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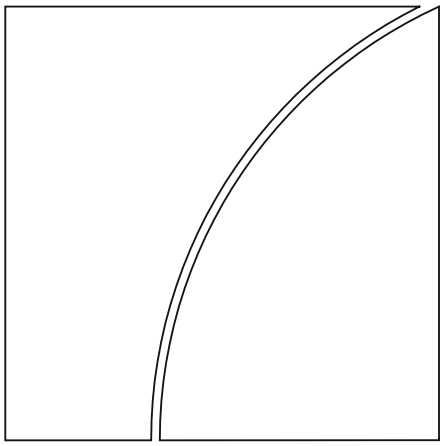

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Post-GFC securitisation reforms and new initiatives: a comparative analysis

by Rodrigo Coelho, Renzo Corrias and Jean-Philippe Svoronos

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Executive summary

The Great Financial Crisis (GFC) of 2007–09 exposed significant vulnerabilities in global securitisation markets, highlighting their role in amplifying systemic risks. In the years preceding the crisis, the rapid growth of securitisation, coupled with increasingly complex and opaque structures, revealed misaligned incentives, inadequate risk management and overreliance on external credit ratings. These shortcomings contributed to a cascading loss of confidence, widespread financial losses and the need for extraordinary government and central bank interventions.

In response, international standard-setting bodies (SSBs) introduced comprehensive reforms aimed at addressing the structural flaws in securitisation markets. These reforms sought to restore market integrity and resilience by reducing reliance on external credit ratings, enhancing risk sensitivity and improving transparency. Central to these efforts were the introduction of risk retention requirements to align the interests of originators and investors; stricter capital requirements to ensure adequate loss absorption capacity; and the development of criteria for simple, transparent and comparable (STC) securitisations to encourage safer and more comprehensible structures.

Despite their role in the GFC, securitisation markets remain an important tool of the global financial system. They provide a critical mechanism for funding, risk transfer and capital relief, enabling financial institutions to access alternative sources of liquidity, diversify funding, manage credit risk and diversify investment opportunities for investors. In particular, by converting illiquid assets into marketable securities, traditional securitisation facilitates the efficient allocation of capital, supports financial intermediation and contributes to economic growth.

Since the implementation of post-GFC reforms, securitisation markets have followed divergent trajectories. While some markets have experienced robust recoveries, activity levels in other markets remain subdued. This divergence has sparked debate over the unintended consequences of the reforms applied in some jurisdictions, including concerns that overly conservative or prescriptive regulatory requirements may have dampened securitisation activity. At the same time, other factors likely played a role in the development of post-GFC securitisation markets: the implementation of the post-GFC securitisation frameworks took several years, and various economic conditions, including a disruptive pandemic, loose monetary policies and geopolitical tensions, were not conducive for securitisation and market-based funding more broadly.

A key challenge lies in balancing different policy objectives. While the reforms have undoubtedly enhanced the resilience of the financial system, in certain jurisdictions their implementation at the national level has introduced operational complexities and compliance burdens that risk discouraging market participation. Furthermore, there is a growing perception in some jurisdictions that the calibration of capital requirements for securitisation exposures may lack sufficient risk sensitivity, potentially leading to inefficiencies and distortions in resource allocation. In response, some jurisdictions have undertaken initiatives to adjust their securitisation frameworks.

[1] Rodrigo Coelho (rodrigo.coelho@bis.org), Renzo Corrias (renzo.corras@bis.org) and Jean-Philippe Svoronos (jean-philippe.svoronos@bis.org), Bank for International Settlements. We are grateful to Jeffery Yong for his helpful comments. We are also grateful to the financial sector authorities and private sector representatives who generously shared their perspectives during interviews, noting that statements made in the paper may not necessarily fully reflect their views. We would also like to thank Theodora Mapfumo, who provided valuable administrative support.

Ongoing regulatory initiatives in the United Kingdom (UK) and the European Union (EU) seek to increase risk sensitivity and reduce unwarranted regulatory burden. In addition to changes to the design and calibration of the capital requirements for banks' and insurers' exposures to securitisation, the initiatives aim to reduce the operational burden of due diligence and disclosure requirements, provide more consistent outcomes in the assessment of significant risk transfer (SRT), and ease some risk retention requirements and eligibility criteria for liquidity requirements.

Incremental changes may not be sufficient to revitalise European securitisation markets, since structural factors beyond regulation play a significant role in market dynamics. Differences in the dynamism of EU and United States (US) securitisation markets cannot be explained by regulation alone. The US benefits from a single, integrated market with strong support from government-sponsored agencies and a broad investor base, while Europe relies on smaller, fragmented national markets. These structural factors have likely driven some of the observed differences. While the revisions may provide targeted relief and address some immediate issues, they risk addressing symptoms rather than root causes and may lead to further fragmentation when introduced by only some jurisdictions.

Looking ahead, the path to further revising securitisation frameworks must be navigated with caution. While there is merit in introducing reforms to securitisation frameworks aimed at fostering competitiveness and stimulating economic growth, it is crucial to safeguard the core objectives of the post-GFC reforms. Additionally, any changes should be pursued through a globally coordinated effort in order to ensure regulatory consistency, minimise the risk of arbitrage, and maintain robust prudential standards and a level playing field among market participants.

Section 1 – Introduction

1. **Securitisation techniques can provide important benefits to originators.** In a traditional securitisation, the originator sells assets to a special purpose vehicle (SPV), which then issues tradable securities backed by those assets and sells them to investors. Accordingly, these securitisations can be an important source of funding for banks and, increasingly, for non-bank financial institutions (NBFIs), allowing them to diversify their funding sources. Additionally, securitisation allows originators to actively manage the credit risk of their portfolios by selling the underlying assets (in a traditional securitisation) or transferring their credit risk (typically in a synthetic securitisation) to third parties.[2]

2. **Securitisation can also provide originating banks with regulatory capital relief**. Because regulatory capital requirements cover unexpected losses that may arise from the exposures held by the originating bank, by transferring those exposures off their balance sheet (in a traditional securitisation) or transferring their credit risks to protection providers (in a synthetic securitisation) banks can "free up" regulatory capital previously tied to those exposures. This capital can be redeployed by the bank in various ways, such as improving the bank's capital ratios, supporting additional lending or distributing the surplus capital to shareholders.

3. **Additionally, the most senior traditional securitisation exposures, when held or retained by banks, may serve as collateral for central bank liquidity facilities.** These senior positions are often considered high-quality assets. Recognising their creditworthiness, some central banks permit their use as collateral in their liquidity facilities. Consequently, while these high-quality assets may not be fully liquid in secondary markets, their credit quality allows banks to pledge them as collateral for funding.[3]

4. **Securitisations can also provide benefits to investors.** By widening the scope of their potential investments, securitisation allows investors to allocate resources in asset classes that may be otherwise inaccessible. This also allows them to diversify their investments and to invest in asset classes with durations that better match those of their liabilities.[4]

5. **Securitisation techniques can also be beneficial from a system-wide perspective.** By providing an additional source of funding and by allowing for risk transfers from originators to investors, securitisation can foster better allocation of resources, more funding and credit risk diversification and, as a result, more credit availability and deeper capital markets.

6. **However, issuing or investing in securitisation transactions entails managing a range of risks.** These include credit risk, such as that related to higher than expected default rates among the underlying exposures; market risk, with fixed-income securities losing value when market conditions change; and liquidity risk, especially when market conditions shift dramatically such that originators and investors struggle to issue and sell, respectively, securities as markets become illiquid. To these should be added agency risk and various operational and model risks, including the mishandling of data; inadequate due diligence and disclosures; legal, compliance and litigation risks; and servicer risks. The risks related to securitisation were highlighted by the Great Financial Crisis (GFC) of 2007–09.

[2] In a synthetic securitisation, credit risk is transferred through a guarantee or a credit derivative, but the underlying portfolio of exposures remains on the originator's balance sheet.

[3] Additionally, certain securitisations, such as residential mortgage-backed securitisations (RMBS) rated at least AA and meeting certain operational requirements, can be classified as "high-quality liquid assets" (HQLAs) under the Liquidity Coverage Ratio (LCR) standard. See BCBS (2013) for further details.

[4] Examples include access to residential mortgages through RMBS for insurance (particularly life insurers) and reinsurance firms, allowing them to add to their traditional government bond and property investments.

The role of securitisation in the GFC

7. **In the years leading up to the GFC, US securitisation played a key role in fuelling a credit boom and a housing price bubble**.[5] Following an economic slowdown in 2001, the Federal Reserve cut interest rates in the US multiple times. This spurred growth in construction and housing demand, with nationwide house prices rising on average by 9.8% annually between 2000 and 2003. During the same period, subprime loan origination roughly doubled, with the share of securitised subprime loans rising from 52% in 2000 to 63% in 2003.[6] More generally, between 1998 and 2007, securitisation grew from 30% to close to 50% of all new US credit issuance.[7] In 2006, subprime lending accounted for almost a quarter of all mortgage origination, compared with an average of just 8.5% between 1996 and 2003.[8]

8. **On the supply side, credit growth was increasingly driven by declining lending standards and the originate-to-distribute model.** To continue expanding their balance sheets, US banks and other mortgage lenders,[9] having fulfilled demand from prime residential mortgage borrowers, turned to non-prime borrowers.[10] Declining lending standards, with lower denial rates, higher loan-to-value (LTV) ratios, reduced borrower documentation and "non-traditional" mortgages,[11] became widespread. The adoption of the originate-to-distribute model, in which lenders originated loans to securitise them and sell them to investors rather than to hold them on their balance sheets, further reduced incentives for screening and monitoring borrowers. This approach prioritised growth over loan quality, contributing to the rapid expansion of subprime lending and securitisation.

9. **The development of collateralised debt obligations (CDOs) further sustained supply by creating demand for lower-rated mezzanine tranches of mortgage-backed securities (MBS).**[12] Originators repackaged these mezzanine MBS tranches from multiple transactions into CDOs, issuing tranches with various levels of seniority. Approximately 80% of these CDO tranches were rated AAA. Between 2003 and 2007, nearly USD 700 billion in CDOs with MBS collateral were issued as part of the securitisation boom.[13]

10. **On the demand side, investors' appetite for securitisation grew significantly, spreading globally.**[14] Securitisations offered the opportunity to invest in senior and AAA-rated tranches with yields exceeding those of similarly rated bonds. These features attracted a wide range of investors, including banks, fund managers and pension funds, particularly in Asia and Europe, where credit growth was slower at the time. The ability to customise tranches to fit various needs and risk appetites further broadened

5 See Chapter 7 of Deku and Kara (2017) and Chernenko S, S. Hanson and A. Sunderam (2014) .

6 See Chapter 6 of FCIC (2011).

7 See Solomon (2012).

8 See Chapter 7 of FCIC (2011).

9 While subprime securitisations in the US market were largely originated by US banks and non-bank mortgage lenders, non-US investment banks also played a large role, whether by buying loans from third parties, securitising loans originated in the US or providing a range of services to securitisation transactions (such as liquidity lines).

10 In the US, securitisation of non-prime residential mortgages, including both alt-A and subprime mortgages, began in the mid-1990s. Alt-A mortgages are not prime mortgages because of their high loan-to-value (LTV) ratios and/or reduced documentation.

11 Non-traditional mortgages refer to large (jumbo) mortgages as well as mortgages with special repayment features, such as interest-only mortgages (IO mortgages), adjustable-rate mortgages (ARMs) or mortgages with negative amortisation features (NegAm mortgages).

12 Those lower-rated tranches were generally still investment grade, typically rated between A and BBB.

13 See Chapter 8 of FCIC (2011).

14 See Chapter 8 of FCIC (2011).

demand. Financial guarantee insurers also expanded into the provision of insurance on securitisation, including CDOs and subprime MBS.[15]

11. **Securitisation markets collapsed in 2008.**[16] By 2006, US house prices peaked and began to decline, eventually falling by 28% end-2009. Mortgages in serious delinquency,[17] which had been at around 1% earlier in the decade, surged to 9.7% by end-2009, with subprime adjustable-rate mortgages (ARMs) experiencing an average delinquency rate of 40% across US states. Rising delinquencies triggered massive credit rating downgrades, leading to the collapse of the securitisation markets. From mid-2007 to end-2008, issuance of subprime MBS, CDOs and even securitised credit card loans ceased. The resulting widespread losses among originators, investment banks and investors culminated in a global financial crisis and a sharp recession, necessitating extraordinary government and central bank interventions.

12. **Credit rating agencies (CRAs) played an enabling role in the financial meltdown.**[18] According to the Federal Crisis Inquiry Commission (FCIC), subprime MBS and CDOs could not have been issued in such large volumes without favourable ratings, many of which were later revealed to be inflated. The FCIC also found that CRA methodologies underestimated the complexity and correlation risk of securitised products and that CRAs faced potential conflicts of interest as issuers paid for ratings and may have lacked resources to ensure accurate ratings. When the flaws in rating became evident, the subsequent waves of downgrades in 2007 and 2008 led to market illiquidity, widespread losses and a loss of confidence in securitisations.[19]

13. **Investors, originators and regulators over-relied on CRA ratings.** Investors, relying on CRAs' long-standing reputation in corporate and government bond markets, often neglected their own due diligence, which left them unaware of the risks they were taking. Similarly, originators faced high legal risks and huge fines for mispresenting the quality of their securitised assets. Regulators' reliance on ratings for capital requirements also meant that flaws in CRA methodologies led to underestimation of risks and capital requirements.

The post-GFC regulatory response and the current debate over the regulatory frameworks for securitisation

14. **In response to the flaws revealed by the GFC, standard-setting bodies (SSBs) introduced reforms to strengthen securitisation markets, which were subsequently implemented in national jurisdictions**. The key objectives of these reforms were to reduce mechanistic reliance on external ratings, to make the securitisation framework more risk-sensitive and more prudent in its calibration and to give banks incentives to improve their due diligence and issue securitisations using less complex and more transparent structures, backed by good-quality assets. These reforms involved measures affecting the supply side, such as the introduction of risk retention and enhanced disclosure requirements, and the demand side, including revised capital requirements for banks holding securitisation exposures and stricter due diligence requirements.[20]

15 See The Joint Forum (2010).

16 See Chapter 11 of FCIC (2011).

17 Defined as those that are 90 days past due or in foreclosure.

18 See Deku and Kara (2017).

19 For instance, in July 2007, Moody's downgraded 399 subprime MBS rated Baa or lower that had been issued in 2006. Standard & Poor's downgraded 498 similar tranches a few days later. In both cases, downgrades averaged four notches per security. In October 2007, Moody's downgraded another 2,506 tranches, including almost 600 that were originally rated Aaa or Aa. By the end of 2008, Moody's had downgraded 83% of all 2006 Aaa MBS tranches, all Baa tranches and more than 90% of all tranches of CDOs.

20 See Section 3 for further details on the post-GFC reforms for securitisation.

15. **Since the post-GFC regulatory reforms, securitisation markets have evolved unevenly across major jurisdictions, fuelling a debate over the role of regulatory frameworks in driving these divergent outcomes**. Some stakeholders argue that the post-GFC regulatory requirements may have become overly burdensome, creating unintended barriers or inefficiencies that have hindered the revival of securitisation markets in some jurisdictions. As these markets continue to evolve, attention is increasingly focused on the extent to which targeted regulatory initiatives, especially in the UK and the EU, could ease some of the post-GFC reforms with the stated goal of reducing prescriptiveness and conservatism and improving risk sensitivity. This could enhance market efficiency and better promote the role of securitisation as a funding and risk transfer tool that contributes to economic growth.

16. **This paper aims to provide evidence-based analysis that could help shed light on three aspects of the ongoing debate on securitisation.** The first is whether and to what extent the post-GFC securitisation reforms have achieved their objectives. The second is whether these reforms have resulted in unintended consequences. Finally, the third is whether there is a need to revise the regulatory framework for securitisation.

17. **Accordingly, the remainder of the paper is structured as follows.** Section 2 defines securitisation, outlines the main types of transactions, and provides a brief overview of securitisation markets in the US, the EU and the UK. Section 3 discusses the key objectives and features of the post-GFC securitisation reforms, while Section 4 sets out the national implementation of those standards, highlighting the key differences in capital, risk retention, due diligence and disclosure requirements across jurisdictions. Section 5 discusses recent reforms and proposals in the UK and the EU aimed at revising their securitisation frameworks. Finally, Section 6 summarises the key findings and conclusions.

Section 2 – Securitisation markets

Definitions and structures

18. **There are two main types of securitisation: traditional and synthetic.** For regulatory capital purposes, the Basel Framework issued by the Basel Committee on Banking Supervision (BCBS) defines a securitisation as a structure with at least two stratified credit risk positions or tranches of securities with different levels of credit risk and seniority.[21] The Basel Framework differentiates between traditional securitisations (also called true sale securitisation), in which the cash flow from an underlying pool of exposures is used to service the tranches, and synthetic securitisations, in which the credit risk of the underlying exposures is transferred, in whole or in part, to investors through the use of funded (eg credit-linked notes, or CLNs) or unfunded (eg credit default swaps) credit derivatives or guarantees. In both types of securitisation, the investors' potential risk is dependent upon the performance of the underlying pool.[22]

19. **The key actors in the securitisation process are originators, sponsors, SPVs and investors.** In a traditional securitisation, the originator (generally a bank or financial company) sells a pool of assets to an SPV, usually with the support of a sponsor (eg an investment bank). The SPV then issues securities backed by these assets, passing principal and interest payment from the collateral to investors. The securities reflect tranching of the pool, with different levels of subordination driving different payment

[21] See BCBS (2014). The definition of a securitisation for regulatory purposes, which is used in this paper, is narrower than the generic market definition. In practice, pools of income-producing assets can be transformed into tradable securities and termed securitisations by market participants without being tranched and therefore without qualifying as securitisations for regulatory purposes.

[22] The tranched structures that characterise securitisations differ from ordinary senior/subordinated debt instruments in that junior securitisation tranches can absorb losses without interrupting contractual payments to more senior tranches, whereas subordination in a senior/subordinated debt structure is a matter of priority of rights to the proceeds of liquidation.

priorities and distinct levels of exposure to losses. In a synthetic securitisation, the originator retains the assets on its balance sheet and simply transfers the associated credit risk to the investors (with or without an SPV), who are compensated for assuming this risk.

20. **The securitisation market encompasses a diverse array of transactions, backed by a wide range of exposures.**[23] In most jurisdictions, MBS, which are backed by pools of mortgages, are the largest segment of the market. Their purpose is mostly to provide funding for mortgage lending. MBS can be divided into securitisation backed by residential mortgages (RMBS), which generally make up the largest share, and securitisation backed by commercial mortgages (CMBS), which may include offices, shopping malls and hotels as collateral. Other transaction types include asset-backed securities (ABS) backed by pools of non-mortgage assets, such as auto loans, credit card receivables, student loans or equipment leases, as well as CDOs and collateralised loan obligations (CLOs).[24] Asset-backed commercial papers (ABCP), which are a form of commercial paper backed by a pool of short- to long-term assets, make up a smaller portion of securitisation markets.[25]

Key features of major securitisation markets

21. **The US securitisation market is, by far, the largest globally and is dominated by traditional RMBS issued by government-sponsored enterprises (GSEs)**. The total outstanding amount is estimated at approximately EUR 13 trillion (Graph 1.A).[26] Traditional securitisation dominates the US market, while synthetic securitisation makes up less than 2% of the market. Approximately two thirds of US traditional securitisation outstanding are government-guaranteed transactions, issued by GSEs such as Fannie Mae and Freddie Mac and backed by conforming residential mortgages originated by banks and credit unions.[27] Non-government-guaranteed traditional securitisations are primarily made up of RMBS, CLOs and ABS (Graph 1.B) and are equivalent to 8% of all credit to the private non-financial sector in the US. The major investors of US securitisation include asset managers, insurers and banks, as well as pension funds and hedge funds.[28]

22. **The EU securitisation market is the second largest globally, with banks acting as the primary issuers and holders while government-guaranteed transactions remain limited.** The EU securitisation market had an estimated outstanding amount of approximately EUR 1.4 trillion as of end-2024 (Graph 1.A). Traditional securitisation represents more than 70% of the EU market, even though the issuance of synthetic securitisations has been growing at a fast pace in recent years. In contrast with the US, banks are the primary issuers of EU securitised products and government-guaranteed securitisation is very limited due to EU rules prohibiting any state aid that distorts competition and trade

[23] Although most securitised exposures are financial assets, it is possible to securitise just about any asset that has predictable cash flows, with examples of transactions including royalty payments, cinema revenues or Formula One rights.

[24] CDOs issued in the run-up to the GFC primarily used subprime MBS, ABS and even tranches of other CDOs. Issuance of CDOs has shrunk significantly since the GFC and has virtually disappeared in some markets. CLOs are backed by simpler and more diversified pools of leveraged loans, i.e. loans to firms with high debt and which are typically rated below investment grade. The CLO market has been growing rapidly in recent years and now makes up a sizeable portion of the securitisation markets in major jurisdictions.

[25] Just like commercial papers, ABCPs are short-term funding instruments with maturities generally ranging from one day to nine months (and averaging about 30 days). ABCPs are typically issued through ABCP programmes (or conduits).

[26] Producing a precise snapshot of the major securitisation markets is challenging due to significant data limitations. These include the lack of comprehensive and globally consistent data and the general lack of information on privately placed securitisations, which can constitute a sizeable proportion of the securitisation market. In particular, the outstanding volume figures for the US market are based on Q4 2021 data supplemented by estimations by FSB (2025) and IACPM (2025).

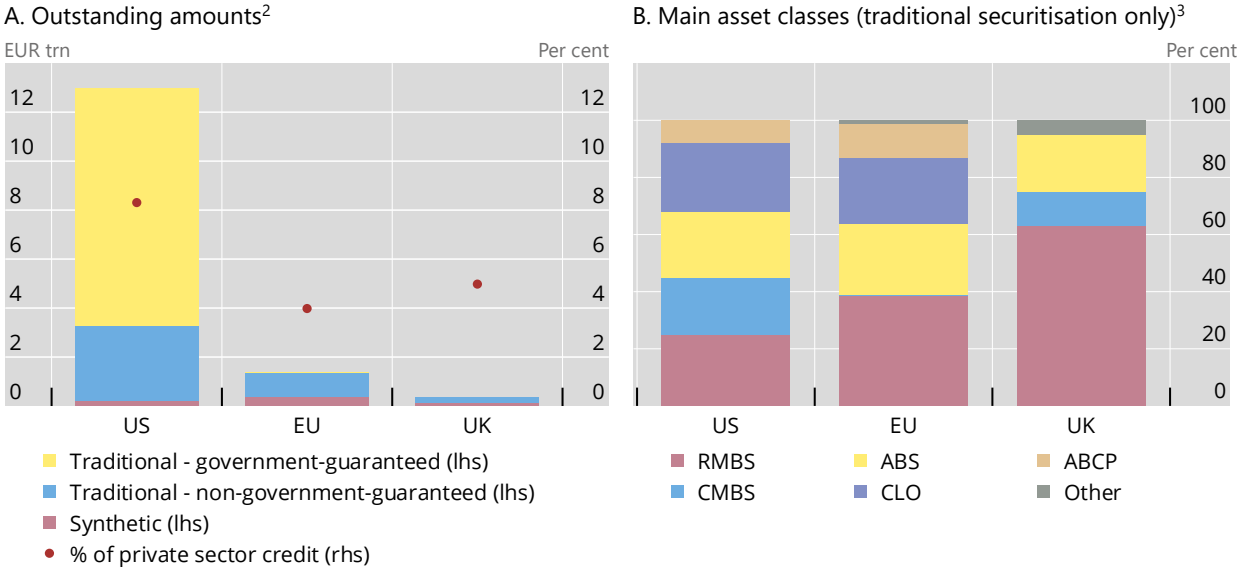
[27] A conforming loan is a mortgage with terms and conditions that meet the criteria set by Fannie Mae and Freddie Mac (for instance in terms of maximum loan size and credit quality). Mortgages meeting these criteria can be bought by the two agencies from lenders and are then securitised by them.

[28] See FSB (2025).

within the EU.[29] Excluding government-guaranteed securitisations, the outstanding volume of the EU market is approximately a third of the US market, equal to about 4% of all credit to the private non-financial sector in the EU. RMBS and ABS make up almost two thirds of the EU market, followed by CLOs (Graph 1.B). EU banks are also the main holders of EU securitisation, as they usually retain more than half of the transactions they originate, with the most senior exposures often pledged as collateral when accessing liquidity from their central banks.[30] Other major investors are investment funds and insurance companies.[31]

23. **The UK securitisation market is smaller than the US and EU markets in absolute terms and is dominated by traditional securitisations, with banks serving as the primary issuers and holders.** As of end-2024, the UK securitisation market had an estimated outstanding amount of approximately EUR 350 billion, equivalent to 5% of credit to the private non-financial sector in the UK (Graph 1.A). Traditional securitisation makes up almost two thirds of the market, with RMBS being the dominant asset class, followed by CMBS and ABS (primarily credit cards, auto loans and student loans) (Graph 1.B). Like in the EU, banks are the primary issuers of securitised products and government-guaranteed securitisation is limited, though certain government mortgage guarantee schemes have indirectly supported some securitisation activities. Like EU banks, UK banks retain a significant amount of their securitisation issuance to be used as collateral to back borrowing from the central bank.

Snapshot of selected securitisation markets[1] Graph 1



[1] Outstanding market size as of end-2024, except for the US, for which the value is an estimate since complete US outstanding data are only available up to Q4 2021. Figures refer to public deals only. CLOs are not included in the figures for the UK but are rather shown in the EU row as this is a pan-European market (UK leveraged loan collateral is approximately 16% of the European CLO market). [2] Per cent of private sector credit refers to traditional securitisations which are not government-guaranteed. [3] No breakdown available for outstanding ABCPs in the UK.

Sources: AFME (2025a); FSB (2025); FSI calculations; BIS credit statistics.

24. **While often referred to as a single market, in practice the EU securitisation market is a collection of members states' national markets.** Most of the traditional securitisation activity in the EU is concentrated in a handful of countries: as of end-2024, more than 80% of the collateral in outstanding securitisation was originated in France, Italy, Spain, the Netherlands and Germany (Graph 2.A). Relative to

[29] Exceptions include government guarantees for securitisation of non-performing loans (NPLs) and public sector protection for synthetic securitisation transactions backed by SME loans provided by the European Investment Fund.

[30] Therefore, retained issuance – as opposed to selling the issue in the market – does not represent genuine investor demand but rather is used as a tool to obtain central bank liquidity. This is not the case in the US.

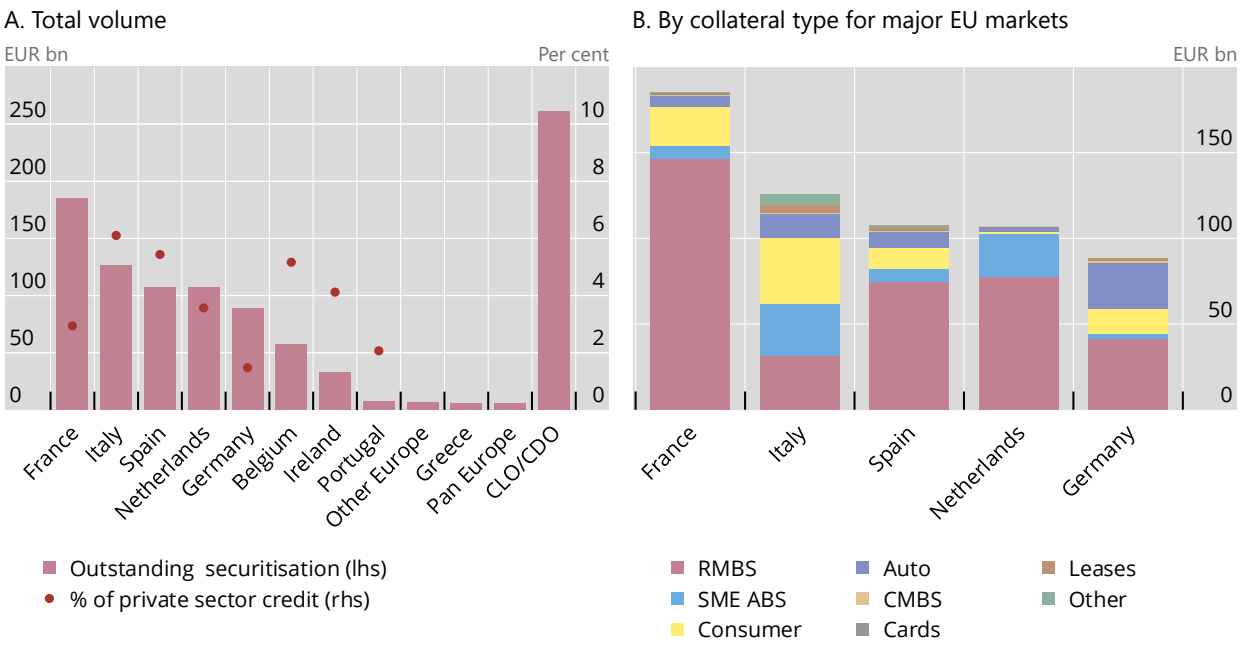
[31] See FSB (2025).

the size of credit to the private non-financial sector in each respective jurisdiction, the securitisation market is the largest in Italy and Spain and relatively small in Germany. The truly pan-European securitisation market, in which assets from different jurisdictions are pooled together, is very small, reflecting in part differences in legal frameworks (e.g. tax and insolvency regimes) and the heterogeneity of securitised products across member states.[32] In practice, this heterogeneity poses challenges to both originators and investors, as key risk metrics are more difficult to estimate when the underlying pools are not homogeneous. Moreover, investors may prefer products with jurisdiction-specific features with which they are familiar, if only to limit their exposure to legal risks.

25. **There are also marked differences across EU member states with respect to the types of collateral used**. While RMBS dominate the market in most jurisdictions, particularly in France, Spain and the Netherlands, Italy and Germany have somewhat more diversified markets (Graph 2.B). In Italy, securitisation is primarily backed by ABS, followed by RMBS and small and medium enterprises (SME) ABS. Securitisations have also been used extensively by Italian banks to offload non-performing loans (NPLs) from their balance sheets, with the benefit of a state guarantee scheme which ran from 2016 to June 2022.[33] In Germany, auto loans and RMBS make up the bulk of the market. Recently, sustainable securitisations have also emerged, driven by the EU's green finance agenda and efforts to develop a common framework for these transactions.[34]

Outstanding traditional securitisation in the EU

By country of collateral as of end-2024; public issuance only[1] Graph 2



[1] Outstanding volumes of CLOs/CDOs are not available at country level and include the UK and Switzerland. A breakdown of CLOs and CDOs is not available, but the volume is expected to comprise mostly CLOs. Data do not include ABCP.

Sources: AFME (2025a); FSI calculations; BIS statistics.

[32] The pan-European securitisation market is primarily made up of CLOs, for which the volume of large commercial loans in any single jurisdiction at any specific point in time might not be sufficient to support securitisation on a large scale.

[33] During that period, about 53% of bad loans were sold through 46 securitisation transactions backed by the state guarantee, with the underlying loans of these transactions summing up to an aggregate gross and net book value of EUR 117.8 billion and 28.2 billion, respectively (FSB (2024)). The state guarantee scheme appears to also have contributed to the development of an active, non-assisted market for "unlikely to pay" (as opposed to defaulted) corporate loans.

[34] See EBA (2022).

Evolution of securitisation markets

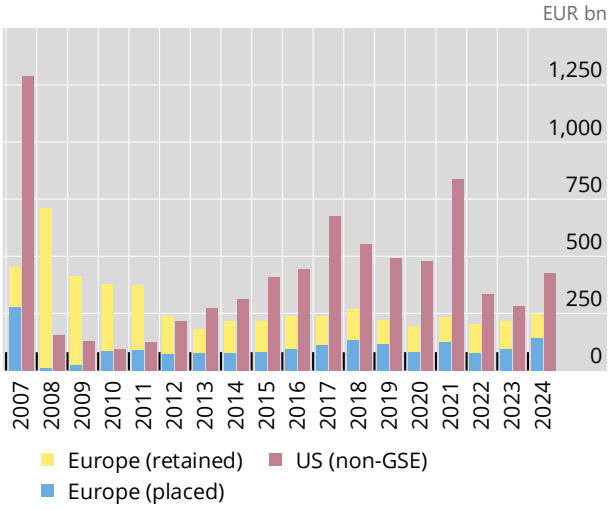
Traditional securitisation

26. **Following the period of rapid credit growth leading up to the GFC, securitisation markets contracted significantly worldwide due to reduced investor confidence.** In Europe (including the UK), traditional securitisation issuance plummeted from its peak in 2008 to a low in 2013 (Graph 3.A). Since then, issuance has stabilised at modest levels, with a significant portion retained by originators, usually for collateral purposes. This contrasts sharply with the first half of 2007, when virtually all European issuance was sold to investors.[35] Meanwhile, issuance in the US began to recover from 2014 onwards, primarily driven by MBS backed by GSEs, with issuance volume surpassing its pre-GFC level in 2020 (Graph 3.B). This resurgence was fuelled by historically low interest rates and a significant increase in CLO issuance. However, a sharp decline followed from 2022 onwards as rising interest rates and inflation dampened activity, with only a moderate recovery in 2024. Notably, while the current issuance of non-GSE US securitisation far exceeds issuance in Europe, it is also still well below its pre-GFC levels.

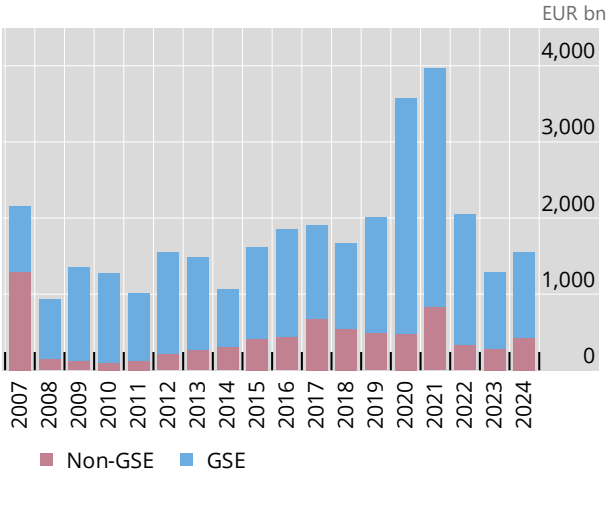
Evolution of major securitisation markets

Issuance of traditional securitisation — Graph 3

A. US and European securitisation[1]



B. US securitisation[2]



[1] US banks do not generally retain securitisation tranches that they originate. Europe also includes the UK and Switzerland. [2] GSE indicates issuance by government-sponsored enterprises such as Fannie Mae and Freddie Mac.

Sources: AFME (2025a); SIFMA (2008); FSI calculations.

27. **The relatively smaller size of the EU securitisation market is partly explained by the prominence of covered bonds.** While both securitisations and covered bonds are secured by pools of assets (primarily – but not exclusively – mortgages), there are important differences between the two instruments. Covered bonds typically provide dual recourse, granting investors both claims against the issuing institution and a senior claim on the collateral in the event of the issuer's insolvency, while in securitisations investors only have claims against the underlying collateral. Additionally, covered bond frameworks require overcollateralisation, and originators must replace defaulted assets with performing ones to maintain the pool's credit quality so that there is no risk transfer. Moreover, banks holding covered bonds have benefited from a more favourable liquidity and capital regulatory treatment compared with that for securitisation exposures, and covered bonds enjoy preferential repo treatment at the European Central Bank (ECB). This makes them more appealing for bank investors and helps lower funding costs for originating banks. At the same time, covered bonds only provide funding, while some traditional

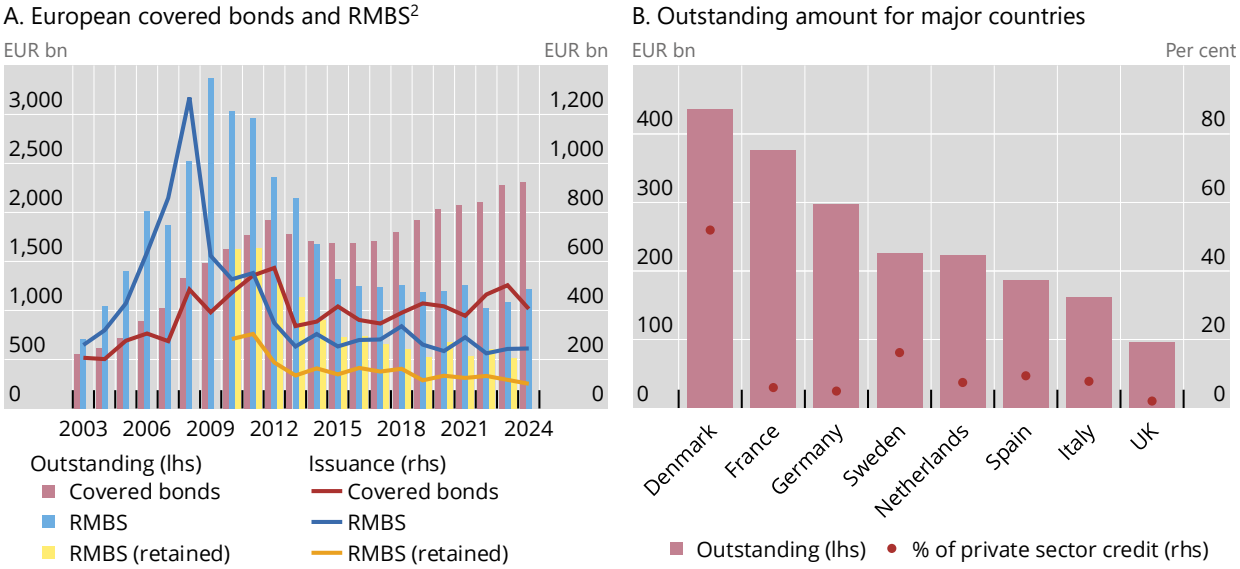
[35] For more details, see SIFMA (2008).

securitisation transactions can both provide funding and enable capital relief and credit risk management. By transferring the credit risk of the underlying exposures, securitisation allows banks to reduce their overall risk exposure, free up regulatory capital and, in the case of traditional securitisations, improve their leverage ratio. Securitisation also provides more flexibility in asset selection and structuring and can be applied to virtually any asset class that has predictable cash flows. This allows originators to tailor securitisation transactions to meet specific investor demands.

28. **Covered bond and securitisation markets were of comparable size across jurisdictions in Europe up to the GFC, but covered bond markets have since become significantly larger.** Although they were also affected by the GFC and while issuance slumped in 2008, the covered bond markets in Europe remained open for longer than the securitisation markets during both the GFC and the subsequent EU sovereign debt crisis. This allowed issuers to continue to raise funding for several months after the RMBS markets had closed. Moreover, several EU jurisdictions issued new or revised covered bond legislation that provided better protection to investors.[36] At the end of 2024, the outstanding amount of mortgage-backed covered bonds in the EU and the UK was almost twice as large as the outstanding volume of RMBS, and issuance was almost 70% greater (Graph 4.A). The difference is even more marked when considering that only about half of RMBS transactions are sold to investors, with the rest retained by the originators. As with the securitisation market, there is no single EU covered bond market, but rather a collection of member states' national markets (Graph 4**Error! Reference source not found.**.B).

29. **In practice, covered bonds have become one of the main tools used by European banks and specialised mortgage lenders for tapping capital markets for funding purposes.** This has greatly reduced the need for EU banks to issue RMBS for funding purposes. European banks tend to reserve their best collateral (prime and higher-quality mortgages) for their covered bond programmes rather than for securitisation. Moreover, a highly rated covered bond typically offers investors a safer investment than does a RMBS senior tranche with a similar rating, which may have dampened demand for the latter.[37]

European covered bond markets[1] Graph 4



[1] Covered bonds backed by mortgages only. [2] Data include the EU and the UK. RMBS = residential mortgage-backed securities.

Sources: AFME (2025a); European Covered Bond Council (2025); FSI calculations; BIS statistics.

[36] See Anguren Martín et al (2014).

[37] In the US, there is currently no covered bond legislation and there are no outstanding covered bonds.

Synthetic securitisation

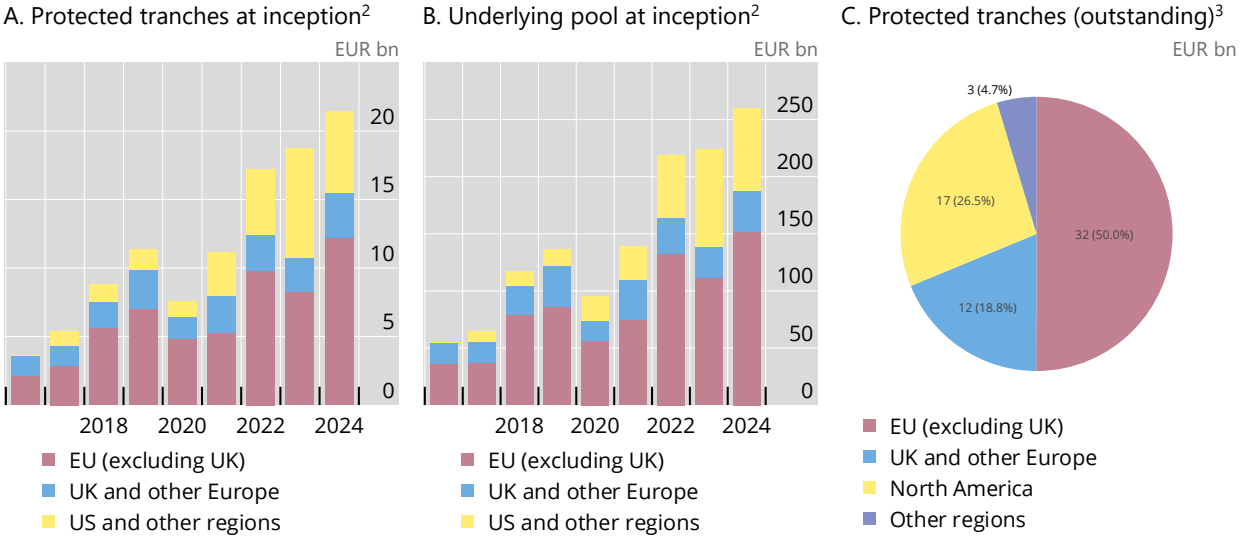
30. **Banks have increasingly used synthetic securitisation to reduce capital requirements.** While still low compared with traditional securitisation, issuance of synthetic securitisations has increased substantially in recent years (Graph 5.A). The tranches that have received credit protection represent, on average, 8% of the size of the underlying pools, covering first-loss (most common in the US and the UK) and/or mezzanine tranches (most common in the EU) (Graph 5.B). At the end of 2024, EUR 64 billion of junior and mezzanine tranches protected underlying pools of more than EUR 700 billion in aggregate (Graph 5.C). In the EU, the annual volume of protected tranches increased almost six-fold between 2016 and 2024. The structure of EU markets for synthetic securitisations has also evolved. While some tranches of synthetic securitisations were both rated and traded prior to the GFC, current transactions are typically unrated and tailored to specific investor needs. In the UK, annual volume has more than doubled in the same period, and in the rest of the world (including the US) volume has also increased significantly in the last few years. Issuance of synthetic securitisation has typically been concentrated with global systemically important banks. Corporate loans make up most of the underlying assets in each jurisdiction.

31. **The rapid growth of synthetic securitisations has raised concerns over potential risks to financial stability.**[38] First, synthetic securitisations can increase interconnectedness, as investors often procure funding from other banks or NBFIs. Consequently, the risk transferred by the bank to the investor may – at least partially – return to the banking system, especially as banks issuing synthetic securitisations often also provide funding to investors. This issue can be exacerbated when the interconnections are complex and opaque such that it is not clear who ultimately is bearing the transferred risk. Unfunded synthetic securitisations also increase interconnectedness by exposing the issuing bank to the counterparty credit risk of the investor and the financial system to possible risk concentrations on the investor side, as was the case in the build-up of the GFC. Second, using the capital freed up via synthetic securitisations to increase lending or to pay dividends or buy back shares increases a bank's leverage, making the bank and the financial system more vulnerable during a downturn. Third, synthetic securitisations expose banks to rollover risk, as matured transactions would need to be replaced with new ones to maintain the capital relief. In periods of market stress, higher credit risk may deter investors from rolling over their protection, exposing banks to a sudden and procyclical increase in capital requirements. Rollover risk is exacerbated when there are mismatches between the maturity of the deal and that of the underlying pool of assets, as well as when the investor base is concentrated. Risks from the growing use of synthetic securitisations have been the focus of recent public statements by various authorities.[39]

[38] See Cortes et al (2025) for a detailed discussion of the evolution of the synthetic securitisation markets.

[39] See for example EBA (2025), ECB (2025a,b), ESRB (2025), IMF (2024) and PRA (2025a).

Synthetic securitisation markets[1] Graph 5



[1] The data include the 40 largest global and regional institutions active in the significant risk transfer (SRT) market. [2] Other regions include Canada and Asia. [3] Outstanding amounts as of end-2024. Values in brackets indicate the share across regions.

Source: IACPM (2025).

Section 3 – Post-GFC reforms for securitisation

32. **The GFC exposed significant vulnerabilities in securitisation markets, prompting regulators to implement comprehensive reforms to enhance the resilience of the financial system.** Central to these reforms were strengthened capital requirements for banks, designed to ensure that financial institutions hold sufficient capital to absorb potential losses associated with securitisation exposures. In addition, risk retention requirements were introduced to align the interests of originators and investors. Enhanced disclosure requirements were also established to improve transparency and enable market participants to make more informed investment decisions. Furthermore, due diligence requirements were reinforced to ensure that originators and investors conduct thorough assessments of the underlying assets and associated risks. Collectively, these measures aimed to restore confidence in securitisation markets and mitigate the systemic risks that had become evident during the crisis.

Prudential requirements for banks

33. **The Basel securitisation framework sets out prudential requirements for banks' securitisation exposures.** In addition to the scope and definitions of transactions that qualify as securitisation for regulatory purposes (as presented in Section 2), the Basel securitisation framework sets out the operational requirements for recognising a significant risk transfer (SRT) and the approaches for determining the capital requirement applicable to a securitisation exposure. These include a hierarchy of approaches for determining the risk weights used for capital charges, as well as specific capital treatments for simple, transparent and comparable (STC) securitisations and for securitisations of NPLs.

Requirements for the recognition of SRT

34. **The SRT requirements are intended to ensure that the originator has transferred significant credit risk to third parties.**[40] For traditional securitisations, SRT is assumed when the transaction meets the conditions for a true sale. These include: (i) the legal isolation of the transferred assets, which must be put beyond the reach of the transferor and that of its creditors, even in bankruptcy or receivership; (ii) the full transfer of risks and benefits associated with the exposures, and therefore the transferee's right to freely pledge or exchange the transferred assets; and (iii) the transferor's relinquishment of effective or indirect control over the transferred assets. Accordingly, the securities issued cannot be obligations of the transferor, and investors purchasing these securities have a claim only to the underlying exposures and not against the transferor. For synthetic securitisations, achieving SRT involves: (i) using credit risk mitigants, collateral, and protection providers and guarantors that are eligible under the Basel Framework; (ii) ensuring that the instruments used to transfer credit risk do not include terms or conditions that materially limit the amount of risk transferred; and (iii) obtaining a legal opinion that confirms the enforceability of the contract.

35. **In practice, determining whether a transaction constitutes SRT is not always straightforward and involves judgment.** This is the case for both traditional and synthetic securitisations. In a traditional securitisation, even if the transaction involves a true sale, the originator often maintains links with the transferred exposures in various capacities, e.g. as servicer or provider of liquidity or of an interest rate swap or by retaining some of the tranched exposures. Depending on how the roles are conceived and the respective features are structured, these can limit or reduce the risk transfer to the extent that it is no longer significant. In a synthetic transaction, in which the originator transfers part of the underlying risks through derivatives but does not transfer the underlying exposures, the need to assess transactions on a case-by-case basis to ensure that the risk transfer is significant and will be maintained over time is even more pronounced.

36. **Authorities assessing SRT must conduct a comprehensive case by case analysis and may reach different conclusions for similar transactions.** The SRT assessment must focus on the economic substance of a transaction and on each of its main features. Given the complexity involved in analysing the features of individual transactions, supervisory SRT assessments are a time-consuming and resource-intensive activity that may result in delayed issuances, where such assessment takes place before issuance, or in uncertainty over the capital relief where the assessment takes place after issuance. Moreover, and to the extent that determining whether a risk transfer is significant involves supervisory judgment, different supervisory authorities may reach different conclusions for similar transactions, creating level playing field issues.[41]

Capital requirements for securitisation exposures

37. **To address identified weaknesses, the BCBS revised the Basel securitisation framework.** The GFC revealed significant shortcomings in the Basel II securitisation framework, including insufficient capital held against certain exposures, miscalibrated risk weights and a lack of incentives for robust risk management. For instance, highly rated securitisation exposures often received very low risk weights, while lower-rated senior tranches were assigned disproportionately high ones. Additionally, the framework suffered from cliff effects (where small changes in credit quality could result in disproportionately large changes in risk weights) and relied heavily on external credit ratings. To address these issues the BCBS, as a first step, issued in 2009 some enhancements to the Basel II framework. These made it possible to better reflect the risks posed by re-securitisation exposures and to improve banks' due diligence.[42] This was followed in 2010 by the first set of Basel III revisions, which, among other things, updated certain areas of

[40] See BCBS (2014).

[41] For example, the European Banking Authority (EBA) has determined that transactions with comparable characteristics may currently be subject to different assessment across EU member states because of divergent supervisory practices (EBA (2020b)).

[42] See BCBS (2009).

the risk-weighted capital framework, including securitisation, and introduced requirements for banks to perform their own internal assessments of externally rated securitisation exposures.[43] Finally, in 2014 the BCBS introduced the Basel III securitisation framework, incorporating significant changes to enhance risk sensitivity, reduce reliance on external ratings and ensure a more robust prudential treatment.[44]

38. **One of the key changes under Basel III was the revision of the hierarchy of approaches used to determine capital requirements for securitisation exposures.** The Basel II framework included two separate hierarchies depending on whether the standardised approach (SA) or the internal ratings-based (IRB) approach was used for the underlying exposures. The Basel III framework consolidated these into a single hierarchy of three approaches, placing the revised IRB approach for securitisation exposures (SEC-IRBA) at the top. If the SEC-IRBA cannot be used, banks can apply the external ratings-based approach (SEC-ERBA), provided it is permitted by the national regulator.[45] If neither of these approaches is available, banks must use the standardised approach for securitisation exposures (SEC-SA), which is more conservative than the SEC-IRBA and relies on the capital charge for the underlying exposures as determined under the SA for credit risk.[46] For exposures to which none of these approaches can be applied, a 1,250% risk weight is assigned. This revised hierarchy is intended to encourage market participants to conduct their own risk assessments rather than relying on external credit ratings. It also seeks to address the issue of "rating shopping" and improves the alignment between regulatory requirements and risk.[47]

39. **The Basel III framework also introduced additional risk drivers into the SEC-IRBA and SEC-ERBA approaches**. The Basel II securitisation framework lacked an explicit maturity adjustment, assuming a one-year risk horizon for default and ignoring the potential for losses beyond that period. The Basel III framework includes an explicit maturity adjustment, requiring banks to consider the tranche's remaining effective maturity, with a minimum of one year and a maximum of five years. This adjustment improves the framework's ability to capture risks over longer time horizons. Similarly, tranche thickness, which is particularly relevant for non-senior mezzanine tranches, was not adequately reflected under all approaches in the Basel II framework. The Basel III framework differentiates capital requirements based on tranche thickness, ensuring that thinner tranches attract higher capital charges. These changes enhanced the framework's risk sensitivity in some respects and reduced the mechanistic reliance on external ratings.

40. **To further address shortcomings, the Basel III reforms replaced the SA based on external ratings with a formula-based approach that delivers a continuous risk weight function.** Under Basel II, the SA provided limited risk differentiation, with only five risk buckets ranging from 20% for AAA- to AA-rated tranches to 1,250% for unrated or tranches rated BB+ and lower. The new SEC-SA uses a simple formula that delivers a continuous risk function with a limited number of inputs, allowing for greater granularity in risk weights. Similarly, the SEC-ERBA increased the number of rating categories for long-term securitisations from 12 under Basel II's ratings-based approach (RBA) to 18 and introduced separate risk weight tables for senior and non-senior tranches, with additional differentiation based on tranche maturity. These changes provided more risk differentiation and helped to mitigate cliff effects.

41. **The revised framework includes supervisory overrides, such as risk weight floors and caps, to ensure that all securitisation exposures are sufficiently capitalised.** Basel III introduced explicit risk

[43] See BCBS (2010).

[44] See BCBS (2014). Other requirements in the Basel III framework that affect securitisation include rules on the management of step-in risk and the treatment of securitised assets in the LCR and Net Stable Funding Ratio (NSFR).

[45] A bank located in a jurisdiction that permits the use of the SEC-ERBA may, subject to supervisory approval, use its internal assessments of the credit quality of its securitisation exposures to ABCP programmes (internal assessment approach, or SEC-IAA), provided that the bank has at least one approved IRB model and that certain operational requirements are met.

[46] The calibration of the SEC-ERBA and the SEC-SA aimed for a similar average level of conservatism between the two approaches in order to avoid putting jurisdictions which do not allow the use of the SEC-ERBA at a competitive disadvantage.

[47] In the lead-up to the GFC, some originators engaged in "rating shopping" activities, whereby issuers solicited preliminary ratings from CRAs and selected and disclosed only the most favourable. See for instance Skreta and Veldkamp (2009).

weight floors – 15% for securitisations and 100% for re-securitisations, up from an implicit 7% floor under Basel II. This was intended to ensure that all tranches, including the most senior ones, were subject to a minimum level of capital. Additionally, the introduction of risk weight caps for senior exposures aimed to ensure that these are not excessively capitalised relative to the risk of the underlying pool, using a look-through approach to align the maximum risk weight with the weighted-average risk weight of the underlying exposures. An overall cap was also introduced to prevent the total capital requirements for all retained securitisation exposures from exceeding the capital required for the underlying exposures.[48]

42. **While the revised securitisation framework exhibits a higher level of conservatism, it is difficult to conclude to what extent it is more risk-sensitive than the previous one.** On the one hand, it reduces mechanistic reliance on ratings and allows for more risk differentiation by better reflecting certain risk factors, such as maturity and tranche thickness. It also allows, at least to some degree, for more risk sensitivity for junior exposures.[49] On the other hand, it increases the risk weight floor and introduces a capital surcharge (via the p-factor) across all transactions without differentiating between the exposures being securitised. In any event, these two measures, when combined, result in higher overall capital requirements for securitisation exposures than under Basel II.[50]

Capital requirements for STC securitisations

43. **Following the revision of the securitisation framework, the BCBS and the International Organization of Securities Commissions (IOSCO) published a set of criteria for identifying STC securitisations (STC criteria).** The initial purpose of these criteria was "not to serve as a substitute to investors' due diligence but rather to identify and assist in the financial industry's development of simple and transparent securitisation structures".[51] Initially only applicable to long-term traditional securitisations, the STC criteria were adapted in 2018 so that they could also apply to short-term traditional securitisations.[52] Neither synthetic securitisations nor securitisations of NPLs can be deemed STC transactions.[53]

44. **The STC eligibility criteria are organised into four key categories.** Asset risk criteria address the characteristics of the underlying exposures, such as their homogeneity and payment status. Structural risk criteria focus on ensuring transparency in the securitisation structure. Fiduciary and servicer risk criteria pertain to the governance and reliability of the key parties involved in the securitisation process. Additionally, asset quality criteria impose minimum credit quality standards on underlying pools by setting maximum risk weights based on asset classes and a concentration limit.

45. **The STC criteria draw two related lessons from the GFC.** The first lesson is that complex and opaque securitisation structures can make it much more difficult for investors to analyse the transactions'

[48] The revised framework also developed a conservative regulatory treatment for re-securitisation exposures as these transactions are generally riskier, more opaque, more complex and harder to assess. In practice, the regime for re-securitisations ensures that these transactions have become uneconomical.

[49] For example, the Basel III framework reduces the scope of exposures subject to a 1,250% risk weight, allowing lower risk weights under the SEC-ERBA for certain exposures rated below BB–, based on factors such as tranche seniority, maturity and thickness.

[50] See BCBS (2014) and FSB (2025).

[51] See BCBS and IOSCO (2015).

[52] In particular, some criteria were modified so that they would apply at conduit and at transaction level in the case of ABCP programmes. For the initial criteria for identifying short-term STC securitisations, see BCBS and IOSCO (2018).

[53] The STC criteria exclude synthetic securitisations because they do not meet the criteria of a true sale. As the assets remain on the originator's balance sheet, there is no legal isolation from the originator and they are not beyond its control. Also, there is generally higher legal uncertainty attached to a risk transfer in a synthetic securitisation transaction compared with in a traditional transaction. In addition, the inherent characteristics of synthetic securitisations make it more challenging for them to satisfy the STC criteria as they typically involve additional legal and counterparty risks, are conducted as private placements, offer limited transparency, and are bespoke and customised. As a result, they lack standardisation and are difficult to compare.

cash flow-generating mechanisms and risks.[54] In other words, a complex securitisation structure can itself represent a source of risk for investors. The second lesson is that even simple and transparent transactions can become difficult to assess and may perform poorly when the underlying assets are subject to poor underwriting and weak governance. The investor's ability to conduct a meaningful risk assessment of a tranche is therefore largely conditioned by its ability to evaluate the credit quality of the underlying assets.

46. **Since 2016, the BCBS has integrated the STC criteria into the Basel securitisation framework and enhanced them.** With their integration into the securitisation framework, the STC criteria have become eligibility criteria, with STC-compliant securitisations receiving risk weights that are approximately half of those applied to similar non-STC securitisations. This is achieved via a lower risk weight floor (10% for senior tranches and 15% for non-senior tranches) and a p-factor that can be reduced by as much as half (but is subject to a 0.3 floor under the SEC-IRBA). Accordingly, the STC criteria have been clarified to leave less room for interpretation, and two criteria related to the credit quality of underlying pools have been added to ensure that only securitisations of high-quality pools of underlying exposures may qualify for the more favourable capital treatment.[55]

Capital requirements for securitisation of NPLs

47. **In 2020 the BCBS amended the securitisation framework to specify a capital treatment for securitisations of NPLs.**[56] The securitisation framework was originally designed and calibrated for securitisations of performing assets. The specific treatment for NPLs defines NPL transactions, removes the option to use foundation IRB parameters as inputs for the SEC-IRBA and introduces a risk weight floor of 100% for all NPL securitisation exposures. It also allows for a risk weight of 100% for the most senior tranche of an NPL securitisation when the value of the purchase price discount is at least 50% of the securitised portfolio.

Prudential requirements for insurers

48. **Unlike the banking sector, the insurance sector long lacked an international standard for capital.** In the absence of such an international standard, jurisdictions have developed their own risk-based capital rules, with the two main frameworks being Solvency II in the EU and the UK and the Risk-Based Capital (RBC) framework in the US (see Section 4). The RBC framework was implemented in 1993, while the Solvency II framework was partly developed as a response to the GFC.[57]

49. **In 2024, the IAIS issued the first global insurance capital standard for internationally active insurance groups (IAIGs).** In 2011, the IAIS adopted its Insurance Core Principles (ICPs), which set out an international framework for insurance supervision.[58] The Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), first issued in 2019 and revised in 2024, builds upon the ICPs and establishes supervisory standards and guidance focused on the effective group-wide

[54] Examples of complex structures include securitisations with multiple (up to 15) tranches of exposures, possibly tailored to specific investors; structures that include changes in cash flow payments during the lifetime of the transaction, where the payment of principal and interest on each tranche can be modified and/or reallocated based on predetermined rules; and, more generally, structures in which levels/amounts of credit enhancements may vary subject to contractual triggers (such as early amortisation features or excess spread accounts).

[55] For example, criterion A1 defines the underlying assets that can be deemed homogeneous and clarifies the components of homogeneity and how this needs to be assessed.

[56] See BCBS (2020).

[57] Solvency II introduced for the first time a harmonised framework for insurance firms in the EU, replacing the old Solvency I, which had structural weaknesses and did not adequately capture key risks such as market, credit and operational risks. In November 2024, the UK Prudential Regulation Authority (PRA) restated Solvency II into UK rules, introducing some adjustments (PRA 2024c).

[58] See IAIS (2024).

supervision of IAIGs.[59] The revisions also introduced the first global capital standard for IAIGs (Insurance Capital Standard, or ICS) into ComFrame. The ICS adopts a risk-based approach to determine capital requirements for various asset exposures, including securitisation. Under the ICS, securitisation of insurance risks can qualify as a risk mitigation technique that can be used to offset capital requirements.[60] Drawing on lessons learned from the GFC, the ICS aims to address the lack of comparability among existing jurisdictional standards and avoid supervisory blind spots on group-wide supervision.[61]

Risk retention requirements

50. **In 2012, IOSCO recommended the introduction of risk retention requirements to address misalignment between issuers' and investors' incentives.**[62] The separation of loan origination and loan ownership and information asymmetries between originators and investors in securitisation exposures can lead to moral hazard in securitisation. On the one hand, originators who sell and securitise loans may no longer be exposed to losses that may arise from them. As a consequence, they have little incentive to ensure the credit quality of the exposures that they originate. Moreover, their main incentive may become boosting loan origination at the expense of loan quality in order to maximise the profitability of their originate-to-distribute model. On the other hand, investors may have limited ability to assess the default risk of the securitised exposures, as this involves access to the underlying pool's loan-to-loan data and sufficient time and resources to conduct such analysis.

51. **Risk retention has been a focus of regulatory attention since the GFC in order to address misaligned incentives arising in certain structures and practices.** There has been a large amount of literature suggesting that mandatory risk retention helps to align incentives and reduces information asymmetries.[63] The IOSCO recommendations encourage originators and issuers of securitisation to maintain "skin in the game", typically 5% of the credit risk of the underlying assets, such that they share in the performance outcomes of the securitised assets. By maintaining a meaningful economic interest in the performance of the underlying assets, originators have incentives to improve underwriting standards and ensure that the quality and servicing of the underlying assets are not compromised.

Due diligence and disclosure requirements

52. **Due diligence and disclosure requirements are critical pillars of securitisation markets, ensuring transparency, accountability and investor protection.** By mandating a thorough review and accurate reporting of the underlying assets, these requirements are intended to provide investors with the information necessary to assess the risks and performance of securitisations. This transparency is meant to foster trust and confidence in the market, enabling informed investment decisions. Together, due diligence and disclosure frameworks act as safeguards, promoting financial stability and market integrity.

53. **The IOSCO recommendations also address transparency and standardisation.** The objective of these recommendations, issued in 2012, was to enable investors to reach informed decisions. The

[59] The IAIS defines an IAIG as an insurance group that writes premiums in three or more jurisdictions, with at least 10% of the group's total gross written premiums underwritten outside its home jurisdiction, and that has total assets of at least USD 50 billion or gross written premiums of at least USD 10 billion. As of September 2025, 61 IAIGs have been publicly disclosed by their supervisors.

[60] See Section 5.1.1 of the Level 1 and Level 2 texts of IAIS (2024).

[61] The GFC highlighted concerns about the resilience of international insurance groups, the prime example being the bailout of American International Group (AIG), the largest insurance group at the time. In particular, fragmented and inconsistent capital regimes made it difficult for supervisors to assess IAIGs' capital adequacy.

[62] See IOSCO (2012).

[63] For examples going back to the 1970s and up to 2022, see FSB (2025). For a discussion on the respective merits of each risk retention method, see, for instance, Fender and Mitchell (2009).

recommendations include efforts to standardise disclosure templates for detailed reporting by asset class, with as much convergence as possible across jurisdictions. They also include recommendations to regulators to require issuers to provide investors with comprehensive and timely information about the underlying assets, including their credit quality, performance and risk characteristics. Specifically, recommendations to improve disclosure in order to assist investors in making informed investment decisions focused on their need to: (i) receive from issuers essential information needed to assess a securitisation transaction's performance; (ii) be provided, at no cost, with modelling tools that enable investors to conduct cash flow analyses of a given securitisation transaction through its life; and (iii) receive equal access to all documents and data relevant to assessing the creditworthiness of a given securitisation product that are provided to CRAs, consistent with applicable privacy, confidentiality and other laws.[64]

54. **The same year, the Financial Stability Board (FSB) issued principles for sound residential mortgage underwriting practices.**[65] The principles focus on key risk areas where underwriting practices for residential mortgages were weakened and compromised in the years preceding the GFC. These include effective verification of income and financial information, reasonable debt service coverage, appropriate LTV ratios, effective collateral management and the prudent use of mortgage insurance.[66]

55. **The enhancements to Basel II issued by the BCBS in 2009 introduced new due diligence criteria for banks.** The revisions introduced operational criteria aimed at ensuring that banks performed their due diligence and did not over-rely on CRA ratings. Meeting the criteria was a prerequisite to use any of the approaches instead of full capital deduction (ie a 1,250% risk weight). To meet the criteria, banks must have a comprehensive understanding of the risk characteristics of the securitisation exposures and their underlying pools, be able to access performance information on the underlying pool on an ongoing basis and have a thorough understanding of all structural features of a securitisation transaction that would have an impact on performance. These due diligence requirements were restated in the Basel III securitisation framework.

Section 4 – Implementation of international standards in key jurisdictions

56. **This section discusses the most relevant differences in the implementation of the post-GFC reforms across selected jurisdictions.** The analysis is restricted to the jurisdictions which are the focus of this paper, ie the EU, the US and the UK.

Capital requirements for banks

57. **While the 2009 enhancements to Basel II and the 2010 initial Basel III package have been implemented in all selected jurisdictions, the 2014 Basel III securitisation framework has yet to be implemented in the US**. The Basel III securitisation framework was implemented in the EU and the UK on 1 January 2019.[67] In 2023, US agencies published draft rules for its implementation as part of a broader

64 See Recommendation 4 of IOSCO (2012). In particular, the recommendation mentions that "at a minimum, average expected loss coverage for bullet or pass through securities and average expected life of the asset pool for pass through securities should be provided in all circumstances. Additional key indicators including information about risk/reward profile, fees and scenario analysis including structuring assumptions may also be provided."

65 See FSB (2012).

66 While each country was expected to implement these principles, the US had already done so in 2010 as part of the Dodd-Frank Act (see US Congress (2010), in particular Title IX, and Carpenter et al (2017)). The act requires lenders to verify a mortgage borrower's ability to repay a loan, prohibits certain lending practices and creates the qualified mortgage regime (qualified mortgages are those originated according to safe and sound lending practices). The act also includes certain due diligence requirements that are targeted at securitisation (see Title IX, Subtitle D).

67 For the EU, see European Parliament and Council (2013, 2017). For the UK, see UK Government (2024).

package of the final Basel III rules published in 2017,[68] but these were not finalised. Accordingly, the securitisation requirements currently in force in the US are those derived from the 2010 Basel III revisions.[69]

58. **Some jurisdictions have restricted the use of certain approaches for determining capital requirements for securitisation exposures.** Under the statutory requirement, the US implementation of the initial Basel III revisions excluded the use of external ratings for the calculation of capital requirements, including for securitisation exposures.[70] Therefore, the SEC-ERBA is not available in the US. As the revised securitisation framework has not yet been implemented, the SEC-SA is not available either. Instead, before the development of Basel III, the US authorities introduced a simplified supervisory formula approach (SSFA)[71] and continued to rely on a look-through approach as a fallback approach. The SSFA and the SEC-SA are based on a similar risk-weight function, but the SSFA features a lower p-factor (0.5 instead of 1) and a higher risk weight floor (20% instead of 15%).[72] If US banks are unable to obtain sufficient information to run the SSFA, they can "look through" to the underlying assets, grossing up their exposure to reflect the proportion of losses they could absorb, taking into account subordination beneath the tranche and then applying the risk weights of the underlying exposures to that adjusted amount (gross-up approach).[73] If neither the SSFA nor the gross-up approach can be used, banks must apply a 1,250% risk weight to the securitisation exposure.[74]

59. **While all approaches included in the Basel securitisation framework are available in the EU and the UK, the hierarchy that governs them has been modified.** Although the Basel securitisation framework puts the SEC-ERBA in second position, the EU and UK hierarchies relegate it to third position: a bank unable to use the SEC-IRBA is expected to use the SEC-SA before considering whether to use the SEC-ERBA (Graph 6). This change in the hierarchy was motivated by the desire to reduce reliance on external ratings by prioritising the supervisory formulas and internal ratings and encouraging all participants, including those using the SEC-SA, to conduct their own due diligence. At the same time, the change in hierarchy is subject to various triggers and requirements that allow banks to switch back to the Basel hierarchy in some instances. These were motivated by a desire to mitigate the conservatism of the SEC-SA in some cases.[75]

[68] See BCBS (2017).

[69] See OCC et al (2023).

[70] See OCC (2012). In particular, Section 939A of the Dodd-Frank Act requires US agencies to remove references to credit ratings for calculating regulatory capital and replace them with other standards of creditworthiness.

[71] The SSFA is a simplified version of the Supervisory Formula that was used under Basel II, hence its name.

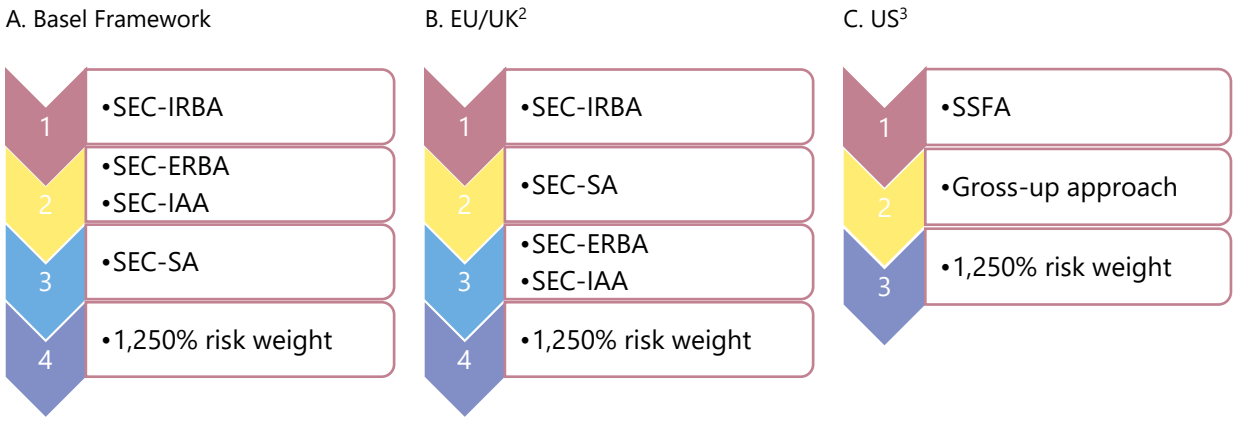
[72] The implementation of the SSFA in the US predates the development of the p-factor by the BCBS. In addition, the US never adopted the STC framework, which allows for lower p-factors. While the SSFA p-factor is lower than the SEC-SA p-factor for non-STC securitisation, it is equal to the SEC-SA p-factor for STC securitisation.

[73] This rule is available for banks that are not subject to the market risk requirements (ie banks that are not very large or do not have significant trading business).

[74] See FDIC (2015) and Section 324.43 of Title 12 of the Code of Federal Regulations.

[75] See ESA (2022).

Hierarchy of approaches for determining risk weights for securitisation exposures[1] Graph 6



[1] SEC-IRBA = securitisation internal ratings-based approach; SEC-ERBA = securitisation external-ratings based approach; SEC-IAA = securitisation internal assessment approach; SEC-SA = securitisation standardised approach; SSFA = simplified supervisory formula approach. [2] The hierarchy between the SEC-SA and the SEC-ERBA/SEC-IAA may be reversed in some cases, subject to certain triggers and supervisory discretion. [3] The gross-up approach is available for banks that are not subject to the market risk requirements, ie banks that are not very large or do not have significant trading business.

Source: FSI elaboration based on the Basel Framework and national regulations.

60. **Re-securitisation is explicitly banned in the EU and the UK.** While the Basel III framework includes re-securitisations and these are permitted in the US and in other jurisdictions, the calibration of capital charges is deliberately very conservative.[76] As a result, re-securitisations, and CDO transactions in particular, have become uneconomical and have almost disappeared.[77] The EU and UK implementation of these rules goes one step further by explicitly banning these transactions since January 2019.

61. **The framework for securitisation of NPLs is only available in the EU and the UK.** The capital requirements for securitisation of NPLs issued by the BCBS in 2020 have been implemented in the EU and the UK but not in the US, although they were included in the proposed package of revisions published by US authorities in 2023.

62. **While implementation in the EU and the UK includes the STC criteria and the associated lower capital requirements, such criteria are not recognised in the US.** The STC criteria, renamed Simple, Transparent and Standardised (STS) criteria, were implemented in the EU and the UK as part of the EU Securitisation Regulation.[78] Initially, they were broadly aligned with the STC criteria. In 2021, some changes were introduced in the EU[79] to allow partly funded synthetic securitisations and some unfunded synthetic securitisations to qualify with STS status.[80] In contrast, the 2023 package of proposed revisions issued by US agencies did not include the STC criteria and the associated preferential capital treatment. This was because there were concerns that this additional capital treatment would result in further complexity and an additional burden on regulators, issuers and potential investors which need to ensure that the criteria are met.[81]

76 In particular, a p-factor of 1.5 (instead of 1) applies to re-securitisation exposures.

77 Other factors contributing to the near disappearance of CDOs include investors' distrust and adjustments in CRA methodologies post-GFC.

78 See European Parliament and Council (2017) and PRA (2018). See also EBA (2020a).

79 See European Parliament and Council (2021).

80 Unfunded synthetics for which the protection provider receives a 0% risk weight (e.g. public sector entities) may qualify as STS.

81 Moreover, the need for supervisory reviews of proposed transactions in order to confirm their capital treatment would impose significant delays and increase the time needed to bring transactions to market.

63. **In the EU and the UK, the STS criteria are also used to extend eligibility as high-quality liquid assets (HQLAs) for the Liquidity Coverage Ratio (LCR) to certain traditional securitisations.** Under Basel III's LCR, only the senior tranches of RMBS with an external rating of AA or higher qualify as Level 2B HQLAs, subject to a 25% haircut. Since 2018, in these two jurisdictions, senior tranches of traditional securitisations backed by RMBS, SME loans, auto loans and leases, and consumer loans may also qualify as HQLAs, provided they qualify as STS securitisations.

64. **The preferential capital treatment for traditional STS securitisation did not result in a significant increase in issuance in Europe.** The entry into force of the STS treatment in Europe resulted in a rapid increase in the proportion of traditional securitisations qualifying for the STS label, initially driven by existing transactions being reclassified as STS (Graph 7.A). However, this was not accompanied by a significant increase in the overall issuance of securitisations, which has remained relatively stable. This lack of additional issuance may be driven, at least in part, by the fact that even with the preferential treatment, capital requirements for traditional STS securitisation remain higher than those for covered bonds.

65. **In 2021, the EU securitisation rules were amended to extend the STS framework to funded synthetic securitisations.**[82] While the Basel Framework does not allow STC recognition for synthetic securitisation, the EU Capital Markets Recovery Package extended the STS framework in order to support the recovery of the EU economy after the Covid-19 pandemic by incentivising securitisation activity. The preferential STS capital treatment is limited to the senior tranche of a transaction whose credit risk is retained by the originator.[83] In practice, STS synthetic securitisations can generally achieve more reduction in capital requirements with a mezzanine tranche that has the same thickness as that of a similar non-STS transaction. Since synthetic securitisations are typically structured to achieve SRT, the extension of STS criteria significantly increased banks' ability to achieve capital relief as these transactions are often less burdensome, cheaper to structure and larger.[84] By requiring synthetic STS securitisations to be fully funded, EU rules ensure that collateral is provided against counterparty risk and that the SRT will not be compromised during the life of the transaction should the counterparty default.[85]

66. **Unlike with traditional STS securitisations, the extension of the STS treatment to synthetic securitisation was followed by a sharp increase in overall issuance.** Since 2021, the notional outstanding amount of non-STS synthetic securitisations, measured by the size of the underlying pool of protected exposures, has remained stable at approximately EUR 200 billion, while the amount of STS synthetic securitisations has grown from nil to EUR 145 billion in Q2 2024, making up approximately 40% of all synthetic securitisations (Graph 7.B). While the growth of synthetic securitisation has been slower in the rest of the world, increased regulatory clarity on the capital treatment of synthetic securitisations provided by the Federal Reserve in 2023 has likely contributed to an uptick in the US in recent years.[86] Currently, synthetic SRT provides substantial capital relief on corporate exposures for a number of banks.[87] Some of the synthetic SRT issuance may have also been driven by certain banks' need to secure capital

[82] See European Parliament and Council (2021).

[83] Other tranches whose risk is retained by the originator, as well as exposures to tranches not originated by the bank, cannot benefit from the STS capital treatment.

[84] The absence of an asset transfer can reduce the amount of loan-specific data that need to be gathered, assessed and disclosed.

[85] Transactions protected by investors that receive a 0% risk weight under the credit risk rules – such as central banks, multilateral development banks, international organisations and public sector entities – are exempt from the funding requirement.

[86] In a response to frequently asked questions, the Federal Reserve clarified the requirements for recognition of SRT in synthetic securitisation when the issuer or the SPV issues credit-linked notes (CLNs) to investors (see Board of Governors of the Federal Reserve System (2025)). In the case of directly issued CLNs, the Federal Reserve clarified that although their features do not specifically satisfy the definition of synthetic securitisations, they may, under certain conditions, transfer risk at least as effectively as synthetic securitisations that qualify under the US capital rules.

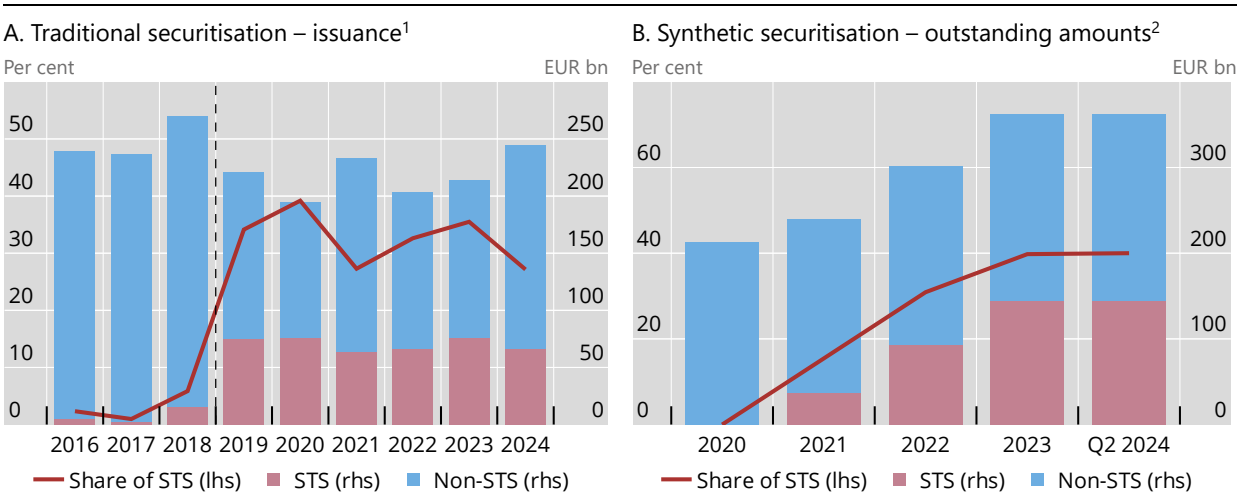
[87] The prevalence of corporate loans for synthetic SRT transactions is due to the relatively high capital requirements that those loans attract relative to their economic capital. This is particularly the case for unrated corporate exposures, or for non-investment grade corporate exposures, for which assessment of underlying risk may be more complex.

relief in the context of the Basel III output floor requirements, a factor that would also explain at least part of the surge of issuance in Europe.

Securitisation classified as STS

EU and UK

Graph 7



[1] The STS framework for traditional securitisation came into force in the EU and the UK in 2019. The rapid increase in STS securitisations in 2019 is due to existing securitisations qualifying for STS status. [2] The STS treatment was extended to synthetic securitisation in the EU in 2021.

Sources: AFME (2025a); ESRB (2025).

67. **There are differences in the rules for recognition of SRT across the selected jurisdictions.** In the EU and the UK, banks may recognise risk transfer and receive capital relief when at least 50% of the risk-weighted exposure amount of the mezzanine tranche is transferred to third parties, either via true sale in a traditional securitisation or via credit protection for a synthetic securitisation. If there are no mezzanine tranches (ie a senior/subordinated structure with two tranches only), at least 80% of the exposure value of the first-loss tranche must be transferred to third parties. A case-by-case supervisory assessment takes place to determine whether the risk transfer is significant, and other qualitative and operational requirements apply.[88] In the US, there are no specific minimum requirements to be met for recognition of risk transfer for regulatory capital purposes. In practice, US banks usually structure synthetic securitisations via a two-tranche structure such that the credit protection covers the first 12.5% of losses. This is done to minimise the risk weight applied to the senior tranche not covered by the credit protection. Moreover, for banks that are supervised by the Federal Reserve, there are limits on the overall amount of capital relief that a bank can achieve via a synthetic securitisation that is directly issued by the bank using CLNs.[89] In all cases, recognition is dependent on a case by case supervisory assessment to verify that there is genuine risk transfer to third parties and that capital relief is commensurate to the risk transferred.[90]

88 For more detail, see Articles 243 and 244 of the Capital Requirements Regulation (European Parliament and Council (2013)).

89 See Board of Governors of the Federal Reserve System (2024). The limits were introduced as a measure of caution, to allow time for the Federal Reserve to monitor the broader financial stability implications of recognising SRT for those transactions.

90 For example, the ECB requires a pre-issuance notification at least three months in advance. In contrast, in the UK there is no pre-approval process: banks must notify the PRA within a month of the issuance, and the PRA might then object. Similarly, US authorities generally do not require pre-approval of SRT. This post-issuance approach does not hold back issuance. It also incentivises banks to be more responsible in structuring SRT securitisations. However, there is a risk that the risk transfer may not be deemed significant. The ECB is currently piloting a fast-track process to reduce the lead time for SRT applications (ECB (2025a)).

Risk retention requirements

68. **Although all surveyed jurisdictions have introduced risk retention requirements in line with the IOSCO recommendations, the ways in which they have been introduced have led to significant differences in practice.** The current risk retention rules in the EU and the UK are broadly similar, requiring a minimum 5% net economic interest in the securitisation, which can be achieved in five different ways. They became effective in 2019, replacing previous requirements. In the US, where rules have been in place since 2016, the transaction's sponsor is required to retain at least 5% of the credit risk of the securitised assets. In all jurisdictions, the retained position can be either a vertical slice of the securitisation or a horizontal (first-loss) position, but two other retention approaches are also available in the EU.[91]

69. **In practice, the risk retention requirements do not apply to all securitisations and the scope of application varies significantly across jurisdictions.** In the EU and the UK, the risk retention requirements do not apply when the securitised exposures are assets issued (or fully guaranteed) by governments, central banks, national and multilateral development banks, and banks that receive a risk weight of 50% or less.[92] In the US, all government-backed securitisations are exempt from risk retention requirements. Qualified commercial loans, commercial real estate loans, residential mortgages or auto loans are also exempt when they meet certain underwriting standards, including verification of ability to pay and ensuring that transactions are backed by high-quality collateral. In addition, since 2018, CLOs have become exempt from risk retention requirements following a court ruling which determined that CLO managers were not securitisers. However, existing market practices that contractually require sponsors to retain risk are at least as conservative as the 5% risk retention requirement, and often more so.

Capital requirements for insurers

70. **In the US, capital charges for insurers investing in securitisation exposures are delivered through the RBC framework.** The RBC framework, developed by the National Association of Insurance Commissioners (NAIC), relies on three factor-based formulas, each applicable to different insurance business lines (life, health, and property and casualty), which determine the required capital based on the size of the insurer and the riskiness of its investments. The specific capital charges for securitisation exposures are determined based on the risk characteristics of the securitised assets, their ratings and other factors like the structure and maturity of the investment. To ensure consistency, the NAIC issues guidance regularly, and in September 2025 it issued for consultation principles to guide future changes to the levels of risk-based capital.

71. **In the EU and the UK, Solvency II is the risk-based capital regime for insurance and reinsurance undertakings.** Under this regime, which came into force in January 2016, insurance and reinsurance companies must meet the Solvency Capital Requirement (SCR).[93] The Solvency II regulatory framework is a three-pillar risk-based structure.[94] Under Pillar 1, the framework comprises a standard formula, which is based upon risk modules and series of stress tests and risk factors to reflect the risks arising from an insurer's assets and insurance portfolios, and an internal model method whereby, subject to supervisory approval and to certain conditions, an insurer can use its internal model to determine capital requirements. The main risk modules for the standard formula include market risk, insurance underwriting

91 See European Parliament and Council (2013), in particular Article 405, which allows for four regulatory risk retention methods.

92 See European Parliament and Council (2017), in particular Article 6 paragraph 5.

93 This is the amount of funds that insurance and reinsurance companies must hold to have a 99.5% confidence that they could survive the most extreme expected losses over the course of a year.

94 Similar to the Basel capital framework, Pillar 1 of Solvency II sets the quantitative minimum requirements, Pillar 2 sets qualitative requirements and Pillar 3 covers supervisory reporting and public disclosure.

risk, counterparty default risk and operational risk. The outcomes of each module are aggregated step by step to reach a single capital requirement.

72. **Under the Solvency II standard formula, the capital requirements for investing in securitisation exposures are conservative**.[95] The rules of the spread risk sub-module (part of the market risk module) are made up of a set of asset-side stresses which compute the impact of the resulting drop in the asset's price on the insurer's capital position, with parameters depending on credit rating and duration. Because insurance firms typically have a liability-driven investment approach[96] and the standard formula does not explicitly include liquidity risk, the spread risk capital charges need to include some level of conservatism.

73. **This level of conservatism seems to have made investing in many securitisation exposures unattractive for EU insurance firms.** Comparative studies conducted by the industry show that the standard formula can deliver capital charges for securitisation exposures that are considerably higher than those applicable to the same exposures held by a bank under the Basel III securitisation framework or held by an insurance company under the US RBC framework.[97] Holding securitisation exposures may also expose an insurance company to significantly higher charges than those applicable to holding the underlying assets directly. This is particularly the case for CMBS, non-conforming RMBS and CLOs, which are not eligible for the STS label. With capital charges that are disproportionately high on investment-grade tranches, it may become uneconomical for most EU insurers to invest in them from a risk-adjusted return on capital (RAROC) perspective.[98]

74. **Together with other factors, this may explain both the limited presence of EU insurers in EU traditional securitisation markets and the concentration of their investments.**[99] On average, EU insurers allocated less than 1% of their investments to securitisation exposures in 2023, although those using internal models invest 3.5%. This is in sharp contrast with US insurers, which allocate up to 15% of their investments to securitisations, although some of the difference may be explained by the low capital charges from which insurers benefit when holding securities from GSE-issued securitisations.[100] EU insurance firms mainly invest in junior mezzanine and equity tranches, which are comparatively more attractive from a RAROC perspective, even if significantly riskier. Moreover, insurers' participation in EU securitisation markets has become more concentrated, primarily among the eight firms which use an internal model.[101] These firms have also become among the main protection providers in synthetic securitisations, with such a concentration raising potential financial stability concerns.

75. **While Solvency II introduced a more favourable capital treatment for "high-quality securitisation" based on the STS criteria, this did not result in a significant increase in insurers' securitisation investments**. In 2018, the European Commission (EC) introduced, through the Solvency II Delegated Regulation,[102] a preferential capital treatment for securitisation exposures which – provided specific criteria very similar to the STS criteria for banks are met – would qualify as high-quality

95 See European Parliament and Council (2009), in particular Annex IV on the Standard Formula, and AFME (2025b).

96 They typically invest collected premiums with the aim of matching the expected cash flows and durations of their assets with projected liability outflows.

97 See AFME (2025b).

98 One of the key drivers of asset allocation for insurers is the risk-adjusted return on the regulatory capital (RAROC) which must be held on a portfolio and which is calculated by adjusting the spread on a tranche by its expected loss. The more capital that needs to be held on a portfolio, the more diluted the RAROC will be, ie higher capital charges imply lower risk-adjusted returns.

99 Other factors that could deter EU insurance firms from investing in securitisation exposures include, in particular, the EU's comprehensive and prescriptive due diligence and disclosure requirements.

100 See AFME (2025b).

101 According to AFME (2025b), the eight internal model insurers represented more than 70% of all securitisation investments by EU insurers in 2023. While these firms are the largest, their investments make up only 30% of all insurance investments.

102 See EC (2018).

securitisation. Accordingly, capital charges for insurers investing in the most senior tranches of traditional securitisations backed by mortgages, auto loans and leases, SME loans, consumer loans and credit card receivables have become significantly lower than other securitisation positions. However, this favourable capital treatment did not result in a significant increase in insurers' securitisation investments. This may partly be due to the limited amount of senior STS positions that originators place in the market, as well as the risk that the senior position may lose its high-quality status throughout its life.

Due diligence and disclosure requirements

76. **The regulatory frameworks governing due diligence and disclosure for securitisations in the US and the EU and the UK differ significantly.** The US framework is predominantly issuer-centric, focusing on pre-sale asset reviews and disclosure requirements to ensure transparency and accuracy at the point of issuance. In contrast, the EU and UK frameworks place obligations not only on issuers but also on institutional investors, with these also being accountable for ensuring that issuers have met their obligations, thereby extending accountability across the entire securitisation process.[103] Issuers' obligations include making some information available before the transaction, such as all of the transaction's legal documentation and, in some cases, a prospectus outlining the features of the transaction available before it is priced, and ongoing reporting, in particular the provision of quarterly information on the performance of securitised assets.

77. **In addition to differences in focus, the regulatory frameworks in the US, the EU and the UK also diverge in their scope and their levels of prescriptiveness.** In the US, due diligence and disclosure requirements apply exclusively to SEC-registered offerings, which are public.[104] However, the US capital rules also contain due diligence requirements applicable to all securitisations, which US agencies have complemented with their own guidance.[105] In contrast, the frameworks in the EU and the UK have a broader scope of application, as they encompass all securitisations, including both public and private transactions. The EU's reporting regime in particular has attracted criticism from market participants because of the level of detail that it prescribes.[106] This includes information that must be submitted by issuers of public transactions to securitisation repositories through extensive and detailed standardised templates designed by the European Securities and Market Authority (ESMA).

[103] The EU requirements are defined in the Securitisation Regulation, with Article 5 including the due diligence requirements for institutional investors and Article 7 containing the transparency requirements for originators, sponsors and SPVs.

[104] A significant portion of US securitisation issuance, including nearly all private-label MBS, takes place through private placements, falling outside the scope of Regulation AB (see SEC (2014)). Additionally, transactions involving GSEs such as Fannie Mae, Freddie Mac and Ginnie Mae are also exempt from registration. Consequently, Regulation AB has limited influence on much of the US securitisation market, which predominantly relies on market-driven practices and voluntary disclosures rather than a prescriptive regulatory framework.

[105] For instance, a bank may be required to hold a higher risk weight of up to 1,250% on a securitisation exposure if it fails to perform adequate due diligence and does not understand the features that materially affect performance. For an example of agency guidance on due diligence, see FDIC (2015).

[106] See, for example, the summary of responses to the EC's 2021 consultation on the functioning of the EU securitisation framework (EC (2021)).

Box 1

Due diligence requirements for institutional investors under the EU framework

Under the EU framework, institutional investors are subject to detailed due diligence requirements when holding securitisation positions. These include the following:

Verification obligations before holding a securitisation position - Before acquiring a securitisation position, institutional investors must verify several aspects related to the originator, sponsor or original lender, including:

- the originator or original lender must underwrite credits based on sound and well defined criteria;
- the originator, sponsor or original lender must retain a material net economic interest of at least 5% on an ongoing basis and disclose this retention to the institutional investor; and
- the originator, sponsor or SPV must provide all required information as defined under the Securitisation Regulation.

Due diligence assessment prior to investment - Institutional investors are required to carry out a comprehensive due diligence assessment before holding a securitisation position. This assessment must evaluate:

- the risk characteristics of the securitisation position and the underlying exposures;
- structural features of the securitisation, such as payment priorities, triggers, credit enhancements and liquidity provisions, that could have a material impact on performance; and
- for securitisations labelled as STS, compliance with STS regulatory requirements. While investors can rely on the STS notification and disclosed information, they cannot do so solely or mechanistically.

Ongoing monitoring and risk management - Institutional investors holding securitisation positions must establish robust written procedures to monitor compliance and performance on an ongoing basis. These procedures include:

- monitoring key performance indicators, such as delinquency rates, default rates, prepayment rates, recovery rates and geographical or industry diversification of the underlying exposures;
- performing regular stress tests on cash flows and collateral values for securitisations other than fully supported ABCP programmes (for fully supported ABCP programmes, stress tests must focus on the solvency and liquidity of the sponsor); and
- ensuring material risks are reported to the management body, which must be aware of and adequately manage these risks.

Delegation of due diligence obligations - Institutional investors may delegate their due diligence obligations to another institutional investor with investment management authority. In such cases, the managing party assumes responsibility for fulfilling the due diligence requirements. If the managing party fails to comply, any sanctions can apply to the managing party rather than the delegating institutional investor.

78. **While the regulatory frameworks governing due diligence and disclosure for securitisations in the EU and the UK share similarities, there are notable differences.** In particular, the UK framework has become less prescriptive and has adopted a more principle-based approach since Brexit. For instance, institutional investors in the UK are not required to ensure that issuers provide information in specific templates. Instead, they only need to confirm that the prescribed information has been made available, regardless of the format. However, when a UK sponsor, originator or SPV is involved, those entities are still required to produce the standard disclosure templates.

Key jurisdictional differences in the implementation of post-GFC reforms[1] Table 1

	US	EU	UK
Approaches for capital requirements for banks	Basel II with the SSFA instead of the SEC-IRBA/SEC-SA, and gross-up approach as fallback SEC-ERBA not allowed	All Basel III approaches allowed Different hierarchy, subject to triggers and supervisory discretion	As for the EU
Re-securitisation	Allowed	Banned	Banned
NPL framework	No	Yes	Yes
STC treatment	No	Yes and extended to synthetic securitisation (limited to the originator's exposures to senior tranches)	Yes
SRT recognition rules	No minimum requirements, but generally a 12.5% first-loss tranche is protected	Minimum transfer of 50% of RWA of mezzanine or 80% of the exposure of the junior tranche (if a two-tranche structure) and case by case supervisory assessment plus other qualitative and operational requirements	As for the EU
Synthetics' eligibility for SRT	Yes	Yes	Yes
Risk retention	5% of credit risk of securitised assets Exemption for government-backed securitisations, certain qualified real estate and car loans, and CLOs	5% of net economic interest Exemption for securitisation on (or guaranteed by) government, central banks, development banks and banks with a risk weight≤50%	As for the EU
Capital requirements for insurers	Delivered through RBC formulas that rely on external ratings Minimum charges set for first-loss positions across all transactions	Conservative capital charges, significantly higher than in the US More favourable treatment for high-quality securitisation based on STS criteria	As for the EU
Due diligence and disclosure	Issuer-centric, pre-sale asset reviews and disclosure.	Obligation of both issuers and institutional investors for public and private issuances Comprehensive and prescriptive reporting requirements	Similar to the EU but less prescriptive and more principle-based since Brexit.

[1] The table only reflects revisions that have come into force at the time of publication. It does not reflect the latest revisions issued by the UK Prudential Regulation Authority (PRA) in 2025, which are discussed in Section 5.

Source: FSI based on BCBS standards and national regulations.

79. **Overall, there are significant differences between the implementation of post-GFC reforms in the US and the EU and the UK.** Determining whether one jurisdictional approach is more conservative and more prudent overall is not straightforward. This is largely due to the multiple types of rules to consider (capital charges, risk retention requirements, due diligence requirements, disclosure requirements) and jurisdictional differences in implementation, including multiple and different deviations from the global standards. For example, regarding regulatory capital approaches, in the US the SSFA features a lower p-factor but a higher risk weight floor than Basel III's SEC-SA, while neither the SEC-ERBA nor the STC treatment are available. In contrast, the EU and the UK allow all approaches, but apply a modified hierarchy. Moreover, the standardised approach for calculating capital requirements is generally the binding approach for nearly all US banks, while EU and UK banks often use the internally modelled approach for risk-weighted asset (RWA) calculations, which can result in lower, more risk-sensitive capital

charges. Additionally, favourable capital treatment for STC securitisations is available only in the EU and the UK, and only for synthetic securitisations in the EU. However, some requirements are stricter in the EU and the UK, mainly because they have a much wider scope. For instance, exemptions to the risk retention rules are broader in the US. In the EU and the UK, due diligence and disclosure requirements are generally more prescriptive, detailed and comprehensive and apply to a wider set of banks, as well as to institutional investors. Finally, capital charges for insurers investing in securitisations are generally higher in the EU and the UK than in the US, particularly for non-senior exposures.

Section 5 – Regulatory initiatives to revise the securitisation framework

80. **While the post-GFC reforms appear to have largely achieved their intended objectives, some stakeholders have identified their implementation as a key factor in the muted recovery of the European securitisation markets**. On the one hand, the introduction of more conservative capital requirements, together with risk retention and detailed due diligence requirements, has clearly enhanced the resilience of securitisation markets. Complex structures that contributed to the GFC have declined or have been restricted, while the increased availability of information on underlying loans has improved market transparency. Moreover, recent analyses by SSBs did not find significant evidence that the post-GFC reforms have unduly constrained banks' financing to the real economy.[107] On the other hand, some stakeholders argue that excessively conservative requirements and operationally burdensome implementation of the reforms in the EU and the UK may have excessively constrained the revival of securitisation and banks' lending capacity.

81. **In response to those concerns, both the EU and the UK have undertaken regulatory initiatives to revise their respective securitisation frameworks**. The UK's Prudential Regulatory Authority (PRA) consulted in 2023 and 2024[108] and issued revised rules in 2024 and 2025.[109] On the one hand, the new rules restated the assimilated EU law into UK law, largely preserving the previous due diligence, risk retention and transparency requirements. The PRA has signalled that it plans to consult on making these requirements more proportionate. On the other hand, the PRA introduced targeted changes to bank capital requirements for securitisation exposures to improve risk sensitivity and reduce the SEC-SA's level of conservatism, which is deemed unwarranted. Most of the changes will be effective from 1 January 2027.[110] In the EU, the EC proposed targeted revisions to the EU securitisation regulation and related prudential and liquidity rules in June 2025, followed by a proposal to amend Solvency II rules in October 2025.[111]

Capital requirements for banks

82. **Both the EU and the UK authorities aim to increase risk sensitivity and reduce unwarranted conservatism and cliff effects, but they pursue this through different design choices.** The changes primarily target the p-factor, the risk weight floors and the hierarchy of approaches.

83. **In the UK, the proposals revise the p-factor and the hierarchy of approaches.** The PRA retains the hierarchy of approaches introduced by the EU rules but reduces some of its complexity by removing

107 See BCBS (2022) and FSB (2025).

108 See PRA (2023a, 2023b, 2024a).

109 See PRA (2024a,b, 2025c).

110 Some changes relative to supervisory expectations will be applicable as of 1 January 2026.

111 See EC (2025a,b). The package followed an EC report on the functioning of the EU securitisation market in 2021 (EC (2021)) and two reports on the securitisation prudential framework by the Joint Committee of the European Supervisory Authorities (ESA (2022, 2025)).

the triggers that allow banks to revert to the Basel hierarchy. However, it retains the supervisory discretion to prohibit, on a case by case basis, the use of the SEC-SA when the applicable risk weight would not be commensurate with the risks involved or the use of the SEC-IRBA where securitisations have highly complex or risky features. Moreover, under the SEC-SA, banks will be able to choose between the existing fixed p-factor (1 for STS, 0.5 for non-STS) and a new formulaic p-factor (similar to the p-factor for the SEC-IRBA but with prescribed loss given default rates by asset class), capped/floored at 0.3/0.5 for STS and 0.5/1 for non-STS exposures. In setting out these changes to the standard, the PRA noted that while there are benefits from the implementation of international standards, implementing the SEC-SA p-factor as intended by the Basel standard would not be in line with the approach adopted in other jurisdictions and would therefore put UK banks at a competitive disadvantage.[112]

84. **In the EU, the proposals would introduce a new senior "resilient position" category with a more favourable capital treatment.** A new category of senior "resilient positions" would benefit from lower risk weight floors (5%) and reductions in the p-factor for certain investor positions. Resilient positions would need to meet specific quantitative and qualitative eligibility criteria designed to ensure low agency and model risks and a strong loss-absorbing capacity. These criteria, which are very closely aligned with the STS criteria,[113] include requiring sequential amortisation, a maximum obligor concentration of 2%, a minimum level of credit enhancement[114] and, for synthetic securitisations, recognition only of high-quality collateral or sovereign or supranational guarantees. This new category would increase the complexity of the framework, especially since compliance with the eligibility criteria would be required both at inception and on an ongoing basis.[115]

85. **The EU proposals would also revise the risk weight floors and the calibration of the p-factor.** The EC proposes replacing the current "fixed" risk weight floors for senior tranches (10% for senior STS and 15% for senior non-STS, across all approaches) with floors that are relative to the riskiness of the underlying pool of exposures. Minimum thresholds ensure that risk weight floors cannot fall below a certain level (set at 5% for STS "resilient" exposures). The EC also proposes lowering the p-factor for senior positions, originator positions and STS securitisations and introducing a cap to the p-factor under the SEC-IRBA. This is intended to reduce the conservatism and misalignment of risk weights between current approaches which, exacerbated by the p-factor, can result in capital charges for a given tranche that are up to four times higher under the SEC-SA than under the SEC-IRBA.

86. **The EC also proposes relaxing the homogeneity requirement of the STS criteria for SME exposures and allowing certain insurers to provide unfunded credit protection to STS securitisation.** Under the current framework, an STS securitisation must be backed by a pool of underlying exposures comprising only one asset type. To support the inclusion of SME loans in STS securitisations and facilitate the pooling of assets across different EU jurisdictions, the EC proposes relaxing this homogeneity requirement for SMEs such that securitisations for which at least 70% of the underlying pool consists of SME loans will be considered compliant with this requirement.[116] The remaining portion of the pool may therefore include other types of exposure, possibly from different member states, without affecting the transaction's STS status. Moreover, while unfunded credit protection is currently only allowed from counterparties with a 0% risk weight (ie public sector entities), the EC proposes extending eligibility to certain (re)insurers that use an approved internal model for risks related to the provision of credit

112 See PRA (2024b).

113 There is one significant exception, which is the minimum level of credit enhancement for the senior tranche of resilient securitisation positions.

114 The purpose of this criterion is to ensure that the senior position is protected by sufficiently thick non-senior positions to cushion it against potential losses.

115 See ECB (2025b).

116 The ECB argues that this would incentivise SME ABS transactions backed by mixed pools, which would violate the simplicity requirement for STS transactions (ECB 2025b).

protection, provided they meet specific safeguards. This could increase both concentration and counterparty risk in synthetic securitisations.[117]

87. **Revisiting the calibration and risk sensitivity of the securitisation framework may be warranted, but identifying its optimal design and calibration is challenging absent crisis-tested evidence.** While the Basel III securitisation framework explicitly included a level of non-neutrality to account for the additional risks and complexity introduced by the securitisation process, there might be grounds for revising the design and calibration of the various approaches to reduce their misalignment and better reflect the risks of securitisation exposures. On the one hand, the new floors and p-factors proposed by the EC could potentially better align capital requirements with risks for high-quality securitisation positions, especially as they restrict the lower p-factors to mostly retained and senior tranches. On the other hand, it is also important to ensure that all retained positions, including senior ones, are sufficiently capitalised.[118] Furthermore, floors as low as 5% for resilient STS senior positions fall below the implicit 7% Basel II floor that Basel III replaced post-GFC to address undercapitalisation of certain senior tranches. Moreover, anchoring floors to the risk weight of the underlying pool seems at odds with the rationale for a floor, which is non-risk-sensitive by design and aims to ensure a minimum level of capital for all exposures.[119] The revisions may also result in inconsistent risk weights between exposures to securitisation tranches and to covered bonds.[120] Finally, while the PRA's optional formulaic p-factor may reduce misalignment between the SEC-IRBA and the SEC-SA without necessarily increasing prudential risk, it might introduce additional complexity to the framework and potential unwarranted risk weight variability across banks.

SRT and credit protection

88. **The current quantitative requirements for recognition of SRT in the EU would be replaced by a principle-based approach test based on unexpected losses in order to deliver more consistent outcomes.** The proposed changes are intended to address issues related to the quantitative thresholds and to the process applied by competent authorities to assess SRT.[121] Limitations of the current EU SRT framework relate to the interpretation of SRT eligibility thresholds, structural features of securitisations and existing supervisory processes, with these having several unintended consequences.[122] They have contributed to market uncertainty, delays in supervisory assessment of SRT and inconsistent outcomes in the SRT determination across securitisation transactions and across member states.[123] Under the proposal, the current quantitative "mechanistic" requirements would be replaced by a principle-based approach test. The test would require the originator to transfer at least 50% of the unexpected losses of the underlying

117 See ECB (2025b) and ESRB (2025).

118 Due to concerns that retained tranches, whose risk remains in the banking sector, may become undercapitalised, the PRA does not support extending the STS capital treatment to synthetic securitisations (PRA (2024b)). Moreover, the ECB argues that the unilateral recalibration of the p-factor goes beyond the advice provided by the European Supervisory Authorities (ESA (2022)) and that "the p-factor should not be amended unilaterally, but rather that the entire framework should be revisited at international level" (ECB (2025b)).

119 See ECB (2025b).

120 For example, and assuming two transactions with similar underlying exposures (ie high-quality residential mortgages), the risk weight of a senior tranche of a resilient STS transaction could be as low as 5%, while a premium European covered bond would attract a minimum risk weight of 10% for investors using a standardised approach.

121 See EBA (2020b).

122 Limitations associated with the two existing SRT thresholds relate to the fact that they are not necessarily equivalent or comparable. Moreover, limited changes to a securitisation structure can have large effects on the amount of risk transfer that is effectively achieved. Furthermore, the complexity of certain features may lead to supervisory assessments and conclusions based on supervisory judgment that differ across jurisdictions. Finally, and to the extent that SRT needs to be assessed on a case-by-case basis, concluding a supervisory assessment may, in practice, take several months and therefore significantly delay the issuance of the transaction.

123 See EBA (2020b).

portfolio of exposures to third parties.[124] In addition, the originator would be required to submit a self-assessment to the competent authority to demonstrate that the SRT would be met even in stress conditions. The new approach aims to deliver more consistent outcomes but whether and to what extent this objective will be met will largely depend upon the contents of the European Banking Authority's (EBA) regulatory technical standards, which will set detailed rules, and their supervisory implementation.

89. **In the UK, the PRA has clarified that unfunded credit protection in synthetic securitisations may provide SRT.[125]** This approach to unfunded credit protection for SRT is consistent with international standards. It may improve the level playing field between UK banks, which use funded credit protection, and banks in the EU, where the use of unfunded protection for protected tranches of synthetic securitisation has become an established practice.

Liquidity requirements for banks

90. **The EC proposes relaxing the eligibility criteria allowing some securitisation assets to qualify as HQLAs under the LCR and reducing the associated haircut.** Under the current LCR Delegated Act,[126] only AAA-rated senior tranches of STS traditional securitisations can qualify as Level 2B HQLAs for banks' liquidity buffer, and they are subject to a minimum 25% haircut.[127] This is seen as a key obstacle to demand for senior securitisation positions from banks' treasuries. The proposed amendments therefore relax some of the eligibility requirements (including minimum rating (from AAA to A–), homogeneity criteria and tranche duration)[128] and reduce the minimum haircut to 15% (the same as for Level 2A HQLAs) for securitisation exposures that comply with certain requirements.

91. **The proposed LCR treatment may overstate liquidity under stress.** While LCR eligibility would still be restricted to senior tranches of STS traditional securitisations, there is no strong evidence that those instruments would remain liquid during stressed market conditions.[129] In particular, making securitisation positions with credit quality steps 5 to 7 (equivalent to a credit rating of A+ to A–) eligible for the liquidity buffer would constitute a further deviation from international standards without factual evidence that such securitisation positions have a proven record as a reliable source of liquidity. This evidence is a prerequisite for qualifying as an HQLA under Basel's liquidity standards. Moreover, allowing the senior tranche of a synthetic securitisation to qualify as a liquid asset for regulatory purposes potentially undermines the concept of HQLAs since such a tranche has no market liquidity.

Risk retention requirements

92. **In the EU, risk retention requirements for securitisations with thick first-loss tranches guaranteed by certain public sector entities would be waived, while the UK largely preserves existing rules.** The EC proposes waiving the 5% net economic interest risk retention requirement when the securitisation includes a first-loss tranche that is guaranteed or held by a defined list of public entities and where that tranche represents at least 15% of the nominal value of the securitised exposures. However,

[124] The proposed approach maintains the spirit of the current tests, which aim at ensuring that a significant proportion of unexpected losses is transferred, while trying to address some of the limitations of the current mechanistic tests. For example, for a three-tranche structure, the current test requires that at least 50% of the RWA of the mezzanine tranche be transferred. For more on this, see EBA (2020b).

[125] See PRA (2025d).

[126] See EC (2014).

[127] Moreover, Level 2B assets are limited to 15% of a bank's LCR buffer and there is currently a five-year maturity cap, which de facto eliminates long-term securitisations (especially those backed by mortgages or infrastructure).

[128] For tranche duration, the proposal removes the requirement for securitisations to have a remaining weighted average life of five years or less.

[129] See ESA (2022) and ECB (2025b).

certain types of securitisation involving high-risk or non-performing exposures may benefit from additional safeguards that ensure adequate risk coverage.[130] In contrast, the PRA preserved existing risk retention requirements when restating EU law into UK rules. Targeted exemptions to risk retention rules may be useful to support policy goals such as public risk-sharing schemes, but adequate safeguards will be needed to avoid weakening "skin in the game" and incentive alignment.

Capital requirements for insurers

93. **In the EU, the proposed amendments to the Solvency II framework aim to enhance the risk sensitivity of the prudential treatment of securitisations for insurers, potentially removing disincentives for EU insurers to invest in securitisation**.[131] For non-STS securitisations, a new set of risk factors may be introduced for senior tranches, while the risk factors for non-senior tranches would be reduced. For STS securitisations, the prudential treatment of senior tranches would be brought in line with that of covered bonds. Similarly, the treatment of non-senior tranches would be adjusted to mirror the changes applied to senior tranches.

Due diligence and disclosure requirements

94. **Both the EU and the UK simplify due diligence requirements to reduce operational burdens.** The EC proposal would remove verification requirements for originators, sponsors or SSPEs established and supervised in the EU. Senior tranches with lower risk would require less extensive reviews, and specific waivers would apply to transactions guaranteed or held by a defined list of public entities. Delegation of due diligence tasks to other institutional investors would be permitted, but the delegating party would retain ultimate responsibility. Additionally, simplified due diligence would be allowed for repeat transactions with the same originator and similar risk profiles. In the UK, the new rules prioritise continuity while making the due diligence requirements more principles-based and less prescriptive.

95. **The EC proposals would simplify disclosure and extend repository reporting requirements to private transactions, aiming to ease compliance while preserving transparency and supervisory oversight**. The EC recommends reducing the number of mandatory fields in reporting templates for public deals by at least 35%, with some fields converted from mandatory to voluntary. Moreover, loan-level disclosure for highly granular, short-term exposures such as credit card receivables or consumer loans would be replaced by aggregate reporting. Private securitisations would also need to be reported to repositories but would use a streamlined template rather than the more detailed template for public deals. These repositories would focus on supervisory information only and would only be accessible to authorities and institutional investors.

96. **A wider definition of public securitisation in the EU would broaden market disclosure.** The EC proposal would extend the definition of public securitisation to any securitisation (i) which is traded on an EU-regulated market or any other trading venue in the EU, (ii) which is marketed to investors without negotiable conditions, or (iii) for which a prospectus has been drawn up.[132] This would make information on the features of more securitisation transactions more accessible to a broader range of investors and increase transparency. However, by capturing transactions which are currently structured to be private, it could have unintended consequences and affect the functioning of that market segment.[133] It would also

130 See ECB (2025b) for specific proposals for such adjustments.

131 See AFME (2025b).

132 In other words, the transaction is an offering, with its terms and conditions offered on a take-it-or-leave-it basis. Investors have no direct contact with originators or sponsors and cannot directly receive information from them to conduct due diligence without the latter disclosing any sensitive information to the market.

133 See ECB (2025b).

narrow the range of transactions that could benefit from the proposed simplified reporting template for private securitisations.

97. **Simplifying the due diligence requirements and streamlining the disclosure requirements in the EU could alleviate operational and compliance costs for issuers and investors.** The proposed measures would introduce a more streamlined and proportionate approach in the EU, where these requirements have so far been very detailed, prescriptive and burdensome without necessarily resulting in commensurate benefits for investors. These efforts will bring due diligence and disclosure costs closer to those of other jurisdictions.

Section 6 – Conclusions

98. **The post-GFC reforms aimed at strengthening the securitisation framework have largely achieved their intended objectives; however, they remain untested.** These reforms have reduced mechanistic reliance on external credit ratings, enhanced risk sensitivity and introduced safeguards to ensure that originators retain "skin in the game", effectively aligning their incentives with those of investors. Additionally, the introduction of STC criteria has fostered the development of more transparent and more easily comprehensible securitisation structures, enabling investors to better assess and manage risks. Collectively, these measures have helped to promote the integrity and resilience of securitisation markets, even though the framework has not yet been tested by a real crisis.

99. **While the reforms have achieved their objectives, national implementation of these measures has not been without challenges and unintended consequences.** In particular, a key area of concern is the operational complexity introduced by some of these reforms. While transparency and due diligence requirements are pivotal for fostering investor confidence, it appears that these requirements have become overly prescriptive and burdensome in some jurisdictions. This has led to increased compliance costs for market participants, potentially discouraging smaller institutions from engaging in securitisation activities. Streamlining these requirements without compromising the core objectives of transparency and investor protection could contribute to a more efficient and inclusive market.

100. **The prudential reforms have significantly increased banks' and insurers' ability to withstand losses related to securitisation exposures, but there may still be room to improve the risk sensitivity of these frameworks.** Recent regulatory initiatives to reform securitisation frameworks reflect a desire to enhance their ability to more accurately reflect underlying risks. However, any revisions to national prudential frameworks must be approached with prudence in order to safeguard the substantial progress already achieved in strengthening the securitisation framework. At the same time, differences between capital charges for banks and insurers for the same securitisation exposure can disincentive the latter from investing in securitisation. While recent proposals aim to mitigate those differences, further efforts may be required to ensure that capital requirements across sectors appropriately reflect the underlying risks.

101. **The pursuit of greater risk sensitivity has increased complexity, although cases of under-sensitivity remain**. The securitisation capital rules are among the most complex parts of the Basel Framework, reflecting the need to assess each transaction based on its economic substance rather than its legal form only. Moreover, the Basel III securitisation framework added complexity relative to Basel II in its efforts to incorporate post-GFC lessons while calibrating the framework more conservatively via risk weight floors and the p-factor. Despite these efforts, the securitisation framework is still criticised for insufficient risk sensitivity. The recent initiatives in the EU and the UK aim to address some of these concerns, but risk adding further complexity and introducing further deviations from international standards. Such changes may have unintended repercussions, including reduced comparability of banks' resilience and increased regulatory fragmentation.

102. **Structural factors beyond regulation also play a significant role in market dynamics.** Differences in the dynamism of EU and US securitisation markets cannot be explained by regulation alone.[134] The US benefits from a single, large and liquid market for private-label securitisations with a broad investor base which supports larger, repeatable issuances, while the EU national markets, which are fragmented by diverse legal frameworks and limited cross-border integration, have a much narrower and less diversified investor base and face competition from covered bonds, a well-established alternative funding source.

103. **Market perceptions also matter.** While the US non-GSE securitisation market has partly recovered from the GFC, securitisations in Europe still suffer from a stigma effect, with securitisations regarded as being uniformly complex and riskier investments and regulatory frameworks contributing to such perceptions to some extent through enhanced capital requirements. Moreover, following the GFC, many investors left European markets after disbanding trading desks and credit analyst departments. They have yet to return and have shown little inclination to do so up to now. This loss of expertise and negative perceptions associated with securitisation techniques may also explain to some extent the relative lack of activity in European markets when compared with the US market.

104. **Incremental changes alone may not be sufficient to achieve meaningful improvements in revitalising the European securitisation markets.** Structural factors, strengthened by different approaches to the implementation of international standards, have also driven the observed post-GFC dynamics. The ongoing regulatory initiatives in the EU and the UK may provide targeted relief and may address some immediate and limited issues, such as operational burdens and capital misalignment. However, they risk addressing symptoms rather that root causes and may not be sufficient to revitalise the European securitisation markets. The revisions will also lead to further global regulatory fragmentation. To the extent that the proposals reflect fundamental issues with the capital frameworks for securitisation, such as inadequate risk sensitivity and misaligned capital charges across approaches and frameworks, there may be merit in revising the prudential standards for securitisation in a more holistic manner. However, if the outcomes of such a review should result in substantial change to the regulatory capital framework, these should ideally be pursued by international standard setters. This approach would promote global consistency and mitigate the risk of regulatory arbitrage. It could also prevent a "race to the bottom" that could undermine international prudential standards.

[134] See Levitin (2023), ESA (2022), FSB (2025) and ECB (2025b).

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