

Targeted European Commission Consultation on the Functioning of the EU Securitisation Framework

European Mortgage Federation-European Covered Bond Council (EMF-ECBC) Response

28 November 2024

1. Commitment to Capital Markets Union (CMU)

Building opportunities for the next generation is the strategic objective of Jacques Delors's vision of the Single Market, which emphasises the removal of trade barriers, the free movement of goods, services, capital, and people, and the fostering of economic integration among member states.

During the course of crises experienced in the last several years, the European Union (EU) has crafted policies that have facilitated the harmonisation of regulation, leading to increased competition and efficiency. This approach has not only enhanced the resilience of the EU to unprecedented crises but has boosted financial stability, and economic growth and strengthened the political unity of Europe, laying the groundwork for deeper integration in which lie the values of peace and prosperity of the European dream. Capital markets play a crucial and catalytic role in supporting economic transition, providing the means to respond to local, regional and national needs with an overarching European financial infrastructure which more importantly supports the EU's leadership in ESG policies as a geopolitical financial model.

In the new Basel III landscape, capital markets can offer various financial instruments, including securitisation, covered bonds and [European Secured Notes \(ESNs\)](#)¹ enhancing overall economic stability and providing the market with a comprehensive set of options, on-balance and off-balance solutions, that help lenders, investors, businesses, and ultimately consumers manage risks.

The European Mortgage Federation-European Covered Bond Council (EMF-ECBC) represents 6.8 trillion euros in mortgages outstanding², 40% of the EU's GDP and is firmly committed to the goals outlined under the Capital Markets Union (CMU). For their part, mortgages represent micro leverage for consumers and households, providing access to housing, acting as a social lift and engaging them in the climate transition, and macro leverage for the banking and financial sector, representing 1/3 of banks' asset portfolios and supporting the systemic transmission of the EU's policies.

The aim of the CMU is to remove barriers across EU capital markets, allowing for a more efficient allocation of resources, fostering investment, providing financial stability and supporting the EU's broader objectives, including the digital and green transitions, as laid out in the [2020 CMU action plan](#). Covered bonds, securitisation, and innovative financial instruments such as ESNs form a **comprehensive and complementary toolkit** for lenders to support financial stability, and policy action together with growth and innovation. For the CMU to achieve its full potential, strong cooperation between public and private sectors is required where capital markets can ensure a level playing field for Members States securing access to private sector resources and reducing taxpayer pressure on Members States by providing financing mechanisms which can operate efficiently.

¹ European Secured Notes are dual recourse secured bonds applying technology similar to the used for covered bonds but secured on assets not eligible for traditional covered bonds, such as loans to small and medium sized enterprises.

² Page 8, EMF Hypostat 2024: [HYPOSTAT-2024_web.pdf](#)

2. Strategic complementarity between Securitisation, Covered Bonds & European Secured Notes

The securitisation framework has undergone significant review and improvement, both at Basel and EU level, in order to take account of the lessons learned from the financial crisis in 2008 triggered by US subprime securitisation. It has been underlined that securitisation helps the financing of the real economy and promotes risk sharing among market participants. Careful consideration is currently being given to making it more risk sensitive and balanced in many respects, in order to reach its full potential, which is very important for the overall EU economy, as outlined in many recent high level reports.

The securitisation revival, should also leverage on and be supported by the significance and good performance of covered bonds which have for centuries and during successive crises, been used as a strategic crisis management tool in more than 40 active markets and jurisdictions with an outstanding amount of EUR 3.3 trillion of which EUR 2.9 trillion are secured on mortgages and the vast majority of the remainder on loans to the public sector. This instrument has, over the years, secured long-term funding for lenders, a safe harbour for investors and lower rates for borrowers of long-term mortgages, as well as lower funding costs for the public sector. Moreover, it has secured globally harmonised, financial stability policies, international regulatory treatment, robust macroprudential features and common disclosure best practices.

Unlike covered bonds, securitisation is a limited recourse instrument that addresses all types of asset classes, therefore it is by nature capable of mobilising new capital in the financing of certain economic sectors which are outside the scope of covered bonds (e.g. corporate or consumer credit sectors).

In terms of transparency, covered bonds show the success of the [Covered Bond Label \(CBL\)](#), where market participants shared the essential features of a transparency template which meets their needs and complies with the transparency requirement of the Covered Bond Directive (CBD). Such market initiative led by the European Covered Bond Council (ECBC) may be useful in the context of securitisation disclosure, where a debate is ongoing on the level and importance of the data to be included to avoid unnecessary and cumbersome information which is not for the benefit of investors.

Therefore, there is critical and strategic complementarity in the use of covered bonds (together with ESNs) and securitisations, with covered bonds providing robust access to stable long-term funding and securitisations providing a valuable risk and regulatory capital management tool. Both can contribute to the development of capital markets. In the current political debate, these instruments play unique but mutually reinforcing roles in the financial ecosystem by offering:

- 1. Diverse Funding Sources:** Covered bonds and securitisation provide stable funding for banks through diverse funding options. Covered bonds offer on balance stable, long-term funding with low risk. Securitisation offer options to transfer risk outside the banks' balance sheet. Securitisation that meets SRT requirements can be used to free up capital.
- 2. Market Stability and Resilience:** The dual recourse nature of covered bonds contributes to financial stability, particularly in times of crisis. Securitisation, as a funding source and a means of re-distributing risk across a broad base of investors through its tranching mechanism, enhances market resilience through accrued risk sharing and/or supports credit availability, provided it remains prudentially robust. In the EU, this is the case as re-securitisation, for example, is no longer allowed.
- 3. Enhanced Liquidity:** Covered bonds and securitisation – as complementary financial instruments – provide diverse sources of liquidity to the market, making them attractive for institutional investors.
- 4. Investor Diversification:** The different risk profiles and structures of each asset class attract a wide range of investors, from conservative and risk-averse to those seeking higher yield in return for credit exposure

to the underlying assets. This diversification of the investor base enhances the robustness and depth of capital markets.

5. **Regulatory Balance:** Appropriate and balanced regulatory frameworks for both covered bonds and securitisation ensure high standards of transparency, quality and investor protection, fostering trust and participation in European capital markets.
6. **SME Financing:** ESNs and SME securitisation are mutually complementary, as ESNs would be issued on the basis of an issuance programme, therefore acting as a resilient funding instrument for SMEs, whereas securitisation is a stand-alone transaction requiring ad hoc structuring.
7. **Economic Growth:** By improving access to finance for banks and businesses, both instruments support economic growth. Covered bonds provide stable funding for mortgages and public sector projects, while securitisation facilitates credit for a whole range of economic sectors, including SMEs, mortgages and consumer lending. It should also be noted that securitisation allows the optimisation of banks' balance sheets and therefore their profitability and efficiency, which is crucial for the return on capital of European banks.

We would like to underline that the development of capital markets is crucial for the whole EU. Covered bonds are widely issued in most EU countries, albeit not in all. Securitisation is even less used among Member States, as a consequence capital markets and the CMU project need to develop further, also by enlarging the tool-box of efficient financial instruments at the disposal of financial institutions and investors. In this context a review of the securitisation framework is welcome, as is a legislative proposal for European Secured Notes.

3. EMF-ECBC Policy Considerations

With a view to systemically reinforcing financial stability and supporting the real economy, the EMF-ECBC has long stood ready to take leadership in the development and promotion of market initiatives that could maximise the complementarity of covered bonds, ESNs and securitisation. Against this background, market participants' minds could be focused on:

- **Harmonisation in market-led disclosure:** Continue to work with market initiatives like the Covered Bond Label and the Harmonised Transparency Template (HTT) and share approaches and experiences with the securitisation community. The covered bond label is in fact driving harmonisation at a global level via transparency standards, disclosure best practices, and due diligence, thus building market confidence. The HTT is explicitly recognised by a number of EU supervisors as meeting the disclosure requirements of the Covered Bond Directive.
- **Proportionate product regulation:** Previous regulatory initiatives in the securitisation space gave rise to overly-stringent due diligence and transparency requirements, for example. A careful balance should always be struck in determining such requirements, regardless of the product, to ensure viability of the product whilst of course safeguarding investor protection and overall financial stability. The HTT described above can be considered as global market best practice in this respect.
- **Risk sensitive prudential treatment:** Robust prudential frameworks are of primary importance for both covered bonds and securitisation. An improvement of the prudential treatment for securitisation is warranted if the overall objective of developing the market further is to be pursued. It remains however of paramount importance for a that a robust, risk sensitive prudential regime is commensurate to the respective underlying characteristics and inherent risks of each product for all investors and issuers, whilst respecting market specificities.
- **Access to capital markets funding securing a competitive market environment:** Traditionally the European mortgage sector has been characterised by the broad use of capital market funding instruments which have secured a competitive and resilient market equilibrium in addition to providing solid long term investment opportunities for institutional investors, bank treasuries, asset managers and pension funds. We consider this significant contribution of the private sector to financial stability, coupled with a solid and

dynamic set of market good practices, to have contributed to a sound macroprudential ecosystem around Europe's housing markets. This has facilitated the careful and efficient calibration of public intervention and resources over the years, preventing market disruptions. Thanks to these instruments, European citizens have had widespread access to low-cost mortgages often with the option of a fixed rate, shielding the disposable income of millions of families from high inflation. Investors, for their part, have had access to a safe harbour asset class through stress scenarios. We believe that it is of paramount importance that this careful equilibrium between the private and public sectors be guaranteed as the cornerstone of a healthy, competitive market landscape.

- **Supporting ESG Innovation & Transition:** Further product innovation should be encouraged in both asset classes to adapt to changing financial landscapes and meet diverse funding needs. Market innovation such as extendable maturities, green covered bonds and ESNs represent intellectual innovation which has allowed the industry to adapt and perform robustly in a changing market and regulatory environment, with unprecedented policy dynamism. Moreover, the transition towards carbon neutrality requires huge efforts from both the private and public sectors. The latter could support this aim by providing guarantees or subsidies at the level of the borrower to facilitate, in this context, home energy performance renovation.

The revival of securitisation through a more risk-sensitive prudential calibration and more efficient due diligence and transparency requirements is an opportunity to secure a complementary and comprehensive European market toolkit allowing lenders and investors the broadest set of options for market access, with regulatory treatments reflecting the different risk profile, macroprudential features, credit support and supervisory regimes.

4. Role of European Secured Notes (ESNs)

The introduction of ESNs into the EU financial landscape through a legislative initiative to seal its regulatory recognition is an opportunity to diversify funding sources further. Indeed, ESN would be useful especially in times of market volatility where issuers can react quickly according to the economic context, whereas securitisation would finance SMEs through investors' differing risk appetites and would be issued via stand-alone transactions to be structured ad hoc and pursuing different goals through a risk sharing mechanism with other market participants.

Furthermore, ESNs are complementary to on-balance-sheet SME securitisation, which currently allows banks to transfer portions of their regulatory capital, allowing new credit issuance to the real economy. ESNs could therefore serve as a complementary tool to covered bonds and securitisation, particularly by broadening funding opportunities for SME loans. However, ESNs must be integrated into the broader EU regulatory framework in a way that does not undermine the existing stability of covered bonds. The EMF-ECBC strongly believes in the potential of ESNs and is committed to supporting the development of clear, balanced regulatory standards that promote their growth without diminishing the benefits offered by covered bonds and securitisation.

5. Recommendations and Conclusion

In conclusion, the EMF-ECBC reiterates its strong support for complementary and comprehensive regulatory frameworks that leverage the strengths of securitisation, covered bonds, and ESNs. Each instrument plays a unique and essential role in enabling lenders to access capital markets, transfer risks, and support the EU's broader strategic objectives, including fostering sustainability, SME growth, and competitiveness. A robust and competitive capital market will help drive sustainable economic growth across the EU.

The success of the Covered Bond Directive which aligned best practices across Member States in an established and already well-functioning market was the basis of the increased confidence in the covered bond market which we have seen since the reduction in ECB support measures and is the basis for the EU's global leadership in standard setting for that product. It forms an appropriate precedent for further Commission actions to further develop other markets.

We encourage the European Commission to consider these points as it reviews the future of the EU Securitisation Framework and stand willing to support your considerations and further work.

The EMF-ECBC remains at your complete disposal for any further developments.
