RISK CONTROL

Capital Calibrations to Revitalise EU Securitisation

Presentation by William Perraudin

November 2025

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Agenda

1. Introduction
2. The Case for Reviving EU Securitisation
3. Current Calibration Challenges
4. EC's 2025 Securitisation Package
5. Improving the Calibration Framework
6. Conclusion

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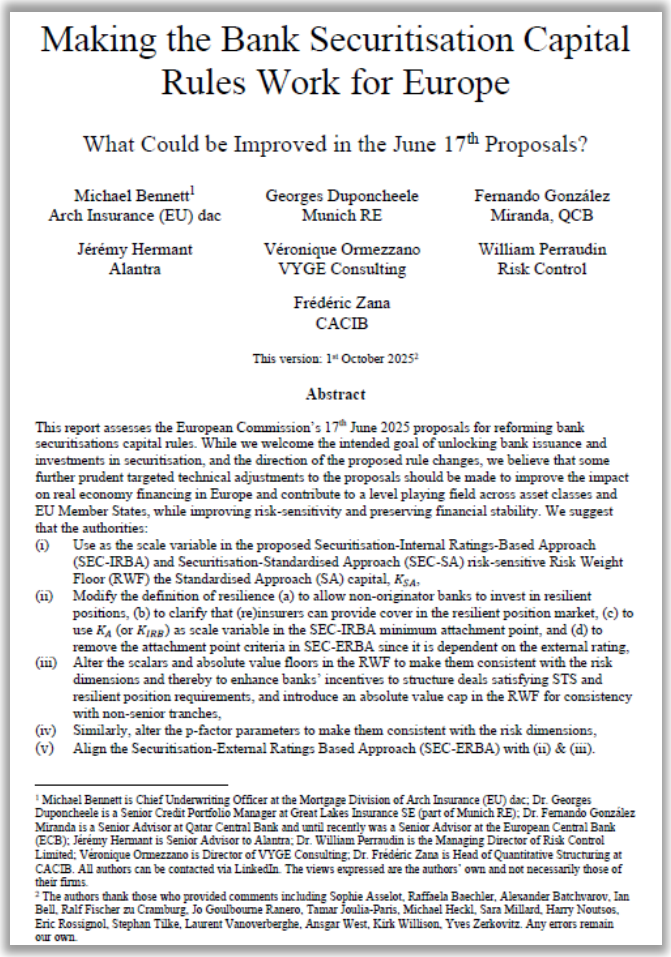
1. Introduction (1/2)

- This talk draws on our recent report:



Making the Bank Securitisation Capital Rules Work for Europe

What Could be Improved in the June 17th Proposals?

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This version: 1st October 2025[2]

Abstract

This report assesses the European Commission's 17th June 2025 proposals for reforming bank securitisations capital rules. While we welcome the intended goal of unlocking bank issuance and investments in securitisation, and the direction of the proposed rule changes, we believe that some further prudent targeted technical adjustments to the proposals should be made to improve the impact on real economy financing in Europe and contribute to a level playing field across asset classes and EU Member States, while improving risk-sensitivity and preserving financial stability. We suggest that the authorities:

(i) Use as the scale variable in the proposed Securitisation-Internal Ratings-Based Approach (SEC-IRBA) and Securitisation-Standardised Approach (SEC-SA) risk-sensitive Risk Weight Floor (RWF) the Standardised Approach (SA) capital, K_{SA},

(ii) Modify the definition of resilience (a) to allow non-originator banks to invest in resilient positions, (b) to clarify that (re)insurers can provide cover in the resilient position market, (c) to use K_A (or K_{IRB}) as scale variable in the SEC-IRBA minimum attachment point, and (d) to remove the attachment point criteria in SEC-ERBA since it is dependent on the external rating,

(iii) Alter the scalars and absolute value floors in the RWF to make them consistent with the risk dimensions and thereby to enhance banks' incentives to structure deals satisfying STS and resilient position requirements, and introduce an absolute value cap in the RWF for consistency with non-senior tranches,

(iv) Similarly, alter the p-factor parameters to make them consistent with the risk dimensions,

(v) Align the Securitisation-External Ratings Based Approach (SEC-ERBA) with (ii) & (iii).

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[2] The authors thank those who provided comments including Sophie Asselot, Raffaela Baechler, Alexander Batchvarov, Ian Bell, Ralf Fischer zu Cramburg, Jo Goulbourne Ranero, Tamar Joulia-Paris, Michael Heckl, Sara Millard, Harry Noutsos, Eric Rossignol, Stephan Tilke, Laurent Vanoverberghe, Ansgar West, Kirk Willison, Yves Zerkovitz. Any errors remain our own.

But, also, on earlier papers that study the alignment of regulatory capital and risk:

How to Calibrate Securitisation Capital Rules

Georges Duponcheele[1] Munich RE
William Perraudin Risk Control

This version: 14th March 2025

European Competitiveness and Securitisation Regulations

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This version: 6th August 2024[2]

Rethinking the Securitisation Risk Weight Floor

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Dr. William Perraudin Dr. Frédéric Zana
with the participation of the Paris Europlace Securitisation Committee Experts Group on Prudential Regulation[2]

This version[3]: 3rd May 2024

1. Introduction (2/2)

- These and other studies of securitisation capital can be found in the Insights area of the Risk Control website: www.riskcontrollimited.com

- Studies focussed on SMEs (even Spanish ones) can also be found

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2. The EU's Securitisation Package: A Policy Shift

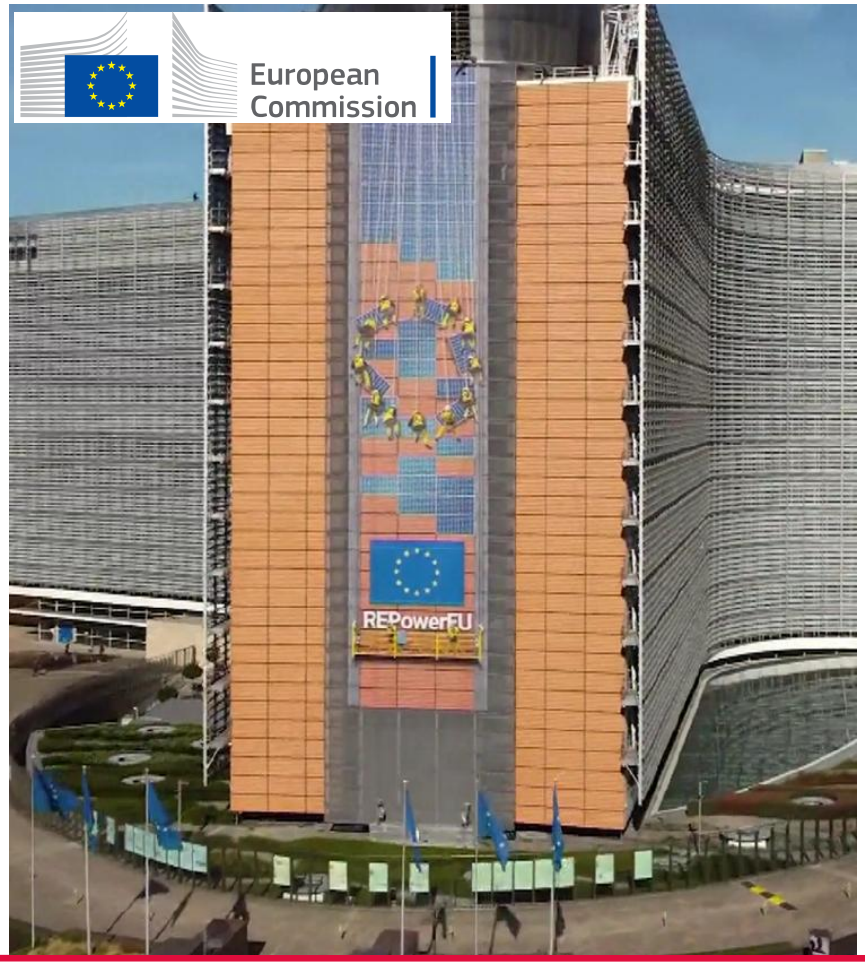
"[…] *the Commission has identified that some aspects of the existing rules are hindering market developments.*"
EC, 17-Jun-2025

Securitisation Package

- Level 1
  1. Capital Requirements Regulation (CRR)
  2. Securitisation Regulation (SECR)
- Level 2
  3. Liquidity Coverage Ratio (LCR) Delegated Act
  4. Solvency II Delegated Act

"*Basically, this is an instrument that we are trying to revitalise.*
What we know is that its use in Europe is much lower than in other jurisdictions. And we think [the Securitisation Package] can actually help significantly in reviving our markets."

Commissioner Albuquerque, 17-Jun-2025



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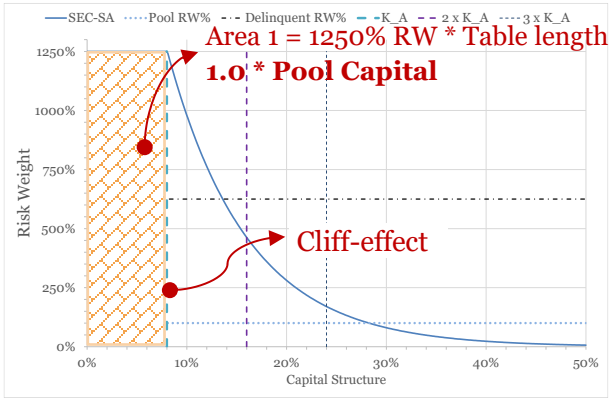
3. Actual Risk

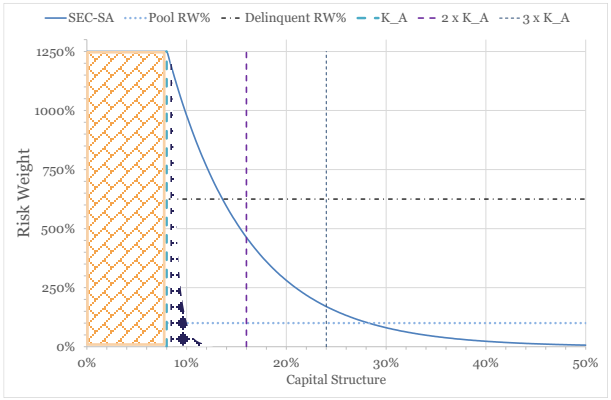
Basel 1.5 (1997)

Capital deduction up to pool capital



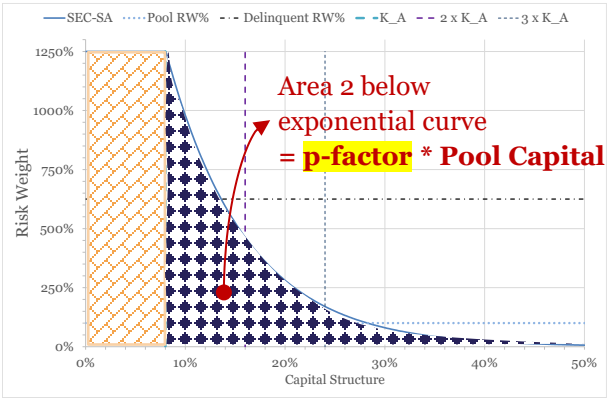
Basel 2.0 SFA (2006)

Steep cliff (eq. 7% capital surcharge)



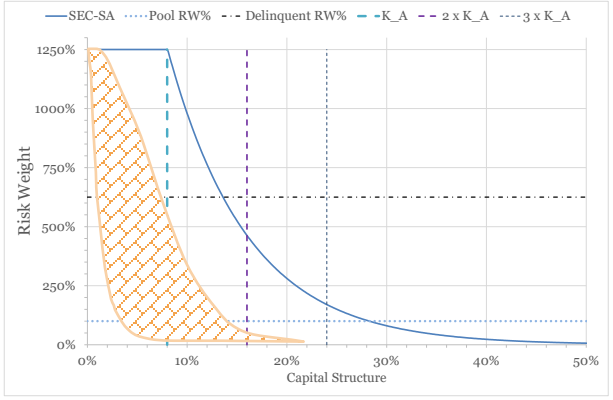
Basel 3.0 SSFA (2013)

100% capital surcharge with p = 1.0



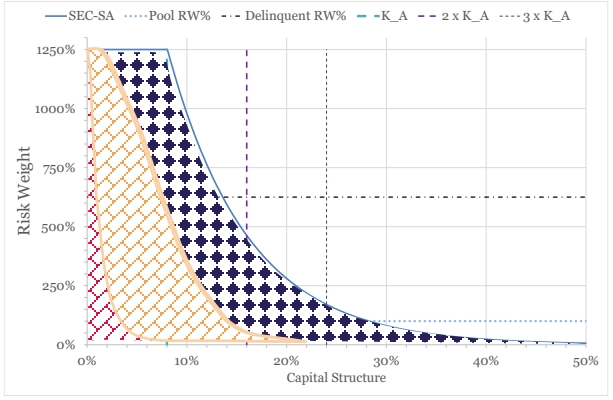
Aligning Risk and Capital

Pykhtin-Dev model – 2 factors (2002)



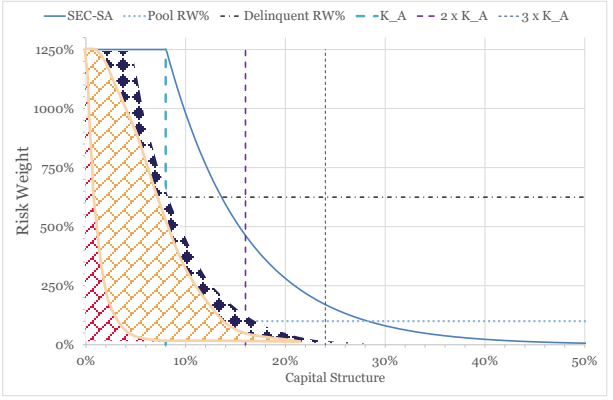
Aligning Risk and Capital

Our CMA model with maturity adj. (2014)



Scaling the Table and p-factor

Our proposal (How to calibrate (2025))



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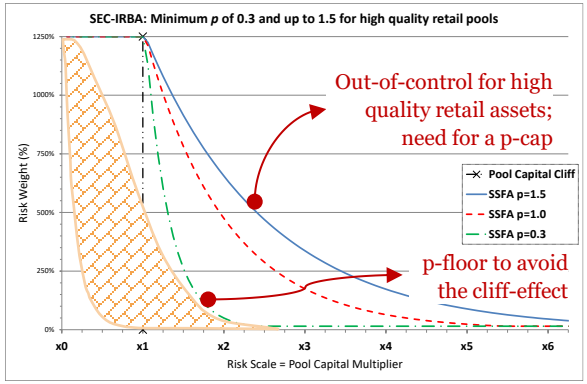
3. Current Calibration Framework

SEC-IRBA



p-factor

Calibration dependent on seniority and asset class

Absurdly high for retail assets

Not a risk factor

$$p_{IRBA} = \left(A + B * \frac{1}{N} + C * K_{IRB} + D * LGD + E * M_T\right)$$

$$p_{Floor} = 0.3$$

Non-STS

$$p_{SEC-IRBA} = max[p_{Floor};\ p_{IRBA}]$$

STS

$$p_{SEC-IRBA,STS} = max[p_{Floor}; x * p_{IRBA}]$$

p-scaling factor $x = 0.5$

Risk Weight Floor

A **fixed value** that has severe market distortion consequences, depending on the ratio RWF / Pool capital (K)

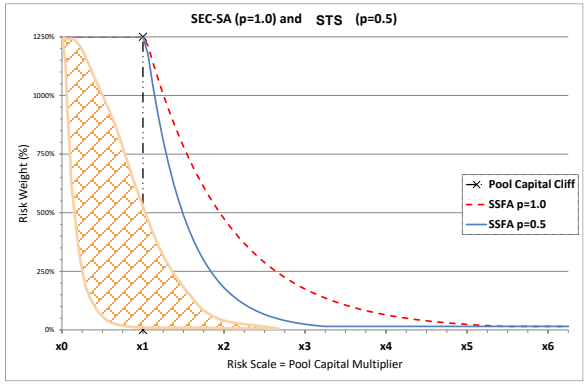
Non-STS:

15% RW for senior
15% RW for non-senior

STS:

10% RW for senior
15% RW for non-senior

SEC-SA



Non-STS

$$p_{SEC-SA} = 1.0$$

STS

$$p_{SEC-SA,STS} = 0.5$$

Note, there is a direct analogy with the p-scaling factor in IRB, with $x = 0.5$

$$p_{SEC-SA,STS} = x * p_{SEC-SA}$$

Same as above

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4. Proposed Reforms: Targeted Reductions

SEC-IRBA

Changes to the p-factor

- Introduction of a p-cap
  - By default (Non-STS), $p_{Cap} = 1.0$
    - Except STS, $p_{Cap} = 0.5$

Will lead to increased issuance of retail securitisations

- $p_{SEC-IRBA} = min\{max[p_{Floor}; x * p_{IRBA}]; p_{Cap}\}$
  - By default, $p_{Floor} = 0.3; x = 1.0$;
    - **Except Originator / Senior, $x = 0.7$**
  - Except STS, $p_{Floor} = 0.3; x = 0.5$;
    - **Except Originator, $p_{Floor} = 0.2$;**
      - **Except Senior, $x = 0.3$**
    - **Except Investor, Senior / Resilient**
      - **$p_{Floor} = 0.2; x = 0.3$**

Too aggressive for correlation risk?

Changes to the RW Floor

No more major distortion

- For senior tranches, introduction of a risk-sensitive RW floor (RSRWF), proportional to the pool capital K_{IRB}
- $RWF_{SEC-IRBA} = max[RSRWF;\ RW_{Floor}]$
  - By default, $RSRWF = 15\% * K_{IRB} * 12.5$
    - By default, $RW_{Floor} = 12\%$
    - Except Originator, Resilient, $RW_{Floor} = 10\%$;
  - Except STS, $RSRWF = 10\% * K_{IRB} * 12.5$
    - By default, $RW_{Floor} = 7\%$
    - Except Resilient, $RW_{Floor} = 5\%$;

SEC-SA

Changes to the p-factor

Will lead to increased issuance of traditional securitisations and SRT from SA banks

- $p_{SEC-SA} = x * 1.0$
  - By default (Non-STS), $x = 1.0$
    - **Except Originator / Senior, $x = 0.6$**
  - Except STS, $x = 0.5$
    - **Except Originator, Senior, $x = 0.3$**
    - **Except Investor, Senior / Resilient, $x = 0.3$**

New concept

Changes to the RW Floor

- Same as changes for SEC-IRBA, except pool capital is K_A

Looks complicated as a decision tree (as described in the law in Article 243).

It is a lot easier to read in table format…

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4. New concept: 'Resilient Positions'

#	Resilient (senior) position has 5 criteria in the Proposed CRR	Our comment: Only 3 criteria are valid
1	Sequential amortisation (or pro rata with performance triggers)	Like STS
2	Minimum granularity (max 2% concentration)	Like STS (but minimum granularity could be decreased to N = 25 (threshold in the IRB p-factor calibration))
3	Minimum Attachment Point • SEC-IRBA: $AP_{IRB} = 1.1 * (UL + Initial\ WAL\ * EL))$ meaning $AP_{IRB} = 1.1\ *$ 'Modified K_{IRB}' • SEC-SA and SEC-ERBA: $AP_{SA} = 1.5 * K_A$	• 'Modified K_{IRB}' wrong concept • AP_{IRB} in the LCR? ➔ fake liquidity • AP_{SA} in SEC-ERBA? (Why? the rating methodology already limits the AP for the top ratings)
4	Only for Originator / Sponsor, except Investor STS	This should not be a criteria, but a risk dimension to be calibrated
5	Synthetic senior position is resilient only if non-senior tranches are collateralised in cash or eq. … (Déjà vu: will insurers be unable to participate in 'resilient'?)	This is plain absurd. Thankfully, it is only mentioned in the Explanatory Memorandum of the Proposed CRR; it is neither in the recitals nor in the articles (i.e., it's not in the proposed law). Occam's razor: a 'copy-paste' from 2022 JC report, or something else?

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4. Proposed Reforms Impact: SEC-IRBA

*On average portfolios, across the major IRB lenders, the Securitisation Package is **Originator/Sponsor friendly** (IRB banks use mainly SEC-SA or SEC-ERBA as Investor)*

Numerical impact of RW Senior Tranche, IRB Resilient Attachment Point, for SEC-IRBA

Credit quality	Asset Class	KIRB (RW)	Mod. IRB Attach-ment Point	Current		Proposed							
						Originator / Sponsor				Investor			
				STS	Non-STS	STS		Non-STS		STS		Non-STS	
						Resilient	Non-resi.	Resilient	Non-resi.	Resilient	Non-resi.	Resilient	Non-resi.
High	Corporate	52.59	4.83	10.14	21.48	5.28	7.00	13.30	13.30	5.28	10.14	N/A	21.48
	SME	58.22	5.58	10.00	19.51	5.82	7.00	11.43	12.00	5.82	9.54	N/A	19.51
	Residential mortgage	19.40	1.94	10.00	18.79	5.00	7.00	11.99	12.00	5.00	7.00	N/A	15.37
	Retail - other	45.27	4.49	18.39	45.13	8.40	8.40	28.93	28.93	8.40	14.69	N/A	37.31
	Corporate					-47.87	-30.94	-38.06	-38.06	-47.87	0.00	N/A	0.00
	SME		Percentage change			-41.78	-30.00	-41.40	-38.49	-41.78	-4.59	N/A	0.00
	Residential mortgage		versus current RWs			-50.00	-30.00	-36.15	-36.12	-50.00	-30.00	N/A	-18.20
	Retail - other					-54.33	-54.33	-35.88	-35.88	-54.33	-20.11	N/A	-17.31
All	Corporate	80.50	7.60	14.32	28.19	8.05	8.05	16.76	16.76	8.05	14.32	N/A	28.19
	SME	89.29	9.44	10.14	20.06	8.93	8.93	13.39	13.39	8.93	10.14	N/A	20.06
	Residential mortgage	28.93	3.03	10.00	25.35	5.00	7.00	15.76	15.76	5.00	8.04	N/A	21.90
	Retail - other	69.07	7.60	18.72	53.82	6.92	7.00	32.24	32.24	6.92	17.62	N/A	51.33
	Corporate					-43.80	-43.80	-40.54	-40.54	-43.80	0.00	N/A	0.00
	SME		Percentage change			-11.93	-11.93	-33.24	-33.24	-11.93	0.00	N/A	0.00
	Residential mortgage		versus current RWs			-50.00	-30.00	-37.81	-37.81	-50.00	-19.63	N/A	-13.61
	Retail - other					-63.03	-62.60	-40.09	-40.09	-63.03	-5.84	N/A	-4.63
Special case	Leveraged Loans	223.68	23.31	31.89	35.74	22.37	22.37	33.55	33.55	22.37	31.89	N/A	35.74
	Lev. Loans with w	253.75	27.86	30.50	30.50	25.38	25.38	38.06	38.06	25.38	30.50	N/A	38.06
	Leveraged Loans		Percentage change			-29.86	-29.86	-6.12	-6.12	-29.86	0.00	N/A	0.00
	Lev. Loans with w		versus current RWs			-16.79	-16.79	24.81	24.81	-16.79	0.00	N/A	24.81

p_{Cap}

Source: "Making the Bank Securitisation Capital Rules Work for Europe" available on Risk Control website

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4. Proposed Reforms Impact: SEC-SA

On average portfolios, across the major IRB lenders, the Securitisation Package is ***not Investor friendly*** *for traditional securitisations assessed in SA,* ***except STS and Resilient***

Numerical impact of RW Senior Tranche, SA Resilient Attachment Point, for SEC-SA

Credit quality	Asset Class	KA (RW)	KA-based Attach-ment Point	Current		Proposed							
						Originator / Sponsor				Investor			
				STS	Non-STS	STS		Non-STS		STS		Non-STS	
						Resilient	Non-resi.	Resilient	Non-resi.	Resilient	Non-resi.	Resilient	Non-resi.
High	Corporate	70.00	8.40	14.06	46.35	7.00	7.00	19.93	19.93	7.00	14.06	N/A	46.35
	SME	85.00	10.20	17.41	57.41	8.50	8.50	24.68	24.68	8.50	17.41	N/A	57.41
	Residential mortgage	35.00	4.20	10.00	22.16	5.00	7.00	10.00	12.00	5.00	7.00	N/A	22.16
	Retail - other	75.00	9.00	15.16	49.99	7.50	7.50	21.49	21.49	7.50	15.16	N/A	49.99
	Corporate					-50.20	-50.20	-57.01	-57.01	-50.20	0.00	N/A	0.00
	SME		Percentage change			-51.18	-51.18	-57.01	-57.01	-51.18	0.00	N/A	0.00
	Residential mortgage		versus current RWs			-50.00	-30.00	-54.87	-45.85	-50.00	-30.00	N/A	0.00
	Retail - other					-50.53	-50.53	-57.01	-57.01	-50.53	0.00	N/A	0.00
All	Corporate	81.10	9.73	16.53	54.49	8.11	8.11	23.43	23.43	8.11	16.53	N/A	54.49
	SME	106.60	12.79	22.48	74.14	10.66	10.66	31.87	31.87	10.66	22.48	N/A	74.14
	Residential mortgage	37.95	4.55	10.00	24.12	5.00	7.00	10.37	12.00	5.00	7.31	N/A	24.12
	Retail - other	91.50	10.98	18.91	62.34	9.15	9.15	26.80	26.80	9.15	18.91	N/A	62.34
	Corporate					-50.93	-50.93	-57.01	-57.01	-50.93	0.00	N/A	0.00
	SME		Percentage change			-52.59	-52.59	-57.01	-57.01	-52.59	0.00	N/A	0.00
	Residential mortgage		versus current RWs			-50.00	-30.00	-57.01	-50.24	-50.00	-26.86	N/A	0.00
	Retail - other					-51.60	-51.60	-57.01	-57.01	-51.60	0.00	N/A	0.00
Special case	Leveraged Loans	150.00	18.00	33.65	110.83	15.00	15.00	47.70	47.70	15.00	33.65	N/A	110.83
	Lev. Loans with w	178.50	21.42	41.78	137.22	17.85	17.85	59.23	59.23	17.85	41.78	N/A	137.22
	Leveraged Loans		Percentage change			-55.42	-55.42	-56.96	-56.96	-55.42	0.00	N/A	0.00
	Lev. Loans with w		versus current RWs			-57.28	-57.28	-56.84	-56.84	-57.28	0.00	N/A	0.00

Source: "Making the Bank Securitisation Capital Rules Work for Europe" available on Risk Control website

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5. Calibration Inconsistencies in the Proposal on the p-factor

p-factor (Securitisation Package)

3 inconsistencies

	Case	1	2	3	4	5	6	7	8
	Originator	✓	✓	✓	✓	×	×	×	×
	STS	✓	✓	×	×	✓	✓	×	×
	Resilient position	✓	×	✓	×	✓	×	✓	×
SEC-IRBA	p-scaling factor	0.3		0.7		0.3	0.5	N/A	1.0
	p-factor formula	p-scaling factor * (A + B / N + C * KIRB + D * LGD + E * MT)							
	p-floor	0.2		0.3		0.2	0.3	N/A	0.3
	p-cap	0.5		1.0		0.5		N/A	1.0
SEC-SA	p-factor	0.3		0.6		0.3	0.5	N/A	1.0

1) Cases 1 and 2, Cases 3 and 4, Cases 7 and 8 have the same pair-wise calibration, respectively. Resilience has no impact on the p-factor, except for Cases 5 and 6 (Investor / STS) which have different calibration.
2) The p-scaling factor of Originator / Non-STS in SEC-IRBA (0.7) differs from the p-factor (0.6) in SEC-SA.
3) The distance STS / Non-STS for Originators in SEC-SA is 0.3 but 0.7-0.5 for Investors.

In a readable table format… the inconsistencies are easily apparent

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5. Fixing the Framework: A Consistent Calibration – the p-factor

p-factor (Our Calibration)

The 3 inconsistencies have been removed

	Case	1	2	3	4	5	6	7	8
	Originator	✓	✓	✓	✓	×	×	×	×
	STS	✓	✓	×	×	✓	✓	×	×
	Resilient	✓	×	✓	×	✓	×	✓	×
SEC-IRBA	p-scaling factor	0.3		**0.6**		**0.4**		**0.7**	
	p-factor formula	p-scaling factor * (A + B / N + C * KIRB + D * LGD + E * MT)							
	p-floor	0.2		0.3		**0.2**		0.3	
	p-cap	0.5		1.0		0.5		1.0	
SEC-SA	p-factor	0.3		0.6		**0.4**		**0.7**	

- Cases 5 and 6 are 'merged' at the mid-point, leading to consistency with other cases (1, 2, 3, 4, 7, 8) where the notion of 'Resilient position' has no impact on the p-factor (a notion relevant only to the RW Floor)
- Calibration between IRB and SA (Cases 3, 4) is made consistent
- Calibration distances between STS (Cases 1, 2, 5, 6) and Non-STS (Cases 3, 4, 7, 8) are made consistent.

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5. Calibration Inconsistencies in the Proposal on the RW Floor

RW Floor (Securitisation Package) 5 inconsistencies

Case	1	2	3	4	5	6	7	8
Originator	✓	✓	✓	✓	×	×	×	×
STS	✓	✓	×	×	✓	✓	×	×
Resilient position	✓	×	✓	×	✓	×	✓	×
Scalar	10%	10%	15%	15%	10%	10%	N/A	15%
RW formula	Scalar x K x 12.5							
Absolute floor (RW)	5%	7%	10%	12%	5%	7%	N/A	12%
Implied Sensitivity Threshold (Pool RW)	*50%*	*70%*	*67%*	*80%*	*50%*	*70%*	*N/A*	*80%*
Absolute cap (RW)	N/A							

1) Case 7 (Investor / Non-STS / Resilient) exists and is not calibrated – it is assimilated to Case 8.
2) The scalar is not risk-sensitive to the notion of 'Resilient position'.
3) Only the floor of the RW floor is fully risk-sensitive and progressive, but its calibration makes no difference to Originator / Sponsor and Investor status.
4) The ratio floor to scalar (or IST, the level of the pool RW below which the floor of the RW floor applies) generates an inversion in Cases 2 and 3.
5) The RW floor is never capped, creating situations where the senior tranche has a higher risk-weight than the non-senior tranche in a given securitisation.

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5. Fixing the Framework: A Consistent RW Floor

RW Floor (Our Calibration)

The 5 inconsistencies have been removed

Case	1	2	3	4	5	6	7	8
Originator	✓	✓	✓	✓	×	×	×	×
STS	✓	✓	×	×	✓	✓	×	×
Resilient position	✓	×	✓	×	✓	×	✓	×
Scalar	**6%**	**8%**	**10%**	**12%**	**8%**	10%	**12%**	15%
RW formula	Scalar x **KSA** x 12.5							
Absolute floor (RW)	**3%**	**5%**	**7%**	**9%**	**5%**	7%	**9%**	12%
Implied Sensitivity Threshold (Pool RW)	*50%*	***63%***	***70%***	***75%***	***63%***	*70%*	***75%***	*80%*
Absolute cap (RW)	**20%**							

- Originator / Sponsor (1, 2, 3, 4) parameters better than Investor (5, 6, 7, 8)
- STS parameters (1, 2, 5, 6) better than Non-STS (3, 4, 7, 8)
- Resilient (1, 3, 5, 7) parameters better than Non-Resilient (2, 4, 6, 8)
- Calibrated distances between risk dimensions are consistent and anchored in the EC's calibration.
- We suggest a cap to the RW Floor at 20% RW, and for consistency purpose, an increase of non-senior RW Floor from 15% RW to 20% RW, as a fixed value.
- Also, for simplification purpose, the scalar should be multiplied with K_{SA} for all banks (not K_{IRB} or K_A)

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Conclusion

To use a housing analogy for the Securitisation Package: the architecture is sound, the structure is solid, but the finishes may not satisfy those who have to live in it. More work is needed on the finishing touches.

- **In the Securitisation Package, introducing a risk-sensitive RW floor is the most significant step forward for the EU Savings and Investments Union. It is the flagship element of the proposal.** All asset classes will now be able to access the market without the real-economy distortions created by a fixed-value RW floor.
- Calibration
  - The concept of a 'Resilient Position' offers potential benefits, but only if it is well defined. Currently, the incoherent aspects of the proposal urgently need to be addressed.
  - To be truly effective, the calibration must be fit for purpose. If the Commission wants a market with more 'resilient positions', it must ensure that prudential benefits consistently favour resilient over non-resilient positions. The same applies for Originator/Sponsor vs. Investor if issuance of bank-originated assets is to be incentivised. This is not the case under the proposed calibration in the Securitisation Package.
  - Our paper "*Making the Bank Securitisation Capital Rules Work for Europe*" proposes a solution for a clearer definition of the "Resilient Position" concept, along with a consistent calibration of the p-factor and the risk-sensitive RW floor in SEC-IRBA and SEC-SA, and their implications for SEC-ERBA (and IAA).
- Miscellaneous:
  - Grandfathering is essential. Much of the resistance to the current proposal stems from applying new rules to existing trades. As a matter of principle, legacy transactions should be assessed under the rules in place when the portfolio became 'static'. This would allow the industry to focus on the future landscape implied by the new rules, rather than primarily on the impact on existing positions.
  - Finally, the upcoming review — flagged well in advance in Article 506d — represents an important opportunity for industry and regulators to develop a robust evidence base, technical tools, and capital formulas that permit a simpler and more scientific approach to securitisation capital than has so far been achieved. Ideally, this should be adopted jointly at EU and BCBS levels.

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