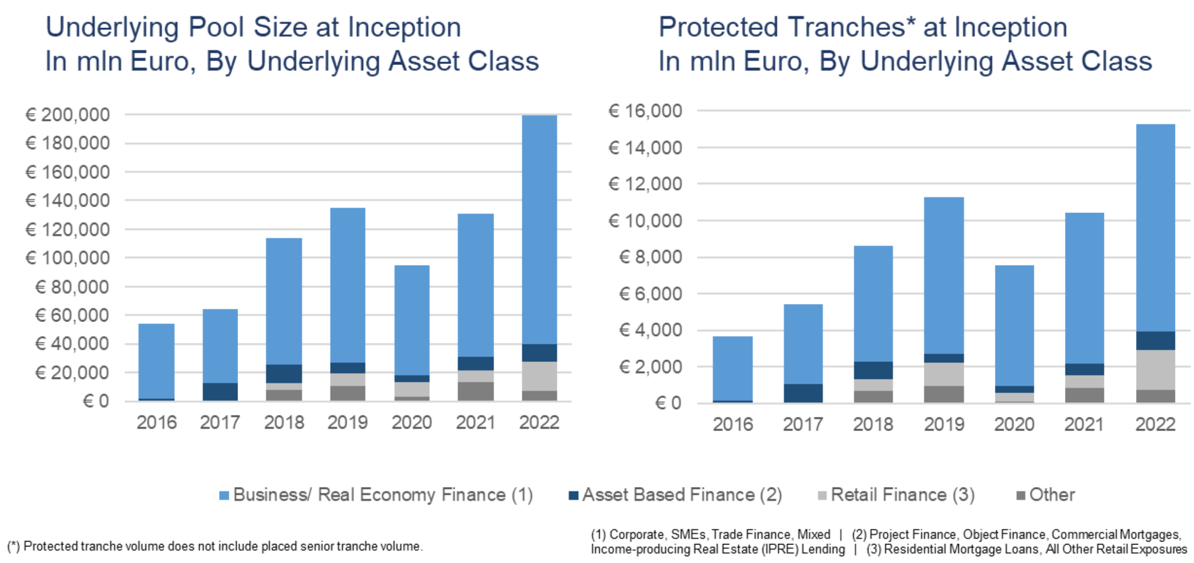
June 2023

IACPM 2016-2022 Survey on Synthetic On Balance-Sheet Transactions Confirms that Risk Sharing is Becoming Mainstream

The IACPM has conducted its annual survey on risk sharing transactions executed by banks through **synthetic on balance-sheet securitizations**. These transactions aim at capital release by "Significant Risk Transfer" (SRT) from their own lending book, contrary to true sale securitizations, which are mostly used as a source of long-term funding, or as collateral to central bank funding.

Contributing banks are the largest global and regional institutions which are regular users of this tool to release capital and support further lending growth. The vast majority (80%) of contributing banks are regulated based on the Internal Rating Based method.



Source: IACPM Synthetic Securitization Market Volume Survey 2023

Volumes increased between 2016 and 2022; banks executed **more than 400 transactions**, protecting both expected and unexpected losses on close to **€ 800 Bn of underlying loans**. By the end of 2022, € 500 Bn securitized loans were still covered by € 44 Bn of protected tranches (close to 9%) - among which 50% were granted in the EU, representing more than €40Bn of capital release.

Global - €Bn		At Inception	End 2022
Underlying Pools of Loans	2016-2022	792	493
	2022	199	197
Protected Tranches	2016-2022	62	44 (8.9%)
	2022	15	15

The year **2022** highlighted not only a substantial growth in product utilization by banks, with **€ 200 Bn new issuance**, but some structural changes in the risk sharing activity of banks, which are being confirmed in 2023.

	Before 2022	Starting 2022 and Beyond
Banks Regulatory Approach	Mostly IRB banks	Growing share of SA banks
Location of Banks	80-90% EU and UK up to 2019	60% EU and UK, growing share of North America (Canada, regional US banks)
Underlying Portfolios	Mostly loans to large corporate and SMEs, asset-based finance	Growing share of retail loans and residential mortgages
Protected Tranches	First loss, junior mezzanine	More senior mezzanine and some full stack transactions
Protection Providers	Specialized investment funds, pension funds	Growing share of credit arms of non-life (re)insurers

Specialized **investors** typically act as long-term partners of banks, generally as or on behalf of pension funds, looking for an ongoing stable return throughout the cycle. As an owner of the genuine credit risk of the underlying portfolios, they perform a comprehensive due diligence of banks' credit origination and risk management processes and often participate in the structuring of these private transactions. To mitigate counterparty risk, banks are receiving **collateralized protection** in the form of cash of high-quality securities, typically by issuing **credit linked notes** directly or through a SPV.

The number of **unfunded protections** underwritten by **insurers** on SRT transactions originated by banks also continued to increase in 2022.

IACPM Survey on SRT Transactions Executed by Credit Insurers 2019-2022

Insurers participating in this separate annual survey are specialized credit arms of non-life insurers (not monoline credit insurers). They issued **52 new insurance protections** (vs. 30 in 2021 and 11 when we started to conduct this annual survey in 2019), mostly on European synthetic securitizations. The underlying loan pools that insurers contributed to protect at **mezzanine level** amount at **€ 78 Bn** (vs € 55Bn in 2021), 80% being granted in Europe, with a growing share of SMEs, large corporate (74% in 2022, vs. 55% on average between 2019-2022), the second asset class being residential mortgages.

Insurance protections are by nature syndicated, and each participant retains on average one third of the insured tranche, with an average size of insurance protection of **€ 30M after syndication.**

Practices in transactions structuring differ between **European and North American issuers**, due to differences in a) maturity of the practice, b) securitization regulatory standards (notably STS regulations in Europe) and c) depth of capital markets.

	Europe (incl. UK)	North America
SPV	Usage of SPVs has been reducing year after year	Still most usual
Main Risk Transfer Instruments	Collateralized guarantees, CLN with embedded guarantees and unfunded credit insurance	CLN with embedded credit default swap
Main Amortization	Pro-rata to sequential	Mainly sequential or pro-rata

Perspectives in **risk sharing growth** are mostly dependent on three factors:

- The supply of loans by banks, particularly to support investments in the real economy and climate transition,
- The level and cost of capital required by banks to comply to prudential regulations, and
- The effectiveness and cost of regulatory capital released by these transactions.

Based on the results of our surveys, and the increasing number of banks and securitized asset classes, we can reasonably estimate that – **by end 2023 – close to €60B of aggregated capital** will have been raised by private risk sharing between banks, specialized investors and insurers acting as long-term partners of banks**.** Based on current trends**,** EU participating banks will contribute to at least half of this amount of capital released, and the final decisions expected at the end of June 2023 by co-legislators on CRR3 should continue to support growth of risk sharing.
The return of large US banks to the SRT market will trigger additional growth, but to what extent is still subject to regulatory uncertainties.

The **robustness and resilience** of this market depends on two additional factors:

- The existence of securitization standards, like the EU framework for Simple, Transparent and Standard (STS) securitizations, and
- The professionalism and stability of a large pool of protection providers, acting as long-term partners of banks.

The IACPM will continue to support banks, investors, insurers, and regulators so that private risk sharing continues to thrive and grow safely. Data collected and lessons learned in Europe over the last years will be shared with market participants and regulators in other jurisdictions to accelerate the development of the regulatory and transparency frameworks which will enable sustainable lending growth in support of the real economy.