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Recommendations for further improving the EU Securitisation Framework Proposals

Executive Summary

The Loan Market Association (LMA) welcomes the European Commission's proposed reforms to the EU Securitisation Framework. These reforms are an important step towards revitalising a market that has been in long-term decline - today, Europe's securitisation market is just 17% the size of the US market.[1] Unless addressed, this imbalance will continue to deny European companies, particularly SMEs, access to vital non-bank financing and weaken Europe's global competitiveness.

Securitisation has the potential to unlock new funding channels for EU borrowers, release bank balance sheet capacity, diversify risk across the financial system, and channel global capital into Europe, helping build a genuine Savings and Investments Union. It is already a proven tool in the US, where it has been instrumental in fuelling SME growth and job creation. Europe must act now to close the regulatory gap and ensure that securitisation plays the same role in supporting investment, innovation, and economic resilience.

Yet investor confidence remains fragile. Persistent complexity, regulatory fragmentation, and lack of clarity continue to constrain the market. A clear, consistent, and proportionate regulatory framework is vital – not only to restore investor trust, but to expand participation, level the playing field between EU and non-EU participants, and ensure EU investors are not placed at a competitive disadvantage.

Securitisation can also play a pivotal role in attracting international capital and building a deep and dynamic investor base across Europe - one that is essential to realising a true European capital markets union.

The Commission's proposals move in the right direction but do not go far enough. To deliver a genuinely competitive and effective framework, in our view, three areas must be strengthened:

1. **Build market confidence**
    - Clarify the definition of "sponsor" so as to include non-EU investment managers.
    - Allow risk retention to be held on a consolidated basis.
    - Prevent automatic "public" classification of transactions simply due to listing.
    - Introduce transitional and grandfathering measures to enable smooth adoption.

2. **Remove investor barriers**

[1] Reviving-European-Securitisation-Translating-Ambition-into-Reality.pdf (PGIM)

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- Remove obligation for EU investors in non-EU transactions to verify compliance by sell-side entities with transparency requirements (which would not otherwise apply to such entities);
- Delete institutional investors from the list of (otherwise sell-side) entities that can potentially be subject to administrative sanctions under Article 32(1) SR; and
- Exempt private securitisations (such as warehouses) from unnecessary repository reporting.

3. Ensure proportionate capital and liquidity rules

- Adjust proposed "resilience" criteria so AAA CLOs and similar senior tranches can qualify to specifically boost funding for SMEs and corporates.
- Cap the risk weight floor at 15% and reduce the proportionality factor under the new risk sensitive floor formula to 10% for senior non-STS transactions.
- Test capital floor and seniority requirements only at transaction inception, avoiding instability.
- Adjust High-Quality Liquid Assets (HQLA) eligibility requirement further so that AAA CLOs can qualify.
- Recalibrate Solvency II stress factors to better reflect the true benefits of tranching.

Without these targeted enhancements, Europe risks perpetuating a shallow and fragmented market, limiting the flow of capital to SMEs and constraining economic growth.

By contrast, a robust, well-calibrated, and investor-friendly framework will restore trust, unlock international investment, and ensure the EU's securitisation market is positioned to compete globally – on equal footing.

About us

The LMA represents the interests of the loan markets across Europe, the Middle East and Africa (**EMEA**). Today, with over 850 members in 69 jurisdictions, we represent an ever-growing diversity of participants in international capital markets, including institutional investors, private and public sector issuers, banks, non-banks, technology solution platforms and market infrastructure providers, spanning EMEA.

LMA members include 21 of the 25 largest CLO managers in Europe, managing approximately 65% of the estimated €280 billion CLO market[2] which supports the real economy by channelling funding from global investors into European companies.

[2] Data from Deutsche Bank, September 2025

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Loan Market Association – Recommendations for further improving the EU Securitisation Framework Proposals

1. Introduction

The LMA welcomes the European Commission's recently published[3] legislative proposals (the **SR Proposals**), which amend the Securitisation Regulation (**SR**), the Capital Requirements Regulation (**CRR**), the Liquidity Coverage Ratio (through an amendment to Delegated Regulation (EU) 2015/61) (**LCR**), and the Solvency II framework (through an amendment to Delegated Regulation (EU) 2015/35) (**SII**). The SR Proposals are an important step towards strengthening the securitisation market in Europe and realising the potential for securitisation to support growth in the European economy.

The size of the European securitisation market has decreased significantly since 2010, in sharp contrast to the US market.[4] Europe's securitisation market is now only 17% of the size of the US market.[5] Whilst some of the reasons for this are structural, there is also a clear divergence in the regulatory approach between the US and Europe which have served to increase this gap.

The current review, therefore, provides an important opportunity to address existing regulatory barriers to the growth of the European securitisation market and, in so doing, to unlock the potential for securitisation to drive growth in Europe in line with the Commission's simplification and global competitiveness agenda. In **Section 2 (*Why it matters*)**, we discuss in more detail why a well-functioning European securitisation framework is critical to driving investment in the EU.

There are, however, three key areas where the LMA believes the SR Proposals can and should go further in order to ensure that the overarching objectives of the SR Proposals can be met - whilst at the same time maintaining vigilant market supervision and prudent banking regulation to avoid financial stability risks. In particular, the SR proposals could go further to:

1. build market confidence;
2. remove investor barriers so as to enable EU investors to have access to a truly global securitisation market in order to maximise their risk-adjusted returns and to stimulate EU investor demand for securitised products generally (and therefore stimulate EU issuance as well); and
3. ensure proportionate capital and liquidity requirements.

Our recommendations are set out in more detail in **Section 3 (*Recommendations*)** below and in the **Section 4 (*Technical Annex)*** appended to this paper.

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[3] As published on 17 June 2025 in respect of SR, CRR and LCR, and on 18 July 2025 in respect of SII.
[4] Securitisation Data Report Q4 2024 and 2024FY (002).pdf, page 9
[5] Reviving-European-Securitisation-Translating-Ambition-into-Reality.pdf (PGIM).

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Should you have any questions about this paper, please feel free to contact us. We would be happy to discuss further.

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2. Why it matters

A well-functioning European securitisation market is key to driving investment in the EU as it will:

A. Open up new financing channels for borrowers across Europe

- Expanding the securitisation market in Europe will increase available capital for borrowers (including SMEs) across different sectors across Europe - which, in turn, will be essential to securing growth in Europe in the years and decades to come.
- A more dynamic and liquid securitisation market offers borrowers access to longer-term financing for example, which is crucial for funding major infrastructure projects, supporting innovation, and fostering overall economic growth.
- While banks play a vital role in financing economic activity in Europe, their capacity to extend credit is ultimately constrained by their balance sheets (and applicable credit limits that constrain lending activity at the borrower level). As noted in the Draghi report[6], securitisation makes banks' balance sheets more flexible by allowing them to transfer some risk to investors, to release capital and to unlock additional lending opportunities. In the case of traditional securitisation, lending constraints are also lifted at the borrower level as loans are transferred from bank balance sheets.[7]

B. Ensure better risk diversification, greater transparency and enhance financial stability

- Securitisation also facilitates greater risk diversification by allowing banks to distribute risk off balance sheet, thereby avoiding undue concentration within the banking sector, and instead facilitating investment into the real economy by a wide range of institutional investors, in turn contributing to the overall stability and resilience of the European financial system.
- Securitisation also facilitates transparency in relation to the credit quality and performance of assets that are securitised because once a securitisation has closed, capital market investors can access (and therefore assess and trade on the basis of) detailed information in relation to the underlying assets on an ongoing basis. This market dynamic supports the efficient deployment of capital throughout the economy, as it feeds back into the pricing of loans to borrowers at point of origination. Rules aimed at enhancing transparency in the securitisation process are therefore to be welcomed, however overly burdensome reporting requirements that go beyond what is necessary to enable investors to carry out their risk assessments (and regulators to monitor risks to financial stability)

[6] https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf

[7] Whilst the focus of this paper is "traditional" securitisation, in respect of this securitisation objective being the transfer of risk from banks to non-bank investors, we also acknowledge the importance of "balance-sheet" (i.e. SRT) transactions. Whilst SRTs are outside the scope of this paper, for further detail on SRTs, we would refer you to the report of the IACPM published on September 10, 2025 - https://iacpm.org/iacpm-position-paper-on-the-european-commission-securitisation-package/.

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will discourage securitisation issuance, thereby inhibiting rather than facilitating the accurate pricing of risk across asset classes that are subject to securitisation in the manner as described above.

- The ability to access diverse and flexible sources of capital is essential for borrowers, particularly in the face of an increasingly competitive global marketplace. By expanding and reforming the securitisation market, Europe can channel the savings of EU households (through funds and other institutional investors) to finance productive investments in EU corporates – including, in particular, SMEs – which can help unlock job creation and increase Europe's global competitiveness.

C. Increase Europe's competitiveness on the global stage

- The future of European competitiveness report by Mario Draghi in 2024 (the **Report**) discussed the need for increased investment and structural reforms to address the lack of economic growth in Europe, especially in comparison to other countries like the US. The Report proposes securitisation as a tool for boosting private investment and funding for the real economy:
  - *"To increase the financing capacity of the banking sector, the EU should aim to revive securitisation and complete the Banking Union… In the EU context, securitisation could also act as a substitute for the lack of capital market integration by allowing banks to package loans originated in different Member States into standardised and tradeable assets that can also be purchased by non-bank investors. This process would help to channel non-bank finance across EU financial markets."*
- The broadly syndicated CLO market, for example, provides an important solution for financing the European real economy, facilitating investment from non-bank investors from both Europe and globally, as well as making bank balance sheets more flexible, releasing capital and unlocking additional lending.
- In the US, securitisation has long been recognised as a critical component of the financial system, providing businesses - in particular SMEs - with greater access to capital and in so doing fostering investment and driving economic growth and job creation whilst diversifying risk and maintaining financial stability.
- Divergence in regulatory regimes has exacerbated the gap between the size of the US and European securitisation markets, denying Europe the full benefits of securitisation with an ultimately detrimental impact on Europe's international competitiveness.

Europe must therefore reform its securitisation framework in order to help build the SIU, and improve its international competitiveness.

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Why CLOs Matter - Financing the European Economy

The Future of European Competitiveness report prepared by Mario Draghi in 2024 set out the importance of securitisation, as a tool for boosting private investment in the EU and driving growth in the real economy.

The CLO market provides an important source of financing for the European real economy, makes bank balance sheets more flexible, releases capital and unlocks additional lending. In particular, CLOs can unlock:

1. benefits for real economy borrowers: like other types of securitisations, CLOs play a significant role in opening up funding channels to the real economy. CLOs in particular facilitate more lending to non-investment grade companies. Companies that utilise CLOs span a diverse range of sectors financing the real economy.
2. benefits for investors: CLOs allow investors to further diversify their investments in less traditional asset classes, creating more resilient portfolios for end beneficiaries, such as pensioners and savers.
3. benefits for the stability of financial markets: CLOs allow diversification of funding away from banks towards capital markets, enabling the pulling of non-bank funding sources into the EU economy, and thereby reducing financial instability especially in times of stress in the banking sector.

The CLO market provides an important solution for financing the European real economy, facilitating investment from non-bank investors from both Europe and globally into a diverse range of sectors spanning from telecommunications to retail and healthcare, as well as making bank balance sheets more flexible, releasing capital and unlocking additional lending.

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3. Recommendations

A. Building market confidence

No.	Detail	Proposed change
1.	Adjust the definition of "sponsor", in particular for the purposes of Article 6 of the SR, to clarify that non-EU investment managers, not just credit institutions, may act as sponsors.	Amend Art 2 SR as set out in Section 4 (*Technical Annex*).
2.	Permit the risk retention to be held on the basis of the consolidated accounting position of the retention holder.	Amend Article 6(4) SR as set out in Section 4 (*Technical Annex*).
3.	Refine the trigger for "public" classification of securitisations – in particular, listing should not automatically imply public status.	Addition to be made in relation to the new paragraph (32) of Article 2 SR as set out in Section 4 (*Technical Annex*).
4.	Include transitional and grandfathering arrangements to allow time for market participants to adjust to the new framework.	New provisions to be added to Article 2 of the SR Proposal as set out in the Section 4 (*Technical Annex*).

B. Removing investor barriers

No.	Detail	Proposed change
5.	EU investors to be subject to the same due diligence obligations when investing in non-EU transactions as those currently proposed for transactions with EU sell-side parties.	Amend proposed changes to Article 5 SR further as set out in Section 4 (*Technical Annex*).
6.	Remove proposed change that adds institutional investors to the list of (otherwise sell-side) entities that can potentially be subject to administrative sanctions under Article 32(1) SR.	Remove the proposed addition of institutional investors to the administrative sanctions provision in Article 32 SR as set out in Section 4 (*Technical Annex*).
7.	Private securitisations – such as warehouses - should be exempt from the requirement to report to securitisation repositories.	Amend the proposed change to Article 7 SR further as set out in the Section 4 (*Technical Annex*).

C. Ensuring proportionate capital and liquidity requirements

No.	Detail	Proposed change
8.	The proposed "resilience" criteria should be adjusted to enable AAA-rated CLO tranches (and senior tranches of private securitisation transactions backed by similar collateral) to be classified as resilient.	Changes to be made to the proposed resilience criteria to be set out in Article 243 CRR as set out in Section 4 (*Technical Annex*).

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No.	Detail	Proposed change
9.	A cap of 15% should be applied to the proposed risk weight floor formula so as to avoid actually raising capital requirements for certain senior non-STS transactions, and the proportionality factor contained in such formula should be reduced from 15% to 10% (for senior non-STS positions).	Further changes to be made to those proposed for Article 261 CRR as set out in Section 4 (*Technical Annex*) and certain consequential changes as indicated.
10.	The proposed risk weight floor formula should be applied to determine the floor at commencement of the relevant transaction only.	Further changes to be made to those proposed for Article 261 CRR as set out in Section 4 (*Technical Annex*) and certain consequential changes as indicated.
11.	A reduction in the "p-factor" should be provided for banks acting as investors in senior non-STS securitisations (rather than only when acting as originators).	Further changes to be made to those proposed for Article 261 CRR as set out in Section 4 (*Technical Annex*) and certain consequential changes as indicated.
12.	The proposed changes to the definition of "senior" for the purposes of CRR (and SII) should be refined – in particular, if a minimum attachment point for a securitisation position to be considered "senior" is ultimately required, this should be tested at commencement of the relevant transaction only.	Amend the proposed new defintion of "senior" under Article 242 CRR as set out in Section 4 (*Technical Annex*).
13.	AAA CLOs should be considered in principle eligible HQLA for the purposes of the LCR.	Amend the LCR Delegated Regulation further as set out in Section 4 (*Technical Annex*).
14.	The stress factors under SII should be further recalibrated so as to better reflect the impact of tranching (in particular such that senior non-STS positions have proportionately lower stresses than non-senior STS positions).	Amend SII Delegated Regulation further as set out in Section 4 (*Technical Annex*).

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Section 4

TECHNICAL ANNEX

1. BUILDING MARKET CONFIDENCE

To grow market confidence and, in turn, grow the securitisation market in Europe, policymakers should seek to address areas of existing ambiguity to ensure that market participants have legal certainty about how to apply the securitisation framework.

There are four key areas where we believe that policymakers could make adjustments to the existing framework, whilst preserving the underlying objectives, so as to increase certainty for market participants, namely:

- adjusting the definition of "sponsor", in particular for the purposes of Article 6 of the Securitisation Regulation (**SR**);
- permitting the risk retention to be held on the basis of the consolidated accounting position of the retention holder;
- amending the "listing test" for "public" securitisations; and
- including transitional and grandfathering arrangements to allow time for market participants to adjust to the new framework.

Further details of the proposed amendments are set out below.

A. Definition of "sponsor"

There is currently uncertainty under the SR due to the positioning of the reference to "whether located in the Union or not" in the present definition of "sponsor", as to whether it is only non-EU credit institutions (as opposed to investment firms/managers) that are permitted to act as sponsors.

Our members note that the proposed changes to the SR (**SR Proposal**) do not include any clarification of the SR definition of "sponsor" so as to explicitly permit non-EU investment firms/managers to act as sponsors, in particular for the purposes of holding the risk retention in accordance with Article 6 SR.

Consistent with the statements made in the 31 March report of the Joint Committee of the European Supervisory Authorities (the **JC Report**), our members strongly agree that ***non-EU investment firms/managers should be permitted to act as sponsors and hold the risk retention, and we would welcome clarification of this in the text of the updated SR.***

There is, in our view, no reason for making a distinction between non-EU investment firms/managers and credit institutions on this point: on the contrary, and as suggested in the JC Report, removing such distinction should facilitate the holding of risk retention by non-EU-established asset managers of securitisations such as CLOs and other "managed" transactions. Since asset managers of such transactions typically acquire assets on behalf of the vehicle to a significant degree from the secondary market, a typical managed securitisation transaction has no "natural" originator entity available to hold the retention. This has led European asset managers to take a number of additional steps in order to qualify themselves as "originators" for such purpose. Clarifying that non-EU-established managers can hold the risk retention in their transactions as sponsors instead, should make holding risk retention more straightforward for them, incentivising more European asset managers to do so (which would be

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beneficial from an incentive alignment perspective and therefore for EU investors investing in such transactions).

Removing such a distinction would also be consistent with the current position under the UK rules, where investment firms/managers are permitted to act as sponsors under the UK securitisation framework,[1] whether established within or outside the UK. Accordingly, we consider that investment firms/managers - whether of the "MiFID" type or managers of alternative investment funds - in addition to credit institutions, should be permitted to hold risk retention as "sponsors" regardless of whether established within or outside the EU.

This should also achieve the aim of having an appropriate entity retaining the risk in the securitisation transaction. It seems clear that there is merit in having the interests of the securitisation manager (through its skin in the game) aligned with those of the investors, but this can be difficult when the securitisation manager does not easily fit within either the sponsor or originator definitions as mentioned above. We would also note by way of analogy the flexibility given for NPE transactions to have the servicer of such transactions act as risk retainer – such flexibility was also granted by way of amendments made to the original Securitisation Regulation.

[1] Whilst there is an argument that the existing legislative text is broad enough already to permit non-EU investment firms to be sponsors, the market would benefit from removing any ambiguity in the drafting as outlined above. Accordingly, we recommend that the words "*whether located in the Union or not*" contained in the present definition of sponsor be moved, such that it is clear from the syntax of that definition that they apply to investment firms as well as to credit institutions (see Amendment Recommendation 1).

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Amendment Recommendation 1

With a view to aligning the EU's securitisation framework with other major jurisdictions, thereby making its market more globally competitive, in line with the recommendations made by JC ESAs, the LMA recommends that the words "whether located in the Union or not" contained in the present definition of sponsor be moved, such that it is clear from the syntax of that definition that they apply to investment management firms as well as to credit institutions:

Article 2

(…) (5) 'sponsor' means a credit institution~~, whether located in the Union or not,~~ as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013, or an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU, or a manager of an alternative investment fund as defined in point (b) of Article 4(1) of Directive 2011/61/EU ***in each case whether located in the Union or not***, other than an originator, that *(…)*

B. Risk Retention – consolidated application

Our members note that the SR is also inconsistent in relation to the permission given to hold risk retention on a consolidated basis: such flexibility currently being afforded only to credit institutions (and only in the limited circumstances set out in Article 6(4) SR) despite statements in the CEBS Guidelines to the contrary[2]. The LMA notes that such a limitation is very restrictive when applied to CLOs (and other "managed" securitisations of corporate loan portfolios), as it will not be feasible in such transactions for such a credit institution to hold the risk retention (thereby ruling out the holding of retention on a consolidated basis).

Our members consider that the risk retention should be permitted to be held on the basis of the consolidated accounting position of the retention holder instead, and irrespective of the type of retention holder or what entity or entities originate the underlying collateral.[3]

[2] See paragraph 71 if the CEBS Guidelines in respect of Article 122a of the Capital Requirements Directive.

[3] This should come at no cost in terms of incentive alignment (as the required "skin-in-the-game" would continue to be retained, in economic substance, by the retention holder albeit on a group basis as opposed to arbitrarily by reference to the particular legal entity concerned). Such a change would also be consistent with the current US position where majority-owned affiliates of the securitisation "sponsor" may hold the required risk retention (instead of the sponsor itself).

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Amendment Recommendation 2

To supplement Amendment Recommendation 1, the LMA would additionally recommend that the following be added to Article 6(4) SR in order to enable originators and sponsors to act as retainers on a consolidated basis, regardless of entity or transaction type:

Article 6

4a. The requirements referred to in paragraph 1 may also be satisfied on the basis of the consolidated situation of the retainer, where such consolidation is permitted or required by and is determined in accordance with those accounting rules, standards and principles to which the retainer is subject.

C. Refinement to the "listing" test for "public" securitisations

The LMA welcomes the Commission's proposals to make the distinction between a "public" and "private" securitisation, by adding points (32) and (33) under Article 2 of the SR, with a view to significantly reducing the reporting burden further for private transactions.

However, the mere fact of having an EU listing is in our view too wide a basis for categorising a transaction as being public, as such a listing may be obtained even in truly private transactions for example solely to ensure that a transaction operates in a tax-efficient manner as between the parties involved (as opposed to for the purposes of facilitating trading of the related securitisation positions in the secondary market). For example, warehouse issuers regularly list their subordinated debt instruments (for reasons solely of tax-efficiency, there being no active trading in these instruments), however they are also private transactions where much information is commercially sensitive and should not be made available more widely than to the participants in the transaction (and, where necessary, to regulatory authorities). These transactions should not therefore be considered "public" on any basis – and in particular, the mere listing of their (otherwise privately held and non-traded) securitisation positions should not make them so.

Because the classification of whether a transaction is public or private will determine the type of template reporting a transaction will be required to use and whether such template reporting is to be made available to potential investors (as opposed to solely to regulatory authorities), ***we would therefore propose a refinement to the "listing" test referenced above, such that a listing in the EU would only result in an otherwise private transaction becoming public where it could be established, in addition, that such listing is being sought (at least in part) for the purposes of enhancing the liquidity and marketability of the relevant securitisation instruments (as opposed to for unrelated purposes such tax efficiency or in order to meet an investor's internal requirements).***

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Amendment Recommendation 3

In order to avoid truly private transactions being classified as public solely on the basis of a technical listing of the applicable securitisation positions, the LMA recommends that the following addition be made to the Commission's proposal in relation to the new paragraph (32) of Article 2 SR:

Article 2

'(32) 'public securitisation' means a securitisation that meets any of the following criteria.....

(b) the securitisation is marketed with notes constituting securitisation positions ***to be*** admitted to trading on a Union trading venue as defined in Article 4(1), point (24) of Directive 2014/65/EU of the European Parliament and of the Council ***and where such admission to trading is being sought by or on behalf of the issuer wholly or partly for the purposes of enhancing the secondary market liquidity of the relevant securitisation positions in furtherance of the marketing of such positions to potential investors;...***

D. ***Grandfathering and transitional arrangements***

Our members note that the SR Proposal is currently silent as to whether the new rules will apply immediately following their date of application to "new" transactions (transactions, the securitisation positions in respect of which are entered into after the implementation date) and also whether (and if so, from when) the new rules will apply to "existing" transactions (transactions, the securitisation positions in respect of which are already in existence as of such date).

In order to allow sufficient time for market participants to adapt to the new rules, ***we propose including within the SR Proposal a transition period of at least six months following the date of application of the new rules, upon the expiry of which the new rules will apply (to new and existing transactions), although thought should be given as to whether existing transactions should be able to opt in or out of the new regime. The issue here is that if there were to be compulsory application of the new rules to all existing transactions, this would effectively impose a mandatory change of law upon those transactions and, for example, where the sell-side parties were outside the EU and chose not to comply with the new rules, this would penalise EU investors. However, at the same time, there may be a desire for existing transactions to be made subject to the new rules as these would then be able to take advantage of a more appropriate reporting regime. Therefore, we believe the impact of applying the new rules to existing transactions without exception should be consulted on more widely.***

Our members note that it will also be necessary to ensure that all required regulatory technical standards are finalised well before the expiry of the transition period referred to above (from which point they will apply), such that market participants have sufficient time to prepare for their application.

Amendment Recommendation 4

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In order to provide market participants with sufficient time to adapt their systems and procedures to the new rules, the LMA recommends adding the following provision to Article 2 of the SR Proposal:

Article 2a

This Regulation shall apply from the date falling six calendar months following the date upon which this Regulation entered into force.

2. REMOVING INVESTOR BARRIERS

To achieve the Commission's objective of increasing investment into the EU securitisation market, it will be necessary to remove the barriers to entry for EU investors, and in particular, whether such barriers apply in respect of EU issuance or non-EU issuance since, as mentioned above, it is only when EU investors have ready access to a global securitisation market, that EU investment demand for securitised products (including EU-originated securitisations) will be truly stimulated.

In this regard, and while the Commission's aims at enabling insurance and reinsurance undertakings to participate more meaningfully in the securitisation markets for example are welcome, our members have identified a number of areas where the existing framework and SR Proposal go beyond what is necessary.

Key adjustments to be considered are as follows:

- EU investors in non-EU transactions should not be subject to an obligation to verify compliance by sell-side entities with transparency requirements (which would not otherwise apply to such entities) such as template reporting and the requirement to use securitisation repositories, such that EU investors are effectively shut out of global markets;

- deletion of institutional investors from the list of (otherwise sell-side) entities that can potentially be subject to administrative sanctions under Article 32(1) SR; and

- private securitisations – such as warehouses - should be exempt from the requirement to report to securitisation repositories.

Further details can be found below.

A. Investor due diligence – non-EU transactions

Our members note that no relief has been provided under the SR Proposal for non-EU transactions in so far as EU investors will need to verify compliance by non-EU sell-side parties with SR transparency reporting obligations, including preparation of required reporting templates and the requirement to report through EU securitisation repositories.

The SR Proposal does not go nearly far enough to relieve the relatively burdensome due diligence requirements imposed on EU institutional investors: the due diligence burden still remains high when compared with other types of investments and with similar requirements applicable to non-EU (in particular, UK) institutional investors.

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Accordingly, the due diligence requirements outlined above will place EU institutional investors at a significant competitive disadvantage relative to non-EU investors as a potential source of investment capital for these transactions ultimately leading not only to EU investors being shut out of global securitisation markets and poorer outcomes for EU institutional investors in terms of diversification and risk-adjusted returns, but also to reduced demand for (and therefore supply of) EU securitisation issuance.

We therefore propose that EU investors be subject to the same due diligence obligations when investing in non-EU transactions as those currently proposed for transactions with EU sell-side parties, such that no verification of the above requirements is required and reliance by EU investors can instead be placed on existing contractual reporting frameworks which are already regarded by such investors as adequate for due diligence purposes.

This will give EU investors the flexibility to carry out their required due diligence assessments in the manner they consider appropriate (and proportionate to the specific investment opportunity concerned) and regardless of where the particular transaction happens to have been originated.

Amendment Recommendation 5

In order to ensure that EU investors are not placed at a competitive disadvantage in terms of their ability to invest in non-EU transactions, the LMA recommends that the following changes be made to the Commission's proposed changes to Article 5 SR:

(3) Article 5 is amended as follows:

(a) paragraph 1 is amended as follows:

(i) point (c) is deleted;

(ii) point (e) is deleted;

(iii) ~~points (e) and~~ ***point*** (f) ~~are~~ ***is*** replaced by the following:

~~'(e) if established in a third country, the originator, sponsor or SSPE designated in accordance with Article 7(2) has made available the information required by Article 7(1) in accordance with the frequency and modalities provided for in that paragraph;~~

(f) if established in a third country, in the case of non-performing exposures, the originator, sponsor or original lender has applied sound standards in the selection and pricing of the exposures.';

B. <u>Investor due diligence – administrative penalties</u>

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The introduction under the SR Proposal of potential administrative penalties for EU institutional investors in securitisations may have a potentially chilling effect on the market.

Our members note that the SR Proposal includes an amendment to Article 32(1) SR which would have the effect of extending the administrative sanctions that may presently be applied by National Competent Authorities under that Article only to "sell-side" entities, to investors that fail to meet their due diligence obligations under Article 5 SR. In particular, banks investing in securitisations are presently subject only to the additional risk weights set out in Article 270a CRR (from 250% to 1250%) in the case of a negligent failure to comply with such due diligence obligations.

Adding to the potential sanctions already applicable to those investors subject to the SR due diligence obligations (including EU banks) in this way would disincentivise investment in securitisations both in absolute terms and relative to investment by non-EU institutional investors (UK institutional investors, for example, are not subject to similar administrative sanctions for a failure to comply with due diligence obligations under the UK securitisation rules).

On the other hand, the existing sanctions referenced above that are imposed on institutional investors under sectoral prudential frameworks (the CRR in the case of EU banks, for example) are already sufficient to incentivise compliance by investors with their due diligence obligations. Such sectoral regimes are also better able to tailor sanctions and remedial measures, such that they are appropriate and effective in light of the particular investor category concerned.

The addition of such sanctions would inhibit the growth of a broader and deeper EU securitisation market as well as placing EU investors at a competitive disadvantage relative to non-EU investors (thereby limiting diversification and lowering risk-adjusted returns for EU investors).

Accordingly, we are strongly of the view that institutional investors <u>should not</u> be included in the list of (otherwise sell-side) entities that can potentially be subject to administrative sanctions under Article 32(1) SR.

Amendment Recommendation 6

In order to avoid disincentivising EU institutional investors to invest in securitisation, the LMA recommends removing the Commission's proposed addition of institutional investors to the administrative sanctions provision in Article 32 SR:

~~(17) in Article 32(1), first subparagraph, the following point (i) is added: '(i) an institutional investor, other than the originator, sponsor or original lender, has failed to meet the requirements provided for in Article 5.';~~

C. <u>Investor due diligence – securitisation repository reporting for private transactions</u>

Our members do not consider that the requirement to report to securitisation repositories should apply to private transactions. Whilst members acknowledge the possible introduction of safeguards to protect confidentiality, truly private transactions (which will be fewer in any event given the proposed widening of the definition of "public" securitisation) - such as loans to credit funds and warehouse loans - should not be subject to this requirement due to the greater need to ensure confidentiality.

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Whilst we welcome the move to reduce the information requirements in respect of public securitisations and the development of a short-form template for private securitisations, the additional requirement for private securitisations to report to securitisation repositories runs counter to these reforms and will create a significant additional burden for securitisation issuers, disincentivising the origination of EU securitisations and limiting investment opportunities for EU investors in non-EU securitisations.

Accordingly, we propose that the requirement for private securitisations to report to securitisation repositories should be removed.

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Amendment Recommendation 7

To ensure that truly private transactions are not subject to burdensome and inappropriate transaction reporting requirements to securitisation repositories, the LMA recommends making the following change to the proposed amendments to Article 7 SR:

(5) Article 7 is amended as follows:

(b) in paragraph 2, the third subparagraph is replaced by the following:

'***The obligations referred to in the second and fourth sub paragraphs shall not apply to private securitisations.*** Private securitisations shall be subject to a distinct reporting framework that acknowledges their unique characteristics, differing from public securitisation, in a dedicated and simplified reporting template. That dedicated and simplified reporting template shall ensure that essential information relevant to national competent authorities is adequately reported, without imposing the full extent of reporting obligations applicable to public securitisations. Private securitisations shall fulfil their obligations under this subparagraph as of [date set in the fourth subparagraphs of paragraphs 3 and 4 of this Article.].'

3. ENSURING CAPITAL AND LIQUIDITY REQUIREMENTS PROPORTIONATELY REFLECT THE UNDERLYING RISK PROFILE AND CHARACTERISTICS OF SECURITISATIONS

Whilst members welcome a number of the changes to capital and liquidity requirements under the proposed changes, there are still some areas where they fail to properly reflect the nature of the underlying risks and features associated with certain types of securitisations.

There are a number of areas where adjustments should be made to properly reflect the nature of such risks and features, namely:

- the proposed "resilience" criteria should be adjusted including to enable AAA-rated CLO tranches (and senior tranches of securitisation transactions backed by similar collateral) to be classified as resilient;
- a cap of 15% should be applied to the proposed risk weight floor formula so as to avoid actually raising capital requirements for senior non-STS transactions, and the proportionality factor contained in such formula should be reduced from 15% to 10% (for senior non-STS positions);
- the proposed risk weight floor formula should be applied to determine the floor at commencement of the relevant transaction only;
- a reduction in the "p-factor" should be provided for banks acting as investors in senior non-STS securitisations (rather than only when acting as originators);

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- the proposed changes to the definition of "senior" for the purposes of the CRR should be refined - in particular if a minimum attachment point for a securitisation position to be considered "senior" is ultimately required, this should be tested at commencement of the relevant transaction only;

- AAA CLOs should be considered eligible HQLA for the purposes of the LCR; and

- the stress factors under SII should be further recalibrated so as to better reflect the impact of tranching.

Again, further details can be found below.

A. <u>Adjusting the criteria for "resilient" securitisation classification</u>

Our members welcome the addition of a new category of "resilient" securitisations (and the associated reduction in regulatory capital requirements) supplementing the existing STS classification. We are however concerned to ensure that non-STS securitisations that are of high credit quality do in fact benefit from such classification. ***In particular, we consider that the proposed resilience criteria should be adjusted in order to enable, in principle, AAA-rated CLO tranches and senior tranches of securitisation transactions that are backed by similar collateral, to be classified as resilient.*** Despite their seniority and absence of significant agency and model risks, such positions are not able to obtain STS treatment (for example, due to collateral portfolios being actively managed and/or collateral not meeting minimum risk weighting requirements under the STS prudential criteria). In this regard, the following changes should be made to the proposed resilience criteria:

- ***Firstly, "investor" (in addition to "originator" and "sponsor") positions in senior, non-STS securitisations should be permitted to benefit from resilient classification.*** Denying the associated regulatory capital relief to even the most senior tranches of CLOs (and other similar securitisations of corporate loans) unless the investing bank has itself also originated the collateral, will be likely to have a negative impact not only on the aggregate flow of capital to corporates but also on the concentration of risk within the banking sector, as it will disincentivise the investment by banks in (and thereby put at risk the feasibility of) structures under which banks assume only the most senior exposure to corporate loan portfolios (and thereby enable non-bank investors to come in and provide all of the remaining capital).

- ***Secondly, in relation to the "granularity" requirement, it should be clarified that the requirement is only tested at the time that a particular loan is added to a securitised portfolio (in order to avoid a situation where differing prepayment rates within the portfolio cause the requirement to subsequently fail, for example).*** This requirement should ***also be loosened to 4 per cent (from the proposed 2 per cent)*** provided that the relevant senior securitisation position is ***AAA rated*** (or if unrated, that it satisfies a commensurately high minimum attachment threshold).

- ***Thirdly, our members are concerned to ensure that the proposed minimum senior tranche thickness requirement for resilient classification is tested at commencement of the securitisation only, rather than on an ongoing basis***, in order to avoid a situation where, due to the specification of the minimum attachment point, such attachment point increases during the life of the transaction (for example as defaults occur under the currently proposed specification linked to "KA" under SEC-SA) and/or the senior attachment point itself decreases during the life of the transaction (for example as portfolio losses are crystallised) both potentially leading to the senior tranche attaching below the minimum required attachment

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point causing resilient classification to be lost (and an immediate and significant increase in regulatory capital requirements as a result).

- ***Fourthly, our members consider that differentiation in the proposed senior tranche thickness requirement referred to above, based on which approach under the securitisation hierarchy a bank elects to use is unwarranted and unduly penalises banks applying SEC-SA (as opposed to SEC-IRBA) in particular.*** SEC-SA is already a far more conservative methodology that will likely yield significantly higher capital charges than SEC-IRBA. Accordingly, SEC-SA banks should not be further disadvantaged when it comes to applying the resilience criteria (which is the effect of the way the proposed senior tranche thickness requirement is currently framed, with a factor of 1.5 being applicable where SEC-SA is used, versus a factor of only 1.1 where SEC-IRBA is used), which should focus solely on the characteristics of the relevant securitisation transaction (rather than which approach to risk weight determination the investing bank happens to be using).

Amendment Recommendation 8

In relation to "resilience" classification, in order to (i) enable bank investors in traditional senior non-STS positions (where not also acting as originators) to benefit from such classification, (ii) simplify calculations (including to avoid unduly penalising SEC-SA), (iii) avoid unnecessary "cliff-effects"; and (iv) enable the most senior and highly rated positions of CLO transactions (and other similar securitisations of leveraged loans) to benefit from such classification, the LMA recommends the following changes be made to the proposed resilience criteria to be set out in Article 243:

4. A senior securitisation position in a non-STS securitisation shall be eligible for the treatment set out in Article 259(1b), Article 261(1b), Article 263(2a) and Article 263(3a) where the following requirements are met, at the origination date and ***(except in the case of the requirement set out in point (c)(2) below which shall be required to be met at commencement only and in the case of the requirement set out in point (c)(3) below which shall be required to be met only on the dates specified therein)*** on an ongoing basis thereafter:

(c) for non-ABCP traditional securitisation:

(1) the requirements of Article 21(4), point (b), and Article 21(5) of Regulation (EU) 2017/2402;

(2) the attachment point of the senior securitisation position is determined as follows:

A >= ***1.1*** ~~[1.5]~~ * KA, when using SEC-SA or SEC-ERBA, or

A >= 1.1 * (EL * WAL of the initial reference securitised portfolio + UL), when using SEC-IRBA;

(3) the requirement of Article 243(2), point (a), of this Regulation ***(which shall be required to be met as of each date upon which a securitised exposure is added to the relevant***

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securitisation); provided that the concentration limit specified therein for the purposes of this paragraph (3) shall be deemed to be equal to [4] per cent. if the relevant securitisation position has been assigned a credit assessment commensurate with CQS [1] by an ECAI in accordance with Article 270(e) of this Regulation (or the investor is otherwise able to demonstrate that the relevant securitisation position is of comparable credit quality); ~~the position is not a position of investor~~.

B. Risk weight floor

Our members note the introduction of a risk-sensitive risk weight floor applicable to the determination of risk weights for senior securitisation positions held by banks under all approaches (such formula to reference the effective risk weighting applied to the applicable securitised portfolio ("**KA**" in the case of SEC-SA), multiplied by a proportionality factor and subject to an overall minimum level).

In particular, members note that for senior non-STS positions (such as investments in AAA-rated CLO tranches and other securitisation transactions involving leveraged loan portfolios) the proportionality factor has been set at 15%. Additionally, no overall cap to the risk weight floor resulting from application of the formula applies (whether for STS or non-STS positions). This is to be compared with the currently applicable fixed risk weight floor of 15% that applies to senior non-STS positions.

Our members are broadly supportive of a risk-sensitive approach to the risk weight floor. At the same time however, any risk-sensitive approach should permit the risk weight floor to remain within the present range (i.e. 10-15%) for securitisations of leveraged loan portfolios (i.e. for portfolios with risk weights of 100-150%) such as AAA-rated CLO tranches.

Our members are however concerned that without the application of a cap as mentioned above, and with the setting of the proportionality factor at 15% (rather than 10%), the risk weight floor when applied to senior positions in securitisations of leveraged loans (i.e. with a risk weighting of 150% under SA) such as AAA-rated CLO tranches, will increase above the current 15% fixed floor, for example to 22.5% under SEC-SA.

Since the risk weight floor will typically be binding for the above positions, the resulting increase in risk weights will likely disincentivise EU bank investment in senior CLO (and other leverage loan) securitisations, investments that such investors routinely make (and, as the safest investments in the capital structure, should be permitted to continue to make both from a prudential standpoint and to encourage the continued flow of capital to corporates, both from the bank and non-bank sectors as mentioned above).

Accordingly, we recommend that a cap of 15% be applied to the risk weight floor formula so as to avoid actually raising capital requirements for the senior non-STS transactions mentioned above, and that the proportionality factor be reduced from 15% to 10% (for senior non-STS positions) in order to provide such transactions with the potential for a degree of regulatory capital relief (relative to the 15% fixed risk weight floor that currently applies to them, and subject to the currently proposed overall floor of 12%).

In addition, our members note that the risk weight floor formula should be applied to determine the floor at commencement of the relevant transaction only. Risk weight formulae under all approaches are already sensitive to changes in the characteristics of a securitisation as it progresses: there is therefore no need for the same to apply to the risk weight floor and doing so will only add complexity

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and an excessive degree of volatility to the determination of risk weights over the life of the securitisation.

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Amendment Recommendation 9

In order to ensure that senior non-STS securitisation positions backed by corporate loan portfolios do not see an increase in their required risk weights under the SR Proposals, the LMA recommends making the following changes to the proposed risk weight floor formula introduced into Article 261.

Additionally, in order to enable bank investors investing in such positions (where not also acting as originators of the applicable securitisation) to obtain the regulatory capital benefit associated with the proposed reduction in the p-factor (see section C below), the LMA recommends making the following further change to the proposed amendments to Article 261.[4]

(11) Article 261 is amended as follows:

(a) paragraph 1 is amended as follows:

(2) 'p = 1 for a securitisation exposure that is not a re-securitisation exposure' is replaced by the following:

'For a securitisation position that is not a re-securitisation exposure, p =0.6 for a senior securitisation position ~~of originator or sponsor; 1 for other securitisation position'~~.;

(b) the following paragraphs 1a and 1b are inserted:

'1a. The risk-weighted exposure amount for a senior securitisation position calculated in accordance with paragraph 1 shall be subject to a floor calculated as follows ***(as at the commencement of the relevant securitisation transaction only)***:

Floor = max (12%; ~~15~~***10***% *KA*12.5); ***provided that such floor shall not in any case exceed 15%***.

1b. The risk-weighted exposure amount for a senior securitisation position calculated in accordance with paragraph 1 that complies with the criteria set out in Article 243(4) shall be subject to a floor calculated as follows ***(as at the commencement of the relevant securitisation transaction only)***:

Floor = max (10%; ~~15~~***10***% * KA*12.5); ***provided that such floor shall not in any case exceed 15%***';

[4] Note: corresponding changes (i.e. in respect of the risk weight floor formula and scaling factor for the 'p' formula) should be made in connection with SEC-IRBA for senior non-STS positions.

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C. P-factor

Our members note that the p-factor applicable to the calculation of risk weights for senior non-STS positions (such as AAA CLOs) has been reduced only for banks investing as originators/sponsors such that no relief has been given to banks when investing as "third party" investors.

As described above in the context of the resilience criteria, we do not consider that whether or not an investing bank has also originated the exposures to be securitised should determine the degree of regulatory capital relief available to it (in this case associated with a reduced p-factor). As noted above, limiting regulatory capital relief to situations where banks are retaining a (senior) position (through securitisation) in loans that they themselves have originated (and denying regulatory capital relief to banks that invest as "third parties" in other loan portfolios through securitisation), will serve only to inhibit the flow of capital to corporates and will likely actually limit opportunities for risk to be properly diversified away from the banking sector (by limiting the volume of transactions whereby most financing is provided away from the banks with a bank coming in to provide only the most senior financing).

Accordingly, we recommend that a corresponding reduction in the p-factor also be provided for banks when acting solely as investors in senior non-STS securitisations.

D. Definition of "senior" under the CRR

Our members consider that the proposed requirement for a minimum attachment point (or equivalently a maximum tranche thickness) that will apply in order for a securitisation position to be considered "senior" under the CRR should be tested at commencement of the relevant securitisation only. As mentioned above in connection with the requirement for maximum senior tranche thickness in order to obtain a "resilient" classification, this will avoid a situation where, due to the specification of the minimum attachment point, such attachment point increases during the life of the transaction (for example as defaults occur under the currently proposed specification linked to "KA" under SEC-SA) and/or the senior attachment point itself decreases during the life of the transaction (for example as portfolio losses are crystallised) both potentially leading to the senior tranche attachment point being below the minimum required attachment point, resulting in the relevant position ceasing to be "senior" (and an immediate and potentially significant increase in regulatory capital requirements).

Amendment Recommendation 10

In order to avoid introducing unnecessary "cliff effects" and additional complexity and volatility into the risk weight calculation for senior positions, the LMA recommends making the following change to the proposed new definition of "senior":

(2) Article 242 is amended as follows:

(a) point (6) is replaced by the following:

'(6) 'senior securitisation position' means a position with the attachment point above KIRB or KA ***(tested at commencement of the relevant securitisation transaction only)*** and backed or secured by a first claim on the whole of the underlying exposures, disregarding for these

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purposes amounts due under interest rate or currency derivative contracts, fees or other similar payments, and irrespective of any difference in maturity with one or more other senior tranches with which that position shares losses on a pro-rata basis;'

E. LCR Proposal

Our members welcome the proposal to widen the eligibility criteria for "high quality liquid assets" (**HQLA**) such that more securitisation positions will be admissible under the news rules for LCR purposes. Our members are however concerned to ensure that high quality, senior, non-STS securitisations (such as AAA CLOs) are also eligible: in particular, securitisation positions that meet the resilience criteria under the proposed changes to the CRR (with the adjustments outlined above), whether or not they also meet the STS criteria.

We consider that requiring resilient transactions to meet the CRR STS criteria as well in order to constitute HQLA for LCR purposes is far too restrictive and does not give sufficient recognition to the CRR resilience criteria and the quality that compliance with such criteria signifies. We therefore propose that senior, resilient securitisation positions (with the adjustments described above) in respect of traditional securitisations be considered eligible HQLA for LCR purposes (subject to appropriate haircuts).

In so far as AAA CLOs in particular are concerned, not only have these proven resilient from a credit standpoint throughout both the global financial crisis, the market disruption resulting from the global pandemic as well as the most recent elevated interest rate environment as mentioned above, but they have also exhibited significant and robust price stability (including relative to other asset classes that are currently eligible for LCR purposes) due to the presence of a deep and liquid market for such securities***. It is therefore appropriate that they be considered eligible HQLA (assuming that such positions meet the CRR resilience criteria with the adjustments described above).***

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Amendment Recommendation 11

In order to enable the highest quality senior non-STS positions to be eligible HQLA, the LMA recommends utilising the resilience classification from the proposed CRR changes by amending the LCR Delegated Regulation as follows:

(8) Article 13 is amended as follows:

(a) paragraph 1 is replaced by the following:

'1. Exposures in the form of asset-backed securities as referred to in Article 12(1)(a) shall qualify as level 2B securitisations where the following conditions are satisfied:

(a) the designation 'STS' or 'simple, transparent and standardised', or a designation that refers directly or indirectly to those terms, is permitted to be used for the securitisation in accordance with Regulation (EU) 2017/2402 of the European Parliament and of the Council (*) and is being so used, ***unless the relevant exposure complies with each of the criteria set out in Article 243(4) of Regulation (EU) No 575/2013****;*

(b) the criteria laid down in paragraph 2 and paragraphs 10 to 13 of this Article are met.

The Commission's proposed change to Article 13 is also to be amended as follows:

(b) [in paragraph 2,] point (g) is replaced by the following:

'(g) the securitisation position and the exposures underlying the position shall meet the homogeneity requirements laid down in Articles 20(8) and 24(15) of Regulation (EU) 2017/2402; ***unless the relevant exposure complies with each of the criteria set out in Article 243(4) of Regulation (EU) No 575/2013****'*;

F. <u>Solvency 2 Proposal</u>

Our members welcome the proposed reforms to the securitisation capital requirements contained in the "spread risk" sub-module of SII (**Solvency 2 Proposal**). Reducing the securitisation "stress factors" such that they are (in the case of senior STS positions) aligned with those applicable to loans and bonds, with incremental (but across the board, lower) increases for non-senior STS, senior non-STS and non-senior non-STS positions, will enable insurance capital requirements for securitisations to be more risk sensitive: the effective removal of the punitive non-STS stress (by introducing a distinction between senior and non-senior non-STS) is a particularly welcome development in this regard.

Our members note however that given how important it will now be for a non-STS position to be classified as "senior" under the rules, ***the definition of senior (which will reference the CRR definition) should be refined as described above, in that the minimum attachment point (if any minimum attachment point is ultimately required) should be determined solely at the commencement of the relevant securitisation*** (as mentioned above, applying the test on an ongoing basis risks arbitrarily and inconsistently denying certain securitisation positions "senior" classification, which would be

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particularly problematic under the SII Proposal given the sensitivity of the securitisation stress factors to such classification).

In addition, whilst we note that senior (non-STS) securitisation positions such as AAA CLO tranches (and senior tranches of private transactions backed by similar collateral) will generally have lower stress factors under the Solvency 2 Proposal than the average stress factor applicable to the related underlying portfolios, we consider these differences to be relatively modest and that ***the stress factors should be further recalibrated so as to make such differences more significant in order to better reflect the impact of tranching in the case of such securitisation positions***.

For example, a 5-year duration AAA rated non-STS securitisation position will receive a stress factor of 13.5% under the Solvency 2 Proposal (and an AA rated similar duration position, 15.5%). By comparison, a direct exposure to a loan portfolio (of similar duration and which might collateralise such securitisation position) with an average rating of BB receives a stress factor of 22.5% under the current rules (being less than double the new AAA securitisation stress factor and less than 1.5 times the new AA securitisation stress factor under the Solvency 2 Proposal). Accordingly, the benefit of tranching is significantly understated under the Solvency 2 Proposal.

On the other hand, under the CRR capital rules currently applicable to banks, a AAA rated non-STS securitisation position can expect to receive a risk weight (assuming the floor is in force) of 15% under the standardised approach, compared with an average risk weight applicable to the underlying leveraged loan portfolio of 150% (i.e. 10 times higher). Whilst this difference is to some degree a consequence of the differing approaches to capital requirements under the rules for banks and insurers, in our view the impact of tranching can and should be made more pronounced under the Solvency 2 Proposal, for example by recalibrating the stress factors for securitisation positions so as to give more weight to seniority and less weight to STS classification (in particular, as has been suggested in previous commentaries, stress factors for non-senior STS tranches should be higher, rather than lower, than commensurate stress factors for senior non-STS tranches).

Amendment Recommendation 12

In order to give more significance to seniority (and less significance to STS classification), the LMA proposes that a proportionate reduction in "non-senior STS" stress factors be made, in order to obtain the corresponing "senior non-STS" stress factors, as follows (in addition to Amendment Recommendation 10 above, under which the test for "seniority" is fixed as of the commencement date for the applicable transaction):

Proposed change to Commission's amendment to Delegated Regulation (EU) 2015/35:

(56) Article 178 is amended as follows:

(c) paragraph 8 is replaced by the following ***[delete currently proposed replacement and insert the following]***:

8. Senior securitisation positions not coverd by paragraphs 3 to 7, for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor stress i depending on the credit quality step and the modified duration of the securitisation position i, as set out in the table provided in paragraph 4 above, in each case multiplied by a factor of [0.86]