

To: Solvency II WG, Capital Markets Union PG  
 From: Prudential Team  
 cc:  
 Date: 17-06-2025  
 Reference: ECO-SLV-25-215

Subject: Secretariat review of EC securitisation framework proposals

## Summary

On 17 June, the European Commission (EC) released [proposals](#) regarding EU securitisation framework. The secretariat's review has identified the following three items of most relevance for the insurance industry:

- Capital requirements under Solvency II
- Due diligence requirements
- Unfunded credit protection eligibility

The EC proposals **represent a broadly positive and constructive step forward**. Several concerns raised by the insurance industry—particularly on capital calibration and operational burden from due diligence—have been **acknowledged and meaningfully addressed**.

The table below includes a summary of these key points and compares this to the related consultation response in December 2024 ([ECO-SLV-24-357](#)). Extracts from the impact assessment considering other policy options are included in the annex below.

The 17 June release also includes a call for feedback related to the Level 2 Delegated Regulation for credit institutions. However, the secretariat considers this not directly relevant for the insurance sector.

**In terms of next steps**, the secretariat proposes that **any insurance-related feedback be submitted through the upcoming consultation on the Solvency II Delegated Regulation**, which according to the EC's proposals is "expected to be published for consultation in **the second half of July 2025**".

Should members have any **questions or comments** please write to [prudential@insuranceeurope.eu](mailto:prudential@insuranceeurope.eu).

## High level assessment - compared to Insurance Europe response

1. Capital requirements under Solvency II	
<b>Assessment: Broadly positive.</b>	
Proposed recalibration of capital requirements under Solvency II marks a significant step forward, particularly in aligning treatment of senior tranches in STS and non-STS securitisations with comparable assets such as covered bonds. This aligns well with longstanding Insurance Europe concerns that securitisations—especially non-STS—are penalised excessively despite offering comparable risk-return profiles.	
European Commission -17 June <u>Proposals</u>	Insurance Europe - <u>December 2024 (extracts)</u>
<p>The impact assessment states capital relief stemming from the proposal would be close to <b>EUR 6 billion</b>.</p> <p><i>Overview based on SII L2 <u>draft proposal</u> (4 June EGBPI) (<a href="#">ECO-SLV-25-181</a>).</i></p> <p>Lowering of several capital requirements. Examples below are the factors for credit quality step 1 (AAA) and 1 year duration.</p>	<p><b>Q10.3:</b></p> <ul style="list-style-type: none"> <li>• Capital consumption remains a <b>significant barrier</b> because the capital requirements for securitisations under the Solvency II standard formula are <b>too high</b></li> </ul>

<p><b>STS:</b> (<i>political signal</i>)</p> <ul style="list-style-type: none"> <li>• Senior: More equivalent to those of corporate or covered bonds (e.g. 1.0% to 0.7%).</li> <li>• Non-senior: Could also justify lower capital charges (e.g. from 2.8% to 2.0%)</li> </ul> <p><b>Non-STS:</b> Improved consistency with banking rules which differentiate between senior and non-senior:</p> <ul style="list-style-type: none"> <li>• Senior: Significant reductions (e.g. from 12.5% to 2.7%)</li> <li>• Non-senior: Slightly reduced (e.g., from 12.5% to 7.4%)</li> </ul>	<p>in relation to the actual risks and the achievable returns.</p> <ul style="list-style-type: none"> <li>• Insurance Europe supports a calibration of standard formula capital requirements for all investment assets, including securitisations, that are <b>based on the risk</b> that they pose to insurers as long-term investors.</li> <li>• <b>Non-STS</b> securitisations are disadvantaged compared to STS securitisations</li> <li>• Review and risk-adequate reduction of capital requirements <b>between senior and non-senior</b> tranches.</li> <li>• <b>Level playing field</b> with other asset classes. Under the current Solvency II framework, securitisation instruments are treated more harshly than other comparable assets, despite offering similar risk-return profiles.</li> </ul>
<p><b>2. Due diligence requirements (for all industries)</b></p>	
<p><b>Assessment: Broadly positive.</b></p> <p>Several of the industry’s proposals to reduce the burden associated with due diligence are included in the proposal (in green below). These changes are largely in line with Insurance Europe’s call for a more proportionate and risk-sensitive regime.</p>	
<p><b>European Commission -17 June Proposals</b></p> <p>To reduce high operational costs (<b>estimated at 780 million</b> per year for the market as a whole), both a targeted and broader set of measures were considered. The EC’s preferred option results in <b>cost savings of 310 million</b> per year.</p> <p>Regarding Art. 5 of the SECR:</p> <ul style="list-style-type: none"> <li>• The risk assessment in <b>Article 5(3), point (a)</b> and <b>5(3), point (b)</b> is made more <b>principled based</b> by removing the detailed list of structural features that investors need to check and by clarifying in a recital that the due diligence assessment should be proportionate to the risk of the securitisation.</li> <li>• <b>Verification requirements (Article 5(1) and Article 5(3), point (c)) are removed</b> for investors whenever the sell-side party responsible for complying with the relevant sell-side provisions is established and supervised in the Union.</li> <li>• The <b>written procedures under Article 5(4)</b> are also made more principled based by removing the detailed list of information in the second subparagraph of <b>Article 5(4), point (a)</b>.</li> <li>• Delegation of due diligence under <b>Article 5(5)</b> is aligned with other sectoral legislations where delegation of tasks does not transfer the legal responsibility.</li> </ul> <ul style="list-style-type: none"> <li>• Due diligence requirements are waived where <b>multilateral development banks</b> fully guarantee</li> </ul>	<p><b>Insurance Europe - December 2024 (extracts)</b></p> <p><b>Q4.1:</b></p> <ul style="list-style-type: none"> <li>• The requirements should be made more principles-based, proportionate, and less complex.</li> </ul> <p><b>Q4.4:</b></p> <ul style="list-style-type: none"> <li>• <b>Art. 5</b> of the STS Securitisation Regulation provides for a large number of requirements for institutional investors in securitisations. The individual measures can be understandable, but as a whole they lead to <b>disproportionately high costs</b>.</li> <li>• Simplifying the due diligence obligations for investors, particularly with regard to the review of risk retention (<b>Art. 5 (1) c, d</b>) and the review of compliance with disclosure obligations (<b>Art. 5 (1) e</b>), makes sense.</li> <li>• Furthermore, the requirements in <b>Art. 5 (4)</b> should be critically reviewed and significantly reduced. This applies in particular to the requirement to establish <b>written procedures</b> for due diligence, to ensure internal reporting to management bodies or the obligation to be able to provide evidence of compliance with all requirements at any time at the request of the competent authority.</li> </ul> <p><b>Q4.8:</b></p> <ul style="list-style-type: none"> <li>• Due diligence requirements should differ based on:</li> </ul>

<p>the securitisation position, making it very low-risk. This means that investors can invest in such positions without doing extensive checks.</p> <ul style="list-style-type: none"> <li>• Lighter due diligence, specifically via waiving the verification and documentation requirements, is provided in case the securitisation includes a <b>first loss tranche</b> that is guaranteed or held by a narrowly defined list of public entities and where that tranche represents <b>at least 15%</b> of the nominal value of the securitised exposures.</li> <li>• For investments in positions issued by <b>non-EU issuers</b>, investors will continue to be required to verify that a given transaction complies with EU rules.</li> <li>• <b>Secondary market</b> transactions are given an <b>extra 15 days</b> to document their due diligence.</li> </ul>	<ul style="list-style-type: none"> <li>○ the risk of the position (e.g. senior vs non-senior)</li> <li>○ the risk of the underlying assets</li> <li>○ the STS status of the securitisation (STS vs non-STS).</li> </ul> <ul style="list-style-type: none"> <li>• The variety and complexity of securitisation transactions demand a simplified approach, with real risk transparency and adhering to the 'best knowledge' standard</li> </ul> <p><b>Q4.12:</b> It is noted that the administrative burden means that investors who have not performed due diligence on a primary market issuance often cannot participate in <b>secondary market</b> trades, as compliance is virtually impossible within the <b>timeframe</b> of typical secondary trading.</p>
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**3. Unfunded credit protection eligibility**

**Assessment:**

**Mixed.** The proposals allow for credit (re)insurers to re-enter the synthetic risk transfer market, which they participated in before 2021. Industry had shared concerns on this fragmentation previously. However, the eligibility under the proposal is subject to new safeguards which were not part of the industry's advocacy.

<b>European Commission -17 June Proposals</b>	<b>Insurance Europe - December 2024 (extracts)</b>
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Eligibility for providing unfunded credit protection under the STS label should be accompanied by requirements / criteria.

- **Internal model:** the (re)insurance undertaking should use an approved internal model to calculate capital requirements for such credit protection agreements.
- **Solvency:** The (re)insurance undertaking should comply with the SCR and MCR, respectively, and should have been assigned to credit quality step 3 or better.
- **Diversification:** the (re)insurance undertaking should effectively operate business activities in at least two classes of non-life insurance.
- **Minimum size:** the (re)insurance undertaking is to have assets under management exceeding EUR 20 billion.

**Q10.3:**

- **Some insurers have concerns about the fragmentation of investor landscape in the STS market.**
- For instance, credit insurers, on the liabilities side of their balance sheet, are usually not funded and offer insurance contracts to assume risk without providing security.
- Before the introduction of the STS synthetic framework (2021), implemented as part of the Capital Markets Recovery Package (CMRP), credit insurers were able to participate in the **synthetic risk transfer** market, providing 'capital velocity' to banks (ie, the capacity for banks to redeploy their capital relief for new lending).
- The introduction of the new framework fragmented credit insurers' investment landscape, as the newly introduced regulation in the Securitization Ordinance currently does not allow them to participate as protection providers in synthetic STS securitisations in the form of an unfunded and unsecured guarantee.
- Protection providers for STS have been limited to public sector actors with a risk weight of zero in accordance with (Art 26e (8) (a) SecReg) and is thus mainly reserved for multilaterals such as the EIF with strong activities to stimulate the market (especially in the wake of COVID19).

## Annex – Extracts from the impact assessment

The 17 June release includes a detailed impact assessment and a [summary](#) document. Relevant extracts are included below.

### Capital requirements under Solvency II

- **Options:** Three options were considered:
  - Option 3.1 - non-STS capital requirements would be decreased to reduce the gap with STS capital requirements and remove the excessive level of prudence embedded in the current framework.
  - Option 3.2 - capital requirements for senior and non-senior tranches of non-STS securitisations would be differentiated, thereby removing the prudential disincentives to invest in this market segment.
  - Option 3.3 - reduces capital requirements for all securitisations (STS and non-STS), ensuring that capital requirements focus on default risk factors only.
- **Assessment:** The capital relief stemming from the proposed **Option 3.2** would be **close to EUR 6 billion** (vs. EUR 4 bn for Option 3.1 and EUR 7 bn for Option 3.3). The summary states:
  - Option 3.2 appears to be the **most effective** in removing undue prudential disincentives for insurers to participate in the securitisation market.
  - It would remove **undue prudential obstacles** to investments in non-STS securitisations by addressing the current, excessively stringent, prudential treatment, while removing undue incentives for insurers to invest in the riskiest tranches and avoiding undue deterioration of policyholder protection.

### Due diligence requirements

- **Options:** To reduce high operational costs, both a targeted and broader set of measures are considered.
  - Option 1.1 - Involves simplifying and removing **certain due diligence and transparency** requirements that are deemed redundant or overly prescriptive (e.g., streamlining certain verification requirements for repeat transactions and disclosure templates).
  - Option 1.2 - Mandatory securitisation-specific due diligence requirements would be **fully removed** for regulated investors, and transparency requirements would become principles-based.
- **Assessment:**
  - In addressing high operational costs for issuers and investors, the radical changes to the non-prudential framework **under Option 1.2 would yield higher benefits** with regard to burden reduction, however, this would be accompanied **by greater risk** to market integrity.
  - **Option 1.1 presents a more balanced outcome** between reducing undue operational due diligence and disclosure costs, while maintaining high levels of market transparency, investor protection and supervisory oversight.
  - Overall, the changes proposed to the due diligence and transparency requirements are estimated to result in **EUR 310 million** of cost savings per year for the EU securitisation market.