Securitisation: diversification, divergence and digitalisation

Themes for the European securitisation market over the next 12 months

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In an ever changing market, what trends are we seeing and what developments are on the horizon? This briefing considers themes for the European securitisation market over the next 12 months.

Diversification

Asset classes and investor base

The traditional archetypal dominant asset classes in securitisation have started to share ground with more varied and innovative underlying assets – bundled under the extremely broad umbrella of a new asset class: esoteric. Increasingly, securitisations have moved away from being shackled to specific products and securitisation technology has been increasingly interwoven into bespoke financing transactions, such as under the form of asset-based financing solutions and capital call securitisations and increasingly in transactions involving a mix of physical and financial assets.

Although esoteric assets have long been securitised, they occupied a relatively obscure corner of the market in the EU and the UK. Driven by US market practice, they have now taken centre stage and continue to draw interest from investors interested in greater diversification and higher absolute returns, as well as the monetisation of otherwise illiquid cash flows.

The esoteric asset market has propelled the development of novel and interesting transaction structures, often highly bespoke and involving assets such as solar panel and boiler equipment, data centre leases, inventory (diamonds, wine, etc) or aircraft leases. Due to the macroeconomic setting, infrastructure assets have also quickly become attractive, with data centre and other technology solutions presenting significant opportunities in the esoteric space.

While esoteric securitisations tend to be more complex and bespoke than traditional asset class securitisations, often requiring unique structures to ensure predictable cash flows, they represent a "back to basics" approach. Renewed focus on the basic elements that make a transaction a securitisation, including from a regulatory perspective, and additional focus from investors is often required due to the novelty of the assets and the lack of historical performance data.

Aside from a few isolated examples, these transactions are often more suited to being carried out in a private securitisation, warehouse type format. As the market matures, it is expected that some of these private transactions will lead to public exit strategies.

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While investor diversification has been a trend for the last couple of years, private credit investors have now become key participants in the cash and, more recently, in the synthetic securitisation market alongside credit institutions. This trend is expected to continue and intensify. A number of credit institutions have invested in setting up private credit capabilities while others have favoured institutional partnership solutions with private credit entities. This marks a new era of financial disintermediation for the banking sector and the shift in the risk taking patterns by credit institutions, subject to increasing prudential requirements.

Insurance investors have also been increasingly seen as apt to take on a bigger role, either through the asset-side of their balance sheet or through the liability-side of their balance sheet. In particular, significant risk transfer (SRT) synthetic securitisation transactions have allowed investors to take on unfunded credit protection positions in insurance policy or guarantee format, contributing to the growth of the SRT market. However, and despite recent changes to the Solvency II frameworks in the EU and in the UK (including reforms in the matching adjustments regime), a few significant regulatory burdens persist and pose barriers to the growth of this market, including around the STS eligibility of transactions involving unfunded credit protection provided by (re)insurers and the reduced sensitivity of the prudential framework applicable to (re)insurers under Solvency II. It is anticipated that regulatory changes being considered over the next few months will recognise the role of (re)insurers and seek to boost their participation in the market.

Divergence

Deregulatory instincts and the pursuit of competitiveness

2025 is set to be a key year for regulatory change, both in the EU and in the UK. Ongoing initiatives to revamp the securitisation regime will undoubtedly impact the industry due to the fundamental nature of the changes which may be introduced, in particular in relation to securitisation's capital treatment, disclosure requirements and due diligence requirements.

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To compound the complexity of regime changes, the parallel path of the EU and UK in the approach to these matters will further exacerbate divergence in markets which remain interconnected. Furthermore, in the current macroeconomic context, the quest for competitive frameworks in the EU and the UK is met with huge challenges of retaining existing rules and approaches and contrasts with deregulatory movements in the US.

EU

In the EU, the targeted consultation on the functioning of the EU Securitisation Framework launched by the European Commission at the end of 2024, the Joint Committee Report of the European Supervisory Agencies on the implementation and functioning of the EU Securitisation Regulation (Article 44) in March 2025 and the anticipated proposals for review of the EU Securitisation Framework to be released by the European Commission on 17 June 2025, will certainly be a key driver in shaping the market for the months to come. In particular, the proposals for review of the EU Securitisation Framework are expected to address a number of fundamental aspects, including an overhaul of due diligence and transparency requirements and a package of long awaited amendments to prudential capital requirements.

While the timing of the changes to the EU Securitisation Framework is uncertain and those changes will undoubtedly take time to materialise, greater clarity on the direction of travel can assist in building consensus around market practice and supervisory approach around certain topics.

UK

While the UK has introduced changes to the UK Securitisation Framework in the recent past, it is expected that during the second half of 2025, further significant changes will be consulted on, in particular relating to the definition of public securitisation and private securitisation which will in turn significantly impact the structure of disclosure and transparency requirements. It is yet unclear whether there will be any alignment between the UK's position and the EU position in this regard, although it is unlikely that both regimes will remain completely aligned.

Separately, it remains to be seen whether the encouraging message from the PRA in relation to the risk sensitivity and need to ensure the proper calibration of prudential requirements applicable to securitisation positions, and in particular with respect to the p factor, will be translated into actual measures that will increase competitiveness of the UK securitisation market when compared to the EU and the US.

Digitalisation

Building scale, breadth and depth

Digitalisation will continue to bring changes to the securitisation industry. Alongside advancements in AI and their application to transactions and investment analysis, distributed ledger technology (DLT) may be a major disruptor in the securitisation industry.

Digital bond issuance and tokenisation initiatives have multiplied and accelerated in the past few months. While most of these appear to be conceptual or experimental, the proliferation of issuance and tokenisation platforms providing services points towards greater standardisation and scalability.

Clarity on the regulatory treatment of on-chain securitisation may help to unlock the benefits reportedly associated with the use of DLT, including increased speed, certainty and traceability, immutability of records, greater liquidity and potentially substantial cost savings.

With the increasing adoption of technological solutions, a new category of market participants, often structured as service provider platforms involved in the tokenisation of real world and financial assets and on the provision of various services relating to on-chain securitisation, is slowly but steadily making its way into the securitisation ecosystem.

Data security and interoperability challenges, limited investor base and unclear regulatory frameworks have posed hurdles to widespread adoption. However, certain transactions combining on-chain and off-chain elements (such as the case of issuance of digital bonds in securitisations involving real world assets) and the development of platform solutions by traditional finance market actors such as credit institutions have been instrumental in gradually building scale, breadth and depth and gradually bring securitisation on-chain.

Please reach out to your usual Freshfields contacts if you would like to discuss any of these developments.

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