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REVITALISING EU SECURITISATION

A holistic review of the EU Securitisation Framework



BNP PARIBAS
ASSET MANAGEMENT



Over the past three months, the European Commission has issued two legislative proposals aimed at streamlining the EU securitisation framework, with the objective of mobilising European savings and fostering sustainable economic growth. This paper provides a concise overview of the proposed reforms and assesses their potential implications for insurance companies and investors with a case study.

Why reform EU Securitisation?

The European Commission has launched a major reform of the EU securitisation framework to simplify regulation, enhance competitiveness, and better channel savings into the real economy, including green and digital transitions. The current regime has been criticised for being overly conservative, with high capital and operational costs. The review targets both the regulatory framework and the capital requirements.

Under Solvency II, punitive capital charges have significantly limited European insurers' participation in the securitisation market, in stark contrast to US insurers. Promoting a more favourable regulatory treatment could unlock up to €400 billion in additional demand¹.

This shift would benefit originators by freeing up bank balance sheets, enabling increased capital available to the global economy through consumer, corporate and real estate sectors. Investors – like insurance companies under the Solvency II regime – could broaden their investment universe to securitised products, while capturing attractive yield pick-up with robust cashflows.

How are capital charges changing?

In July 2025, the European Commission published a proposal to amend Solvency II, the regulatory framework used to determine insurers' capital requirements under the standard formula. The objective is to align the capital treatment of securitisations for insurers with that of banks under the Capital Requirements Regulation (CRR), particularly for non-STS² transactions and the most senior

tranches. Before delving into the specifics of the proposal, it is important to clarify key definitions:

- **Senior investments:** commonly referred to as “first-pay” tranches – have priority when it comes to receiving interest and principal payments.
- **Non-senior tranches:** typically called “mezzanine tranches”, are more junior and exposed to higher credit risk. For consistency, we will refer to these two categories throughout the paper as senior and mezzanine tranches.
- **STS:** (Simple, Transparent, and Standardised) securitisations meet defined regulatory criteria aimed at reducing complexity.
- **Non-STS:** fall outside STS standards and are subject to higher capital charges.

The proposal includes:

- **Differentiation between senior and mezzanine non-STS securitisations** for capital charges, allowing for lower requirements for the senior investments under the standard formula. Prior to this proposal, no distinction was made between senior and mezzanine non-STS tranches in terms of capital treatment.
- **Global reduction of the capital charges for both STS and non-STS securitisations** (Table 1). The most significant impact is for senior non-STS tranches such as AAA-rated CLO, with a 78% capital charge reduction (Figure 1). On the other side, STS and mezzanine non-STS benefit from a capital charge reduction ranging from 5% to 41% depending on the tranche rating³.

The proposed changes in capital requirements under the standard formula would make investment in securitisation more attractive for AAA to BBB ratings, as detailed in the next section.

¹ Based on Morgan Stanley calculations

² STS includes for example Auto, Credit Card, Consumer Loan, SME ABS and Prime RMBS; Non-STS covers CLO, CMBS and Non-Performing Loans ABS.

³ Investment grade rating considered with duration up to 5 years

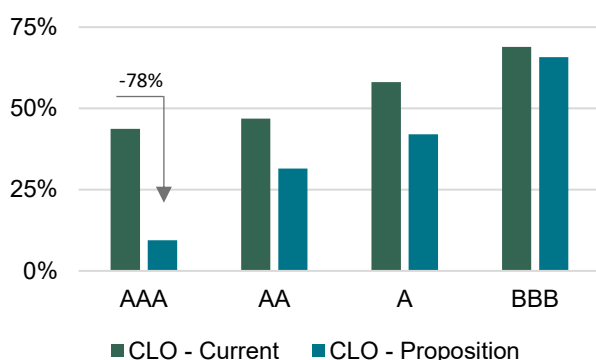


**Table 1: Relative Changes in Capital Charges
(Proposal vs. Current)**

	AAA	AA	A	BBB
Senior STS	-30%	-25%	-13%	-11%
Mezzanine STS	-29%	-24%	-13%	-10%
Senior non-STs	-78%	-75%	-73%	-62%
Mezzanine non-STs	-41%	-33%	-28%	-5%

Source: EIOPA Solvency II Rulebook : Directive 138/2009/EC and Delegated Regulation (EU) 2015/35. Draft Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 on Solvency II.

Figure 1 : Capital charges for CLO (3.5y dur.)



Source: BNPP AM Alts. Sept 2025.

What it means for insurance companies

Lowering capital charges has a double effect for insurance companies that we can analyse on an absolute and relative basis.

On an **absolute basis**, the overall reduction in capital charges for securitised products means that **insurers would be able to allocate the same amount of regulatory capital to significantly larger investment exposures**. For example, an insurer currently holding €100 million in AAA-rated CLOs could, under the revised capital treatment, increase its total CLO investments in similar tranches by approximately €360 million while maintaining the same level of capital requirement. From an Asset-Liability Management (ALM) perspective, anticipated changes in the asset side of the balance sheet may involve a greater allocation to securitised products.

On a **relative basis**, securitised products are expected to deliver a more **attractive return on capital compared to public corporate credit**.

We illustrate this point in Table 2: all things being equal, when assessing spread relative to the Solvency Capital Requirement (SCR), AAA-rated tranches of Euro CLO appear more attractive than BBB-rated Euro corporate bonds. In addition, their positioning under the proposed framework aligns more closely with Single-A rated instruments compared to the current treatment.

Table 2: Relative Value	Spread	Spread/SCR Current	Spread/SCR Proposal
Corpo Euro A	68 bps	13.9%	13.9%
Corpo Euro BBB	93 bps	10.6%	10.6%
CLO Euro AAA	125 bps	2.9%	13.2%

Sources: JP Morgan, Bloomberg and ICE BofA indices as of 31/07/2025 using 3.5-year duration for capital charges

Given that risk and regulatory capital are among the key drivers of insurers' asset allocation decisions, **we anticipate shifts in portfolio composition**. For instance, European insurance companies operating under the standard formula may consider reallocating a portion of their investments from public corporate bonds to securitised products. This strategic shift would aim to enhance capital efficiency, improve returns, and achieve broader portfolio diversification.

What are other main changes?

In June 2025, the European Commission also introduced a proposal covering the Securitisation Regulation. Key changes include:

- **Distinction between public and private securitisations:** a private securitisation is defined by the absence of a prospectus, lack of trading and terms that are negotiated bilaterally. This clarification is relevant for the application of transparency and reporting requirements with private securitisation benefiting from simplified reporting templates.
- **Simplified due diligence** for EU-based issuers, with ~35% fewer required fields for public securitisation and clearer separation between mandatory and voluntary disclosures.
- **Expanded STS eligibility** for SME securitisations, now qualifying with ≥70% SME loan exposure (previously requiring 100% exposure).
- **Reduced Risk Retention** which is waived for securitisation including a guaranteed first loss tranche (min. 15% of nominal value) or held by a restricted list of public entities.

In summary, the proposed changes should reduce the regulatory and capital burden, plus streamline due diligence and reporting.



Why is it central for the EU securitisation market?

The dynamics discussed in the previous sections have the potential to significantly reshape the balance sheet composition of insurance companies. Consequently, a broader and more sustained increase in demand for securitised assets could emerge. This shift could support the growth and deepening of the EU securitisation market – enhancing its competitiveness compared to its US counterpart, while promoting more efficient capital utilisation across the financial sector.

What's next?

Following the proposals published in June and July 2025, legislative discussions are expected to have progressed in Q3 2025, with adoption anticipated by Q4 2025 or early 2026. By mid-2026, the European Banking Authority (EBA) and European Supervisory Authorities (ESAs) are expected to release updated technical standards and guidelines to support implementation.

The new rules are likely to come into effect in early 2027. As outlined earlier, we expect growing interest in securitised products. Over time, this trend could lead to a structural increase in demand, potentially tightening spreads—unless offset by a corresponding rise in supply.

How can BNPP AM Alts play a role in this context ?

BNPP AM Alts is one of the largest investors in alternative credit in Europe. The platform is supported by more than 70 investment professionals and organised across four specialised teams: Secured Finance (including ABS, CLO, Private Financing, and Insurance-Linked Securities), Bank Capital Solutions & Speciality Finance, Broadly Syndicated Loans & Private Debt, and US Structured Finance.

This structure enables a comprehensive and integrated approach. The Alternative Credit platform is supported by dedicated functions in Trading, Risk, Structuring, and Operations. Our investment philosophy is grounded in a highly selective, research-driven process focused on capital preservation, stable income generation, and spread enhancement.

With over two decades of experience in securitised markets, BNPP AM Alts combines scale and market access with deep expertise. Our long-standing presence across credit cycles enables us to manage complex exposures and adapt to evolving market dynamics. We actively deploy strategies such as CLO equity resets and refinancings to optimise return profiles and manage downside risk, supported by a thorough understanding of relative value across Private Debt and structured credit markets. ESG integration is embedded across our investment processes.

As investor interest in securitised products continues to grow, BNPP AM Alts offers a stable and experienced platform to support increased allocations. Our ability to deliver tailored solutions, combined with institutional-grade execution and risk management, positions us as a trusted partner for navigating the next phase of structured finance.





The following pages present an illustrative case study, offering a detailed analysis of the impact of the potential regulatory changes.

Case study: European insurers' portfolio

To assess the impact of the suggested regulatory changes for European insurers we need to start with their current allocation. According to the EIOPA Financial Stability Report as of Q4 2024, the typical credit portfolio allocation for European insurers includes approximately 96% investment grade and 2% high yield bonds. For the sake of simplicity, we will consider this exposure as being only corporate holdings. Additionally, European insurers hold around 2% in securitised products. Table 3 highlights this portfolio breakdown by rating – it will be our starting point to measure the impact of the potential change in capital charges.

Table 3: Simplified representative European insurers' portfolio (Q4 24) ⁴	Credit Portfolio
Corporate Bonds - AAA Europe	18.9%
Corporate Bonds - AA Europe	27.1%
Corporate Bonds - A Europe	25.0%
Corporate Bonds - BBB Europe	24.8%
Corporate Bonds - HY Europe	1.7%
Securitised products	2.4%

Source: EIOPA Solvency II Rulebook, Draft Solvency II Amendment European Commission 2025, ICE Indices and BNPP AM Alts internal data.

1. How is the current European insurer portfolio positioned?

Assuming European insurers' exposure to securitised products consists primarily of Euro-denominated AAA CLO tranches, the proposed **changes in capital charges would result in a significant enhancement of the Spread relative to SCR across their credit portfolio** (namely Credit portfolio A). While maintaining the same nominal spread, the portfolio SCR (i.e. the capital charge) would decrease by 10% from 8.3% to 7.5%. The Spread on SCR would improve by 10%, rising from 8.6% to 9.5% (see Table 4). This shift reflects a more efficient capital allocation relative to return.

Table 4: Impact of capital charges update End of July 2025 spreads and duration	Spread (bps)	SCR current	SCR proposal	Spread/SCR current	Spread/SCR proposal
Credit portfolio A (incl. EUR AAA CLO)	71	8.3%	7.5%	8.6%	9.5%
EUR AAA	49	5.8%	-	8.4%	-
EUR AA	51	5.5%	-	9.3%	-
EUR A	70	6.6%	-	10.6%	-
EUR BBB	90	10.9%	-	8.3%	-
EUR HY	313	19.5%	-	16.0%	-
EUR AAA CLO	125	40.6%	8.8%	3.1%	14.2%

Source: EIOPA Solvency II Rulebook : Directive 138/2009/EC and Delegated Regulation (EU) 2015/35. Draft Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 on Solvency II.

⁴ Portfolio based on EIOPA Financial Stability Report as of Q4 2024, said to be simplified by limiting inclusion of small exposures (in %) for our illustrative case



2. What is the situation for insurers not exposed to securitised products?

For comparison, assuming European insurers had no exposure to securitised products (here named Credit portfolio B) their capital charges would be around 7.4% with a Spread on SCR ratio of 9.4% (as per table below). This ratio would fall below the projected 9.5% for the portfolio including securitised products. This suggests that incorporating **EUR AAA CLOs is beneficial from a Spread on SCR perspective, as it enhances portfolio spread more than it increases capital charges.**

Table 4: Impact of capital charges update <i>Continued</i>	Spread (bps)	SCR current	SCR proposal	Spread/SCR current	Spread/SCR proposal
Credit portfolio B (ex-securitised products)	70	7.4%	-	9.4%	-

Source: BNPP AM Alts. Sept 2025. For illustrative purposes only.

Securitised products offer several distinct advantages than can enhance the performance and resilience of a credit portfolio:

- They are predominately floating-rate instruments, which mitigate interest rate duration risk
- They provide a spread pick-up relative to traditional corporate bonds
- Their structural features, such as diversification and credit enhancement, contribute to lower default risk
- Senior tranches typically exhibit strong liquidity characteristics

3. Which securitised products are the most additive for the portfolio of insurers not exposed to them?

Extending the analysis beyond EUR AAA CLO, the **addition of any securitised products with a Spread on SCR exceeding that of the Credit portfolio B (9.4%) would enhance the portfolio's capital charge efficiency relative to return (as highlighted in green in Table 4 below)**. As outlined in the initial section of our analysis, the most attractive instruments are the highly rated tranches – specifically senior AAA-rated CLOs and senior ABS STS securities. Under the new proposals, both exhibit very favourable spread pick-ups and reduced capital charges which together yield a dual benefit in terms of capital efficiency compared to traditional credit instruments.

Table 4: Impact of capital charges update⁵ <i>Continued</i>	Spread (bps)	SCR current	SCR proposal	Spread/SCR current	Spread/SCR proposal
EUR AAA CLO	125	40.6%	8.8%	3.1%	14.2%
EUR AA CLO	185	50.3%	33.8%	3.7%	5.5%
EUR A CLO	205	70.6%	51.0%	2.9%	4.0%
EUR BBB CLO	315	93.6%	89.3%	3.4%	3.5%
ABS Senior STS	50	2.8%	1.9%	18.2%	26.0%
ABS Mezzanine STS	122	15.9%	13.7%	7.7%	8.9%

Source: BNPP AM Alts. Sept 2025. For illustrative purposes only.

⁵ Capital charges for Senior STS at AAA level and for Mezzanine STS at average AA/A/BBB level.



4. What would be the ideal allocation to securitised products?

a. For a standalone securitised products portfolio

Finally, we can optimise the allocation across those securitised products to construct an optimal portfolio that **maximises the Spread on SCR while minimising overall volatility**. Applying a concentration cap of 40% per sub-asset class, the **optimal portfolio composition would include 35% EUR CLO AAA, 40% ABS Senior STS, and 25% ABS Mezzanine STS**. The resulting efficient frontier is depicted in Figure 2, highlighting the individual characteristics of each instrument alongside the three portfolios discussed in the subsequent sections.

As detailed in Table 5, this optimised portfolio presents a compelling risk-return profile. It delivers an enhanced **spread of 94 basis points, primarily driven by exposure to CLO AAA and ABS Mezzanine tranches, while benefiting from lower capital charges associated with the Senior STS ABS allocation**. Overall, it achieves a 360-bps improvement in Spread on SCR compared to the traditional credit portfolio (13.0% vs. 9.4%), with only half the volatility (2.5% vs. 5.1%).

Table 5: Results from portfolio optimisation	Spread (bps)	SCR under proposal	Spread on SCR	Volatility ⁶
Credit portfolio B (ex-securitised products)	70	7.4%	9.4%	5.1%
Optimal securitised products portfolio	94	7.3%	13.0%	2.5%
Combined optimal portfolio	76	7.4%	10.3%	4.3%

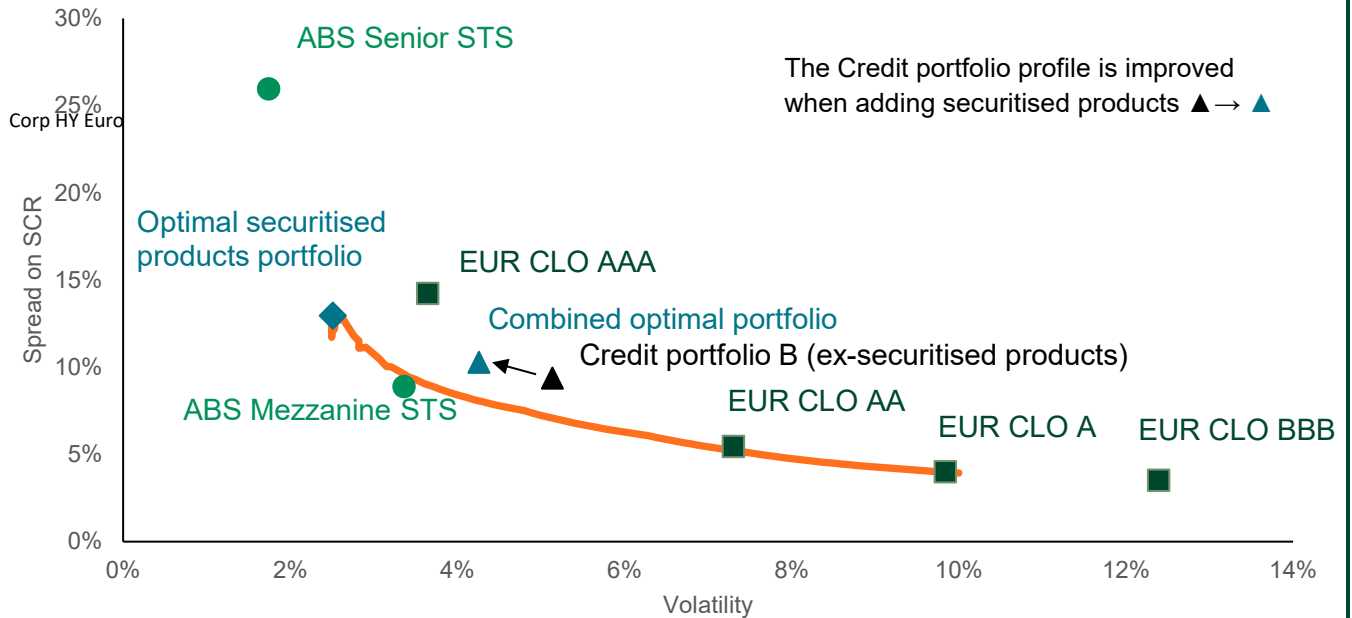
Source: BNPP AM Alts. Sept 2025. For illustrative purposes only.

b. Within an existing traditional credit portfolio

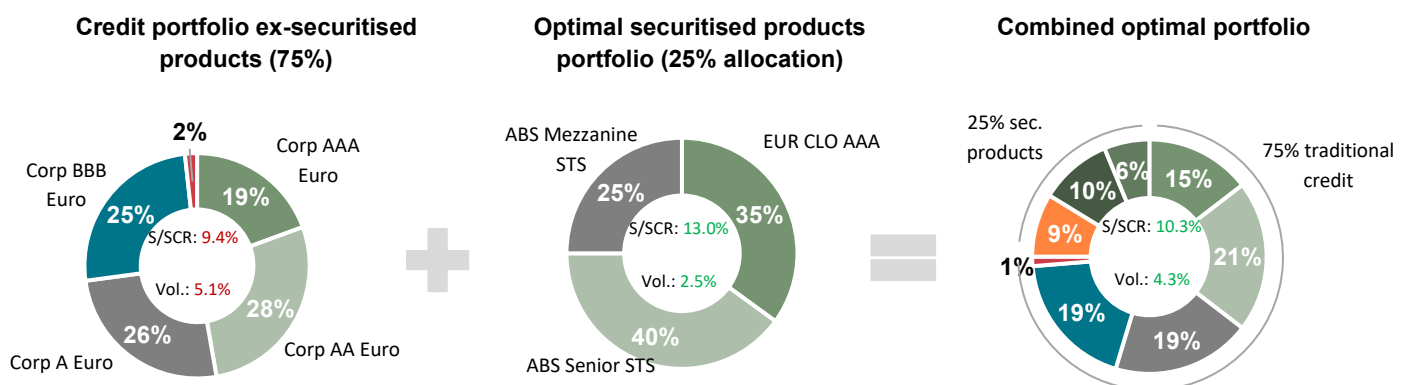
Looking forward, we can determine an optimal blend between this optimal securitised portfolio and the broader European insurers' credit portfolio excluding such assets (Credit portfolio B). Given the distinct advantages of securitised instruments – namely, higher Spread on SCR and reduced volatility – **the optimal allocation would favour increased exposure to these products. By capping their share at 25%, the ideal portfolio would consist of 25% securitised products and 75% traditional credit assets**.

The proposed blended portfolio, presented in Figure 3, delivers a 6-basis point spread uplift (+9%) over the existing credit portfolio excluding securitised products, with a slightly lower SCR. This translates into a 90 basis points or 9% improvement in Spread on SCR. Additionally, the portfolio exhibits significantly reduced volatility – down by 80 basis points or 17% lower. The ratio of Spread on SCR per percentage point of volatility is improved by 32%, rising from 1.8x to 2.4x. **These enhanced metrics strongly support the case for European insurers to initiate or expand their allocation to securitised products, as a mean to improve capital efficiency and portfolio resilience**.

⁶ Volatility calculated based on indices monthly data from 2018 to 2025


Figure 2: Efficient frontier along securitised products allocation


Source: BNPP AM Alts. September 2025. For illustrative purposes only.

Figure 3: Resulting allocation from portfolio optimisation


Past performance is not a guide to future performance.

Source: BNPP AM Alts. Sept 2025. For illustrative purposes only.



Appendix

Capital charges under current regulation vs proposal.

Current - per year of duration (up to 5Y)	AAA	AA	A	BBB	BB
Corporate bonds	0.9%	1.1%	1.4%	2.5%	4.5%
Senior STS	1.0%	1.2%	1.6%	2.8%	5.6%
Non-Senior (Mezzanine) STS	2.8%	3.4%	4.6%	7.9%	15.8%
Non-STS	12.5%	13.4%	16.6%	19.7%	82.0%

Proposal - per year of duration (up to 5Y)	AAA	AA	A	BBB	BB
Corporate bonds	0.9%	1.1%	1.4%	2.5%	4.5%
Senior STS	0.7%	0.9%	1.4%	2.5%	4.5%
Non-Senior (Mezzanine) STS	2.0%	2.6%	4.0%	7.1%	12.7%
Senior non-STS (new)	2.7%	3.3%	4.4%	7.5%	14.3%
Non-senior (Mezzanine) non-STS (new)	7.4%	9.0%	12.0%	18.8%	38.9%

Source: EIOPA Solvency II Rulebook : Directive 138/2009/EC and Delegated Regulation (EU) 2015/35. Draft Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 on Solvency II.

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