ESMA TRV Risk Analysis

The EU securitisation market – an overview
ESMA Report on Trends, Risks and Vulnerabilities Risk Analysis

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Financial Stability / Orderly markets

The EU securitisation market – an overview

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Summary

This article provides an overview of the EU securitisation market based on the data ESMA receives under Regulation (EU) 2017/2402 (securitisation regulation, or SECR). The SECR requires the reporting of public securitisation data, including on underlying exposures and investor reports, through registered securitisation repositories from 30 June 2021.

Overall, the size of the European securitisation market has decreased significantly since the Global Financial Crisis which at the end of 2010 amounted to EUR 2tn for ABS, CDO and MBS. At the end of 2022, there were 390 individual securitised products outstanding in the EU as reported to the registered securitisation repositories, amounting to EUR 540bn. 54% of these outstanding amounts were linked to residential mortgages, followed by automobile loans (16%), loans to SMEs (15%) and consumer loans (12%). 86% of the outstanding was originated in the five largest markets, namely FR (25%), DE (21%), IT (17%), ES (13%), and NL (10%).

The scope of Regulation (EU) 2017/2402 is limited to public securitisation deals issued after 1 January 2019 and does not cover earlier issuances. The overall market including pre-2019 securitisations is significantly larger, as suggested by industry reports such as AFME’s estimate of EUR 700bn of EU ABS. The market coverage of the ESMA reporting will increase as we approach the maturity of the pre-2019 deals, although private securitisation will remain out of scope.

ESMA also maintains a register of simple, transparent and standardised securitisation (STS). These securitisations fulfil a series of requirements designed to allow market participants to discern simple, transparent and standardised products from more complex, opaque and risky investments. As of 31 December 2022, there were 586 traditional STS notifications in the STS register: 238 public and 348 private. Additionally, there were also 54 synthetic STS (66 as of 1 May 2023). Public STS securitisations, amounting to EUR 215bn were primarily issued in NL (22%), followed by FR (20%), IT (18%), LU (15%) and ES (13%), with the remaining EU Member States accounting for around 12% combined. Finally, the issuance of private STS mostly occurred in three Member States: FR (37%), IE (25%) and LU (16%), with the remaining EU countries amounting to around 22% of the total.

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1 This article was written by Sylvain Canto, Yanis El Omari, Enrico Forzanini and Roberto Proietti.
Introduction

This article provides an overview of the EU securitisation market based on the data ESMA receives under Regulation (EU) 2017/2402 (securitisation regulation, or SECR). The SECR requires the reporting of various securitisation data, including on underlying exposures and investor reports, through registered securitisation repositories (SR) from 30 June 2021.

A securitisation is a financial instrument that bundles a pool of assets and splits the cashflows arising from these assets into different risk categories called tranches. The pool consists of similar assets such as residential mortgages, consumer loans, automobile loans and credit card receivables. The process of securitisation involves several market participants including the originator which usually is either involved in the original agreement which created the obligation to be securitised (such as mortgages) or collects these obligations from a third party and sells them to a securitisation special purpose entity (SSPE) that sells the security to investors.

Securitisation can be public or private. Public securitisations are offered to investors and come with the issuance of a prospectus. Private securitisations differ from public securitisations because they have no prospectus available under the EU prospectus regulation and are usually offered to a restricted pool of investors.

The ESRB monitoring systemic risks in the EU securitisation market

In order to contribute to the prevention or mitigation of systemic risks to financial stability in the EU, Article 31 of Regulation (EU) 2017/2402 mandates the European Systemic Risk Board (ESRB) to continuously monitor developments in the securitisation markets, and in collaboration with the European Banking Authority (EBA), publish a report on the financial stability implications of the EU securitisation market at least every three years.

In its first report published in July 2022, the ESRB gives its assessment of the financial stability implications of the EU traditional securitisation market as well as a first step towards a monitoring framework of the securitisation market, focusing for now on residential mortgage backed securities (RMBS) as it represents the largest segment of the EU securitisation market.

According to this report, the EU securitisation market has shrunk since the 2008 Global Financial Crisis (GFC), and still remains much smaller than the US market, at EUR 0.7tn (as of 2021 Q2). This market is also concentrated in few member states, both on the originator and on the investor’s side, with 80% of total outstanding securitisations in the EU having underlying loans located in ES, FR, IT or NL. Sector wise, EU banks are also the largest holder of EU securitisations. In terms of credit quality, most tranches of EU securitisations are rated as investment grade, and the number of rating upgrades have outnumbered rating downgrades since the start of the pandemic.

The report outlines the conceptual framework focusing on systemic risk and shaping the ESRB monitoring of the EU securitisation market. This framework is organised around three groups of indicators, which for the time being have been used for the assessment of the RMBS segment, i) broad market indicators showing than the loan balance underlying EU RMBSs has fallen, ii) leverage indicators showing that the loan-to-value of EU RMBS is on average below 100% and the debt-to-income ratio around five although the share of riskier underlying loans has increased since the early 2000s and iii) interconnectedness and concentration indicators showing that origination and holding of EU RMBS is concentrated in a small number of banks domiciled in a few member states.

The ESRB concludes that it does not see substantial systemic risks stemming from EU RMBS, even after applying various shocks in a sensitivity analysis dedicated section, even though it acknowledges that other asset classes not covered so far in this monitoring framework such as collateralised debt/loan obligations (CDO/CLOs) might reveal sources of risks.

Source: ESRB. Monitoring systemic risks in the EU securitisation market (2022)

Securitisation can bring economic benefits, by redistributing risk across the financial system and by providing diversification in the sources of funding. However, the literature examining the causes of the 2008 GFC such as Coval et al. (2009) or Brunnermeier (2008) has argued that complex and opaque securitised products can pose significant risks to financial stability,

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2 For its assessment, the ESRB uses various data sources such as data from AFME, S&P, EDW as well as internal ECB databases.
especially when the risk of the underlying securities is not properly evaluated and diversified, resulting in misleading ratings. Against this background, in 2017, the EU introduced a new comprehensive regulatory framework to support a sound EU securitisation market, able to contribute to Europe’s increasing financing needs, while avoiding the re-emergence of harmful past market practices and safeguarding financial stability.

Data collected by ESMA

From 30 June 2021, the SECR requires the reporting of public securitisation data for deals issued after January 2019, including on underlying exposures and investor reports, through one of the registered securitisation repositories. Currently, two SRs are registered, European DataWarehouse GmbH (EDW) based in Germany and SecRep B.V. based in the Netherlands. ESMA supervises the SRs, verifies and monitors their organisational structure, IT infrastructure, data quality process and provides guidance on disclosure templates.

SRs transmit to ESMA investor reports, significant event reports, granular data on underlying exposures, and daily end-of-day reports with aggregated data at securitisation level.

Finally, the data transmitted to ESMA by SRs does not include certain securitisation categories, such as asset-backed commercial papers (ABCP) and private securitisations.

Textbox 2

ESMA securitisation data – compared to other sources

This report includes securitisations covered by the Regulation (EU) 2017/2402, i.e. deals issued after 1 January 2019. This is an important consideration for this report, as there is no obligation to report pre-2019 securitisations. Looking at issuance dates in the SECR data, we indeed observe that most pre-2019 data is not reported.

Moreover, since 1 January 2019 ESMA has maintained an STS Register for all traditional securitisations complying with STS criteria. Following amendments to the SECR, ESMA also made available a list of synthetic securitisations meeting the STS criteria. The STS register includes key information, as well as explanations.
regarding compliance with each STS criterion. The STS register includes data on all STS securitisations, including public and private.6

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ESMA has access to and displays in this article all public securitisation in the EU received via SRs, including all public and a few voluntarily reported private securitisation deals. Meanwhile it collects and publishes in its publicly available registers information on all STS transactions: public, private and synthetic deals. All figures in this article are as of 31 December 2022, unless stated otherwise.

The EU securitisation market

Outstanding amounts clearly below GFC levels

Securitisation markets grew significantly in the run-up to the 2008 GFC, peaking at more than EUR 2tn in Europe in 2008-2009. Issuance then halted and the market size dropped significantly to EUR 1.5tn in 2013 (EBA, 2015). Unlike in the US where the total amount of securitisation reached USD 13.7tn in 2021, well above its 2008 levels (USD 11.3tn), the size of EU securitisation markets has remained below their pre-GFC level. This difference between the US and the EU can partly be explained by structural differences between the two markets, with more widespread use of securitisation for market-based finance in the US and a large share of some of these products (in particular RMBS) guaranteed by state agencies such as Fannie Mae and Freddie Mac.

The increasing trend, too, can mainly be explained by the fact that the outstanding trades initiated before January 2019, are not part of the mandatory reporting requirement. As these older securitisations expire and new securitisations are issued, outstanding balances reported under the SECR will likely continue to increase.

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6 Given the level of granularity of the STS Register and the SRs, the focus of our analysis for Public STS is both on the originator and issuer country, whereas the focus for the Private STS is only on the issuer country.
7 EBA (2015), “EBA report on qualifying securitisation”.
8 These outstanding amounts coming from the EBA include ABS, CDOs and MBS in Europe defined as the European continent, including Turkey, Kazakhstan, the Russian Federation and Iceland.
In terms of origination countries, based on the reported “main originator” of each securitisation, we see that securitisation markets across the EU are mostly concentrated in a relatively small number of member states. 86% of the total outstanding amount, as measured by the aggregate current principal balance (ACPB), was originated in FR (25%), DE (21%), IT (17%), ES (13%), NL (10%). In terms of numbers of securitised products, the biggest contributors are IT and DE (19%), followed by ES (14%), FR (14%), NL (13%), and IE (7%) denoting a bigger average size of securitised products originated in FR and IE compared to the other main originating countries (see below for further detail).

Residential mortgages amount to 54% of the total current principal balance at the end of 2022, while the other main asset classes are, by order of importance, automobile loans (16%), loans to corporates (15%) and consumer loans (12%). This is slightly different than the shares at the beginning of the mandatory reporting where auto-loans made up 25% of the total, whereas residential mortgage securitisation was 45% of the total at the time (Chart 3).

The run-up to the GFC was characterised by a rapid growth in the issuance of “complex” structured products such as CDOs of ABS or CDO² which have decreased sharply in the EU since the GFC. Furthermore, re-securitisation was banned in the EU following the entry into application of the SECR. In 2022, EU securitisation products tend to gather pools of receivables that are related either in type or in sector of exposures. Hence, the number of products classified as others (or “esoteric” in the reporting templates) is marginal for public securitisations, at 0.03% of the total ACPB (EUR 123mn) and has been consistently declining since 2021.

**Deal sizes: highly variant**

Securitisation markets are by nature wholesale markets with a relatively high deal size, often beyond several hundred million euros.

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9 Securitisation may involve at times more than one originator for a single securitised product. In the securitisation level data reported to the registers, only the “main originator” is reported.
Nevertheless, deal size varies significantly depending on the underlying asset type with a median size oscillating between EUR 458mn for automobile loans to EUR 798mn for loans to corporates (Chart 4).

Looking at deal size across countries the median size ranges between EUR 160mn in GR and EUR 747mn in FR. Such a dispersion also appears in the top 10% of the deal size distribution where bigger deals tend to occur in markets such as FR, DE or BE (Chart 5).

The securitisation market in the EU is thus diverse both according to underlying types and along geographical lines.

Defaults of underlyings: rising in line with volumes.

The run-up to the GFC was characterised by a significant increase in default rates of securitised products. While the cumulative default rate on European structured finance assets from the beginning of the financial downturn, in July 2007, until 1Q12 has been 1.1%, the cumulative realised default rate on securitised products issued between mid-2007 and 1Q12 in the US was as high as 14.8%.

This section gives a different perspective on default with the actual defaulted amounts of the underlying exposures (chart 7) even though these figures should not be mistaken for the actual default of the securitisation itself.

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10 Standard & Poor’s “Five Years On – The European Structured Finance Cumulative Default Rate is only 1.1 per cent”, August 2012.
Since 30 June 2021, the annualised default amounts, or the amounts of underlying loans having defaulted over the course of the previous year, stood below or at EUR 7bn and increased at the same pace as the outstanding amounts themselves. Indeed, defaults oscillated around 1.4% of the total ACPB between June 2021 and end-2022 (when it stood at EUR 7bn), with a peak at 1.75% in summer 2021. As previously mentioned, this measure, used to put defaulted amounts into perspective, should not be confused with the default rates of the securitisation themselves which stand at a much lower levels, and also vary depending on the tranche considered.

The STS market

The SECR sets up a general framework for securitisation and introduces the concept of Simple, Transparent and Standardised securitisations. Its purpose is to make it easier for investors to make an informed decision and to adequately assess the risk of their investment. The regulation sets out a series of criteria (the STS criteria) to ensure that securitisations are not structured in an overly complex way, including underwriting, risk retention, transparency and due diligence requirements. It allows market participants to distinguish simple, transparent and standardised products from more complex, opaque and risky investments.

ESMA needs to be notified by the originator or sponsor of how a securitisation transaction fulfils these STS requirements. An optional process is also possible whereby an authorised third-party verifier can attest compliance with the STS criteria.

In addition, the new regulatory framework includes amendments to the capital requirements regulation (CRR). It introduces a preferential capital regime for positions held in STS securitisations by credit institutions and investment firms. Similarly, STS securitisations held by Solvency II regulated insurance or reinsurance undertakings, benefit from a lower capital charge compared to non-STS securitisation positions. STS securitisations may also be eligible for inclusion in high quality liquid assets for the purposes of the CRR liquidity coverage ratio.

ESMA maintains a public STS register which contains information on the unique identifier of the securitisation, its type (public, i.e., with a prospectus, or private, and offered to a restricted pool of investors, without a prospectus), underlying asset, originator and issuer country, and whether the securitisation is an ABCP or not. However, there are no quantitative metrics therein related, for instance, to the total aggregated current principal balance or the deal size. To obtain this information we match the STS securitisations identifiers with those in the SRs, where the information is available. Nevertheless, this is only possible for public STS, since private securitisations are only voluntarily reported to the SRs, and thus are likely significantly underrepresented.

Outstanding STS: 40% of total public securitisation market

At the end of 2022, there were 586 traditional STS notifications in the STS Register: 238 public and 348 private. There were also 54 synthetic STS. The number of STS notifications received in 2022 was 136, 20% higher than in 2019, though lower than in 2021 and 2020 (-15% and -38% respectively) (Chart 7). However, 2019 was

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11 Articles 19 to 22 of the Regulation (EU) 2017/2402
characterised by a small number of private STS notifications. This was likely due to the small number of ABCP transactions occurring in that year, as conduit sponsors had been granted a one-year grace period before having to apply the new capital requirements to their conduit liquidity facilities at the time.

Overall, public STS transactions were more extensively used in 2020, and then followed the general downward trend in public securitisation issuance. The significant increase in Private STS notifications in 2020 was mainly due to challenging liquidity conditions in the public securitisation and bond markets during the COVID-19 pandemic. This, together with the end of the one-year grace period for ABCP, led issuers to rely more on private securitisations.

Finally, public STS information is available both through the STS register and through SRs while information on private and synthetic STS is only available through the register, with no information on outstanding amounts or volumes. For the private and synthetic STS, figures represented are therefore number of securitisations reported only.

Public STS: largest market segment

All public STS securitisations contained in the STS register are non-asset-backed commercial paper (non-ABCP). As of the end of 2022 Public STS securitisations account for around 60% of the total number of public securitised products, with a total outstanding amount that reached EUR 215bn at the EU level as of the end of 2022 (40% of the total outstanding amounts).

As for the underlying assets used as collateral (Chart 8), and similarly to traditional securitisations, residential mortgages account for around half of the total outstanding amount (44%), followed by automobile loans and leases (23%), consumer loans (17%) and corporates (15%). Finally, leases and credit card receivables together account for 2% of the total outstanding amount.

In relation to the country of main originator, for public STS NL accounts for the highest share of outstanding securitisations originated at the EU level (22%), followed by FR (21%), DE (20%), IT (18%), and ES (13%), with the remaining EU Member States together contributing 6%.

Residential mortgages public STS mostly originate in FR (26%), NL (21%), ES (19%) and IT (15%). Most automobile loans and leases securitisations stem from DE (56%), followed by FR (17%). Consumer loans public STS mostly come from IT (50%) and FR (23%), whilst the bulk of corporate public STS was originated in NL (81%) (Chart 9).
The level of granularity of the STS Register enables us to focus also on the issuer country (i.e., the country in which the SSPE is located) (Chart 10). Two things are worth noting: DE plays a much less prominent role in public STS issuance, whereas the opposite is true for LU. More in details, as of end-2022, NL still accounts for the highest share of outstanding securitisations issued in the EU (22%), followed by FR (20%), IT (18%), LU (15%) and ES (13%), with the remaining EU Member States accounting for around 12% combined.

Going into more details at member state level, public STS with residential mortgages used as collateral are most noticeably issued in FR (24%), followed by NL (20%), ES (19%), and IT (15%). Automobile loans and leases public STS issuance is highest in LU (37%), followed by FR (17%). Finally, corporate public STS issuance is dominated by NL (80%), followed at a distance by FR (10%).

Private STS: concentrated market

This section will focus on the number of private STS securitisation transactions notified to ESMA, rather than the volume of issuance.

Private STS represent 59% of the STS securitisations contained in the STS register as of the end of 2022; In addition, 84% of them are asset-backed commercial paper (ABCP).

As for the assets used as collateral, there is a clear prevalence of one underlying exposure type (Chart 11). Trade receivables account for 64% of total private STS notifications at the EU level, followed by automobile loans and leases (18%) and credit to companies (8%).

Focusing on the country in which the SSPE is located, issuance of private STS mostly comes from three Member States (Chart 13): FR accounts for around 37%, followed by IE (25%) and LU (16%), with the remaining EU countries accounting for approximately 22%.

The largest share (almost half) of private STS notifications with trade receivables as underlying asset is issued in FR (46%), followed by IE (25%).
and IT (13%). Issuance of private STS with automobile loans and leases as collateral is concentrated in LU (30%), FR and IE (both 20%), and NL (18%).

Synthetic STS

A synthetic securitisation is a securitisation where the transfer of risk is achieved using credit derivatives or guarantees, and the exposures being securitised remain exposures of the originator, i.e., in its balance sheet.\(^\text{13}\)

Contrary to traditional securitisations, synthetic securitisations do not transfer the underlying exposures to an issuer entity (i.e., “true sale” securitisation), setting forth an additional counterparty credit risk and potential complexity related to the content of the derivative contract. For these reasons, synthetic securitisations were initially not included in the STS framework. However, to stimulate the market and support the recovery post Covid, on the basis of work carried out by EBA, the EU has amended\(^\text{14}\) the SECR and the CRR to introduce a regulatory regime for STS balance sheet synthetic securitisations, though excluding arbitrage synthetic securitisations.\(^\text{15}\)

Since its introduction in April 2021, the synthetic STS market in Europe has been growing rapidly. As of the end of 2022, there are 54 STS synthetic securitisations transactions notifications in the STS synthetic securitisation list (66 on 1\(^{st}\) May 2023). They are almost entirely in the form of financial guarantees (96%) with only a negligible part in the form of credit derivatives (4%). Furthermore, 63% Synthetic STS are funded transactions (that is, the synthetic securitisation is cash collateralised by the investor), and the remaining 37% are unfunded.

Regarding the composition of the underlying exposures (chart 13), Synthetic STS composed by a mix of small and medium-sized enterprises (SMEs) and large corporates loans account for 35% of total notifications received by ESMA, followed by large corporate loans (28%) and ‘Others’ (15%).

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\(^{13}\) Article 2(10) of the Regulation (EU) 2017/2402

\(^{14}\) Regulation (EU) 2021/557 and Regulation (EU) 2021/558. The amendments are based on proposals published by the European Commission at the end of July 2020, which are in turn based on the European Banking Authority (EBA)’s final report of 6 May 2020, that the EBA was mandated to prepare under Article 45 of the Securitisation Regulation.

\(^{15}\) In balance sheet transactions the originating credit institution uses financial guarantees or credit derivatives to transfer to third parties the credit risk of a specified pool of assets that it holds on to its balance sheet. Conversely, the main objective of arbitrage synthetic securitisation (which is mainly CDOs, also called CSOs) is to arbitrage between the (higher) spread received on underlying lower credit quality debt or products indices, and the (lower) spread paid on the resulting structured and credit enhanced CDO note.
Conclusion

This article provides an overview of the EU securitisation market based on data reported according to the SECR. According to the SECR, only public securitisations issued after 1 January 2019 have to be reported to SRs. Our figures thus do not provide a full picture of the EU public securitisations outstanding yet and for as long as pre-2019 securitisations have not matured. This gradual phasing out of legacy products is apparent in the ascending trend in terms of outstanding securitisation exhibited in most of our data. Furthermore, private securitisations are not part of the mandatory reporting regime, unless they are STS, and we are thus missing a potentially significant part of the EU securitisation market namely the non-STS private securitisation.

At the end of 2022, 390 individual securitised products reported to the repositories were outstanding, amounting to EUR 540bn. This compares to a market size of EUR 2tn of ABS, CDOs and MBS in Europe before the GFC and USD 14tn in the US at the end of 2021. 54% of these outstanding amounts in the EU were linked to residential mortgages, followed by automobile loans (16%), loans to SMEs (15%) and consumer loans (12%) while 86% of the outstanding amount was originated in FR (25%), DE (21%), IT (17%), ES (13%), NL (10%).

Securitisation markets differ a lot depending on the underlying type or country of origination as shown by the widespread average deal size across these categories.

Finally, this article provides a stock take on the take-up of the STS framework introduced by the SECR to foster high-quality securitisation. The STS register includes data on all STS securitisations, including private deals. Based on the ESMA register, 238 public (40% of the overall public securitisation) and 348 private deals were outstanding at the end of 2022, together with 54 synthetic STS. The STS issuance figures for 2022 were lower than in 2021 and 2020 (-15% and -38% respectively), a trend that we will keep monitoring. Similarly to non-STS, STS origination is also relatively concentrated in a few Member States. Data on the country of the issuer, or SSPE allows one to identify that the country of the issuer is quite frequently different than the country of the originator.

Going forward, ESMA will continue to work towards improving the quality of data in the reporting and intends to report regularly on securitisation market developments.
Related reading


ESAs (2021), “Joint committee report on the implementation and functioning of the securitisation regulation” May.


