Evaluation of the Effects of the G20 Financial Reforms on Securitisation

Benjamin Weigert (Deutsche Bundesbank), Chair of the FSB Securitisation Evaluation Group

FSB Public Workshop

Thursday 22 August 2024

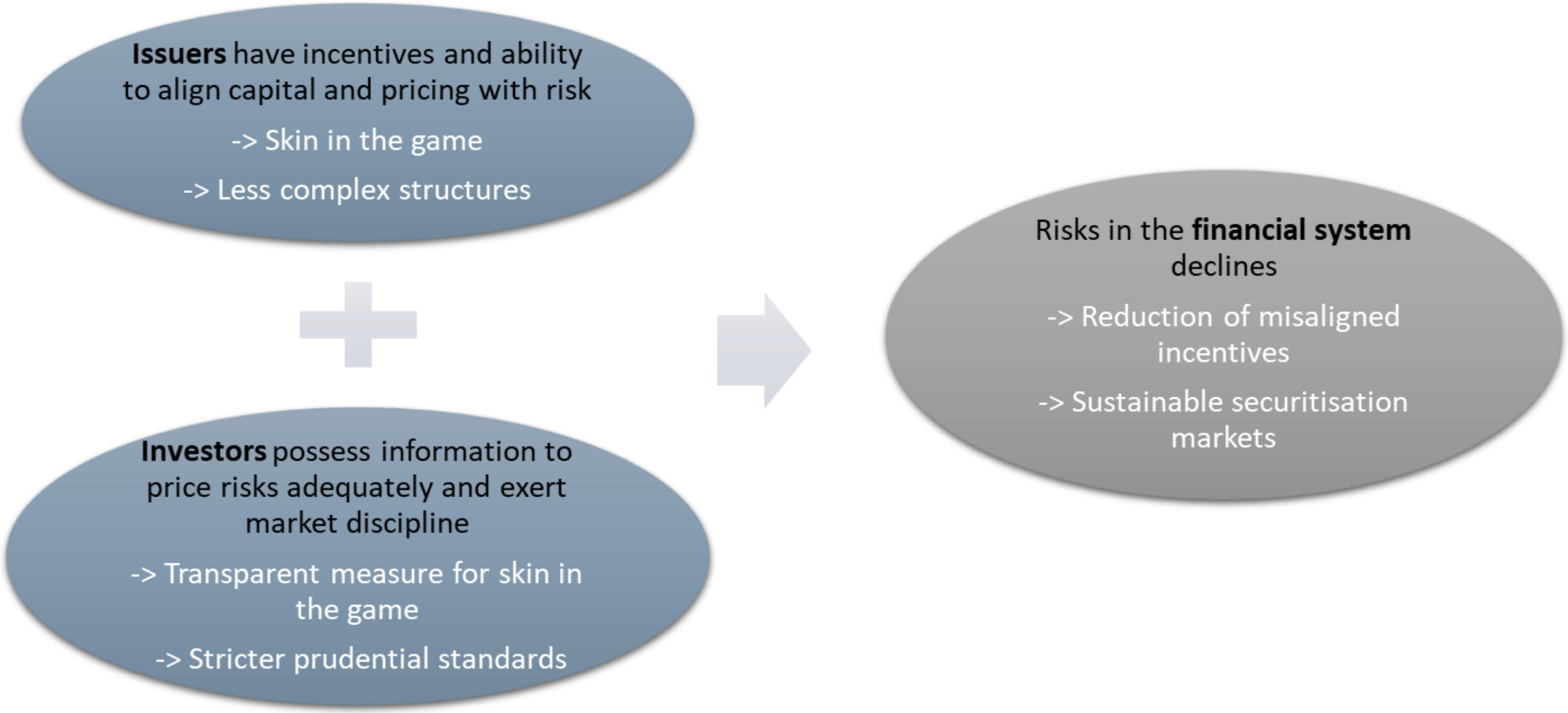
FSB

Securitisation reforms evaluated

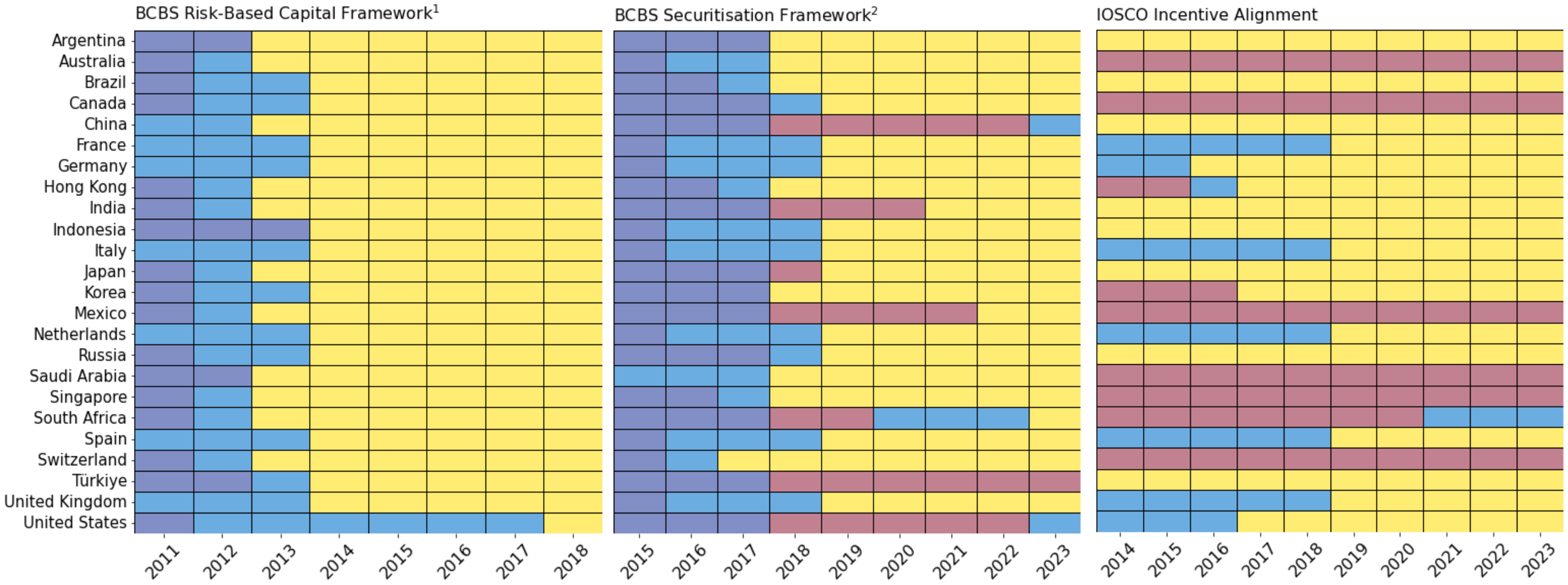
Originators / Sponsors / Issuers	• Accounting reforms **(IFRS, jurisdictional specific)** • Disclosure requirements **(IOSCO, BCBS)** • Mortgage underwriting standards **(Joint Forum)** • Restrictions on re-securitisation **(Jurisdictional specific)** • Risk retention **(IOSCO)** • STC criteria **(IOSCO, BCBS)**
Investors	• Capital requirements for insurers **(Jurisdictional specific)** • Due diligence requirements **(BCBS; jurisdictional specific)** • Prudential requirements for banks **(BCBS)** • Reduce mechanistic reliance on CRA ratings **(BCBS; FSB)**
Other market participants	• Revised code of conduct for CRAs **(IOSCO)** • Regulatory and capital framework for monoline insurers **(IAIS)**

Intended effects of securitisation reforms

Both the risk retention and prudential reforms aim to reduce misaligned incentives and moral hazard by promoting “skin-in-the-game” for securitisation issuers



Most FSB jurisdictions implemented the Basel III Securitisation Framework and IOSCO risk retention recommendations

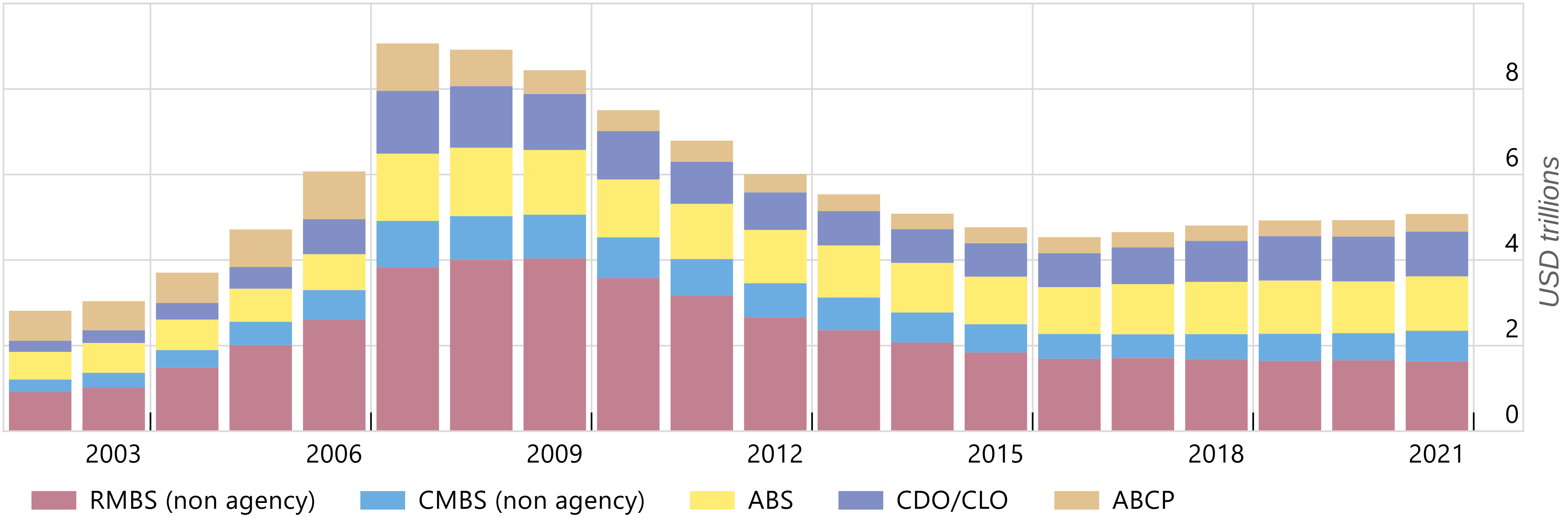


[1] BCBS Risk-Based Capital Framework refers to "Basel II enhancements" published in 2009 and the initial phase of Basel III published in 2010. [2] BCBS Securitisation Framework refers to the revised securitisation framework published in 2014 and the STC amendments published in 2016 and 2018. [3] For the EU the implementation assessment covers four sectors: Banking, Alternative Investment Fund Managers, Undertakings for Collective Investments in Transferable Securities and Insurance. The rating reflects the least advanced sector.

Note: BCBS metrics comprise four categories, which have been consolidated into the three displayed on the graph. In particular: "Draft regulation not published" is represented as "Not Implemented"; both "Draft regulation published" and "Final rule published (not yet implemented by banks)" are categorised under "Draft/Final Adoption Measures Published or Partially Implemented"; "Final rule in force (published and implemented by banks)" aligns with "Fully Implemented". The US securitisation framework under the risk-based capital framework was in effect since 1 January 2014 but the status of fully implemented is not given until all components are in effect which for the US was only in 2018. The status of implementation for Russia has not been updated and reflects progress reported as of 2021.

Global cash securitisation volumes spiked prior to the GFC and have only recently started to grow again

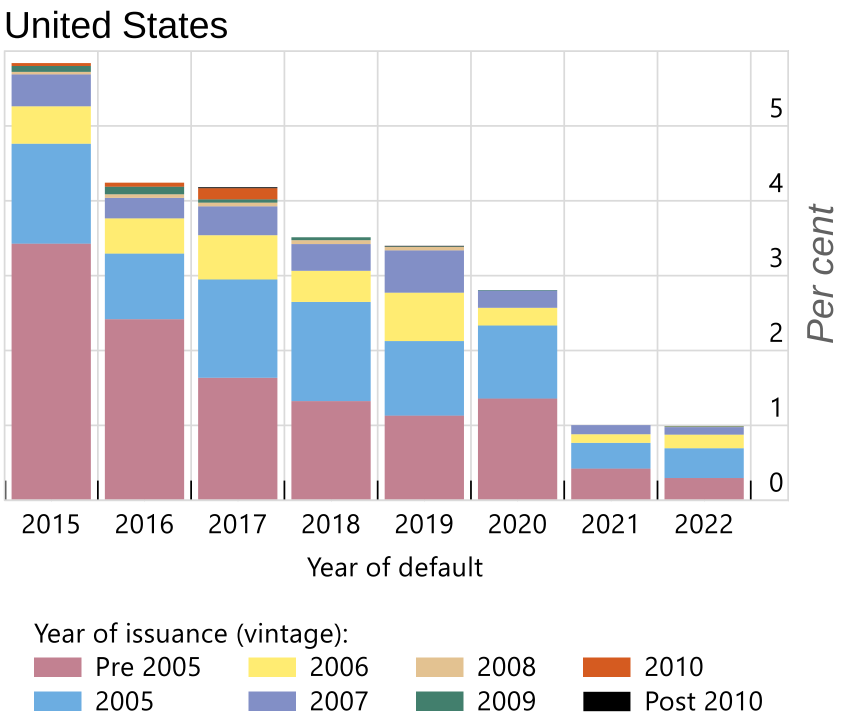
Outstanding market size by asset class, across US, EU, UK, JP

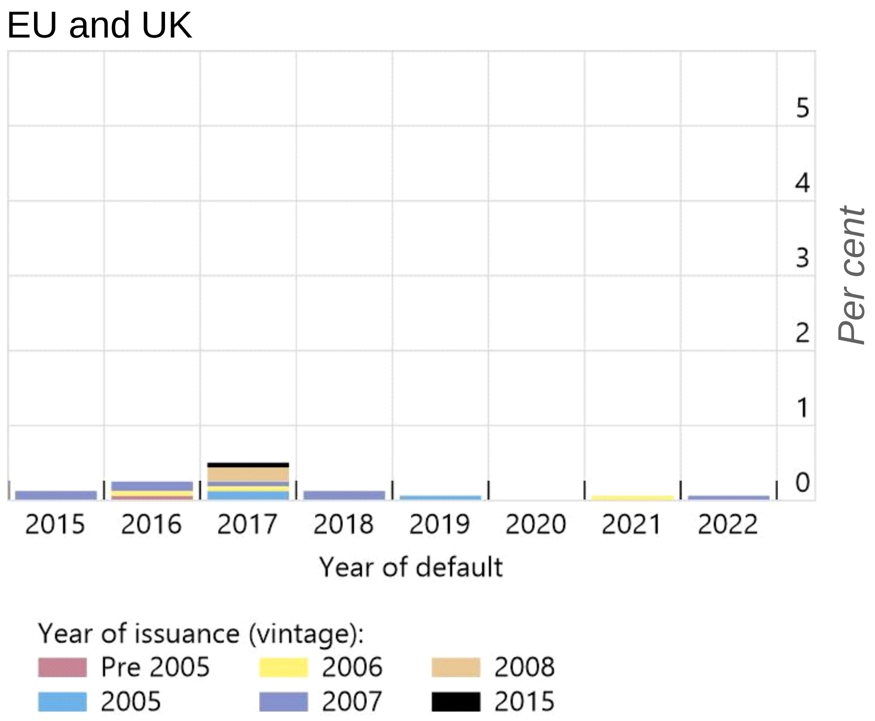


Sources: AFME; Bloomberg; Morningstar DBRS; Pitchbook LCD; SIFMA; FSB calculations.

The non-agency RMBS market has experienced strong credit performance

RMBS default rates by year: breakdown by vintage

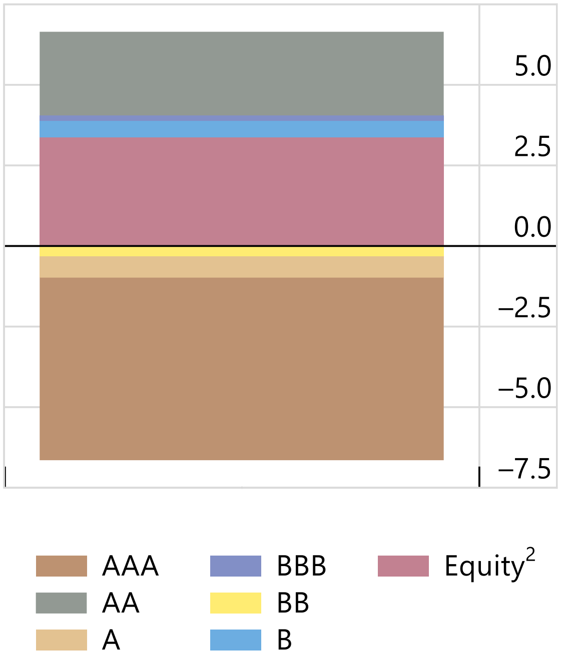




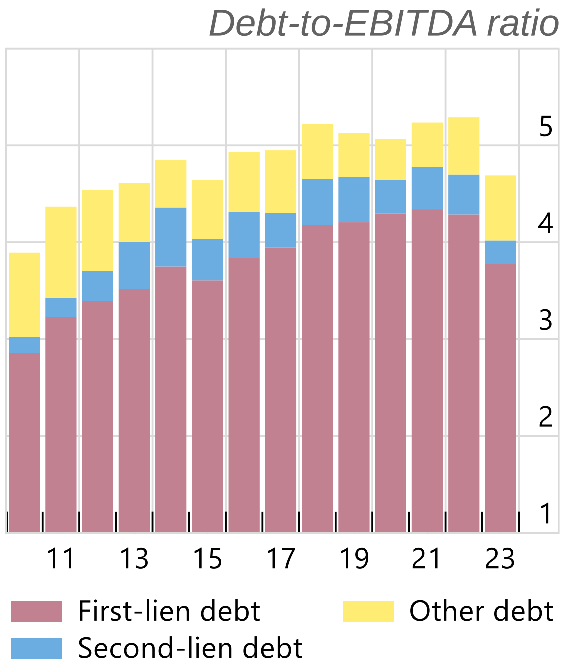
Sources: S&P global; FSB calculations.

CLO structures post-GFC are more resilient, but underwriting standards in leveraged loan markets have become weaker

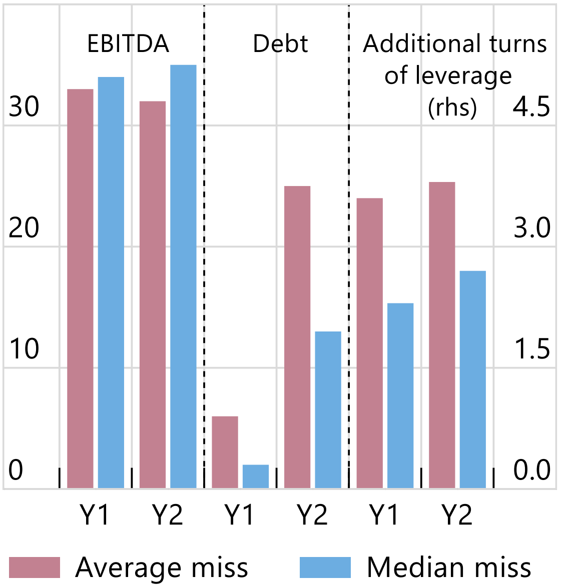
Changes in the subordination structure of CLO 1.0 and CLO 2.0[1]



Leverage[3]



Leveraged corporates performance since deal inception

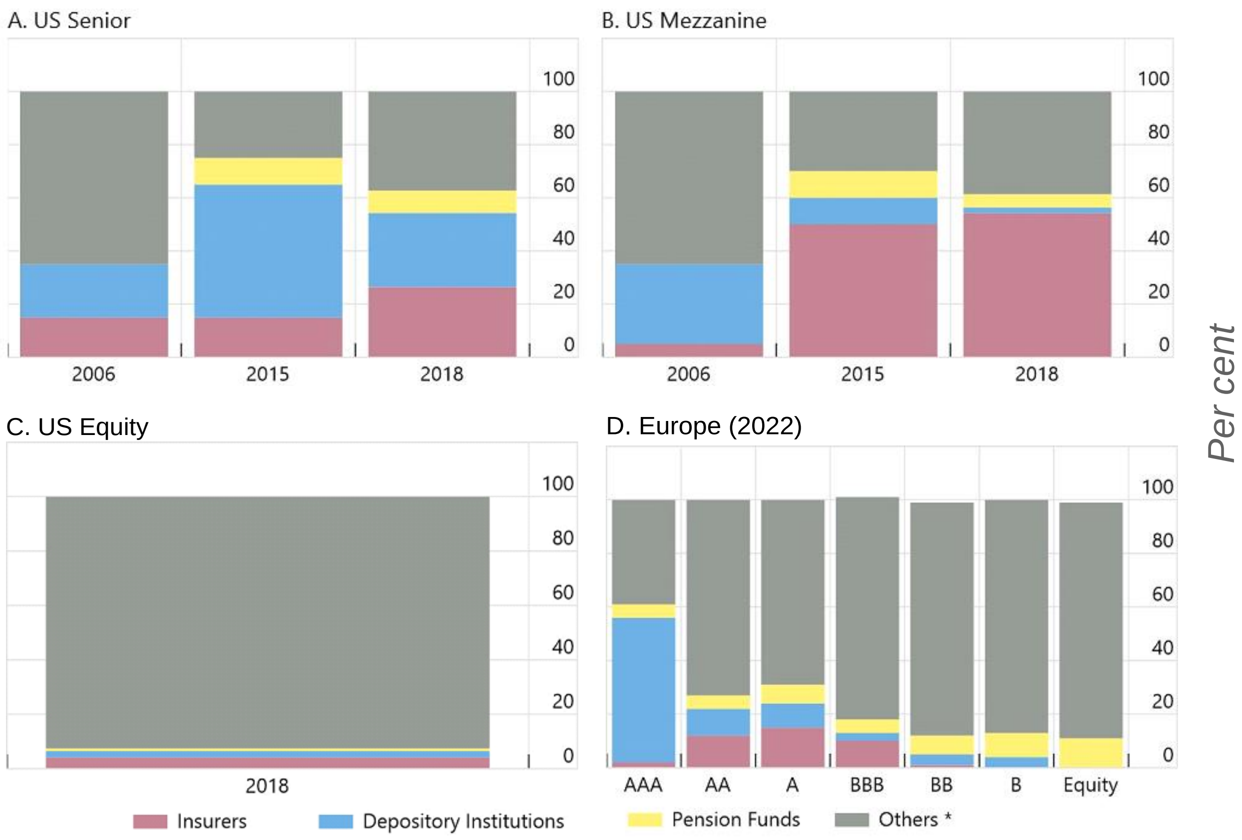


[1] US market. 2022-2007 changes. [2] Includes not rated tranches and tranches with missing ratings. [3] Based on new issuances.

Sources: Pitchbook; S&P Global; FSB calculations.

There has been a shift in banks' CLO exposure from mezzanine to senior tranches since the GFC

Holders of CLOs by capital structure



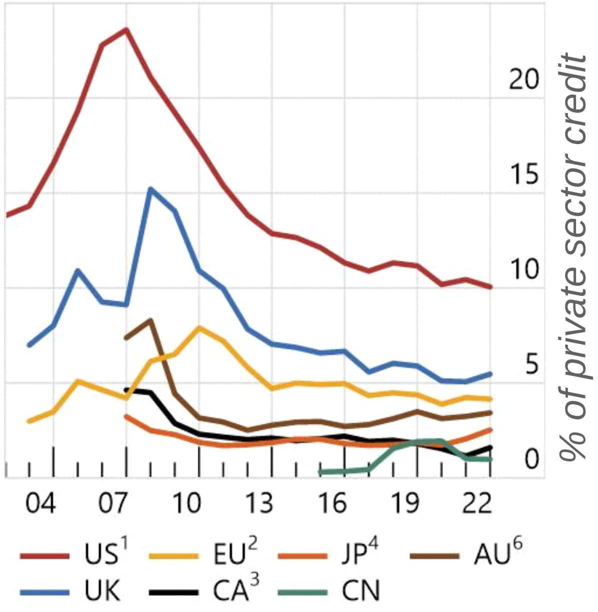
* Others include for example asset managers and hedge funds.

Sources: Citi Research, ESMA, Federal Reserve Board, FSB calculations.

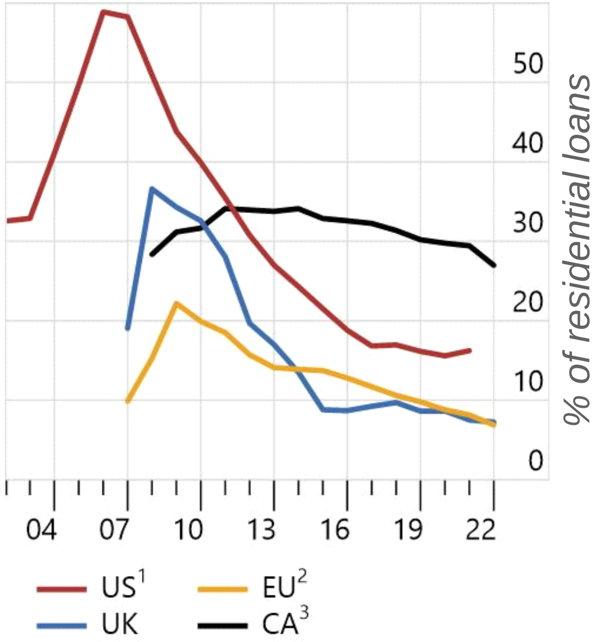
Securitisation has diminished in relation to private sector credit since the GFC, with some exceptions (e.g. CLOs).

This does not necessarily imply that overall financing to the economy has been negatively affected as the use of other financial market instruments as an alternative to cash securitisation has increased since the GFC.

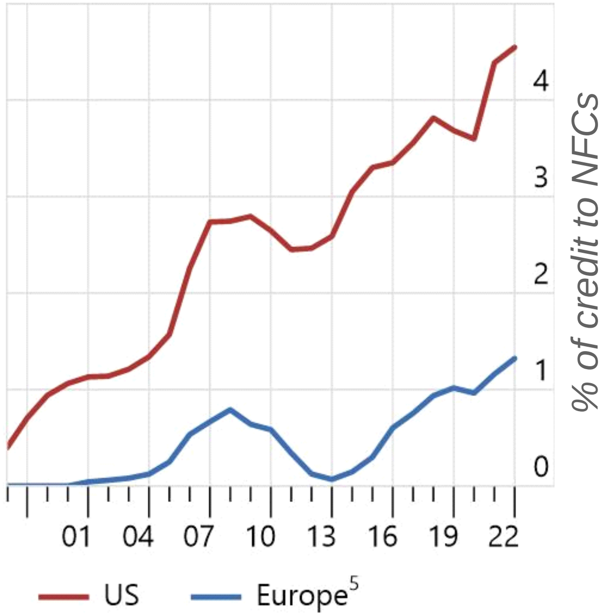
Securitisation outstanding



RMBS outstanding



CLO outstanding



FSB

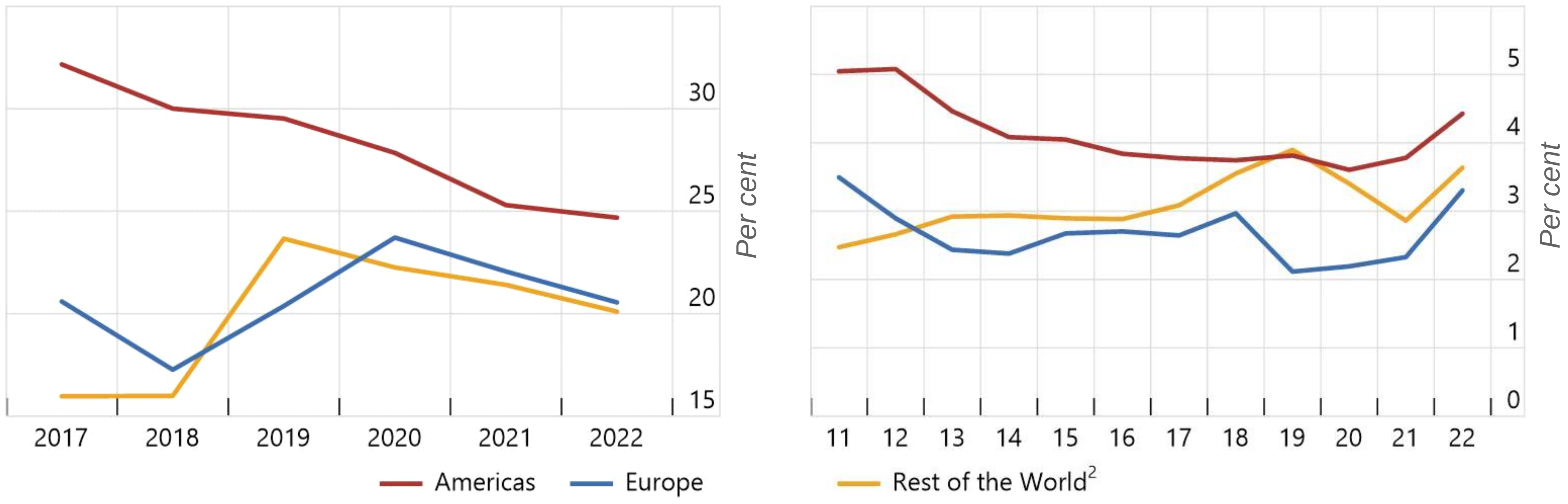
[1] Does not include agency securitisation. [2] Does not include UK. [3] Includes government guaranteed MBS. [4] Does not include agency RMBS. [5] Europe includes EU countries, CH and UK.

Sources: People's Bank of China; Federal Reserve Bank of St Louis, FRED; AFME; Australian Bureau of Statistics; Business Development Bank of Canada; European Covered Bond Council, EMF Hypostat; Bank of Japan; SIFMA; Datastream; DBS Morningstar; FSB calculations.

The non-agency RMBS market has experienced strong credit performance

Banks have shifted their securitisation exposures towards lower risk tranches post-reform

RWA density[1] | Exposure in securitisation relative to credit exposure

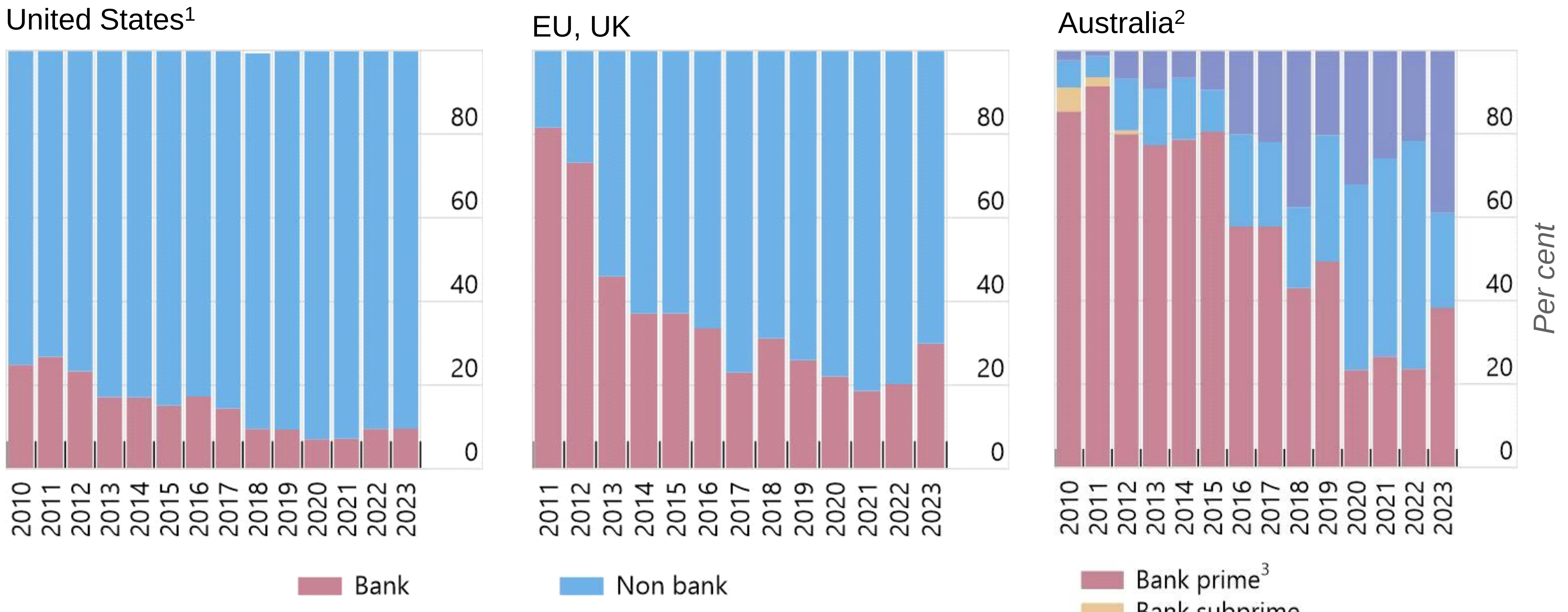


* Exposure in securitisation and RWA density by region group 1 banks, defined as having Tier 1 capital of more than €3 billion and a balanced dataset (i.e. that the sample of banks is kept constant over time). [1] Calculated as the RWA of the securitisation exposure divided by the total securitisation exposure. [2] This mostly reflects CN, JP and AU as the larger other markets. Source: BCBS, FSB calculations.

FSB

There has also been a redistribution of risk in securitisation markets to non-banks

Banks vs non-banks’ share of non agency securitisation



[1] Non-agency securitisation (excl. CMBS). [2] RMBS. Does not include retained securitisation exposure. [3] Prime securitisations are deals in which 90 per cent or more of the underlying loans are extended on full-documentation. Sources: Bloomberg; Green Street (Asset Backed Alert); Reserve Bank Australia; S&P; FSB calculations.

FSB

Next steps on the evaluation

- Deadline for consultation responses is 2 September.
- Additional analysis including jurisdictional specific elements undertaken by the FSB Securitisation Evaluation team.
- Publication of the final report expected by end-2024

Thank you

+41 61 280 8844
fsb@fsb.org
www.fsb.org/contact

@FinStbBoard
FinancialStabilityBoard

FSB