

## **Response of De Nederlandsche Bank to the targeted consultation to assess the effectiveness of the EU securitisation framework**

### **General remarks**

**DNB welcomes the Commission's targeted consultation on the functioning of the EU securitisation framework.** Well-functioning securitisation markets can help banks manage their balance sheets more effectively by transferring risks to investors, freeing up capital, diversifying their funding profile and boosting their ability to lend. Through securitisation, investors can get access to additional assets with differentiated risk-return profiles which offers opportunities to better optimize their portfolios in line with their risk tolerance and investment strategies. Securitisation has the potential to stimulate capital market development and integration by allowing originators to trade previously illiquid assets with counterparties who are willing and able to bear the risks. By doing so, securitisations offer deleveraged originators the opportunity to provide additional funding for the real economy. Well-functioning securitisation markets can therefore further enhance the capital markets union.

**The theoretical benefits of securitisations are currently not fully reaped**, as holdings of securitisations in Europe are now concentrated within a number of large banks and on a national level<sup>1</sup>. DNB therefore believes we should not merely push for larger securitisation markets but for a better functioning of securitisation markets. The main aim of policy measures should be to attract more capital from outside the banking sector for productive investments that directly contribute to CMU objectives. This can be achieved through i) removing unnecessary impediments ii) creating a securitisation platform and iii) maintaining the current robust prudential framework.

#### **i) Removing impediments**

**DNB suggests to focus on removing unnecessary impediments and to explore how demand from non-bank investors can be stimulated, while maintaining a sound prudential framework.** As such and in line with the ECB staff response to this consultation, DNB supports (ongoing) initiatives aimed at more proportionality in due diligence requirements, simplifying disclosure templates, as well as streamlining the SRT assessment process. More proportional due diligence requirements may attract additional demand as it lowers the burden on investors, while simplifying disclosure templates could make these templates better usable by investors. A more efficient SRT assessment process may further reduce the administrative burden.

**The success of any initiative to stimulate securitisation markets will to an important degree be determined by progress in other policy domains.** Structurally, fragmented corporate insolvency laws and a lack of harmonized credit

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<sup>1</sup> [Monitoring systemic risks in the EU securitisation market \(europa.eu\)](https://ec.europa.eu/economy_finance/monitoring-systemic-risks-in-the-eu-securitisation-market_en)

information limit demand. These are fundamental elements of a capital markets union and have a decisive impact on the development of cross-border securitisation markets, in particular given the complexity of the product.

**ii) Creating a securitisation platform**

**DNB supports exploring the benefits of a platform without large-scale public guarantees.** A pan-European platform could stimulate demand for securitisations and therefore contribute to CMU goals. Such a platform could foster standardisation of securitisations and underlying loans. This reduces complexity for investors, simplifies the due diligence process, and lowers information asymmetries, which may stimulate demand for (cross-border) securitisations. A pan-European platform could in particular provide an opportunity to match originators with cross-border investors, or even pool cross-border loans, which would stimulate capital market integration. On the supply side, the platform should also be made accessible for smaller credit institutions which currently lack the expertise or simply cannot access the market as a result of the high fixed costs. On the demand-side, the platform should be targeted towards non-bank investors to facilitate the spreading of risks outside the banking sector. In addition, the platform could also accommodate SME loans and green securitisations and thereby support the green and digital transitions of Europe. Also here, the ultimate success of the securitisation platform will likely be determined by progress in other policy domains, of which the harmonization of credit information and insolvency frameworks seem most decisive. Finally, we do not support the provision of large-scale public guarantees to securitisations, which would have major implications for financial stability.

**iii) A robust prudential framework**

**Overall, DNB is of the opinion that material changes to the prudential framework should not be considered.** The proper functioning of securitisation markets can only be ensured when supported by a sound prudential framework that contributes to trust and resilience. In this regard, we refer to the ECB's response, which clearly states that prudential requirements should be commensurate with the risks embedded in securitisation structures. There is no compelling evidence that the current prudential framework limits the size of the securitisation market. A recent FSB consultation report<sup>2</sup> concludes that the reforms after the Global Financial Crisis enhanced resilience, without material downside to the economy. In the same vein, we observe that prudential requirements have been lowered multiple times since 2019 without a noticeable increase of issuances in the securitisation market. Moreover, it is important to keep in mind that the overarching goal of securitisation is to disperse risk throughout the entire financial sector. It is unclear how lowering the prudential

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<sup>2</sup> [Evaluation of the Effects of the G20 Financial Regulatory Reforms on Securitisation: Consultation report - Financial Stability Board \(fsb.org\)](#)

requirements for banks would contribute to this goal. Above all, we are committed to maintaining trust in securitisations and ensuring resilience in the financial system, which both could be undermined by lowering prudential standards.

**Changes to the prudential framework, if any, should be targeted and meet strict conditions:** 1) amendments that constitute a further deviation from the Basel framework, should first be brought to the table at the Basel Committee; 2) capital non-neutrality should remain an important cornerstone of the prudential framework, hence the p-factor should not be lowered; 3) the prudential framework should always reflect underlying risks; 4) prudential adjustments should be limited to originating banks.

**We are also opposed to amending the liquidity treatment of securitisations at this stage.** We align ourselves with the ECB's view that it is important to conduct a thorough analysis of the liquidity of securitisations, also during times of stress, before any action is undertaken to change the LCR. Given rising liquidity risks in recent years, we should be careful to relax liquidity requirements and the evidence to do so should be convincing. Moreover, relaxation of liquidity requirements would also not contribute to distributing securitized assets beyond banks. Lastly, also in this case, amendments that constitute a deviation from the Basel framework, should first be brought to the table at the Basel Committee.

**Considering the above, DNB sees merit in the securitisation market and improving its functioning, by removing unnecessary impediments, introducing a European platform and maintaining a robust prudential framework.**