Regulatory Blog

By PwC Deutschland | 04.04.2022

Quo vadis green securitisations? The new EBA report on sustainable securitisations points in the right direction

It is common sense that our generation is facing a colossal challenge to accomplish the transition towards a more sustainable economy.

It is common sense that our generation is facing a colossal challenge to accomplish the transition towards a more sustainable economy. In simple words, this huge step requires a significant change in the allocation of financial flows between carbon-intensive activities and so called “green” activities. And the massive numbers are already on the table: According to the EU COM, there is an investment gap in Europe of EUR 180 bn per year to achieve the EU’s 2030 Paris targets.

Since the integration of European capital markets is still not at a stage one might have hoped, banks can and should play a pivotal role on this long journey. We discussed already in detail how banks will be incentivized by complying with highly granular disclosure requirements (brand, reputation, market discipline) to shift the focus of their loan books and investment strategies towards a greener portfolio. However, for good reasons banking activities are finite given the strict minimum capital requirements and large exposure limits. Hence, the very fundamental question arises: How to close the investment gap in Europe without relying predominantly on public investments?

And here the securitisation market enters the scene: Securitisations are financial instruments that can build the bridge between a bank’s lending activities and capital markets investors without tying up too much regulatory capital once the credit risk of the underlying assets has been successfully transferred. At a first glance, the very promising idea of “green securitisations” is that banks can generate green assets (e.g. loans to sustainable infrastructure projects or leases to finance electric vehicle fleet), transforming them into tradable financial instruments through securitisation and thereby freeing up regulatory capital to continue their green lending business. But it is of course not as easy as it seems. What is a green asset? How many green assets do you need for a green securitisation? How to avoid adverse selection and information asymmetry between originators and investors? How to ensure that the originating bank is using the freed-up capital for sustainable investments? These and many further open questions are to be answered before we will see an established green securitisation market.

Against this background, the EBA published a report in early March 2022, exploring the potential need for developing a dedicated regulatory framework for sustainable securitisations to facilitate the EU green securitisation market.

A detailed overview of the current status outlining EBA’s key messages, and an outlook on how originators and investors can start preparing now is available at free registration area at our PwC Plus research application: Link to PwC Plus

You want to be prepared for the next steps or discuss your plans with us? Please don’t wait to contact us. Our PwC Financial Services and ESG experts are covering highly relevant topics that will shape the future of the securitization market, especially the variety of sustainable finance initiatives (SFRD, EU Taxonomy, Pillar 3 ESG disclosures), banking regulation (securitisation regulation, “Basel IV” / CRR3, loan origination and monitoring, NPL) as well as the impact of increasing reporting and disclosure requirements (e.g. reporting to a Securitization Repository).

Keywords

ESG, EU SF Green Bonds Standard, EU SF Taxonomy, Securitisation / Verbriefung, Sustainable Finance (SF)

Contact

Martin Neisen

Frankfurt am Main

martin.neisen@pwc.com

Christoph Himmelmann

Frankfurt am Main

christoph.himmelmann@pwc.com