# How the EU's securitisation overhaul may reshape banks' funding strategies

The European securitisation package lays the groundwork for a more diversified European funding landscape. While the full benefits remain subject to Trilogue negotiations and will only be realised in time, the reforms will reinforce the role of securitisation as a complementary rather than competing instrument to covered bonds

Securitisations provide capital relief and diversify funding, helping finance a wider range of loans than those typically eligible for covered bonds

After Mario Draghi flagged the absence of a well-functioning securitisation market as a key constraint on European banks' lending capacity, Europe has made its revival a major policy priority.

On 17 June 2025, the European Commission unveiled a package designed to revitalise the EU securitisation market, marking the first initiative under the Savings and Investment Union (SIU) launched earlier that year.

The securitisation package introduces targeted amendments to the Securitisation Regulation, Capital Requirements Regulation (CRR), Solvency II delegated regulation and the Liquidity Coverage Ratio (LCR) delegated act, aiming to ease both supply and demand-side frictions in the current framework.

## The securitisation package promotes issuance and investments

| Legislation | Issuance | Investment |
|---|---|---|
| Securitisation Regulation | √ | √ |
| Capital Requirements Regulation (CRR) | √ | √ |
| Liquidity Coverage Ratio (LCR) Delegated Act | | √ |
| Solvency II Delegated Act | | √ |

Source: European Commission, ING

The Council adopted its position on 19 December 2025. On 15 January 2026, the European Parliament's ECON Committee reviewed the draft proposals presented on 12 December 2025 by the German centre-right lead negotiator in Parliament, Rapporteur Ralf Seekatz. The final parliamentary position remains pending before the Trilogue negotiations between the European Commission, Council and Parliament can begin. Hence, a final Trilogue deal will probably not be reached before the end of this year.

While Europe's securitisation market is unlikely to see meaningful benefits from the package in 2026, the reforms should strengthen banks' future use of securitisation for funding and/or capital relief purposes. This will be especially important if other SIU initiatives, such as Savings and Investment Accounts or reforms to Europe's supplementary pension system, end up weakening banks' access to their cheapest funding source, deposits.

At the same time, we do not expect securitisation for funding purposes to materially cannibalise Europe's robust covered bond market. Even so, an endorsement by the European Parliament of Rapporteur Seekatz's proposals to reduce the risk-weight treatment of covered bonds, followed by a Trilogue agreement, would certainly help to preserve their competitiveness relative to securitisation.

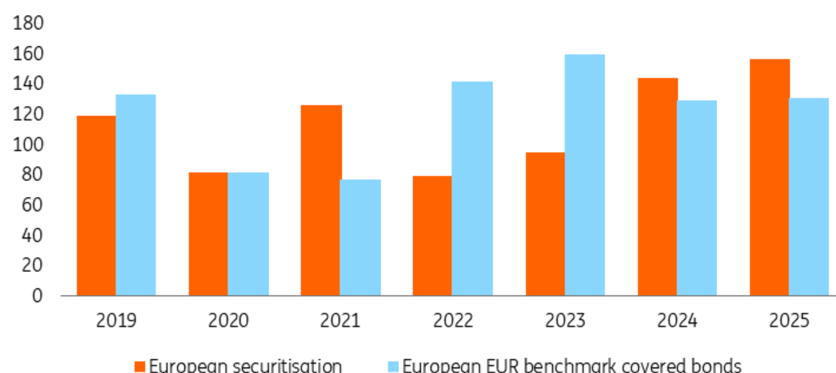
## Supply considerations

With the expiration of the ECB's Targeted Long-term Refinancing Operations (TLTRO-III) between September 2022 and December 2024, eurozone banks' capital markets funding needs increased substantially. As a result, 2022 and 2023 saw a significant rise in EUR covered bond issuance by European banks, while placed securitisation volumes remained muted.

EUR covered bond supply stayed high in 2024 and 2025, but the issuance of placed securitisations also picked up in these two years, according to AFME statistics. This partly reflects banks' response to the Basel reforms and the introduction of the output floor in Europe, with securitisation increasingly used to transfer risk and free up capital. In addition, the securitisation market offered banks opportunities to diversify their higher funding needs across different products and reach a broader investor base.

## Placed European securitisation and EUR benchmark covered bonds

€bn




Source: AFME, ING

While securitisation issuance has already picked up in recent years, the securitisation framework reforms aim to make this route even easier for banks by streamlining transparency requirements and reducing reporting burdens. Mandatory reporting fields would be cut by at least 35%, with some becoming voluntary. For highly granular, short term asset pools, issuers may provide aggregate rather than loan level data.

Beyond these transparency changes, the package also broadens the homogeneity rules under the framework for Simple, Transparent and Standardised (STS) securitisations. SME focused pools will already qualify as homogeneous when at least 70% of the exposures are SME related. The remaining portion of the pool can include other exposures, including from different member states. This should support the STS securitisation of SME loans and facilitate cross-border securitisations.

Besides, in its response to the European Commission's Call for Advice on covered bonds, the EBA expressed no urgency in exploring the introduction of a covered bond-like dual-recourse instrument for SME financing (European Secured Notes (ESN)), postponing this to the medium term, subject to market developments and interest. Hence, for now, there is no low-cost dual-recourse alternative to securitisation for these loans.

Regardless of these measures making securitisation more accessible, we do not expect them to materially erode the covered bond market. Securitisation largely involves loans that are not used as collateral for covered bonds. In that regard, they are more complementary than supplementary to covered bonds.

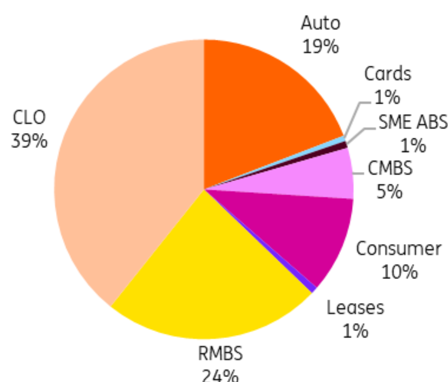
In 2025, residential and commercial mortgage-backed securities (MBS) accounted for less than a third of the placed securitisations by European banks. Even if the securitisation package makes MBS issuance more competitive to covered bonds, e.g. through lower risk weights or the removal of the 5yr remaining weighted average life (WAL) criterion for LCR eligibility purposes, not all banks may have the mortgage loan balance sheet capacity to issue both covered bonds and MBS.

Since the global financial crisis, the mortgage-backed securities market has steadily lost issuer

market share to covered bonds, largely due to the latter's more favourable regulatory treatment and funding cost advantages, but also due to the larger complexities of setting up and maintaining a securitisation transaction. Issuers with smaller balance sheets are unlikely to reduce their visibility in the covered bond market for an occasional RMBS transaction, unless such a switch would make sense from a funding cost perspective. We expect them to continue using their residential mortgage portfolios for covered bond issuance to maintain a benchmark curve and a regular market presence.

## Distribution of total placed securitisations by type

(1Q 25 – 3Q 25)




Source: AFME, ING

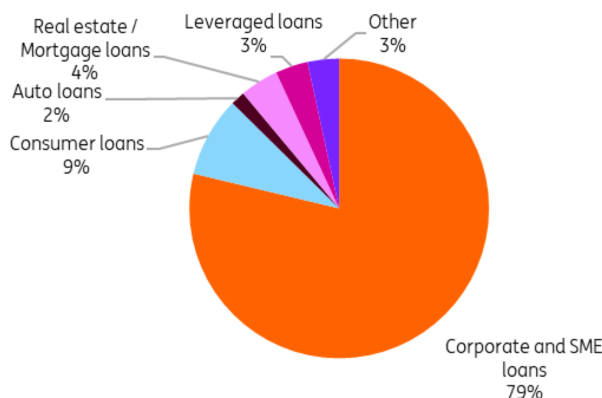
## SRTs: Capital relief on corporate/SME loans, less on mortgages

European banks are increasingly using **Significant Risk Transfers (SRTs)** as traditional (Art. 244 CRR) and synthetic (Art. 245 CRR) securitisation for capital relief purposes. Under the EU CRR, banks can only benefit from lower capital requirements on securitised exposures if a significant portion of the risk is transferred by the securitisation. The EU securitisation package proposes changes to the CRR to promote the further growth of the SRT market. These include replacing the existing 'CRR mechanical test' with a 'principle-based approach (PBA) test', and the harmonisation of the supervisory SRT assessment via, among others, a fast-track process.

Since January 2026, the ECB has been applying an SRT fast-track process, which reduces its response time from three months to eight working days. The process is used for standardised securitisations where the SRT does not lead to a capital reduction of more than 25bp. SRTs are primarily used to obtain capital relief on portfolios with higher risk weight density, such as corporate, SME and consumer loans, rather than on mortgage loans. Another indication that the low-risk mortgage loans that typically serve as collateral for covered bonds are not the primary target of banks' capital relief activities.

## Asset classes used for SRTs

(1Q 25 – 3Q 25)




Source: AFME, ING

## Demand considerations

A sustained revival of Europe's securitisation market will also depend on investor demand driving future issuance. To support this, the securitisation package puts forward a broad set of measures to strengthen demand, which the Council and Parliament's Rapporteur further refine where the Commission's proposals were seen as insufficient or counterproductive.

The proposals help narrow parts of the gap between securitisations and covered bonds in terms of due diligence, risk-weight and LCR treatment, though not enough to fully shift the competitive balance in favour of securitisations, at least not compared with covered bonds issued by EEA credit institutions. The situation is different for covered bonds from third-country issuers, which will be placed at a relatively greater disadvantage compared with the highest quality securitisation positions.

## 1 Securitisation regulation

Securitisations are subject to stricter due diligence requirements for investors than covered bonds, making the securitisation route currently a more time-consuming and burdensome process for issuers. Hence, making these due diligence requirements more proportional would significantly enhance issuance abilities.

The securitisation package eases part of the burden on investors by removing certain due diligence verification requirements for EU-supervised sell-side entities and by simplifying checks for repeat transactions and senior tranches. Institutional investors would no longer need to separately verify STS compliance and receive additional time to document due diligence for secondary-market trades. Moreover, due diligence and risk retention requirements are waived when a multilateral development bank (MDB) guarantee is in place or when a public entity guarantees a first loss-tranche of at least 15%.

At the same time, the Council and Parliament Rapporteur seeks to nip in the bud the potential negative impact of the European Commission's proposals for a broader sanctioning regime under the securitisation regulation. The Commission had proposed expanding supervisory sanctioning powers to include due diligence breaches. Institutional investors would also remain legally

responsible for meeting due diligence requirements even when delegating investment and due diligence tasks. To avoid unwanted consequences for investor demand, the Council removes the expansion of sanctioning powers, while the draft of the Parliament's Rapporteur calls for a more proportionate regime. The Council also notes that delegating investors should monitor the delegate's ability to conduct due diligence but refrains from stating that legal responsibility cannot be transferred.

Besides, where the European Commission merely floated the idea of amending the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive to allow UCITS funds to invest more than 10% in a single securitisation issue, the Council takes a more decisive step by raising this limit to 50%. This is twice the 25% limit that applies to covered bonds complying with the European Covered Bond Directive (or the former UCITS 52(4) provisions for bonds issued before 8 July 2022).

## 2 CRR amendments

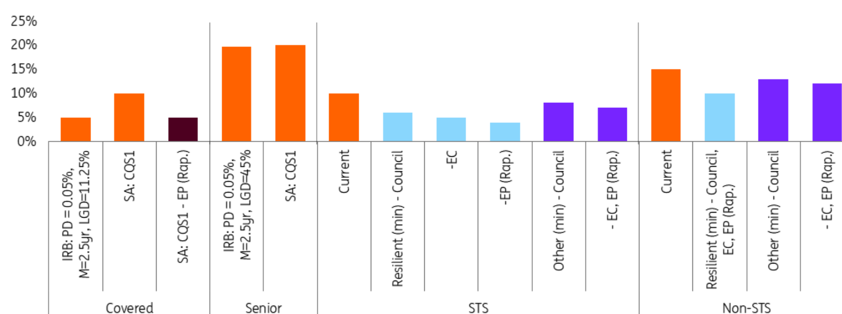
The proposed CRR amendments aim to significantly lower the capital requirements for high-quality senior securitisations, making them a closer substitute for investors for covered bonds from a prudential perspective.

This is mainly achieved through the recalibration of the risk weight floors for senior securitisation positions, which will become more risk-sensitive to the underlying exposures, with floors potentially as low as 4% to 6%, depending on the legislative outcome.

In addition, the (p) factor, i.e., the parameter determining the bank's capital requirements for securitised positions relative to the capital required for the (non-securitised) underlying exposures, is made less conservative and more risk sensitive.

On top of that, "resilient securitisation positions" are introduced as a lower risk category, with less agency and model risks and better loss-absorption capacity. They can therefore benefit from additional reductions in the risk weight floor or (p) factor.

## The lowest possible risk weights by instrument type per proposal




Source: European Commission (EC), European Parliament Rapporteur (EP (Rap.)), Council, ING

The orange bars reflect the current situation, the coloured bars the proposed changes by the different bodies

At their new risk-weight floor, resilient STS securitisations will have risk weights virtually

comparable to those of CRR-eligible covered bonds issued by highly rated issuers under the Internal Ratings-Based (IRB) Approach. However, under the Standardised Approach, which also has output floor relevance for institutions using internal models, the new risk weight floor for both resilient and non-resilient STS is even lower than the risk weights for CRR eligible covered bonds.

As such, to keep the prudential treatment of both instruments comparable, and to avoid any unintended consequences for the covered bond market, European Parliament Rapporteur Seekatz recommends lowering the preferential risk weights of CQS 1-rated CRR Article 129-compliant covered bonds from 10% to 5%.

The Parliament Rapporteur also proposes a 4% risk weight floor for high-quality resilient-STS securitisations, which is lower than the Commission's 5% and Council's 6%, maintaining a slight advantage over covered bonds.

Nonetheless, if the 5% risk weight proposal for covered bonds is endorsed by the European Parliament and survives the Trilogue negotiations, this would be a beneficial outcome of the securitisation package for the legislative covered bonds of banks based in the European Economic Area (EEA).

For third-country issuers, it would even further increase the merits of an EU equivalence regime for their covered bonds. Third-country covered bonds are currently treated as senior exposures in the EEA, subject to a 20% risk weight treatment under both the Standardised Approach and the Foundation Internal Ratings-Based Approach.

This is double the current risk weight treatment applicable to high-quality senior STS tranches, and double the current risk weight treatment of CRR eligible covered bonds under the Standardised Approach. An increase in the risk weight disadvantage from 10% points to 15% points for third-country covered bonds could prompt bank HQLA portfolios to request more spread pickup for these covered bonds.

## 3 LCR amendments

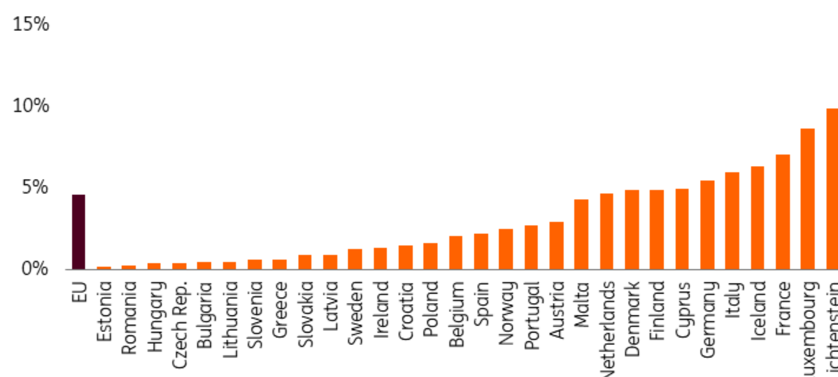
Senior STS securitisations currently qualify as level 2b LCR assets if they are CQS1 rated (AAAsf) and backed by a homogeneous pool of high-quality EEA loan exposures. These loan exposures should be originated by an EU-authorised credit institution that is not holding the securitisation position as liquid assets. Besides, the tranche size should be at least €100m and have a remaining weighted average life (WAL) of no more than five years.

Such senior STS securitisations are subject to a 25% haircut, unless they are secured by commercial or consumer loans, in which case a 35% haircut applies. This compares with a 15% haircut for level 2a covered bonds and a 7% haircut for level 1 covered bonds.

In combination with other Level 2b liquid assets, senior STS securitisations can also only represent a maximum 15% of the total liquidity buffer of the credit institution.

In practice, this 15% cap is hardly a constraint. According to the European Commission, senior STS securitisations only represent 0.4% of the liquid assets of European banks. Even with L2A assets, L2B assets account for only 4.6% of European banks' liquidity buffers. There is not one single European jurisdiction where the two asset classes together exceed 10% of the total high-quality liquid assets.

## L2A & L2B assets represent together less than 10% of liquid assets




Source: EBA, ING

Against this backdrop, the proposed LCR amendments aim to diversify EU bank liquidity buffers, support securitisation market liquidity, and align the scope of LCR eligible senior STS securitisations with the CRR and Securitisation Regulation.

To this purpose, the LCR eligibility criteria are widened by restoring eligibility for AAAsf up to AA sf (CQS1–CQS4) securitisations and extending eligibility to A+sf up to A sf (CQS5–CQS7) senior STS tranches, subject to a 50% haircut. The 5yr WAL limit is removed to accommodate LCR eligibility of longer maturity structures of RMBS. The loan type specific criteria are removed, and asset eligibility will be defined by the general homogeneity rules of the Securitisation Regulation, while the haircut for commercial and consumer loan ABS will be aligned with other securitisations at 25%. Certain high-quality resilient senior STS securitisations can even benefit from a 15% haircut if they are at least $AA-_{sf}$ rated and have a minimum issue size of €250m.

In terms of LCR treatment, Level 2b securitisation positions will continue to have a disadvantage versus similarly rated covered bonds of EEA credit institutions, which are subject to a 7% haircut and are not restricted by the 40% cap applicable to Level 2a and 2b assets or the 15% cap applicable to Level 2b assets. However, the disadvantage is reduced, with AA-rated resilient senior STS securitisations subject to the same haircut as Level 2a AA- or better-rated third-country covered bonds. Third country covered bonds will still benefit from a less restrictive 40% cap on their inclusion in the HQLA portfolio, but this is not much of an advantage, as in practice the combined holdings of all Level 2a and Level 2b assets do not even approach 15%.

## Simplified overview proposed LCR regime for securitisations versus covered bonds

| HQLA | Bond type | Haircut | Cap | |
|---|---|---|---|---|
| Level 1 | Sovereigns | 0% | >30% | >60% |
| | Covered bonds (AA- or better) | 7% | | |
| Level 2a | Covered bonds (A+ to A-, or third country AA- or better) | 15% | | 40% |
| Level 2b | Resilient senior STS securitisations (AA- or better) | 15% | 15% | |
| | Senior STS securitisations (AA- or better) | 25% | | |
| | Covered bonds (BBB+ or lower) | 30% | | |
| | Senior STS securitisations (A+ to A-) | 50% | | |

Source: European Commission, ING

All based on qualifying EEA exposures except for reference to third country covered bonds

## 4 Amendments to the Solvency II Delegated Regulation

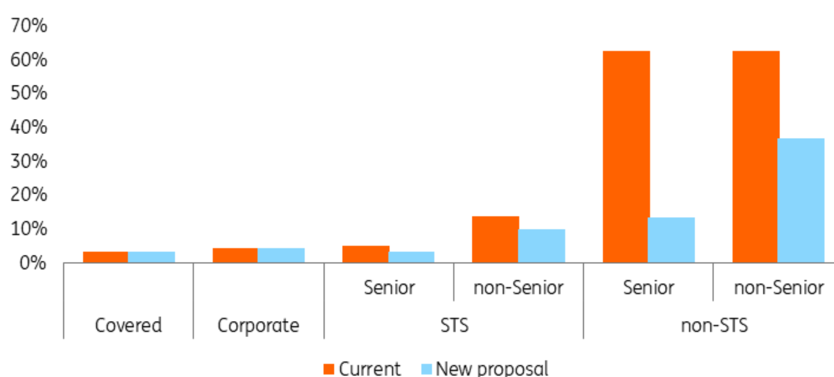
The Solvency II Delegated Regulation amendments also lower the capital requirements for securitisation notes. This should encourage insurers to invest more in these transactions, helping banks to transfer risk and expand lending. To this purpose,

- The risk factors ($a_i$ and $b_i$) for the spread risk of senior tranches of STS securitisations will become fully aligned with the treatment of similarly rated covered bonds as referred to in CBD Article 3(1).
- The risk factors for non-senior STS securitisations are lowered to a similar extent, with the new capital charges for AAA-rated non-senior notes at around 70% of the current capital charge, and for AA-rated non-senior notes at 75% of the current requirement.
- The difference in the capital treatment between STS and non-STS securitisations is currently far more significant for insurers than for banks. This difference will be reduced substantially, while the capital charge remains capped at 100%.
- The current Solvency II regime makes no distinction between senior and non-senior non-STS securitisation notes, exaggerating the spread risk of senior compared to non-senior tranches. Hence, lower risk factors are introduced for senior non-STS compared to non-senior non-STS transactions.

The graphic below shows the capital charge implications of the proposed amendments for AAA-rated securitisation notes with a 5yr duration.

## Solvency II capital requirements for spread risk

(AAA rated note, 5yr duration)




Source: European Commission, ING

As of the end of January 2027, AAA senior STS securitisation notes will have the same capital treatment as CBD-compliant covered bonds under Solvency II. At wider spread levels, this will make these securitisation notes a stronger competing asset class to covered bonds for insurer investment purposes.

AAA-rated third-country covered bonds, which are not CBD-compliant, continue to be treated as AAA-rated corporate bonds with a similar capital charge as AA-rated CBD-compliant covered bonds. These bonds will have a capital charge disadvantage versus AAA senior STS securitisations for insurers once the Solvency II amendments apply.

Considering the limited exposure of insurers to both covered bonds and securitisations, we doubt, however, that the (closer) alignment in their risk weight treatment will have a noteworthy performance impact on covered bonds.

## In summary

The European securitisation package forms an important step toward revitalising the securitisation market. It eases supply-and-demand frictions and narrows the gap with covered bonds. Simplified transparency and due diligence requirements and more favourable risk weight, LCR and Solvency II capital treatments will support both issuance and investor demand. This will facilitate the growth of the securitisation market, but not necessarily at the detriment of Europe's covered bond market.

Securitisations will be a valuable complementary tool used for capital relief and funding source diversification purposes, which help finance a broader range of loans than typically eligible as collateral for covered bonds. Still, backing from the European Parliament and Trilogue,
for Rapporteur Seekatz's proposed lower risk weights for covered bonds would help preserve their competitiveness relative to securitisation as a funding tool for mortgage loans.

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