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IMPACT ASSESSMENT REPORT

Review of the Securitisation Framework

Accompanying the document

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation *and*

Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions as regards requirements for securitisation exposures

{COM(2025) 825 final} - {COM(2025) 826 final} - {SEC(2025) 825 final} - {SWD(2025) 826 final}

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GLOSSARY

Asset-Backed Security (ABS)	A type of financial instrument that is backed ("collateralised") by an underlying pool of assets – usually ones that generate a cash flow from debt, such as auto loans, corporate loans, or credit card receivables. Asset backed securities are created through the process of securitisation.
Agency risk	Risk arising from the multiple relationships between different agents and parties involved in a securitisation structure, and related information asymmetries.
Asset-Backed Commercial Paper (ABCP) Securitisation	A securitisation within an asset-backed commercial paper (ABCP) programme: a programme of securitisations the securities issued by which predominantly take the form of asset-backed commercial paper with an original maturity of one year or less.
Cliff Effects	Situation where small changes in the parameters used in the calculation of banks' capital requirements for securitisations result in large changes in the capital requirements.
CLO	Collateralised loan obligation. A securitisation backed by a pool of debt, usually corporate loans, often leveraged loans made to companies with lower credit rating.
Covered Bond	A senior bond issued by a bank that is characterised by a dual recourse: i.e. an investor has a claim not only against by the bank issuing the covered bonds, but it also has a priority claim against specifically assigned cover assets collateralising the bond.
Default risk (also "Counterparty" default risk)	Risk of losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of an insurance or reinsurance company.
European Green Bond Standard (EUGB)	Voluntary standard introduced by the EU Green Bond Standard Regulation to define green economic activities according to the Taxonomy Regulation. In order to qualify the bond's issuer needs to

	commit to use the proceeds from the issuance to finance, refinance or acquire assets aligned with the EU taxonomy.
GFC	Global Financial Crisis – a severe worldwide economic downturn between mid-2007 and late 2008, triggered by the collapse of major financial institutions due to risky lending and collapse of the US housing market. The crisis spread internationally and led to a sharp decline in consumer wealth, widespread unemployment, and a collapse in economic activity. Many banks incurred large losses and required government interventions and bailouts to prevent bankruptcies and stabilise global financial systems.
HQLA	High-Quality Liquid Assets. Cash or assets that can be sold or exchanged easily and immediately into cash at little or no loss of value, to meet liquidity needs.
IG	Investment Grade. A rating that indicates that a bond has a relatively low risk of default. 'AAA' to 'AA' (high credit quality) and 'A' to 'BBB' (medium credit quality) are considered investment grade.
Junior/Equity tranche	A junior/equity tranche in a securitisation is the lowest-ranking class of securities, meaning it has the highest risk and is the last to receive payments from the underlying assets. This tranche absorbs any losses first if the cash flows from the securitised assets are insufficient. Because of the higher risk, junior/equity tranches offer the highest potential returns (yields), but they are also the most vulnerable to defaults or shortfalls in the asset performance.
LCR	Liquidity Coverage Ratio. A requirement setting out the amount of liquid assets that a bank must have to meet its short-term liquidity needs. The LCR standard is part of the Basel III framework. In the EU, it is implemented through the CRR and a dedicated LCR Delegated Act that was adopted in 2015.
Market volatility risk	Risk of losses due to short-term fluctuations in market prices of financial instruments and other assets.
Mezzanine tranche	A mezzanine tranche in a securitisation refers to a middle-ranking class of securities that sits between the senior tranche and the equity tranche. It carries a higher risk than the senior tranche because it is paid after the senior class, but before the equity/junior tranche. As a result, mezzanine tranches offer higher yields to compensate for the increased risk. If there are losses in the underlying assets, mezzanine tranches are more likely to be affected than senior tranches, but are protected from losses until the equity/junior tranche absorbs them.
Model risk	Model risk relates to uncertainty surrounding the way in which the credit risk of the underlying exposures (such as loans) is allocated across the securitisation capital structure (rather than uncertainty over the scale of that credit risk). It arises from models used, and assumptions made within those models, on the underlying pool and structural features of the securitisation, used to estimate distribution of losses across the securitisation capital structure.
Non-neutrality	Non-neutrality of bank capital requirements means that holding all the securitisation tranches in a securitisation is subject to a higher capital charge than a direct holding of all the underlying assets as if

	not securitised. Non-neutrality is the core defining element of the securitisation capital framework for banks.
Originator	An entity which itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised or purchases a third party's exposures on its own account and then securitises them.
(P) factor	Is the main parameter responsible for the non-neutrality of the bank capital requirements for securitisation, aiming to capture principally agency and model risks embedded in securitisation. It is one of the main parameters used in the formulas for the calculation of banks' capital requirements for securitisation. The (p) factor of 1 means 100% capital surcharge compared to the capital prior to securitisation.
RMBS	Residential mortgage-backed securities. Common type of traditional securitisation with residential mortgages used as underlying exposures.
RTS	Regulatory technical standards. Level 2 measures adopted by Commission based on drafts from ESAs. Used to modify/supplement non-essential (technical) elements of law. After adoption by the College, the Council and the EP have right of objection for 3 months, extendible by another 3 months (reduced to 1 month +1 month, if the adopted RTS is the same as the draft submitted by the ESA).
Securitisation repository	A legal person that centrally collects and maintains the records of securitisations.
Senior tranche	A senior tranche in a securitisation refers to the highest-ranking class of securities in the structure, which has priority in receiving payments from the underlying assets. It typically carries the lowest risk and therefore offers lower yields compared to subordinate (or junior) tranches, which are paid after the senior tranche, but take on more risk.
SME ABS	SME Asset-Backed Securities. Common type of traditional securitisation with exposures (loans) to small and medium enterprises used as underlying exposures.
Sponsor	A credit institution or an investment firm (other than an originator), that establishes and manages an ABCP programme (or other securitisation) that purchases exposures from third-party entities or establishes an ABCP programme (or other securitisation) that purchases exposures from third-party entities and delegates the day-to-day active portfolio management involved in that securitisation to an entity authorised to perform such activity.
Spread risk	Risk of financial losses arising from the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads.
SRT	Significant Risk Transfer. Process by which a bank transfers, through securitisation, a significant 'amount' of credit risk associated with the pool of underlying exposures from the bank's balance sheet to a third party. It is a crucial regulatory and supervisory concept in the banks' securitisations. It is a precondition for capital relief for the originator

	bank, and it is therefore a strategic objective of the banks seeking to enhance their capital efficiency and risk management.
SSPE or SPV	Securitisation Special Purpose Entity or Special Purpose Vehicle. A "bankruptcy-remote entity", usually a subsidiary company, with an asset/liability structure and legal status that makes its obligations secure, even if the parent company goes bankrupt.
STS Securitisations	Simple, Transparent and Standardised securitisations. EU standard identifying criteria for simplicity, standardisation and transparency to differentiate STS securitisation products from more opaque and complex ones. STS securitisations benefit from a better regulatory treatment than non-STS ones. EU STS framework is an equivalent of the STC framework (framework for simple, transparent and comparable securitisations) under the Basel framework
TPV	Third-Party Verifier is an entity authorised to provide verifications for originators or sponsors of the STS status of their transactions, in line with Article 27 SECR.
Tranche/Tranching	A contractually established segment of the credit risk associated with an exposure or a pool of exposures, where a position in the segment entails a risk of credit loss greater than or smaller than a position of the same amount in another segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments. The process of creating tranches when structuring a securitisation transaction is called tranching.
UCITS	Undertakings for the Collective Investment in Transferable Securities. Established a regulatory framework that creates a harmonised regime for the management and sale of mutual funds. UCITS funds are designed primarily for retail investors with harmonised regulatory and investor protection requirements. UCITS have become a globally recognised brand with many non-EU jurisdictions allowing funds to be sold in their domestic market.

TABLE OF ABBREVIATIONS

AFME	Association for Financial Markets in Europe
AIFMD	Alternative Investment Fund Managers Directive
BCBS	Basel Committee on Banking Supervision
CoRep	Common reporting framework
CRR	Capital Requirements Regulation
DA	Delegated Act
DR	Delegated Regulation
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
ESMA	European Securities and Markets Authority
EUGBS	European Green Bond Standard Regulation
GDP	Gross domestic product
GFC	Global Financial Crisis
IACPM	International Association of Credit Portfolio Managers
IG	Investment grade
NCA	National Competent Authority
NCB	National Central Bank
NPL	Non-performing Loan
RW	Risk Weights
SECR	Securitisation Regulation
SME	Small and Medium-sized Enterprise
SSM	Single Supervisory Mechanism
SII	Solvency II Directive
STS	Simple, Transparent and Standardised

1. INTRODUCTION

Securitisation is a financial practice that involves pooling various types of contractual debt, such as mortgages, auto loans, or credit card debt, and selling their related cash flows to third-party investors as securities. This practice emerged prominently in the U.S. in the 1970s. Securitisation increases the depth and liquidity of financial markets by converting the illiquid debt instruments into tradable securities that capital market investors, such asset managers, insurers or banks, can buy. On the buy side, securitised assets are an attractive investment opportunity for investors seeking exposure to new risks, as they enable greater diversification and superior returns in comparison to some more established fixed income assets. In the EU's bank-centric financial system, it allows banks to free up capital and provide more financing to individuals, households, and businesses, including SMEs[1]. Securitisation also allows banks to transfer risks outside of the banking system, thus fostering greater risk diversification within the financial system. By increasing the amount of financing available in the real economy, well-functioning securitisation markets can also contribute to higher economic growth and facilitate funding EU strategic objectives like defence or green and digital transitions. These elements make the securitisation review an important initiative under the Savings and Investment Union (SIU).

However, there are also risks associated with securitisation, as was seen during the Global Financial Crisis (GFC)[2]. Complex structures exposed investors to large losses. Similarly, misaligned incentives between issuers and investors incentivised issuers to securitise 'bad loans'[3]. At the same time, securitisation amplified asset price bubbles by increasing credit growth and the risk appetite of investors, which increased risks to financial stability. Moreover, securitisation increased risks within the financial system by increasing leverage (i.e. securitisation allows to increase lending within the financial system while holding less capital) and interconnectedness between financial market entities.

For these reasons, as a response to the GFC, the EU Securitisation Framework has sought to tackle the risks associated with this instrument, in particular agency and model risks. Agency risk in the case of securitisation arises when issuers have more information than investors. Model risk occurs when imperfect economic modelling is used to value and assess the risk of securitisation. Several measures have been introduced to deal with these risks, including risk retention, transparency, due diligence, and prudential requirements. Addressing these risks effectively continues to be a key objective of the Securitisation Framework today.

The evaluation of the current framework, however, shows that the Securitisation Framework has been designed and implemented mostly in response to the shock of the GFC and as a result is too strict and hinders market development. At the time, strict requirements were considered

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[1] SMEs can be exposed to different segments of the securitisation market, for example selling trade receivables to a program of asset backed commercial paper, taking out a new leasing contract on a commercial vehicle or assuring new financing against company real estate which are then pooled and securitised by their lease company or bank with other similar assets (see Annex VIII: SME test).

[2] See for example the International Monetary Fund's paper on Securitization: Lessons Learned and the Road Ahead https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Securitization-Lessons-Learned-and-the-Road-Ahead-41153

[3] See *The Great Collapse: How Securitization Caused the Subprime Meltdown, Kurt Eggert, Connecticut Law Review May 2009,* for another detailed investigation of the use of securitisation to proliferate risks in the build-up of the GFC

necessary to rebuild the securitisation market which had been suffering from inadequate protections and severe investor distrust. Now that appropriate safeguards have been firmly embedded in the market's organisation and securitisation is gaining back investors' trust, a better balance between safeguards and growth opportunities- both for investments and issuance- needs to be found.

The European public securitisation market, including CLOs, stood at approximately EUR 1.2 trillion in terms of outstanding volumes at the end of 2023 (compared to EUR 2 trillion at its peak during the GFC[4]). Despite showing signs of gradual recovery (the EU public market was only EUR 790 billion in the second half of 2020 compared to EUR 900 billion by the end of 2023), securitisation issuance as a percentage of GDP remains much lower in the EU than in other major jurisdictions (according to AFME, 10-year average issuance is approximately 3% of GDP for the US and around 0.5% for the EU). A significant portion of the traditional securitisation transactions (see Section 1.1 right below for further details on the different types of securitisation) remains retained on banks' balance sheets (slightly over 40%) to be used as collateral for obtaining liquidity from the ECB, rather than being placed on the market with external investors. At the same time, the current investor base (i.e. the number of active investors participating in the market) remains small[5], resulting in a limited capacity to absorb increased supply. In addition, the EU securitisation market remains highly concentrated in five Member States (France, Italy, Germany, Netherlands and Spain). This can lead to uneven development of capital markets within Member States and limit the tool's potential for risk diversification. Furthermore, banks often prefer to issue covered bonds to obtain funding since they are subject to less strict regulatory requirements.

Section 3.2 of Annex V (Evaluation) provides a more detailed assessment of the market context and market developments of the different parts of the securitisation market as well as the development in different countries.

1.1. What is securitisation?

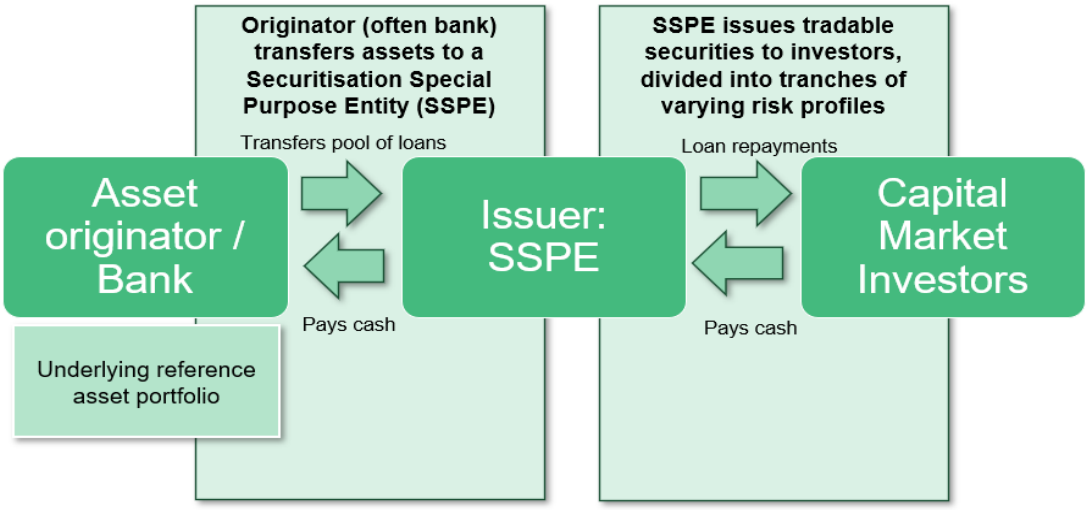
Broadly speaking, there are two main types of securitisations: traditional (also known as "cash" or "true sale"), and synthetic (for an overview of the different parts of the EU securitisation market, see the market context in Annex V).

Traditional securitisation (outstanding public[6] and bank originated, sponsored or invested private[7] volumes within the EU securitisation market stood at more than EUR 1,1 trillion as of end 2023) is used primarily to obtain funding and to transfer risk out of the balance sheet of the lender. An example of a traditional securitisation is a bank selling a pool of mortgages to a securitisation special purpose entity (SSPE). As a result, the credit risk associated with the mortgages is transferred, and the mortgages are 'erased' from the balance sheet of the originator bank. If a bank transfers a sufficient amount of the risk to investors, it is allowed to reduce the capital it holds against the securitised assets, i.e. achieving 'capital relief' that is available for further lending. The SSPE issues notes (debt instruments) divided into tranches of varying risk

[4] Source: AFME/SIFMA Securitisation Market Data Reports.
[5] We estimate the investor base to 80-115 investors, see Annex III for details.
[6] Source: AFME Securitisation Data Report Q3 2024.
[7] Source: EBA COREP statistics.

profiles (usually into three tranches – junior, mezzanine and senior), which are then sold to investors. The money raised through selling the notes to investors is paid by the SSPE to the bank for the purchase of the mortgage loans. This gives the bank immediate access to funds that can be used for further lending. Common types of traditional securitisations include residential mortgage-based securitisation (RMBS), commercial-mortgages backed securitisation (CMBS), asset-backed securitisation (ABS), collateralised debt obligations (CDOs), and others.
Instead of placing the notes of a traditional securitisation on the market, banks can also choose to retain part of the transaction. This allows banks to access central bank liquidity, but prevents them from achieving 'capital relief'. These 'retained' traditional securitisations currently form an important part of the traditional securitisation market segment.

Figure 1: Traditional Securitisation Structure

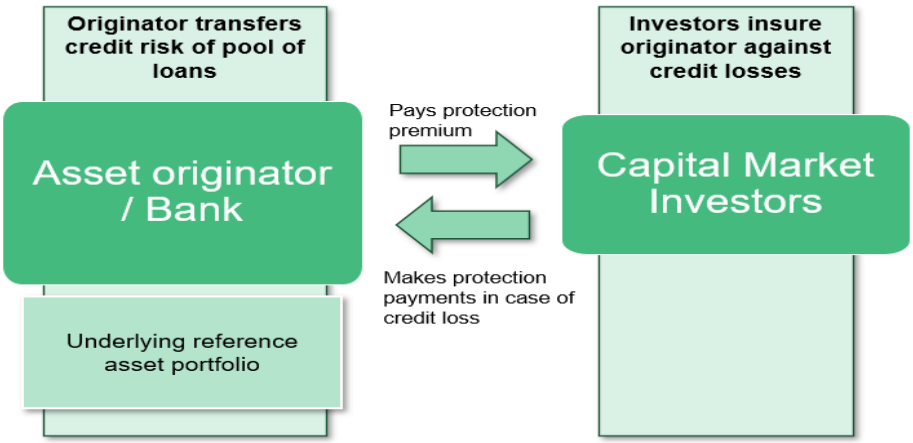


A specific type of traditional securitisation is Asset-Backed Commercial Paper (ABCP) securitisation. It is a short-term securitisation where the securities issued take the form of asset-backed commercial paper with a maturity of less than one year. ABCP is usually used to finance very short-term assets, such as trade receivables. ABCP is a popular form of financing for corporates because it allows them to access short-term funding at a lower cost than they would be able to obtain through traditional bank loans. The EU public and private outstanding ABCP volume by the end of 2023 is estimated to EUR 180 million.[8]

[8] AFME Securitisation Data Report and EBA COREP statistics. For a more detailed market analysis of the private ABCP market in Europe (with a broader coverage including the UK) see: AFME/European DataWarehouse and True Sale International, European Benchmarking Exercise, https://www.true-sale-international.de/fileadmin/tsi-gmbh/tsi_downloads/aktuelles/EBE_2024-H1_Report_2025-02-24_final.pdf.

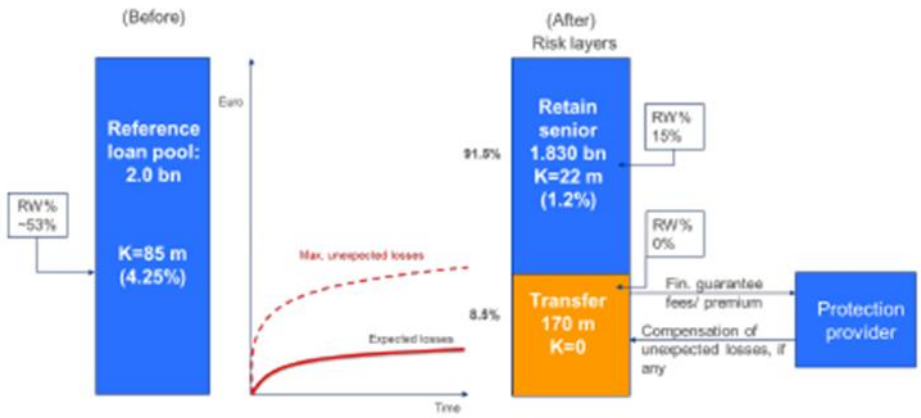
Synthetic securitisation (outstanding volumes in the EU securitisation market stood at EUR 295 billion as of end 2023[9]) is a type of securitisation that differs from traditional securitisation. In traditional securitisation, assets are transferred off the bank's balance sheet. In contrast, synthetic securitisation does not involve the physical transfer of assets. These assets remain on the originator's balance sheet, but the risk is managed using financial instruments such as guarantees, making it like an insurance contract.
Just as an insurance policy compensates the policyholder when an adverse event occurs, synthetic securitisation allows banks to be compensated when losses materialise to the underlying pool of assets. Thus, the banks transfer the risk of default on a set of loans to investors, without selling the actual loans themselves. This allows banks to obtain 'capital relief' i.e. reduce the amount of capital that they need to hold for these assets, but it does not allow them to obtain funding. The investors get remunerated for accepting the credit risk of the originating bank.

Figure 2: Synthetic Securitisation Structure



[9] Source: EBA COREP statistics. In addition, the International Association of Credit Portfolio Managers (IACPM) performs regular market surveys on synthetic SRT securitisations, for details see: IACPM 2016-2022 Survey Confirms that Risk Sharing is Becoming Mainstream - International Association of Credit Portfolio Managers.

Figure 3: Example of synthetic securitisation and regulatory capital relief



Source: The European significant risk transfer securitisation market", González and Triandafil (2023)

Figure 3 illustrates how a bank can obtain capital relief through synthetic securitisation, enabling them to lower capital requirements compared to an alternative scenario without securitisation. The underlying reference loan pool is EUR 2 billion. With a risk weight of 53% and a 8% minimum capital requirement, this bank would face a EUR 85 million minimum capital requirement for this portfolio.

However, through a synthetic securitisation the bank may save on capital requirements by transferring the risk of the mezzanine tranche to an investor (credit risk protection provider). The portfolio is split in accordance with the capital requirements prescribed by the bank's regulatory securitisation approach. The senior tranche has only a 15% risk weight so requires only EUR 22 million of capital; the mezzanine and first loss tranches have a 0% risk weight as the risk is transferred to an external protection provider and no longer affects the bank's balance sheet.

Overall, the transaction saves the bank EUR 63 million of capital in comparison to holding the portfolio on its balance sheet without risk transfer.

In the EU, securitisations can also be classified as public or private. Public securitisations (EU outstanding volumes (excluding ABCP volumes) stood at EUR 900 billion as of end of 2023[10]) are those that must provide a prospectus to investors. Private securitisations (outstanding volumes stood at EUR 632 billion as of end 2023[11]) are defined as securitisations where no prospectus has to be drawn up in accordance with Directive 2003/71/EC. Private securitisations have to fulfil the same regulatory requirements as public securitisations, but they are not required to use a securitisation repository to disclose the information prescribed by Article 7

[10] Source: AFME Securitisation data report

[11] Source: EBA COREP covering transactions with bank involvement

of the SECR. Most traditional securitisations are public, while the majority of synthetic securitisations are private.

The securitisation market is therefore not a homogeneous market but is composed of various different segments or types of securitisations. See Annex IX for a selection of case studies which elaborate how securitisation has been used for the benefit of the real economy.

1.2. Legal context

The Securitisation Framework was adopted in 2017-18 and entered into application in 2019-20[12]. It aimed to revive a safe securitisation market that improves financing of the EU economy. It consists of a Securitisation Regulation (SECR)[13] as well as amendments to the pre-existing Capital Requirements Regulation (CRR)[14], Liquidity Coverage Ratio Delegated Act (LCR)[15], Solvency II (SII) Delegated Regulation[16]. The SECR laid down a general framework for securitisation applicable to all involved parties. It consists of detailed rules on risk retention, transparency, due diligence, the prohibition of re-securitisation, and credit-granting standards. It also introduced an additional voluntary framework for Simple, Transparent and Standardised (STS) securitisations, originally limited to traditional securitisations only.

The CRR defines the prudential framework for banks and sets out how much capital banks need to hold for their securitisation exposures, whether as originators or investors in securitisation. SII defines the prudential framework for insurers and establishes capital requirements for insurers' investments in securitisation. The LCR defines eligibility conditions for securitisation to be included in the banks' liquidity buffers. Both CRR and LCR are largely consistent with and implement the Basel III securitisation standards.

In 2021, as part of the Capital Markets Recovery Package to help the EU economy to recover from the COVID-19 pandemic, limited amendments to the SECR and to the CRR were introduced. These amendments expanded the scope of the STS framework to synthetic securitisations and removed certain regulatory impediments to the securitisation of non-performing exposures.

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[12] While the different constituent elements of the Framework came into application in January 2019, the CRR allowed existing transactions to use the old rules until the end of 2019 so effectively the new CRR securitisation rules only became fully applicable in January 2020.

[13] Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (https://eur-lex.europa.eu/eli/reg/2017/2402/oj/eng)

[14] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02013R0575-20240709)

[15] 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 (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02015R0061-20220708)

[16] Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (EUR-Lex - 02015R0035-20241114 - EN - EUR-Lex)

Furthermore in 2024, a dedicated regime for green securitisations was introduced as part of the European Green Bond Standard Regulation (EUGBS)[17]. The EUGBS introduces a voluntary standard for securitisation bonds to be labelled as green. In order to qualify, assets in the securitisation pool have to fulfil certain requirements and originators must allocate the proceeds from securitisation to economic activities compliant with the EU Taxonomy Regulation.

The evaluation in Annex V (section 2.2) explains the intervention logic of the current framework, i.e. the problems it intended to tackle, the solutions found and their expected and observed impacts. It assesses how the Securitisation Framework has performed over the past five years and how it can be further improved.

1.3. Political context

In response to the global financial and sovereign debt crises, the EU took multiple actions to create a safer financial sector for the EU single market, including a framework to revitalise the use of securitisation while preserving financial stability. In that context, the Securitisation Framework was an important initiative under the initial Capital Markets Union (CMU) Action Plan. Although reviving the securitisation market following the shock of the GFC was part of the general objective of the Securitisation Framework, the focus was more on making the market extremely safe, and fighting the stigma associated with securitisation. As a result, most measures that were introduced made the regulatory treatment of securitisation more conservative and aimed to primarily mitigate risks, rather than stimulate market development.

In light of several years of experience with the current rules and taking into account several recent high level political statements[18] that have highlighted the need to take additional measures to remove issuance and investment barriers in the EU securitisation market, this review aims to strike a better balance between safety and market development. Annex II provides for a detailed description of inputs received and positions of Member States, ESAs, ECB and other stakeholders.

Relaunching securitisation has also been recommended in the reports from Enrico Letta and Mario Draghi as a means of strengthening the lending capacity of European banks for the financing needs of EU priorities including defence, creating deeper capital markets, building the Savings and Investments Union and increasing the EU's competitiveness. Finally, the need to accelerate work on all the measures developing banking and capital markets, including securitisation, was highlighted in the political guidelines of Commission President von der Leyen from July 2024, and reiterated in the mission letter to Commissioner Albuquerque. One issue, which is mentioned in the public debate, is the possibility of setting up securitisation

[17] Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds.

[18] The Eurogroup statement of 11 March 2024 invited the Commission to assess all the supply and demand factors hampering the development of the securitisation market in the EU, including the prudential treatment of securitisation for banks and insurance companies and the transparency and due diligence requirements (while taking into account international standards). Similarly, the ECB Governing Council statement of 7 March 2024 suggested exploring the use of public guarantees and further standardisation of securitisation issuances. The European Council conclusions of 18 April 2024 called to relaunch the European securitisation market, including through regulatory and prudential changes. The European Council conclusions of June 2024 called again on the Council and the Commission to accelerate work on all identified measures under the Capital Markets Union.

platform(s), with various ideas being put forward on the possible characteristics and functions of such platforms (see Draghi report)[19]. Annex VI discusses the issues more in detail.

Increasing the competitiveness of the EU economy requires substantial investments for the green and digital transitions, and for funding our strategic priorities including the defence sector (see the Competitiveness Compass[20] for a more comprehensive list of the European Commission's strategic priorities). By allowing banks to lend more, securitisation can contribute to the financing of these large investment needs. Securitisation is an additional tool to meet the financing needs of corporates and SMEs. Against this background, this impact assessment outlines the problems with the current framework based on the evaluation (Annex V), identifies areas for improvement, and explores reform options that could further enhance the EU's securitisation markets, ultimately contributing to a more resilient and integrated Savings and Investments Union.

2. PROBLEM DEFINITION

2.1 What are the problems and problem drivers?

As the evaluation (Annex V, section 4) has demonstrated, the current framework has served to make the EU securitisation market safer. At the same time, it has resulted in high operational costs for issuers and investors, and high prudential costs[21] for banks and insurers. Ultimately, these high costs constitute a regulatory failure, which disincentivises issuance and investment in the EU securitisation market. The evaluation shows that the specific objectives set out in the 2015 Impact Assessment (see below for a summary of this assessment) remain unmet or are only partially achieved. The Securitisation Framework has not been effective in reducing/eliminating unduly high operational costs (Problem 1 below), while it has been partially effective in removing (i) regulatory disadvantages for simple and transparent securitisations, and (ii) investor stigma. In addition, the evaluation and stakeholder feedback have identified undue prudential barriers that disincentive banks to issue and invest (Problem 2 below) and for insurers to invest (Problem 3 below) as two new problems that need to be addressed.

[19] Action by Member States and industry, in particular in those countries where issuance is limited, would help issuers, investors, supervisors and the local legal community to develop platforms to encourage the issuance of securitisation.

[20] See: EU competitiveness - European Commission

[21] The term 'prudential cost' is probably not fully accurate. It is used in this impact assessment for the sake of simplicity although it should not be assimilated to an 'accounting cost'. In fact, both banks and insurers are subject to 'risk-based' capital requirements. These funding requirements determine how much capital financial institutions should hold to cover the risks arising from their investments. Capital requirements are a necessary feature of prudential rules to protect policyholders and depositors by limiting the risk of failure of an insurer or a bank. The use of the term 'prudential cost' does not mean that capital requirements are undesirable or that the ultimate objective of any initiative on securitisation should be to set all capital requirements to (almost) zero. At the same time, capital requirements still can act as a limiting factor in insurers' and banks' ability to invest in and/or issue securitisation. Therefore, by referring to 'prudential costs', the impact assessment simply underlines that the appropriateness of the calibration of capital requirements needs to be reassessed, without challenging the existence of such requirements.

Table 1: Assessment of objectives from the 2015 Impact Assessment

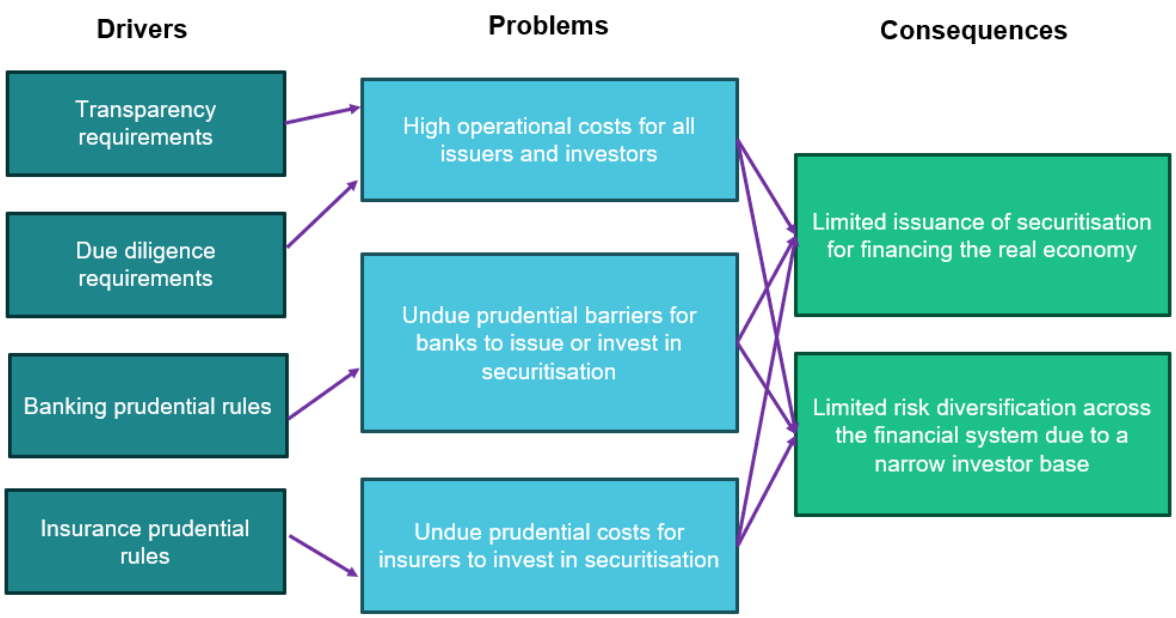
Objective	Assessment (see Annex V, section 4 for a detailed assessment)
Reduce/eliminate unduly high operational costs for issuers and investors	Not achieved
Remove stigma from investors	Partially achieved
Remove regulatory disadvantages for simple and transparent securitisation products	Partially achieved

2.1.1. Problem Tree

Figure 4 displays the problem tree, covering the three problems that were identified in the evaluation of the Securitisation Framework, as well as during the targeted consultation and in meetings with various stakeholders. They are described in the following sections, together with their problem drivers and related consequences.

The first problem groups together all issues related to the high operational costs faced by issuers and investors in the EU securitisation market. The second problem focuses on prudential factors that unduly disincentivise banks to issue or invest in securitisations. The third problem focuses on the prudential factors that act as an undue disincentive for insurers to invest in the EU securitisation market.

Figure 4: Problem tree



External factors

Beyond the regulatory framework, there are external factors that affect financial institutions' decisions to issue and invest in the EU securitisation market. These include, among others, monetary policy, credit growth, and the availability of alternative funding sources like covered

bonds. Evaluating the combined impact of these external factors on the development of the EU securitisation market since the GFC is challenging due to their interdependent nature—such as the interaction between monetary policy, credit growth, and the availability of alternative funding sources—and the significant variation in elements like credit growth and funding alternatives across different Member States. Although some of these factors were mentioned by stakeholders, they primarily focused on the impact of the regulatory framework on the securitisation market.

The impact of accommodative monetary policy on the EU securitisation market since the Global Financial Crisis is unclear. On the one hand, accommodative monetary policy (up until 2022) could have disincentivised banks to issue traditional securitisations as they had access to cheap funding alternatives: central bank funding, stable deposits and liquid EU covered bond markets[22]. On the other hand, the low-for-long interest rate environment could have incentivised banks to lend more, thus providing banks with more opportunities to transfer risk and increase their activity in the securitisation market[23]. Nevertheless, the low-interest rate environment was a common factor across many other economies and therefore may not explain on its own the slower pace of market development in the EU vis-a-vis other jurisdictions like the United States or Australia where this market has recorded much higher issuance as a percentage of GDP in the last 10 years (see Evaluation Section on Market Context for more details).

Regarding credit growth, it is generally expected that higher credit growth would have a positive impact on securitisation activity. This is because, all else being equal, financial institutions need to fund their increasing loan portfolios and free up their balance sheets to facilitate further lending as demand for loans rises - and securitisation can fulfil both functions. Credit growth in the EU experienced varying trends since the GFC, so its impact on the market is ambiguous.

It is normal for market conditions to affect the attractiveness of financial instruments, including securitisation. Financial institutions should be able to select the instrument that best suits their needs, based on the prevailing market conditions. The objective of this initiative is therefore to focus on eliminating any unnecessary regulatory hurdles that may be holding back the securitisation market, so that financial institutions can access this tool whenever it is needed and are not constrained by undue regulatory burden.

Cross border securitisation activity is also impacted by the lack of harmonisation in regulatory frameworks outside of financial services, including insolvency[24] and taxation, which can create

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[22] See academic paper that shows that low policy interest rates decrease the cost of funding, thus reducing bank incentives to securitise loans. Source: Bakoush, M., Mishra, T. and Wolfe, S. (2018) 'Securitization, monetary policy and bank stability', *SSRN Electronic Journal* [Preprint]. doi:10.2139/ssrn.3630704.

[23] Zhang, J. and Xu, X. (2019) 'Securitization as a response to monetary policy', *International Journal of Finance & Economics*, 24(3), pp. 1333–1344. doi:10.1002/ijfe.1721 and Maddaloni, A. and Peydro, J.-L. (2010) *Evidence from the euro area and the U.S. lending standards*, *European Central Bank*. available at: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1248.pdf (Accessed: 10AD).

[24] See: How Europe can reap the benefits of securitisation- Jacques Delors Centre

complexity and uncertainty for market participants trying to issue or invest in securitisations that pool assets from multiple jurisdictions. This limits the possible scale of the securitisations, as they are constrained by underlying loans structured along national legal requirements (typically mortgages).

Changes to the regulatory framework might modify incentives for issuers and investors but cannot guarantee on their own market growth. While regulatory changes can help scale up the securitisation market, market participants also have an essential role to play in developing standardised products that are more attractive to investors and facilitate the work for supervisors to approve securitisation issuances. For example, the ECB is currently developing a fast-track process for the supervisory assessment of the significant risk transfer in securitisation, in close dialogue with the European Banking Federation, which aims to substantially reduce the duration of the supervisory assessments for simple transactions meeting some requirements – this initiative is which expected to further stimulate the market[25].

2.1.2. Problem 1: High operational costs for issuers and investors

The evaluation (see Annex V, section 4.1.3) highlights the existence of high operational costs arising from the application of the current Securitisation Framework for EU issuers and investors in securitisations, also in comparison to other asset classes. High operational costs disincentivise institutional investors[26] from investing in securitisations and prevent financial institutions from using securitisation to manage their credit risk, diversify exposures and obtain new funding. Overly burdensome and detailed transparency and due diligence requirements result in high operational costs that put EU issuers and EU investors at a competitive disadvantage relative to their international counterparts who are not subject to the same requirements. This makes entering the market particularly difficult. The current framework negatively impacts also non-EU issuers when they want to sell their securitisation to EU investors.

From a better regulation perspective, these costs link to "administrative burdens"[27]. We estimate that annual recurring operational or administrative costs currently amount to EUR 780 million for the financial market as a whole[28]. While these operational costs, may appear moderate when compared to the total market size, they accumulate annually. Apart from the annual recurring costs, one-off costs linked to the implementation of the SECR requirements represent a significant barrier to entry[29],Administrative hurdles therefore represent a significant

[25] Securitisations: a push for safety and simplicity

[26] Institutional investors based in the EU who invest in securitisations. For more details see Article 2(12) of SECR. Please note that securitisations are not marketed and sold to retail investors unless conditions under Article 3 of SECR are fulfilled.

[27] For a detailed definition of administrative costs, see Tools #56 Typology of Costs and Benefits, #57 Standard Cost Model and #59 One-in-one-out Calculator of the EU Better Regulation Toolbox, July 2023.

[28] This administrative burden can be decomposed to annual recurring costs of fulfilling due diligence requirements estimated to EUR 520 million and annual recurring costs of fulfilling transparency requirements estimated to EUR 120 million. Further details can be found in Annex III.

[29] Further evidence on this can be found in Annex III.

obstacle for issuers and investors and have had a negative impact on the overall growth of the market.

The extent of burden reduction that can be achieved by simplifying or removing certain due diligence and transparency requirements should not undermine the policy goals of those requirements. Namely, there should remain sufficiently high levels of market transparency and investor protection to ensure that the EU securitisation market remains safe and supervisors should continue to have access to high-quality data.

2.1.2.1. Certain due diligence requirements are too prescriptive and disproportionate

Article 5 of the SECR outlines the due diligence requirements for EU institutional investors (see Annex V, section 4.1.3). It aims to ensure that EU investors conduct a thorough assessment of the risks associated with securitisation. Article 5 harmonises the due diligence requirements that were introduced by regulatory bodies in the aftermath of the GFC across various pieces of sectoral legislation governing banks, asset managers, etc. to address key lessons learned from the event. One critical takeaway from the crisis was the importance of a thorough risk assessment. Inadequate due diligence, in particular risk evaluation, led investors to unknowingly take on excessive risk, leaving them unprepared to absorb the significant losses that ultimately materialised. As a result, due diligence requirements aim to empower investors by ensuring that they are aware of the potential risks associated with their securitisation investments and are better equipped to manage those risks.

While Article 5 has helped to ensure that proper due diligence is carried out prior to investing and while holding a securitisation position, the current requirements go beyond what is needed to ensure investor protection and financial stability. The evaluation has shown that the requirements are overly prescriptive, duplicative and costly.

For example, in addition to carrying out a thorough assessment of the risks prior to holding a securitisation position, EU investors are required to verify that originators have complied with Securitisation Regulation Article 6 (risk retention), Article 7 (disclosure), Article 9 (credit granting criteria), and Articles 19 to 22 and 23 to 26 (STS criteria). These verification activities are unique to securitisation and are largely duplicative since EU supervisors are also required to check that EU originators comply with these requirements.

Moreover, stakeholders argue that the risk assessment required under Article 5(3) is not proportionate because it does not differentiate between different types of securitisation positions. For example, an investor in a AAA tranche has the same due diligence requirements as an investor in a first-loss tranche, even though the risk of the position is much lower for the senior tranche investor than the first-loss tranche investor.As a result, due diligence requirements constitute a significant entry barrier for new investors. Investors prefer to invest in other comparable products with less burdensome due diligence requirements (see Annex XII for a comparison of due diligence requirements for different financial instruments).

It is important to note that EU investors are subject to the same due diligence rules regardless of whether they invest in EU or non-EU securitisations, whereas non-EU investors in EU (or

non-EU) securitisations are not bound by any of these requirements. As a result, due diligence requirements impact the level playing field to the detriment of EU investors when investing in securitisations vis-a-vis their non-EU peers.

2.1.2.2. Transparency requirements are not adapted to the needs of investors

The introduction of Article 7 of the SECR has improved market transparency in the EU securitisation market by ensuring that all investors and supervisors have equal access to all relevant information about the securitisation transaction. However, the evaluation (see Section 4) highlights several challenges. Meeting the Article 7 transparency requirements implies a significant compliance burden on issuers, with costs exceeding those for other comparable structured finance instruments (see Annex XII). This is confirmed by the feedback provided by market participants to the recent targeted consultation. A key factor driving these excessive costs is the broad scope and prescriptive nature of the transparency rules. Despite the extensive disclosure rules, the information provided does not always align with investor needs, making compliance with the disclosure requirements both costly and inefficient. As a result, the overall cost of issuance has increased, discouraging securitisation activity in the EU market.

Applying a one-size-fits-all approach is challenging given the diversity of securitisation types. In particular for private securitisations, the current disclosure framework[30] does not sufficiently account for the fact that these are typically bilateral and bespoke transactions where investors have specific information needs for their due diligence assessment. As a result, the current templates often provide information that is not useful for investors in private transactions. At the same time, the fact that investors in private transactions have specific information needs means that the prescribed templates sometimes do not meet the specific requirements of some investors and credit rating agencies. This means that originators of private securitisations often need to disclose additional information beyond Article 7 requirements, further increasing complexity and costs. As regards public securitisations, stakeholders report that the current templates provide too much information, include elements that are of limited use to investors.

2.1.3. Problem 2: Undue prudential barriers for banks to issue securitisations

The evaluation (Annex V, section 4.1) shows that existing prudential (capital and liquidity) rules act as a disincentive for banks to issue securitisations (or invest in the senior tranches of good quality securitisations). Bank capital requirements set out in the CRR are insufficiently risk sensitive and overly conservative, resulting in unduly high levels of capital requirements that banks need to comply with for their securitisation exposures. Based on ESAs estimates, the revised securitisation prudential framework has led to significant increases in banks' capital requirements for securitisation exposures (+114% for bank originators, +77% for bank sponsors and +105% for bank investors across the market, with large variations in the impact depending on the composition of the tranches held), compared to the previous regime. Senior tranches of securitisations have experienced an increase of more than 100% in capital requirements, while mezzanine tranches have experienced an even greater increase of capital requirement, with a median increase of 281%. On average, the required capital for

[30] Private securitisations are exempted from having to report to the public securitisation repositories. However, they need to make the same information available as public securitisation, using the same format.

securitisations is approximately double the capital required for the capitalisation of the underlying pool of non-securitised assets.

These significant increases fail to accurately recognise the important risk mitigants implemented in the EU securitisation regulatory and supervisory frameworks which have significantly reduced the agency and model risks embedded in securitisation transactions, as well as the good credit performance of EU securitisations. The model and agency risks have been reduced in recent years, notably with the introduction of STS criteria, the multi-year Targeted Review of Internal Models by the SSM, the multi-year IRB Repair programme by the EBA, the introduction of the output floor in the banking package, the risk retention requirement, and the banning of re-securitisations. As regards the credit performance, default rates of EU securitisations have been significantly lower than those of US securitisations. Also, very few senior tranches of EU securitisations have ever suffered any losses. Data over a 30-year time period show that the default risk and ratings transitions of European securitisations across tranches rated AAA to BB are commensurate with default and ratings transitions data for other fixed income asset classes, such as European corporate bonds or global sovereign bonds, rated the same level, reflecting the strong credit performance of securitisations.

The evaluation therefore assesses the adequacy of the capital requirements from two dimensions. First, the risk mitigation measures that reduce the 'agency' and 'model' risks of securitisation transactions should be recognised in the requirements, where appropriate. Second, as supported by data on default rates, the structural credit performance of EU securitisations has been very good over the past 20+ years.

These two dimensions, reinforced with examples provided in the evaluation, demonstrate that the current capital requirements for banks are disproportionate and go beyond what is necessary to ensure a proper and prudent capitalisation of the securitisations by banks. While the presence of non-neutrality of securitisation capital requirements – as one of the main defining elements of the securitisation capital framework for banks - is justified, the magnitude of the non-neutrality seems no longer [31]. In addition, there are significant discrepancies in the capital requirements for securitisations among banks using different approaches applicable to their calculation (in particular the standardised approaches, used by small-to-medium sized banks, are too conservative, resulting in overly conservative capital requirements in absolute terms as well as relative to capital requirements under the internal ratings-based approaches, used by large banks).

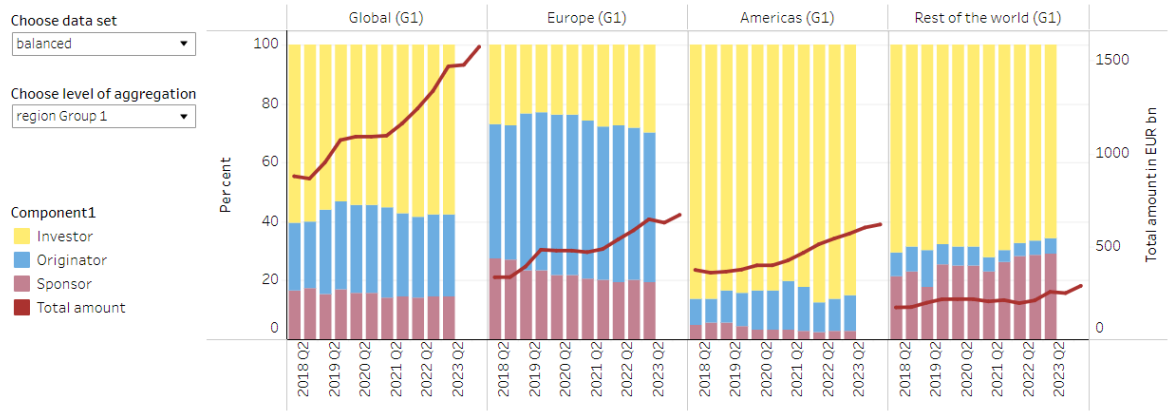
The issue of insufficient risk sensitivity limits the attractiveness of securitisation: securitisations are seen as too 'expensive' which limits their use as a credit risk and balance sheet management tool for banks. Consequently, the lack of risk sensitivity acts as a prudential impediment that disincentivises EU banks from engaging in the EU securitisation market. Overall, the securitisation capital requirements currently represent only 1.5% of the EU banks'

[31] Non-neutrality of bank securitisation capital requirements means that holding all the securitisation tranches in a securitisation is subject to a higher capital charge than a direct holding of all the underlying assets as if not securitised.

total risk-weighted asset volume (EBA, as of December 2024). Also, small-to-medium sized banks are not participating in the securitisation transactions.

The fact that banks cannot easily issue (originate) securitisations in the EU is an important issue because banks play a critical role in the financing of the EU economy and limiting securitisation issuance ultimately limits banks' ability to lend more to the real economy. Banks are natural users of securitisation transactions for their funding, capital, and credit risk management practices. As shown in **Figure 5** below, EU banks are primarily originators (i.e. issuers) and, to a smaller extent, sponsors of securitisations, whereas in other jurisdictions banks are primarily investors[32]. Therefore, barriers to banks' origination (i.e. issuance) of securitisation might have a disproportionately high impact in the EU relative to other jurisdictions. The current prudential set-up does not allow banks to maximise the potential that securitisation can provide for their funding, capital and credit management strategies, and which could be beneficial for the EU economy as a whole.

Figure 5: Banks' role in securitisation (exposure measure)



Source: BCBS Dashboard

As shown in the evaluation, existing bank capital requirements fail to reflect the robust credit performance of the EU securitisation market over the last years and decades. The EU-issued securitisation market's resilience has now been tested through multiple economic and financial cycles and periods of stress, including the GFC, the euro area sovereign debt crisis, the COVID-19 pandemic, the aftermath of the Russian invasion of Ukraine, and during the 2023 banking turmoil. This suggests that the good credit performance of the EU-issued securitisation market is of a structural, rather than cyclical, nature.

Besides the level of capital conservativeness, the evaluation has shed light on a number of additional issues related to the framework for SRT embedded in the CRR and the liquidity treatment of securitisations embedded in the LCR, which pose barriers for the banks'

[32] The US market is less bank-centric than the EU market, allowing non-bank entities to play a more significant role as originators of securitisation. This is in contrast to the EU, where the bank-centric nature of the market leads to banks dominating as originators. Moreover in the US, government agencies such as Fannie Mae and Freddie Mac play a prominent role, further reducing the influence of traditional banks as originators.

participation in the securitisation market. The rules governing the SRT[33] have several structural limitations which may impede a transfer of risk in some transactions. In addition, the rules have in some instances led to excessively costly and complex supervisory processes and inconsistent supervisory assessments of individual securitisation transactions. This has constrained banks in their capacity to issue securitisation and to use it as a capital optimisation tool and risk transfer tool.

In addition, the narrowness of the eligibility rules for securitisation in the banks' liquidity buffers under the LCR has reduced demand by bank treasuries for senior tranches of publicly offered STS traditional securitisations and lowered the level of diversification in the LCR liquidity buffer. This has reduced banks' investments in these high quality securitisations and has limited banks' contribution to the securitisation market liquidity.

All in all, the existing framework reduces the attractiveness of securitisation as an effective instrument to address banks' funding needs, manage capital and balance sheets, and redistribute risks across the wider financial system. The assessment calls for greater confidence in the quality and resilience of well-regulated and supervised securitisation transactions and puts forward the reduction of undue prudential barriers for banks as originators or investors as a new objective.

2.1.4. Problem 3: Undue prudential costs for insurers to invest in the EU securitisation market

The evaluation (Annex V, section 4.1.2.2., sub-section b) shows that the existing prudential rules for insurers result in high prudential costs that act as a disincentive to invest in the EU securitisation market.

Insurance companies are subject to SII which regulates how much capital insurers should set aside to cater for the risks arising from their investment activities. While larger insurers generally use their own modelling of risks ('internal model') which is more tailored to the specificities of their risk profile, smaller insurers use the so-called 'standard formula' which clearly prescribes capital requirements on investments. Insurers using an internal model are relatively free to determine how to assess market and credit risks (subject to prior supervisory approval). Market data confirms that internal model insurers invest more than twice as much in securitisation as those using the standard formula. Insurance companies which use the standard formula have no discretion when it comes to computing capital requirements. In general, standard formula capital requirements for securitisation are higher (slightly higher for senior STS securitisation, significantly higher for non-STS securitisation) than those applicable to other fixed income securities such as corporate bonds.

SII capital charges for non-STS securitisation investments are generally deemed 'punitive' by financial stakeholders. To illustrate the problem more concretely, investing in a non-STS securitisation would likely require an insurer to fund more than half of the value of the investment with capital. The evaluation provides several pieces of evidence supporting that the

[33] Banks are only allowed to reduce their capital requirements when the supervisor acknowledges that the securitisation transfers a significant amount of risk to third party investors – this is known as Significant Risk Transfer'. The SRT framework sets out several requirements and tests, based on which the supervisors assess whether the significant risk transfer has been achieved.

prudential treatment for non-STS securitisation, which dates back from 2013, is overly conservative. For example, under SII, it is more costly to invest in the best rated senior tranches of non-STS securitisation (which would imply an amount of capital exceeding in general 50% of the investment amount) than in riskier asset classes like unlisted equities or in equities from emerging markets, and this raises issues of coherence. This finding also holds when comparing with the capital requirements that are applicable to insurers using their own internal model.

In addition, the capital charges for securitisation under SII are not sufficiently risk sensitive. The framework assigns the same capital charge for all non-STS transactions, regardless of their seniority. This means that insurers are required to hold the same amount of capital whether they invest in a risky first-loss tranche or whether they invest in the most senior protected tranche in a non-STS transaction. All else equal, this lack of risk sensitivity incentivises insurers to invest in the most complex and most junior assets to obtain a higher return since the prudential cost of such investments would be the same as the one applicable to more senior and less complex non-STS securitisations with the same rating. Ultimately, such risk seeking behaviour could endanger policyholder protection by lowering the risk-bearing capacity of insurers.

Such elements demonstrate that the current insurance capital requirements for non-STS securitisation goes beyond what is strictly necessary to ensure financial stability.

Unlike for banks where STS capital charges are still an issue, for insurers the core problem is the non-STS segment of securitisation. The current capital requirements on senior tranches of STS securitisations are very close to those applicable to corporate bonds. Therefore, it is difficult to claim that prudential rules play a major role in the limited level of insurers' investments in senior tranches of STS securitisations[34]. In fact, insurers' investments in senior tranches of STS securitisations represent only 6% of total investments in securitisation. As for non-senior tranches of STS securitisations, the evaluation concludes that they are usually largely oversubscribed by various types of investors (i.e. much more demand than supply) and the capital requirements under Solvency II are coherent with those applicable under banking rules.

The evaluation also identified factors other than undue prudential rules which can discourage insurers from investing in securitisation. According to EIOPA's 2022 advice on securitisation[35] insurers typically focus on the 'financial risk / return profile' of an investment (and not the 'prudential cost / return profile'). Their investment strategies prioritise asset-liability management, particularly for insurance products with long-term liabilities and fixed cash flows. This applies not only to life insurers but also to many non-life insurers offering liability insurance. To manage risk, insurers may favour long-term, fixed-rate investments that protect them from fluctuations in interest rates and irregular cash inflows, both of which could weaken

34 In particular, a difference of less than two percentage points in capital requirements cannot on its own justify why corporate bonds represent more than 15% of insurers' portfolio whereas senior STS requirements make up less than 0.5%.

35 See: https://www.eiopa.europa.eu/publications/joint-committee-advice-review-securitisation-prudential-framework_en

their capital position. The perceived complexity of securitisation as an asset class which requires extensive due diligence is another relevant factor.

There is however evidence that these factors should not be overstated. A Bank of America paper, drawing on market research, presents long-term data on investment portfolios of EU and US insurers and concludes that EU insurers were more active in the securitisation market before the Global Financial Crisis, which suggests that they saw value in these investments[36]. Moreover, US insurers are still significantly investing in securitisation, particularly for long-term annuity products with regular cash outflows - securitisation represents on average 15% of their investment portfolio[37]. In addition, all consultation activities reported in Annex II point to both the willingness of insurers to ramp up their participation in the securitisation market and the hurdles generated by prudential rules. This contradicts the statement that securitisation is not appropriate to match long-term liabilities.

2.2. What are the consequences? How likely is the problem to persist?

The problems outlined in Section 2.1 have resulted in a relatively small and unduly constrained EU securitisation market. High operational costs, driven by complexity, as well as due diligence and transparency costs, create a barrier for new issuers and investors to enter the market. As a result, only a limited number of issuers and investors that can afford these costs continue to operate. This limited investor base leads to fewer transactions, resulting in low market liquidity, which disincentivises issuers from using securitisation. In turn, limited supply makes the securitisation market unattractive for new investors to come in. Furthermore, as the prudential requirements associated with securitisation continue to be higher than those of other asset classes, prudentially regulated financial institutions are disinclined to issue or invest in securitisations.

Together, these high operational and prudential requirements reduce the competitiveness of the actors in the EU securitisation market. Financial institutions, businesses and households therefore do not fully reap the benefits that securitisation could offer in terms of risk diversification, capital market development and additional lending.

In the absence of regulatory action, it is difficult to envisage a change in the issuance and investment behaviour of financial institutions. In general, issuers and investors will continue to prefer financial instruments with lower operational and regulatory requirements. Banks' current strong preference for alternative, lower-cost instruments, such as covered bonds, is unlikely to change, and the issuance of traditional securitisation will likely remain subdued.

The continued operation of the EU securitisation market below its full potential represents a missed opportunity for Europe for funding strategic priorities and deepening the EU's capital markets. This, in turn, hinders the efficient financing of EU businesses and households. In addition, the securitisation market's potential to expand the universe of investable securities for

36 See for instance "European SF Weekly: European vs US insurers' asset mix", BofA Global Research, 24 June 2024. As public authorities and supervisors did not collect data on a consistent basis over time (Solvency II only applies since 2016), it is not possible to confirm or infirm the validity of this assessment.

37 See: https://content.naic.org/sites/default/files/capital-markets-special-reports-asset-mix-ye2023.pdf

institutional investors is not being fully utilised, ultimately limiting the depth and development of EU capital markets.

Investment needs will continue to grow, driven by digitalisation, decarbonisation, and defence spending. To meet these demands, the EU's investment-to-GDP ratio will need to return to levels last seen in the 1960s and 1970s. To meet the objectives set out in the Draghi report: "[T]he financing needs required for the EU to meet its objectives are massive, but productive investment is weak despite ample private savings. A minimum annual additional investment of EUR 750 to 800 billion is needed, based on the latest Commission estimates, corresponding to 4.4-4.7% of EU GDP in 2023"[38].

The benefits of securitisation, such as increased funding and capital market development, depend on how financial institutions choose to utilise the benefits brought by the instrument. A bank may use the additional balance sheet capacity gained through securitisation to increase lending, and deepen the capital market, or it may retain them for other purposes. Ultimately, this decision lies with the issuing bank. Regulation should not dictate a specific outcome. That being said, lending to the real economy is a core business of banks and a key driver of their profits. Therefore, it is reasonable to assume that, all else being equal, a well-functioning securitisation market will incentivise banks to increase their lending to the real economy.

Quantifying the exact impact on the real economy from releasing bank capital through securitisation is, however, a challenging task. One respondent to the targeted consultation estimated that every EUR 10 bn risk-weighted assets that banks can securitise, rather than keep on their balance sheet, allows them to provide additional lending of EUR 15-20 bn. There are also several studies that show that there is a positive relationship between banks' released capital and loan supply. For instance, one study[39] provides evidence that banks' use of capital buffers can benefit both the real economy and banks themselves, without a negative impact on the banks' resilience. Capital buffers are extra capital that banks hold above the minimum regulatory requirements and include buffers which are designed to be released at times of economic adversity. Banks' willingness to use the capital buffers increases lending and GDP and lowers credit losses. The study shows that, in stressed scenarios, a broad-based use of capital buffers could increase lending to the real economy by more than 3%, and GDP by over 0.5%.

All in all, the goal of the regulatory framework is not to limit the choices of issuers to a particular outcome, but rather to remove obstacles that might hinder the use of securitisation in its various applications. A more accessible securitisation market offers financial institutions enhanced opportunities to increase the financing capacity for key EU initiatives. Conversely, a failure to address the above shortcomings is likely to perpetuate and perhaps even aggravate the problems and barriers outlined in Section 2.

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38 Draghi report p. 59, Chapter 5: "Financing Investment".

39 See Buffer use and lending impact; Borsuk, Budnik, Volk, 2020

3. WHY SHOULD THE EU ACT?

3.1. Legal basis

The regulatory requirements for the Securitisation Framework are already set at EU level. Consequently, the legal basis for the review will remain the same as the legal basis of the original legislative acts, namely Article 114 TFEU for SECR, Articles 111(1)(c) and 135(2) of the SII Directive empowering the Commission to adopt delegated acts on the prudential treatment of investments, including securitisation, Article 114 TFEU for the CRR and Article 460 of CRR for the LCR Delegated Regulation.

3.2. Subsidiarity: Necessity of EU action and Added value of EU action

The purpose of the review is to make the EU Securitisation Framework less burdensome, more principles-based, more proportionate and more risk-sensitive. In particular, the review examines certain provisions on due diligence, transparency and prudential (capital and liquidity) requirements. Only action at EU level can ensure that going forward, these regulatory provisions are applied uniformly and guarantee the existence of the well-established regulatory framework regarding the taking up and the pursuit of securitisation-related activity, including issuance and investment, across the Single Market.

The ability of Member States to adopt national measures is limited, given that the existing EU Securitisation Framework, already provides for a harmonised set of rules at EU level and that changes at national level would conflict with Union law currently in force.

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

4.1. General objectives

The general objective of the Securitisation Framework, as expressed in the impact assessment of 2015 accompanying the Commission's proposal was: "to revive a safer securitisation market that will improve the financing of the EU economy, weakening the link between banks' deleveraging needs and credit tightening in the short run, and creating a more balanced and stable funding structure of the EU economy in the long run." The evaluation (Annex V, section 5) finds that this general objective has been only partially achieved because while the securitisation market is safer, the initiative has not been sufficient to revive the market or improve financing opportunities. Indeed, most of the measures that were introduced in the current framework aimed first and foremost to mitigate potential risks associated with securitisation, rather than support market development. Going forward, the objective is to strike a better balance between safety and market development. For this reason, most of the policy options presented below focus on developing further the EU securitisation market by making the framework more proportionate and risk-sensitive. This is the main difference with the approach taken in the 2015 Impact Assessment where safety was the main focus.

Addressing the unattained objective of reviving the securitisation market will contribute to creating a more balanced and stable funding structure to increase the available financing for the EU economy. The achievement of this general objective requires the pursuit of several more specific policy objectives, such as transparency requirements for issuers, due diligence obligations for investors, and prudential requirements.

This initiative does not seek to achieve a specific target for the size or growth of the securitisation market, also not in comparison taking as reference the situation in other jurisdictions. Instead, it focuses on creating an 'enabling framework' by removing regulatory barriers, allowing the market to develop in a more sustainable and resilient way without the risks of rigid issuance targets. Comparing the EU securitisation market to those in other regions can be misleading due to key differences in regulatory frameworks, particularities of financial markets, historical developments and structural characteristics[40]. Using other markets as a benchmark may overlook these important differences, leading to inaccurate conclusions or ineffective policy decisions. Each market has its unique characteristics and challenges requiring bespoke analysis and approaches.

Last but not least, the objective focuses on removing undue barriers, instead of channelling funds for a specific purpose (i.e. allowing for bank capital relief only on the condition that they provide additional lending for specific purposes or to specific sectors of the economy). Prudential regulation is designed to ensure the stability of banks, insurers and the financial system, and to ensure an appropriate reflection of risks through proper capitalisation. Prudential regulation is not intended to serve as an instrument to promote the development of specific industries or branches of economic activity (for example tax policy – outside the scope of this initiative – is better suited for supporting specific sectors, activities, or purposes but tax policy is outside the scope of this initiative).

Introducing a conditions-based system is also technically very complex and challenging and would require in depth monitoring and compliance, which could deter banks from engaging in the securitisation activities to prevent charges for potential non-compliance. Introducing a conditions-based system is also technically very complex and challenging and would require in depth monitoring and compliance, which could deter banks from engaging in the securitisation activities to prevent charges for potential non-compliance. Setting up such a monitoring system would also require additional reporting, which would run against the idea of reducing the burden for market participants.

Overall, introducing such conditionality in the banks' prudential framework could prove to be counterproductive and could negatively impact the effectiveness of the current initiative, in the end potentially defeating its primary objective. Considering the above, the current initiative does not aim to stimulate or impose constraints on banks' specific activities but focuses instead on economic incentives through removing undue prudential and non-prudential barriers. Also, naturally, the more risk sensitive and better calibrated framework will impact different types of securitisations differently. For example, a more risk sensitive prudential framework should make securitisations of low risk assets more attractive, as these would receive a better capital treatment.

Overall, it is by means of a more risk-sensitive, more proportionate and better calibrated framework, that we aim to create conditions and environment for greater lending to the real

[40] Examples of such differences include the presence of government-sponsored agencies and the role of the central bank in securitisation markets, the absence of alternative instruments, like covered bonds, the particularities of the insolvency and corporate tax regimes, etc.

economy. A well-functioning securitisation market will incentivise banks to be more active in the market ultimately also making them lend more to the economy.

4.2. Specific objectives

The following specific objectives aim to address the three problems identified in Section 2:

- Reduce undue operational costs for issuers and investors balancing with robust and proportionate standards of transparency, investor protection and supervision (linked to problem 1).
- Adjust the prudential framework to better account for actual risks and remove undue prudential barriers for banks and insurers when issuing and investing in securitisations while at the same time safeguarding financial stability and consumer protection (linked to problem 2 and 3).

Do we know how banks may use additional capital relief from the securitisation review?

Banks which have used securitisation to pool and transfer certain exposures from their balance sheet[41] (or for synthetic securitisations, transfer default risks thereof) will be able to use that freed-up capacity in their balance sheets (in the form of freed capital) for new lending. In a traditional securitisation transaction, they will additionally obtain funding to do that. Encouraged by the positive experience with cost-efficient and accessible securitisation, banks will also consider using this instrument again to "transfer out" of the balance sheet those new or other loans (or, as appropriate, default risks thereof) that can then be offered to willing buyers in a new securitisation transaction. Even if some banks might decide not to use capital relief obtained from securitisation for new lending (but e.g. to pay-out dividends or buy back shares), this will not be a prevailing pattern in the sector for which lending is the core activity. Productive and prudent use of a bank's balance sheets will be under continued scrutiny of supervisors and shareholders. Thus, the cumulative effect of wider use of securitisation can be expected to result in greater lending capacity for EU banking sector as a whole.

5. WHAT ARE THE AVAILABLE POLICY OPTIONS?

5.1. What is the baseline from which options are assessed?

In the baseline scenario, the current EU rules on securitisation would remain unchanged.

In terms of non-prudential regulation, the SECR would continue to require investors to carry out a costly due diligence process. Similarly, it would continue to impose high costs for issuers to disclose when issuing a securitisation. As explained in the Evaluation, this translates into high operational costs (currently estimated annual recurring administrative costs of about EUR 780 million) that will continue to act as a deterrent for issuers and investors to be present on this market. The scope of the STS standard would remain unchanged in terms of the applicable qualifying criteria as well as the types of securitisations that it applies to. Other important

[41] Assuming that the bank originator manages to transfer a significant amount of risk to third parties (i.e. it achieves Significant Risk Transfer - see Section 6.2 for more detailed explanation).

requirements (which this initiative does not consider modifying), that require issuers to retain a share of the risk, to apply adequate credit granting criteria and that limit complexity by banning re-securitisations would continue to apply. We do not expect the number of market participants to increase, and it is possible that their number may decrease, with activity shifting to other markets with more favourable regulatory treatment.

In terms of the prudential regulation, there would be no change to the current framework determining the amount of capital that banks and insurers should set aside for the securitisation positions they hold. While the framework would continue to differentiate between the capital treatment of STS and non-STS securitisations (allowing lower capital for STS securitisation compared to non-STS securitisation), the capital requirements would continue to be overly conservative and not sufficiently sensitive to reduced risk levels that have been observed in the post-crisis period.

The rules governing the transfer of risk through securitisation (so-called 'Significant Risk Transfer' framework) would continue to feature some structural deficiencies and be accompanied with lengthy supervisory processes. In addition, there would be no change to the current strict rules on eligibility of securitisations as high-quality liquid assets for the calculation of banks' liquidity coverage ratio, and banks would continue to be disincentivised to use the securitisations to diversify their liquidity buffers. As explained in section 2.3 where we discuss in detail the consequences of the current framework and its problems, the baseline scenario is not expected to achieve the objectives of the Securitisation Framework, will discourage the use of securitisation and will not allow securitisation to contribute to the development of the SIU.

The impact of external factors on the development of the market in the absence of regulatory changes is uncertain (see section 2 for a more detailed explanation). In its monetary policy statement on 17 April 2025, the ECB lowered the three key ECB interest rates by 25 basis points, easing financial conditions in the euro area. They explain that while the euro area has been building resilience to global shocks, the outlook remains uncertain due to rising trade tensions which can negatively affect confidence among households and firms. This heightened level of uncertainty can suppress investment and consumption, and thus negatively affect securitisation activity.

5.2. Description of the policy options

Figure 6: Overview of policy options

Measures to reduce high operational costs	• 1.1 Targeted measures to reduce high operational costs • 1.2 Significant measures to reduce high operational costs
Measures to reduce undue prudential barriers for banks	• 2.1 Targeted changes to the existing prudential (capital and liquidity) framework for banks • 2.2 Radical overhaul of the existing prudential (capital and liquidity) framework for banks
Measures to remove undue prudential parries for insurers to invest in the EU securitisation market	• 3.1 Remove prudential barriers to investments in non-STS securitisations • 3.2 Improve risk sensitivity and remove prudential barriers to investments in the safest tranches of non-STS securitisation • 3.3 Overhaul the prudential treatment of securitisation in order to make all securitisation investments relatively more 'attractive' than under current rules

All the options that are presented require legislative changes. Options 1.1 and 1.2 require amending the Securitisation Regulation. Options 2.1, and 2.2 require amending the Capital Requirements Regulation and the Liquidity Coverage Ratio Delegated Regulation. Options 3.1, 3.2, and 3.3. require amending the Solvency II Delegated Regulation.

5.2.1. Measures to reduce high operational costs

Two options are considered to reduce high operational costs for issuers and investors in the EU securitisation market (Problem 1). Even though reducing high operational costs was also an objective in the previous impact assessment, the approach taken to achieve this objective in this impact assessment is not the same as before. While the previous impact assessment tried to reduce operational costs by putting all requirements in one legal framework, this impact assessment focuses on simplifying burdensome requirements as much as possible while respecting the principles behind their introduction.

Option 1.1 is based on the idea that the current due diligence and transparency framework for securitisation is generally sound but can be refined through targeted adjustments. By contrast, option 1.2 is based on the premise that existing measures to ensure market transparency and investor scrutiny are ill-suited to improve the situation in the securitisation market meaningfully. It therefore proposes a more fundamental change by eliminating specific due diligence requirements for securitisations and making disclosure to investors principles-based. These two distinct approaches were reflected in the responses to our targeted consultation, with some stakeholders advocating for tweaks to the existing framework and others arguing for more significant changes.

5.2.1.1. Option 1.1. Targeted measures to reduce high operational costs

Option 1.1 seeks to reduce operational costs for both issuers and investors by simplifying and removing certain due diligence and transparency requirements. This option would maintain the

same level of market transparency, investor protection, and data quality for supervision, while reducing costs.

For investors, operational costs would be reduced by simplifying those current due diligence requirements that are deemed redundant or overly prescriptive. This would include: (1) removing all verification requirements in Article 5(1) and 5(3)(c) of the Securitisation Regulation where the responsible sell-side party is established and supervised in the EU[42], (2) allowing for a tailored risk assessment depending on the type of securitisation position (i.e. less intensive due diligence for low risk tranches and repeat transactions), and (3) give investors in secondary market transactions (where a securitised tranche already held by one investor is sold to another investor) more time to document their due diligence. As EU competent authorities can enforce the Securitisation Framework on EU issuers, but not on non-EU entities, verification requirements would continue to apply to non-EU securitisations. For the same reason, investors would be required to verify transactions issued by unsupervised EU entities.

For issuers, operational costs would be reduced by optimising the transparency framework. The disclosure templates for public transactions would be streamlined to reduce the number of obligatory data fields. This means carefully scrutinising the existing disclosure templates and removing fields that provide limited benefit to investors. To safeguard market transparency, the definition of public securitisations would be widened to capture e.g. transactions that do not involve issuing a prospectus but are admitted to trading. Under this option, private transactions would be required to report to securitisation repositories, using a simplified template. This would improve supervisory monitoring and market transparency. However, to maintain the confidentiality of private transactions, data from these transactions would not be publicly disclosed.

This approach would remove redundant and burdensome requirements, allowing for more tailored due diligence, while maintaining high standards of risk assessment and market transparency.

5.2.1.2. Option 1.2. Significant measures to reduce high operational costs

Option 1.2 comprises a broader set of measures to yield a more significant reduction in operational costs. This approach would introduce a more substantial change to the current framework that would entail accepting greater risks in terms of investor protection, market transparency and quality of supervision.

Under this option, mandatory securitisation-specific due diligence requirements would be removed for regulated investors (banks, insurers, UCITS and AIFMs), thus eliminating additional operational requirements and costs for regulated investors imposed by the SECR. This would not relieve regulated investors of the need to carry out due diligence, since the due diligence requirements under their respective sectoral legislations would still apply. In essence, removing the specific due diligence regime for securitisation transactions would mean that

[42] Concretely, this would mean that EU investors would no longer have to check that EU sell side parties comply with the credit granting criteria, risk retention requirements, disclosure requirements or STS criteria.

requirements for securitisations would be the same as for all other asset classes. Investors that do not have due diligence requirements under their own sectoral legislations would still be required to apply those requirements set out in the SECR.

For issuers, under this option transparency requirements would become principles based. The SECR would only specify the key information principles that securitisation disclosures should abide by. Instead of prescribing Commission-specified disclosure templates applicable to all securitisations, the method for disclosing information to investors and potential investors would be left to the discretion of market participants. A simplified reporting template would be retained for all transactions (private and public), for supervisory purposes only. As in Option 1.1, private transactions would also be required to report to securitisation repositories providing a safeguard for market transparency.

5.2.2. Measures to reduce undue prudential barriers for banks

Two options are considered to address Problem 2. It is important to note that unlike the previous impact assessment that proposed to increase capital requirements across the board for all securitisations, the current impact assessment proposes to reduce these requirements for securitisations for which risks have been mitigated in the post-crisis period. As such, the approach taken in the previous impact assessment is different from the one taken now. The reason being that while the primary focus of the previous impact assessment was on making the market safer, the current impact assessment tries to strike a better balance between safety and market development.

5.2.2.1. Option 2.1 Targeted changes to the existing prudential (capital and liquidity) framework for banks

Option 2.1 entails introduction of targeted changes to the existing prudential (capital and liquidity) requirements applied to banks. It contains a set of measures that require amendments to both CRR and LCR.

Targeted changes to the CRR would ensure that:

- banks can calculate the minimum capital they need to hold for their securitisation exposures in a more risk sensitive manner, meaning that the amount of capital could be adapted/reduced for securitisations where crucial risks driving the capital needs, such as agency and model risks, are mitigated, as evidenced in the evaluation; and
- the framework used by supervisors for assessing the transactions and endorsing the capital relief (the SRT Framework) is clearer, more robust and results in more efficient and coherent processes.

Targeted changes to the LCR would address inconsistencies in the existing requirements that securitisations need to comply with, to be eligible for inclusion in the banks' liquidity buffer (while maintaining the existing scope of eligible securitisations, limited to senior tranches of STS traditional securitisations only).

The overall aim of option 2.1 is to reduce the main undue barriers for banks' issuance of securitisations stemming from the existing banking prudential rules, without resorting to a

significant restructuring of the framework as a whole and limiting the scope of divergences from the international Basel standards. It focuses on those elements of the prudential framework that are assessed to have the most prominent effect on achievement of the above goal.

5.2.2.2. Option 2.2. Radical overhaul of the exiting prudential (capital and liquidity) framework for banks

Option 2.2 entails a set of measures that introduce a fundamental reorganisation of the current framework, specifically:

- Re-design of the existing capital framework, resulting in introducing entirely new formulas and methods that banks would need to follow when calculating capital for their securitisation exposures;
- Removal of the existing complex requirements for supervisors to check securitisation transactions and to endorse the capital relief (resulting in banks merely self-assessing their securitisations, without the need for checks by supervisors);
- Significant relaxation of the requirements that securitisations need to comply with to be eligible for inclusion in banks' liquidity buffers, including extension of the scope of eligible securitisations for liquidity buffer purposes also to (senior tranches) of non-STS traditional securitisations.

The overall aim of option 2.2. is to significantly reduce the barriers for banks' issuance of securitisation, by means of substantial restructuring of the existing rules and loosening a number of existing requirements. The option 2.2. would result in material divergences from the international Basel standards.

5.2.3. Measures to remove undue prudential costs for insurers to invest in the EU securitisation market

In order to remove the existing disincentives for insurers to invest in the EU securitisation market, three options are presented, all of which propose to reduce capital requirements for insurers. This would be done by amendments to the Solvency II Delegated Regulation[43]. The first and second option focus on non-STS securitisations only, while the third option applies to all securitisation transactions. In the context of this review, one may question whether such continued focus on reducing capital requirements is justified, considering the moderate effect of the previous attempt to reduce capital requirements for STS securitisations (even if we still noted an increase of more than 50% in such investments between 2019 and 2023). Our assessment – as outlined in the evaluation – leads us to conclude that reducing capital requirements (in particular on non-STS securitisations) can help change insurers' investment behaviour for the following reasons:

- There is evidence that insurers using an internal model – which results in general in lower capital requirements than under the standard formula – invest more than twice as much in securitisation than companies using the standard formula. While other factors can explain

[43] Delegated Regulation (EU) 2015/35

such a situation – in particular the average size of insurers using an internal model is larger than the average size of standard formula insurers – there are also very large standard formula insurers (for instance, insurance subsidiaries of large banking groups use the standard formula) which still invest negligible amounts in securitisation. Therefore, the comparison implies that it cannot be precluded that capital requirements do play a role in insurers' investment decisions;

- In all consultation activities conducted by Commission services a majority view from stakeholders has been that capital requirements under Solvency II are perceived as an obstacle to investments in securitisations despite an appetite to increase exposure to this asset class;
- Capital charges in the previous framework for simple and transparent securitisation were high, but not as high as the current capital charges for non-STS securitisations. As a result, the impact of reducing capital charges for non-STS securitisations is likely to be more significant than the one already observed for STS after the last initiative.
- Non-STS securitisations represent a bigger share of the EU securitisation market. Consequently, decreasing capital charges for these types of securitisations will have a broader and more substantial impact on the market in absolute amounts.

5.2.3.1. Option 3.1. Removing prudential barriers to investments in all non-STS securitisations

Under option 3.1, non-STS capital requirements would be decreased, removing the excessive level of prudence embedded in the current framework. The decrease in risk factors could be between 25% and 40% depending on the credit rating. By reducing the cost of investing in non-STS securitisation, this option would make investments in non-STS securitisation more attractive than under current rules.

5.2.3.2. Option 3.2. Improving risk sensitivity and removing prudential barriers to investments in the safest tranches of non-STS securitisation

Under option 3.2, capital requirements on non-STS securitisation would be made more risk sensitive by differentiating between senior and non-senior tranches, as is the case for STS securitisation. The calibration approach would aim at some consistency with the banking calibrations.

The level of capital requirements for non-senior tranches would remain broadly in line with the current capital charges applicable to non-STS securitisation, whereas the capital requirements for senior tranches would be reduced by a factor of up to 5 depending on the credit rating of the senior tranche[44]. Reducing the capital requirements applicable to senior tranches of non-STS securitisation would remove the existing prudential disincentives to investments in this market segment.

[44] The calibration follows a similar approach as for STS calibration in 2017. As the improvement concerns the senior tranches only, the corresponding reduction in risk factors is more significant than under Option 3.1. This makes the ratio of senior-to-non senior non-STS securitisation capital requirements broadly more coherent with banking rules.

5.2.3.3. Option 3.3. Overhauling the prudential treatment of securitisation in order to make all securitisation investments relatively more 'attractive' than under current rules

Under option 3.3, the framework for securitisation (STS and non-STS) would be overhauled to lower all capital requirements for securitisations. Stakeholder responses to the targeted consultation argued that the very low default probability of securitisation justifies lower capital requirements across the board. However, under the current rules, capital requirements for insurers capture spread risk (i.e. the exposure to volatility in market price of securitisation investments), which can be driven by several factors[45], only one of which being default risk. Option 3.3 would therefore change the current framework to focus only on default risk. Since default risk is in essence a subset of spread risk, this overhaul would imply a significant reduction in risk factors (by up to 80% depending on the securitisation type and rating[46]) for all (STS and non-STS) securitisation investments.

5.3. Options discarded at an early stage

The identified options in the previous section have been defined based on stakeholder feedback received through our consultation, as well as our own evaluation of the framework. All the presented options are realistic and comprise elements of changes proposed by stakeholders. We did not assess extreme options that would risk compromising market integrity and financial stability, like strong deviations from the international Basel agreement.

Regarding operational costs and banking prudential requirements, the options considered in the previous section cover the full spectrum of possible plausible options to address the problems identified. For each of the three problems, both 'targeted' and 'more radical' options are listed.

Regarding **insurance prudential requirements**, it was decided to discard the possibility to increase the granularity of the STS category by introducing a dedicated prudential treatment for 'mezzanine' tranches. First, the evaluation shows that there is limited evidence that amending the prudential treatment of STS securitisation is an urgent need in view of the oversubscription of non-senior STS issuances[47]. In addition, this would add significant complexity (how to define 'mezzanine' in an objective manner, and set out harmonised characteristics in terms of tranche thickness) and inconsistency with banking rules where there is no explicit treatment for mezzanine tranches.

[45] Frictions between supply and demand, liquidity risks, unexpected credit risk premium, risk of rating downgrade, etc.

[46] We assume a reduction in capital requirements of the same magnitude as in Option 3.2, but applied to all tranches and types of securitisations.

[47] Although the subscribers are mainly non-insurers.

6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS AND HOW DO THEY COMPARE?

6.1. Measures to reduce high operational costs

6.1.1. Option 1.1 Targeted measures reduce high operational costs

6.1.1.1. Benefits

Simplifying the due diligence requirements, as outlined in option 1.1, would substantially lower the additional costs imposed by the SECR on investors by eliminating the verification requirements for regulated investors when investing in securitisations originated by entities subject to supervision in the EU. Verification requirements were consistently cited by investors as a key driver of the costs imposed by the SECR.

Removing the requirement for investors to verify that an STS securitisation complies with the STS criteria would reduce the due diligence cost for investing in such transactions. This is expected to increase the price that investors would be willing to pay for an STS securitisation, thereby increasing the attractiveness of using the STS label for issuers. Even though investors would no longer be checking that a transaction complies with the STS criteria, the integrity of the label is not undermined as supervisors would still be checking this as is currently required under the Securitisation Regulation. Moreover, originators and sponsors are liable for sanctions in case they misleadingly or erroneously label a transaction as STS and they can also rely on the services of external third-party verifiers of STS compliance.

In addition, making the risk assessment principles-based would ensure that investors still analyse the key structural features and risk characteristics of a securitisation transaction while at the same time providing them with sufficient flexibility to look at those structural features and risk characteristics that are most relevant for the type of transaction they wish to invest in. This would be beneficial for investors that primarily invest in low-risk senior positions, allowing them to carry out a lighter and more targeted risk assessment than for investors that invest in high-risk first loss tranches[48].

Finally, simplified requirements for repeat securitisations[49] would incentivise standardisation, as it would be less costly to invest in a series of transactions with similar characteristics issued by the same originator. Simplified requirements for secondary market transactions would make it easier to invest in the secondary market[50], thereby increasing market liquidity.

At the moment, stakeholder feedback suggests that the additional burden imposed by the due diligence requirements in the SECR is the highest for a AAA-rated tranche with a repeat issuer in the secondary market. According to market perceptions, the due diligence costs for these

[48] According to the AFME Securitisation data report for Q4 2023, 96.6% of public securitisation notes rated by Moody's are rated investment grade and 86.7% received the two highest credit ratings of AA or AAA.

[49] Repeat transactions are estimated to about 67% of public market transactions by AFME, see https://www.afme.eu/Portals/0/DispatchFeaturedImages/Article%205%20presentation%20for%20Commission%2015.1.25.pdf

[50] Anecdotal evidence provided in the stakeholder consultation suggests that secondary market transactions make about 50% of the transaction volume in public securitisation markets.

transactions are up to 75% higher than what would be incurred in the regular course of business (without the requirements imposed by the SECR). On the other hand, due diligence for a new issuer is estimated to be only approx. 33% higher due to the due diligence requirements imposed by the SECR[51]. This finding shows a lack of risk sensitivity in the current framework that needs to be remedied in order to reduce costs. On average, based on information received from stakeholders we estimate a savings potential of about 44%[52].

Due to the duplicative or redundant nature of the provisions that are proposed to be removed, no negative impacts can be expected on the ability of investors to analyse the risks of individual transactions, as well as on the possible emergence of macro financial stability risks in the securitisation market.

In the area of transparency, option 1.1 would improve the current reporting burden by reducing the number of obligatory data fields, in particular those that are redundant or that refer to the information that is unavailable or irrelevant for the particular type of securitisation. The impact of this measure might vary for different types of securitisations, depending on the number of fields that would be removed. It might be possible to achieve a higher reduction in certain templates in comparison to others, without compromising investor protection. For example, the disclosure costs for issuers of private securitisations would be significantly reduced by introducing a dedicated, simplified disclosure template for this type of deals. Both private and public securitisations would benefit from option 1.1 as it would reduce the current reporting requirements and potentially allow to securitise assets, for which certain data was uneconomical to collect.

Most respondents, however, did not specify by how much option 1.1 would reduce costs, as this would depend on the concrete details of the change that were not presented in the high-level-description in the stakeholder consultation. Of the few replies received to this question, most respondents spoke of a “minor” or “moderate” expected reduction of their total costs. This is due to the fact that established issuers already incurred the bulk of the costs in the past during the implementation of the required templates. A reduction in one-off costs will, however, be very relevant for new players that are considering entering the securitisation market and that currently would not do so due to the very high one-off costs. Respondents also estimate a reduction of annual recurring reporting costs between 15%-25% (full range with an average of 22,5%), which will be partly offset by the estimated additional costs of approximately 7 million that would result from the reporting of private transactions to securitisation repositories.[53]

Furthermore, lower one-off costs would benefit all types of new issuers entering the market by making it less costly, in comparison to the baseline, to set up the reporting framework.

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[51] AFME, https://www.afme.eu/Portals/0/DispatchFeaturedImages/Article%205%20presentation%20for%20Commission%2015.1.25.pdf.

[52] This savings potential is the result of a more complex analysis that is presented in detail in Annex III.

[53] More details for the cost estimations are in Annex III.

In widening the legal definition for public securitisations, option 1.1 would support overall market transparency, as fewer transactions would qualify as private and be eligible to use the simplified reporting regime. Moreover, removing the current exemption that allows private securitisations to avoid reporting to securitisation repositories, would facilitate the ability of supervisors to monitor the private side of the securitisation market, and thus reduce supervisory costs for this part of the market. Therefore, option 1.1 is also expected to benefit supervision as supervisors would obtain access to data for the entire securitisation market, both public and private, via the securitisation repositories.

Overall, the changes proposed to the due diligence and transparency requirements are estimated to result in EUR 310 million of cost savings per year for the EU securitisation market.

6.1.1.2. Costs

While option 1.1 is expected to have a positive impact on investors' recurring due diligence costs, there will be a trade-off in terms of the cost of supervisory efforts. Adopting a more principles-based approach to risk assessment may require supervisors to dedicate more time and resources to understanding investors' risk management practices. Moreover, removing the verification requirements for investors may require supervisors to dedicate more resources to supervise the compliance of issuers with the sell-side requirements (risk retention, transparency, credit granting standards). Option 1.1 could also result in more divergent supervisory approaches. For this reason, it may be useful to develop supervisory guidance and enhance cooperation to ensure that option 1.1 does not result in an uneven playing field.

Option 1.1 would imply one-off adjustment costs for all existing issuers due to having to adapt to new disclosure templates.

There was no sufficient evidence in the stakeholder consultation on the one-off implementation efforts to adapt to a simplified reporting as proposed in option 1.1 as stakeholders could not assess the costs without detailed and concrete proposal listing all the required data fields. However, one securitisation repository provided an estimate of their adjustment costs for the described adaptation to be about EUR 50,000-70,000. If we take this reply as a rough estimate with a conservative margin, we estimate the adaptation costs to EUR 100,000 per issuer (assuming that existing data fields are re-used to a maximum extent) and that approx. 330 active issuers in the market incur the same cost on average (there will be smaller players operating without IT infrastructure and larger players with more complex IT systems and changes), we obtain one-off implementation costs of EUR 33 million for the market as a whole.

On the one hand, private issuers will benefit from the simplified reporting template and therefore will face lower recurring reporting costs compared to the baseline[54]. On the other hand, private issuers will face additional recurring costs resulting from the obligation to report to securitisation repositories. Based on the current fees charged by securitisation repositories,

[54] We refrain from a market cost estimation for private issuers as the number of private issuers currently cannot be determined as they are not obliged to report to public repositories. We can assume however that there is an overlap of issuers that operate in both segments, public and private.

those costs are less than EUR 10,000 per year per transaction[55]. For an estimated number of 700 outstanding private transactions, this amounts to about EUR 7 million annually.[56]

6.1.1.3. Overall assessment: Effectiveness, efficiency and coherence

Option 1.1 will lower the recurring costs investors face when complying with the due diligence requirements in the SECR. However, the impact would not be the same for all types of securitisations. Recurring due diligence costs for EU issued securitisations would be reduced to a greater extent than for non-EU securitisations. This would be an acceptable outcome because EU transactions are supervised according to the SECR, whereas this is not the case for transactions issued outside of the EU.

At the same time, option 1.1 would not significantly change the risk assessment that an investor needs to carry out in order to invest in a securitisation. Therefore, this option would result in the same level of investor protection as the baseline.

As regards issuers, option 1.1 will reduce operational costs by reducing the amount of information that issuers are required to disclose. The long-term impact of reducing annual recurring costs will be more than sufficient to offset the impact of the one-off costs that need to be incurred by issuers to adapt to the revised type of reporting. This option is also expected to facilitate market entry as it would entail lower one-off costs for new issuers compared to the baseline.

Option 1.1 will improve market transparency relative to the baseline as a higher share of securitisations will be expected to report to securitisation repositories.

The overall impact on the cost of supervision is expected to be neutral as the need for more oversight over compliance with due diligence would be offset by lower need for resources to supervise disclosure.

Option 1.1 would continue to be coherent with the rest of the Securitisation Framework (i.e. 'internal coherence'), as well as with other pieces of financial legislation and with international standards (i.e. 'external coherence').

6.1.1.4. Stakeholders' views

In general, both the industry and the supervisors support option 1.1. Many respondents to the targeted consultation indicated that implementing option 1.1 could be expected to result in higher securitisation issuance, thereby contributing to the general objective.

Option 1.1 was preferred by many respondents under the condition that it would mean keeping the structure of the current templates that are already implemented while introducing flexibility by using the "no-data-option – ND" more extensively. For very granular transactions, i.e.

[55] The rates are published by the securitisation repositories on their websites.

[56] Details in Annex III.

transactions pooling thousands of underlying exposures such as credit card receivables, removing the requirement of loan-by-loan reporting and instead allowing for aggregate reporting could also be considered. Flexibility of the required format[57] and allowing the inclusion of additional data would also be welcomed by certain issuers to better meet the needs of investors. Some respondents pointed also to further reporting with similar content, e.g. securitisation reporting required by the ECB or national competent authorities. Alignment and data sharing between authorities could have beneficial effects for the reporting entities.

Regarding the removal of STS verification, some supervisors argue that this should be contingent on introducing supervision requirements for STS third-party verifiers (TPVs)[58], whereas the industry seems to think that TPVs are already supervised under the SECR. Removing verification requirements, and in particular STS verification, is the main ask from stakeholders in the area of due diligence.

Regarding transparency, issuers warn that requiring private securitisations to report to the securitisation repositories would increase compliance costs for those transactions, which runs contrary to the policy goal of burden reduction. Moreover, stakeholders warn that disclosure requirements for private securitisations should take into account confidentiality and data breach risks.

Option 1.1 would not negatively affect financial stability. In terms of disclosure, option 1.1 still requires enough information about the characteristics and performance of the underlying exposure and the structural features of the transaction to be disclosed to investors so they can carry out a proper risk assessment. Regarding due diligence, option 1.1 still requires investors to meaningfully assess the risks associated with securitisation. Supervisors are still expected to pay close attention to the activities of the securitisation parties.

6.1.2. Option 1.2: Significant measures to reduce high operational costs

6.1.2.1 Benefits

Option 1.2 would remove all operational costs (recurring plus one-off) associated with the due diligence requirements in the SECR for EU regulated investors that go beyond the usual course of business and what would be required by their respective sectoral regulations in the absence of Art. 5 SECR. According to stakeholder feedback, the one-off costs to set up an investment business that would invest in securitisations, associated with the implementation of existing due diligence requirements only, are about EUR 130,000 per entity. If the existing due

[57] E.g. xlsx instead of xml only

[58] The SECR establishes a system of third-party verification entities to assist both issuers and investors, on a voluntary basis, in assessing the compliance of a transaction with the STS criteria. However, the involvement of such verifiers does not remove the legal responsibility from institutional investors to perform due diligence on the investment and investors remain liable for their obligations under the regulation. These third-party verification entities are authorised by the respective national competent authority of the Member State in which they are incorporated. Two third-party verifiers have been authorised so far. To date, most STS transactions have used the services of one of the two third-party verifiers.

diligence requirements no longer apply, those costs and time-investment would no longer have to be incurred by new market entrants, which would facilitate market entry.

This would not exempt EU investors from conducting due diligence when investing in securitisations, but it would eliminate the need for investors to comply with due diligence requirements stipulated in the SECR on top of the due diligence requirements outlined in their respective sectoral legislations. In practice, investors would still need to adhere to the due diligence standards specific to their sector, just as they are required to do so when investing in other financial instruments. Investors that do not have due diligence provisions within their own sectoral legislations would still have to apply the due diligence requirements in the SECR.

The main beneficiaries from such an approach would be those investors for which the existing due diligence requirements result in an additional effort on top of their regular due diligence process. According to the result from the targeted consultation, the costs added by the due diligence requirements in the SECR vary significantly depending on the type of respondent. Some large and experienced asset managers report additional costs as low as 0%. This is the case because they already carried out similar due diligence procedures as those required under the SECR before its entry into force. For other small, regulated institutional investors that carry out different due diligence procedures than those stipulated under the SECR or for other new market entrants option 1.2 could, however, potentially save a significant amount of administrative costs.

In addition to reducing costs, option 1.2 would also lead to a level playing field between securitisations and other financial instruments that are not subject to additional specific due diligence requirements. In turn, this would incentivise EU investors to invest more in securitisations. One may reasonably expect that greater investor interest in securitisations would be followed by the emergence of a wider and more diverse securitisation offer (greater issuance), thus supporting the role of securitisation in funding the EU's economy (see introduction section for a more detailed explanation of what securitisation is and how it can support the EU economy). This option would also benefit new EU regulated investors as it will not be necessary for them set up dedicated processes to comply with the existing due diligence requirements in the SECR.

Option 1.2 would reduce operational costs for all issuers relative to the baseline scenario. The reduction will impact start-up costs in particular, as this approach would give issuers the flexibility to customize their disclosures for each specific deal rather than having to abide by a prescribed disclosure template and format. This is expected to be less costly than the current one-size-fits-all approach, which is often reported to fail to meet the specific characteristics of securitisation transactions and unique investor needs.

Option 1.2 would not require issuers to disclose information that investors find superfluous and that they do not use when making investment decisions. Overall, this streamlined approach should make the disclosure process more straightforward and useful to certain market participants, while not adversely impacting the reporting of information necessary for supervisory purposes.

At the same time, by requiring all securitisations (public and private) to report to securitisation repositories with a single supervisory template, market transparency would be enhanced in comparison to the baseline scenario where only public transactions are obliged to report to repositories. This would allow investors, supervisors and market analysts to get a better view of the market, lowering information asymmetry, enhancing price formation and supporting the further development of the EU securitisation market.

6.1.2.2. Costs

With regard to due diligence, no significant adjustment costs are expected under option 1.2. As for supervisory costs, the impact is likely to be neutral as regards securitisations issued by EU entities as supervisors are already responsible for overseeing due diligence rules in sectoral legislation.

In the area of transparency, option 1.2 would imply some adjustment costs for existing issuers as they would have to adapt their reporting systems. These costs should be comparable to option 1.1 as the new template would build on the existing reporting requirements only with significantly fewer mandatory data fields than the current set of templates.

As regards supervisors, the reduced reliance on standardised reporting for investors would make it more costly to ensure that issuers disclose sufficient information to investors. Moreover, due diligence costs might increase as a result of option 1.2 for transparency, as investors would have less readily available information on other deals, besides the one they are directly investing in.

6.1.2.3. Overall assessment: Effectiveness, efficiency and coherence

Option 1.2 would be the most effective in reducing operational costs for all issuers and investors relative to the baseline scenario.

With regard to due diligence, however, there is a risk that this option would be incoherent with international standards, in particular with respect to the recommendation by the Financial Stability Forum (later succeeded by Financial Stability Board), to ensure stronger requirements for investors' processes for investment in structured products[59]. In addition, reducing due diligence standards too much might also facilitate investments by inexperienced investors who might not be capable of assessing comprehensively the relevant risks of the transaction, which could put financial stability at risk.

Regarding transparency, the reduction in recurring costs is expected to be comparable with that achieved by option 1.1. Disclosure will still be required, but the regulation will rely on the best efforts of issuers subject to market control (if investors are not happy with the disclosure, they will not invest). The primary beneficiaries would be new issuers, who would not be burdened with high one-off costs to set up the reporting framework required in the baseline scenario.

[59] Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience, April 2008

Supervisory control is improved from the baseline as private securitisations would also report to the securitisation repositories, but not to the same level as in option 1.1, as the disclosure templates will provide less information (at least for "public" securitisations).

Overall market transparency should be sufficient but may decrease from the baseline because: i) disclosure from issuers to investors may not always be visible to the entire market, ii) data would no longer be available for public transactions in a uniform and standardised format, and iii) the information disclosed via repositories will be limited.

Although Option 1.2 is more ambitious than Option 1.1, it would not lower requirements to such an extent that financial stability could be at risk. In terms of disclosure, Option 1.2 still requires enough information about the characteristics and performance of the underlying exposure and the structural features of the transaction to be disclosed to investors so they can carry out a proper risk assessment. Moreover, even if securitisation specific due diligence rules are eliminated under Option 1.2, investors will still be required to meaningfully assess the risks associated with securitisation in line with their own sectoral legislation.6.1.2.4. Stakeholder views

Regarding transparency, there is no support from supervisors for option 1.2. Some industry participants are supportive of this option, but most prefer option 1.1 (45 respondents preferred option 1.1, 12 respondents preferred option 1.2, 3 respondents did not want any changes to the current regime and 43 respondents did not answer). Many industry stakeholders warned that it is difficult to estimate the potential savings that Option 1.2 might bring. One large market player pointed out that "if the overall volume of data does not change or if data is difficult to obtain and/or highly complex …, the cost reduction could be lower than expected".

Regarding due diligence, option 1.2 was not explicitly discussed with either market participants or supervisors. However, from the consultation responses, it appears that some industry participants think that due diligence requirements in sectoral legislation are sufficient and that specific due diligence requirements for securitisation in addition to sectoral due diligence requirements are not needed. Although option 1.2 was not explicitly discussed with supervisors, based on previous discussions on this topic, we expect that they would not favour this option since most of them seem to support the idea of having additional due diligence requirements for securitisations.

6.1.2.5. Summary

Comparative presentation of the impacts of Option 1.1 and Option 1.2.

	Option 1.1	Option 1.2
Effectiveness and efficiency		
Reduction in recurring due diligence costs	+	++
Ensuring that adequate due diligence is performed	0	-
Reduction in one-off disclosure costs	0	+
Reduction in recurrent disclosure costs	++	++
Ensuring high market transparency	++	0
Market oversight by supervisors	++	+

Coherence	0	-

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect 0 = no effect - = Slightly negative -- = Negative --- = very negative

Impacts on stakeholder groups

	Issuers of public securitisations	Issuers of private securitisations	Investors	Supervisory authorities
Option 1.1.	++ (Simplified templates)	Summary: ++ +++ (much simpler reporting) - (reporting to securitisation repositories)	++ (removal of redundant due diligence requirements)	Summary: ++ + (better overview of private securitisations) + (less supervisory resources needed to supervise private securitisations) + (wider oversight over the public market thanks to a broader definition) - (more resources needed to supervise due diligence)
Option 1.2.	Summary: ++ +++ (no one-size-fits-all reporting to investors) - (new reporting template needs to be introduced for supervisory purposes)	Summary: + ++ (simpler reporting) Same as for public securitisations. Under this option, there will be no distinction between public and private securitisations. - (reporting to securitisation repositories)	Summary: + +++ (Eliminate the need to comply with SECR due diligence requirements for EU regulated investors) - (less comparable data available for analysing the securitisation market) - (risk of diverging due diligence practices by different types of investors)	Summary: 0 + (better overview of private securitisations) + (less supervisory resources needed to supervise private securitisations) - (less supervisory data for public securitisations) - (less transparency regarding the disclosures that investors receive)

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect
0 = no effect - = Slightly negative -- = Negative --- = very negative

Note: the summary provided in the table on 'impacts on stakeholder groups' is a net result of the pluses and minuses in each cell.

6.2. Measures to reduce undue prudential barriers for banks

6.2.1. Option 2.1: Targeted changes to the existing prudential (capital and liquidity) framework for banks

High level description of the securitisation capital framework in the CRR

The current prudential securitisation framework for banks (set out in the CRR, which implements the Basel III securitisation framework), has significantly increased capital requirements for banks' securitisation exposures compared to the previous regime: as a measure of prudence a considerable level of overcapitalisation (or the so-called 'non-neutrality') was introduced, to address the agency and model risks inherent to securitisation transactions. 'Non-neutrality' of capital requirements means that holding all the securitisation tranches in a securitisation is subject to a higher capital charge than in a counterfactual where the bank has a direct holding of all the underlying non-securitised assets.[60]

More specifically, there are two correction factors in the CRR capital framework that safeguard and ensure the capital 'non-neutrality', of the framework: (i) a risk weight floor for exposures to the senior tranche – which defines an absolute minimum risk weight for banks' exposures to the senior tranche of securitisation – i.e. even if the calculation of capital requirements for that tranche results in lower risk weights, the risk weight floor needs to be applied to prevent excessively low resulting risk weights; and (ii) a (p) factor ('penalty factor') which defines the relative capital surcharge for all securitisation exposures, compared to the capital requirement for the underlying pool of exposures. In terms of impact on individual tranches, the risk weight floor to senior tranches influences the capital requirement for senior tranches only, while the (p) factor influences the capital requirements for all tranches, not just the senior one. Each bank needs to reflect the risk weight floor and the (p) factor in the calculation of the minimum capital requirement that applies to their securitisation exposures.

Another important element of the securitisation capital framework is the Significant Risk Transfer (SRT) framework, which set out tests and rules that supervisors need to follow, when assessing whether the bank has transferred a sufficient amount of risk through a specific securitisation to external investors, and whether as a consequence, it achieves the capital relief (i.e. it is allowed to reduce the capital it has to hold, after securitisation).

Option 2.1 entails targeted amendments towards a more risk-sensitive design of banks' capital and liquidity requirements, in the CRR and in the LCR Delegated Act, where undue requirements would be limited.

[60] Only by transferring a sufficient amount of risk (by selling tranches to an external investor or obtaining a credit protection for certain tranches) can an originator bank achieve capital requirements which are the same or lower than those previously held against the underlying assets.

The targeted changes to the CRR aim to achieve the following objectives: (i) introduce more risk sensitivity into the framework, while supporting financial stability; (ii) reduce unjustified levels of conservatism and capital non-neutrality; (iii) mitigate undue discrepancies between the standardised and internal rating-based approaches for the calculation of capital requirements for securitisation, which should also encourage greater participation of medium-sized banks; (iv) differentiate the prudential treatment for originators/sponsors of securitisations and investors; and (v) make the significant risk transfer framework more robust and predictable. This is achieved through targeted changes to the securitisation capital framework, and to the significant risk framework, in the CRR. The targeted changes to the securitisation capital framework are focused on the above mentioned two elements that have the most significant and direct impact on the capital requirements: the risk weight floor for the senior tranches and the (p) factor.

The proposed changes (and capital reductions in percentage changes) are targeted on (i) the senior tranches, where the exposures of banks are concentrated and where there is space to reduce the excessive conservativeness (the focus is less on the riskier junior and mezzanine tranches); (ii) on originator positions where agency and model risks are reduced (rather than investor positions); (iii) on STS securitisations where the STS requirements largely mitigated the agency and model risks (rather than non-STS securitisations). This focus behind the changes (i.e. away from banks investing in non-STS or away from relaxing the prudential treatment for the more risky tranches) is also consistent and in line with the objective to transfer the risk outside of the banking system towards those that may be better placed to bear those risks.

With respect to the risk weight floors for senior tranches, the current framework is not risk-sensitive, as it allows only for two risk weight floors for senior tranches (a 10% risk weight floor for STS transactions, and a 15% risk weight floor for non-STS transactions). Under this option, the risk weight floors are made risk sensitive: they are made proportional to the riskiness of the underlying securitised portfolio. A lower risk weight floor is calculated for securitisations of assets that are deemed less risky (i.e. that have relatively low risk weights), such as residential mortgages or SME and corporate exposures, in comparison to securitisations of riskier assets. To prevent excessive reductions, the risk weight floors calculated under this risk-sensitive formula will be subject to pre-defined minimum levels.
Moreover, building on the proposals in the 2022 Joint Committee Report, the concept of 'resilient securitisations' is introduced: securitisations which feature reduced agency and model risk, and which comply with a set of safeguards[61] that ensure the resilience of the transactions and the protection of the senior tranche. These transactions would benefit from a lower risk weight floor and lower (p) factor for the senior tranche, compared to non-resilient transactions. The resilient transactions safeguards are adjusted compared to the 2022 Report, to capture a larger part of the securitisation market, while still ensuring prudent results.

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61 The safeguards are: (i) minimum thickness of first loss/mezzanine tranche that protects the senior tranche from losses, (ii) minimum granularity of asset pool, (iii) sequential amortisation, and (iv) funded credit protection (in case of synthetic securitisations only). With the exception of the first one, the safeguards are existing criteria for STS purposes (i.e. defined in the Securitisation Regulation or in the Article 243 of the CRR).

With respect to the (p) factor, under the standardised approach (SEC-SA), targeted changes are introduced to the (p) factor to address an excessively punitive capital treatment, for senior tranches. Under the internal rating-based approach (SEC-IRBA), formula-outcome scaling factors and floors to the (p) factor are lowered and caps are introduced, in particular for senior tranches.

As regards the significant risk framework, the proposed changes aim to make the framework more robust by replacing the current prescriptive tests for assessing the amount of risk transferred in securitisation, which is a precondition for the bank to benefit from the capital relief through securitisation, by the Principle Based Approach (PBA) test, as proposed by EBA in 2020. The PBA test addresses the limitations of the current tests which fail to ensure the transfer of risk to third parties in some cases, and specifically aims at the transfer of the unexpected losses of the securitised portfolio. Supervisors would maintain the flexibility to adapt supervisory assessments of transactions with complex features. The main elements of the SRT assessment and the broad design of the test would be defined in the CRR. EBA would be mandated to deliver technical standards which would operationalise the technical details of the test and would set high level principles for the supervisory process, including for a fast-track process for simpler transactions.

Before proceeding to analysis of impacts, it should also be clarified that the impact of the proposed changes to the capital and liquidity for securitisation for banks on their issuance and investment behaviour differs based on the type of securitisation transaction (i.e. whether it concerns traditional or synthetic securitisation) and the role of the bank in the securitisation transaction (i.e. whether the bank originates the transaction or invests in it). These particularities have been taken into account when designing the measures under each option and when assessing their impact on the securitisation market.

The main objective of synthetic securitisation is capital and credit risk management, as banks sell and transfer out risk and achieve SRT to achieve capital relief. The originator bank normally retains the senior tranche and sells the mezzanine tranche which contains higher risk, to achieve SRT. Banks are not investing in synthetic securitisations. Securitisation prudential rules have therefore direct impact on synthetic securitisations.

On the other hand, traditional securitisations are issued mostly for funding purposes i.e. to get access to cash/funds. This is achieved by selling senior tranches (hence, contrary to synthetic transactions, here the senior tranche is sold and is no longer capitalised).[62] Banks are important investors in the senior tranches of traditional securitisations, as the latter are eligible for their LCR liquidity buffers. Overall, in the case of traditional securitisations, the securitisation prudential rules mostly impact banks that invest in the senior tranches. The treatment of these

62 A specific type of traditional securitisations (currently representing a majority of traditional securitisations in the market) are transactions where the bank does not sell but retains the senior tranche and uses is as collateral to access central bank funding (these transactions do not meet SRT rules and the securitisation prudential framework is not relevant because the originator bank has to continue to apply the credit risk framework for calculating capital for the whole underlying portfolio).

securitisations under the LCR is considered to be the more important driver for banks' investments in these securitisations.

The securitisation rules in the CRR apply to bank originators (i.e. to the exposures they retain in the securitisation they have originated – subject to the condition that significant risk transfer is achieved), bank sponsors (i.e. to tranches they sponsor) as well as to bank investors (i.e. to the tranches they have bought).

6.2.1.1. Benefits

Option 2.1 would make the capital requirements for banks' securitisation exposures more risk-sensitive by reducing the amount of capital that banks are required to hold for securitisations where key risks driving the securitisation capital needs, such as agency and model risks, have been mitigated. These risks are lower, for example, from the perspective of an originator (who has more detailed knowledge and control over the underlying exposures and the securitisation origination process than an investor), or in case of STS transactions (because STS criteria largely mitigate the agency and model risks).

Revising the capital framework in a risk-sensitive manner is expected to reduce excessive overcapitalisation by better aligning the capital treatment with the underlying risks. Targeted revisions would also mitigate undue discrepancies in the capital requirements for different banks using different approaches for the calculation of their securitisation capital requirements (concretely, more coherence would be introduced between more sophisticated internal approaches and less sophisticated standardised approaches).

The proposed revisions are expected to have a positive impact on market developments, as follows:

- They should lead to an increase in issuance by banks of securitisations which achieve SRT, as a more favourable prudential treatment is expected to increase the attractiveness of securitisation as a tool for risk sharing purposes. The changes should affect mostly synthetic securitisations (which are primarily structured for SRT purposes), but it should also encourage issuance of traditional securitisations which are done for SRT purposes and where senior tranches are sold to the market.
- More banks could decide to issue, notably less sophisticated banks using the standardised approach might have better incentives to enter the market as issuers. In 2024, over 70 banks issued securitisation that achieved SRT; this number is expected to increase.
- The measures should also positively impact banks' investments in senior tranches of STS traditional securitisations (acknowledging that the liquidity treatment of these securitisations in the LCR has a more pronounced effect on the attractiveness of the banks to invest in these securitisation). Currently, in the primary market, according to market estimates, the oversubscription for senior tranches has been on average 1.5/1.7 of investor per senior tranche on average in 2024; this number is expected to increase.

While the reduction of the capital requirements for individual securitisation transactions is expected to be potentially significant, the overall impact on the capital of banks would be quite limited, because of the very small weight of securitisation exposures in their total exposures. Indeed, the risk-weighted assets corresponding to banks' securitisation positions currently

represents only 1.5% of the banks' total risk-weighted assets (according to EBA, as of December 2024).

As regards the use of traditional securitisation for funding purposes, the total outstanding securitisation funding represented 0.4% of EU banks' total balance sheet as of December 2023 (compared to 63.1% of funding coming from deposits and 5.4% coming from covered bonds, for example). This means that on aggregate traditional securitisation is very scarcely used as a source of banks' funding, although it could be an important funding instrument for some banks. It is expected that the measures under option 2.1 will increase this share but the overall impact on banks' funding mix would likely not be substantial.

On the impact of the proposed measures, based on informal checks with supervisors and indicative figures covering a sample of anonymised existing SRT securitisations, the reductions of the risk weight floors and (p) factors are expected to result in reductions of capital requirements for senior tranches by approximately one third, on average. These estimates should be interpreted with caution as they are subject to a number of caveats (as explained below).

The measures are expected to reduce the levels of capital required for securitisation, but still in a prudent way. The overall amount of capital for securitisation would always be approximately at least 20% higher compared to the capital of the underlying exposures, based on the principle of non-neutrality and prudence (as the (p) factor would never be lower than 0.2, even for the least risky transactions).

Respondents to the consultation provided unverifiable estimates of the impact of changes to the securitisation framework on additional lending. One respondent wrote that every EUR 10 bn of risk-weighted assets that banks can securitise, rather than keep on their balance sheet, allows banks to provide additional lending of EUR 15-20 bn[63]. Another respondent suggests that 71% of the capital released or funding generated by SRT securitisations is currently used for further lending to the EU economy; and that this percentage would likely increase with the proposed measures.

All these quantitative estimates should however be interpreted with caution. There is significant uncertainty in all the estimates and in modelling the outcomes of the proposed measures in general, as estimates rely on several assumptions and they have the following main limitations:

- First and foremost, static and mechanistic comparisons are limited as they do not allow to take into account the behavioural changes or the modification in the structuring of the products themselves, which makes comparability and achieving reliable and accurate estimates difficult. This is especially relevant for securitisations, where banks structure the securitisation transactions according to the applicable regulation (and hence banks would structure securitisation transactions differently under two different regulatory regimes).
- Second, it is difficult to quantify the amount of capital that would be relieved from the banking system altogether, as there are various external variables that come into play, such as the overall number of issuer banks, the number of investors and the overall volume of

[63] These estimates might be inflated.

issued securitisation transactions, which are difficult to predict as they also depend on wider macro-economic and interest rate environments etc.

- Third, the quantification is complicated by the fact that it assesses the impact of a series of measures including several parameters, rather than a single measure and a single parameter (i.e. even if one could provide an estimate of the impact of the changes to the floor parameters – and this is already subject to a number of limitations as mentioned above – it is impossible to provide a reasonable quantitative estimation of the combined effect of the measures);
- Fourth, the impact also depends on response to the incentives set by the prudential treatment for originators and investors, which are more difficult to quantify. The overall amount of released capital depends also on the impact of the SRT framework and the SRT rules on the overall issuance, which are also expected to change, under the Option 2.1. A decisive factor in this respect is also the complexity of the securitisation structures that banks might decide to use: if banks have simple standardised structures, this might ease the life of investors and supervisors and provide more relief overall thanks to the increased number of issuances, compared to individual more complex issuances which might provide more benefits only if seen in isolation.

Taking all the above into account, the most important impact of option 2.1 is therefore qualitative, and that is that it would make the use of securitisation more attractive as a tool for risk transfer and capital relief, with smaller transaction costs (related to due diligence and transparency) and a broader investor base.

The measures under option 2.1 will help banks achieving capital relief in a more efficient way – i.e. they will allow banks to achieve the same amount of capital relief by selling less risk, or they will allow banks to increase the capital relief for the same amount of risk transferred – while still ensuring prudent levels of capital.

The estimates are even more complicated in the context of the introduction of the output floor, which will progressively change the incentives for banks to move out exposures from their balance sheet (and in a way that differs individually from bank to bank).

With respect to significant risk transfer, the proposed changes would address the structural flaws of the current SRT framework. For example, a number of transactions can pass the existing tests even though they may not necessarily transfer a sufficient amount of risk in economic terms in all cases. This structural flaw may result in a weakening of the capital position of the bank since the capital relief that is obtained is not justified from an economic perspective. The replacement of the existing tests with a new test would allow to address identified flaws and would ensure that a significant risk transfer effectively occurs, so that the capital relief achieved by the originator through that securitisation transaction is justified. This is not expected to result in increased number of supervisory objections to the SRT for specific transactions; rather, the aim is to ensure that the rules that supervisors follow when assessing the transactions before the SRT validations are clearer and more solid where possible.

In addition, the efficiency of the process of the SRT supervisory assessments would be enhanced by providing some harmonised high-level principles, allowing for a simpler and quicker supervisory assessment process for simple transactions.

The proposed changes to the SRT framework would increase the reliability and predictability of the SRT assessments, while ensuring the efficiency of the process, as well as the supervisory discretion to decide on the prudent treatment of transactions. The proposed changes are expected to result in increased market volumes and efficiencies when transferring risks from banks' balance sheets to existing and new investors, freeing up banks' lending capacities. All in all, an enhanced SRT framework would be beneficial for all stakeholders (originators, investors and supervisors) and for both traditional and synthetic transactions.

With respect to the liquidity treatment, targeted revisions to the liquidity framework would address some inconsistencies in the current eligibility conditions. These targeted changes would strengthen the incentives for banks to invest in publicly traded STS traditional securitisations, which would have a positive impact on the market liquidity and volume of these securitisations. It would thus deepen this segment of the securitisation market and diversify banks' liquidity buffers and risk profiles.

6.2.1.2. Costs

By design, making the capital requirements for securitisation more risk-sensitive will reduce the amount of capital that banks hold against their securitisation exposures in some cases, but the overall level of capitalisation is expected to remain prudent and proportionate to the associated risks. Banks may incur some minor implementation costs from implementing the proposed changes, as they would need to implement limited targeted changes to their existing methods for capital requirements calculation. However, these implementation costs are expected to be lower in comparison to the benefits (i.e. estimated funding cost savings stemming from reduced capital requirements). Overall, as the measures do not propose a fundamental overhaul of the methods that banks use for the calculation of capital, they rather involve an adaptation of existing parameters and make the framework more risk sensitive - the costs will be limited and are not considered as a topic of concern by the banking industry.

Changing the SRT framework may result in implementation costs for supervisors to adapt their supervisory methodologies to the existing framework. However, the SSM, the major EU supervisor which assesses almost all SRT transactions in the EU, already incorporates a number of the proposed requirements in their supervisory assessments and processes, which should significantly mitigate the implementation costs of the proposed changes. Implementation costs may be higher for other supervisors which do not incorporate such requirements in their practice (non-SSM or non-Euro area). On the other hand, improving efficiency of SRT supervisory processes should lead to reduction of the ongoing supervisory costs.

Making the Framework more robust would necessarily mean that some of the new SRT tests may be stricter for some transactions. Increasing the robustness and solidity of the SRT framework is, however, a necessary condition to accompany the proposed changes in the capital treatment and ensure trust in the securitisation market. The proposed changes should simplify the processes associated with these supervisory assessments, reducing the overall administrative burden for both banks and supervisors.

6.2.1.3. Overall assessment: Effectiveness, efficiency and coherence

Option 2.1 is expected to be effective in reducing undue prudential barriers for banks to issue securitisation. It is also expected to increase the risk sensitivity of the framework and economic viability of securitisation as a risk transfer tool. By mitigating some of the key barriers to entry for new EU banks, option 2.1 would make securitisation more accessible to a larger number of banks across the EU.

Overall, it is expected to give rise to a relatively moderate increase in securitisation issuance and investments by banks active in the market, in particular of simple and resilient securitisations. It is also expected to result in the entrance of new banks in the market, in particular medium-sized banks or banks in Member States with no active issuance to date.

The measures are expected to mainly increase the issuance of synthetic securitisations, but to a lesser extent also of traditional securitisations that are placed in the market (as these will become less capital and cost intensive), thus providing the bank originators with increased liquidity for lending and increased lending capacity.[64] They are also expected to increase the role of banks as investors in the senior tranches of these placed securitisations. This would help strengthen the EU banking system's ability to provide credit to the economy and to refinance new businesses.

The measures are also expected to increase the share of securitisations in the banks' liquidity buffers and increase the diversification of banks' liquidity buffers.

However, the intervention itself cannot ensure significant market growth, and the active role of market participants will be crucial as well (as noted above).

Overall, measures under option 2.1 would support the development of the securitisation market and increase the competitiveness of the banking sector. However, they are not expected to result in an undercapitalisation of securitisation related risks or to jeopardise financial stability, and hence should maintain prudence and soundness as regards banks' exposures to securitisation. The guiding principle is that prudential requirements are made more risk-sensitive, which in turn is actually expected to support financial stability (a risk-insensitive one-size-fits-all approach would imply that requirements are either too high or too low, relative to the actual underlying risk). This means that capital requirements will be reduced for transactions which are deemed less risky (i.e. with less risky securitised portfolios which have relatively low risk weights), while capital requirements will be increased for transactions which are deemed more risky (i.e. with more risky securitised portfolios). In addition, the SRT rules for assessing the amounts of risk transferred would be made more thorough and robust and liquidity buffers would be more diversified.

64 Therefore, the effect on the banks' lending channel from increased securitisation should not be dampened by the fact that a large share of traditional securitisation transactions are retained on the banks' balance sheet.

The proposed targeted changes do not represent a trade-off between the banks' competitiveness and financial stability, as the changes aim to maintain capital requirements at a prudent level and concern a specific and narrow area of prudential regulation only (risk-weighted assets corresponding to EU banks' securitisations currently represent only 1.5% of the EU banks' total risk-weighted assets). The proposed changes reduce the capital surcharge for securitisations, taking into account that securitisations have suffered very low losses and defaults in the last decades, and that a number of important risk mitigants have been introduced in the EU regulatory and supervisory framework. The EBA's advice has been taken on board in designing the measures, and the concerns as regards potential undercapitalisation have been taken into account in the design and calibration of the individual measures proposed.

It should be acknowledged that financial stability risks cannot be reliably quantified, and that there is no precise level of capital requirements below which financial stability is jeopardised and above which financial stability is safeguarded. At the same time, all in all, making prudential requirements more risk-sensitive should promote financial stability.

With respect to the risk weight floor, specifically, increasing the risk sensitivity of the existing capital framework through targeted reductions to the risk weight floors has been a central recommendation by the EBA. In their analysis, the EBA fully acknowledged the reduced model and agency risk associated with some types of transactions (i.e. tranches retained by originators) and proposed that the reduced risks should be recognised through lower risk weigh floors for these types of transactions, when accompanied by a set of safeguards ensuring their resilience. Option 2.1 goes further and introduces a new risk-sensitive formula for the calculation of the risk weight floor, extends the scope of the reduction of the risk weight floors to other specific types of securitisations, which also have reduced model and agency risks (such as STS securitisations) and adjusts the safeguards to make them more workable for the existing securitisation market.

With respect to the (p) factor, the EBA has not recommended to reduce the (p) factor, as this could lead to cliff effects (i.e. situation where small changes in the (p) factor result in large changes in the capital requirements and steep differences between capital requirements for different tranches) - due to the intrinsic nature and limitations of the existing formulas for the calculation of capital; and as this could result in undercapitalisation of banks' exposures to mezzanine securitisation tranches in particular. To take these concerns into account, Option 2.1 limits the changes to the (p) factor to specific types of transactions only, where agency and model risks have been reduced by means of a series of regulatory and supervisory measures, also considering the solid credit performance of the EU originated securitisation market. Also, as the reductions of the (p) factor would be minimal, it would limit the cliff effects (i.e. it would limit the risk of excessive differences between the capital requirements for various tranches) and the resulting amount of capital would still be kept at sufficiently prudent levels, including for the mezzanine tranches.

Option 2.1 is coherent with the recent political statements, including by the European Council, which have highlighted the need to take measures to remove issuance and investment barriers in the EU securitisation market and which have called to look at the prudential treatment of securitisation for banks in particular.

With respect to the aspect of consistency with international standards, it should be noted that all potential changes to the prudential framework would result in a certain level of deviation from the international standards. The measures under option 1 aim to limit these deviations and maintain a high level of international consistency. Given that the materiality of the deviations from the Basel standards would be limited, we believe the proposal under option 2.1. remains largely consistent and coherent. The proposals have a targeted scope, aim to ensure a positive impact on the EU securitisation market going forward, and to support the international competitiveness of EU banks.

The proposed targeted changes, when compared to the current provisions, are expected to reduce the capital requirements in particular for less risky, robust and resilient securitisation, but are not expected to give rise to prudential concerns. They aim to correct the current overcapitalisation stemming from the current framework, which is based on best-effort calibrations rather than empirical evidence.

6.2.1.4. Stakeholders' views

The targeted amendments towards a more risk-sensitive design of banks' capital and liquidity requirements (option 2.1) will be welcomed by banks acting as issuers and investors as this proposal will reduce excessive conservatism in the Framework and address some of the main undesired effects. Its targeted nature may be criticised as not being ambitious enough to make the EU securitisation market sufficiently attractive. Banks have been calling for more substantial long-term amendments to revive securitisation activity.

In the consultation, a significant majority of financial industry representatives considered that the current capital framework gives rise to an undue overcapitalisation of securitisation exposures (33 respondents agree, 0 disagree, 9 have no opinion and 65 provided no answer) and they generally called for comprehensive reductions of the capital parameters. As regards the liquidity framework, a large majority of stakeholders (44 out of 131, 78 did not respond and 9 had no opinion) called for amendments to the eligibility criteria applied to securitisations eligible to the buffer for high quality liquid assets under the LCR.

With respect to the SRT rules, the respondents generally support regulatory harmonisation of rules and supervisory convergence at the EU level. With respect to the tests applied to securitisations, industry generally agrees with the conditions of the tests and do not see a need to make them more robust, although they are not opposed to targeted changes (23 agree, 19 disagree, 11 have no opinion and 78 do not answer). Supervisors on the other hand believe it is necessary to increase the robustness of the framework, in line with the EBA reports, and support the measures proposed.

As the proposed amendments increase the risk-sensitivity of the Framework, are targeted, take into account the main prudential concerns raised by supervisors as regards the risk from banks' exposures to securitisation, and do not constitute a major adjustment to the Basel standard, option 2.1 should constitute a pragmatic and balanced proposal.

6.2.2. Option 2.2: Radical overhaul of the existing prudential (capital and liquidity) framework for banks

Option 2.2 entails a radical overhaul of the existing prudential (capital and liquidity) framework, that results in material changes to the way capital requirements are calculated and assessed by supervisors and to the eligibility of securitisations under the liquidity framework. It contains a set of far-reaching yet conceivable policy measures that have been debated between different kinds of stakeholders. It aims to correct an undue bias towards conservativeness and overcapitalisation introduced in the previous framework, which has been detrimental to the banks' involvement in the securitisation market.

Option 2.2 considers radical changes to three aspects of the framework: the capital framework, the SRT framework and the liquidity framework.

First, this option entails a fundamental re-design of the existing capital framework (i.e. the formulas used for the calculation of capital requirements), which would result in completely new methods for the calculation of capital requirements across securitisation tranches. Two alternatives that could be considered are the replacement of the current risk weight design with an 'inverted S-curve' function, and the introduction of a scaling parameter to scale the KA downwards, as also analysed by the EBA.[65]

Second, option 2.2 also removes the existing core legal requirements for the significant risk transfer, notably the existing quantitative criteria/tests for achievement of capital relief, and the requirements for supervisory checks and approvals. Option 2.2 effectively results in banks self-assessing their securitisation transactions, based on high-level requirements specified in the legal text, without the need for checks by the supervisors.

Finally, option 2.2 introduces comprehensive changes to the current liquidity requirements for banks in the LCR Delegated Act, resulting in a significant relaxation of the existing eligibility requirements for securitisations to be included in the LCR liquidity buffers, which would substantially extend the scope of eligible securitisations in HQLA beyond STS traditional securitisations (such as, the extension of the eligibility to non-STS securitisations).

6.2.2.1. Benefits

As noted by the ESAs, the securitisation capital framework should ideally aim to achieve three goals -limit cliff effects, avoid an unreasonable level of capital non-neutrality, and ensure a maximum capitalisation of the junior (most risky) tranches. The structural limitations of the existing securitisation capital framework however only allow to achieve two out of these three goals and generally fails to achieve sufficient risk sensitivity. Therefore, option 2.2 provides

[65] The current risk weight function is a combination of two elements: first, the requirement for a full one-to-one capitalisation (1250% RW) for the most risky tranches until a certain 'cliff' point, and then a steep decrease of the risk weights as a function of the (p) factor, for mezzanine and senior tranches. The inverted S-curve function could allow to eliminate the cliff point and mitigate the cliff effects in the risk weights across all the tranches in securitisation. Scaling KA downwards would be possible within the current halfpipe design, while it would still create a cliff effect at the cliff point KA. Both options could possibly achieve the targets of a moderate capital non-neutrality and still achieve high risk weights for lower tranches.

an opportunity to reassess the importance and prioritisation of the goals of the existing framework, including the prominence of the role of the (p) factor. The redesign of the current securitisation capital framework thus has a potential to achieve more proportionate levels of capital non-neutrality, mitigate the cliff effects (and therefore mitigate the risks of the undercapitalisation of mezzanine tranches) and introduce more risk sensitivity in the calculation of capital for securitisation.

With respect to the changes to the SRT framework, option 2.2 would introduce a new approach to the way how transactions are assessed for the purpose of capital relief and would introduce a significantly higher level of flexibility in the existing framework. Significant simplification of the existing framework would help stimulate the issuance of securitisation, as it would reduce the burden on both banks and supervisors. The current SRT framework is highly comprehensive, setting out a number of specific quantitative and qualitative criteria, extending beyond the international Basel requirements. This option would allow to make the SRT framework more comparable with those of some other jurisdictions, where SRT requirements are much more lenient.

With respect to the LCR changes, relaxing the eligibility conditions to the liquidity buffer to non-STS securitisations would contribute to an increased demand for non-STS securitisations by banks to be included in their liquidity buffers, and as such could help address one of the main issues of the current securitisation market which is the lack of investors in the senior tranches. It would improve market liquidity and volumes and contribute to the diversification of banks' liquidity buffers. A number of respondents to the targeted consultation have called for the extension of the scope of the LCR to non-STS securitisations, as considered under this option.

6.2.2.2. Costs

This option would lower the external coherence of the Securitisation Framework since it would entail significant deviations from the existing Basel standards. The ESAs acknowledged that one could in principle look for an alternative design of the existing framework, but that this should be done and agreed preferably at the Basel table. All in all, a potential fundamental redesign of the capital framework is more of a medium-term to long-term project.

Loosening the SRT framework as proposed in option 2.2 could result in further divergence and incoherence in the application of the SRT rules across banks, or even for similar transactions of the same bank. It could lead to higher heterogeneity of SRT outcomes and could increase uncertainty in the market. It could overall reduce the safety and soundness of the capital positions of the banks, and hence negatively impact financial stability.

Similarly, the changes to the LCR rules could impact the quality of the banks' liquidity buffers, as it would also include securitisation transactions not meeting the quality criteria of the STS label. A liquidity buffer of lower quality may lead banks to face more difficulties to sell or exchange their liquid assets. This may also oblige banks to accept significant haircuts on their liquid assets in stressed environments. This would mitigate their capacity to refinance their needs on capital markets.

6.2.2.3. Overall assessment: Effectiveness, efficiency and coherence

Fundamentally redesigning the risk weight formulas that underpin the capital framework for securitisation would allow to address the limitations of the existing securitisation capital framework. There is therefore a merit in considering these proposals, which have been analysed by the ESAs and also debated by the stakeholders. However, the reformed framework would diverge significantly from the Basel standards. These considerations could therefore be developed in medium term and brought to the Basel table in due time, as also pointed out by the ESAs.

Some elements of option 2.2 (concretely changes to the SRT framework and LCR framework) would however make the framework less robust and could lead to non-prudent outcomes. They could therefore jeopardise the sound capital and liquidity positions of banks and could pose risks for the financial stability.

In sum, the overall combined impact of measures under the option 2.2 on the reduction of prudential barriers, increase in securitisation issuance and increase in banks' competitiveness is expected to be potentially more significant than under option 2.1. However, the potential impact on financial stability is also expected to be more significant. Option 2.2. is also expected to lead to major deviations from international Basel requirements.

6.2.2.4. Stakeholders' views

A number of respondents in the consultation (20 out of 131 agree, 4 disagree, 23 had no opinion and 84 did not answer) considered that a fundamental redesign of the capital framework merits further consideration, as it has a potential to achieve more proportionate levels of capitalisation and increase the risk sensitivity. However, they generally consider that such proposals require further analysis and should be considered in a longer-term perspective, preferably at international level. Banks would also support the possibility to further diversify their liquidity buffer and appreciate the burden reduction linked to the removal of supervisory checks in terms of risk transfer.

Supervisors support investigating alternative designs of the risk weight formulas, albeit they prefer to do it at international level. Supervisors would also disagree with the removal of core supervisory checks for SRTs and with measures that would negatively impact the quality of the banks' liquidity buffers and the capital position of banks.

6.2.2.5. Summary

Comparative presentation of the impacts of option 2.1 and option 2.2

	Option 2.1 Targeted prudential changes	Option 2.2 Overhaul of existing Framework
Effectiveness:		

Reduction of undue prudential barriers	+	++
Increased risk sensitivity of the capital framework	+	++
Impact on the securitisation issuance and investments in securitisation by banks	+	++
Increased share of securitisations in the banks' liquidity buffers, increased diversification in the liquidity buffers	+	++
Prudential risks, in terms of safety and soundness of the capital positions of banks and the quality of the banks' liquidity buffers	0/-	--
Potential negative impacts on financial stability	0	--
Efficiency:	+	-
Coherence (Deviations from international Basel requirements):	0/-	--

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect
0 = no effect - = Slightly negative -- = Negative --- = very negative

Impacts on stakeholders' groups

	Banks as issuers	Banks as investors	Supervisory authorities
Option 2.1.	Summary: + + (removal of main prudential barriers and increased risk sensitivity is expected to boost issuance of both synthetic and traditional securitisations)	Summary: + + (removal of main barriers in prudential and liquidity framework is expected to increase banks investments in senior tranches of STS securitisations)	Summary: + + (support for increased robustness of the SRT framework) + (support for increased efficiency of SRT processes) - (overall a balanced proposal, while some supervisors may disapprove some specific elements)
Option 2.2.	Summary: ++ ++ (boost to issuance as a result of increased risk sensitivity of the framework and significant simplification of SRT framework)	Summary: ++ ++ (significant relaxation of liquidity requirements is expected to boost banks' investments in STS and non-STS securitisations)	Summary: -- - (supervisory concerns with removal of core supervisory checks and significant relaxation of criteria in the liquidity framework) - (concerns over significant deviations from Basel standards)

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- = Mixed effect
0 = no effect - = Slightly negative -- = Negative --- = very negative

Note: the summary provided in the table on 'impacts on stakeholders' groups' is the net result of the pluses and minuses in each cell

6.3. Measures to remove undue prudential costs for insurers

The three options (Options 3.1, 3.2, and 3.3) considered share similarities, as they all involve revising existing risk factors to calculate capital requirements. As a result, it can be challenging for an external reader to grasp the differences and nuances between the options by examining each one in isolation. Therefore, we have chosen to present a simultaneous assessment and comparison of the options. This approach allows us to highlight how each option contributes to specific costs and benefits while clearly distinguishing and quantifying the extent of these effects. We also avoid extensive repetitions and redundant content. Although the structure is distinct, the dimensions assessed remain consistent with the previous sections.

6.3.1. Comparative impacts of Options 1, 2 and 3

Option 3.1: Removing prudential barriers to investments in all non-STS securitisations;

Option 3.2: Improving risk sensitivity and removing prudential barriers to investments in the safest tranches of non-STS securitisations;

Option 3.3: Overhauling the prudential treatment of securitisations in order to make all securitisation investments relatively more 'attractive' than under current rules.

All three options considered imply a reduction in the amount of capital that insurers are required to hold when investing in a securitisation. This would make it less costly (capital cost) for insurers to invest in securitisation, thus removing the existing undue prudential disincentives for insurers to invest in the EU securitisation market. The options mainly differ in terms of (1) the type of securitisations that would benefit from lowering of capital charges, (2) the extent of capital relief provided and (3) whether this implies a fundamental change to the way of assessing risks of securitisation positions. The net overall effect of these options varies mainly by degree. Still, one needs to also consider the robustness of the underlying technical rationale for changing the rules when assessing each option. The comparative features of the three options are described in the below table.

	Option 1	Option 2	Option 3
Eligible securitisations	All non-STS securitisations	Only senior non-STS securitisations	All securitisations (both STS and non-STS)
Extent of capital relief	Simple (moderate) lowering of capital requirements	More significant lowering of capital requirements	Highest lowering of capital requirements
Fundamental change to the way of assessing risks	No - capital requirements would continue to	No - capital requirements would continue to reflect market volatility risk	Yes – capital requirements would only reflect counterparty default

of securitisation positions?	reflect market volatility risk		risk, and no longer market volatility

The impact on stakeholders depends on how insurers will use the capital relief. This section includes a summary table, but the topic is further discussed in Annex XI, Section A. Impacts on stakeholder groups following the implementation of the respective policy options.

	Issuers of securitisations	Insurers	Policyholders	Supervisory authorities
Option 3.1.	Summary: + (If insurers use the capital relief to invest in more securitisations, this would increase the demand for more issuances)	Summary: ++ ++ (Several billion euro of capital relief)	Summary: 0 + (potential higher expected return on their savings) - more risk taking means higher likelihood that the insurer fails	Summary: -- -- (lower level of prudence of the Framework and lower ability to intervene timely to avoid insolvencies)
Option 3.2.	Summary: + (If insurers use the capital relief to invest in more securitisations, this would increase the demand for more issuances)	Summary: ++ ++ (Several billion euro of capital relief). Would be all the more beneficial if insurers invest in the senior tranches of non-STS	Summary: +/- + (Potential higher expected return on savings) ++ (Removal of incentives for undue risk taking in riskiest tranches) - (lower level of prudence of Solvency II)	Summary: - - (lower level of prudence of the Framework and less ability to intervene timely to avoid insolvencies)
Option 3.3.	Summary: + (If insurers use the capital relief to invest in more securitisations, this would increase the demand for more issuances)	Summary: +++ +++ (most significant capital relief)	Summary: - ++ (Potential Higher expected return on their savings) --- (significant deterioration of level prudence can pose material risks to policyholder protection)	Summary: --- --- (inconsistent prudential framework, making supervisors' ability to exercise their prerogative much more complex)

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- =Mixed effect
0 = no effect - = Slightly negative -- = Negative --- = very negative

NB: the summary aims at 'netting' the pluses and minuses of the different sub-aspects considered.

6.3.2. Comparative benefits and costs of the three options

6.3.2.1. Benefits

As explained above, all options have in common a reduction of capital requirements so that it is less costly for insurers to invest in securitisations – hence removing undue prudential obstacles to investments in securitisations in line with the second specific objective. For this reason, they would all contribute to the general objective of this impact assessment (reviving a safer securitisation market).

The below table provides a very rough estimate of the potential total capital relief (before assuming any change in their investment behaviours). This would represent the additional capital available for insurers to make new investments (possibly in securitisation). Please note that these Commission calculations are based on a number of simplifying assumptions[66], which are necessary as the reporting data submitted by insurers to their supervisors (and centralised by EIOPA) is not sufficiently granular.

	Option 3.1	Option 3.2	Option 3.3
Comparison of scope of eligible investments	Intermediate (all non-STS)	Narrowest (only senior non-STS)	Largest (all securitisations)
Total impact in terms of capital relief	EUR 4.1 bn	EUR 5.9 bn	EUR 7.1 bn

However, each of the three options have a differentiated additional benefit:

- Option 3.1: simplicity
- Option 3.2: removal of undue incentives for excessive risk taking
- Option 3.3: preservation of Solvency II's ability to be conducive of standardisation around the STS label.

Option 3.1 has the merits of being the simplest to implement. It merely requires changing the actual risk factors applicable to non-STS securitisation. Its implementation boils down to changing seven numbers (factors) set out in Article 178(8) of the SII DA. Although options 3.2 and 3.3 are not overly complex either, they require some additional adjustments to information systems.

[66] For instance, same allocation of ratings and durations between STS and non-STS securitisations, similar relative shares of senior and non-senior tranches for non-STS as in STS, assumption that ratings BBB and lower are non-senior, etc.

Option 3.2 brings the additional benefit of making SII more 'risk sensitive' while avoiding undue incentives for excessive risk taking. As the capital requirements on non-senior non-STS would remain much higher than those applicable to senior non-STS tranches, the enhanced risk sensitivity would also remove undue incentives for risk taking by insurance companies. As such, option 3.2 is the most successful in achieving the second specific objective of this impact assessment, namely "enhancing the prudential framework to better account for actual risks and remove unnecessary prudential costs (…) for insurers when (…) investing in securitisations." While EIOPA did not express specific comments on Option 3.2, it is our assumption that EIOPA would not challenge the technical rationale underlying such Option, as EIOPA does not deny that senior tranches bear less risks than non-senior ones.

Option 3.3 is the only option which would result in capital relief for both STS and non-STS securitisations. It would therefore ensure that Solvency II remains conducive to greater standardisation around the STS label. By contrast, options 3.1 and 3.2 only focus on improving incentives for non-STS securitisation, which might reduce the relative attractiveness of STS ones.

6.3.2.2. Costs

All three options would generate limited administrative and compliance costs which would therefore not be the main guiding factor when deciding on the preferred option. The reader can find more detailed information in Annex III and Annex XI, Section B. We can expect the costs to be even lower than under banking rules, as changes to Solvency II under all three options would concern a limited number of values for one single parameter (whereas in the banking rules, several provisions and parameters are affected), and we do not envisage e.g. any meaningful change in IT systems.

None of the three options would differentiate between different types of non-STS securitisations and would apply the same capital requirements regardless of the underlying asset. This may result in underestimating or overestimating the risks underlying certain forms of non-STS securitisations. In particular, the non-STS category can prove to be very diverse, comprising some very stable and very liquid categories, as well as some other, more complex types of securitisations. Against this background, a general lowering of capital requirements for all non-STS securitisations would result in a deterioration of policyholder protection where a specific insurer would materially increase its investments in the more complex/opaque segments of non-STS securitisations.

The risk is however more contained in option 3.2, which only reduces capital requirements on the most senior tranches (i.e. those less risky and with higher credit rating). The risk of any of the three options is also dependent on insurers' behaviours and the level of additional investment risk taken by insurers. If behaviours do not change significantly (i.e. the overall share of investments in insurers' investment portfolio increases in a moderate manner), the risk discussed would remain moderate (though still higher under option 3.3 than under the two other options). However, options 3.1 and 3.3 have specific downsides which are not applicable to option 3.2:

- Specific downside of options 3.1 and 3.3: remaining incentives for 'excessive' risk taking
- Specific downside of options 3.1 and 3.2: reducing the relative attractiveness of STS securitisation
- Specific downside of option 3.3: lack of robust technical basis and significant incoherence introduced within Solvency II which can harm policyholder protection and financial stability.

Neither option 3.1 nor option 3.3 would differentiate senior from non-senior capital requirements (no improvement to risk sensitivity). This means that all else equal, insurers could still be unduly incentivised to invest in the most junior tranches of securitisations as they would be subject to the same requirements as the more senior tranches while offering prospects of higher returns (but also higher risks). This lack of risk sensitivity would be incoherent with banking rules.

Options 3.1 and 3.2, by only focusing on non-STS securitisation, would reduce the 'prudential attractiveness' of STS securitisation. However, Option 3.2 implies improving risk sensitivity. As such, it is not expected to 'dilute' the STS label, but simply to ensure that the level of capital requirements on non-STS securitisation is more commensurate to its risk, including by comparison with the risks of STS securitisation.

Option 3.3, which is not backed by any advice or assessment made by EIOPA, would be an overhaul to the current approach of calculating capital requirements:

- Under current rules, securitisation investments are treated in the same manner as government bonds, corporate bonds, loans and covered bonds. More concretely, SII requires insurers to set aside capital to cover the risk of loss in value of their investments ('spread risk').
- With option 3.3, securitisation investments would no longer be treated like other bonds and loans. Their risk would be assessed by looking exclusively at the risk of default[67]. Such a significant change requires either robust technical basis or sufficient evidence.

From a technical standpoint, the choice to focus on default risk can only be justified if insurers stick to their investments until their maturity (if this is the case, then insurers are not exposed to the risk of losses stemming from the early sale of their investments at a depreciated price). However, while insurers have a long-term business – in particular in life insurance – a general assumption of holding to maturity conditions is highly challengeable. In fact, only a very limited share of insurers' assets is intended to be held to maturity, as evidenced in their accounting and financial disclosures[68].

In addition, a preferential capital treatment cannot only be justified by a mere 'intention' to hold an asset to maturity. In terms of policyholder protection, what matters is whether insurers can avoid forced selling of their assets when they are facing stressed market conditions. However, the cuts in capital requirements stemming from option 3.3 would not be conditional

67 One can argue that this implies reducing the scope of the assessment, as the risk of default is only one of the drivers of 'spread risk' (i.e. risk of volatility in the value of the investment).

68 Assets that are held to maturity are reflected in insurers' disclosures as assets 'valued at amortised cost'.

to such demonstration. Therefore, option 3.3 does not comply with the current level of prudence of the SII framework[69].

Thirdly, option 3.3 would affect policyholder protection the most, by introducing significant internal inconsistency within SII, as securitisation would no longer be treated like other similar fixed income securities (government bonds, corporate bonds, covered bonds)[70]. It would also create significant incoherence with banking rules[71]. option 3.3 would therefore bring additional risks to policyholder protection in comparison with options 3.1 and 3.2, by misrepresenting the actual level of risks to which insurers are exposed on their investments.

6.3.3. Overall assessment: Effectiveness, efficiency and coherence

6.3.3.1. Effectiveness

Option 3.1 is effective in reducing undue prudential disincentives to investments in non-STS securitisations.

Option 3.2 is effective in reducing undue prudential disincentives to investments in senior non-STS securitisations. It also avoids providing 'wrong' incentives of risk taking due to the enhanced risk sensitivity. The capital relief insurers obtain through option 3.2 is higher than under option 3.1, which implies more effectiveness in unleashing their investment capacity.

Option 3.3 is effective in reducing undue prudential disincentives to investments in securitisations – both STS and non-STS. Because it also concerns STS securitisation, the effectiveness is higher than under options 3.1 and 3.2.

For all three options, it is unclear whether the released capital would result in more investment in securitisations. The capital relief could instead be used in an opportunistic manner by insurers for higher dividend distributions or share buybacks. The risk is higher for option 3.3. in view of the higher extent of capital relief.

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[69] On the other hand, introducing safeguards in the context of Option 3 would remove one of the main 'benefits' of such option, namely its simplicity.

[70] In fact, this inconsistency would result in capital charges for securitisations that are even lower than those of the underlying assets. This would breach the 'non-neutrality' principle as capital requirements on securitisation would no longer reflect the additional risks that such investments entail, namely agency and model risks.

[71] One has to acknowledge that banking rules also apply default risk to some securitised assets – those which are part of the so-called 'banking book', i.e. assets held to maturity. Against this background, Option 3.3 could be seen as improving coherence with banking rules (to the extent that insurers' investments are held to maturity, which is not substantiated as discussed above). However, Option 3.3 would not reflect the many sophisticated parameters and methods underlying these banking capital requirements. Attempting such level of sophistication would require extensive work, all the more that the risk metrics and applicable 'confidence levels' underlying capital requirements in the two frameworks is different. Such sophistication would also generate extensive complexity that is not commensurate to the importance of this asset class in insurers' portfolios. Therefore, while under Option 3.3 insurers and banks would be expected to measure the very same risks when investing in securitisation, the risk measurement would in practice materially differ (due to the much simpler approach of Option 3.3 when comparing with banking rules). In other words, Option 3.3 does not effectively improve coherence with banking rules

6.3.3.2. Efficiency

Option 3.1 would entail very limited compliance costs for insurers due to the simplicity of the amendments. Such costs are negligible in view of the level of reduction in capital costs. However, it would not improve the risk sensitivity of the Framework nor policyholder protection. In addition, it could generate financial stability risks if the lowering of capital requirements results in a significant increase in investments in the most junior tranches of non-STS securitisation. By improving the 'prudential attractiveness' of non-STS securitisation investments and reducing the discrepancy between non-STS and STS capital requirements, the review might the reduce relative attractiveness of STS securitisations and would not be conducive to greater standardisation around that label. Option 3.1 could actually result in less investments in STS securitisation by insurance companies (which are already quite low as shown in the Evaluation).

Option 3.2 would entail some limited compliance and administrative costs that are negligible in view of the reduced capital costs, though slightly higher than in option 3.1. In addition, option 3.2 avoids the 'wrong' incentives for excessive risk-taking identified in option 3.1. Option 3.2 can also be framed so that it does not hinder the objective of the initial initiative of enhanced standardisation, for instance by ensuring that capital requirements on any non-STS securitisation remain higher than those on STS securitisations (including for non-senior tranches). In other words, under option 3.2, all tranches of STS securitisations would remain prudentially more attractive than non-STS securitisations[72]. For all these reasons, option 3.2 would overall be more efficient than option 3.1.

Option 3.3 would entail some limited compliance and administrative costs that are negligible in view of the reduced capital costs (cost levels being between those in options 3.1 and 3.2). Option 3.3 does not hinder the objective of the initial initiative of enhanced standardisation as capital requirements on STS securitisations would also be reduced. However, the technical justifications supporting this approach are limited and not backed by any EIOPA assessment or advice. The lack of safeguards (requirements or criteria) allowing for such preferential treatments poses risks to policyholder protection that are materially higher than under options 3.1 and 3.2 (though the extent of such higher risks would depend on whether insurers materially increase their investments in securitisations following the implementation of this option). Indeed, the SII framework would no longer measure the risk posed by securitisation in a similar manner as for other fixed income securities with similar features. For all these reasons, option 3.3 would be less efficient than options 3.1 and 3.2 in achieving the second specific objective in view of the associated risks. This is due to the limited technical justifications and the absence of qualitative safeguards. Additionally, it presents significantly higher risks to policyholder

[72] Indeed, capital requirements on non-STS securitisations would be calibrated such that they remain higher those on STS securitisations. With Option 3.2, the 'ranking' of capital requirements from the lowest to the highest would be as follows:

- Lowest capital requirements: senior STS
- Second lowest capital requirements: non-senior STS
- Third lowest capital requirement: senior non-STS
- Highest capital requirements: non-senior non-STS

protection, as the SII framework would no longer assess the risks associated with corporate bonds and securitisation in a comparable way, despite their similar features[73].

6.3.3.3. Coherence

Option 3.1 neither improves nor deteriorates the internal coherence of SII.

Option 3.2 improves the internal coherence of SII by treating in a 'comparable' manner STS and non-STS securitisations (both of them having differentiated capital requirements for senior and non-senior tranches).

Option 3.3 would result in an incoherent SII framework by considering different risks for asset classes with similar characteristics (spread risk for bonds, default risk for securitisation).

6.3.4. Stakeholders' views

There is a general support from industry stakeholders to decrease capital requirements for securitisation. Stakeholders do not address concerns regarding the potential complexity of non-STS products and argue that historical risks of default remain low. However, as explained previously, options 3.1 and 3.2 would still include securitisation in the scope of market volatility risk (volatility in credit spreads), not default risk.

Historical risks of default do not necessarily imply low volatility over a one-year horizon. Market volatility not only depends on the probability of default but also the cost of a potential increase in risk of the investment (e.g. cost of a rating downgrade). It also depends on the specific context of securitisation, including the type and quality of the assets in the securitised pool, as well as the transparency of the asset (lower transparency can result in more significant 'irrational' market movements).

In fact, it is the understanding of the Commission services that irrespective of the technical or conceptual rationale supporting changes to insurance rules, the industry would be supportive of the most significant decrease in capital charges applied to the widest scope of securitisations (i.e. both STS and non-STS) hence favouring option 3.3. However, the main objective of these respondents is not to align insurance rules with banking rules (which would imply adopting a very sophisticated set of parameters), but to achieve significant cuts in capital requirements. Preferences between option 3.1 and 3.2 would depend on the investment strategy of each individual insurer: companies investing heavily in non-senior tranches would likely favour option 3.1 rather than option 3.2 (since the latter does not bring any changes to non-senior non-STS investments) whereas others would favour option 3.2 (which results in a more significant cut in risk factors than option 3.1.

[73] One has to acknowledge that securitisation brings significant diversification benefits in comparison with an exposure to a single bond or loan. Conversely, it may also bring specific agency and modelling risks. In any case, such features do not justify why the measurement of risk (spread risk vs. default risk) should differ between corporate or covered bonds and securitisations.

By contrast, the insurance supervisory community, in particular EIOPA, generally does not support a decrease in capital requirements for securitisation. EIOPA claims that its current calibration (which remains the basis for currently applicable rules) remains appropriate. EIOPA does not challenge the principle of improving risk sensitivity by differentiating capital requirements between senior and non-senior tranches of non-STS securitisations (as in option 3.2). The supervisory community, in particular EIOPA, would strongly oppose option 3.3 (reclassification of securitisation in the scope of default risk) in view of the lack of technical robustness of this option, the absence of strict criteria for demonstrating a 'hold-to-maturity' investment behaviour, including under stressed conditions, and the internal incoherence of prudential rules which this option would entail. Finally, EIOPA doubts that targeted lowering of capital requirements would have any impacts on investment behaviours, arguing that securitised assets do not have the features that fit the insurance business model, which often requires strict matching of assets and liabilities. The complexity of the product also makes it less attractive compared to other products which necessitate less intensive due diligence. This line of thought applies to all three options.

As part of the consultation processes, stakeholders were invited to provide feedback on the impact of any decrease in capital requirements on levels of investments. However, no meaningful feedback was received, highlighting the difficulty for stakeholders to provide clarity or 'commit' to potential changes in investment behaviours stemming from changes in prudential rules.

Summary – impact on financial stability: Option 3.2 lowers capital requirements for the highest quality tranches of non-STS securitisations. Out of all the options considered for insurance, this is the most beneficial for financial stability since it incentivises insurers to invest in the safest part of the non-STS market. The other options can be considered to provide a relatively lower level of protection of financial stability. Option 3.1 (moderately reducing all non-STS capital requirements) brings comparatively more risks to financial stability, as it benefits also the lower quality tranches. Among the options considered, Option 3.3 is the least conducive to tackling financial stability risks adequately, as risks would not be assessed consistently with other asset classes, and the envisaged revised capital requirement would underestimate the actual risks of securitisation. Finally, in view of currently low levels, even if investments in securitisation were to multiply by five, securitisation would still represent a niche asset class within insurers' portfolio. Financial stability risks are therefore contained.

6.3.5. Summary comparison and choice of preferred option

	Option 3.1	Option 3.2	Option 3.3
Removal of prudential disincentives	+ Capital relief: EUR 4.1 billion	+ Capital relief: EUR 5.9 bn	++ Capital relief: EUR 7.1 bn
Removal of incentives for excessive risk taking	-	++	--
Associated implementation costs	low	low	low

Improvements to internal coherence of Solvency II	+	++	--

Legend: +++ = Very positive ++ = Positive + = Slightly positive +/- =Mixed effect
0 = no effect - = Slightly negative -- = Negative --- = very negative

6.4 Social, environmental and fundamental rights impact

The assessment of the various policy options primarily focuses on their economic and regulatory impacts, with no direct impacts on social, environmental, and fundamental rights issues. For a more detailed analysis, please see Section 7.2.

7. COMPARISON AND PREFERRED COMBINATION OF POLICY OPTIONS

In the Table below we present a comprehensive comparison of the policy options, as they relate to the three problems identified in the Impact Assessment. This analysis assesses each policy option across three key criteria: effectiveness, efficiency, and coherence. Based on the analysis presented, we conclude that the following combination of policy options is the most effective, efficient and coherent: option 1.1, option 2.1 and option 3.2.

Summary comparison of all policy options

	Effectiveness	Efficiency	Coherence
Measures to reduce high operational costs			
Option 1.1. Targeted measures to reduce high operational costs	Positive	Limited adjustment costs for issuers and investors	Limited impact
Option 1.2. Significant measures to reduce high operational costs	Slightly positive	Limited adjustments costs for issuers and investors	Slightly negative
Measures to reduce undue prudential barriers for banks			
Option 2.1. Targeted changes to existing prudential (capital and liquidity) framework for banks	Slightly positive	Slightly positive	Limited impact
Option 2.2. Radical overhaul of the existing prudential (capital and liquidity) framework for banks	Slightly positive	Slightly negative	Negative
Measures to remove undue prudential costs for insurers			
Option 3.1. Removing prudential barriers to investments in all non-STS securitisations	Limited impact	Limited implementation costs, some additional risks to policyholder protection	Limited impact

Option 3.2. Improving risk sensitivity and removing prudential barriers to investments in the safest tranches of non-STS securitisation	Slightly positive	Limited costs	Positive
Option 3.3. Overhauling the prudential treatment of securitisation in order to make all securitisation investments relatively more 'attractive' than under current rules	Positive	Limited costs, material additional risks to policyholder protection and financial stability	Negative

To address Problem 1 (high operational costs for issuers and investors), option 1.1 presents the most balanced outcome between reducing undue operational due diligence and disclosure costs while maintaining high levels of market transparency, investor protection and supervisory oversight. Option 1.2 has the potential to achieve higher burden reduction, but it also brings higher risks for market integrity. Addressing the risks associated with option 1.2 would make the application of that option much more challenging from a technical perspective and to a large extent nullify the potential benefit it could bring. For example, ensuring that option 1.2 does not sacrifice market transparency, and thereby the ability of investors to conduct proper risk analysis, would require supervisors to conduct thorough checks on the amount and quality of information that each originator discloses upon issuance – these checks are automated by the securitisation repositories under option 1.1.

When it comes to Problem 2 (undue prudential barriers for banks), option 2.1 is the preferred option, as it addresses miscalibrations in the capital requirements for banks in a more efficient and targeted way, only for robust and resilient transactions for which risks have been reduced. The expected impact and outcome of the policy proposals under option 2.1 is more predictable, and the calibration of the proposal is relatively more straightforward and less complex. It would allow to stimulate banks' participation in the securitisation market without resulting in significant regulatory deviations from international standards and without jeopardising financial stability. On the other hand, option 2.2 would likely reduce the safety and soundness of the capital positions of banks and negatively impact the quality of banks' liquidity buffers.

Under Problem 3 (undue prudential costs for insurers), option 3.2 is the most effective in removing undue prudential disincentives while avoiding undue deterioration of policyholder protection. It would remove undue prudential obstacles to investments in non-STS securitisations by addressing the current very conservative prudential treatment, while removing undue incentives for insurers to invest in the riskiest tranches.

All three preferred options are complementary, target different aspects of the Securitisation Framework and different players on the securitisation market, hence altogether provide a comprehensive solution to the core problems identified. The three preferred options are also mutually reinforcing; for example, changes in the prudential treatment of securitisation would have a much less pronounced effect on securitisation issuance if implemented on a standalone

basis and if not accompanied with the adjustments to the disclosure and due diligence framework.

Solving Problem 1 reinforces the impacts of the measures to address Problems 2 and 3. Solving Problem 3 reinforces the response to Problem 2, to the extent that lack of issuance is driven by insufficient investor demand. The reverse is also true – having more supply would reinforce the impact of solving Problem 3 to the extent that insufficient supply affects investor demand. Despite their complementarity, the effectiveness of the options to address one problem does not depend on which option is chosen to address another problem. For example, the effectiveness of the measures to lower operational costs does not depend on which option is chosen to address the undue prudential barriers/costs for banks and insurers.

Against this background, the assessment concludes that there is no better combination of policy options to meet the stated objectives. Moreover, as explained above, none of the preferred policy options are expected to put financial stability at risk. Therefore, their combination also does not.

7.1. Impact of the preferred policy options on the general objective

Options 1.1, 2.1, and 3.2 present a compelling opportunity for the EU to revitalise its securitisation market, to allow securitisation to play a role in the development of the SIU and to reduce burden and compliance costs for issuers and investors. By addressing the high operational costs and undue prudential disincentives that have deterred banks and insurers from participating in the EU securitisation market, these options will contribute to the Commission's effort to reduce the regulatory burden on market participants and stimulate the use of securitisation. The pace of growth of the market would, however, depend also on factors outside the regulatory securitisation framework. At the same time, the presented options will continue to safeguard financial stability and provide an adequate level of investor and consumer protection.

Together, this package of options will directly contribute to the broader effort to establish a Savings and Investment Union. A safe and vibrant securitisation market will provide EU households and businesses with access to the necessary funds to grow and be more competitive, creating new opportunities and driving economic prosperity. Moreover, by increasing the availability of financing, securitisation can contribute to funding the EU's strategic priorities, and its fungible nature means that it can be adapted to fund a wide range of priorities, making it an important tool for financing EU's future growth and development.

While the proposed options are expected to drive market development, it is equally important to recognise that market participants also have a role to play in fostering a more robust and dynamic securitisation market. Various external factors, such as the state of monetary policy and the availability of alternative funding sources, will also have an important impact on how the securitisation market develops going forward.

7.2. Social, environmental and fundamental rights impact

The assessment of the various policy options primarily focuses on their economic and regulatory impacts, with no direct impacts on social, environmental, and fundamental rights issues. However, for all the options assessed indirect effects can be considered in each of these areas:

Social Impacts

By enhancing credit availability and facilitating more efficient risk transfer, the proposed measures can indirectly boost economic activity. This can lead to increased lending to businesses, including SMEs, thereby potentially supporting job creation and economic growth. Improved efficiency in the banking sector may lower borrowing costs and enable banks to extend credit to a broader segment of the population. This could enhance access to financial services, promoting social inclusion and helping individuals who are typically underserved by traditional financial systems.

Environmental Impacts

While the proposed measures do not explicitly target environmental outcomes, a more efficient securitisation market could support green investment initiatives by making capital more accessible for environmentally friendly projects. This could, in turn, help banks to finance sustainable projects, contributing indirectly to positive environmental outcomes. If banks decide to prioritise investments in sustainable assets or projects, the improved liquidity and credit capacity enabled by measures envisaged under this initiative could facilitate increased funding for sustainability. It should be noted that the current framework already provides for voluntary disclosure on the principal adverse impacts of the assets financed by the underlying exposures on sustainability factors for STS securitisation. Moreover, as outlined in detail in the evaluation (see Annex V), the EUGBS Regulation provides for a dedicated framework for green securitisation. The review is not foreseeing any changes in this respect. No negative environmental implications have been identified for any of the policy options. The initiative aligns with the UN Sustainability Development Goal 8.2, which involves achieving higher levels of economic productivity through diversification, technological upgrading, and innovation.

Fundamental Rights

There are no direct impacts on fundamental rights. The simplification and efficiency measures do not directly address issues relating to personal data or privacy. Nonetheless, changes to disclosure and reporting standards must comply with existing data protection laws to ensure the security and privacy of any personal data involved in the securitisation process.

The preferred combination of options is highlighted as the preferred option due to its effectiveness in reducing high operational costs and removing undue prudential barriers, while avoiding undue deterioration of protection and avoiding incentives for excessive risk-taking. This option aims to balance the need for economic stimulus with maintaining robust standards, thus minimising negative societal impacts. Overall, while the proposed measures mainly focus

on financial regulation, there are potential indirect benefits that can arise, impacting social, environmental, and fundamental rights in supportive and sustainable ways. Ensuring a stable securitisation market contributes indirectly to the protection of fundamental economic rights by promoting financial stability through risk diversification.

7.3. REFIT (simplification and improved efficiency)

The presented policy options propose series of simplifications and refinements to enhance efficiency within the securitisation market. Through targeted adjustments and strategic simplification, these measures are positioned to bolster the market's capacity, attract a broader base of investors, and encourage economic growth—while maintaining a resilient and transparent financial ecosystem. The changes are expected to boost the competitiveness and sustainability of the EU Securitisation Framework, driving growth for all stakeholders involved.

By reducing compliance overhead for issuers and aligning regulatory measures with actual market practices, the reform seeks to invigorate market participation, transparency, and risk management. Ultimately, these changes address unnecessary prudential and operational costs, strengthening the market structure and its resilience for future growth.

The preferred option embeds a significant simplification of due diligence duties for businesses and a more efficient transparency framework. This would involve a streamlining of the processes companies need to follow to ensure compliance. By reducing these obligations, businesses will face lower compliance costs, enabling more resources to be allocated to core business activities.

Implementation costs are expected to be offset by long-term operational savings. While issuers may encounter some one-off costs to adapt to the revised reporting type under Article 7 SECR, the recurrent reduction in administrative burdens should outweigh these initial expenditures. By mandating that both public and private securitisation transactions report to repositories, the preferred option enhances market transparency.

7.4. Application of the ‘one in, one out’ approach

The operational costs linked to the due diligence and transparency obligations under the SECR can be categorised as administrative costs relevant for the “one in, one out” offsetting:

- The preferred option would lead to an estimated saving of total **recurring** administrative costs in the approximate magnitude of EUR 310 million per year.
- Meanwhile, it is expected that the preferred option will entail moderate **one-off** administrative costs for the implementation of amended reporting templates estimated to EUR 33 million subject to one in, one out considerations as the preferred approach intends lightening the existing due diligence and transparency requirements.

Further detail is available in Annex III.

7.5. Impact on SMEs

The preferred options would have mostly indirect, but positive, impacts on SMEs. Although SMEs are generally not directly involved in the EU securitisation market as issuers or investors, the initiative would increase banks' lending capacity and improve SMEs' access to cheaper and more diversified funding sources. Measures to simplify regulations and lower operational costs could encourage broader securitisation, including of SME loans, and promote competition through the entry of new lenders. The increased risk sensitivity of the banks' capital framework would allow to achieve a more favourable capital treatment of SME loans (for example, the introduction of the risk sensitive risk weight floor for the senior tranches would allow to reflect the SME supporting factor in the securitisation capital treatment, which is not possible under the current framework). This could encourage the securitisations of the SME loans. While a limited number of stakeholders cited concerns regarding SME over-reliance on bank-based funding, the initiative is generally seen as supportive of SME financing, with no significant negative impacts identified.

Further detail is available in Annex VIII.

7.6. Impact on EU Competitiveness

The preferred option would strengthen EU competitiveness by reducing capital and compliance costs for securitisation market participants, thereby improving cost efficiency and aligning the EU framework more closely with international standards. This will help level the playing field for EU issuers and investors, who currently face higher operational burdens compared to non-EU counterparts. By simplifying due diligence and transparency, and making prudential requirements more risk-sensitive, the initiative enhances the attractiveness of EU securitisation products both domestically and globally. Increased securitisation activity can also free up lending capacity for banks and credit institutions, supporting greater access to finance for EU businesses, including SMEs. This is particularly relevant for advancing the EU's strategic goals in green and digital innovation, where improved financing channels are critical to maintaining global competitiveness.

Further detail is available in Annex VII.

8. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

The Commission shall carry out an evaluation of this package of proposed amendments, four years after its entry into application and present a report on the main findings to the European Parliament, the Council and the European Economic and Social Committee. The evaluation shall be conducted according to the Commission's Better Regulation Guidelines. The evaluation will be based on a list of specific and measurable indicators that are relevant to the objective of the reform, as presented in the following table. To prepare the evaluation report, the Commission will mandate Member States, the ESAs and the ECB/SSM to collect data to calculate the indicators included in the table and report on them to the Commission.

Objective	Indicator	Source of information
Reducing undue	The Commission shall assess the overall situation and dynamics of the EU securitisation market and	EBA, ESMA, ECB/SSM

prudential barriers for banks	the appropriateness and effectiveness of the EU prudential securitisation framework (differentiating between different types of securitisations, including synthetic and traditional securitisations, between originators and investors, and between STS and non-STS transactions). It will also assess the increase in the number of banks involved in securitisation, the increase in the volume of traditional securitisations placed with external investors (i.e. not retained) and the increase of the volume of securitisation positions in the banks' liquidity buffers. As part of the review, the Commission shall also assess the impact of the amendments on financial stability. It shall also consider whether a more fundamental change to the risk-weight formulas and functions would allow to achieve more risk sensitivity and address structural limitations of the current framework.	
Reducing operational costs to issue and invest in securitisation in the EU	Monitoring the cost of conducting due diligence to invest in securitisation transactions. Monitoring issuance cost stemming from the disclosure requirements. Tracking the number of securitisation issuers and investors	Surveys among market practitioners
Reducing undue prudential costs for insurers	Increase in the total reported amounts of investments in securitisations by insurers would demonstrate the positive effect of the reforms on insurers' decisions to ramp up their investments in securitisation.	EIOPA

ANNEX I: PROCEDURAL INFORMATION (STILL UNDER DEVELOPMENT)

1 - Lead DG, D*e*cide Planning/CWP references

This Impact Assessment Report was prepared by Directorate A "General Affairs", and Directorate D "Banking, Insurance & Financial Crime", of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

The Decide Planning references are: PLAN/2024/1808; PLAN/2024/1929; PLAN/2024/2001.

The initiative was included in the Commission Work Programme 2025.

2 - Organisation and timing

The first ISSG took place on 23 January 2025 with the attendance of the following Directorates-General (DGs) of the European Commission: Economic and Financial Affairs, Internal Market, Industry, Entrepreneurship and SMEs; Budget; Education, Youth, Sport and Culture; Reform and Investment Task Force; Regional and Urban Policy; Research and Innovation; Justice and Consumers; Trade; Competition; Employment, Social Affairs and Inclusion; Taxation and Customs Union; Trade and Economic Security; Environment; Taxation and Customs Union; Eurostat; Joint Research Centre; Secretariat General; Energy; and Financial Stability, Financial Services and Capital Markets Union. The second ISSG meeting took place on 21 February 2025.

DG FISMA has considered the comments made by DGs in the final version of the impact assessment. In particular, DG FISMA has provided more clarity about the seriousness of the problems, the impacts of the various options, as well as further evidencing the various claims and statements made throughout the text. DG FISMA provided bilateral feedback on certain comments to provide additional background, explanation and reassurance to colleagues, particularly on comments and issues that fell outside the remit of the current initiative. The analysis of impacts and the preferred option takes account of the views and input of different DGs.

3 - Consultation of the RSB

An upstream meeting was held with the Regulatory Scrutiny Board (RSB) on 25 November 2024.

The draft report was sent to the RSB on 12 March 2025 and the hearing took place on 9 April 2025. The RSB issued a positive opinion with reservations on 11 April 2025[74]. The principal reservations (which have been addressed in this final version of the report) were the following:

> *(1) The report does not sufficiently substantiate the problem and its drivers. It does not clearly identify the evidence driving the conclusion that over-restrictive prudential, due*

[74] That Opinion has been published and is available at [OP PLEASE INSERT LINK TO THE RSB OPINION]. In addition to the principal reservations cited here, numerous detailed changes were requested which have also been implemented in this final version.

diligence and transparency requirements act as a barrier to the development of the market.

(2) The report does not adequately define the key elements for each of the assessed options. It is unclear what is supposed to change in the prudential framework and due diligence and transparency rules. The report does not therefore clearly bring out the choices and trade-offs made when developing the options.

(3) The report does not adequately assess and compare the combined impacts of the options in terms of how they could affect the stability of the financial system. The report is also not sufficiently clear on whether the different options presented imply different risk levels for the financial system.

- Reports were introduced in Annex 2 of two further consultation events held subsequent to the submission of the draft report to the RSB – the closure of the Call for Evidence (stakeholders), and the Commission Expert Group on Banking Payments and Insurance (Member States).

Issue identified by the Board	Action taken
The report does not sufficiently substantiate the problem and its drivers. It does not clearly identify the evidence driving the conclusion that over-restrictive prudential, due diligence and transparency requirements act as a barrier to the development of the market.	Additional evidence with regard to the role of external factors has been added in section 2.1. Explanation was added in section 2.1.2. to demonstrate why the current disclosure and due diligence requirements go beyond what is necessary, thus hindering market development. In addition, explanation has been added to further substantiate the problem regarding the prudential treatment of banks. In addition, key findings from the Evaluation were highlighted in the text of the Impact Assessment to better illustrate all three identified problems and their drivers (see sections 2.1.2, 2.1.3., and 2.1.4.). Stakeholders' feedback has been amended to more systematically outline the views of different stakeholder groups.
The report does not adequately define the key elements for each of the assessed options. It is unclear what is supposed to change in the prudential framework and due diligence and transparency rules. The report does not therefore clearly bring out the choices and trade-offs made when developing the options.	Further detail has been added to explain the changes that the different options entail for transparency, due diligence and prudential requirements (see sections 5.2.1, 5.2.2, and 5.2.3). Such clarifications aim to clearly bring out the

	choices and trade-offs made when developing the options.
The report does not adequately assess and compare the combined impacts of the options in terms of how they could affect the stability of the financial system. The report is also not sufficiently clear on whether the different options presented imply different risk levels for the financial system.	In general, additional detail has been added to explain that none of the presented options are expected to endanger financial stability, and therefore neither does their combination (see section 6). The section on the prudential treatment of banks has been amended to provide further details on the content of the proposed measures, on the expected impact of the stability of the financial system and on the costs related with the implementation of the proposals.

4 - Evidence, sources and quality

The impact assessment drew on a broad range of information sources such as the results of consultations with stakeholders, reports from the ESAs, and additional desk research by the Commission services. Some of the specific sources of data used in the preparation of this impact assessment include the following:

- Evidence supplied in the context of various consultations by the Commission as described in Annex II;
- EIOPA data extracted from quantitative reporting templates submitted by insurance and reinsurance undertakings;
- ECB Governing Council Statement of 7 March 2024;[75]
- Eurogroup Statement of 11 March 2024;[76]
- European Council conclusions of April[77], June 2024;[78]
- "Much more than a market", report by Enrico Letta, 17 April 2024;[79]
- "The future of European competitiveness," report by Mario Draghi, 9 September 2024;[80]
- EBA working papers and staff working documents;
- Publicly available studies, reports, position papers and other relevant documents drawn up by private and public stakeholders.

[75] https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr240307~76c2ab2747.en.html
[76] Eurogroup statement of 11 March 2024,
[77] https://www.consilium.europa.eu/media/m5jlwe0p/euco-conclusions-20240417-18-en.pdf
[78] European Council conclusions of June 2024
[79] https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf
[80] https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

ANNEX II: STAKEHOLDERS' CONSULTATION (SYNOPSIS REPORT)

In order to ensure that the Commission's proposal adequately takes into account the views of all interested stakeholders, the consultation strategy supporting this initiative was built on the following components:

- A targeted (but nevertheless public and open) consultation, with detailed questions aimed specifically towards market participants with expertise in the European securitisation market, open from 9 October 2024 to 4 December 2024;[81]
- Numerous *ad hoc* bilateral contacts with various stakeholders, either on their initiative or that of the Commission.
- Consultation of stakeholders in a dedicated day-long in-person Securitisation workshop, held on Commission premises in Brussels on 3 July 2024;
- Input from the European Supervisory Authorities within the framework of the Joint Committee Securitisation Committee and of the European Systemic Risk Board;
- Consultation of Member States' experts through (the Financial Services Committee and Eurogroup Working Group +)
- Call for Evidence published on 19 February 2025 and running until 26 March 2025.

1 - Targeted CONSULTATION

Given the technical nature of the initiative, a decision was taken to conduct a targeted public consultation to obtain stakeholder views on the functioning of the EU securitisation framework. The 8-week feedback period ran from 9 October 2024 to 4 December 2024. The consultation, which was conducted online via the EUSurvey platform, received 133 responses from a variety of stakeholders. 131 replies were submitted via the online form, and 2 were sent by email to a dedicated functional email inbox, managed by DG FISMA. Please note that unless specifically mentioned in the summary of the online consultation, the two email respondents were not considered in the statistical analysis of answers.

Most respondents were stakeholders from the European Economic Area (107), in addition to the US (13), UK (10) and Switzerland (2), Australia (1). Please note that unless specifically specified in the summary of the online consultation, those who did not provide a view were not considered in the analysis of answers. Responses received were from a variety of stakeholders representing individual companies, business associations, public authorities, consumer organisations, EU citizens, NGOs, trade unions and academic/research institutions.

Below is a summary of the views expressed in the targeted consultation with regard to the experience with the framework so far and to further action to improve the framework and develop the EU securitisation market. The summary is presented thematically by issue area. Any opinions expressed reflect the views of the respondents and do not reflect the position of the European Commission.

1.1. Non-prudential issues

[81] https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-functioning-eu-securitisation-framework-2024_en

1.1.2. Effectiveness of the securitisation framework

The following chart presents the replies to the question: "Do you agree that the securitisation framework (...) has been successful in, or has contributed to, achieving the following objectives. For clearer presentation, respondents that did not answer the question have been omitted from the graph.

1.1.3. Impact on SMEs

The majority of respondents identified SMEs as having only limited access to securitisation. More than one third of the respondents (51 out of 131, 72 gave no answer or provided no opinion) reported having come across impediments to securitise SME loans or invest in SME securitisation (8 had not, 72 gave no answer or didn't know). They highlighted regulatory complexity, high costs, and lack of data quality as major impediments to securitising SME loans. Insufficient reliable financial data hinders risk evaluation and investor interest – relatedly, stringent due diligence requirements are burdensome and complicated, particularly with limited SME information. Unfavourable prudential treatment of securitised loans, including higher capital requirements under the Basel III framework, are highlighted as discouraging investments in SME securitisation. As such, the existing regulatory framework struggles to offer attractive access to financing options for SMEs via securitisation.

Some respondents from the industry see the potential for securitisation to facilitate SMEs' access to capital markets by providing them with a wider range of financing options and increasing their access to credit. In order for securitisation to support access to finance for SMEs, many respondent banks and banking associations stated that the regulatory framework for securitisation should be simplified and made more proportionate to make it more effective. In particular, transparency and investor due diligence requirements should be more proportionate and therefore less burdensome, and transparency and disclosure requirements should be improved.

On the other hand, consumer organisations point out that it is unrealistic that securitisation would contribute to SME financing. Consumer organisations also caution that promoting securitisation could entrench the dependence on bank financing and potentially disrupt covered bond markets. They suggest that instead of simplifying the securitisation framework, the EU should expand existing programs, such as those offered by the EIF and EIB.

1.1.4. Scope of application of the Securitisation Regulation (SECR)

Opinions were mixed amongst respondents on whether clarification was needed on the jurisdictional scope of the SECR, to establish a clearer and more consistent framework for supervising and regulating securitisations that involve non-EU entities. On the question of the need to clarify the SECR's jurisdictional scope, 28 out of 131 respondents agreed, 32 disagreed, 24 had no opinion and 47 did not respond. Many recommend the recent UK reforms, as striking the right balance between ensuring regulatory consistency and avoiding unnecessary burdens, by allowing investors to collect the information and data they need without being forced to comply with prescriptive requirements.

In contrast, other banks and trade associations argue that the scope of application is well understood and settled satisfactorily. They suggest that any changes should focus on revising

the ESMA template for third-country securitisation to ensure that institutional investors can obtain appropriate disclosure. Some also suggest that the EU should clarify the allocation of supervisory competence between national authorities.

On changing the definition of securitisation, opponents cited uncertainty and regulatory complexity that might stem from such a move, and that the existing market definition was well-understood. A few suggest harmonising it with the US definition of "asset-backed security", which many EU market participants are also familiar with. Broadening the scope is recommended by some who believe the current definition does not capture transactions that are structured so as to fall outside the SECR's technical scope but fulfil the same economic purpose. Conversely, respondents in favour of narrowing the definition claim its current breadth and vagueness have made market participants reluctant to participate in transactions that fall within a regulatory "grey area".

Approximately half of those responding to this section advocated for the definition of a sponsor to be expanded to include alternative investment fund managers (AIFMs) established in the EU. The other half opposed considered that AIFMs are not set up to retain a 5% share in a securitisation transaction and such risk retention practices could give rise to possible conflicts of interest.

1.1.5. Due diligence requirements

Most respondents (84 out of 131) believe that the due diligence requirements set forth in the SECR should be reformed to be more principle-based, proportionate, and less burdensome. This sentiment stems from the notion that the current requirements are disproportionate to the risks associated with securitisations. They suggest that less stringent due diligence requirements should be applied to well-rated senior tranches. Should the Commission consider making due diligence requirements more risk-sensitive, respondents emphasize that such an approach should not result in overly prescriptive requirements, as relevant factors will vary on a case-by-case basis.

Most market participants propose the removal of verification requirements for investors that are already checked by supervisors, including compliance with the STS (Simple, Transparent, and Standardised) criteria. However, supervisors are hesitant to abolish these requirements, particularly the need for investors to verify that the originator adheres to the disclosure requirements under SECR.

Some respondents even advocate for the complete elimination of due diligence requirements for securitisations, opting to rely solely on sector-specific legislations as is the case for other investments. The consensus among respondents is that the current due diligence requirements discourage investment in the secondary market and repeat securitisations. Regarding delegation of due diligence, stakeholders have different interpretations about the applicable sanctions for non-compliance with Article 5.

1.1.6. Transparency requirements

The majority of respondents (56 out of 131, 57 did not respond and 4 had no opinion) find that disclosure when issuing a securitisation is significantly more costly than disclosure for other

instruments with similar risk characteristics due to the complexity, level of detail and vast scope of the disclosure requirements.

To lower compliance costs while still ensuring a high level of transparency, the majority of respondents opted for streamlining the current disclosure templates for public securitisations and introducing a simplified template for private securitisations. However, many industry respondents advise against requiring private securitisations to report to securitisation repositories due to the associated increase in compliance costs. To further reduce compliance costs, stakeholders are in favour of cautiously moving away from the current requirement for loan-level disclosure for all securitisations.

1.1.7. Supervision

The responses (56 out of 131, 67 did not respond and 8 had no opinion) highlight widespread challenges in the EU's securitisation supervision framework. Key issues include inconsistent supervisory practices among National Competent Authorities (NCAs), leading to divergent interpretations of rules, overlapping reporting requirements, and application of criteria for Significant Risk Transfer (SRT) and STS securitisations. Concerns also stem from the treatment of non-binding recommendations, such as the EBA's 2020 SRT report, being applied as de facto mandatory requirements, exacerbating regulatory uncertainty. Harmonisation is further hindered by differences in collateral eligibility assessments.

Stakeholders propose enhanced coordination between European and national supervisors. The majority of the respondents that replied to the supervision related questions suggest setting up supervisory hubs, to a lesser extent they support the idea of having one national authority as lead coordinator in the case of one issuance involving multiple supervisors or a single supervisor.

On the added value of Third-party verifiers (TPVs) in the STS market, the vast majority of respondents (55 out of 131, 67 did not respond and 9 had no opinion) highlight their importance. Only 43 of the 131 survey participants responded on whether TPVs should be supervised: the majority of these (28 replies), including some public authorities, a suggest that supervision of TPVs is necessary to ensure the integrity of the STS standard and to promote investor confidence. However, to provide more meaningful input, most respondents highlight that more information is needed to accurately estimate the potential costs and benefits of supervision.

1.1.8. STS standard

Most respondents (65 out of 131, 46 did not respond and 7 had no opinion) think that the current STS label does not have the potential to significantly scale up the market. This sentiment is shared by many stakeholders, who argue that to achieve success with STS, the criteria must be simplified, and the prudential framework should be reformed.

Critics of the current STS criteria point to two main issues: i) homogeneity criteria, which they believe are a significant obstacle for certain transactions, such as infrastructure financing transactions and SME portfolios, and ii) the list of eligible collateral arrangements for on-balance-sheet STS securitisations. Furthermore, smaller banks face additional challenges in meeting these criteria due to their limited portfolios, making it even more difficult for them to

participate in the market. Many respondents highlighted the complexity of the STS regime in general.

In addition to addressing the STS criteria, many respondents also emphasize the need for reforms in the non-STS market. They argue that relying on a targeted approach to specific segments of the market will not be sufficient to attract the necessary investment. This is because such an approach will not provide investors with the critical mass required to invest in the market.

1.1.9. Securitisation Platform

41 out of 131 respondents agree that a securitisation platform or platforms could increase the use and attractiveness of securitisation in the EU (18 disagreed, 51 did not respond and 21 had no opinion). Those in agreement viewed the objective of the securitisation platform as to facilitate standardisation, lower issuance cost and funding cost for the economy, promote better integration of cross border securitisation, and enhance transparency and due diligence.

22 respondents agreed that a securitisation platform should target a specific asset class, like green loans (6 respondents), mortgages (6 respondents), or SME loans (6 respondents). 12 did not agree that a future platform should target a specific asset class, (74 did not respond, 23 had no opinion). 21 respondents disagree that guarantees are necessary for such platform to function, while 18 agreed to the necessity of guarantees (67 did not answer, 25 had no opinion). The majority of respondents favourable to a guarantee would opt for a public guarantee provided by the EU or dedicated EU agency (like EIB or EIF). Due to potential systemic risks respondents do not believe that a private guarantee to a pan-European platform would be appropriate.

Respondents identified several challenges associated with the introduction of such a platform, like fragmented legal framework (differences in insolvency laws, contract law, and securitisation practices across EU Member States), lack of standardisation in loan contracts, securitisation structures, and eligibility criteria across jurisdictions complicates asset pooling and investor confidence. Competition with existing instruments like covered bonds could also potentially limit the platform's utility. The high development and upkeep costs, as well as costs related to pricing and valuation disparities for assets from different jurisdictions, were also cited as a challenge. Lastly, concerns about the political will to implement a unified system and debates about risk-sharing among Member States would also have to be addressed.

At the same time, nearly all the respondents agree that creation of securitisation platform is not the main issue in the market, and it should be addressed at a later stage, following comprehensive feasibility studies and consultations. Quite a few suggested to focus on improving existing schemes, such as EIB/EIF securitisation programmes.

1.2. Prudential and liquidity risk treatment of securitisation for banks

1.2.1. General comments

A substantial majority of financial industry representatives consider that the current capital framework based on non-neutrality of capital requirements[82] leads to undue overcapitalisation of the securitisation exposures (33 respondents agree, 0 disagree, 9 have no opinion and 65 provided no answer), and consider that reducing such non-neutrality would stimulate banks' involvement in the securitisation market, while at the same time keeping the capitalisation of securitisations at a sufficiently prudent level (36 agree, 0 disagree, 8 no opinion, 63 did not answer).

The level of capital non-neutrality is considered disproportionately high relative to the current lower levels of agency and model risks embedded in securitisations, which have been significantly reduced following the financial crisis, by means of several supervisory and regulatory initiatives.

To reduce the non-neutrality, the respondents call for comprehensive reductions of two main capital parameters (the (p) factor being the main parameter driving the non-neutrality of securitisation capital, and the risk weight floors setting out the minimum capital levels for the senior tranches) - arguing the capital reductions should be applied on a non-discriminatory basis to all types of banks i.e. originators, sponsors and investors, all capital approaches and all types of securitisations (STS and non-STS). With respect to the public authorities, they raised concerns with the reductions of the (p) factor in particular against the high risk of undercapitalisation of some (in particular mezzanine) tranches.

A number of respondents (20 out of 131 agree, 4 disagree, 23 had no opinion and 84 did not answer) consider that an alternative design, involving a fundamental redesign of the capital framework merits further consideration as it has a potential to achieve more proportionate levels of capitalisation. However, they generally consider that such proposals require further analysis and should be considered in the long-term, preferably at international (Basel) level.

1.2.2 (P) factor

Supervisors have been cautious as regard the reduction of the (p) factor (out of 9 supervisors, 2 supervisors consider that the current levels of the (p) factor adequately address structural risks of securitisation, 1 is against, 1 has no opinion and 5 did not answers). In their qualitative responses, they argue that reducing the (p) factor risks undercapitalisation of mezzanine (and potentially senior) tranches and will not have any relevant effect on freeing capital and on securitisation issuance. Supervisors acknowledge the limitations of any unilateral reductions of the (p) factor and agree with the existence of limitations embedded in the current regulatory framework. They support investigating the alternative designs of the risk weight functions, at an international level.

[82] Capital non-neutrality is a core pillar of the Securitisation Framework, requiring that the capital for securitisation has to be higher than capital for loans before securitisation.

1.2.3 Risk weight floors

A significant majority of active respondents (yes 42, no 7, no opinion 7, no answer 75) call for a comprehensive reduction of the risk weight (RW) floors, beyond those proposed by the EBA. Most respondents favour reduction of the risk weight floor for banks in all roles in securitisation, while a minority advocate for a more restrictive treatment of investors due to their having less information on the transaction. Similarly, a number of respondents view that a reduction of the risk weight floor only for STS transactions would be insufficient to revive the European securitisation market. Respondents however generally agree with distinct STS and non-STS risk weight floors.

A large majority of active respondents do not consider that safeguards proposed by EBA to accompany the reduction of the risk weight floors and to ensure the resilience of the transactions are proportionate or adequate (36 do not agree, 4 agree, 11 have no opinion, 80 did not answer).

A large group of respondents argue for a risk sensitive approach to setting the risk weight floors, so that it is proportional to the risk of the underlying portfolio. Supervisors are more reluctant to change the floors without sufficient analysis and do not support a deviation from Basel.

1.2.4. Framework for significant risk transfer (SRT)

With respect to the Significant Risk Transfer rules, the respondents generally support regulatory harmonisation of rules and supervisory convergence at the EU level. With respect to the tests applied to securitisations, industry generally agree with the conditions of the tests and do not see a need to make them more robust, although they are not opposed to it (23 agree, 19 disagree, 11 have no opinion and 78 do not answer). Public authorities on the other hand see necessity to increase the robustness of the framework, in line with the EBA reports.

With respect to the process of the SRT supervisory assessments, the financial industry and several public authorities noted that the SRT process suffers from a lack of supervisory convergence and regulatory clarity, which makes both its timings and outcomes unpredictable.

1.2.5. Liquidity treatment in the LCR

On liquidity risk requirements for banks, a large majority of stakeholders (44 out of 131, 78 didn’t respond and 9 had no opinion) call for amendments to the eligibility criteria and haircut levels applied to securitisations eligible to the buffer for high quality liquid assets under the LCR. Some of these changes are aligned with the recommendations received from the ESAs and compatible with the Basel framework. A couple of respondents consider there is not enough track record and data on the liquidity of securitisations under stress to significantly relax their eligibility to the liquidity buffer.

1.3. The prudential treatment of securitisation for insurers

1.3.1. Interest in and obstacles for securitisation investment

The majority of financial institutions and trade associations (47 respondents – among whom 16 insurers – out of 131, 67 stakeholders did not reply and 14 had no opinion) agreed that there exists a strong interest from (re)insurance undertakings to increase their investments in securitisation. However, respondents stressed the necessity of suitable risk-return profiles, appropriate risk-based capital requirements in Solvency II and reduced due diligence requirements. Some stakeholders expressed concern that improvements may not lead to a short-term increase in securitisation for (re)insurers (7 respondents). In contrast, public authorities (3 respondents) generally have no interest in such increase in securitisation investment.

Financial institutions expressed divergent views on which securitisation segments are of interest for (re)insurers: CRE debt, CLO, RMBS, CMBS, true sale and synthetic structures. Notably, some financial institutions showed a preference for senior tranches. In contrast, others indicated that the seniority of the tranche and the distinction between true sale and synthetic are not decisive factors, provided the associated risks and returns align with their investment objectives. Some trade associations added that (re)insurers typically exhibit a broad appetite for investments across various securitisation segments, provided the investment delivers an appropriate risk-return profile. Their investment decisions are predominantly influenced by key factors such as yield, credit risk, and liquidity, rather than the specific structure of the securitisation vehicle (whether a true sale or synthetic structure). Consequently, the seniority of the tranche—whether senior, mezzanine, or junior—does not pose a constraint for (re)insurers, as long as the associated risks and returns are in line with their investment objectives.

The majority of the financial institutions, trade associations and public authorities, including insurers identified significant obstacles to increase securitisation investments (53 respondents – among whom 19 insurers – out of 131, 14 had no opinion and 64 did not reply). These include, but are not limited to, 'disproportionate' capital requirements imposed on securitisations compared to other financial instruments with similar credit risk and asset quality, and that the European securitisation market is too small and illiquid.

Stakeholders were split on whether internal models disincentivise securitisation investments under Solvency II (29 yes, 9 no, 20 'don't know', 73 did not reply). A minority of respondents, amongst whom all public authorities, and a minority of financial institutions, believed that internal models do not have a disincentivising effect. Conversely, the majority of respondents (financial institutions and trade associations) concluded that internal models do indeed disincentivise securitisation investments under Solvency II. They pointed out that such models are subject to the same non-prudential impediments as (re)insurers using the standard formula. Stakeholders noted that supervisory attitudes can vary amongst jurisdictions and costs to maintain an internal model are high. They also add that (re)insurers using internal models may struggle to accurately capture the complexities of underlying securitisation, which can lead to overly conservative assumptions and, subsequently, higher capital charges. In addition, they identify possible model-building miscalibration on the asset side due to the use of historical post financial crisis data.

1.3.2. Senior STS securitisations

–The majority of stakeholders (40 respondents out of 131, 70 either did not reply or had no opinion), mainly financial institutions and trade associations, including insurers, indicated that the Solvency II standard formula capital requirements for spread risk is disproportionate and not commensurate with the risk of senior STS securitisation. One respondent suggests that the enhanced transparency of STS securitisation, combined with the presence of credit mechanisms such as guarantees or credit reserves, enables more accurate risk assessment, which should result in lower capital requirements. Whilst one public authority supports the view that the capital requirements are punitive, a majority of public authorities expressed a differing opinion, stating that there is no evidence to suggest that the calibration method for senior STS securitisations is inappropriate.

Stakeholders present two main views on the 'appropriate' calibration of capital requirements for senior STS. First, respondents argued that Solvency II's emphasis on market risk volatility creates a burden that discourages investments in securitisations. According to these stakeholders, as (re) insurers typically adopt a hold-to-maturity approach, they suggested that capital calculations should be based on default risk, including recovery levels, and not spread risk. Second, respondents argued that risk charges for senior STS are disproportionally high, both in absolute terms and relative to equally rated bonds. To address this, a minority of respondents proposed aligning STS bonds with capital charges for other collateralised instruments (such as covered bonds) following Perraudin and Qiu (2022)[83] (6 respondents). These authors suggest a 1.3 ratio for senior STS ratio to covered bonds.

Only two financial institutions commented on the assessment of internal models and their impact on securitisation investments. Both argued that (re)insurers using internal models can adjust capital requirements in accordance with their own risk assessment, enabling more flexible management of both capital and due diligence requirements. This flexibility highlights the disparity between (re)insurers using the standard formula and those using internal models. Notably, these financial stakeholders pointed out that the standard formula's capital requirements are less adaptable and fail to fully capture the risk reduction benefits associated with STS securitisations.

1.3.3. Non-senior STS securitisations

Again, the majority of stakeholders (39 out of 63 respondents – among whom 12 insurers – out of 131, 68 either did not reply), including all financial institutions and trade associations, indicated that the Solvency II standard formula capital requirements for spread risk is disproportionate and not commensurate with the risk of non-senior STS securitisation. The same public authority as in section 1.3.2. supports the view that capital requirements are punitive, whilst a majority of public authorities stated that there is no evidence to suggest that the calibration method for non-senior STS securitisations is inappropriate.

Respondents acknowledged that non-senior tranches do have a higher risk of default than senior tranches. Nevertheless, these securitisations are often covered by credit mechanisms, such as

[83] ABS and Covered Bond Risk and Solvency II Capital Charges, Perraudin and Qui (2022)

first loss tranches or credit reserves. Furthermore, stakeholders highlighted that investors in STS securitisations often have better visibility on the underlying assets, enabling more accurate risk assessments. As a result, stakeholders argued that capital requirements should be reduced to better reflect actual risk.

Similar to the calibration approach put forward in *section 1.3.2.*, financial institutions and trade associations suggested that prudential requirements for non-senior STS securitisations in Solvency II should be more consistent with those for bonds and loans with the same rating (18 respondents). In support of this, respondents refer to the paper of Perraudin and Qiu (2022), which suggests a 1.5 ratio for non-senior STS to senior STS capital requirements (5 respondents).

With regards to differentiating the Solvency II standard formula capital requirements for spread risks between mezzanine and junior tranches, views within the stakeholder groups were split (17 respondents – among whom 2 insurers – supported differentiation, 19 respondents – among whom 9 insurers – did not express interest or opposed, and 22 had no opinion out of a total of 131; 73 stakeholders did not reply). Half of the financial institutions, trade associations and public authorities opposed such differentiation. They claim it adds unnecessary complexity (such as defining tranche thickness) and the focus should rather be on reducing overall capital calibrations for STS securitisations (9 respondents). Additionally, some respondents reiterated their previous suggestion in *section 1.3.2,* namely that risk should be determined by credit risk rather than a temporary risk spread (8 respondents). They believe a more balanced approach would enable insurers to evaluate securitisation holistically, integrating it into their ALM framework without being hindered by excessive capital requirements.

In contrast, the other half of financial institutions, trade associations and public authorities who supported differentiation between mezzanine and junior tranches, argue that the capital charge should reflect the risks taken. Uniform capital charges for mezzanine and junior tranches could disincentivize investment, despite mezzanine tranches offering a balanced risk-reward profile between senior and junior tranches. One respondent added that differentiation would enable (re)insurers using internal models to better understand and manage risks, making more informed investment decisions, particularly in STS securitisations where transparency is key.

Although supportive of differentiation, stakeholders put forward limited responses on how to subsequently define this mezzanine tranche, which calibration methods they deem as appropriate and why such mezzanine calibration would be justified in Solvency II (even if no dedicated treatment for mezzanine tranches is introduced in CRR). One public authority shared that mezzanine tranches should be determined through a prudent risk assessment, considering the attachment point value to avoid underestimating risk. A low attachment point can increase risk by creating a thin first-loss tranche. A trade association and public authority add that CRR does take into amount attachment and detachment points as inputs to compute the associated capital requirement (SEC-IRBA and SEC-SA methods).

1.3.4. Non-STS securitisations

Consistent with the findings in section *1.3.2 and 1.3.3,* all financial institutions (except one) and trade associations, amongst whom a significant group insurers and insurers' associations

consider the Solvency II standard formula capital requirements for spread risk disproportionate and not commensurate with the- risk of non-STS securitisation. Respondents (40 respondents out of 131, 19 had no opinion and 70 did not provide an answer) emphasized the need to stimulate the securitisation market by eliminating the disparity in risk charges between non-STS and STS securitisations, which in their view disproportionately penalizes non-STS deals. Again, the study of Perraudin and Qiu (2022) is cited as evidence of a substantial miscalibration of capital charges relative to historic volatility data (6 respondents).

In contrast, 2 respondents (one financial institution and one public authority) argue that there is no evidence to suggest that the calibration method for non-STS securitisations is flawed. The same public authority as in section *1.3.2 and 1.3.3.*) posits that the non-STS class, with fewer safeguards and including non-EU based originators, sponsors, and SSPEs, justifies the inclusion of post-financial crisis data in the calibration. The authority argues this implicitly accounts for additional risks such as agency and model risk, through the capital charges.

When asked to identify specific sub-segment of non-STS securitisation for which evidence would justify lower capital requirements, financial institutions and trade associations suggested no industry wide segment or specific class which fits a 'uniform' insurance model. The following segments for recalibration are put forward: granular pools (3 respondents), CLO (3 respondents), CRE debt (3 respondents) and RMBS (1 respondent).

A majority of respondents (39 respondents among who 14 insurers, out of 131, 17 respondents had no opinion and 71 did not provide an answer), in particular financial institutions and trade associations support differentiating the Solvency II standard formula capital requirements for spread risks between senior and non-senior tranches of non-STS securitisations. They argue that the current framework is insufficiently risk-based and that more granular approach, with 'tranche thicknesses' is needed. However, apart from references to Perraudin and Qiu (2022), no other concrete suggestions for calibration were provided through the public consultation responses.

In contrast, respondents opposing such differentiation, amongst whom one financial insurance institution and a majority of public authorities, argue that the focus should be on the type of securitisation rather than just the seniority. They also caution that introducing differentiation would add unnecessary complexity, in addition to uncertainty about the effectiveness of this measure.

1.4. Prudential framework for institutions for occupational retirement provision (IORPs) and other pension funds

Note: Respondents to this section represented a diverse range of stakeholders, with only 2 identifying themselves as IORPs. The remaining limited number of respondents comprised a mix of banks, associations for financial markets, NCAs, etc representing the interests of (non)-IORPs.

1.4.1. Interest for investments in securitisation

A total of 12 respondents out of 131 expressed a view with regards to their interest in securitisation investments (94 out of 131 didn't respond and 25 had no opinion). Of these 12 respondents, a majority (11 out of 131, amongst whom 2 IORPs), expressed a general interest to increase IORPs' investments in securitisation to diversify their portfolio. However, they emphasized the need for a more liquid market, with high quality securitisations to make investment more appealing. A limited number of respondents (2 replies out of 131, amongst whom no IORPS) identify the segments of interest to these pensions' institutions, including synthetic on-the-balance-sheet securitisations and senior and mezzanine tranches. No further details were provided by stakeholders. Notably, only one respondent, a public authority, reported no interest from both IORPs and non-IORPs in increasing their investment in securitisation.

1.4.2. Obstacles for investments in securitisation

A total of 8 respondents expressed a view with regards to obstacles to securitisation (98 didn't respond and 25 had no opinion). Out of these 8 respondents, a majority (6 out of 131, amongst whom no IORPs), indicated that the IORP II Directive does not contain provisions that restrict IORPs' ability to invest in securitisations. Out of these 8 respondents, a majority (6 out of 131, amongst whom no IORPs), indicated that the IORP II Directive does not contain provisions that restrict IORPs' ability to invest in securitisations. They argued that the Directive is based on minimum harmonization, allowing for sufficient flexibility in investment decisions as long as the fiduciary duty and the prudent person principle are respected. Out of the 8 respondents, a minority of disagreed (2 out of 131, amongst whom 1 IORP) and, argued respondents disagreed with the majority view, arguing that the Directive contains indirect restricting provisions. They presented two key concerns. First, they noted that securitisation structures can exhibit a wide range of risk profiles, which may not be compatible with the conservative investment strategies often employed by IORPs. As a result, even in the absence of explicit restrictions, the regulatory framework and internal policies governing IORPs' investments can create significant barriers to investing in securitisations. Second, they highlighted the potential existence of indirect barriers in Article 19 of the Directive setting out the 'prudent person rule'.

Generally, stakeholders agreed that national legislations or supervisory practices do not unduly restrict IORPs' and non-IORPs' ability to invest in securitisation (8 out of 131, 97 didn't respond and 24 had no opinion). Furthermore, respondents refrained from answering whether there are any wider structural barriers preventing pension funds from participating in the market. Nevertheless, two respondents out of 131 challenged this latter view, suggesting that overly restrictive and prescriptive due diligence and disclosure requirements act as an obstacle for investor participation. They argued that these requirements increase complexity and costs associated with securitisations, compared to other asset classes. To address this issue, they recommend reviewing the due diligence requirements, to introduce proportionality and simplifications, while maintaining overall prudence.

1.5. Additional questions

Section 12 of the Consultation covered general and wide-ranging questions covering respondents' views for the future direction of European securitisation, the international competitiveness of the EU securitisation market, the relative potential for different market segments to contribute to the Capital Markets Union, which regulatory measures could best stimulate issuance and investment, how to address the concentration of the EU securitisation market, and so forth.

Nearly half of the respondents (55 out of 131, 74 didn't respond or had no opinion) agree that the EU Securitisation Framework impacts the international competitiveness of EU issuers, sponsors and investors, whereas only two respondents answered that there is no impact on the competitiveness.

Several respondents (25 out of 131, 76 did not respond) identified the different national legal and regulatory regimes, and the resulting higher costs as the main obstacles for cross-border securitisation. 17 respondents point to the STS homogeneity requirements as an obstacle for cross-border securitisations. Other obstacles to cross-border securitisation were listed as IT requirements or an uncertain regulatory approach. Several respondents (28 out of 131, 83 did not respond) agree that the EU's regulatory framework for cross-border securitisation needs improvement, and suggest measures such as replacing complex templates, establishing a pan-European securitisation vehicle, and streamlining STS criteria.

Several respondents (32 out of 131, 80 did not respond) identified regulatory, market and liquidity factors as the main obstacles to increasing securitisation activity in EU Member States. To address these issues, a few respondents (19 out of 131, 80 did not respond) suggested simplifying and harmonising regulatory frameworks, enhancing transparency and reporting standards, and promoting securitisation in smaller countries. Stakeholders' views are split regarding the effectiveness of regulatory changes in stimulating securitisation activity, with some arguing that changes are necessary and others being sceptical.

Several respondents (23 out of 131, 79 did not respond) think that the EU's securitisation framework for green transition financing can be improved by simplifying the regulatory framework, creating tax and financial incentives.

Approximately 10 respondents, principally large multinational asset managers or their interest representatives, criticised the 10% acquisition limit under Article 56 of the UCITS Directive, which they claim is triggered more easily for securitisation products than corporate debt. Critics of this provision argue that this limit, which aims to ensure diversification of risk and delimit excessive investor concentration, is unsuitable to securitisation investments, which are intrinsically diversified compared to bond issuances. These respondents emphasised the need for exemptions or adjustments to facilitate more competitive and diversified portfolio strategies for EU investors. Stakeholders disagree on which type of securitisation (traditional vs. synthetic; STS vs. non-STS) can most significantly contribute to the achievement of CMU.

A number of respondents (21 out of 131, 79 did not respond) agree that the current regulatory review should promote a comprehensive framework, rather than targeting certain segments. A minority of respondents (43 out of 131, 81 did not respond) believe that the principal reasons

for the slow growth of the placed traditional securitisation are low returns due to high capital charges and operational costs, as well as difficulties in placing senior tranches.

There is no consensus on why alternative instruments such as covered bonds are preferred funding instruments in the EU. However, there is a consensus that a combination of targeted measures can stimulate traditional securitisation issuance, and that there is no "silver bullet" to singularly revitalise the market. Furthermore, in the view of 22 respondents, simplifying due diligence and transparency requirements would be beneficial, while only one respondent (a major asset manager) viewed that the due diligence and transparency requirements were not a cause for concern.

Finally, as far as securitisations of consumers loans and specifically mortgage loans are concerned, consumer organisations reiterated their concern that the securitisation severs the link between lenders and borrowers, making forbearance and loan restructuring more difficult to apply to the detriment of borrowers.

1.6. Additional or late feedback

Stakeholders were offered the opportunity to make an attachment to their contribution to cover any topic or provide any complementary information that they would deem useful. 57 stakeholders provided such inputs. Most of them aimed at expanding or clarifying the stakeholder's point of view on certain areas of the consultation.

2 – Call for Evidence

A call for evidence was opened between 19 February 2025 and 26 March 2025[84] to request feedback from stakeholders on the review of the Securitisation Framework. Stakeholders were asked to provide views on the Commission's understanding of the problem and possible solutions, as well as provide relevant information, including on the possible impacts of the different options. 34 respondents replied to the call for evidence and presented their views.[85] Out of those 34 respondents, 26[86] had also replied to the targeted consultation with their views remaining broadly the same as outlined in the sections above. Points made by first-time respondents – outlined is greater detail below - were also consistent with the targeted consultation feedback received earlier. Taken together, views submitted in response to the Call for Evidence are already reflected in the reasoning informing the Impact Assessment and do not necessitate any change to the problem definition, choice of options and assessment of impact, as informed by previous feedback.

The views of the 8 other respondents can be summarised as follows:

1. One of the two EU citizens who responded raised concerns about market fragmentation and advocated for the creation of a government agency structure, akin to that of the United States,

[84] Securities and markets - review of the Securitisation Framework (europa.eu)

[85] One respondent made two separate (substantively similar) contributions; another respondent submitted three separate contributions. Therefore, 37 contributions were received, from 34 individual respondents.

[86] The respondents that had already replied to the targeted consultation represented: 7 companies/businesses, 15 business associations, 2 non-governmental organisations (NGOs), 2 such respondents identified as "other".

to promote securitisation and eliminate agency risk and moral hazard. They disagreed that AIFMs should be subject to the same capital rules as banks (to be noted that the capital rules for AIFMs are outside of the scope of the current initiative). The matter of public guarantees for securitisation structures is considered in Annex VI: Securitisation Platform(s). The other citizen respondent made a general argument against government economic intervention; however, these points were not specific to securitisation or the instant initiative.

2. The two business associations represented securitisation market participants and were broadly supportive of the review. One called for greater clarity on the scope and definitions of the SECR and argued that AIFMs should be granted risk-retention and subject to the same capital rules as banks. Scope and definitions are considered in the Impact Assessment Section 5.2.1, Measures to Reduce High Operational Costs. The other respondent advocated for a simplification of transparency and due diligence requirements. This concern is addressed in the above Impact Assessment, see Section 7, Comparison and Preferred Combination of Policy Options.

3. One company was in favour of introducing more risk-sensitive prudential rules, including recalibrating securitisation capital charges for banks and insurers. They highlighted the need for capital rules that reflect the actual risks of securitisation exposures, to facilitate grater investment, particularly for the climate and digital transitions. This concern is addressed in the above Impact Assessment, see Section 7, Comparison and Preferred Combination of Policy Options. Another company made the point that debtors must be given the first chance to repurchase their securitised loans at the same price.

4. The NGO respondent pointed out that while increased securitisation might free up additional lending, this may not necessarily benefit green or sustainable investments, but may rather be channelled towards polluting activities. It therefore called for mandatory rules for green securitisations, and the establishment of environmental safeguards to avoid securitisation being used for fossil fuel assets. Section 7.2 above discusses the current framework for green securitisation.

5. A respondent identifying as “Other” (though representing companies in the investment and pension fund sectors), called for a review of SECR and IFRS 9 to change how institutional investors’ fund investments are treated, as current rules increase balance sheet volatility and discourage investment. Any review or amendment to IFRS 9 is beyond the scope of this current initiative.

3 - Bilateral contacts with stakeholders

A wide range of bilateral contacts were held with various stakeholders during the preparation of this initiative, mostly by videoconference. Consulted parties included issuers, investors, sponsors, servicers, arrangers, third-party verifiers, data repositories, rating agencies, industry associations, and competent authorities. For the most part, the stakeholders with whom the Commission engaged bilaterally also responded to the targeted consultation, and their written response to the survey captured or repeated the main messages they had previously conveyed in the bilateral meetings.

4 - Stakeholder Workshop

On 3 July 2024, the Commission hosted a Securitisation Workshop, which invited 28 representatives of EU securitisation participants to an in-person event on the Commission's premises in Brussels, to share their views. The day-long discussion was split across three panels: (i) EU securitisation market developments: focus on the issuers' perspective; (ii) Balancing safety and effectiveness of securitisation exposures: prudential requirements for banks and insurers; and (iii) Decrypting the demand side: zooming into STS and due diligence. Amongst attendees were representatives from the banking industry/associations, Ministries, European Supervisory Authorities, the SSM, EIB, insurers, asset managers, and pension funds. A summary of the main takeaways by topic is presented below.

Improvements in disclosure and due diligence are nice to have, but changes in prudential treatment for banks and insurers are a must-have. With the withdrawal of the ECB from the market, participants reported a lack of senior investor base, leading to the market struggling to absorb bigger transactions. Issuers reported that when it comes to placing a deal, the biggest issue is finding investors for the senior tranche due to its size and low yield. Senior investors are primarily banks and insurers which are weighted down by capital requirements which often make investing in senior tranches unattractive compared to the yield. The absence of insurers among senior investors was highlighted. UCITS regulation (the 10% issuing entity limit) also seems to limit the ability of UCITS to participate more strongly in the market.

With regard to the prudential treatment for banks, some respondents called for a holistic approach and suggested the following measures:

- Introducing a risk-sensitive risk-weight floor was favoured by the floor as an idea that can be introduced relatively quickly (quick-fix), could incentivise the securitisation of low-RW assets and does not seem controversial.

- Revising the p-factor, on the other hand, would require more work (not a short-term solution as it ideally has to go through Basel) and it might not have the desired impact as it could incentivise banks to buy into riskier tranches.

- LCR treatment is an important factor but there does not seem to be consensus that ABS positions are sufficiently liquid to deserve an upgrade in the LCR buckets. Nevertheless, improvements could be made in this area, namely addressing the haircuts that apply to ABS positions in the LCR buckets and the ratings cliff.

On the topic of prudential regulation for insurers, **insurance industry representatives** acknowledged that due to the nature of their business, securitisation would remain a niche investment in their portfolio. They argued that the impact of the Solvency II formulas on securitisation investment is stronger than what supervisors perceive, even for internal-model users which can be asked to justify significant deviation from standard formulas parameters. The capital treatment of holding non-STS securitisation was viewed as both punitive and not reflecting risk.

The Securitisation Framework's due diligence requirements were listed as a barrier for smaller investors to enter the market. Compliance costs were reported as unduly high due to lack of

proportionality (e.g. repeat transactions with the same issuer and from the same programme require the same due diligence).

On transparency disclosure**,** various, sometimes conflicting, points were made from different market participants. For **synthetic and other private securitisation investors**, the standard templates were not seen to be useful, and **investors** reported that they obtain the necessary transparency information through bilateral negotiation rather than relying on the standard templates. **Other investors** viewed access to standardised information as important: the more information available via the repositories, the better. A supervisor highlighted that the templates should better reflect investor's basic needs and should be more developed in cooperation with the industry.

Participants requested that synthetic securitisation not be neglected in any forthcoming review of the Framework. While they highlighted the importance of reviving the cash segment, synthetic transactions also contribute toward financing the real economy. No obvious avenues were highlighted to increase the use of Simple, Transparent and Standardised (STS) securitisation or to scale up the market through the use of STS.

While participants reported investor demand for SME/corporate loan securitisation, access to the right information for due diligence was cited as a challenge. **Investors** tend to be more comfortable when the securitised portfolios involve long-standing clients of the originating bank(s). SME loans were viewed as more likely to be securitised synthetically. Finally, some respondents pointed out that as SMEs are part of all market segments (trade receivables, leases), incentivising securitisation across the board will also benefit SMEs (e.g. an SME that borrows using real estate as collateral will not appear on the banking book as an SME loan but rather as a mortgage loan).

The Commission services invited workshop participants to provide their views through the targeted consultation that would follow, which would be duly considered in the preparation of the impact assessment and any ensuing legislative proposal.

5 - Input from the ESAs and ESRB

The ESAs were consulted and carried out important analytical that fed our analysis. In particular, the 2021 Art. 44 Joint Committee report on the implementation and functioning of the Securitisation Regulation[87] which focused on the implementation of the general requirements applicable to securitisations, including the risk retention, due-diligence and transparency requirements as well as on the specific requirements related to STS securitisations. The Joint Committee has been working on its second report due for publication by early 2025. The expert discussions that took place in the preparation and drafting of this document have also informed our reasoning. Another important contribution came from the findings of the ESAs opinion on the jurisdictional scope of the Securitisation Regulation[88] and the compliance challenges that such jurisdictional scope posed for market participants.

[87] https://www.eiopa.europa.eu/system/files/2021-05/jc-2021-31-jc-report-on-the-implementation-and-functioning-of-the-securitisation-regulation.pdf

[88] https://www.esma.europa.eu/sites/default/files/library/jc_2021_16_-_esas_opinion_on_jurisdictional_scope_of_application_of_the_securitisation_regulation_003.pdf

Another important input has been the ESAs' Joint Committee advice on the review of the securitisation prudential framework[89], which was published in December 2022 in response to the call for advice from the European Commission of October 2021. The Joint Committee report assessed the performance of the rules on capital requirements (for banks, insurance and reinsurance undertakings) and liquidity requirements (for banks) with respect to the framework's original objective of contributing to the sound revival of the EU securitisation framework.

Finally, the insights from the 2022 European Systemic Risk Board' report "Monitoring systemic risks in the EU securitisation market"[90] on the financial stability implications of the EU securitisation market have also helped the assessment.

5 - Input from Member States

National authorities were consulted in the framework of the Eurogroup Working Group+ (EWG+), and the Council Financial Services Committee (FSC). Several Member States also replied to the Targeted Consultation above through their finance ministries or central banks (FI, FR, IT, ES, DK, NL, BE, PL).

Overall, Member States (expressing their views in the FSC and the EWG+) showed general willingness to reduce the operational costs for issuers and investors. They are more split as regards their appetite to reconsider prudential requirements for banks and insurers, and generally are unwilling to deviate materially from the Basel standards. Member States reported an openness to explore the potential benefits of a securitisation platform(s) as a measure to facilitate standardisation of the market, but most expressed opposition to a platform based on public guarantees (as in the US, where a significant part of the securitisation market is guaranteed by Government-Supported Entities or GSEs, such as Fannie Mae and Freddie Mac).

During the session of **October 2024, the FSC** discussed the issue of securitisation under the agenda item: "Follow up on the future of CMU". COM and ECB representatives introduced a COM non-paper with a factual comparison of the securitisation frameworks in some selected jurisdictions, that was developed at the rest of the FSC. There was overall a very extensive debate, with almost all Members taking the floor, and commenting not only on the content of the COM and ECB presentations, but also on what should be the focus of the upcoming reforms on securitisation. The Members seem to be open to introducing proportionality in transparency and due diligence requirements, and supporting the standardisation of the transactions, some are open to look into Solvency treatment. Many Members suggested examining the demand side as well (i.e. call for increasing the investor base in securitisation). Others expressed caution with respect to changes in the prudential treatment. Some Members highlighted the reforms should not endanger financial stability.

[89] ESAs publish joint advice to the EU Commission on the review of the securitisation prudential framework | European Banking Authority

[90] https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf

Many Members also commented on the issue of platform: generally, Members supported platforms that support standardisation of the securitisation transactions, but were more cautious as regards the platforms involving the state guarantees. Some Members highlighted it is important to define target and objective of the reforms. The Chair concluded that some areas may be more important than the prudential treatment and may have bigger impact on the EU market (transparency, due diligence, supply and demand issues, standardisation etc), also because of the specificity of the EU market where we have many synthetic transactions.

During the FSC **session of February 2025**, the Commission shared preliminary feedback on the results of the consultation on the Securitisation Framework, as set out in the Section 1 of this Annex. Overall, views were expressed on both the conservative and ambitious side of where to set the "cursor" for the ambition of the initiative. There was a clear consensus on the need for action on the Framework, with Member States emphasising that any measures must be evidence-based and balanced. On the platform and public guarantees, the issue needs further analysis and the different approaches – national, EU-wide, or private – merit further discussion. No clear picture emerged from respondents favourable or opposed to guarantees – many large financial institutions on both sides of the debate, alongside NGOs and MS.

During the session of 28 November 2024 EWG+ there was a high degree of convergence on the issues to tackle: prudential regulation, reporting requirements, the need to simplify, to correct an excessive reaction in previous round of legislation. On the Platform, preliminary discussions at the EWG+ indicated very few Member States would favour a pan-European platform with guarantees (national, supplemented by EU-level). For most Member States, however, attaching public guarantees to securitisation issuance is a controversial topic. One MS appeared to favour a market-led structure without guarantees.

ANNEX III: WHO IS AFFECTED AND HOW?

1 - Practical implications of the initiative

This Annex summarises the costs and benefits of the preferred options, which address the following problems identified in chapter **2**:

- Problem 1: High operational costs for all issuers and investors
- Problem 2: Undue prudential barriers for banks to issue and invest in securitisation
- Problem 3: Undue prudential costs for insurers to invest in the EU securitisation market

In order to address the identified problems, a combination of three policy options is chosen (see Section 5 for a detailed description and Section 6 for an assessment): Option 1.1 targeted measures to reduce high operational costs, Option 2.1 targeted changes to existing prudential (capital and liquidity) framework for banks, and Option 3.2 improving risk sensitivity and removing prudential barriers to investments by insurers in the safest tranches of non-STS securitisation.

Under option 1.1., issuers (originators, sponsors and SSPEs) would have to disclose information for their securitisations using simpler templates than under the baseline. Consequently, issuers would have to adapt their reporting systems. Investors would carry out lighter and more proportionate due diligence on their securitisation investments.

Under option 2.1 banks would be subject to more risk sensitive capital requirements for securitisation positions. In addition, banks would be able to hold a broader set of securitisations for their liquidity buffers. Finally, option 2.1 banks would be able to benefit from faster and more coherent process of supervisory assessment of transactions' eligibility for capital relief.

Under Option 3.2, insurers would apply differentiated capital requirements for their investments into senior and non-senior tranches of non-STS securitisations.

2 - Summary of costs and benefits

The figures below summarise first the costs and benefits of the preferred option:

- Figure 7: Provides an overview of **benefits** of the preferred combination of policy options.
- Figure 8**: S**ummarises the **costs** of the preferred combination of policy options
- Figure 9: Summarises the administrative cost **changes** of the preferred combination of policy options for the one-in-one-out calculator
- Figure 10: Summarises the **costs and benefits** of the baseline scenario of the current Securitisation Regulation (based on the Evaluation)
- Figure 11: Shows how the preferred combination of policy options might impact the **sustainable development goals**

Figure 7: Overview benefits of the preferred combination of policy options

Description	*Amount*	*Comments*
	Direct benefits	
Reduction of operational costs for due diligence and transparency requirements Articles 5 and 7 of SECR	EUR 310 million p.a. of recurring costs	For a detailed explanation of the cost savings see "Details of costs and benefits" section below.
Removal of undue prudential barriers and increase of risk sensitivity of the capital requirements for banks	Expected reduction of capital requirements for senior tranches, to which banks are most exposed to, by one third	Making capital requirements for securitisation more risk-sensitive will reduce the amount of capital requirements for banks' securitisation exposures in some cases, but the overall level of capitalisation is expected to remain prudent and proportionate and risk-sensitive to the associated risks.
More consistent liquidity framework in banking	Not quantifiable	The changes would strengthen the incentives for banks to invest in publicly traded STS traditional securitisations, would help diversify banks' liquidity buffers and would increase the liquidity of this market segment. It is not possible to estimate banks' behavioural changes in a reliable way and the exact impact is therefore not quantifiable.
Increased robustness and efficiency of the SRT framework	Not quantifiable	The changes would increase the reliability and predictability of the supervisors' SRT assessments. They are expected to make the SRT framework more robust, introduce more clarity and increase the efficiency of the supervisory assessment processes. The changes are qualitative (improving the quality of the and are therefore not quantifiable. The changes are qualitative (improving the quality of the SRT framework) and are therefore not quantifiable.
Improving risk sensitivity and removing prudential barriers to	The capital relief is estimated to be around EUR 5.9 bn.	Undue prudential barriers to investments in senior non-STS securitisations and incentives for excessive risk taking would be removed.

Description	*Amount*	*Comments*
investments in the safest tranches of non-STS securitisation by insurers		
Indirect benefits		
Facilitation of market entry	Not quantifiable	Details see below.
Increased issuance of securitisations	Not quantifiable	The removal of undue prudential barriers and the increased risk sensitivity of the capital framework in banking are expected to boost issuance of securitisations.
Increased investments in senior tranches of STS securitisations by banks	Not quantifiable	The removal of undue barriers in the prudential and liquidity framework for banks is expected to increase banks' investments in senior tranches of STS securitisations.
Investment in senior tranches of non-STS securitisations by insurers could increase	Not quantifiable	Insurers' investments in senior non-STS securitisations could increase if they decide to use the capital relief for this purpose.
Participation of life insurance holders in the returns of securitisation investment	Not quantifiable	For life insurance, the lower due diligence requirements and the reduction in capital requirements on non-STS senior tranches is conducive of more investments in non-STS 'safe' tranches and higher profits – which can still provide higher return on investments, part of which has to be shared with policyholders (life policyholders are entitled to some of the investment profits made by insurers). Life policyholders (consumers) can therefore obtain higher return on their savings.

**Some elements are not quantifiable due to various reasons, such as (i) it is difficult to assess behavioural changes of market participants as a result of the changed framework; (ii) the options include a series of measures including several parameters, rather than a single measure; and (iii) a number of measures are qualitative (i.e. increasing the quality of the rules).*

(1) Estimates are gross values relative to the baseline for the preferred option as a whole (i.e. the impact of individual actions/obligations of the preferred option are aggregated together); (2) Please indicate in the comments column which stakeholder group is the main recipient of the benefit;(3) For reductions in regulatory costs, please describe in the comments column the details as to how the saving arises (e.g. reductions in adjustment costs, administrative costs, regulatory charges, enforcement costs, etc.;);.

Figure 8: Overview costs – preferred option

		Citizens/ Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Targeted measures to reduce high operational costs in due diligence and disclosure	Direct adjustment costs	None	None	None	None	None	None
	Direct administrative costs – linked to the due diligence and transparency requirements of Art. 5 and Art. 7	None	None	Implementation of simplified reporting template: EUR 33 million.	Additional reporting of private transactions to securitisation repositories: EUR 7 million p.a.	None	Supervisors will have to spend more resources to understand risk management practices. Costs are not quantifiable.
	Direct regulatory fees and charges	None	None	None	None	None	None
	Direct enforcement costs	None	None	None	None	None	None
	Indirect costs	None	None	None	None	None	None

		Citizens/ Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Targeted changes to the capital and liquidity prudential framework for banks	Direct adjustment costs	None	None	Minor implementation costs for banks (negligible)	None	Costs for supervisors to adapt their methodologies, however, overall, supervisory processes would be simplified	None
	Direct administrative costs	None	None	None	None	None	None
	Direct regulatory fees and charges	None	None	None	None	None	None
	Direct enforcement costs	None	None	None	None	None	None
	Indirect costs	None	None	None	None	None	The measures should not result in increased number of supervisory objections to the SRT for specific transactions; rather, rules that supervisors follow when assessing the transactions before the SRT validations should be clearer and more solid where possible.

		Citizens/ Consumers		Businesses		Administrations	
		One-off	Re-current	One-off	Recurrent	One-off	Recurrent
Improving risk sensitivity and removing prudential barriers to investments in the safest tranches of non-STS securitisation	Direct adjustment costs	None	None	Limited implement-tation costs	Limited implementation costs of monitoring distinctly what is senior from what is non-senior within non-STS securitisation. This is however likely already done by insurers as part of their own risk management processes	Limited costs for supervisors to adapt their IT systems	None
	Direct adminis-trative costs	None	None	None	None	None	None
	Direct regulatory fees and charges	None	None	None	None		None
	Direct enforcement costs	None	None	None	None	None	None
	Indirect costs	None	None	None	None	None	None

Estimates (gross values) to be provided with respect to the baseline; (2) costs are provided for each identifiable action/obligation of the preferred option otherwise for all retained options when no preferred option is specified; (3) If relevant and available, please present information on costs according to the standard typology of costs (adjustment costs, administrative costs, regulatory charges, enforcement costs, indirect costs;).

Figure 9: Application of the 'one in, one out' approach – Preferred option(s)

[M€]	One-off (annualised total net present value over the relevant period)	Recurrent (nominal values per year)	Total
Businesses			
New administrative burdens (INs)	Transparency IT implementation approx. EUR 3.3 million p.a.[91]		EUR 3 million p.a (rounded).
Removed administrative burdens (OUTs)		-EUR 310 million	-EUR 310 million
*Net administrative burdens**	EUR 3 million p.a. (rounded)	-EUR 310 million	-EUR 310 million
Adjustment costs**			
Citizens			
New administrative burdens (INs)	None	None	None
Removed administrative burdens (OUTs)	None	None	None
*Net administrative burdens**	None	None	None
Adjustment costs**	None	None	
Total administrative burdens* **	**EUR 3 million**	-EUR 310 million	**-EUR 310 million p.a.** (rounded to full 10 million)

(*) Net administrative burdens = INs – OUTs;
(**) Adjustment costs falling under the scope of the OIOO approach are the same as reported above. Non-annualised values;
(***) Total administrative burdens = Net administrative burdens for businesses + net administrative burdens for citizens.

[91] Assuming that the one-off IT implementation cost of 33 million for the EU market is written-off over a period of 10 years this would result in approx. EUR 3.3 million p.a. of additional costs.

3 - Details of costs and benefits

1. *Status quo & Overview of costs and benefits identified in the evaluation*

The below tables reproduce the conclusions of the Evaluation (Annex V), to demonstrate the full scale of the benefits (e.g. the administrative cost savings) of the preferred option, in comparison to the administrative and substantive cost burdens that are incurred in securitisation transactions under the status quo.

Figure 10: Costs and benefits of the current Securitisation Regulation (based on the Evaluation)

		Citizens/Consumers	Businesses	Administrations
Cost or Benefit description:	Type	Details (monetary value or qualitative description where no quantification possible)		
Direct compliance costs (adjustment costs, administrative costs, regulatory charges				
Due diligence and transparency requirements of Articles 5 and 7	One-off	Not affected.	EUR 10 million to EUR 15 million for familiarisation and set-up of due diligence procedures and about EUR 370 million for reporting templates (including IT implementation) Prevention of market entry for issuers and investors. Details below.	Not affected.
Due diligence and transparency requirements of Articles 5 and 7	Recurring	Not affected.	EUR 780 million. Long time to market/missed opportunities of not being able to invest in certain transactions as due diligence takes longer than offering window. See details below.	Not affected.
Enforcement costs: (costs associated with activities linked to the implementation of an initiative such as monitoring, inspections and adjudication/litigation)				
Indirect costs (indirect compliance costs or other indirect costs such as transaction costs)				
Direct benefits (such as improved well being: changes in pollution levels, safety, health, employment; market efficiency)				
More efficient regulatory framework			Revival of the EU securitisation market, enhancing access to a financial instrument that can provide funding and capital relief for originators. On the investor side, enhancing risk diversification via the exposure to assets	Better monitoring possibilities of the securitisation market and the

			that are usually ineligible for capital market financing (e.g. SME or corporate loans). Investors may further benefit from the possibility to choose the securitisation tranche that matches their risk-preferences.	overall economy.
Indirect benefits (such as wider economic benefits, macroeconomic benefits, social impacts, environmental impacts)				
More efficient regulatory framework		Increased financial and macroeconomic stability due to a more balanced distribution of risks in the financial sector. Bank credit and capital market cycles are not perfectly correlated and therefore one can substitute at least partially for the other in case of shortages.[92]	Real economy: More available funding.	

2. Size of the market for securitisations

The following figure overviews the approximate size of the securitisation market, which is relevant for the later extrapolation of costs and benefits.

As the securitisation market is very diverse, no single data source describes the market as a whole. Data for the public market is drawn from the Association for Financial Markets in Europe (AFME). Less data is publicly available for the private market, however the EBA is collecting data in their Common Reporting Framework (GL). EBA data can show only that part of the private market where a bank is involved in least on one side of the transaction (investor or originator/sponsor/original lender). To our knowledge, no data is available for the private market without any bank involvement.

The below cost estimation uses the latest available data (end-2023) for both public and private market segments.

[92] Kroszner, Laeven and Klingebiel (2007) present in their paper "Banking crises, financial dependence, and growth" (Journal of Financial Economics Vol. 84, 1) empirical evidence based on a study with 38 countries that shows that economic sectors that are dependent on the banking system see a substantially greater fall in output as response to a banking crisis.

Figure 11: Market data on EU securitisations (end-2023)

Dimension	Public market[93]	Private Market[94]
Outstanding notional amount (end 2023)	EUR 1 003.3 billion.[95]	EUR 632 billion.[96]
Synthetic vs. Traditional	The public market links to traditional securitisations.	The non ABCP share of the private market (about 88%) is split approx. 50%-50% between synthetic and traditional securitisations.
Asset class	The public market (excluding ABCP ~10%) is dominated by residential mortgages (~47%), followed by corporate exposures securitised as CLO (~19%), SME ABS (~13%), Consumer loans (~9%), Auto loans (~7%), and other exposures (~5%) including corporate mortgages, credit cards and leases.	For the synthetic market segment apply and receive significant risk transfer (almost 100%) the main underlying collateral is corporate loans including SME (~73%) followed by residential mortgages, consumer loans and credit card exposures with about 6-8% each. For ABCP transactions the main collateral types are trade receivables (~50%) and corporate loans (~30%).
SRT vs. non-SRT	AFME estimates 2021-2023 European (also including non-EU) SRT to total EUR 263.3 billion. Assuming that 75% of this total can be attributed to EU countries and that the issued volume was still outstanding by the end of 2023, this corresponds to about EUR 197 billion or about 20%.	Most SRT transactions are synthetic. If a securitisation is synthetic, it is linked 1:1 to an SRT application, so 100% of synthetic transactions are SRT. For the traditional segment the SRT share is about 20%.
Retained vs. Placed	Recent issuance data shows that on average 2019-2023,	In synthetic transactions, the assets are always retained on the

[93] AFME Market data report, Q4:2023

[94] EBA CoREP S2-2023

[95] This number is composed as follows: For end 2023: AFME reports for the total European market EUR 963 billion of securitisations, of which 76% accrue to the EU Market; in addition, it reports EUR 228.8 billion CLO for the whole of Europe, of which, assuming the same EU percentage, an estimate of EUR 174.4 accrues to the EU. Furthermore, it reports Asset Backed Commercial Paper of EUR 123.2 with an estimated EU share of 74%, i.e. EUR 103.2 in absolute terms. Please note that this figure is larger than the estimate for the public securitisation market by the EBA using COREP figures. To prevent a possible underestimation of costs, we have used this larger estimate for the public market to estimate the due diligence and transparency costs.

[96] Please note that the private market consists to a large extent of synthetic SRT transactions, where the notional amount of assets in the securitised pool is much higher (often 10x or more) than the invested amount.

Dimension	Public market[93]	Private Market[94]
	about 50% of the securitisations (excluding ABCP) are retained on the balance sheet whereas the other 50% are placed on the market.	balance sheet, only the risk is transferred.
STS vs. non-STS	STS transactions volumes for the public market are not publicly reported, therefore, we rely on COREP data examined by the EBA which indicates a share of about 34% STS transactions for public securitisations with bank involvement.	In the private market about 40% are STS, based on COREP data examined by the EBA.
AAA, other investment grade, sub-investment grade	Most securitisations are AAA (54%) or AA (31%), followed by (11%) in the investment grade segment and only 3% sub-investment grade.	For the private segment no rating distribution is available, but we expect a significantly higher share with lower ratings as SRT is only possible for exposures bearing risk.

3. Nature of duties due diligence requirements (Article 5)

The due diligence requirements of Article 5 SECR oblige institutional investors to perform a risk assessment of the securitisations they invest in. These requirements are designed to protect investors, to assure regulatory compliance and to ensure that all parties involved in the securitisation transaction have access to accurate and timely information concerning the underlying assets, securitisation structure, and associated risks. The main due diligence requirements apply to investors and include:

1. Verification requirements prior to entering into a securitisation position:
    - Verification of credit granting standards (only if the originator is neither an EU investment firm nor an EU credit institution or if it is located outside of the EU)
    - Verification of risk-retention
    - Verification of fulfilment of disclosure obligations required by Article 7 by the originator or sponsor or SSPE
    - Verification of sound selection procedure and pricing for non-performing exposures
2. Risk-assessment prior to entering a securitisation position including:
    - Assessment of risk characteristics of the individual position and of the underlying exposures
    - Assessment of the structural features of the securitisation that can materially impact the performance of the securitisation position, including the contractual priorities of payment and priority of payment-related triggers, credit

enhancements, liquidity enhancements, market value triggers, and transaction-specific definitions of default;
    - STS verification: checking the compliance of that securitisation with the STS requirements provided for in Articles 19 to 22 or in Articles 23 to 26, and Article 27
3. Ongoing monitoring of the risk characteristics after entering a securitisation position including
    - percentage of loans more than 30, 60 and 90 days past due,
    - default rates,
    - prepayment rates,
    - loans in foreclosure,
    - recovery rates,
    - repurchases,
    - loan modifications,
    - payment holidays,
    - collateral type and occupancy, and
    - frequency distribution of credit scores or other measures of credit worthiness across underlying exposures,
    - industry diversification
    - geographical diversification,
    - frequency distribution of loan to value ratios.
4. Ongoing stress-testing after entering a securitisation position:
    - regularly perform stress tests on the cash flows and collateral values
    - or stress test loss assumptions.
5. Ongoing reporting, both internally and to authorities:
    - The securitisation transaction must be backed by a homogeneous pool of exposures, such as pools of residential loans or corporate loans. The underlying exposures should not include transferable securities.

However, sell-side parties support this due diligence process, e.g. by performing due diligence sessions where they guide investors through all relevant questions that need to be answered over the course of their due diligence process.

4. Cost drivers for Article 5 costs and separation of incremental costs from business-as-usual costs:

Investors perform due diligence activities in their regular course of business. These costs that are linked to business-as-usual due diligence activities ("BAU costs") are not relevant for the cost assessment, which focusses on "incremental costs", i.e. costs that businesses would not incur in the absence of the EU Securitisation Framework. In the stakeholder consultation, securitisation investors pointed to the following costs that go beyond what those incurred in the regular course of business:

- Verification beyond the assessment of the risk characteristics and the structural features of the transaction
- Due diligence on originators that are regulated entities and that therefore can be assumed to have originated their assets based on sound-credit granting standards

- Elaborate due diligence for secondary market transactions that have already been checked by primary investors or are in the end of their life cycle with a high collateral to outstanding asset-ratio and hence with very low risk
- Due diligence on repeat issuers that are already familiar to the investor
- STS verification
- Elaborate due diligence on low-risk transactions
- Certain activities that are considered duplicative in nature, e.g. secondary or tertiary real-estate price valuations
- Repetition of due diligence activities that have been performed by another party in the process (e.g. the asset manager)

5. Classification of due diligence costs from a better regulation perspective

Given that the substantial due diligence requirements extend largely to checking whether originators having fulfilled their duties in the credit origination and transparency process (which is an inspection duty performed on behalf of public authorities), as well as to internal reporting, it is reasonable to classify these as administrative costs for purposes of the better regulation process and to consider them in the One-In-One-Out calculation.[97]

6. One-off costs due diligence

To establish appropriate due diligence procedures, investors in securitisations incur one-off efforts to adapt their due diligence procedures to the requirements of Article 5 SECR. Such one-off efforts involve familiarisation with the new rules, potentially obtaining legal advice for the correct interpretation of the rules and adapting internal procedures and guidance. It was not possible to obtain information on one-off implementation costs from the stakeholder consultation. Several large asset managers mentioned that they had already similar procedures in place before the legal framework was put into place, so there was no implementation effort. Other respondents mentioned that they had spent significant efforts, but that their processes adapted slowly over time and the exact costs of this effort cannot be accurately estimated.

The business association AFME estimated for new businesses the time necessary to understand and implement due diligence procedures to be 2-3 months out of the approximately 9 months required to set-up the whole securitisation business and has collected a cost sample for due diligence costs of that constitutes about 20% of asset managers investing in European securitisations, representing about 50% by ABS assets under management. They estimated the one-off start-up costs for a securitisation business to about EUR 400 000, with about 30% due to Art. 5 due diligence requirements, i.e. approx. EUR 130 000. AFME estimates the total number of asset managers investing in securitisations in the European market to be less than 20. In addition, the EBA estimates the number of bank investors to 55-127, where the lower bound are banks with the role “investor” only and the upper bound includes also banks with the role “originator”, “original lender” or “sponsor”. This means that the upper bound includes also banks that invest only in the retained tranches of their own securitisations, which are not

[97] The One-In-One-Out-Principle requires for each Euro of additional administrative burden introduced by a new regulation for citizens, businesses or administrations, the removal of an equivalent amount in order to limit the costs of bureaucracy over time.

acting as investors into third-party transactions in the market. To isolate market investors only, we assume that about half of the bank investors invest only inhouse, which corrects the range of bank investors to about 55-90 institutions. In addition, to get an indication of non-bank investors, we refer to published data of the ESRB that estimates the holding share of banks in securitisations to 84%[98] , which implies an estimate of about 25 investors including an estimate of 11 investment firms[99.] in total about 80-115 investors, this amounts to about EUR 10 to 15 million.

7. Recurring costs due diligence

While due diligence requirements apply mainly to buy-side parties/investors, the consultation process has shown that sell-side parties (originators, original lenders, sponsors) take also a role in this process by supporting investors, e.g. by performing due diligence sessions where they guide investors through all relevant questions that need to be answered over the course of their due diligence process. Furthermore, for certain transactions due diligence activities are performed by asset managers acting as intermediaries as well as end-investors. The table below provides an estimation of the costs that apply at all levels of the due-diligence process and yields in total ab EUR 660 million p.a.

Segment		**Sell-side due diligence support costs(6)**	**Buy-side due diligence cost(5)**		**Total due diligence**	**Market share in terms of underlying assets outstanding**	**Estimated market due diligence cost**
			Investment firm (intermediary)	**End investor**			
		In basis points of underlying asset pool				**Billion EUR**	**Million EUR**
Synthetic		0.3(2)	n/a	0.3(3)	**0.6**	295	18
	Observations(1)	N=6		N=6			
	Max	1.2		0.6			
	Min	0.03		0.02			
Tradit-ional		2.0(7)	12%(4)x2.5=0.3	2.5(8)	**4.8**	1 340	643
	Observations	N=3	N=16				
	Min	1.5	0				
	Max	2.5	24				
					Total	1 635	**661**
							660 (rounded)

[98] The latest ESRB report on Monitoring systemic risks in the EU securitisation market, July 2022, published every 3 years, estimates in chart: 2a that 84% of euro area securitsation holdings are held by deposit-taking institutions (banks), and the reminder of 16% by Central state and government, Insurance corporations, Pension funds, Investment funds non-financial and other financial corporations and non-profit institutions serving households.https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf?94c1fd978e974454f65a21c399f44ff8

[99] This is based on the understanding that the bank-holdings include holdings of retained tranches, i.e. a basis of 127 banks that corresponds to 84% of securitisation holdings and the assumption that the holding shares are proportional to the number of investors.

(1) The observations for synthetic securitisations rely on the submission of the International Association of Credit Portfolio Managers (IACPM) that has collected a sample of observations among their members.
(2) The due diligence support of originators in the synthetic SRT segment has been translated in basis points (i.e. 1/100 of a percentage point) by dividing absolute values of costs in EUR p.a. per transaction by the estimated average pool size of a synthetic transaction.
(3) For the investor side, for synthetic SRT transactions the costs for 1-3 investors per transaction are assumed[100] and the mid-range (2 investors) is shown. To translate the cost values in EUR per transaction p.a. in basis points (i.e. 1/100 of a percentage point), the pool size has been used (not the secured amount/investment ticket size) in order to be able to scale up the cost to the market size that is expressed in outstanding underlying asset volumes.
(4) The share of 12% has been taken as assumption for the share of market involvement of asset managers in the investment process of non-synthetic transactions and is based on a ESRB publication on asset manager involvement in securitsation transactions (with a correction to exclude banks holding their own retained shares only)[101].
(5) The classification as investor vs sell side of the replies received in the stakeholder consultation is as follows: If in the reply to question 0.16 "involvement role" was one of the following (no buy-side role and: "investor in synthetic securitisations" or "Investor in synthetic securitisations") or in a follow-up with the stakeholder it was clarified an investor role or if both roles were selected and the principal activity (question 0.13) is "Investment Management".
(6) The classification of the replies received in the stakeholder consultation as sell-side has been performed if exclusively sell-side roles were selected, i.e. "originator of synthetic securitisations", "originator of traditional securitisations", "sponsor" or "arranger" or it was explicitly stated in a follow-up interaction.
(7) Three observations were obtained in the traditional sell-side segment with a full range of 1.5-2.5 bps and the mid-value of 2.0 bps has been selected as representative value..
(8) Observations from stakeholder consultation and related follow-up interactions. If reply showed absolute annual cost value per transaction, , a ticket size of EUR 10 million has been assumed – reflecting the median size of a median market transaction of approx. EUR 400 million and typical investor numbers per public transaction of 30-50 investors, which implies an average investment ticket size of EUR 10 million) – to translate into relative costs expressed in basis points. If explicitly stated in the reply, the ticket size of the respondent has been taken into account to obtain the relative costs.

8. Benefits of moving to a more principles based and proportionate due diligence approach

Stakeholders responding to the public consultation almost unanimously welcomed the proposal of Option 1.1, i.e. a more principles based, less complex and proportionate due diligence

[100] See True Sale International in cooperation with the German Banking Association, Final Report on the securitisation task force, Annex 4, TSI_BVB_Final_report_of_the_securitisation_task_force_202409_en.pdf

[101] ESRB European Systemic Risk Board (July 2022): Monitoring systemic risks in the EU securitsation market, Chart 2a
https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf?94c1fd978e974454f65a21c399f44ff8

approach (95% - i.e. 81/86 respondents to that question. Only 2 preferred to make the requirements even more detailed and prescriptive, and 3 would like to keep the regulation unchanged; an additional 45 respondents had no opinion).

One of the major benefits that respondents see in a more principles-based approach is the possibility to focus on risk areas of the transaction. For some transactions respondents would prefer lower due diligence requirements as the risks involved would not justify certain efforts.

Transactions with repeat issuers were frequently mentioned. AFME estimates the share of repeat issuance to about 67% of the public market.[102] Apart from being dissatisfied with performing controls that are in other jurisdictions performed by public authorities, e.g. verifying EU issuers' compliance with risk retention requirements, the repetition of such checks for several transactions with the same issuer in a short period of time is seen as superfluous and unduly costly.

Secondary market transactions were another frequent example in this context, where due diligence requirements could have a prohibitive effect as the time window available to give an offer (e.g. 1-2 days) was insufficient to perform all due diligence tasks. These can take (according to the consultation replies) up to 10 days. As a result, non-EU investors are reported to benefit by getting easier access to the securitisation investments in the secondary market, while certain EU investors are excluded. Furthermore, given that the underlying exposures amortise over time, the remaining time to maturity is much shorter and the relation between collateral and exposure much more favourable than for the initial primary transaction, hence the remaining risk is significantly reduced while the due diligence requirements remain unchanged. To our best knowledge, there was no publicly available market data on the share of primary vs. secondary transactions, but one experienced asset manager estimated the relationship between secondary to primary market transactions as about 50%:50% in the traditional securitisation market. In the synthetic market investments are usually held to maturity or until it can be called, i.e. they are not relevant for secondary market transactions.

Low-risk transactions in the AAA or investment grade segment are another frequently mentioned example for transactions that require in the eyes of most investors a lower degree of due diligence activities. Investors would therefore prefer setting certain priority areas for their due diligence activities in line with the risk characteristics of the underlying collateral and the structural features of the transaction.

While banking and insurance investors can offset the costs of additional STS compliance checks through preferential capital treatment, investment firms have no additional benefit and regard the label therefore rather as a "nice-to-have". Transactions designated as STS are subject to additional checks which considered as particularly burdensome.

Hence, an AAA transaction with a repeat issuer in the secondary market could be considered the heaviest in terms of regulatory burden and the perceived excess burden of such transactions

102 https://www.afme.eu/Portals/0/DispatchFeaturedImages/Article%205%20presentation%20for%20Commission%2015.1.25.pdf

can be up to 75%. Based on the replies received in the stakeholder consultation, we estimate the savings potential as follows:

Figure 12: Estimated savings recurring annual due diligence costs

Segment		Sell-side due diligence support costs(6)	Buy-side due diligence cost(5)		Total due diligence savings relative to asset pool	Market share in terms of underlying assets outstanding	Estimated market due diligence cost
			Asset manager or other intermediary	End investor			
			percent		basis points	Billion EUR	Million EUR
Synthetic(1)		**17%(3)**	n/a	**16%(2)**	**0.1(5)**	295	**3**
	Observations	N=7		N=6			
	0-25% (avg. 13%)	83%		86%			
	26-50% (avg. 38%)	17%		14%			
Traditional(2)		**38%(2)**	**50%(4)**		**2.2(6)**	1 340	**289**
	Observations	N=2	N=11				
	Min	25%	0%				
	Max	50%	50%				
						1 635	
Total EUR million		**103**	**188**				**290 (rounded)**
	Basis points	**0.63**	**1.15**				**1.8**

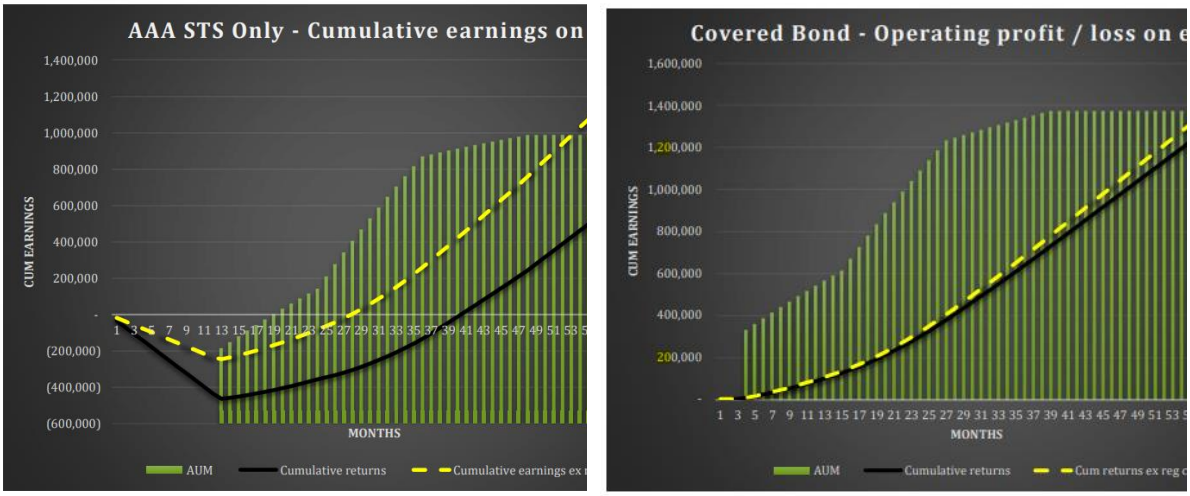
(1) In line with the observations of annual recurring due diligence costs, the submission of the association IACPM that was the only submission explicitly referring to synthetic securitisations and with a sample collected among their members has been taken as representative for the synthetic market segment.
(2) Observations for the traditional market segment have been taken from the stakeholder consultation.
(3) Weighted average savings potential, which results on the sell side from 83% of respondents stating a savings potential of 0%-25% (avg. 13%) and 17% of respondents estimating savings of 25%-50% (avg. 38%)..
(4) Median savings potential
*(5) 0.3 basis points * 17% + 0.3 basis points * 16% = 0.1 basis points. While this seems small, it has to be taken into account that in the synthetic market segment only about 8% of the underlying asset value are securitised (or invested).[103] In relation to the invested tranche the savings potential is about 1.3 basis points. Initial values from the section above on recurring due diligence costs.*
*(6) 2.0 basis points *36%+2.8 basis points *50%. Initial values from the section above on recurring due diligence costs.*

[103] Source: IACPM Balance Sheet Synthetic Securitisation Survey 2016-2023.

We obtain a savings potential of about EUR 290 million for the EU securitisation market, due to the duplicative or redundant nature of the provisions that are proposed to be removed in the preferred combination of options. These savings come without expected negative impacts on the risks of individual transactions as well as the securitisation market as whole and EU macroeconomic financial stability.

Another frequently mentioned point linked to the due diligence requirements is a barrier to entry resulting from the magnitude of the due diligence duties. The barrier to entry is cited in over 40 replies to the stakeholder consultation. AFME estimates that setting-up a new EU securitisation investment business requires about 9 months of start-up with 2-3 months alone to understand and implement the due diligence rules. They show for the example in the Figure 13 below that an AAA STS asset management business requires about 40 months to reach profitability. The reason is that for low-yield products, the management fee is correspondingly low, therefore it takes long time as well as a very large pool of assets (estimated to about EUR 1,5 billion) to break even. This effectively excludes certain market players. This applies in particular to low yield high grade AAA products that are regarded as cash-equivalents by investors and that are quickly divested once cash is needed, which makes it more difficult to keep a sufficient investor base for such products. AFME estimates the universe of asset managers active in the public securitisation market to be below 20 players. For a comparable covered bond business, the number of players is significantly higher: AFME found alone 160 investors in a single covered bond product. As a result, simpler and more proportionate due diligence requirements could lead to an investor base 5 to 10 times larger than today's. More investors could significantly improve the liquidity in this market.

Figure 13: Estimated time to break-even for new market entrant building a business for a AAA STS securitisation



9. Nature of duties transparency requirements (Article 7)

The Transparency Requirements of Article 7 SECR oblige issuers of securitisations: originators, sponsors or SSPEs, to provide investors with information in a structured, comparable and reliable way. In contrast to other comparable instruments that require reporting

on an aggregate level, securitisations require reporting on a loan-by-loan basis, including for granular exposures, such as credit card receivables. The main reporting obligations include among others:

- Transaction documentation to be made available before pricing: The originator and sponsor must make available the contractual documents (e.g. asset sale agreement, derivatives and guarantee agreements, collateralisation arrangement) and for public transactions, the prospectus, for STS transactions, the STS notification as well as additional information on the static and dynamic historical default and loss performance with a sample of the underlying exposures subject to verification by an external third party ("third party verification" or "TPV") as well as in case of residential loans, auto loans or leases additional information on the environmental performance of the assets.
- Ongoing disclosure on underlying exposures: The originator and sponsor must make available on a quarterly basis (for ABCP on a monthly basis but only in aggregate form) information on the underlying exposures of a securitisation including the credit quality, performance, data on the cash flows generated and risk retained as well as event-triggered information (e.g. use of inside information or breach of obligations, change of structural features or risk characteristics). For STS transactions there are additional requirements to make available data on static and dynamic historical default and loss performance, such as delinquency and default data, for substantially similar exposures to those being securitised. Public securitisations are obliged to report to a Securitisation Repository and private securitisations via a private website following ESMA templates, which require a high number of datapoints compared to other financial instruments.

10. Drivers of transparency costs and separation of incremental costs from business-as-usual costs:

As the main cost drivers for the transparency regime, stakeholders mentioned:

- The high level of detail required by ESMA templates and the lack of consultation of market participants in the templates' creation, meaning that the templates often did not match investor needs and relevant information has to be obtained separately.
- The requirement of granular reporting, which can be very challenging for small exposures like credit-card, trade or leasing receivables. For comparable instruments like covered bonds, aggregate reporting is sufficient.
- The additional burden linked to STS reporting (such as default history) and verification

Hence, the incremental costs of Article 7 reporting result mainly from the granularity and unsuitability of templates, level of detail as well as from STS-specific reporting.

11. Classification of transparency costs from a better regulation perspective

As the transparency requirements of Article 7 clearly link to disclosure and reporting they are classified as administrative costs from a better regulation perspective and are to be reported for One-In-One-Out purposes[104].

12. One-off costs transparency

At the time of the introduction of the Securitisation Framework, issuers (originators and sponsors) of securitisations incurred one-off implementation costs to adapt to the new disclosure infrastructure. Such implementation activities included (but were not limited to) familiarisation with the new transparency requirements (Level 1 regulation, Level 2 RTS, ITS and FAQ), sometimes involving legal advice, and IT implementation. Depending on the underlying exposures and issuers, the latter could require the opening of several relevant IT systems, e.g. for mortgages, corporate loans etc., adding to those systems data fields that were not previously covered. Furthermore, a reporting interface would need to be set up to provide disclosures in the required format. For small issuers, without such an extensive IT infrastructure, such disclosures might have been set-up in simpler ways, e.g. in Excel templates. In this context the number of asset classes covered (e.g. RMBS or corporate loans) is an important cost driver as each asset class requires individual reporting templates.

Consultation respondents reported one-off costs in the range of EUR 27 000 to EUR 4 000 000, with an interquartile range of EUR 400 000 to EUR 1 300 000 and a median of EUR 900 000. Based on data provided by the European Data Warehouse we estimate approximately 260 public market issuers (originators and sponsors)[105] and based on EBA COREP data about 150 private market issuers (originators and sponsors) that had to incur costs during the period 2019 to 2025 to set up a transparency regime. Of these 410 originators, we estimate about 330 to be still active.[106]

Taking the median value for implementation costs, i.e. EUR 900 000, we estimate the one-off implementation costs for the EU securitisation market to be approximately EUR 370 million.

[104] The One-In-One-Out-Principle requires for each Euro of additional administrative burden introduced by a new regulation for citizens, businesses or administrations, the removal of an equivalent amount in order to limit the costs of bureaucracy over time.

[105] European Data Warehouse is one of the two securities repositories for securitisations in Europe that covers approximately 90% of European public securitisation transactions.

[106] These estimations are based on the following considerations: The European DataWarehouse, covering about 90% of the European public securitsation market, provides data on the active number of issuers of about 170 and the number of historically active issuers since 2023 of 290. Assuming, a constant absolute number of issuers leaving the market over time (i.e. 10 per year), an estimated 60 issuers were still active in the time period 2019 (inception of SECR to today), we obtain in total 230 issuers, scaled up from 90% to 100%, we obtain **260 issuers**. For the private market EBA estimates about 100-140 issuers (mid-point 120), including a "historical margin" covering issuers that left the market since SECR inception in 2019 comparable to the private market, we obtain about **150 issuers**. In total this gives about 410 issuers.

These costs apply to businesses. Citizens were not directly affected by Securitisation Framework and hence incur no costs.

13. Recurring costs transparency

On the recurring transparency costs, we have collected the following information:

Figure 14: Estimated market transparency cost

Type of transaction	representative value (by business association), rounded*	obser-vations	thereof from business associations	min	max	Estimated no. outstanding transactions (rounded)**	Estimated market cost (rounded)
	EUR	#	#	EUR		#	EUR
Traditional, non-STS	50 000	N = 9	N = 4	15 000	50 000	820	41 000 000
Traditional, STS	100 000			74 000	100 000	510	51 000 000
Synthetic, non-STS	60 000	N = 5	N = 2	6 000	61 000	100	6 000 000
Synthetic, STS	80 000			78 000	100 000	110	8 800 000
CLO	20 000	N = 4	N = 1	10 000	35 000	440	8 800 000
TOTAL							**115 600 000**
Rounded							**120 000 000**

** Due to a very small number of observations for each transaction type, information reported from business associations with a broad base of contributing institutions has been taken as representative value. For most segments the values reported by business associations are within the range of values reported by individual contributors.*
***The estimated transaction number is derived from the market volumes by segment as shown in Annex 3 and obtained from the AFME market data report Q4 2023 and the EBA. The market volume has been divided by average transaction sizes for the relevant market segment, where the average transaction size for public non-ABCP Transactions has been obtained from the European Data Warehouse; the average transaction size for private ABCP transactions from the association True Sale International in collaboration with the German Banking Association[107]; and it has further been assumed that private traditional transactions have a comparable average size as public traditional and private synthetic SRT transactions. The average transaction size of CLO transactions for 2024 has been obtained from the The Alternative Credit Investor Magazine (March 10 2025).*

Consultation respondents considered transparency costs for EU securitisations to be significantly higher by stakeholders than the costs for comparable instruments like covered bonds, credit default swaps, credit linked notes, or non-EU securitisations (29 replies). Only 2 respondents assessed the costs as similar or moderately lower. The main reason for the

[107] TSI_GermanBankingAssociation_Addendum_to_StakeholderConsultation_CostEstimation

additional costs is the required granularity (loan-level data) and the high number of data fields required by the templates.

There might also be opportunity costs in the sense that the reporting requirements prevent certain assets from being securitised. Some respondents mentioned that they were not able to collect or report certain datapoints for legacy transactions and therefore were not able to securitise them. However, such opportunity costs were not quantifiable by respondents.

14. Impacts of the preferred policy option

The preferred policy Option 1.1 ("*Streamline the current disclosure templates for public securitisations. Introduce a simplified template for private securitisations. Require private securitisations to report to securitisation repositories"*) was the preferred choice of 76% of respondents to this question in the targeted consultation (54//71). 13 respondents preferred option 1.2 ("*Remove the distinction between public and private securitisations. Introduce principles-based disclosure for investors without a prescribed template. Replace the current disclosure templates with a simplified prescribed template that fits the needs of competent"*). 4 respondents favoured "*no change*", while 63 additional respondents had no opinion on this question.

Option 1.1 was preferred by many respondents under the condition that it would mean retaining the current templates while introducing flexibility by using the "no-data" option more extensively. Removing the requirement of loan-level reporting for granular transactions, and instead allowing for aggregate reporting was also favoured. Some replies called for greater flexibility in the required format, e.g. allowing disclosure in Excel format (rather than .xml). To meet the information needs of investors allowing the inclusion of additional data would also be welcomed. Some respondents pointed also to the benefits of alignment and data sharing between authorities (ECB, NCAs) for the reporting entities.

Most respondents, however, refrained from estimating the quantitative effects on the costs of the preferred option as they would depend on concrete details of the proposed change. Of the few replies received, most respondents envisaged "minor" or "moderate" costs, mainly as the bulk of the costs has been already incurred in the implementation of the existing templates. A change as in Option 1.1 of keeping the templates while increasing the flexibility could lead to moderate one-off IT adjustment costs and a reduction of on-going reporting costs of up to 15%-25% (with an average value of 22.5%). Applied to the currently estimated EUR 120 million annually, this could correspond to a cost saving of EUR 26 million annually.

The securitisation repositories estimate the adjustment costs for the described adaptation to about EUR 50 000-70 000. If we assume that the approx. 330 active issuers have comparable cost and adding a margin of conservatism, we estimate about EUR 100 000 per issuer for an IT adaptation (there will be smaller players operating without IT infrastructure and larger players with more complex IT systems and changes and assuming that as many existing datapoints will be utilised as possible), we obtain one-off implementation costs of about EUR 33 million.

Furthermore, the potential requirement of private transactions to report the data (that is already collected today under Article 7) to securitisation repositories, would result in at least approx. EUR 10 000 p.a., which translates for an estimated market transactions volume of 660 transactions to about EUR 6.6 million or EUR 7 million (rounded).

Type of transaction	representative value (by business association), rounded*	Estimated no. outstanding transactions (rounded)**	Estimated market cost (rounded)	Estimated cost savings	Saving
	EUR	#	EUR		EUR
Traditional, non-STS	50 000	820	41 000 000	23% (N=2: 15-25%; avg. 22.5%)	9 225 000
Traditional, STS	100 000	510	51 000 000		11 475 000
Synthetic, non-STS	60 000	100	6 000 000		1 350 000
Synthetic, STS	80 000	110	8 800 000		1 980 000
CLO	20 000	440	8 800 000		1 980 000
TOTAL			**115 600 000**		**26 010 000**
Saving expressed in basis points of market volume (EUR 1 635 billon)					**0.2**

15. Summary

Figure 15: Summary due diligence and transparency costs and impacts of preferred combination of options

	Due diligence	Transparency
One-off costs	EUR 10-15 million	EUR 370 million
Impact preferred option	No impact estimated (as costs are sunk); for new market entrants costs could go down by 15%-50% depending on the market segment and transaction types covered.	Implementation costs new templates (assuming re-use of existing data fields to a maximum extent): EUR 33 million
Recurring annual costs	EUR 660 million p.a.	EUR 120 million p.a.
Impact preferred option on recurring costs	Saving of EUR 290 million p.a.	Saving of EUR 26 million annually for simplified reporting Additional annual costs of at least EUR 7 million for the reporting of private transactions to securitisation repositories.

Figure 15 above summarises the cost estimations of the operational costs. It is important to note that no clear distinction between Art. 5 and Art. 7 related costs can be drawn as the respondents allocated the economic burden of due diligence duties and costs both to buy- and

sell-side parties, while the regulation formally allocates Art. 5 related due diligence duties exclusively to investors and Art. 7 related transparency duties to originators and sponsors. In relative terms, the total recurring operational costs are estimated to about EUR 780 million, which is about 4.8 basis points of the market volume of outstanding assets. The total savings potential that is estimated to EUR 310 million (rounded) corresponds to about 2.0 basis points, which can be decomposed to about 0.8 basis points for sell-side parties (originators/sponsors/original lenders) and 1.2 for buy-side parties (investors). For sell-side parties, the results could be corroborated with the results of a very detailed and comprehensive study performed by the association True Sale International in collaboration with the German Banking association that estimates the annualised savings potential of operational costs for sell-side parties for a large sample of 310 transactions representing a market volume of about EUR 300 billion, to about 0.9 basis points annually.[108] Apart from those pure monetary benefits of regulatory simplification, it is worth noting that stakeholders put strong emphasis also on other aspects of the due diligence and transparency framework such as the barriers-to-entry and time-to-market considerations.

4 - Relevant sustainable development goals[109]

Figure 16: Overview of relevant SDG – Preferred Option

IV. Overview of relevant Sustainable Development Goals – Preferred Option(s)		
Relevant SDG	Expected progress towards the Goal	Comments
SDG 8 Economic Growth	Potential improvement and increased stability.	Deep and liquid capital markets next to a well-developed banking system can contribute to macroeconomic stability as a more balanced distribution of risks in the financial sector leads to a diversification of financing in bank credit and capital markets. As their cycles are not perfectly correlated, capital market financing can substitute at least partially for bank

108 https://www.true-sale-international.de/fileadmin/tsi-gmbh/tsi_downloads/aktuelles/TSI_BdB_Addendum_Cost_Estimation.pdf. This is reflected in an annual savings potential of EUR 26.7 million for a transaction volume of EUR 310 000 million which corresponds to 0.9 basis points or 0.009 percentage points.

109 1. No Poverty, 2. Zero Hunger, 3. Good Health and Well-being, 4. Quality Education, 5. Gender Equality, 6. Clean Water and Sanitation, 7. Affordable and Clean Energy, 8. Decent Work and Economic Growth, 9. Industry, Innovation and Infrastructure, 10. Reduced Inequalities, 11. Sustainable Cities and Communities, 12. Responsible Consumption and Production, 13. Climate Action, 14. Life Below Water, 15. Life on Land, 16. Peace, Justice and Strong Institutions, 17. Partnerships for the Goals,

		financing and vice versa in case of shortages, this can have a stabilising effect.[110]
SDG 13 Climate Action, 14. Life below Water, 15 Life on Land	Potential improvement of financing the green transition	Securitisation may play a significant role in the green transition as a financing instrument for green businesses.

ANNEX IV: ANALYTICAL METHODS

To assess the impacts of the options, this report builds on the following sources of data:

- Consultation with stakeholders, the results of which are described in the synopsis report in Annex 2.
- Market and supervisory data provided during the consultation period

The section with prudential options in banking and insurance builds primarily on the data and analysis provided by the ESAs, in particular the 2022 ESA's Joint Committee advice on the review of the securitisation prudential framework, and the 2020 EBA report on the significant risk transfer in securitisation, which rely on data collected by the EBA directly from supervisors and credit institutions. Additional bank and insurance-specific data shared by EBA and EIOPA and extracted from banks and insurers' reporting templates were also used. The analysis also draws on the insights provided by stakeholders in their responses to the Commission's targeted consultation and various analytical papers on securitisation.

The 2022 ESA's Joint Committee report has been developed in response to the Commission's call for advice (CfA) addressed to the ESAs in October 2021. The CfA has sought the Joint Committee advice on the performance of the rules on capital and liquidity requirements relative to the framework's original objective of contributing to the revival of the EU securitisation market on a prudent basis. The report consists of two parts: the assessment of the securitisation market performance and appropriateness of the rules for banks on capital (laid down in Part Three Title II Chapter 5 of the CRR) and liquidity (laid down in the LCR delegated regulation), and the review of the securitisation capital framework applicable to (re)insurers (laid down in Solvency II). The report relies on data collected by EBA directly from banks, through the COREP reporting (in particular templates on securitisation are C14.00 and C14.01 where data are collected on a semi-annual frequency.) COREP provides very granular information of securitisations originated by the banking sector and other securitisations in which banks invest in. The reported transactions include public and private traditional securitisations, synthetic

[110] Kroszner, Laeven and Klingebiel (2007) present in their paper "Banking crises, financial dependence, and growth" (Journal of Financial Economics Vol. 84, 1) empirical evidence based on a study with 38 countries that shows that economic sectors that are dependent on the banking system see a substantially greater fall in output as response to a banking crisis.

securitisations and ABCP transactions, no matter the country to which the underlying assets belong to. Another input to the report was feedback given by the industry to a consultation launched by the Commission on the functioning of the EU securitisation framework in summer 2021. The feedback given by the industry to this consultation has been analysed in depth by the EBA and has informed the response to this CfA. Moreover, an industry roundtable was held at the EBA premises on 30 May 2022.

The 2020 EBA report on the significant risk transfer in securitisation has been prepared in accordance with the mandate under Articles 244(6) and 245(6) of the CRR. Taking into account the findings of the EBA Discussion Paper on the Significant Risk Transfer in Securitisation published in 2017, as well as further analysis based on the review of the SRT market practices and the supervisory approaches to SRT assessments, the report included a set of detailed recommendations to the European Commission on the harmonisation of significant risk transfer (SRT) assessment practices and processes.

Estimates of operational costs

For the estimate of operational costs and benefits for due diligence and transparency that are classified as administrative costs in the Better Regulation terminology, the standard cost model (see Tool #58 EU Standard Cost Model of the Better Regulation Toolbox July 2023) has been used.[111]

The Standard Cost Model estimates administrative costs in the following format:

Number of entities affected	x	Frequency of administrative action	x	Tariff per hour	x	Time in hours	+	Out-of pocket expenses

This simple model does not work however for the complexity of the securitisation market for the following reasons:

1. The recurring operational costs that apply for securitisation transactions are not per entity, but event-triggered, i.e. they apply whenever a transaction is performed
2. The number of transactions is not officially tracked or part of a statistic for the whole European securitisation market, instead volumes of outstanding underlying assets are reported.
3. Furthermore, the securitisation market can be decomposed in many types of transactions or dimensions (see Figure 17 below). Ideally, for each dimension that affects the costs significantly, there should be a sample of cost observations and data on the size of the population. However, not for each of the dimensions mentioned by stakeholders as cost-drivers (see Figure 18) market data was available. For example, for this analysis no official statistics were available that decompose the market into

[111] https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en

primary and secondary market investment, although this dimension has been mentioned as key cost driver of the operational costs linked to recurring due diligence activities.

Figure 17: Dimensions of securitisation transactions

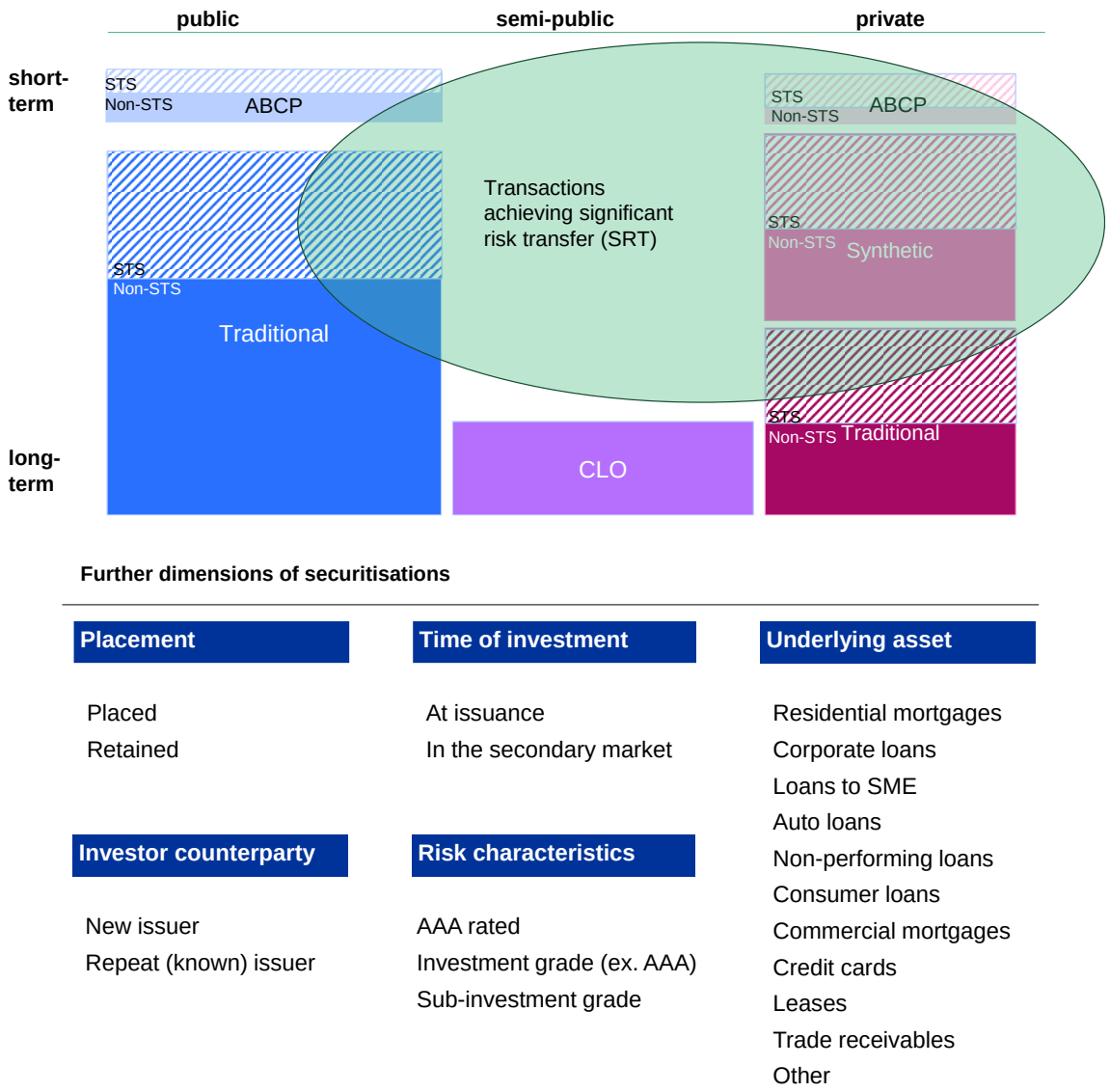


Figure 18: Key cost drivers of regulatory operational costs of securitisations

	Due diligence costs	Transparency costs
One-off costs	• Due diligence standards that were in place prior to the introduction of SECR; higher initial standards required lower adaptation efforts	• Number of asset classes covered (each asset class needs has specific reporting templates) • Granularity of underlying assets • Need for collection of data that is not available in IT-Systems, e.g. historical data
Recurring costs	• STS-status • Interaction of investor with new vs. repeat issuer • Risk characteristics	

	• Primary or secondary market investment	

To account for the specifics of the securitisation market, the following estimation approach has been taken to consider on the one hand to a maximum extent possible the cost drivers and on the other hand the structure of available market data to scale-up the sample obtained in the stakeholder consultation:

(1) One-off costs due diligence:

Estimated number of investors in the market	x	Estimated cost per investor

- Estimate of number of investors: The estimate has been obtained based on data collected by the EBA in its COREP statistics on the number of bank with the role: investor in securitisations, data from AFME on the estimated number of asset managers in the market[112] and numbers of the ECB on the relative shares of different investor types including asset managers, funds, insurance companies, pension funds, supranationals and public development funds for the SRT market[113] and assuming that the shares are similar for the SRT and non-SRT market segments. As there is no statistical tracking of securitisation investors, it should be noted that this is an estimation on a best effort basis.
- Estimated cost per investor: As only very few stakeholder replies were available, the one-off diligence costs were based on an estimate provided by AFME as supporting material to the stakeholder consultation.

(2) One-off costs transparency

Estimated number of issuers in the market	x	Estimated cost per issuer

- Estimated number of issuers in the market: The estimated number of issuers in the market is based on the number of active issuers in the public securitisation market that was provided by the European DataWarehouse and COREP statistics of the EBA on banks with the role Original lender, Originator or Sponsor of a securitisations.
- Estimated cost per issuer: The one-off costs for transparency were estimated based on the replies received in the stakeholder consultation they are based on the median value

[112] AFME, Article 5 of EU securitisation regulation : Impact Analysis, p.3. https://www.afme.eu/Portals/0/DispatchFeaturedImages/Article%205%20presentation%20for%20Commission%2015.1.25.pdf

[113] Fernando Gonzalez and Cristina Morar Triandafil, European Systemic Risk Board, Occasional Paper Series, No 23, 2023, The European significant risk transfer securitisation market.

that was obtained from 12 individual contributions and 8 contributions of business associations, where the median value of the pooled sample (N=20) coincides with the median value of the contributions of business associations.

(3) Recurring costs due diligence

Costs expressed in basis points of the deal amount[114]	x	Market size expressed in outstanding amount of underlying assets

- Market size expressed in outstanding amount of underlying assets: The market size has been assessed based on AFME data for the public market[115] and on EBA COREP statistics for the private market. More details on the market data can be found in Annex III.
- Costs expressed in basis points of the deal amount: The annual recurring costs have been estimated based on the replies of the stakeholder consultation and several follow-up interviews with the business associations: AFME, IACPM and TrueSale International/The German Banking Association that were accompanied by further supporting materials. If the costs were provided as annual recurring cost per transaction without the transaction size for which the costs have been incurred, they were translated into basis points by assuming the typical transaction size and investment period or average life for the relevant market segment.

(4) Recurring costs Transparency:

Costs expressed in annual recurring cost per transaction[116]	x	Estimated number of issued transactions for the market

- Estimated number of issued transactions for the market: The estimated number of issued transactions has been estimated by taking the market volume (see Annex III) and dividing it by the average deal size of the relevant market segment, where the deal size has been estimated based on the following sources:
  1. Public transaction: European DataWarehouse: average transaction size for data covering approx. 90% of the market volume of outstanding public transactions (ex. CLO and ABCP)

[114] One basis point is a percentage expressed as one hundredth of one percentage point.

[115] Securitisation Data Report Q3 2024.

[116] One basis point is a percentage expressed as one hundredth of one percentage point.

2. Private transactions: It has been assumed that private traditional transactions have a similar transaction size as public traditional transactions on average. The same has been assumed for private synthetic transactions.[117]
3. ABCP transactions: Study performed by TrueSale International in cooperation with the German Banking Association for the private ABCP market.[118]Assumption of a comparable transaction size in the public ABCP market segment.
4. CLO transactions: Data published by the Alternative Credit Investor for 2024.[119]

(5) Estimated cost savings linked to the proposed options

- Potential savings transparency costs: Values obtained in the stakeholder consultation
- Potential savings due diligence costs: Values obtained in the stakeholder consultation

Nature of costs and separation of business-as-usual costs from regulatory cost: The standard cost model requires to collect information that links only to the regulatory share of the cost, i.e. the part of the cost that is linked to the regulation and not incurred as part of the business-as-usual costs that the stakeholder would incur anyway even in the absence of the relevant regulation. To give an example, an asset manager that had very sophisticated due diligence procedures in place already before the SECR applied, may have only marginal additional costs to adapt to SECR whereas a new investor without any procedures in place may have higher purely regulation incurred costs. The costs analysed in this section refer to the regulatory, also referred to as incremental share, only.

Usually, the cost estimations provided by stakeholders in the consultation procedure are compared to the initial estimations that were made at the time the regulation has been set-up and impact assessed for the first time. However, in the initial impact assessment for the SECR[120], such estimations have not been made. Therefore, the estimations of the current cost

[117] The assumption for the private synthetic market has been discussed with IACPM (a business association with expertise for the private synthetic SRT market), where it is important to note that a typical public transaction is usually significantly smaller than a typical SRT transaction. However, due to some extremely large public transactions, e.g. in the RMBS segment the average deal size of the public market comes close to the average pool size of a deal in the private synthetic SRT market, whereas a typical transaction (e.g. represented by the median) is significantly smaller in the public market.

[118] The TSI/Bankenverband study: https://www.true-sale-international.de/fileadmin/tsi-gmbh/tsi_downloads/aktuelles/TSI_BdB_Addendum_Cost_Estimation.pdf.

[119] The Alternative Credit Investor Magazine (March 10 2025). *https://alternativecreditinvestor.com/2025/03/10/clo-issuance-volumes-hit-e10-8bn-in-february/*

[120] eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015SC0185

constitute the starting point for our baseline scenario and will not be further assessed or compared to a previous estimation.

Dynamic nature: There were no forecasts available for the securitisation market going forward, therefore a static approach has been taken, i.e. assuming that the volume and structure of the securitisation market stays constant.

Further details on the operational cost estimations can be found in Annex 3 and the references therein.

ANNEX V: EVALUATION

1. Introduction

The Securitisation Framework, introduced to revive a safer securitisation market to improve the financing of the EU economy (see section 2.1 for more details), entered into force in 2019. It comprises a new Securitisation Regulation, alongside certain provisions in the Capital Requirements Regulation (CRR), the Liquidity Coverage Ratio Delegated Regulation (LCR), and the Solvency II (SII) Delegated Regulation.

1.1. Purpose of the evaluation of the Securitisation Framework

The evaluation covers the period from the entry into application of the Securitisation Framework (1 January 2019) until present. In line with the Better Regulation Toolbox, it examines whether the objectives of the Securitisation Framework were met during the period of its application (effectiveness) and continue to be appropriate (relevance) and whether the Framework, taking account of the costs and benefits associated with applying it, was efficient in achieving its objectives (efficiency). The evaluation also considers whether the Securitisation Framework, as legislation at EU level, provided added value (EU added value) and whether it is consistent with other related pieces of legislation (coherence).

The evaluation has been conducted in parallel with ('back-to-back') the impact assessment accompanying the proposal revising the Securitisation Framework. The results of this evaluation have been incorporated in the problem definition of the impact assessment.

1.2. Scope of the evaluation

The scope of the present evaluation includes the legal framework in its entirety (SECR, relevant parts to the CRR[121], LCR[122] and SII[123] legislative acts that pertain to securitisation transactions). The geographical scope of the evaluation extends to all EU Member States.

1.3. Description of the methodology

The evaluation was supported by numerous inputs, including stakeholder consultations, stakeholder meetings and analytical work carried out by the ESAs, as well as other sources. Two targeted consultations were held. The first one[124] in 2021, informed the preparation of the 2022

[121] For the CRR, the relevant chapter is Chapter 5 of Title II of Part III of Regulation 575/2013: EUR-Lex - 02013R0575-20240709 - EN - EUR-Lex

[122] For the LCR, the relevant provision is Article 13 of Commission Delegated Regulation (EU) 2015/61, as amended.

[123] For Solvency II, the relevant provision is Article 178 of Delegated Regulation (EU) 2015/35.

124 https://finance.ec.europa.eu/regulation-and-supervision/consultations/2021-eu-securitisation-framework_en

Commission Report[125] on the functioning of the SECR. A more recent targeted consultation[126] on the functioning of the EU securitisation framework (hereafter 'the targeted consultation') was launched in October 2024. The targeted consultation sought stakeholders' feedback on a broad range of issues, including the effectiveness and scope of application of the existing framework, supervisory issues, the STS standard, the possible introduction of a securitisation platform(s), non-prudential aspects including transparency and due diligence requirements, and prudential issues for banks, insurers, and IORPs/pension funds. Following an 8-week consultation period, the targeted consultation received 133 responses[127] from a variety of stakeholders, mostly representing industry (associations and individual market participants) and supervisors. DG FISMA analysed the submitted responses, which informed both this evaluation and the forward-looking impact assessment[128]. In addition, DG FISMA held many bilateral and multilateral meetings with stakeholders and organised a workshop with market participants in 2024.

This evaluation also benefits from the analytical work undertaken by the ESAs. In particular, it takes into account the 2021 Joint Committee report on the implementation and functioning of the SECR[129], which focused on the implementation of the general requirements applicable to securitisations, including the risk retention, due-diligence and transparency requirements as well as on the specific requirements related to STS securitisations. The Joint Committee has been working on its second report due for publication by early 2025[130]. The expert discussions that took place in the preparation and drafting of this document have also informed the evaluation. This evaluation also draws from the findings of the ESAs opinion on the jurisdictional scope of the SECR[131] and the compliance challenges that such jurisdictional scope posed for market participants.

Another input to the evaluation has been the ESAs' Joint Committee advice on the review of the securitisation prudential framework[132], published in December 2022 in response to the call for advice from the European Commission of October 2021. The Joint Committee report assesses the

125 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0517

126 Targeted consultation on the functioning of the EU securitisation framework 2024 - European Commission

127 Of the 133 responses, 131 were submitted via the EU Survey online questionnaire and are therefore taken into account for the statistical calculation of survey results. Two other responses were submitted by email – these are considered in the qualitative analysis of replies but not the statistical summary.

128 Responses to the public consultation which were authorised for publication can be found at: https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-functioning-eu-securitisation-framework-2024_en#contributions. A factual summary of the consultation will be published in due course.

129 https://www.eiopa.europa.eu/system/files/2021-05/jc-2021-31-jc-report-on-the-implementation-and-functioning-of-the-securitisation-regulation.pdf

130 At the time of the submission of this evaluation, the report has not been adopted.

131 https://www.esma.europa.eu/sites/default/files/library/jc_2021_16_-_esas_opinion_on_jurisdictional_scope_of_application_of_the_securitisation_regulation_003.pdf

132 ESAs publish joint advice to the EU Commission on the review of the securitisation prudential framework | European Banking Authority

recent performance of the rules on capital requirements (for banks, insurance and reinsurance undertakings) and liquidity requirements (for banks) with respect to the framework's original objective of contributing to the sound revival of the EU securitisation framework. The findings of the EBA report on the significant risk transfer in securitisation published in November 2020[133] have also contributed to the evaluation.

Finally, the evaluation draws on the insights from the 2022 European Systemic Risk Board' report "Monitoring systemic risks in the EU securitisation market"[134] on the financial stability implications of the EU securitisation market.

1.4. Limitations and robustness of the methodology

The analysis of the performance of the Framework comes with limitations and uncertainties.

First, the reporting of EU securitisation market transactions to an official securitisation repository is limited to public transactions (i.e. transactions for which a prospectus in compliance with Directive 2003/71/EC has been issued). By contrast, private transactions are under no obligation to report to a repository and are often conducted directly between the parties undertaking the securitisation without public announcement. As a result, it is challenging to obtain a comprehensive view of the EU securitisation market's size and scope. To address this data limitation, estimates of the private securitisation market have been derived from various alternative sources, including supervisory reporting[135] and market estimates by industry associations. By combining these data points, a more accurate picture of the EU securitisation market can be obtained. It is not possible to empirically assess the effectiveness of previous measures in reducing operational costs since quantitative information on operational costs was not collected in the previous impact assessment.

Second, drawing causal links between the implementation of the EU securitisation framework and the subsequent market developments is a complex task. This is due to the multifaceted nature of the framework, which has undergone various updates over the years, making it challenging to isolate the specific impact of each change. The interpretation is all the more challenging due to the overlap of the framework implementation and the Covid-19 pandemic, which can act as a confounding factor.

Furthermore, the framework's interaction with other regulatory and economic factors, makes it difficult to determine the framework's unique contribution. Additionally, the time lag between the implementation of a regulatory change and the observed market reaction can be significant, which

[133] Microsoft Word - EBA Report on SRT.docx

[134] https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf

[135] The EBA's common reporting framework (COREP) applies to credit institutions and investment firms and allows us to gather data on private securitisations where such institutions are involved as issuers or investors.

may lead to attribution errors and obscure causal relationships. As a result, any attempts to draw causal links between the EU securitisation framework and market developments must be approached with caution to avoid over-simplification or misattribution of causality.

Thirdly, some of the objectives of the intervention, such as the removal of stigma from investors, increasing market standardisation or tackling regulatory inconsistencies, are not precisely defined and are not directly measurable. Therefore, the evaluation relies on the responses to the targeted consultation to gauge stakeholders' views with respect to the attainment of these objectives. However, responses should be interpreted with caution as respondents may have a different understanding of what a given policy objective means.

2. What was the expected outcome of the intervention?

2.1. Description of the intervention and its objectives

Before the introduction of the Securitisation Framework, the EU securitisation market was suffering from the following main problems (see 2015 Impact Assessment[136] for more details). First, during the GFC complex and opaque securitisations led to severe losses for investors. The resulting lingering stigma attached to securitisation products has been reflected in subdued investor demand. These practices and the subsequent high losses were, however, mostly limited to securitisations originated in the US market. Second, insufficient risk-sensitivity (i.e. the pre-2019 framework applied the same capital requirements for all types of transactions, regardless of their complexity or level of transparency in the regulatory framework disadvantaged simple and transparent securitisation products. Third, a lack of consistency and standardisation across legislation led to high operational costs for investors and issuers. The Securitisation Framework was created to address these key problems/needs.

Its general objective was the revival of a safer EU securitisation market that would improve the financing of the EU economy, weakening the possible link between banks' deleveraging needs and credit tightening in the short run, and creating a more balanced and stable funding structure of the EU economy in the long run.

To achieve this general objective, the 2015 Impact Assessment identified **three specific objectives**:

- Remove stigma towards securitisation;
- Remove regulatory disadvantages for simple and transparent securitisation (STS) products;
- Reduce/eliminate unduly high operational costs for issuers and investors.

To achieve these objectives the Securitisation Framework (input) was adopted: the SECR defined (i) disclosure, (ii) due diligence and (iii) risk retention rules for all EU securitisations, (iv)

[136] EUR-Lex - 52015SC0185 - EN - EUR-Lex

introduced specific criteria to identify simple, transparent and standardised securitisation (STS), and (v) banned re-securitisations. In addition, more risk sensitivity was introduced in the prudential frameworks for banks (in the CRR) and insurers for STS securitisations (SII Delegated Regulation).

The Securitisation Framework was expected to achieve the following **outputs:**

- Differentiate simple, transparent and standardised securitisation products from more opaque and complex ones;
  - Support standardisation in the market;
  - Remove regulatory inconsistencies in the treatment of securitisations.

The implementation of the inputs and achievement of the outputs mentioned above were expected to have the following results: first, increased supply of STS securitisations in comparison to non-STS securitisations – with a growth rate expected to be higher for STS products than for non-STS products. Second, higher prices[137] of STS vs. non-STS products due to their increased attractiveness for investors. Third, standardised marketing and reporting material. Finally, a reduction of unduly high costs for issuers and investors. These results should have ultimately had long-term impacts in the form of increased investor trust in securitisation products (particularly STS), and in promoting securitisation as an improved financing channel for the economy. To measure these results, the 2015 Impact Assessment identified the following indicators: 1) STS products' price and issuance, 2) the degree of standardisation of marketing and reporting material and 3) feedback from market practitioners on operational costs' evolution.

When assessing the framework, it is important to keep in mind that there are several external factors outside the remit of the Framework that also influenced the performance of the EU intervention. These include monetary policy, the level of interest rates, Brexit, the level of demand for credit in the economy and developments on the supply side regarding alternative funding channels (i.e. covered bonds, non-bank lending, unsecured credit, etc.). By injecting liquidity into the economy at a very low price, loose monetary policy can make wholesale funding in general, and securitisation in particular, less competitive and attractive. The ECB launched its ABS purchase programme in 2014, to further enhance the transmission of monetary policy (as of July 2023, it has stopped conducting further direct purchases). While a low interest rate could also support securitisation activity by inducing banks to take on more risk in general[138], banks could

[137] The price of a financial bond is inversely related to its yield. Because of the higher quality of the STS securitisation, it is expected that there would be more investor demand and therefore that investors would accept a lower yield. This would mean an STS bond would obtain a higher price than a non-STS one.

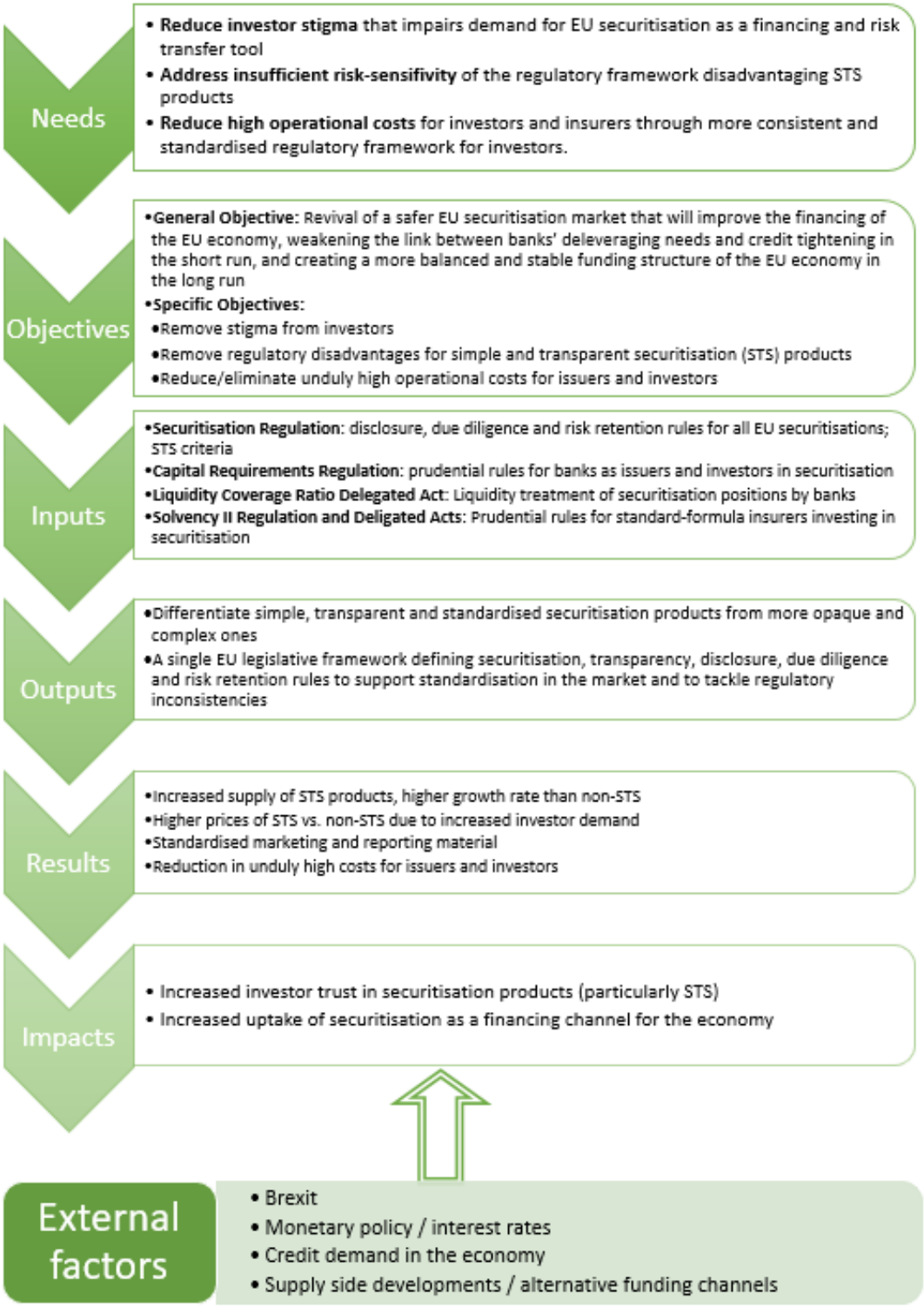
[138] Zhang, J. and Xu, X. (2019) 'Securitization as a response to monetary policy', *International Journal of Finance & Economics*, 24(3), pp. 1333–1344. doi:10.1002/ijfe.1721 and Maddaloni, A. and Peydro, J.-L. (2010) *Evidence from the euro area and the U.S. lending standards*, *European Central Bank*. available at: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1248.pdf (Accessed: 10AD).

rely more on traditional funding sources and therefore reduce their securitisation activities[139]. In such low-interest rate environment, securitisation - a relatively complex and less accessible instrument - is one of the first ones to be crowded out by cheaper and easier to access alternatives. The impact of Brexit on the EU securitisation market was expected to be negative since it involved the fragmentation of a previously harmonised market, and therefore it resulted in additional regulatory costs for market participants[140].

[139] Bakoush, M., Mishra, T. and Wolfe, S. (2018) 'Securitization, monetary policy and bank stability', *SSRN Electronic Journal* [Preprint]. doi:10.2139/ssrn.3630704.

[140] For a more detailed discussion on how Brexit impacted the securitisation industry, see for example Brexit-and-Securitisation-the-rubber-hits-the-road.pdf

2.2. Intervention Logic: EU Securitisation Framework



2.3. Description of the situation before the intervention

The present evaluation assesses the Securitisation Framework against the baseline scenario included in the Impact Assessment[141] accompanying the proposal on the EU securitisation framework in September 2015.

2.3.1. Non-prudential rules

Prior to the introduction of the SECR, non-prudential rules for securitisations were scattered across different sectoral legislations. These legislations included the CRR for banks, the SII Directive and Delegated Regulation for insurers and reinsurers, and the UCITS and AIFMD Directives for asset managers. Legal provisions on information disclosure and transparency were also laid down in the Credit Rating Agency Regulation (CRAIII) and in the Prospectus Directive. The 2015 Impact Assessment concluded that inconsistencies regarding originators' disclosure and investors' due diligence requirements, as highlighted by the ESAs Joint Committee, resulted in overlaps and inconsistencies across different financial services regulations and sometimes within the same sector[142].

This patchwork of rules was deemed to be too costly and did not ensure a level playing field. Greater consistency in the regulatory framework and standardisation of EU securitisations was expected to increase legal clarity and comparability across asset classes, ease investors' assessments, facilitate issuance, and reduce issuance costs for originators. In addition, greater standardisation of the instruments was expected to increase market liquidity and help the development of secondary markets[143]. As such, the 2015 Impact Assessment proposed a unified legislative framework for non-prudential securitisation provisions – the Securitisation Regulation – with the aim of simplifying and standardising the regulatory environment. Greater consistency was also expected to help supervisory authorities to monitor macro-prudential risks and the risk profile of financial intermediaries.

2.3.2. Banking prudential rules

The CRR sets out detailed rules on how to calculate the capital requirements for banks' securitisation exposures, whether as originator (for the securitisation positions the bank retains), investor (for the securitisation positions that bank invests in) or sponsor (for the securitisation positions the bank is exposed to as sponsor).

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[141] EUR-Lex - 52015SC0185 - EN - EUR-Lex

[142] 2015 Impact Assessment, p. 61

[143] 2015 Impact Assessment, p. 60.

Prior to the introduction of the Securitisation Framework in 2019, there was no STS standard. Capital requirements for all securitisations, including those that would be considered as STS under the current framework, were generally lower than those under the current regime.

In addition, the calculation of bank capital requirements for securitisation positions was heavily reliant on external credit ratings. The framework did not sufficiently consider the relative complexities of the structural features of the transactions, which were not always properly reflected in the external ratings and hence also not in the resulting capital requirements for those securitisations. In this vein, the 2015 Impact Assessment noted that the securitisation capital framework in the CRR did not adequately address the risks that materialised during the GFC, in particular for complex securitisations that were originated in the US. Also, the absence of a clear regulatory distinction between STS and non-STS transactions made it more difficult for investors to identify simple and transparent transactions that performed strongly compared to more complex transactions. This lack of differentiation contributed to the investor stigma associated with all types of securitisation[144].

The 2015 Impact Assessment therefore recommended to increase the capital charges for more complex securitisations to address supervisors' concerns regarding the insufficient conservativeness of the capital treatment for such securitisations. It also recommended to develop a preferential capital treatment for the new class of simple securitisations (STS) compared to non-STS securitisations.

In particular, the new Securitisation Framework provided that transactions that are compliant with both the STS criteria (which focus on capturing and mitigating the major drivers of risk of a securitisation related to modelling and agency risks, as revealed during the GFC) and the additional criteria specified in the CRR (which focus on the minimum credit quality of the underlying exposures) benefit from preferential capital treatment.

Another core element of the securitisation prudential framework are the rules on 'significant risk transfer' (SRT). SRT refers to a process where a bank transfers a substantial portion of credit risk associated with a portfolio of assets to external investors. This transfer of risk allows the bank to reduce the capital requirement linked to those assets. To qualify for SRT, the transfer must meet specific CRR-specified criteria, ensuring that the risk transfer is sufficient and genuine. The EU has had a comprehensive SRT framework in place since 2006, according to which the competent authorities assess the compliance of individual securities transactions against quantitative tests and qualitative criteria. If approved, the bank benefits from lower capital requirements, improving its balance sheet and lending capacity. The Securitisation Framework under assessment introduced no substantial changes to these rules, compared to the previous regime.

[144] This was noted in the 2015 Impact Assessment.

Finally, the LCR Delegated Act sets out how securitised assets are to be classified and treated for liquidity purposes. It requires banks to hold sufficient liquid assets (High-Quality Liquid Assets, or HQLA) in the form of a "buffer" that can be sold quickly for cash, if needed. This aims to ensure banks can withstand short-term stress scenarios while maintaining access to funding. To support diversification within the liquidity buffers of banks and to facilitate the financing of the real economy, the LCR Delegated Act expanded the list of HQLA (i.e. assets eligible in the liquidity buffers), beyond Residential Mortgage-Based Securities (RMBS) (which are included in Basel standards), to certain other forms of securitisation, namely those backed by auto loans, consumer credit and SME loans. Before the adoption of the framework, there was no differentiation between simple and complex transactions and both types of securitisations were eligible for the LCR liquidity buffer. The framework clarified that only STS securitisation of high credit quality can be included in the banks' liquidity buffers, thereby limiting the use of securitisations for the liquidity buffer.

2.3.3. Insurance prudential rules

Insurance companies are subject to the SII Directive[145] and the SII Delegated Regulation[146], which regulate how much capital insurers should set aside to cater for the risks arising from their investment activities[147]. Prior to the initiative, SII included standard formula capital requirements for securitisation investments. These capital requirements distinguished simple securitisations (so-called 'type 1', following a logic like the one underlying the later introduction of the STS category) from other securitisations ('type 2') which were subject to higher capital requirements[148].

The 2015 Impact Assessment concluded that substantial differences between the capital treatment of banks and insurance companies investing in the same product were documented and suggested greater convergence[149].

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[145] Directive 2009/138/EC

[146] Delegated Regulation 2015/35

[147] While larger insurers generally use risk modelling tailored to the specificities of their risk profile ('internal models'), smaller ones (which make up over 86% of insurance firms) use the 'standard formula' which prescribes capital requirements. For the purpose of computing capital requirements for securitisations, insurers using an internal model are relatively autonomous in their assessment of market and credit risks (subject to prior supervisory approval), while "standard formula" insurers have no discretion.

[148] The capital requirements for 'type 2' securitisations were in line with EIOPA's proposed calibration in 2013. See EIOPA Technical Report on Standard Formula Design and Calibration for Certain Long-Term Investments – https://register.eiopa.europa.eu/Publications/Reports/EIOPA_Technical_Report_on_Standard_Formula_Design_and_Calibration_for_certain_Long-Term_Investments__2_.pdf

[149] At the time of drafting the initial Impact Assessment, a comparative study of the applicable Basel 2.5 (for banks) and Solvency II (for insurers) frameworks showed that "considerable differences in required capital for the same type and amount of asset risk [existed], burdening insurers with almost twice as high capital requirements than banks." (see Laas and Siegle, 2014).

To enhance the coherence of the capital treatment for banks and insurers, as well as to better differentiate simple and transparent transactions from more complex and opaque ones, the 2015 Assessment recommended to update SII to reflect the introduction of the newly created STS standard and to introduce preferential capital charges for STS securitisations. These would be differentiated between 'senior' and 'non-senior' tranches[150] to address the concern that if insurers only invest in senior STS tranches, this may not be enough to stimulate the development of STS securitisation deals. This differentiation between 'senior' and 'non-senior' tranches has made the framework more risk sensitive in a way that riskier (i.e. non-senior) tranches can attract a higher capital charge than less risky (more senior) ones.

3. How has the situation evolved over the evaluation period?

3.1. Current state of play

The following section presents the changes introduced by the Securitisation Framework.

3.1.1 Securitisation Regulation

As explained in Section 2, the SECR built on several provisions that were scattered across various sectoral legal acts that applied to different market entities. It defined (i) disclosure obligations for the issuers of securitisations, (ii) due diligence obligations for investors, (iii) risk retention rules for all EU securitisations, (iv) introduced specific criteria to identify simple, transparent and standardised securitisation (STS), and (v) banned re-securitisations. It created a single and harmonised legal framework directly applicable to the main parties involved in a securitisation transaction. This framework also includes regulatory and implementing technical standards and supervisory guidelines (see Table 2 at the end of this section). In addition, it introduced a common set of reporting templates for both private and public securitisations and ESMA was tasked with the development of Regulatory Technical Standards to specify precise information and formats for these disclosures. Over time, ESMA has continued to review and refine these templates[151].

Building on the practice of disclosure of derivative transactions, the SECR established securitisation repositories to serve as centralised hubs for information on public securitisations, making it easier for investors and supervisors to access information. Since the entry into force of the SECR, two entities have been registered as securitisation repositories for the European Union: European DataWarehouse GmbH (based in Germany), and SecRep B.V. (based in the Netherlands)[152].

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[150] Instead of applying the preferential treatment to senior tranches only, while the non-senior tranches would remain subject to the same risk factors as non-STS securitisations

[151] E.g. ESMA's December 2023 consultation seeking market feedback on potential improvements to the Article 7 disclosure templates and the February 2025 one on disclosure requirements for private securitisations

[152] ESMA registers European DataWarehouse GmbH and SecRep B.V. as Securitisation Repositories

The pre-existing risk-retention requirement, which was designed to ensure that issuers retain a sufficient economic interest in a securitisation, was kept in substance but extended in scope. The Securitisation Regulation requires not only that investors verify that the securitisation positions they hold comply with risk retention (the pre-existing indirect approach), but also directly requires all EU issuers to apply risk retention to the securitisations they issue. This helps to prevent excessive risk-taking and promotes more responsible securitisation practices.

Drawing heavily on the work of the international supervisory community, the SECR created the STS standard for a new class of high-quality securitisations. This standard allows investors to easily distinguish between simple and transparent securitisations and more complex ones.

To facilitate assessment of compliance with the STS criteria, the SECR provided for Third-Party Verifiers (TPVs). These independent entities verify that a securitisation meets the STS requirements, providing an additional layer of assurance and trust in the market. To operate as a TPV, an entity must obtain authorisation from ESMA - two such entities have been authorised to date: PCS Europe ASBL, and STS Verification International GmbH. Most STS transactions have used the services of one of these entities[153].

Finally, the SECR introduced a ban on re-securitisation, subject to a limited set of exceptions. This ban is intended to prevent the creation of complex and opaque financial instruments, which can be very susceptible to changes in market conditions, making them difficult to value and manage. The ban has been consistently enforced and there does not appear to be any notable re-securitisation activity on the European market since entry into force of the Framework.

One of objectives of these regulatory requirements was to address and mitigate the specific risks that may result due to the structuring process of a securitisation, notably the agency and model risks. Agency risk results from the information asymmetry and the potential misalignment of interests between the originator and the investor in a securitisation, whereby the investor, unlike the originator, may have limited knowledge and understanding of the underlying portfolio. This misalignment of interest or information asymmetry can lead to poor outcomes. Model risk arises when the financial models used to predict cash flows at the portfolio level or the assumptions underpinning the tranching of the credit risk under these models are wrong or inaccurate. In such a scenario, the securitised product could turn out riskier than expected.

The SECR was first amended in 2021[154] as part of the effort to help the EU economy to recover from the COVID-19 pandemic. The amendments expanded the scope of the STS regime to on-

[153] 2022 Report on the Functioning of the Securitisation Regulation

[154] Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis

balance-sheet synthetic securitisations and removed certain regulatory impediments to the securitisation of non-performing loans.

More than three years after the entry into application of the Securitisation Framework, in line with the legal mandate under Article 46 of the SECR, the Commission adopted a report taking stock of the development of the market in 2022. The report highlighted that while the SECR seemed to have positively contributed to achieving its original objectives, there were issues in certain areas where problems were observed (e.g. disclosure, due diligence, prudential treatment) and concluded that more time was needed to get a full picture of the impact of the new Securitisation Framework in light of the new elements added in April 2021. The report also provided guidance on some aspects of the legal framework.

In 2024, a dedicated regime for green securitisations was introduced as part of the EUGBS, following the recommendations of a report from the EBA[155]. The EUGBS, applicable as of December 2024, focuses on the use of proceeds arising from the issue of the bonds, with a view to ensure that these proceeds are used towards a sustainable activity within the meaning of the Taxonomy Regulation. The EUGBS introduces a voluntary standard that provides a specific legal framework for bonds that want to be labelled as green. To qualify as a EUGBS securitisation bond, the bond's originator must use the proceeds from the issue of the securitisation bond to refinancing or financing of Taxonomy-aligned assets and the securitised exposures must comply with minimum sustainability requirement. For the moment, synthetics securitisations are excluded from the scope.

Since the SECR is a binding legal act that must be applied in its entirety across the EU, no transposition issues have arisen. That being said, the regulation's application has suffered of a lack of supervisory convergence. According to the findings from the peer review carried out by ESMA for the supervision of STS transactions in 2024[156], there are different supervisory practices affecting the sound and consistent level of supervision. Moreover, there have been delays in the designation of the supervisor by some countries despite the entry into force of the regulation more than five years ago but the situation is on track now. The 2022 Report on the functioning of the SECR reported feedback from some market participants about differences in the supervisory approaches of Member States and also flagged that greater convergence and better coordination between supervisors would be beneficial.

Table 2: List of mandates for regulatory technical standards, Implementing technical standards, Delegated Regulation or Guidelines in the Securitisation Regulation

Type of Act: Regulatory technical standard (RTS), Implementing technical	Short name

[155]https://www.eba.europa.eu/sites/default/files/document_library/Publications/Reports/2022/1027593/EBA%20report%20on%20sustainable%20securitisation.pdf

[156] At the time of the submission of this evaluation, the report has not been adopted.

standard (ITS), Delegated Regulation (DR) or Guidelines (GL)	
RTS	Authorisation of third-party verifiers of STS transactions
RTS	Homogeneity of underlying exposures
RTS	Transparency requirements
RTS	STS notification
RTS	Registration of securitisation repositories
RTS	Operational guidelines for securitisation repositories
RTS	Cooperation and exchange of information between National Competent Authorities and the ESAs
DR	Fees to be charged by ESMA to securitisation repositories
RTS	Risk retention
RTS	Disclosure of principal adverse impacts
RTS	Specification of the performance-related triggers
GL	STS criteria
GL	Portability of Information between Securitisation Repositories
GL	Data completeness and consistency thresholds

3.1.2. Capital requirements for banks

The current prudential securitisation framework for banks (set out in the CRR) implements the Basel III securitisation framework[157] and introduced significant changes relative to the previous framework. It aimed to address the weaknesses that were revealed during the GFC. As a result of the amendments, the prudential framework is now simpler, more risk sensitive, more prudently calibrated and more consistent with the underlying credit risk framework.

In terms of risk sensitivity and prudence, the intervention significantly increased capital requirements for banks' securitisation exposures compared to the previous regime: as a measure of prudence a considerable level of overcapitalisation was introduced, to address the agency and model risks inherent to securitisation transactions.

More specifically, there are two correction factors in the CRR capital framework that safeguard and ensure the capital 'non-neutrality'[158], of the framework: (i) a risk weight floor for exposures

[157] Revisions to the securitisation framework - Basel III document

[158] 'Non-neutrality' of capital requirements means that holding all the securitisation tranches in a securitisation is subject to a higher capital charge than in a counterfactual where the bank has a direct holding of all the underlying

to the senior tranche – which defines an absolute minimum risk weight for banks' exposures to the senior tranche of securitisation; and (ii) a (p) factor ('penalty factor') which defines the relative capital surcharge for all securitisation exposures, compared to the capital requirement for the underlying pool of exposures. Each bank needs to reflect the risk weight floor and the (p) factor in the calculation of the minimum capital requirement that applies to their securitisation exposures.

The current framework allows securitisations, that comply with the STS criteria and with some additional specific requirements to minimise credit risk of the underlying exposures, to be eligible for a more favourable capital treatment compared to non-STS securitisations. At the same time, the capital requirements for STS are still generally higher than capital requirements applied to comparable transactions under the previous regime.

Other significant revisions with respect to the previous framework relate to changes in the so-called 'hierarchy of approaches' that banks must use for calculating capital requirements for their securitisation exposures[159]. The new framework reduced complexity by reducing the number of the approaches allowed for determining capital charges, reduced mechanistic reliance on external ratings and improved the overall calibration of the capital requirements. Additionally, the framework revised the risk drivers used in each approach – the calculation of capital requirements is now more risk sensitive and allows to capture some of the risk drivers not reflected in the previous framework.

3.1.3. Liquidity requirements for banks

The liquidity requirements for banks securitisations specified in the LCR Delegated Act implement the Basel III international standards that the EU agreed to implement as part of the wide-ranging reform of the prudential framework for banks. Only STS securitisations are currently eligible to qualify as HQLA under the LCR Delegated Act.

3.1.4. Solvency II / insurance prudential rules

In line with the preferred policy option of the latest impact assessment, differentiated capital requirements for senior STS and non-senior STS securitisations were introduced, replacing the existing 'type 1' securitisation capital charges. Under the new framework, such capital charges depend on credit quality (rating) and duration of the asset. Finally, transitional arrangements were

non-securitised assets. Only by transferring a sufficient amount of risk (by selling tranches to an external investor or obtaining a credit protection for certain tranches) can an originator bank achieve capital requirements which are the same or lower than those previously held against the underlying assets.

159 Banks use one of the CRR-prescribed 'approaches' when calculating the capital requirements for their securitisation position, following the 'hierarchy' or approaches prescribed in the CRR (i.e. the selection of an approach is not discretionary). The previous framework contained a number of approaches and several exceptional treatments. The current framework includes three hierarchical approaches: SEC-IRBA (Securitisation Internal Ratings-Based Approach) is at the top of the revised hierarchy. When SEC-IRBA cannot be used, SEC-SA (Securitisation Standardised Approach) and SEC-ERBA (Securitisation External Ratings-Based Approach) have to be used.

introduced to ensure that insurers holding 'type 1' securitisations would not be subject to a significant increase in capital requirements if such investments did not meet the newly introduced STS criteria. As a result, capital requirements for senior STS securitisation are two to three times lower than former type 1 capital requirements, and non-senior STS capital requirements are broadly comparable to the former type 1 capital requirements. By contrast, capital requirements for 'type 2' securitisations (now called 'non-STS' securitisations) were not amended and remain applicable.

3.2. Market context

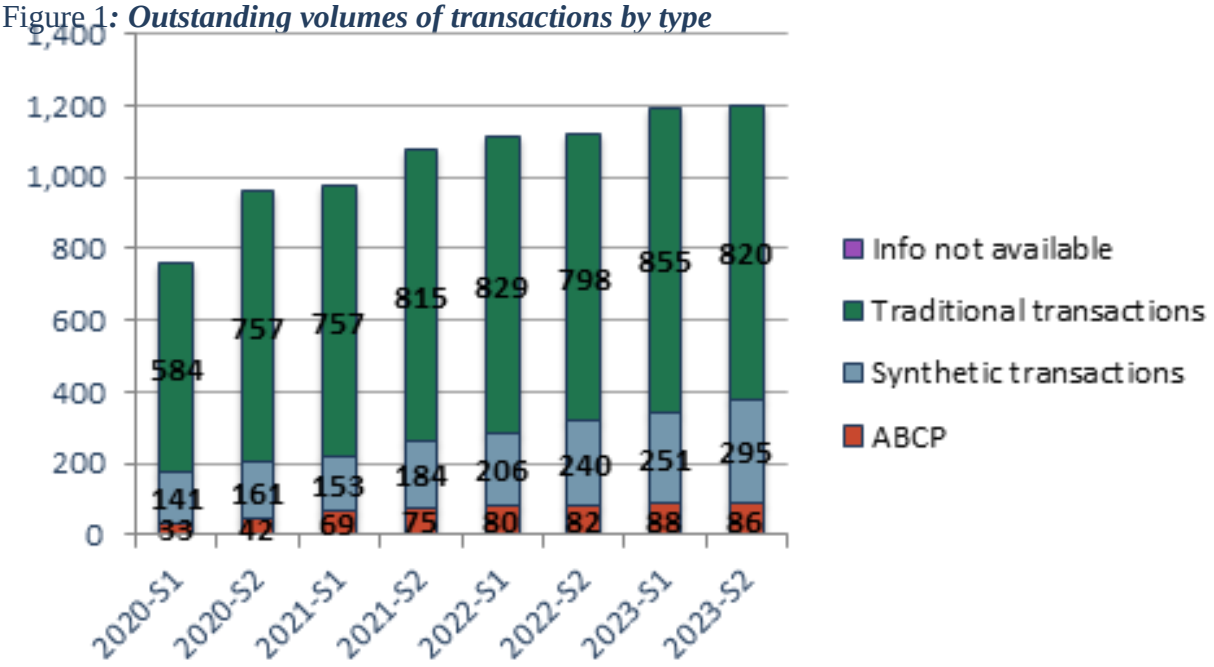
The market is gradually growing but continues to operate below its potential when looking at the limited share of placed traditional securitisation and limited investor base, as well as in comparison with other major jurisdictions. The geographical distribution of the EU securitisation market is uneven, and banks in many Member States prefer alternative instruments, such as covered bonds.

While we estimate the combined EU public and private market to at least EUR 1.6 trillion by the end of 2023[160], we focus in the following on the part of the EU market where banks are involved as issuers (originators or sponsors or original lenders) or as investors.[161] This part of the EU securitisation market stood at approximately EUR 1.2 trillion in terms of outstanding volumes at the end of 2023 (see Figure 1). It is composed of 68% traditional, 25% synthetic and 7% asset-backed commercial paper securitisations. There has been a change of composition in recent years, with the share of traditional securitisation decreasing from 77% in the first half of 2020, mainly as a result of an expanding share of synthetic securitisation.

[160] Details in Annex III. Please note that in particular the private market segment might be incomplete as there is no systematic public reporting due to the private nature of the transactions in this segment.

[161] Reason for this focus is that the EBA has the most comprehensive dataset (CoREP statistics) that allows breaking down the market with consistent definitions across the different dimensions (i.e. STS/non-STS; public/private; SRT/non-SRT; synthetic/traditional and across asset classes). However, the limitation of the EBA dataset is that certain transactions without bank involvement cannot be covered.

Figure 1: ***Outstanding volumes of transactions by type***



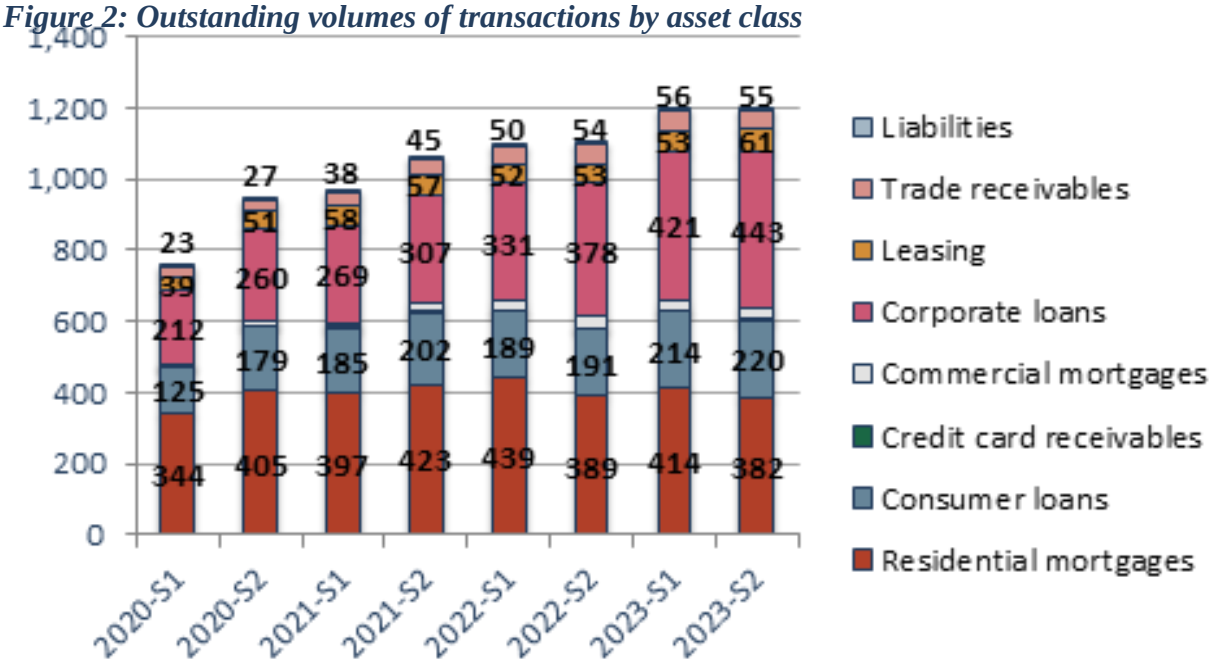
Source: EBA COREP, S1 refers to the first half of the year. S2 refers to the second half of the year.

Looking at the composition of securitised exposures, the most commonly securitised asset class is corporate loans (see Figure 2). This reflects the ongoing change in market composition from traditional to synthetic securitisation, as well as the rise in collateralised loan obligations[162]. Corporate loans make up nearly 80% of the assets securitised in synthetic transactions, compared to about 25% in traditional securitisations.

At the same time, the share of residential mortgage-backed securities, formerly the dominant asset class in the EU and by far the most commonly securitised asset in other jurisdictions, shrank from 46% in the first half of 2020 to 33% by end 2023 and remains in second place.

[162] See for example European_securitisation_market_–_ready_for_a_comeb.pdf

Figure 2: Outstanding volumes of transactions by asset class

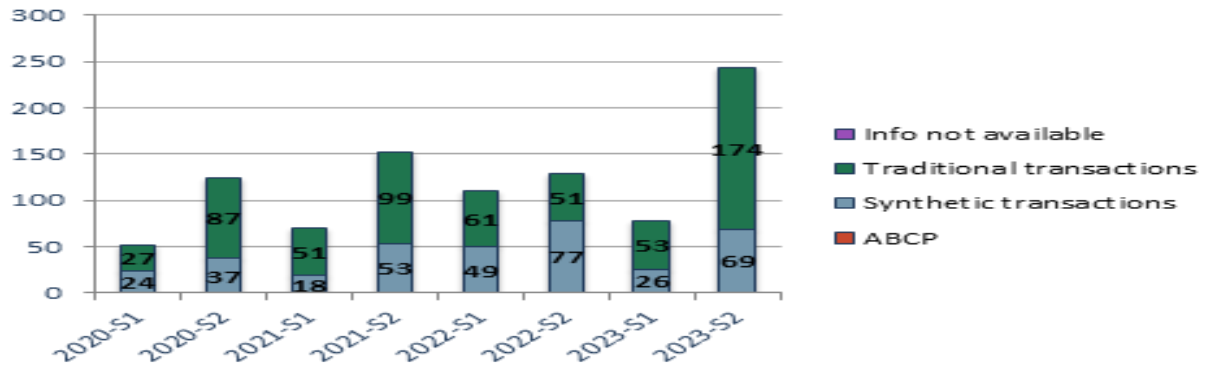


Source: EBA COREP

While the public EU securitisation market remains significantly below its peak in 2008-2009 (~EUR 2trn outstanding volume), it shows signs of gradual recovery. Following the entry into force of the new Securitisation Framework in 2019, in particular the outstanding balance of EU securitisations with bank involvement[163] has gradually increased from under EUR 800 billion to the level of EUR 1.2 trillion at year-end 2023, while average annual issuance in the period 2020 – 2023 amounted to EUR 218.25bn (see Figure 3).

[163] Reflected in CoREP statistics.

Figure 3: Total issuance by type of securitisation (EUR bn)



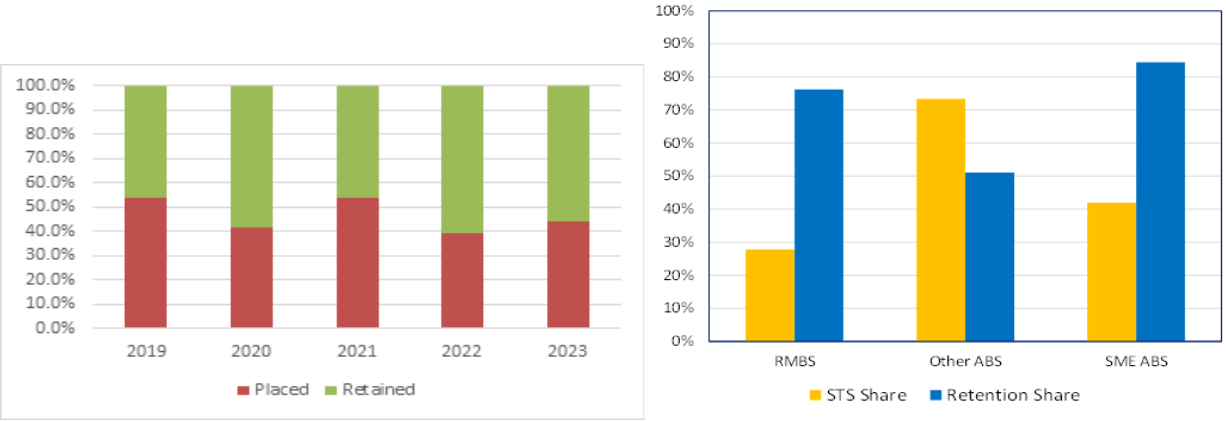
Source: EBA COREP

Despite recent market growth, a significant portion of the traditional securitisation transactions remains retained on the balance sheets of the issuing banks rather than placed on the market with external investors[164]. This means that the bank retains (most of) the securitisation tranches that it issues (and it is the main investor in its own securitisation). Retained traditional securitisations are used primarily to obtain funding, i.e. the senior tranche is used as collateral to obtain liquidity from the ECB. Securitisation is an attractive tool for this purpose because the senior securitisation notes are eligible collateral for the ECB's liquidity operations, whereas the underlying pools of loans are not eligible. According to the ECB's database, asset-backed securities represented 19% of the use of collateral and outstanding credit for liquidity operations in the last quarter of 2024 and has the highest utilisation rate among all types of eligible assets, i.e. 46.9% of the eligible asset-backed securities were used as collateral.

This is also evident in the persistently low rates of placements (see Figure 4). Banks' retention levels differ for each securitisation type: banks have retained more than 80% of the SME securitisations and more than 70% of RMBSs in Q3 2023; in case of other types of securitisations half of the tranches are still sold to the market.

[164] Bloomberg, ECB calculations.

Figure 4: Share of placed vs retained traditional securitisation (left) and share of outstanding EU securitisation that is retained by banks and that qualifies as STS, Q3 2023 (right)

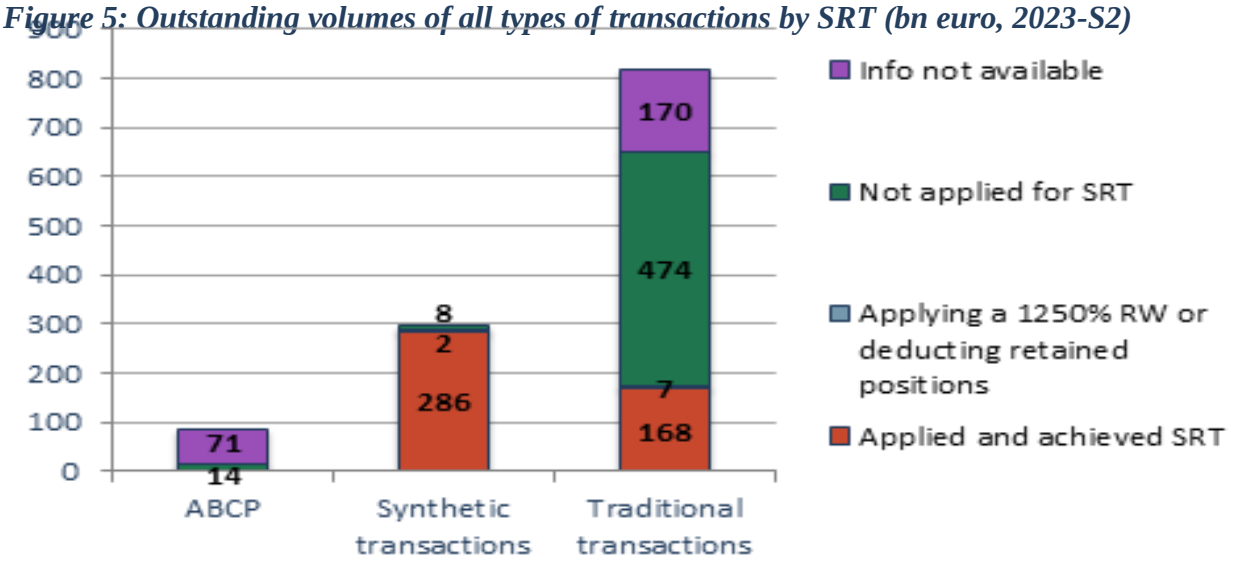


Source: Association for Financial Markets in Europe (AFME) (left) and Bloomberg and ECB calculations (right)

Not placing the tranches with external investors prevents the originating banks from transferring risk and achieving capital relief and hence limits their ability to free up their balance sheets and redeploy released capital and deepen capital markets.

The limited use of traditional securitisations for capital relief purposes can also be observed in the composition of SRT transactions (see Figure 5 below). Securitisation allows the originating banks to achieve capital relief and free up their balance sheets for further lending on the condition that the securitisation complies with SRT rules in the CRR, i.e. a significant amount of risk associated with the underlying pool of assets is transferred to external investors. A substantial majority of SRT transactions are synthetic transactions. For the traditional securitisation market segment, the share of traditional securitisations that achieve SRT is about 20% of the outstanding volume as traditional securitisations, and 37% of the outstanding volume of EU SRT transactions in general, as of end 2023 (taking into account that the traditional securitisations tend to be used primarily for funding purposes).

Figure 5: Outstanding volumes of all types of transactions by SRT (bn euro, 2023-S2)



Source: EBA COREP

The narrow investor base (i.e. the number of investors typically involved in one transaction) in the EU limits the capacity of banks to place their securitisations on the market and results in a limited capacity to absorb increased supply. Typically, about 30-50 investors are involved in a public traditional transaction, 15-25 investors in a collateralised loan obligations transaction[165] and 1-3 sponsors in an asset-backed commercial paper (ABCP) securitisation. For synthetic securitisations, the typical investor base is between 1-3 investors (smaller than for traditional securitisations, reflecting primarily the private nature of these transactions)[166]. Typically, the type of investors involved in senior tranches in traditional securitisations in the EU are banks and asset managers seeking low-risk and highly liquid investment products. By contrast, investors in junior tranches usually look for higher yield. Similarly, the investors in synthetic transactions differ from those in traditional ones. Investors in synthetic securitisations are institutions specialised in assessing credit risk, typically specialised funds, asset managers, insurance and pension companies or supranational institutions, that often seek to establish a longer-term relationship with the originating bank in view of the more demanding due diligence required.[167] Banks are typically not directly investing in synthetic securitisations.

[165]Structured financial product that pools together a portfolio of corporate loans - typically leveraged loans - and then tranches them into different layers of risk and return for investors.

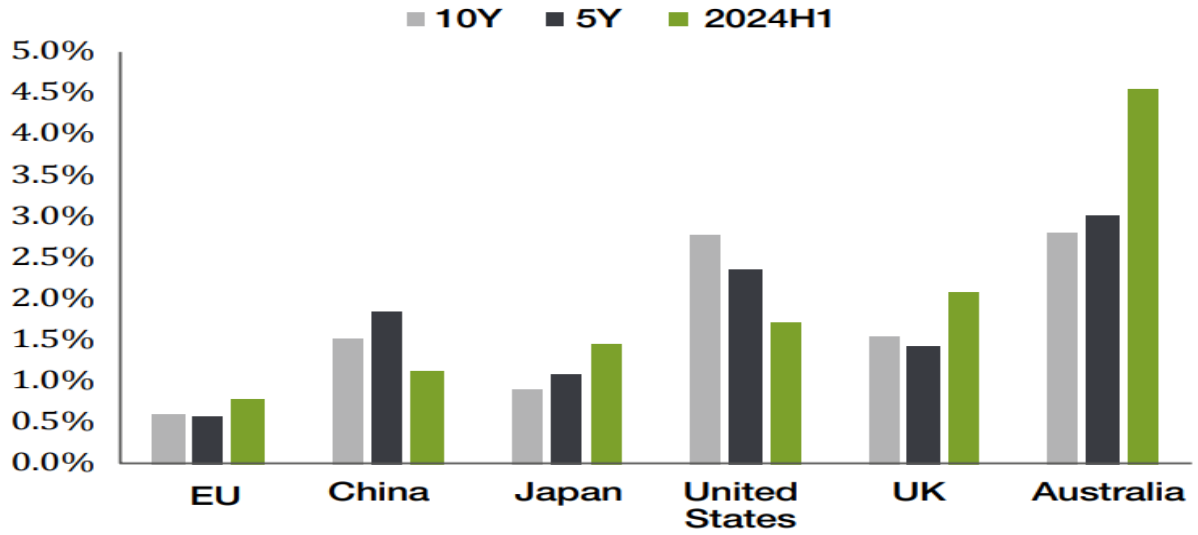
[166] Source: TSI_BVB_Final_report_of_the_securitisation_task_force_202409_en.pdf

[167] ESRB, Fernando Gonzalez, Cristina Morar Triandafil, Occasional Paper Series No. 23, The European significant risk transfer securitisation market Table 2.

The EU investor base is much smaller than the one in the US, with about 80-115 investors in total.[168] The investor base for EU securitisations is also much smaller than for other EU fixed income instruments, such as investment grade corporate bonds and covered bonds, with an average of 80-115 investors alone per bond[169]. Market data points to a particularly narrow investor base for senior (i.e. the best quality) tranches of traditional securitisation instruments, which hinders the ability of issuers to place these traditional securitisation transactions with external investors.

As a result of the characteristics described above, securitisation currently plays a limited role in the EU economy. Despite its recent growth, securitisation issuance as a percentage of GDP remains much lower in the EU than in other major jurisdictions (see Figure 6). For the US, we use figures which exclude the market supported by Government-Supported Entities, such as Freddie Mac and Fannie Mae, which represents the largest part of the US securitisation market. The exclusion of this segment of the US market makes the data more comparable to the EU securitisation market, where publicly guaranteed securitisation plays a much less prominent role.

Figure 6: International securitisation issuance as a proportion of GDP (2024H1 vs 5Y and 10Y average, %)



Source: AFME Capital Markets Union Key Performance Indicators – 7th edition (November 2024). US and Australian volumes include ABS, RMBS, CMBS and CDO.

Moreover, the EU securitisation market is highly concentrated, with 80% of securitisation issuances concentrated in five Member States (Italy, France, Germany, the Netherlands and Spain). Several reasons can explain this high degree of concentration in those Member States, such as:

[168] Details of this estimate can be found in Annex III in the section on one-off due diligence costs.

[169] Source: AFME

i. the existence of a stronger institutional originator and investor base and market depth, which creates the necessary conditions to make securitisation more cost-efficient,
ii. more developed mortgage markets which provide banks with a sufficiently large homogenous asset class to securitise,
iii. the existence of public guarantee schemes, e.g. GACS in Italy, which incentivises securitisation of non-performing loans, and
iv. legacy of past financial crises that shaped market developments.

For example, Italy and Spain saw increased securitisation activity following the sovereign debt crisis, as banks sought alternative funding channels. The table below shows the location of the securitised loans. Securitisation has a wider footprint in terms of jurisdictions than the table below might suggest. For instance, Irish and Luxembourgish securitisation special purpose entities account for nearly half of the total securitised assets in the Euro Area even though the table below shows modest securitisation markets in those Member States. While the securitised loans might be originated in one Member State, other key services necessary for the securitisation transaction to take place, such as legal advisory, corporate service providers, auditors, administrators and trustees might be provided in another Member State.

Table 3: Breakdown of the securitised assets by Member State, end-2023

Jurisdiction	Amount (bn euro)	Percentage of total
Austria	20	1.70%
Belgium	47	3.95%
Bulgaria	1	0.12%
Croatia	1	0.09%
Cyprus	5	0.45%
Czechia	2	0.17%
Denmark	6	0.54%
Estonia	0	0.00%
Finland	5	0.38%
France	**244**	**20.30%**
Germany	**195**	**16.28%**
Greece	64	5.33%
Hungary	1	0.05%
Ireland	22	1.80%
Italy	**282**	**23.48%**
Latvia	0	0.03%
Lithuania	1	0.05%
Luxembourg	9	0.77%
Malta	0	0.01%
Netherlands	**128**	**10.64%**

Jurisdiction	Amount (bn euro)	Percentage of total
Poland	12	0.96%
Portugal	18	1.50%
Romania	0	0.03%
Slovakia	1	0.04%
Slovenia	0	0.00%
Spain	**132**	**11.00%**
Sweden	4	0.32%
TOTAL	1,200	100.00%

Note: Whenever there are more countries of origination, only the major one shall be reported. Therefore, the breakdown may be biased in that some EU countries may not be captured.

4. Evaluation findings

The evaluation of the Securitisation Framework is structured around five assessment criteria defined by the Better Regulation Guidelines (effectiveness, efficiency, coherence, EU added value and relevance). These criteria are individually analysed to assess to what extent the intervention was successful and why.

4.1. Effectiveness

The effectiveness analysis considers how successful the Securitisation Framework has been in achieving the general objective laid out in the 2015 Impact Assessment, namely:

> "to revive a safer securitisation market that will improve the financing of the EU economy, weakening the link between banks deleveraging needs and credit tightening in the short-run, and creating a more balanced and stable funding structure of the EU economy in the long-run."

To evaluate the general objective, we assess the framework's success in achieving the following specific and operational objectives outlined in the 2015 Impact Assessment:

- Remove stigma from investors;
- Remove regulatory disadvantages for simple and transparent securitisation products. To enable the achievement of this objective, the intervention aimed to differentiate 'STS' products from more opaque and complex ones;
- Reduce/eliminate unduly high operational costs for issuers and investors. To enable the achievement of this objective, the intervention aimed to support the standardisation of processes and practices in securitisation markets and tackle regulatory inconsistencies.

Where the framework is considered to have been effective in achieving these specific and operational objectives, it is also considered as effective in contributing to the general objective. This section will quantitatively and qualitatively consider the effects of the intervention, the external factors affecting progress towards the objectives, and the unexpected or unintended effects driving or hampering progress.

4.1.1. How effective was the Securitisation Framework in removing investor stigma towards securitisation

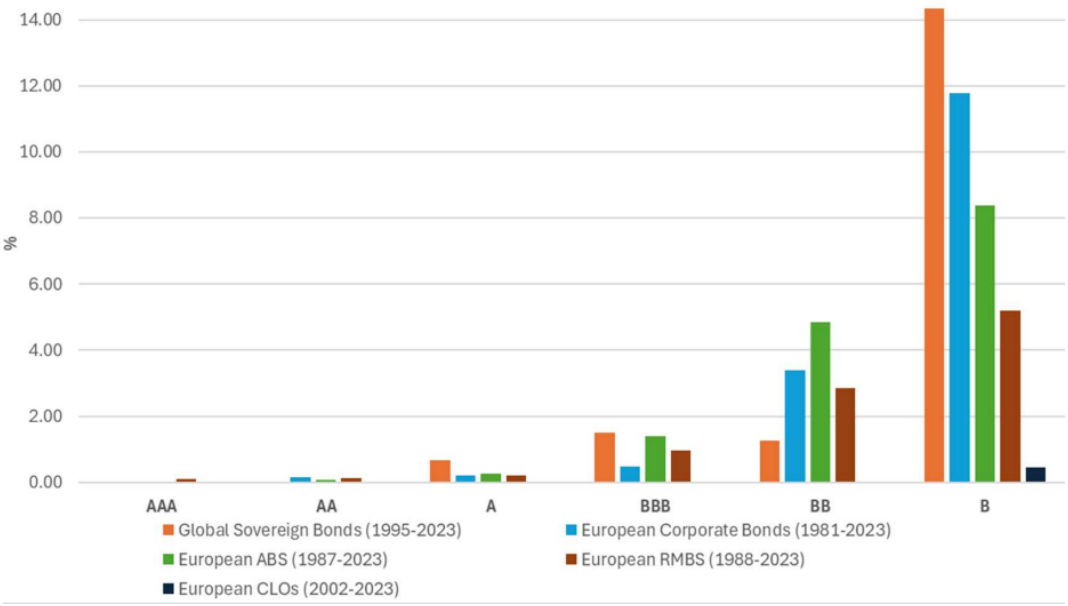
In the aftermath of the GFC, global securitisation markets suffered from investor stigma. In 2014, a survey from the BCBS-IOSCO (Basel Committee on Banking Supervision - International Organisation of Securities Commissions) showed that investor perception was the most critical factor driving securitisation market developments. The main concerns were the perceived complexity of securitisations and the potential for conflicts of interest and information asymmetry between issuers and investors.

The SECR aimed to reduce the investor stigma associated with securitisation by i) aligning the interests of issuers with those of investors via mandatory risk retention, ii) supporting market transparency (thus reducing information asymmetry), iii) banning complex re-securitisations, iv) differentiating STS securitisations from more complex ones, and v) introducing rules on credit granting standards for securitised exposures.

Investor stigma is a subjective concept based on the investor's perception. Therefore, the best way of measuring it is via stakeholder feedback. The feedback suggests that the Securitisation Regulation has been partly effective in reducing investor stigma. Views were largely split in the stakeholder feedback gathered during the latest targeted consultation (December 2024). 44 out of 131 respondents reported that the Framework has been effective at reducing investor stigma towards EU securitisations (13 "Fully agree", 31 "Agree"). 31 respondents disagreed (22: "Somewhat disagree", 9: "Fully disagree). Notably, amongst the respondents identifying as investors, the ratio of negative responses is higher – 19 out of 51 investors responded that the Framework has not been effective in reducing investor stigma. On the other hand, bilateral contact with investors has seen many speak positively about securitisation.

Robust credit performance should help to address the investor stigma associated with securitisation. Figure 7 below explains the cumulative five-year average default rates for different asset classes and time periods during the period of past 20 to 40 years (e.g. in the case of European RMBS, it shows the 5-year cumulative default rate between 1988 and 2023). This number is comparable with other fixed income asset classes, like European corporate bonds or global sovereign bonds, reflecting the strong credit performance of RMBSs.

Figure 7: 5-year average cumulative default rates – European ABS, European RMBS, European CLOs, and other fixed income asset classes



Source: S&P Global Ratings Credit Research & Insights, S&P Global Market Intelligence's CreditPro, and Fitch Ratings

4.1.2. How effective was the Securitisation Framework in differentiating simple, transparent and standardised securitisation products from more opaque and complex ones and in removing regulatory disadvantages for simple and transparent securitisation products?

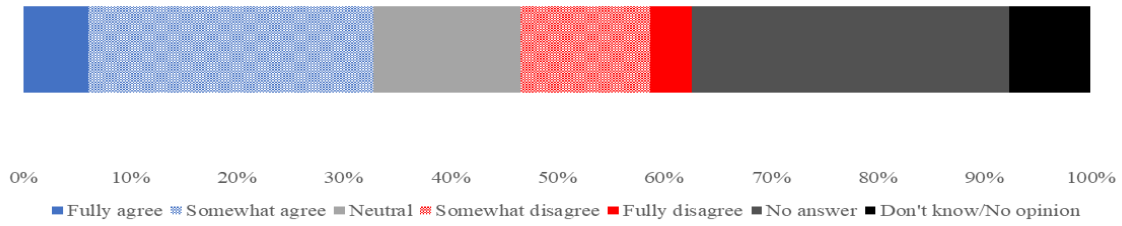
4.1.2.1. Differentiating simple, transparent and standardised securitisation products from more opaque and complex ones

The Securitisation Framework aimed to distinguish simple, transparent, and standardised securitisation products from more complex ones through the creation of the STS label. The label outlines specific criteria for simplicity, transparency and standardisation that securitisations must meet to be considered STS. There are distinct STS criteria that apply to longer-term traditional (true-sale) securitisation, to short-term ABCP securitisations, and to synthetic (on-balance-sheet) securitisations. Only when these criteria are fulfilled can securitisations be labelled as STS. This new label therefore makes it straightforward for investors to identify and distinguish STS securitisations from non-STS ones, which are typically less transparent and more complex as they have presumably failed to meet at least one of the STS criteria.

Most stakeholders agree that the Framework has been effective in differentiating simple, transparent and standardised securitisations from more opaque and complex ones. 43 out of 131

respondents to the targeted consultation responded positively (16 out of 52 investors), while only 21 had a negative assessment. Figure 8 below presents the balance of opinions.

Figure 8: Responses to the question whether the securitisation framework has been effective in differentiating simple, transparent and standardised securitisation products from more opaque and complex ones (total of 131 respondents)



Source: European Commission

Looking at market developments, there is a clear trend pointing to an increasing preference for STS issuance (see Table below). The share of STS issuance has been the highest in the synthetic segment in 2021 and 2022, while in 2023 it was higher in the traditional segment due to the one-off impact of a particularly large, retained transaction. This one-off transaction, however, is not indicative of a general market trend in the direction of higher share of STS issuance in the traditional securitisation segment.

Table 4: Share of STS issuance in the EU, placed and retained

	2020	2021	2022	2023
Total issuance	168	219	230	322
Share of STS issuance	17.9%	40.2%	40.4%	73.6%

Source: EBA, COREP statistics. Total issuance figures are in EUR bn. ABCP issuance is excluded as there are no available figures on origination amounts. These figures include securitisations originated by banks (i.e. bank is an originator or original lender), and non-bank originated securitisations where a bank plays a role as investor.

There are no available figures to confirm a significant price difference between STS and comparable non-STS products.

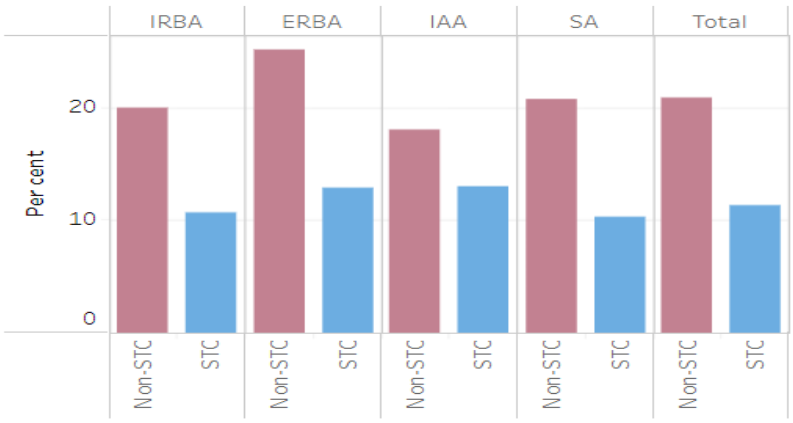
In view of these findings, we conclude that the securitisation framework has been effective in achieving the operational objective of differentiating STS products from more opaque and complex ones.

4.1.2.2. Removing regulatory disadvantages for simple, transparent and standardised securitisations

a) Banking

As part of the Framework the CRR was amended to establish a more risk-sensitive prudential framework for STS securitisations. By introducing a dedicated capital treatment for STS securitisations, the Framework has been effective in removing undue regulatory disadvantages for STS securitisations, relative to non-STS ones. Figure 9 below compares the average risk weights for STS versus non-STS securitisations and illustrates that average STS risk weights are approximately half of non-STS securitisation risk weights. The STS framework therefore allows the banks to achieve more significant capital relief compared to non-STS securitisations, and results in a more risk-sensitive and hence more efficient capital allocation for banks.

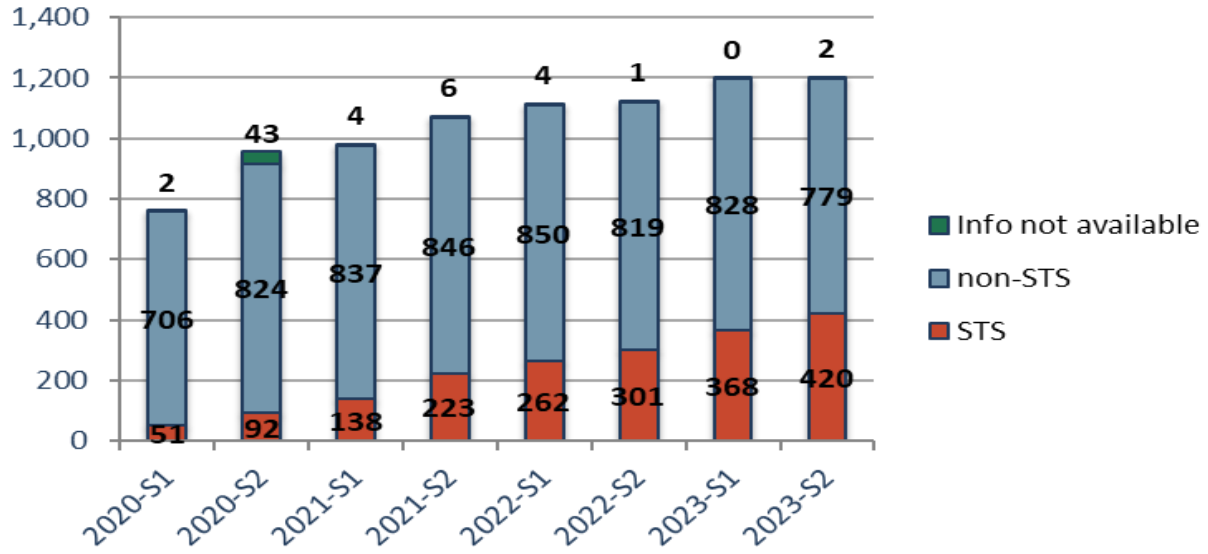
Figure 9: Average risk weights STS versus non-STS, by different approaches to the calculation of securitisation capital requirements for banks, Europe (G1), in Q4 2023



Source: BCBS Dashboard (sample of 15 banks; IRBA means Securitisation Internal-Ratings Based Approach, ERBA means Securitisation External Ratings-Based Approach, IAA means Internal Assessment Approach, SA means Securitisation Standardised Approach).

As issuance and investment in STS transactions have become significantly more attractive compared to non-STS alternatives, one would expect absolute and relative volumes of STS transactions to have increased significantly over time and to have scaled up the market more in general. Based on data from EBA, since the entry into force of the framework in 2019, the share of STS transactions for banks has slowly and gradually increased and reached 25% and 53% of the overall outstanding volume for traditional securitisation and synthetic securitisation, respectively, at end 2023. Figure 10 illustrates that overall outstanding volume of STS transactions represent EUR 420 bn as of end 2023 (out of which EUR 155 bn are STS synthetic transactions, EUR 203 bn are STS traditional securitisation, and EUR 62 bn are STS ABCP securitisations).

Figure 10: Overall outstanding volumes of securitisation transactions held by banks, by STS label (bn EUR)



Source: EBA, COREP statistics (to note these figures include securitisations originated by banks (i.e. bank is a originator or original lender), and non-bank originated securitisations where a bank plays a role as investor).

While the STS-label has had a more positive impact on the synthetic segment, the take up for the traditional securitisation segment and the overall STS market developments have been underwhelming to date. The reduction in the capital conservativeness for STS securitisations, in comparison to non-STS, does not seem to have provided a strong impetus for banks to engage more broadly in the STS market segment. The STS label and the Framework in general did not bring a significant amount of new bank originators or bank investors to the market, nor did it help expand the securitisation issuance to additional Member States. Also, it is likely that a part of the STS market are transactions that would have been issued anyway, even in the absence of the STS framework (as these have existed also before the introduction of the framework).

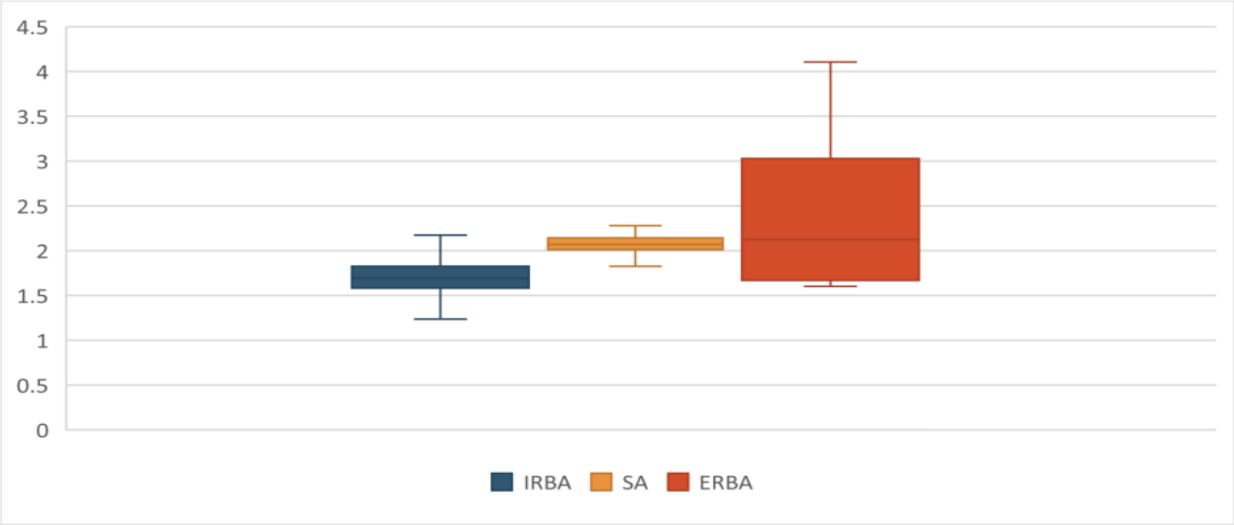
Several bank respondents point to the overall complexity of the STS requirements to explain why STS issuance has remained below expectations. Others highlight the fact that the preferential capital treatment is made conditional on the compliance with additional criteria specified in the CRR that prescribe a minimum credit quality of the underlying exposures (arguing that de facto it is a 'STS+' label), which unduly limits the scope of transactions potentially eligible for the STS preferential treatment. All this may explain why most respondents to the targeted consultation seem to view the Framework as unsuccessful in removing regulatory disadvantages for STS products: 52 either fully or somewhat disagreed with the statement that the framework had removed regulatory disadvantage for STS. In contrast, only 13 somewhat agreed or fully agreed (12; 1, respectively).

These STS developments need to be interpreted within the broader securitisation market developments. The impact of the Securitisation Framework on reviving banks' interest in the securitisation market developments in general is ambiguous. Unduly high capital requirements,

both for non-STS as well as STS securitisations, has been a key element of stakeholder feedback related to the bank prudential framework.

The ESAs[170] estimate that the revised prudential framework has led to an increase in banks' capital requirements for securitisation exposures of 114% for bank originators, 77% for bank sponsors and 105% for bank investors across the market, with large variations in the impact depending on the composition of the tranches held, compared to the previous regime. Senior tranches of securitisations have experienced an increase of more than 100% in capital requirements, while mezzanine tranches have experienced an even more significant increase of capital requirement with a median increase of 281%. Also, as shown in Figure 11 below, on average, the required capital for securitisations is approximately double the capital required for the capitalisation of the underlying pool of non-securitised assets.

Figure 11: Capital non-neutrality, median for three regulatory approaches to calculation of capital in securitisation



Source: EBA (IRBA means Securitisation Internal Ratings-Based approach, SA means Securitisation Standardised Approach, and ERBA means Securitisation External Ratings-Based Approach)

As securitisation adds a layer of risk in the form of complexity, agency risk and model uncertainty, the capital charges for a securitisation should be higher than for its underlying assets (i.e. neutrality is not justified and non-neutrality is one of defining elements of the securitisation capital framework). Nevertheless, the current degree of non-neutrality imposed by the existing rules does not appear fully proportionate to the increase in risk introduced by the securitisation process. Therefore, while the presence of non-neutrality is justified, it is the degree of it that does not seems so.

[170] JC 2022 66 - JC Advice on the review of the securitisation prudential framework - Banking.pdf

Concretely, the level of capital non-neutrality seems disproportionately high relative to the remaining levels of agency and model risks in some types of securitisation transactions, given that these risks have been significantly reduced following the GFC, thanks to several supervisory and regulatory initiatives implemented in the EU. Model risks have been mitigated by several initiatives that have enhanced the banks' internal models (e.g. SSM completed its Targeted Review of Internal Models (TRIM), EBA completed its IRB repair programme, the CRR3 is phasing in the output floor requirement; all of which come on top of risk retention and the banning of re-securitisations in the Framework[171]). Agency risk has been addressed by introducing risk retention requirements (which apply universally to all securitisations, unlike in the US where a majority of securitisations are fully excluded) and by creating the STS standard (where STS rules are significantly more prescriptive than equivalent Basel 'STC' standards).

Also, the EBA acknowledges the reduction in model and agency risk, associated with some specific types of securitisation transactions, since the introduction of the Securitisation Framework in the EU[172]. It should also be noted that the EU securitisation framework is applied more broadly than required under Basel standards. Unlike other jurisdictions, the EU applies the Basel standards to all its banks, large and small, both at consolidated and individual entity level, which introduces additional layers of prudence in the EU financial system, compared to other jurisdictions.

Capital non-neutrality also seems disproportionately high in light of the robust credit performance of the EU securitisation market over the years[173]. The EU securitisation market's resilience has been tested through multiple economic cycles and periods of stress, including the GFC, the Eurozone sovereign debt crisis, and the COVID-19 pandemic.

Default rates of EU securitisations have been significantly lower than those of US securitisations. Figure 12 below illustrates that US RMBS defaults in the period 2007-2022 dwarf those of EU RMBS in the same period.

Also, very few senior tranches of securitisations have ever suffered losses. Data over a 30-year time period show that default risk and ratings transition of European securitisations across tranches rated AAA to BB are commensurate with default and ratings transition data for other fixed income

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[171] Unlike the US, Japan, Australia and Canada where re-securitisation is still permitted.

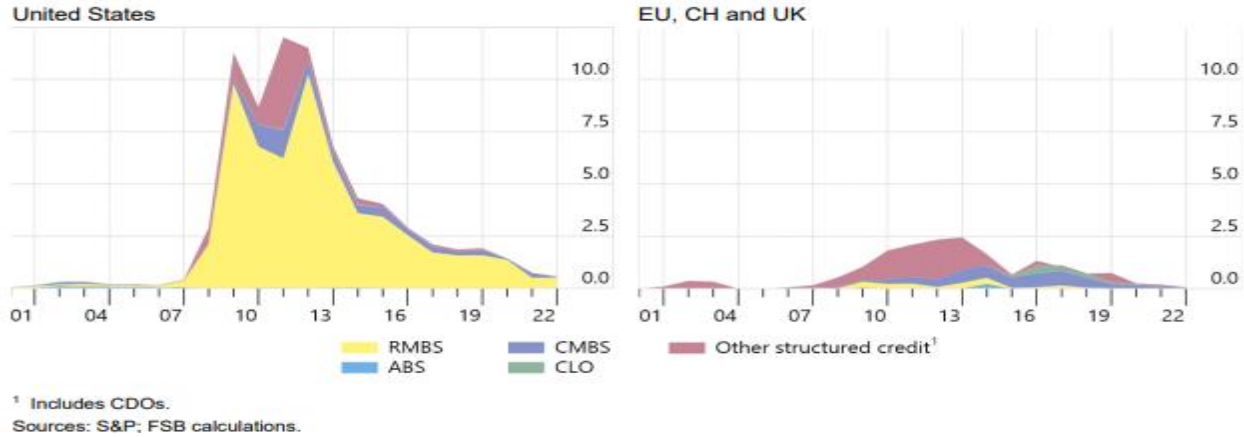
[172] The EBA acknowledges the reduction in model and agency risk associated with some specific securitisation transactions (transactions associated to originators retaining senior securitisation tranches, subject to safeguards ensuring resilience of transactions), and advices some targeted measures to improve risk sensitivity in the capital prudential framework. JC 2022 66 - JC Advice on the review of the securitisation prudential framework - Banking.pdf

[173] Apart from that, there are discrepancies between the rules applied under the securitisation internal-rating based approach (SEC-IRBA) and securitisation standardised approach (SEC-SA), resulting in undue discrepancies between the capital requirements for the same securitisation, when used by different types of banks. Divergencies also exist between the prudential and regulatory treatment of the securitisations and other comparable funding tools, such as covered bonds.

asset classes, such as European corporate bonds or global sovereign bonds, rated the same level, reflecting the strong credit performance of securitisations.

For example, based on data from S&P for the whole universe of European structured finance covering the period from 1983 to 2023, the yearly default rate for a mezzanine securitisation tranche with BBB rating is less than 0.5%, while the resulting risk weights under the securitisation capital framework are 220%[174]. A BBB-rated mezzanine tranche is historically comparably risky on average as an investment grade corporate bond, which receives a 60% risk weight or 100% risk weights under the applicable framework. The ratio of overcapitalisation is therefore between x3.7 and x2.2, in this example.

Figure 12: Annual default rates of structured credit by sector contributions in per cent



Source: BCBS dashboard (https://www.bis.org/bcbs/dashboards.htm)

In addition, unjustified differences have been identified between the capital treatment of equivalent securitisation exposures calculated by different banks using different approaches to the calculation of capital. The level of non-neutrality under the standardised approaches (SEC-SA) is significantly higher than the level of non-neutrality under the internal approaches (SEC-IRBA), which disincentivises less sophisticated banks from engaging in securitisation.

Besides undue levels of capital conservativeness, the evaluation of the Framework has uncovered a number of additional issues, which also could provide undue barriers for the banks' participation in the securitisation, whether as originators or investors. One of those issues relates to the Significant Risk Transfer (SRT) framework. The design of the 'SRT tests', which specify how much risk needs to be transferred to third parties to benefit from capital relief, have a number of structural flaws. The SRT tests do not allow to appropriately capture all possible structures of

[174] and can be even higher, depending on the approach used for the calculation of capital.

securitisations and may fail to target the transfer the risk in some cases, which may impede on the robustness of the SRT framework[175].

The existing SRT tests also do not provide sufficient guidance on how to assess some common structural features of securitisation transactions, which may affect the effectiveness of the risk transfer and may cast doubt on the ability of a given transaction to meet SRT conditions. In addition, the processes applied by the competent authorities to assess the SRT have in some instances been inconsistent, lengthy and cumbersome. These SRT Framework limitations, analysed in detail by EBA[176], have contributed to uncertainty for the market and delays for some securitisation transactions and have led in some cases to unjustified inconsistencies in SRT outcomes and capital calculations in the SRT treatment of securitisations with comparable characteristics across Member States. Overall, this has constrained banks in their capacity to use securitisation as a capital optimisation tool and risk transfer tool.

This has also been confirmed in the public consultation, where a majority of respondents who actively responded do not consider the existing process of SRT supervisory assessments efficient and adequate. Despite the more recent increase in SRT securitisation transactions (i.e. transactions executed with a capital relief purpose)[177] and improvements in the SRT assessments and processes, some targeted changes to the existing SRT framework seem still warranted to increase the robustness and efficiency of the SRT framework. With respect to the SRT tests applied to securitisations, responses have been more nuanced; industry generally agrees with the conditions of the tests governing the transfer of risks and do not see a need to make them more robust, although they are not opposed to it. Public authorities on the other hand deem it necessary to increase the robustness of the framework, in line with the EBA report.

Another issue relates to the undue strictness of the eligibility rules for securitisation in the LCR. The LCR Delegated Act seeks to ensure that banks hold a sufficient and diversified liquidity buffer of high-quality liquid assets (HQLA) to meet net outflows under 30-day severe idiosyncratic and market wide stress conditions. Senior tranches of securitisations of various asset classes (including RMBS, auto loans and leases, consumer credit and SME loans) are eligible for the inclusion in the liquidity buffer, subject to certain conditions. Many stakeholders, however, point to the overly restrictive nature of the eligibility conditions, in particular as regards the rating requirements (only AAA-rated exposures are allowed) and haircuts (which extend from 25 to 35%). Stakeholders argue that the eligibility criteria are not commensurate with the market liquidity observed in the

[175] Other identified shortcomings include lack of clear safeguards against the use of tranches with insufficient thickness, lack of additional requirements to assess the sustainability of the SRT, limited focus on the commensurateness of the transferred risk, and other specific limitations of each test.

[176] Microsoft Word - EBA Report on SRT.docx

[177] Based on data from EBA, 63% of all SRT transactions are synthetic transactions (93% of synthetic transactions apply and achieve SRT). The ECB/SSM as the main supervisor has recently been cooperating with representatives of industry towards speeding up and simplifying the SRT processes.

product, exhibited even under recent stressed liquidity conditions. This has also negatively impacted the bank investors' demand for the STS traditional securitisations, because the ability of the securitisation to be LCR-compliant is a primary criterion for banks' investment in the STS market segment. In turn, this has contributed to reduced demand by bank treasuries for senior tranches of publicly offered STS traditional securitisation and is having a negative impact on the market liquidity for those securitisations. Due to these regulatory restrictions, banks' share in the liquidity buffers is negligible and has never materially changed. Banks in the European Union invest less than 1% of their liquidity buffer in securitisations.

In sum, the evaluation of the Framework more generally has uncovered a number of undue barriers for banks to engage in securitisation, impacting STS securitisations, but also the securitisation market developments more broadly.

Possible amendments to the Framework should focus on removing undue barriers for banks as issuers of securitisations. As one of the objectives should be to transfer risks outside of the banking sector, to other actors in the financial system best placed to bear them, banks should not be incentivised as investors in the risky tranches of the securitisations, i.e. first loss or mezzanine tranches which account for the majority of risks associated with securitisations. No prudential concerns have however been perceived with respect to banks' investments in the senior tranches, especially of STS securitisations, which contain minimal risk, and also in the context of wider efforts to enlarge the investor base for the senior tranches on a larger scale.

b) Insurance

High level description of Solvency II

Insurance companies are subject to SII which regulates how much capital insurers should set aside to cater for the risks arising from their investment activities. While bigger insurers generally use their own modelling of risks ('internal model') which is more tailored to the specificities of their risk profile, the smaller ones use the so-called 'standard formula' which clearly prescribes capital requirements on investments. As regards securitisation, while insurers using an internal model are relatively free to determine how to assess market and credit risks (subject to prior supervisory approval) – and they do invest more in securitisation than standard formula insurers[16] –, companies which use the standard formula have no discretion when it comes to computing capital requirements.

The initiative has been effective in removing regulatory disadvantages for simple and transparent securitisation products in terms of levels of capital requirements in comparison with more opaque ones. It has done this by lowering the level of capital requirements for STS transactions compared to before, and by keeping the capital requirements for non-STS transactions unchanged. Although not explicitly identified as an objective by the initial initiative, it can be inferred that the removal of prudential obstacles was expected to result in a framework that is more conducive to investments

in high-quality securitisations. In fact, the initiative has contributed to increasing insurers' investments in securitisation in absolute amounts, though the share of this class in insurers' portfolios remains modest[178].

This evolution confirms the feedback collected by the Commission through its consultation activities. For instance, a majority of respondents to the Commission targeted consultation expressed an interest in increasing their exposure to securitisation, at the same time acknowledging the importance of risk-return profiles and pointing to high compliance costs stemming from due diligence requirements.

Assessment of effectiveness in terms of levels of capital requirements

The introduction of dedicated prudential treatment for STS securitisation has resulted in more differentiation between capital requirements for this type of securitisation compared with non-STS transactions. As such, this has been effective in removing undue disadvantage for simple and transparent securitisation when the standard formula is used. Capital requirements for simple securitisations are now up to 10 times lower than those applicable to non-STS securitisations (depending on the duration and seniority of the STS securitisation).
Compared with previous rules, the Commission services have estimated that capital requirements for investments in simple and transparent securitisation are now 21.5% lower than prior to the initiative (circa 100 billion in capital relief).

The table below shows applicable capital requirements for different durations and ratings – reflective of relevant investment categories by insurance companies.

	2-year duration AAA-rated	7-year duration AA-rated	3-year duration BBB-rated
Senior STS securitisation	2%	7,4%	8,4%
Non-senior STS securitisation	5.6%	20,8%	23,7%
Non-STS securitisation	25%	93,8%	59,1%

Note: How to read the table: when investing EUR 100 in a 2-year duration AAA-rated securitisation, the amount of capital to set aside for insurers is EUR 2 if the securitisation is "senior STS", EUR 5.6 if the securitisation is non-senior STS, and EUR 25 if the securitisation is non-STS.

As expected, the reform had no effect on insurers which use an internal model. This is because even before the initiative, insurers using an internal model had the ability to make tailor-made modelling of the risk profile of their actual portfolio. The change to standard formula capital charges – which they do not use – has therefore no effect on their modelling capacities.

[178] In view of the trillion euros of assets under management, even a slight increase in the share of investments in securitization can translate into a material increase in investments in absolute amounts.

As part of the targeted consultation, some stakeholders – the majority of which are non-insurers – claim that like for the standard formula, capital requirements based on internal models can disincentivise investments in securitisations. However, the detailed answers supporting such criticisms suggest other factors being pertinent, such as risk modelling maintenance (e.g., high costs of keeping the model fit for purpose and up-to-date), data miscalibrations (e.g., some stakeholders complain about the use of historical post financial crisis data dominated by spread volatility, rating migration, etc.) which are not securitisation-specific, but concern any asset class. In addition, supervisory authorities may also have negative perceptions about securitisation (stigma) and could exercise stricter scrutiny when approving internal models on securitisation, although there is no available concrete evidence of such possible risk. On the other hand, some other insurance stakeholders point out that internal models capture the risk reduction benefits associated with securitisation more effectively than the standard formula for capital requirements. In any case, no stakeholder identified a clear area of 'change' to the internal model framework applicable to securitisation.

Assessment of effectiveness in terms of increasing levels of investments in simple and transparent securitisations

The effectiveness of prudential changes, stemming from the 2019 reform, on the level of investments in simple and transparent securitisations is more ambiguous. Investments in STS securitisations remain the minority of insurers' securitisation investments despite the much lower capital requirements. In absolute amounts, securitisation investments have increased by EUR between 5 and 6 billion between end-of-2018 and end-of-2023, 2018 being the last year under 'old' rules prior to the introduction of the current Framework[179]. In relative terms, this represents a significant increase of between 50% and 66%, albeit from a very small base[180].

Capital requirements on senior STS securitisation are very close to those applicable to bonds. Still, the share of STS securitisation in investment portfolios is negligible, whereas corporate bonds make up 18% of total investments. In fact, there is no evidence that STS securitisation offers a return that is significantly higher than that applicable to other fixed income asset classes of similar credit quality. For instance, according to some data shared by industry stakeholders with DG FISMA, in January 2025 there was a 10-basis point differential between the spreads on AAA-rated (senior) STS mortgage-backed securitisation and corporate bonds with the same ratings[181].

[179] The figures cover standard formula insurers which are the beneficiaries of the changes in prudential rules. Depending on the data source, these vary slightly.

[180] The uncertainty stems from inconsistencies in insurers' reported data, which vary depending on the quantitative reporting template based on which the Commission services' assessment is made

[181] Source: BofA Global Research

One of the reasons for the low yield on senior STS securitisation, in particular STS RMBS, may be the fact that the pool of loans to be securitised was originated during times where interest rates on such loans were exceptionally low (in some Member States even 1% or lower), which means that the most senior tranches of a securitisation of such loans would have very low yields. In addition, capital requirements, though quite low, remain slightly higher than those applicable to such similar asset classes. Investments in securitisations requires, in addition, implementing extensive due diligence requirements – more extensive than for other asset classes (see next section). This means that the return on risk adjusted capital (i.e. put in simpler terms, financial return divided by applicable capital and compliance requirements) remains lower for STS securitisation.

According to the responses to the targeted consultation, for a majority of stakeholders capital requirements are disproportionate and not commensurate with the risk of STS securitisations. It is however disputable that prudential rules on STS securitisation are a major obstacle to investments.

As regards senior STS securitisations, capital requirements only exceed those of corporate bonds by less than 2 percentage points, depending on the rating and duration. Despite the small difference in capital requirements, insurers allocate a much bigger portion of their investment portfolio to corporate bonds in comparison to securitisation products (circa 28% vs less than 1% of total investments in 2023[182]). This indicates that other factors, besides capital requirements, influence insurers' preference for corporate bonds.

As regards non-senior STS securitisations, the average ratio of capital charges for non-senior to senior STS securitisation is broadly in line with banking rules under the 2019 framework[183]. The lack of supply of non-senior STS tranches may be driving the low level of insurers' investments. Based on data by AFME, the outstanding balance of securitisation tranches rated A or lower (used as a proxy for non-senior tranches) represented 13.3% of the total outstanding balance of rated securitisations in Europe at the end of 2023. By comparison, in the US where insurers are much more active investors in the securitisation market, this ratio stood at 45.2%. Another obstacle to insurers' investment in this segment could be high market competition, as originating banks also confirm that non-senior STS tranches are largely over-subscribed (i.e. the demand exceeds by a large multiple the supply).

[182] Source: EIOPA's statistics

[183] In fact, the STS calibrations for Solvency II precisely aimed at ensuring sufficient consistency with the requirements under the banking external ratings-based approach (SEC-ERBA), which is technically the closest to Solvency II rules and allows for the most 'straightforward' comparison.

There are other reasons which may also explain why insurers are not more engaged in the securitisation market. The 2022 EIOPA advice on securitisation[184] indicates that securitisation does not match insurers' investment preferences which are focused on the 'financial risk / return profile' (and not the 'prudential cost / return profile') of the investment and asset-liability management, in particular for insurance products with long-term life liability and fixed cash flows (which is the case not only for life insurers, but also for many non-life insurers offering liability insurance) which insurers seek to cover with long-term fixed rate investments in order to reduce the risk that changes in the level of interest rates or in the rhythm of cash inflows, lead to a deterioration of their capital position. The importance of an effective asset liability management became evident during the past years when interest rates varied a lot. However, this assessment needs to be nuanced. EU insurers were more active in the securitisation market prior to the GFC which suggests that they did identify an interest in this asset class. In addition, US insurers are significantly investing in securitisation. This contradicts the statement that securitisation is not appropriate to match long-term liabilities as US life insurers largely underwrite annuity products with very long duration and regular cash outflows.

Another reason for the lack of demand for securitisation from the insurance industry is that investors perceive securitisation as a complex product with extensive and costly due diligence requirements (see assessment in section 4.1.3. below).

4.1.3. How effective has the Securitisation Framework been in reducing/eliminating unduly high operational costs for issuers and investors?

The 2015 Impact Assessment highlighted the absence of standardisation in data provision across different types of securitisations as a determining factor behind the costly due diligence and credit risk analysis by investors. Moreover, differences in disclosure and due diligence requirements applicable to securitisations between the various sectoral legislation at the time also resulted in unduly high costs for issuers and investors.

While the framework sought to reduce operational costs that stemmed from regulatory inconsistencies and a lack of standardisation, stakeholder feedback from the 2021 targeted consultation[185] reveals that high operational costs for issuers and investors remain a significant issue. 31 of 55 respondents (~56.4%) considered the due diligence and transparency regime provided for in the SECR to impose unduly high operational costs for issuers and investors.

Stakeholders considered compliance with these requirements to be overly costly, in requiring specialized processes that are more time-consuming and complex than those used for other

[184] See: https://www.eiopa.europa.eu/publications/joint-committee-advice-review-securitisation-prudential-framework_en

[185] Summary of responses - Targeted consultation on the functioning of the EU securitisation framework

financial instruments, such as covered bonds. Respondents also cited the need to involve external consultants, providing IT solutions and legal advice, as a significant cost of operations, and a barrier to entry for new issuers and small investors.

Recent stakeholder feedback gathered during the latest targeted consultation (conducted from October – December 2024) confirms the 2021 feedback. 79 out of 131 respondents report that the framework has not been effective in reducing unduly high operational costs and only five respondents (two government authorities and three associations) responded positively.

4.1.3.1. Due diligence requirements

Based on the feedback provided by stakeholders, Article 5 (due diligence requirements) has resulted in an estimated additional one-off costs of EUR 13-26 million, and approx. EUR 520 million annual recurring costs for all investors in the market. For due diligence, most of the costs for investors are recurring as for each investment transaction a comprehensive due diligence check needs to be performed that takes for most investors several days.

Next to this stakeholder feedback, a comparison of the due diligence requirements applicable to major institutional investors (see Annex XII), confirms that that the regulatory due diligence burden is much higher for securitisation than for other instruments. While for other financial products, investors must only comply with the general principles-based due diligence rules included in their respective sectoral legislations, the requirements are more detailed for securitisations.

Some of these additional regulatory due diligence requirements may be justified due to the specific nature and risk characteristics of securitisation transactions (e.g. requiring investors to look at the structural characteristics of a securitisation) but other requirements cannot be justified on these grounds. For example, in addition to carrying out a thorough assessment of the risks prior to holding a securitisation position, EU investors are required to carry out a list of extensive verification activities to check that originators have complied with Article 6 (risk retention), Article 7 (disclosure), Article 9 (credit granting criteria), and Articles 19 to 22 and 23 to 26 (STS criteria). These verification activities (requiring investors to check issuer compliance with certain criteria) are unique to securitisations and are largely duplicative since EU supervisors are also required to check that EU originators comply with these requirements. They significantly increase due diligence costs for institutional investors (several respondents, including associations representing larger groups of investors, estimate potential cost savings of removing the above-mentioned verification activities to 20%-50%).

Moreover, stakeholders argue that the risk assessment that is required to be carried out under Article 5(3) is not proportionate because it does not differentiate between different types of securitisation positions. For example, a senior investor investing in a triple A tranche has the same requirements as a junior investor investing in a first-loss piece, even though the risk of the position

is much lower for the senior investor than the junior investor. While this may not be an issue for large investors that invest in a large number of securitisation positions and can therefore benefit from economies of scale, it can be a barrier to entry for small investors that would only be interested in investing in less risky positions. The high one-off due diligence effort placing effectively a barrier to entry for smaller players has been pointed out as a major obstacle and opportunity cost by 10 respondents including 3 business associations representing larger investor groups.

Industry respondents to the targeted consultation state that the magnitude of the due diligence duties act as a barrier to entry. This has been mentioned in more than 40 replies. The Association for Financial Markets in Europe (AFME), representing an estimated share of about 50% of the public traditional market, estimated that it takes about 9 months to set-up a new business for EU securitisation investment, of which two months would be necessary to understand and put in place a framework that implements the due diligence rules. According to the example in "Annex III: Who is affected and how?", it may require up to 40 months and a minimum investment pool of at least EUR 1.5 billion for a low-risk STS asset management business to break even. This makes market entry unattractive for investors focusing on high-rated and low-yield securitisation products. AFME estimates the universe of asset managers that are regularly active in the public securitisation market to below 20 players. In one comparable covered bond transaction alone, the number of investors is significantly higher than 20.

4.1.3.2. Transparency requirements

Based on the feedback provided by stakeholders, the transparency requirements imposed on the issuers/originators, one-off costs are estimated at EUR 370 million and make up the biggest share of the additional costs posed by Article 7. This is due to the IT investments necessary to put a reporting system up and running, whereas afterwards the ongoing costs are usually moderate, in this case we estimate approx. EUR 120 million annual recurring costs for all EU issuers in the markets.

While there was significant information disclosure in securitisation transactions prior to the Securitisation Framework, there were no direct, and sanctionable, disclosure requirements that applied to all types of securitisation issuers (banks and non-banks). In general, the amount and type of information disclosed was determined by the needs of the market. Large banks that sought access to the ECB's liquidity framework had a more developed disclosure infrastructure to comply with the ECB's collateral requirements.

Implementing the transparency framework involved significant implementation costs for all types of issuers. These costs consisted of: i) gathering information at the level of each individual loan prior to issuance, ii) updating this information at least quarterly (monthly in the case of short-term securitisations), iii) disclosing all information necessary for investors and supervisors to understand the features of the transaction, iv) in the case of STS securitisations, disclosing

information on compliance with the STS criteria, and v) preparing regular investor reports. Reporting entities had to develop the necessary IT infrastructure to report this information to the securitisation repositories in the required format. Moreover, securitisation repositories had to develop the infrastructure to receive and provide access to this information to investors, potential investors and competent authorities.

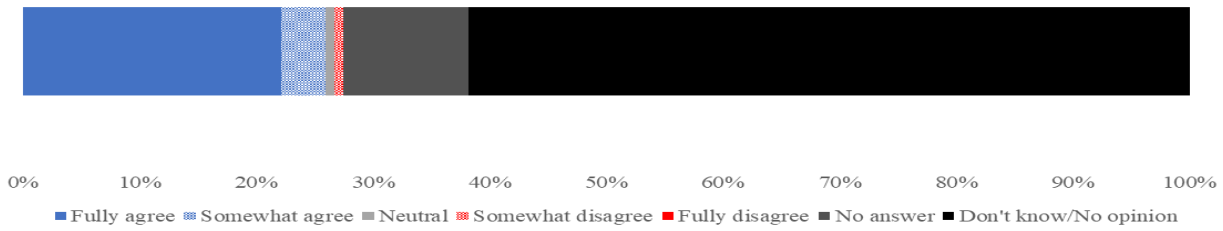
Costs are driven by the wide scope of the transparency requirement. Both public and private transactions are captured and must provide the same information to their investors. However, stakeholders have reported that investors in a public securitisation do not have the same information needs as investors in a private securitisation. The latter have a stronger negotiation position vis-à-vis the issuer of the transaction, compared to a public securitisation which is offered to a multitude of investors on terms determined by the issuer. This means that a private securitisation tends to be structured according to the particular requirements and information needs of the investor. Moreover, private transactions are often tailored to fit the needs for investors. They have particular characteristics and tailored underlying pools of assets, and therefore detailed standardised disclosure templates do not adequately capture the essence of the transaction in a fully satisfactory way for the investor. As a result, issuers of a private transaction will have to disclose information that satisfies the investor's needs which may not be satisfied by the Article 7 disclosures, increasing disclosure burden without an accompanying increase in transparency.

Furthermore, the extent of the information that is required is overly wide. The SECR introduced comprehensive disclosure requirements for all in-scope securitisation instruments (i.e. securitisations that are issued by an EU-based original lender, originator or sponsor, and/or securitisations that EU institutional investors invest in). This aimed to increase market transparency and provide investors with sufficient information to carry out due diligence. These disclosure requirements were further specified in the October 2019 Regulatory Technical Standards, which included detailed loan-level disclosure templates for all securitisations falling under the scope of the SECR (the 'ESMA templates'). The ESMA templates built upon the ECB's existing loan-level templates, but significantly increased the number of mandatory fields across all asset categories, thus increasing the reporting burden for issuers. Stakeholder feedback has indicated that not all the information that is reported in the ESMA templates is useful for investors. There is room to significantly reduce the number of required data fields, thus reducing the reporting burden, without impacting the usefulness of the information to investors.

The above is also confirmed by stakeholder feedback. Stakeholders that participated in the consultation report that securitisation disclosure costs are significantly higher than those for other instruments with similar characteristics (29 out 131 replied 'significantly higher', 5 'moderately higher', 95 didn't reply or said they don't know). Respondents pointed out in particular the difference in disclosure requirements between securitisation and covered bonds. Industry stakeholders characterised covered bonds disclosure as "subject to much high-level and less prescriptive transparency provisions and require aggregated data reporting (rather than loan-by-

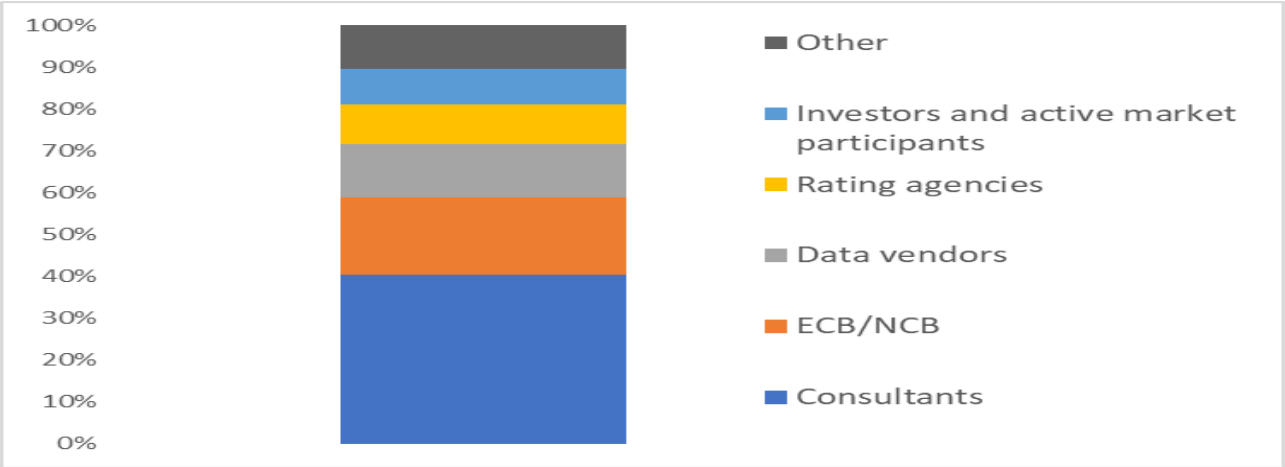
loan)" and driven by industry consensus via the ECBC Covered Bond Label. Annex X provides a detailed comparison of the disclosure requirements for securitisations and covered bonds.

Figure 13: Responses to the question how do the disclosure costs (for securitisations) compare with the disclosure costs for other instruments with similar risk characteristics?



Furthermore, the transaction information provided under the SECR is not suited to its primary audience – investors. Usage statistics[186] for public securitisations show that only a limited number of large public investors are using the data reported under the ESMA templates. In fact, many investors have reported that they rely on alternative disclosure channels to obtain the information they need for their due diligence.

Figure 14: Distribution of the number of downloads of the securitisation data templates prescribed by the Commission Delegated Regulation 2020/1224 by category of data users (August 2023 – July 2024)



Source: JCSC Article 44 report (reference to be updated once the report is public)

186 Statistics from European Data Warehouse, the largest securitisation repository in the EU.

In view of these findings, we conclude that the securitisation framework has not been effective in reducing/eliminating unduly high operational costs for issuers and investors.

4.1.4. How effective has the Securitisation Framework been in supporting standardisation and in tackling regulatory inconsistencies?

According to stakeholder feedback gathered during the targeted consultation, a large majority (i.e. 54 out of 82 respondents with opinion with 131 total respondents) considers the current framework as effective in supporting standardisation processes and practices. In particular, stakeholders find that the framework has been effective in increasing the degree of standardisation of marketing and reporting material, but a significant majority disagrees that the framework has reduced operational costs linked to standardised securitisation products. The latter is consistent with the negative assessment of the effectiveness of the framework in reducing unduly high operational costs for issuers and investors overall.

The Securitisation Framework has played a crucial role in promoting standardisation in securitisation markets by introducing a list of common definitions and establishing common rules for transparency, disclosure, due diligence, and risk retention. These rules apply uniformly to all securitisations and all parties involved, helping to eliminate regulatory inconsistencies and support standardisation in processes and practices in the EU securitisation market. While the Securitisation Framework has brought greater uniformity to the market, the high operational costs it entails for issuers and investors has offset some of the benefits that standardised processes were intended to bring to the EU securitisation market.

As regards regulatory inconsistencies – before the SECR came into place there was no common definition of a securitisation across the EU, nor were there common due diligence, transparency, or risk retention rules. Instead, rules were fragmentated across different sector specific legislation and across different Member States. As a result, in 2015, the Joint Committee of the ESAs recommended to harmonise regulatory requirements for securitisations.

With respect to tackling the regulatory inconsistencies, despite the consolidation of the applicable requirements to all market participants in a single legislative instrument, stakeholders generally disagree that the framework has been effective in tackling regulatory inconsistencies. Only 21 out of 131 total respondents indicated some level of agreement (9 out of 52 investors and 3 out of 32 originators). Indeed, some elements that are important for the securitisation market, such as insolvency legislation, were left outside the scope of the securitisation framework. Lack of standardisation in these areas has been recently pointed out by stakeholders and researchers as one of the factors determining the muted development of the securitisation market in the EU. At the same time, these issues are not specific to securitisation but are of broader significant for capital markets development in the EU. Therefore, any measures to address them should be part of a broader strategy.

In view of these findings, we conclude that the securitisation framework has been effective in achieving the operational objective of supporting standardisation of marketing and reporting

material, but it has not been fully effective in tackling regulatory inconsistencies in the securitisation market.

4.2. Efficiency

The efficiency analysis assesses the benefits and costs arising from the EU intervention and whether it was cost effective. The analysis draws upon stakeholder feedback on costs associated with the Framework, from the 2024 targeted consultation. While the implementation of the Framework is considered somewhat cost-effective for the prudential aspects, its non-prudential elements have resulted in high costs for issuers and investors.

4.2.1. Benefits

The main benefit associated with the introduction of the SECR is the overall increase in market transparency, as well as investor protection. This benefit contributes to the attainment of the objective of "removing investor stigma". By introducing clear transparency requirements, investors and supervisors are better able to assess the risks of securitisations. Similarly, a robust due diligence process ensures that investors know what they are buying and increases trust in the securitisation market. The main benefit of the introduction of the STS framework is that it has fostered simplicity, transparency and standardisation of the securitisation structures in the EU. Such structures are easier for investors and supervisors to assess.

The framework has differentiated the capital requirements for banks' STS securitisations compared to non-STS ones, in an efficient way. Capital requirements for STS securitisations can be as low as half of the capital requirements for non-STS securitisations, even if STS capital requirements are still generally higher than what they would have been for equivalent securitisations before the framework came into place. Banks face lower capital requirements for their exposures to STS securitisations in two ways: (i) a reduced (p) factor (the (p) factor for STS transactions is half the level of the one for non-STS transactions, and can therefore result in half of the capital requirements for the respective tranches, compared to a non-STS securitisation); (ii) a lower floor for minimum capital requirements (10% risk-weight floor for capital requirements for their exposure to senior tranches in STS securitisations, compared to 15% for senior tranches in non-STS securitisation).

For insurers, the changes implemented in SII have reduced the capital cost of investing in STS securitisation, in particular for senior tranches. As a result, the Framework incentivises insurers to invest in the simpler and more transparent part of the securitisation market. STS securitisations are typically more liquid and easier to trade compared to non-STS securities. This liquidity can help insurers manage their investment portfolios more flexibly, especially in volatile market conditions, by enabling easier buying or selling of assets. DG FISMA calculations suggests that STS capital requirements are on average 80% lower than non-STS securitisations on average. Investments in senior STS tranches, where demand is still perceived as low by originating banks, have increased by one third between 2019 and 2023 up to EUR 1.25 trillion.

4.2.2. Costs

The main costs associated with the provisions of the SECR are the due diligence and transparency costs explained in the Effectiveness section above. Investors' due diligence costs under Art. 5 SECR are primarily recurrent, as each investment transaction requires a comprehensive, standalone due diligence check. On the other hand, one-off costs comprise the biggest share of the additional transparency costs imposed by Art. 7. DG FISMA estimates these costs at around EUR 370 million of such one-off costs. One-off costs are generally attributable to the initial financial outlay associated with establishing a compliant reporting IT system. The subsequent annually recurring costs are usually moderate: approximately EUR 120 million for all EU issuers in the market.

The transparency regime has also introduced additional costs to the securitisation industry through the set-up of securitisation repositories. Issuers of public securitisations are obliged to report a rich set of information to a securitisation repository to make this data available to investors and supervisors. While investors and supervisors can use the repositories free of charge, issuers reporting to the repository are required to pay a fee. To illustrate: EDW, one of the main securitisation repositories in the EU, charges EUR 7,000-7,500 per year for non-ABCPs, and EUR 9,000 per year for master trusts and ABCP programs. Originators also incur a one-off deal initiation fee of EUR 8,000, to access some premium services[187].

In addition, the transparency regime may also keep issuers from being able to securitise certain pools of loans in case they are not able to collect all the necessary information or are if there are concerns about the confidentiality of the data that is reported via securitisation repositories. Therefore, the issuer may have to incur additional costs in order to be able to build up a pool of securitise-able assets or simply be forced to forego the opportunity to securitise.

Moreover, issuing and investing in STS securitisations comes with additional verification costs. According to Article 5 of the SECR, investors are required to verify that STS transactions comply with STS criteria. Furthermore, issuers are subject to sanctions if they mislead investors by mis-labelling a transaction as STS compliant. As a safeguard, therefore, most issuers avail of a Third-Party Verifier (TPV) for STS transactions. The costs of such a service range from EUR 33,500 - 44,000 for a traditional STS securitisation with a maturity of up to three years, and EUR 38,500 - 46,750 for a three-year on-balance-sheet STS transaction[188].

The costs associated with the introduction of the amended banking prudential framework are assessed to be low (though not quantified). They mostly comprise of one-off adaptation costs to the new securitisation prudential framework and some undue increases in capital costs for STS securitisations, considering the significant non-neutrality introduced in the capital framework which may be deemed excessive in light of the good credit performance of STS securitisations and numerous risk mitigants risks applied to STS structures.

187 https://eurodw.eu/solutions/pricing/

188 Source: https://pcsmarket.org/wp-content/uploads/Fee-Schedule.pdf and STS verification - STS Verification International GmbH

The implementation costs associated with changes in insurance prudential rules are reported to be very low (though not quantified) – they mainly consist of replacing the risk factors for so-called 'type 1' securitisation with those applicable for STS securitisations. The lower capital requirements on simple and transparent securitisation can result in some additional risk taking by insurers depending on how they use the capital relief. However, in view of the ongoing level of STS securitisations in insurers' investment portfolios, that risk seems largely contained at EEA level, without precluding that it could be more significant for individual insurers with specific exposures to securitisations.

4.3. Coherence

This section assesses coherence of the Securitisation Framework, both in terms of the degree of coherence between the provisions within the Framework (internal coherence) as well as its relationship with other pieces of legislation (external coherence).

4.3.1. Internal coherence

Overall, the Securitisation Framework shows a high degree of internal coherence. It simultaneously creates a general regulatory system for European securitisations, while providing for harmonised prudential treatment through targeted amendments to the CRR, LCR Delegated Act and SII.

The different provisions in the SECR follow a clear logical structure, starting with generally applicable horizontal rules (due diligence, transparency, risk retention etc). Additional requirements are specified for securitisations benefitting from the STS label. These more rigorous criteria are consistent with the logic of differentiating the STS category and its associated prudential benefit. Stakeholders have confirmed that this structure does not give rise to incoherence, duplication or conflicting requirements.

Prior to the introduction of the Framework, inconsistencies were identified between the framework for banks (CRR) and for insurers (SII). Therefore, the Framework introduced dedicated preferential prudential treatments for both senior and non-senior STS securitisation under both banking and insurance rules.

In relation to insurance, there are still two sources of incoherence:

- Incoherence with banking rules: SII does not differentiate between senior and non-senior tranches of non-STS securitisations, unlike in the banking rules. This results in an inconsistency of the risk sensitivity of the prudential treatment for banks and insurers.

- Internal incoherence on SII: This can be illustrated by looking at disadvantageous prudential treatment of securitisation, when compared to equity shares. Holders of shares are generally the first to absorb losses in case of insolvency (i.e. before debtholders and other creditors) and they are exposed to significant volatility. Compared to this, the highest-rated senior tranches of securitisation are more protected in case of insolvency and arguably

less volatile than equity. However, while capital charges on unlisted equities or on equities from emerging markets are on average at 49%, even the most senior tranches of non-STS securitisation can be subject to capital charges significantly exceeding 50%.

4.3.2. External Coherence

The SECR presents a logical and coherent framework, uniting different legal provisions scattered in various pieces of legislation. By doing so it avoids external inconsistencies and differential regulatory treatment. Feedback from stakeholders confirm that the approach taken is the appropriate one.

Some minor inconsistencies have been found between the SECR and the Alternative Investment Fund Managers Directive (AIFMD) as regards due diligence and delegation requirements. In certain instances, this has led to duplicative compliance requirements. The EU Securitisation Framework is coherent with the securitisation framework for regulatory capital requirements issued by the Basel Committee on Banking Supervision (BCBS), IOSCO's recommendations on securitisation, as well as the BCBS-IOSCO criteria for identifying simple, transparent and comparable securitisations (called Simple, Transparent and Standardised in the EU). The EU Securitisation Framework has adapted the Basel and IOSCO standards on a few aspects, such as the scope of application of the STS label (extended to synthetic securitisations), the hierarchy of the approaches and the eligibility of securitisations in the LCR.

4.4. EU added value

This section considers if and how the EU intervention made a difference. Securitisation Framework has provided a clear EU-wide legal framework by harmonising existing provisions which were scattered across a large number of sectoral legal acts that applied to different market entities.

The SECR has introduced a single, coherent and harmonised legal framework for original lenders, originators, sponsors, securitisation special purpose vehicles (SSPVs) and institutional investors participating in the EU securitisation market. A Directive or national-level legislation would not have led to the same results. Transposition of a Directive or national laws would have led to divergence across Member States, resulting in distortion of competition and regulatory arbitrage. Moreover, most existing EU provisions in this area had been successfully adopted and implemented in the form of Regulations.

Securitisation products are part of EU financial markets that are open and integrated. Securitisation allows to link financial institutions from different Member States and non-Member States: banks can originate the loans that are securitised, while financial institutions such as insurers and investment funds invest in these products and they can do so across European borders, but also globally. The securitisation market is therefore international in nature and measures at the EU level are the right tool for designing an adequate legal framework. The fact that originators and investors follow the uniform rules across the Single Market reduces the cost of issuance and investing.

The Regulation has facilitated further integration of the market, and the legal framework has been most effective with regard to the policy aim of providing a high level of investor protection through risk retention and information availability. The STS label has been widely accepted as a market standard. It serves to help investors identify high-quality structures and removes the stigma attached to securitisation.

4.5. Is the intervention still relevant?

Over the implementation period of the Securitisation Framework, its initial objectives have remained relevant to ongoing EU policy goals and priorities. Europe's investment needs have grown in size, scope, and urgency since the introduction of the Securitisation Framework, and they cannot be met by public financing alone. As such, the alleviation of undue obstacles to private financing remains a highly – and ever more - relevant objective to attain.

The Savings and Investment Union was unveiled in 2024 as a cornerstone of the 2024-2029 Commission mandate, and securitisation has a key role to play in this regard. Securitisation allows lenders to package and sell the loans that they grant to capital market investors and, through this process, they free up capacity that could be used for more lending, for instance to SMEs and corporates.

Looking ahead, the needs and objectives of this initiative will be of sustained and increasing relevance in the push for European competitiveness. The Competitiveness Compass[189] highlights the need for the EU to meet its massive financing needs, to deliver on objectives in the areas of innovation, the clean, digital and tech transitions. The Savings and Investment Union is a priority to meet these financing needs and ensure European competitiveness in the years to come.

From a non-prudential perspective, feedback from the targeted consultation indicates that while the current Framework and its subsequent amendments have gone some way to achieve the stated objectives, issuance and investment barriers remain high. Stakeholder feedback does indicate that there is sizeable investor interest in EU securitisation products, but the persistence of the barriers identified prior to the introduction of the current Framework, continue to impede this demand.

In terms of prudential rules for banks, the initiative was focused on introducing a differentiated regulatory framework for simple, transparent and standardised securitisations. While a degree of risk sensitivity has been introduced in the Framework by allowing lower capital for STS securitisations compared to non-STS securitisations, it continues to incorporate a significant degree of conservatism, both for STS and non-STS transactions, which results in high bank capital requirements for their securitisation exposures. The existing prudential requirements are not sufficiently risk sensitive and do not adequately reflect the numerous EU regulatory and supervisory risk mitigants that have been put in place in recent years as well as the good credit performance of securitisations observed in the recent past. Therefore, they discourage EU banks

[189] Commission Communication : « A Competitiveness Compass for the EU » , 29 January 2025, https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en.

from participating more actively in the EU securitisation market. A more active role by banks in the EU securitisation market is essential to achieve the general objective of the initiative.

With regard to insurance prudential rules, while capital requirements on STS securitisations have been significantly reduced, the framework for non-STS securitisation is characterised by a high level of conservatism. In fact, capital requirements on non-standard securitisation are still based on EIOPA's 2013 calibrations[190], i.e. in the aftermath of the Subprime and Great Financial Crises, and before Solvency II started to apply. Such a level of conservatism may no longer be justified in view of the much more robust legal framework and requirements applicable to securitisation investments. Prudential rules on non-STS securitisations remain largely more capital intensive than those applicable to STS securitisations, irrespective of the credit quality of the securitisation. In general, investments in non-STS securitisation require locking an amount of capital that is more than half the value of the investments. Many stakeholders provide this feedback in the context of the targeted consultation.

In addition, prudential rules for insurers do not differentiate between senior and non-senior tranches of non-STS securitisation, and as a result the existing framework can incentivise insurers to invest in the riskier junior non-STS category so as to obtain a higher return with the same capital charge as the one applicable to senior non-STS category. The framework is therefore biased towards most risky non-STS securitisations (compared with less risky ones) which might be detrimental to policyholder protection because unduly encouraging (or even 'prudentially rewarding') insurers to take more risk. Strong investor demand for senior tranches would incentivise more securitisation issuance, as argued in section 2.3, and therefore contribute to achieving the general objective.

5. What are the conclusions and lessons learned?

The Securitisation Framework has partly met its original objectives. The intervention has not fully achieved the general objective of reviving the securitisation market, although it has been successful in ensuring safe and high-quality securitisation practices on the part of issuers and investors.

Regarding the specific objectives, the Framework has been successful in supporting the standardisation of processes and practices in securitisation markets and partly tackled regulatory inconsistencies. However, it has only been partly successful in removing the stigma associated with securitisation, and in removing regulatory disadvantages for simple and transparent securitisations, despite the regulatory improvements put in place. Moreover, the Framework has not been successful in reducing high operational costs and in significantly scaling up the securitisation market in the EU. While the implementation of the Framework is considered

[190] See EIOPA's Technical Report on Standard Formula Design and Calibration for Certain Long-Term Investments: https://www.eiopa.europa.eu/consultations/standard-formula-design-and-calibration-certain-long-term-investments_en

somewhat cost-effective for the prudential aspects, its non-prudential elements have resulted in high costs for issuers and investors.

In the areas of transparency and due diligence requirements, the evaluation shows that very prescriptive legal requirements result in high operational costs for issuers and investors without necessarily advancing the policy objectives. A "catch-all" approach may be unsuited to the different needs of public and private investors, and a more principles-based approach would allow the achievement of the objectives in a more cost-efficient manner.

Investor stigma towards securitisation continues to be observed in the EU market, despite the robust credit performance and legal framework. However, all the necessary safeguards are in place to mitigate investor stigma, and a further improvement in investors' perception of securitisation in the EU is expected in the medium to long term.

The regulatory disadvantage for STS securitisations has been addressed but the existing bank prudential and liquidity rules still unduly disincentivise banks' participation in the securitisation market, both as originators and senior tranche investors for both STS and non-STS securitisations. Despite the strong historic performance of EU-originated securitisations and despite the safeguards that have been introduced in recent years, the prudential framework for banks is still insufficiently risk sensitive and capital 'non-neutrality' is disproportionately high for certain securitisation transactions. In addition, the rules governing significant risk transfer incorporate a number of structural flaws and can lead to complex and inconsistent supervisory processes and outcomes. Lastly, the strictness of the eligibility rules for securitisation in the LCR has reduced bank treasury demand for senior tranches of publicly offered securitisations, with a knock-on negative impact on the market liquidity for those securitisations.

To address undue prudential barriers for banks originating and investing in securitisations, a revision of the prudential treatment of securitisations is necessary. Any future amendments of the prudential treatment of securitisation transactions need to be effective, proportionate and well-targeted and strike a balance between safeguarding financial stability on the one hand and on the other hand supporting market development and reducing undue disincentives to banks' involvement in the securitisation markets.

The insurance prudential rules introduced under the evaluated Framework have failed to stimulate increased investment in STS securitisations, which continue to represent a minority of insurers' securitisation investments, despite their much lower capital requirements compared to non-STS ones. Greater investment by insurers in non-senior STS securitisations is not helped by low supply in current market conditions, where non-senior STS securitisations account for less than 20% of total outstanding placements.

The evaluation of the Securitisation Framework for insurers has highlighted several important lessons. First, the current framework can incentivise insurers to invest in riskier junior non-STS securitisations, which may undermine policyholder protection. To address this, a revision of the prudential treatment of non-STS securitisations is necessary. Second, the lack of differentiation between senior and non-senior tranches of non-STS securitisations in the SII framework creates

an inconsistency with banking regulations, which should be corrected for better alignment. Third, the overly conservative calibration of non-STS securitisations under SII, especially when compared to equity investments, indicates the need for a more balanced approach to risk assessment. Lastly, enhancing the risk sensitivity of non-STS securitisations emerges as the most effective solution to encourage securitisation while ensuring financial stability. This approach, coupled with modest adjustments to STS securitisation capital requirements, would foster insurers' investments in simpler securitisations and further support the EU's STS standard. To conclude, burden reduction and prudential costs should be reconsidered across the board, not just for STS securitisations, to create a more effective and equitable framework for insurers.

The evaluation concludes that the intervention is still relevant, but more is needed to ensure that securitisation can meaningfully contribute to improve the financing of the EU economy and further develop the Savings and Investment Union. Therefore, additional measures are needed to fulfil reach the general and specific objectives of the original intervention.

ANNEX VI: SECURITISATION PLATFORM(S)

Centralising securitisation issuance via a securitisation platform or platforms could offer another way to lower costs for the industry and make it easier and more attractive to participate in the securitisation market. The impact of a securitisation platform would vary depending on its scope, design and specific features, such as whether it includes public guarantees. Various reports presented different ideas[191].

From an issuer's perspective, a common platform could centralise securitisation issuance of a securitisation and thus reduce the costs per transaction (structuring and legal costs, etc.). This could facilitate access to the securitisation market for a broader range of market participants, such as small regional banks or lenders from Member States without an active securitisation market, for whom the cost and complexity of structuring a securitisation might constitute a significant barrier to entry. For established securitisation issuers, a common platform could offer a way to lower structuring costs thereby allowing them to access capital markets on more competitive terms.

From an investor's perspective, a platform can facilitate due diligence by offering a standardized set of products, with common features and risk characteristics. Thus, due diligence for repeat issuances would be simpler and quicker. In addition, for a platform with strict asset eligibility criteria, it is also possible to standardise elements of the credit risk analysis, which is one of the key elements of the due diligence process before investing in securitisation. A platform can also help to dispel any potential stigma against the product among market participants, in particular if the platform is a public or a quasi-public entity. Furthermore, a platform that offers a predictable issuance schedule with high volume can facilitate market liquidity.

Although a securitisation platform would not change the applicable rules in the Securitisation Framework, if effectively implemented, it could increase efficiency, lower costs, and improve investor confidence.

A platform can work at an EU-wide level, or it can be more targeted, at a regional or national level. An EU level platform could help integrate EU capital markets. The securitisations issued by such a platform could also serve as a safe asset if the platform is able to issue a sufficiently high volume of low-risk securitisations with common features[192]. A national or regional level platform would be more targeted to the needs of local market players and would be easier to implement from a technical and political standpoint.

Public guarantees could enhance the attractiveness of securitisation platforms by mitigating risks and encouraging private investment. These guarantees could be provided either at the national or supra-national level, targeting specific tranches within the securitisation structure, provided that such public support, if provided by Member States, can be structured in line with State aid rules. When applied to the senior tranche, guarantees act as a subsidy, ensuring that investors in the most

[191] For example, see Noyer's and TSI-KFW reports.

[192] For more details see the Noyer's report.

secure portion of the structure face minimal risk. Alternatively, guarantees for the mezzanine tranche serve a de-risking function, absorbing potential losses and thereby making the entire securitisation structure more appealing to private investors.

Challenges that impede the establishment of such platforms include: fragmented legal frameworks (differences in insolvency laws, contract law, and securitisation practices across the EU Member States), lack of standardisation in loan contracts, securitisation structures, and conditions and requirements that assets must meet to be included in a securitisation platform across jurisdictions. These differences complicate asset pooling and act as a drawback to raising investor confidence. Competition with existing instruments like covered bonds could also potentially limit the platform's utility. Additionally, high initial costs for infrastructure development and platform management and pricing and valuation disparities for assets from different jurisdictions, particularly in markets without secondary trading mechanisms would also be significant challenge.

Despite its potential, this policy option is not a preferred avenue for the short-medium term due to underlying challenges. Moreover, legislative action at the EU level is unnecessary to advance this initiative. A market-driven approach would be better suited to explore and refine this idea. This approach allows for flexibility and experimentation without imposing additional regulatory burdens across the EU.

Implementation of a securitisation platform or platforms should consider the interaction with the Securitisation Framework, including both prudential and non-prudential requirements.

ANNEX VII: Competitiveness Check

1 - Overview of impacts on competitiveness

Dimensions of Competitiveness	Impact of the initiative (++ / + / 0 / - / -- / n.a.)	References to sub-sections of the main report or annexes
Cost and price competitiveness	++	Sections 7.1; 7.4; Annex III, Section 2
International competitiveness	+	Sections 1.3; 5.1.1.8; Annex V, Section 3.2
Capacity to innovate	+	Annexes VIII, IX
SME competitiveness	+	Annex II, Section 1; Annex XIII ; Annex VI

2 - Synthetic assessment

The preferred option presented above has a positive impact on cost and price competitiveness, in that it entails a reduction in capital and compliance costs. The initiative will help European securitisation market participants to improve their cost competitiveness by addressing many of the identified undue barriers to securitisation issuance and investment in both the prudential and non-prudential domains. In particular, it will reduce the costs they will have to bear in complying with the due diligence and transparency requirements compared to the baseline scenario. It will also reduce prudential costs for banks and insurers. While the preferred option does imply some adjustment costs for existing issuers who may have to adapt their reporting systems, these costs should be limited in scale (as the new template would be significantly slimmer than the current set) and time duration. Moreover, any adjustment costs to the new prudential framework will be largely outweighed by the prudential benefits received. For instance, by lowering capital costs via the reduction in capital requirements, it can provide more possibilities for banks and insurers to invest in the real economy and offer higher returns (which could make the firm more attractive for investors and clients).

The initiative will similarly have a positive impact on international competitiveness, improving the competitive position of EU firms issuing or investing in securitisations with respect to non-EU competitors. Under the baseline scenario, the high operational costs place EU issuers and investors in securitisations at a competitive disadvantage relative to their international counterparts who are not subject to the same requirements of the EU framework. EU investors are subject to the same rules regardless of whether they invest in EU or non-EU securitisation, whereas non-EU investors investing in EU securitisations are not bound by the same rigorous requirements. Similarly, the rigid and burdensome EU Securitisation Framework has a knock-on indirect impact on market acceptance and pricing of European-originated securitisation instruments, which must adhere to EU rules. Adjustments to the legal framework to bring these rules more in line with standard international practice will bolster the price competitiveness of EU securitisation products internationally. In the same manner, a more risk-sensitive and less burdensome prudential framework should make EU banks and insurers more competitive internationally.

The initiative aims to stimulate a growing and vibrant EU securitisation market that will have a positive impact on the overall capacity to finance EU households and businesses. A more attractive securitisation market could facilitate access to risk capital and financing by freeing up additional lending capacity on the balance sheets of banks and other credit-granting institutions. This would allow economic innovators to access loans more cheaply and readily. This is particularly pertinent within the context of the twin green and digital transition, where billions in additional private risk capital are necessary to finance European innovation in pursuit of the EU's long-term climate and competitiveness goals.

The impact of the initiative will also positively impact SME competitiveness. SMEs can benefit from this initiative by being able to obtain loans more cheaply and readily thanks to the additional lending capacity on the balance sheets of banks and other credit-granting institutions facilitated by more securitisation activity (See Annex VIII).

ANNEX VIII: SME Test

1 - Identification of SMEs affected

The category of micro, small and medium-sized enterprises is defined by the European Commission as enterprises having fewer than 250 employees having either an annual turnover not exceeding EUR 50 million or a balance sheet total not exceeding EUR 43 million.[193] Representing 99% of all businesses in the EU, they are often termed the backbone of the European economy, contributing to job creation, economic growth, and innovation.[194] Although the Securitisation Framework does not specifically target SMEs, its measures will have some direct and mostly indirect impacts on them.

SMEs in general are not active in the securitisation market as either issuers or investors. However, they may benefit from the augmented lending capacity of banks or other financial firms generated by increased EU securitisation activity, or from more favourable and cheaper access to funding. We have also seen concrete cases where innovative companies have used securitisation to roll out ambitious projects (see Annex IX: Examples of impactful securitisation transactions, particularly Example 2: ENPAL).

SMEs constitute an important segment of business customers of credit institutions, insurance firms and asset managers, but SME loan exposures tend to be quite heterogeneous and higher risk than other asset classes. As such, SME loans have not been a popular asset class for securitisation. However, the reduction in operational costs for issuers and investors, improvements in due diligence and transparency, and greater risk sensitivity in prudential treatment of securitisation instruments that this initiative aims to introduce may incentivise greater securitisation across a wider scope of portfolios, including SME loans, and could also lower funding costs. 195

2 - Consultation of SME stakeholders

During the consultation procedure all stakeholders, including SMEs, were consulted and were given the opportunity to contribute their views on the development of this policy initiative. The result of all consultation activities is summarised in the Synopsis Report (Annex II). Of the 133 respondents to the targeted public consultation, 33 (25.2%) identified as "Small" (10 to 49

[193] Recommendation 2003/361.

[194] https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en

195 Concretely, as regards the prudential treatment, the introduction of the risk sensitive floor for senior tranches allows the capital requirements for securitisation to reflect the SME supported factor, embedded in the capital requirements for the underlying SME loans. This is currently not possible, because the current risk weight floor for senior tranches is flat and does not reflect the riskiness (capital requirements) of the underlying exposures. Also the reduction of the (p) factor should lead to lower capital requirements for securitisations, including of the securitisations of SME loans.

employees) and 17 (13%) identified as "Medium" (50 to 249 employees). The consultation also had a dedicated section on the topic of SMEs that inquired on how securitisation can support access to SME financing, and impediments to issue or invest in SME loan securitisations.

In general, respondents pointed out that SMEs have limited access to capital markets due to regulatory complexity, high costs, and poor data quality. Respondents from the industry suggested that simplifying the regulatory framework for securitisation could facilitate SMEs' access to capital markets, while others proposed more targeted changes, such as revising specific articles. However, consumer organisations highlighted the risk of focusing on the potential of securitisation to support SME financing. In their view, promoting securitisation rather than addressing the crucial integration of EU primary debt and equity markets would only entrench the dependence of SME corporates on banks. Increased financing for SMEs via securitisation might crowd out equity financing directly from the market. Instead, these respondents advocated the expansion of existing programs offered by the EIF and EIB.

3 - Impacts on SMEs

Securitisation can increase the amount of funding available to SMEs, diversify the sources of funding, and promote competition in SME lending[196].

SMEs can benefit from securitisation by better managing their liquidity by selling trade receivables to a programme of asset-backed commercial paper. Another example is the securitisation of pools of SME loans. Securitisation enables investors to invest in pools of SME loans, allowing SMEs to access capital market funding, and provides a means for investors to gain exposure to the real economy. According to AFME data, SME securitisations comprised around 12% of the total outstanding balance of securitisations in the EU in 2023 (see Table 5 below).

Table 5: Share of outstanding volume of securitisation of SME loans in public securitisations

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SME ABS	112.5	97.7	80.7	77.5	69.6	84.5	91.9	110.8	119.6	117.4
% of total	9.4%	8.7%	7.6%	7.5%	6.9%	8.4%	9.3%	11.0%	12.9%	12.3%

Note: The calculation of '% of total' excludes CLOs due to data quality issues

Source: AFME

Additionally, securitisation can lead to more stable funding for SMEs, as diversifying the sources of finance may make SMEs less vulnerable to banks' deleveraging in downturns, as capital market investors can provide an alternative source of funding. Furthermore, securitisation can promote the entry of 'challenger banks' and non-bank financial institutions into the SME lending market, increasing competition and potentially leading to better terms and conditions for SMEs. Overall, a

[196] Revitalizing Securitization for Small and Medium-Sized Enterprises in Europe - Euro Area; by Shekhar Aiyar, Ali Al-Eyd, Bergljot Barkbu, and Andreas A. Jobst, IMF Staff Discussion Notes No. 15/07, May 7, 2015

well-functioning SME securitisation market can have a positive impact on SME finance and the broader economy[197].

At EU level, the European Investment Fund has historically supported the SME securitisation market, with a focus in particular on the following asset classes: i) SME loans, ii) SME loan guarantees, iii) small ticket lease receivables, iv) SME trade receivables, v) venture financing and vi) micro loans.[198]

The overall distribution of potential costs and benefits of the proposal is analysed in Annex 3. It is impossible at this stage to quantitively estimate, with a reasonable degree of accuracy, the benefits accruing to the SME subgroup, due to the uncertainty as to direct and indirect benefits that would arise for SMEs.

In general, increased European securitisation activity is expected to give rise to significant benefits for capital market participants but the extent to which they materialise will depend on industry take-up and market willingness to issue and invest further in SME securitisation products. A reduction in operational costs brought about by the non-prudential simplification measures is expected to give rise to market improvements in terms of less burdensome and more cost-effective securitisation for all parties to the transaction, including SME credit holders and small banks.

All of the options presented in the Impact Assessment aim to reduce barriers to securitisation issuance and investment and will likely have indirect downstream positive benefits on SMEs through the positive impacts presented above.

4 - Options to mitigate any negative impacts on SMEs

We have not identified any material negative impacts from the proposed policy options on SMEs.

[197] British Business Bank Research Report, "Small and Medium Sized Enterprise Securitisation", May 2015.

[198] 'SME Securitisation – at a crossroads? ' eif_wp_31.pdf

Example 2: ***Enpal Launches Europe's First Public Residential Solar ABS Transaction, Raising EUR 240 Million***

In October 2024, Enpal, a German green-energy startup specialised in rooftop solar systems and heat pumps, sponsored Europe's first public residential solar ABS transaction. The EUR 240 million deal is backed by a portfolio of some 8,500 loans to German residential homeowners for solar power systems.

This transaction adheres to European Green Bond principles, is publicly rated, meets STS criteria under the Securitisation Regulation and its notes were sold to over 17 European investors. The transaction was led and structured and led by Citi as sole arranger, and the securitised notes were publicly traded and cleared on the Luxembourg Stock Exchange.

The EIB acted as an anchor investor with EUR 50 million. The EIF provided an additional EUR 50 embedded guarantee of the Class A1 notes. Investor demand for the deal greatly surpassed expectations, with tranches reportedly oversubscribed up to six times.

The tranching and pricing of Enpal's pioneering EUR 240m Green ABS transaction

Class	Size (€mm)	Expected Rating (Moody's/KBRA)	Spread
A1	50.0	[Aaa/AAA]	1m€+40bps
A2	149.2	[Aa3/AA-]	1m€+85bps
B	12.0	[A2/A-]	1m€+150bps
C	9.6	[Baa3/BBB]	1m€+230bps
D	4.8	[Ba2/BB+]	1m€+369bps
E	2.4	[B2/B+]	1m€+495bps
F	12.0	[NR/NR]	10.0%
R	5.2	[NR/NR]	N/A

Example 3: ***EIB-backed Santander transaction releases additional lending to Spanish SMEs and midcaps***

In May 2024, the EIB Group invested EUR 530 million in a Banco Santander securitisation operation. EUR 440 million of the EIB investment was in the senior tranche, which comprised almost 80% of the securitised structure. EUR 60 million was allocated to non-investment grade tranches.

In return, Santander agreed to originate double the amount of the EIB Group's original investment (EUR 1.2 billion) in new loans to Spanish SMEs and mid-caps, which are vital to driving economic growth and innovation.

The European Investment Fund contributed EUR 30 million, which is linked to the creation of an additional EUR 60 million loan portfolio by Santander. At least 50% of the loans in this portfolio will go to Spanish SMEs and mid-caps implementing projects in the areas of environment and climate action, energy efficiency and women's entrepreneurship. 30% of the new loans should target sustainable investments and 20% should aim at "gender-balanced financing", such as companies run by women entrepreneurs.

It is estimated that over half of the final beneficiaries of the agreement are in cohesion regions, where per capita income is below the EU average. In this way, the operation will promote fair growth and convergence between EU regions, a key objective of the EIB's lending

ANNEX X: COMPARISON OF SECURITISATION AND COVERED BONDS

(Traditional) securitisation is often compared with covered bonds, as they have some common features (they use the same type of underlying assets, in particular residential mortgages, and have similar objectives, both being used by banks as funding instruments i.e. instrument used as a source of funding).

There are also some structural differences resulting in different risk characteristics of both instruments and different levels of security provided to the investors.

In particular, the covered bonds are characterised by the so-called 'dual recourse', i.e. two lines of recourse that are activated sequentially, first toward the issuer (the bank) and second, once the bank has defaulted, toward the cash flows generated by the underlying assets (i.e. mortgages). The dual recourse feature provides better alignment of the incentives between the originator and the investor, compared to the more limited recourse in case of securitisations. Should the bank default on its obligations, investors have recourse to the pool of underlying assets, which increases the security for the investor and ensures a stable flow of payments to the investors. Securitisation is intended to be delinked from the repayment capability of the bank, and liabilities are expected to be met principally by the cash flows generated from the segregated underlying assets. Any losses beyond these are to be borne by the investors.

Covered bond is a pure funding tool and does not allow to transfer the risk out of the balance sheet of the issuer (while securitisation allows this, thereby freeing up banks' balance sheet capacity). Covered bonds are no substitute for securitisation in this regard as the credit risk of the loan pool covered by a covered bond remains on issuing bank's balance sheet, and hence, no additional capacity to make new loans is generated. Covered bonds are therefore only comparable with traditional securitisation (the funding function of it), and not with synthetic securitisation (which has no funding function). Covered bonds are also more easily structured than securitisation.

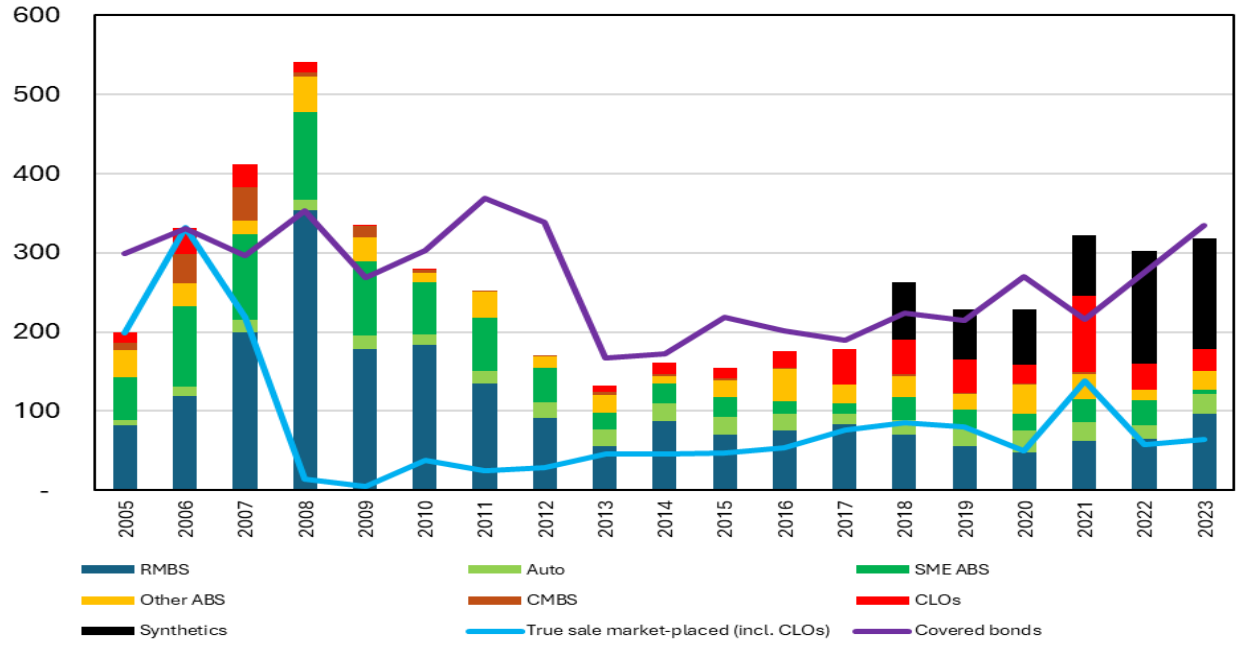
While covered bonds play an important role in bank funding, an over-reliance on them leads to higher asset encumbrance and restricts further the banks' flexibility to manage their balance sheets. Instead, encouraging a more balanced funding mix, including securitisation, would help improve capital efficiency and support a deeper and more integrated European capital market.

In terms of market and regulatory developments, covered bonds have been historically preferred by both regulators and market participants. Banks often favour the use of covered bonds for their funding purposes, which are generally subject to less stringent regulatory requirements in terms of disclosure, due diligence, capital, resolution and liquidity. For example, covered bonds are subject to much less stringent regulatory disclosure and due diligence requirements (e.g. only portfolio level disclosure is required for covered bonds, in contrast to loan level disclosure required for securitisations). Also, covered bonds are exempted from the scope of the bail-in instrument in the resolution framework (securitisations are not) and are eligible under Level 1, 2A and 2B of liquid assets in the LCR (securitisations are eligible under Level 2B liquid assets). In terms of capital requirements, the bank investor in premium covered bonds treated as CQS1 (AAA and AA) can apply a risk weight of 10% to their covered bonds investment under the Standardised Approach, which is comparable to the risk weights applied to an exposure to a senior tranche of a STS

securitisation under the Standardised Approach (where the framework allows the 10% risk weight floor). 'Real' risk weights for senior tranches can be higher than the risk weight floors. Also, the minimum risk weight for senior tranches for non-STS securitisations are 15% or higher (e.g. can also reach 75%). The risk weights for mezzanine tranches are significantly higher (for example they can be around 800% higher). The risk weight for a first loss tranche is normally 1250% (i.e. full capitalisation).

As shown in the figure 1 below, covered bonds issuance has been increasing, while issuance of RMBS (traditional securitisation using residential mortgages as underlying assets) is substantially lower than in pre-GFC period. Overall, between end-2007 and end 2023, the RMBS issuance decreased by half from EUR 199 bn to EUR 97 bn, while the issuance of covered bonds has increased from EUR 296 bn to EUR 334 bn during the same period.

Figure 1: Issuance of Euro-area traditional and synthetic securitisation, and of covered bonds (EUR bn notional)



Source: JP Morgan, Bloomberg Finance L.P., ECB Banking Supervision, European Covered Bond Council and ECB calculations. Notes: CLO issuance refers to EU ex United Kingdom. Synthetic securitisation issuance refers to issuance by significant institutions supervised by the ECB; available data start in 2018.

Securitisation and covered bonds are used by banks as complementary tools. Currently, as mentioned above, banks use covered bonds for secured funding, while they use synthetic securitisations for risk transfer and regulatory capital relief. Traditional securitisation has ceded the place to synthetic securitisation as tool for risk transfer.

All in all, any comparison between these two instruments should therefore take into account both the similarities as well as structural differences of both instruments, among other considerations. It is difficult to assess the impact of the proposed changes to the securitisation framework on the covered bonds market (and is also outside of the scope of this exercise). Removal of regulatory barriers for securitisation is expected to raise the attractiveness of the securitisation instrument for

both issuers and investors; however concrete impact on the issuer and investor preferences and final issuance and investment volumes is difficult to predict. The issuance of securitisation also does not need to happen necessarily at the expense of covered bonds, as these are just two instruments out of several that banks can use for their funding purposes. Finally, it should be noted that an assessment of the EU covered bond framework is subject to a separate exercise; the Commission addressed a call for advice to the EBA to assess the performance of the EU covered bond framework and invited the EBA to provide its response in June 2025.

ANNEX XI: FURTHER DETAILS ON THE ASSESSMENT OF IMPACT OF INSURANCE OPTIONS

1 - Detailed assessment of stakeholder impact

In all three options for insurance, the direct beneficiaries would be insurance companies, as they would be subject to less demanding capital requirements. The extent of such a benefit depends on the level of alleviation of capital requirements. The most favourable scenario for insurers would be Option 3.3, which would result in both the highest decrease in capital requirements (compared with the current rules) and the widest scope of securitisations concerned (all of them). The difference between Options 3.1 and 3.2 is more difficult to quantify as according to EIOPA, there is no available data on the split between senior and non-senior non-STS holdings by insurers that could further substantiate the analysis.

- If insurers mainly hold senior non-STS securitisations, then Option 3.2 is more favourable than Option 3.1 (as the capital relief on such investments is more significant);

- If insurers mainly hold non-senior non-STS securitisations, then Option 3.1 is more favourable than Option 3.2 (as there would be lower capital requirements on such investments under Option 3.1, whereas there would not be any under Option 3.2.).

Depending on the way they use this 'capital relief', there might be additional beneficiaries:

- If insurers decide to leverage on the capital relief by increasing investments in securitisation, this would be likely based on the expectations of higher return on investments. Banks would also enjoy a more significant investor base (demand) for their supply of securitisation. This would mean more opportunities to transfer credit risk to markets through origination of securitisation, and ultimately stronger ability to provide financing mainly to households and businesses. This would achieve the second specific objectives of this initiative and could stimulate loan origination. Under Options 3.1 and 3.2 (focused on non-STS investments), loan origination would likely benefit mainly corporate borrowers whereas under Option 3.3 (which covers both STS and non-STS investments), loan origination would also benefit household borrowers[199].

- If insurers use the capital relief to invest in other assets than securitisation, depending on the asset class concerned, this might also support the long-term financing of the economy (e.g. more equity investments). Therefore, businesses may eventually benefit from any of the three options even if insurers do not increase their investments in securitisation. If insurers decide to opportunistically proceed to ad-hoc dividend distributions as an outcome of any of the three options, shareholders of insurance companies (very diverse) would be ultimately benefiting from any of the Options. There would be no contribution to reviving securitisation and insurers would be less financially robust (due to the depletion of capital), implying greater risk (of

[199] The underlying assets of STS securitisations include indeed residential mortgage loans, credit card and auto receivables. The underlying assets of non-STS securitisations include mainly corporate-type assets.

insolvency) for policyholders and higher financial stability risks, though moderate in view of the current very low level of insurers' holdings of securitisation investments[200].

Regarding policyholders, if insurers use the capital relief to either remunerate shareholders or increase investments in securitisation, this would imply a lower level of protection for the same or higher level of risk taken by insurance companies (i.e. higher risk of insurance failure – though remaining moderate). This risk would be all the more likely when the capital relief is significant (i.e. more significant under Option 3.3). Note that Option 3.2 is the option with the fewest downsides for policyholder protection. Indeed, by only decreasing capital requirements for senior tranches (i.e. the tranches with lower risks), Option 3.2 would remove the existing incentive for 'excessive' risk taking by insurers (current rules apply the same capital requirements for both senior and non-senior non-STS securitisations, which can incentivise insurers to invest in the lower-ranking tranches as they would likely provide higher returns for the same level of capital requirements). In the specific case of life insurers, the higher risk taking may eventually also benefit policyholders, as any higher return on insurers' investment portfolio would have to be (partly) shared with policyholders (so-called 'profit participation'). In other terms, life policyholders, while being exposed to some higher risk of insolvency of their insurer, could also get better return on their savings.

The effect of the options on supervisors depends on the extent of capital relief, and the robustness of the technical basis supporting the changes implied by each of the three options. Indeed, any lowering of capital requirements for the same level of actual risks which is not sufficiently backed by strong technical basis means that supervisors' ability to exercise their prerogatives in accordance with their mandate would be more constrained (i.e. lower ability to intervene timely in case of deteriorating financial position) – all else equal[201]. The next sub-sections will illustrate that supervisors would be the worst off under Option 3.3. On the contrary they would be less affected under Option 3.2 where changes are driven by improvements to risk sensitivity.

2 - Detailed discussion of implementation costs

As explained above, Option 3.1 is very simple to implement. Options 3.2 and 3.3 require some additional updates to IT systems.

- Option 3.2 would require introducing additional inputs to calculate capital requirements which would also have to be reported to supervisors, as insurers would be required to differentiate between senior and non-senior tranches of non-STS securitisations.

[200] NB: there is no general provision in SII allowing supervisors to block dividend distributions where capital requirements are met. Such powers are only available under exceptional sector-wide shocks (like the Covid-19 crisis) to protect policyholders of companies which present a vulnerable risk profile

[201] A simple example can make it more concrete. Assume that under current rules, the solvency capital requirement of a company is 100. This means that where insurers' own funds fall below this value, supervisors can take supervisory measures so that insurers restore compliance with capital requirements and avoid insolvency. If, as an outcome of Option 1, the solvency capital requirement becomes 95, this means that a supervisor would not be able to require an increase of own funds where their value falls down to e.g. 97. Under Option 1, supervisors would only be able to intervene one own funds fall below 95, i.e. a situation where the depletion of own funds is more severe than now.

- Option 3.3 would require changing the classification of capital requirements securitisations from market risk to counterparty default risk, but the type of change implied is expected to be relatively seamless (and therefore not costly).

For this reason, the one-off administrative (implementation) costs are expected to be limited for all three options. Option 3.2 would generate an additional permanent administrative cost as insurers would have to consistently monitor and differentiate their exposures to senior and non-senior tranches of non-STS securitisations. However, this information is actually expected to be already monitored by insurers as part of their own investment management policies and strategies.

Similarly, the digital supervisory tools used by national authorities would have to be adapted to reflect the described changes. Those costs are expected to be negligible in the long-term.

Therefore, overall, implementation costs for all three options would be moderate (Option 3.1 would be the least costly and Option 3.2 the costliest) and would likely be expressed in million or tens of million euros for the whole market, which would be significantly lower than the capital benefit (lower capital requirements) which is of several billion euros. Therefore, such costs do not appear to be the decisive factor when assessing the preferred option and this is confirmed by stakeholders as part of the Commission services' consultation activities.

ANNEX XII: COMPARISON OF DUE DILIGENCE AND TRANSPARENCY REQUIREMENTS

Table 1: Comparison of due diligence requirements for selected entities when investing in selected products

Due Diligence Requirements for AIFMs		
	Other instruments (covered bonds, funds of funds, high yield bonds, etc.)	Securitisation
Verification requirements	No explicit verification requirements for issuer compliance with sectoral legislation of the issuer. Legal basis: Article 15(2) and (3) of AIFMD. Complemented by delegated acts: Art. 18, 19 of AIFMR Other verification requirements do apply on market risk, liquidity risk, operational risk. They also ensure that investment decisions on behalf of the AIFs are carried out in compliance with the objectives, the investment strategy and, where applicable, the risk limits of the AIF.	Legal basis: Article 5(1) and 5(3) SECR Detailed provisions which require investors to ensure that securitisation rules are complied with regard to credit granting, risk retention, disclosure and STS compliance
Assessment of the risks involved	Legal basis: Article 15 AIFMD, and Articles 18 and 45 AIFMR Risk assessment required. Effective arrangements required to ensure that investment decisions on behalf of the AIFs are carried out in compliance with the objectives, the investment strategy and, where applicable, the risk limits of the AIF AIFMs must identify, measure, manage, and monitor risks to which their AIFs are exposed., and ensure compliance with limits.	Legal basis: In addition to Article 15 AIFMD, Article 5(3), and Article 18 AIFMR SECR also applies Risk assessment required (detailed). Investors are asked to assess the risk characteristics and structural features (including the contractual priorities of payment and priority of payment related triggers, credit enhancements, liquidity enhancements, market value triggers, and transaction-specific definitions of default).
Establish appropriate written procedures	Legal basis: Article 12(1)(c) AIFMD	Legal basis: In addition to Article 12(1)(c) AIFMD,

	AIFMs shall have detailed procedures to cover all of their activities, including due diligence.	Article 5(4a) SECR also applies Written procedures required. These written procedures include detailed monitoring of the performance of the underlying exposures and the securitisation position (monitoring of the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, recovery rates, repurchases, loan modifications, payment holidays, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis).
Regularly perform stress tests	Legal basis: Article 15(3)(b) provides that AIFMs should ensure that the risks associated with each investment position of the AIF and their overall effect on the AIF's portfolio can be properly identified, measured, managed and monitored on an ongoing basis, including through the use of appropriate stress testing procedures.	Legal basis: In addition to Article 15 AIFMD, Article 5(4b) SECR also applies Required for all securitisations.
Internal reporting to management body so that the management is aware of the material risks posed by the investment position	Legal basis: Art. 7(2)(a), 15 of AIFMD, complemented by Art. 38 to 45 and 60 of AIFMR. Ultimately, the management body of the AIFM is responsible and validate the set of limits, within which AIFs will be managed. They designate the persons in charge of	Legal basis: In addition to the general provisions under the AIFMD, Article 5(4d) SECR also applies. Required.

	conducting the activity. On a day-to-day basis, decisions are taken in line with the limits sets by the management body. There is also an independent oversight by the depositary of the fund and the compliance function.	
Demonstrate understanding of risks and processes to NCAs (upon request)	Legal basis: Art. 7, 8, 18 and 46 of AIFMD, complemented Article 18(2), 21(a), 47(1)(d) in AIFMR General authorisation provisions apply. NCAs monitor compliance with AIFMD on an ongoing manner (they can ask for any relevant piece of evidence/information).	Legal basis: In addition to the general authorisation and monitoring provisions under the AIFMD, Article 5(4d and f) SECR also applies. Required.
Due Diligence Requirements for Insurers		
Verification requirements	None	Legal basis: Article 5(1) and 5(3) SECR For credit granting, risk retention, disclosure and STS compliance.
Assessment of the risks involved	Legal basis: Article 132 Solvency II Directive and Article 275a Solvency II Delegated Act Risk assessment required (principles based)	Legal basis: In addition to Article 132 Solvency II, Article 5(3) SECR also applies Risk assessment required (detailed). Investors are asked to assess the risk characteristics and structural features (including the contractual priorities of payment and priority of payment related triggers, credit enhancements, liquidity enhancements, market value triggers, and transaction-specific definitions of default).
Establish appropriate written procedures	Legal basis: Articles 41(3) and 44(2) Solvency II Directive Written procedures for risk management (which includes investment) are required.	Legal basis: In addition to Article 41(3) and 44(2) Solvency II Directive, Article 5(4a) SECR also applies. The establishment of specific written procedures to carry out

		due diligence for securitisations is required. These written procedures include detailed monitoring of the performance of the underlying exposures and the securitisation position (monitoring of the exposure type, the percentage of loans more than 30, 60 and 90 days past due, default rates, prepayment rates, loans in foreclosure, recovery rates, repurchases, loan modifications, payment holidays, collateral type and occupancy, and frequency distribution of credit scores or other measures of credit worthiness across underlying exposures, industry and geographical diversification, frequency distribution of loan to value ratios with band widths that facilitate adequate sensitivity analysis).
Regularly perform stress tests	Legal basis: Article 45 Solvency II Directive General requirement under the Own Risk and Solvency Assessment Applies (ORSA) but there is no specific requirement for any asset categories. The stress test is for the balance sheet as a whole, not a specific portfolio of instruments.	Legal basis: In addition to Article 45 Solvency II Directive, Article 5(4b) SECR also applies Stress tests must be performed regularly for all securitisations
Internal reporting to management body so that the management is aware of the material risks posed by the investment position	None	Legal basis: Article 5(4d) Required.

Demonstrate understanding of risks and processes to NCAs (upon request)	Legal basis: Article 35-36 Solvency II Directive. Requirement is part of the general powers of supervision but not specific for any asset classes.	Legal basis: Article 35-36 of Solvency II. In addition, Article 5(4d and f) SECR also applies. Required.

Table 2: Comparison of disclosure requirements for structured finance products for funding

	Securitisation	Covered bonds
Legal basis	Article 7 SECR and Commission Delegated Regulation 2020/1224	Article 14 of the Covered Bonds Directive (Directive (EU) 2019/2162) - follows a principle-based approach to disclosure
Information on underlying exposures	Yes	No, only portfolio level information is required, with an aggregate view on the pool of the underlying exposures
Underlying documentation	All underlying documentation, including where relevant the STS notification; If no prospectus has been drawn up, i.e. for private securitisations – a summary of the main features.	No underlying documentation is required to be disclosed.
Updates	Quarterly investor reports (monthly for short-term ABCPs); Quarterly inside information reports (monthly for short-term ABCPs);	At least on a quarterly basis
Format	Prescribed templates in .xlm format in a Commission Delegated Regulation.	No prescribed format. The Directive sets out in the Article 14 a high-level list of areas/types of information that need to be provided to investors.
Method of disclosure	For public securitisations – via securitisation repositories. No prescribed disclosure method for private securitisations.	The information needs to be published on the website of the credit institution issuing the covered bond.