EUROPEAN CENTRAL BANK
BANKING SUPERVISION

# Securitisation: the supervisory perspective

IACPM Continental Europe Roundtable

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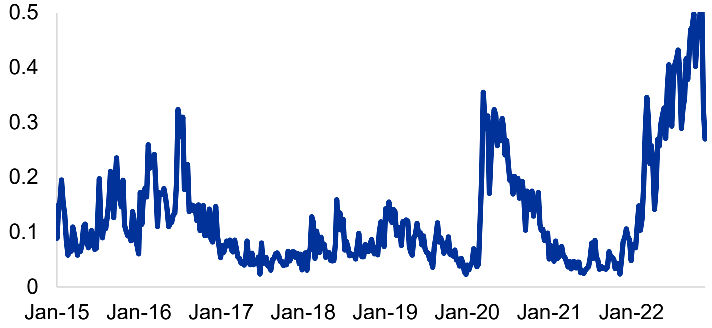
# 1.

# SSM supervisory priorities

# **Current environment:** Risks to the economy and the banking sector increased significantly on the back of the RU-UA war

- The geopolitical shock caused by Russia's invasion of Ukraine and its immediate macro-financial consequences have increased uncertainties and elevated risks to the banking sector.
- The economic outlook in the euro area has deteriorated significantly and the inflation rate has reached historically high levels, on the back of commodity price increases, energy supply disruptions, high uncertainty and lingering supply chain bottlenecks.
- Funding conditions have tightened among the gradual normalisation of monetary policies in most advanced economies.
- Stress in the financial system remains elevated and could be exacerbated by further rising geopolitical tensions, translating into new episodes of high volatility and market turbulences.

**Composite Indicator of Systemic Stress (CISS)**
(Jan. 2015 – Nov. 2022; index)




Source: ECB.
Note: Last observation refers to 25 Nov 2022.

CISS exceeding peak pandemic levels.

# Supervisory priorities for 2023-2025

## Priority 1: Strengthening resilience to immediate macro-financial and geopolitical shocks

| | |
|---|---|
| **Shortcomings in credit risk management**, including exposures to vulnerable sectors | Credit risk |
| Lack of **diversification in funding sources** and **deficiencies in funding plans** | Funding risk |

## Priority 2: Addressing digitalisation challenges and strengthening management bodies' steering capabilities

| | |
|---|---|
| Deficiencies in **digital transformation strategies** | Business model |
| Deficiencies **in operational resilience frameworks**, namely IT outsourcing and IT security/cyber risk | Operational risk |
| Deficiencies in **management bodies' functioning** and steering capabilities<br>Deficiencies in **risk data aggregation and reporting** | Governance |

## Priority 3: Stepping up efforts in addressing climate change

| | |
|---|---|
| Material exposures to **physical and transition risk drivers** | Climate-related and environmental risk |

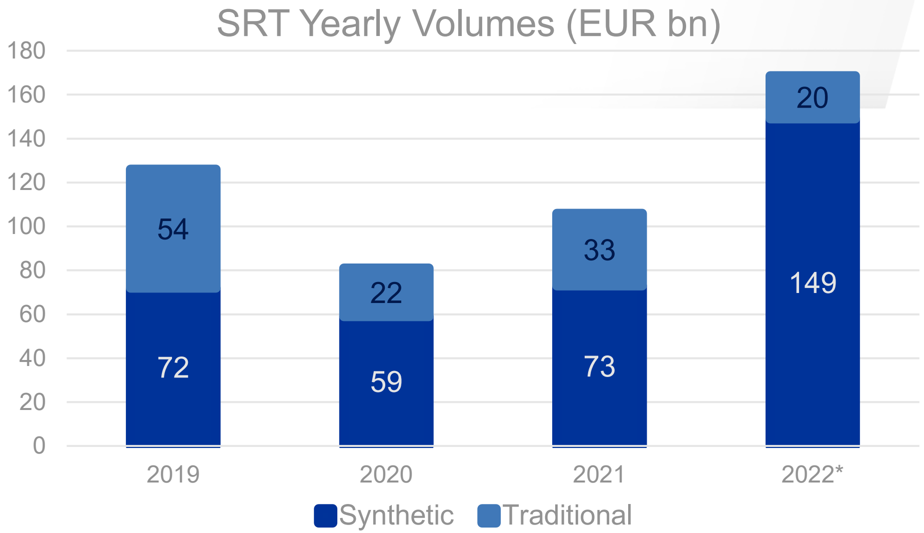
**Additionally, 2023 EU-wide stress test exercise will be part of prioritised activities for 2023.**


# 2.

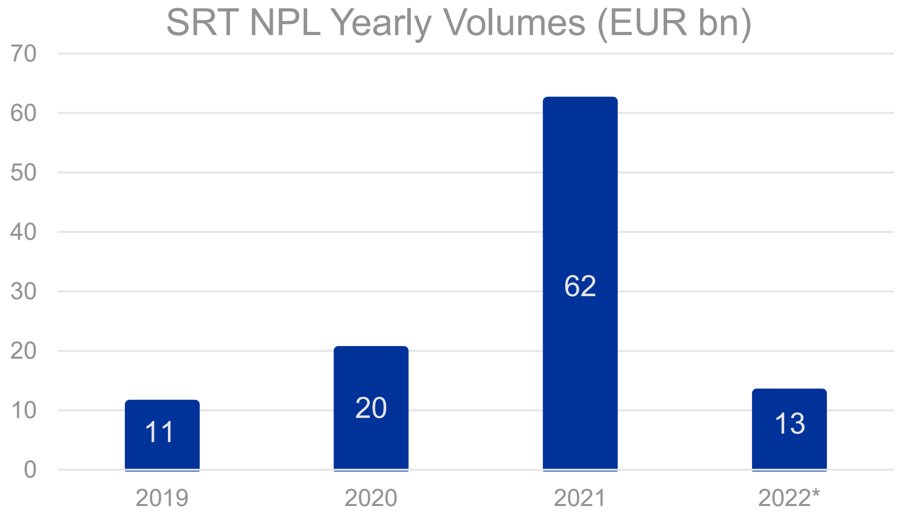
# SRT market trends

# SRT Market Dynamics





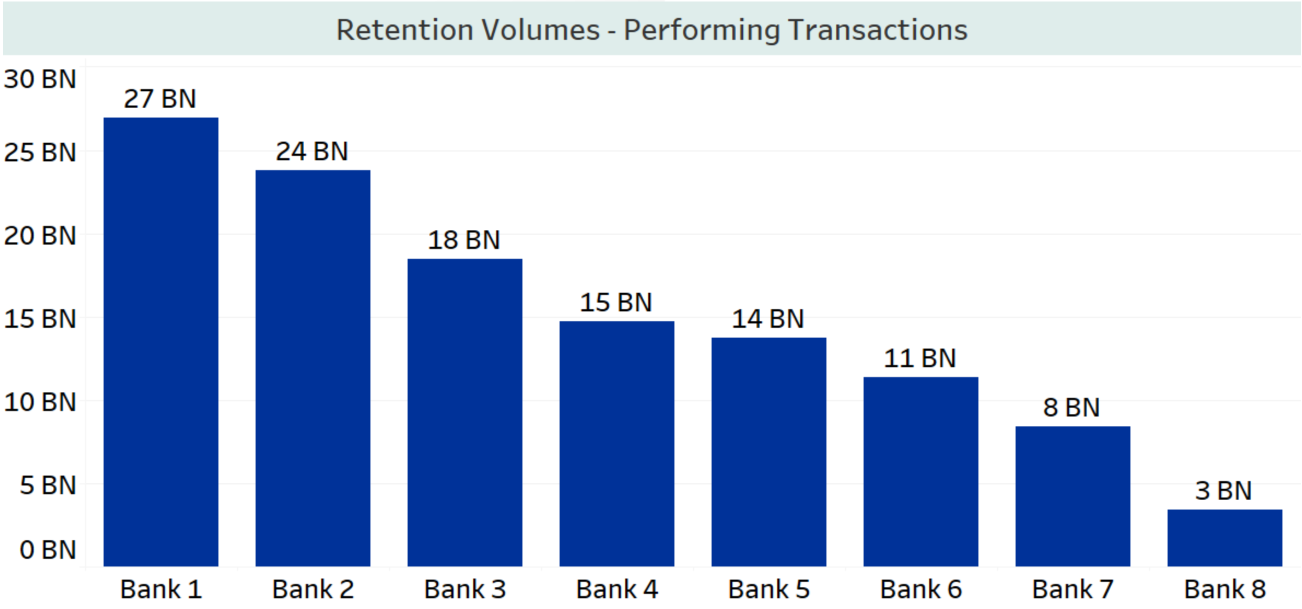

Source: ECB data for significant institutions
*Data for 2022 still subject to changes post-reconciliation




Source: ECB data for significant institutions
*Data for 2022 still subject to changes post-reconciliation

- SSM banks have securitised significant volumes over the last years (>EUR 120 bn. in 2019 for performing transactions).
- Banks have navigated well through Pandemic (EUR 80 bn) while 2021 marked a rebound (>EUR 100 bn for performing and > EUR 60 bn. for NPL).
- In 2022, we observe a steep increase in performing volumes (ca. EUR 169 bn), and a decrease in NPL (EUR 13 bn).

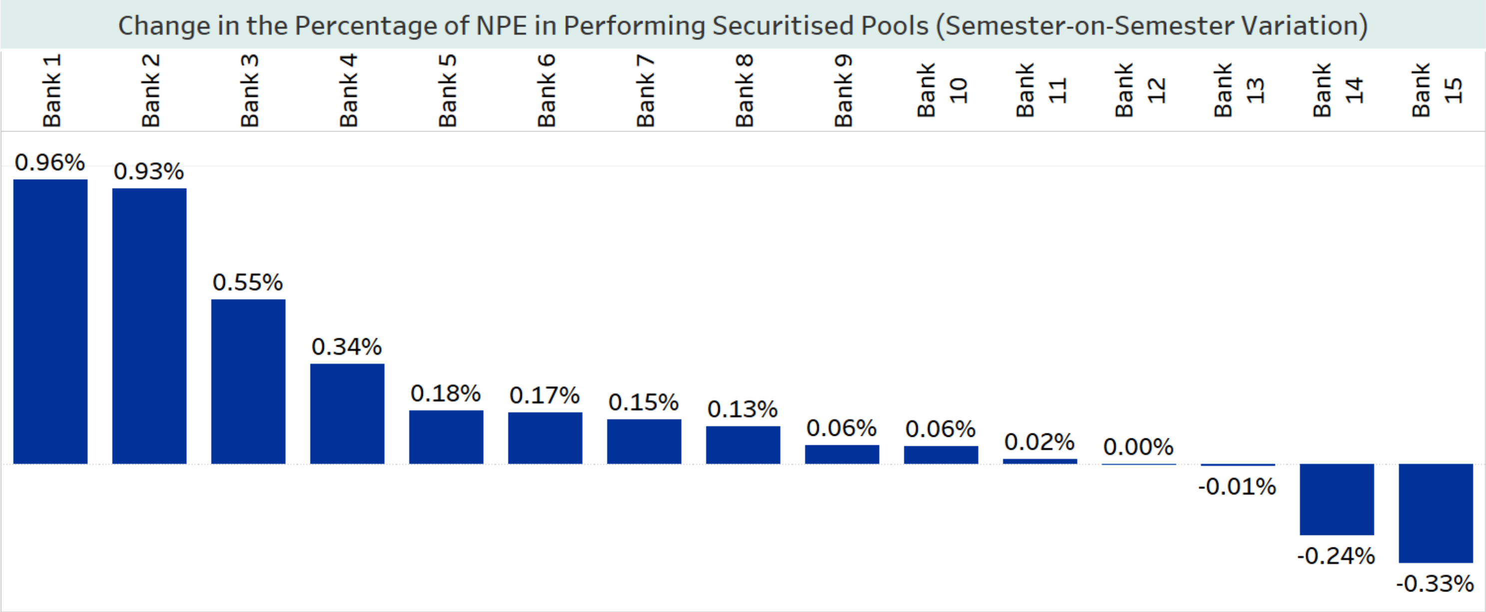
# Sizeable volumes of retained performing transactions




- **Major players** in the landscape for synthetic securitisations show the **highest retention** (EUR 10 bn.-25 bn., which accounts on average for 90% of the structures).
- On average, retention is equal to 24% of the CET1 of originators. In the most extreme case, retention is equivalent to 74% of the CET1 of the originating bank.

# Performance of securitized portfolios is slightly deteriorating overall






The chart captures the change in the percentage of non-performing exposures in performing transactions' pools from S2-2021 to S1-2022. The change is expressed in absolute (percentage) terms: for instance, for ESSAN, NPE ratio was 0.41% at the end of 2021 and is 1.36% as of half 2022. Hence, the change reported is equal to the difference between the two, ca. 0.96%.

- With few exceptions, average NPL ratio for securitisations stands at 0.88%. This is up from 0.50% at the end of 2021.
- In general, most banks observed a deterioration of the performing portfolios. Negligible in some cases, more pronounced in others.

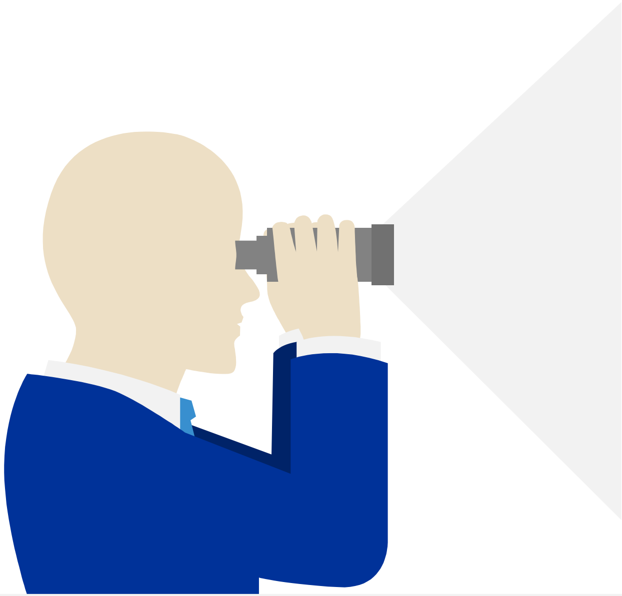
# Emerging risks in SRT transactions

| Emerging risks | Substance |
| --- | --- |
| **Increasing number of securitisations for non-granular pools** | • Capital optimization of large corporates and project finance portfolios (low number of exposures of high magnitude at individual level)<br>• Significant correlation and concentration risk, impact: flow back risk on senior tranche |
| **Higher retention in cash transactions with excess spread** | • Combined funding and capital optimization pursued<br>• Selling high portion of senior tranches is beneficial for SRT but expensive due to increasing costs in the current IR environment<br>• Total retention increases significantly (so far, cash transactions fully placed, retention driven mainly by synthetic transactions) |
| **Retention of senior tranche in NPL transactions** | • National Guarantee Schemes are not operational in some Member States<br>• Limited history of NPL collection performance in some jurisdiction; a low recovery rate can hit the senior tranche |

# 3.

# Regulatory developments

# Key regulatory initiatives and developments



**Banking package (CRR3/CRD6)**
- Council reached its General Approach in November 2022
- Trilogues expected to start soon

**Capital Markets Union package**
- Legislative proposals to make EU clearing more attractive
- Proposal to harmonise corporate insolvency laws

**Banking Union – review of he bank crisis management & deposit insurance framework**
- BRRD, DGSD, SRMR review

# Regulatory developments related to Securitisations

## Capital requirements

- Banking package (CRR3/CRD6)
- Follow-up to EBA response to Commission CfA

## Significant Risk Transfer

- Follow up to 2020 EBA report on SRT
- Potential changes to quantitative SRT tests
- More streamlined SRT assessment process

## Securitisation regulation

- No review of the Level 1 regulation under this Commission
- ESMA mandate to review disclosure templates

## Technical standards

- RTS on synthetic excess spread: EBA to following up on public consultation

# CRR3 legislative process – state of play

- **Commission** proposal (**October 2021**) did not include any reference to securitisation
- **Council General Approach** (**November 2022**) similarly did not include any reference to securitisation
- **ECON** draft report (adopted on **24 January 2023**) contains one amendment on securitisation (see box on the right)
- **Trilogues** expected to start in February 2023. More elements could be added to the package
- **Final agreement** expected to be finalised later in 2023, at the latest ahead of European elections in May 2024.
- **Application from 1 January 2025**

*5 a. By way of derogation from Article 92, paragraph 5, when the standardized risk-weighted exposure amounts for credit risk and dilution risk referred to in paragraph 4, point (a), and for counterparty risk arising from the trading book business as referred to in point (f) of that paragraph shall be calculated using the SEC-SA following Article 261 or Article 262 of Regulation (EU) n°575/2013, parent institutions, parent financial holding companies or parent mixed financial holding companies, stand-alone institutions in the EU shall be permitted, until the completion of the comprehensive review of the EU securitisation framework as part of the Capital Markets Union Action Plan, to apply the following modifications:*

*(a) p = 0,25 for a position in an STS securitisation*

*(b) p = 0,5 for a position in a non-STS securitisation*

# Main supervisory messages

## Capital requirements

- Importance of a **full, faithful and timely implementation** of Basel III – incl. output floor
- **Support of recommendations from EBA response to CfA, including safeguards**
- Not clear if this is sufficient to revive EU securitization markets

## SRT process

- Open to **further simplify the existing process and make it more transparent,** while preserving the **possibility for supervisors to object to SRT in well-justified cases** (e.g. to address identified emerging risks or cases of arbitrage)

## Securitisation regulation

- **SSM Securitisation Hub** supervises Articles 6-8 requirements since 1 April 2022

## Technical standards

- RTS on synthetic excess spread: would welcome **alignment with current ECB practice**

# For discussion

- How do you see risks related to securitisations evolving?

- What are your priorities related to securitisations – from the perspective of originators and investors?

- Why is the securitization market in the EU not working as expected? What elements could change the picture?