RESPONSE BY SVERIGES RIKSBANK ON PROPOSED AMENDMENTS TO THE TREATMENT OF SECURITISATION EXPOSURES UNDER THE LIQUIDITY COVERAGE RATIO DELEGATED REGULATION

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Proposed amendments to the treatment of securitisation exposures under the Liquidity Coverage Ratio

Consultation response by Sveriges Riksbank

Sveriges Riksbank welcomes the opportunity to provide comments to the European Commission through the “have-your-say” portal and would like to contribute to the potential regulatory amendments by providing the following feedback.

First, the Riksbank welcomes the efforts to activate the securitisation market in the Union and to make the securitisation framework more efficient and fit for purpose. Securitisations can play an important role in launching the Savings and Investment Union and thus in the future growth prospects in the EU.

Second, we also welcome the stated objective that any measures should continue to safeguard financial stability. In fact, measures to enhance the securitisation framework should not come at the expense of the prudential standards. Insufficient prudential standards would create risks that could seriously undermine economic growth, and thus the stated objective of the proposal. This is clearly evidenced by the Great Financial Crisis. Thus, while the objective of this proposal to facilitate securitisation activity in order to help channel more investments into the real economy and support growth is a noble one, we urge for caution to make sure that the prudential framework continues to ensure that risks are adequately accounted for and safeguard banks’ resiliency against shocks.

Third, the EU benefits largely from adhering to global standards. Such standards are a common good. Deviating from such global standards will create incentives for other jurisdictions to follow suit. This creates risks that prudential standards are not sufficiently strict. It also raises level-playing-field issues.

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Fourth, the aim of the proposal seems to be to make the market for securitisations more liquid by changing the liquidity requirements. This is a treacherous path. The purpose of the liquidity requirements and specifically the Liquidity Coverage Ratio (LCR) is not to promote one market above the other. Instead, the purpose of the LCR is prudential and should, in the opinion of the Riksbank, stay prudential. To be specific, the purpose of the LCR is to promote the short-term resilience of credit institutions by ensuring that their stock of HQLA is sufficient to survive a significant 30-day stress scenario. HQLA should thus be assets that can be easily and immediately converted into cash at little or no loss of value, even in periods of severe idiosyncratic and market stress. These are characteristics that should be of the upmost importance when defining those assets that may be eligible as HQLA for purposes of the LCR. Defining other assets as liquid in order to make them liquid in financial markets is not prudent. Market liquidity cannot be regulatory induced. Trying to do so blurs the purpose of the regulation.

Fifth, the Riksbank is of the opinion that any proposal to change the LCR should be grounded on strong empirical evidence and consistent with the original purpose of the LCR as expressed in the global standards.

More specifically, the proposed changes amending Delegated Regulation EU 2015/61 include, among others, (i) extending the eligibility as level 2B high-quality liquid assets (HQLA) to simple, transparent and standardised (STS) securitisations with credit ratings in a lower credit quality step (CQS) as currently permitted; (ii) extending eligibility as well as applying lower haircuts subject to certain conditions for securitisations deemed as “resilient” in accordance to the conditions introduced in the separate legislative proposal amending the securitisation regulation and the capital requirements regulation; (iii) removing the requirement for a maximum weighted average life (WAL) of five years for securitisation exposures; and (iv) deeming the homogeneity requirement fulfilled in the case of STS securitisations where at least 70% of the pool consists of SME exposures.

Further empirical evidence should be provided on the ability to remain highly liquid even in scenarios of stress in the case of securitisation exposures that fulfil the proposed criteria for extended eligibility under (i) and (ii) above. Even so, alignment with internationally agreed standards is advisable as this ensures that what constitutes HQLA for a European credit institution is also HQLA for other banks abroad, thus facilitating their liquidity. Risk-return and level of correlation with government bonds yields should be considerations secondary to their liquidity-generating capability.

The proposal suggests a further extended eligibility aiming to smoothening cliff-effects in case of credit rating downgrades. These cliff-effects are by definition present in the boundaries between the CQS where eligibility is set. We believe that eligibility should always be subordinated to meeting the necessary characteristics that HQLA assets should exhibit, also and specially in times of stress which is when most downgrades tend to occur.

We take note of the proposal under (iii) above to remove the EU-specific requirement for securitisations to have a remaining WAL of five years or lower to channel more long-term financing to the economy. While there may be merits for such removal, we believe that further empirical evidence supporting this decision should be provided, and that the decision should be primarily driven by the confidence in longer-term securitisations being easily and promptly marketed without losses, i.e. their market liquidity.

Lastly, under (iv) the current homogeneity requirement is modified and deem that criteria fulfilled for STS securitisations with at least 70% SME exposures in the underlying pool. This is done by aligning the requirement with the new changes proposed under the separate legislative proposal on regulation 2017/2402. The inclusion as HQLA of securitisation positions with mixed pools would introduce heterogeneity and less standardisation that would make it more difficult to find buyers in times of stress, as the underlying portfolio can indeed be of varied compositions compared to current STS securitisations. We would suggest further analysis that would support that these changes would continue to ensure that the portfolio of liquid assets indeed remains of high quality and readily available to cover outflows in case of a short-term stress scenario.