

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

Response to Consultation

AFG - Association Française de la Gestion financière

- 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?**

No. Overall, the report does not address the extent of the external factors which also plays an important part in achieving the objectives of this reform. As an example, the report is silent about the recent momentum concerning the securitisation topic in some jurisdictions (like in Europe with the Letta report).

Securitisation is becoming a priority at EU level – but is not yet seen like that at international level.

Also, the report fails to address the cost of reforms for each jurisdiction.

- 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?**

No. The analytical approach could be improved – as we understand that there are still numerous data gaps.

Maybe the first and most important issue would be to ensure that we have comparable data throughout the FSB jurisdiction, as the definition for securitisation is not harmonised (in the EU – a securitisation is “a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranché”).

A major difference between jurisdiction is the prudential treatment. Yet, the report does not provide any comparative analyse on the topic, it simply discards any impact while the simple comparison of volumes before and after GFC between EU and US markets implies a strong correlation.

The analytical approach should put more emphasise on the utility of securitisation – especially regarding the potential for financing the economy. Refinancing banks sure has its upsides, but should not be, in our view, the main focus for economically developing securitisation.

We understand that the FSB lean heavily on the banking side and on financial stability matters, but it should also be mentioned that there has not been any issue since the GFC in 2008.

We believe that the FSB should deepen its analysis on the economical dimension of securitisation, on its impact on financing SMEs, and on the financial sector as a whole. For instance, analysis on ABS should be broaden, as this is where lies the potential for financing the economy.

Regarding the CLO market, there are syndicated loans from large companies, which are not short on financing opportunities. If we are to improve SME financing though securitisation, this is not the relevant product.

There are some issues that are not taken into account – like in some jurisdiction tax subsidies, that have allowed some securitisation to be economically viable, therefore distorting the market.

A CLO is mainly an investment product and is not currently used as a tool to finance the economy.

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?

The major trend that should be treated to explain the evolution for securitisation in the jurisdiction is linked to the prudential cost of capital for investors. It is in our view the most important issue that prevent the growth for securitisation in the EU.

What should be of interest is to observe the securitisation trends not through products, but through their exposure (retail / SME / banking). The ABS / SME should be the focus through direct loans or equipment lease.

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?

The analysis on each jurisdiction is sound, but the report lacks a trans-jurisdiction approach. One of the main reasons would be that there is no equivalence for securitisation. As we've stated before, there isn't a common international definition for securitisation, hence no level playing field.

As we've also said earlier, the prudential cost for securitisation products for investors is a major element that should be included in this kind of reports, as it can explain the negative trend we've had in the EU.

Indeed, contrary to the affirmation the FSB put in its report regarding European ESA's Joint Committee: "the JC concluded that re-calibrating the securitisation prudential framework would not be a solution that would ensure the revival of the securitisation market", the conclusion stated by the JC in it's 2022 report is "This advice includes targeted

recommendations to support the securitisation market in a prudent manner and to promote the issuance of resilient securitisations qualifying for a more beneficial capital treatment, without jeopardizing investor protection and financial stability.”

AFG urges the FSB to review the said Joint Committee report and highlight the comparative analysis between jurisdiction in regards of applied prudential regulation.

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 prudential cost for securitisation product is the main driver that needs to be included in such an analysis, as it is not align between jurisdictions. This represents the main driver for the different trends for securitisation in the US / EU.

Less impactful, but still important, the cost of issuing securitised products should be included (reporting, etc.).

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?

The report adequately explains the objectives, transmission channels and expected outcomes of the securitisation reforms, but only in a financial stability perspective.

The report should look more deeply into the different kind of securitisation and their different use: banking side (liberating financing capacity), retail side (securitising the credit card / car loan, etc.), and financing the economy (SME financing). The report should also take into perspective securitisation regarding the size of the financing done by banks within jurisdiction, as this metric change quite drastically.

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 report needs a more granular approach for CLOs – as there are numerous jurisdictions where there is none- like in France for instance. This could notably affect the aggregate numbers for the UE, which does not make a lot of sense in this report.

A more granular approach could be interesting to explain the trends. As of now, all CLOs in Europe are located in Ireland.

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?

It would be interesting for the next report to look at the consequence of the US jurisprudence exonerating some CLO typology from risk retention obligations.

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?

The first thing would be to ensure that securitisation respond to a common definition for all jurisdictions. If not, the comparison between jurisdiction is meaningless.

As we've said before, the securitisation in Europe refers only to tranching instruments. For instance, on the graph 23 of the report, we see the number of tranches for each securitisation emission, and we have included a "single tranche" emission, which would not be considered securitisation in the EU.

Hence, in the report you'll have to take into account covered bonds + RMBS to have the equivalent for tranching and single tranche instruments.

Again, the prudential treatment for securitisation should be taken into account in the analysis, as it has a major impact on the preference for investors toward one or another product. In the EU, the preference for covered bonds for instance is linked to this prudential treatment.

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?

Yes. The analysis in the report is sound but maybe lack the analysis on the impact on equity capital for investors. This is one of the main reasons in the EU for the lack of upright trend for RMBS for instance, regarding its enhanced cost in capital.

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?

Not really. The report does not compare the volume of banking origination and the securitisation market. Analysing the numbers independently make little sense and does not allow for a sound analysis of the evolution of the financing through securitisation.

It would also be interesting to compare the balance sheet size of banks versus the securitisation market.

Banks still remain the major contributors / investors to the banking securitisation, still creating a "closed circuit market". Due diligence and prudential costs are driving the other investor away (that have not reached the critical size to assume both). Hence, it would be interesting to look at the different investors and their typology (bank only, insurance companies, etc.) for this market and by jurisdiction. This information would also be critical from a financial stability standpoint.

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?

No. The report lacks information and analysis on the investor's due diligence. It is important, especially since the experience of the GFC in 2008, not to rely only on CRA analysis. In the end also, there is no analysis in the numbers of investors and their typology (bank only, insurance companies, etc.).

Overall, the reform has not met its objectives with its aim to enlarge and diversify its investors base. This market remains "incestuous", with a forced demand of securitisation.

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?

This is one major issue, on which the report should reflect more heavily.

Securitisation must be seen through its utility to financing the economy, hence the need to have a granular approach less on the instruments, and more on the area financed (retail through securitisation of credit loans etc., banks through securitisation allowing them to give them enhanced ability to lend, and the financing of the economy for SMEs).

It is important to add that securitisation had both the regulatory constraint that have prevented its development, but also its poor, and negative image especially in the EU, and its important cost of capital for investors we've already discussed earlier.

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?

The report could be improved in its description of the securitisation market. The data is indeed complex to obtain, but there is not enough analysis on the reality of the market, the comparison between before and after the GFC on the nature of investors and their different level of investments.

The report to emphasise more:

- in the EU, the cost of entry (due diligence) drives away the small – medium size institutions,
- cost of capital should be risk-driven. As of now, the cost of capital for securitised portfolio are significantly higher compared to the same portfolio if it remains in the bank balance sheet.

- the regional differences in term of due diligence distorts the market. As example, UE investors cannot access US securitization market consequence of the difference of mandatory form of information and data analysis.

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

As we've stated before, there are 3 major factors that should be taken into consideration, starting from the more important one:

- Prudential: securitisation must be seen as an investor point of view.

- Analytic vision with respect to the size of bank-based financing: having raw numbers are useful, but they do not allow for a proper measure of securitisation, which must be compared to the size of the bank based financing.

- Impact on the real economy: there isn't enough emphasis on the real role of securitisation for the economy. As securitisation have suffered a long time (and still does) from a poor image from policy makers, this could help change the narrative and better analyse the role played by those instruments.