IACPM

March 25, 2025

Subject : EC "Have Your Say" on securitisation (February 19, 2025)
IACPM recommendations to policy makers

The IACPM welcomes the ambition expressed in the Savings and Investment Union ("SIU") roadmap to revive securitisation and has responded to the EC Targeted Consultation on Securitisation. With this follow up letter to policy makers, the IACPM wishes to propose implementation principles and priorities in order to improve the competitiveness of the EU economy as per the Draghi and Letta reports.

Collaboration and partnership between all stakeholders in the financial industry and the regulatory community has been a pillar of the EU securitisation market. With its members managing loan books in banking, investment and insurance, the IACPM is proud to support this trustful partnership which should be the foundation of future regulatory reforms, to find the balance between financial stability and competitiveness that will enable sustainable growth of the EU economy.

(a) The EU should build on and strengthen its current strong competitive advantages in securitisation

The EU is a global leader in

- SRT securitisation, where deep competence has been built in the last 20 years by banks and investors, their regulators and supervisors, enabling the EU to be the worldwide leader with more than 50% of global SRT issuance (1).
- Insurance protection, as most of the large non-life (re)insurers have developed unfunded credit insurance on SRT issued by commercial banks, where Europe is a global leader. For more than 20 years, Europe is also leading in non-payment protection, with around 60 % of globally insured exposure (2).

However, this leadership is clearly at risk considering the rapid developments taking place in other jurisdictions, notably in the US, and the suboptimal treatment in prudential and non-prudential rules of (private) risk sharing solutions. The review of prudential regulations for banks in CRR3 is particularly critical to improve banks' competitiveness, as lender and market intermediary.

(1) https://iacpm.org/private-risk-sharing-exceeded-e1-trillion-of-cumulated-volumes-between-2016-and-2023-despite-ongoing-uncertainties-in-final-regulatory-treatment/
(2) https://iacpm.org/survey-demonstrates-global-importance-of-cpri/

(b) To contribute effectively to the ambitious and challenging EU agenda, stakeholders must "think big"

- Reducing unnecessary prudential and non-prudential measures is essential to unlocking the securitisation market, but not sufficient.
- A Pan-European perspective is necessary to reach size, attract a large investor base, and the necessary talents.
- All financial sectors can contribute to this partnership to grow rapidly and safely.

An extensive **partnership** will be necessary between commercial and development banks, investment and pension funds, insurers as investors and underwriters, private credit as partner of banks in credit supply and in risk sharing, as well as industry-specific and macroprudential regulators.

Such collaboration between stakeholders in **private and public capital markets and insurance markets** is already taking place but needs now to be **structurally** further encouraged and accelerated by the **SIU**.

(c) Securitisation must enable effective funding and risk sharing per asset class

- Prudential and non-prudential rules for traditional and synthetic transactions, STS and non-STS, SRT and non-SRT cannot be handled separately but must be effective and proportionate for all participants along the whole supply chain of each asset class
- Facilitating the access of retail and institutional investors to private markets and long-term assets through securitisation requires also the revision of UCITS (Eligible Assets) and Solvency2 (insurers' investments).

  - Securitisation brings together borrowers and savings, through capital and insurance markets. This market is an **ecosystem** involving a wide range of products and market players, different per asset class and between junior, mezzanine and senior tranches. A **holistic "supply chain" approach** to reforms is necessary to achieve the desired outcome of growing supply and demand and finance each core asset class of the real economy.

  - Therefore, no single change will be the solution. To succeed, the **combination of prudential and non-prudential reforms** must facilitate financing and risk sharing with the instruments **dedicated to each asset class**, from originators up to ultimate risk owners, ideally with pan-European solutions to mobilize a massive amount of private finance. Financing and risk sharing instruments, as well as investor base and practices, are different between mortgages, consumer finance, project/transition finance and SME/Corporate loans.

  - In this perspective, **traditional** (true sale) and **synthetic securitisations** as well as **covered bonds can play complementary roles**. Although traditional transactions or covered bonds are currently used mostly for long-term funding while synthetic SRT transactions aim at risk sharing and capital release**, securitisation growth will require that both funding and risk sharing can effectively be achieved by all types of securitisations and covered bonds**.

Examples:

- ✓ *For mortgages, **covered bonds** (€ 3 trillion in the EU) can be combined with unfunded SRT risk sharing on the underlying long-term assets, to raise both funding and capital – but only if the risk weight floor would be risk adjusted and insurers' unfunded protection eligible in STS.*
- ✓ *For consumer and auto loans, credit linked notes or unfunded SRT can enable risk sharing on the junior and mezzanine tranches of **traditional securitisations**, instead of being retained by the bank – but only if senior tranches would be subject to simplified non-prudential rules and eligible in LCR.*

(d) Further aligning the framework for on-balance-sheet securitisation with best practices will stimulate EU investors participation

- On-balance-sheet (SRT) securitisation is a powerful tool for directing long-term institutional capital into financing the real economy, including the digital and green transition.
- A securitisation framework proportional to sophisticated investors, including a well-structured STS framework, is essential to ensure its effectiveness and long-term success.

  - The **due diligence** and **transparency** requirements set out in the Securitisation Regulation are overly prescriptive, especially for private synthetic securitisation, leading to undue compliance cost and deterring EU-based institutional investors from entering the market directly.

- The framework for Simple, Transparent and Standardised (**STS**) on-balance-sheet securitisation adopted in 2021 has been a significant and positive step forward in setting high-quality standards, which should now be updated based on best market practice and experience.

- Adopting a more principal based approach to securitisation **due diligence** and **transparency** requirements combined with building on the STS high-quality standards and shorter SRT assessment by the competent authorities will aid further and more robust growth of the market.

Examples:

- ✓ *For due diligence and disclosure, IACPM's response to the EC targeted consultation provided the detailed results of a survey enabling to identify, quantify and challenge the sources of costs for both banks and investors*
- ✓ *For STS, the same IACPM response identified the STS criteria which are not necessary or not aligned with best market practice.*

(e) Some deviations from Basel framework are necessary to fit the EU economic model and competitiveness agenda

- ➢ A thriving SIU requires strong and competitive EU banks to provide credit, liquidity, risk and custody services, and to guide clients' savings.
- ➢ EU banks are robustly capitalized, and the priority must turn to improving their competitiveness.
- ➢ The EU cannot rely on BCBS for timely prudential reforms on securitisation.
- ➢ The transitional CRR3 rules are a short-term defensive measure, not a tool for long-term economic growth through securitisation.

- A comprehensive review of **prudential capital requirements** for securitisation is not on the BCBS agenda, but adjustments are possible to mitigate the adverse (for SRT - existential) impact of the IRB output floor. These adjustments must be risk-sensitive, to protect financial stability.

- Although not existing at the BCBS level, neither in any other jurisdictions, the **EU STS framework** for on-balance sheet securitisation is a critical pillar to increase economic effectiveness of securitisation for banks while enabling healthy growth of EU securitisation.

Example:

- ✓ *For bank prudential regulations, the IACPM response to the EC targeted consultation provided alternatives for risk-adjustment of the non-neutrality factors (p-factor, risk weight floor).*

(f) Insurers must play a critical role as risk underwriters (and not just as investors) to support securitisation growth and protect financial stability

- ➢ The treatment of credit insurance in CRR3 (Art 506) must be economically effective for both loan-by-loan insurance and SRT unfunded insurance
- ➢ Review of prudential requirements for securitisation should work hand-in-hand with the review of single name risk mitigation instruments
- ➢ Non-life insurers must become eligible unfunded protection providers in STS securitisations
- ➢ Investments by (mostly life) insurers in securitisations must be economically effective on all types of funded tranches, from AAA rated bonds to below investment-grade SRT CLNs

- **Credit insurance** is the most popular technique used in Europe for risk sharing on loans to unrated SME/corporates. If SRT securitisation growth increases banks' capacity to support these borrowers, the mitigation of retained concentrations by single name insurance will have to further develop and be prudentially effective.

- Credit protections provided by **multiline non-life insurers** help diversify their exposures as credit is not correlated with their traditional non-life risks. Prudential supervision and internal limits on countries, sectors, names and types of exposure prevent concentration build-up.

- **Eligibility in STS of unfunded protection** provided by non-life insurers would enable them to access the STS market, dominant in the EU, while continuing to support non-STS transactions in smaller Member States, which attract less interest from capital markets investors.

- Combining risk transfer to insurance companies and cash investors mitigates also overall **financial stability** risks, and provides access to the **risk-taking capacity** of the reinsurance market, in addition to public and private capital markets.

- **Life insurers** could also contribute to SRT securitisation growth, by investing in credit linked notes from synthetic STS transactions, if Solvency 2 capital requirements are risk adjusted on all types of funded tranches, from AAA rated bonds to below investment-grade SRT CLNs.

Examples:

✓ *The benefits of SRT insurance were acknowledged by the US Federal Housing Finance Agency (FHFA), through the increased share (40%) of insurance in the Credit Risk Transfer (CRT) programs of GSE's mortgages securitisations. By the end of 2023, around **USD 60 bn** of SRT tranches were protected by insurers in US mortgage Agency CRT transactions, while the total of SRT insurance protections in Europe was approaching **€ 6 bn** the end of 2024.*

(g) Enhancing cooperation between EU authorities and macro-prudential oversight will facilitate solid growth

➢ Because of its cross-industry and cross-borders nature, securitisation requires coordination and collaboration between the various EU and local prudential regulators/supervisors

➢ Macro-prudential oversight of credit-related activities across financial sectors should be reinforced.

- The lack of **synergy** between banking and insurance regulators resulted, e.g., in the (probably unintentional) ban of European (re)insurers from the unfunded STS market, which affects our competitiveness vs the US where insurance protection is recognized by the FHFA since 2013.

- Contrary to other regulatory bodies, the **Joint Committee of the ESAs**, lacks a platform to exchange with stakeholders from the various financial sectors (Banks, asset managers, private investors, life and non-life insurers, etc)

- **Data and knowledge sharing** between micro- and macro-prudential supervisors should be arranged to reduce costs, facilitate synergies and accelerate response time from supervisors

- **System-wide risks** require a system-wide response. The macro-prudential oversight will have to be strengthened and become more pro-active to identify, assess and monitor risks and vulnerabilities across banks and NBFI entities involved in a credit activity or in the credit supply chain between origination and investment.

The IACPM stands ready to assist the industry and the regulatory community in addressing the challenges of EU securitisation growth for the benefit of the EU economy.