All hands on the green deck: the pressing necessity of a multi-faceted review to revitalise the European securitisation market

Executive Summary :

As Europe currently faces imperative, significant and massive financing needs up to an additional yearly investment of EUR 620 billion for the green transition up to 2030, the revitalization of the securitisation market appears as a pressing necessity. The benefits of securitisation, both as a funding instrument and a risk and capital management tool for banks, as well as the peculiar potential of the sustainable securitisation sub-segment, should be reaped to enlarge investment opportunities offered to capital market participants and unlock banks' balance sheet financing capacity, a prerequisite to achieve the green and digital transitions part of Europe's key objectives.

In this context, following up on a number of high-level political calls advocating for the revival of the Capital Markets Union strategy, the European Commission has recently initiated a public consultation on securitisation, with the view to tabling a legislative proposal aimed at scaling up the European market. The ACPR and the Banque de France welcome and fully support this initiative, which shall leverage on the political momentum and the increasingly broad consensus to unlock the full potential of the Savings and Investment Union and mark an important milestone as part of a shift to a genuine Savings and Investments Union. More specifically, in line with the common position adopted by the ECB Governing Council on 7 March and with the Letta report, ACPR and Banque de France support the development of EuGB-labelled green securitisation.

In light of the above, a targeted but ambitious plan should be developed to fix the well-known issues in the current regulatory framework, notably by adding more proportionality and risk-sensitivity, while maintaining the important safeguards that were introduced after the 2007-08 financial crisis. In addition, the green securitisation sub-segment, as of now very much underdeveloped, should be given particular consideration through the development of ambitious and impactful initiatives.

Through both improvements to the general regulatory framework and innovative initiatives to foster green securitisations, this paper aims to explore possible avenues for action, all of which should converge in enhancing banks' capacity to finance the green transition. In particular, the ACPR and the Banque de France have identified seven regulatory and structural policy levers that could be activated:

To foster supply:

1. **Provided that the considered transaction meets a number of resilience criteria, make prudential risk weight floors for banks more sensitive to the underlying risk drivers of the securitised transaction, and streamline the STS criteria and the SRT recognition process;**
2. **Rationalize disclosure requirements to improve data quality and introduce a number of climate-related metrics;**

To foster demand:

3. **Introduce more proportionality into due diligence requirements depending in particular on the type of investors and the risk characteristics of the transactions;**
4. **For insurance companies, increase the granularity of the securitisation typology under Solvency II and the associated capital charges;**
5. **For banks, move STS senior tranches from level 2B to level 2A and allow non-STS senior tranches as level 2B for the purpose of liquidity coverage requirements;**

To foster green securitisation:

6. **Promote EuGB-labelled green securitisation**
7. **Set up a common securitisation issuance platform, focusing on the green segment.**

Introduction

The relaunch of European securitisation markets has now become a pressing priority in light of the massive investments needed to meet the objectives of the Green Deal and Repower EU strategies and enable the completion of the twin European transformations[1], green and digital, estimated respectively up to an additional yearly investment of EUR 620 billion for the former and EUR 125 billion for the latter[2].

Benefits of soundly structured securitisation markets are indeed tangible, diverse and well-known. As a bridge between credit institutions and capital markets, securitisation allows the former to free up lending capacity, diversify their funding mix and reduce their financing costs through enhanced capital management and balance sheet liquidity, while allowing the latter to enlarge investment opportunities with a broad variety of risk-returns profiles. Such benefits have justified numerous efforts initiated by European policymakers to relaunch the market and rebuild trust and confidence.

Despite having been a pillar of the Capital Markets Union (CMU) strategy initiated by the European Commission[3] in 2015 and updated in 2020[4], securitisation has so far played a limited role in EU financing and has not reached its potential to provide additional funding for the economy, in spite of a number of regulatory efforts and initiatives. Indeed, ever since the entry into force of the new regulatory framework in 2019, a number of recommendations were made in different fora. While some of these recommendations have already been implemented, whose benefits and improvements can already be seen (e.g. Capital Markets Recovery Package[5]), **further action should now be taken to harvest its full potential to the benefit of the European economy and financial stability**.

The magnitude of the additional financing needed has led to **an intense political momentum and a number of high-level senior executives and policymakers calling for a revamp of the CMU strategy**[6]. Under various labels, such a '*Kantian shift*'[7] for the CMU or a shift from the CMU to a genuine Financing Union for transition[8], these calls all agree on a common substance and on an urging need to make full use of Europe's capital markets and massively mobilize private investments, including through a greater recourse to securitisation.

[1] From a Capital Markets Union to a genuine Financing Union for Transition | Banque de France (banque-france.fr)
[2] SFR-23-beautified-version_en_0.pdf (europa.eu)
[3] EUR-Lex - 52015DC0468 - EN - EUR-Lex (europa.eu)
[4] EUR-Lex - 52020DC0590 - EN - EUR-Lex (europa.eu)
[5] Regulation - 2021/558 - EN - EUR-Lex (europa.eu)
[6] One could here mention the march 2024 Statement of the Eurogroup in inclusive format on the future of Capital Markets Union - Consilium (europa.eu); the march 2024 Statement by the ECB Governing Council on advancing the Capital Markets Union (europa.eu); the april 2024 report chaired by Honorary Governor C. Noyer on developing european capital markets to finance the future, or the april 2024 report Much more than a market from Enrico Letta, to quote a few
[7] A Kantian shift for the capital markets union (europa.eu)
[8] F. Villeroy de Galhau (2024), op.cit.

Against this backdrop, the European Commission has initiated on October 9th a public consultation[9] which should help identifying constraining factors preventing credit institutions from providing additional lending to the economy and, as a result, the most efficient levers for action that could help revive and scale up European securitisation markets[10]**.**

In this context, this working paper aims to isolate a number of policy levers and ways forward, which ACPR & Banque de France support. While these policy levers are diverse in both their nature and timeframe, with some related to more technical regulatory reforms to be implemented in the short term and others more structural to be thought of in the medium term and for which technical details have yet to be worked out, **these should all be considered holistically, as means to unlock substantial additional financing for Europe's twin transitions**.

The structure of this paper is therefore reflective of this bipartite and complementary logic. Building on recent technical implementation work[11] which emphasizes that the current subdued status of the securitisation market stems from the interplay of a series of factors, including the interlock between low supply and low demand, this policy piece aims at tackling both sides of the equation and identifying concrete policy measures which should restore incentives both to securitise (**I**) and invest in securitisation transactions (**II**). Beyond these more "short term" regulatory policy options, and stemming from ACPR and Banque de France's strong support for the development of EuGB-labelled green securitisation insofar as it could facilitate the financing of infrastructure and boost the European securitisation market[12], this paper also aims to go a step further and reflect on policy levers aiming at promoting and enhancing standardization within the market to ensure, altogether with the above-proposed incentives, the effective financing of the transition through green securitisation (**III**).

I) Pulling up the anchor: fostering supply by restoring incentives to securitise

Scaling up the European securitisation market implies first and foremost to review and, where needed, to correct incentives for credit institutions to engage in securitisation transactions (i.e. for banks to engage in the process of securitising exposures to secure funding and/or transfer risks). In this respect, and in light of the current market practices and trends, acknowledging the importance of the banking capital framework and improving its risk sensitivity seems warranted to support the market (**A**). Non-quantitative levers, foremost amongst which are disclosure requirements, also play a key role and shall be improved as well (**B**).

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[9] Targeted consultation on the functioning of the EU securitisation framework 2024 - European Commission (europa.eu)

[10] As securitisation transaction are protean and can be used in a variety of ways by credit institutions to refinance themselves (i.e. traditional funded securitisation of bank assets) and/or manage risks and balance sheets (i.e. a risk transfer market mainly resorting to synthetic instruments), and albeit fully achieving the CMU will require that both market segments prove fully functional, the answer to this question may help policymakers targeting the most relevant market segment to support.

[11] JC 2022 66 - JC Advice on the review of the securitisation prudential framework - Banking.pdf (europa.eu)

[12] Financing the climate transition: building bridges between needs and resources | Banque de France (banque-france.fr)

A. The quantitative lever : improving the risk sensitivity of the banking capital framework

In line with the ESAs' analysis and recommendations, **ACPR and Banque de France see merit in an ambitious although targeted review of the banking prudential framework aiming at further improve its risk sensitivity** vis-à-vis underlying risk drivers of any transaction.

For resilient transactions, and in light of current market practices, it is ACPR and Banque de France's views that risk-weight floors may – in some cases – be reduced by making them sensitive to one (or several) of the underlying risk drivers of the transaction, hence correcting currently distorted disincentives for banks to securitise, and significantly contribute to relaunching the European securitisation market.

On the contrary, a global reduction of the non-neutrality p-factor may come with important drawbacks and side effects (for instance, cliff effects) due to the variety of roles played by the p-factor in the formulas.

In response to a call for advice on the review of the securitisation prudential framework initiated by the European Commission in October 2021[13], the three European Supervisory Authorities – hereafter, the ESAs – published in December 2022 a joint advice[14] aiming, in line with the Commission's request, both to assess whether the current securitisation framework was functioning in an optimal manner and to single out potential areas for improvement.

The ESAs' advice explicitly emphasized that the subdued state of the market did not result solely from the increase in capital requirements embedded in the revised framework but also derived from a series of factors, including the interplay between low supply and low demand. It nevertheless **rightly acknowledged that the capital framework still played an important role, especially relevant in the significant risk transfer (SRT[15]) market, where investors demand appears to be less of an issue.** Within the SRT segment, banks would usually retain the senior tranche typically accounting for 80-90% of the underlying portfolio (and possibly also the first loss tranche in a three-tranches transaction).

Against this background, the ESAs' advice voiced a number of recommendations, emphasizing that some aspects of the framework would warrant further discussion at BCBS level[16], highlighting in particular the conflicting goals embedded in the current formulaic approaches[17] and raising questions

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[13] CfA_Review Framework _JC ESAs_Final.pdf (europa.eu)

[14] JC 2022 66 - JC Advice on the review of the securitisation prudential framework - Banking.pdf (europa.eu)

[15] SRT is the concept used in the EU regulatory framework to refer to capital relief trades which allows banks to reduce their capital requirements if significant credit risk is transferred. An exhaustive description of the market may be found here.

[16] Which remains a priority for ACPR and Banque de France with regards to both general formulaic approaches and need for updated calibrations.

[17] In a nutshell, the advice has highlighted that the so-called p-factor plays a duality of roles within the regulatory formulas:

- First, p measures the degree of capital non-neutrality after securitisation (defined as capital on all tranches after securitisation divided by the capital on the pool before securitisation);
- Second, p governs the steepness of the RW curve and hence the steepness of the cliff effect, thereby determining the capital allocation across different tranches, in particular across mezzanine and senior tranches, since the steeper (flatter) the RW, the faster (slower) the horizontal line of very low RWs is reached and the less (more) capital is assigned to tranches above Ka or Kirb (which stand for the capital charge of the underlying pool under standard or IRB approaches).

regarding both the shape of the capital allocation through the securitisation tranches and the adequate level of capital non-neutrality embedded in the framework. Most importantly, the ESAs' advice rightly noted that a reduction of the level of non-neutrality may induce risks of cliff effects given the dual role of the p-factor as both a smoothing parameter and a driver of the capital non-neutrality. In addition, and considering the current retention structures, the ESAs further emphasized that a reduction of the p-factor would be anyway constrained by the risk weight floor embedded in the regulation, hence strongly limiting the possible impact of any such proposal.

In light of the above, and while risk sensitivity may theoretically be improved and capital non-neutrality be adjusted through both recalibration of the non-neutrality p-factor and of the risk-weight floors, a policy proposal targeting solely the former may thus prove unable to restore correct incentives through the whole capital structure as risk-weight floors would appear to remain a constraining and blocking factor in the case of SRT synthetic transactions. **As a result, ACPR and Banque de France believe that incentives for credit institutions to engage in securitisation transactions are currently distorted by risk weight floors not sensitive enough, thus possibly preventing a considerable amount of transactions from being economically sound.** Consequently, and while there may still be merit in recalibrating the p-factor (possibly through its modulation depending on a number of factors such as the type of the originator, the nature and quality of underlying exposures), and all things remaining equal, **it is ACPR and Banque de France's view that the real Gordian knot to be tackled as a matter of priority should be to improve the functioning of the risk weight floor and its risk sensitivity.**

Along the line put forward by the ESAs' policy recommendation, **ACPR and Banque de France would thus see merit in addressing the intensity and proportionality of capital requirements embedded in the securitisation prudential framework, through an adjustment of the levels of the risk weight floor** applicable to originators of resilient transactions meeting certain eligibility criteria[18].

Crucial in the ESAs' advice is the conditionality of the proposal to a well-defined set of eligibility criteria so as to ensure that the revised risk weight floor shall solely apply to tranches featuring a number of distinctive safeguards. **ACPR and Banque de France are fully supportive of such an approach and endorse the spirit and technical grounds underpinning the approach**, emphasizing the following:

- **The need to have a clear and orderly hierarchy of the debtors**, as stated in the principle of the amortization criteria is a strong safeguard limiting the room for model risk and **is therefore needed and uncontroversial**;
- **In the same vein, as rightly emphasized in the ESAs advice, a major risk to avoid would be a situation** where the most senior tranche would, by way of opportunistic structuring, absorb the mezzanine risks as well. Ensuring that the senior tranch is "senior enough", as stated in the principle of the thickness criteria related to non-senior tranches, and that its thickness is not optimized in an unintended and undesirable way is therefore fundamental **both as a risk driver for the retained senior tranches, but also as a risk driver for the structuring of the whole transaction**[19];

[18] Namely amortisation, counterparty credit risk, thickness of the sold non-senior tranches and good granularity. Further details on the criteria may be found in Section 3.3.1 of the ESAs' advice.

[19] The way to decline this criteria, as the other resilience criteria could be further discussed. While the ESAs' solution rightly acknowledges this and has the merit to be easily enforceable, there may be room to agree on a finer calibration, as the current 50% of the RW floor threshold – although definitely workable and which builds on the merit of being simple – could be further modulated depending on features of the transaction and/or characteristics of the underlying pool. Alternatively, another approach could be envisaged to answer the question of what should be 'senior enough' when it comes to the attachment point (A) of the retained tranche. In that regard, an alternative process could build on the principle enforced by the Bank of England's Prudential Resolution Authority in its SRT supervisory assessment. In the latter case, the PRA considers it prudent for firms to apply a

- **A sufficient mitigation of the counterparty credit risk supported by the originator to the investor/protection seller, ensuring an adequate guaranty of the senior retained tranche should be duly taken into account**;
- **Last, the granularity criteria is of paramount importance** as the granularity of the underlying pool lies among the main key risk drivers of the transaction as, as emphasized in the advice, a granular pool characterized by a high number of effective exposures facilitates a higher risk diversification, reducing generally the probability of correlated defaults and as a result, better insulating the senior tranche from the risk of materialized losses. In this respect, it shall thus be maintained as a resilience criteria[20].

As a result, while the rationale underpinning the ESAs' proposal shall prove rather uncontroversial, **question may be however be raised whether the proposed levels for the risk weight floors[21] could sufficiently impact the incentives currently at play for market participants** in a way that would push them to further develop their securitisation activities or – for market participants currently not engaged in any securitisation activities – to develop expertise and engage in securitisation transactions. In particular, the very rationale put forward by the ESAs to maintain the alignment with the treatment of similar financial instruments such as covered bonds could also be the very reason why such a proposal might not succeed in correcting incentives and revitalizing the market in line with high-level expectations. Indeed, **bearing in mind that risk weight floors levels determine what assets are securitised, as well as the order of magnitude at which they are, which is logically explained through the economic incentives at play[22], it should be acknowledged that the current prudential framework, and especially the risk weight floors which it embeds, is not neutral when it comes to setting the incentives for originators to engage in a securitisation transaction**. All the more so as the securitisation prudential framework currently appears to be distorting these very incentives, setting a

scalar [in their case, set to 1.5] to KSa (RWEA in respect of the underlying exposures as if they had not been securitised, multiplied by 8% and divided by the value of the underlying exposures) to determine the minimum value of the detachment point (D) for the purpose of justifying commensurate transfer of risk. ACPR and Banque de France therefore believe there may be merit in exploring whether such a mechanism could also be applied to gauge the thickness of the sold non-senior tranches, which could potentially improve the embedded mechanics within the criteria and help ensuring clarity within the regulatory framework.

[20] Acknowledging that the current framework only binds granularity – as an explicit input – to the level of capital charges in the SEC-IRBA approach through the formula calibrating the p-factor, the ESAs' advice suggest that the N parameter (i.e. the number of exposures in the underlying pool) could be also used by institutions resorting to the SEC-SA approach to compute capital requirements, rightly arguing that this parameter should already be known to them as it is an input in the context of COREP reporting. However, ACPR and Banque de France reckon that setting a static granularity threshold set at N=200 may not be desirable as it may lead to an additional cliff effect where the application of the reduced risk weight floor would be denied at N=199 and met at N=200, which would not be in line with the objective of improving the risk sensitivity of the framework. With this respect, a solution smoothening the impact of the granularity criteria could be developed and ACPR and Banque de France would thus see merit in exploring adequate and simple solutions to mitigate this concern, making the case that simple linear interpolation from N=200 to N=50 could reduce the room for regulatory arbitrage and improve the general risk sensitivity of the framework to the underlying risk drivers (here, granularity of the underlying pool).

[21] That is, to lower the risk weight floor to 12% for securitisation positions held in senior tranches of non-STS transactions under all approaches and to 7% for securitisation positions held in senior tranches of STS transactions risk weighted under the SEC-IRBA while keeping the risk weight floor unchanged at 10% for senior STS securitisation positions under the SEC-SA and the SEC-ERBA approaches.

[22] As a matter of fact indeed, the lower the capital charges required against the assets initially held, the lower the hypothetical prudential gain of securitising for the originator and thus, the lower the economic incentive and rationale for the institution to proceed. On the contrary, the more prudentially onerous the assets initially held, the greater the hypothetical gain of securitising and thus, the greater the incentive and rationale to pursue the operation

fixed risk weight modulated solely upon one criteria (i.e. STS qualification[23]) against a variety of underlying assets with widely differing levels of risk. Further, concerns may also be raised as to whether the suggested levels sufficiently acknowledge the credit enhancement resulting from thick enough junior and mezzanine tranches and their loss absorption capacity, which are expected to grant the senior tranche additional credit protection and should thus be reflected in the applicable risk weight.

In light of the above, ACPR and Banque de France believe that a review of the way risk weight floors are calibrated could be considered, by making these sensitive to one (or several) of the underlying risk drivers within a securitisation transaction[24]. In this respect, the risk weight floors could be made sensitive to the capital requirements computed for the underlying assets of the pool, which would make it sensitive to the credit risk (and de facto, credit quality) of the underlying assets and, as a matter of fact, to two of the risk drivers quoted above, namely probability of default and loss given default. **While detailed calibration and technical fine-tuning of such an approach shall of course be discussed to a greater extent**[25] **amongst supervisory and technical bodies and European policymakers, including the possibility to tailor the final level of the floor to the intensity of the resilience criteria, ACPR and Banque de France would see merit in exploring and implementing such an ambitious approach, which – when accompanied by appropriate safeguards to ensure preservation of financial stability – could correct incentives currently at play and thus significantly contribute to relaunching the european securitisation market.**

In addition to this flagship measure, ACPR and Banque de France would favor additional streamlining of targeted criteria conditioning the application of banking capital requirements through a rationalization, where feasible, of the STS criteria and of the SRT assessment process. While both items have proven to be workable standards[26] therefore making a complete overhaul unnecessary and irrelevant, ACPR and Banque de France are of the opinion that their practical implementation could be further improved through targeted technical fixes aiming at improving both clarity and consistency[27].

B. The qualitative lever: streamlining disclosure requirements to improve data quality while including climate change risk indicators

As a cornerstone of the improved transparency irrigating European securitisation markets, disclosure requirements embedded in the Securitisation Regulation[28] have contributed to increased information and data availability for both supervisors and investors[29]. The extensive and tightly defined requirements through standardized templates weighing on reporting entities[30] have however regularly been criticised by stakeholders as overly complex, costly and burdensome, which led the latter to state

[23] As adequately summarized by the European Commission, issuers may use the term STS (simple, transparent and standardised) when the securitisation, meets a clear set of criteria. This is to distinguish it from more complex and opaque ones and enables some institutional investors to apply a more risk-sensitive capital treatment.
[24] Without delving into the details, the asset pooling mechanism at play in the securitisation process makes the final loss distribution of the tranches sensitive to four main risk drivers, respectively granularity, default correlation, probability of default and loss given default, being also acknowledged that secondary risk drivers such as the maturity of the underlying assets also bear an impact.
[25] Including, but not limited to, the resilience criteria touched upon above, the calibration of the reference metric for the underlying capital charges or the calibration of the proportionality factor.
[26] ESMA STS Register data shows that the STS market has grown steadily since the launch of the label, while figures and papers published by the SSM confirm the continuous positive trend of the SRT segment.
[27] With regards to the latter, it is our understanding that good progress are being made through the joint EBF/SSM standardization initiative.
[28] Regulation - 2017/2402 - EN - securitisation regulation - EUR-Lex (europa.eu)
[29] Notably through the implementation of securitisation repositories
[30] As labelled under Article 7(2) of the Securitisation Regulation

that "the disclosure regime could be simplified without impairing the co-legislators' objective of protecting institutional investors and facilitating supervision", according to the report on the functioning of the Securitisation Regulation published by the European Commission in October 2022[31].

Acknowledging that there may be room for improvement, the European Commission thus invited ESMA to review the disclosure templates for underlying exposures in securitisation, further specifying that "ESMA should in particular seek to address possible technical difficulties in completing the information required in certain fields, remove possibly unnecessary fields and align them more closely with investors' needs"[32]. **Banque de France fully supports this assessment and acknowledges the need to ease, where feasible, the regulatory burden weighing on reporting entities.**

From a monetary policy perspective however, the Eurosystem pays specific attention to Asset-Backed Securities (hereafter, "ABS") markets, therefore contributing to their attractiveness and dynamics through two main channels:

- First, ABS markets represent a key source of collateral for monetary policy operations in the Eurosystem, and even more for French counterparties. Indeed, ABS account for 19% of the mobilized collateral by counterparties in the Eurozone, and 27% for French counterparties mid-2024, even if it only represents 3% of the marketable eligible assets.

- Second, ABS has been an important asset class for the Eurosystem purchase programs. The outstanding amount for the ABS portfolios under the ABSPP[33] was 9 billion euros mid-2024, which represents almost a third of the eligible ABS universe for purchases under the ABSPP.

To be able to assess the risks to which it is exposed when purchasing or receiving those ABS as collateral for monetary policy operations, the Eurosystem needs to be able to ensure the soundness of this asset class and understand its complexity. The transparency requirements embedded in article 7 of the Securitisation Regulation and the subsequent availability of loan-level data for those eligible ABS intended to allow such a risk assessment.

However, this disclosure framework proved to be burdensome for reporting agents and to weigh on the dynamics of ABS markets, with an important number of fields to be filled in, at the expense of the quality of data submissions.

To reconcile the stronger need for simplification with the absolute necessity of pursuing its Eurosystem monetary policy operations under satisfactory conditions, Banque de France therefore advocates for a complete and thorough review of the disclosure framework, preserving the data needed for the valuation of ABS and for risk analyses. In terms of concrete policy measures, simplified templates should thus be developed. A reduction by at least 50% of the fields in the disclosure templates would definitely ease the burden on the reporting agents, while still allowing for valuation and risk analyses.

However, in return for this heavy simplification effort, **Banque de France strongly calls for the introduction of a limited and tailored number of climate-related data metrics.** Those additional risk indicators related to climate change, **consistent with the metrics referred to in other EU legal acts**, are paramount to allow for an assessment of financial risks related to sustainability. This is all the more important as some underlying assets of ABS – real estate, auto loans – may significantly contribute to greenhouse gas emissions in Europe.

[31] European Commission report on the functioning of Securitisation Regulation (2022) – Section 5
[32] Ibid.
[33] Les programmes d'achats d'actifs | Banque de France (banque-france.fr)

In more details, we would for instance recommend to use the primary energy demand (kWh/m2 per year) alongside energy performance certificates (EPC), to evaluate transition risks related to buildings for **RMBS**. Additionally, the issuance date of the EPC could also be provided, to assess whether EPC have been calculated with one methodology or another. For **auto ABS**, information on tailpipe emissions (gCO2/km) for vehicles would for example allow for an assessment of transition risks associated and their environmental performance, and for a comparison across vehicle types. For **corporate ABS**, taxonomy metrics and scope 1, 2 and 3 emissions could usefully be added to the templates. For c**onsumer loans ABS** used for home renovation, the annual primary energy consumption of properties could also allow for an assessment of the associated project. Finally, for **green ABS, with the EU Green Bond Standards entering into force**, information about requirements for issuers of green ABS could usefully complement the templates.

Such new indicators could become gradually mandatory for new loans, and estimations could be allowed for vintage loans, provided that the underlying methodology is transparent. Guidelines could be provided fot the methodology of such estimations, taking into account the existing practices of market participants, public investment banks and supervisors. The phasing-in of those new reporting requirements could finally depend on ABS-type, to account for the challenges raised by the new data collection.

II) Hoisting the sail: fostering demand by restoring incentives to invest in securitisation transactions

Besides facilitating issuance by originating institutions and correcting the incentives impacting the supply side, scaling up the European securitisation market to a sufficient level will also require fostering demand and, where feasible, restoring proportionality in regulatory expectations weighing on investors. This could be done by streamlining the current disclosure requirements (**A**), facilitating investments from insurers and reinsurers (**B**), and reviewing the current liquidity treatment applicable to a fraction of securitisation products (**C**).

A. Corollary to the streamlining of disclosure requirements, a symmetrical need to cushion the due diligence requirements

Due diligence requirements are a cardinal element of the Securitisation Regulation, which brought together under one umbrella a range of sectoral legislations[34].

Now a distinguishing feature of investment in securitisation products, these requirements imply that institutional investors conduct thorough due diligence before holding a securitisation position, that is to ensure that investors properly assess the risks and the creditworthiness of a securitisation instrument. **While being a much-warranted mechanism, a vector for financial stability and alignment of interest through increased confidence in the market and between various parties to a securitisation, the singularity of the requirement being applied solely to the securitisation instrument raises questions of proportionality and level-playing field vis-à-vis other types of financial instruments for which no such requirement exists**, as emphasized by the European Commission in its 2022 report on the functioning of the Securitisation Regulation[35], **and vis-à-vis other jurisdictions besides the European soil** for which no such detailed requirements prevail.

[34] Including notably Directive 2011/61/EU (AIFMD), Directive 2009/138/EC (Solvency), and Directive 2009/111/EC (CRD 2)
[35] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0517

Responding to the consultation undertaken in the preparation of this report, stakeholders thus highlighted the prescriptiveness and rigidity of the requirements, the absence of proportionality vis-à-vis transparency rules to third-country securitisations, and generally viewed the requirements as inducing uncertainty as to the investors' ability to comply with due diligence duties, creating an additional administrative burden and consequently restricting investors responsiveness on the secondary market. As emphasized in the report, the consultation showed that the disclosure regime could certainly be simplified without impairing the co-legislators' objectives of protecting institutional investors and facilitating supervision.

In light of the above, **it is the ACPR and Banque de France's views that due diligence requirements could be streamlined and that more proportionality should be introduced for both market participants and supervisors.**

First and foremost, bearing in mind that transparency and disclosure requirements are inherently and closely linked, since transparency facilitates and conditions the exercise of due diligence, the streamlining of disclosure requirements suggested above should form the basis for the rationalization of due diligence requirements, being understood that the reporting of information not used by investors may imply unnecessary compliance costs and efforts for little to no benefit.

In addition, **a few key principles may be singled out that would help restore proportionality within the due diligence requirements. Indeed, ACPR and Banque de France are of the view that the requirements could – to the best extent possible, and keeping in mind the need to ensure minimum standardization – be tailored to factor in more adequately risk characteristics** (i.e. STS status, underlying asset class, placement status, cash or synthetic structuring, complexity of the waterfall and structural features of the transaction, seniority of the acquired tranches) and **disclosure efforts** (i.e. private or public transaction, ABCP/non-ABCP transaction) of the transactions, with the goal to ensure that due diligence efforts are commensurate with the actual underlying risks embedded in the transaction.

In addition, **expertise of the investor with the type of transaction considered** (i.e. previous investment in similar transactions) **could be more taken into account.** For instance, **ACPR and Banque de France deem it of utmost importance that proportionate requirements apply in the context of investments in a "repeating deal"** so as to acknowledge the exhaustive due diligence efforts previously undertaken by the investor in the context of an anterior investment. In such case, additional diligence efforts could focus on material changes since the initial investment so as not to hamper investors' responsiveness on the secondary market while still ensuring that risk features of the transaction remain understood.

B. To broaden the range of market players, participation from (re)insurers should be facilitated

(Re)insurers are key to the demand side of the European securitisation market, although their participation to the market has been limited until now. The lack of appetite from (re)insurers derives from different explanations, amongst which limitations of the regulatory framework which are analysed hereafter. (Re)insurers can participate to the securitisation market either through their assets, or their liabilities.

On the liability side, (re)insurers can intervene notably in synthetic securitisation operations. In a synthetic securitisation, the securitised exposures remain on the balance sheet of the originator, and the credit risk is transferred to a protection seller. (Re)insurers, among other actors, can act as protection sellers.

ACPR and Banque de France views are that **this type of insurance activity is quite complex and specific**. It requires a risk management system adequate to measure, assess and manage the risks arising from these securitisation operations.

In particular, the ACPR and Banque de France **question the adequacy of the Solvency II standard formula to correctly reflect risks arising from synthetic securitisation** in the solvency capital requirements. These activities would require the use of a proper internal model – or, at least, an adequate assessment of deviations between the risks arising from synthetic securitisation and the standard formula, associated with an additional capital requirement to cope with it.

On the asset side, (re)insurers can invest in securitised products, as it would be done for another asset classes. However, investments in securitisation products from (re)insurers remain low today, in spite of the changes introduced in 2019 in Solvency II Delegated Regulation[36], to take into account the features of the STS label. **ACPR and Banque de France identify two major limits within the capital requirements set under Solvency II's standard formula**[37]:

- **First, the granularity of the type of securitisation to which a capital charge is applied.** A more granular approach would allow a more risk-based capital requirement. This would be in particular needed for non-STS securitisations, whom capital charges only depend on rating and maturity, but not on seniority. In practice, this could imply the calibration of a shock fit for mezzanine tranches of STS securitisations (instead of shock only applied to senior and non-senior tranches currently), and the calibration of shocks fit for senior, mezzanine and junior tranches for non-STS securitisations (instead of a unique shock currently).
- **Second, the level of capital charges[38], in particular for non-STS securitisations and non-senior STS ones.** In many cases, considering the cross-effects of rating and maturity, the levels of capital charges for those securitisations are set at 100%. Overall, based on preliminary analysis, even taking into account the effect of risks diversification, capital charges for investing in securitisations are higher in the insurance prudential framework than in the banking one. For instance, a AAA-rated, 5-year maturity, senior tranche with a €100m nominal value would generate a capital charge of:
    - If the securitisation is STS-labelled: circa €6m under Solvency II, but €0.8m under CRR (method SEC-ERBA);
    - If the securitisation is not STS-labelled: circa €67m under Solvency II, but €1.6m under CRR (method SEC-ERBA).

  Even after considering diversification, which could reduce by two the gap between Solvency II and CRR, these results show that there is a visible discrepancy between both prudential treatments[39].

The recent review of the Solvency II Directive reopened the prospect of a review of the prudential framework for investments in securitised assets, by adding a recital to the project[40] of the reviewed Directive, giving the European Commission a mandate to "assess the appropriateness of existing calibrations for investments in securitisations", and, if necessary, introduce risk-based and evidence-

[36] COMMISSION DELEGATED REGULATION (EU) 2018/ 1221 - of 1 June 2018
[37] The recent so-called Noyer report (Développer les marchés de capitaux européens pour financer l'avenir – Propositions pour une Union de l'Épargne et de l'Investissement – avril 2024) also identifies these limits
[38] In proportion of the market value of the securitisation held by the (re)insurer, before taking into account the risks diversification effect
39 It is worth noting that the magnitude of the gap is dependent on the assumptions and characteristics of the tranche
[40] Solvabilité II - Consilium (europa.eu) – Interinstitutional File: 2021/0295 (COD)

based amendments to the delegated act setting capital requirements applicable to investments in securitisation.

ACPR and Banque de France deem this recital welcome and necessary, and believe that the two limits aforementioned should be addressed in a complementary way: increasing granularity of securitisation typology under Solvency II, and reviewing the calibration of the capital charges of each elements of this typology.

C. To ensure attractiveness of the product, unduly punitive liquidity treatment of banks' investment in third party securitisations shall be avoided

In the current liquidity coverage ratio (LCR), securitisations are – at best – classified as level 2B assets[41], the lowest level of liquid assets in the liquidity buffer. They are therefore capped at 15% of the LCR liquidity resources of a banking entity. Besides, securitisations' valuations are subject to significant haircuts, depending on the exposure underlying the security (25% if residential loans and autoloans, 35% if commercial loans). Other restrictive conditions are applied for the inclusion of securitisations in the liquidity buffer such as the STS requirement, or a credit quality step 1.

In order to revitalize the European Capital Markets Union and increase the financial capacities of the European Union, at a time when **the need for financing the green and digital transitions is substantial**, **ACPR and Banque de France believe that the current liquidity securitisation framework could be reviewed.**

The current regulation may indeed appear punitive to banks for two main reasons. First, prior to the entry in force of the STS framework, non-STS securitisations were eligible as level 2B assets in the liquidity buffer of banks, which they are not anymore. The strengthening of prudential requirements on securitisations through the adoption of the STS framework has not been matched with a better recognition of the liquidity of securitisations, which seems hard to understand from a market point of view. Besides, the increased granularity of the credit quality steps in CRR has involuntarily tightened the credit quality requirement on securitisations in the LCR, requiring now a minimum AAA rating, and not an AA- rating. Once again, banking regulation appears to have adopted a punitive approach regarding the liquidity treatment of securitisations.

This is all the more unfortunate in the light of various recent studies and data from supervisory and market sources[42] suggesting an increase in liquidity of securitisation products within the past few years, emphasizing especially that the relative liquidity of securitisations and covered bonds now appears rather comparable, especially when it comes to RMBS products. Yet, the regulatory treatment of the two types of assets is very different in the LCR, as covered bonds can be included not only in level 2B but also in level 1 and level 2A assets[43], with lower caps and haircuts. The improved liquidity of securitisations has been especially highlighted in a recent period of stress as the recent 2022 LDI crisis in the UK has shown a good level of investor demand for securitisations in uncertain times. However, when comparing securitisations and covered bonds, it is important to acknowledge that securitisations – more complex by nature – present greater risks than covered bonds (for instance

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[41] COMMISSION DELEGATED REGULATION (EU) 2015/ 61 - of 10 October 2014 - to supplement Regulation (EU) No 575/ 2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (europa.eu) - Article 13

[42] See for instance : AFME, Comparing CB, ABS, and Corporate Bond Liquidity (2022)

[43] COMMISSION DELEGATED REGULATION (EU) 2015/ 61 - of 10 October 2014 - to supplement Regulation (EU) No 575/ 2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (europa.eu) – article 10 and 11

with the absence of dual recourse[44]), including agency and model risks (risks which impose higher prudential requirements for holding securitisations than those associated with holding the underlying assets directly, under the "non-neutrality" principle).

Finally, **the improvement of the securitisations' treatment in the LCR could send a positive signal to investors in relation to these assets and therefore, would certainly increase the liquidity of securitisations**. This is the one of the reasons mentioned by the European Commission in the recitals of the LCR delegated[45] act to justify the inclusion of securitisations backed by real economy assets, in the liquidity buffer of the banks. The improvement of securitisations' treatment in the LCR would be in line with the rationale put forward by the European Commission and would contribute to support the economic growth and the green transition of the European Union trough the development of the Capital Markets Union.

In light of the above, **ACPR and Banque de France support** – with regards to senior tranches – and in line with the recent Noyer report:

- **A reclassification from level 2B to level 2A of STS securitisations,** with requirements aligned with those for covered bonds included in level 2A, particularly in terms of haircuts. Alignment on credit quality may be discussed in view of the differences in nature between covered bonds and securitisation positions ;
- **Inclusion of non-STS securitisation positions in category 2B**, currently excluded from the liquidity buffer, under the same conditions as initially introduced in the LCR DR, before the corrigendum

The eligibility of green securitisations for the liquidity buffer, whose market depth is still low at this stage, could be reviewed on a regular basis, as the development of the Capital Markets Union should support the green transition.

III) Raising the green flag: promoting EuGB-labelled securitisation to ensure the effective financing of the transition

The EuGB label, based on high standards of transparency, will ensure that the revival of the securitisation market, thanks to the reforms mentioned above, enables the transition to be financed effectively (**A**). Moreover, its catalytic effect could be significantly enhanced by the creation of a common European issuance platform (**B**).

A. Promoting EuGB-labelled green securitisation

Just as importantly, it is ACPR and Banque de France's views that the revival of securitisation in Europe should serve as a crucial tool for financing the green transition by increasing the ability by banks to originate sustainable loans and expanding the pool of investors in sustainable projects, thus channeling additional funding to sustainable projects.

[44] EUR-Lex - 02019L2162-20240109 - EN - EUR-Lex (europa.eu) - Article 4 : covered bonds investors have two claims : i) a claim against the credit institution issuing the covered bond b) in the case of the insolvency or resolution of the credit institution issuing the covered bonds, a priority claim against the principal and any accrued and future interest on cover assets

[45] COMMISSION DELEGATED REGULATION (EU) 2015/ 61 - of 10 October 2014 - to supplement Regulation (EU) No 575/ 2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (europa.eu) – Recital 10

In the context of securitisation, two (alternative) elements are usually considered when evaluating the sustainability credentials of a transaction: whether the assets backing the transaction have a positive impact on ESG factors or whether the proceeds are used to finance assets that have a positive impact on ESG factors. **The term "green securitisation" can therefore generally consist in either (i) securitising underlying green assets, or (ii) using the proceeds of securitisation for green financing (*use-of-proceeds* principle)**. In the absence of market or regulatory consensus on the criteria to qualify a securitisation transaction as "green" at the time the EBA published its dedicated report aiming at developing a framework for sustainable securitisation[46], the EBA emphasized that **"***applying the use of proceeds requirements at the originator level […] appears to be the most efficient and pragmatic approach during a transition phase*". Consequently, it recommended (a) not to develop a dedicated framework for green securitisation at this stage, as this would put the emphasis on the "greenness" of the underlying assets which would yet remain scarce, and (b) to focus, at least initially, on the "greenness" of the new loans provided using funds unlocked by the securitisation of the (mainly non-green) underlying assets.

Building on this advice, the **Regulation on European green bonds[47] was adopted on November 22nd 2023 and introduced a common European label for European Green Bonds (EuGB) setting up specific conditions for criteria for securitisation products (likely to benefit from this label)** based on the *use-of-proceeds* principle, meaning that at least 85% of the proceeds from loan sales must be used to finance activities complying with the European Taxonomy[48].

Importantly, this Regulation sets up a number of safeguards aiming at ensuring that proceeds are correctly allocated and used for their intended purpose:

- First, by requiring that compliance with the criteria should be verified by an external reviewer registered with ESMA and subject to supervision modelled on that of credit rating agencies;
- Second, by laying down a range of publishing obligations (subject to the prior favorable opinion of the reviewer);

    (a) a fact sheet which will have to specify in particular the intended use, the selection process for green projects and an estimate of the foreseeable environmental impact (this information will also have to be included in the prospectus approved by the market authorities, if required);

    (b) an annual report on the allocation of the proceeds;

    (c) a post-issuance review document and an impact report on the environmental strategy and the environmental impact of proceeds.

- Third, by narrowing the scope of eligible underlyings loans, with the explicit exclusion of any loans related to the financing, exploration, mining, extraction, production, processing, storage, refining or distribution, including transport, and trading of fossil fuels.

Furthermore, by 21 December 2028, the ESAs shall publish a report to assess the effectiveness of the use-of-proceeds principle, i.e. to assess whether the volume of taxonomy-aligned assets has increased sufficiently. While this work could ultimately lead to the creation of a dedicated European framework for green securitisation, it is almost certain at this stage that this will not happen for several years. In the meantime, priority must be given to finding effective ways to the additional annual investment needs identified up to 2030 (i.e. EUR 620bn, as estimated by the European Commission), in particular in mobility and energy infrastructure. This requires that the "EuGB" labelling process be as simple as possible and flexible enough to be used effectively by financial actors.

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[46] EBA report on sustainable securitisation.pdf (europa.eu)
[47] Regulation - EU - 2023/2631 - EN - EUR-Lex (europa.eu)
[48] Sustainable finance package 2023 - European Commission (europa.eu)

ACPR and Banque de France support the development of non-burdensome EuGB-labelled green securitisation and welcome the above-mentioned policy and regulatory developments as standardization vectors benefitting European market participants, supervisors and regulators and bringing long-awaited clarity and confidence (notably through audit procedures likely to eliminate the risks of greenwashing and promote the necessary investor confidence in the allocation of funds) on what constitutes a green securitisation, in an international context encompassing a wide range of market standards and definitions. The introduction of the EuGB label is also expected to benefit the European green fixed income market as a whole and help maintain the European Union's strong market dynamics and leadership in terms of green bond issuances (with around 40% of the total volume issued in 2023[49]).

B. Set up a common European issuance securitisation platform, focusing on the green segment.

However, more is needed to unleash the full potential of green securitisation. To achieve this ambition of a massive deployment of green securitisation, the idea of a common European issuance platform could also be explored.

Securitisation platforms have long been established in the US, Canada and Japan, and such initiatives may illustrate potential benefits of standardization and related economies of scale in securitisation operations. Above-mentioned platforms are built on two core elements: (i) mortgage-backed securities issuance and (ii) a guarantee mechanism, with one key advantage of these entities being the high degree of standardization they provide, which explains much of the dynamism of this market, compared to the EU, notably in the United States:

- In the US, agency MBS (Ginnie Mae, Freddie Mac and Fannie) account for the bulk of US issuances (over 80% of issuance in 2022[50]); excluding agency MBS, US and European issuance are more similar in size;
- For green securitisations: since 1 January 2019, Fanny Mae's pools account for 54% of total US issuance[51].
- In Canada, annual public issuances represent 22% of the annual volume of residential mortgages[52].

In that respect, Europe is not yet up to the task, although several initiatives do exist for instance in France and Germany (see box below) and, initiated by the European Investment Bank, the ENSI[53] (European Initiative for Securitisation).

While it is possible to draw inspiration from foreign models, it is neither desirable nor possible to simply replicate them, as domestic specificities need to be accommodated. For instance, there would be no case for a complete reshuffle of the European real estate market and alignment vis-à-vis the US market model, accounting for the ad hoc structuring and proven track-record of the European real estate market.

[49] Bloomberg ICMA.
[50] Evaluation of the Effects of the G20 Financial Regulatory Reforms on Securitisation: Consultation report (fsb.org), referencing US Mortgage Backed Securities Statistics - SIFMA - US Mortgage Backed Securities Statistics - SIFMA
[51] Internal calculations
[52] Noyer report (p.58), referencing The NHA Mortgage-Backed Securities Guide 2024 (cmhc-schl.gc.ca)
[53] ENSI - EIF and National Promotional Institutions (NPIs) Securitisation Initiative

In Europe, national initiatives (such as in France and Germany) highlight a need for standardization and simplification of the securitisation process.

In France, a common issuance securitisation platform initiative was launched in 2014 under the name ESNI (Euro Secured Notes Issuer), in the form of a French-law securitisation vehicle, designed by five French banks (BNP Paribas, BPCE, Crédit Agricole, HSBC France, and Société Générale). The aim of this platform was both to promote the financing of the real economy and to meet the growing need for collateral in the interbank market, while also seeking to revive the securitisation market.

In Germany, a platform dedicated to securitisation was established in 2004 by German banks (True Sale International GmbH (TSI)) to provide a legal and technical infrastructure to help banks structure and standardize securitisation processes while enhancing the transparency of transactions. Although it is not strictly a platform for issuing securities, this initiative reflects a similar need for simplification and standardization of the securitisation process. Furthermore, a 2023 report by a group of German experts analyzing the needs of the German industry concludes that "securitisation platforms can make a significant contribution by standardizing structure, legal documentation, and data to reduce complexity and costs".

Launched in 2016, **the European initiative for securitisation (ENSI)** initiative is not an issuance platform for securitisation but a collaborative platform for cooperation and risk-sharing between seven National Promotional Institutions (NPIs[54]), the EIF, the EIB, and the European Bank for Reconstruction and Development. **Its aim is to enable the joint participation of NPIs, EIF, and private actors in securitisation operations to boost SME financing in Europe by revitalizing the SME loan securitisation market and catalyzing private sector resources**. The investment of NPIs/EIF may take the form of either the purchase of notes issued in a securitisation transaction (only for the mezzanine or senior tranches) or the guarantee (or counter-guarantee) of payments on such notes.

These attempts however show that there may be a need and a case for greater standardization and simplification of the securitisation process in Europe. A European platform could indeed foster standardization, generate economies of scale and broaden the investor base, especially for banks located in less developed financial centers. This platform could more broadly enable a standardization of structures, documentation, data requirements and processes (including uses of proceeds), which would have the overall beneficial effect of reducing securitisation transaction costs and improving process efficiency.

In this context, the project of a common European securitisation platform has been sketched out as a powerful initiative to pursue in the broader context of the relaunch of the CMU, as highlighted in Governor Villeroy de Galhau's speech[55] in Ghent in early 2024 and then by both the Noyer[56] and Draghi reports[57].

ACPR and Banque de France are supportive of such an initiative, which should focus on the green segment, as proposed by the ECB Governing Council[58], insofar as the priority must be given to the

[59] Bpifrance (FR), British Business Bank (BBB, UK), Cassa Depositi e Prestiti (CDP, IT), Kreditanstalt für Wiederaufbau (KfW, DE), Instituição Financeira de Desenvolvimento (IFD, PT), Instituto de Credito Oficial (ICO, ES) and Malta Development Bank Working Group (MT).

[55] F. Villeroy de Galhau (2024), op.cit.

[56] Rapport Noyer (2024), op. cit.

[57] https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

[58] ECB Governing Council on CMU (March 2024) suggests "exploring whether further standardization through pan-EU issuances could support targeted segments of securitisation, such as green securitisations to support the

effective financing of investment needs for the green transition. **While modalities and structural aspects are yet to be further discussed,** notably as regards the definition of standardized structuring mechanisms, both for the underlying eligible loans and for the subordination of the different categories of security holders, and the identification of the public body best suited to back the platform (the European Investment Bank could be a natural choice in this matter given its experience in the securitisation market (ENSI initiative)), **such an initiative could act as a powerful lever and catalyst for standardization and set a decisive milestone in building a genuine Financing Union for Transition.**

The implementation of such a platform however comes with long-term challenges that need to be addressed gradually.

First, the lack of standardization in loan contracts could hinder the potential for securitisation in Europe. Due to the 27 different contractual legislations within the EU, mortgages – the main underlying asset for securitisations – vary significantly from one country to another, making it difficult and costly for issuers to create sufficiently large asset pools involving assets from different countries. This particularly disadvantages smaller member states, and most securitisation transactions in Europe are carried out at the national level, with five economies dominating the market. The receivables selected within the common securitisation platform should therefore be standardized at a minimum.

Second, differences in practices between EU countries remain, particularly as regards modalities for transferring receivables to the Special Purpose Vehicle (hereafter "SPV"), even under the Securitisation Regulation. These differences stem from both the diversity of legal entities upon which SPVs may be structured in European jurisdictions[59], and the differences in certification procedures, notification to debtors, and general structural flexibility of securitisation vehicles. Particular attention shall therefore be paid to the legal structuring of the platform, so that it may be adapted to the legal specificities of the various Member States.

Third, differences between national insolvency laws hinder cross-border investments in securitisations. Insolvency regimes vary significantly within the EU, creating legal uncertainty and deterring investors from purchasing securitisations whose performance depends on national insolvency laws they are unfamiliar with. It may therefore be necessary to work on aligning insolvency laws within the EU (see Bulletin of the Banque de France on the subject, November 2023).

climate transition."; Statement by the ECB Governing Council on advancing the Capital Markets Union (europa.eu)

[59] e.g. SPVs are often registered as "Fonds Communs de Titrisation" and "Sociétés de Titrisation" in France, as limited liability companies (GmbH) in Germany, or as joint-stock companies in Italy.