



EBA REPORT

DEVELOPING A FRAMEWORK FOR
SUSTAINABLE SECURITISATION

EBA/REP/2022/06



EBA

EUROPEAN
BANKING
AUTHORITY

Contents

List of figures	4
Executive summary	6
Purpose of the report	6
General content of the report	6
Key findings and recommendations	7
State of play of the EU sustainable securitisation market (chapter 2)	7
Application of the EU GBS to securitisation (chapter 3)	7
Establishing a dedicated framework for sustainable securitisation (chapters 4 and 5)	7
Sustainability-related disclosures and due diligence requirements for securitisation products (chapter 6)	8
1. Introduction	9
1.1 Background	9
1.2 Securitisation in the context of the EU sustainable finance agenda	10
1.3 EBA mandate for a report on sustainable securitisation	11
1.3.1 Content of the EBA mandate	11
1.3.2 Interaction with other works on sustainable securitisation	12
1.4 Purpose of the report	12
1.5 EBA market survey on sustainable securitisation	13
1.6 Structure of the report	14
2. EU sustainable securitisation market: state of play	15
2.1 Definition and rationale	15
2.1.1 Sustainability in the context of securitisation	15
2.1.2 Rationale for engaging in sustainable securitisation	17
2.1.3 Role of securitisation in sustainable finance	18
2.2 Market practices and development	19
2.2.1 Overview of the EU sustainable securitisation market	19
2.2.2 Impediments to the development of the EU sustainable securitisation market	24
3. Application of the EU green bond standard (EU GBS) to securitisation	28
3.1 Purpose and content of the EU GBS	28
3.2 Scope of the EU GBS	29
3.3 Issues in the application of the EU GBS to securitisation	29
3.4 Adjustments to the EU GBS	32
3.4.1 Applying the use of proceeds requirements at the originator level	32
3.4.2 Disclosing the environmental performance of the underlying assets	33
4. Establishing a dedicated framework for green securitisation	35
4.1 Relevance of a specific framework for green securitisation	35

4.1.1	True-sale securitisation	35
4.1.2	Synthetic securitisation	36
4.2	Design considerations for a green securitisation framework	38
4.2.1	Approaches to establishing a dedicated framework	38
4.2.2	Eligibility criteria in the pool of green assets and green use of proceeds	40
4.3	Disclosures applicable to green securitisation	43
4.4	Interaction with STS label	44
4.5	Financial stability considerations	44
5.	<u>Establishing a dedicated framework for social securitisation</u>	47
5.1	State of the market	47
5.2	Social bond standard and label	48
6.	<u>Sustainability-related disclosure and due diligence requirements applicable to all securitisations</u>	50
6.1	Sustainability-related disclosure for issuers / originators	50
6.1.1	Overview of sustainability-related disclosure framework for financial products introduced by the SFDR	50
6.1.2	Transposition of SFDR provisions into the Securitisation Regulation	51
6.2	Sustainability-related due diligence for investors	51

List of figures

Figure 1: Envisaged timeframe to enter the sustainable securitisation market	17
Figure 2 : European sustainable securitisation issuance by asset class (EUR bn)	20
Figure 3. European sustainable securitisation issuance in H1 2021	20
Figure 4: Development of global green ABS by number of green ABS	22
Figure 5. Issuance of sustainable covered bonds versus issuance of sustainable securitisations (EUR bn)	23
Figure 6 : Green collateral approach	39
Figure 7 : Combined approach – parallel framework	40
Figure 8: Combined approach – integrated framework	40
Figure 9: Evolution of European bonds outstanding (EUR bn)	47

List of tables

Table 1. Market participation in the EBA survey on sustainable securitisation	13
Table 2: Example of sustainable securitisation by ABS type	16
Table 3: Overview of sustainable securitisation transactions issued and/ or originated in Europe including the UK	20
Table 4 Challenges affecting the development of sustainable securitisation	24
Table 5: In which area is regulatory guidance (/clarity) needed the most?	26

Abbreviations

ABS	Asset-backed security
CRR	Capital Requirements Regulation EU 575/2013
ESAs	European supervisory authorities
CMBS	Commercial mortgage-backed security
CMRP	Capital Markets Recovery Package including (EU) 2021/557 and EU 2021/558
ESG	Environmental, social and governance
EuGB	European green bond
EU GBS	EU green bond standard
GAR	Green asset ratio
ITS	Implementing technical standards
JC	Joint Committee
PAI	Principal adverse impact
RMBS	Residential mortgage-backed security
RTS	Regulatory technical standards
SECR	Securitisation Regulation (EU) 2017/2402
SFDR	Sustainable Finance Disclosure Regulation (EU) 2019/2088
SPV	Special purpose vehicle
SSPE	Securitisation special purpose entity
STS	Simple, transparent and standardised

Executive summary

Purpose of the report

1. Over the past two years, several innovative securitisations have brought sustainability to the forefront of the EU securitisation market. However, the application of sustainability requirements in securitisation appears to require further clarification:
 - The EU taxonomy does not apply directly to securitisation transactions, and financial instruments issued within securitisation transactions are not ‘financial products’ as defined in the Sustainable Finance Disclosure Regulation (SFDR).
 - Moreover, while sustainable finance has initially been implemented in equity and corporate debt finance, where investment decisions could be based upon the ESG performance of the issuing entity, the implementation of sustainability in securitisation needs to consider several parameters due to the variety of securitisation products, including multiple securitisation parties alongside various types of underlying assets and structures.
2. Against this background, the EBA has been mandated to deliver a report that aims to develop a framework for sustainable securitisation. In conjunction with the review of the Securitisation Regulation and based on the outcome of this report, the European Commission will submit a report to the European Parliament and the Council on the creation of a specific sustainable securitisation framework, together with a legislative proposal if deemed appropriate.

General content of the report

3. The report provides an overview of the recent developments and challenges of introducing sustainability to the securitisation market and explores how the EU green bond standard (EU GBS) could be implemented for securitisation, as well as whether a potential dedicated framework for sustainable securitisation should be introduced.
 4. After a review of the state of play of the EU sustainable securitisation market, it focuses on three areas for which regulatory guidance was deemed relevant at this stage considering that i) the overarching EU regulations on sustainable finance are still being developed and ii) the EU sustainable securitisation market is still at an early stage of development. These areas include:
 - i. the application of the EU green bonds standard to securitisation;
 - ii. the relevance, policy implications and possible design of a dedicated framework for sustainable securitisation products; and
 - iii. the nature and content of sustainability-related disclosures for securitisation products.
 5. The report also includes policy recommendations addressed to the European Commission in each of these areas.
-

Key findings and recommendations

State of play of the EU sustainable securitisation market (chapter 2)

6. To date only a very limited number of securitisations labelled as sustainable have been seen in the EU. In comparison with the US and the Chinese green securitisation market, the EU green securitisation market appears small, and it is also less developed than the EU sustainable covered bond market. The main challenges affecting the development of the EU sustainable securitisation market are caused by i) a lack of available sustainable assets, ii) the absence of a definition, standards, and data to foster transparency and credibility in the market and iii) the limited attractiveness of securitisation products in general.

Application of the EU GBS to securitisation (chapter 3)

7. To ensure clarity in the application of the EU GBS and to ensure a level playing field across all types of green bond instruments, the EU GBS also needs to apply to securitisation. However, the application of the EU GBS requirements (including the use of proceeds, disclosures and sanctions) at the issuer/SSPE level, as envisaged in the proposed EU GBS regulation, would raise several issues, including that it will not prohibit the originator from using the proceeds of the securitisation bond to generate non-green assets. As a result, the report suggests shifting the EU GBS requirements from the SSPE to the originator so that the EU GBS requirements can be imposed on entities with broader economic substance.
8. Applying the use of proceeds requirements at the originator level, instead of at the SSPE level (as envisaged in the proposed EU GBS Regulation), does not appear to be an obvious path for securitisation given its non-dual recourse asset-backed nature and because it would allow EU green bond securitisation to be backed by non-green assets. However, it appears to be the most efficient and pragmatic approach during a transition phase. It would also ensure that securitisation is treated in a consistent manner as per other types of asset-backed securities. Additional EU GBS disclosure requirements would, however, be necessary to ensure that investors are made aware of the green characteristics of the underlying securitised assets and to limit the risk of the 'adverse green selection of assets'¹.

Establishing a dedicated framework for sustainable securitisation (chapters 4 and 5)

9. *Regarding green true sale securitisation*, the report identifies two main rationales for establishing a dedicated framework in addition to the EU GBS: i) to help to signal to the market institutions that are already transitioning (hence that are already capable of including green assets in the underlying portfolio of a securitisation transaction and, as a result would have additional/complementary green credentials in addition to the green use of proceeds) and ii) to further promote standardisation and consistency in the use of the 'green securitisation'

¹ The risk of the 'adverse green selection of assets' may occur if originators are incentivised i) to invest in new assets 'which are significantly environmentally harmful' with a view to securitising them through an EuGB and to benefit from a positive pricing differential, and/or ii) to sell off their legacy 'brown' collateral to securitisation investors and to keep the 'high-quality green' collateral on their balance sheet.

designation. However, the report concludes that it would be inappropriate to establish a dedicated framework at this juncture, though such a framework may become increasingly relevant once the EU economy has further transitioned, more green assets are available and the use of proceeds approach prevailing in the EU GBS becomes less relevant. To complement the EBA advice to the EU Commission, the report also provides a list of high-level safeguards which should be considered by the European Commission in case it decides to put forward a legislative proposal for the creation of a green securitisation framework despite the EBA's recommendation.

10. *Regarding green synthetic securitisation*, more time would be needed to assess whether and how the specificities of synthetic securitisation should be reflected in a green framework, especially given that no green standard has been considered yet for any credit protection instrument. It is therefore proposed that the EBA is mandated to monitor the development of the EU green synthetic securitisation market and, if appropriate, further investigate the relevance and potential content of a framework for green synthetic securitisation.

11. *Regarding social securitisation*, it is also deemed premature to establish a dedicated framework for social securitisation given that an EU social bond standard is yet to be established and the EU social securitisation market is still in its infancy. It is, however, proposed that the EBA assess whether and how a social framework could be established once the EU social securitisation market has further matured and after an EU social bond standard has been developed.

Sustainability-related disclosures and due diligence requirements for securitisation products (chapter 6)

12. Improved availability of more standardised data on the principal adverse impact (PAI) of securitisation investments on ESG factors would be key to supporting the transition of the EU securitisation market towards sustainability. The Securitisation Regulation should therefore be amended to extend voluntary PAI disclosures to non-STS securitisations.

13. Mandatory PAI disclosures should also be considered in the medium term once the EU sustainable securitisation market has further matured and more experience has been gained on the implementation of sustainability-related disclosures for securitisation.

1. Introduction

1.1 Background

14. The Paris Agreement adopted in 2015 at COP 21 triggered a major step in the fight against climate change by setting the target of limiting the rise of the global mean temperature to ‘well below 2 degrees Celsius and pursuing efforts to limit it to 1.5% compared to the pre-industrial period’. Among the objectives of the Agreement, the central role of global finance has also been reaffirmed².
15. The volume of financing needed to support the transition towards more sustainable economies requires a significant change in the current allocation of financial flows between carbon-intensive activities and green-compatible activities. In Europe, according to the European Commission, the investment gap to achieve the EU's 2030 targets agreed in Paris is estimated at around EUR 180 billion per year³. As a result, a notable emphasis has been placed on sustainable finance since the signature of the Paris Agreement.
16. Against this background, in 2017 the European Commission published its Action Plan: Financing Sustainable Growth, which had three main objectives:
- i. reorient capital flows towards sustainable investment to achieve sustainable and inclusive growth;
 - ii. manage financial risks stemming from climate change, environmental degradation and social issues; and
 - iii. foster transparency and long-termism in financial and economic activity.
17. In May 2018, the European Commission also adopted a package of measures implementing several key actions announced in its Action Plan. The package included proposals with the aim of:
- i. establishing a unified EU classification system (taxonomy) on what can be considered an environmentally sustainable economic activity (EU Taxonomy Regulation⁴);

² Article 2.1 (c) : ‘Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’

³ European Commission ([link](#))

⁴ Regulation (EU) 2020 /852 ([link](#))

- ii. improving disclosure requirements on how institutional investors and asset managers integrate environmental, social and governance (ESG) factors into their risk processes (EU Sustainable Finance Disclosure Regulation, SFDR⁵); and
- iii. creating a new category of benchmarks comprising low-carbon and positive carbon impact benchmarks to provide investors with better information on the carbon footprint of their investments (EU Climate Benchmarks Regulation).

18. The EU regulatory agenda on sustainable finance is now expanding to ESG financing instruments:

- i. In July 2021 the EU Commission published a legislative proposal for an EU green bond standard (EU GBS)⁶, which aims to creating a voluntary high-quality standard for green bonds with common definitions of environmentally sustainable economic activities (based on the EU Taxonomy Regulation), standardised disclosures and reporting to support the financing of green investments, while addressing concerns around greenwashing.
- ii. As part of its renewed strategy on sustainable finance⁷ the EU Commission, with the support of the European Supervisory Authorities (ESAs) and the Platform on Sustainable Finance, will also work on potential further bond labels such as sustainability-linked bonds and transition bonds⁸; and,
- iii. the EBA will be mandated to provide an opinion on the definition and possible supporting tools for green retail loans and green mortgages⁹.

1.2 Securitisation in the context of the EU sustainable finance agenda

19. The implications of these developments for the EU securitisation market are significant. Although the total issuance volume of EU sustainable securitisations appears very limited, over the past two years several innovative securitisations have brought sustainability to the forefront of the EU securitisation market. The EU sustainable securitisation market is growing, and it is now expanding beyond the green RMBS and green auto ABS segments. Furthermore, there is an increasing demand for sustainable securitisation products from many institutional investors, which have increased their commitments to invest in sustainable assets in line with their internal policy objectives. Interest is also rising from originators and issuers, and some of the main

⁵ Regulation EU 2019 /2088 ([Link](#))

⁶ EU Commission proposal for a regulation on green bonds, [Link](#)

⁷ EU Commission strategy for financing the transition to a sustainable economy, [Link](#)

⁸ Action 1e) of the EU Commission strategy for financing the transition to a sustainable economy

⁹ Action 2a) of the EU Commission strategy for financing the transition to a sustainable economy

motivations expressed in this regard relate to the objectives of ‘aligning with new corporate values’, ‘enhancing reputation and brand’ and ‘meeting investor demand’.

20. Sustainability is becoming an increasingly important topic for market participants, but at this stage the application of existing EU sustainability requirements in the context of securitisation appears to be insufficiently specified. The EU taxonomy does not apply to securitisation transactions, and financial instruments issued within securitisation transactions are not ‘financial products’ as defined in the SFDR. All securitisations in Europe are regulated by the EU Securitisation Regulation¹⁰ (SECR), which already sets out detailed due diligence and disclosure standards for securitisation, including the disclosure of information relating to the environmental performance of residential loans or auto loans and lease portfolios in the context of STS securitisation. Moreover, while sustainable finance has initially been implemented in equity and corporate debt finance, where investment decisions could be based upon the ESG performance of the issuing entity, the implementation of sustainability in securitisation needs to consider several parameters due to the variety of securitisation products, including multiple securitisation parties, as well as the various types of underlying assets and structures.

1.3 EBA mandate for a report on sustainable securitisation

1.3.1 Content of the EBA mandate

21. Against this background, the amendments introduced to the Securitisation Regulation (SECR) by the EU Capital Markets Recovery Package (CMRP)¹¹ have provided the EBA with a mandate to deliver a report that aims to develop a specific EU framework for sustainable securitisation. Article 45a(1) of the amended SECR, which lays down the content of this mandate (see Annex 1), specifies that the purpose of the report is to integrate sustainability-related transparency requirements into the SECR. However, the list of topics that the EBA must investigate, pursuant to this mandate, goes beyond the ESG transparency requirements for securitisations. In accordance with Article 45a(1) of the amended SECR, the report should assess, in particular:

- i. how to define and implement sustainability-related disclosures and due diligence requirements for securitisation products;
- ii. how to establish a specific framework for sustainable securitisation products drawing upon the EU Taxonomy Regulation and the SFDR; and
- iii. the potential impact of a sustainable securitisation framework on financial stability, the scaling-up of the EU securitisation market and bank lending capacity.

22. Based on the outcome of the EBA report, the European Commission should submit a report to the European Parliament and the Council on the creation of a sustainable securitisation framework, together with a legislative proposal, if deemed appropriate.

¹⁰ REGULATION (EU) 2017/2402, [Link](#)

¹¹ REGULATION (EU) 2021/557, [Link](#)

1.3.2 Interaction with other works on sustainable securitisation

23. It should be noted that, in addition to the present report, several regulatory works are currently being developed in the area of sustainable securitisation:

- i. *JC RTS on sustainability-linked disclosures for STS securitisation*: Pursuant to Articles 22(6) and 26d(6) of the amended SECR, the ESAs must deliver draft regulatory technical standards (RTS) on sustainability disclosures in relation to the adverse impacts of assets financed by the underlying exposures on the climate and other ESG-related sustainability factors for STS securitisations. While the JC RTS focus on ESG-related disclosures for STS securitisations that are backed by a pool of residential loans or auto loan and leases, this report investigates further potential ESG disclosure requirements that could be applicable to securitisation products that fall outside the scope of these RTS. The report is also meant to assess the relevance of additional disclosure requirements that would be exclusively applicable to sustainable securitisation products.
- ii. *EBA report on the prudential treatment of ESG exposures*. The CMRP has also introduced an amendment to Article 501c of the CRR, which now explicitly requires the EBA to include sustainable securitisation exposures within the assessment it must perform on the relevance of a dedicated prudential treatment for ESG exposures. The assessment of the relevance of a dedicated prudential treatment for sustainable securitisations should be delivered by 28 June 2025 and therefore falls outside the scope of this Report.
- iii. *EU green bond standard*. As mentioned in paragraph 18, the proposed Regulation on the EU GBS will create a new framework for the issuance of green bonds including securitisations issued by a securitisation special purpose entity (SSPE). However, the Commission’s legislative proposal on EU GBS also makes a reference to the EBA report on sustainable securitisation by mentioning in its footnote 11 that the Commission’s proposal does not prejudge the content of the EBA report and that a specific sustainable securitisation framework, if desirable, could differ in scope and other respects from the securitisation securities qualifying as European green bonds. Therefore, this report explores the extent to which the EU GBS framework would be sufficient to capture the specificities of green securitisation and whether some amendments of the EU GBS would be needed.

1.4 Purpose of the report

24. The report provides an overview of the recent developments and challenges of introducing sustainability to the securitisation market and explores how the EU GBS could be implemented in the area of securitisation. In addition, it explores whether, and how, a potential dedicated framework for sustainable securitisation could be introduced to complement the EU GBS.

25. Conversely, this report does not provide a comprehensive analysis that aims to create a fully-fledged standard for EU sustainable securitisation in a similar manner to that implemented for the creation of the STS securitisation framework. Rather, the report focuses on key subject matters for which some regulatory guidance would be relevant at this stage, especially considering that i) the overarching EU regulations on sustainable finance are still under development and ii) the EU sustainable securitisation market is still in its infancy and very little experience has been gained so far in the application of ESG factors in the context of securitisation.

1.5 EBA market survey on sustainable securitisation

26. To gather the views of stakeholders on the state of the market and on potential concerns and expectations regarding the development of a framework for sustainable securitisation products, the EBA conducted a market survey. Four parts were covered by the survey: i) market practices and developments observed so far in the EU securitisation market, ii) design considerations for a potential dedicated framework for sustainable securitisation, iii) the risk profile of sustainable securitisation, and iv) other broader aspects including regulatory treatments.

27. As shown in Table 1, 40 entities participated in the EBA survey on sustainable securitisation, of which 55% have already originated, arranged, rated, issued or invested in a sustainable securitisation. The key results of the survey are presented in chapter 2 of this report.

Table 1. Market participation in the EBA survey on sustainable securitisation

Capacity	Number
Originator	11
Originator & sponsor	4
Investor	4
Originator & investor	2
Originator, sponsor, investor	2
Originator, sponsor, SSPE, investor	1
Rating agency	4
Market association	6
Third party verifier	2
Securitisation repository	1
Reporting advisory	1
Reinsurance company	1
Legal firm	1
Total	40

1.6 Structure of the report

28. The Report comprises five main chapters:

- Chapter 2 provides an overview of the developments in the EU sustainable securitisation market, stressing both its characteristics and current limitations.
- Chapter 3 examines the extent to which the EU GBS framework proposed by the European Commission would be adequate to capture the specificities of securitisation and whether some amendments to the EU GBS would be needed.
- Chapter 4 investigates the relevance and the policy implications of establishing a dedicated framework for green securitisation at this juncture. It also includes broad policy considerations on how a potential dedicated framework for green securitisation may be designed.
- Chapter 5 explores whether a dedicated framework for social securitisation should be developed, considering the very early stage of development of the EU social securitisation market as well as the ongoing EU regulatory developments in social bonds.
- Finally, chapter 6 assesses how sustainability-related disclosures could be introduced for securitisation, building upon the SFDR requirements.

2. EU sustainable securitisation market: state of play

2.1 Definition and rationale

2.1.1 Sustainability in the context of securitisation

a. Definition of 'sustainability'

29. There is general agreement that the pillars of sustainability are environmental objectives, social objectives and good governance. The EU Taxonomy Regulation provides a definition of what 'environmentally sustainable' means for certain economic activities and will soon also provide a corresponding definition for 'socially sustainable' economic activities. However, as highlighted in the EBA report on the management and supervision of ESG risks for credit institutions and investments firms¹², at present institutions are still relying on various internal frameworks and standards defining ESG factors, while some of them use their own definition.

30. However, the most common ESG factors include:

- i. a positive impact on environmental factors such as reducing greenhouse gas emissions, improving waste management and water use, reducing pollution and enhancing biodiversity;
- ii. a positive impact on social factors such as reducing credit and financial exclusion and improving diversity, gender equality, labour treatment and human rights.
- iii. a positive impact on governance factors such as fostering integrity in corporate conduct through, for example, accountability, transparency, stakeholder engagement and remuneration policy.

b. ESG factors in securitisation

31. In the context of securitisation, three elements are usually considered when evaluating the sustainability credentials of a transaction:

- i. whether the assets backing the transaction comprise, in full or in part, a collateral, which has a positive impact on ESG factors such as energy-efficient mortgages, electric auto loans/leases or consumer loans to underserved borrowers;
- ii. whether the use of the proceeds or the capital relief gained by the transaction (in cases of synthetic securitisation) are used to (re)finance in full or in part assets that have a positive impact on ESG factors; and

¹² [Link](#)

- iii. whether the key counterparties to the transactions (including the originator and the servicer) commit to achieving certain sustainability-related key performance indicators (KPI) including, for example, financial incentives for the originator upon meeting specified ESG targets.

32. Therefore, it is how the performance of the collateral, the use of proceeds and the securitising parties align with environmental and/or social objectives, and how these are underpinned by good governance, that are the most relevant aspects for consideration when evaluating a sustainable securitisation transaction. However, there is no market consensus nor a regulatory stance on whether one of these three elements should prevail and on whether a minimum amount of sustainable collateral or sustainable use of proceeds should be required for a securitisation to be considered sustainable. As a result, sustainable securitisation could include a wide range of transactions depending on how these three parameters are combined, but also depending on the types of underlying exposures and the structure used in the securitisation transaction. Table 2 provides an overview of the most common examples of sustainable securitisation by ABS type.

Table 2: Example of sustainable securitisation by ABS type

ABS type	Typical examples of sustainable underlying loans and/or use of proceeds
RMBS	Loans to (re)finance energy-efficient houses and/ or to improve home energy consumption
Auto ABS	Loans and leases to (re)finance electric or hybrid vehicles or vehicles meeting low emission standards
SME ABS	Loans to (re)finance small business sustainable projects such as organic foods, products made from recycled materials or innovative technology which improves energy efficiency
Corporate ABS	Loans to finance infrastructure projects such as the installation of wind power stations, water and waste management projects; low-emission public transport, electric vehicle charging stations and other energy-efficient projects
CMBS mortgages	Loans to finance the acquisition or improvement of social or student housing, hospitals, community or educational centres; commercial rooftop solar energy loans
ABCP	(Re)financing trade receivables generated by companies which are transitioning to more sustainable business models such as auto manufacturers, manufacturers of household equipment or non-toxic cleaning products
CLO	CLO managers apply 'negative screening criteria' to exclude companies that derive a portion of their revenue from certain activities that are considered to be non-sustainable, such as the extraction of oil, gas & coal

c. Securitisation and the green and social bond labels

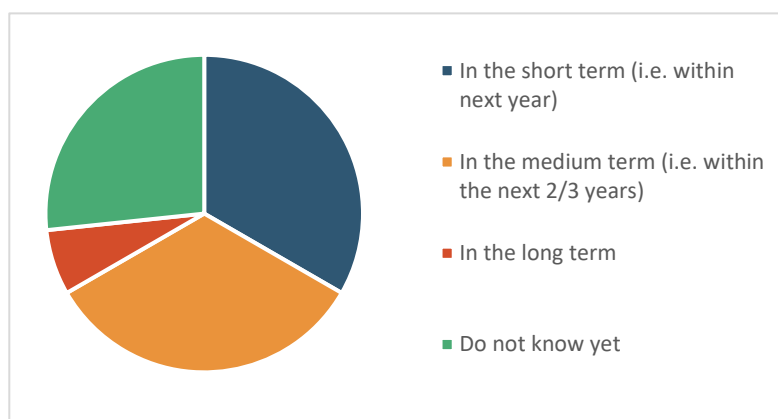
33. At present, there is neither a market standard nor a label exclusively applicable to sustainable securitisation. However, the International Capital Market Association (ICMA) has developed the Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP), which have become the leading frameworks globally for the issuance of sustainable bonds. These frameworks are applicable to all types of bonds including securitisation bonds. Indeed, for most of the green or social securitisations seen in the EU market, alignment with the ICMA's principles was assessed by a

third-party verifier. Alignment with the ICMA's principles does not require green or social collateral if the proceeds are allocated to green or social projects. However, the Climate Bonds Initiative (CBI) also assesses the green credentials of the collateral to determine whether a securitisation could be certified as green.¹³

2.1.2 Rationale for engaging in sustainable securitisation

34. Sustainability is becoming an increasingly important topic for market participants in the securitisation market. According to the EBA market survey, most market participants in securitisation that have not been involved in a sustainable securitisation yet are considering entering the sustainable securitisation market in the short to medium term (Figure 1).

Figure 1: Envisaged timeframe to enter the sustainable securitisation market



Source: EBA market survey on sustainable securitisation

35. The benefits and rationale for engaging in sustainable securitisations are the same as the ones applicable to other types of ESG financing instruments. The main motives include:

- i. *Business growth and diversification.* Sustainable finance, including sustainable securitisation, could create business opportunities for the financial industry. For example, the International Energy Agency (IEA) forecasts that European (battery) electric car sales will reach close to 1.5m per annum by 2025, from 0.75m in 2020, and reach more than 2.8m by 2030. Providing financing to such sectors with high business development could therefore be growth-enhancing for lenders.
- ii. *Diversification of the investor base.* Investors are increasingly interested in investing in sustainable products to address their ESG mandates. For example, they express a strong appetite for green bonds by repeatedly oversubscribing issuances. In H1 2021, the oversubscription average was 2.9x for EUR green bonds, and 2.6x for EUR vanilla bonds equivalent¹⁴.

¹³ [Link](#)

¹⁴ CBI, Green bond pricing in the primary market (H1 2021), [link](#)

- iii. *Brand and reputational value.* Sustainable finance provides institutions with a chance to brand themselves as forward-thinking, innovative and sustainable, especially since the press covers green and social bond issuance favourably.
- iv. *ESG risk management.* Institutions entering the sustainable finance market are also incentivised to develop the risk assessment attached to their sustainable products and may be more resilient to changes in economics and financial risk that may be attached to the transition to a low-carbon economy. Indeed, as highlighted in the EBA report on the management and supervision of ESG risks for credit institutions and investments firms¹⁵, the transition to a low-carbon economy would lead to a re-allocation of resources between economic activities, which may positively affect the risk-return profiles of some economic sectors and financial assets at the expense of others. By diversifying their activities and by developing the green and social segment of their activities, institutions would be in a better position to anticipate these risks.

2.1.3 Role of securitisation in sustainable finance

36. By definition, securitisation refers to the process of i) transforming a pool of illiquid financial assets into tradable financial instruments or ii) transferring the credit risk associated with a pool of assets through buying credit protection such as credit derivatives or guarantees. It enables lenders such as credit institutions to overcome funding and capital constraints and to continue providing loans to customers.
37. Against this background, sustainable securitisation could have a primary role to play in financing sustainable projects by:
- i. *improving funding access to sustainable projects:* Many green loans (e.g., rooftop solar photovoltaic, energy efficiency upgrades, electric/hybrid vehicles) are on a relatively small scale to access the capital market. Securitisation enables these small green assets to be aggregated and to have better access to capital and funding;
 - ii. *increasing the ability to originate sustainable loans:* sustainable securitisation allows institutions to obtain funding and to free up capital, which incentivises them to expand their green lending business. In this regard, credit institutions have a key role to play in increasing the funding allocated to sustainable projects given their unique position in facilitating capital flows through their lending, investment and advisory roles. Credit institutions also have the technical underwriting expertise that is critical for assessing the risks and opportunities attached to sustainable assets, especially during the transition phase;
 - iii. *expanding the pool of investors in sustainable projects.* Green securitisation offers an investment opportunity to institutions that cannot originate green exposures directly. In addition, compared to other types of green bonds, through the tranching of the bonds

¹⁵ [Link](#)

green securitisation provides a broader spectrum of risk/return profiles, thereby expanding the universe of investors interested in sustainable finance instruments;

- iv. *limiting sector exposures to the green industry*: The growth in credit lending to a single sector, such as renewable power, could cause institutions to reach exposure limits, but the securitisation of parts of these exposures could reduce an institution's exposure to a single sector. For investors, a selection process targeting a diversified pool of underlying loans (e.g. diversified by geography, types of borrowers or types of assets) can limit the concentration risk of the collateral pool;
- v. *helping match investors' liabilities with asset tenors*: investors in ABS may include pension and insurance companies with long-dated liabilities. An ABS programme can vary maturities according to the existing demand in the market and replenish the collateral pool with new assets during the life of the ABS programme. Securitisation may be well-suited to green financing by allowing institutions to offer lending to longer-dated sustainable infrastructure projects.

38. In addition, the EU securitisation market could be able to adapt smoothly to ESG requirements given that the EU securitisation framework already sets out high disclosure standards including information relating to the energy efficiency of the underlying assets in STS securitisations, taking the form of RMBS or auto ABS. Market participants in the securitisation market are also already familiar with third-party verifiers in the context of the STS label and are already applying detailed due diligence requirements. Issuers also have high levels of knowledge and experience in monitoring asset pools and managing cash flows. Therefore, they could provide the level of monitoring, transparency and disclosure that sustainable securitisation requires.

2.2 Market practices and development

2.2.1 Overview of the EU sustainable securitisation market

a. EU market practices to date

39. The lack of a commonly agreed definition of sustainable securitisation makes it difficult to assess the issuance of sustainable securitisation transactions in the EU in a comprehensive manner. One possible way to identify these transactions is to list those securitisation bonds which have been granted a sustainability label based on market standards (see paragraph 33), despite not being fully harmonised. In the absence of reporting in this area, these industry overviews appear to be the most relevant source available at the moment. Following this methodology, EU sustainable securitisation issuance reached EUR 5.2 bn in H1 2021 on two social RMBS deals, two green RMBS deals, and on-balance-sheet ABS (Figure 2, Figure 3). This represents a substantial increase from EUR 0.2 bn issued in FY 2020.

Figure 2 : European sustainable securitisation issuance by asset class (EUR bn)

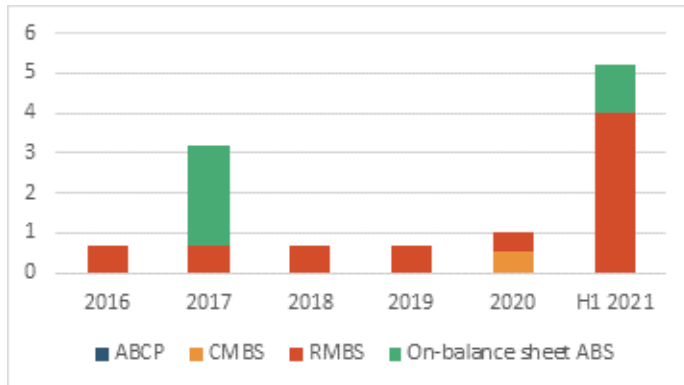
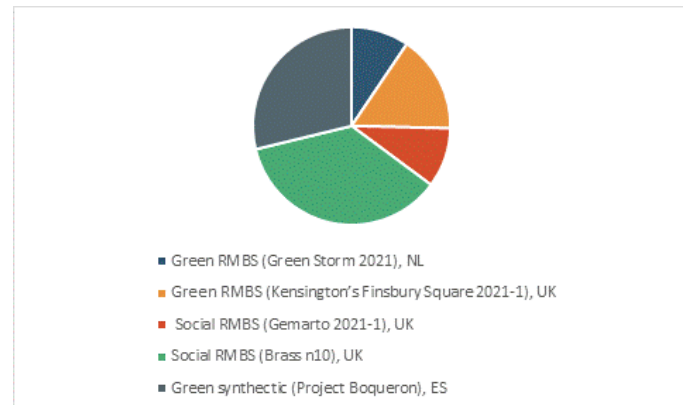


Figure 3. European sustainable securitisation issuance in H1 2021



Source: Q2 2021 ESG Finance Report (AFME)

40. The European sustainable securitisation market therefore appears to still be in the early stages of development. Sustainable securitisation only accounts for around 2% of EU ESG bond issuance¹⁶ and for around 6% of EU securitisation issuance¹⁷, and to date only a limited number of securitisations labelled as sustainable have been seen in the EU. These transactions include 7 green RMBS, 1 green CMBS, 1 green ABCP, 2 green synthetic securitisations and 2 social RMBS (Table 3).

Table 3: Overview of sustainable securitisation transactions issued and/or originated in Europe including the UK

Year	Name	Country	Amount	ABS type	Description
2016	Green Storm 2016	NL	EUR 526.2m	Green RMBS	Green collateral/green proceeds: Backed by portfolios entirely made up of energy-efficient mortgages and water use improvements, and the proceeds are used to (re)finance these loans
2017	Green Storm 2017	NL	EUR 594m		
2018	Green Storm 2018	NL	EUR 582m		
2019	Green Storm 2019	NL	EUR 641m		
2021	Green Storm 2021	NL	EUR 526m		
2017	Premium Green 2017-2	FR	USD 3 bn	Green synthetic	Green collateral/green proceeds: Backed by a variety of loans, including project finance on renewable energy; freed up capital for green lending in diverse sectors
2020	River Green Finance	FR	EUR 189 m	Green CMBS	Green collateral/green proceeds: Backed by a single loan secured on an energy-efficient office building
2020	Green Belém No.1	PT	Class A: EUR 385 m	Green RMBS	Green collateral/green proceeds: Backed by a pool of prime mortgage loans, and the proceeds are used to finance green building and sustainable finance projects STS-compliant
2020	La Fayette Asset Securitisation LLC	FR	USD 25 m	Green auto ABCP	Green collateral/green proceeds: Backed by designated green assets, either because the seller is active in green sectors or, as indicated by seller pool data, reports assets and proceeds are used to finance electric vehicles Subsequent issues include financing for solar energy equipment loans and trade receivables

¹⁶ Q2 2021 ESG Finance Report (AFME) [link](#)

¹⁷ Q2 2021 Securitisation Data Report (AFME), [link](#)

Year	Name	Country	Amount	ABS type	Description
2021	Project Boquerón	ES	EUR 1.6 bn	Green synthetic	Green collateral/green proceeds/green sustainability-linked bond: backed by a portfolio of renewable energy efficiency financing; includes a step-down coupon upon meeting specified ESG/impact lending targets and capital relief redeployed to an area which directly cuts carbon emissions.
2021	Kensington's Finsbury Square 2021-1	UK	GBP 750 m	Green RMBS	Green proceeds: The proceeds from the class A are used to finance part of the green collateral, and the remaining unallocated proceeds will be put towards new green mortgage lending over the next five years. STS compliant
2021	Gemgarto 2021-1 PLC	UK	GBP 470 m	Social RMBS	Social collateral and social proceeds: Backed by a pool of prime, performing, first-ranking mortgages and monies used to (re)finance owner-occupied mortgages to underserved borrowers with complex incomes, (self-employed, first-time buyers with limited credit history, contractors, retired and/ or younger borrowers).
2021	Brass No. 10	UK	GBP 1,932m	Social RMBS	Social collateral and social proceeds: Backed by a pool of mortgages targeted towards first time buyers, retired and self-employed borrowers; part of the proceeds used towards social projects including higher-rate savings products and/or competitively priced mortgage products to customers who may be underserved by other lenders in the market because of the complexity of their characteristics (for example, self-employed borrowers, contractors, first-time buyers and retired borrowers).

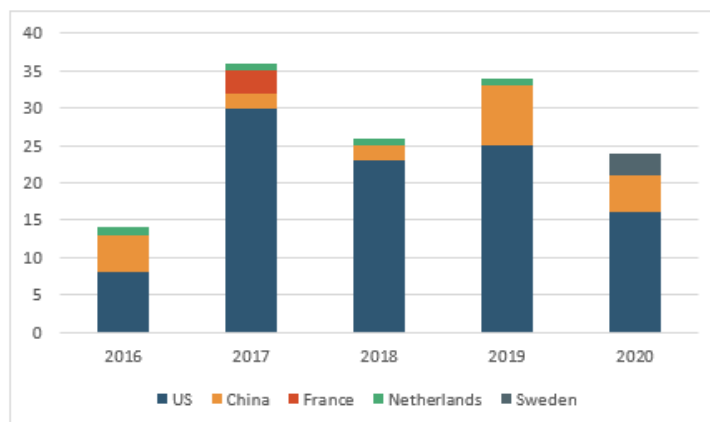
41. Issuances observed so far tend to show that:

- i. except for the Green Storm transactions, most of these securitisations are standalone transactions which also have their own ESG narratives and ESG structure;
- ii. while green RMBS is the most common asset class in sustainable securitisation, the market is expanding into all securitisation segments;
- iii. the focus is shifting from environmental objectives to social objectives, which are becoming increasingly important, especially in the post Covid-19 economic environment;
- iv. most sustainable securitisations have combined both sustainable collateral and sustainable use of the proceeds; and
- v. sustainability-linked bonds are still a novelty in the banking sector and only one has been issued in a sustainability-linked securitisation format.

b. Comparison with the US and Chinese green securitisation market and framework

42. In comparison with the US and Chinese green securitisation markets, the EU green securitisation market appears very small (Figure 4).

Figure 4: Development of global green ABS by number of green ABS



Source: Climate Bonds Initiative

43. At the end of Q1 2021, the cumulative issuance volume of US green securitisations stood at USD 115.5 bn (against less than EUR 10 bn in the EU), originating from 25 issuers. As a whole, the US green securitisation market constitutes around 1% of the total US securitisation market, but its share of total US green bond issuance is substantial (around 50% in Q1 2021 against around 1% in the EU)¹⁸. This reflects the fact that the overall US securitisation market is more active than the EU securitisation market, but it is also due to the role of agency MBS in the green bonds market, mainly issued by Fannie Mae, which accounts for 39% of all green bond issuance in the US. Other than agency MBS, the US green securitisation market includes a variety of collateral types, with auto ABS, solar ABS and PACE ABS being the most popular¹⁹.
44. China's green securitisation market has also seen an exponential increase. The first Chinese green ABSs were issued in 2016. As at the end of 2020, there had been 85 ABS deals totalling RMB 115 bn. The proportion of green ABS increased from 1.7% of total green bond issuance in 2016 to 11% in 2020. Allocations have covered a variety of climate themes such as renewable energy, low-carbon buildings, water management and low-carbon transport. The types of security have also become more diversified and include revenues from wind turbines and other renewable energy equipment leasing, green commercial building mortgage receivables and account/billing receivables.
45. China's maturing green economy and green finance policies have increased the potential for green securitisation. In fact, green ABS has already been mentioned by several policy

¹⁸ Source : CBI, North American State of the Market 2020 ([link](#)) and Q2 2021 ESG finance Report (AFME) [link](#)

¹⁹ SolarCity is the largest installer of residential solar panels in the US. Its ABS issues are backed by cash flows from solar assets backed by receivables from power-purchase agreements for the electricity generated by a bundle of residential rooftop PV installations of tens of thousands of their customers. Another example is Renovate America, which is a financing provider of the California-based Property Assessed Clean Energy (PACE) and has issued labelled green ABS as securitisation of PACE loans. The proceeds of these green ABS will be used to refinance home improvement projects such as renewable energy, energy efficiency and water improvement projects through the Home Energy Renovation Opportunity (HERO) programme.

initiatives²⁰, and while there is no framework or regulatory guidance provided in the EU for green securitisation, in China clarifications were provided on the definition, eligibility criteria, verification and disclosure requirements for green ABS. In particular, in China an ABS can be defined as ‘green’ if:

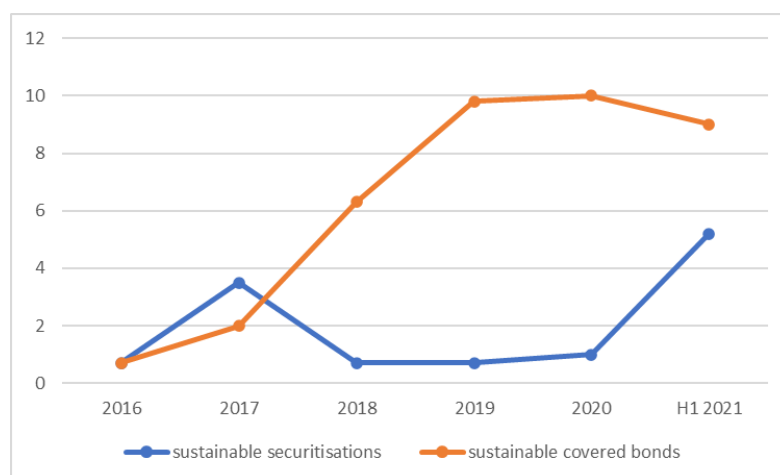
- i. the cash flows come from green assets (70% of all underlying assets), or
- ii. the proceeds are explicitly allocated to green projects (70% of the total funding raised), or
- iii. the original asset owner’s main business activity is green (> 50% of total revenue derived from green business, or > 30% of total revenue and profits derived from green business and this share is higher than any other business lines of the asset owner).

46. In the US, although to the EBA’s knowledge there is no regulatory framework or guidance for green securitisation, Fannie Mae and Freddie Mac have developed their own green issuance programmes, which serve as a basis for their issuance of green securitisations and which in a way set a market standard for US green securitisation transactions.

c. Comparison with the EU sustainable covered bonds market

47. The EU sustainable securitisation market is also far less developed than the EU sustainable covered bond market, with new supply of sustainable covered bonds having gained momentum since 2019. In 2021, EUR 9 bn of sustainable covered bonds was issued from January to June (Figure 5). Sustainable covered bonds now account for nearly 20% of total covered bond issuance in the EU.

Figure 5. Issuance of sustainable covered bonds versus issuance of sustainable securitisations (EUR bn)



Source: EBA, ECBC Fact Book 2021

²⁰ Source: CBI, China green securitisation report: State of the market ([link](#))

48. Covered bonds were among the first asset classes to embrace the ESG bond market as mortgage loans financing energy-efficient buildings are very well suited to providing collateral. The covered bond market welcomed the first sustainable covered bond in 2014, followed by an inaugural green euro benchmark covered bond in 2015. Furthermore, the first social covered bond was also issued in 2015. The market in sustainable covered bonds has continued to expand ever since, with the total amount outstanding around EUR 39 bn at the end of June 2021. Green covered bonds make up the majority of outstanding sustainable covered bonds, with a 71% share of total sustainable covered bonds outstanding at the end of June 2021. Social covered bonds had a share of 25% and sustainability covered bonds²¹ 4%²².

2.2.2 Impediments to the development of the EU sustainable securitisation market

49. As highlighted in the previous section, the EU sustainable securitisation market is still in an early phase of development compared with peer sustainable finance markets. According to the EBA market survey on sustainable securitisation (see paragraph 26), the main challenges affecting the development of the EU sustainable securitisation market are caused by the lack of available sustainable assets, the absence of a definition, standards and data, and the limited attractiveness of securitisation products in general. Conversely, uncertainty regarding the risk profile of sustainable securitisation does not seem to raise major market concerns (Table 4).

Table 4 : Challenges affecting the development of sustainable securitisation

	Score*
Lack of available sustainable collateral to securitise	4.4
Lack of commonly agreed definition for sustainable securitisation	3.9
Lack of data and/or insufficient transparency to identify sustainable assets/projects and to assess the sustainability-related impact	3.7
Lack of clarity regarding the application of the EU sustainable finance regulations in the EU securitisation framework	3.2
Limited attractiveness of securitisation products in general	3.1
Uncertainty about the risk/return profile of sustainable securitisation	1.4
Perceived weaker risk/return profile of sustainable securitisation	1.2

*Score from 0 (i.e. 'not relevant') to 5 (i.e. 'extremely relevant')

Source: EBA market survey on sustainable securitisation

²¹ i.e. comprising a mix of green and social housing

²² ECBS Fact Book 2021 ([link](#))

a. Insufficient volume of sustainable assets

50. Like other types of asset-backed securities, the development of the EU sustainable securitisation market is being constrained by the lack of sustainable assets to collateralise and originate. Entities willing to originate sustainable securitisation are facing difficulties in defining and identifying sustainable assets within their balance sheet due to the lack of a common definition and indicators to assess the ESG performance of the assets. Internal reporting and data management systems are also not yet fully adequate to track sustainable assets. In addition, while the available amount of sustainable assets has been increasing recently, originators of securitisation transactions need to hold a sufficient minimum amount of sustainable assets to be able to generate a sustainable securitisation.

51. In this regard, the EU Taxonomy Regulation and the SFDR clarify the definition and identification of sustainable assets, but the stock of eligible collateral will also be largely dependent on the definition provided of environmentally and socially sustainable activities:

- Under the EU taxonomy, for example, mortgage loans are considered green if the underlying property has an energy performance certificate (EPC) class 'A' or ranks in the top 15% of the most energy-efficient properties. However, according to several market analyses, the share of buildings with an EPCs is relatively low across Europe. In addition, the A' ratings are limited, meaning that in most countries the green building stock will be constrained to 15% of the stock.
- For auto ABS, electric vehicles are automatically green under the taxonomy, while plug-in hybrids can be eligible in a transitional period until the end of 2025. The stock of electric vehicles and plug-ins is currently very small. According to some market research, they represent only 1.2% of the EU passenger car stock²³. Hence, despite what is expected to be fast growth, a fully green auto ABS is likely to take quite some time to materialise.

52. As a whole, EU taxonomy-compliant assets represent a very small proportion of banking assets. Based on EBA estimates, the average green asset ratio²⁴ of EU credit institutions currently stands at 7.9%²⁵. Applying the EBA green asset ratio to the EU securitisation annual issuance volumes (in FY 2020, EUR 194.7 bn of securitised products were issued in Europe) would lead to a maximum annual EU taxonomy-aligned green pool of EUR 15.6 bn.

²³Green securitisation, Part II: collateral concerns (Rabobank 2021) ([link](#))

²⁴ By the end of 2022, European banks will be required to disclose what proportion of the assets in their banking book is aligned with the EU taxonomy. This green asset ratio will provide investors and regulators with a single metric to determine how green a bank's balance sheet is and will replace the ad hoc disclosure that many financial institutions are presently using to disclose their green finance credentials.

²⁵ The EBA issued a report in May 2021 estimating an average green asset ratio in a sample of 29 credit institutions from ten Member States aligned with the EU taxonomy ([link](#)).

b. Lack of standards and definition

53. At present, there is no commonly agreed definition, nor a sufficient amount of data on sustainable securitisation: i) to foster transparency and comparability in the market, ii) to reduce the asymmetry of information between market participants, or iii) to mitigate reputational risk for the securitisation parties in case the transaction does not meet the ESG requirements.

54. So far, the debate has been mainly focusing on whether a securitisation that does not have sustainable collateral but includes a sustainable use of proceeds could be considered a sustainable securitisation. Furthermore, the ‘exclusion’ of securitisation from the SFDR framework also raises several issues, including how the ‘principal adverse impact’ assessment should be carried out for securitisation (see chapter 6).

55. As a result, the lack of a clearly accepted ESG definition and sustainability-related disclosures has created uncertainty in terms of which core requirements a securitisation should meet to be considered sustainable, hence making it difficult for issuers to create a marketable green securitisation product. This situation has also created scope for the development of a wide range of potential forms of sustainable securitisation with a risk of green or social washing. Therefore, to mitigate such a risk, investors have been building *ad hoc* frameworks to assess ESG factors across securitisation products to determine whether an ESG-labelled securitisation is genuine and suitable for them. These frameworks are, however, fragmented and not standardised.

56. Against this background, stakeholders share the view that regulatory guidance would be needed the most on the definition of sustainable securitisation and on the ESG eligibility criteria applicable to collateral and the use of proceeds (Table 5).

Table 5: In which area is regulatory guidance (/clarity) needed the most?

	Score*
Definition of sustainable securitisation	4.3
Eligibility criteria for sustainable collateral and sustainable use of proceeds in securitisation products, including the treatment of transitional assets	4.2
Sustainability-related disclosures and due diligence for securitisation products	3.3
Structural/contractual features to be included or avoided in sustainable securitisation	1.7

*Score from 0 (i.e. ‘not relevant’) to 5 (i.e. ‘extremely relevant’)
Source: EBA market survey on sustainable securitisation

c. Limited attractiveness of securitisation products in general

57. The growth of the sustainable securitisation market also depends on the state of the securitisation market in general. However:

- i. issuance in the EU securitisation market has been rather limited in recent years. In FY 2020, EUR 194.7 bn of securitised products were issued in Europe, a decrease of 11.9% from the EUR 220.9 bn issued in 2019. This is the lowest annual issuance since 2013²⁶;
- ii. the available green mortgages are more commonly used to issue green covered bonds (due to the current preference for the covered bond funding instrument in general) than to issue green RMBS; and
- iii. the investor base for securitisation products is rather restricted given the complexity of securitisation products and of the EU securitisation regulation. Therefore, sustainable securitisation has not yet attracted new investors beyond the usual pool of investors in securitisation (especially sophisticated institutional investors).

²⁶ Securitisation data report, Q42020 (AFME), ([link](#))

3. Application of the EU green bond standard (EU GBS) to securitisation

3.1 Purpose and content of the EU GBS

58. In July 2021, the EU Commission published a legislative proposal for a Regulation on green bonds (2021/0191 COD). The legislative proposal aims to create a voluntary, high-quality standard for green bonds ('EU GBS') with a common definition, disclosures and reporting framework to support the financing of green investments while addressing concerns around 'greenwashing'. Its main objectives are to improve the ability of investors to identify high-quality green bonds and to facilitate their issuance by specifying the eligibility conditions to obtain an EU green bond label, thus reducing potential reputational risks for issuers.

59. To obtain the EU green bond label, a bond must:

- i. use 100% of its proceeds to finance EU taxonomy-compliant investments²⁷ by the time the bond matures,
- ii. comply with the EU GBS disclosures framework²⁸,
- iii. be checked by an external reviewer, which is registered with and supervised by the ESMA.

60. The EU GBS is essentially designed as a tool to finance the transition towards a greener economy. The focus of the standard is to ensure that the funds raised by the bond are exclusively allocated to finance economic activities that are either environmentally sustainable projects and thus aligned with Article 3 of the EU Taxonomy (Regulation (EU) 2020/852)²⁹, or that contribute to the transformation of activities to become environmentally sustainable. The standard follows a 'pure' use of proceeds approach (i.e. to meet the EU GBS, a bond must use 100% of its proceeds to finance EU taxonomy-aligned investments even if the issuing company is not green as a whole or the bond is not secured by green assets).

²⁷ In the form of fixed assets, capital expenditures, operating expenditures, and financial assets as per Art. 4 of 2021/0191 COD

²⁸ Including the publications of i) the EuGB factsheet together with a pre-issuance review of the factsheet by an external reviewer, ii) an allocation report every year until full allocation of the proceeds, iii) a post-issuance review by an external reviewer of the first allocation report following full allocation of the proceeds, and iv) an impact report after the full allocation of the proceeds at least once during the lifetime of the bond.

²⁹ For the purposes of this Regulation (EU 2020/852), the following shall be environmental objectives: (a) climate change mitigation; (b) climate change adaptation; (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems.

3.2 Scope of the EU GBS

61. The EU Commission legislative proposal intends to establish a common framework that would be applicable to all types of bond instruments irrespective of the structure of the bond and the nature of the issuers, provided that the bond is a debt or an equity financing instrument. The application of the EU GBS to all types of bonds will ensure a level playing field across all types of funding instruments.
62. Following the Commission's legislative proposal, only true sale securitisation would be within the scope of the EU GBS. As specified in section 5 of the explanatory memorandum of the proposal, the securitisation bond would have to be a security issued by a special purpose vehicle (SPV) to be eligible for an EuGB label. The lack of bond issued under synthetic securitisations that do not foresee the issuance of credit linked notes *de facto* excludes these synthetic securitisations from eligibility for an EuGB label. Similarly, credit linked notes issued under a synthetic securitisation are also deemed to be outside the scope of the proposed EU GBS as they are primarily credit protection instruments, though they are issued by a special purpose vehicle.
63. While the EU Commission legislative proposal suggests making true sale securitisation eligible under the EU GBS, it also makes a reference to the EBA report on sustainable securitisation by mentioning that the present report may suggest differing in scope and other respects from the securitisation securities qualifying as EuGBs³⁰. Therefore, the EBA report explores the extent to which the EU GBS framework proposed by the Commission would be adequate to capture the specificities of green securitisations and whether amendments to the EU GBS would be needed.

3.3 Issues in the application of the EU GBS to securitisation

64. The EU Commission legislative proposal on the EU GBS suggests applying the EU GBS requirements at the issuer level, which in the context of true sale securitisation is a 'securitisation special purpose entity' (SSPE)³¹:
- i. The application of the use of proceeds requirements at the issuer/SSPE level would effectively result in the application of a collateral-based approach, where the securitisation bond seeking an EuGB label would have to be backed by an underlying portfolio made up of 100% EU taxonomy-aligned assets, and the originator would not

³⁰ Footnote 11 of the Commission's legislative proposal for an EU GBS specifies that 'In this context, it may be noted that Regulation (EU) 2021/557 of the European Parliament and of the Council of 31 March 2021 amending Regulation (EU) 2017/2402 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation to help the recovery from the COVID-19 crisis requires the Commission to report on the creation of a specific sustainable securitisation framework, based on a report from the European Banking Authority, in close cooperation with the European Securities and Markets Authority and the European Insurance and Occupational Pension Authority by 1 November 2021. The present proposal does not prejudge this report. A specific sustainable securitisation framework, if desirable, could differ in scope and other respects from the securitisation securities qualifying as EuGBs'.

³¹ As defined in Article 2 (2) of the SECR, SSPE means a corporation, trust or other entity, other than an originator or sponsor, established for the purpose of carrying out one or more securitisations, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the SSPE from those of the originator.

be required to use the proceeds of the bond to generate new green assets. This is because, by its nature, each traditional securitisation includes a pool of ring-fenced assets and the proceeds of the transactions are assumed to be used to (re)finance the purchase of the underlying pool of assets by the SSPE. While the suggested collateral-based approach is reflective of the non-dual recourse nature of securitisation bonds, under which investors are directly and exclusively exposed to the performance of the underlying securitised assets, the application of the use of proceeds requirements at the SSPE level raises several concerns because:

- it would not prevent the originator from using the proceeds of an 'EU Green Bond Compliant Securitisation' to finance non-green assets;
 - it would be inconsistent with the general intention of the EU GBS, which is to finance the generation of new green assets to support the transition towards a greener economy, irrespective of the existing available stock of green assets;
 - it would create a different treatment of green securitisations compared with other types of green asset-backed securities that do not use SPV structures and hence are not required to be backed by a pool of green assets. Indeed, in the case of securitisation, if the use of proceeds requirements apply at the SSPE level, the proceeds of the bond could only be used to (re)finance the existing underlying pool of assets due to the remote nature of the SSPE. In the case of other asset-backed securities that are not issued by an SPV, since the issuer of the green bond and the originator of the green assets are the same entity, the issuing entity could use the proceeds of the bond to generate new green assets and not to (re)finance the underlying collateral bought by an SPV.
- ii. The application of the EU GBS disclosure requirements at the issuer/SPV level would also raise practical issues because the issuer/SSPE would need to effectively rely on the data provided by the originator and/or the sponsor to meet its disclosure requirements. SSPEs are indeed *ad hoc* structures, which serve as mere intermediaries between the originator and the investor. As such, SSPEs do not have direct control over the overall data of the securitisation transaction including, for example, information on the nature and characteristics of the underlying exposures and on the ultimate use of the proceeds made by the originator. Due to this limitation, it must be noted that all transparency requirements applicable to EU securitisation transactions are jointly applicable to the originator, the sponsor and the SSPE in accordance with Article 7 of the SECR.
- iii. Furthermore, the application of the EU GBS requirements at the issuer level when the issuer is an SPV, including an SSPE, would not ensure that administrative sanctions and other administrative measures (including material pecuniary sanctions) in accordance with Article 41 of the proposed EuGB Regulation can be imposed in a consistent and efficient manner given the limited legal and economic substance of SSPEs, which is limited to the securitised pool of exposures and the equity base of the vehicle itself, which is typically very small.

65. As a result, adjustments to the EU GBS would be needed to ensure that the EU GBS requirements could be adequately applied to securitisation bonds. These adjustments would also be relevant to all types of bonds, including certain covered bonds, in respect of which an SPV acts as the issuer of the bonds.

Box 1: broader EU GBS considerations

In line with the mandate provided to the EBA for this report, the present section focuses on subject matters associated with the application of the EU GBS in the context of securitisation. Broader issues associated with the EU GBS that would be relevant to all EuGBs and not only to EuGB securitisation are therefore deemed outside the scope of this report. These issues include, for example:

- i. *Difficulty of monitoring the green use of proceeds in the event that the issuer (/ originator) is not the original lender of the green assets.* The proposed EU GBS does not require the issuer of the EU GBS to directly finance green assets. As specified in Article 4 of the legislative proposal, the proceeds of the EuGB could be used, for example, to invest in a green financial claim such as another debt or equity instrument or to buy a portfolio of green assets from another institution. This provision would make it more complex for investors to assess and monitor how the proceeds of the EuGB will be ultimately used as it adds additional parties to the EuGB transactions for which the green credentials would also have to be met and monitored.
- ii. *Risk of investors being exposed to non-green assets in the event of the EuGB issuer's insolvency.* The EU GBS will introduce tougher reporting and verification requirements for the allocation of the bond proceeds. However, i) 'brown' companies would be able to issue an EuGB even if only a very small fraction of their balance sheet is green and ii) an EuGB could be backed by non-green collateral. As a result, in the event of the EuGB issuer's insolvency, investors could be exposed to non-green financial claims.
- iii. *Risk of inflating the number of green bonds relative to the number of newly originated green assets.* Art. 4(3) of the proposed EU GBS Regulation creates the possibility to refinance an existing European green bond by issuing a new EuGB, which could be inconsistent with the general objective of the GBS that all proceeds from an EuGB issuance are used for generating new green assets and that all such investments occur within 5 years (or, exceptionally, within 10 years).

3.4 Adjustments to the EU GBS

3.4.1 Applying the use of proceeds requirements at the originator level

66. In the view of the EBA, the EU GBS should be adjusted to ensure that the use of proceeds requirements apply at the originator level and not at the SSPE level. Shifting the use of proceeds requirements from the SSPE to the originator would result in allowing a securitisation that is not backed by a portfolio of green assets to meet the EU GBS and would ensure that the originator commits to use all the proceeds of the 'EU green bond-compliant securitisation' to finance green assets as per the EU taxonomy definition.
67. Applying the use of proceeds requirements at the originator level, instead of at the SSPE level (as envisaged in the proposed EU GBS Regulation) may, however, not appear to be an obvious path for a securitisation bond due to the non-dual recourse asset-backed nature of securitisation, which does not give investors any exposures on the overall balance sheet of the originator and hence no direct link with the ultimate use of proceeds made by the originator. It is, however, a pragmatic approach due to:
- i. *the scarcity of available green assets to securitise*: as mentioned in section 2.2.2, the EU taxonomy-compliant assets currently represent a very small proportion of banking assets, and other factors such as the lack of data to identify green assets and the competition for green assets from other asset-backed securities reduce the available amount of green collateral that could be used in securitisation. Therefore, a green bond label limited to securitisation with green collateral only would significantly limit the potential for 'green bond-compliant securitisation'. Instead, a green use of proceeds securitisation could offer an alternative with the potential to generate new green assets, which can later be used to collateralise new green deals once the EU economy has further transitioned;
 - ii. *the need to ensure consistency in the application of the EU GBS to all types of green bonds*: there are merits in the application of a collateral-based approach in the event that such an approach were applied to all types of EU green bond asset-backed securities; but if only applied to securitisation, these merits are outweighed by the shortcoming that green securitisations would not be treated in a way consistent with other types of asset-backed bonds to which the use of proceeds approach of the EU GBS is applied. Applying the EU GBS requirements in a consistent way across all bonds would ensure that all compliant-EuGB instruments are readable and comparable, and therefore accessible to different types of investors willing to increase their green exposures. It would also allow EU securitisation to play a role in the financing of the transition towards a greener EU economy.
68. Furthermore, the application of the use of proceeds requirements at the originator level is not expected to raise specific legal concerns. In practice, the transaction documentation of a securitisation bond seeking an EuGB label would have to include a provision i) stating that the originator of the securitisation transaction commits to use monies equivalent to the amount of

the proceeds from the issuance of the EuGB to finance green assets and ii) clarifying the consequences for the transaction if the use of proceeds requirements are not met by the originator. In this regard, it must be noted that it is common practice for securitisation transaction documentation to include requirements that apply at the originator level such as, for example, provisions on credit-granting criteria applicable by the originator to the underlying securitised assets.

69. Nevertheless, since there might be more than one originator in a transaction (as, for example, in an ABCP securitisation), it needs to be clarified which originator(s) should assume the role of the issuer when applying the GBS requirements. In this regard, one possibility could be to align the EU GBS framework with the risk retention requirements applicable in the context of multiple originators, under which the requirements could either be fulfilled by each originator on a *pro rata* basis with reference to the securitised exposures, or in full by a single originator or original lender³².

3.4.2 Disclosing the environmental performance of the underlying assets

70. Following the shift of the use of proceeds requirements from the SSPE to the originator, additional EU GBS disclosure requirements would be necessary to ensure that investors are also made aware of the green characteristics of the underlying portfolio and to limit the risk of 'adverse green selection of assets':

- i. By shifting the use of proceeds requirements as proposed in section 3.4.1, securitisation bonds would not have to be backed by green assets to be eligible for an EuGB label and assets, 'which are significantly environmentally harmful'³³ would be allowed as collateral in an EuGB securitisation. Therefore, disclosures of the environmental performance of the assets backing an EuGB might be needed by investors to perform their ESG due diligence assessment and to ensure that, beyond the EuGB label, the bond ultimately also meets their own internal ESG policies and targets.
- ii. Additional EuGB disclosures would be also needed to ensure that i) originators are not incentivised to invest in new assets, 'which are significantly environmentally harmful' with a view to securitising them through an EuGB, and to benefit from a positive pricing differential, and ii) to limit the risk of adverse green selection of assets whereby the originator sells off its legacy 'brown' collateral to securitisation investors and keeps the 'high-quality green' collateral on its balance sheet. Therefore, data should be made available for investors to compare the green credentials of the underlying portfolio of an EuGB with the green credentials of the originator's overall balance sheet.

³² Article 5 EBA draft RTS on risk retention ([link](#))

³³ At present, there is no definition of activities 'which are significantly environmental harmful'; however, the European Commission has mandated the EU Platform on sustainable finance with a possible extension to the Taxonomy to include 'activities significantly harmful to environmental sustainability and activities with no significant impact on environmental sustainability'. ([link](#))

Recommendation 1: application of the EU GBS to securitisation

Considering the assessment of the application of the EU GBS to securitisation, the EBA is of the view that:

- a) Securitisation should remain eligible under the EU GBS and the access of securitisation to the EuGB label should be consistent with that of other types of asset-backed securities.
- b) To ensure consistency and efficiency in the application of the EU GBS to securitisation, adjustments should be made to the EU GBS so that the EU GBS requirements (including the use of proceeds as well as the disclosures and sanctions) apply at the originator level and not at the SSPE level. These amendments are necessary to ensure that the EU GBS requirements can be imposed on entities with broader economic substance and would ensure consistency with the general intention of the EU GBS. Therefore, these amendments would be relevant to all types of bonds issued through an SPV and not to securitisation only.
- c) Applying the use of proceeds requirements at the originator level, instead of at the SSPE level (as envisaged in the Commission's proposed EU GBS Regulation), may not, however, appear to be an obvious path for securitisation given its non-dual asset-backed nature and because it would allow EuGB securitisation to be backed by non-green assets. It is, however, considered to be the most efficient and pragmatic approach during the transition phase. Indeed, the EBA sees the proposed adjustments as an intermediate step to allow the sustainable securitisation market to develop. However, in the medium term EuGB securitisation structures should increasingly also rely on underlying green assets as more green assets become available in the economy.
- d) Following the shift of the use of proceeds requirements from the SSPE to the originator, additional EU GBS disclosures requirements would be necessary to ensure that investors are made aware of the green characteristics of the underlying portfolio and to limit the risk of 'adverse green selection of assets'. In this regard, it is proposed that the green asset ratio (GAR) and the banking book taxonomy-alignment ratio³⁴ (if and when applicable) of the originators and of the securitised exposures are both disclosed in the EuGB factsheet. For non-bank financial institutions, which are not within the remit of the GAR, similar KPIs should be used. These additional EU GBS disclosures would be relevant to all EuGB asset-backed securities and not to securitisation only.
- e) In the case of EU GBS securitisation, it is also deemed relevant that the reporting of the EuGB disclosure framework is adjusted in a manner that is compatible with Article 7 of the SECR. This would ensure that investors' access to all securitisation specific information and it would prevent that the EU GBS and the securitisation disclosure requirements are fragmented between different sources. The responsibility of supervising the EU GBS regulation should however be kept separated from the supervision of SECR, as already envisaged under the EU GBS proposal.

³⁴ As specified in the EBA implementing technical standards (ITS) on Pillar-3 disclosures on environmental, social and governance (ESG) risks in accordance with Art. 434a of the Capital Requirements Regulation (CRR) ([link](#))

4. Establishing a dedicated framework for green securitisation

4.1 Relevance of a specific framework for green securitisation

4.1.1 True-sale securitisation

71. Given that true sale securitisation will be eligible under the EU GBS (subject to some adjustments as mentioned in the previous section), it needs to be determined whether there is a need to go further and to additionally establish a specific green framework for securitisation, which could complement the 'adjusted EU GBS'.

72. The main motives for establishing a dedicated green framework for securitisation would be:

- i. *To offer an additional green label for institutions which are already transitioning, and hence can already include a significant share of green assets in the underlying portfolio of a securitisation transaction. An additional green label for securitisation would then help to signal to the market securitisation transactions with additional/complementary green credentials regarding the green use of proceeds. Indeed, while the use of proceeds approach prevailing in the EU GBS appears to be the most pragmatic approach given the current scarcity of available green assets to securitise and the need to ensure consistency in the application of the EU GBS framework, it nonetheless creates some challenges in the context of securitisation. The underlying assets are what mostly underpin the incentives for investors (both primary and secondary) to provide funding because the remuneration of the securitisation bond is primarily contingent on the performance of the underlying assets. In this regard, for some investors with stringent ESG mandates, having green assets in the underlying portfolio in addition to (or as a replacement for) the green use of proceeds would be a prerequisite for investing in a green securitisation transaction.*
- ii. *To further promote standardisation and consistency in the use of a 'green securitisation' designation. As highlighted in section 2.2.2b, the lack of a commonly accepted definition of 'green securitisation' has led to the development of a wide range of potential forms of green securitisation. It has also created uncertainty as to whether securitisation bonds marketed as green are genuinely green. While the EU GBS will provide a label for securitisation bonds which comply with the EU GBS requirements ('EuGB-compliant securitisation'), it will not introduce a definition of green securitisation *per se* and it will not prevent non-compliant EuGB securitisation from being marketed as 'green securitisation'. A dedicated framework for green securitisation would then clarify the definition and eligibility criteria for a securitisation to be labelled as a 'green securitisation'. Such a framework would be a way to address transparency concerns*

raised by some investors. It would also support standardisation and further reduce 'greenwashing' risks in the EU green securitisation market.

73. However, there are several arguments that warrant caution in establishing a dedicated framework for green securitisation at this juncture:

- i. *The EU green securitisation market is still at a very early stage of development.* Establishing a dedicated framework might be untimely given that little experience has been gained so far on the application of ESG factors in the context of securitisation. Building a regulatory market standard without a clear market consensus is not without risks, as it may not be fully suited to the demands of investors and issuers.
- ii. *There are insufficient green assets to securitise and support the development of a green framework based on a collateral-based approach.* Such a dedicated framework may, however, be pertinent once the EU economy has further transitioned and more green assets become available. Over time the use of proceeds approach may become less relevant.
- iii. *The EU GBS has not been adopted yet.* It could be beneficial to wait for the implementation of the EU GBS to ensure consistency and complementarity between the EU GBS and a potential green securitisation framework. In addition, creating a parallel green label for securitisation while the EU GBS is yet to be introduced and adopted by the EU securitisation market might create confusion about the green credentials of each label (i.e. may result in questions as to which of the labels is the greenest).
- iv. *No green parallel framework is currently considered for other asset-backed securities, including green covered bonds.* Therefore, a dedicated framework for securitisation might create a risk of inconsistency with (or precedents for) the future sustainability approach applicable to other asset-backed securities, including green covered bonds. A holistic view on the green framework for all asset-backed securities must be gained before establishing a specific framework for green securitisation only.

4.1.2 Synthetic securitisation

74. Synthetic securitisation may contribute to a more sustainable economy by enabling credit institutions to overcome capital constraints to generate new sustainable investments. Synthetic transactions that aim to promote an inclusive and sustainable economy have traditionally been supported by public entities and investors such as the European Investment Fund, but in recent years several innovative EU green synthetic deals have been introduced to the market (Table 3), illustrating the growing interest in green synthetic securitisation from a wider range of investors.

75. While sustainability is being introduced into synthetic securitisations, no market standard has been established for green synthetic securitisations yet. Moreover, synthetic securitisations are not within the scope of the EU GBS Regulation because they are not financing instruments, but instead credit protection tools (see paragraph 62).

76. However, establishing a framework for green synthetic securitisation appears complicated because:

- i. *The synthetic securitisation market is mostly private and of a bespoke nature.* Institutional investors with long-term horizons often require tailored conditions to invest in synthetic securitisation. These investors would also likely require their own ESG criteria to be reflected in the transaction before entering into a green synthetic deal.
- ii. *Measuring and monitoring the redeployment of capital to green assets is difficult.* In a green use of proceeds synthetic securitisation, the amount of assets generated by the transaction would be dependent on the credit risk associated with the green assets. As a result, to ensure proper monitoring of the green use of proceeds in the context of synthetic securitisation, the exact capital charges of the newly generated green assets would need to be known and disclosed. Furthermore, the prudential implications of green synthetic securitisation are uncertain at present due to the lack of evidence/data on the credit risk performance of green assets.
- iii. *No green framework is currently envisaged for other types of credit protection instruments.* Like true sale green securitisation (see paragraph 73iv), before establishing a specific framework a holistic view would need to be gained on the need and the design of a framework for green credit protection instruments, including credit derivatives and financial guarantees.

Recommendation 2: relevance of a dedicated framework for green securitisation

Considering the assessment of the relevance of a dedicated framework for green securitisation, the EBA is of the view that:

- a) *Regarding true-sale securitisation*, it would be too early to establish a dedicated framework in addition to the EU GBS at this stage. Since the EU GBS is to be established as the EU high-quality standard for the issuance of green bonds, including securitisation bonds, and assuming that the specificities of securitisations would be considered under the GBS by switching the obligations to the originator, an additional label does not appear necessary at this juncture. In addition, in the present context, where the priority is mainly on the financing of new green assets rather than on the (re)financing of existing green assets, a parallel framework based (fully or partially) on a collateral-based approach would not appear consistent with this objective. However, a dedicated framework may be pertinent once the EU economy has further transitioned, more green assets are available and the use of proceeds approach prevailing in the EU GBS becomes less relevant. Therefore, a re-evaluation of a dedicated framework for green true-sale securitisations would have to be performed at a later stage. Such re-evaluation should be based on a previous holistic assessment of the suitability of separate green frameworks for other relevant forms of asset-backed securities.
- b) *Regarding synthetic securitisation*, it would also appear premature to establish a dedicated framework. Further assessment would be required to determine whether and how the specificities of synthetic securitisation should be reflected in a green framework, especially given that no green standard has been considered yet for any other forms of credit protection instruments. The EBA is mandated to monitor the development of the EU green synthetic securitisation market and, if appropriate, further investigate the relevance and the potential content of a framework for green synthetic securitisation.

4.2 Design considerations for a green securitisation framework

77. Although it is not proposed to establish a dedicated framework for green securitisation (see Recommendation 2), this report explores the potential approaches and design considerations which may be considered in establishing a dedicated framework for green securitisation.

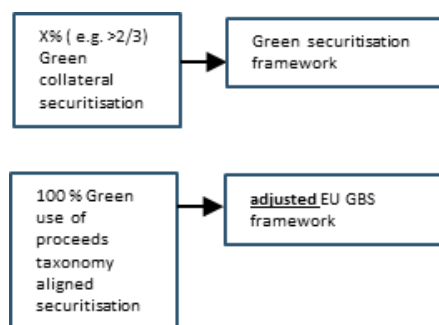
4.2.1 Approaches to establishing a dedicated framework

78. Three alternative approaches may be followed to establish a dedicated green framework to complement the EU GBS for securitisation: a green collateral approach (light green), a parallel combined approach (medium green) and an integrated combined approach (dark green).

a. Green collateral approach [light green]:

79. Under this approach, a transaction could be labelled a ‘green securitisation’ if the collateral backing the transaction predominantly comprises green assets, even if the proceeds are not used to finance green assets. A dedicated framework would then apply to green collateral securitisation, whereas securitisation transactions that do not have sufficient green assets to securitise, but instead meet the ‘adjusted EU GBS’ framework, would still be eligible for the EU GBS (see Figure 6) **Error! Reference source not found.**)

Figure 6 : Green collateral approach



80. This approach would establish a simplified green framework (/label) for securitisation transactions that already comprise sufficient green collateral to originate a green securitisation. The main rationale behind this approach would be that it reduces risk of greenwashing since a minimum level of underlying assets have to be taxonomy-compliant, which is not the case with the use of proceeds approach. A collateral approach would also be well-suited to securitisation given its non-dual recourse asset-backed nature. In contrast to the following combined approaches, in this approach the green securitisation label does not impose a ‘use of proceeds’ requirement. This makes it easy to comprehend for investors, as the green securitisation label is solely based on ‘use of collateral’ and thus serves as an alternative to the EU GBS. Furthermore, this approach provides a lot of information to investors, since it can independently signal both the use of green collateral and the use of green proceeds by means of the EU GBS.

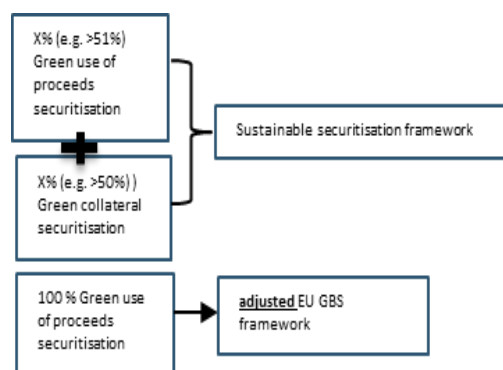
81. However, there is currently a lack of green assets that could be securitised under a specific green collateral securitisation framework. It would also create a binary approach to green securitisation products (e.g. green collateral securitisation versus ‘green bond-compliant securitisation’ based on the use of proceeds) which is not reflective of current market practices, as a combined approach has been followed in most cases (see Table 3).

b. Combined approach: parallel framework to the EU GBS [medium green]

82. Under this approach, a transaction could be labelled a ‘green securitisation’ if it has a minimum share of green use of proceeds and a minimum share of green assets in the underlying portfolio. The green securitisation framework would specify the minimum required share of green use of proceeds and of green collateral (see Figure 7). In the transition phase, however, the share of green use of proceeds could be expected to be higher than the share of green collateral.

Conversely, once the economy has further transitioned and has reached a steady pace, the share of green collateral could be set at a higher level than the share of green use of proceeds.

Figure 7 : Combined approach – parallel framework

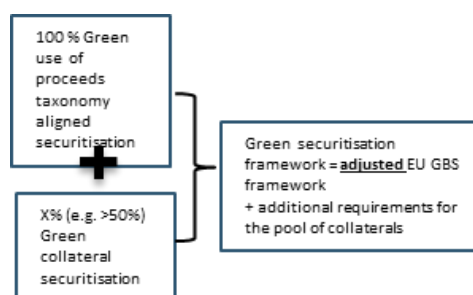


83. This approach would be pragmatic and reflective of current market practices, whereby both the green credentials of the collateral and the use of proceeds are considered to be core features to determine the extent to which a securitisation is green. It is, however, an approach that would be complex to implement as it would require the calibration of two thresholds, which is a difficult and arbitrary task and might not accommodate the various types of securitisations.

c. Combined approach – integrated framework to the EU GBS [dark green]

84. Under this approach, the green securitisation framework would comprise the adjusted EU GBS framework and additional requirements on the pool of underlying assets. A securitisation would be labelled a ‘green securitisation’ if 100% of proceeds are used to finance EU taxonomy-aligned assets and if it has a minimum share of green assets in the underlying portfolio (see Figure 8).

Figure 8 : Combined approach – integrated framework



85. While this option would create a high-quality standard and would ensure consistency with the EU GBS, it might not be used in practice given the lack of green assets to securitise unless a phase-in requirement (i.e. incremental increase of the minimum share of green assets) is applied.

4.2.2 Eligibility criteria in the pool of green assets and green use of proceeds

a. Alignment with the EU taxonomy

86. A dedicated framework would also have to specify how ‘green’ should be defined for securitisation. The EU taxonomy establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable. However, it is not directly applicable to securitisation investments. Pursuant to Articles 1.(2)(b) and 2(3) of the EU Taxonomy Regulation, securitisation products are not considered to be financial products within the meaning of Article 2 of the SFDR (Regulation (EU) 2019/2088)³⁵. However, the EU taxonomy constitutes a key benchmark and is the basis for the forthcoming EU GBS, which requires that the issuance proceeds are fully allocated towards EU taxonomy-aligned activities.

87. There are several challenges that will affect the application of the EU taxonomy to securitisation:

- i. The taxonomy is imprecise for some asset classes in ABS transactions such as consumer, corporate and SME loans, which have a broader scope in terms of the applicable green criteria. In addition, for CLO transactions for example, the market practice to date has been based on ESG negative selection criteria or ESG KPI-linked loans to exclude loans from certain types of business, rather than on the positive inclusion of sustainable corporate assets.
- ii. In line with the sustainability objectives, the taxonomy is restrictive on the definition of assets that could be considered green, which *de facto* reduces the available pool of green assets that can be securitised and financed (see paragraph 51).
- iii. It will be some time until credit institutions implement the EU taxonomy and can develop their lending book in line with it. In the meantime, some actors in the market are using their own sustainability criteria to develop green investments.

88. Nevertheless, these challenges are not specific to securitisation but are also relevant to other types of green products. As a result, and, as defined in Article 20 of the EU Taxonomy Regulation, the European Commission has established a Platform on Sustainable Finance to monitor how the market is implementing the EU taxonomy and to enable stakeholders to inform the European Commission about specific issues associated with the implementation of the EU taxonomy. Based on this monitoring, the EU Commission may consider adjusting the EU taxonomy criteria. In addition, in line with Action 2a) of the EU Commission’s renewed strategy on sustainable finance, the EBA will provide an opinion in 2022 on the definition and possible supporting tools for green retail loans and green mortgages.

³⁵In accordance with Art. 2 of the SFDR, ‘financial product’ means: (a) a portfolio managed in accordance with point (6) of this Article 2 of the SFDR; (b) an alternative investment fund (AIF); (c) an IBIP; (d) a pension product; (e) a pension scheme; (f) a UCITS; or (g) a PEPP

b. Eligibility of ‘transitional’ assets

89. Another issue relates to whether the pool of green assets and green use of proceeds in a green securitisation should be restricted to ‘pure green’ assets, or if ‘transitional assets’ could be eligible. The EU taxonomy recognises that although some activities are not yet very low carbon, they can be performed in a way that is consistent with a net-zero economy, and therefore may be considered taxonomy-aligned until further performance improvements are required. Such activities are defined as ‘transitional’ activities in Article 10(2) of the Taxonomy Regulation³⁶ and subject to review every three years.

90. Therefore, following the alignment of the EU GBS with the EU taxonomy, ‘transitional assets’ are also considered to be ‘green assets’ in the context of the EU GBS. Such a treatment of transitional assets would warrant a smooth transition towards a greener economy by ensuring that not only green assets, but also more generally assets that are environmentally compatible, could have access to a standardised and potentially cheaper source of funding.

c. Eligibility of assets, ‘which are significantly environmentally harmful’

91. In the proposed EU GBS regulation, there are no restrictions on the type of assets that could be used as collaterals for the EuGB; hence the underlying portfolio could comprise assets, ‘which are significantly environmentally harmful’³⁷. This is explained by the fact that the EU GBS is essentially designed as a tool to finance the transition towards a greener economy. Its primary objective is to generate new green assets irrespective of the green credentials of the issuers or of the EuGB collateral (see paragraph 60).

92. However, while the exclusion of these assets from EuGB collateral is not required in the EU GBS, their inclusion may be problematic in the context of green securitisation given the non-dual recourse asset-backed nature of securitisation. Furthermore, the inclusion of assets, ‘which are significantly environmentally harmful’ would become less appropriate as the EU economy further transitions towards a greener economy and as the focus shifts from the generation of green assets towards the (re)financing of existing green assets.

³⁶ In accordance with Article 10(2) of the Taxonomy Regulation, an ‘[...] economic activity for which there is no technologically and economically feasible low-carbon alternative shall qualify as contributing substantially to climate change mitigation where it supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels, including by phasing out greenhouse gas emissions, in particular emissions from solid fossil fuels, and where that activity: (a) has greenhouse gas emission levels that correspond to the best performance in the sector or industry; (b) does not hamper the development and deployment of low-carbon alternatives; and (c) does not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets’.

³⁷ The EU taxonomy identifies which activities are green, but not those that are at risk of causing significant harm to the environment. The EU Platform on Sustainable Finance has been working on a possible extension of the EU taxonomy to define ‘activities significantly harmful to environmental sustainability’, and on 9 December 2021 the Council approved a Delegated Regulation supplementing the EU Taxonomy Regulation.

4.3 Disclosures applicable to green securitisation

93. The implementation of sustainability-related disclosures will be essential to the good development of the EU green securitisation market, especially in the context of public transactions where the ultimate investors in asset-backed notes are unlikely to have a direct relationship with the originator and would need to be reassured about the green credentials of the securitisation products.

94. However, EU securitisation products already include a high level of disclosure, due diligence and reporting requirements. Furthermore, in recent years several ESG disclosure regulations, directly or indirectly affecting securitisation transactions (to the extent that the applicable regimes apply to relevant investors), have been developed:

- i. *Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation, 'SFDR')* introduces pre-contractual, periodic and website disclosures on financial market participants and financial products including information on how a product 'promotes environmental or social characteristics' (Art. 8 of the SFDR) or 'has a sustainable investment as its objective' (Art. 9 of the SFDR). The SFDR applies from 10 March 2021 and specifications in the 13 SFDR regulatory technical standards (RTS) are expected to apply from January 2023.
- ii. *Directive 2013/34/EU ('EU Non-Financial Reporting Directive')* imposes disclosures on how economic activities of large corporates (including banks) are linked to activities that qualify as environmentally sustainable. A *legislative proposal on Corporate Sustainability Reporting Directive ('CSRD')*³⁸ published in April 2021, would significantly amend and extend the existing reporting requirements by introducing audit requirements and more detailed reporting requirements in accordance with mandatory EU sustainability reporting standards.
- iii. *The Regulation on EU GBS* would require that all bonds labelled as 'European green bonds' comply with the EU GBS disclosure framework, including publications of i) the EuGB factsheet together with a pre-issuance review of the factsheet by an external reviewer, ii) an allocation report every year until full allocation of the proceeds, iii) a post-issuance review by an external reviewer of the first allocation report following full allocation of the proceeds, and iv) an impact report after the full allocation of the proceeds at least once during the lifetime of the bond.
- iv. *Article 449a of the CRR and the ITS on prudential disclosures on ESG risk* require listed banks to provide disclosures on quantitative and qualitative ESG risk, ESG policies, KPIs and a green capital allocation ratio (green asset ratio) to incentivise banks' investment decisions toward green assets.

³⁸ [Link](#)

4.4 Interaction with STS label

95. STS securitisations and green securitisations have different purposes. The STS label has been primarily designed to differentiate transparent and simple products from more opaque and complex securitisation products to make it easier for investors to understand and assess the risks of investing in a securitisation. Conversely, the primary objective of green securitisation is to generate funding to (re)finance green assets, and it is not different from any other type of securitisation in terms of its structure. As a result, being an STS securitisation does not need to be a pre-condition for a securitisation to be considered green, and *vice versa* as both labels could be achieved independently.

96. Nevertheless, some of the STS criteria might be relevant from an ESG perspective. For example, STS requirements regarding the governance of the structure, the origination process, the servicing process and the standardisation of the transaction documentation may also be pertinent to green securitisation. Therefore, while establishing a dedicated framework for green securitisation, i) synergies between the two frameworks could be identified and ii) it should be determined whether the process of obtaining an STS label and a potential green securitisation label could be streamlined for securitisations seeking both labels.

4.5 Financial stability considerations

97. The EU Securitisation Regulation has addressed many of the risks attached to securitisation, including prohibiting most types of re-securitisations, imposing strict risk retention requirements, improving transparency and risk management, enhancing underwriting policies and due diligence. It has also created a new specific framework for STS transactions by virtue of which a transaction can be labelled as STS and which gives investors assurances that it meets certain minimum quality criteria. As a result, the EU securitisation market has become a more reliable and safer environment than before to support the growth of securitisations, including green securitisation products.

98. In addition, it appears that:

- i. *the EU securitisation market as a whole is relatively small and declining at present* (in FY 2020, EUR 194.7 bn of securitised products were issued in Europe, a decrease of 11.9% from the EUR 220.9 bn issued in 2019, while in Q2 2021 EUR 36.4 bn of securitised products were issued, a decrease of 26.0% from Q2 2020³⁹) and the extent to which the green securitisation market would grow cannot be predicted.
- ii. *from a pure credit perspective, no risk differential has been evidenced yet between green assets and non-green financial assets*⁴⁰. Similarly, no differences have been observed in

³⁹ AFME Q4 2020 Securitisation data report ([link](#)) and AFME Q2 2021 Securitisation data report ([link](#))

⁴⁰ NGFS, A Status Report on Financial Institutions' Experiences from working with green, non-green and brown financial assets and a potential risk differential (May 2020) ([link](#))

the credit ratings of green securitisations compared to similar non-green securitisations as, for the time being, the green classification is not perceived as directly relevant to credit risk, all else being equal⁴¹. Furthermore, in the context of a green use of proceeds securitisation, all else being equal, no green risk differential would be expected to emerge because the use of proceeds of a bond is not a risk driver.

- iii. *the upcoming requirements for originators (especially banks) to consider ESG-related risks within their underwriting and risk policies will have a consequence for the risk profile of securitisation in two ways: i) internal rating models cover uncertainty and changes in the performance of assets and would reflect the ESG-related risk profile of individual assets (see paragraph 35iv), ii) tranching and credit enhancement in any securitisation would also reflect the ESG-related risk profile of the underlying pool of assets and of the securitisation positions.*

99. As a result, no adverse impact on financial stability of green securitisation could be foreseen at this stage. Specific risks such as reputational risk, green technology evolution and concentration risk in the collateralised pool due to a limited amount of green assets available may, however, trigger idiosyncratic shocks.

⁴¹Fitch Ratings, Social Green Bond Classifications Rating neutral in UK RMBS [link](#)

Recommendation 3: design considerations for a dedicated framework for green securitisation

Considering the assessment of the possible design of a dedicated framework for green securitisation, the EBA is of the view that:

- a) No recommendations could be made on the best approach to developing a dedicated framework because it is not considered appropriate to establish a specific framework for green securitisation at this juncture (see Recommendation 2).
- b) However, should a dedicated framework be established, it is deemed necessary that:
 - the ‘adjusted EU GBS’ remains applicable to securitisation and the green securitisation framework only serves as an alternative voluntary standard;
 - the definition of green assets and green use of proceeds is aligned with the EU taxonomy definition and that the implementation issues of the EU taxonomy are addressed in the broader context of the EU work on the implementation of the EU taxonomy and not for securitisation specifically;
 - in line with the EU Taxonomy Regulation, transitional assets are considered to be green in the context of a green securitisation framework during the transitional phase; however, assets ‘which significantly harm the environment’ should be excluded;
 - STS label and green securitisation labels are kept separate, but synergies between both frameworks should be ensured.
- c) With regard to disclosures applicable to green securitisation, additional proportionate disclosures may be effective to complement the overarching EU sustainable finance regulations. However, no additional mandatory disclosures could be established for green securitisation at this juncture i) given pending finalisation of the overall disclosure regulations for EU taxonomy-aligned products and ii) uncertainty over potential missing data points for securitisation once these regulations are implemented.

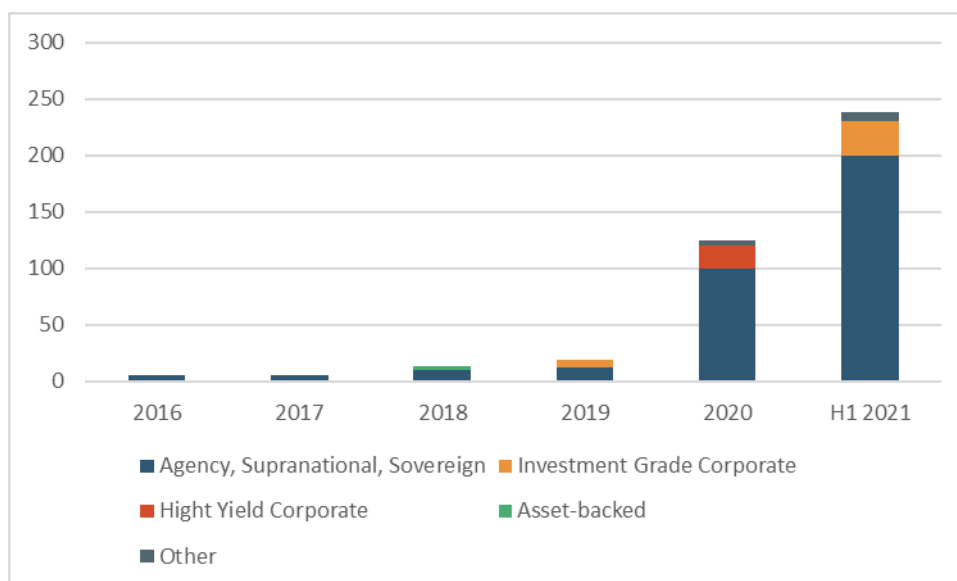
5. Establishing a dedicated framework for social securitisation

5.1 State of the market

100. Until recently, most sustainable bond issuances have been ‘green’ financings. However, the EU social bond market has been increasing significantly since 2020 following the Covid-19 pandemic crisis. In Q2 2021, social bond issuance in the EU increased by 74% to EUR 33.5 bn from EUR 19.2 bn in Q2 2020 and reached a total outstanding amount of c. EUR 225 bn⁴², mostly due to the implementation of the SURE programme by the Commission⁴³.

101. The market is mainly driven by the issuance of sovereign and corporate bonds, and securitisation currently plays a minor role (Figure 9).

Figure 9: Evolution of European bonds outstanding (EUR bn)



Source : Q2 2021 ESG Finance Report (AFME)

102. However, interest from market participants in social securitisation is rising:

- i. The European Investment Fund already provides guarantees to banks to facilitate the execution of securitisation transactions, focusing mainly on SME loans and microloans

⁴² AFME, Q2 2021 ESG Finance Report ([link](#))

⁴³ A EUR 100 bn instrument designed to protect employment and incomes affected by the COVID-19 pandemic

(including, more recently, new synthetic securitisation products to support EU SMEs affected by the Covid-19 pandemic).

- ii. Issuance of consumer social ABS recently took place, including transactions backed by various types of collateral (credit card receivables, mortgages and auto loans being the most commonly used), with the issuance proceeds earmarked for projects/assets with positive social benefits. For example:
 - In Gemgarto 2021-1, the seller achieved social objectives through financing owner-occupied mortgages to underserved borrowers with complex incomes, (self-employed, first-time buyers with a limited credit history, contractors, retired and/or younger borrowers).
 - In Brass No. 10, the proceeds will fund higher-rate savings products, as well as improving first-time buyers' access to competitively priced mortgages, and also that of underserved borrowers with complex incomes.

103. As in the case of green bonds, the lack of a clear definition of the essential characteristics of social objectives hinders the development of social bonds, including social securitisation. Indeed, in the absence of a 'social taxonomy' a wide range of items could be considered 'social', and measuring the social impact of a bond in real terms could be challenging.

5.2 Social bond standard and label

104. As mentioned in paragraph 33, no market standard has yet been developed for social securitisation. However, the International Capital Market Association (ICMA) has developed the Social Bond Principles (SBP) which have become the leading framework globally for the issuance of social bonds. The Social Bond Principles (SBP) set voluntary market standards for the issuance of social bonds, including a definition of the social use of proceeds and guidance on i) the process for social project evaluation and selection, ii) the management of the proceeds and iii) reporting. The social bond framework mirrors the Green Bond Principles, which were also developed by the ICMA. Under the ICMA Social Bond Principles, social bonds entail 'use of proceeds' bonds that raise funds for new and existing projects with positive social outcomes.

105. In most social securitisations seen in the EU market, alignment with the ICMA's principles was assessed. However, this framework does not provide a definition, nor criteria, for social securitisation specifically, and alignment with the ICMA's principles does not actually require social collateral if the proceeds are allocated towards social projects.

106. Against this background, a regulatory framework for social bonds is now being considered at the EU level:

- i. A draft report on an EU social taxonomy was published in July 2021, which suggests introducing a vertical and a horizontal social dimension, with the vertical dimension focusing on promoting adequate living standards (including improving the accessibility of products and services for basic human needs) and the horizontal dimension

considering the impact on different groups of stakeholders, including ensuring decent work and promoting consumer interests⁴⁴.

- ii. Following the adoption of the European Commission's renewed strategy on sustainable finance, the ESAs may be mandated to develop a standard for social loans and bonds⁴⁵.

Recommendation 4: relevance of a dedicated framework for social securitisation

Considering the assessment of the state of the EU social securitisation market and considering ongoing EU regulatory developments in the area of social bonds, the EBA is of the view that:

- a) it would be premature to establish a dedicated framework for social securitisation given that an EU framework for social bonds is yet to be designed and implemented, and the EU social securitisation market is at a very early stage of development;
- b) once an EU social bond framework has been developed, the EBA will be mandated to assess the extent to which the EU social bond framework should be applicable to securitisation and evaluate the relevance and possible design of a dedicated framework for social securitisation.

⁴⁴EU Platform on Sustainable Finance, Draft Report by Subgroup 4: Social Taxonomy (July 2021), [link](#)

⁴⁵ Action 1e) of the European Commission strategy for financing the transition to a sustainable economy

6. Sustainability-related disclosure and due diligence requirements applicable to all securitisations

107. Investors and asset managers need to consider the ESG factors for all transactions, not just for those labelled as ‘sustainable’. Therefore, key to the good development of the market for securitisation is the investor’s ability to perform due diligence on ESG factors and the issuer’s (or originator’s) ability to provide clear, transparent disclosure relating to those ESG factors that would be material to the investment decision in securitisation products. However, so far the approach to ESG factor disclosures in securitisation has been driven by the requirements of individual investors, often when the deal is already being marketed.

6.1 Sustainability-related disclosure for issuers / originators

6.1.1 Overview of sustainability-related disclosure framework for financial products introduced by the SFDR

108. In accordance with Article 45a of the amended Securitisation Regulation, the EBA report should investigate how to integrate sustainability-related disclosure into the Securitisation Regulation, drawing upon the SFDR regulation. The SFDR lays down sustainability disclosure obligations for financial market participants and financial advisors vis-à-vis end-investors.

109. Information to disclose includes:

- i. how sustainability risks are considered in their investment decision processes;
- ii. how investments adversely impact environmental and social factors as well as human rights, anti-corruption and anti-bribery matters and;
- iii. whether and how sustainability is considered in the characteristics or in the objectives of the financial product they invested in.

110. SFDR disclosure requirements apply at the entity and product levels, and the respective information must be published on the website, in pre-contractual documentation as well as in periodic reports. The SFDR framework was supplemented by two batches of draft regulatory technical standards (RTS), one published in February 2021, which include in Annex 1 a set of indicators to determine the ‘principal adverse impact’ of investment products on sustainability factors, and the other batch, published in October 2021, which further specify disclosures applicable to EU taxonomy-aligned products.

111. Due to the ‘length and technical detail’ of these RTS, the European Commission has deferred their implementation to 1 January 2023. Therefore, at present there is uncertainty as to what the final SFDR rules will look like and whether they will be fully implemented.

6.1.2 Transposition of SFDR provisions into the Securitisation Regulation

112. Most investors in securitisation are covered by the SFDR regime; however, securitisation products fall outside the scope of the SFDR because securitisation products are not considered to be financial products within the meaning of Article 2 of the SFDR (Regulation (EU) 2019/2088). The ‘exclusion’ of securitisation from the SFDR requirements raises several issues:

- i. The SFDR framework was not designed with securitisation in mind. While the ‘principal adverse impact’ could be derived for some asset classes (real estate or auto loans) or proxied (corporate debt), no metric is currently available for credit card and consumer loans, which are in most cases unsecured loans and for which the actual environmental performance of the underlying assets is harder to measure.
- ii. Given that securitisation is not within the scope of the SFDR, investors are not able to include sustainable securitisation exposures as part of their ESG investment strategy, which could make securitisation products less attractive to investors subject to the SFDR and put securitisation products at a competitive disadvantage vis-à-vis other types of funding instruments.
- iii. There have been increasing enquiries and questionnaires sent by investors to arrangers and issuers to collect ‘principal adverse impact’ data in order to determine the extent to which a securitisation would align with the investors’ internal ESG targets, but these are not standardised.

113. Amendments made to the Securitisation Regulation by the CMRP have introduced optional ‘principal adverse impact’ disclosures to certain STS securitisations and, pursuant to Articles 22(6) and 26d(6) of the amended SECR, the Joint Committee of ESAs will deliver RTS on sustainability disclosures in relation to the adverse impacts on sustainability factors of the assets financed by the underlying exposures. However, these RTS i) only apply in the case of the ‘principal adverse impact’ option, ii) would only apply to certain STS securitisations and iii) would apply at the transaction level only.

6.2 Sustainability-related due diligence for investors

114. Investors should also be expected to examine the originator's track-record and forward-looking business plans to ensure that ESG principles are enshrined in the originator's policies and strategies and to determine whether these are in line with the investor's internal ESG policy and objectives.

115. The Securitisation Regulation already imposes detailed due diligence requirements, including on material structural features (Article 5 of the SECR) and on all underlying documentation that is

essential for the understanding of the transaction (Article 7 of the SECR). Furthermore, the upcoming EU GBS and sustainability-related disclosures for securitisation will enhance transparency regarding the ESG credentials of securitisation products and should therefore facilitate investors' ESG due diligence assessment.

Recommendation 5: sustainability-related disclosures and due diligence framework applicable to all securitisations

In light of the assessment of the introduction of sustainability-related disclosures and due diligence requirements into the SECR, the EBA is of the view that:

- a) improved availability of standardised data on the principal adverse impact (PAI) of securitisation investments on ESG factors would be key to supporting the transition of the EU securitisation market towards further sustainability. Therefore, it is proposed to:
 - extend the application of the principal adverse impact disclosures to non-STS securitisations for the same asset classes covered by the JC RTS on sustainability-related disclosures for STS securitisation;
 - adjust the ESMA templates to ensure that the loan level data provided in these templates are relevant to derive the calculation of the PAI at transaction level for those transactions within the scope of the RTS;
 - introduce mandatory principal adverse impact disclosures for all securitisation in the medium term once the EU sustainable securitisation market has further matured and more experience has been gained on the implementation of sustainability-related disclosures for securitisations.
- b) No additional investors' ESG due diligence requirements are deemed necessary for securitisation specifically.

Annex 1. ARTICLE 45A OF THE AMENDED SECURITISATION REGULATION

1. By 1 November 2021, the EBA, in close cooperation with ESMA and EIOPA, shall publish a report on developing a specific sustainable securitisation framework for the purpose of integrating sustainability-related transparency requirements into this Regulation.

That report shall duly assess, in particular:

(a) the implementation of proportionate disclosure and due diligence requirements relating to potential positive and adverse impacts of the assets financed by the underlying exposures on sustainability factors;

(b) the content, methodologies and presentation of information in respect of sustainability factors in relation to positive and adverse impacts on environmental, social and governance-related matters;

(c) how to give shape to a specific sustainable securitisation framework that mirrors or draws upon products covered under Articles 8 and 9 of Regulation (EU) 2019/2088 and takes into account, where appropriate, Regulation (EU) 2020/852 of the European Parliament and of the Council;

(d) possible effects of a sustainable securitisation framework on financial stability, the scaling up of the Union securitisation market and bank lending capacity.

2. In drafting the report, the EBA shall where relevant, mirror or draw upon the transparency requirements in Articles 3, 4, 7, 8 and 9 of Regulation (EU) 2019/2088 and seek input from the European Environment Agency and the Joint Research Centre of the European Commission.

3. In conjunction with the review report under Article 46, the Commission shall, based on the EBA report referred to in paragraph 1, submit a report to the European Parliament and the Council on the creation of a specific sustainable securitisation framework, together with a legislative proposal, if appropriate.



EUROPEAN BANKING AUTHORITY

Tour Europalaza, 20 avenue André Prothin CS 30154
92927 Paris La Défense CEDEX, FRANCE

Tel. +33 1 86 52 70 00

E-mail: info@eba.europa.eu

<https://eba.europa.eu>