PIIE FINANCIAL STATEMENTS

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DO EU REGULATIONS UNDULY PENALISE SECURITIZATION ?

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SECURITISATION: A HIGH STAKE FOR THE EUROSYSTEM

- As a central bank and supervisor, Banque de France pays a particular attention to ABS:

- ABS play a prominent role in the Eurosystem collateral framework: **19% of mobilised assets** as of Q2 2024, while they only represent 3% of the marketable asset eligible universe
- Asset purchase programs: while the ABS Purchase Programme (ABSPP) was discontinued in July 2023, the current ABS holdings amount to 8.5bn as of August 2024

- Additionally, we know that ABS act as a very useful financing tool for the real economy and for the transition

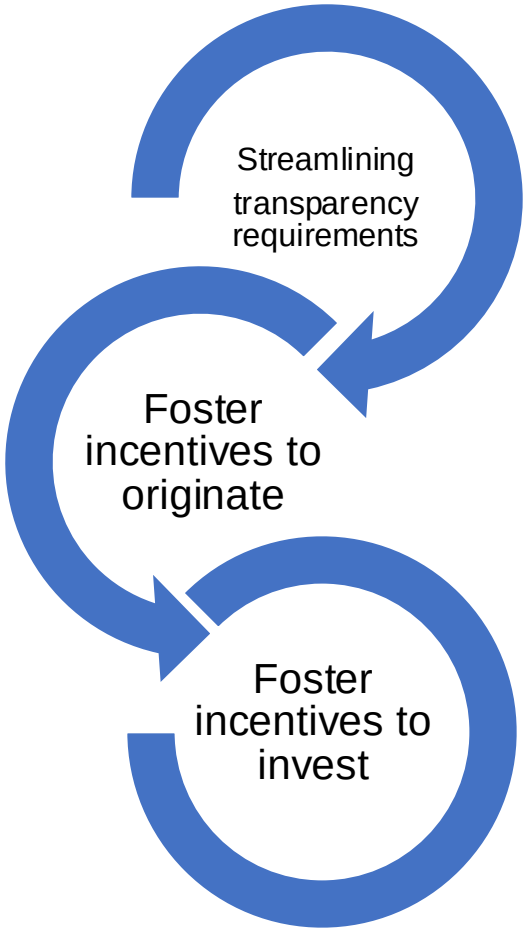
- **High investment needs for the transition**: EUR 620 bn additional annual investment
- **High potential for additional funding through securitisation:** If 20% of the balance sheet of the six largest French banks were securitised, this could free up €2,000 bn of funding, (≈ 13% of EU GDP).

- Despite an improving risk/return ratio in the current interest rate environment, several obstacles are still hindering the securitisation market development

- Cumbersome transparency and reporting requirements
- Penalising prudential treatment
- Lack of standardisation
- Strong European covered bond market

THE REGULATORY TREATMENT (PRUDENTIAL AND GENERAL)

A MATTER OF PRIORITY TO RESTORE INCENTIVES BOTH TO SECURITISE AND INVEST IN SECURITISATION TRANSACTIONS



Policy goal: ensure more balance between the reporting burden on issuers and the provision of information to supervisors and investors (considering development costs associated with a review, granularity of needed data), while allowing for an assessment of climate-related risks.
Possible lever: simplification of the templates when feasible, and inclusion of additional risk indicators related to climate change

Policy goal: restore incentives for originators to securitise, currently detterred by risk weight floors not sensitive enough and cumbersome processes (SRT recognition).
Possible levers: review the way risk weight floors are expressed (possibly making these sensitive to one – or several – underlying risk drivers of the transaction), and streamline the SRT supervisory process

Policy goal *(i)* ensure a fair and accurate, non-punitive liquidity treatment of banks' investments in third party securitisations.
Possible lever: improve the liquidity treatment of securitisation transactions (especially, in terms of haircuts applied to STS securitisation positions)
Policy goal *(ii)* address intensity and proportionality of the capital frameworks through improving sensitivity of the capital charges to the underlying risk drivers
Possible lever: review the granularity of Solvency II shocks, introducing more distinctions between tranches based on their seniority, and review the level of the shocks

IN THE CONTEXT OF CMU, STANDARDISATION VIA A PLATFORM, COULD ALSO BE A TRANSFORMATIVE LEVER

- **Platforms for issuing and guaranteeing mortgage-backed securities are long-established in the US, Canada and Japan**

- Agency MBS account for the bulk of US issuances (over 80% in 2022)
- Since 2019, Fanny Mae account for 54% of total US issuances of green securitisations
- In Canada, annual public issuances represents 22% of the annual volume of residential mortgages

- **European decision makers should reflect on this and explore the idea of a common platform, i.e. a European public body responsible for organising securitisation issuances**

- Main advantages: standardization of the market, generate economies of scale and broaden the investor base, especially for banks located in less developed financial centres.
- Main hurdles/questions: need to harmonize law, question of a public guarantee, etc.

- **As a first step, this platform could be aimed at fostering standardisation of green securitisation products, insofar as the priority must be given to the effective financing of investment needs for the green transition**

- Such public green securisations could use the EuGB label to initiate a first stage of standardization of the securities
- The label is based on the use-of-proceeds principle, which means that at least 85% of the proceeds from the sale of loans must be used to finance activities that comply with the European Taxonomy.
- Public guarantee for Eu-GB-labelled securitisations