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European Supervisory Authorities Publish Joint Advice on the Review of the Securitisation Prudential Framework



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On 12 December 2022, the three European Supervisory Authorities (“EBA,” “EIOPA” and “ESMA”) published a joint advice on the review of the securitisation prudential framework.

The advice consists of two parts:

Review of the Securitisation Prudential Framework for Banks

The ESAs make the following recommendations in respect of the securitisation prudential framework for banks:

1. some technical quick fixes aimed at improving consistency and clarity in the framework (including carving out the tranches risk weighted 12.5% from the calculation of the overall cap for securitisation; and the treatment of specific credit risk adjustments for the purpose of calculating the exposure value of securitisation positions retained by originators);
2. a targeted recommendation recognising the reduced model and agency risk associated with originators through a reduction in the risk weight floor applicable to senior tranches retained by originators in certain “resilient” securitisation transactions which satisfy a set of eligibility criteria; and
3. general issues on the securitisation risk weight formulas that underpin the framework but noting that further work is required to be done by the EBA in this regard.

As regards the liquidity framework for banks, the ESAs consider that the current framework should be kept as it currently stands. The advice concludes that recalibrating the securitisation capital framework for banks would not be a solution that would ensure the revival of the securitisation market and that any changes to the capital framework may have a limited impact because investor demand may remain subdued in the foreseeable future.

Review of the Securitisation Framework in Solvency II Applicable to (Re)Insurers

The advice notes that relatively few EU insurers/reinsurers invest in securitisations and that the change in capital weightings for STS securitisations effected in 2019 has only marginally increased investment by EU insurers/reinsurers in securitisations. The advice concludes that there is insufficient evidence to conclude that the current Solvency II capital framework is not fit for purpose and, as such, no changes are proposed.
