Post-GFC securitisation reforms and new initiatives: a comparative analysis[1]

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.