

SECURITISATION

DEVELOPING A TARGETED AND PROPORTIONATE REGULATORY TREATMENT FOR MARKET MAKING

AMAFI's position

AMAFI is the trade association representing financial markets' participants of the sell-side industry located in France. It has a wide and diverse membership of more than 170 global and local institutions notably investment firms, credit institutions, broker-dealers, exchanges and private banks. They operate in all market segments, such as equities, bonds and derivatives including commodities derivatives. AMAFI represents and supports its members at national, European and international levels, from the drafting of the legislation to its implementation. Through our work, we seek to promote a regulatory framework that enables the development of sound, efficient and competitive capital markets for the benefit of investors, businesses and the economy in general.

Since its launch in 2015, the Capital Markets Union (CMU) initiative has been a core priority for AMAFI, with the revitalisation of the EU securitisation market standing as one of its key recommendations¹. Strengthening this market is essential both to deepen EU capital markets and to bolster the competitiveness of EU banks relative to their third-country counterparts.

Securitisation is indeed an important tool to develop deeper and more liquid capital markets, which the Letta, Draghi and Noyer reports² have underscored as critical to financing the Union's economy at a time when long-term capital is critically needed to support EU's strategic priorities. In his report M. Draghi estimates the Union will face additional investment needs of **€750-800 billion per year by 2030**. On top of this, the European Commission anticipates that investments in defence could amount **at least € 800 billion over the next four years**³.

In this context, the Association welcomes the European Commission's adoption of the securitisation package in June 2025⁴ as part of the broader Savings and Investment Union (SIU) Strategy⁵.

¹ For further details please refer to AMAFI reports on Completing Capital Markets Union ([link](#)) and A new impetus for capital markets to meet the financing needs of the Union ([link](#)).

² The future of European Competitiveness, M. Draghi, ([link](#)) ; Much more than a market, E. Lette, ([link](#)) ; Developing European Capital Markets to finance the future, C. Noyer, ([link](#)).

³ European Defence Readiness 2030, European Commission, White Paper, ([link](#)).

⁴ Package to make the EU securitisation framework simpler and more fit for purpose, ([link](#)).

⁵ Savings and Investment Union Strategy, ([link](#)).

We support the package's objectives of refining risk-sensitivity in prudential requirements and broadening access to the EU securitisation market of a wider range of issuers and investors. However, we believe that more ambitious reforms are still required for the EU securitisation market to fulfil its potential.

In particular, one key area where the June package should be improved is the regulatory treatment of market making, which is the focus of this note.

The first section recalls the importance of market making in supporting the smooth and efficient functioning of securities markets. We then point out to the existing regulatory barriers that prevent performing market making activities in all tranches of securitisations (II.) before arguing for an alignment of the prudential treatment both for securitisation investors and securitisation originators (III.).

Finally, ensuring that financial institutions operating in the Union can carry out market making activities under a regulatory framework comparable to that applicable to their counterparts in third countries is equally key to developing the depth of the EU market and restoring its competitiveness.

I. THE CENTRAL ROLE OF MARKET MAKING IN THE FUNCTIONING OF SECURITIES MARKETS

Market making consists in continuously quoting buy and sell prices for financial instruments, in sizes typically traded over the counter (rather than through a central exchange). This typically concerns vanilla bonds, derivatives, and securitised products (e.g. ABS, MBS, CLOs). It plays a crucial role in supporting liquidity and enabling transactions across all segments of capital markets.

A. INVENTORIES: A KEY COMPONENT OF MARKET MAKING ACTIVITIES

To engage in market making, financial institutions must maintain inventories of the instruments they quote. This is because market making is not purely reactive. It also requires anticipating clients' demand. Much like a retailer who keeps stock on hand to meet future customers' needs, a market maker builds inventories based on economic signals, expected investors' interest, and pricing conditions.

Inventories may also arise from positions acquired from previous transactions with clients. In such cases, the market maker temporarily holds the asset on its books while seeking either to unwind the position or to match it with another buyer.

B. MARKET MAKING ENHANCES MARKETS LIQUIDITY AND ATTRACTIVENESS

By allowing investors to trade even in the absence of an immediate natural counterparty, or when transaction sizes exceed the instant depth of the market, market making is essential to maintaining liquidity.

Liquidity enables investors to adjust their positions as their liabilities evolve, strategies shift, or funding needs arise (e.g. in case of surging margin calls as could be seen in episodes of systemic liquidity stress). When implementing their investment strategy, investors factor in the likely future liquidity of assets, and tend to avoid instruments that do not offer this flexibility, turning instead to assume more liquid, though often less attractive alternatives.

In this context, the market maker acts as a liquidity bridge between investors. Since opposing interests rarely occur simultaneously, the market maker steps in using its own account and balance sheet to facilitate transactions that would otherwise not occur.

In short, market making is indispensable to any deep and active secondary market, which is a cornerstone of well-functioning financial markets and a prerequisite for robust primary markets.

II. MARKET MAKING: A STRATEGIC ACTIVITY UNDER PRESSURE

A. THE EU REGULATORY FRAMEWORK FOR MARKET MAKING

The baseline regime applying across sectors (e.g. banking and insurance) is the Securitisation Regulation (SECR)⁶. Its purpose is to establish uniform rules governing all stakeholders in EU securitisation transactions, including mandatory risk retention, investor due diligence, transparency requirements, and the STS⁷ label.

In addition, following the 2008 financial crisis, the transposition of Basel III standards, along with additional European gold-plating measures introduced, via the CRR regulations, new prudential requirements for financial institutions acting as securitisation originators and investors, with market makers, although fulfilling a distinct function, subject to the same framework as investors:

- Capital Requirements Regulation (CRR)⁸, which sets out the prudential treatment of securitisation exposures held by financial institutions, including risk-weighting methodologies⁹ and the conditions for capital relief through Significant Risk Transfer (SRT). For market-making purposes in particular, prudential charges include market risk calculated under the standardised approach only (as the internal method is not permitted) and credit risk generally calculated under the External Ratings Based Approach (ERBA) (or the standardised approach otherwise). It is the credit risk treatment under ERBA that places EU intermediation at a distinct disadvantage.

⁶ Regulation (EU) 2017/2402 ([link](#))

⁷“Simple, Transparent and Standardised” is an EU label for securitisations that meet strict criteria ensuring simplicity, transparency, and standardisation, with the aim to promote investor confidence and to allow a more favourable prudential treatment.

⁸ Regulation (EU) 2013/575, ([link](#)).

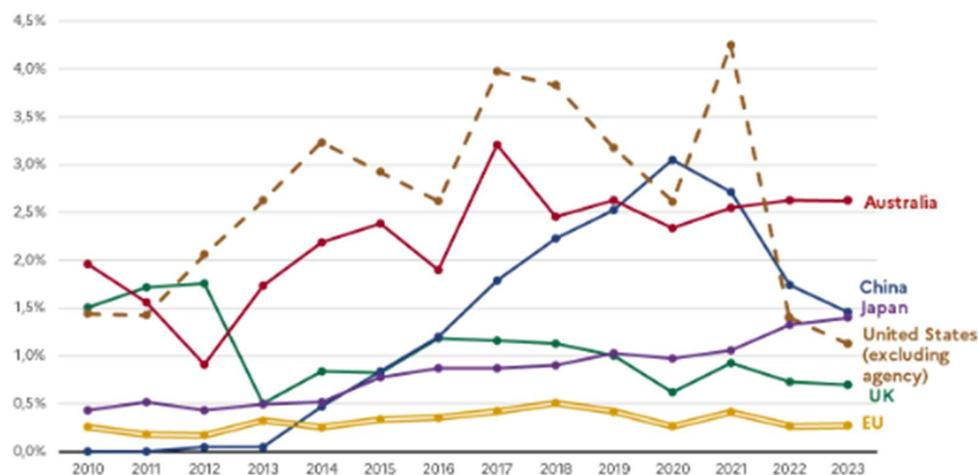
⁹ Three main securitisation capital approaches (EC-IRBA, SEC-SA, SEC-ERBA) are defined under the EU prudential framework. They differ by their risk assessment method, which have different Risk Weighted floors & calibration (e.g. the solvency “p-factor”).

- Liquidity Coverage Ratio (LCR) Delegated Regulation¹⁰, which restricts the eligibility of securitised assets in financial institutions' liquidity buffers to senior AAA-rated tranches of STS securitisations, and assigns among the largest liquidity haircuts, significantly limiting their use in LCR portfolios.

B. THE EU SECURITISATION FRAMEWORK: A MORE STRINGENT APPROACH

The various elements of the existing EU regulatory framework as outlined in the previous section have significantly disincentivised EU financial institutions from investing in securitised assets, leading to a sharp contraction of activity in Europe compared to the US and other jurisdictions (see chart below).

Annual issuances of securitized assets placed as a % of GDP in six jurisdictions (2010-2023)



Source: AFME, 2023, [link](#).

This is all the more regrettable that even at the peak of the Global Financial Crisis, from mid-2007 to the end of 2010, only 0.95% of all European structured-finance issues defaulted, compared to 7.7% of all US structured-finance issues, and 6.3% among the universe of global corporate bonds¹¹.

¹⁰ Regulation (EU) 2015/61, [link](#).

¹¹ Outlook for the securitisation market, OECD Journal, 2011, [link](#).

In practice, the EU regulatory framework disincentives both investors and trading intermediaries in three main areas:

- **Excessive capital requirements.** Under CRR3, financial institutions face disproportionately high capital charges¹² especially for non-senior tranches, for securitised assets, whether held for long or short term. This also affects institutions trading as principal when intermediating in the primary or secondary market.
- **Unfavourable liquidity constraints.** LCR provisions fail to fully recognise the market liquidity of many senior securitisation tranches. Compared with other fixed-income asset classes, EU High-Quality-Liquid-Asset (HQLA) criteria remain extremely restrictive, while liquidity haircuts (regulatory % discount on market value) are among the highest compared to other jurisdictions.
- **Additional constraints under the SECR.** The EU securitisation market is one of the most heavily regulated worldwide. Beyond prudential rules on securitisation exposures, the EU has introduced a uniquely prescriptive framework that applies to all stakeholders, including financial intermediaries.

C. THE DETRIMENTAL IMPACT FOR MARKET MAKING IN ALL TRANCHES OF SECURITISATION

As a result, even when market makers in the Union hold positions only for short periods, they remain subject to the full scope of securitisation-specific “due diligence” requirements that have no equivalent in other asset classes, including covered bonds.

Furthermore, under the current EU prudential framework, the capital charge applied to non-senior tranches is excessively punitive. This makes EU financial institutions less profitable than their US counterparts when engaging in market making activities for these tranches. In most cases, the required capital charge outweighs the credit spread, making the activity less profitable compared to non-EU financial institutions.

This situation has created an uneven regulatory playing field between EU and non-EU liquidity providers. Financial institutions operating in the EU face stricter regulatory, prudential and liquidity requirements, placing them at a clear competitive disadvantage relative to intermediaries outside the EU, US ones in particular.

Consequently, EU financial institutions’ capacity to absorb liquidity shocks has diminished, overall market depth has eroded, bid-ask spreads have remained wide, and the attractiveness of the EU primary market has declined. Ultimately, this undermines the role of securitisation as a financing tool that could otherwise support the growth of the Union’s economy.

¹² In comparison, US banks, using a Simplified Supervisory Approach (SSFA) benefit from better calibration of the risk: their p-factor is up to half the one of EU banks (that mainly use EU SEC-SA or ERBA methodologies).

III. TOWARDS A TARGETED AND PROPORTIONATE TREATMENT OF MARKET MAKING

Without appropriate adjustments to the EU regulatory framework, market making activity in securitisation risks disappearing. This would undermine (i) the liquidity of European markets, (ii) the role of securitisation as a financing instrument for the Union's economy and (iii) the competitiveness of EU market makers.

In line with considerations set out above, we believe that a targeted and proportionate treatment of market making is essential to revive the EU securitisation market. We therefore call for an alignment of the prudential framework of securitisation investors and securitisation originators.

At present, market making in securitisation is treated as an investor's activity and is subject to a more conservative risk treatment than that applied to originators. Yet both activities are usually carried out by the same institutions, which are exposed to the same underlying risk and to the same securitized assets.

This asymmetry is particularly harmful in the case of non-senior tranches. Investors holding mezzanine or junior positions face higher capital requirements than originators holding the very same exposures.

Such differentiation does not reflect the actual risk profile. While non-senior tranches are indeed riskier than senior ones, this higher risk is already fully accounted for through higher risk weights under the CRR hierarchy (whether under SEC-IRBA, SEC-SA or SEC-ERBA).

For this reason, we strongly advocate that financial institutions operating in the EU be subject to a consistent prudential treatment, regardless of whether they act as securitisation originators or investors. This should also include application of the minimum floor to non-STS, non-resilient tranches¹³.



¹³ Senior tranches are currently discriminated against through higher floor in the June proposals of the Commission in spite of current requirements already in place to align originators' and investors' interest (most relevant in case of risk transfer from originator to investors in the junior tranches). Because the senior tranche is never sensitive to the marginal loss in the collateral, the argument that "the originator knows best" does not stand, hence there is no rationale to have possible different RW% depending on the role of the bank.