Paris, 11 July 2025

Securitisation Review

Call for Feedback on LCR Delegated Act

Paris Europlace welcomes the reopening of the LCR Delegated Act, and fully concurs with the Commission's assessments that "The eligibility of securitisations in the liquidity buffer is considered to be an important criterion for all market participants to invest in securitisations, as it enables them to find active counterparties on capital markets, including credit institutions, to trade their portfolios", and that amendments of the DA are needed to "address inconsistencies in the current framework". Securitisation represents today less than 1% of the EUR 5.6 tr total HQLA portfolio held by EU banks (source: EBA, Dec. 2024) and "credit institutions could be further incentivised to actively manage and diversify their liquidity buffers."

Many proposed amendments are fully justified:

- Realigning minimum credit quality steps (CQS1 to CQS4 or AAA to AA-), and extend to A- with a 50% haircut;
- Extending to maturities beyond 5Y, removing BCBS goldplating;
- Simplifying homogeneity and granularity rules;
- Removing EU-specific 35% haircut category that applies to ABS backed by commercial loans or loans for personal consumption purposes.

But progress on haircuts reduction is insufficient to allow effective diversification of liquidity buffers. Haircuts remain significantly and unjustifiably higher than those of covered bonds, and practitioners indicate that they would remain dissuasive. If haircuts are not further fine-tuned, the stated goal of the LCR amendment is very likely to be missed, and the overall securitisation package will not succeed in reviving the market.

We recommend to better align the haircuts and eligible categories of securitisation positions with those of covered bonds, and to include Resilient Non-STS as eligible (important for ABCPs). Indeed, several studies have shown that the liquidity of securitisation transactions is similar to the one of covered bonds, and that there is no evidence of differences in liquidity between STS and non-STS transactions. In our recent memo on Liquidity, we also noted the much lower haircuts applied by the ECB in its collateral policy. Finally, banks investing in senior tranches issued by other banks do not cause financial stability concerns, because:

- The risk of the senior tranche is a small fraction of the risk of the securitised portfolio. Most of the portfolio risk is in non-senior tranches, transferred outside the banking sector;
- The risk of the securitisation position is only on the performance of the portfolio, without any recourse to the issuing bank. Therefore, there is no contagion risk.

Paris Europlace recommends:

- aligning categories with haircuts: Resilient Senior STS should be Level 1 with 7% haircut, Non-Resilient Senior STS and Resilient Senior Non-STS should be Level 2A with 15% haircut, Senior CQS 5 to 7 (other STS and Resilient Non-STS) should be Level 2B with 30% haircut.
- introducing a specific 15% cap applied to securitisation positions.

Positions eligible to 1 or 2A would need to be rated AA-or better, and minimum size over EUR 250m.

This solution would address, in our view, the concern that securitisation may grow in HQLA portfolios beyond the current 15% cap, while being more simple (unique haircut by category) and giving a clearer signal to the market, as maintaining all securitisations in 2B perpetuates an undue stigma.

Ultimately, effectiveness will depend on whether the definition of resilient transactions covers a broad enough share of the market, which requires further analysis. If only a small proportion of the transactions meets the resilience category, it would need to be redesigned, as it would be a major obstacle to the relaunch of the market.

LCR reform is a necessary, but not sufficient measure. It won't be effective unless all aspects of the package, namely prudential treatment of banks as investors, and due diligence and reporting requirements, are also adequately reformed.