REGULATION

Robust securitisation markets

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Policy options to transform securitisation in the EU

As previously announced in April, the Bank of England (BoE) and the European Central Bank (ECB) have jointly issued a discussion paper **on possible ways to achieve a better functioning securitisation market in the European Union, which could complement other long-term wholesale funding sources for the real economy. The discussion paper provides a more in-depth analysis of the potential benefits and current hurdles, flagged in the joint paper previously released, and goes into detail on the possible policy options that authorities could consider to overcome the current shortcomings. Comments are welcome until 4 July.**

Revitalise a robust securitisation market

- **Authorities should get involved.** Initially to decide and apply the appropriate policies, to lend credibility and to maximise the potential benefits of this indirect funding channel, and then on a permanent basis, to help prevent the emergence of practices that do not adhere to standards conducive to financial stability.
- **Desirable properties of robust securitisation markets** include a stable investor base, i.e. not excessively leveraged or dependent on short term funding. Equally, securitised assets should be linked to the real economy, and simple and transparent structures should be used in order to facilitate the risk assessment of interested parties and to minimise model risks.

Policy options to be discussed

- **Define "qualifying securitisations".** Development of high-level principles to be **applied to an entire transaction**, and not only to individual tranches, to identify ABSs that are simple, structurally robust and transparent. This standardisation would promote improved secondary market liquidity.
- **Revise regulatory treatment.** "Qualifying securitisations" could deserve preferential treatment in relation to regulatory capital treatment, haircuts applied in central bank liquidity operations and other regulations, in order to promote the right incentives for investors and originators.
- **Further harmonisation across the EU of data availability and standardisation of disclosures.** Development of **credit registers** that provide details of loan performance beyond those assets backing securitisation would provide additional transparency. This could be important for SME loans, helping investors to develop their own credit models.
- Development of **benchmark indices** of borrower, loan and tranche performance, to assist issuers in structuring transactions and investors in assessing risk.
- **Credit rating agencies to publish additional information** to complement the overall rating, to allow investors greater understanding of the impact of sovereign and ancillary facilities (swaps, bank accounts) and rating caps on ABS ratings.
- Possibility of **securitisation vehicles accessing bank accounts that fall outside the account provider's insolvency estate** to support the provision of ancillary facilities.

Preliminary assessment

- **Positive contribution to the path initiated by the European Commission**, and announced in its communiqué of 27 March on Long-Term Financing, that recognised the important role to be played by high quality securitisation as a key instrument in reviving funding to the real economy and, particularly, to SMEs.
- **The short period envisaged for comments**, even if demanding for the parties involved, is positive as it allows fast decision-making on the most appropriate policy actions.