

How can securitisation contribute to the financing of the EU agenda?

***Concrete, targeted, proportionate, and prudent recommendations
to accelerate the scale-up of the EU securitisation market,
in line with recent policy statements***

Executive Summary

Numerous recent statements and reports (Donohue, Letta, Noyer, ECB Governing Council, ESMA) have identified securitisation as a priority policy area, as Paris Europlace did¹, in the context of the revival of the Capital Markets Union.

Indeed, figures, whether from public sources (EU Commission, EBA, ESMA, ESRB) or private ones (AFME, IACPM, Moody's, Bank of America) are unanimous. The size of the EU securitisation market is small in relative and absolute terms, compared not only to the US but also other jurisdictions such as Australia, Canada, China, and Japan. The introduction of the 'STS' label (Simple, Transparent and Standardised) in 2019 has not reversed the trend. Recent changes in prudential treatment for synthetic STS transactions have led to some acceleration in this market segment². However, overall securitisation represents a major untapped source of financing and risk sharing for the European economy, hence its development is essential over the next few years to unlock more capital to finance the twin transition.

While the growing consensus among policy makers about the urgent need to re-launch the EU securitisation market is a crucial pre-requisite for reforms to succeed, there remains some hesitations about the specific nature of the amendments needed to remove the existing obstacles to scale-up the securitisation market on the offer and demand sides. Moreover, some continue to voice concerns, notably referring to:

- a lasting stigma from the Global Financial Crisis, which severely hit several EU banks and institutional investors, mostly through their investments in US subprime securitisation investment products;
- a sense that ultra-accommodative monetary policy, rather than regulation, may have been the main driver for underperformance of the EU securitisation market, and that, with the monetary policy tightening initiated in 2022, the market may grow organically;

¹ See Paris Europlace report on 2024-2029 European priorities ([Here](#))

² See Appendix 5 for a description of recent changes in the prudential treatment for banks.

- potential financial stability risks that may derive from a sharp, poorly managed development of the market;
- a willingness to have the changes needed in the bank prudential framework, to be first agreed at the BCBS level, to avoid new deviations in the EU framework.

The present report aims at addressing:

- the specific set of adjustments needed to unlock the EU market, from an offer and demand standpoint, and address the specific market gaps across the diverse segments of the securitisation market.
- the concerns, we strongly believe no longer valid, but often expressed by a few EU policy makers still reluctant to move, with the aim of contributing to an accelerated implementation of the stated policy goals; and
- the key success factors to ensure that this important and multifaceted relaunched project can be implemented in a consistent, robust, and efficient way to deliver, this time, the expected results.

On May 22nd, Commissioner McGuinness announced that the European Commission will consult on securitisation this autumn “to ensure that we can act as soon as possible to scale up the EU securitisation market.” In this context, we urge the Commission to consult on those concrete, targeted and prudent adjustments, so that securitisation can play its role in the massive investments needed to achieve European ambitions over the next few years.

What needs to be done?

The present report, written by a working group including some of the best European experts in securitisation, across the whole ecosystem (banks, insurance companies, investors, rating agencies, law firms, service providers, industry associations, etc.) leverages on the High-Level Forum (HLF) work, the recent reports from the authorities on the European securitisation markets, the data and market insights from industry associations (AFME, IACPM) and rating agencies, the work from its members, as well as academic and market research. Our report aims at equipping the new European Commission with the building blocks of a complete recalibration of the securitisation framework, addressing the main remaining concerns, providing concrete legislative, regulatory and supervisory proposals, and accelerating the implementation of the recent strong political mandates.

Calibration flaws and technical recommendations are well known, since the High-Level Forum on the CMU (2020) and the report of the Joint Committee of the ESAs (2022). Some recommendations have been implemented in the Capital Markets Recovery Package, such as the possibility for synthetic transactions to benefit from the STS label, which has played a key role to support the growth of synthetic transactions observed in the last years (although level 2 texts are creating areas of undue complexity and uncertainty, and level 1 text has -inadvertently- fragmented the investor base). On the other hand, the introduction of the output floor in CRR3 was threatening the viability of all types of securitisation transactions for banks as originators, as a (probably unintended) consequence which appeared as impact studies became more granular. Thankfully, a transitional recalibration of the “p-factor” has been introduced by the European Parliament in CRR3 to partially reduce the negative impact of the output floor.

But many aspects remain unaddressed, preventing the development of an efficient securitisation ecosystem, at odds with the considerable investments needed to address the twin transition and other demographic or geostrategic priorities.

In short, the securitisation market exists, and some transactions can be done, but in the current regulatory context, the EU securitisation market is not scalable, and therefore unable to fulfil its potential role in the financing of the EU strategic ambitions.

To truly revitalise the EU securitisation market, a package of targeted, prudent, proportionate and risk-sensitive measures should be implemented, as a “quick win.” This package needs to address the following policy goals:

- **Policy Goal 1: Reduce existing disincentives to securitise, for banks as issuers, by:**

- Recommendation 1: Reduce the excessive ‘capital non-neutrality’ generated by the ‘p-factor’.

Paris-Europlace proposes four options to address this issue, without generating undercapitalisation of the mezzanine tranches.

- Recommendation 2: Reduce the excessive risk weight floor applying to senior tranches.
Paris-Europlace proposes two options, one consisting in reducing the current fixed value of the risk weight (RW) floor, and the other one consisting in making the RW floor risk-sensitive, as a function of the risk of the underlying portfolio.

These adjustments should apply across all methods applying to securitisation, i.e., SEC-IRBA, SEC-SA, SEC-ERBA and IAA. They would help make the securitisation of a broader

range of bank portfolios economically viable, as the risk transfer would translate into a more commensurate recognition of the capital relief. This would benefit to high quality portfolios such as retail mortgages, as well as to a broader range of banks, including small and medium size banks across the EU, applying SEC-SA for their loan portfolios and securitisation activities.

- Recommendation 3: Reducing barriers to entry for banks to securitise would also require, on the supervisory side, to streamline the Significant Risk Transfer (SRT) assessment process, while making it more risk-sensitive, notably by:
 - Ensuring a more fluid SRT assessment process by the competent authorities, as, despite recent progress, time-to-market for these activities remains too long for enabling banks to have visibility on execution and for investors to have enough visibility on pricing.
 - Adopting a more pragmatic and less costly approach to the “market test”, by requiring banks to sell no more than 15% of each of the tranches, in line with EBA’s recommendation #12 on the Principles Based Approach test.
 - Clarifying that SRT tests should be performed at inception only.

Paris-Europlace would welcome further dialogue with the ECB and the EBA as regards the improvement of the efficiency of the SRT assessment process.

- **Policy Goal 2: Revitalise the participation of the insurance sector as investors or protection providers in securitisation transactions**

- Recommendation 4: for insurers as funded investors, on the assets side, eliminate the unjustified gap in capital charges existing in Solvency II between the calibrations used for bonds and loans and calibrations designed for senior STS products, as well as the unjustified gap existing between covered bonds and senior STS products. In addition, differentiate the prudential requirements of non-STIS tranches (still the bulk of the market in Europe) by introducing a distinction based on seniority.

These adjustments should be included in the quick win package, given the investor base in cash securitisation is currently insufficient to support further market growth, especially following the end of the ECB ABS purchase programme.

- Recommendation 5: for insurers providing credit insurance through unfunded protection, on the liability side, make well-capitalised (re)insurance companies eligible as protection providers in synthetic STS transactions.

- **Policy Goal 3: Remove the disincentive for banks to invest in third-party securitisation, notably by improving the LCR treatment of senior tranches, while improving market liquidity for all players.**

- Recommendation 6: reduce the existing gaps with Covered Bonds in the LCR classification of securitised products, and corresponding haircuts, to unlock bank investments in third-party securitisation senior tranches, thus favouring prudent private sector risk sharing and financial stability.

To note, LCR eligibility is an important investment criterion for the banks but also for non-bank investors, who take this liquidity aspect into account in their investment decision.

Rating-based triggers also exclude senior tranches of securitisations subject to sovereign rating ceiling. Work on eligibility criteria and alternative proposals is still in progress, and proposals will be made shortly.

Finally, securitisation is discriminated against other products with the 5-year maturity cap for LCR eligibility. This maturity cap clearly restricts issuance volumes for RMBS.

- Policy Goal 4: Open the market to a broader range of issuers and investors, including UCITS funds, to increase volumes by reducing existing entry barriers and unnecessary regulatory burden for issuers and investors, introducing proportionality in due diligence and reporting requirements, including as regards senior high-grade transactions, private transactions, and involvement of EU players in third-country transactions.**

 - Recommendation 7: review the current disclosure and due diligence requirements to more accurately meet the supervisors' and investors' needs, while limiting the burden of completing the disclosure to what is actually necessary. Simplifying the reporting process would also benefit less frequent European bank issuers, and to that end, one could explore the consolidation of the multiple reporting formats and obligations currently affecting issuers and investors into an integrated reporting framework, which would allow for proportionality as a function of the type of transaction, based on different criteria. Indeed, it is essential to differentiate the due diligence obligations and disclosure templates according to different categories of issuers, investors, asset classes, types of transaction and types of placement, with a view to adapting the nature and extent of information disclosure and due diligence requirements to these different situations.
 - Recommendation 8: acknowledge the importance of the position of EU institutional investors in the global securitisation market and avoid penalizing EU investors to invest in international securitisation markets by replacing the current requirement to apply ESMA templates to non-EU transactions, by a principle of equivalence or a mutual recognition scheme.

Policy Goal 1 Supply	Policy Goal 2 Demand from insurers	Policy Goal 3 Demand from banks' treasuries	Policy Goal 4 Market efficiency
<ul style="list-style-type: none"> •Reco 1: Address capital non-neutrality •Reco 2: Increase risk-sensitivity in risk weight floor •Reco 3: Address supervisory dynamics 	<ul style="list-style-type: none"> •Reco 4: Calibrate coherently insurers' capital charges •Reco 5: Authorise European insurers to participate in 'unfunded synthetic STS' 	<ul style="list-style-type: none"> •Reco 6: Address bank liquidity regulation, needed for supply and demand sides 	<ul style="list-style-type: none"> •Reco 7: Address administrative impediments •Reco 8: Make Europe a centre of international finance, not just a centre of regional finance

How to address the remaining concerns?

Regarding the scepticism or the pushback that may still be expressed by some European voices, the report provides some background explaining why Paris Europlace believes those concerns are misplaced or exaggerated:

- **The remaining stigma from the Global Financial Crisis is largely undue as regards EU securitisation**
 - The track-record of EU securitisation, even during the GFC, has been much better than the US one, as reflected in much lower loss rates³.
 - A complete overhaul of the securitisation regulation has been implemented in the EU, for both STS and Non-STs transactions, addressing the flaws that led to the crisis (interdiction of re-securitisation, retention requirement, extensive due diligence and transparency requirements, regulation and oversight on rating agencies, etc.);
- **The change in the ECB monetary policy stance since 2022 will not suffice to revive the market.**
 - The abundant liquidity provided by European central banks over the 2010s may have reduced the need for cash securitisation, but these liquidity conditions were also observed in other jurisdictions that have not experienced such a decline in securitisation issuance. In any case, the viability of the securitisation market should not depend on monetary conditions.
 - Abundant liquidity is a source of funding, but not a source of capital: therefore, we also need a very efficient and resilient market for risk transfer securitisations.
 - Covered bonds did not eliminate the need for securitisation either, as both tools are complementary: covered bonds are a funding tool highly connected to the rating of the issuing bank, but not a risk sharing tool, and therefore have no benefit in terms of capital efficiency.
 - In reality, the European Union has implemented a much more restrictive regulatory framework than other jurisdictions have, especially the United States. While it has wisely prohibited potentially harmful securitisation practices (such as re-securitisation, securitisation without retention, etc.), it has maintained excessive prudential penalties and regulatory burdens, many of them calibrated on practices that are no longer relevant.
- **A development of the EU securitisation market, from the current low base, would be far from generating excessive financial stability risks. Instead, it would rather contribute to financial stability by enabling a higher diversity of sources of capital and financing to be channelled to financial institutions, thus contributing to more harmonized funding conditions for European businesses and households.⁴**
 - Looking at current issuance volumes in the EU, it is clear that securitisation issued by EU banks out of their own balance-sheet does not have the scale that may generate a

³ Source: Moody's.

⁴ Appendix 6 provides more details about financial stability aspects of securitisation.

systemic risk, and would have considerable room for growth before reaching a potentially worrying level.

- The EU gradually built up a strict supervisory framework for Significant Risk Transfer transactions, without any systemic damage. By end 2023, based on IACPM survey results, roughly EUR300bn of loans were securitised by EU banks in a synthetic format, with EUR24bn of first loss protection, out of a total of EUR5tr of loans carried by European banks on their balance-sheets. This volume can significantly increase, and benefit real economy growth in all members states.
- According to research by BNP Paribas Exane⁵, based on EU banks' Pillar 3 data, securitisation today reduces RWA of banks by 0 to 5%. This low level of risk transfer could be largely expanded before representing an excessive reliance on securitisation. In a scenario where this range were to increase to a 3% to 10% range, banks would save up to EUR50bn in capital requirement, representing up to 15% of their market capitalization, which would strengthen their resilience. Assuming that the saved capital would be reinvested in new lending, the amount of financing that could be unlocked could reach EUR2.9tr over time, or about 15% of EU GDP.
- Securitisation is a bridge between bank origination and market financing or risk taking. By developing securitisation, loan origination as performed by banks, under strictly regulated and supervised origination and monitoring frameworks, protects borrowers and investors/risk takers, and reduces the risk of weakening credit standards. In the context of a European economy largely financed by banks, developing securitisation is a way to avoid that the financing of the EU strategic ambitions be constrained by the capacity of banks to carry those additional exposures on their balance-sheets.
- Enabling (re)insurers to grow their role as sellers of credit protection further diversify the risk profile of the ultimate holders of risk, and therefore improves financial stability.
- Securitisation (unlike covered bonds) is a way for issuing banks to cap their losses in extreme circumstances, which improves their resilience. It is also a safe way to develop private risk sharing, and enhance the resilience of the Euro area and the EU financial system as a whole.
- **The EU should not wait for the BCBS to solve its problems.**
 - The 2013 BCBS framework on securitisation has not been implemented in some jurisdictions, including the US.
 - A revision of the securitisation standard is not on the agenda of the BCBS, according to the most recent work programs and speeches.
 - The EU led the way to develop a Simple, Transparent and Standard (STS) framework, which was closely followed in Basel by a (much less restrictive) Simple, Transparent and Comparable (STC) framework. The EU could take the lead once again to design a new, more risk sensitive framework, supporting a prudent and responsible development of the EU securitisation market.

⁵ BNP Paribas Exane European Research – Securitise to energise – 13 May 2024 – Restricted access – Bank data as of 31 December 2023 – BNP Paribas Exane estimates.

Some key success factors

In order to ensure that the securitisation agenda achieves the overall goals set by the political leaders, in an efficient and timely way, Paris Europlace sees several key success factors to consider.

First, **the Joint Committee on Securitisation should be empowered to drive the process in close liaison with DG-FISMA.** Securitisation is a technical, and multifaceted topic, as there are multiple legal and regulatory texts addressing various aspects or types of regulated entities. Therefore, the capacity to ensure consistency, in both substance and timeline, across the various regulatory bodies involved is key to ensure a proper implementation and achieve the targeted outcome. An evolution of the role and governance of the Joint Committees could be envisaged as part of the upcoming ESAs review.

Second, dialogue with practitioners is essential. This dialogue must be permanent, transparent, and constructive. It needs to include the whole ecosystem, from investors to issuers, but also rating agencies, label providers, law firms, accountants etc... Such a variety of expert profiles do not exist in the existing ESAs Stakeholder Groups. **A dedicated Securitisation Experts Group should be created to institutionalize the existing dialogue across various types of players, the Joint Committee and involved regulators.**

Third, **the targeted recommendations proposed in this report should be implemented as a package,** given challenges and solutions are different between transactions originated by banks, subject to CRR/CRD and other types of issuers, insurers offering funded or unfunded protection, subject to Solvency 2 and other types of investors, senior tranches of public transactions issued for funding purposes, of private Significant Risk Transfer (SRT) tranches of securitisations, and junior tranches, STS and Non-STs segments, noting also the different scopes of application of prudential regulations (EU banks, EU insurers), and of the securitisation regulation SECR (covering all transactions, STS and Non-STs, and all issuers and investors acting in the EU, including when involved in third country transactions).

Given the diversity of the securitisation market (by asset class, by type of issuers, investors, structuring features...), a cherry-picking approach, consisting in targeting a specific market segment, would be counterproductive as it would not offer the critical mass that issuers and investors need to invest in resources. Indeed, for teams to originate, structure, analyse and monitor securitisation transactions a too small niche within the already subscale securitisation market is not sufficient. Examples of past attempts were to focus on SME securitisation, NPL securitisation, and now green securitisation. If the securitisation framework is appropriately repaired, there will be SME securitisations, NPL securitisations, green securitisations, and in much larger amounts than if sub-niches are addressed in isolation. Indeed, such niches in the niche cannot prosper without a dynamic overall securitisation ecosystem that can attract new investors.

Paris Europlace also supports the proposal contained in the Noyer report, of a European securitisation platform, to provide a national and European guarantee to standardise and scale-up the securitisation market. We believe that the European Union should consider leveraging the European Investment Bank (EIB) or the European Investment Fund (EIF) with a view to developing a strong EU guarantee scheme as an existing efficient framework to be scaled up and as an alternative to the US government-sponsored enterprises Fannie Mae and Freddie Mac. However, such project is likely to be a long-term ambition, and it should not prevent from working as a priority on immediate regulatory and prudential obstacles. Therefore, this subject is not addressed in the present report.

1 Introduction

In its April report⁶ on the *2024-2029 European Priorities*, Paris Europlace identified the need **to give an ambitious boost to securitisation, to unlock significant funding for the green and digital transition**. Why an 'ambitious boost'? Because the securitisation market **remains largely sub-scale under Europe's now extremely tightly regulated framework**.

This diagnosis is not new. The exact same point was already made in 2020 in the report⁷ of the "High Level Forum (HLF) on the Capital Markets Union (CMU)", a group of 28 experts gathered by the European Commission to inform the "CMU 2.0" action plan. At the time, the HLF stated that *"securitisation offers opportunities for investors to invest in consumer and corporate credit exposures that otherwise would not be available to them. It also ensures that credit risk does not solely stay with banks and allows banks to free up capital, thereby increasing their capacity to extend new funding to SMEs and support the transition to a more sustainable economy."* The HLF recommended *"targeted, prudentially sound amendments"* to the securitisation rules. Some of those recommendations were implemented with partial success, such as the Synthetic STS framework, but the most important long-standing well-identified obstacles have not yet been tackled. The holistic review of the securitisation framework, initially planned for 2022, has been delayed and key aspects remain unaddressed, preventing a harmonious re-development of the EU securitisation ecosystem.

In the meanwhile, the financing needs of the EU are rising fast. And the current Capital Markets cannot cope. Its size is a paltry compared to the US. The alarm bell has been rung by Christine Lagarde, President of the ECB, when she said late last year: *"Despite two European Commission action plans, Europe's capital market remains fragmented. [...] A genuine CMU would mean building a sufficiently large securitisation market, allowing banks to transfer some risk to investors, release capital and unlock additional lending."*

In March 2024, the ECB Governing Council has spotted the source of the problem. It chose its words carefully to describe the worrying gap between intention and outcomes: *"It is clear that the EU needs to move beyond broad statements and a piecemeal approach on CMU [...]".* A priority would be to ensure *"that the EU securitisation market can play a role in transferring risks away from banks to enable them to provide more financing to the real economy, while creating opportunities for capital markets investors."*

Following extensive work by Eurogroup President Paschal Donohue, the Eurogroup in inclusive format agreed with this objective, mandating the European Commission to make an assessment that should cover *"the adequacy of our toolbox, including the prudential treatment of securitisation for banks and insurance companies and the reporting and due diligence requirements"* and to *"should consider coming forward with corresponding proposals"*.

Former Prime Minister Enrico Letta in his April report on the Single Market considers that by 2025, the new European Commission's roadmap should *"revise the securitisation framework to simplify the utilisation of this instrument, crucial for diversifying asset investment and releasing banks' balance sheet capacity."*

It is not a matter of financial wizardry. It is a matter of European growth and financial sovereignty. It is also a matter of European competitiveness.

⁶ <https://www.paris-europlace.com/en/news/paris-europlace-publishes-its-report-on-european-priorities-for-2024-2029-21300>

⁷ https://finance.ec.europa.eu/document/download/e3689370-b1ba-49fd-8829-646592d9464f_en?filename=200610-cmu-high-level-forum-final-report_en.pdf

The feeling of urgency is palpable.⁸ Something needs to be done. The use of the word “relaunch” rather than “launch” is telling. It shows that this is not about a grand political project; it is about fixing something that has been broken. But broken by what? Honorary Governor Christian Noyer and the group of experts of his Commission describe in details what broke the market, as the High Level Forum had done already in 2020. They diagnosed that *“Europe has implemented a much more restrictive framework than other jurisdictions, especially the United States. While it has wisely prohibited potentially harmful securitisation practices (such as re-securitisation, securitisation without retention, etc.), it has maintained excessive prudential penalties and regulatory burdens, calibrated on practices that are no longer relevant.”* And Commission Noyer has a cure: *“In this context, it is imperative to quickly correct the regulatory and prudential framework for securitisation.”* They go deep in the details of the medical protocol: *“The first priority should be to restore the investor base by correcting the prudential framework applicable to insurers and by extending eligibility to liquidity buffers for banks (LCR). The second priority is to simplify transparency rules to facilitate both the issuance and acquisition of securitisation assets [...]. Finally, the banking prudential framework must be adjusted [...], even if this implies deviating from Basel rules [...]. The only missing element is a rapid implementation schedule.”*

In short, the securitisation market exists, and some transactions can be done, but in the current regulatory context, the EU securitisation market is not scalable, and therefore unable to play its full role in the financing of EU strategic ambitions.

This consensus among central bankers and European finance ministries is extremely encouraging, and Paris Europlace fully supports those converging views aiming at reviving the European securitisation market to foster a more efficient financing of the European economy. An efficient, risk sensitive, transparent securitisation framework can contribute to strengthening the capacity of the financial sector to fund the EU strategic goals by sharing part of the risks carried by banks to investors, such as insurance companies, who precisely need diversified assets in terms of risk and return. Securitisation can enable market participants to better manage and share risks, which in turn could enable financial institutions to unlock additional lending and move towards more market-based financing of the economy, rather than depending mainly on bank lending.

Finally, Commissioner McGuinness announced, in a speech on May 22nd 2024, that the European Commission will consult on securitisation this autumn. She stated: *“So right now, the Commission is analysing how best to revive the EU securitisation market, to make it more attractive for issuers and investors alike. And I can confirm that we will launch a public consultation in the autumn to ensure that we can act as soon as possible to scale up the EU securitisation market.”*

And in parallel, the Joint Committee Securitisation Committee (JCSC) will publish a report in Q4 2024 on the implementation and the functioning of SECR under Article 44 of the SECR. *“Furthermore, the JC will also work on (i) further developing a common understanding of the rules, best practices and the supervisory tools to ensure a common supervisory approach at EU level; and (ii) market monitoring notably with regards to the developments in the volumes of private and public transactions, STS and Non-STs transactions.”* (13 September 2023).

But despite this commonly recognised sense of urgency, the path for implementation is still uncertain. On one hand, there are still voices that are reluctant to support securitisation reforms. On the other hand, the ‘usual’ policy making, legislative and regulatory processes in Europe may delay implementation too late to deliver its full benefits early enough in the EU 2024-2029 legislative cycle.

The present report, written by a working group including some of the best European experts in securitisation, across the whole ecosystem (banks, insurance companies, investors, rating agencies, law

⁸ See Appendix 1 of this report - Key extracts from recent speeches and statements on securitisation.

firms...) leverages on the HLF work, the work from its members, the recent reports⁹ from the authorities on the European securitisation markets, as well as expert research, and aims at equipping the new European Commission with the building blocks of a holistic review of the securitisation framework, addressing the main remaining concerns, providing concrete legislative, regulatory and supervisory recommendations, with the view of accelerating the implementation of the recent policy mandates.

While the holistic review of the framework will require some time, we believe that targeted measures towards a prudentially sound, risk-sensitive, and proportional framework can be taken in a short timeframe to obtain concrete results early in the new legislative cycle. This timing is crucial to accelerate the financing of the massive investments needed to achieve Europe's ambitious policy goals around the green, digital, and strategic autonomy agendas. As time is of the essence, we asked ourselves the question: what could be done in 20% of the time to make 80% of the impact.

Some issues can be fixed by the European Supervisory Agencies (ESAs) via the Q&A process. Some issues can be fixed with minor, targeted amendments of the regulation that can be implemented within a one-year timescale, in a 'quick-win' approach, like the one adopted in 2021 for the Capital Market Recovery Package, in line with the urgency of addressing the competitiveness gap, and the important contribution that securitisation can play in accelerating the financing of necessary investments. Some issues require greater Level 1 text changes, or discussion with international standard setters, and will have to take more time. Implementing a tiered approach (Q&A, 'Quick win', 'usual' processes), rather than waiting for an all-encompassing legislative package is essential for the European Union to boost rapidly the CMU.

As the Commission designs its consultation, it is essential that practitioners put on the table all options, and generate innovative ideas that would be concrete, risk-sensitive, prudent, and targeted. With this in mind, Paris-Europlace provides in this report a wide range of adjustments. While some are well-known no-brainers, others are more innovative, especially on the bank prudential framework, to offer solutions that reconcile the industry need for reducing excessive capital non-neutrality and the regulators' concern on formula stability and risk-sensitivity. Some of those options may need further work and calibration, but deserve to be considered as a matter a principle.

Our report is structured in four key sections, addressing four policy goals with concrete, implementable recommendations.

Section 2 addresses ways to increase the supply side (Policy Goal 1) by reducing the main disincentives to securitise that applies to banks as issuers, namely the need to reduce the excessive capital non-neutrality on non-senior tranches, and the need to reduce the excessive risk weight floor applying to senior tranches, as well as streamlining the SRT assessment process and at the same time making it more risk-sensitive.

Section 3 addresses way to increase the demand side (Policy Goal 2) by revitalising the insurance and reinsurance sector. This means, for (re)insurers investing on the asset side of their balance sheet, recalibrating in way that is coherent and grounded in data the Solvency II capital charges. For (re)insurers acting as protection providers in the unfunded market, to correct their omission in the list of guarantors in the STS market, as the current wording written in a hurry during the Covid Quick Fix has resulted in further fragmentation of the investor landscape in Europe.

Section 4 addresses ways to increase the demand side as regards banks' treasuries as potential investors (Policy Goal 3) in the European securitisation market. The main impediment is the

⁹ The December 2022 reports from the Joint Committee of the ESAs, the EU Commission EGBPI non-paper in 2023 (EGBPI 16 February 2023 – Commission Expert Group Banking Payment and Insurance (Bank regulation and supervision)), the October 2023 ESRB report on the European SRT market, the May 2024 ESMA report on securitisation, and various consultations papers (FSB, ESMA, etc).

unjustifiable liquidity classification and haircuts that is applied to senior tranches of European securitisations in the Liquidity Coverage Ratio (LCR) that applies to European banks, but also penalizes all investors given it reduces overall market liquidity.

Section 5 addresses ways to facilitate access to market participants (Policy Goal 4), via a review of disclosure and due diligence requirements adapted to supervisors' and investors' needs, and by ensuring that Europe can be a base for investors acting in the global securitisation markets, and doesn't limit itself to being a regional market.

The conclusion addresses the concerns that are sometimes expressed as regards financial stability, as well as some governance proposals to ensure that the Securitisation action plan delivers its expected outcome.

To give context to the above points, it is important to understand recent developments in the European securitisation market. We have put in Appendix A1 the key extracts from recent speeches and statements on securitisation. We explain in Appendix A2 how securitisation is an essential and diverse tool to finance the real economy. We present in Appendix A3 the securitisation market trends and in Appendix A4 the credit performance of securitisation. In Appendix A5, we summarise recent prudential developments for banks. In Appendix A6 we look at the impact of potential market development on financial stability risks. In Appendix A7, we present ideas to improve the STS framework, and in Appendix A8 how private securitisation operations could be handled.