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General affairs
Policy definition and coordination

IACPM Response
(final version for submission to the European Commission on 4 December 2024)

TARGETED CONSULTATION

ON THE FUNCTIONING OF THE EU SECURITISATION FRAMEWORK

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CONSULTATION QUESTIONS

The International Association of Credit Portfolio Managers (IACPM) is a global association established in 2001 to further the management practice of credit exposures originated by banks. Membership is open to banks as well as credit investors, pension funds, insurers and reinsurers, who participate in credit risk transfer transactions as sellers of credit protection.

*Therefore, the response provided by the IACPM mostly focuses on the **direct and indirect impact of regulatory reforms on the growth of Significant Risk Transfer (SRT) securitisations** executed by banks, aiming to share risk and release capital in order to grow banks' lending to the real economy.*

IACPM collected quantitative data from its members to help in answering the questions in this consultation. The collected data is included in many sections of the consultation to support our arguments. Some figures may have been rounded to the nearest thousand given the smaller sample size of participants. Demographics of the survey participants:

- *19 firms participated, including ten banks, six funds/asset managers, two insurance companies and one re-insurer*
- *Banks responding to the survey have issued more than 120 SRT transactions in the last 25 years, with 30% of the banks having started before 2010*
- *Six of the ten contributing banks have total balance sheet assets above US$ 500 Billion.*

CONSULTATION QUESTIONS

Section 1: Effectiveness of the securitisation framework

Q. 1.1 Do you agree that the securitisation framework (including the Securitisation Regulation and relevant applicable provisions of the CRR, Solvency II and LCR) has been successful in, or has contributed to, achieving the following objectives:

	Fully agree	**Somewhat agree**	**Neutral**	**Somewhat disagree**	**Fully disagree**	**No opinion**
1. Revival of a safer securitisation market		**Somewhat agree**				
2. Improving financing of the EU economy by creating a more balanced and stable funding					**Fully disagree**	

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
structure of the EU economy						
3. Weakening the link between banks' deleveraging needs and credit tightening –				Somewhat disagree		
4. Reducing investor stigma towards EU securitisations		Somewhat agree				
5. Removing regulatory disadvantages for simple and transparent securitisation products		Somewhat agree				
6.Reducing/eliminating unduly high operational costs for issuers and investors					Fully disagree	
7. Differentiating simple, transparent and standardised (STS) securitisation products from more opaque and complex ones		Somewhat agree				
7.1 Increasing the price difference between STS vs non-STS products					Fully disagree	
7.2 Increasing the growth in issuance of STS vs non-STS products				Somewhat disagree		
8. Supporting the standardisation of processes and practices in securitisation markets				Somewhat disagree		

	Fully agree	Somewhat agree	Neutral	Somewhat disagree	Fully disagree	No opinion
8.1 Increasing the degree of standardisation of marketing and reporting material				**Somewhat disagree**		
8.2 Reducing operational costs linked to standardised securitisation products					**Fully disagree**	
9. Tackling regulatory inconsistencies				**Somewhat disagree**		

Section 2: Impact on SMEs

Q. 2.1 Have you come across any impediments to securitise SME loans or to invest in SME loan securitisations?

- **Yes**
- No
- No opinion

Please explain.

From the perspective of synthetic SRT securitisations (which is one of the most appropriate forms of securitisation for this asset class), there are less impediments for large banks. However, small banks are in a different position as they do not have the same financial capacity to invest in processes and systems, nor the origination volume to comply with homogeneity criteria, and for them the production of ESMA templates and compliance with STS criteria are more challenging.

There is no one measure that can remove potential impediments and create new incentives to securitise or to invest in SME ABS. It is a combination of measures in key areas that can achieve this. This includes:

- applying the investor due diligence requirements in a more principles-based and proportionate approach (as discussed further in our comments to section 4 below) and creating incentives in prudential treatment will help to grow investor-base and will encourage more investments in securitisations in general, including SME ABS;
- simplification of the reporting regime and the set-up of multi-issuer programmes eligible for STS will reduce the costs and will help to enable all banks - including smaller banks - to increase their lending capacity to SMEs by risk sharing;
- enabling insurers to protect SRT tranches on an unfunded basis, because insurers have appetite for smaller transactions in smaller Member States, and can propose solutions which are economically more effective.

We want to also highlight the instrumental role of the EIF in educating EU regional banks and participating in risk sharing, which is only possible if STS rules on synthetic excess spread are effective for the EIF as investors.

Finally, if a securitisation platform is set up (as to which see our comments in section 8 below), it may further support EU SME finance if this asset class is incorporated into its infrastructure.

Q. 2.2 How can securitisation support access to finance for SMEs?

See our comment to Q 2.1 above.

Section 3: Scope of application of the Securitisation Regulation

Q. 3.1 In your opinion, should the current jurisdictional scope of application of the SECR be set out more clearly in the legislation?

- Yes
- No
- **No opinion**

Please explain.

From the perspective of the synthetic SRT securitisation, there are no jurisdictional issues that need to be clarified. However, we understand that in certain other sectors of the market it is something that the industry would like to see addressed. We would therefore not oppose amending Article 1 of SECR that sets out the scope of application of the SECR regime, but would caution against any amendments that may have unintended consequences, create more uncertainty or prevent (or be interpreted as preventing) the ability of EU sell-side parties to delegate various tasks to third parties (which may or may not be established in the EU) to assist with regulatory compliance or any amendments that may require that an EU-based or EU-authorised entities are in charge of SECR compliance.

Q. 3.2 If you answered yes to question 3.1, do you think it would be useful to include a specific article that states that SECR applies to any securitisation where at least one party (sell-side or buy-side) is based or authorised in the EU, and to clarify that the EU-based or EU-authorised entity(ies) shall be in charge of fulfilling the relevant provisions in the SECR?

- Yes
- **No**
- No opinion

Please explain.

See our comment to Q 2.1 above.

Legal definitions

Definition of a securitisation

Q. 3.3 Do you think the definition of a securitisation transaction in Article 2 of SECR should be changed? You may select more than one option.

- Yes, the definition should be expanded to include transactions or vehicles that could be considered securitisations from an economic perspective;
- Yes, the definition should be narrowed to exclude certain transactions or introduce specific exceptions;
- **No, it should not be changed**
- No opinion.

Please explain and specify, if necessary, how the definition should be expanded or narrowed in your view.

Q. 3.4 Should the definition of a securitisation exclude transactions or vehicles that are derisked (e.g. by providing junior equity tranche) by an EU-level or national institution (e.g. a promotional bank) with a view to crowding-in private investors towards public policy objectives?

- Yes
- No
- No opinion

N/A

Q. 3.5 If you answered yes to question 3.4., what criteria should be used to define such transactions?

N/A

Definition of a sponsor

Q. 3.6 Should the definition of a sponsor be expanded to include alternative investment firm managers established in the EU?

- Yes
- No
- **No opinion**

Please explain, including if the definition should be expanded to any other market participants.

From the perspective of the synthetic SRT securitisation, the "sponsor" role is not relevant. However, we understand that in certain other sectors of the market it is something that the industry would like to see addressed. We would therefore not oppose amending this definition and for further comments we refer you to the other industry responses such as AFME, ACC/AIMA.

Q. 3.7 If you answered yes to question 3.6., are any specific adaptions or safeguards necessary in the Alternative Investment Firms Directive (AIFMD), taking into account the originate-to- distribute prohibition in the AIFMD, to enable AIFMs to fulfil the functions of a sponsor in a securitisation transaction, as stipulated in the SECR? You may select more than one option.

- An AIFM should not sponsor loans originated by the AIFs it manages
- AIFs should not invest in securitisations sponsored by its AIFM
- Minimum capital requirements under the AIFMD should be adapted to enable AIFMs, in particular to fulfil the risk retention requirement under SECR
- Other safeguards
- No safeguards are needed Please

explain your answer.

N/A

Section 4: Due diligence requirements

Q. 4.1 Please provide an estimate of the total annual recurring costs and/or the average cost per transaction (in EUR) of complying with the due diligence requirements under Article 5.

Please differentiate between costs that are only due to Article 5 and the costs that you would incur during your regular due diligence process regardless of Article 5.

Please compare the total due diligence costs for securitisations with the total due diligence costs of other instruments with similar risk characteristics.

In this section we present data from the perspective of synthetic SRT securitisations, where there are different cost considerations for: (i) junior/mezz investors subject to Article 5; and (ii) bank-originators holding the senior positions (who are not subject to Article 5 directly but who do incur costs of preparing and arranging due diligence sessions with the junior and mezz investors). When providing estimated data, our members considered, among other things, the cost of headcount in IT, legal, front and middle office.

The cost estimates are also provided on the basis that the transactions are structured as private and not publicly offered securitisations.

As mentioned in the introduction, here are the demographic of survey participants and a reminder that figures have been rounded to nearest thousand.

- 19 firms participated, including ten banks, six funds/asset managers, two insurance companies and one re-insurer
- Banks responding to the survey have issued more than 120 SRT transactions in the last 25 years, with 30% of the banks having started before 2010
- Six of the ten contributing banks have total balance sheet assets above US$ 500 Billion.

The cost estimates will be different for a synthetic SRT if the transaction is publicly placed rather than done as private securitisation (which is more common in practice). For a traditional (true sale) SRT, which are more often publicly placed, the costs will also be different, but we do not specifically comment further on the latter as true sale SRT solutions are only developing, and the industry would need more time to collect the relevant data and to carry out a more complex data analysis.

It is important to note that the data on costs is provided primarily by the institutions that have been active in the SRT market for a number of years and can leverage off their existing infrastructure and internal processes, which can drive down some of the Article 5-specific costs. There is no data from potential **new market players** who are currently absent due to high barrier to entry for whom the costs of setting up the systems from scratch are likely to be prohibitively high. The other cost of compliance that is difficult to estimate is the potential **liability cost**, in case of non-compliance, which can also act as a deterrent to some new and smaller market players and which is also a factor for existing market players when considering whether to issue or to invest in a securitisation.

We note that our estimates for non-Article 5 costs are significantly (3 times) higher because investors in SRT securitisations commonly apply high internal standards when analysing any potential or existing SRT investment, which they do irrespective of Article 5 requirements, all that Article 5 does is to bring not an insignificant additional costs purely for mandatory SECR due diligence even though it does not add much value.

<u>(1) For new SRT transactions:</u>

(a) For **bank originators/snr investors** a total average per transaction of estimated annual recurring:
- **Article 5 estimated cost** is **€200,000**, but for some institutions can be as high as **€600,000**;
- **non-Article 5 cost** which is primarily driven by the SRT nature of the securitisation is **€140,000**, but for some institutions can be as high as **€230,000**.

(b) For **junior/mezz investors**, a total average per transaction of estimated annual recurring:
- **Article 5 cost** €15,000, going up to €35,000 for some institutions;
- **non-Article 5 cost,** which is primarily driven by the SRT nature of the securitisation, is **€50,000**, going up to **€100,000** for some institutions.

(2) For existing SRT transactions:

(a) For **bank originators/snr investors** a total average per transaction of estimated annual recurring:
- **Article 5 cost** (ie the cost to maintain existing SRT securitisations) is approximately **€40,000**, but for some institutions it can be as high as **€140,000**;
- **non-Article 5 cost** which is primarily driven by the SRT nature of the securitisation is **€25,000** but can be over **€35,000** for some institutions.

(b) For **junior/mezz investors** a total average per transaction of estimated annual recurring:
- **Article 5 cost** is **€280,000**.
- **non-Article 5 cost**, which is primarily driven by the SRT nature of the securitisation, is **€830,000**.

Q. 4.2 If possible, please estimate the total one-off costs you incurred (in EUR) to set up the necessary procedures to comply with Article 5 of SECR.

IACPM did not receive enough data to provide a relevant response to this question.

Q. 4.3 Please select your preferred option to ensure that investors are aware of what they are buying and appropriately assess the risks of their investments.

- **Option 1: The requirements should be made more principles-based, proportionate, and less complex;**
- Option 2: The requirements should be made more detailed and prescriptive for legal certainty;
- Option 3: There is no need to change the text of the due diligence requirements;
- No opinion

Q. 4.4 Should the text of Article 5(3) be simplified to mandate investors to assess at minimum the risk characteristics and the structural features of the securitisation?

- **Yes**
- No
- No opinion

Please explain.

Yes, Article 5(3) should be simplified and, together with Article 5(1) on which we also comment below, it should be streamlined to reflect principles-based and proportion approach to the overall assessment of the transaction that investors should carry out prior to holding a securitisation position. See our drafting suggestions in the response to Q 4.4 below.

There are many factors at play when it comes to the deal characteristics that are most relevant to assess on a case-by-case basis prior to investing. We would caution the EC against seeking to include any exhaustive list of such factors. In this regard we also note that Article 5(3) is drafted with true sale publicly placed securitisations in mind and refers to assessment of liquidity enhancements and market value triggers which are not relevant to synthetic investments of buy-to-hold investors.

We also note that in the context of synthetic SRT, STS-specific due diligence should not be triggered as only the originator holding the senior position (who is excluded from due diligence obligations) has any regulatory benefit from the STS designation, other investors do not. Alternatively, it could also be argued that because the deal is STS-designated, so it is “simple” by definition, so such STS designation should reduce (rather than increase) the burden of regulatory due diligence, in particular where (as noted already) there is no reliance on STS designation to achieve regulatory benefit under CRR, LCR or Solvency II regimes that require consideration of certain additional eligibility criteria (commonly referred to in the industry as “STS+” assessment).

Furthermore, synthetic SRT securitisations are subject to very close supervisor scrutiny, which investors ought to be able to take also into account when applying proportionate approach to their due diligence.

Therefore, we support the general idea that Article 5 in general and Article 5(3) in particular should be amended so that principles-based and proportionate approach to carrying out due diligence underpins their application.

Q. 4.5 If you answered yes to question 4.4., please specify how this could be implemented.

We propose that Article 5(1) and Article 5(3) are replaced with an alternative wording that underpins the concept of principles-based and proportionate approach to due diligence prior to investing in a securitisation.

Our suggested drafting is set out below. For the purposes of the suggested drafting, we have taken into account:

- our comments on Q. 4.4 above and Q.4.7-4.8 and Q. 4.10 below, and
- the fact that different institutional investors are also required to have regard to other requirements applicable to them under their sectoral legislation (such as Solvency II Art 132 "prudent person principle", certain CRD/CRR due diligence, including no mechanistic reliance on credit ratings, fiduciary duties of fund managers etc).

"(1) *Prior to holding a securitisation position, an institutional investor (other than the originator, sponsor or original lender) shall (having regard to other relevant requirements applicable to it under its sectoral legislation) carry out due diligence assessment proportionate and commensurate with the risk profile of their investment in one or more securitisation position giving appropriate consideration to the risk characteristics of the individual securitisation position and of the underlying exposures and all relevant structural features of the securitisation.*

[(2) For the purposes of paragraph (1), disclosure provided to an institutional investor shall at least confirm that: [we are not providing further wording here, but simply illustrating how, as an alternative to the current requirement "to verify" certain matters before investing, such as risk retention, the requirement could be re-framed and re-focused on disclosure provided to investors so that it is more in line with the overall principle of proportionality]."

Q. 4.6 Taking into account your answer to 4.4, what would you estimate to be the impact (in percent or EUR) of such a modification in Article 5(3) on your one-off and annual recurring costs for complying with the due diligence requirements under Article 5?

Please explain.

As noted in our response to Q. 4.4 above, the burden and costs of regulatory due diligence will not be significantly reduced by simply amending Article 5(3). Please note that there are no recurring costs associated with Article 5(3) as it concerns mattes to be assessed prior to investing.

The principles-based and proportionate approach needs to underpin the entire SECR due diligence regime for there to be a meaningful impact on the overall costs of carrying due diligence.

For different market players, the impact will also be different as it will depend on the size and the type of the institution, its experience and the type of risk it assumes when investing in securitisations as well as various other factors. Therefore, the general feedback from IACPM is that **moving Article 5 regime onto principles-based approach can see up to 50% reduction in one-off costs and up to 25% or more reduction in the recurring annual costs**.

Q. 4.7 Should due diligence requirements differ based on the different characteristics of a securitisation transaction?

- **Yes**
- No
- No opinion

Q. 4.8 If you answered yes to question 4.7., please select one or more of the following options to differentiate due diligence requirements:

- **Due diligence requirements should differ based on the risk of the position (e.g. senior vs non-senior)**
- **Due diligence requirements should differ based on the risk of the underlying assets**
- **Due diligence requirements should differ based on the STS status of the securitisation (STS vs non-STS)**

- **Other**

Please explain your answer.

As noted in our response to Q. 4.4 above, there are many factors at play when it comes to the deal characteristics that are most relevant to assess on a case-by-case basis prior to investing. We would caution the EC against seeking to include any exhaustive list of such factors, i.e. it is not appropriate to attempt to expressly legislate for all different type of factors as it will inevitably lead to unintended consequences and will be counterproductive to Option 1 that we support and which is aimed at moving the due diligence requirements towards more principles-based, proportionate, and less complex approach. For illustrative purposes, we are setting out below some examples of such factors:

(1) type of issuer (eg programmer/repeat issuer vs first time originator);

(2) type of investment/securitisation position (privately negotiated vs publicly placed, seniority, WAL and availability credit enhancement assessed against the amortisation profile at the time of the investment, SRT, primary vs secondary market acquisition);

(3) purpose of investment (buy-to-hold vs buy-to-trade; publicly placed vs fully retained for secured funding purposes; private lending in a securitisation as part of a wider business relationship);

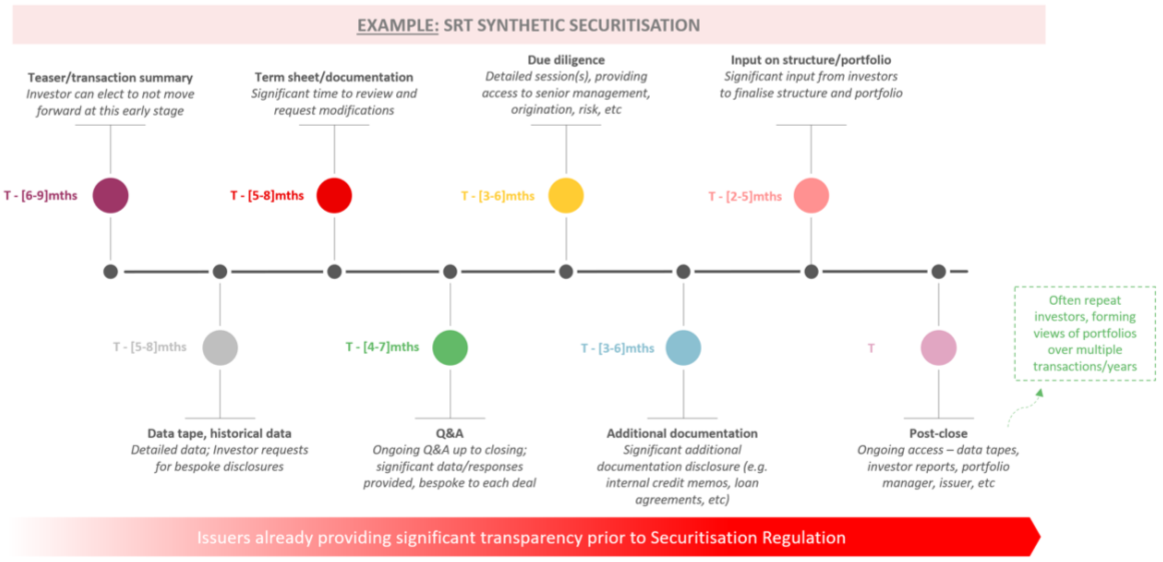
(4) level of experience of individual investor with asset class, jurisdiction, originator sector, whether originator is highly regulated entity (eg bank) or non-regulated, complexity and familiarity with structure etc.

We would also separately note that, specifically for the SRT securitisation market, the dynamics between the sell- and buy-side can be quite different compared to some of the other segments of the market. First of all, it should be remembered that external investors in synthetic securitisations will almost always be junior or mezzanine specialised investors who will have significant commercial leverage to insist on receiving the information they consider to be relevant for risk evaluation and due diligence analysis. The due diligence on this type of transactions is a process that typically takes place over many months and involves investors working closely with originators to understand their business in great detail in order to ascertain the originators' risk drivers so that the investor can determine the best way to underwrite the risk of the securitisation (and we note that EIB/EIF adopt the same approach on this type of private securitisation). ***We also refer in this regard to an illustrative timeline included in our full response submitted alongside this online response form.***

Therefore, as investors will necessarily be sophisticated entities involved in meaningful negotiations with the sell side, they will be able to ensure they are receiving disclosure and deal reporting tailored precisely to what they require in order to make an informed initial investment decision and to monitor their investment on an ongoing basis. This is also the reason why investors in synthetic securitisations do not make use at all of ESMA Article 7 templates.

Finally, another important factor to note is that in Europe the private SRT market has grown gradually since the early 2000 based on a principle of long-term partnership between banks, investors and insurers (with a close monitoring by supervisory authorities and central banks). The risk sharing activity – focused on banks’ core asset classes – is very healthy and mature, and was not affected by credit downturns in the last two decades. As SRT investors commonly act as long-term partners of banks across the credit cycles (so that the ability of banks to have access to capital by credit risk sharing does not dry-up when the economic conditions are less favourable), this consideration is ought to be one of the key factors that needs to be taken into consideration when applying proportionate approach to due diligence in the SRT context. However, there is no need to legislate specifically for this or any other factors that may be relevant on a case-by-case basis.

Therefore, if due diligence regime becomes more proportionate leaving enough room for investor discretion when it comes to identifying most relevant factors and deal characteristics, it will reduce the cost and burden of regulatory compliance. However, it is a combination of different measures that, collectively, will need to be introduced in order to move the dial and to create more incentives to securitise as well as to invest in securitisations. These key measures (in addition to due diligence comments made in this section) include the simplification of the reporting regime (as to which see our comments in section 5 below), supported by better prudential treatment (as to which see our comments in prudential sections below) and the removal of other restrictions that hinder the growth of investment (for example, the acquisition limit in the UCITS Directive, as to which see our comments in section 12.10 below).



Q. 4.9 Taking into account your answers to 4.7 and 4.8, what would you estimate to be the impact (in percent or EUR) of differentiating due diligence requirements on your one-off and annual recurring costs for complying with the due diligence requirements under Article 5?

Please explain your answer.

Differentiation of various factors when applying due diligence will not by itself significantly reduce the cost and burden of regulatory compliance. The principles-based and proportionate approach needs to underpin the entire SECR due diligence regime for there to be a meaningful impact on the overall costs of carrying due diligence.

It is also very difficult in this context to comment on annual recurring costs as it is not clear from the limited detail included in the consultation as to whether differentiating factors will result in Article 5 being amended so that the burden of certain ongoing due diligence requirements (for example, stress testing) will be removed.

As noted above, for different market players, the impact will also be different as it will depend on the size and the type of the institution, their risk appetite when investing in securitisations as well as various other factors. Therefore, consistent with our earlier comments, the general feedback from IACPM is that **moving Article 5 regime onto principles-based approach can see between 25% to 50% reduction in one-off costs and up to 25% reduction in the recurring annual costs**.

Q. 4.10 For EU investors investing in securitisations where the originator, sponsor or original lender is established in the Union and is the responsible entity for complying with those requirements, should certain due diligence verification requirements be removed as the compliance with these requirements is already subject to supervision elsewhere? This could apply to the requirements for investors to check whether the originator, sponsor or original lender complied with:

(i) risk retention requirements,

- **Yes**
- No
- No opinion

(ii) credit granting criteria requirements,

- **Yes**
- No
- No opinion

(iii) disclosure requirements,

- **Yes**
- No
- No opinion

(iv) STS requirements, where the transaction is notified as STS

- **Yes**
- No
- No opinion

Please explain if you see any risks arising from the removal of these requirements, and if so, how they should be mitigated.

We refer to our drafting suggestion in our response to Q. 4.5 above and propose to refocus due diligence requirements in relation to matters like retention, transparency and STS on disclosure, i.e. investors should not be required to verified compliance, because they are not supervisors, and should instead expect to receive disclosure from the sell-side the confirms these matters. This is in line with the pre-2019 approach to retention due diligence which operated as a restriction on relevant investors who could invest in a securitisation only if the relevant sell-side disclosed that they will comply with the EU retention regime.

We further note that it should not be mandatory to diligence STS compliance, in particular where a second opinion from the ESMA-registered third party verification agents is made available to investors or where investors do not rely on the STS status (as is the case for mezz/junior investors in a synthetic SRT) as they get no regulatory benefit.

With regard to due diligence on credit granting standards, it is less relevant for investors in synthetic SRT given that originators are EU CRR firms and, as such, there is no requirement to carry out any due diligence on credit granting. In general, if Article 5 moves onto more principles-based and proportionate approach investors should have discretion when it comes to credit granting due diligence. We agree in this regard with comments made in other industry responses, such as AFME, that in some cases due diligence on originator credit granting practices is less relevant and what is more relevant is the data on the performance of the assets which is more helpful for assessment of the credit quality of the assets.

Q. 4. 11 Taking into account your answers to Q.4.10, what would you estimate to be the impact (in percent or EUR) of removing those obligations on your one-off and recurring costs for complying with the due diligence requirements?

Please explain.

We refer to our comments in Q. 4.9 and note that calculating the requested estimate is difficult to provide as there will be a range of factors that will be relevant to consider. For example, highly burdensome reporting regime is a high barrier to entry on both sell- and buy-side (and is not fit for purpose as at for synthetic SRT securitisations). However, it is unclear at this stage whether Article 7 reforms will reduce the burden of regulatory compliance that will in turn reduce the burden of due diligence on transparency and reporting. It will be helpful to move away from mandatory STS-related due diligence, but estimating the impact of just this change is very difficult.

Therefore, consistent with our earlier comments, the general feedback from IACPM is that **moving Article 5 regime onto principles-based approach can see between 25% to 50% reduction in one-off costs and up to 25% reduction in the recurring annual costs**.

Q. 4.12 Do the due diligence requirements under Article 5 disincentivise investing into securitisations on the secondary market?

- **Yes**
- No
- No opinion

Please explain

While for synthetic SRT securitisations secondary market trading may be less relevant, in general, we agree that the current burdensome due diligence regime that lacks proportionality puts EU investors at a competitive disadvantage. For example, unless the EU investor invested in the deal in the primary market and had the time and opportunity to carry out thorough due diligence at that time, such investor may not be able to carry the required due diligence quickly enough in the case of a secondary market trade for that transaction thus missing an opportunity to invest at competitive pricing. Furthermore, even if such investor invested in the deal in the primary market, there is nothing in the due diligence regime to suggest that when investing in the same transaction later on in the secondary market the investor can apply lighter touch due diligence with the reduced burden of having to document the due diligence for a secondary market trade.

Q. 4.13 If you answered yes to question 4.12., should investors be provided with a defined period of time after the investment to document compliance with the verification requirements as part of the due diligence requirements under Article 5?

- Yes
- **No**
- No opinion

Q. 4.14 If you answered yes to question 4.13, how many days should be given to investors to demonstrate compliance with their verification requirements as part of the due diligence requirements under Article 5?

- 0 – 15 days
- 15 – 29 days
- 29 – 45 days
- No opinion

N/A

Q. 4.15 If you answered yes to question 4.13, what type of transactions should this rule apply to?

N/A

Q. 4.16 Do the due diligence requirements under Article 5 disincentivise investing into repeat securitisation issuances?

- **Yes**
- No
- No opinion

Q. 4.17 If you answered yes to question 4.16., how should repeat or similar transactions be identified in the legal text and how should the respective due diligence requirements be amended?

We refer to our comments in Q. 4.8 above and note that whether it is a repeat transaction, or a programme issuer is just one of many deal characteristics and factors that an investor would want to take into account when carrying out proportionate and principles-based due diligence. There is no need to set out prescriptive parameters for this, especially that a repeat or programme issuer can take many different forms. It is sufficient for the reforms, as already noted above, that the principle of proportionality underpins the entire Article 5 regime to remove any concerns about having to carry out excessive and burdensome due diligence on a repeat or programme transaction.

Q. 4.18 Should Article 32(1) be amended to require Member States to lay down rules establishing appropriate administrative sanctions, in the case of negligence or intentional infringement, and remedial measures in case institutional investors fail to meet the requirements provided for in Article 5?

- Yes
- **No**
- No opinion

Please explain your answer.

It should be sufficient for any sanctions and consequences for non-compliance to be provided for under the applicable sectoral legislation (as already the case the under the current framework where the relevant provisions reside in CRR, Solvency II, AIFMD an UCITS).

We would also note that investments in securitisation appear to be singled out in this regard and while the initial drivers for introducing securitisation investment-specific sanctions was the product of stigma in the aftermath of the Global Financial Crisis, if the EU intends to advance and grow the securitisation markets it will be helpful to bear in the mind the further tightening the sanctions regime may send the wrong signals to the new market players that may be considering entering this market.

Q. 4.19 Taking into account the answers to the questions above on due diligence requirements, do you think any safeguards should be introduced in Article 5 to prevent the build-up of financial stability risks?

No. SECR already provides in Article 31 for ESRB to be responsible for the macroprudential oversight of the EU securitisation market and to monitor the developments in securitisation markets and to provide every three years its reports. In addition, under SECR Article 44, the JC of ESAs are specifically required to monitor the functioning of the Article 5 due diligence regime and to provide to the EC every three years a report. Furthermore, sectoral legislation under which relevant institutional investors are regulated have other safeguards put in pace, as appropriate for the sector of such investors.

Q. 4.20 Taking into account your answers to the previous questions in this section, by how much would these changes impact the volume of securitisations that you invest in?

We refer you to our general comments in Q. 12.10 below and we would like to note that the due diligence reforms alone will not have material impact on the volume of securitisation investments. For example, move to proportionate due diligence needs to be accompanied (among other things) by a simplified reporting regime to bring down not only the cost of regulatory compliance for existing issuers and investors but to also remove very high barrier to entry for new investors and new issuers (including smaller banks in the Member States where there is little securitisation activity currently, see also our comments in Q.12.6 below). This will remove competitive disadvantage of EU issuers and investors compared to other markets outside Europe where the growth was not hindered by post-GFS excessive regulation. Therefore, it is a combination of reforms in key prudential and non-prudential areas (including the removal of restrictions, haircuts and other limitations the hinder the ability to invest more in securitisation – see, for example, our additional comments on the UCITS Directive 10% acquisition limit) that, if introduced as a package of reforms, will collectively bring meaningful results and will help to successfully grow the securitisation market in Europe.

Q. 4.21 If you are a supervisor, how would the changes to the due diligence requirements suggested in the previous questions affect your supervisory costs?

N/A

Delegation of due diligence

Q. 4.22 Should the National Competent Authorities (NCAs) continue to have the possibility to apply administrative sanctions under Article 32 and 33 of SECR in case of infringements of the requirements of Article 5 SECR to either the institutional investor or the party to which the institutional investor has delegated the due diligence obligations?

- Yes
- **No**
- No opinion

Please explain your answer.

The framing of this question is incorrect. It is the sectoral legislation (ie CRR, Solvency II, AIFMD, UCITS) rather than SECR that sets out relevant provisions on sanctions in relation to due diligence. Introducing new sanctions in SECR is a step in the wrong direction as it will most likely act as a deterrent hindering the growth of the market and introducing the new regulatory burden which is unlikely to attract new market players or encourage existing market players to issue more or to invest more in securitisations.

The point about delegation is not relevant for SRT, so we provide no further comments.

Q. 4. 23 If you answered no to question 4.22, which party should be subject to administrative sanctions in case of infringement of the due diligence requirements?

- the institutional investor
- the party to which the institutional investor has delegated the due diligence obligations

N/A

Section 5: Transparency requirements and definition of public securitisation

Q. 5.1 Please provide an estimate of the total annual recurring costs and/or the average cost per transaction (in EUR) of complying with the transparency regime under Article 7.

The market estimates can vary significantly as there will be a range of factors that will dictate the overall cost. For example, it will depend on the size, the type and the sophistication of the originator or sponsor and whether any third-party service providers need to be involved to assist with reporting (charging an annual fee that can vary depending on the deal size, whether it is for a frequent issuer or not etc.).

We note in this regard that in SRT securitisations all originators are CRR-regulated credit institutions but not all may have set up internally infrastructure for SECR reporting, which is a costly investment that may be prohibitively expensive for smaller market players. Therefore, it is important to note that the data on costs is provided primarily by the institutions that regulated under the CRR and have been active in the SRT market for a number of years and can leverage off their existing infrastructure and internal processes, which can drive down some of the Article 5-specific costs. There is no data from potential **new market players** (eg smaller bank SRT issuers) who are currently absent due to high barrier to entry for whom the costs of setting up some of the new systems from scratch are likely to be prohibitively high. The other cost of compliance that is difficult to estimate is the potential **liability cost**, in case of non-compliance, which can also act as a deterrent to some new and smaller market players, and which is also a factor for existing market players when considering whether to issue or to invest in a securitisation.

It will also depend on certain other features of the transaction. For example, on a (non-ABCP) securitisation with a very granular pool and monthly IPD where monthly (instead of quarterly) investor reporting is adopted, there will be a much larger volume of ongoing reporting that needs to be produced throughout the life of the transaction, thus driving up the costs.

The costs and burden of regulatory compliance can further vary because of different notification regimes implemented by the national designated competent authorities (NCAs) and other supervisors. For example, originators in Italy will need to comply with recently introduced Consob notification regime which prescribes the use of different (and in many respects duplicative) reporting templates serving the supervisor's needs. Originators in other members states may be subject to no NCA notification requirements at all or be subject to a very light touch notification requirements. Significant institutions supervised under the SSM will also need to comply with the European Central Bank notification regime, which prescribes yet another template and technical procedures for reporting largely duplicative data via its CASPER platform.

Additional costs arise for public securitisations where reporting to a securitisation repository is mandatory and where it is mandatory to produce inside information and significant event reporting using a prescribed reporting template which further adds to costs.

It is also often the case that an external legal counsel is engaged to provide advice (and training) on the matters relating to the compliance with Article 7 requirements. However, as such advice will be provided on a case-by-case basis, it is a cost that is difficult to quantify.

IACPM feedback is as follows:
- For an **STS** securitisation, the average annual recurring costs per transaction for Article 7 is around **€280,000**, but it can be as high as **€1million** for some issuers.
- For a **non-STS** securitisation, the average annual recurring costs per transaction for Article 7 is around **€150,000**, but it can be as high as **€500,000** for some issuers.

Please differentiate between costs that are only due to Article 7 and costs that you would incur during your regular course of business regardless of Article 7.

€1,180million is the average **one-off Article 7 cost** to set up IT systems, internal infrastructure, policies, obtain legal advice on compliance etc. but it can be as high as **€4 million** for some institutions.

Between €210,000 and €750,000 can be recurring annual **Article 7 cost of maintaining internal infrastructure** for some institutions.

€45,000 is average **ongoing per transaction Article 7 cost** but it can be as high as **€100,000** for some institutions.

€30,000 is the **non-Article 7 costs** which relate to the provision of other reporting and disclosure, including reporting that investors in a synthetic SRT securitisation actually need, but this cost can be as high as **€100,000** for some institutions.

Please compare the total transparency costs for securitisations with the total transparency costs of other instruments with similar risk characteristics.

For majority of IACPM members the cost of securitisation is significantly higher (over 50%) compared to other risk mitigating instruments like CDS, non-tranched guarantees, financial guarantees, non-payment insurance.

Q. 5.2 If possible, please estimate the total one-off costs you incurred (in EUR) to set up the necessary procedures to comply with Article 7 of SECR.

We refer to our comments in 5.1 above and note that estimates for one-off costs can vary significantly between different market participants because some originators or sponsors would largely rely on assistance of third-party service providers to produce required reporting (for which they will pay an annual fee per transaction), whilst others would set up their own internal systems and infrastructure to produce the required reporting internally.

As noted already, in SRT securitisations all originators are CRR-regulated credit institutions but not all may have set up internally infrastructure for SECR reporting, which is a costly investment that may be prohibitively expensive for smaller market players.

IACPM feedback is that **€1,181million** is the average **one-off Article 7 cost** to set up IT systems, internal infrastructure, policies, obtain legal advice on compliance etc. but it can be as high as **€4 million** for some institutions.

Q. 5.3 How do the disclosure costs that you provided in 5.1. compare with the disclosure costs for other instruments with similar risk characteristics?

- **Significantly higher (more than 50% higher)**
- Moderately higher (from 10% to 49% higher)
- Similar
- Moderately lower (from 10% to 49% lower)
- Significantly lower (more than 50% lower)

Please explain your answer.

There is nothing similar to SECR reporting and transparency regime when it comes to other credit risk mitigation instruments or corporate bonds. Covered bonds is another type of asset-backed (but dual recourse) instrument, but the EU Covered Bond Directive requirements on transparency are not as burdensome as SECR, covered bonds are subject to much high-level and less prescriptive transparency provisions and require aggregated data reporting (rather than loan-by-loan). It is the industry, rather than any regulatory framework, via the ECBC Covered Bond Label and the Harmonised Transparency Template (or HTT) that drive the industry standards on reporting for covered bonds.

Q. 5.4 Is the information that investors need to carry out their due diligence under Article 5 different from the information that supervisors need?

- **Significantly different**
- Moderately different
- Similar

Please explain your answer.

While synthetic SRT securitisations attract a lot of supervisory scrutiny because of the prudential supervision under the CRR, some of which may overlap with certain SECR matters (eg retention), the information needed for an investor is significantly different compared to the supervisor needs.

Investors' focus is on information that enable them to make an informed assessment of the investment taking into account all relevant features of the transaction, the type of the investment that they are making (eg buy-to-hold vs buy-to-trade etc) as well as other relevant factors (as further explained in our comments in section 4 above). It is not the job of investors to supervise and to check ongoing compliance of the sell-side parties with regulatory requirements applicable to them under relevant legislation. Investors rely in this regard on disclosure and ongoing notifications/reporting provided on relevant deals to alert them about significant events and material changes that may impact on their decision to invest in the first place or their decision to continue to hold an existing investment in a securitisation.

Supervisors are not investors, and their focus is (presumably) more on ensuring that entities within their supervision have proper policies and procedures and that they can demonstrate on request how they comply with their regulatory obligations on relevant transactions. From the synthetic SRT securitisation perspective, as noted in earlier sections, there is also a lot of scrutiny of such transactions from prudential supervisors, but that is driven by the CRR framework. In general, such prudential supervisors have access to all and any information they want or need to receive from a bank originator.

Q. 5.5 To ensure that investors and supervisors have sufficient access to information under Article 7, please select your preferred option below.

- **Option 1:**
  - Streamline the current disclosure templates for public securitisations
  - Introduce a simplified template for private securitisations and require private securitisations to report to securitisation repositories (this reporting will not be public).
- **Option 2:**
  - Remove the distinction between public and private securitisations.
  - Introduce principles-based disclosure for investors without a prescribed template.
  - Replace the current disclosure templates with a simplified prescribed template that fits the needs of competent authorities with a reduced scope/reduced number of fields than the current templates.
- **Option 3:** No change to the existing regime under Article 7.

Q. 5.6 If you are a supervisor, what impact (in percent or EUR) would you anticipate Option 1 would have on your supervisory costs?

N/A

Q. 5.7 Assuming that transparency requirements are amended as suggested in Option 1, by how much would the volume of securitisations that you issue, or invest in, change?

We do not support Option 1, but if it is implemented as proposed (and we note in this regard that there is a clear lack of detail in this consultation, which makes it difficult to provide more fulsome comments) it is **unlikely to change significantly the volume of SRT securitisations or securitisations more generally**. It is likely to result in high-barrier to entry remaining in place for the sell-side and the buy-side as the expansion of the public reporting regime and the requirement for private securitisations reporting to a securitisation repository could lead to unintended consequences and deter some new players from coming to the market or deter some existing issuers from issuing more securitisations if other (less burdensome and less expensive options) are available. It is unclear how any templates, if they continue to apply, will be "streamlined" so that they work in more sensible and proportionate way for all segments of the securitisation market, including third country securitisations.

In addition, it is unclear whether under this Option 1 the additional burden of compliance with NCA and ECB notification regimes will be removed or remain in place. Until the answer to this and other questions are clear, it is very difficult to provide any estimates in support of Option 1.

We further note that regulatory requirements imposed on securitisation issuers should only be so imposed when they are necessary and justified for supervisory or stability purposes having regard to Article 5(3)-(4) of the Treaty of the EU that laid down the principles of subsidiarity and proportionality under which EU lawmaking and regulatory powers should not exceed what is necessary to achieve the objectives of the Treaties.

Q. 5.8 What impact (in percent or EUR) would you anticipate Option 1 would have on your one-off and annual recurring costs for complying with the transparency requirements in Article 7? Please explain your answer.

We refer to our response in Q. 5.7 above and do not provide further estimates as we do not support Option 1.

Q. 5.9 Do you see any concerns, impediments, or unintended consequences from requiring private securitisations to report to securitisation repositories?

- **Yes**
- No
- No opinion

Please explain your answer.

Yes, we have concerns. We do not support Option 1 or any other presented options and where possible comment in this section 5 on our concerns.

We have specific concerns on mandatory use of securitisation repositories on private securitisations (and we note in this regard that synthetic SRT securitisations are largely "private" by their nature).

With regard to the potential mandatory use of securitisation repositories on "private" securitisation we would like to note the following. We understand the desire of the NCAs to use the securitisation repositories as a source of easy access to all relevant deal information and we do not object to supervisors having full access to such information (which NCAs can have already in any case irrespective of whether such information is made available via a securitisation repository). However, the existing securitisation repository framework will not work for reporting private securitisations because transaction parties would want to protect access of other institutions to the deal information, but it is not possible as all registered users of securitisation repository have full access to all deal information in the repository. Therefore, if the securitisation repository framework is redesigned (via amendments in level 2 and level 3 measures) so that there are safeguards for protecting access to deal information by other institutions and such changes are combined with the simplified reporting regime, it could in principle address some of the industry concerns in relation to too wide access to the private securitisation deal information.

We note in this regard that Option 1 suggests that private deal information "will not be made public". We assume that it is an indication that the EC is being open to having the securitisation repository framework to be redesigned. If that is the case, then one of the concerns that will need to be addressed is that it should be the relevant transaction parties on private securitisations (rather than securitisation repositories) having control over access of potential investors to the deal information (but this will not impact on the full access by all supervisors to the deal information at all times).

Other issues to address if the securitisation repository is to be used on all deals are:

- The reduced ability to use "no data" options for loan-by-loan reporting if ESMA guidelines on tolerance thresholds continue to apply. These guidelines be reviewed or be no longer applicable in the light of the wider reforms to the reporting templates.
- Additional costs and administrative burden of having all transactions in securitisation repositories – these should be proportionate as otherwise it may act as deterrent.
- Removing mandatory requirement for reporting to be produced in xml format, which adds to costs without any clear benefit given that investors prefer to receive reporting information in csv or excel format.
- A full exemption of third country securitisations from having to report to a securitisation repository, alternatively, if such use is made voluntary (rather than mandatory) the securitisation repository framework will need to be redesigned to ensure that it works for any such voluntary reporting.

Furthermore, if under Option 1 how "public" securitisation is defined is amended as to bring certain synthetic SRT securitisations in-scope of more burdensome "public" reporting that may lead to other unintended consequences, but it is difficult to comment further on this at this stage as it is unclear how "public" reporting will be amended and whether any streamlining of the "public" reporting templates will be sufficient to make it work for relevant synthetic SRT securitisations.

Q. 5.10 Under Option 1, should the current definition of a public securitisation be expanded to a securitisation fulfilling any of the following criteria: (1) a prospectus has been drawn up in compliance with the EU Prospectus Regulation; or (2) notes were admitted a trading venue; or (3) it was marketed (to a broad range/audience of investors) and the relevant terms and conditions are non-negotiable among the parties?

- Yes
- **No**
- No opinion

Please explain your answer.

No. We do not support Option 1 or any other presented options. In general, from the perspective of synthetic SRT securitisations we do not support this change and have concerns that changing parameters as to what is "public" will bring unintended consequences and will make it problematic to achieve meaningful reduction of the burden and cost of regulatory compliance with transparency and reporting obligations for EU and third country securitisations.

The parameters suggested in this question are too wide. Seeking admission to trading/listing on a stock exchange alone is not an indication of a "public" nature of the transaction. For example, not all securitisations that are listed are publicly offered, as some listings are technical and done for tax reasons. If the list of trading venues captured in the amended definition of "public" is extended beyond EEA regulated markets, there will need to be also a pre-requisite that there are other features present that indicate public nature of the transaction. However, calibrating parameters for widely marketed/offered securitisations is likely to prove challenging, because capturing all nuances that may be relevant in practice will be difficult and the new definition of what is "public" may end up being open to interpretation leading to more costs (eg obtaining specific legal advice on each deal, seeking further comfort from the relevant transaction parties) and some divergence in practice, which will not help to reduce the burden of regulatory compliance, quite the contrary. We also agree in this regard with AFME comments on Q. 5.11 on some of the criteria for public "bookbuild".

We would also recommend that any further work on the recalibration of what is considered a "public" securitisation is limited to EU securitisations only and it is not extended to third country securitisations. If larger portion of the market will be treated as "public" as a result of such recalibration, it will be imperative to ensure that public reporting templates are streamlined and simplified sufficiently so that they do not result in being a deterrent and high-barrier to entry for new as well as existing market players. We also refer to our comments on securitisation repository concerns for third country securitisation which we discuss in Q.5.9 above.

Q. 5. 11 If you answered yes to question 5.10., what criteria should be used to assess point (3) in the definition above (i.e. a securitisation marketed (to a broad range/audience of investors) and the relevant terms and conditions are non-negotiable among the parties)?

We do not support Option 1 as presented and refer you to our comments in Q. 5.10 above. We also support AFME comments on this question.

Q. 5.12 If the definition of a public securitisation is expanded (for example, to encompass securitisations fulfilling the criteria set out in question 5.10), what share of your existing private transactions would now fall under this newly-expanded public definition?

As noted above, we do not support Option 1 or any other presented options and have some concerns about changing the parameters for how "public" securitisations are defined as it is likely to bring some of the SRT securitisations in-scope which are largely private securitisations and would prefer to be treated as such. Whichever option is introduced, synthetic SRT securitisations would want to benefit from a simplified reporting or, better still, no prescribed template-based investor or loan-by-loan reporting at all. This is because SRT are very different transactions and, as explained in the IACPM response of March 2024 to the ESMA consultation on the reporting templates these deals do not need prescriptive regulatory templates which are not fit for purpose, as deal reporting is always provided anyway and it is always tailored to individual SRT transaction.

Q. 5.13 Under Option 1, what would you estimate to be the impact (in percent or EUR) of changing the definition of public securitisation on your one-off and annual recurring costs for complying with Article 7? Please explain your answer.

We refer to our response in Q. 5.7 above and do not provide further estimates as we do not support Option 1.

Q. 5.14 Assuming that transparency requirements are amended as suggested in Option 2, by how much would the volume of securitisations that you issue, or invest in, change?

From the perspective of synthetic SRT securitisations, we support Option 2 in terms of disapplication of prescribed templates for loan-by-loan and investor reporting, although IACPM also recognises that it may not be the option that other segments of the market would support. However, for synthetic SRT securitisation, the removal of the reporting templates could have a positive impact on reducing the costs and lowering the bar to entry for smaller players, which may lead to some increase in volume, although it is difficult to provide more specific estimates. We also draw your attention to our comments in Q. 5.15 below.

Q. 5.15 What impact (in percent or EUR) would you anticipate Option 2 would have on one-off and annual recurring costs for complying with the transparency requirements in Article 7? Please explain your answer.

From the perspective of synthetic SRT securitisations, if there were no longer prescribed templates for loan-by-loan and investor reporting, it could have a positive impact on reducing one-off and annual recurring costs. IACPM feedback is that there will be a range in such positive impact with members expecting a **reduction between 25% to 100%**.

5.16 Under Option 2, what should be included in the principle-based disclosure requirements for investors to reduce compliance costs while ensuring access to information?
How should investors access this information?
Please explain your answer, listing all relevant information that you think investors need to do proper due diligence that could be common across all securitisations.

While Option 2 could work as a good solution for synthetic SRT securitisations, we acknowledge that it may not be something that will be accepted in other segments of the securitisation market and there are potentially concerned that a supervisor-focused template may introduce new unnecessary administrative burden impacting on costs of doing a securitisation which will be counterproductive to what the reforms are aiming to achieve.

Therefore, we provide in this section further comments and observations on how reforms to the transparency regime could be implemented.

As noted already, synthetic SRT securitisations are largely "private" by nature and should remain being treated as whichever option is adopted.

For synthetic SRT securitisations, there should be no prescribed reporting templates (and we also refer in this regard to the IACPM response of March 2024 to the ESMA consultation on the reporting templates) or if any streamlined or re-designed templates were to apply to synthetic SRT securitisations, they will need to be sufficiently flexible to reduce existing burden of producing regulatory reporting that investors do not need.

If the securitisation repository framework remains unchanged, it should not be mandatory for synthetic SRT transactions to report to a securitisation repository.

General principle of disclosure of all material information: Article 7 regime should move away from providing prescriptive disclosure requirements and should incorporate elements of principles-based disclosure and reporting because it is not possible to legislate for all information that may be relevant to provide in any given securitisation. It is the reason why on many securitisations, including synthetic SRT transactions, other information and reporting is provided (in addition to mandatory ESMA templates) reflecting what investors need.

In this regard we can draw analogy with the EU Prospectus Regulation regime, for example, where the principle of providing all materially relevant/necessary information to enable investors to make an informed assessment of the investment underpins the principles-based approach to the overall prospectus disclosure requirements in addition to any disclosure annexes for registration document and security note. Similarly, when reforming Article 7 reporting regime, if any reporting templates continue to apply, these would need to be simplified (with the min number of required fields) and be made more flexible and fit for purpose, ensuring that no duplicative reporting applies to meet the supervisors' needs. Therefore, the target is to achieve a set of templates which are relevant to the respective asset classes and contain the information required for a holistic assessment of risk by the investors and supervisors, without providing a high barrier to entry for new and/or smaller market players who do not have established securitisation issuer platforms.

For transactions in-scope of the EU MAR regime, there should not be any duplicative requirements for providing any additional reporting for SECR purposes.

We refer to our comments in Q. 5.9 above in relation to the use of securitisation repositories. If the securitisation repository framework is simplified allowing transaction parties full control of who (other than supervisors) can access deal information and there are no additional burdens with the submission of data to the securitisation repository and no issues with potential excessive costs associated with the use of a securitisation repository, the industry will be prepared to consider using the repositories for providing the access. However, it should be noted that, as already the case, all private securitisations (and synthetic SRT securitisations by their nature are largely private transactions) can already provide supervisors with access to all relevant deal information without any securitisation repository.

Q. 5.17 Under Option 2, should intra-group transactions, and securitisations below a certain threshold, be excluded from the reporting requirements in Article 7?

- Yes
- No
- **No opinion**

Please explain your answer. If you answered yes, how should intragroup transactions be defined and how should the threshold be determined?

N/A

Q. 5.18 Under Option 2, what would be the impact (in percent or EUR) on your one-off and annual recurring costs for complying with the transparency requirements of excluding intra-group transactions and securitisations below a certain threshold from the reporting requirements in Article 7? Please explain your answer.

N/A

Q. 5.19 Should the text of Article 7 of the SECR explicitly provide flexibility for reporting on the underlying assets at aggregated level?

- **Yes**
- No
- No opinion

Q. 5.20 If you answered yes to question 5.19., which categories of transactions should be allowed to provide reporting only at aggregated level? You may select more than one option.

- **Granular portfolios of credit card receivables**
- **Granular portfolios of trade receivables**
- **Other**

If you chose "other", please explain.

IACPM would welcome the flexibility in general for the data to be provided on aggregated basis, where investors do not require more granular loan-by-loan reporting on every aspect of the underlying assets. As noted in this section, for synthetic SRT securitisations, investors do not find it useful (or use) prescribed under Article 7 template-based loan-by-loan reporting templates and use instead tailored reporting (where some of the data may be aggregated) that is provided on all synthetic SRT securitisations in addition to the SECR reporting.

5.21 If you are a supervisor, what impact (in percent or EUR) would you anticipate Option 2 would have on your supervisory costs?

N/A

Section 6: Supervision

Q. 6.1 Have you identified any divergencies or concerns with the supervision, based on the current supervisory set up?

- **Yes**
- No
- No opinion

Please explain and give specific examples.

NCAs adopted inconsistent approaches as to how they may or may not require private and/or public securitisations to be notified to them, which lacks level-playing field and can lead to additional burden (and costs) and duplicative reporting for sell-side parties. In this regard, the ECB notification regime for significant institutions using a prescribed ECB template that needs to be submitted with supporting documentation via CASPER platform and recently introduced Consob notification regime (with a different set of prescribed templates to be completed) are particularly onerous. Also note our separate comments on the SRT notification in Q. 9.32 below.

Q. 6.2 Would you see merit in streamlining supervision to ensure more coordination and supervisory convergence?

- **Yes**
- No
- No opinion

Q. 6.3 If you answered yes to question 6.2., what should be the scope of coordinated supervision?

- STS securitisations only
- All securitisations
- **Other (please specify)**

The scope of coordinated supervision should cover compliance with the Securitisation Regulation as well as prudential requirements for securitisation.

Q. 6.4 If you answered yes to question 6.2., what should be the supervisory tasks of coordinated supervision?

- Compliance with Securitisation Regulation as a whole
- Compliance only with STS criteria
- **Compliance with Securitisation Regulation and prudential requirements for securitisation**
- Other (please specify)

Q. 6.5 If you answered yes to question 6.2., which model would you prefer?

- **Setting up supervisory hubs**
- Having one national authority as lead coordinator in the case of one issuance involving multiple supervisors
- Another arrangement (please specify)

Please explain your answer

There may be some merit in exploring the option of a supervisory hub being set up, but at this stage there is a lack of detail of how its infrastructure and operations may be set up, therefore, it is difficult to comment further. There will need to be a separate consultation with the industry if this idea is to be taken forward but it should not slow down or distract much needed reforms in the key prudential and non-prudential areas identified in this response.

Q. 6.6 If you answered yes to question 6.2, would you require participation by all NCAs or only some?

- All
- Some
- No opinion

Q. 6.7 If you answered "Some" to 6.6., based on what criteria would you select NCAs? Please specify.

N/A

Q. 6.8 If you are a supervisor, how would the changes to supervision suggested in the previous questions affect your supervisory costs?

N/A

Section 7: STS standard

Q. 7.1 Do you think that the STS label in its current form has the potential to significantly scale up the EU securitisation market?

- Yes
- **No**
- No opinion

Please explain.

Change is needed to the on-balance sheet STS framework, on the basis proposed below. With the benefit of that change, and in conjunction with the other prudential and non-prudential reforms discussed in this response, the on-balance sheet STS framework could certainly help to achieve a significant scaling up of the securitisation market.

On its own, however (i.e. without the prudential and non-prudential reforms described elsewhere in this response), the STS label, will never achieve this change. The securitisation market will also never achieve its real economy financing potential if reforms are focused exclusively on STS transactions, as many transactions will not, or cannot, achieve STS status. STS is, after all, a premium label and does not facilitate eligibility for all transaction types and asset classes - for example, only -compliance is problematic for CRE transactions, while granularity requirements are likely to prevent eligibility in relation to many infrastructure financing transactions relevant to the green transition, and compliance challenges for auto deals arise from the traditional SRT requirement for an absence of dependance on asset sale/refinancing for repayment.

IACPM notes, moreover, that (as well as implementing STS requirements that are far more detailed an onerous that the Basel STC requirements), the EU securitisation regulatory framework applies requirements that are premium label STC features at Basel level to all securitisations, STS and non-STS. That is true of some fundamental requirements, such as: risk retention, the re-securitisation prohibition, sell-side transparency requirements, credit granting standards, and adverse selection restrictions. In the EU, these are requirements for all securitisations, at Basel level, requirements for STC securitisations only. Non-STS transactions in the EU look quite a lot like STC transactions at Basel level.

Q. 7.2 Which of the below factors, if any, do you consider as holding back the expansion of the STS standard in the EU? You may select more than one option.

- **Overly restrictive and costly STS criteria**
- Low returns
- **High capital charges**
- LCR treatment
- Other Please explain.

IACPM is committed to maintaining the high-quality standards that the on-balance sheet STS regime embodies but propose certain refinements (identified below) to requirements that are holding back the expansion of the framework in the EU

Unfunded credit protection provided by multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at inception and CQS3 or better thereafter should be recognized as eligible under the on-balance sheet STS framework

The attractiveness of the EU on-balance sheet STS standard would be greatly enhanced by the recognition, as eligible under the on-balance sheet STS framework, of unfunded credit protection provided by multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at transaction inception and CQS3 or better thereafter.

Changes to the CRR securitisation risk weighting requirements since 2019, have resulted in a requirement to place thicker tranches in order to achieve the same capital relief benefit as previously. The unfunded credit risk mitigation format offers a cost-effective way for originators to address this challenge. Premia for unfunded credit protection arrangements are lower than for funded credit protection arrangements to account for the fact that they do not have to support collateral funding costs. This difference is accentuated in a high interest rate environment, with recent increases in interest rates increasing the differential, and incentive to use unfunded arrangements.

The involvement of multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at transaction inception and CQS3 or better thereafter in the on-balance sheet STS market would also increase the overall supply of potential protection providers, providing greater market capacity to absorb risk, as well as pricing benefits for originators flowing from competition. The thicker the placed risk, the less likely it is that a single investor will be able to assume all of it consistent with its risk appetite. A diversity of protection providers with different risk appetites, including insurers, is therefore welcome to originators for this reason, also. Insurers have particular expertise in relation to certain asset classes, such as residential real estate. IACPM notes their experience and volume of participation in the US CRT market.

The relative speed and simplicity of execution associated with unfunded credit protection also favours greater transaction volumes. The innovative structures recently seen in the market aiming to 'marry' unfunded protection provider insurers with bank collateral providers in order to facilitate the off-balance sheet STS market participation of the former, are comparatively technically complex, slow to execute, and lack the cost advantage associated with unfunded credit protection.

The quantitative impact of recognising unfunded credit protection by multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at transaction inception and CQS3 or better thereafter as eligible under the on-balance sheet STS framework is discussed below.

Prudential reforms impacting STS should be implemented as outlined in the prudential section of this consultation response

As discussed further below, the current capital calibration for securitisation transactions, including STS securitisation transactions, is non-risk sensitive and disproportionate to the transactions' underlying risks. Such disproportionate capital calibration disincentivises economic activity (SRT securitisation, and the underlying lending to the real economy that depends on it), which would otherwise be undertaken in a more risk-aligned prudential environment. It also disincentivises prudent structuring and risk mitigation in relation to securitisations that remain viable. IACPM supports the prudential reforms outlined below (including in relation to STS securitisation transactions) to remedy this situation.

IACPM also supports industry calls for improved treatment of ABS within the LCR framework

Given the SRT related focus of our response, we do not address the Commission's questions relating to the LCR treatment of ABS in detail. IACPM does, however, support industry calls for improved treatment of ABS within the LCR framework. The securitisation market, overall (including SRT securitisations in traditional format), will not thrive unless it is possible for banks to invest in the very low risk and liquid senior tranches of securitisations issued by other banks (facilitating non-bank investors with appetite for much riskier tranches to acquire the first loss and/or mezzanine risk). In addition to the introduction of reforms to ensure less penal prudential requirements (discussed elsewhere in this response), this would be facilitated by improved treatment of such positions within the LCR. The 25% or 35% (depending on asset class) haircut associated with ABS classification as Level 2B HQLA (where eligible), 15% maximum share of the liquidity buffer, and requirement for STS status in order to achieve eligibility (while STC status is not mandated at Basel level making this requirement an example of EU domestic gold plating) all render senior tranches of securitisations issued by other banks unattractive investments for banks from an LCR perspective.

High quality debt securities with a maturity greater than three months should be eligible in structures that provide for daily margining

IACPM proposes targeted amendments to certain other specific STS criteria that are perceived as problematic (consistent with maintaining the high quality standards that the on-balance sheet STS regime embodies)

Q. 7.3 How can the attractiveness of the EU STS standard be increased, for EU and non-EU investors?

In relation to EU investors, the attractiveness of the EU STS standard will be improved by the recognition, as eligible under the on-balance sheet STS framework, of unfunded credit protection provided by multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at transaction inception and CQS3 or better thereafter as this reform will - by making the transactions viable for originators - increase issuance volumes in a market in which investors are already keen to participate. The prudential changes proposed later in this response in relation to STS securitisations will potentially also improve the attractiveness of the STS framework for investors to the extent that they impact pricing.

In relation to non-EU investors: arrangements for the reciprocal recognition of the EU STS standard with third countries applying their own STS standards (currently (EU, UK, Canada, South Africa, and China) will be necessary in order to increase the attractiveness of the EU STS standard for non-EU investors. Hopefully these can be achieved expeditiously.

STS criteria

Q. 7.4 In the case of an unfunded credit protection agreement[18] agreement where the protection provider provides no collateral to cover his potential future liabilities, should such an agreement be eligible for the STS label, to facilitate on-balance-sheet STS securitisations?

- **Yes**
- No
- No opinion

Q. 7.5 If you answered yes to question 7.4., what safeguards should be put in place to prevent the build-up of financial stability risks arising from the provision of unfunded credit protection?

- **The protection provider should meet a minimum credit rating requirement.**
- The provision of unfunded credit protection by the protection provider should not exceed a certain threshold out of their entire business activity.
- Other

Please explain.

IACPM notes that the counterparty risks associated with unfunded credit risk mitigation are not specific to synthetic securitisations but apply to all insurance/guarantee protection recognised prudentially

Relative to funded credit risk mitigation, unfunded credit risk mitigation carries the additional risks associated with: (i) the late payment or non-payment of the credit protection amount when a borrower or counterparty defaults; and (ii) the unfunded credit risk mitigation provider being downgraded and ceasing to be eligible to provide unfunded credit risk mitigation, necessitating alternative arrangements to continue to achieve SRT.

However, importantly, IACPM notes that these additional counterparty risks have no specific or inherent connection with securitisation or SRT, being potentially relevant to every insurance contract written, whether tranched or untranched. There is no clear logical justification, or regulatory rationale, for treating securitisation more harshly than other credit risk mitigation techniques due to risks that are inherent in all such transactions.

The STS eligibility of unfunded credit protection provided multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at inception and CQS3 or better thereafter would conversely also be associated with certain financial stability benefits

IACPM notes that the use of insurance is risk-effective for originators in the sense of diversifying available protection types. Insurers also generally syndicate the tranches acquired, retaining on average only 35% of the risk (IACPM survey 2022), which assists with the diversification of counterparty risk and are well capitalized and highly regulated. The involvement of insurers in the synthetic securitisation market increases the overall supply of potential protection providers, providing greater market capacity to absorb risk

For bank originators, the existing provisions of the CRR embed safeguards to prevent the build-up of financial stability risks arising from the provision of unfunded credit protection provided by private sector entities such as insurers in the form of (i) residual risk weights for the originator bank; and (ii) minimum credit rating requirements for the unfunded protection provider. Legislators may wish to universalize the applicable ratings requirements beyond CRR regulated originators

In relation to the risk of non-payment, the CRR mechanics for recognition of unfunded credit risk mitigation address the risk of late payment or non-payment directly. Where unfunded credit risk mitigation is provided in respect of a tranche, the protection buyer does not cease to hold capital in respect of the protected tranche, but, rather, amends the risk weight associated with the protected tranche to reflect the risk weight of the protection provider / the IRB input(s) of the protection provider, see Articles 251(2) and 249 CRR. Except in the case of unfunded credit protection providers that benefit from a statutory 0% risk weight, which do not include insurers (but include the central governments/central banks/multilateral development banks currently eligible to provide unfunded credit protection under the on-balance sheet STS framework), a residual risk weight will apply reflecting the probability of the protection provider's default. The CRR thus inherently limits the capital reduction associated with unfunded credit risk mitigation to reflect the risks of the format.

Existing Article 249 CRR provides additional conservatism in relation to credit risk mitigation written on securitisation positions through the imposition of specified mandatory minimum ratings requirements for protection sellers. Eligible providers of unfunded credit protection in respect of securitisation positions are required to have a credit rating of CQS2 (broadly A) or better at inception of the transaction, and CQS3 (broadly BBB) or better thereafter.

If considered necessary, the CRR minimum credit ratings could be generalised to form a requirement of the on-balance sheet STS format in order for private sector protection providers to write unfunded credit protection.

Legislators may wish to limit eligibility to multi-line insurers regulated under Solvency II or third country equivalent frameworks

If considered necessary, eligibility of private sector entities to write unfunded credit protection eligible for recognition within the on-balance STS framework could be limited to multi-line multi-line insurers prudentially regulated under Solvency II or third country equivalent regimes in order to ensure that the relevant insurers have diversified businesses and are themselves subject to extensive prudential regulation and oversight.

Q. 7.6 What would be the implications for EU financial stability of allowing unfunded credit protection to be eligible for the STS label and the associated preferential capital treatment?

As indicated above, for bank originators, the existing provisions of the CRR embed safeguards to prevent the build-up of financial stability risks arising from the provision of unfunded credit protection while STS eligibility of unfunded credit protection provided by private sector entities such as insurers would also be associated with certain financial stability *benefits*.

The available data on insurer payment rates and defaults in the context of non-securitisation unfunded credit risk mitigation (conventional non-payment insurance) (which might be expected to be less favourable than data for significant risk transfer transactions (SRT insurance policies), given that SRT insurance policies have significantly 'tighter' terms, making them more onerous from the perspective of the protection seller (insurer) and more certain from the perspective of the protection buyer) provide comfort that and STS eligibility of unfunded credit protection provided by private sector entities such as insurers would not be associated with EU financial stability risks.

Data on payment rates and insurer defaults provide comfort in relation to the risk of late payment or non-payment of the credit protection amount

The use of insurance in significant risk transfer securitisations is too recent a development to facilitate provision of long-term data evidencing the making of pay outs, especially given that protection has typically been written on senior mezzanine tranches which have a low probability of being affected by defaults. However, such data is available in the context of conventional non-payment insurance where, as indicated above, the terms of the relevant policies are typically less restrictive and protection-buyer friendly than SRT insurance policies.

According to data published by Risk Control Limited (claims under policies covering comprehensive non-payment for regulated financial institutions where the insurer was contractually required to accept liability in 2022), submissions by the participants in this year's survey indicate that 100% of the claims made by regulated financial institutions in 2022 were honoured as required by the insurance contract.

Data on claims and paid claims in conventional credit insurance for the period 2017-2022 included in a June 2023 ITFA/IACPM joint white paper (Credit Insurance as a Credit Risk Mitigant to Diversify Risk Under the Capital Rules)[1] indicate that 97.73% of the value of all claims were paid in full, constituting 98.35% of all claims made in total during this period (even in the small balance explained by contractual non-compliance of the protection buyer, 44% of the amounts claimed were paid).

Data on insurer downgrades/defaults provide comfort in relation to the risk of risk of insurers being subject to ratings downgrades and ceasing to be eligible to provide unfunded credit risk mitigation

As indicated above, under Article 249 CRR, eligible providers of unfunded credit protection in respect of securitisation positions are required to have a credit rating of CQS2 (broadly A) or better at inception of the transaction, and CQS3 (broadly BBB) or better thereafter. Based on S&P historical data 1981-2022, IACPM notes that, of European insurers rated A (i.e. CQS2), only 1.16% have ceased to be rated A or BBB or better (i.e. CQS 2 or 3 or better), or defaulted, within three years (0.10% defaulting):[2]

Q. 7.7 How would allowing unfunded credit protection to be eligible for the STS label and the associated preferential capital treatment impact EU insurers' business model of providing credit protection via synthetic securitisation (for example, would EU insurers account such transactions as assets or as liabilities)?

Please explain your answer.

Insights on the various roles that insurers can play in securitisation are available in a paper written by the IACPM: https://iacpm.org/role-of-insurers-in-securitisation/.

Multi-line non-life insurers acting as providers of *unfunded* protection in synthetic securitisations underwrite the protection from the *liability* side of their balance sheets. However (in light of current STS eligibility requirements) this activity is currently limited to non-STS SRT securitizations.

Life insurers, whose investment portfolios include longer duration assets, can also invest in traditional and *funded* synthetic securitisations from the asset side of their balance sheets. However, the treatment of investment in securitisation from the asset side of insurers' balance sheets remains highly disadvantageous under Solvency II (see below).

Q. 7.8 If you are an originator, what impact on the volume of on-balance-sheet securitisations that you issue do you expect to see if unfunded credit protection becomes eligible for the STS label and the associated preferential capital treatment?

IACPM data indicate that the recognition of unfunded credit protection provided by multi-line insurers regulated under Solvency II or third country equivalent frameworks rated CQS2 or better at inception and CQS3 or better thereafter would be associated with moderate increases in issuance of on-balance sheet securitisations by some bank originators affected by this issue. IACPM believes that the improved economics of unfunded protection resulting from this reform would, in particular, facilitate smaller transactions, and broaden the scope of STS transactions a bank could incorporate in its capital planning.

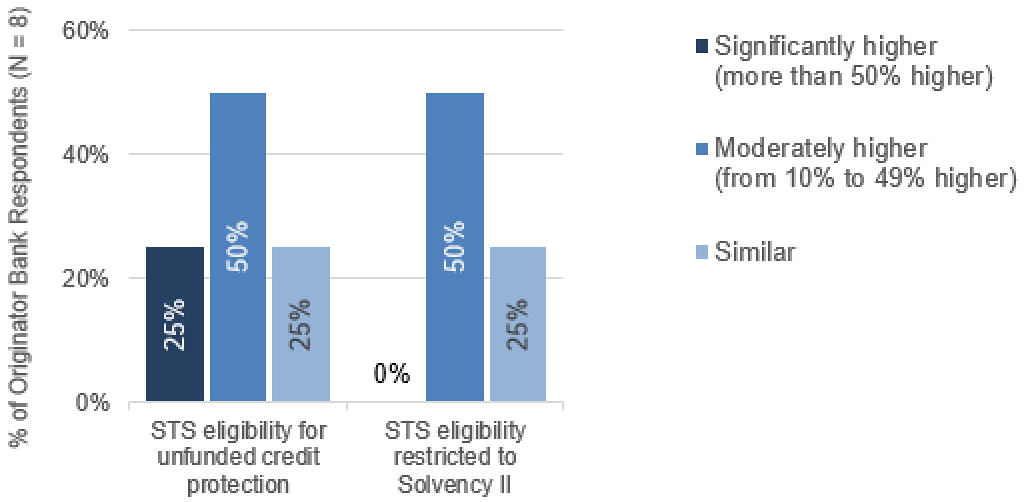
50% of responding bank originators indicated that extension of STS eligibility to include unfunded credit protection, provided by (broadly) entities that are not public sector rated CQS 2 or better, would result in moderate (up to 50%) increase in their issuance of on-balance sheet securitisations (whether or not eligibility was limited to Solvency II, or third country equivalent, regulated insurers).

[1] Based on data supplied by A2Z Risk Services Ltd dated April 2023,
[2] S&P 2022 Annual European Corporate Default and Rating Transition Study (25 May 2023), table 12 page 20.

Such extension does not form part of IACPM's proposal, however, if eligibility was *not* limited to Solvency II, or third country equivalent, regulated insurers, a further 25% of responding bank originators indicated that their issuance of on-balance sheet securitisations would increase significantly (more than 50%) (so with 75% of respondents indicating moderate or significant issuance increases).

Responding banks also indicated that the improved economics of unfunded protection resulting from this reform would, in particular, facilitate smaller transactions, and broaden the scope of STS transactions a bank could incorporate in its capital planning.

Source: IACPM 2024 European Commission Consultation Data Exercise



On the insurer side, annual surveys conducted by the IACPM in relation to SRT protection written by multi-line (re)insurers' highlights their growing appetite to diversify their non-life activity in credit protection:

- After syndication, participating insurers protected about **€1 bn of SRT tranches in 2023**, bringing the total amount of active protection on SRT tranches since 2019 to **€3.5 bn**.
    - The seniority of protection written by insurers is moving from senior to junior mezzanine tranches, however, appetite for first loss tranches remains limited
    - The thickness of protected tranches has increased to €50 m on average. Given the share of syndicated transactions (89%), this means that each insurer is protecting on average 35% of the syndicated amount, or €23m per insurer
- The **asset classes** protected by insurers are highly diversified: 48% business finance (SMEs, Corporates, Trade), 38% residential mortgages, and 12% asset-based finance, and European assets predominate (55% EU, 30% UK).
    - As at end 2023, insurers' **growth expectations** in SRT transactions remained very strong, with appetite varying by asset class. Around 60% growth was expected in 2024 in relation to pools of residential mortgages, 100% growth in relation to pools of SMEs and asset-backed finance and at least 200% in relation to pools of project and trade finance transactions.

Q. 7.9 If you answered no to question 7.4., do you see merit in expanding the list of eligible high- quality collateral instruments in Article 26e(10) to facilitate on-balance-sheet STS securitisations?

- **Yes**
- No
- No opinion

Q. 7.10 If you answered yes to question 7.9., which high-quality collateral instruments should be added to the list?

High quality debt securities with a maturity greater than three months should be eligible in structures that provide for daily margining

The requirement in Article 26e(10)(a) for eligible 0 % risk-weighted debt securities to have a maximum maturity of 3 months is in practice constraining the use of certain collateral arrangements that effectively eliminate counterparty risk for both the bank and the investor (in combination with appropriate margining). Collateral structures in which the counterparty risk for both the investor and bank are mitigated by high-quality debt instruments with a maturity longer than 3 months should be eligible for STS, where the collateral arrangements provide for daily margining and the maturity of the security is on or before the next coupon payment date. These structures constitute eligible financial collateral under the CRR.

Q.7.11 What would be the implications for EU financial stability of extending the list of high-quality collateral arrangements under Article 26e(10)?

Extending the list of high-quality collateral facilitates increased STS issuance, which benefits financial stability by sharing credit risk outside the banking system.

Q. 7.12 Do the homogeneity requirements for STS transactions represent an undue burden for the securitisation of corporate loans, including SMEs? Please explain your answer.

IACPM is appreciative of the EBA's confirmation, in recent changes to the homogeneity delegated regulation, that (where corporate homogeneity cannot be based on jurisdiction) the distinction between large corporates on the one hand and micro and SME corporates on the other is to be established based on the originator's own underwriting policies and not by reference to one size fits all/regulator-driven definitions. Further relaxation of the homogeneity requirements is not as much of a priority for IACPM as the other policy changes proposed in this response.

Q. 7.13 Should the STS criteria (for traditional, asset backed commercial paper (ABCP) or on-balance sheet securitisation) be further simplified or amended? Please explain your answer and provide suggestions.

- **Yes**
- No
- No opinion

IACPM is committed to maintaining the high-quality standards that the on-balance sheet STS regime embodies, but proposes targeted amendments to certain specific STS criteria that are perceived as problematic

- The granularity requirements in Art. 243(2)(a) CRR (2% maximum aggregate exposure to an obligor/group of connected obligors) that must be complied with in order for an originator institution to achieve the prudential benefits associated with STS status (traditional or on-balance sheet), are hard to comply with for certain deal types including many project finance (e.g., hospitals) and infrastructure (e.g., renewable energy projects) transactions. It appears odd, in general, to apply the same granularity requirement that applies to the traditional STS market (which is focused on highly granular auto and consumer assets) to the on-balance sheet securitization market (which is focused on much less granular corporate and SME (including project finance) assets). A higher maximum aggregate exposure limit would appear appropriate for on-balance sheet deals.
- The maximum asset risk weight requirements in Art. 243(2)(a) CRR that must be complied with in order in order for an originator institution to achieve the prudential benefits associated with STS status (traditional or on-balance sheet) have not been updated in light of the changes to underlying risk weights to be brought in by CRR 3.1 from 2025. Certain assets currently eligible for securitisation with prudential benefits within the STS framework will cease to be eligible as a result of the CRR 3.1 changes. It is unclear whether this is an oversight. Notably, the risk weight for project finance assets in the pre-operational phase the standardized risk weight will increase to 130% making such assets ineligible for

STS. Operational phase project finance assets will remain eligible for securitisation with prudential benefits within the STS framework, however a substantial part of a PF book typically comprises pre-operational phase assets (and granularity is already a major issue – see above) meaning that, from 2025, it will become very difficult for banks to issue STS project finance transactions. The green and digital transitions that revival of the securitisation market could help to finance will require vast amounts of project finance lending by banks, including during the construction (pre-operational) phase. The risk weight limits to achieve the prudential benefits associated with STS status should be reviewed in light of the CRR 3.1 risk weighting changes and, in particular, a higher limit of 130% permitted for project finance in the pre-operational phase.

- The application of the (traditional and on-balance sheet STS) requirement for at 'at least one payment' to have been made be made on an exposure by exposure basis (i.e. every individual loan or facility) - even where a borrower has multiple exposures with the same originator and has made payments on other exposures - are hard to comply with for securitizations of, for example, loans to smaller corporate borrowers, or short term credit provided to retail borrowers. From an operational perspective the test is in many cases impossible to conduct due to the lack of data at single position level, or the requirement for such data gives rise to delays of months between the loans' origination and their inclusion in the pool. In IACPM's view, payments by the same borrower on different exposures to the same originator should be considered sufficient to mitigate risk of fraud and to meet the requirement.
- The on balance sheet STS requirement for the initial loss to be calculated as the 'higher of' accounting provisions and (for IRB banks) regulatory expected loss leads to structural overestimation of losses and structural underpayment of credit protection fees to investors in the period between initial and final loss determination.
- The requirement in Article 26b(6)(a) of the Securitisation Regulation for legal title to the securitized assets to be held within the originator group can be problematic in relation to on balance sheet transactions structured to achieve capital relief in relation to assets that have already been securitized in traditional securitizations that have not achieved SRT (i.e. where securitisation for funding purposes has taken place, but securitisation for credit risk mitigation purposes is still required, a scenario which the EBA final draft on balance sheet STS guidelines envisage). As indicated in the EBA final draft on balance sheet STS guidelines, this is unproblematic where the traditional securitisation SSPE is part of the same corporate group and included in the same prudential consolidation group as the originator (and there is no overlap between the protected tranche under the on-balance-sheet securitisation and the tranches under the traditional securitisation placed with investors). However consolidation will not always be the case (consolidation may not be required, in relation to a non-SRT securitisation, unless the competent authority is concerned about potential step in risk).

As an aside, important for infrastructure and green investment finance, we note that the challenges faced by project finance within the securitisation framework bring into focus the need for such transactions to be able to benefit from non-securitisation credit protection. However, the economics of non-securitisation credit protection are challenged by the 45% loss given default parameter applicable under the foundation IRB approach, under which exposures to large corporates and financial sector entities must be treated from 2025 with the implementation of CRR 3.1 (the advanced internal ratings-based approach no longer being available for these exposures). The 45% LGD calibration is considered highly inappropriate for insurers in light of the safeguards applicable to these firms under Solvency II and the statutory prioritization of policyholders' claims.

Third-Party Verifiers (TPVs)

Q. 7.14 On a scale of 1 to 5 (1 being the least valuable), please rate the added value of TPVs in the STS securitisation market.

1 / 2 / 3 / 4 / 5

Please explain.

The services of TPVs when providing second opinions on STS securitisation designation on an on-balance sheet (synthetic) STS is helpful and assists in driving consistent approach to interpretation. In the early years of the introduction of this new STS framework in particular, the sign off from a TPV on the STS designation further reinforces the support for synthetic STS label. While it does add to the cost of the deal there is value in having an independent third-party provider to go through the robust process of verification. To date, the vast majority of synthetic STS securitisations have been verified by a TPV.

Q. 7.15 If you answered yes to question 4.10.(iv), should the TPVs be supervised to ensure that the integrity of the STS standard is upheld?

- Yes
- **No**
- No opinion

Please explain your answer to the above, including where necessary whether TPVs should be supervised at EU level.

The question on supervision is somewhat misplaced. We understand that TPVs are registered with ESMA and are supervised and subject to the ongoing oversight by the NCAs in their respective jurisdictions (eg AMF in France). The EBA Q&As and the Q&As of the Joint Committee can also help to harmonise the interpretation of compliance with the STS regime, although the response time should be accelerated. Therefore, there does not appear to be any need for any changes to the existing supervisory framework. In addition, the question of further TPV supervision is **not** a priority for the market. If existing framework remains as is, there will no further cost to the industry. However, if the supervision of TPVs is changed, it is likely to lead to increased costs which will be passed onto the originators (or sponsors in the case of ABCP and traditional STS), meaning that the cost of doing a securitisation under the SECR regime will go up which is contrary to the policy objective at hand to reduce the cost and burden of regulatory compliance with the SECR regime.

Q. 7.16 To what extent would supervision of TPVs increase the cost of issuing an STS securitisation?

- To a large extent
- To a moderate extent
- Limited or no effect
- No opinion

Please explain your answer, and if available, estimate the total costs in EUR.

We cannot select any of the above options because it is impossible to estimate the impact on costs without knowing further detail of how supervision of TPVs might change, but we cannot rule out a significant impact on costs.

Section 8: Securitisation platform

Q. 8.1 Would the establishment of a pan-European securitisation platform be useful to increase the use and attractiveness of securitisation in the EU?

- Yes
- No
- **No opinion**

Q. 8.2 If you answered yes to question 8.1., which of the following objectives should be main objective(s) of the platform? You may select more than one option

- **Create an EU safe asset**
- **Foster standardisation (in the underlying assets and in securitisation structures, including contractual standardisation)**
- **Enhance transparency and due diligence processes in the securitisation market**
- Promote better integration of cross-border securitisation transactions by offering standardised legal frameworks
- **Lower funding costs for the real economy**
- **Lower issuance costs**
- **Support the funding of strategic objectives (e.g. twin transition, defense, etc.)**
- Other

Please explain how the platform could be designed to achieve the objectives that you selected in your answer to question 8.2.

The first priority of the securitisation reforms should be to improve existing prudential and non-prudential treatment of securitisation reducing the costs and burden of regulatory compliance with SECR requirements, creating prudential and other incentives for securitisation investments and removing impediments that slow the growth of the market on sell- and buy-side. ***It is also imperative that following the implementation of the key reforms, some time is allowed to pass (eg 3-5 years) so that the JC of ESAs makes an assessment of the functioning of the securitisation market before any project on the establishment of a securitisation platform is launched.***

At this stage there are insufficient details on the objective and how any securitisation platform may be set up, which makes it difficult to comment. It is also likely that the establishment of this platform may take some time, which will be a concern to the industry if it slows down other reforms that are needed much more urgently.

However, in principle, it is an idea that may be worth exploring further in due course after the implementation of the key reforms, provided careful feasibility study with cost-benefit analysis on the establishment of such platform and a separate consultation with the industry on specific options for how its infrastructure and operational standards may be set up are also carried out.

Several options might be contemplated, starting by expanding the EIF/EIB programmes for **multi-issuers solutions** enabling smaller banks in Member States to access **capital release** solutions on their portfolios of SME/project finance loans, preferably with the protection of unfunded insurers which have more appetite for this type of credit protection.

Consideration should also be given to the expansion of the programme to the asset classes that are important for the EU economy.

To support sustainable and transition finance, including for SME loans, it is worth exploring how green/sustainable label should be applied and how issues are treated for the purposes of the EU Green Bond Standard Regulation (**EuGBS**). On the assumption that the EuGBS will in due course attract preferential regulatory treatment, it would be important to ensure that the issues under such European programs can have the benefit of the EuGBS label as well.

IACPM does not believe that the US GSE “guaranteed” solution is an appropriate benchmark. After the GFS, GSEs have changed their approach on securitisation of US conventional mortgages to mitigate the risk to US citizens. Since 2012, GSEs securitisations are transferring the “significant risk” to the private sector through Credit Risk Transfer (CRT) and Credit Insurance Risk Transfer (CIRT) programs, which can be compared with current EU SRT securitisations. The US mortgages regulator (BHFA, different from FeD) also recently increased the share of insurance CIRT programs to 40%, to further mitigate financial stability risk. Thereby, the government guarantee applies only to the senior tranches (the “Agency MBS”), which attracts very limited risk of loss. In the EU, compliance of the senior and SRT positions with the relevant STS requirements should in itself be sufficient to give certainty as to the quality of that securitisation position and not require public guarantee.

Q. 8.3 If you answered yes to question 8.1., how would access to a pan-European securitisation platform increase the use and attractiveness of securitisation in the EU?

N/A

Q. 8.4 Should the platform target specific asset classes?

- **Yes**
- No
- No opinion

Q. 8.5 If you answered yes to question 8.4., which asset classes should the platform target? Please provide a justification.

- **SME loans**
- **Green loans (i.e. green renovation, green mobility)**
- **Mortgages**
- Corporate loans
- Other

Q. 8.6 Are guarantees necessary?

- Yes
- **No**
- No opinion

Q. 8.7 If you answered yes to question 8.6., please explain who (private or public) would provide it and how you would design such a guarantee.

N/A

Q. 8.8 What do you view as the main challenges associated with the introduction of such a platform in the EU, and how could these be managed?

The establishment of a securitisation platform could potentially have unintended consequences, which are difficult to anticipate or comment on at this stage given the lack of detail. Query whether for some in the market, securitisations issued under this platform with the support from the public guarantee may be seen as “better” and less “opaque” securitisations driving some discrimination and stigma, which the industry would like to avoid. This is another reason why before any such platform is set up, further careful thinking and the feasibility study of this topic is needed.

Q. 8.9 What key considerations need to be taken in designing a pan-European securitisation platform, for such a platform to be usable and attractive for originators and/or investors?

Some of the key considerations include what asset classes will be permitted for the purposes of this programme (and in this regard we think that the priority should be given to SME loans and residential mortgages) and what will be the size of the programme.

Q. 8.10 Besides the creation of a securitisation platform, do you see other initiatives that could further increase the level of standardisation and convergence for EU securitisations, in a way that increases securitisation volumes but also benefits the deepening and integration of the market?

We refer to our response in Q.8.2 and note that the creation of multi-issuer SME securitisation platforms under the oversight of the EIF would be a first step to increase securitisation volume by enabling local banks in all Member States to benefit from the financing and risk sharing.

Section 9: Prudential and liquidity risk treatment of securitisation for banks

Q. 9.1 What concrete prudential provisions in the CRR have the strongest influence on the banks' issuance of and demand for those types of traditional, i.e. true sale, securitisation which involve the senior tranche being sold to external investors and not retained by the originator?

SRT securitisation (including synthetic SRT securitisation) is a key macro risk and capital management tool, facilitating lending to the real economy in the EU. Non-SRT securitisations, alone (providing funding, but not the opportunity for capital management), may not be able to support EU banks to grow or even maintain their current levels of lending in the face of Basel 3.1 capital pressures

We note the focus, implied by this question, on supporting growth in traditional securitisation. This is a laudable aim, but we open our prudential response by observing that significant risk transfer securitisation - including synthetic significant risk transfer securitisation - is a key macro risk and capital management tool for banks, promoting prudent risk and capital management and lending to the real economy in the EU, the importance of which has increased in recent years, and continues to increase, with rising (Basel-driven) Pillar 1 capital requirements, and - following turbulence in international banking markets in Spring 2023 - greater recognition of the need for varied and stable funding sources. This tool enables EU banks to manage their risks, and hence their resilience, particularly in times of stress, by transferring risks to non-bank entities (non-originator investors in SRT securitisations are invariably non-bank entities) in line with strict CRR and EU significant risk transfer and commensurate risk transfer requirements. The availability of the SRT tool increases banks' safety and soundness. Further, SRT has a proven track record. There have been no recorded examples of senior tranches in SRT securitisations in the EU bearing losses since the GFC, a period which has included multiple stresses, most recently including the Covid-19 pandemic and the period of significantly raised interest rates and inflation.

Non-SRT securitisations, alone (providing funding, but not the opportunity for capital management), may not be able to support EU banks to grow or even maintain their current levels of lending in the face of Basel 3.1 capital pressures.

Q. 9.2 Please explain how possible changes in the prudential treatment would change the volume of the securitisation that you issue, or invest in (for the latter, split the rationale and volumes for different tranches).

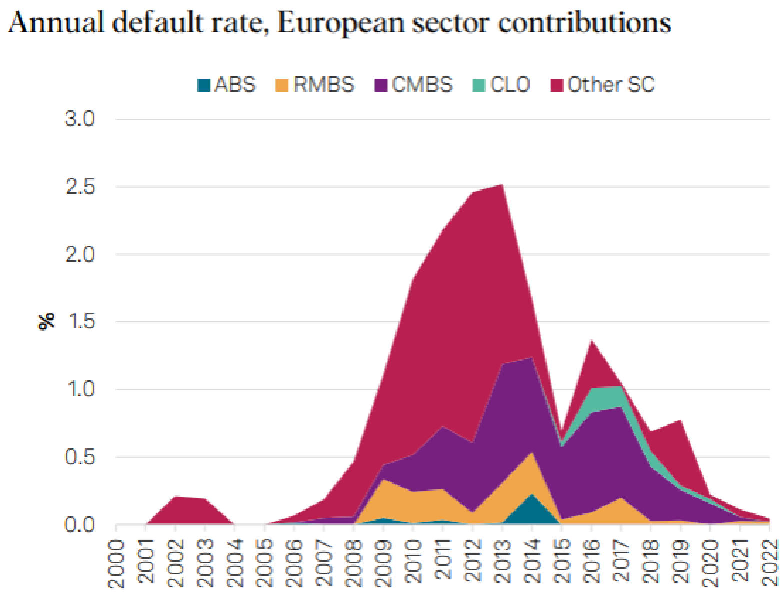
Risk sensitivity is a fundamental principle of prudential regulation – the current lack of risk sensitivity in the securitisation framework disincentivises economic activity (securitisation and the lending to the real economy that depends on it) and creates an unlevel playing field between asset classes. Reforms resulting in more proportionate and risk sensitive capital requirements would reverse these issues.

Proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There is a direct trade-off between capital requirements and economic activity/transaction viability, meaning that capital requirements should be imposed only to the extent required to guard against risks, based on the available data, and no further. Proportionality to risk / risk sensitivity of capital requirements is also essential in order to ensure a level playing field between asset classes, avoiding effective regulatory promotion of one business line/structure over another.

The current, in IACPM's view, wholly disproportionate capital calibration for securitisation positions in the EU disincentivises economic activity (securitisation, and the underlying lending to the real economy that depends on it), which would otherwise be undertaken in a more risk-aligned prudential environment.

The current calibration of the securitisation risk weighting framework is wholly disproportionate to the inherent risks of the market in the EU.

The re-calibration of the Basel securitisation framework post- the global financial crisis (which, ironically, the US has not yet implemented) was largely based on the experience of US sub-prime securitisations and failed to reflect the realities of UK and European securitisation performance, which remained strong even through the GFC:



SC--Structured credit. Source: S&P Global Market Intelligence CreditPro.

Of the defaults that have been observed in the UK and EU all are, the data indicate, associated with structures documented prior to the GFC (2004-2007): structural protections in post GFC transactions (such as prevailing levels of subordination) are much greater.

The data on which the re-calibration of the Basel securitisation framework was based, focused on US RMBS and pre-date the non-prudential securitisation reforms (in relation to risk retention, disclosure, due diligence, credit-granting, and re-securitisation) implemented since the GFC. The cumulative effect of Basel reforms since, and including, those implemented in the CRR in 2019 therefore now needs to be considered, in order to ensure that all banks that are engaged in the EU securitisation markets can expand their capacity to serve the EU market and the EU's role as a global financial center.

Given the very lengthy timeframe associated with Basel reform, significant differences between national and regional markets, and the potential benefits to the EU economy at a time of challenge, the EU should proceed with domestic reforms in line with the spirit of the Basel rules

In the fullness of time, an evaluation of the securitisation capital framework, by the BCBS, leading to reductions in the overall level of non-neutrality (i.e. the extent to which the aggregate capital requirements for the tranches in a securitisation exceed the capital requirement for the underlying assets), would be ideal. However, such a comprehensive review is not on the BCBS's agenda and, in any case, given the extremely lengthy timeframe likely to be involved in effecting change at Basel level and the potential benefits of the market to the EU economy at a time of challenge, IACPM strongly supports domestic reforms now in the EU. While international standards are important, significant differences between national and regional markets should not be ignored and proportionate capital requirements sacrificed on this altar. The Basel standards have historically not been (and it appears will not be) implemented uniformly across jurisdictions (IACPM notes that the US has, at the present date, not implemented the securitisation prudential reforms introduced in the EU CRR in 2019, implementation of the further Basel 3.1 reforms has been subject to significant political and industry opposition and now appears more remote in light of the recent presidential election results). Adherence to international standards which are not implemented in other major jurisdictions would be highly relevant, and damaging, to the EU's international competitiveness. IACPM stands ready to assist EU legislators and ESAs, as required.

The overall levels of non-neutrality present in the CRR securitisation risk weighting framework are fundamental to suppressed volumes of securitisation issuance/investment. The current, non-risk sensitive, risk weight floor (economically) discriminates against, and prevents the securitisation of, lower risk weight asset classes. The current calibration of the securitisation risk weighting formulae in the SEC-SA and SEC-IRBA creates major disconnects between risk and capital requirements, particularly for tranches in the mezzanine range.

The overall levels of non-neutrality present in the CRR securitisation risk weighting framework are fundamental to suppressed volumes of securitisation issuance/investment.

The risk weight floor, applicable under all securitisation risk weighting approaches, is a key contributor to the overall non-neutrality of the securitisation risk weighting framework. On its current, non-risk sensitive calibration, it (economically) discriminates against, and prevents the securitisation of, lower risk weight asset classes. This explains, for example, the disappearance of RMBS backed by bank-originated residential mortgages other than traditional RMBS retained for liquidity purposes. With a revised, risk-sensitive, calibration, low risk portfolios (including EU residential mortgages) that are currently not suitable for securitisation would become suitable and represent a huge potential pool of assets to be mobilised. SRT would become an efficient tool to redistribute risks of those assets enabling banks to redeploy funding and capital to areas that contribute more to GDP growth.

The current calibration of the securitisation risk weighting formulae in the SEC-SA and SEC-IRBA creates major disconnects between risk and capital requirements, particularly for tranches in the mezzanine range.

The p factors forming part of the SEC-SA and SEC-IRBA risk weighting formulae, as key contributors to the overall non-neutrality of the securitisation risk weighting framework, have a significant impact on the capital requirements associated with investment in, securitisation tranches. In the context of SRT securitisation, the p factors, in effect, increase the thickness of tranches of risk that must be placed/protected in order to achieve the same level of risk weighted asset reduction in relation to the senior tranche, so significantly increase transaction costs, making it harder for bank originators to achieve a viable cost of capital for their securitisations, or to release capital at all for certain asset classes. IACPM notes that, in the UK, recognising this contribution to excess non-neutrality, the PRA is proposing to implement an optional alternative basis of calculation of the SEC-SA p factor, embedding floors of 0.5 for non-STS transactions and 0.3 for STS transactions (the detailed calculation applies a formula very similar to that used in the SEC-IRBA, but using SA variables). In the PRA's view the proposed alternative SEC-SA p-factor will represent a "large change in the incentive for synthetic SRT of SA exposures compared to the current fixed p-factor of 1". I.e. this approach will represent a competitive advantage for standardised banks and portfolios in the UK relative to EU peers.

A further contributor to non-neutrality is the requirement to 1,250% risk weight, or deduct from capital, tranches detaching up to the capital requirement for the underlying assets (the common "halfpipe" shape, with the former SSFA applying above that level). This feature is also a source of risk insensitivity and cliff effects (where small change in inputs, such as tranche attachment and detachment points, create large impacts in risk weights). As the UK PRA notes in its consultation on securitisation prudential requirements *"higher p-factors increase the degree of risk assigned to more senior parts of the securitisation structure, while not affecting the degree of risk assigned to the most junior part….[t]he PRA recognises that there is an argument that the higher p-factor should also result in lower capital requirements for the most junior part of the structure, and so not necessarily result in an overall increase in non-neutrality"*. Similar to the moderating coefficient that the EU applies to the basic Basel formula when calculating the capital requirements of SME loans (the SME supporting factor, which is retained in the EU implementation of CRR 3.1), a scaling factor could be applied to the underlying asset capital requirement before its insertion into the SEC-SA (and potentially SEC-IRBA) formula, to reduce the proportion of the underlying capital requirement that is subject to mandatory 1,250% risk weighting/deduction, thereby increasing the portion of the capital stack that is subject to risk sensitive risk weighting (bringing more mezzanine risk into risk sensitive risk weighting) and reducing overall non-neutrality without increasing cliff effects.

IACPM makes the following CRR prudential proposals (to apply across the securitization framework and not merely for purposes of calculating the Basel IV Output Floor). All three proposals (I, II and III) are required, in order to address different, and significant, issues in the current framework. Within proposals I and II, IACPM presents its preferred (and in IACPM's view most logical) solution, followed by less beneficial alternatives to address the same issue: (I) either (a) preferably, a risk sensitive risk weight floor, applicable on all approaches, calibrated at 10% of the exposure-weighted-average risk weight applicable to the underlying assets under the standardized approach to credit risk, OR (if the risk-sensitive risk weight floor proposal is not adopted) (b) the risk weight floor reductions proposed by the ESAs without the proposed (unduly burdensome) eligibility criteria, which would render those reductions unusable, and in each case, either (i) preferably, applied to all securitization positions; or (ii) if that is not possible, limited to

originators' retained senior positions in their own securitizations (II) either: (a) application of a scalar to the securitised asset capital requirement input (tranches detaching up to which are subject to 1,250% risk weighting or deduction) in the SEC-SA, calibrated at 0.65 for non STS and 0.55 for STS transactions (with 'p factors' remaining at current levels) (noting that a similar approach could be taken in relation to the SEC-IRBA, but that the appropriate scalar in that context has not been calibrated), OR (if the scalar proposal (ii)(a) is not adopted) (b) reduced 'p factors' (of 0.5, for non-STS and 0.25, for STS) in the SEC-SA, in each case, either (i) preferably, applied to all securitization positions; or (ii) if that is not possible, limited to originators' retained senior positions in their own securitizations, and (III) the insertion of caps (in addition to the existing floors) on p in the SEC-IRBA of 0.5 for STS and 0.75 for non-STS transactions

To achieve a more risk sensitive securitisation prudential framework and to address the issues identified above, IACPM proposes the following prudential reforms, discussed in greater detail below (in each case to apply across the securitization framework and not merely for purposes of calculating the Basel IV Output Floor). All three proposals (I, II and III) are required, in order to address different, and significant, issues in the current framework. Within proposals I and II, IACPM presents its preferred (and in IACPM's view most logical) solution, followed by less beneficial alternatives to address the same issue:

I. PROPOSAL RELATING TO THE RISK WEIGHT FLOOR

EITHER:

a) Preferably, in the CRR, on a permanent basis: on all approaches the introduction of a risk-sensitive risk weight floor replacing the current fixed 10% (STS) and 15% (non-STS) risk weight floors, calibrated at 10% of the exposure-weighted-average risk weight applicable to the underlying assets under the standardized approach to credit risk.

OR (if the risk-sensitive risk weight floor proposal (i)(a) above is not adopted):

b) The risk weight floor reductions proposed by the ESAs (12% for non-STS deals; 7% for SEC-IRBA STS deals; 10% for STS deals on other approaches), but without the proposed (unduly burdensome) eligibility criteria, which would render those reductions unusable.

In each case the reform would either:

- preferably, apply to all securitization positions;

  OR (if it is not possible for the reform to be applied to all securitization positions)

- be limited to originators' retained senior positions in their own securitizations, per the ESAs' proposals.

II. PROPOSAL RELATING TO THE SEC-SA

EITHER:

a) Preferably, in the CRR, on a permanent basis: the application of a scaling factor to the underlying asset capital requirement (tranches detaching up to which are subject to 1,250% risk weighting or deduction) before its insertion into the SEC-SA formula, calibrated at 0.65 for non STS and 0.55 for STS transactions (with 'p factors' remaining at current levels). In relation to this proposal and its calibration see the July 2022 Risk Control paper "Reviving Securitisation In Europe By Scaling Inputs to Capital Formulae"[3]. IACPM notes that a similar approach could helpfully be adopted in relation to the SEC-IRBA, but that the appropriate scalar in that context has not yet been calibrated.

OR (if the scalar proposal (ii)(a) above is not adopted[4]):

[3] https://www.riskcontrollimited.com/wp-content/uploads/2022/07/Reviving-Securitisation-in-Europe-by-Scaling-Inputs-to-Capital-Formulae-22-113a-04-07-22-v3.pdf
[4] Please note that the alternative proposals (a) and (b) in relation to the SEC-SA are mutually exclusive and

b) In the CRR, on a permanent basis: in the general SEC-SA (i.e. a change benefitting SA banks/portfolios, and not merely IRB banks for purposes of calculating the output floor), a halving of the p factor from 1 to 0.5, for non-STS transactions, and from 0.5 to 0.25, for STS transactions.

The above proposals (scaling factor or SEC-SA p factor halving) would either:

- preferably, apply to all securitization positions;

  OR (if it is not possible for the reform to be applied to all securitization positions)

- be limited to originators' retained senior positions in their own securitisations.

III. PROPOSAL TO WINSORIZE THE SEC-IRBA P FACTOR

The insertion of caps (in addition to the existing floors) to the p factor, in the SEC-IRBA, of 0.5 for STS and 0.75 for non-STS transactions to winsorize this parameter.

IACPM data indicate that the prudential reforms that it is proposing would have a market changing impact on the volume of SRT securitisation issuance and investment, without affecting financial stability, with, for example, 100% of existing bank originator respondents and 88% of existing investor respondents envisaging moderate (up to 50%) or significant (over 50%) increases in the volume of underlying assets securitised / invested in by them, with increases in issuance and investment flowing from the combined impact of the requested prudential changes envisaged across a wide range of asset classes. By contrast, more than 50% of the responding participants in IACPM's data exercise consider that merely extending current transitional arrangements would result in no increase in volume of transactions.

The prudential reforms proposed by IACPM would have a market changing impact on the volume of securitisation issuance and investment, without affecting financial stability.

It is not, of course, by recourse to *existing* bank originators and/or investors, alone, that the securitisation market can be grown. However, overall, 75% responding bank originators, and 63% of investors, indicated (amongst other things) that the requested prudential changes would, together, increase the volume of underlying assets securitised / invested in by them moderately (up to 50%), with a further 25% of responding bank originators, and 25% of investors, indicating that the requested prudential changes would result in a significant increase (over 50%) in the volume of underlying assets securitised / invested in by them.

Overall, therefore, 100% of bank originator respondents and 88% of investor respondents envisaged moderate or significant increase the volume of underlying assets securitised / invested in by them.

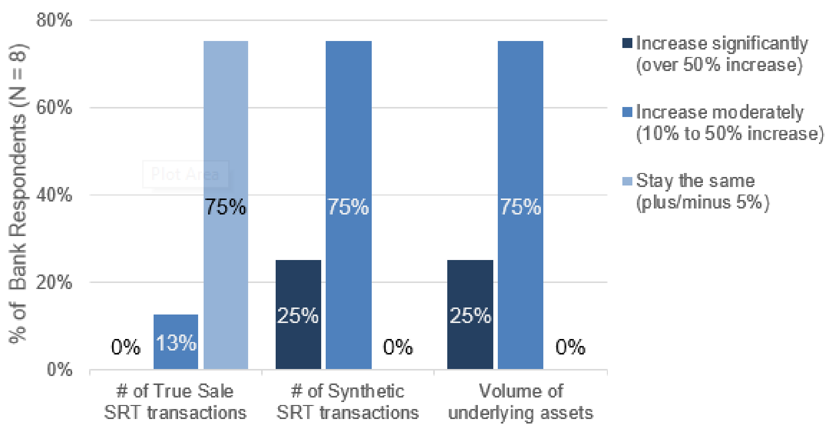
By contrast, more than 50% of the responding participants in IACPM's data exercise consider that merely extending current transitional arrangements would result in no increase in volume of transactions / merely maintain the existing volume of transactions.

Responding bank originators

Source: IACPM 2024 European Commission Consultation Data Exercise

should not both be adopted, given the calibration of the scaling factor in proposal (a).

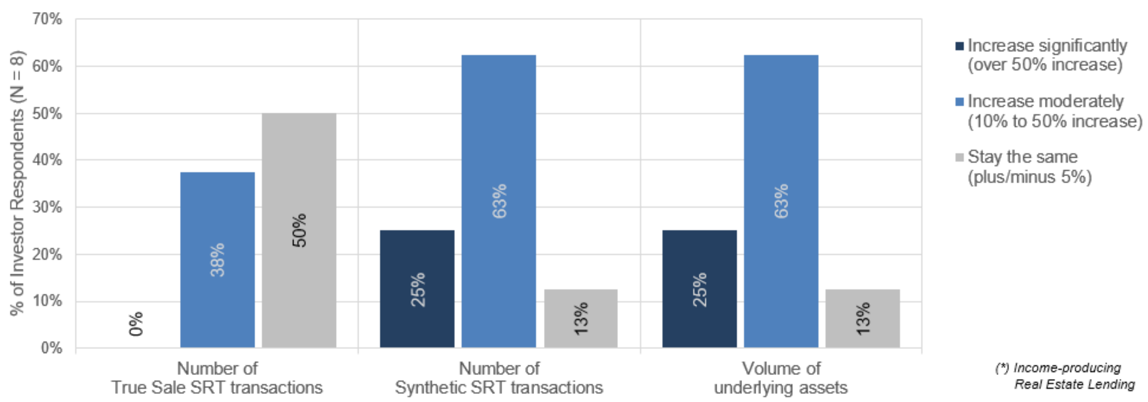
Impact of possible changes in prudential treatment on number and volume of SRT transactions responding banks issue



Responding investors

Source: IACPM 2024 European Commission Consultation Data Exercise

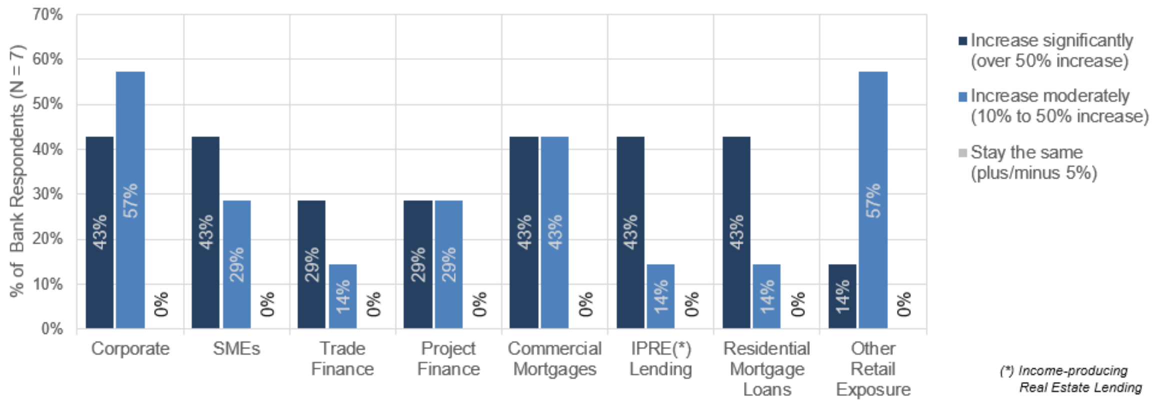
Impact of possible changes in prudential treatment on number and volume of SRT transactions firms invest in



The envisaged increases in issuance and investment flowing from the combined impact of the requested prudential changes were spread across a wide range of asset classes.

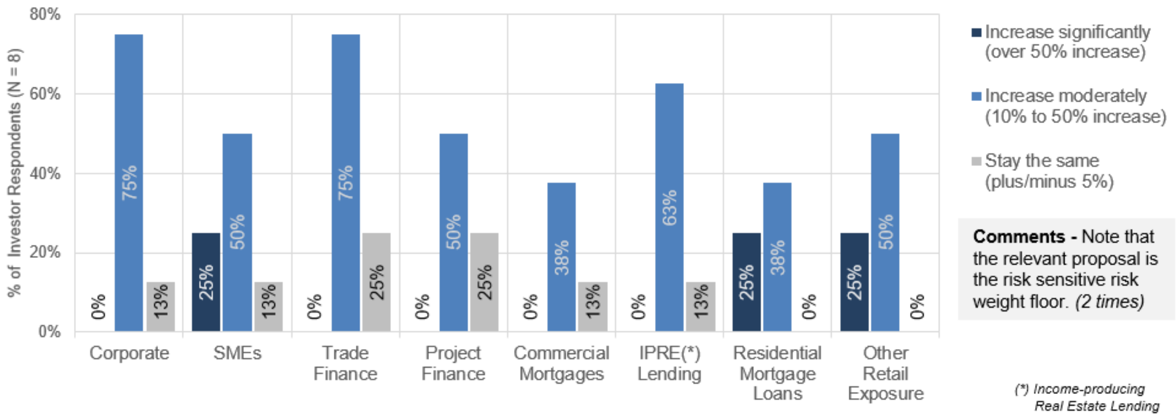
Responding bank originators

Source: IACPM 2024 European Commission Consultation Data Exercise



Responding investors

Source: IACPM 2024 European Commission Consultation Data Exercise



IACPM supports industry calls for improved treatment of ABS within the LCR framework

Given the SRT related focus of our response, we do not address the Commission's questions relating to the LCR treatment of ABS in detail. IACPM does, however, support industry calls for improved treatment of ABS within the LCR framework. The securitisation market, overall (including SRT securitisations in traditional format), will not thrive unless it is possible for banks to invest in the very low risk and liquid senior tranches of securitisations issued by other banks (facilitating non-bank investors with appetite for much riskier tranches to acquire the first loss and/or mezzanine risk). In addition to the introduction of reforms to ensure less penal prudential requirements (discussed elsewhere in this response), this would be facilitated by improved treatment of such positions within the LCR. The 25% or 35% (depending on asset class) haircut associated with ABS classification as Level 2B HQLA (where eligible), 15% maximum share of the liquidity buffer, and requirement for STS status in order to achieve eligibility (while STC status is not mandated at Basel level making this requirement an example of EU domestic gold plating) all render senior tranches of securitisations issued by other banks unattractive investments for banks from an LCR perspective.

Q. 9.3 Based on your answer to 9.1, please explain how possible changes in the prudential treatment could support the supply for and demand of SME and corporate exposure-based securitisation transactions.

IACPM notes that, as SME transactions are currently rarely executed in traditional format (owing to contractual restrictions impeding true sale and the impracticality of diligencing, for transfer, their low value but non-standard form documentation), volume increases necessarily depend on the health and growth of the synthetic/on-balance sheet SRT securitisation market.

See data by asset class in Q 9.2 above.

Q. 9.4 Does the prudential treatment of securitisation in the CRR appropriately reflect the different roles a bank can play in the securitisation chain, concretely the roles of originator (limb 'a' and limb 'b' of the definition of the originator in the Securitisation Regulation), servicer and investor?

- Yes
- **No**
- No opinion

The CRR does not reflect the reduced agency and model risks associated with investment in own-originated assets in the originator's own securitisation (i.e. originators' retained senior positions in SRT securitisations). There can, for example, be no concerns re data asymmetries with the sell side justifying prudential non-neutrality of the securitisation relative to the underlying assets where the holder of a securitisation position is the asset originator, as well as no concerns about reliance on third parties to service the assets. Please note, however, that, in IACPM's view, the due diligence and disclosure requirements and market practices in the EU (even if the, unwieldy, current template based disclosure is replaced by principles based disclosure and due diligence) go a very long way to addressing data asymmetry issues and securitisation market growth requires regulatory facilitation of bank's investment in transactions originated by other institutions. An originator investing in its own securitization will, in addition – necessarily, if it is recognizing retained securitization positions prudentially (rather than continuing to risk weight the underlying assets as though unsecuritized) - have achieved significant risk transfer, satisfying its regulator as to compliance with (amongst other things) the associated stringent requirements in terms of transaction features.

As indicated in the summary of IACPM's prudential proposals, above, if EU legislators and regulators are unable to facilitate IACPM's proposals above to increase risk sensitivity in a more comprehensive way in the prudential framework, targeted amendments specific to originators' retained senior positions in SRT securitizations would be an improvement on the status quo.

Q. 9.5 If you answered no to question 9.4., please explain and provide suggestions for targeted amendments to more appropriately reflect the different roles of banks as originator, investor, and servicer.

See "Summary of IACPM's CRR prudential proposals" in Q 9.2 above which (as an alternative to the preferred proposals, applicable to all securitisation positions) include proposals specific to originators' retained senior positions in their own securitisations.

Q. 9.6 Have you identified any areas of technical inconsistencies or ambiguities in the prudential treatment of securitisation in the CRR (other than the 'quick fixes' identified by the ESAs in the report JC/2022/66) that could benefit from further clarification?

- Yes
- **No**
- No opinion

IACPM does not consider any technical ambiguities or inconsistencies identified to be sufficiently material to warrant discussion in this response.

Q. 9.7 If you answered yes to question 9.6., please explain and provide suggestions for possible clarifications.

N/A

Q. 9.8 Are there national legislations or supervisory practices which in your view unduly restrict banks in their potential role as investor, originator, servicer or sponsor of securitisation transactions?

- Yes
- No
- **No opinion**

IACPM does not consider legislative or supervisory practices identified to be sufficiently material to warrant discussion in this response.

Q. 9.9. If you answered yes to question 9.8., please explain and provide examples.

N/A

Q. 9.10 How do banks use the capital and funding released through securitisation?

Please explain your answer and if possible, quantify how much of the released capital and funding is used for further lending to the EU economy.

Banks rely on the capital released through SRT securitisation to facilitate new lending to the real economy, supporting increased lending to key areas, such as SMEs and ESG / development financing (as well as to manage risk). It is also worth remembering the fungibility of capital, meaning that SRT can be an effective tool for funneling capital from one area of a business to another area where it is able to better support transformational lending to the economy. Re-investment in the same core assets (or even in assets which contribute to the sustainability transition) is however sometimes a requirement of banks' long-term SRT investment partners, whose long-term investment strategies target those core asset classes.

It is difficult to accurately measure the amount of future lending that would be unlocked for the real economy, due to uncertainty in borrower demand elasticity. However, it is reasonable to suppose that the combined effect across the EU banking sector of the reforms proposed by IACPM could be very considerable when looking at cheaper financing for existing products and additional lending capacity, including in product segments with returns that were previously unattractive on a relative basis.

Averaging the data provided, respondents to IACPM's 2024 European Commission Consultation Data Exercise indicated that 71% of the capital released or funding generated by SRT securitisations is currently used for further lending to the EU economy. Again, averaging the data provided, they envisaged that this would increase to 84% on implementation of IACPM's prudential proposals.

The current SRT market in Europe is mostly concentrated in SME and corporate loans. The proposed prudential amendments in this response, would make SRT risk sharing economically viable for additional asset classes and jurisdictions (a risk sensitive weight floor, in particular, would be expected to be associated with improved incentives to securitize retail and mortgage assets of IRB and SA banks).

Risk weight floors

Q. 9.11 Do you agree that securitisation entails a higher structural model risk compared to other financial assets (loans, leases, mortgages) due to, for example, the inherent tranching? Please explain your answer.

- Yes
- **No**
- No opinion

The securitisation of assets (e.g. loans, leases, mortgages) evidently adds a structural layer relative to a direct investment in those assets and additional analysis. This is, however, true of other asset backed transactions. Establishing the reduction in risk, relative to a direct investment in the underlying assets, achieved by investment in the senior tranche in a securitisation is not a categorially dissimilar exercise from establishing the reduction in risk, relative to a direct investment in the underlying assets, achieved by investment in a covered bond, for example. In the first case, the reduction in risk relative to a direct investment in the underlying assets flows from credit enhancement in the form of contractually subordinated capital at risk (tranching), while, in the second case, the reduction in risk relative to a direct investment in the underlying assets flows from recourse to the issuer and likely also from maturity transformation and/or over-collateralization. In a securitisation, the impact of the waterfall used to allocate asset cashflows to investors needs to be analysed by investors. In a covered bond, both the double default risk, including potential correlations between covered bond issuer and collateral assets, and the over-collateralization need to be assessed in order to understand the risk, which may not be trivial - one concern being that the issuing bank may fail at exactly the time that the cover pool assets lose most of their value. However, covered bonds as an asset class do not attract prescriptive regulatory due diligence and disclosure obligations for the covered bond investor and issuer equivalent to those that apply to the securitisation investor and sell side parties. As an example, an SRT originator, investing in its own securitisation has much better visibility in relation to the assets backing the securitisation than does a covered bond investor in relation to the covered bond collateral assets.

Securitisation certainly does not (as the non-neutrality of associated capital requirements implies), increase the risk of the underlying assets. The aggregate risk is the same before and after securitisation. It is merely differently distributed between investors (by agreement and in exchange for appropriate compensation in the form of coupons).

Q. 9.12 Do you consider that scope and the size of the reduction of the risk weight floors, as proposed by the ESAs, is proportionate and adequate to reflect the limited model and agency risks of originators and improve the risk sensitivity in the securitisation framework, taking into account the capital requirements for other financial instruments?

- Yes
- **No**
- No opinion

Q. 9.13 If you answered no to question 9.12., should the scope and size of the reduction of the risk weight floors be amended?

For example, should it be extended to investors in a targeted manner (such as, for example, to investors in STS securitisations and under SEC-IRBA approaches only, to prevent discrepancies with the prudential treatment of covered bonds under the SA approach)?

Or, on the contrary, should the scope be reduced to only include originators who are servicing the underlying exposures?

Please justify your reasoning.

Risk weight floor - calibration

Risk weight floor reductions are key to decrease overall excess non-neutrality in the securitisation framework, but the floors must be made risk sensitive to avoid the current, wholly disproportionate,

capital requirements for, in particular, lower risk weight asset classes, which are not currently, but would become, securitisable in SRT transactions. IACPM proposes calibration of the floor at 10% of the exposure-weighted-average risk weight applicable to the underlying assets under the standardized approach to credit risk.

The current CRR securitisation risk-weight floors are set at fixed percentages (15% for non-STS securitisations and 10% for STS securitisations). The floors thus bear no relation to the actual risks of a securitisation flowing from its underlying assets. The result of these non-risk sensitive floors, is to advantage certain asset classes and to disadvantage others, creating market distortions and restricting securitisation activity - and the real economy lending that flows from it - for disadvantaged asset classes. Specifically, low risk asset classes with low underlying capital requirements are disadvantaged by the current floors. The affected low risk asset classes include residential mortgages (which represent a large portion of European banks' balance sheets). Residential mortgages are, as a result, often uneconomic to securitise where the originator or another bank retains the senior tranche in the securitisation, as the capital requirement for the retained senior tranche may be the same as, or higher than, the capital requirement for the underlying assets.

Like the current risk weight floors the ESAs, in their December 2022 report, propose floors that are set at flat percentage rates. The revised floors, while they would represent an improvement on the current floors by virtue of being set at slightly lower levels and thus reducing overall excess non-neutrality in the framework – and IACPM would support the introduction of these floors if the proposed risk sensitive risk weight floors are not adopted - remain entirely risk insensitive (any fixed rate risk weight floor is risk insensitive) and are therefore wholly disproportionate to the risks associated with securitisations of, in particular, lower risk weight asset classes.

As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There is a direct trade-off between capital requirements and economic activity/transaction viability meaning that the former should be imposed only to the extent required to guard against risks, based on the available data, and no further. Proportionality to risk / risk sensitivity of capital requirements is also important in order to ensure a level playing field between asset classes, avoiding effective regulatory promotion of one business line over another.

In order to provide a level playing field between asset classes and facilitate the SRT securitisation of low risk weight assets such as residential mortgages (with the associated real economy funding and bank risk management benefits for those asset classes), the risk weight floors should therefore be made proportionate to the riskiness of the securitised assets as evidenced by their pre-securitisation capital requirements. The floor should represent a percentage of the capital requirement for the underlying exposures rather than a flat percentage applicable to all securitisation positions, irrespective of the underlying asset class.

As indicated above, IACPM therefore supports the introduction, on a permanent basis on all approaches, of a risk-sensitive risk weight floor calibrated at 10% of the exposure-weighted-average risk weight applicable to the underlying assets under the equivalent standardized approach to credit risk. This proposal and its calibration are discussed in detail in the May 2024 Risk Control publication "Rethinking the Securitisation Risk Weight Floor"[5].

If the risk-sensitive risk weight floor proposal above (which would be IACPM's strong preference) is not adopted. IACPM would support the risk weight floor reductions proposed by the ESAs (12% for non-STS deals; 7% for SEC-IRBA STS deals; 10% for STS deals on other approaches), but without the proposed associated (unduly burdensome) eligibility criteria, which would render those reductions unusable.

Risk weight floor - scope of application of reforms

Risk sensitive risk weight floors should apply to all securitisation positions irrespective of the entity by which they are held, failing which, the ESAs' proposed flat reductions in risk weight floors should also be applied to all securitization positions. However, if this is not possible, preferential treatment limited to originator's retained positions in their own securitizations (benefitting and stimulating only SRT securitizations) should be seen as an absolute minimum of any preferential treatment to be introduced. IACPM does not propose differentiation between STS and non-STS transactions, but this would be

[5] https://www.riskcontrollimited.com/wp-content/uploads/2024/05/20240503-Rethinking-the-Securitisation-Risk-Weight-Floor-v61.pdf

possible if regulators prefer, as part of a risk sensitive underlying asset RWA based approach.

The ESAs proposed risk weight floor reductions applicable to limb (a) originators' retained senior securitisation positions where specified eligibility criteria are satisfied. As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. The proposed risk sensitive risk weight floor should, therefore, apply to all securitisation positions irrespective of the entity by which they are held (potentially provided that the securitisation position is the "senior securitisation position" as defined in Article 242(6) CRR, there is no clear logic for this, but non-senior positions appear structurally unlikely to be affected by the risk weight floor). If a risk sensitive risk weight floor is not adopted, the flat reductions in risk weight floors proposed by the ESAs would also, preferably, be applied to all securitization positions in order to reduce the excessive non-neutrality in the framework.

It is true that the CRR does not currently reflect the reduced agency and model risks associated with investment in own-originated assets in the originator's own securitisation (i.e. originators' retained senior positions in SRT securitisations). There can, for example, be no concerns re data asymmetries with the sell side justifying prudential non-neutrality of the securitisation relative to the underlying assets where the holder of a securitisation position is the asset originator and no concerns about reliance on third parties to service the assets. However, IACPM notes that, to introduce a preferential treatment for originators (or limb (a) originators only (as proposed by the ESAs)), would effectively limit the benefit of the reform to the SRT securitisation market and not stimulate growth in the broader securitisation market. If application to all securitisation positions is not possible, preferential treatment limited to retained positions in originator's own securitisations should be seen as an absolute minimum of any preferential treatment to be introduced.

IACPM does not propose to differentiate between STS and non-STS securitisations, but if EU legislators and regulators did wish to do this as part of the risk sensitive risk weight floor proposal, they could do so by setting the relevant percentage of underlying capital requirements (Kpool) lower for STS than for non-STS transactions. However, differentiation of STS would have the unfortunate and presumably unintended consequence of excluding some project finance (e.g., hospitals) and infrastructure (e.g., renewable energy projects)) securitizations from the full benefit, as these deal types sometimes cannot qualify as STS due to (amongst other things) the associated granularity requirements.

Q. 9.14 Do you consider that the ESAs' proposed accompanying safeguard, with respect to the thickness of the sold non-senior tranches, is proportionate and adequate in terms of ensuring the resilience of the transactions?

- Yes
- **No**
- No opinion

Q. 9.15 If you answered no to question 9.14., please provide and explain alternative proposals to ensure a sufficient thickness of the sold non-senior tranches to justify a possible reduction of the risk-weight floor in an efficient and prudent manner.

There should be no eligibility conditions to benefit from proportionate capital requirements. The ESAs' proposed RW floor related eligibility criteria would render the impact of their reforms minimal at best, and the criteria relating to (i) granularity; and (ii) tranche thickness in particular are regarded by IACPM as unworkably onerous.

As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There should be no eligibility conditions to benefit from proportionate capital requirements.

The eligibility criteria mooted by the ESAs in connection with their proposed risk weight floor reductions are so onerous as to render the impact of the reform minimal at best if implemented. The ESAs' own analysis bears this out: of 146 senior tranches in the market analysed by the ESAs, only 15 would (they concluded) have been eligible for and benefitted from the proposed measures (see p73-74 of the ESAs' Report).

In particular, the criteria relating to (i) granularity; and (ii) tranche thickness are regarded by IACPM as unworkably onerous.

IACPM notes that the proposed granularity requirement (broadly for the pool to comply with a concentration limit of 0.5% calculated in accordance with Art 243(2)(a) CRR (implying an effective N of 200 or more depending on the distribution)), is extreme (compared with the existing 2% granularity threshold for STS prudential recognition), and could introduce granularity cliff effects.

IACPM notes, in relation to the proposed tranche thickness requirement (broadly, a requirement for the risk weight of the senior securitisation position to be <50% of the applicable RW floor (i.e. <5% for STS, and <7.5% for non-STS)), that additional tranche thickness is associated with additional (preferential treatment reversing) cost and that the cumulative effect of the Basel reforms in the securitisation prudential space has already been a very significant increase in the necessary thickness of placed tranches in order to achieve the same risk weight reduction for the retained senior tranche.

In relation to the proposed safeguard relating to counterparty credit risk (broadly, compliance with the requirements relating to permitted forms of credit protection and collateralisation for on-balance sheet STS securitisations, save for the requirements around minimum ratings requirements for the originator/its affiliates to hold cash collateral collateral), see above (in relation to the STS framework) IACPM's arguments as to why unfunded credit risk mitigation should be eligible within the on balance sheet STS framework.

The proposed safeguard relating to transactions featuring non-sequential amortisation (broadly, requiring include triggers to switch to sequential amortisation in line with STS requirements) is not inherently objectionable to IACPM. However, it is already covered by other guidance/SRT rules, so we question the benefit of including it here as well.

More broadly, IACPM does not see the need to create another quasi 'label' within the EU securitisation market. There are plenty of existing safeguards and guidelines in place for SRT transactions (most notably the ECB's ability to reject SRT treatment on a transaction deemed not to sufficiently justify the preferential capital treatment) and no justification for the inclusion of yet further criteria, as proposed by the ESAs.

Q. 9.16 Do you consider that the other three safeguards as proposed by the ESAs (amortisation structure, granularity and, for synthetic securitisations only, counterparty credit risk) are proportionate and adequate in terms of ensuring the resilience of the transactions?

- Yes
- **No**
- No opinion

Q. 9.17 If you answered no to question 9.16., please provide and explain alternative proposals for safeguards that would effectively ensure the resilience of the transaction and would justify the reduction of risk-weight floors.

See Q 9.15 above. As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There should be no eligibility conditions to benefit from proportionate capital requirements.

Q. 9.18 If you answered no to question 9.16., as an alternative, instead of these three safeguards, taking into account the need to ensure simplicity, would it be preferable to limit the reduction of the risk weight floor to STS transactions only? Please explain.

See Q 9.15 above. As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There should be no eligibility conditions to benefit from proportionate capital requirements.

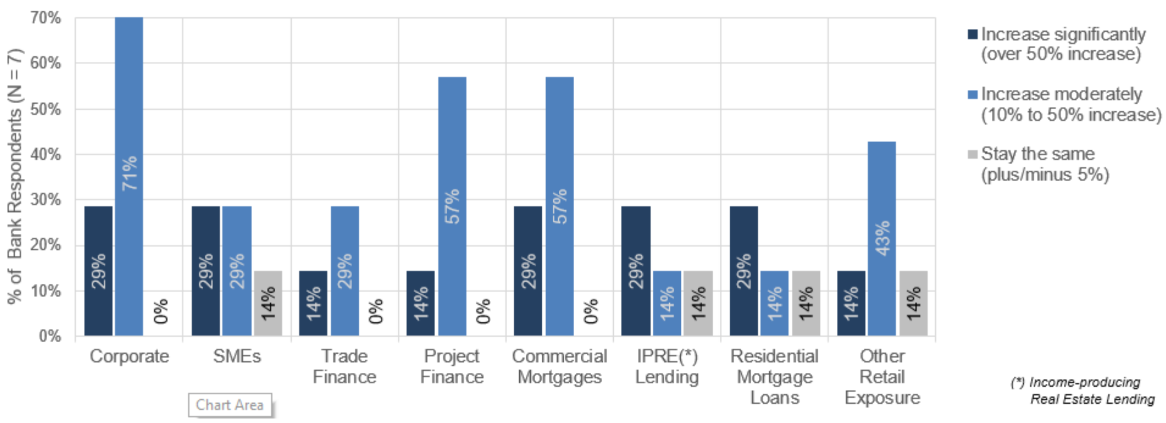
IACPM does not propose differentiation between STS and non-STS transactions, but this would be possible if regulators prefer by setting the relevant percentage of underlying capital requirements (Kpool) lower for STS than for non-STS transactions.

Q. 9.19 What would be the expected impact of a possible reduction of the risk weight floor on EU securitisation activity?
Please explain any possible impact on different types of securitisations (traditional securitisation, synthetic securitisation), from both supply and demand sides.

Bank originators responding to IACPM's 2024 European Commission Consultation Data Exercise, envisaged moderate (up to 50%), or significant (over 50%) increases in issuance across a wide range of asset classes, flowing from introduction of a risk-sensitive risk weight floor. Investors would not, themselves, be directly impacted by the changed prudential treatment, but, nevertheless, also envisaged moderate (up to 50%), or significant (over 50%) increases in investment across a wide range of asset classes flowing from introduction of a risk-sensitive risk weight floor.

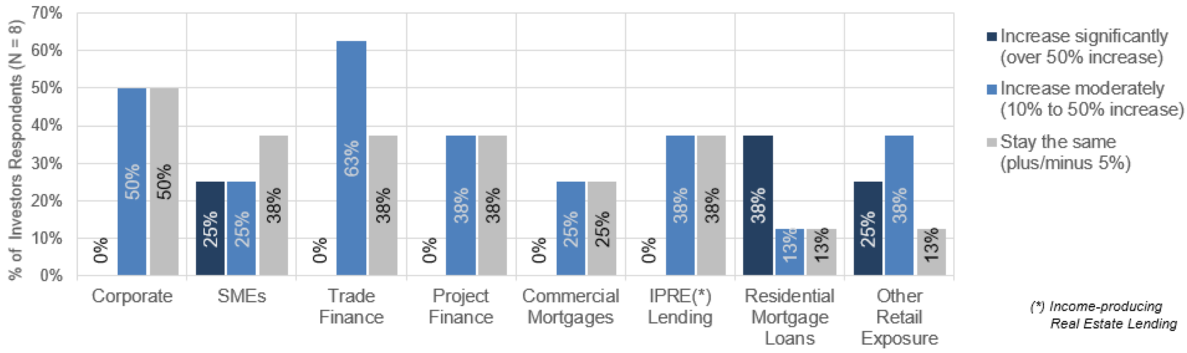
Responding bank originators

Source: IACPM 2024 European Commission Consultation Data Exercise



Responding investors

Source: IACPM 2024 European Commission Consultation Data Exercise



The (p) factor

Q. 9.20 Do you consider that the current levels of the (p) factor adequately address structural risks embedded in securitisation, such as model risk, agency risk and to some extent correlation, as well as the cliff effects?

- Yes
- **No**
- No opinion

Q. 9.21 If you answered no to question 9.20., please provide the justification, and provide quantitative and qualitative data, for whether and how the (p) factor overestimates the risks and inappropriately mitigates the cliff-effects, for specific types of securitisation exposures.

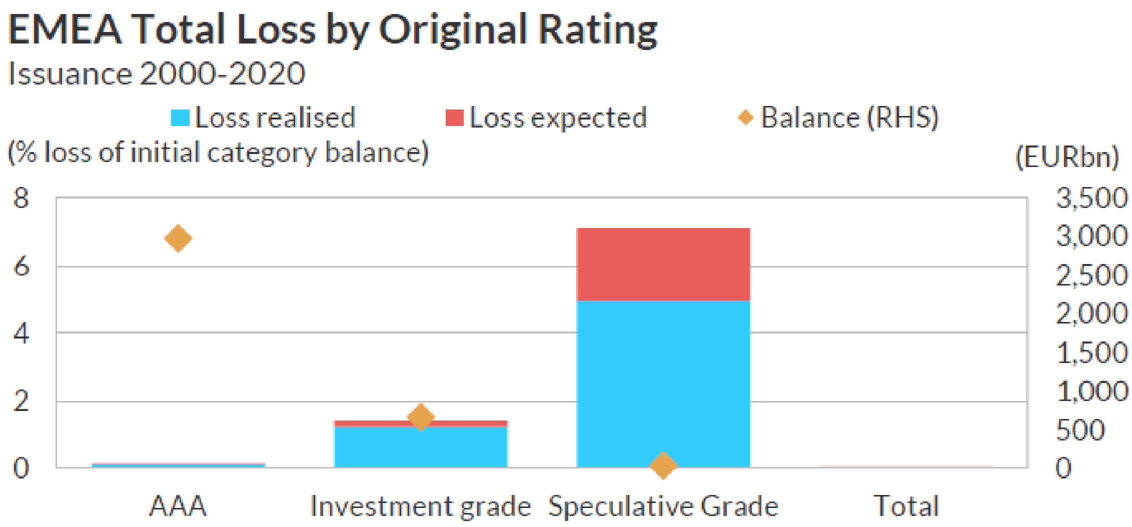
Under the SEC-SA and SEC-IRBA, the p-factor is a key determinant of the degree of non-neutrality, i.e. the extent to which the aggregate capital requirements for the tranches in a securitisation exceed the capital requirement for the underlying assets. Non-neutrality has important economic consequences in that it represents a capital requirement that is not linked to the riskiness of the underlying assets, making them more expensive to hold. All other things being equal, capital non-neutrality leads to a reduction in securitisation issuance.

The levels of p factor in the current securitisation framework (at Basel and EU level) have not been set based on empirical evidence relating to the riskiness of securitisations in the EU.

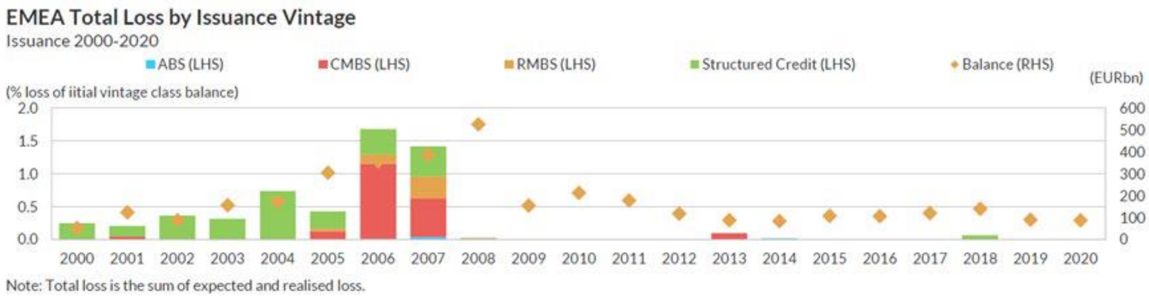
IACPM believes that the p factors in the SEC-IRBA and SEC-SA risk weighting formulae (particularly the SEC-SA p factor) greatly overstate, and result in capital requirements that are disproportionate to, the risks of the securitisation positions for which they determine the capital requirements.

The post-Global Financial Crisis (GFC) credit performance of securitisation has been excellent. Losses over the last 20 years have been concentrated in low-rated tranches (originally rated "CCCsf" or below). Very few senior tranches have suffered losses.

Source: Fitch Ratings "Global Structured Finance Losses 200-2020 Issuance", March 2021



Source: Fitch Ratings "Global Structured Finance Losses 200-2020 Issuance", March 2021



As indicated above, IACPM notes that, in the UK, the PRA is proposing to implement an optional alternative basis of calculation of the SEC-SA p factor, embedding floors of 0.5 for non-STS transactions and 0.3 for STS transactions the detailed calculation applies a formula very similar to that used in the SEC-IRBA, though capped out at the existing SEC-SA p factors). In the PRA's view the proposed alternative SEC-SA p-factor will represent a "large change in the incentive for synthetic SRT of SA exposures compared to the current fixed p-factor of 1". I.e. this approach will represent a competitive advantage for standardised banks and portfolios in the UK relative to EU peers.

IACPM notes that the US continues to apply the securitization capital requirements that preceded the reforms introduced in the EU in 2019 and hence a p factor of 0.5 under the standardized approach, giving its banks a competitive edge over the EU. While the original US Basel 3.1 implementation proposals would have brought the jurisdiction in line with the EU in relation to p, it has been clear since September that the US Basel 3.1 reforms will not be implemented without comprehensive re-proposal[6], and the outcome of the recent US presidential election casts grave doubt on the prospects of their being implemented in any form.

9.22 Do you consider that potential targeted and limited reductions to the (p) factor may increase securitisation issuance and investment in the EU, while at the same time keeping the capitalisation of the securitisation tranches at a sufficiently prudent level?

- **Yes**
- No
- No opinion

Please explain your answer

IACPM's preferred proposal to address excessive non-neutrality in the framework in relation, in particular, to mezzanine securitisation positions, is not to amend p factors directly (other than capping the SEC-IRBA p, see below), but to reduce the steepness of the curve in capital requirements generated by p by applying a scaling factor to the underlying asset capital requirement (tranches detaching up to which are subject to 1,250% risk weighting or deduction) before its insertion into the SEC-SA formula, calibrated at 0.65 for non STS and 0.55 for STS transactions (with 'p factors' remaining at current levels). IACPM notes that a similar approach could helpfully be adopted in relation to the SEC-IRBA, but that the appropriate scalar in that context has not yet been calibrated. This proposal would remove a significant source of non-neutrality in the framework and mitigate excess non-neutrality while guarding against potential cliff effects flowing from a simple reduction in p (due to the multiple roles played by the p factor including in determining the steepness of the risk weight curve and hence the steepness of cliff effects, as to which see the July 2022 Risk Control paper "Reviving Securitisation In Europe By Scaling Inputs to Capital Formulae"[7]).

If no such scaling factor is implemented, IACPM would support , in the CRR, on a permanent basis: in the general SEC-SA (i.e. a change benefitting SA banks/portfolios, and not merely IRB banks for purposes of calculating the output floor), a halving of the p factor from 1 to 0.5, for non-STS transactions, and from 0.5 to 0.25, for STS transactions.

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[6] See the speech by Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, Michael S. Barr of 10 September 2024: https://www.federalreserve.gov/newsevents/speech/barr20240910a.htm
[7] https://www.riskcontrollimited.com/wp-content/uploads/2022/07/Reviving-Securitisation-in-Europe-by-Scaling-Inputs-to-Capital-Formulae-22-113a-04-07-22-v3.pdf

This proposal, in relation to the SEC-SA p factor, would universalise the pragmatic reform, within the output floor, made by European legislators in CRR 3.1, thereby extending the benefit of this mitigation of excess non-neutrality beyond sophisticated IRB banks to benefit standardised banks and portfolios. The beneficiaries of this reform would include smaller and new entrant banks and banks in EU member states with developing sophistication. With p set at 1 as at present for non-STS transactions there is a capital surcharge of 100% for the securitisation relative to the unsecuritised assets, meaning that the economic cost of holding those assets doubles.

In any case (whether reform takes the form of a scalar or reduction in SEC-SA p factors), the SEC-IRBA should be amended to include caps (in addition to the existing floors) to the p factor of 0.5 for STS and 0.75 for non-STS transactions. The 'p' in the SEC-IRBA is currently uncapped and can rise to wholly disproportionate levels.

Q. 9.23 If you answered yes to question 9.22., what criteria should be considered when considering such targeted and limited reductions? You may select more than one option.

- **Exposures held by originators versus investors**
- **Exposures in STS versus non-STS securitisations (beyond the differentiation already provided for in Article 260 and in Article 262 CRR)**
- **Exposures in senior versus non-senior tranches**
- Exposures calculated under different capital approaches
- Other criteria

Please explain your answer

As indicated above, proportionality to risk / risk sensitivity of capital requirements is a fundamental principle of prudential regulation. There should be no eligibility conditions to benefit from proportionate capital requirements. However, differentiation between non-STS and STS transactions may be justified to reflect the premium status and additional eligibility requirements associated with this label.

If it is not possible to apply the chosen reforms to all securitization positions, however, is true that the CRR does not currently reflect the reduced agency and model risks associated with investment in own-originated assets in the originator's own securitisation (i.e. originators' retained senior positions in SRT securitisations). There can, for example, be no concerns re data asymmetries with the sell side justifying prudential non-neutrality of the securitisation relative to the underlying assets where the holder of a securitisation position is the asset originator and no concerns about reliance on third parties to service the assets. However, IACPM notes that, to introduce a preferential treatment for originators (or limb (a) originators only (as proposed by the ESAs)), would effectively limit the benefit of the reform to the SRT securitisation market and not stimulate growth in the broader securitisation market. If application to all securitisation positions is not possible, preferential treatment limited to retained positions in originator's own securitisations should be seen as an absolute minimum of any preferential treatment to be introduced.

The reforms in the SEC-SA should build on EU legislators' prudent position in relation to the output floor transitional in CRR 3.1.

Q. 9.24 As regards your answer to 9.22., please provide quantitative and qualitative data on the likely impact of possible targeted and limited reductions to the (p) factor as investigated above, in particular how such targeted reductions would avoid cliff effects and undercapitalisation of mezzanine tranches and, how they would not create incentives for banks to invest in mezzanine tranches.

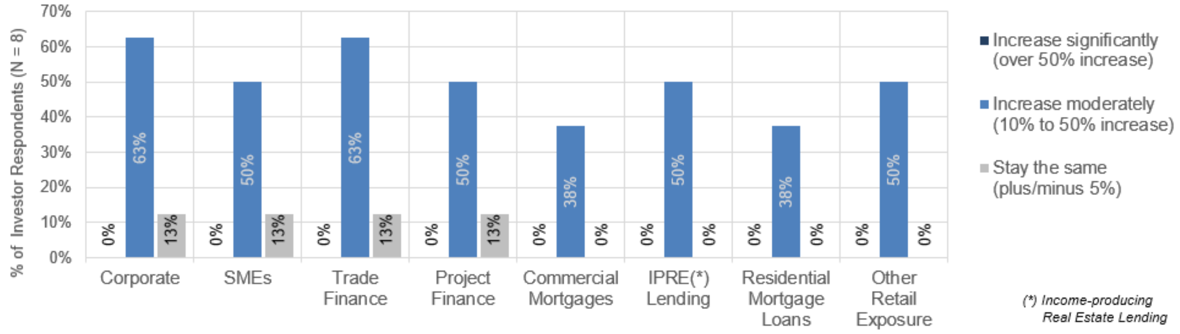
Investors responding to IACPM's 2024 European Commission Consultation Data Exercise would not, themselves, be directly impacted by the changed prudential treatment, but - probably envisaging the entrance of new standardised bank originators into the market - indicated moderate (up to 50%) increases in investment across a wide range of asset classes, flowing from permanent extension of the current p factor output floor transitional to the broader SEC–SA framework.

Fewer existing bank originator responders to IACPM's 2024 European Commission Consultation Data Exercise envisaged increases in issuance flowing from permanent extension of the current p factor output floor transitional to the broader SEC–SA framework. However, this finding likely reflects the preponderance of sophisticated banks using internal models among existing bank originators in general and responders in particular. (The SEC-SA p factor impacts sophisticated banks using internal models only *negatively* via the

IRB output floor.) However, a minority of existing bank originator responders did envisage significant (over 50%) increases in issuance for SME and residential mortgage loan backed securitisations resulting from this change.

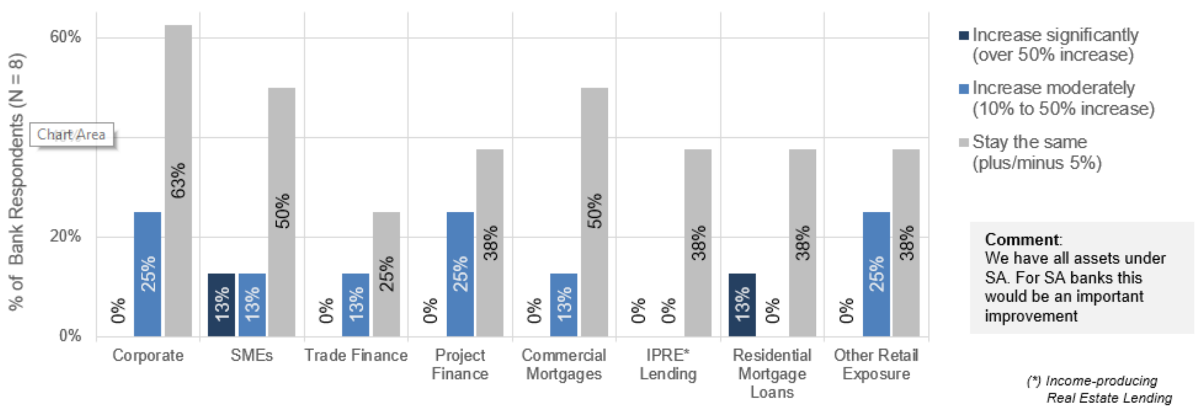
Responding investors

Source: IACPM 2024 European Commission Consultation Data Exercise



Responding bank originators

Source: IACPM 2024 European Commission Consultation Data Exercise



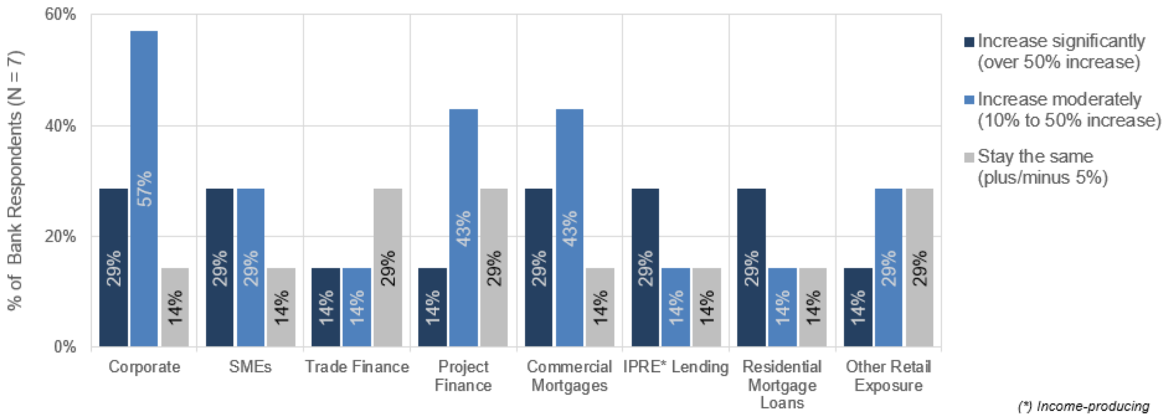
As indicated above, however, p factor reduction is not IACPM's preferred proposal to address excessive non-neutrality in the framework in relation, in particular, to mezzanine securitisation positions. The preferred approach is to apply a scaling factor to the underlying asset capital requirement (tranches detaching up to which are subject to 1,250% risk weighting or deduction) before its insertion into the SEC-SA formula, calibrated at 0.65 for non STS and 0.55 for STS transactions (with 'p factors' remaining at current levels). IACPM notes that a similar approach could helpfully be adopted in relation to the SEC-IRBA, but that the appropriate scalar in that context has not yet been calibrated. This proposal would remove a significant source of non-neutrality in the framework and mitigate excess non-neutrality while guarding against potential cliff effects flowing from a simple reduction in p (due to the multiple roles played by the p factor including in determining the steepness of the risk weight curve and hence the steepness of cliff effects, as to which see the July 2022 Risk Control paper "Reviving Securitisation In Europe By Scaling Inputs to Capital Formulae"[8]).

Between 86% and 43% (depending on asset class) of responding bank originators, envisaged moderate (up to 50%) or significant (over 50%) increases in issuance across a wide range of asset classes, flowing from this proposal. 25%-38% of responding investors, envisaged moderate (up to 50%) increases in investment across a wide range of asset classes.

[8] https://www.riskcontrollimited.com/wp-content/uploads/2022/07/Reviving-Securitisation-in-Europe-by-Scaling-Inputs-to-Capital-Formulae-22-113a-04-07-22-v3.pdf

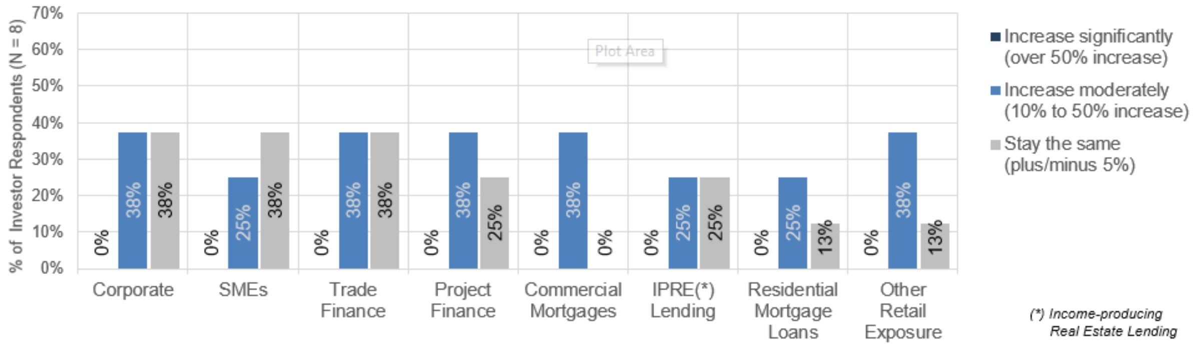
Responding bank originators

Source: IACPM 2024 European Commission Consultation Data Exercise



Responding investors

Source: IACPM 2024 European Commission Consultation Data Exercise



If RW floors were reduced as proposed by the ESAs in their December 2022 report (absent the eligiblity criteria that would render the proposal unworkable) – and as indicated above, this is not IACPM's preferred proposal - one member calculates that this would result in a 10% RWA benefit.

Q. 9.25 As regards your answer to 9.22, please provide the data on how they would have a positive impact on the issuance of securitisation, the investments in securitisation, and the placement of securitisation issuances with external investors, for different types of securitisations (traditional securitisation, synthetic securitisation).

See 9.24 above.

Q. 9.26 Do you consider that the current approach to non-neutrality of capital requirements as one of core elements of the securitisation prudential framework, leads to undue overcapitalisation (or undercapitalisation) of the securitisation exposures, in particular when compared to the realised losses and distribution of the losses across the capital structure (different tranches of securitisation) over a full economic cycle? Please explain your answer.

- **Yes**
- No
- No opinion

Q. 9.27 If you answered yes to question 9.26, please justify your reasoning and provide quantitative and qualitative data to show the extent of the undue non-neutrality (overcapitalisation or undercapitalisation), in particular when compared to the realised losses and distribution of the losses across the capital structure, taking into consideration the need to cover a full economic cycle.

See question 9.1 above.

Q. 9.28 Based on your answer to 9.26., do you consider that alternative designs of the risk weight functions, such as an inverted S-curve, or introducing a scaling parameter to scale the KA[25] downwards, within the current halfpipe design, as investigated in the Section 3.3.2 of the EBA report, have potential to achieve more proportionate levels of capital non-neutrality and capital distribution across tranches, address the potential cliff effects more appropriately and achieve prudential objectives?

- **Yes**
- No
- No opinion

Please explain your answer

The current design of the securitisation risk weighting formulae (SEC-SA and SEC-ERBA) embeds known weaknesses:

The effective capital deduction of tranches attaching up to the capital requirements of the underlying asset pool (the common "halfpipe" shape, with the former SSFA applying above that level) is a source of excess non-neutrality, risk insensitivity and cliff effects (where small change in inputs, such as tranche attachment and detachment points, create large impacts in risk weights). IACPM's proposals relating to the application of a scaling factor to the underlying asset capital requirement before its insertion into the SEC-SA (and potentially SEC-IRBA) formula mitigates but does not remove this issue.

The multiple roles played by the p factor (adjusting the degree of capital non-neutrality post securitisation, determining the steepness of the risk weight curve and hence the steepness of cliff effects, and determining the capital allocation across different tranches in the transaction) also impedes refinement of risk sensitivity (ideally, 3 independent roles would require 3 independent parameters). IACPM's proposals relating to the reduction of the p factor in the SEC-SA mitigates excess non-neutrality but does not remove this issue.

As indicated above, in the fullness of time, an evaluation of the securitisation capital framework, by the BCBS, leading to reductions in the overall level of non-neutrality would be ideal. However, given the extremely lengthy timeframe likely to be involved in effecting change at Basel level and the potential benefits of the market to the EU economy at a time of challenge, IACPM strongly supports domestic reforms now in the EU on the basis proposed above.

Q. 9.29. If you answered yes to question 9.28, please specify the impact of such alternative design compared to the existing risk weight functions and explain an appropriate calibration of such alternative designs and possible safeguards for the measures to achieve prudential objectives.

N/A

Significant risk transfer (SRT)

Q. 9.30 Do you agree with the conditions to be met for SRT tests as framed in the CRR (i.e. the mechanical tests - first loss and mezzanine tests, and the supervisory competence to assess the commensurateness of the risk transfer, as set out in Articles 244 and 245 of the CRR)?

Are the SRT conditions effective in ensuring a robustness and consistency of the 'significant risk transfer' from an economic perspective?

- **Yes**
- No
- No opinion

Please explain your answer

Quantitative SRT/CRT tests are not prescribed at Basel level: the EU has autonomy in this respect and highly prescriptive or onerous requirements could harm the international competitiveness of EU banks

While the EU clearly needs to identify minimum quantitative standards to benefit from prudential recognition of risk transference, it is worth noting that that Basel itself does not impose any specific quantitative levels of risk transfer, or quantitative risk transfer tests. It requires only: that "[s]ignificant credit risk associated with the underlying exposures has been transferred to third parties" (for traditional securitisations) / "banks must transfer significant credit risk associated with the underlying exposures to third parties" (for synthetic securitisations) (see CRE 40.24/25). This means that the EU has complete autonomy in this respect, but also that highly prescriptive or onerous requirements could harm the international competitiveness of EU banks.

The existing CRR SRT tests are well understood and have the benefit of simplicity. There is a need for formal consultation on the substance of the additional CRT tests proposed in the EBA SRT Report before these are implemented in legislation, or informally applied by regulators. IACPM notes that ongoing discussions in relation to the possibility of a 'fast track' SRT review and approval process is not the appropriate forum in which to set the requirements applicable to SRT market as a whole. IACPM supports the EBA's proposal to assess SRT at (in general) inception only as a force for prudential stability, and would also welcome the idea of multi-transaction SRT approvals (subject to quantum/time limits) for repeat deals

The existing CRR SRT tests are well understood and have the benefit of simplicity. They require that either 80% of the first loss tranche, or – if a transaction has mezzanine tranches - 80% of the mezzanine risk - is transferred to third parties (any retained first loss in a transaction with mezzanine tranches being subject to capital deduction or deduction equivalent 1,250% risk weighting).

The EBA's December 2020 SRT Report proposed (amongst other things) two new quantitative tests of risk transfer "commensurateness" (the "principle-based approach" (PBA) and "commensurate risk transfer" (CRT tests)), as well as a new minimum first loss tranche thickness requirement in the existing first loss test, and a new quantitative self-assessment of risk transfer. IACPM notes that the Report's proposals were made without any consultation having taken place in relation to these. Consultation is a fundamental part of the legislative process and must be undertaken before any legislation is made implementing these rules. Informal implementation by regulators should also not precede this consultative and legislative process, however, IACPM notes that, in practice, some of the report's recommendations have been translated into regulatory practice by some regulators (without any consistency in this respect, even within individual Member States).

IACPM notes that ongoing discussions between regulators and the industry in relation to the possibility of a 'fast track' SRT review and approval process (for simpler and repeat transactions) is not the appropriate forum in which to set the requirements applicable to SRT market as a whole.

IACPM wholeheartedly supports the proposal in the SRT Report that the existing SRT tests (and any new "commensurateness" tests) should (in general) apply only at the initial SRT assessment. This must be the correct approach in terms of avoiding prudential cliff effects and potential loss of SRT as tranches bear losses as intended in accordance with transaction documentation.

IACPM would also welcome the idea of multi-transaction SRT approvals (subject to quantum/time limits) for repeat deals (a concept that exists in the UK framework).

The additional CRT tests proposed in the EBA SRT Report are highly problematic for originators seeking SRT due to (amongst other things) their assumptions relating to loss allocation

In broad terms, the PBA test aims to ensure that ≥50% of the unexpected losses associated with the securitised assets are transferred to third parties, while the CRT test aims to ensure that the proportionate reduction in capital requirements achieved as a result of the securitisation does not exceed the proportionate transfer of credit risk (lifetime expected losses and unexpected losses). The new thickness requirement in the existing first loss test aims, in broad terms, to ensure that the tranche is thick enough to covers the whole lifetime expected loss (LTEL) and at least two-thirds of the regulatory unexpected loss (UL) associated with the securitised assets (an implicit assumption in the existing test). The proposed new quantitative self-assessment of risk transfer in the SRT Report involves modelling the interaction of a transaction's structural features (including the applicable amortisation structure and triggers, and, in the case of synthetic securitisations, credit protection payments, premium payments and any time call) over the life of the transaction including in specified "adverse" scenarios relating to loss levels, loss realisation timing, and the availability of excess spread (where used). The quantitative self-assessment of risk transfer is used to compare the total losses absorbed by third party investors over the lifetime of the transaction (as a percentage of the losses in the transaction/portfolio) to the average reduction in risk-weighted exposure amounts post-securitisation, and to the total losses expected to arise over lifetime of transaction, demonstrating that the SRT tests are passed in all cases. These proposed two new quantitative tests of risk transfer "commensurateness" are highly problematic for originators seeking SRT due to the assumptions relating to loss allocation (in the presence of non-sequential amortisation where the originator retains the senior tranche, the commensurateness tests must be passed in both an evenly-loaded scenario (the base case) and a back-loaded scenario in which in which two thirds of the evenly-loaded scenario defaults take place in last third of transaction's life). The proposed new "commensurateness" tests should also be re-visited in relation to their treatment of excess spread in light of the new capital charge for excess spread in the Pillar 1 framework.

Q. 9.31 If you answered no to question 9.30, do you consider that the robustness and efficiency of the SRT framework could be enhanced by replacing the current mechanical tests with the PBA test?

The PBA test could be based on the recommendations in the EBA report, while the recommendations on the allocation of losses to the tranches could be reconsidered.

In order to be implemented without generating severe market disruption, the PBA test (and if still under consideration CRT test) would need to be reformed. In particular, the loss allocation assumptions envisaged in the EBA SRT report are unworkable. However, as indicated above, there is a need for formal consultation on the substance of these tests before these are implemented in legislation, or informally applied by regulators. The sinal form of these test(s) should be dictated by the outcome of the consultation process.

Q. 9.32 Do you consider the process of the SRT supervisory assessments to be efficient and adequate?

- Yes
- **No**
- No opinion

Please explain your answer

Historically, the efficiency and homogeneity of SRT assessments has been very variable between JSTs (even within the same Member State) and involved unworkably lengthy timeframes. The situation has improved to an extent in recent years, but remains suboptimal and inconsistent. The EBA's SRT Report proposed the introduction of a harmonised, process and timetable for SRT assessment, and common SRT notification template. This is a helpful intitiative. The timelines specified in the SRT Report are, however, unworkably lengthy: a four month overall timeline under a "fast track" process for "qualifying securitisations" (three months pre-signing with a "freeze period" in the final month during which no "major changes" can be made (eg substantially altering portfolio composition, transaction economics or structural features; one month post-signing for a final document review)), and a six month overall timeline for "non-qualifying securitisations" subject to a "structural features review" (three months prior to NCA notification that a "structural features review" has been triggered, two months further "structural features review" with a "freeze period" in the final month, followed by one month's post-signing final document review). The proposed ability of NCAs to 'stop the clock' under the proposed EBA timelines, undermines any certainty benefits accruing from the black letter timeline. IACPM also greatly prefers a timeline in which approval or non-approval of a transaction by an NCA takes place prior to execution creating certainty for market participants. Reliance on regulatory/SRT calls in the event of non-approval is disruptive and undermines business certainty. Time to market needs to be both certain and greatly reduced to enable the market to thrive.

IACPM supports the introduction of a harmonised, process and timetable for SRT assessment, and common SRT notification template, but consider that the timelines must be reduced overall and in particular, radically, for 'fast track' transactions meeting specified requirements. Any such changes should be introduced via formal legislation thus ensuring consistency in the process, which should be subject to a consultation process with the industry.

The framework for prudential recognition of traditional securitisation does not incorporate maturity mismatch mechanics in the way that the framework for prudential recognition of synthetic securitisation does. The traditional securitisation framework is, therefore, predicated on the risk of the securitized assets not returning to the originator group prior to their maturity. The ability to incorporate time calls in traditional securitisations on the same basis as time calls in synthetic securitisations that are not treated as giving rise to maturity mismatch (broadly where they are exercisable only after the weighted average life of the securitized assets and do not provide explicit contractual incentives for their exercise) would be very helpful. This would facilitate the combination of funding and risk transfer in traditional securitisation.

Q. 9.33 If you answered no to question 9.32., please provide justifications and suggestions how the SRT assessment process could be improved further.

See response to Q9.32 above.

Q. 9.34 Should the process of the SRT supervisory assessments be further specified at the EU level (e.g., in guidelines, based on a clear mandate in Level 1), or should it be rather left entirely to the competent authorities to set out their own process?

- **Yes**
- No
- No opinion

Please explain your answer

It would be very helpful, in terms of removing barriers to entry for new entrants and creating market certainty for all market participants, to have a blackletter EU wide articulation of the SRT assessment process (timeline and contents). The timeline must, however, be such as to facilitate an active market and not to suppress deal volumes through red-tape/procedural inefficiency.

Q. 9.35 If you answered yes to question 9.34., please provide suggestions.

See response to Q9.34 above.

Q. 9.36 If you are a supervisor, how would a change in the SRT regulatory framework (in particular on the SRT tests and the process of SRT supervisory assessments) impact your supervisory costs?

N/A

Transitional measure in Article 465(13) of the CRR

Q. 9.37 Do you consider that the transitional measure will remain necessary and should be maintained, in case of introduction of other changes to the prudential framework?

- **Yes**
- No
- No opinion

IACPM greatly appreciates the measures taken by EU legislators to avoid the otherwise existential impact on the SRT securitisation market of the CRR 3.1 IRB output floor. In relation to this impact see the November 2022 Risk Control paper "Impact of the SA Output floor on the European Securitisation Market"[9]. However, they note that (unless renewed or replaced) the transitional provisions implemented (a halving of the p factor under the SEC-SA exclusively for purposes of calculation of the IRB output floor) will fall away at the end of 2032 again threatening the sustainability of this crucial real-economy funding and risk transfer facilitating market. Market certainty as to continued protection from the impact of the output floor is imperative, long in advance of the 2032 transitional end date, as transactions with longer maturities being structured even now require certainty as to their capital treatment over the life of the transaction.

If as requested by IACPM, the SEC-SA p factor reductions currently limited to the output floor calculation (for IRB banks) are extended to the SEC-SA in general (benefitting SA banks/portfolios) and at the same or lower levels (i.e. 0.5 for non-STS, 0.25 for STS or lower), then the output floor transitional would no longer be needed. However, if this is not the case the transitional mitigation will remain required for reasons of legal and commercial certainty and to avoid threatening the sustainability of this crucial real-economy funding and risk transfer facilitating market.

If a scalar is applied to the capital requirement for the underlying assets in the SEC-SA, as also requested above by IACPM (in preference to p factor adjustment), the calibration of the scalar assumes unmodified levels of p, so this reform should not be applied in conjunction with the output floor transitional.

Grandfathering should be provided, in relation to revised prudential treatment, for existing transactions structured in reliance on the output floor transitional measure

Avoiding retroactive effect of legislation on transactions structured in line with different requirements is a fundamental principle of legal certainty and fundamental to business confidence.

The originators of transactions structured in reliance on the output floor transitional measure should be permitted to keep the benefit of this measure for the life of the transaction. If a revised prudential treatment is adopted that is actively incompatible with the output floor transitional measure (e.g. if a scalar is applied to the capital requirement for the underlying assets in the SEC-SA) originators of transactions structured in reliance on the output floor transitional measure should be permitted to keep the benefit of the transitional measure for the life of the transaction unless they positively elect to adopt the revised prudential treatment for all of their affected transactions.

Q. 9.38 If you answered yes to question 9.37., please explain why and whether there are any alternative measures that could be more appropriate to achieve the original objective of the transitional measure.

The application of a scalar is to the capital requirement for the underlying assets in the SEC-SA, as requested above by IACPM, would be preferable and, in this case, the calibration of the scalar assumes unmodified levels of p so this reform should not be applied in conjunction with the output floor transitional.

Absent a scalar, extension of the SEC-SA p factor reductions (currently limited to the output floor calculation for IRB banks) to the SEC-SA in general (benefitting SA banks/portfolios) and at the same or lower levels (i.e. 0.5 for non-STS, 0.25 for STS or lower) would, as indicated above, be preferable.

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[9] Impact-of-the-SA-Floor-on-European-Securitisation-22-65a-14-6-22-v68-Revised.pdf

Q. 9.39 If you answered yes to question 9.37, do you consider that a potential targeted and limited reduction of the p-factor might affect the effectiveness of the transitional measure under the output floor?

- Yes
- **No**
- No opinion

Please explain your answer

Section 10: Prudential treatment of securitisation for insurers

Q. 10.1 Is there an interest from (re)insurance undertakings to increase their investments in securitisation (whether a senior tranche, mezzanine tranche, or a junior tranche)?

- **Yes**
- No
- No opinion

Q. 10.2 If you answered yes to question 10.1., please specify the segments of securitisations in which (re)insurers would be willing to invest more (in terms of seniority, true sale or synthetic nature, type of underlying assets, etc.) and describe the potential for increase in the share of securitisation investments in (re)insurers' balance sheet.

Non-life insurers / reinsurers invest in highly liquid and high-quality assets, which can be rapidly monetized to pay insurance claims. Such investments, which attract capital requirements for "market risk" (spread risk) under Solvency II, could potentially include senior bonds issued by the SPVs in true sale securitisations. The onerous nature of the associated Solvency II capital requirements, however, means that they do not (or not at material levels).

Non-life insurers / reinsurers are also - qua (re)insurers - keen to protect less liquid significant risk transfer securitisation tranches from the liability-sides of their balance-sheets, on an unfunded basis, via participation in on-balance sheet (synthetic) securitisations. These contracts (credit insurance policies) represent, and are treated as, "non-life underwriting risk" under Solvency II. The credit insurance arms of non-life insurers / reinsurers have become active participants in the on-balance sheet (synthetic) securitisation market, selling unfunded credit protection on mezzanine tranches. However, their ability to expand their activities in this context is constrained by the on-balance sheet STS rules, which require collateralisation in (broadly) private sector transactions. The lack of CRR STS prudential benefits for the sell side (i.e. the bank originators purchasing the unfunded credit protection) offsets the pricing efficiencies for originators otherwise associated with the format.

The most recent annual surveys conducted by the IACPM in relation to unfunded credit protection provided by non-life insurers (2019-2023) indicated that:

- between 2019 and 2023, the 13 participating insurers executed 153 insurance protections on 127 SRT securitizations, for a total insured amount close to **€ 4 billion**
- unlike in synthetic securitizations, unfunded protection is currently executed mostly on European loan pools (55% EU, 30% UK) with a growing share of loans to SMEs and large corporates, and a third but decreasing asset class comprising residential mortgages
- in 2023, 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 – specially in relation to illiquid SME and corporate loans, but is capped by their inability to access the growing EU STS market.

Life insurers' / reinsurers' investment portfolios are longer term than those of non-life insurers / reinsurers and do, typically, include private equity/private credit investment lines. Funded investments in credit linked notes issued in SRT transactions could potentially be incorporated in these investment portfolios (from the asset side of the insurers' balance sheets). However, the onerous nature of the associated Solvency II capital requirements mean that they do not. Inclusion of funded investments in credit linked notes issued in SRT transactions would increase the potential diversity of, returns on, and liability matching of, the insurers' portfolios.

Q. 10.3 Is there anything which in your view prevents an increase in investments in securitisation by (re)insurance undertakings?

- **Yes**
- No
- No opinion

Please explain your answer. If you mention prudential rules as part of your answer, please provide an estimate of the impact on the level of investments in securitisation, of the reduction of capital requirements for securitisation investments by a given percentage, e.g. 5% or 10%.

Onerous Article 5 DD requirements adversely impact securitisation investment/the writing of credit insurance on securitisation positions by all (re)insurers. The Solvency II capital framework also adversely impacts investment - directly in relation to standardised formula insurers, and indirectly in relation to insurers using internal models. The extremely high capital requirements for non-STS securitisations (which have an important role to play in funding the real economy) are not justified based on their risk and should be revised, including a distinction between the capital requirements for senior and non-senior tranches. The calibrations used for senior tranches in STS securitisations should be revised in line with those used for bonds and loans, and, indeed (for tranches rated CQS 1) for covered bonds. Overall, the stark difference between the capital charges for securitisations and the capital charges that would apply to their underlying assets must be reduced. As to the appropriate calibrations we refer to the academic paper from Risk Control / AFME in 2022 by William Perraudin and Yixin Qiu (2022), "ABS and Covered Bond Risk and Solvency II Capital Charges" (Risk Control).. Credit linked notes issued in on balance-sheet (synthetic) transactions must be included in the scope any such reforms to Solvency II.

Onerous due diligence requirements under Article 5 of the Securitisation Regulation adversely impact both insurers using internal models and insurers using the standard formula and are relevant whether insurers participate in securitisations qua insurers (writing credit protection), or part of their investment.

Insurers using the standardised formula are, in addition, directly impacted by the Solvency II capital framework. Supervisory attitudes to variance between the output of the standardised formula and internal models (and/or insurer's own calibration of internal models to ensure that they do not depart materially from the Solvency II standard formula) can mean that the Solvency II capital framework impacts insurers using internal models indirectly.

The treatment of investment in securitisation from the asset side of insurers' balance sheets, under Solvency II, remains highly disadvantageous:

- There is an extreme and absurd cliff effect between the capital requirements for senior positions in STS securitisations and senior positions in non-STS securitisations (non STS securitisations still represent the bulk of the securitisation market in Europe, and currently include all private sector unfunded synthetic securitisations, given the collateralisation requirements in the synthetic STS framework). This cannot be justified based on the available data. For example, given a modified duration of one year and a rating of AAA, a non-STS senior tranche is 12.5 times more expensive[1] than the equivalent STS senior tranche. IACPM notes that non-STS securitisations have an important role to play in funding the real economy - for example, project finance transactions, financing the green transition, are often unable to meet the granularity requirements associated with STS.

- No distinction is made between senior and non-senior tranches in non-STS securitisations, despite the fact that recovery rates between these tranches would be expected to differ very significantly. There is risk appetite from insurers for investment in non senior securitisation positions. Interviews conducted by IACPM on insurers' appetite for credit linked notes issued on first loss and mezzanine tranches of synthetic securitisations, indicate that the Solvency II framework (which applies a 100% risk weight for "market risk" (spread risk) - similar to private equity) is the most significant driver for insurers' lack of investment activity in these assets.

- There is an unjustified gap between the calibrations used for senior tranches in STS securitisations (on the

[1] In terms of expected return on capital

one hand) and those used for bonds and loans, and indeed (for tranches rated CQS 1), covered bonds (on the other).

- Overall, the difference between the capital charges for securitisation and the capital charges that would apply to its underlying exposures cannot be justified. The charges are just too high, and the historical calibration are not based on relevant data. A whole loan mortgage pool (unrated, long duration, illiquid with no credit enhancement, where investors will suffer the first and every subsequent loss made on loans in the pool) will carry a capital charge of 3% for a 30-year life at 80% LTV. A 5 year senior AAA rated STS RMBS (rated, medium duration, liquid, credit-enhanced, protected from first loss) will incur a capital charge of around 5% for the senior tranche and much higher for the non-senior tranche. This disparity of treatment is unjustified from a prudential perspective and creates an unlevel playing field to the disadvantage of STS securitisation (relative to non-STS securitisation).

The high cliff effects in Solvency 2 discourage investment by insurance companies

	AAA	AA	A	BBB	BB	B and below
Credit quality step	0	1	2	3	4	5 and 6
Corporate Bonds	0.90%	1.10%	1.40%	2.50%	4.50%	7.50%
Covered Bonds	0.70%	0.90%	-	-	-	-
Residential mortgage loans			e.g. 3% for life at LTV=80%			
Senior STS securitisation position	1.00%	1.20%	1.60%	2.80%	5.60%	9.40%
Non-Senior STS securitisation position	2.80%	3.40%	4.60%	7.90%	15.80%	26.70%
Other securitisation (non-STS) positions	12.50%	13.40%	16.60%	19.70%	82.00%	100.00%
Cliff STS senior securitisation vs. Corporate Bonds	0.10%	0.10%	0.20%	0.30%	1.10%	1.90%
Cliff STS senior securitisation vs. Covered Bonds	0.30%	0.30%				
Cliff STS non-senior securitisation vs. Corporate bonds	1.90%	2.30%	3.20%	5.40%	11.30%	19.20%
Cliff non-STS securitisation vs. Corporate Bonds	11.60%	12.30%	15.20%	17.20%	77.50%	92.50%
Re-securitisation position	33.00%	40.00%	51.00%	91.00%	100.00%	100.00%
Cliff Re-securitisation vs. Corporate Bonds	32.10%	38.90%	49.60%	88.50%	95.50%	92.50%

source: Bank of America Merrill Lynch

If the treatment of securitization in Solvency II is reviewed to become more risk-sensitive, credit linked notes issued in on balance-sheet (synthetic) transactions must be in scope of the reforms in order to facilitate insurers' investment in these transactions.

In relation to a more appropriate and robust calibration of the capital requirements for securitisation positions under Solvency II, we refer to the proposals in the academic paper from Risk Control / AFME in 2022 by William Perraudin and Yixin Qiu (2022), "ABS and Covered Bond Risk and Solvency II Capital Charges" (Risk Control).

The positive impact of effecting these reforms to the Solvency II capital calibration together with the reforms proposed elsewhere in this response to the due diligence framework on insurers' investment in securitisations could be market changing. At IACPM's July 3 2024 insurance workshop, both UCITS and life insurers indicated that their capacity to invest could be "massive" were if prudential and non-prudential requirements amended.

Q. 10.4 Is Solvency II providing disincentives to investments in securitisation for insurers which use an internal model?

- **Yes**
- No
- No opinion

Please explain your answer, being specific in your reply.

As indicated above, onerous due diligence requirements under Article 5 of the Securitisation Regulation adversely impact both insurers using internal models and insurers using the standard formula, while supervisory attitudes to variance between the output of the standardised formula and internal models (and/or insurer's own calibration of internal models to ensure that they do not depart materially from the Solvency II standard formula) can mean that the Solvency II capital framework impacts insurers using internal models indirectly.

Q. 10.5 Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for the senior tranches of STS securitisations proportionate and commensurate with their risk?

- Yes
- **No**
- No opinion

Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including, where appropriate, with internal models and their relative impact on the share of securitisation investments.
If you consider calibrations inappropriate, please indicate what you would consider as 'appropriate' calibrations, as well as any data/evidence of historical spread behaviours that would justify your proposal.

See Q 10.3 above.

Q. 10.6. Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for the non-senior tranches of STS securitisations proportionate and commensurate with their risk?

- Yes
- **No**
- No opinion

Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including, where appropriate, internal models and their relative impact on the share of securitisation investments.

If you consider calibrations inappropriate, please indicate what you would consider as 'appropriate' calibrations, as well as any data/evidence of historical spread behaviours that would justify your proposal.

See Q 10.3 above.

Q. 10.7 Is it desirable that Solvency II standard formula capital requirements for spread risk differentiate between mezzanine and junior tranches of STS securitisations?

- **Yes**
- No
- No opinion

Please explain your answer.

See Q 10.3 above.

Q. 10.8 If you answered yes to question 10.7., please provide suggestions for calibrations of capital requirements for such mezzanine and junior tranches, including the data/evidence of historical spread behaviors backing such suggestions.

Please indicate how you would define the mezzanine tranche as well as the assumption (e.g. of thickness of the tranche) underlying your proposed calibration. Please also indicate whether and why such introduction of a mezzanine calibration would be needed in Solvency II, even if no dedicated treatment for mezzanine tranches is introduced in EU banking regulation (CRR).

See Q 10.3 above.

IACPM notes that the formulae based capital requirements for banks holding securitisation positions under the CRR ***are*** sensitive to attachment and detachment points (though, as discussed above, with a structural cliff effect relating to the capital requirement for the underlying assets, which IACPM hopes to reduce through application of a scaling factor), so ***do*** distinguish mezzanine tranches from more junior (as well as from more senior) risk.

Q. 10.9 Is the current calculation for standard formula capital requirements for spread risk on securitisation positions in Solvency II for non-STS securitisations proportionate and commensurate with their risk, taking into account?

- Yes
- **No**
- No opinion

Please explain your answer, being specific in your reply, and, where relevant, provide a comparison, including where appropriate with internal models and their relative impact on the share of securitisation investments.

See Q 10.3 above.

Q. 10.10 Is there a specific sub-segment of non-STS securitisation for which evidence would justify lower capital requirements than what is currently applicable?

- **Yes**
- No
- No opinion

See Q 10.3 above.

Q. 10.11 If you answered yes to question 10.10., please specify the sub-segment of non-STS securitisations that you have in mind as well as its related capital requirement, including any evidence/data of historical spreads supporting your proposal.

See Q 10.3 above.

Q. 10.12 Is it desirable that Solvency II standard formula capital requirements for spread risk differentiate between senior and non-senior tranches of non-STS securitisations?

- **Yes**
- No
- No opinion

Please explain your answer, being specific in your reply.

See Q 10.3 above.

Q. 10.13 If you answered no to question 10.12., please provide suggestions for calibrations of capital requirements for such senior and non-senior tranches, including the data/evidence backing such suggestions. Please also indicate whether you target a specific segment of non-STS securitisation.

N/A / See Q 10.3 above.

Section 12: Additional questions

Q. 12.1 What segments of the securitisation market have the strongest potential to contribute to the CMU objectives, and that should be the focus of any potential regulatory review? You may select more than one option.

- **Traditional placed securitisation**
- **Synthetic securitisation**
- **SRT securitisation**
- **ABCP securitisation**
- **STS securitisation**
- **Non-STS securitisation**
- **Securitisation of SME and corporate exposures**
- **Securitisation of mortgages**
- **Securitisation of other asset classes**
- **Other**

Please explain your answer.

All transaction types, traditional and synthetic, STS and non-STS, SRT, private and public, will contribute to CMU objectives of supporting EU sustainable economic growth while also maintaining credit origination and monitoring on the side of the regulated banks in contact with borrowers

The securitisation market must be looked at as an **ecosystem**, where different types of securitisation instruments are complementary from buy- and sell-side perspectives. Therefore, for **both** the issuers and the investors (including insurers), safe growth requires to remove the barriers which create unnecessary disincentives along the chain of credit risk sharing from borrowers to ultimate risk owners.
This includes reducing the cost of regulatory compliance with reporting and due diligence under SECR and prudential incentives in CRR3 and Solvency 2 as proposed in our earlier responses, but also measures that remove other restrictions that hinder the investment growth (such as amendments to the acquisition limit in the UCITS Directive discussed further in Q. 12.10 below).

A decade ago, the post-crisis regulatory agenda implemented a very conservative regulatory framework. Lessons learned in the EU the market since can now be taken into account when considering material improvements through possible reforms to the existing framework without affecting financial stability.

A greatly expanded EU securitisation market needs to facilitate:

- Issuers' objectives in terms of access to long term and stable funding and risk sharing
- Investors and insurers' objectives in terms of access to asset classes not available in the capital markets and choice of the level of risk that fits their risk and return objectives
- European objectives in terms of financing the EU economy and its sustainability, digital and security investments.

Therefore, such a market needs:

- Size, i.e. access to the largest European asset classes (mortgages, SME, corporates, receivables).
- Capacity to offer funding and risk transfer on a large variety of instrument risk profiles – i.e. both senior and SRT tranches.
- Liquidity, i.e. short due diligence and standard disclosure, to be attractive to UCITS funds and life insurers in the highly rated STS senior tranches, and to banks investing to comply with their LCR ratio.
- Risk transfer via both traditional and synthetic transactions, because synthetic risk transfer is required to enable risk sharing on assets that cannot legally be transferred.
- Funding and risk transfer via both STS and non-STS transactions, because the profile of some healthy portfolios of smaller banks or of institutions headquartered in smaller Members States will never meet STS requirements (such as homogeneity, etc.).
- Capacity to raise both funding and capital in the same transactions, i.e. effective prudential and non-prudential requirements (including removal of restrictions that hinder the growth of investment, such as the UCITS Directive point that we discuss further in Q 12.10 below).
- Access to a broad and diversified base of investors and insurers – on a funded and unfunded basis - to protect the SRT tranches of true sale and synthetic transactions.

Therefore, the securitisation market must be accessible to, and work for, all types of transactions with a regulatory framework behind it that turns on principles-based and proportionate due diligence and reporting requirements supported by better calibrated prudential treatment and without other barriers that create limits, caps, or haircuts that reduce incentives to securitise or to invest in securitisations.

This is why it is misleading to focus on specific types of transactions, such focus only fragments the market, inhibits its objective and limits the attractiveness of securitisation for the talents required to develop it.

It is imperative for the European Commission to appreciate the diversity of the securitisation market ecosystem when introducing the reforms, as only in this case such reforms will result in thriving (in size, in liquidity, in diversity) European securitisation market, benefiting the economy, across the EU (including the CEE countries) while ensuring financial stability.

Q. 12.2 What are the principal reasons for the slow growth of the placed traditional securitisation (where the senior tranche is not retained, but placed with the market)?
Why do banks choose not to issue traditional securitisation for both funding and capital relief? You may select more than one option.

- Interest rate environment
- **Low returns**
- **Operational costs**
- High capital charges
- Difficulty in placing senior tranches
- Significant Risk Transfer process
- **Preference for alternative instruments for funding**
- Prefer to retain to keep the client relationships
- Prefer to retain to keep the revenue from the underlying assets
- **Prefer to retain to access central bank liquidity**
- Other

Please explain.

The impact of regulation on the sell-side and the buy-side is the key reason for the slow growth of traditional securitisation. Excessive regulation of securitisation (which does not exist in any other jurisdiction outside the EU (except the UK, but the UK is taking forward some helpful and pragmatic reforms) created high barrier to entry for the sell-side and the buy-side and failed to create meaningful prudential and non-prudential incentives for issuing or investing in securitisation.

See also our comments in Q. 12.3 below on prudential and non-prudential measures needed to help to grow placed traditional securitisation.

Q. 12.3 Please specify which regulatory and non-regulatory measures have the strongest potential to stimulate the issuance of placed traditional securitisation.

The following measures have the strongest potential to stimulate the issuance of placed traditional securitisation (and we also refer in this regard to our earlier comments in this consultation):

- better calibration of prudential parameters for banks (see out proposals summarised in Q9.2 above);
- recalibration of capital charges under Solvency II for investments in securitisation (see our proposals summarised in Q10.3 above);
- SECR amendments that apply the principles of proportionality reduce the cost and burden of regulatory compliance with due diligence (Article 5, see our comments in section 4 above) and transparency and reporting (Article 7, see out comments in section 5 above and Q.12.10 below);
- removal of the 10% acquisition limit for UCITS investors (as to which we provide further comments in Q.12.10 below).

Q. 12.4 What are the main obstacles for cross-border securitisations (i.e. securitisations where the underlying exposures, or the entities involved in the securitisation, come from various EU Member States)?

Aspects of the credit risk mitigation framework, including the requirement for directness of protection[10], give rise to challenges in recognising the benefit of credit protection purchased at group level in relation to the assets of multiple subsidiaries, prudentially, at the solo level of the subsidiaries. This can hinder / reduce the benefit associated with cross-border securitisations of assets owned by a bank's subsidiaries based in different member states.

Q. 12.5 What measures could be taken to stimulate cross-border securitisation in the EU? Please substantiate your answer for traditional and synthetic securitisation respectively.

N/A

Q. 12.6 Securitisation activity is heavily concentrated in a few Member States – primarily Italy, France, Germany, Netherlands and Spain. What are the main obstacles to increasing securitisation activity in other Member States? What measures could make securitisation more attractive in those Member States?

In the first instance we would observe that some of the factors relate to the need for education of banks, NCAs and other market players. For example, SRT transactions have started growing recently in Poland and in Greece as a result of educational and investment support of the EIF, which helped to increase banks' lending capacity in the SME sector.

We also refer to our comments in 12.1-12.3 above about excessive regulation creating high-barrier to entry on sell-side and buy-side which can present challenges for first time originators and new investors that are smaller market players and who are deterred from entering the market because of high upfront and recurring costs of compliance; the lack of prudential and non-prudential incentives or because their credit portfolio is not large enough to extract a pool of loans which fits all criteria and is large enough for a cost-effective securitisation.

For synthetic SRT, the lack of harmonised SRT assessment process is also be an obstacle.

Multi-line insurers, which have more appetite to provide protection in diversified and illiquid portfolios in all geographic locations, are not eligible as STS protection providers, so addressing this issue can also help to grow the securitisation market in other Member States.

Measures that support and create incentives for mutli-issuer securitisation platforms could also help to overcome some of the obstacles for smaller originators in less developed European securitisation markets. As noted in section 8 above, however, the introduction of any securitisation platform requires further consultation and feasibility study which should not slow down or distract from the key priority of seeing through much needed prudential and non-prudential reforms discussed in our comments to this consultation.

[10] Technically associated with unfunded credit protection, but including collateralised guarantees / funded-unfunded deals

Q. 12.7 Does the EU securitisation framework impact the international competitiveness of EU issuers, sponsors and investors?

- **Yes**
- No
- No opinion

Please explain your answer and where possible elaborate on the difference in regulatory costs stemming from the prudential, due diligence and transparency requirements in non-EU jurisdictions, in comparison to the EU securitisation framework.

- **EU vs UK due diligence on transparency:** EU investors are at a competitive disadvantage compared to the UK investors when investing outside Europe. The UK reforms moved the UK due diligence requirements on transparency towards a more principles-based and proportionate approach, whereby UK investors are required to meet the "sufficient information" test, which does not impose on non-UK sell-side parties strict compliance with the UK transparency regime and does not require mandatory use of the UK reporting templates nor reporting to a UK-registered securitisation repository. The UK investors still need to do their "homework" and be satisfied that all materially relevant information is received prior to investing and on an ongoing basis including periodic investor reporting on the underlying assets (without mandatory loan-by-loan reporting or prescribed templates).
  While there will be a second phase to the UK reforms on UK reporting regime and applicable templates, including parameters for what is a "public" securitisation, these forthcoming changes will only be directly applicable to the UK sell-side parties rather than seek to impose additional administrative burden on non-UK securitisations. Therefore, **the cost of compliance of a third country securitisation with SECR due diligence regime can be significantly higher compared to what the same deal may need to make available to satisfy the UK investor due diligence**, which puts EU investors at a competitive disadvantage.

- **EU STS and non-STS requirements vs Basel simple, transparent, comparable (STC) securitisation:** A notable feature of the SECR framework, is the way in which it applies requirements that are premium label STC features at Basel level to **all** securitisations (ie STS and non-STS). That is true of some fundamental requirements, such as: risk retention, the re-securitisation prohibition, sell-side transparency requirements, credit granting standards, and adverse selection restrictions. Under **SECR**, these are requirements for **all** securitisations, but at **Basel** level, requirements for **STC** securitisations only.
  Even compared to the equivalent STC requirements, the EU provisions are generally more onerous: there is no minimum risk retention level at Basel level, transparency requirements are enormously less detailed and allow use of summary data for granular pools, while the STC framework has ten times fewer requirements than the STS framework.
  The SRT requirements are also significantly more detailed and prescriptive in the EU. When the two regimes are compared – especially EU non-STS transactions versus Basel non-STC transactions – it is hard to conclude, given the extent of EU gold plating - that one is comparing apples with apples.
  The failure of other major jurisdictions to implement the Basel prudential framework leads to competitiveness issues for EU bank originators and EU bank investors in securitisation. Notably, the US continues to apply the securitisation capital requirements that preceded the reforms introduced in the EU in 2019 and hence a p factor of 0.5 under the SA approach, giving its banks a competitive edge over the EU. While the original US Basel 3.1 implementation proposals would have brought the jurisdiction in line with the EU in relation to p, it has been clear since September 2024 that the US Basel 3.1 reforms will not be implemented without comprehensive re-proposal afterthe recent US presidential election.

- **EU STS vs UK STS - geographical requirements**: Art. 18 of SECR requires that the originator, sponsor and SSPE involved in a securitisation considered STS are established in the EU (soon to include EEA), which restricts structuring of EU STS transactions if one entity is not based in the EU. The introduction of some flexibility on the location of one of these entities could increase the number of STS compliant transactions and remove competitive disadvantage compared to the UK regime where geographical flexibility was introduced for ABCP and non-ABCP STS securitisations.

- **UCITS**: UCITS funds invest globally and could play a bigger role in financing the EU economy. However, the 10% acquisition limit for debt securities in a single issuing body under Article 56 of the UCITS

Directive (cf further comments in Q. 12.10) is too restrictive and disproportionately hinders the ability of UCITS funds to invest more in EU securitisations. This is different for UCITS regulated in the US were no such restriction exists thus putting EU-regulated UCITS at a competitive disadvantage.

- **EU vs US eligibility of unfunded insurance:** Credit Insurance Risk Transfer is possible on GSEs mortgage securitisations and represents 40% of their CRT programs, underwritten by the large global (re)insurers. Preventing them from participating in the growing synthetic STS SRT market might encourage them to invest resources outside the EU, increasing the costs to EU banks to release capital and reducing access to this tool for some CEE banks.

Q. 12.8 How could securitisation for green transition financing be further improved? What initiative could be taken in the industry or in the regulatory field?

We note that the EuGBS label does not currently accommodate synthetic securitisations and that it will be some years before the feasibility report is prepared on this by the ESAs and the EC makes a decision as to whether to amend the EuGBS regime to accommodate synthetic securitisations (EuGBS provides that the EC may submit a report on this to the Parliament/Council 21 December 2029). Given that synthetic securitisations have a great role to play in the European transition to net zero, it will be advisable to speed up the work on this and to deliver in the short-term the proposals for the corresponding legislative amendments incorporating synthetic securitisations into the EuGBS framework. This sort of initiative, in particular (if it is introduced in combination with prudential incentives), will help to grow the volumes of green transition financing using securitisation as a tool.

We also refer in this regard to an article of July 2023 co-authored by Fernando Gonzalez (ECB/SSM) and Guiliano Giovannetti (Granular Investments) on a proposal for the European Green Transition via SRT securitisations (available at: https://www.suerf.org/publications/suerf-policy-notes-and-briefs/a-proposal-for-the-european-green-transition-via-significant-risk-transfer-securitisations/), which argues the case for supporting the growth of SRT securitisations as a tool to support the green transition with the EIF potentially playing a role in helping to scale up green SRT securitisation issuance.

Q. 12.9 Are there any other relevant issues (outside of those addressed in the specific sections of the consultation paper above) that affect securitisation issuance and investments that you consider should be addressed?

- Yes
- No
- No opinion

Q. 12.10 If you answered yes to question 12.9., please explain your answer.

(1) With reference to Q 3.1 above, we support no change to the "securitisation" definition but we do support introducing some flexibility so that the scope provisions in Article 1 of SECR exclude (or provide for adjusted application of SECR for) some transactions notwithstanding that they meet "securitisation" definition (but this is without prejudice to the prudential treatment of such transactions as "securitisation").

IACPM agrees that where a securitisation does not present concerns that SECR is seeking to address via its risk retention, transparency, credit granting or due diligence rules, such transaction should not be required to comply with SECR. For example, correlation trading (as defined in Article 6(6) of SECR) is currently exempt from the risk retention requirements, but it is clearly an oversight that this type of securitisation is not exempt from all other requirements of SECR given that pre-2019 there was a more comprehensive exemption with deemed compliance provisions for due diligence for such transactions.

Another example is the CRR3 mandate for the EBA to produce a report on treatment of guarantees featuring caps or floors and when portfolio guarantees qualify as securitisation and how in such case SECR requirements should apply. There may be other instances when an adjusted application of the SECR regime may be warranted for transactions caught by the definition of "securitisations". Therefore, more flexibility in the scope of application provisions will be helpful.

We also note in this regard various suggestions for exempting certain securitisations made by other trade bodies, such as AFME.

(2) Removal of the 10% acquisition limit for debt securities in a single issuing body in the UCITS Directive: Securitisation reforms should be approached holistically to bring meaningful changes and incentives to securitise and to invest in securitisations. As already noted in our earlier comments, one of the key priorities of the securitisation reforms should include measures that help to grow securitisation investments and unlock the capacity of certain investors (such as UCITS) to play a bigger role in financing the real economic growth in the EU through securitisation. In this regard, IACPM notes that the 10% acquisition limit for debt securities in a single issuing body that applies under Article 56 of the UCITS Directive is too restrictive and disproportionately hinders the ability of UCITS to invest more in securitisations thus driving more UCITS investments towards unsecured corporate credit with higher risk of defaults, less protections and lower rates of return compared to securitisation. Removal of this 10% restriction for securitisation could help the securitisation issuers to scale up the size of their transactions as greater involvement of UCITS investors can lead to significant increase in funding capacity by tapping into approx. EUR3trn UCITS market.

(3) Other general comments on the key priority areas of reforms

(a) Prudential and non-prudential requirements cannot be handled separately.
Requirements for traditional and synthetic transactions, for SRT and non-SRT, for STS and non-STS, cannot be handled separately.
Review of prudential and non-prudential requirements for securitisations cannot be disentangled from the review of single name risk mitigation instruments

- The securitisation market must be looked at as an ecosystem involving a very wide range of products and market players and, therefore, holistic approach to reforms is a must if the securitisation reform is to achieve its desired outcome of growing supply and demand for securitisation in Europe thus using securitisation as a more effective tool to grow the real economy and to help with funding the transition to net zero, digitation and defense.

- Therefore, no one change will be an answer. To succeed, it must be a combination of prudential and non-prudential reforms in certain key areas. For example:
    - if prudential treatment of securitisation is improved for bank and Solvency II investors, investment will not grow if due diligence and disclosure requirements do not become more proportionate and if other restrictions and limits (such as UCITS Directive 10% acquisition limit, for example) are not addressed; and
    - conversely, if the investor due diligence and issuer reporting requirements are made more proportionate and less burdensome, banks will still not, for example, issue SRT securitisations if

capital cannot be released economically.

(b) Policy makers cannot rely on BCBS to address the necessary securitisation prudential reforms and the existing CRR3 securitisation transitional is a limited and defensive 'fire-fighting' measure, not a means to harness the power of securitisation for real economy growth.

- A comprehensive review of prudential capital requirements for banks is not on the current BCBS agenda, and the existing CRR3 transitional provision is limited to mitigating the adverse (for SRT securitisations existential) impact of the IRB output floor, rather than representing positive reform with the capacity to grow the market. The CRR3 transitional will also run out and (if not superseded by permanent measures) create uncertainty well in advance of its technical expiry date.

(c) Protections provided by multi-line insurers should not be excluded from eligibility in STS.
The treatment of credit insurance in CRR3 (Art 506) has to be economically effective for both loan-by-loan insurance and SRT unfunded insurance.
Investments by (mostly life) insurers in securitisations have to be economically effective on all types of funded tranches, from AAA rated bonds to B rated CLNs.

- The role of insurers will become critical, because credit protections provided by regulated multiline non-life insurers mitigate financial stability risks. This was acknowledged by the US Federal Housing Finance Agency, which increased the share of Credit Insurance Risk Transfer from 25% to 40% in the large CRT programs of GSEs conventional mortgages securitisations.

- As credit insurance is the most popular technique used in Europe for risk mitigation on single SME/corporate loans, management of retained concentrations by single name insurance will have to further develop and be prudentially effective.