

Targeted consultation on the EU's Securitisation Framework

General remarks

BETTER FINANCE, the main organisation representing EU citizens in their capacity of savers and individual investors, wishes to express its concerns with the political support for a "relaunch" or "revival" of the securitisation market in the EU. We sincerely believe that expectations of securitisation providing a magical solution to cater for the investment needs of EU corporates, in particular SMEs, are profoundly misguided.

Corporate loans are inherently difficult to securitise, meaning that these loans will most likely never constitute more than a small fraction of the total pool of assets being securitised. Loosening regulatory requirements on securitisations is then unlikely to significantly impact corporate funding, but it certainly endangers financial stability. More securitisation reinforces the role of banks, especially larger ones, in financial intermediation, which will come at the expense of increased direct market participation by retail investors and SMEs.

In line with the objectives of the CMU, EU policy efforts should instead focus on creating appropriate conditions for SMEs to seek equity and debt funding directly from investors on capital markets and for retail investors to seek the profitable investment opportunities that equity markets offer. Facilitating SME listings at a reduced cost and promoting cost-efficient ways for EU citizens to invest their savings into EU firms' equity constitute, we argue, much more straightforward ways to connect the EU savings capacity with its investment needs. Compared to the easy shortcut of securitisation, choosing the arduous way of integrating the EU's equity and debt markets and creating a friendly environment for retail investments and SME equity funding also enables the development of an equity culture that is, at the moment, cruelly lacking in most EU Member States, and contribute to rebalancing the structure of financial intermediation in the EU, reducing its over-reliance on bank credit.

We cannot help but remark that the consultation process appears biased: the goal is to identify the "supply and demand factors hampering the development of the securitisation market in the EU" (p.3), with the explicit view that the current framework is "impeding the EU economy from fully reaping the benefits that securitisation can offer". Reading this introductory statement, one wonders on what basis does the Commission—and the "originators and investors" pushing for less "conservativeness"—estimate that securitisation can offer more benefits than what it already does? Thankfully, the later sections of the consultation paper, on the prudential framework, seem to place the burden of proof on those stakeholders calling for lowering risk-weights and regulatory capital calculation parameters, arguments that, as the Commission notes, are generally rejected by the European Supervisory Authorities.



Targeted consultation on the EU's securitisation framework

We note that all the documents that the introduction of the consultation paper cites as calling for relaunching securitisation, emanate from political bodies—directly (European Council, Commission President Von der Leyen) or indirectly (Noyer, Letta, Draghi reports)—whose main concern is economic growth. One might wonder to what extent electoral concerns—showing a good economic record ahead of the next elections—take precedence over considerations of financial stability and consumer protection, the political benefits of which can only be reaped when a crisis strikes elsewhere and shows, by comparison, the resilience of a prudent framework. The mention that "[t]he framework was complemented on 6 April 2021 in the context of post-COVID-19 economic recovery efforts by extending the scope of the STS label to on-balance-sheet synthetic securitisations and by addressing regulatory obstacles to securitising non-performing exposures" is a powerful reminder that, when the economic engine stalls and a boost in lending seems required, prudential considerations are liable to take the back seat.

Contact

Sébastien Commain

Senior Research & Policy Officer

commain@betterfinance.eu