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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Krahnen Promotes more Transparency in the ABS Market at BaFin

02/22/2017

SAFE Director presents Skin-in-the-game-Paper at Strategy and Risk Committee



SAFE Director Jan Pieter Krahnen (<https://safe-frankfurt.de/de/forschung/wissenschaftler/details/showauthor/14-krahnen.html>) presented today in the Strategy and Risk Committee (SRA) of the Federal Financial Supervisory Authority (BaFin) his idea to request more transparency in the regulation of asset backed securities (ABS). In the SRA, high level management of all Directorates of BaFin and representatives of the Deutsche Bundesbank as permanent guests regularly convene to discuss relevant strategic and risk topics across all areas of supervision.

Krahnen, who has been the first external presenter to the SRA, expounded to the committee that the current regulation in the EU and the US would give too much leeway in the crucial aspect of risk retention. "In order to assess the overall risk of an ABS transaction, investors need to know whether issuers have

sufficient ‘skin in the game’”, Krahn claimed. “The more originators participate in the potential losses, the better they will monitor the securitized loans. And the regular monitoring of the borrowers is crucial for the risk of the whole transaction.” The potential threat imposed by currently available supervisory sanctions is not as severe as to induce a similar discipline when performing the monitoring task, Krahn believes.

He also presented a method to calculate the real level of risk retained by the issuer, the so-called risk retention metric, that he and co-author Christian Wilde have developed and published in a recent policy paper entitled „Skin-in-the-Game in ABS Transactions: A Critical Review of Policy Options (<http://safe-frankfurt.de/policy-center/policy-publications/policy-publ-detailsview/publicationname/skin-in-the-game-in-abs-transactions-a-critical-review-of-policy-options.html>)“ (SAFE White Paper No. 46). Krahn encouraged the BaFin to oblige ABS originators to inform investors about this figure. “This would make the entire ABS market safer and more attractive”, Krahn expects.

Keywords: Financial Markets (https://safe-frankfurt.de/news-latest/safe-finance-blog/search-result-blog.html?tx_news_pi1%5BoverwriteDemand%5D%5Bcategories%5D=181&cHash=84faeb163d529c1d1097a1382efc4c), ABS (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/abs.html>), Banking Regulation (<https://safe-frankfurt.de/news-latest/safe-finance-blog/tag/banking-regulation.html>)



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