IACPM

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Private Risk Sharing exceeded € 1 trillion of cumulated volumes between 2016 and 2023, despite ongoing uncertainties in final regulatory treatment

The IACPM has conducted its annual survey on risk sharing transactions executed by banks through **synthetic on balance-sheet securitizations**. These transactions aim at mitigating risk and releasing capital 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.

SRT transactions included in the survey have been executed by 40 of the largest global and regional institutions which are users of this tool to release capital and reinvest the proceeds to further lending growth in their respective jurisdictions. The survey captures transactions from a growing number of new entrants regulated under the Standardized Approach, which represent now more than 20% of trades reported in 2023.

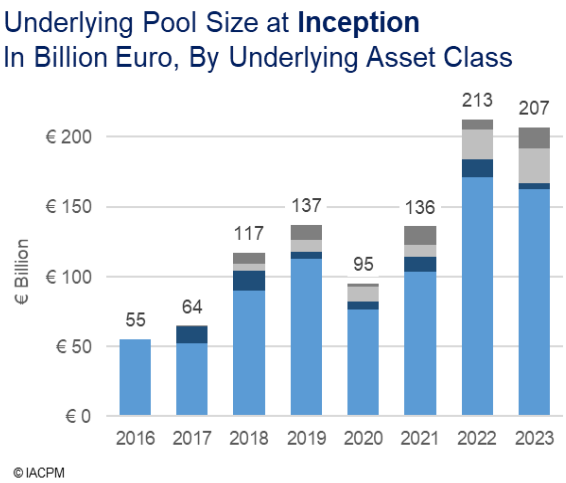
Volumes - €billion		At Inception		Year-End 2023	
		Global	EU	Global	EU
Underlying Pools of Loans	2016-2023	1,024	572	614	299
	2023	207	102	197	98
Protected Tranches	2016-2023	82 (8%)	42 (7.3%)	55 (8.9%)	24 (7.9%)
	2023	18.5 (8.9%)	7.5 (7.3%)	18.2 (9.2%)	7.3 (7.5%)

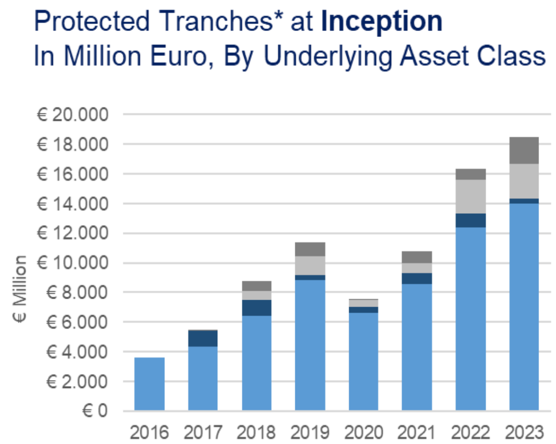
Securitized volumes continued to increase substantially, with **more than 500 synthetic SRT transactions** issued between 2016 and 2023, protecting both expected and unexpected losses on **more than € 1 trillion of underlying loans.** The year **2023** highlighted similar growth as seen in 2022, with more than **€ 200 billion new issuance**. By the end of 2023, more than €600 bn of bank loans were covered by €55 bn (close to 9%) of junior tranches. Despite an expected increase in corporate credit default rates, credit investors – mostly only private – and pension funds, acting as long-term partners of banks, continued to have an appetite in first loss tranches, with average attachment point of 0%.

Half of the loans securitized synthetically in 2023 were originated in the European Union. Similar as seen in the 2022 data, **2023 issuance of EU SRT transactions (€102 bn) – half qualified as Simple, Transparent and Standardised (STS) transactions - exceeded the volume of placed true sale issuance (€94.7 bn)** [i]. A growing number of trades (50% vs 33% in the prior two years) qualify as STS to benefit from the more favorable capital treatment.

By the end of 2023, close to €300 bn of EU bank loans were covered by €24 bn (close to 8%) of first loss and mezzanine tranches, protected by investors and insurers on a funded or unfunded basis.

The average **risk-weight** of securitized loans remain stable at 63%, continuing to highlight the large share of the asset classes of corporate and SME loans (80%) as well as specialized finance, although the increasing number of EU regional and North American banks is impacting the asset profile more towards retail and mortgage finance.
The share of sustainability-linked trades - through underlying assets, use-of-proceeds, and incentives in the deal structure - is also gradually increasing, mainly in Europe, reaching 11% in 2023 up from 6% in 2022.





■ Business/ Real Economy Finance (1) ■ Specialized Lending (2) ■ Retail Finance (3) ■ Other

(*) Protected tranche volume does not include placed senior tranche volume.

Source: IACPM Synthetic Securitization Market Volume Survey 2016-2023

(1) Corporate, SMEs, Trade Finance, Mixed | (2) Project Finance, Object Finance, Commercial Mortgages, Income-producing Real Estate (IPRE) Lending | (3) Residential Mortgage Loans, All Other Retail Exposures

The changes in **private market structure** noted in our 2022 report are confirmed in 2023, as indicated in the table below:

	Before 2022	2022 - 2023
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
Underlying Portfolios	Mostly loans to large corporate and SMEs, and specialized lending	Growing share of retail loans and residential mortgages
Protected tranches	Only funded CLNs or fully collateralized tranches	Growing share of unfunded mezzanine protection
Protection Providers	Specialized investment funds, pension funds	Growing share of credit insurance arms of non-life (re)insurers

After a comprehensive due diligence of banks' business and risk management practices on the asset classes they want to invest in, **specialized investors** participate in the structuring of the private transactions and act as long-term partners of banks, generally as or on behalf of pension funds, looking for an ongoing stable return throughout the cycle. To mitigate counterparty risk, banks are receiving **funded protection** in the form of cash or high-quality collateral securities, or by issuing **credit linked notes** directly or through a SPV.

The number of **unfunded protections** underwritten by **insurers** on SRT transactions also continued to grow in 2023 with similar volumes as in 2022, as indicated below.

IACPM Survey on SRT Transactions Executed by Credit Insurers 2019-2023

Insurers participating in a separate annual IACPM survey are specialized credit arms of non-life (re)insurers, not monoline credit insurers. In the period **2019-2023**, the participating insurers executed 153 insurance protections on 127 SRT securitizations, for a total insured amount of close to **€ 4 billion**.
Contrary to synthetic securitizations, unfunded protection is currently executed mostly on European loans pools (55% EU, 30% UK) with a growing share of loans to SMEs and large corporate, the third but decreasing asset class being residential mortgages.
In 2023, the 13 participating insurers protected more than **€ 1 billion of SRT tranches mostly at mezzanine level** and, as close to 90% of insurance protections are syndicated, each participant retained on average one third of the insured tranche, with an average size of insurance protection of **€ 25 million after syndication.**
Insurers' appetite to protect SRT transactions continues to increase but is capped by their inability to access the growing EU STS market.

North American banks entered the SRT markets only a couple of years ago, with very large transactions of residential mortgages and corporate loans, attracting large-scale investors which is different from the niche European market. At this stage, the structuring practices in transactions vary between **European and North American issuers**, due to differences in a) maturity of the practice, b) capital absorbed by underlying assets, c) regulatory standards for securitization, and d) depth of local investors' private markets.

	Europe (incl. UK)	North America
SPV	Usage of SPVs has been reducing year after year	Large transactions without SPV in 2023, after the Fed accepted to release capital on direct CLNs
Tranche thickness on corporate loans	0% to 8-9%	0% to 12.5%
Main Risk Transfer Instruments	Collateralized guarantees, CLNs with embedded guarantee and unfunded credit insurance	CLN with embedded credit default swap
Main Amortization	Pro-rata to sequential	Mainly sequential or pro-rata
Regulator's limits in volume	No	Decided bank per bank on direct CLN's only

Perspectives in **risk sharing growth** are mostly dependent from the **supply side** of banks, i.e.,

- the demand for lending and their absorption of capital by prudential regulations, and
- the effectiveness in regulatory capital release by SRT transactions.

Contrary to the true sale securitization market, which is mainly driven by the demand of investors, the SRT market is driven by the supply from banks and currently not limited by investors' or insurers' appetite to protect the junior tranches and to invest in the asset classes proposed by banks.

Based on the results of our surveys, the increasing number of banks and securitized asset classes, and investors' appetite, we can reasonably estimate that – **by the end of 2024 – around €75 bn of aggregated capital** will have been raised by private risk sharing, assuming the final Basel 3 regulations in the various jurisdictions enable for effective capital release. Discussions are ongoing in the EU to finalize CRR3 and revive the securitization market in the future European Capital Markets Union, as well as in the UK and the US on SRT treatment in the final implementation of Basel 3 regulations. The return of large US banks to the SRT market can trigger substantial additional growth, but to what extent is still subject to the decisions that will be made on the Basel 3 endgame.

Regulators are raising concerns about the systemic risk impact of private risk sharing growth. More than ever, the **robustness and resilience** of the SRT market will depend on two additional factors:

- The existence of securitization standards, like the EU framework for STS securitizations, and
- The professionalism and stability of the 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 across jurisdictions. Data collected and lessons learned in Europe over the previous 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.

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[i] AFME FY 2023 securitisation report – €213.3 bn true sale issuance, among which €94.7 bn placed.