

## Europe Proposes Relaxations for Liquidity Buffers Including Securitisation Positions

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The European Commission has published a draft Regulation amending Delegated Regulation (EU) 2015/61 on the eligibility conditions for securitisations in the liquidity buffer of credit institutions (the “Draft”).

The draft looks at requirements applied to banks to maintain a Liquidity Coverage Ratio (“LCR”) made up of High Quality Liquid Assets (“HQLA”) that form a buffer to meet a credit institution’s short term liquidity needs. The LCR has always allowed that certain securitisations may be treated as eligible HQLA to form part of the composition of the LCR, being senior tranches of high-quality (i.e. simple, transparent and standardised or “STS” transactions). Such securitisations, along with other Level 2B HQLA (level 2B assets, which along with level 2A assets are ‘level 2 assets’, are assets of high liquidity and credit quality as described in the Capital Requirements Regulation, can amount to up to 15% of a bank’s liquidity buffer, but take up by banks on deploying qualifying securitisations in this way has been very low.

As part of the efforts to improve market share for EU-issued securitisations, the Draft is consulting on the following, among other measures:

- To mitigate cliff-edge risks triggered by credit rating downgrades the EU proposes to increase the eligibility of senior tranches of STS traditional securitisations with credit quality CQS5 to CQS7;
- While maintaining all other eligibility conditions for credit institutions’ liquidity buffers, apply a haircut of 50% to securitisations with CQS5 to CQS7. As a result, senior tranches of STS traditional securitisations with CQS5 to CQS7 will be eligible as Level 2B HQLA, in addition to those with CQS1 to CQS4, but with a higher haircut;
- In order to encourage more long term financing, Europe is proposing the removal of the EU-specific requirement for securitisations eligible for the liquidity buffer to have a remaining weighted average life of five years or less.

Comments are due by 15 July 2025.