sensitive to the specific terms of the loans.  In addition, SME loans are securitized in private format (via synthetic SRT or via structures involving ABCP or banks' balance sheet in direct) rather than public one.  Lastly on the STS segment, difficulties are essentially linked to STS eligibility and disclosure requirements.  Information readily available in the banks IT systems seldomly covers the whole range of data required, and would potentially necessitate significant developments, while custom reps and wars shall be sufficient to cover any risks.  STS definitions of what constitutes a homogeneous pool offers significant room for interpretation and shall be clarified (toward a more encompassing interpretation).  LCR definitions should also be clarified to lift any uncertainties |  |
| **2.2. How can securitisation support access to finance for SMEs?** | Securitisation offers opportunities for investors to invest in consumer and corporate credit exposures that otherwise would not be available to them. It also ensures that credit risk does not solely stay with banks and allows banks to free up capital, thereby increasing their capacity to extend new funding to SMEs and support the transition to a more sustainable economy.  SME Securitisation would help originators to access potentially cheaper using a collateral which is not eligible to ar. 129 eligible covered bonds while SME SRT Securitisation would also facilitate origination thanks to capital freed up.  Banks are also direct lenders to corporates through (private) ABCP trade receivables securitisations, funding their working capital needs hence financing indirectly their SME clients. By nature ABCP securitization is perfectly adapted to the funding of real economy assets such as trade receivables.  Besides, banks use securitisation as a tool to monitor the exposures stemming from their commercial lending activity (both in terms of risk and liquidity). |  |
| **3. Scope of application of the Securitisation Regulation** | | | |
| 3.1. In your opinion, should the current jurisdictional scope of application of the SECR be set out more clearly in the legislation?  • Yes  • No  • No opinion  Please explain. | No, the jurisdictional scope is well understood and we see no merit in re-opening this topic.  Regarding the issues raised for EU investors in relation with sell-side parties located in third countries, cf. our answers to question 4.8.  Keeping in mind that some clarification pertaining to article 5 of the SECR are highlighted in the coming replies. |  |
| 3.2. If you answered yes to question 3.1, do you think it would be useful to include a specific article that states that SECR applies to any securitisation where at least one party (sell-side or buy-side) is based or authorised in the EU, and to clarify that the EU-based or EU-authorised entity(ies) shall be in charge of fulfilling the relevant provisions in the SECR?  • Yes  • No  • No opinion  Please explain. | N/A |  |
| 3.3. Do you think the definition of a securitisation transaction in Article 2 of SECR should be changed? You may select more than one option.  • Yes, the definition should be expanded to include transactions or vehicles that could be considered securitisations from an economic perspective;  • Yes, the definition should be narrowed to exclude certain transactions or introduce specific exceptions;  • No, it should not be changed;  • No opinion.    Please explain and specify, if necessary, how the definition should be expanded or narrowed in your view. | No, it should not be changed in our view (this is not a priority topic).  However, some concepts used to define securitisation and in particular originators could in our view be adjusted to make certain market practices safer. The definition of originator could be slightly clarified to cover entities which not only originate or purchase assets but also entities that are exposed to the risk of such assets. |  |
| 3.4. Should the definition of a securitisation exclude transactions or vehicles that are derisked (e.g. by providing junior equity tranche) by an EU-level or national institution (e.g. a promotional bank) with a view to crowding-in private investors towards public policy objectives?  • Yes  • No  • No opinion | No |  |
| 3.5. If you answered yes to question 3.4., what criteria should be used to define such transactions? |  |  |
| 3.6. Should the definition of a sponsor be expanded to include alternative investment firm managers established in the EU?  • Yes  • No  • No opinion | No |  |
| 3.7. If you answered yes to question 3.6., are any specific adaptions or safeguards necessary in the Alternative Investment Firms Directive (AIFMD13), taking into account the originate-to- distribute prohibition in the AIFMD, to enable AIFMs to fulfil the functions of a sponsor in a securitisation transaction, as stipulated in the SECR? You may select more than one option.  • An AIFM should not sponsor loans originated by the AIFs it manages  • AIFs should not invest in securitisations sponsored by its AIFM  • Minimum capital requirements under the AIFMD should be adapted to enable AIFMs, in particular to fulfil the risk retention requirement under SECR  • Other safeguards  • No safeguards are needed  Please explain your answer. |  |  |
| **4. Due diligence requirements** | | | |
| 4.1. Please provide an estimate of the total annual recurring costs and/or the average cost per transaction (in EUR) of complying with the due diligence requirements under Article 5.  Please differentiate between costs that are only due to Article 5 and the costs that you would incur during your regular due diligence process regardless of Article 5.  Please compare the total due diligence costs for securitisations with the total due diligence costs of other instruments with similar risk characteristics. |  |  |
| 4.2. If possible, please estimate the total one-off costs you incurred (in EUR) to set up the necessary procedures to comply with Article 5 of SECR. |  |  |
| 4.3. Please select your preferred option to ensure that investors are aware of what they are buying and appropriately assess the risks of their investments.  • Option 1: The requirements should be made more principles-based, proportionate, and less complex;  • Option 2: The requirements should be made more detailed and prescriptive for legal certainty;  • Option 3: There is no need to change the text of the due diligence requirements;  • No opinion | Option 1 |  |
| 4.4. Should the text of Article 5(3) be simplified to mandate investors to assess at minimum the risk characteristics and the structural features of the securitisation?  • Yes  • No  • No opinion  Please explain. | Yes  Yes, the assessment steps in article 5(3) should be subject to a proportionality approach and replaced by a principle-based wording. |  |
| 4.5. If you answered yes to question 4.4., please specify how this could be implemented. | The individual assessment steps in Article 5(3) points  c of the SECR should be deleted and replaced by  principle-based wording. This might look as follows:  Prior to holding a securitisation position, an i  investor, shall carry out a due diligence assessment  which enables it to assess the risks involved. This assessment  must take into account the underlying exposures and the  structural features of the securitisation . |  |
| 4.6. Taking into account your answer to 4.4, what would you estimate to be the impact (in percent or EUR) of such a modification in Article 5(3) on your one-off and annual recurring costs for complying with the due diligence requirements under Article 5?  Please explain. | TBD if any |  |
| 4.7. Should due diligence requirements differ based on the different characteristics of a securitisation transaction?  • Yes  • No  • No opinion | Yes |  |
| 4.8. If you answered yes to question 4.7., please select one or more of the following options to differentiate due diligence requirements:  • Due diligence requirements should differ based on the risk of the position (e.g. senior vs non-senior)  • Due diligence requirements should differ based on the risk of the underlying assets  • Due diligence requirements should differ based on the STS status of the securitisation (STS vs non-STS)  • Other  Please explain your answer. | - Senior vs non senior: the due diligence requirements shall be reduced or simplified for AAA positions.  - Risk of the underlying assets: cf. answer to questions 4.4 and 4.5.  - In addition, we advocate for a strong simplification of due diligence requirements for 'repeat' issuances.  The greater the risk, the more sophisticated the investors should be. This also means that they should be able to determine the exact level, scope and nature of due diligence they should be carrying out in order to appropriately assess the risk. Therefore, a higher due diligence standard should not amount to a more prescriptive due diligence scope or template. On the contrary, basic due diligence required from non-sophisticated investors should be standardised and may be reasonably prescriptive, while more informed investors taking higher risks should be authorised to determine appropriate due diligence level, proportionate to the level and nature of the risk of the contemplated transaction. In practice, this has proven to remain the case and riskier or more complex transactions are analysed by sophisticated investors with no use of the ESMA templated disclosures |  |
| 4.9. Taking into account your answers to 4.7 and 4.8, what would you estimate to be the impact (in percent or EUR) of differentiating due diligence requirements on your one-off and annual recurring costs for complying with the due diligence requirements under Article 5?  Please explain your answer |  |  |
| 4.10. For EU investors investing in securitisations where the originator, sponsor or original lender is established in the Union and is the responsible entity for complying with those requirements, should certain due diligence verification requirements be removed as the compliance with these requirements is already subject to supervision elsewhere? This could apply to the requirements for investors to check whether the originator, sponsor or original lender complied with:  ▪ (i) risk retention requirements,  • Yes  • No  • No opinion  ▪ (ii) credit granting criteria requirements,  • Yes  • No  • No opinion  ▪ (iii) disclosure requirements,  • Yes  • No  • No opinion  ▪ (iv) STS requirements, where the transaction is notified as STS  • Yes  • No  • No opinion  Please explain if you see any risks arising from the removal of these requirements, and if so, how they should be mitigated. | (i) risk retention requirements,  • Yes  (removal from article 5(1)c). The originator, sponsor or original lender located in the EU is already subject to the risk retention requirement pursuant to Article 6. It does not seem necessary to duplicate the burden towards investors with an obligation imposed to them to monitor compliance with risk retention.  In addition, regarding article 5(1)d: the reference to article 6 should be deleted and replaced by "equivalent provisions". This is because an originator located outside the EU is not subject to the requirement of SECR. This requirement can represent a significant impediment for European investors. The reference to the 5% threshold shall be maintained obviously as a safeguard [cf 3.1].  ▪ (ii) credit granting criteria requirements,  • Yes  when credit granting is already regulated in the EU at the original lender [or originator] level  ▪ (iii) disclosure requirements,  • Yes  Due diligence should be limited to the verification of the disclosure of the information needed for due diligence purposes, as adjusted in the conditions set out above  In article 5(1)e, the reference to article 7 should be replaced by a more general wording. For example, the investors could be required to verify whether or not they possess enough information to carry out the due diligence requirements as per article 5(3).  In particular, if the current requirement is maintained, EU investors will continue to be excluded from the third country securitisation market which can be detrimental to the EU economy (this limits the opportunities to provide support to European companies operating outside the EU and to develop expertise in new asset classes from other regions).It also creates an unlevel playing field with non-EU investors and makes it practically impossible for EU investors to invest in third country securitisations.  ▪ (iv) STS requirements, where the transaction is notified as STS  • Yes  The verification of the STS criteria relies primarily on the originator and, if applicable, the STS verifier. It does not seem necessary to duplicate the burden of verification towards investors. The simplification would increase the appeal of the label.  Concerning the simplifications, the modifications envisaged should be defined as a subset of existing reportings or disclosures, in order to avoid additional development on existing transactions.  Also, conceptually, the STS label was created to give comfort to investors that they are investing in a transaction that is deemed to be compliant with certain generally accepted criteria: requiring investors to verify that the STS label was appropriately granted deprives the label from its very purpose. |  |
| 4.11. Taking into account your answers to Q.4.10, what would you estimate to be the impact (in percent or EUR) of removing those obligations on your one-off and recurring costs for complying with the due diligence requirements?  Please explain. |  |  |
| 4.12. Do the due diligence requirements under Article 5 disincentivise investing into securitisations on the secondary market?  • Yes  • No  • No opinion  Please explain | Yes,  It’s a scissors effect : while the non-principal based due diligence make it nearly impossible to assess an originator not already covered in a timely manner, the non-EU investors (within the current unlevel playing fields) can act swifly getting a bigger share , and possibly better price.  Compliance with the requirements of Article 5(3) is also incompatible with the typical timeframe of secondary market trading. The level of work required to ensure compliance is such that the needed resource allocation does not make sense for smaller investments. |  |
| 4.13. If you answered yes to question 4.12., should investors be provided with a defined period of time after the investment to document compliance with the verification requirements as part of the due diligence requirements under Article 5?  • Yes  • No  • No opinion | No, we believe that this would not really work realistically and that the impact would be quite limited. In terms of governance and process, internal formal approvals are needed before investing and these approvals require that the due diligence work has been completed and sufficiently documented ahead of the investment.  Simplifying or lightening the due diligence requirements for investors would be much more impactful. Cf. also our answers to questions 4.8 and 4.10.  [Being authorised to carry out the due diligence ex post would in theory make possible swift transactions, but the consequences of a negative outcome of such ex post due diligence are unclear.] |  |
| 4.14. If you answered yes to question 4.13., how many days should be given to investors to demonstrate compliance with their verification requirements as part of the due diligence requirements under Article 5?  • 0 – 15 days  • 15 – 29 days  • 29 – 45 days  • No opinion | N/A |  |
| 4.15. If you answered yes to question 4.13., what type of transactions should this rule apply to? | N/A |  |
| 4.16. Do the due diligence requirements under Article 5 disincentivise investing into repeat securitisation issuances?  • Yes  • No  • No opinion | No, we see no specific issue in relation with repeat deals. |  |
| 4.17. If you answered yes to question 4.16., how should repeat or similar transactions be identified in the legal text and how should the respective due diligence requirements be amended? | The due diligence requirements disincentivize investing into all securitizations. Improvements should not be limited to “repeat deals”.  This issue would be adequately addressed by taking the approach we have suggested that emphasises proportionality in due diligence. The familiarity of the investor with the originator/issuance structure/programme will be one factor taken into account in assessing the correct, proportionate approach to take |  |
| 4.18. Should Article 32(1) be amended to require Member States to lay down rules establishing appropriate administrative sanctions, in the case of negligence or intentional infringement, and remedial measures in case institutional investors fail to meet the requirements provided for in Article 5?  • Yes  • No  • No opinion  Please explain your answer. | No,  Adding new sanctions in SECR would only deter more investors to come into the market which would be detrimental to the development of the EU financial market. |  |
| 4.19. Taking into account the answers to the questions above on due diligence requirements, do you think any safeguards should be introduced in Article 5 to prevent the build-up of financial stability risks? | No, nothing specific in addition to the above. |  |
| 4.20. Taking into account your answers to the previous questions in this section, by how much would these changes impact the volume of securitisations that you invest in? | TBD |  |
| 4.21. If you are a supervisor, how would the changes to the due diligence requirements suggested in the previous questions affect your supervisory costs? | TBD |  |
| 4.22. Should the National Competent Authorities (NCAs) continue to have the possibility to apply administrative sanctions under Article 32 and 33 of SECR in case of infringements of the requirements of Article 5 SECR to either the institutional investor or the party to which the institutional investor has delegated the due diligence obligations?  • Yes  • No  • No opinion  Please explain your answer. | No  NCAs already have the possibility to apply sanctions whenever a supervised entity does not comply with any of the requirements of the overall applicable regulation. These powers de facto cover securitisation. |  |
| 4.23. If you answered no to question 4.22, which party should be subject to administrative sanctions in case of infringement of the due diligence requirements?  • the institutional investor  • the party to which the institutional investor has delegated the due diligence obligations | Laissé VIDE car pas de zone de saisie de texte  ~~It should concern the delegated party and not the delegate.~~  ~~the party to which the institutional investor has delegated the due diligence obligations~~ |  |
| **5. Transparency requirements and definition of public securitisation** | | | |
| 5.1. Please provide an estimate of the total annual recurring costs and/or the average cost per transaction (in EUR) of complying with the transparency regime under Article 7.  Please differentiate between costs that are only due to Article 7 and costs that you would incur during your regular course of business regardless of Article 7.  Please compare the total transparency costs for securitisations with the total transparency costs of other instruments with similar risk characteristics. | Figures to be received by the FBF |  |
| 5.2. If possible, please estimate the total one-off costs you incurred (in EUR) to set up the necessary procedures to comply with Article 7 of SECR. | Figures to be received by the FBF |  |
| 5.3. How do the disclosure costs that you provided in 5.1. compare with the disclosure costs for other instruments with similar risk characteristics?  • Significantly higher (more than 50% higher)  • Moderately higher (from 10% to 49% higher)  • Similar  • Moderately lower (from 10% to 49% lower)  • Significantly lower (more than 50% lower)  Please explain your answer. | From an originator perspective, the costs are significantly higher than for other instruments with similar risk characteristics (debt, covered bonds). |  |
| 5.4. Is the information that investors need to carry out their due diligence under Article 5 different from the information that supervisors need?  • Significantly different  • Moderately different  • Similar  Please explain your answer. | Significantly different  As originating banks, arrangers and lead managers of securitisation in the public and private market, our understanding is that the current data disclosure is too detailed and certain mandatory information is not required / used by the investors, rating agencies. The transparency is key for the investors, but excessive disclosure reporting is in our view an obstacle to the development of the securitisation market.  In practice, certain investors require a detailed information, but this does not necessarily correspond to the information as set out in the ESMA template. As a result, the ESMA templated disclosure is either not used because investors do not require such level of detail, or because they require different information, so that the disclosure needs to be done in two different formats.  Investors will conduct their assessment depending on some factors including the type of securitisation, the underlying assets (granularity, tenor), the level of seniority of the securitisation position (equity vs senior), the size of the contemplated investment etc. In order to make their investment decision, investors will need some details on the underlying loans (but generally not on a loan-by-loan basis), details on credit enhancement provided, amortisation & triggers, cash flow models, etc.  Supervisors shall require only a subset of the information needed for investors, in order to get a broad view of the market (e.g. type of securitisation, asset class, number and size of tranches, risk retention scheme, etc.). |  |
| 5.5. To ensure that investors and supervisors have sufficient access to information under Article 7, please select your preferred option below. | Answer : option 1  **Option 1:**  ▪ Streamline the current disclosure templates16 for public securitisations  ▪ Introduce a simplified template for private securitisations and require private securitisations to report to securitisation repositories (this reporting will not be public).  Option 2:  ▪ Remove the distinction between public and private securitisations.  ▪ Introduce principles-based disclosure for investors without a prescribed template.  ▪ Replace the current disclosure templates with a simplified prescribed template that fits the needs of competent authorities with a reduced scope/reduced number of fields than the current templates.  Option 3: No change to the existing regime under Article 7. |  |
| 5.6. If you are a supervisor, what impact (in percent or EUR) would you anticipate Option 1 would have on your supervisory costs? | N/A |  |
| 5.7. Assuming that transparency requirements are amended as suggested in Option 1, by how much would the volume of securitisations that you issue, or invest in, change? | TBC |  |
| 5.8. What impact (in percent or EUR) would you anticipate Option 1 would have on your one-off and annual recurring costs for complying with the transparency requirements in Article 7? Please explain your answer. | TBC |  |
| 5.9. Do you see any concerns, impediments, or unintended consequences from requiring private securitisations to report to securitisation repositories?  • Yes  • No  • No opinion  Please explain your answer. | Yes  Requiring private securitisations to report to repositories would represent a significant additional burden. It would not be consistent with the global objective to simplify reporting for private deals.  In addition we would expect no additional required information compared with the current ESMA reporting (for instance in aggregated annexes 11/13 for ABCP trade receivables securitisations).  Besides, there are several other existing channels to report, using a repository will add unnecessaries costs.  This could breach confidentiality duties in respect of the underlying assets, the structure of the securitisation transaction and/or the funding sources and risk management of the originator, as well as the client relationship between the originator and the arranger, sponsor and/or investors |  |
| 5.10. Under Option 1, should the current definition of a public securitisation be expanded to a securitisation fulfilling any of the following criteria: (1) a prospectus has been drawn up in compliance with the EU Prospectus Regulation; or (2) notes were admitted a trading venue; or (3) it was marketed (to a broad range/audience of investors) and the relevant terms and conditions are non-negotiable among the parties?  • Yes  • No  • No opinion  Please explain your answer. | No  The current definition is appropriate in our view, it should not be expanded. The proposed change is likely to create more uncertainty.  Admission to a trading venue should also not be a relevant criterion.  Marketing on a non-negotiable basis to a broad range of investors may be relevant, provided that these criteria are strictly defined to cover only transactions where investors have no direct relationship whatsoever with the originator/sponsor |  |
| 5.11. If you answered **yes to question 5.10.,** what criteria should be used to assess point (3) in the definition above (i.e. a securitisation marketed (to a broad range/audience of investors) and the relevant terms and conditions are non-negotiable among the parties)? | N/A |  |
| 5.12. If the definition of a public securitisation is expanded (for example, to encompass securitisations fulfilling the criteria set out in question 5.10), what share of your existing private transactions would now fall under this newly-expanded public definition? | N/A |  |
| 5.13. Under Option 1, what would you estimate to be the impact (in percent or EUR) of changing the definition of public securitisation on your one-off and annual recurring costs for complying with Article 7?  Please explain your answer | N/A |  |
| 5.14. Assuming that transparency requirements are amended as suggested in Option 2, by how much would the volume of securitisations that you issue, or invest in, change? | N/A |  |
| 5.15. What impact (in percent or EUR) would you anticipate Option 2 would have on one-off and annual recurring costs for complying with the transparency requirements in Article 7? Please explain your answer. | N/A |  |
| 5.16. Under Option 2, what should be included in the principle-based disclosure requirements for investors to reduce compliance costs while ensuring access to information?  How should investors access this information?  Please explain your answer, listing all relevant information that you think investors need to do proper due diligence that could be common across all securitisations. | N/A |  |
| 5.17. Under Option 2, should intra-group transactions, and securitisations below a certain threshold, be excluded from the reporting requirements in Article 7?  • Yes  • No  • No opinion  Please explain your answer. If you answered yes, how should intragroup transactions be defined and how should the threshold be determined? | N/A |  |
| 5.18. Under Option 2, what would be the impact (in percent or EUR) on your one-off and annual recurring costs for complying with the transparency requirements of excluding intra-group transactions and securitisations below a certain threshold from the reporting requirements in Article 7? Please explain your answer. | N/A |  |
| 5.19. Should the text of Article 7 of the SECR explicitly provide flexibility for reporting on the underlying assets at aggregated level?  • Yes  • No  • No opinion | Yes |  |
| 5.20. If you answered yes to question 5.19., which categories of transactions should be allowed to provide reporting only at aggregated level? You may select more than one option.  • Granular portfolios of credit card receivables  • Granular portfolios of trade receivables  • Other  If you chose “other”, please explain. | Other,  Granular portfolios of credit card receivables and Granular portfolios of trade receivables , as well as any granular short term receivables.  For private transactions, it is useless to require mandatory reporting templates when the investors negotiate ad hoc template suited to their own requirements directly with the issuer.  Indeed, for most private securitisations, the reporting used by investors is not just for risk evaluation but also for the active determination of the borrowing base/ utilisation of the transaction. It therefore requires specific information, tests on eligible assets, concentration limits and dynamic calculations that are not part of the ESMA templates and require tailormade templates.  Most of these private transactions are not ECB eligible and not rated by the rating agencies.  In this context, there is no reason to provide detailed line-by-line information in a securitization repository. The level of disclosure should only be negotiated on a bilateral basis between the seller and the involved investors, it being specified that the investors shall in all circumstances be able to conduct a proper evaluation.  With regards to new asset classes such as factoring / trade receivables having a short maturity and a considerable number of receivables and for which no data template exists for the time  being (except the esoteric underlying exposure), a granular LLD is not essential for risk analysis. In consequence, it will make sense for sponsors to address disclosure requirements  at an aggregate level.  Nevertheless, we don’t think it is necessary to remove LLD granularity for certain highly granular asset classes already covered by a dedicated template (such as residential mortgages) unless if it is at the discretion of the originator / issuer / originator (in particular  those who have already developed the reporting infrastructure on these asset classes).  Indeed, the current templates are already in place and accepted. |  |
| 5.21. If you are a supervisor, what impact (in percent or EUR) would you anticipate Option 2 would have on your supervisory costs? | N/A |  |
| **6. Supervision** |  |  |
| 6.1. Have you identified any divergencies or concerns with the supervision, based on the current supervisory set up?  • Yes  • No  • No opinion  Please explain and give specific examples. | Yes,  Regarding the SRT assessment, we believe that the coordination between European central supervision and local regulators' supervision should be reinforced. For instance we observed redundancy of requirements on two SRT transactions, in France and in Italy.  Regarding cash STS deals, redundancy was similarly observed on a number of ABCP transactions implying a pan-European setup, between the French and other EU regulators.  In addition there is a possibility that different national authorities form different views on some interpretative points of the regulation, as a reflection of the different views observed at the level of third-party verifiers on some specific points. |  |
| 6.2. Would you see merit in streamlining supervision to ensure more coordination and supervisory convergence?  • Yes  • No  • No opinion | Yes, |  |
| 6.3. If you answered yes to question 6.2., what should be the scope of coordinated supervision?  • STS securitisations only  • All securitisations  • Other (please specify) | All |  |
| 6.4. If you answered yes to question 6.2., what should be the supervisory tasks of coordinated supervision?  • Compliance with Securitisation Regulation as a whole  • Compliance only with STS criteria  • Compliance with Securitisation Regulation and prudential requirements for securitisation  • Other (please specify) | Other,  - SRT: the coordination (sharing or exchange of information between the ECB and local supervisors) should be developed in order to, notably, avoid the duplication/overlaping requests.  - Compliance with SECR as a whole and in particular STS: it would be helpful to have a single authority forming a consistent view on regulatory issues or requirements, for the sake of homogeneity and level playing field in the European market. |  |
| 6.5. If you answered yes to question 6.2., which model would you prefer?  • Setting up supervisory hubs  • Having one national authority as lead coordinator in the case of one issuance involving multiple supervisors  • Another arrangement (please specify) Please explain your answer  A scinder en deux réponses :  **Please explain your answer to question 6.5. If you selected “Another arrangement”, please specify:**   Additional help available  including spaces and line breaks, i.e. stricter than the MS Word characters counting method.  *5000 character(s) maximum*  **If you responded "another arrangement" to question 6.5, please specify to what you refer:**   Additional help available  including spaces and line breaks, i.e. stricter than the MS Word characters counting method.  *5000 character(s) maximum* | Rather than a supervisory hub, that would be very complex to establish and may result in additional burden, we would support a better supervisory coordination through a knowledge hub, covering all member states, so that scarce expertise can be leveraged, interpretations would become more consistent and predictable, and this expertise could also be put at work to support the development of securitisation in smaller EU Member States where there is no critical mass for the supervisor to develop such an expertise.    Such a knowledge hub should be supported by a regulatory hub, for which the existing Joint Committee of ESAs on securitisation is a good starting point. As Paris Europlace has proposed in its September 2024 report, the Joint Committee on Securitisation should be empowered to drive the securitisation horizontal regulatory process in close liaison with DG-FISMA. Securitisation is a technical, and multifaceted topic, as there are multiple legal and regulatory texts addressing various aspects or types of regulated entities. Therefore, the capacity to ensure consistency, in both substance and timeline, across the various regulatory bodies involved is key to ensure a proper implementation and achieve the targeted outcome. An evolution of the role and governance of the Joint Committees could be envisaged as part of the upcoming ESAs review.    These hubs should work on the basis that dialogue with practitioners is essential. This dialogue must be permanent, transparent, and constructive. It needs to include the whole ecosystem, from investors to issuers, but also rating agencies, label providers, law firms, accountants etc… Such a variety of expert profiles do not exist in the existing ESAs Stakeholder Groups. A dedicated Securitisation Experts Group should be created to institutionalize the existing dialogue across various types of players, the Joint Committee, the supervisory hub, and involved national authorities. Leveraging the expertise of the Common Eurosystem Pricing Hub could also be very helpful on quantitative modelling aspects such as valuation, stress testing etc… The EIF could also play an important role, as a major EU-wide participant in the securitisation market, with extensive expertise and risk management capabilities, across the whole EU.    Finally, data sharing across ESAs and competent authorities, including macroprudential ones should be organised, to limit duplicative request, and to replace the current fragmented view that each institution has on its own part of the market, by a holistic view which is essential to monitor financial stability. |  |
| 6.6. If you answered yes to question 6.2, would you require participation by all NCAs or only  some?  • All  • Some  • No opinion | All |  |
| 6.7. If you answered “Some” to 6.6., based on what criteria would you select NCAs? Please specify. | N/A |  |
| 6.8. If you are a supervisor, how would the changes to supervision suggested in the previous questions affect your supervisory costs? | N/A |  |
|  |  |  |
| **7. STS standard** |  |  |
| 7.1. Do you think that the STS label in its current form has the potential to significantly scale up the EU securitisation market?  • Yes  • No  • No opinion Please explain. | No,  We believe that the extension of these measures to non-STS transactions, with adjusted calibration, is key to effectively relaunch the securitization market in Europe. In the current debate to develop the European securitisation market, non-STS securitizations should be also within the scope of prudential improvements, with an appropriate calibration. Non-STS transactions are equally relevant as STS transactions to foster the CMU and greatly contribute to the very large financing required for the green and digital transitions of the European economy.  While we fully support the STS framework, the label did not bring the hoped-for new originators or investors to the market. Figures provided by the EBA and by AFME evidence that the STS market share is quite low in Europe (around 35% of the total issuances) and that the STS issuance amounts placed in the market are disappointing.  According to the AFME Securitisation Data Report Q2 2024, EUR 66.6 bn of securitised product was issued in Q2 2024 in Europe, a decrease of 1.4% from Q1 2024 (EUR 67.6 bn). Of the EUR 66.6 bn issued, EUR 45.4 bn was placed in the market among investors, representing 68.2% of the total. Among placed issuance, Pan-European CLOs, UK RMBS and German Auto ABS led placed totals, with EUR 13.9 bn, EUR 10.6 bn and EUR 3.2 bn of issuance, respectively.  Total outstanding volumes (including CLOs) increased to EUR 1,186.1 bn at the end of Q2 2024.  In Q2 2024, EUR 27.2 bn of securitized product was notified as STS to ESMA and the FCA, up from EUR 14.4 bn in Q1 2024. Placed STS issuance volumes increased during Q2 2024 to EUR 20.4 bn, up from EUR 11.7 bn in Q1 2024. Placed STS Securitisation issuance, as a proportion of total placed issuance (STS+non-STS), increased to 45% during Q2 2024, up from 37% in Q1 2024. Retained (non-placed) securitisations remain in the originator’s balance sheet, mainly for Central Bank liquidity purposes.  For the whole year 2023, the total amount of public issuance in Europe is € 213 bn, of which € 95 bn is placed in the market among investors.  The total amount of STS issuance in 2023 in Europe is € 76 bn, with only € 44 bn placed in the market.  We are far from the € 800 bn additional funding needs per year announced by M.Draghi.  Since the entry into force of the SECR in 2019, we observe, despite being safe and useful, many securitisations, by construction, will never meet all 100+ STS criteria. Focusing prudential improvements only on STS will not trigger sufficient impact on the market and will leave entire segments of the potential scope on the sidelines.  Practitioners and investors are fully convinced that both cash and synthetic non-STS securitisations add value in financing the European economy both by enhancing capital allocation efficiency and by diversifying funding sources for segments of retail and non-retail markets that otherwise are not able to access traditional bank lending:  - Some portfolios or transactions cannot meet all the STS criteria by nature (for instance the 2% granularity/concentration criteria (e.g. 50 names minimum) or the homogeneity criteria (both same type of obligor and obligors with residence in the same jurisdiction …): trade receivables, mid-sized corporates and SMEs, corporate loans or revolving credit facilities, most specialised lending (infrastructure financing and energy-based financing that are critical to the green energy transition agenda, , aviation and ship financing, mixed or cross-border commercial loans …)  - Some issuers have structural difficulties to achieve the STS label, e.g. new companies (such as Fintechs or solar panels manufacturers) that cannot meet the 5 years historic data requirement, or smaller banks that, by construction, handle smaller pools and fail to achieve the granularity or homogeneity criteria.  - Other issuers, such as commercial vehicles or equipment leasing companies, have leases that cannot meet the STS criteria for ABCP (assets residual maturity less than 6 years and the weighted average life of the assets less than 3.5 years)  - Some underlying assets are not eligible to STS label because of the STS criteria “repayment not predominantly based on sale of assets”; this is the case for the certain types of real asset financing (e.g., car fleet and car rental deals).  Administrative sanctions by Competent Authorities and criminal sanctions by Member States (respectively articles 32 and 34 of SEC-R) may also be a deterrent.  In addition, some securitization structures may not necessarily meet the STS criteria, while contributing to the efficient financing of the economy:  - warehouse financing to third party non-bank lenders which are keen to develop their ability to issue STS labelled securitisations through the capital markets;  - SRT securitisations tailored to specific investors constraints and needs, such as synthetic unfunded securitizations directly protected by Solvency 2 regulated insurers; indeed, (re)insurance companies are not eligible as unfunded protection providers in synthetic STS transactions, as per SEC-R. |  |
| 7.2. Which of the below factors, if any, do you consider as holding back the expansion of the STS standard in the EU? You may select more than one option.  • Overly restrictive and costly STS criteria  • Low returns  • High capital charges  • LCR treatment  • Other Please explain | • Overly restrictive and costly STS criteria  • High capital charges  • LCR treatment  • Other Please explain.  Other: CRR3 articles 243 (1a) and (2)  In order to benefit from the STS prudential framework, banks need also to meet the CRR Art.243 “Criteria for STS securitisations qualifying for differentiated capital treatment”.  When banks issue STS securitisations, they always need to retain a portion of the transaction in their balance sheet (they can choose to retain the senior tranche, or to retain the mezzanine / junior tranche depending on the transaction; and in all transactions, banks need to hold a minimum of 5% because of the risk retention requirement). The prudential treatment of the retained tranche has a cost in the economic viability of the transaction. That’s why the additional limitations imposed for benefiting from the STS prudential treatment, as per Article 243 of CRR, may discourage banks to issue some transactions under the STS standard. Similarly, when bank provide senior Securitisation funding to clients, under STS format, the prudential benefit of STS for the banks is subject to compliance with Article 243.  Under Article 243 (1) (a) of the CRR, positions in an ABCP programme or transaction that qualify as STS shall be eligible for the STS related prudential treatment ( Articles 260, 262 and 264) if the underlying exposures meet, under the Standardised Approach, a risk weight equal to or smaller than 75 % on an individual exposure basis where the exposure is a retail exposure or 100 % for any other exposures. This excludes any corporate loans with external rating of B+ or below and risk weight of 150%, for instance portfolios of leasing, trade receivables or SMEs. The derogation, provided the risk weight of the liquidity facility is below 100%, is limited to institutions applying Internal Assessment Approach (IAA), and unduly excludes those under SEC-IRBA, SEC-SA or SEC-ERBA.  Under Article 243 (2) of the CRR, positions in a securitisation, other than an ABCP programme or transaction, that qualify as STS, shall be eligible for the STS prudential treatment (Articles 260, 262 and 264) only if the underlying exposures meet, under the Standardised Approach, a risk weight equal to or smaller than: (i) 40 % on an exposure value-weighted average basis for the portfolio where the exposures are loans secured by residential mortgages or fully guaranteed residential loans with the additional constraint that no loan in the pool of underlying exposures shall have a loan-to-value ratio higher than 100 % ; (ii) 50 % on an individual exposure basis where the exposure is a loan secured by a commercial mortgage; (iii) 75 % on an individual exposure basis where the exposure is a retail exposure; (iv) for any other exposures, 100 % on an individual exposure basis. This last point (iv) excludes any corporate loans with risk weights above 100%, for instance corporate loans with external rating of B+ or below and standard risk weight of 150%, which can be present in portfolios of leasing, trade receivables or SMEs. |  |
| 7.3. How can the attractiveness of the EU STS standard be increased, for EU and non-EU investors? | Firstly, we believe that Article 243 should be deleted, or amended as the following.  Regarding Article 243 (1)(a) of CRR, we believe that the derogation should apply to all approaches.  Both for ABCP and non-ABCP STS transactions, the mere presence of one corporate in the pool that has a standard risk weight above 100% leads to no STS prudential benefit for the bank. It is therefore necessary either to increase the risk weight cap from 100% to 150% or to review Article 243 of CRR to introduce a materiality threshold above which the STS benefit is no longer applicable. This is also needed for residential and commercial mortgages especially as the 40% and 50% risk weight criteria were calibrated in CRR2 and have to be recalibrated in line with the changes on standard risk weight in CRR3.  Secondly, only very few countries (EU, UK, Canada, South Africa, China except for ABCP…) have onboarded the ‘optional’ Basel STC label. However, it is key that Europe set up an equivalence regime between the EU STS framework and the UK STS framework, otherwise this will restrict investment options for the EU investor base. Three jurisdictions (US, China, Turkey) do not still even apply the Basel III securitisation framework. Incentivizing only STS transactions /disincentivizing non-STS ones would create an uneven playing field to the detriment of the EU by constraining the range of securitization options available to market stakeholders.  Thirdly, a prudential recalibration for both STS and non-STS securitisations, as proposed below, in section 9 for banks and section 10 for insurers, is absolutely necessary to increase the number of transactions in Europe.  Finally, (re)insurance companies should be recognized as eligible as unfunded protection providers in synthetic STS transactions in SEC-R, as detailed in questions 7.4 to 7.11. |  |
| 7.4. In the case of an unfunded credit protection agreement18 agreement where the protection provider provides no collateral to cover his potential future liabilities, should such an agreement be eligible for the STS label, to facilitate on‑balance‑sheet STS securitisations?  • Yes  • No  • No opinion | Yes |  |
| 7.5. If you answered yes to question 7.4., what safeguards should be put in place to prevent the build-up of financial stability risks arising from the provision of unfunded credit protection?  • The protection provider should meet a minimum credit rating requirement.  • The provision of unfunded credit protection by the protection provider should not exceed a certain threshold out of their entire business activity.  • Other  Please explain. | The protection provider should meet a minimum credit rating requirement;  For instance,   * the protection provider should meet a minimum rating requirement of CQS2 (credit quality step 2) at the initiation of the transaction and CQS3 during the life of the transaction or, * A regulated entity or,   the level of leverage (e.g. the protection provider could be an SPV so long as it is itself fully collateralised). |  |
| 7.6. What would be the implications for EU financial stability of allowing unfunded credit  protection to be eligible for the STS label and the associated preferential capital treatment? | It would have positive impacts on the EU financial stability because it would induce a more diversified investors' base.  Also, more risks would be transferred from the European banking system.  Last but not least, this would generate more level playing field between SA banks and A-IRB banks. |  |
| 7.7. How would allowing unfunded credit protection to be eligible for the STS label and the associated preferential capital treatment impact EU insurers’ business model of providing credit protection via synthetic securitisation (for example, would EU insurers account such transactions as assets or as liabilities)?  Please explain your answer. | As the credit insurance arm of multiline (well diversified) non-life (re)insurers can sell unfunded credit protection from the liability side of their balance sheets, and cover credit losses in specific tranches of securitisations. Contracts can take the form of credit insurance policies, non-payment insurance, risk participation agreements or guarantees.  Because (re)insurers are playing an increasingly important role in the protection of mezzanine tranches of SRT transactions which is expected to be growing further in the frame of the CRR regulation with thicker mezzanine size, we support adding a new point (d) in Article 26e(8) of SEC-R to explicitly say that highly regulated and well-capitalised (re)insurers (under Solvency II or equivalent) can provide banks with unfunded credit protections guarantees which can be eligible to the STS label. |  |
| 7.8. If you are an originator, what impact on the volume of on-balance-sheet securitisations that you issue do you expect to see if unfunded credit protection becomes eligible for the STS label and the associated preferential capital treatment? | Opening STS eligibility to unfunded credit protection investors would definitely increase and diversify demand in the market, foster competition and eventually lead to larger securitisation volumes. Also, some asset classes (e.g. specialized lending, transaction banking) are historically better known by insurers: at least in the first few years, we would expect STS transactions to be originated from these asset classes and distributed to unfunded credit protection providers if such credit protection format became eligible to STS. |  |
| 7.9. If you answered no to question 7.4., do you see merit in expanding the list of eligible high- quality collateral instruments in Article 26e(10) to facilitate on-balance-sheet STS securitisations?  • Yes  • No  • No opinion | No |  |
| 7.10. If you answered yes to question 7.9., which high-quality collateral instruments should be added to the list? | SecReg Article 26b 10 should be deleted: the requirements it sets out on collateral management are too complex. This article could even have negative consequences for financial stability, as a downgrade of the credit protection beneficiary could lead to mandatory transfer of cash collateral, which would cause SRT to end and RWA to go back to originators’ balance sheet. |  |
| 7.11. What would be the implications for EU financial stability of extending the list of high-quality collateral arrangements under Article 26e(10)? |  |  |
| 7.12. Do the homogeneity requirements for STS transactions represent an undue burden for the securitisation of corporate loans, including SMEs? Please explain your answer. | No, we experience no specific extra burden in relation with this requirement while some originators experience some difficulties to fulfil this criterion. |  |
| 7.13. Should the STS criteria (for traditional, asset backed commercial paper (ABCP) or on-balance sheet securitisation) be further simplified or amended? Please explain your answer and provide suggestions.  • Yes  • No  • No opinion | Yes. It should be a simplification through removed or lighter criteria (in the sense of not adding any requirement to the pre-existing criteria).  Suggestions for synthetic securitisations:  - Criteria 26(e)10:  \* Debt securities as collateral: more flexibility would be appreciated regarding the maximum maturity (currently 3 months). We would welcome longer term securities subject to, for instance, higher over-collateralisation levels agreed between the parties.  \* In addition, for the derogative treatment, the CQS2 threshold may be a concern for some banks whose rating is limited by the country rating ceiling (e.g. Italian banks). This may be captured for instance as a minimum (CQS2, country rating).  - Pool homogeneity (criteria 26.b.8) may represent a limitation for certain businesses (despite the relevant RTS on homogeneity), e.g. excluding very diversified trade finance portfolios with a mix of Corporate & Financial Institutions names.  - The requirement to specify the servicing procedures that apply to the underlying exposures (criteria 26.c.7) is burdensome, as the bank usually needs to draft a specific document as a synthesis of servicing procedures with a focus on the relevant asset class, while the topic is usually fully addressed during the on-site due diligence performed by the investors.  - Criteria 26.e.4: exhaustive check of the Eligibility Criteria by the Verification Agent is a challenge regarding some criteria that are not 'factual'. We would rather have this addressed by representations made by the bank.  For traditional securitisations (including ABCP):  - The territoriality provision in article 18 may be viewed as too restrictive for some private pan-European securitisations notably in the context of ABCP transactions. We suggest enabling the transactions with non-EU originators to be eligible to the EU STS label when the sponsor bank is EU (and the transaction fits all the other STS criteria of course).  - Removing the requirement for the inclusion of a SSPE in the context of private ABCP transactions, notably for full-support ABCP programs;  - Significantly simplifying/lightening the credit-impaired criterion, especially for corporates.  - Besides, a recognition of the UK STS label (equivalence regime) would be welcome for EU institutional investors currently facing a competitive disadvantage.  - Reducing the lenght of historical data to be provided for STS qualification (5 years)  - Remove the WAL criteria for ABCP transactions or at least extend the WAL lengths |  |
| 7.14. On a scale of 1 to 5 (1 being the least valuable), please rate the added value of TPVs in the STS securitisation market.  1 / 2 / 3 / 4 / 5  Please explain | In the current environment where supervision is delegated to NCAs, we rate at 4. It allows to support in practice a certain level of homogeneity across Europe. |  |
| 7.15. If you answered yes to question 4.10.(iv), should the TPVs be supervised to ensure that the integrity of the STS standard is upheld?  • Yes  • No  • No opinion  Please explain your answer to the above, including where necessary whether TPVs should be supervised at EU level. | Yes  However, given that the liability for the STS label mainly lies on the originator and not on the TPVs, supervision of the TPVs does not seem a priority to us unless they were to bear the liability for the STS label. In any case, supervision should be at EU level to favor homogeneity.  In the case of Paris-based Prime Collateralised Securities (PCS), a Third-Party Verifier (TPV) with observer status at Paris Europlace, it is already supervised by the AMF, the National Competent Authority (NCA). For its UK-related activities, it is also supervised by the FCA. In both cases, after having gone through a mandatory agreement process, PCS is regularly subject to supervisory questions, as supervisors monitor their ongoing activity. As the TPV are already supervised locally (subject to obtention of an agreement) they could have more added value if the TPV can concentrate the controls related to the STS label mentioned in Q4.10 for the benefice of all investors. |  |
| 7.16. To what extent would supervision of TPVs increase the cost of issuing an STS securitisation?  • To a large extent  • To a moderate extent  • Limited or no effect  • No opinion  Please explain your answer, and if available, estimate the total costs in EUR | Limited or no effect  If done correctly – their role would not be changed. So wouldn’t generate additional costs |  |
| **8. Securitisation platform** |  |  |
| 8.1. Would the establishment of a pan-European securitisation platform be useful to increase the use and attractiveness of securitisation in the EU?  • Yes  • No  • No opinion | Yes |  |
| 8.2. If you answered yes to question 8.1., which of the following objectives should be main objective(s) of the platform? You may select more than one option  • Create an EU safe asset  • Foster standardisation (in the underlying assets and in securitisation structures, including contractual standardisation)  • Enhance transparency and due diligence processes in the securitisation market  • Promote better integration of cross-border securitisation transactions by offering standardised legal frameworks  • Lower funding costs for the real economy  • Lower issuance costs  • Support the funding of strategic objectives (e.g. twin transition, defense, etc.)  • Other  Please explain how the platform could be designed to achieve the objectives that you selected in your answer to question 8.2. | • Create an EU safe asset  • Foster standardisation (in the underlying assets and in securitisation structures, including contractual standardisation)  • Enhance transparency and due diligence processes in the securitisation market  • Promote better integration of cross-border securitisation transactions by offering standardised legal frameworks  • Lower funding costs for the real economy  • Lower issuance costs  • Support the funding of strategic objectives (e.g. twin transition, defense, etc.)  Any pan-european platform would face significant legal and economic hurdles.  Securitisation regulation as already achieved some of these goals, but further standardization efforts would probably be fostered through market particpants associations. Also, originators and investors that would be targeting such a platform are unlikely to use the same processes for the purposes of entering into securitisation transactions of the same category of assets. |  |
| 8.3. If you answered yes to question 8.1., how would access to a pan-European securitisation platform increase the use and attractiveness of securitisation in the EU? | A pan-European securitisation platform could, in principle, increase the use of selling the eligibles assets (NB: le US Agencies do not issue securitisation as such since there is no tranching) should the needed standardization (eligibility, price, structuring, documentation,etc) be adequality determined despite the European assets heterogeneity.  It is also unclear, on a fundamental level, whether a European  wide platform could even be realised.  As a rule, this could only be done with the application of significant public resources. |  |
| 8.4. Should the platform target specific asset classes?  • Yes  • No  • No opinion | No opinion |  |
| 8.5. If you answered yes to question 8.4., which asset classes should the platform target? Please provide a justification.  • SME loans  • Green loans (i.e. green renovation, green mobility)  • Mortgages  • Corporate loans  • Other | N/a |  |
| 8.6. Are guarantees necessary?  • Yes  • No  • No opinion | No Opinion |  |
| 8.7. If you answered yes to question 8.6., please explain who (private or public) would provide it and how you would design such a guarantee. | N/A  Public :The EIB and EIF should be firstly involved.  A private guarantee for a project of this magnitude will probably generate systemic risk |  |
| 8.8. What do you view as the main challenges associated with the introduction of such a platform in the EU, and how could these be managed? | Structural projects such as the European securitisation platform or public guarantees, could be addressed at a later stage and should not delay the short-term priorities to address all regulatory (SEC-R) and prudential (CRR3, Solvency II and LCR Delegated Act) barriers. |  |
| 8.9. What key considerations need to be taken in designing a pan-European securitisation platform, for such a platform to be usable and attractive for originators and/or investors? |  |  |
| 8.10. Besides the creation of a securitisation platform, do you see other initiatives that could further increase the level of standardisation and convergence for EU securitisations, in a way that increases securitisation volumes but also benefits the deepening and integration of the market? | Further integration of the CMU, especially focusing on cross-border transfer of receivables, the harmonization of the bankruptcy remoteness of the transfer of receivables, SSPEs and more generally the assets and cash used as collateral. |  |
|  | | | |
| **9. Prudential and liquidity risk treatment of securitisation for banks**  Banks are central players in the EU securitisation market.  On the issuer side, securitisation is a useful tool in banks’ toolkit for diversifying funding sources, and for balance sheet and credit risk management purposes.  On the demand side, while banks hold significant exposures towards EU securitisation transactions and in particular to senior tranches, most are in the form of retained securitisations, including asset‑backed securities (ABS) that are used as **collateral for central bank** operations to obtain liquidity. Exposures to other banks’ securitisations are overall limited. The high percentage of retained securitisations limits the depth and liquidity of the securitisation market in the EU.  The prudential treatment of securitisation is set out in [Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02013R0575-20240709" \t "_blank). It specifies requirements for the prudential treatment of securitisation exposures by banks, acting as originators, investors and sponsors in securitisation. The main features of the prudential treatment are defined in the Part Three, Title II, Chapter 5 of the CRR, which sets out the regulatory capital calculation approaches, a specific risk‑sensitive treatment for STS securitisations and additional criteria for the STS securitisations to be eligible for that treatment, the framework for the significant risk transfer (SRT), specific treatment for securitisation of non‑performing exposures and other specific requirements. Besides, the prudential treatment under the CRR, the liquidity risk treatment of the securitisation exposures under the [LCR Delegated Regulation (Delegated Regulation (EU) 2015/61 on liquidity coverage requirements for credit institutions)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02015R0061-20220708" \t "_blank) is also relevant for banks.  In their [advice from December 2022, the European Supervisory Authorities (ESAs)](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf" \t "_blank) concluded that the prudential and the liquidity treatment of securitisation is not the key obstacle to the revival of the securitisation market, and that the subdued status of the securitisation market is rather the result of a series of factors, including the interplay between low supply and low demand. At the same time, the ESAs also recognised in their report that it is possible **to increase the risk sensitivity** of the prudential framework. Many stakeholders consider the prudential and liquidity treatment as having a **decisive impact on the attractiveness** of the securitisation instrument for banks and in addition point out in particular to a **relative disadvantage** of the prudential treatment for some types of securitisations **in comparison with other financial instruments**. | | | |
| ***Questions*** | ***FBF Anwers*** |  |
| Question 9.1. What **concrete prudential provisions** in the CRR have the **strongest influence** on the banks’ **issuance** of and **demand** for those types of traditional, i.e. true sale, securitisation which involve the senior tranche being sold to external investors and not retained by the originator? | We consider that the current lack of appetite from bank investors and issuers comes mainly from simultaneous LCR lack of eligibility, miscalibrated RW treatments, and heavy due diligences   1. Concerning liquidity, revising LCR eligibility and haircuts for senior ABS to make them consistent with alternative fixed income instruments. This should lead to the promotion of Senior STS to Level 2A and the enlargement of the eligibility of securitisation in the Level 2B LCR buffer. 2. Concerning capital treatment,    1. The revision of the RW floor (on all regulatory methods, IAA, SEC ERBA, SEC SA, SEC IRBA) is the simplest and the most impactful measure, based on the proposal of a Risk \_Sensitive floor. It should be based on a fraction of the risk weight of the underlying pool (Popol).  A distinction between STS and Non-STS could be made so that for STS, such that RW Floor equals 7% of RWPool, and for Non-STS, RW Floor equals to 12% of RWPool.  =>[7% x RW pool for STS and 12% x RWpool for non-STS ].    2. the extension of article 465, which is a transitional approach with reduced p-factor on the standard measure used for the calculation of the output floor, so that it becomes permanent and applies to the SEC-SA beyond the output floor (“Boyer amendment”). |  |
| Question 9.2. Please explain how possible **changes** in the prudential treatment would **change the volume** of the securitisation that you **issue**, or **invest in** (for the latter, split the rationale and volumes for different tranches): | * When securitisation risk weights become closer to capital neutrality on senior tranches (as *we propose a floor sensitive to the RW of the pool associated with a permanent p-factor under SEC-SA divided by two),* then securitisation will be more efficient as a tool to redistribute risks (through SRT) on any kind of portfolio (including those attracting lower capital charges). Note that portfolios with low risk that cannot currently be used currently in securitisation represent a huge potential pool of assets. * If LCR is fixed as well, it will support both the primary and the secondary market of ABS in terms of pricing and market liquidity, thanks to a broader and more stable investor base (rreviving their appetite). Moreover, even non-bank investors are valuing LCR eligibility for their investments, hence it will help develop the market on non-banks, creating a global positive and active market ecosystem, increasing all liquidity parameters. * Let’s take an example: Assuming that the current RW floor is in majority around 10% and will migrate to 7%, and that p-factor has decreased to make the transaction economically viable, the new RW floor applied to a portfolio bearing with a 75% RWA would become 5% (assuming a majority of retail assets), then we can easily expect a mechanical doubling in volume, setting aside the additional positive impact of any further development of new assets or the impact on non-banks. * There is no doubt that this effect will create a momentum and, once combined with developments concerning non-banks (such as the Solvency II treatment) or LCR, it could lead to a strong expansion on the securitisation market of low-risk portfolios (such as RMBS), but not limited to them. |  |
| Question 9.3. Based on your answer to 9.1, please explain **how** possible changes in the prudential treatment could **support the supply for and demand of SME and corporate** exposure‑based securitisation transactions: | * As for any typology of underlying assets, SME and corporate assets are suffering from inefficient prudential treatment (especially here, RW floor) * They are usually/currently used in *Synthetic* and *Private* securitisation (with lower constraints, in line with their low margins context), with protection on lower tranches where and senior tranche is retained. * A significant volume of SME and corporate underlyings are also managed through ABCP structures, which remain fully supported in terms of capital and liquidity by the sponsor bank, which make them highly sensitive to current prudential mistreatment. * => As such, expected adjustments to a risk sensitive RW floor, associated with lower p-factors, would remove the current disconnection with the economical RW of the securitized pool, especially for low-risk pools, both from an originator point of view (when the senior tranche is retained) and from the investor (when the senior tranche is sold). * SME benefiting from the SME supporting factor, they are closer to low-risk weight pools and hence they would benefit actively from a risk sensitive floor.   Beyond the sole adjustment to the floor, the LCR treatment review could also enhance demand if SMEs and corporates benefit from the proposed enlargement of buckets. |  |
| Question 9.4. Does the prudential treatment of securitisation in the CRR appropriately **reflect the different roles** a bank can play in the securitisation chain, concretely the **roles of originator** (limb ‘a’ and limb ‘b’ of the definition of the originator in the Securitisation Regulation **[\*]), servicer and investor**?  \* According to Article 3(2) of the [Securitisation Regulation](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2402" \t "_blank), an originator can be an entity that has originated the exposures that are securitised (letter (a)), or has purchased a third party’s exposures on its own account and then securitises them (letter (b)) | Answer  Yes  No  Don’t know / no opinion / not applicable |  |
| Question 9.5. If you answered **NO** to question 9.4., please **explain** and provide suggestions for **targeted amendments** to more appropriately reflect the different roles of banks as originator, investor, and servicer: | We consider that prudential treatment required adjustments should apply to all [*a) banks in all their roles (originators, sponsors but also b) investors)* ], through CRR but also through any other regulation that could prevent regulated investors from getting active in this market, as for an example, Solvency II prudential framework should be reviewed to make insurers come back as investors.  We believe there is no reason to differentiate investor and originator/sponsor role.   * On one hand, originators/sponsors know quite well their portfolio unlike a pure investor that will have to deal with asymmetry of information. * On the other hand, securitisations are structured with eligibility criteria, some of whom are dictated by STS criteria, others on customer request, that contain the portfolio to its best part (no delinquencies, no restructuration/forbearance, etc.).   Those opposite effects are relatively well balanced and there is no reason that one role should benefit from favorable treatment.  In both situations, securitisation should be seen as transforming the risk of the pool, with a small but now well-contained inefficiency, which means that the new capital allocation should be quite close to capital neutrality. |  |
| Question 9.6. Have you **identified** any areas of **technical inconsistencies or ambiguities** in the prudential treatment of securitisation in the CRR (**other than the ‘quick fixes’** identified by the [ESAs in the report JC/2022/66](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf" \t "_blank)) that could benefit from further clarification? | Answer  Yes  No  Don’t know / no opinion / not applicable |  |
| Question 9.7. If you answered yes to question 9.6., please **explain** and provide suggestions for possible clarifications: | Suggestions:   1. **the Article 243 shall be deleted (or strongly amended) to avoid inconsistencies.**   The Art 243 additional limitations for benefiting from the STS treatment may discourage banks to issue STS. Similarly, the cost of senior STS funding to clients is mechanically higher due to STS constraints.  ABCP/nonABCP shall be eligible to Art 243 STS if and only if each underlying exposure meets individually a STD RW <= 75 % (retail exp) or 100 % for any other exposures. =>excludes pools with one single corporate loan rated B+(or RW150%), excluding part of portfolios of leasing, trade receivables or SME.  **We suggest deleting Article 243 or increasing RWlimit to 150% or introducing a materiality threshold.** Same for residential and commercial mortgages, especially as the CRR2 calibrated 40% and 50% RW criteria must be recalibrated with the new CRR3 STD RW. We also believe that the ABCPs derogation, provided the RW of facility is <100%, currently limited to IAA. should apply to all approaches.   1. **Current 0%/15% RW floor** constrains the less-risky pools, making SRT securitization inefficient for them. Such a significant misunderstanding of the securitization framework (consequence of outcry against securitization post subprime crisis, also seen in Solvency 2), has unduly affected the low-risk European mortgage market. 2. **The RW from 5 different methods** are not comparable: Eg the CQS 12-14 attracts non-senior a SA RW of 600%-900% compared to a 1250% in SEC IRBA/SEC-SA which can lead to illogical results 3. **The SRT excess spread treatment shall be reviewed.** As future revenues are removed from own funds, eg deduction, they should not be included in PBA/CRT transfer tests, since it can only be better after securitization. 4. **CCF applied to liquidity facilities and undrawn credit lines** granted by banks in securitisation transactions should be amended in CRR, as a 100% CCF is overly punitive for a “secured” off-B line.   The decision post-GFC to depart from the 0% Basel CCF to 100% was an overreaction.  Compared to 0% for supersenior & cancellable liquidity facilities, the off-balance charge (pro-drawing) is bearing same charge than once activated (even If globally “secured”).  For ABCP & warehousing lines, it is typically in form of committed facility (<> cancellable, unlike UCC). With 100% CCF, the undrawn part of the Off-Bal facility, attracts same capital charge as any drawn part, in contrast to corporate facilities such as RCFs with CCF 40% for undrawn part.  We think that this discrepancy is not justified because the drawing of a committed securitisation facility requires eligible assets sold to the SPV, understating an asset growth for the originator, which is in breach with classical global crisis scenario. As a proof, during Covid, many clients/originators did not draw on their sec. facilities simply because there was no new asset origination. This is in sharp contrast to the unsecured corporate RCFs which were fully drawn during Covid by corporates to ensure liquidity.  This overcharge in CCF RW limits private securitisation facilities that are needed for warehousing new origination ahead of public ABS issuance.   * **We therefore propose a CCF of 40% for the targeted scope of the senior financing of client’s assets, either via ABCP lines conduits or warehousing lines**  1. A discrepancy with the non-securitisation framework stems from the definition of commitment (which includes UCC). **Unlike Basel, which limits its application to non securitisation** (commitment is defined in CRE 20.94 in SA/ in CRE 32.32 for IRB, but not mentioned in the securitisation part), EU transposition (CRR3 Art.5) may be literally read as extending the application of the commitment notion to the entire credit risk framework. **Clarification is required.  Either securitisation is not in the scope of the commitment definition as per BCBS, or, should the deviation on commitment definition from Basel be maintained, an appropriate treatment of UCC in the form of securitization facilities shall be contemplated (CCF 10%, exemptions…)**. 2. There is a**n issue with the K\_IRB LGD calibration in EBA RTS**, effective in 24Q3. Iif banks as investors in the SEN tranche are using SEC-IRBA for the pools originated or serviced by clients, EBA accepts usage of the banks internal PD, but not the LGD’s. Rationale being that LGD is originator/servicer specific as it reflects underwriting/servicing standards. For pools originated and serviced by banks’ clients, banks must use flat LGD of 50% for senior exposure and 100% for sub-exposures. Two issues:    1. for SEN exposures, there is no differentiation between SEN UNSEC exposures and SEN SEC expos; no LGD benefits from security compared to the foundation approach where the LGD is reduced to 25%.    2. for SUB expos, the 100% LGD is too harsh compared to the foundation calibration of 75% LGD. **EBA RTS on Kirb calculations shall be modified in line with the Foundation Approach:25% LGD for secured, 40% for senior unsecured, 75% for subordinated** |  |
| Question 9.8. Are there **national legislations** or **supervisory practices** which in your view u**nduly restrict banks** in their potential role as investor, originator, servicer or sponsor of securitisation transactions? | Answer  **Yes**  No  Don’t know / no opinion / not applicable |  |
| Question 9.9. If you answered yes to question 9.8., please **explain** and provide examples: | Some supervisory practices should be adjusted:   1. The E***BA guidelines for SRT*** introduce some ratios (especially the CRT ratio) that are not economically linked to the transfer of risk or that are too prescriptive. (See SRT dedicated part) 2. The ***EBA guidelines on WAL calculation*** also introduce too much complexity for a simple parameter. This parameter is capped at 5 years usually in banking regulation and floored at 1 year. We consider that WAL calculation should be simplified. It could be aligned to the WAL value used for market pricing. |  |
| Question 9.10. How do **banks use** the **capital** and **funding** **released** through securitisation?  Please explain your answer and if possible, quantify how much of the released capital and funding is used for further lending to the EU economy. | * Banks have historically used securitisation for funding as a diversification tool. This made sense, as the investor universe was broader at the time and therefore pricing and liquidity of RMBS / ABS were attractive enough (with limited execution risk). * Nowadays, banks are using securitisation mainly as a risk transfer instrument. Synthetic securitisation only achieves risk transfer, while full capital stack securitisations can achieve both funding and capital relief * Banks also use securitisation as a contingent liquidity solution, through retained securitisations that are eligible to repo with central banks or private investors. These transactions have been helpful to support bank liquidity in stressed times (e.g., the 2011 sovereign crisis for Southern Europe) * Lastly, banks can support their clients through private securitisations that can be refinanced through ABCP conduits (ow trade receivable securitisations)   With a wide range of instruments, ranging from a credit risk guarantee to a transaction closer to a pure sale of asset, or to contingent funding, **securitisations offer a wide range of possibilities** to improve the balance sheet, to release capital and to diversify funding.    As previously mentioned, any smoothing of the prudential treatment (for example p-factor and risk weight floor reduction%) will increase mechanically the financing capacity of the banks, and hence promote EU banks as financing actor of the upcoming demand. |  |
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| **Risk weight floors**  The risk weight **floors**, the **p‑factor** and the requirement of risk weighting at **1250%** for the securitisation positions up to KIRB/KSA are key measures, ensuring the non‑neutrality of the securitisation capital framework.  The main objective of non‑neutrality is to protect against certain structural risks, including agency and model risks, that are more prevalent for securitisations than for other financial assets and give rise to some degree of uncertainty in the calculation of capital requirements for securitisations, even after all appropriate risk drivers have been taken into account. To capture those risks adequately, the CRR sets out a **15% risk‑weight floor** for **non‑STS** securitisation positions and a 10% risk‑weight floor **for STS** securitisation positions (positions in re-securitisations – generally not admitted under the EU securitisation framework – when allowed by supervisors, are subject to a more conservative 100% risk-weight floor), **irrespective of the approach** for calculation of capital requirements **and the role** of the bank in the securitisation (originator or investor with respect to the securitisation position).  ESAs contend that **originators,** unlike the investors, are subject to **reduced model and agency risk** in relation to their own originated securitisation. The ESAs found that the **current risk‑weight floors on retained tranches are unjustifiably high** and operate to dissuade banks from originating a larger volume of SRT trades. Accordingly, the ESAs **recommend lowering** the risk weight floors for originators being the original lenders[\*] (**in STS deals, under SEC‑IRBA, from 10% to 7%, and under non‑STS for all approaches, from 15% to 12%),** subject to safeguards. These safeguards would seek to ensure an adequate reduction in the credit risk of the underlying exposures retained by the originator and prevent undercapitalisation of the underlying risk of the respective securitisation positions retained by the originator (criteria **in relation to the thickness** of the sold non‑senior tranches, amortisation structure, granularity and, for synthetic securitisations only, counterparty credit risk).  While the safeguards aim to ensure the resilience of the transactions, they have been **conceived for future issuances**, rather than for existing trades (indeed only a minority of the existing transactions would pass the criteria). The criterion on the thickness of the non‑senior tranche has been perceived by various stakeholders as particularly conservative and prescriptive.  \* For instance, only originators involved in the origination of the underlying exposures as referred to in point (3)(a) of Article 2 of the Securitisation Regulation. This **would exclude** any **originator that “purchases a third party’s exposures on its own account and then securitises them**”, according to point (b) of the same Article, to avoid that credit institutions would expand beyond core businesses just for the purpose of securitising the respective exposures in order to benefit from the reduction in the risk weight floor. | | | |
| ***Questions*** | ***FBF Anwers*** |  |
| Question 9.11. Do you agree that **securitisation entails a higher structural model risk** compared to other financial assets (loans, leases, mortgages) due to, for example, the **inherent tranching**? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.11: | We do not agree that securitisation entails a higher structural model risk compared to other financial assets (loans, leases, mortgages) due to the inherent tranching:   * The tranching redistributes the risks differently, with a dedicated priority of payments, but there is no additional source of risk.  Asymmetry of information may create additional risks, i.e. model risk or agency risk. But this asymmetry has been significantly reduced thanks to the regulatory reporting and due diligence requirements. And it does not exist for originators retaining their own tranches. |  |
| Question 9.12. Do you consider that scope and the size of the **reduction of the risk weight floors**, as **proposed** by the ESAs, is proportionate and **adequate** to reflect the limited model and agency risks of originators and improve the risk sensitivity in the securitisation framework, taking into account the capital requirements for other financial instruments? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.13. If you answered no to question 9.12., should the **scope and size of the reduction of the risk weight floors be amended**?  For example, should it be **extended to investors** in a targeted manner (such as, for example, to investors in STS securitisations and under SEC‑IRBA approaches only, to prevent discrepancies with the prudential treatment of covered bonds under the SA approach)?  Or, on the contrary, should the scope be reduced to only include **originators who are servicing** the underlying exposures?  Please justify your reasoning: | For the purposes of homogeneity and ensuring a level playing field, the **risk weight floors** should be adjusted for banks in all roles, and be aligned across all the prudential methods, which means that the floors should be the same for the SEC-SA, SEC-IRBA the SEC-ERBA and IAA, and only differentiated by STS and non-STS securitisations.  The reduction proposed by the ESA goes in the right direction, but it will not be efficient for the securitisation with low-risk weight. And this method might understate risks when dealing with high risk pools.  An alternative approach should be envisaged:  **The Risk Weight floors should be redesigned as a percentage of the RW of the pool for all methods (SEC-SA, SEC-IRBA the SEC-ERBA and IAA), leading to a Sensitive risk weight floor based on the Risk Weight of the pool**,  This will be more risk sensitive (lower for low-RW pools, but also higher for high-RW pools).  We consider that the floor corresponds to a residual risk on the pool, and as such it should be proportional to the underlying risk, with a lower level for STS transaction.  **The RW Floor should be proportional to the underlying portfolio/pool capital, with the formula:**   * + **RW Floor = 7% × RWpool for STS transaction**   + **RW Floor = 12 % × RWpool for non-STS transaction**   **with RWpool = Kpoolx12,5, amortizing during the life of the transaction.**   |  |  |  |  | | --- | --- | --- | --- | | **Risk Weigh Floor** |  | Current | Proposition | | All Methods | STS | 7% | **7% × RWpool** | | non-STS | 12% | **12 % × Rwpool** |   Such proposal has been calibrated using different methods (see Europlace publication).  Note that for the purposes of homogeneity and ensuring a level playing field, the **risk weight floors** should be simultaneously adjusted for banks in all roles (originator, sponsor, investor), and be aligned across all the prudential methods (SEC-SA, SEC-IRBA the SEC-ERBA and IAA), and **only differentiated between STS and non-STS** securitisations.   * However, since the asymmetry of information is different between an (external) investor (or ABCP sponsor), and an originator:   + the floor for **an investor** could be based on **standard Risk Weights**, whereas   + f**or an originator**) RW of the pool could follow its internal method (resp. IRB or SA method) in determining the ratings/risks weights. |  |
| Question 9.14. Do you consider that the ESAs’ **proposed** accompanying **safeguard,** with respect to the thickness of the sold non‑senior tranches, is proportionate and **adequate** in terms of ensuring the **resilience** of the transactions? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.15. If you answered no to question 9.14., please **provide and explain** alternative **proposals** to ensure a **sufficient thickness** of the **sold non‑senior tranches** to justify a possible **reduction** of the risk‑weight **floor** in an efficient and prudent manner. | NO This proposal is neither proportionate nor adequate.  Under the current framework, sold non-senior tranches must detach above pool’s Kirb/Ksa, otherwise the transaction is not efficient, and it does not provide “Commensurate Risk Transfer”, hence the JST would object to it.  Hence, **by definition, all live transactions “sold non-senior tranches” are thick enough.**  As a reminder, before securitisation, originators/banks hold capital up to Kirb/Ksa, so they are at most as protected as after securitisation: in most, if not all cases, originators/banks are better-off after securitisations.  That’s why one should question the need for such a **Thickness constraint** (since regulatory formulas already consider the distribution of risk).  It should rather be removed for efficiency of the regulation. |  |
| Question 9.16. Do you consider that the **other three safeguards as proposed by the ESAs** (amortisation structure, granularity and, for synthetic securitisations only, counterparty credit risk) are proportionate and adequate in terms of ensuring the resilience of the transactions? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.17. If you answered no to question 9.16., please **provide and explain alternative** proposals for **safeguards** that would effectively ensure the resilience of the transaction and would **justify the reduction** of risk‑weight **floors**. | For French banks, it is not recommended to reintroduce any additional safeguards.  The current framework is already very demanding and provides for both significant and commensurate risk transfer. There is no justification for so-called additional “safeguards” since by construction, securitisation transactions effectively transfer risk to investors and since banks, from a risk perspective, are always better-off after securitisation than before securitisation.  The proposed advanced solution "Sensitive RW floor" (applicable in SA as well as in IRBA, and on the SEC ERBA and SEC IAA tables) is dynamic.  As such, our proposal does not necessarily involve a systematic lowering the floor. Floor would even be higher than today on riskier products.   * + - A sensitive floor will allow working on less risky assets: For example, as of today, usual Retail Mortgage Loans bearing a 10% RW are hardly securitisable, as their RW is unduly raised up to 15% via the current fix floor.     - It is closer to the economic reality.     - It is consistent across methods and allows realigning the fixed RW floors mentioned in the ESA study (7% and 10% as under Basel 2) for the classic RWs corresponding to 10% of K sa for retail loans with 75% RW and/or for corporate exposures with 100% RW, or more for corporates at 150%. To be extended also on SEC ERBA and IA.   According to ESAs' 2022 proposal\*, safeguards should however be deployed to counterbalance the potential lowering of the RW floor, such as Creditor hierarchy; tranche thickness; sufficient granularity; counterparty risk neutralization; amortization conditions…  >> For French banks, it would not be pertinent to reintroduce such safeguards, and it could even be counterproductive in pursuing a revival of the securitisation market, especially on projects perimeter.   * The proposal for a sensitive RW floor does not consist of a systematic lowering but a greater correlation to the underlying economic risk level. It can lead to an increase in the minimum RW in some cases. As such, this sensitization itself constitutes a safeguard.   With such sensitive floor, lowering the floor level will require banks to increase the loss absorption tranche (securitizations being calibrated on this regulatory floor), which mechanically better protects banks from an economic point of view (but at a PNB cost).   * The reintroduction of fix safeguards constraints would have undesirable side effects on certain perimeters:   1. For example, any constraint on granularity will limit securitizations in the "project financing" or "infrastructure" segment (already mistreated/penalized by CRR3, even if considered as the corner stone of Green Transition), but this granularity constraint would have strictly no effect on "consumer finance" or "retail mortgage" pools.   2. The concentration criterion will also be sensitive to the type of asset pool (same reason as above). Concentration and granularity would therefore need to be declined by category of operations/segment. * Among these safeguards, some would be redundant:  For example,1) for the SEC-IRBA formula which is already natively sensitive to granularity. 2) Granularity is already under limit for the STS criterion. 3) Granularity is also "safeguarded" by the JST: The authority can already refuse upstream the application of SEC-SA if the granularity is not sufficient given the segment concerned (with proportionality therefore).   >> On the top of this, the EBA had by itself concluded - according to its simulations in its December 2022 report - that all ESA proposed safeguards would block the floor lowering measure for almost all of them (146 out of their sample of 160, i.e., more than 91%, only 14 structures could benefit of the proposal of a lower RW floor because of the cumulation of the safeguards. Only 14 structures could benefit of the proposal of a lower RW floor because of the cumulation of the safeguards.)  EBA has hence already highlighted that such deployment of "safeguards" would mechanically stifle the securitization revival initiative (and any regulatory simplification wish).  Would the introduction of such “safeguards” be necessary, they should be very carefully "proportionate", and such introduction should be restricted to few of them: Granularity ? (a fix 2% worst case – from from either ABCP or non-ABCP STS criteria- could be discussed, or more probably such a granularity safeguard would require dynamical definition through a new formula - tbd), Amortization? and absence of counterparty risk? could be further studied) …  However, all of us must keep in mind that such initiative would have negative side-impacts, as they would limit specific segments such as infrastructure, would sharply limit securitization revival initiative and would deeply jeopardizing regulatory simplification. |  |
| Question 9.18. If you answered no to question 9.16., as an alternative, instead of these three safeguards, taking into account the need to ensure simplicity, would it be preferable to **limit the reduction** of the risk weight **floor** to **STS transactions only**? Please explain. | NO.  It does not make sense to limit the reduction of the risk-weight floor to STS securitisations only, since the STS framework is not related to the credit risk of the underlying pool of securitized assets.  The risk-weight floor should be set at the level under which banks would be considered as not holding enough capital on retained tranches to absorb losses that could impact its positions: But whether securitisations comply with STS requirements or not, they are always structured in such a way that regulatory expected and unexpected losses are covered by capital and/or credit protection (otherwise, there would not be “significant” or “commensurate” risk transfer, and then the securitisation would not take place). |  |
| Question 9.19. What would be the **expected impact** of a possible **reduction of the risk weight floor** on EU securitisation **activity**?  Please explain any possible impact on different types of securitisations (traditional securitisation, synthetic securitisation), from both supply and demand sides. | A more economically adjusted risk Weight floor could unlock significant opportunities for revival of securitisation market.  As for examples:   * On the Supply side:   Currently some portfolios with very low risks cannot be economically included in a SRT securitisation.  A lower floor will thus make possible the transfer of risk for assets such as residential mortgage, which is one of the largest asset classes in European private debt.   * On the Demand side:   The lowering of the risk-weight floor for investors will also increase the demand on senior tranches, mainly on cash transactions.  The impact on synthetic transactions will be limited since they are often retained by the originator (but it will have an indirect effect on the supply side). |  |
|  | | | |
| **The (p) factor**  The (p) factor is the main parameter of non‑neutrality in the securitisation framework. Besides incorporating the capital non‑neutrality, it also serves as a smoothing parameter to mitigate the so‑called ‘cliff effects’ that arise when small changes in input parameters under the current risk weight functions result in comparably large changes in risk weights (the lower the (p) factor, the higher the cliff effect). The (p) factor aims to capture the structural risks of securitisation [\*] in particular agency and model risks, and to some extent correlation (risk of correlated defaults, particularly present in non‑granular pools). A p‑factor of “1” means that for the whole securitisation structure (i.e., all the tranches) there is 100% more capital required (doubling the capital required) compared to the requirement that applies to the underlying portfolio of assets.  In their **[2022 advice, the ESAs](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf" \t "_blank) did not support the reduction of the (p) factor.** In particular, they considered that lowering the (p) factor, without making other changes to the risk‑weight function underpinning the SEC‑IRBA and the SEC‑SA formulae, **might increase the risk of cliff effects** and of **undercapitalisation of the mezzanine** (non‑senior) tranches. Overall, the **reduction of the (p) factor seems to have the most significant impact on the capital treatment of the mezzanine tranches**, where more bank investments may not be desirable, and a l**ess** significant impact on the capital treatment of **senior tranches**, where the risk weight floor has a more significant impact.  The issue is whether the (p) factor could potentially be reduced, in a targeted manner and on a limited basis only (equivalent to, for example, a [x%] reduction, compared to the existing treatment), to improve the coherence between the actual risks and the capital treatment, while avoiding the unwarranted risk of increased cliff effects and undercapitalisation of the mezzanine tranches in particular. Possible targeted reductions could focus on originators, STS transactions, or senior tranches.  *\* Under SEC-SA, there is a fixed (p) factor of 1 (for non-STS securitisations) and 0.5 (for STS securitisations).  Under the SEC-IRBA, banks may calculate their own supervisory parameter based on four risk factors, i.e., the framework (correlation effect), the granularity of the securitised pool for wholesale, the capital charge for the underlying exposures, the average loss given default of the securitised pool, plus one non-risk parameter (tranche maturity MT, capped at 5 years), which is subject to a* ***floor of 0.30****.*  *There is no (p) factor in SEC-ERBA where the capital requirements are set out in the look-up tables, to ensure consistency compared with the capital requirements with SEC-SA.* | | | |
| Question 9.20. Do you consider that the **current levels of the (p) factor adequately address** structural risks embedded in securitisation, such as model risk, agency risk and to some extent correlation, as well as the **cliff effects**? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.21. If you answered no to question 9.20., please provide the **justification**, and provide quantitative and **qualitative data**, for whether and **how the (p) factor overestimates the risks** and inappropriately mitigates the cliff‑effects, for specific types of securitisation exposures.  targeted | The p-factor is overly conservative in all methods and increases the non-neutrality (which is embedded in the formulas following the 1250% Risk Weight of the Kirb first loss).  As indicated in 9.4, we recommend moving towards closer to neutrality for originators (and ABCP sponsors) since there is no asymmetry of information.   * The reduction of the p-factor is part of the solution.  1. When a bank realizes a securitisation in order to transfer risk (through SRT), the bank is exposed to its own portfolio and the securitisation is an insurance that can only lead to a reduction of the capital allocated. There is no additional risk linked to model risk, agency risk or correlation risk since the primary risk is on the pool which is very well known and diversified in the portfolio of the bank.   Here, cautiousness should be limited to the efficiency of the method of risk reduction.   1. When a bank realizes an investment, it is subject to model risk, correlation risk or agency risk because of the asymmetry of information. However, this additional risk is not correctly dealt with the p-factor now. And it has been reduced by other parts of the regulation (regulation of rating agencies, etc.).   More broadly, on SEC-SA, it is key that the Commission considers the level playing field stake, specifically with the UK.  The PRA, in an open consultation, proposes an optional formulaic p-factor for both capital calculations under the SEC-SA and for output floor calculations, using the LGD value based on the type of underlying  Exposures.  The resulting factor would be between:  •              a floor of 0.3 and a cap of 0.5 for STS securitisations  •              a floor of 0.5 and a cap of 1 for non-STS securitisations  This new proposal has not been evaluated yet by the EU banking industry, notably in terms of impacts. However, it is obvious that the PRA formula proposal under consultation would be complex for a SA approach, could be less efficient than the simple solution (new fix p-factors) proposed here, in line with current CRR transitional output floor amendment 495. |  |
| Question 9.22. Do you consider that **potential targeted and limited reductions to the** **(p) factor** may **increase** securitisation **issuance and investment** in the EU, while at the same time keeping the capitalisation of the securitisation tranches at a sufficiently **prudent** level? | Answer  **Yes**  No  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.22: | The absence of capital neutrality is a strong limiting factor for three reasons:   1. The RW floor 2. The p-factor 3. The 1250% RW of the Kirb (or Ksa) for first loss tranches   Certainly, the RWA floor is an important limiting factor since SRT securitisation of low RW portfolio is simply/mechanically excluded, and those portfolios represent the largest source of assets. And the floor impacts all methods (IAA, SEC ERBA, SEC SA, SEC IRBA).  However, the high p-factor is also a limiting factor because it increases the cost of insuring mezzanine tranches, which is a key component of the economy of SRT transactions.  In essence, capital requirement on the pool (Kirb) corresponds to the maximum loss that the regulation envisage on the pool. The securitisation process allocates this loss differently, but the total capital allocated should be the same at the end (capital neutrality).  In this regard since the Kirb first loss is weighted at 1250%, the p-factor should be minimal. A high p-factor impacts the size of the mezzanine tranches and therefore transaction costs.  Achieving capital neutrality should be a key objective for every method (IAA, SEC ERBA, SEC SA, SEC IRBA).  The perpetuation and extension of article 465 of the CRR (p-factor divided by two) beyond the Output Floor seems to be the minimum recalibration for originators to envisage viable both STS and non-STS transactions under SEC-SA. |  |
| Question 9.23. If you answered yes to question 9.22., **what criteria** should be considered when considering such **targeted and limited reductions**? | Exposures held by originators versus investors  Exposures in STS versus non-STS securitisations (beyond the differentiation already provided for in Article 260 and in Article 262 CRR)  Exposures in senior versus non senior tranches  Exposures calculated under different capital approaches  Other criteria  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.23: | We believe that the reduction of risk weights should concern all types of exposure and should not be limited nor targeted.  The possible changes in the prudential treatment should apply to banks in all their roles, originators, sponsors and investors. CRR prudential treatment improvements should also apply to banks as investors, in the same way that Solvency II prudential framework should be reviewed to make insurers come back as investors. Neither the criteria Exposures in STS versus non-STS securitisations (beyond the differentiation already provided for in Article 260 and in Article 262 CRR), nor the capital approach, nor the seniority.  The review of this P-Factor is highly required for revival of appetite from investors in priority on Senior tranches (being STS or not).  We would suggest the following quick-fix measures:  - **in the SEC SA approach** (Art 261-262), a **reduction of the p-factor**   * from 0,5 down to **0.25 for STS** securitization and * from 1,0 down to **0.5 for non-STS**   in all roles (originators, sponsors, and investors),  Beyond the calculation of the sole output floor article 465 (on output floor) should hence become permanent.  - **in the SEC-IRBA calculation** (Art 259-260)**, a recalibration of the floors and caps** for p-factor with:   * + a floor at 0.2 for STS and 0.3 for non-STS,   + and a cap at 0.5 for STS and 0.75 for non-STS.  |  |  |  |  | | --- | --- | --- | --- | | **P-Factor proposal** |  | Current | Proposition | | SEC-SA | STS | 0,5 | **0,25** | | non-STS | 1 | **0,5** | | SEC-IRBA | STS | [0,3 ; 0,75] | [**0,2** ;**0,5**] | | non-STS | [0,3 ; 1,5] | [0,3 ;**0,75**] |   (le tableau sera retiré de la réponse en ligne)  In addition, it should also be made clear that the p-factor reductions apply to banks in all roles (originators, sponsors, and investors), and that a similar adjustment should be made **for the SEC-ERBA and the IAA** by adjusting risk weight |  |
| Question 9.24. As regards your answer to 9.22., please provide **quantitative and qualitative data** on the likely impact of possible targeted and limited r**eductions to the (p) factor** as investigated above, in particular how such targeted reductions **would avoid cliff effects** and **undercapitalisation of mezzanine** tranches and, how they would not create **incentives for banks to invest in mezzanine tranches.** | Considering the progress made in the last decade regarding the EU Securitisation Framework, which has significantly reduced agency and model risks for securitisations, an efficient allocation of risk would be capital-neutral, with a moderate increase concentrated on the floor on senior tranches.  In addition, a reduction of the p-factor is only a means to get closer to a capital-neutral allocation. The cliff effect resulting from the current framework is linked to the overstatement of this risk weight (and not an undercapitalization). |  |
| Question 9.25. As regards your answer to 9.22, please provide the **data** on how they would have a **positive impact** on the **issuance** of securitisation, the **investments** in securitisation, and the placement of securitisation issuances with external **investors**, f**or different types** of securitisations (traditional securitisation, synthetic securitisation). | **Concerning the reduction of the floor**, based on a risk sensitive value, it will have an impact on the securitisation of low-risk portfolio, for example RMBS:   * Currently mortgage pools, that have a very low default rate in Europe, are mainly financed through the balance sheet of banks.  The mortgage pools are financed through Covered bonds, but for a limited part (in France mortgages represent 1,500billons euros for less than 400 billion engaged in covered bonds), * **Considering** that low RW pools are also well considered by investors, and that they would be eligible to LCR, this amendment will thus have the largest potential impact. * We could anticipate more than a threefold increase in securitization positions within banks' treasurers' buffers. * Hence, **securitisation has demonstrated strong resilience during recent periods of tight liquidity**, with their resilience attributed to:   + their quality (fully secured),   + floating rates properties (which are useful for being monetized at par and easier to avoid micro-hedging within the buffer),   + and the depth of their market.   This resilience has been highlighted recently while investors were facing a systemic crisis in September 2022 (during the UK” minibudget crisis”). Securitisation stayed more resilient to liquidity crisis than many others bonds, as shown in study from 25.02.2022 Risk Control research note “[Comparing ABS and Covered Bond](https://www.riskcontrollimited.com/insights/comparing-cb-abs-and-corporate-bond-liquidity/) Liquidity”,   * Finally, handling securitisation within their buffer would allow banks a better diversification. * **Concerning the p-factor** (or the reduction of the 1250% risk weight on the upper part of the Kirb), the main impact is expected on mezzanine tranches. This is important for SRT transaction that will be more efficient with a lower cost at issuance for investors |  |
| Question 9.26. Do you consider that the **current approach to non‑neutrality** of capital requirements as one of core elements of the securitisation prudential framework, leads to undue **overcapitalisation** (or undercapitalisation) of the securitisation exposures, in particular when compared to the realised losses and distribution of the losses across the capital structure (different tranches of securitisation) over a full economic cycle? | Answer  **Yes**  No  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.26: | Yes, indeed. It leads to strong overcapitalization (of both senior and junior/mezzanine securitisation positions).  If we look at **average default rates from rating agencies**, such as S&P:   * the average cumulative default rates over 3-year horizon for BBB rating (from 1983 to 2022) is 1.4%, which corresponds to approximately 0.5% /year.  **The mezzanine tranche** that receives a risk weight around 260% based on SEC ERBA or that could be even higher using SEC IRBA, is **as risky** on average over a cycle as the investment on **an investment grade corporate**.  However, a **Corporate with 0.5% PD would receive around 100%** risk weight under standard method or that could be around **60%** under IRBA.  => **The ratio of overcapitalization on this mezzanine tranche compared to the equivalent PD Corporate is hence between x5 and x2.5**. * For a AAA rating, for example on EU RMBS the average cumulative default rates is 0.12% over 10year horizon under S&P historical data. This level of average risk is pretty much in line with the very best corporates and less than 10% of IRB risk weight. We can also compare this risk weight with the usual average IRB risk Weight on French Real Estate, around 12%. However the current risk weight for a 5Y senior tranche is at least 20% (and could be 70% if the AAA tranche was not senior), even though there is an additional layer of protection.  =>**The ratio of overcapitalization on this AAA RMBS tranche is at least x2**.   Even if they are not public, it would be instructing for Commission to consult the back-testings that are mandatory run on SRT Issuances losses (that should be available from 2015).  **They could be explicit proof that Senior tranches are unduly overcapitalized in Europe.** |  |
| Question 9.27. If you answered YES to question 9.26, please **justify** your reasoning and provide **quantitative** and qu**alitative data** to show the extent of the undue non‑neutrality (overcapitalisation or undercapitalisation), in particular when **compared to the realised losses** and distribution of the losses across the capital structure, taking into consideration the need to cover a full economic cycle. | If we use the comparison from question 9.26, based on the average default rate over the cycle, the senior tranches and the mezzanine tranches receive significant overcapitalization.  This is clearly linked to capital non neutrality as illustrates the example of the French RMBS whose pool would be risk weighted at 12%. The proper risk weight on a AAA senior tranche for a pool having 12% risk weight should be far below 10%.  With a cumulative average default rate of 0.12% over 10 years, we can expect 1% cumulative loss over 10 years in the extreme loss event that correspond to x8 the average (based on defaults in Europe, knowing that in France it is much lower).  If we look at 1-year PD from S&P, we have 0.06% and with x8 extreme loss stress it would require 0.5% of capital over the life of the transaction. Therefore, a **Risk weight between 6% and 12% would be already conservative rather than the 20% (or 70%) proposed by the regulation.**  Similarly, under a BBB rating, the loss would be consistent with a capital requirement at a x8 stress (assuming 0.5% default/year), we would need between 5% and 10% capital requirement corresponding **to 60% to 120% risk weight,** **far below the 260% level of the regulation** (on 5Year mezzanine tranche). |  |
| Question 9.28. Based on your answer to 9.26., do you consider that a**lternative designs of the risk weight functions**, such as an **inverted S‑curve**, or introducing a **scaling parameter to scale the KA**[\*] downwards, within the current halfpipe design, as investigated in the Section 3.3.2 of the [EBA Report](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf" \t "_blank), have potential to achieve **more proportionate levels of capital** non‑neutrality and capital distribution across tranches, address the potential **cliff effects** more appropriately and achieve prudential objectives?  \* KA factor as specified in paragraph 2 of Article 261 of the CRR, for the purpose of calculation of the capital charge under the standardised approach (SEC-SA). | Answer  Yes  No  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.28: | **Even if we would be much more supportive of a reduction of p-Factor as suggested in Question 9.23,** the **introduction of the scaling parameter on KA (and Kirb), under the Standard Approach,** could be an alternative solution to reduce this overstatement on mezzanine tranches and be closer to the inverted S-curve.  We remind thatFrench banks are more **reserved about applying inverted S-Curve Method in full,** but the comparison with this method remains a good measure of the degree of non-neutrality of capital.  Following the ESA’s comments, as a potential solution to be further explored in a **medium or long -term horizon**, the inverted S-curve is the most economic capital allocation.  Basically, it can be summarized as having a pivot around the attachment point equal to Kirb value, with 625% RWA, and reaching near-0% RWA when the attachment point is 2xKirb. The SEC ERBA table for mezzanine tranche with 1 Year maturity is relatively in line with this inverted S-curve, except for the upper part.  But the inverted S curve reaches near-0% value which understate the risk on the upper side and can be efficiently corrected by the floor we propose (7%x RWPool for STS or 12%xRWPoll for non-STS).  It is also important to remove discrepancies between regulatory methods, which could be addressed by mapping all methods to a single approach.  Taking into account those two modifications, the inverted S-curve would be appropriate for the calculation when the bank is originator (or ABCP sponsor), bearing in mind that every method should be adapted (IAA, SEC ERBA, SEC SA, SEC IRBA). It will be also useful to simplify the SRT transfer ratio.  We would like to stress also that the inverted S curve design has been estimated for a pool of performing loans. The extension of this approach to a NPL portfolio or other non-loan category would require an adaptation. |  |
| Question 9.29. If you answered yes to question 9.28, please **specify the impact of such alternative design** compared to the existing risk weight functions and explain an **appropriate calibration** of such alternative designs and possible safeguards for the measures to achieve prudential objectives. | Regarding the calibration of the p-factor, our preferred option remains Q.23 as a first choice, (even if the two alternatives in Q.28 will also allow much more assets to be securitized).  The reduction of the mezzanine Risk Weight will reduce the costs of insurance for SRT trades.  Combined with a risk sensitive risk weight floor, it is expected that the volume of issuance will grow for low-risk assets. This will be even more necessary that CRR3 significantly increases the RWA on those assets.  However, a large part of the expected potential increase can be obtained with just the evolution of the RW floor. |  |
|  | | | |
| ***Significant risk transfer (SRT)***  The concept of significant risk transfer (‘SRT’), i.e. transfer of a sufficient quantum of credit risk from the bank’s balance sheet to a third party, is a crucial regulatory and supervisory concept in the EU securitisation framework. It is a precondition for a bank originator to benefit from capital relief from securitisation, and therefore one of the critical considerations for a bank originator when structuring a securitisation transaction. Achieving SRT requires complying with various quantitative and qualitative tests that are defined in high level terms in the CRR. The current framework provides for two ‘mechanical’ tests (the ‘mezzanine’ and ‘first loss’ tests), which the competent authority supplements with a case‑by‑case assessment, as to whether the originator has transferred an amount of credit risk which is ‘commensurate’ to the capital relief. The ‘permission‑based’ approach is an alternative to the existing mechanical tests and may ensure that a commensurate transfer of risks is achieved. The originator has an interest in receiving the assessment of compliance with those tests by the Competent Authorities for reasons of legal certainty, and the Competent Authorities’ decision on SRT is consequential for the economic viability and ultimate structure of a securitisation executed with a capital relief intent.  In its [report published in 2020, the EBA](https://www.eba.europa.eu/eba-calls-european-commission-harmonise-significant-risk-transfer-assessment-securitisation" \t "_blank) identified a series of structural limitations of the existing SRT regulatory framework in the CRR and it proposed a set of recommendations to enhance the efficiency and robustness of the SRT framework and strengthen the consistency in the SRT outcomes (in particular in three areas: in relation to the SRT tests, the process applied by the competent authorities to assess the SRT, and the structural features of securitisation transactions which may affect the effectiveness of the risk transfer).  As one of the recommendations, the EBA recommends replacing the mechanical tests with a single comprehensive test based on the principle‑based approach (PBA) test which aims to make the SRT framework less complex and more flexible. Under the PBA test, the SRT can be achieved in case at least 50% of the unexpected losses (UL) are transferred to third parties. The EBA also provides recommendations with respect to the allocation of the lifetime expected losses (LTEL) and unexpected losses to the tranches for the purposes of the PBA test. Those recommendations have received only limited support from stakeholders, given the alleged conservativeness of the proposals as regards the suggested back‑loading of UL in a stressed scenario.  Recently, improvements have been achieved in both the convergence of assessment and the process of the SRT assessments. The recent market data confirm a considerable increase of SRT securitisation transactions. Generally, the SRT market continues to grow as these transactions allow banks, that operate in an environment with capital pressure, to benefit from a capital relief. Synthetic transactions continue to dominate the SRT segment, with a share of more than 85% in the overall notional. | | | |
| Question 9.30. Do you agree with the conditions to be met for SRT tests as framed in the CRR (i.e. the mechanical tests - first loss and mezzanine tests, and the supervisory competence to assess the commensurateness of the risk transfer, as set out in Articles 244 and 245 of the CRR)? | Cette question n’apprait pas dans la reponse en ligne => A fusionner avec la suivante (le please explain)  We agree with those tests (mechanical, first loss, mezzanine) as described in article 244 and 245.  Concerning the commensurateness of the risk transfer, the level 1 text leaves the decision to the competent authority. We would like to stress that we agree with this approach, but we disagree with the EBA guidelines that have been issued which are too restrictive and go beyond the level 1 text.  Our experience on this matter shows that the competent authority is willing to see the behavior of the transaction under a loss scenario coherent with the ICAAP stress, in order to check that the loss is adequately transferred to a third party (i.e. > 50%). This approach is fine, and significantly differs from the approach described in the EBA Guideline (for which the CRT test does not fit any definition in the level 1 text).   Articles 244 and 245 paragraph 2 in CRR require banks to perform two mechanical tests to check whether (a) the risk-weighted exposure amounts of the mezzanine securitisation positions held by the originator do not exceed 50 % of the risk-weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation and (b) the originator does not hold more than 20 % of the exposure value of the first loss tranche.  Where the possible reduction in risk-weighted exposure amounts, which the originator would achieve by the securitisation under points (a) or (b), is not justified by a commensurate transfer of credit risk to third parties, competent authorities may decide on a case-by-case basis that significant credit risk shall not be considered as transferred to third parties.  Articles 244 and 245 paragraph 3 in CRR propose an alternative to the mechanical tests. By way of derogation from paragraph 2, competent authorities may allow originator institutions to recognize significant credit risk transfer in relation to a securitisation where the originator institution demonstrates in each case that the reduction in own funds requirements which the originator achieves by the securitisation is justified by a commensurate transfer of credit risk to third parties. Permission may only be granted where the institution meets predefined conditions.  We agree with the conditions to be met for SRT tests as framed in the CRR (i.e. the mechanical tests - first loss and mezzanine tests. However, “commensurate risk transfer” is not defined and leaves to much room to interpretation and supervisory discretion at national level. In practice, the ECB currently systematically requires banks to provide the burden of proof regarding the commensurate transfer of credit risk to third parties (both §2 and § 3 requirements) and uses the EBA 2020 Report on SRT as guidelines-alike, which introduces uncertainty and administrative burden.” |  |
| Are the SRT conditions effective in ensuring a robustness and consistency of the ‘significant risk transfer’ from an economic perspective? | Answer  **Yes**  **No**  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.30: | NO  In all the approaches, the SRT conditions guarantee that at least 50% of the risks are transferred to third party, which is more than enough to have a transfer of risk (at this level we can say that the transfer is significant).  The conditions are more restrictive on the bottom of the capital structure to be sure to cover the more unexpected scenarios, but the threshold proposed is not too restrictive.  Note that PBA & CRT tests described in EBA guidelines are not efficient and are largely replaced by ECB tests (cf fast track SRT workshops Pillar 1 / Pillar2 based on ICAAP Stress)  However, PBA test seems to be already requested by ECB for some set-up. |  |
| Question 9.31. If you answered no to question 9.30, do you consider that the robustness and efficiency of the SRT framework could be enhanced by replacing the current mechanical tests with the PBA test?  The PBA test could be based on the recommendations in the EBA Report, while the recommendations on the allocation of losses to the tranches could be reconsidered. | The PBA test from the EBA rapport is unnecessarily complicated but it is a livable indicator.  It should be noticed that with a capital neutral formula, this test is simply the ratio of regulatory capital that is transferred (hence very similar to condition 244.2.a and 245.2.a), so the practical use of this test is debatable.  One can reasonably contend that the current CRR “mechanical tests” are sufficient to ensure commensurate risk transfer.  **If the SRT framework were to be enhanced by replacing the current CRR mechanical tests with the PBA test as proposed by the EBA, we believe it  would be all the more unnecessary that JST adds more requirements, such as imposing CRT test.**  Indeed, in its 2020 SRT report, paragraph 214, the EBA states that “*consideration should be given to whether the CRT test would still be needed after the eventual implementation of the PBA test in the CRR. The commensurateness of the risk transfer relies on the principle that a capital relief not justified by a commensurate risk transfer would result in a weakening of the capital position of the institution with respect to the non‐ securitised exposures. Whether this principle remained valid after the PBA was enshrined in Level 1 could be reassessed.”*  We propose to amend articles 244-245 §3 of CRR as the following:   * *“Significant credit risk shall be considered as transferred in either of the following cases:*   1. ***the risk-weighted exposure amounts of the mezzanine*** *securitisation positions held by the originator institution in the securitisation* ***do not exceed 50 %*** *of the risk-weighted exposure amounts of all mezzanine securitisation positions existing in this securitisation;*   2. *the* ***originator*** *institution does not hold more than 20 % of the exposure value of the* ***first loss tranche*** *in the securitisation, provided that both of the following conditions are met:*      + *(i) the originator can demonstrate that the exposure value of the first loss tranche exceeds a reasoned estimate of the expected loss on the underlying exposures by a substantial margin;*      + *(ii) there are no mezzanine securitisation positions. [held by the originator?].* |  |
| Question 9.32. Do you consider the process of the SRT supervisory assessments to be efficient and adequate? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.32: | There is no clear supervisory assessment since the 2020 guidelines from the EBA were never put in practice.  Each bank refers to the relationship with its competent regulatory authority.  We cannot say, however, that the process is “efficient and adequate” (Burdensome templates to exchange with JST, with still grey zone concerning the mandatory area), especially for repeat deals.  EBA recommendations set out in the EBA Report beyond the CRT and PBA tests (as finetuned with the JST) should neither be implemented in a Delegated Regulation nor become binding/imposed by JSTs. As such, we do not agree that in the November 2024 “consultation on its approach to options and discretions available in EU law”, the ECB includes the recommendations proposed by the 2020 EBA report. The proposal related to the CRT has not been tested and, in practice, banks experience that its methodology is flawed  From our experience, for SRT securitisations with new or unusual features or underlying assets, the 3-month scrutiny period may significantly be exceeded, so we believe that it would be useful to streamline the supervisory process for these non-repeat transactions. It is essential for originators of such transactions to have more visibility on the scrutiny timeline after pre-notification has been sent. |  |
| Question 9.33. If you answered no to question 9.32., please provide justifications and suggestions how the SRT assessment process could be improved further. | We welcome the fast track SRT working group to normalize the basis of this relationship.  SRT assessment should be done   * At origination only * Based on level 1 test, with a commensurate risk transfer estimated using an ICAAP stress run by the bank on the transaction   As a simple “tick the box” report based on the requirements of level 1 article 244 & 245 and with estimation of one ratio of transfer under the ICAAP stress estimated by the bank. All that should allow for a quick validation with the competent authority (other indications such as the profitability indicator for the transaction are also of importance in this regard, but do not qualify for the transfer of risk)  We do not agree that in the November 2024 “consultation on its approach to options and discretions available in EU law”, the ECB includes the recommendations proposed by the 2020 EBA report. The proposal related to the CRT has not been tested and, in practice, banks experience that its methodology is flawed |  |
| Question 9.34. Should the process of the SRT supervisory assessments be further specified at the EU level (e.g., in Guidelines, based on a clear mandate in Level 1), or should it be rather left entirely to the competent authorities to set out their own process? | Answer  Yes  No  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.34: | JSTs should have a coordinated approach to the PBA/CRT tests and clearly state that the other EBA recommendations are not, and will not become, mandatory (or “non-binding but strongly encouraged”).  The EBA guidelines are two prescriptive, and they introduce unnecessary restrictive conditions.  The CRT test defined in those guidelines does not measure the transfer of risk and introduces an uncertainty in the structuration of a transaction.  The use of excess spread as a new tranche with 1250% RW after securitisation does not take into account the fact that in the banking regulation, on the securised pool, future revenues are excluded from own funds as well (which is similar to being 1250% Risk Weighted).  Running a loss scenario (under a stress consistent with ICAAP) is much more efficient and accurate in order to qualify the transfer of risk. It will be also less time consuming for banks and it will reduce the execution risk compared to the guidelines. |  |
| Question 9.35. If you answered yes to question 9.34., please provide suggestions: | N/A |  |
| Question 9.36. If you are a supervisor, how would a change in the SRT regulatory framework (in particular on the SRT tests and the process of SRT supervisory assessments) impact your supervisory costs? | JSTs should have a coordinated approach to the PBA/CRT tests and clearly state that the other EBA recommendations are not, and will not become, mandatory (or “non-binding but strongly encouraged”).  We do not agree that in the November 2024 “consultation on its approach to options and discretions available in EU law”, the ECB includes the recommendations proposed by the 2020 EBA report. The proposal related to the CRT has not been tested and, in practice, banks experience that its methodology is flawed |  |
| ***Transitional measure in Article 465(13) of the CRR***  The transitional measure in Article 465(13) of the CRR as amended by [Regulation (EU) 2024/1623](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1623" \t "_blank) aims to mitigate possible unintended consequences of the introduction of the output floor on the calculation of capital requirements for securitisation exposures. It introduces a targeted relief for exposures risk‑weighted under the SEC‑IRBA and internal assessment approach (IAA) by halving the (p) factor in the calculation of the output floor for those IRB securitisation positions (i.e. the (p) factor is halved to 0.25 for the STS securitisation positions eligible for the preferential capital treatment under the CRR, and to 0.5 for all other securitisation positions). The introduction of this targeted relief acknowledges the fact that the (p) factor levels embedded in the securitisation standardised approach formula (SEC‑SA) when used in the context of the output floor would produce unduly punitive results for securitisations structured based on the SEC‑IRBA by banks using internal models. The transitional measure will be in application from 1 January 2025 until 31 December 2032. | | | |
| ***Questions*** | ***FBF Answers*** |  |
| Question 9.37. Do you consider that the transitional measure will remain necessary and should be maintained, in case of introduction of other changes to the prudential framework? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.38. If you answered YES to question 9.37., please explain why and whether there are any alternative measures that could be more appropriate to achieve the original objective of the transitional measure. | YES - Transitional measures are needed with the introduction of CRR3 since there is a sudden increase in requirements, and we would welcome the extension of article 465 on the calculation of the floor for the transactions under SEC-SA (beyond the output floor).  Our proposal as a targeted and limited reduction of the p-factor is to expand the transitional measure (which halves the p-factor values) beyond the output floor for securitisation transactions under SEC-SA (cf. question Q9.23).  By construction, transitional measures for the output floor and permanent calibration under SEC-SA will be fully aligned. Transitional measures will remain to apply to SEC-IRBA transactions for the output floor calculation. |  |
| Question 9.39. If you answered yes to question 9.37, do you consider that a potential targeted and limited reduction of the p‑factor might affect the effectiveness of the transitional measure under the output floor? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Please explain your answer to question 9.39: | The reduction of the p factor is already effective for the calculation of the output floor (article 465).  Our proposal as a potential targeted and limited reduction of the p-factor is to expand the transitional measure (which halves the p-factor values) beyond the output floor for securitisation transactions under SEC-SA (cf. question Q9.23).  By construction, transitional measures for the output floor and permanent calibration under SEC-SA will be fully aligned. Transitional measures will remain to apply to SEC-IRBA transactions for the output floor calculation. |  |
|  | | | |
| **Liquidity risk treatment in the LCR Delegated Regulation**  The liquidity coverage ratio (LCR), transposed in the [LCR Delegated Regulation (Delegated Regulation (EU) 2015/61 on liquidity coverage requirements for credit institutions)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02015R0061-20220708" \t "_blank), seeks to ensure that banks maintain a liquidity buffer to meet net outflows under severe idiosyncratic and market wide stress conditions. The LCR Delegated Regulation allows senior tranches of STS traditional securitisations to be included as level 2B high quality liquid assets (HQLA), capped at 15% of the liquidity buffer. Non‑senior tranches of STS traditional securitisation, non‑STS traditional securitisations, synthetic securitisation and re-securitisations are ineligible for inclusion in the HQLA.  In terms of eligible asset classes, in addition to securitisations with underlying mortgages (RMBS) in line with the Basel Standards, the EU transposition allows inclusion of securitisations with underlying auto‑loans, consumer‑loans and SME‑loans, subject to different haircuts, credit quality steps (CQSs) and other requirements (in addition, as clarified by [Q&A 2019\_4786](https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2019_4786" \t "_blank), securitisations, including NPL securitisations, that are explicitly guaranteed by the central government of a Member State can qualify as level 1 liquid assets in the LCR in accordance with Article 10(1)(c)(i) of the LCR Delegated Regulation). This expansion of eligible securities in the EU was motivated by the expectation that it would increase diversification of banks’ liquid assets.  Some consider that the liquidity treatment of securitisations in the LCR Delegated Regulation has a major impact on banks’ investments in STS securitisations and issuance thereof and have advocated for the relaxation of eligibility conditions for securitisations in the LCR.  Currently, banks make only negligible use of the capacity of their liquidity buffers to invest in securitisations as level 2B HQLA, with the share of securitisations in banks’ liquid assets ranging from 0.2% to 0.7%. This may suggest that most banks do not consider securitisations to be effectively liquid and marketable during stress. It also shows a minimal impact of securitisations on the liquid assets’ diversification in the LCR buffers – the diversification being one of the primary motivations for the expansion of eligible securitisations in the EU beyond Basel.  On a more technical aspect, several stakeholders propose to introduce an amendment to the LCR Delegated Regulation, with the aim to reflect the increased granularity of CQSs under the amended CRR and the related amendment to the Implementing Regulation on the mapping of credit assessments for securitisation positions by external credit assessment institutions’ (ECAIs) ([Implementing Regulation (EU) 2016/1801](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016R1801" \t "_blank) as per [Commission Implementing Regulation (EU) 2022/2365](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R2365" \t "_blank)). They recommend modifying the reference from CQS 1, to CQS 1 to 4, in the Article 13(2) of the LCR Delegated Regulation regarding the long‑term rating. In the absence of the updated reference, the STS securitisation tranches with ratings between AA+ and Aa‑ would unintentionally not be eligible as Level 2B securitisations and the eligibility would be limited to tranches with AAA rating. | | | |
| ***Questions*** | ***FBF Anwers*** |  |
| Question 9.40. Does the liquidity risk treatment of the securitisation exposures under the LCR Delegated Regulation have a **significant impact** on banks' securitisation i**ssuance** and **investment** activities and on the **liquidity** of the securitisation market in the EU? | Answer  **Yes**  No  Don’t know / no opinion / not applicable |  |
| Question 9.41. As regard to your answer to 9.40., please **explain the impact** on banks’ issuance of securitisation, investment in securitisation, and relative importance of the liquidity treatment under the LCR in the activity of the **primary and secondary securitisation markets**. | The current LCR regulation impacts deeply on the market liquidity of those securities, and therefore it impacts on their price (and indirectly the cost of issuance) and issuance volumes.  Banking regulation has crowded the banks’ treasuries out of the distributed senior tranches.  Non-EU investors interest, via banking intermediation, has kept the market alive, on both outright trades and repos sides.  Current regulation created a negative/vicious feedback loop that increased the liquidity premium and hence the cost for the originator, and that partially hampered the secondary market demand, which in turn lead to less issuances.  As shown within EBA Corep synthetic figures (from Figure 31 within JC 2022 66 p88, “HQLA by Asset classes”), the part of Securitisations within EU banks buffer has been divided by more than 3 (from 0.7 to 0.2%) following the strengthening of rating constraints for such asset within LCR buffer.    *Extract from [JC 2022 66 page 88 Figure 31: HQLA by asset classes- JC Advice on the review of the securitisation prudential framework - Banking.pdf](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf)*  Considering that the 2014 LCR regulation was already highly restrictive due to an under-calibration of their eligibility compared to their relatively low risk and market liquidity, it significantly hindered the inclusion of securitization in the banks' liquidity buffers. Therefore, if adjusted as suggested here, we could expect an even stronger interest from bank treasurers. |  |
| Question 9.42. Do you consider that the **existing liquidity risk treatment of securitisation**, in particular in terms of credit quality steps (**CQS**s) and **haircuts** applied to securitisations eligible for Level 2B HQLA, are adequately **reflecting the liquidity and stress performance** of securitisations, across the full economic cycle, including in crisis conditions, and in comparison, with the treatment of other comparable financial instruments? | Answer  Yes  **No**  Don’t know / no opinion / not applicable |  |
| Question 9.43. If you answered no to question 9.42., please justify your **reasoning**, providing **quantitative and qualitative data** on the impact, and provide **suggestions** for what you would consider as appropriate and justified treatment in terms of **CQSs, haircuts** and other relevant requirements, without endangering financial stability. | It should be mentioned that liquidity is not a permanent situation. It depends on the number of institutions that are willing to buy a security at a period of time. As a positive loop, increasing the number of potential buyers increases the liquidity of an asset and helps reduce the loss of liquidity during a stress (and the over way around).  European market has felt the impact of a technical misstep with the update of securitisation eligibility within LCR buffer (following regulation 2018/1620, applied from January 2019), which has reduced the liquidity of the AA securitisations as unexpectedly excluded them from those buffers.  It also affects the investors’ perception of the European securitisation market. For example, a (re)insurer is interested in knowing the bank liquidity treatment of a senior tranche, as in the event it needs to liquefy a senior tranche, its price will depend on whether banks can buy it at a fair price, which itself depends on the banks’ LCR classification and haircut for that instrument, and potential ECB eligibility and repo-ability.  The most needed feature is to widen the scope of bonds that are accepted.  For this aim, we would propose reverting to the LCR eligibility criteria closer to those applying prior to 2017:   * A) Allowing AAA to AA- ratings for any senior tranche of ABS with STS certification in level 2A.  Note that in CRR3 the CQS 1 was mapped to AAA and that AA (from former CQS 1) bucket removal is an unintended consequence of the change in the mapping of ECAIsin the **2017/2401 text**. As a matter of fact, this point 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. * B) Allowing AAA to AA- non-STS senior tranches of securitisation to level 2B. This could also include ABCP issued through multi-seller conduits  |  |  |  |  | | --- | --- | --- | --- | | **Eligibility to LCR** |  | Current | Proposition | | Senior Tranches | STS | L2B | **L2A** | | non-STS | n/a | **L2B** |   Further adjustment could extend to the scope of eligibility to any kind of ABS and remove the WAL limitation.  As a matter of fact, we found it difficult to justify a current different treatment for different fixed income products, since we look here at very well rated seniors and there is no guaranty that one sector will always be more liquid than another sector. Buffer diversification is also the best protection against sudden change in liquidity affecting one sector, which is only possible if the scope of products is wide.  This is also an underlying finding of the study from 25.02.2022 Risk Control research note “[Comparing ABS and Covered Bond](https://www.riskcontrollimited.com/insights/comparing-cb-abs-and-corporate-bond-liquidity/) Liquidity”, whose key findings are that while Covered Bonds were generally more liquid in the early 2010s, since 2016, senior ABS have been consistently and equally liquid during the 2020 Covid-19 crisis.  Concerning the WAL limitation, we understand it as a protection against a change in market value due to an increase in the interest rates. However this is completely irrelevant for bonds with variable rates, which is very often the case for ABS. Hence, this limitation is not adequate.  **Haircuts** should be adapted as well (currently 15% for level 2A and 25%-35% depending on collateral for level 2B), in accordance with current levels by bucket.  Using a recent AFME survey (4 June 2024) on bank treasury function’s investment, 80% of responding banks’ treasuries invest in securitisation of which 80% for HQLA purposes. The main limitations mentioned with respect to securitisation are the limited market size, the LCR haircuts and the LCR eligibility criteria. Of course, considerations related to the risk of security (in RWA term but also linked to the interest rate risk) and its profitability come just after.  In this survey around half of respondents expressed an interest in investing in ABS from non-eligible sectors, such as Buy to let RMBS and CLO and to a smaller extent CMBS. Therefore, a widening of the LCR buffer should contribute to an increase of the HQLA portfolio invested in ABS, since it will be a welcomed opportunity to diversify its liquidity risk. |  |
| Question 9.44. With a change in the CQSs, haircuts and other relevant eligibility conditions to the Level 2B liquidity buffer, by **how much** would the **volume** of securitisations that you **invest in**, change? | Looking at the size of the bucket Level 2B and 2A, moving from the level 2B to level 2A with the corresponding change in haircuts we propose, and based on the AFME survey on bank treasury functions (4 June 2024), it should have the potential to increase significantly the HQLA portfolio.  Obviously, it is not completely independent from the change in RWA in senior tranches we propose (see Q.9.23), due to its impact on profitability measures, and the side effects should not be underestimated:  Those treasury portfolios will be able to fill the function of liquidity provider that is usually the role of central banks, which is core to bring other investors to the market. A second-round effect is thus highly likely with impacts that are difficult to estimate. It will also depend on the evolution of constraints for those other investors, especially insurers with Solvency 2 of Asset Managers.  If we simply rely on the fact that securitisation volumes within banks’s buffer has decreased by a factor 3 (from 0,7% to 0,2%) following the implementation in 2019 of **2018/1620** regulation (as shown in below *Figure 31: HQLA by asset classes Extracted from* [JC/2022/66](https://www.eba.europa.eu/sites/default/files/document_library/Publications/Other%20publications/2022/Joint%20advice%20to%20the%20EU%20Commission%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework/1045321/JC%202022%2066%20-%20JC%20Advice%20on%20the%20review%20of%20the%20securitisation%20prudential%20framework%20%20-%20Banking.pdf" \t "_blank)) *page 88 –( JC Advice on the review of the securitisation prudential framework - Banking.pdf)*, we can expect a threefold increase of such holdings within their buffer.  Considering that the 2014 LCR regulation was already highly restrictive due to an under-calibration of their eligibility compared to their relatively low risk and market liquidity, it significantly hindered the inclusion of securitization in the banks' liquidity buffers. Therefore, if adjusted as suggested here, we could expect an even stronger interest from bank treasurers.  Une image contenant texte, capture d’écran, nombre, Police  Description générée automatiquement  As a consequence, Level 2 assets may not, in aggregate, account for more than 40% of a bank’s stock of HQLA. Level 2B assets may not account for more than 15% of a bank’s total stock of HQLA.  As such, it would also allow for diversification within the liquidity buffers, which is now known to limit hurdling impacts in case of turmoil. |  |
| Question 9.45. Have the senior tranches of the STS traditional securitisations reached a sufficient **level of market liquidity** and stress **resilience** based on historical data covering a full economic cycle, including crisis conditions, and are there any additional solid **arguments** that could justify their potential **upgrade** from the Level 2B to Level 2A HQLA?  Please explain your answer to question 9.45: | Answer  **Yes**  No  Don’t know / no opinion / not applicable  The inclusion of an asset in a liquidity buffer (or the upgrade to an upper buffer) should have a positive effect on its liquidity. So the real question is whether a bank would have an interest in investing in such assets for liquidity purposes from a risk/return point of view.  Considering senior tranches of securitisations with ratings AAA or AA, STS or not, those assets are quite safe and provide a proper diversification in the liquidity portfolio. They also have a higher yield than sovereign of similar rating and can thus be of some interest. They also offer more frequently a variable rate remuneration, which reduces the interest rate risk or valuation risk for the bank. The inclusion or the upgrade of such assets in the LCR buffer will thus have a positive impact on the management of risks linked to HQLA portfolio, especially the various risks of concentration (in credit, sectors, or with regard to interest rate risk).  The amortization features of any Securitization is also an interesting point for a treasurer, as it implies partial inflows at each time the tranche is amortized.  A study from Risk Control (2022) finds that senior ABS have been as liquidas Covered bonds even in the 2020 Covid-19 crisis. (study from 25.02.2022 Risk Control research note “[Comparing ABS and Covered Bond](https://www.riskcontrollimited.com/insights/comparing-cb-abs-and-corporate-bond-liquidity/) Liquidity”), One reason may be that Covered bonds primary risk is on banks, hence the RMBS format offers an additional diversification of risk.  It has been recently illustrated during the MiniBudget crisis UK (sept 22)  Recent market developments evidenced that securitisation did trade a lot with comparatively stable price in a context of massive surge of volatility during the UK Liability Driven Investment crisis in the pensions industry and wider economy in the wake of mini-Liz Truss’ budget announcements (September 2022) and the Guilt crisis. Indeed, securitisations use floating rates and hence less exposed to market value volatility. |  |
| Question 9.46. If you answered yes to question 9.45., please **provide arguments and data**, that could justify the potential upgrade from Level 2B to Level 2A HQLA. | If we come back to the definition provided by the Basel Committee (Annex 1 Summary description of the LCR, 2013):   * Level 1 assets generally include cash, central bank reserves, and certain marketable securities backed by sovereigns and central banks, among others. These assets are typically of the highest quality and the most liquid, * Level 2 assets are comprised of Level 2A and Level 2B assets. Level 2A assets include, for example, certain government securities, covered bonds and corporate debt securities. Level 2B assets include lower rated corporate bonds, residential mortgage-backed securities and equities that meet certain conditions.   Consequently, Level 2 assets may not be account for more than 40% of a bank’s stock of HQLA. Level 2B assets may not account for more than 15% of a bank’s total stock of HQLA.  Therefore, the highest bucket of rating (AAA to AA-) for STS senior tranche of securitisation should be in level 2A, as is the case for L2A Covered bonds. The inclusion of those ABS assets in the level 2B bucket is not justified, it is merely a consequence of the distrust caused by the subprime crisis.  AAA senior securitisations exhibit a risk profile which is very similar to level 1 assets and should fall at a minimum in the Level 2A category. If we look at European AAA RMBS, like AAA covered bonds they have experienced a low default rate as measured by rating agency (for S&P, the average cumulative defaults over 10year horizon for AAA European RMBS -from 1983 to 2022- is 0.12%) quite comparable to some sovereign risk in the EU. It should be noticed that European real estate assets exhibit a much lower default rate than US assets even before being securitized into RMBS or covered bonds, and EU RMBS have not suffered the kind of losses that were seen in the US during the subprime crisis.  The level 2B bucket seems to focus on slightly less liquid bonds, hence it could be fit for bonds having non STS validation and similar credit quality (AAA to AA-). |  |
| Question 9.47. Considering your answer to 9.46, with an upgrade of securitisations from Level 2B to Level 2A HQLA, **by how much** would the **volume** of securitisations that you **invest in**, change? | As the sole modification of regulation in 2018 (**2018/1620**) (bringing additional restrictions on Level 2B eligibility in 2019) has generated a disruption of /3 of the volumes held in LCR buffer, we could hope that a modification of eligibility would have a stronger potential impact on the securitisation’s detentions in Buffer.  Une image contenant texte, capture d’écran, nombre, Police  Description générée automatiquement  In addition, the cap on Level 2A (40%) is much higher than on level 2B (15%), so we could logically expect the volumes to increase. |  |
| Question 9.48. Are there any **impediments** in the **current liquidity framework** that prevent or discourage banks from making a better use of their **liquidity buffer** capacity and from **increasing** their investments in securitisation exposures? | Answer  **Yes**  No  Don’t know / no opinion / not applicable |  |
| Question 9.49. If you answered yes to question 9.48, please specify what are the **impediments** and provide **suggestions** for targeted amendments to make the liquidity treatment more **proportionate**, without endangering financial stability.  Provide **estimates** of the potential **additional** **volumes** of securitisations that could be included in banks’ liquidity buffers. | See above – we suggest reverting to level 2 A for STS senior securitizations rated AA- to AAA and having non-STS senior securitizations rated AA- to AAA eligible to level 2B  Currently securitisation can be part of bucket 2B, which is the smallest bucket. It is very restrictive. This is a strong reduction compared to the usage of banks before the introduction of this limit.  Another impediment is linked to the level of due diligence that banks should put in place (even in the case of a repo transaction). Simplifications should be granted for senior tranches of high quality. It is doubtful that a simple Short-Term repo with an ABS senior tranche that is protected by an important first loss would require any due diligence at all.  Even some renowned major actors, such as some European regional central banks, have let it know that they used less than half of the disclosed data to be checked as per due diligence requirements.  Here again, a strong simplification is needed. |  |
| 10.1. Is there an interest from (re)insurance undertakings to increase their investments in securitisation (whether a senior tranche, mezzanine tranche, or a junior tranche)?  • Yes  • No  • No opinion | Yes |  |
| 10.2. If you answered yes to question 10.1., please specify the segments of securitisations in which (re)insurers would be willing to invest more (in terms of seniority, true sale or synthetic nature, type of underlying assets, etc.) and describe the potential for increase in the share of securitisation investments in (re)insurers’ balance sheet. | Insurers will come back to the securitization market as soon as regulatory obstacles are removed. In the report on insurance by the ESAs Joint Committee (Dec 2022), 37% of respondents express an intention to increase securitisation investments in the next 3 years if regulation is adapted.  European insurers have disappeared from the market as investors because of the calibration of the regulatory requirements, which is too high and insufficiently segmented and risk-adjusted. Holding a senior tranche of a given collateral pool would be more costly than holding a direct exposure on the same pool. It appears that insurers wound down their specialised teams because of the shrinking of the securitisation market, and, caught in a vicious circle, are now no longer able to assess the market and create demand.  As funded investors on the asset side of their balance-sheet, insurers can hold bonds issued by the SPVs in true sale securitisations, and credit linked notes issued by the SPVs or directly by the banks in synthetic on balance-sheet securitisations.  Indeed, from an investor’s perspective, structured products are useful assets to improve their Risk/Return ratio compared to a direct investment in the underlying asset portfolio, to diversify or increase the decorrelation between strategic asset classes by supplementing the whole asset allocation and to improve the convexity of an asset class and/or hedge extreme risks. Insurers and especially life insurers have a significant driver that is the ALM risk, which is the risk of financial loss or of solvency issues resulting from incoherent investment policy on the one hand, underwriting and reinsurance policies on the other hand. Diversification is then key, even more that insurers mainly invest in fixed income assets such as government bonds and corporate bonds. The low rates environment at the end of 2019 showed for example the importance of having a portfolio diversification in order to mitigate the ALM risk and finally to protect the insured‘s money. |  |
| 10.3. Is there anything which in your view prevents an increase in investments in securitisation by (re)insurance undertakings?  • Yes  • No  • No opinion  Please explain your answer. If you mention prudential rules as part of your answer, please provide an estimate of the impact on the level of investments in securitisation, of the reduction of capital requirements for securitisation investments by a given percentage, e.g. 5% or 10%. | Yes  In our view, what prevents an increase in investments in securitisation by (re)insurance undertakings is the current calibration of the Solvency II securitisation shocks, under the Standard Approach:  • unjustified gap between STS senior securitisation tranches with bonds & loans  • unjustified gap between STS non-senior securitisation tranches with bonds & loans  • no sensitivity to seniority in non-STS  • unjustified gap between STS and non-STS securitisation tranches  • higher shocks than for equity (for instance, a non-STS AAA securitisation tranche with a 5 year duration will have a 62,5% shock versus a type 2 equity with a 49% shock; an STS non-senior BBB securitisation tranche with a 5 year duration will have a 39,5% shoch, which is as much as a standard equity shock (39%).  One of the most critical outcomes of securitisation treatment under Solvency II is that it is more capital efficient to hold a whole pool of loans rather than a senior securitisation tranche of those same assets. For example, a 5-year AAA-rated STS RMBS will incur a capital charge of around 5% for the senior tranche, and 14% for a non-senior tranche. This compares to a spread charge of ca. 3% for instance for a pool of 30-year mortgages with an 80% loan-to-value (LTV), where the investor is exposed to far greater risk of loss |  |
| 10.4. Is Solvency II providing disincentives to investments in securitisation for insurers which use an internal model?  • Yes  • No  • No opinion | yes |  |
| Please explain your answer, being specific in your reply. |  |  |
| 10.5. Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for the senior tranches of STS securitisations proportionate and commensurate with their risk?  • Yes  • No  • No opinion  Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including, where appropriate, with internal models and their relative impact on the share of securitisation investments.  If you consider calibrations inappropriate, please indicate what you would consider as ‘appropriate’ calibrations, as well as any data/evidence of historical spread behaviours that would justify your proposal. | No |  |
| 10.6. Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for the non-senior tranches of STS securitisations proportionate and commensurate with their risk?  • Yes  • No  • No opinion  Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including, where appropriate, internal models and their relative impact on the share of securitisation investments.  If you consider calibrations inappropriate, please indicate what you would consider as ‘appropriate’ calibrations, as well as any data/evidence of historical spread behaviours that would justify your proposal. | No  An unjustified gap exists between the calibrations used for Bonds and Loans and those designed for non-senior STS products. For instance, for a modified duration of five years and a rating of AAA, an non-senior STS tranche is currently 3 times more expensive than Bonds and Loans with the same rating.  We believe that prudential requirements for non-senior STS securitisations in Solvency II should be more consistent with prudential requirements for bonds and loans with the same rating. |  |
| 10.7. Is it desirable that Solvency II standard formula capital requirements for spread risk differentiate between mezzanine and junior tranches of STS securitisations?  • Yes  • No  • No opinion | Yes |  |
| Please explain your answer. |  |  |
| 10.8. If you answered yes to question 10.7., please provide suggestions for calibrations of capital requirements for such mezzanine and junior tranches, including the data/evidence of historical spread behaviors backing such suggestions.  Please indicate how you would define the mezzanine tranche as well as the assumption (e.g. of thickness of the tranche) underlying your proposed calibration.  Please also indicate whether and why such introduction of a mezzanine calibration would be needed in Solvency II, even if no dedicated treatment for mezzanine tranches is introduced in EU banking regulation (CRR). |  |  |
| 10.9. Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for non-STS securitisations proportionate and commensurate with their risk, taking into account?    • Yes  • No  • No opinion | No |  |
| Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including where appropriate with internal models and their relative impact on the share of securitisation investments. |  |  |
| 10.10. Is there a specific sub-segment of non-STS securitisation for which evidence would justify lower capital requirements than what is currently applicable?  • Yes  • No  • No opinion |  |  |
| 10.11. If you answered yes to question 10.10., please specify the sub-segment of non-STS securitisations that you have in mind as well as its related capital requirement, including any evidence/data of historical spreads supporting your proposal. |  |  |
| 10.12. Is it desirable that Solvency II standard formula capital requirements for spread risk differentiate between senior and non-senior tranches of non-STS securitisations?  • Yes  • No  • No opinion  Please explain your answer, being specific in your reply. | Yes  We believe that it is highly desirable that Solvency II standard formula capital requirements for spread risk differentiate between senior and non-senior tranches of non-STS securitisations. Indeed, the recovery rate is not the same between a senior and a non-senior tranche. For instance, for a modified duration of five years and a rating of AAA, a non-STS senior tranche is currently 12.5 times more expensive than an STS senior tranche with the same rating.  In order to recalibrate coherently the capital charges of Securitisation, we support the proposals presented in the Paris Europlace report, based on the AFME and Risk Control Research note “ABS and Covered Bond Risk and Solvency II Capital Charges (25.02.2022)” and the key finding in Perraudin and Qiu study 2022:  • New Senior STS could be aligned to Bonds & Loans  • New Senior Non-STS shocks could be set at 1.3 times the New Senior STS shocks  • The New Non-Senior shocks could set at 1.5 times the New Senior shocks, and this is applied to  both STS and Non-STS  The adaptation of the calibration of securitized products could be done through a Delegated Act, as stated in the Solvency II latest draft agreement in Parliament 23/04/2024 Plenary, recital (105): ” It should be ensured that the prudential treatment of investments in securitisation, including simple, transparent and standardised securitisation, appropriately reflects the actual risks, and that capital requirements associated with such investments be risk-oriented. To this end, the Commission should assess the appropriateness of existing calibrations for investments in securitisations that are set out in the delegated acts adopted pursuant to Directive 2009/138/EC, taking into account available market data, and their consistency with capital requirements that are applicable to investments in other fixed-income securities. Based on such assessment, and where appropriate, the Commission should consider amending the delegated act setting capital requirements applicable to investments in securitisation. Such amendments, which should be risk-based and evidence-based, could consist of introducing a more granular set of risk factors depending on the ranking of the securitisation tranches, or of differentiating different types of non-simple, transparent and standardised securitisation depending on their risks.” |  |
| 10.13. If you answered no to question 10.12., please provide suggestions for calibrations of capital requirements for such senior and non-senior tranches, including the data/evidence backing such suggestions. Please also indicate whether you target a specific segment of non-STS securitisation. |  |  |
| 11.1. For the purpose of this section, please indicate whether you are an IORP, a non-IORP or another type of stakeholder.  • IORP  • Nationally regulated pension fund not regulated by IORP II  • Other  Please elaborate in case you are not an IORP. |  |  |
| 11.2. Is there an interest from IORPs and/or non-IORPs to increase their investments in securitisation (whether a senior tranche, mezzanine tranche, or a junior tranche)?  • Yes  • No  • No opinion |  |  |
| 11.3. Please clarify whether your answer to question 11.2. concerns your own situation, or whether it is an assessment of a given national market (in which you operate for instance).  If you answered yes to question 11.2., please specify the segments of securitisations in which IORPs and/or non-IORPs would be willing to invest more (in terms of seniority, type of underlying assets, etc.) and describe the potential for increase in the share of securitisation investments in their balance sheet.  In addition, if your reply concerns or encompasses non-IORPs, please indicate i/ the number of non-IORP in your jurisdiction, ii/ the amount of assets under management and iii/ the type of pension business concerned, for which investment in securitisation would be interesting. |  |  |
| 11.4. Does the IORP II Directive contain provisions which in your view restrict IORPs’ ability to invest in securitisation?  • Yes  • No  • No opinion  Please explain your answer. |  |  |
| 11.5. Are there national legislations or supervisory practices which in your view unduly restrict IORPs’ and non-IORPs’ ability to invest in securitisation?  • Yes  • No  • No opinion  Please explain your answer, as well as whether it applies to IORPs, non-IORPs, or both. Please be specific in particular where you refer to non-IORPs. |  |  |
| 11.6. Are there wider structural barriers preventing IORPs and non-IORPs from participating in this market?  • Yes  • No  • No opinion  Please explain your answer, as well as whether it applies to IORPs, non-IORPs, or both. Please be specific in particular where you refer to non-IORPs |  |  |
| 11.7. If you answered yes to question 11.6., please explain how these barriers should be tackled?  Please explain your answer, as well as whether it applies to IORPs, non-IORPs, or both. Please be specific in particular where you refer to non-IORPs. |  |  |
| 12.1. What segments of the securitisation market have the strongest potential to contribute to the CMU objectives, and that should be the focus of any potential regulatory review? You may select more than one option.  • Traditional placed securitisation  • Synthetic securitisation  • SRT securitisation  • ABCP securitisation  • STS securitisation  • Non-STS securitisation  • Securitisation of SME and corporate exposures  • Securitisation of mortgages  • Securitisation of other asset classes  • Other  Please explain your answer. | • Traditional placed securitisation  • Synthetic securitisation  • SRT securitisation  • Non-STS securitisation |  |
| 12.2. What are the principal reasons for the slow growth of the placed traditional securitisation (where the senior tranche is not retained, but placed with the market)?  Why do banks choose not to issue traditional securitisation for both funding and capital relief? You may select more than one option.  • Interest rate environment  • Low returns  • Operational costs  • High capital charges  • Difficulty in placing senior tranches  • Significant Risk Transfer process  • Preference for alternative instruments for funding  • Prefer to retain to keep the client relationships  • Prefer to retain to keep the revenue from the underlying assets  • Prefer to retain to access central bank liquidity  • Other Please explain. | 60% of outstanding eligible ABSs is used as a collateral at the ECB. This is the reflect of a common banks’ strategy, consisting in issuing securitisation not for the purpose of placing the tranches in the market, but retaining the tranches and using them as collateral at the European Central Bank.  Prudential regulation has discouraged (re)insurance companies to invest cash in securitisation tranches in their investment portfolios by setting capital charges in Solvency 2 at a higher level for a senior securitisation tranche than for the corresponding loan portfolio, although the latter does not provide any first loss protection. In addition, due diligence requirements on these senior tranches are also very prescriptive, impacting directly the capacity of (re)insurance companies to act in the primary market, and also indirectly as in case (re)insurance companies want to sell those assets (for example to pay new insurance claims (e.g. earthquakes, floods, etc.)), the potential buyer or market maker (if it is itself subject to EU rules) also needs to go through this burdensome due diligence process. The consequence has been that (re)insurance companies have considerably reduced the staff allocated to analyse and manage securitisation portfolios, and in some cases, even totally dismantled their securitisation teams. This explains that today why (re)insurance companies are not active in the discussions around the revision of Solvency II as regards securitisation. It will take time to rebuild capacity in the (re)insurance investment sector, but as explained later the recalibration of Solvency 2 is a pre-requisite to generate appetite.  • Low returns => RMBS  • Operational costs => Due Diligence, reporting  • High capital charges  • Difficulty in placing senior tranches  • Significant Risk Transfer process |  |
| 12.3. Please specify which regulatory and non-regulatory measures have the strongest potential to stimulate the issuance of placed traditional securitisation | The key topics to be simultaneously implemented that would represents a quick win, foster the securitisation market with an immediate impact are :   * CRR3: sensitive risk weight floor for SEC-SA and SEC-IRBA ; extension of the Amendment Boyer halve of p-factor under SEC-SA, beyond the output floor; deletion of article 243; decrease of the credit conversion factor for undrawn liquidity/ credit lines * Simplification and introduction of proportionality in Articles 5, and 7 of SEC-R * Upgrade of senior STS and non-STS securitisation tranches in the LCR HQLA * Recalibration of the shocks in Solvency II, for both STS and non-STS securitisations |  |
| 12.4. What are the main obstacles for cross-border securitisations (i.e. securitisations where the underlying exposures, or the entities involved in the securitisation, come from various EU Member States)? | The STS criteria of homogeneity which requires that loans originators belong to the same jurisdiction. |  |
| 12.5. What measures could be taken to stimulate cross-border securitisation in the EU?  Please substantiate your answer for traditional and synthetic securitisation respectively. | It is key to acknowledge the importance of the position of EU institutional investors in the global securitisation market and avoid penalizing EU investors to invest in international securitisation markets by replacing the current requirement to apply ESMA templates to non-EU transactions, by a framework based on “high level principles”. This is a major stake in terms of competitiveness for Europe. EU actors need to be active on main foreign markets (US, UK) to gain expertise and visibility on this global market.  It is also key that EU should consider the UK STS regime as equivalent to the EU STS framework (the reverse is already in place), in order to facilitate cross-border UK/EU investments. |  |
| 12.6. Securitisation activity is heavily concentrated in a few Member States – primarily Italy, France, Germany, Netherlands and Spain.  What are the main obstacles to increasing securitisation activity in other Member States? What measures could make securitisation more attractive in those Member States? |  |  |
| 12.7. Does the EU securitisation framework impact the international competitiveness of EU issuers, sponsors and investors?  • Yes  • No  • No opinion  Please explain your answer and where possible elaborate on the difference in regulatory costs stemming from the prudential, due diligence and transparency requirements in non-EU jurisdictions, in comparison to the EU securitisation framework. |  |  |
| 12.8. How could securitisation for green transition financing be further improved?  What initiative could be taken in the industry or in the regulatory field? | Securitisation will ultimately be as green as the projects and investments will be; should it be limited to target predefined pools of financing needs, it will not produce the expected benefits. Securitisation should first develop across the board with no restrictive underlying or use of proceeds criteria. The so called “EU green bond standard” , which can also be granted to securitisation transactions if the use of proceeds is aligned with the EU Taxonomy, will probably attract little volumes; in part because it is strictly linked to the EU Taxonomy whose criteria are in practice excessively difficult to fulfill, and in part because the universe of Taxonomy eligible assets is for the time being quite narrow, while the EU economy is at the beginning of its path to transition. We believe that Securitisation does not need to be targeted as a “green” product to deliver on the objective of contributing to the financing of the transition. |  |
| 12.9. Are there any other relevant issues (outside of those addressed in the specific sections of the consultation paper above) that affect securitisation issuance and investments that you consider should be addressed?  • Yes  • No  • No opinion | Yes.  As the STS criterion of the article 18 under the EU securitization regulation requires that the originator, the sponsor and the SSPE be established in the Union, it limits the possibility to structure EU STS transaction in cases where certain of the 3 entities are not based in the Union.  Article 18 “The originator, sponsor and SSPE involved in a securitisation considered STS shall be established in the Union. »  The introduction of some flexibility on the location of certain of these entities could allow additional operations to be STS compliant under EU Securitisation regulation and so a better efficiency for such transactions.  Secondly, the EU securitisation regulation could introduce rules of equivalence for transactions respecting the STS criteria (or STC criteria) in other jurisdictions (for example in the UK) and for which such transactions are publicly notified as STS (or STC) to the relevant regulatory body similarly to the EU securitisation framework.  It would allow for example non-EU affiliate of European entities involved in such non-EU STS compliant transaction to benefit from an EU preferential regulatory framework for EU investors. |  |
| 12.10. If you answered yes to question 12.9., please explain your answer. |  |  |
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