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Public Consultation on Securitisation

Fields marked with * are mandatory.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

Responding to the paper

EIOPA welcomes comments on the Consultation paper on the advice of the review of the Securitisation prudential framework in Solvency II.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Wednesday, 13 July 2022 23:59 CET** by responding to the questions below.

Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third-party. Please, indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. EIOPA may also publish a summary of the survey input received on its website.

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between 1 and 2 choices

- [x] I consent to publication of all information in my contribution in whole
- [ ] /in part – as indicated in my responses
- [ ] including to the publication of my name/the name of my organisation, and I declare that nothing within my response is unlawful or would infringe the rights of any third party in a manner that would prevent the publication.

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[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).
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About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- (•) Public

- ◯ Confidential

*Stakeholder name

Leaseurope & Eurofinas

*Type of Stakeholder

- ◉ Association
- ◯ Industry
- ◯ Ministry
- ◯ Supervisor
- ◯ EU Organisation
- ◯ Other

*Contact person (name and surname)

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Questions to Stakeholders

*1. Do you have any comment on the comparison of the securitisation capital charges with other asset classes with similar characteristics? (Section 1 - page 16)

- ◉ Yes
- ◯ No

*Please provide an explanation

Leaseurope & Eurofinas the voices of leasing and consumer credit providers (credit institutions, independent providers and finance divisions of manufactures) in Europe welcome the opportunity to comment on EIOPA’s consultation on the review of the Securitisation prudential framework in Solvency II.

We would like to stress that the current prudential capital framework for insurance companies investing in securitisation remains excessively conservative compared to the treatment of other comparable investments. We therefore urge EIOPA and the European Commission to review the prudential capital framework for insurance investors in securitisation. This is essential for the recovery of an investor base that has shrunk considerably since the global financial crisis. The regulatory framework for securitisation in Europe is today both comprehensive and prudent. Therefore, a revised calibration for Simple Transparent and Standardised (STS) securitisations will make it more attractive for insurers to invest in securitisations.

The Delegated Act on Solvency II (adopted by the European Commission in June 2018) did include some positive changes. However, these do not go far enough in correcting the harsh and disproportionate treatment of securitisation investments under Solvency II. We therefore believe that the current Review of Solvency II is an opportunity to fix this regulatory barrier.

Under the Delegated Act, the capital calibrations in relation to senior tranches of STS securitisations were reduced to levels comparable to those applicable to corporates. Unfortunately, the risk factors remain too high for the mezzanine and junior tranches of STS securitisations.

Insurance company investors have an important role to play in investment in securitisation, particularly in the mezzanine and junior tranches. These tranches are high quality (mostly rated investment grade AA to BBB) thanks to the credit quality of the securitised pool and the credit support of the securitisation structure.

These areas of the securitisation market match the risk/return, duration and diversification needs and analytical capabilities of insurers. As a result, they can facilitate better risk management and diversification in the financial system.

We further note the example of the US, where insurance company investors are active investors in the securitisation market, benefiting from securitisation risk weights comparable to those for corporates: uniform for AAA-A risk weights and only marginally higher for BBB, with a steep cliff at BB level. The active participation of US insurers in the US securitisation market allows them to benefit from these risk diversification and yield opportunities and increases their global competitiveness.

While the capital calibrations for senior STS tranches have been set to levels which are comparable to those applying to corporates, the calibrations of non-senior STS tranches remain disproportionately high in both absolute and relative terms, in some cases between three and four times the equivalent charges for corporate bonds. AFME and other market participants have provided with detailed analysis and examples, which show that STS securitisations are unjustifiable penalised by Solvency II. Those numbers may explain why securitisation, in particular non-senior STS tranches, are not an attractive investment for insurance companies in Europe, despite being a transparent, high quality financial product.

For all the above-mentioned reasons we call on EIOPA and the European Commission to adjust the capital charges for non-senior STS tranches that more adequate reflect their risk profile.

*2. Do you see practical or legal difficulties in investing in securitisation with the STS label? Are you aware of any other factors, including regulatory rules other than capital requirements that could have a major impact on securitisation investment levels? (Section 1 page 16)

- ○ Yes
- ◉ No

*Please provide an explanation

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No comment.
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*3. Do you have evidence that the current calculation for capital requirements for securitisation (senior STS, non-senior STS and Non-STS) is not proportionate or commensurate with their risk? (Section 2 page 24)

- ◉ Yes
- ○ No

Please provide an explanation

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See our answer to question 1.
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*4. Do you agree with the calibration method used in this paper? Do you have any evidence that an alternative method could have been used? (Section 2 – page 25)

- ○ Yes
- ◉ No

Please provide an explanation

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No comment.
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*5. Do you agree with the conclusions obtained in this section? Do you have any evidence which suggests that the conclusions could be different? (Section 2 – page 25)

- ○ Yes
- ◉ No

Please provide an explanation

No comment.

*6. What is your view on the proposed segmentation of the STS category: should the calibration of the Non-Senior STS Securitisation be differentiated between mezzanine and junior? (Option 1 or 2 of page 31). Please explain your view. If Option 2 is your preference, do you think it would encourage you to invest more into securitisation with the STS label? (Section 3 – page 43)

- (selected) Option 1
- Option 2

Please provide an explanation

No comment.

*7. What is your view on the preliminary conclusion not to implement the underlying exposure risk as a basis for the securitisation risk charges in Solvency II? Do you have any evidence which suggests that this conclusion could be different? (Section 3 – page 43).
Please provide an explanation.

No comment.

*8. What is your view on the preliminary conclusion not to implement the considerations for the thickness of non-senior tranches in Solvency II? Do you have any evidence which suggests that the conclusions could be different? (Section 3 – page 43).
Please provide an explanation.

No comment.

*9. What is your view on the proposed segmentation of the non STS category: should the calibration of the non STS securitisation be differentiated between senior and non-senior? (Option 3 or option 4 of page 36)? Please explain your view. If Option 4 is your preference, do you think it would encourage you to invest more into Non-STS securitisation? (Section 3 - page 43)

- (selected) Option 3
- Option 4

*Please provide an explanation

No comment.

* 10. What is your view on the preliminary conclusion not to implement the hierarchy of approaches in Solvency II? Do you have any evidence which suggests that this conclusion could be different? (Section 3 – page 43).
Please provide an explanation.

No comment.

* 11. Do you consider that agency and modelling risks are reflected in an appropriate manner in Solvency II? If the answer is “No”, please elaborate on the changes that you deem necessary. (Section 3 – page 43).

- (x) Yes
- ( ) No

* Please provide an explanation

No comment.

* 12. What is your view on the preliminary conclusion not to use the maturity (as in CRR) for the Solvency II framework? (Section 3 – page 44).
Please provide an explanation.

No comment.

* 13. Do you consider that other technical amendments may be appropriate or desirable to improve that treatment of securitisation in Solvency II? If the answer is “Yes”, please elaborate on the changes that you deem necessary. (Section 3 – page 44).

- ( ) Yes
- (x) No

* Please provide an explanation

No comment.

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3. Address and email address of the controller:
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fausto.parente@eiopa.europa.eu

Contact details of EIOPA's Data Protection Officer

4. Westhafenplatz 1, 60327 Frankfurt am Main, Germany
dpo@eiopa.europa.eu

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Contact

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