Simple, transparent and standardised securitisation: is it possible?
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STS: HOW COME AND WHY NOT. LEGACY INSTITUTIONAL DESIGNS NOT ALWAYS HELPFUL FOR FUTURE

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1. Summary

I will summarise a letter from academics, then add views of my own, focussing on institutional designs being historically 'sticky', channelling policy.

The policy question

- Choice of securitisation (debt+complexity) as 'post-crisis' policy instrument: why?
- Could MEPs explain all this to citizens? (The "*What Were You Thinking?"* test)

Answers depend on one's preferred cognitive framing

- Securitisation = a common good, if without complexity, conflicts, abuses. Or:
- Bad, because STS legislative proposal does not remove complexities & risks.
- Post-crisis re-start for sec *requires an explanation* in terms other than the above.

2. STS bad, does not remove complexities: academics' letter summarised

Various authors, 2016, *There Is Nothing 'Simple' About the European Commission's Securitisation Proposal*, letter to EP ECON, 30 May.

- STS proposal not about growth or jobs; it's about financial industry
- More likely to deepen interconnectedness, than create diversity
- Tranching: never 'simple'. Increases complexity/uncertainty
- Skin in the game please: 20% proposed retention better than 5%.

+ Call for "an independent impact assessment" addressing above concerns.

My summing up on that letter, and the feelings behind it:

- Legislative proposal = pseudo-investment, pseudo-diversity

- Incredulity that there is institutional support for re-securitisation: ***How come?***

3. How come? An institutionalist analysis – public actors led the market

Public institutional drivers

- Neither industry (scared) nor US authorities (shamed) led re-start in EU.
- After 2008: EIB re-starts securitisation and Council agrees capital increase. *
- From 2009: ECB takes ABS as collateral, so has to value it → data warehouse. **
- 2014-16: ECB widens QE to ABSPP, now holding 1/10th of available ABS. ***
- EIB (via EBA), ECB & BoE (helping) feed into BCBS & IOSCO.
- The industry draws breath and *re-adopts* sec in its new public wrapper.

Consequence: rehabilitation

- EU legislative proposals & acts: CMU; EFSI; LCR & Solvency II delegated acts.
- The current STS proposals generalise, fine-tune & widen the delegated acts.
- But: STS label → pressure to squeeze everything into it (back to □ one).

TINA, it seems

- Cognitive closure: public (and private) actors fell back on *what they knew*.
- Political climate: public investment sharply curtailed, hence EFSI, sec, etc.
- The attention of citizens is elsewhere, so stakeholders are narrowly defined.

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* European Commission and European Investment Bank, 2013, *Increasing lending to the economy. Report to the European Council [of] 27-28 June 2013*.

** Braun, B, 2016, ‘The financial consequences of Mr. Draghi’, working paper, Cologne: Max Planck Institute for the Study of Societies.

*** For wider overview of purchasing programmes, see Ross, C et al, 2015, ‘European Central Bank tools and policy actions B: asset purchase programs’, *Yale program on financial stability*, SSRN.

4. Conclusion. STS arises from legacy institutional design – how to rectify?

Optimally – if there is political room – radically re-think

- STS not designed for SMEs or jobs (needing vanilla lending + public investment).*
- Known unknown: stability & reputational risks – first as tragedy, second as farce, since now led not by the market but by the public sector.
- But, can ECB *et al* differentiate between their functioning, and the public interest?

Compromising – if no political room to change course – then minimise dangers:

- *Really* simple STS could be meaningful, if constrained (not Pandora's box).
- Tranching; if allowed, then could retention focus on mezzanine? **
- Synthetics never should be STS: all players should keep skin in the game. ***
- Keep an eye on 'technical' adjustments to capital requirements (reg arb, again).

So buying much-needed political insurance for the European project.

ENDS

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* Berg et al suggest, with reference to QE: "It is not clear to us that creating €1,100bn to spend it primarily on sovereign debt is the best way. A more direct allocation of QE to the Investment Plan or to the real economy would square well with the needs of the European economy": Berg J et al, 2015, *From the Investment Plan to the Capital Markets Union*, Paris: CEPII.

** Where is the greatest uncertainty? Consider: Antoniades, A and Tarashev, N, 2014, 'Securitisations: Tranching Concentrates Uncertainty' [in the mezzanine], *BIS Quarterly Review*, December, 37-53.

*** For a radical re-think, consider the pre-1914 London market, in which 'assets that could be sold to the central bank at the discount facility were limited to assets that bore the guarantee of at least three entities, an issuer, the originating bank, and the discounting bank'. Sissoko, C, 2016, 'How to Stabilize the Banking System: Lessons from the Pre-1914 London Money Market', *Financial History Review* 23(1), 1-20.