

Evaluation of the Effects of the G20 Financial Regulatory Reforms on Securitisation: Consultation report

Response to Consultation

Dutch Securitisation Association

- 1. Preliminary findings: Does the report draw the appropriate inferences about the extent to which the securitisation reforms have achieved their objectives? Is there other evidence on the effects of the reforms to complement the preliminary findings of the report?**

As suggested by the report, risk retention rules and prudential regulations have certainly contributed to the objective of improving financial stability.

This may have come, especially for the prudential regulation, at the cost of not achieving a revival of the securitisation market, especially in the EU

- 2. Analytical approach: Are the descriptive analyses used to evaluate the effects of the securitisation reforms appropriate? Are there other such analyses to consider? What types of empirical analysis based on available data could inform the evaluation?**

The descriptive analysis is very valuable and we share many of the conclusions. Also most of available data sources seem to have been used.

We have however some problems with the overall analytical approach:

-Products: while financial products like CDOs, CLOs and CMBS are usually included in the universe of securitisations, they are very specific products, with their own merits and with characteristics (managed portfolio's, refinancing risk) that are not in line with "traditional" securitisation. So an analysis strictly focusing on traditional/STC type securitisations (RMBS, ABS, ABCP, synthetics) would have been more appropriate in our view.

And while we strongly support the decision to exclude agency-MBS (being a completely different product) from the RMBS analysis, we are surprised that retained and distributed RMBS is lumped together in the analysis.

-Jurisdictions: as the report describes in detail, there are many jurisdiction specific regulations (regarding securitisation, lending practices, Covered Bonds) and different Central Bank policies etc. that complicate an analysis on a global basis. So jurisdictional differences could be taken more into account when assessing the impact of the G20 reforms.

3. Trends: Are the securitisation market trends presented in this report adequate given the scope of the evaluation? Are there other important trends that should be included and, if so, what additional data sources could be used for this purpose?

Most of the trends as indicated are indeed accurate. But the actual volumes in the EU/UK are heavily biased by including retained paper in the data.

We have a few comments on Table 1:

EU: ABCP is also a main asset class in the EU, but not mentioned; and the 3.8% of private credit is incl. retained which in our view should be excluded.

UK: 30% (of private) ABCP is a surprisingly high percentage (includes perhaps EU ABCP ?); and the 5.1% of private credit again contains a lot of retained.

4. Relevant reforms: Does the report appropriately describe the key aspects of the design and jurisdictional implementation of the BCBS and IOSCO reforms for analysing their impact on securitisation markets? Are there other important aspects of these reforms that should be considered for inclusion?

On the jurisdictional implementation, the report mentions that there are “some divergences in key jurisdictions”, here we would have preferred to use the words “many divergences”.

Just as an example, take STC, implemented in the EU and UK as STS with much more detail than STC requires, not implemented in the US and Australia, present in Japan but only for domestic purposes etc.

Similar divergences apply for (the hierarchy) of approaches, the disclosure (repository) requirements, due diligence requirements for investors etc.

These divergences make it difficult to assess the securitisation market on a global basis. In our view, the relevant question is not “how did global securitisation react on the reforms”, but “how could the reforms have such a completely different impact in different jurisdictions”.

5. Other reforms: Does the report accurately identify other G20 and domestic financial reforms that are most relevant for securitisation markets? Are there other reforms that should be considered in terms of their impact on market participants?

The description seems rather complete.

One area to be considered is ESG (disclosure) where jurisdictions all go their own way in developing taxonomies and regulations with severe punishments for greenwashing further hampering the application

6. Conceptual framework: Does the report adequately explain the objectives, transmission channels and expected outcomes of the securitisation reforms? What other metrics to assess the impact of the reforms should be considered?

Within the (limited) scope of the report, the securitisation reforms regarding retention and prudential treatment are properly described.

Not being in scope, the calibration of securitisation risks weights is obviously missing, although box 3 refers to the intentions (and associated problems) of the ESAs and the PRA to increase the risk sensitivity of the framework.

Similar work in terms of calibration should be done on Solvency II and the LCR in order to create the appropriate risk sensitivity for the securitisation market.

7. Resilience metrics for the CLO market: Does the report accurately describe the evolution of resilience indicators for the CLO market? To what extent can the evolution of these indicators be attributed to the reforms?

The Dutch Securitisation Association (DSA) is not covering the CLO market, so we abstain from answering this question.

8. Risk retention in CLOs: Does the report accurately describe risk retention practices in the CLO market before and after the reforms? What additional analysis could be included to assess the effectiveness of risk retention in CLOs across FSB jurisdictions, including on how financing of risk retention deals by third party investors impacts effectiveness?

The Dutch Securitisation Association (DSA) is not covering the CLO market, so we abstain from answering this question.

9. Resilience metrics for the non-agency RMBS market: Does the report accurately describe the evolution of resilience indicators for the RMBS market? To what extent can the evolution of these indicators be attributed to the reforms?

We generally subscribe to the analysis of the resilience of the RMBS market with a few comments:

-not only interest rate levels, but also the relative share and length of fixed rate

vs floating rate mortgages impacts the resilience.

-high concentrations are in our view not so much a vulnerability, but rather

a reflection of the fact that some banks use securitisations, and other ones

Covered Bonds or other products as main source of collateral; as we see in

the Netherlands, banks can easily switch from RMBS to Covered Bonds as collateral.

The reforms may have had an impact on resilience to the extent that transparency has increased (loan-level-data in Europe) and underwriting standards have been strengthened.

10. Risk retention in RMBS: Does the report accurately describe risk retention practices in the RMBS market before and after the reforms? What additional analyses could be included to assess the effectiveness of risk retention in RMBS across FSB jurisdictions?

The description of risk retention practices seems accurate.

While risk retention levels of 5% may be appropriate for most asset classes, for prime RMBS it is generally seen as excessive.

In Europe risk retention was already applied before the GFC, so the impact of codifying it has been limited.

11. Effectiveness of BCBS securitisation reforms: Does the report accurately describe the changes in bank behaviour following the implementation of the BCBS securitisation framework reforms? To what extent can the effects of these reforms be disentangled from the broader Basel III framework, other reforms and confounding factors?

Although risk retention and stricter underwriting have had a positive impact on bank behavior, other measures like the bans on -re-securitisation and CDO squared, the elimination of SIVs, full liquidity support for ABCP, STC being not available to CMBS and CLOs etc. have been more important in our view.

However, measuring individual effects is almost impossible, and even the collective effect of reforms is hard to determine in a world of QE and QT.

12. Simple, transparent and comparable (STC) securitisations: Does the report accurately describe the impact of the introduction of the STC framework on the securitisation market? To what extent has the reform met its objectives?

The report provides a very limited analysis of the impact of STC, mainly noting “more transparent structures at least in homogeneous asset classes” and that

it may have been more a relabeling than stimulating activity.

We agree with both notions.

However, we would like to stress that the introduction of STC was supposed to mitigate or eliminate complexity and opaqueness, what it did in our view.

Nevertheless, the prudential treatment of (STC) securitisation continuous to be based on non-neutrality to address structural risks like model and agency risk.

So it is no surprise that STC has not (yet) succeeded in stimulating the market.

13. Effects on financing the economy: Does the report accurately describe the main effects of the reforms on financing the economy? Is there additional analysis that could be undertaken to estimate the benefits and costs of these reforms and to assess their impact on securitisation as a financing tool?

The fact that retained and distributed RMBS are combined in the numbers describing the market may create a biased picture of that market, especially in the EU where 80% of outstanding securitisations is retained (mid 2024, source JPMorgan). So we would suggest to exclude retained. This will demonstrate the major contraction in the EU market. The fact that much of this contraction was compensated by ECB funding is not disputed by us. And indeed the ECB funding was provided based on collateral, including retained RMBS.

The main reason for the contraction in Europe was not the G20 reform agenda (certainly not the retention rules), but the whole package of EU specific additional gold plating as properly described in your box 8.

The financing of the EU economy has not been impacted by the contraction in securitisation since the ECB has maintained, until recently, an extremely accommodating stance. However going forward, in a world of Quantitative Tightening and a huge financing need for the digital and sustainable transition as well as the impact of the Ukraine war, we foresee the lack of securitisation capacity becoming a major constraint in the EU.

We are not in a position to comment on this question for other parts of the world, but would like to reemphasize that given the huge differences between jurisdictions and their local regulation, an analysis on a global basis has its limitations.

14. Effects on financial system structure and resilience: Does the report accurately describe the extent to which there has been a redistribution of risk from the banking to the non-bank financial intermediation sector? What role did the reforms play in this process and what are the main benefits and risks from a system-wide perspective? How have the reforms impacted the demand and supply of liquidity in securitisation markets?

We do not argue about the conclusion that NBFIs have increased their relative role in securitisation issuance, but in our view, and again focusing on the EU, the main reason for this trend is the unavailability of ECB and/or Covered Bond funding for NBFIs. In absolute terms, the activity of NBFIs may very well have decreased.

NBFIs as investors have reduced their exposures in absolute terms (Money Market Funds due to contraction of the ABCP market, Insurers due to Solvency II), but seem to play an increasing role in the SRT market investing in the equity/mezzanine tranches.

15. Other issues: Are there any other issues or relevant factors that should be considered as part of the evaluation?

We are not aware of additional points that need to be highlighted.