FSB FINANCIAL STABILITY BOARD

Press release

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FSB consults on interim findings of its evaluation of the effects of the G20 financial regulatory reforms on securitisation

- ***Evaluation finds that risk retention and higher prudential requirements have enhanced the resilience of the securitisation market, without strong evidence of material negative side-effects on financing to the economy.***
- ***The reforms have contributed to a redistribution of risk from banks to the non-bank financial intermediation (NBFI) sector***.
- ***Further analysis will be undertaken, incorporating feedback from this public consultation, before publication of a final report at the end of 2024.***

The Financial Stability Board (FSB) published today a consultation report with interim findings of its evaluation of the effects of the G20 financial regulatory reforms on securitisation. The evaluation focuses on the International Organization of Securities Commissions (IOSCO) minimum retention recommendations and the Basel Committee on Banking Supervision (BCBS) revisions to prudential requirements for banks' securitisation-related exposures. These reforms aimed to address the vulnerabilities in the securitisation market that contributed to the amplification of losses during the 2008 global financial crisis (GFC).

The analysis thus far suggests that risk retention and higher prudential requirements have enhanced the resilience of securitisation markets. Securitisation volumes containing complex structures that contributed to the GFC have declined significantly. The quality of collateral in securitisations has improved in some asset classes (e.g. residential mortgage-backed securities (RMBS)), though not in others (e.g. collateralised loan obligations (CLOs)). Credit performance has been strong post-GFC, and the market has not faced significant stress. Some analyses suggest increased resilience of the senior CLO tranches despite the deterioration in lending standards and no obvious misalignment of incentives between RMBS issuers and investors in recent years. However, it is difficult to attribute these outcomes directly to the reforms given confounding factors.

While securitisation has diminished in relation to private-sector credit since the GFC, the decline has not been uniform across all segments and much of it took place in the immediate aftermath of the GFC, before the reforms were implemented. It is also not clear that overall financing to the economy has been negatively affected, if one considers growing corporate and household indebtedness and the growth in alternative financing instruments over this period.

The reforms have contributed to a redistribution of risk from banks to the NBFI sector, with banks now holding higher-rated tranches. This shift is not unique to securitisation, given the increased reliance on market-based intermediation since the GFC.

The FSB is inviting comments on this consultation report and the questions set out. Responses should be submitted via this **secure online form** by 2 September 2024. For questions, please contact the FSB (fsb@fsb.org). Responses will be published on the FSB's website unless respondents expressly request otherwise on the online form.

Notes to editors

The evaluation focuses, in terms of scope, on the effects of the reforms on the CLO and the non-government-guaranteed part of the RMBS market segments. It draws on a broad range of information sources and analytical approaches, including responses to a questionnaire by FSB member jurisdictions; input from stakeholders; a literature review; and quantitative indicators and descriptive analysis using data from commercial providers, FSB members, and other sources. These sources taken together form the basis for the conclusions in the report. The FSB will continue its analysis and expects to publish the final report at the end of 2024.

The evaluation was undertaken using the FSB's framework for the post-implementation evaluation of the effects of the G20 financial regulatory reforms. The framework guides analyses of whether the G20 reforms are achieving their intended outcomes and helps identify any material unintended consequences that may have to be addressed, without compromising on the objectives of the reforms. This is the fifth evaluation under the FSB framework; all completed evaluations are published on the FSB website.

The FSB has developed a comprehensive work programme to enhance the resilience of NBFI, which aims to ensure a more stable provision of financing to the economy and reduce the need for extraordinary central bank interventions. The FSB will report to the G20 on progress in this NBFI work programme in July 2024.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.