

Revitalising securitisation

MEDEF

With over 200,000 member companies, the Mouvement des Entreprises de France (MEDEF) is the leading employers' organization in France. Our members are of all sizes and in all business sectors. Over 95% of them are SMEs or very small businesses. **We bring together non-financial companies (the majority of our members) and companies in the banking, insurance, asset management and specialized financing sectors, in particular. The MEDEF therefore represents all the players concerned, and its response to this consultation has the important legitimacy of expressing the expectations of non-financial companies.** At the heart of this response is the importance of relaunching securitization to meet the financing needs of non-financial companies. These companies must be the beneficiaries of securitization, an essential component of the Union des Marchés de Capitaux (UMC) project.

Securitization is an essential lever for boosting corporate financing and strengthening the European economy. It offers financing solutions tailored to the needs of companies, particularly SMEs, and contributes to the growth of capital markets in Europe. Despite its potential, the European securitization market remains underdeveloped compared to other regions such as the United States, calling for targeted adjustments to the regulatory framework.

An essential tool for corporate financing

When properly structured, securitization plays a crucial role in the European economy. By enabling banks to transfer part of their credit risk to a wide range of institutional investors, it frees up their capacity to grant new loans. This is particularly beneficial for the financing of SMEs and mid-sized companies, which often face difficulties in accessing capital, and which must fully embrace the environmental and digital transitions that are particularly demanding in terms of financing.

According to Institut Rexecode, to achieve the objectives of France's Stratégie Nationale Bas Carbone (SNBC) by 2030 and beyond, the estimated expenditure associated with the “physical” changes to be made in each sector (insulation, vehicle replacement, etc.), shows that a total of between 58 and 80 billion euros (2.1% to 2.9% of GDP) of additional

investment would be required each year between now and 2030. The effort would peak at 100 billion (in constant euros) in 2040, before gradually levelling off thanks to savings induced by earlier investments. Investment expenditure would increase by +20% for households (home insulation, vehicle replacement) by 2030 compared to current scenarios, and by +10% for businesses (accelerated obsolescence of productive capital, new production processes, renewal of vehicle fleet, adaptation of buildings).

Accompanying this transition by ensuring the availability of financing resources for businesses, and in particular SMEs, is therefore a vital challenge. As the driving force behind the European economy, SMEs can benefit significantly from securitization.

However, the development of securitization remains limited due to high prudential costs and insufficient standardization. Synthetic securitization, enabling risk to be transferred via guarantees or credit derivatives, could meet these challenges, in particular by facilitating the issuance of mezzanine tranches to reduce banks' capital requirements.

A lever for deepening European capital markets

Securitization also helps to broaden and deepen capital markets by offering diversified investment opportunities for institutional investors. By relying on simple, transparent and standardized products (STS), it can play a key role in the development of a safer and more attractive European securitization market. A balanced financing structure between bank credit and financial markets is essential to strengthen the resilience and economic competitiveness of the European Union.

In a context where the investments needed for the ecological and digital transition are increasing, securitization can mobilize capital in an optimal way. By freeing up resources on bank balance sheets, it contributes to the efficient allocation of capital to strategic projects for Europe, while respecting financial stability requirements.

It is also essential that banks involved in securitization on behalf of financial or corporate customers can compete on global markets, including by supporting their EU customers in their securitization programs outside the EU. Access to the major US and Asian securitization markets is also a prerequisite for these EU banks to be of sufficient size to maintain dedicated specialist resources and develop a viable business model.

Diagnosis of the European securitization market

Since the financial crisis of 2008-2009, the European securitization market has seen a marked decline. At its peak, it was worth €2,000 billion, but its overall size is now limited to €1,200 billion. Meanwhile, US markets have not only recovered, but exceeded their pre-

crisis levels. This divergence can be explained in part by regulatory and prudential obstacles in Europe, which are holding back issuance and investment in securitization products.

For example, transparency requirements, while essential to maintain investor confidence, can be excessively prescriptive and unsuitable for certain transactions. Similarly, the current prudential treatment under the Solvency II and CRR regulations increases costs for investors, reducing their appetite for this asset class.

To revitalize the securitization market, MEDEF therefore supports the demands of its financial members for the following recommendations:

1. Reviewing prudential costs

One of the most crucial points for revitalizing securitization is the revision of prudential requirements for institutional investors (Solvency, CRR). It is recommended that the weightings applicable to senior and mezzanine tranches be recalibrated. This would make securitization more attractive, while maintaining prudent risk management.

2. Simplifying and differentiating transparency requirements

The idea of streamlining reporting must be handled with caution, as transparency is an important differentiating factor for securitization compared to other asset classes. Above all, securitization has suffered from a very negative image in the wake of the 2008 crisis, triggered by bad practices in the US. It is therefore important that the adaptation of the securitization framework be balanced to facilitate its acceptance and avoid its being called into question in the long term. An unstable regulatory framework would be particularly detrimental to the practice. It is nevertheless necessary to adapt reporting obligations to the nature of the transactions. Private securitizations, for example, could benefit from simplified models to lighten the administrative burden without compromising the quality of information made available to investors.

3. Harmonizing supervision

Regarding the SRT assessment, we believe that the coordination between European central supervision and local regulators' supervision should be reinforced.

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.

4. Promote alignment between STS and corporate financing

The STS label, in its current form, is not fully suited to encouraging securitizations geared towards corporate financing. It would be appropriate to clarify and broaden the definitions applicable to homogeneous pools of assets to better reflect the specificities of SME exposures.