Capital Markets Union: EU reaches agreement on reviving securitisation market

Late on Tuesday, the European Parliament, the Council and the Commission agreed on a package that sets out criteria for simple, transparent and standardised securitisation (STS). The deal is one of the cornerstones of the Capital Markets Union (CMU), the Juncker Commission's pivotal project to build a single market for capital in the EU. The swift implementation of the securitisation package could unlock up to EUR 150 billion of additional funding to the real economy.

Securitisation can allow diversification of funding sources and a broader distribution of risk by allowing banks to transfer the risk of some exposures to other institutions or long-term investors, such as insurance companies and asset managers. This allows banks to free the capital they set aside to cover for risks of those exposures, allowing them to generate new lending to households and SMEs. STS securitisations will also provide new investment opportunities for institutional investors such as pension funds and insurance companies.

Valdis **Dombrovskis,** Vice-President responsible for Financial Stability, Financial Services and Capital Markets Union, said: *"This agreement marks another big step towards the creation of a Capital Markets Union. It will help build a sound and safe securitisation market in the EU, bringing real benefits to investment, jobs and growth. It will free up bank lending so that more financing can go towards supporting our companies and households."*

The new regulatory framework agreed by co-legislators sets out a risk-sensitive, transparent and prudential treatment of securitisation. At the same time, the package also ensures an appropriate capital treatment of securitisation instruments in general.

Next Steps

Today's political agreement will be followed by further technical talks to finalise the text. The Permanent Representatives Committee (COREPER) of the Council of Ministers is expected to endorse the agreement ahead of the European Parliament's plenary vote.

Background

In September 2015 the European Commission proposed new rules on securitisation as part of the Capital Markets Union (CMU) action plan (IP/15/5731). The Commission proposed a regulatory framework for securitisation which is simple, transparent and standardised and subject to adequate supervisory control. According to the Commission's estimates at the time, if EU securitisation issuance was built up again to the pre-crisis average, it would generate up to EUR 150bn in additional funding for the economy.

Securitisation is the process where a financial instrument is created, typically by a lender such as a bank, by pooling assets (for example car-loans or SME-loans) for investors to purchase. This facilitates access to a greater range of investors, thereby increasing liquidity and freeing up capital from the banks for new lending.

The new EU legal framework provides a clear set of rules to ensure that STS benefits the real economy. It bears no relation to the securitisation of subprime mortgages created in the US that contributed to the financial crisis. The European Commission does not intend to go back to the days of opaque and complex subprime instruments. Instead, the new rules clearly differentiate between simple and more transparent securitisation products and other products which do not satisfy such criteria. This will restore an important funding channel for the EU economy without endangering financial stability.

More information:
https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/securities-markets/securitisation_en

MEMO: http://europa.eu/rapid/press-release_MEMO-15-5733_en.htm