REVIVING THE EUROPEAN SECURITISATION MARKET  
AFTER THE FINANCIAL CRISIS?  
REGULATION, LOBBYING AND THE PUBLIC-PRIVATE LEGITIMATION OF  
FINANCE

A thesis submitted to The University of Manchester for the degree of Doctor of Philosophy in the Faculty of Humanities

2018  
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<tbody>
<tr>
<td>ABCP</td>
<td>Asset-Backed Commercial Paper</td>
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<tr>
<td>ABS</td>
<td>Asset-Backed Security</td>
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<tr>
<td>AFME</td>
<td>Association for Financial Markets in Europe</td>
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<td>AMIC</td>
<td>Asset Management and Investors Council</td>
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<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>BoE</td>
<td>Bank of England</td>
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<tr>
<td>CDO</td>
<td>Collateralised Debt Obligation</td>
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<td>CDS</td>
<td>Credit Default Swap</td>
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<td>CLN</td>
<td>Credit Linked Note</td>
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<tr>
<td>CMBS</td>
<td>Commercial Mortgage-Backed Security</td>
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<tr>
<td>CMSA</td>
<td>Commercial Mortgage Securities Association</td>
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<tr>
<td>CRD</td>
<td>Capital Requirements Directive</td>
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<tr>
<td>CRR</td>
<td>Capital Requirements Regulation</td>
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<tr>
<td>DG ECFIN</td>
<td>Directorate General for Economic and Financial Affairs</td>
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<tr>
<td>DG FISMA</td>
<td>Directorate General for Financial Stability, Financial Services and Capital Markets Union</td>
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<tr>
<td>DG MARKT</td>
<td>Directorate General Internal Market and Services</td>
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<tr>
<td>DSA</td>
<td>Dutch Securitisation Association</td>
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<tr>
<td>EBA</td>
<td>European Banking Authority</td>
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<tr>
<td>EBF</td>
<td>European Banking Federation</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>ECBC</td>
<td>European Covered Bond Council</td>
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<tr>
<td>ECOFIN</td>
<td>Economic and Financial Affairs Council</td>
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<tr>
<td>ED</td>
<td>European DataWarehouse</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>EFAMA</td>
<td>European Fund and Asset Management Association</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EIF</td>
<td>European Investment Fund</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
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<td>EMU</td>
<td>Economic and Monetary Union</td>
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<td>EP</td>
<td>European Parliament</td>
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<td>European Parliamentary Financial Services Forum</td>
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<td>European Supervisory Authority</td>
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<td>European Savings and Retail Banking Group</td>
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<td>ESMA</td>
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<td>European Systemic Risk Board</td>
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<td>Financial Stability Board</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GUE</td>
<td>Group of the European United Left</td>
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<td>ICMA</td>
<td>International Capital Markets Association</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<tr>
<td>LCR</td>
<td>Liquidity Coverage Ratio</td>
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<td>LTRO</td>
<td>Longer-Term Refinancing Operations</td>
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<td>MEP</td>
<td>Member of the European Parliament</td>
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<tr>
<td>MBS</td>
<td>Mortgage-Backed Security</td>
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<td>MBS-CDOs</td>
<td>Mortgage-Backed Security-Collateralised Debt Obligation</td>
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<tr>
<td>MRO</td>
<td>Main Refinancing Operations</td>
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<tr>
<td>OTD</td>
<td>Originate-to-Distribute</td>
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<tr>
<td>PCS</td>
<td>Prime Collateralised Securities</td>
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<td>Abbreviation</td>
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<tr>
<td>QE</td>
<td>Quantitative Easing</td>
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<td>RMBS</td>
<td>Residential Mortgage-Backed Security</td>
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<tr>
<td>RoE</td>
<td>Return on Equity</td>
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<tr>
<td>RSB</td>
<td>Regulatory Scrutiny Board</td>
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<td>RWA</td>
<td>Risk-Weighted Assets</td>
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<tr>
<td>S&amp;D</td>
<td>Socialists &amp; Democrats</td>
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<td>S&amp;P</td>
<td>Standard and Poor’s</td>
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<td>SGP</td>
<td>Stability and Growth Pact</td>
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<td>SIFMA</td>
<td>Securities Industry and Financial Markets Association</td>
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<tr>
<td>SIV</td>
<td>Structured-Investment Vehicle</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<tr>
<td>SPV</td>
<td>Special Purpose Vehicle</td>
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<tr>
<td>SRT</td>
<td>Significant Risk Transfer</td>
</tr>
<tr>
<td>STS</td>
<td>Simple, Transparent and Standardised</td>
</tr>
<tr>
<td>TSCG</td>
<td>Treaty on Stability, Coordination and Governance</td>
</tr>
<tr>
<td>UEAPME</td>
<td>European Association of Craft, Small and Medium-Sized Enterprises</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
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Abstract

Caroline Metz
A thesis submitted to The University of Manchester for the degree of Doctor of Philosophy in the Faculty of Humanities

Reviving the European securitisation market after the financial crisis? Regulation, lobbying and the public-private legitimation of finance

2018

This thesis provides a political economy analysis of the attempted legitimation and reproduction of the European securitisation market over the period 2007-2017. Bank securitisation – the issuance and trading of securities backed by bank assets – was at the heart of the 2008 financial crisis, and nearly collapsed in its aftermath. Although the European Union (EU) sought to strengthen financial stability in light of the crisis, and although securitisation was seen as a dangerous financial product, the European Commission began to promote securitisation after 2013, and elaborated between 2014 and 2017 a series of regulations aimed at reviving securitised products considered simple and safe. Through an examination of the gradual rehabilitation of European securitisation, I explore how legitimation crises and discourses interplay with the reproduction of finance, and how EU state actors have interacted and collaborated with private market actors in the reshaping of European finance. I develop an actor-centred critical political economy framework based on a neo-Gramscian conceptualisation of discourse that is rooted in historical materialism. I trace the evolution of EU and lobby attitude toward securitisation through 37 semi-structured elite interviews and the analysis of EU and financial lobby publications related to securitisation.

The thesis makes several original contributions to scholarship. The research finds that although securitisation was largely seen as a cause of the financial crisis, the effects of the crisis, the way it was interpreted and the reactions it triggered reconfigured the modalities of European market-based banking, and remade securitisation a central, if suspicious and contested, tool at the service of large banks’ liquidity and equity needs. Both private and public actors produced discourse that was instrumental in rebuilding securitisation’s legitimacy. Central bankers and regulators eager to facilitate banks’ use of securitisation have been supporters of, and advisors to, the securitisation lobby, and actively participated in lobbying the European Parliament. The diverse pro-securitisation discourse ultimately became audible to a growing share of EU policymakers not because it contained inherently powerful ‘ideas’, but because it was widely circulated and resonated with policymakers’ concerns related to their own positions and the changing economic-political environment of the EU. My findings highlight that securitisation and the financial accumulation it facilitates are dependent on unequal debt relations tied to wider capitalist dynamics; state-backed structures and regulations; and a host of legitimation discourses. These findings speak to literature interested in the evolution of lobby practices and complement the structural financialisation literature with a fine-grained analysis of the discursive practices and public-private collaboration that underpin the reproduction of finance. Ultimately, this work highlights the importance of taking into account the capitalist structure, debt relations and (state) actors’ perceptions and discourses when critically debating the future and everyday implications of securitisation and finance.
Declaration and Copyright statement

Declaration

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Acknowledgements

Lobbying is such a bourgeois topic, Caroline Christian, circa 2015

I applaud you for choosing to do your PhD on something so bloody boring
An interviewee, May 2016

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CHAPTER 1
Introduction

1.1. The attempted resuscitation of European securitisation

Ten years after the financial crisis, acronyms such ABS, MBS and CDOs still evoke the United States’ subprime crisis and the global financial crisis of 2008. Asset-backed securities (ABS), including mortgage-backed securities (MBS) and collateralised debt obligations (CDOs), were manufactured by banks through the re-packaging of thousands of assets, before being issued and traded on financial markets. As defaults on subprime mortgages surged, losses on securitised products mounted, eventually developing into “the largest financial shock since the Great Depression” (IMF 2008: 4). In the United States (US) and the European Union (EU), the securitisation market nearly collapsed during the crisis, and by early 2009 global financial firms such as banks, insurance companies and investment funds had recorded over $200 billion in losses due to their investment in CDOs (IMF 2009a). After the crisis, securitisation was recognised by then-EU Commissioner for Internal Market and Services Charlie McCreevy to have caused “much damage to the global banking system” (McCreevy 2009), and the EU as well as global regulators such as the Basel Committee on Banking Supervision (BCBS) began revisiting existing banking and financial regulation, including that related to securitisation.

Yet, only five years after the onset of the financial crisis and as Europe faced growing economic and social difficulties, the official EU stance towards securitisation became noticeably more benevolent. A Commission Green Paper published in March 2013 stated that “reshaping securitisation markets” could “help unlock additional sources of long-term finance”, and called for the development of “new securitisation instruments” for small and medium-sized enterprises (SMEs) (Commission 2013a: 17). In October 2014, two regulatory amendments acts relaxed liquidity and capital requirements for securitisations deemed “highly transparent, simple and safe”, notably on the grounds that securitisation could “play an important part in channelling additional funds to the real economy” (Commission 2014: 8). A European Central Bank (ECB) official observed in 2014 that securitisation had become “a major focus of discussion within European
policymaking circles” and that there was “a growing consensus that an instrument once seen as part of the problem could in fact be part of the solution” (Mersch 2014). The EU, it seemed, was willing to bring securitisation “back from the dead”, as The Economist (2014) illustrated with the below image.

**Figure 1. The return of securitisation**

![Figure 1](image1.jpg)


This change of tone in EU discourse (see figure 2) was further affirmed after the appointment of a new Commission headed by Jean-Claude Juncker in November 2014. As part of its project to create a Capital Markets Union (CMU) the Commission published in September 2015 two regulatory proposals supporting securitisation through the lowering of capital requirements for securitisation products defined as simple, transparent and standardised (STS). The STS proposals, which officially aimed to “contribute to enhancing economic growth and job creation” (Commission 2015a: 6), were discussed by the Council and the European Parliament until May 2017 when an agreement was reached.¹ Austrian member of the European Parliament Othmar Karas commented on the new STS securitisation regulation: “Our aim was try to breathe new life into that market and not to abolish securitisation. We have changed poison into medicine” (Reuters 2017, emphasis added).

¹ For a summary of the legislative process regarding the STS proposals, see European Parliament (2018).
How can one explain this paradoxical evolution? Through what mechanisms and via the roles of what actors has this “regulatory and political reversal” (GE Capital 2014: 25) in favour of securitisation occurred? In sum, and this is the main research question of this thesis (see section 1.3 for subsidiary research questions), how did securitisation go from being perceived as one of the key causes of the financial crisis, to being promoted and legally supported by European institutions as a potential solution to economic stagnation in Europe?

The present thesis seeks to explain the surprising political endorsement of securitisation by EU institutions in the post-financial crisis period, evidenced by the gradual emergence of a pro-securitisation discourse, the setting up of supporting structures aimed at reconstructing the European securitisation market, and, ultimately, the deployment of a set of regulatory actions aimed at revitalising the part of the market defined as simple, transparent and standardised (STS).

Concretely, this thesis analyses the discourses of, and traces the interactions between, market participants, lobbyists, central bankers, financial regulators and EU policymakers involved in the European securitisation market, its defence and/or regulation at the European level between the onset of the financial crisis in 2007 and the agreement on a
twin STS securitisation regulation in 2017. To do so, I develop an actor-centred critical political economy framework and rely on a neo-Gramscian conceptualisation of discourse that is rooted in historical materialism. Thus, while this thesis recognises the importance of narratives and perceptions and examines the extent to which these inform actors’ motivations, it also considers their grounding in the capitalist structure, as well as the ways in which discourse can have direct material consequences (see chapter 2).

The objective of this research, then, is threefold. First, I trace the recent history of struggles and cooperation through which the pro-securitisation reversal occurred, so as to understand the mechanisms that led to a striking change of attitude on the part of European policymakers toward the securitisation market and its regulation. Second, this thesis aims to better apprehend how particular discourses about finance emerge and circulate, in what ways they influence regulatory and lobbying processes, and in turn how this supports or hinders the reproduction of finance. More specifically, in the post-crisis context where the role of securitisation in the subprime debacle was widely criticised, I examine how actors concerned with securitisation have sought to (re)legitimise this practice, and how the production and effect of legitimation discourse relate to the specific political and economic context of post-2008 Europe. Thus, although the question of the legitimacy of securitisation in normative or ethical terms (e.g. in the eyes of the researcher) has, at least partly and implicitly, motivated this research, such an inquiry does not constitute the main focus of this thesis. Instead, the present work brings a different perspective to current academic debates on ‘financialisation’ and financialised capitalism, as it seeks neither to gauge the extent to which the European economy is financialised nor to theorise such a hypothetical transformation, but rather seeks to expose the concrete ways in which a particular and key component of contemporary finance comes to be reproduced in spite of and through its crises. Finally, in looking at European attempts to promote and rely on securitisation as a way out of economic difficulties, which some would describe as another “turn to the market” (Krippner 2011: 167), this thesis seeks to better understand how state actors interact with market actors in the making of finance, and are involved in the (re)construction of financial markets.

Overall, the case of securitisation is an ideal terrain for examining the role played by actors, public and private, in the constant reshaping of financialised capitalism. This research therefore contributes to the core project of political economy concerned with
deconstructing the misleading state-market dichotomy, and speaks more specifically to the political economy of finance which seeks to grasp and expose the unequal politics of finance, as well as the role of states in its legitimation and reproduction. Before I explain how these broad objectives have translated into the more specific research questions driving this inquiry, I locate the present research in policy and academic debates and highlight why pursuing the above objectives matters.

1.2. **Situating the public-private legitimation and reproduction of securitisation**

In analysing the shift described above, the thesis addresses three sets of issues that have grown pressing in recent years: the functioning of securitisation as an industry and market key to financialised capitalism; the regulation and legitimation of finance following the 2008 financial crisis; and states’ central role in the creation, orientation and reproduction of financial markets.

1.2.1. **Securitisation: everyday debt at the heart of contemporary finance**

Securitisation is commonly defined as the issuance of asset-backed securities (ABS) through the pooling and tranching of underlying assets producing regular cashflows (e.g. mortgages, student loans, credit cards). The exponential development of securitisation in the 2000s initially sparked the interest of finance scholars, mostly in mainstream economics and financial economics (Elul 2005), but also in economic geography and political economy (Langley 2006). Once the financial crisis made clear that securitisation was a core – and potentially very disruptive – component of contemporary finance, increasing numbers of journalists, policymakers and scholars began paying attention to this understudied structured finance technique. Financial economists (Coval, Jurek, and Stafford 2009), heterodox economists (Gorton and Metrick 2012), economic sociologists (Quinn 2010; Goldstein and Fligstein 2014), economic geographers (Wainwright 2009) and political economists (Aalbers and Engelen 2015) sought to analyse the development of securitisation, as well as it flaws and role in the subprime crisis.

Besides its infamous and specific role in the crisis, securitisation has been fundamental to the broader functioning and expansion of finance since the 1980s, as authors in economic geography and political economy have shown (Wojcik 2011; Pineault 2013). The emergence, complexification and growing use of securitisation has been a key factor in
the financialisation of Western economies (Froud et al. 2006), in the development of ‘shadow banking’ (Pozsar et al. 2010) and in the recent evolution of Western banking models toward market-based forms of banking, particularly in Europe (Hardie et al. 2013; Jeffers and Plihon 2014). Securitisation and other structured finance products have contributed to “a wholesale reorganisation of capitalist finance” (McNally 2009: 46). Given this significant role in contemporary financial developments, securitisation has become “an object of analysis in and of itself” (Pineault 2015: 3) and the present thesis seeks to contribute to such a line of research.

In order to contribute to a more thorough comprehension of securitisation, and, through this, to a more fine-grained understanding of contemporary financialised capitalism, its uncertain reproduction over time and the political implications this has, the present research aims to overcome four types of shortcomings common in work that otherwise rightly acknowledges the importance of securitisation. First, much of the political economy literature that mentions securitisation overlooks a critical point, which is that although securitisation operates in the ‘high sphere’ of finance, it also depends on (and reproduces) everyday economic exchanges resulting in cashflows which constitute the raw material of securitisation (Langley 2006). Securitisation, indeed, is a clear illustration of the way in which ‘finance’ not only influences and tends to financialise the everyday (Martin 2002) but also takes its root in the everyday. Thus, while it is worth recognising that securitisation is central to the functioning of financialised capitalism, it is also important to stress that securitisation itself depends on the capitalist structure, and in particular on deeply unequal relations of debt that sustain the banking industry and contribute to social reproduction (Montgomerie 2009; Dos Santos 2009), as I explain in chapter 3. Building on such a conceptualisation of securitisation, I will argue in the empirical chapters of this thesis that EU and lobby narratives which portray securitisation as a neutral financial tool or a ‘service’ to the economy operate a discursive reversal which is deeply political. Indeed, such a discourse obscures how securitisation reproduces, shapes and channels ‘everyday’ social relations of debt to put them at the service of financial accumulation. Insofar as it sheds light on the unequal politics of debt (Roberts and Soederberg 2014), such an analysis is thus also relevant from a political activist perspective interested in the broader emancipatory project of critical political economy (Shields, Bruff and Macartney 2011: 172).
Second, as securitisation developed, it became not only a market in its own right, but also an industry key to the functioning of market-based banking, and to European market-based banking in particular (see chapter 4). Yet financial markets such as the securitisation market tend to be depicted as nebulous forces existing independently of individual firms, making it difficult to locate power and agency. This is why it is urgent, after the financial crisis and its devastating consequences, to understand the political economy not only of financial markets, but also of the banks that “feed, construct and inhabit” them (Christophers 2013: 16). In other words, we need to look at “the character and social content of banking in contemporary capitalism” (Dos Santos 2009: 180). Such a task is particularly relevant to Europe. Indeed, the EU banking sector is “the largest in the world” (Emter, Schmitz and Tirpák 2018: 3), and the European financial sector is dominated by cross-border banks whose size relative to public GDP is considerable: the value of the assets of the entire EU-27 banking sector amounted to 350% of the total EU GDP in 2015 (Pawlowska 2015: 5). In the past twenty years there has been a growing concentration of banking in Europe, with a reduced number of ever larger banks (CGFS 2018: 13). Out of a total of thirty global systemically important banks i.e. banks “whose distress or disorderly failure (…) would cause significant disruption to the wider financial system and economic activity” (FSB 2011: 1) thirteen were located in the European Union in 2017. Large European banks are “major players in financial markets” (Jeffers and Plihon 2016: 13), notably as they rely on wholesale financial markets for funding and investment (Finance Watch 2012). This prevailing model of “market-based banking” (Hardie and Howarth 2013) or “securitized banking” (Jeffers and Plihon 2016) means that focusing on large ‘universal’ banks and their lobby – as I do throughout this thesis – is crucial when addressing finance and financial markets.

Third, although the financialisation literature has documented the key role of securitisation in “the rise of finance”, it remains “weak in identifying the specific actors, decisions and institutions that have driven this process” (Nölke, Heires and Bieling 2013: 211). Thus, a large share of the financialisation literature tends to naturalise securitisation by failing to consider how it is envisioned, sustained, transformed, defended and fought over by ‘market practitioners’ (including banks), but also by regulators and policymakers who seek to regulate, support or restrict this sector of activities. In light of this, the present research seeks to provide a more detailed understanding of the institutions, state and market actors, motivations, discourses and perceptions that have driven the
reproduction of securitisation, and hence have contributed to the reproduction of financialised banking in Europe.

Finally, securitisation has recently been addressed by political economy scholars concerned with understanding lobby practices and EU integration processes rather than structural dynamics of capitalism (Aalbers, Engelen and Glasmacher 2011; Aalbers and Engelen 2015; Engelen and Glasmacher 2016; Braun and Hübner 2018). However, these authors define securitisation outside of the debt relations that form its raw material, and are thus largely unable to problematise the politics of debt and its links to securitisation (see above and chapter 3). Moreover, similar to most IPE scholarship which takes the financial industry as a “cohesive group” (Pagliari and Young 2013: 577), such work depicts the lobby for securitisation as a coherent and homogenous entity, and thereby fails to give adequate consideration to the fact that securitisation, as an industry and a market, is made up of a variety of individual firms and lobby organisations which perceive and construct their interests in distinct, and at times opposite, ways.

In order to ground the abstract understanding of securitisation as a rigid component of wider structures, and to provide a more nuanced rendering of lobby practices around securitisation, this thesis considers securitisation in embodied terms. Securitisation is understood as a market and industry made up of discrete social actors such as indebted populations constituting the ‘raw material’ of securitisation; manufacturers of structured finance; sellers and end-buyers such as pension funds, insurance companies and above all large banks which dominate the securitisation market and seek to benefit from it; but also lobbyists, journalists and public sector ‘experts’ on finance who attempt to influence its functioning and produce and circulate knowledge about it. The incarnated analysis of securitisation provided in the empirical chapters of this thesis allows evading “the impression that structures themselves generate (…) results” (Knafo 2010: 505), and helps to avoid a reification of securitisation and financial markets, as I explain in more detail in chapters 2 and 3. Importantly, the securitisation industry and its actors are apprehended in the specific post-crisis context, i.e. at a time when finance and securitisation in particular faced a legitimacy crisis.
1.2.2. The legitimation of finance in the post-crisis period

The legitimacy of finance – or lack thereof – has been an important topic of academic and political discussions after the 2008 financial crisis, and as securitisation has been particularly criticised and discredited after the crisis, analysing its gradual rehabilitation is an ideal way to better understand how the financial sector strives (and often succeeds) to reproduce itself in spite of its crises.

The sheer scale and scope of the crisis challenged the idea that financial markets were self-regulating, and fuelled a sense that there was something deeply wrong with finance. Whereas financial innovations such as securitisation were pre-crisis “widely perceived to serve public interests in the form of more financial stability, more jobs and growth and easier access to credit for a larger number of citizens” (Engelen and Glasmacher 2016: 32), this was no longer the case after 2008. In other words, the crisis increased the salience of financial topics and threw finance into a legitimacy crisis (Pagliari 2013). In Europe and the US, heads of states and social movements (e.g. Occupy Wall Street) were vocal about the necessity to reform the financial sector. Citizens and policymakers alike appeared willing to “take on the financial elite” (Engelen 2015: 2). As Woll (2013) and Bieling (2014) point out, many political economy scholars (e.g. Nesvetailova and Palan 2010; Quaglia 2010; Moschella 2011) were quick to claim that the Western world, including the EU, was entering a new era of macroprudential regulation and increased political control over finance.

Post-crisis regulatory changes, however, turned out to be only marginal (Engelen 2015), and the financial sector remained powerful, especially in Europe. A 2014 report by Corporate Europe Observatory found that the financial industry employs more than 1700 lobbyists operating via 700 organisations and spends over €120 million on lobbying EU institutions each year (CEO 2014: 3). The financial sector, its prestige and salaries are also able to attract the political elite, and the existence of ‘revolving doors’ between the political and financial worlds has been repeatedly denounced by the Alliance for Lobbying Transparency and Ethics Regulation (ALTER-EU), a coalition of public interest groups and trade unions (ALTER-EU 2016). In light of these pressing concerns over both the legitimacy of finance after the crisis and the significant influence of its lobby on EU decision-making, examining how financial lobby organisations attempt to
legitimise their activities in a period of “politicization of financial market issues” (Bieling 2014: 356) is of most importance.

The present research, then, seeks to complement recent work on the attempted (re)legitimation of finance after 2008. Interest group literature has shown that in a context of high salience – generally less favourable to lobbyists than a context of ‘quiet politics’ (Culpepper 2011) – lobby organisations seek alliance with other groups (Pagliari and Young 2013; Keller 2015; Kastner 2017) and adapt their position and language in order to advance their objectives (Woll 2013; Orban 2016). More precisely, if pre-crisis the financial elite could largely “do without strategy, coordination, or public legitimation” (Engelen 2015: 2), this was no longer the case after the crisis when the financial sector constructed narratives specifically aimed at improving the image and legitimacy of its activities. In the post-crisis period it is therefore crucial to look at the way actors articulate and circulate discourses in view of re-establishing the legitimacy of finance. Indeed, and although they tend to be dismissed in political economy work focused on the ‘structural power of finance’ (e.g. Young 2014), such legitimation processes which include a host of discursive practices are key to the reproduction of finance (Christophers 2013).

When authors have inquired into the legitimation narratives that form part of financial lobbying in the post-crisis period, they have done so through specific case studies related to the regulation of the US derivatives industry (Morgan 2010; Orban 2016), the US derivatives market, credit rating agencies and hedge funds (Pagliari 2013), European banks’ capital (Keller 2015), European hedge funds (Woll 2013) or the European financial transaction tax (Kastner 2017). In spite of the fundamental role that securitisation plays in global finance and in European market-based banking (see above), securitisation has been understudied in this regard. Notable exceptions are found in the work of Engelen (2015), who focuses on the reviving of mortgage-backed securitisation in the Netherlands, and Engelen and Glasmacher (2016, 2018), who look at the reviving of STS securitisation at the EU level.

Their approach, which is broadly similar to that of Engelen (2015: 1), is based on an opposition between the official “storyline” and “empirical irritants”, or what the authors call “the discrepancy between narratives and content” (Engelen and Glasmacher 2018: 24).
165). They seek to shed light on the differences between “the ‘frontstage’ narratives told by the Commission and the actual content of law making taking place ‘backstage’” (Engelen and Glasmacher 2016: 4). Although there is merit in not taking powerful and official narratives at face value, the strict opposition between discourses (presented as empirically flawed) and facts (taken as ‘real’ and hence as the basis for showing that official narratives are a mere cover up) has a rationalist and positivist undertone that sits uneasy with the critical political economy tradition that these scholars otherwise follow. Crucially, the demonstration that official narratives are contradicted by a series of ‘empirics’ does not explain how such narratives emerged in the first place, nor does it elucidate how discourses ridden with flaws and weaknesses have formed the basis of EU-wide policymaking.

By contrast, I analyse the concrete processes through which securitisation has become increasingly legitimate at the EU level, and the consequences this had in terms of the structure, infrastructure and regulation (present and expected) of the market. To do so, I adopt a political economy perspective based on a neo-Gramscian understanding of discourse, which allows me to approach securitisation both through the angle of its (material) role in the European banking sector and through that of its discursive representation. Chapter 2 exposes the theoretical underpinnings of this perspective and chapter 3 applies it to the case of securitisation. Seeing that legitimacy is not something inherent to an object but is rather “socially constructed and, as such, always has to be made” (Christophers 2011: 115), I then analyse in the empirical chapters of this thesis the concrete ways in which discursive practices have contributed to the legitimation of securitisation, and, ultimately, to the EU endorsement of simple, transparent and standardised (STS) securitisation. Thus, I analyse and question representations of securitisation “not by trying to disprove them or by debating their factual accuracy” (ibid: 114) as Engelen and Glasmacher tend to do, but rather by exploring the history of struggles, contestations, compromises and cooperation that has underpinned the making of securitisation as legitimate and worthy of regulatory support at the EU level.

More specifically, I will argue in the empirical chapters that the financial crisis had the contradictory effect of both throwing securitisation into a multidimensional legitimacy crisis, and (re)making securitisation useful to the European banking sector, and hence indirectly to its regulators. Thus, as the financial crisis morphed into an enduring
economic crisis, various organisations and individuals both in the industry and in regulatory circles have sought to mitigate the legitimacy crisis of securitisation (for instance through the elaboration and circulation of pro-securitisation discourses) and to insist on the benefits it could bring to various actors within and outside finance. Overall, by examining the attempted and contested reproduction of securitisation between 2007 and 2017, the present research addresses the broader and pressing question of the uncertain reproduction of finance in the post-crisis context. Thus, this thesis speaks to current debates on ‘financialisation’ from a different and much-needed perspective in that it exposes how specific actors and their discourses contribute to shaping and reproducing ‘finance’ even through its crises. Market actors, it must be emphasised, are not the sole actors involved in such reproduction, as the following section turns to.

1.2.3. Public-private cooperation in the reproduction of finance

Finally, a major theme in this thesis is the collaboration of state and market actors in the reproduction of finance, and more specifically in the (re)construction of financial markets. Such a focus is, first of all, an attempt at reconciling two approaches that would benefit from learning and borrowing from each other. On the one hand, scholarship that takes the inner working of financial markets as its object of analysis, such as social studies of finance and economic sociology, often leaves questions of regulation to “political sociologists, political geographers, political scientists and political economists” (Langley 2008: 171). On the other hand however, political economy “tends to focus analytically on relations of production, largely to the exclusion of the market-based realm of exchange” (Christophers 2014: 12). As a result, there is a lack of a deeply political and critical understanding of financial markets. One way to fill such a gap is to look at financial markets specifically through the angle of the state, i.e. through a close examination of how state actors construct, consider, portray and seek to restrict and/or support financial markets. This thesis thus draws out a political economy of the securitisation market, which grasps not only the detailed and discrete functioning of securitisation as a banking technique and financial market, but also the various ways in which states are involved in it.

A large share of the critical political economy literature gives due consideration to the state in relation to markets. In historical materialist accounts of financialisation, the state is for instance not treated as “exogenous, but as fully internal to the analysis” (Krippner
Indeed, the state and its legitimation discourses are shown to play an essential role in the reproduction of debt and finance (Roberts 2012; Soederberg 2014a). However, the specific characterisation of this role—the perceptions and intentions of individual state actors, the type of relationships that discrete state officials form with particular lobbyists—is not always addressed. Indeed, as I explain in chapter 2, the state is taken as necessary to the reproduction of the financial and capitalist structure and hence as the point of departure, leaving unexplored the concrete reasons and mechanisms through which state actors come to act in a way that is supportive of the reproduction of finance. In sum, political economy work that “privileges abstraction, theoretical generalization, explanation, and system-wide dynamics” (Christophers 2014: 12) is often unable to provide a detailed analysis of financial markets and the role of states within them.

Outside historical materialism, everyday finance and cultural political economy literatures highlight how the state drives the incorporation of “ordinary people” into finance (Bryan and Rafferty 2017: 350), while authors who concentrate on securitisation insist that states do not only oversee and regulate the market a posteriori, but also establish its legal basis (Wainwright 2009; Aalbers, Engelen and Glasmacher 2011). Authors who focus on European financial lobbying after the crisis and seek to go beyond the idea of ‘regulatory capture’ also recognise that state-like institutions such as the Commission and the ECB support (e.g. through narratives and regulations) capital markets and the large European banks that operate them (Hübner 2016; Engelen and Glasmacher 2018). Yet, besides the reliance on a legal theory of finance (e.g. Pistor 2013) such work lacks firm theoretical grounding, and offers only a superficial conceptualisation of the state in capitalism. Capitalism itself is either only briefly recognised as the overall structure within which state-market collaboration takes place (e.g. Engelen and Glasmacher 2016; Braun, Gabor and Hübner 2018), or not mentioned at all (Engelen and Glasmacher 2018). Moreover, little attention is paid to the question of structure and agency, resulting in the above-mentioned rigid opposition between ‘facts’ (truth) and ‘discourse’ (non-truth). Overall, readers are left with the impression that state managers are consciously helping the financial industry while pretending to do otherwise, but why exactly they do so remains to be elucidated.
Whether it is due to a strong theoretical emphasis that overlooks detailed practices, or to a weak conceptualisation of the state and capitalism, many analyses ultimately “impose too much coherence on the state by assuming a seamless alliance between government officials and business elites” (Krippner 2011: 13). This thesis, by contrast, takes into account the institutional and capitalist structure but also seeks to problematise and examine in detail (rather than take as granted) the role of specific European state actors in the regulation and rehabilitation of securitisation. In other words, I follow the footsteps of historical sociologist Greta Krippner (ibid: 2) who provides a fine-grained understanding of the state officials’ decisions that led to the “turn to finance” in the US: at the same time as I take capitalism and its structuring effects seriously, I “scale back the analysis to more manageable proportions where precise mechanisms and specific social actors are more visible” (ibid 2011: 15).

More concretely, instead of simply ‘disproving’ discourses that have sought to legitimise securitisation, I will show how the neoliberal capitalist structure of the EU and changes in the economic and political contexts have led powerful actors to craft and circulate specific discourses about finance and securitisation, and have allowed such discourses to ‘make sense’ to European regulators and policymakers who came to perceive securitisation as a legitimate and even necessary technique in the particular space and time of post-crisis EU. Importantly, then, the answer does not chiefly lie in the ‘power’ of ideas or the ‘seduction’ that some arguments can exert (Aalbers, Engelen and Glasmacher 2011), but rather resides in the identification of what social groups are able, at a given time and within a given power conjuncture, to fabricate and disseminate “authoritative discourses” that “define as appropriate certain actions, while proscribing the responses that do not fit” (Griffin 2011: 51) and have the potential to influence other social groups and their decisions and activities. In other words, I seek to “uncover the agency and structural power behind [the] discourses” (Bieler and Morton 2008: 112) that legitimise securitisation, and through this to inquire into the role of EU state actors in the sustaining of securitisation and market-based banking. A set of specific research questions have driven such an inquiry.
1.3. Research questions

As mentioned, the first and main research question motivating this thesis is as follows: How did securitisation go from being perceived as one of the main causes of the financial crisis, to being promoted and legally supported by European institutions as a potential solution to economic stagnation in Europe?

Three additional and related subsidiary research questions (RQ) – each answered throughout the next seven chapters rather than each in a particular chapter – drive the analysis proposed in this thesis:

**RQ 2** – How has the financial crisis reconfigured the role that securitisation plays in relation to European banks’ profitability, liquidity and stability, and to what extent has this informed regulatory and lobby attitudes toward securitisation?

**RQ 3** – What types of discourses about securitisation, its legitimacy and its role within the financial and economic sectors have emerged after the financial crisis, and what effect have these had? What actors have produced such discourses and with what intention?

**RQ 4** – In what ways have securitisation industry actors and European financial regulators and policymakers cooperated in the re-making of the European securitisation market, and more specifically in its legitimisation?

1.4. Original contributions

In answering these questions, the thesis makes original contributions to academic scholarship, in empirical and conceptual terms.

1.4.1. A comprehensive analysis of post-crisis European securitisation

This research constitutes one of the first comprehensive studies of the securitisation industry, its lobbying practices and its regulation at the EU level, covering the whole post-crisis period up to 2017. Political economy scholars have looked at securitisation outside Europe e.g. in the US (Soederberg 2012; Fields 2018), Canada (Walks and Clifford 2015), Mexico (Soederberg 2014b) or North America more broadly (Soederberg 2014a) and in individual European countries such as the UK (Wainwright 2009) or the
Netherlands (Aalbers, Engelen and Glasmacher 2011; Engelen 2015), but only a few have looked at securitisation in a European-wide sense. This is problematic given that the European securitisation market, albeit fragmented into various submarkets (e.g. along asset class, country of origin or type of securitisation structure), is overall a European-wide market: it is operated cross-border and dominated by large transnational banks active in several European countries; it is supervised and regulated by European institutions; and finally the securitisation industry is represented not only by national lobby organisations but also by numerous and powerful lobby organisations operating at the EU level (see also section 1.5).

In the past two years a few scholars (Hübner 2016; Engelen and Glasmacher 2018; Braun and Hübner 2018) have sought to address the reviving of securitisation at the EU level. However, these analyses have been quite narrow in scope so far (but see Hübner forthcoming), preventing them from providing a complete picture of European securitisation dynamics or a satisfactory answer to the perplexing question of the pro-securitisation turn at the EU level. First, such analyses have covered a relatively short period of time and notably overlooked the years 2007-2013 which were, as I show in this thesis, fundamental in informing actors’ motivations and perceptions in relation to securitisation. As a result, these analyses have focused on the STS regulations approved in 2017, which are the latest and most obvious expression of an EU endorsement of securitisation, but are in fact the outcome of longer-term processes which themselves need to be explained. Finally, none of these analyses has relied on extensive interview data. Rather, authors have taken as their starting point the lobbying and policy documents which here only complement and allow triangulating the original data collected through interviews. In sum, albeit such body of work has been useful in attracting academic interest to, and outlining some of the most striking aspects of, the “rise, fall and rise again” of securitisation (Aalbers and Engelen 2015: 1597), it has neglected recent historical developments on the securitisation market as well as the politics of debt mentioned above, and only analyses the most visible end-products of years of struggles, confrontations and negotiations within and between the securitisation industry and policy circles.

Thus, with the exception of Hübner (forthcoming) who looks at the reviving of securitisation from a political economy and European integration studies perspective and
focuses on the role of the ECB, this thesis is the only in-depth analysis of the rehabilitation of securitisation in the EU which is based on a wide range of interviews with key European stakeholders and takes into account the deeper and more historical roots of the re-emergence of securitisation. In addition, the present research is to the best of my knowledge the only comprehensive work on European securitisation that thoroughly considers discourses and their anchorage in the capitalist and neoliberal structure of the EU (see chapter 2) and emphasises the unequal social relations of debt on which securitisation is built (see chapter 3). Given that, as mentioned, securitisation is a determinant feature of financialisation, market-based banking and European finance, the rich empirical insights gained through this research are of most importance to political economy scholars interested in financialisation and the political economy of Europe.

1.4.2. Understanding financial lobbying and state-market cooperation

A more specific empirical contribution resides in the refined understanding of public-private interaction at the EU level. This includes – but importantly, is not limited to – the lobbying practices of EU finance organisations. The latter are shown to have adapted their lobbying in reaction to both the (realisation that there was a) legitimacy crisis of securitisation, and the evolution of the crisis in Europe. For instance, I argue that the deepening economic difficulties (and related EU crisis of legitimacy) which were a key concern to EU policymakers constituted an opportunity for securitisation advocates to present securitisation as a technique facilitating bank lending and hence contributing to economic growth.

The political economy framework and methods I adopt allow me to better comprehend such changes. First, the portrayal of securitisation as a bank lending tool analysed in chapter 7 was only the latest stage in the rehabilitation of securitisation. The securitisation industry was able to build on earlier and more defensive strategies such as the implementation of self-regulatory and transparency initiatives (see chapter 5). Second, these changes did not come about primarily or solely in opposition to policymakers’ projects. Rather, I argue that relations between the securitisation industry and its regulators became increasingly collaborative, with individual regulators eventually acting as advisors to lobbyists, as I argue in chapter 6. In addition, I show in chapter 7 that part of the lobbying was in fact done by Commission officials themselves,
who in conjunction with professional lobbyists attempted to convince members of the European parliament – a key site of struggle given expected resistance to the reviving of securitisation – to approve the passing of the twin STS regulation. This form of internal institutional lobbying is rarely acknowledged in the literature that focuses on traditional forms of unidirectional lobbying i.e. from the private sector (pushing for a certain outcome) and toward the public sector (assumed to always be opposed to that outcome). Through the case of securitisation, then, I shed light on the specific forms of public-private collaboration that emerged through and after the financial crisis, and show that these are crucial to the reproduction of finance, especially in periods when such reproduction is contested and seemingly endangered.

1.4.3. Theorising and politicising securitisation and finance

On a theoretical and methodological level, I make two main contributions. First, I ensure that this empirical analysis of the regulation, lobbying and discursive representation of securitisation is underpinned by a careful theorisation of securitisation itself (see chapter 3). Such a thorough conceptualisation of finance is in fact wanting in most work that focuses on financial lobbying – as such, authors often remained trapped within the institutional and lobby narratives they seek to analyse, and unwillingly reproduce uncritical knowledge about finance in which the latter seems to exist outside of the capitalist structure and its social relations. As mentioned, other types of literature (e.g. the financialisation literature and Marxist theories of finance) that do conceptualise finance within capitalism are not always able, given the high level of abstraction with which they operate, to make tangible the financial world they examine (but see the everyday finance literature mentioned above). A key benefit of this research, then, is its lower level of abstraction. This methodological choice allows me to show how securitisation exists as a concrete industry made up of, represented and regulated by various actors who all have a certain degree of agency but are also all part of capitalism and the neoliberal framework of the EU.

More broadly, I am interested in debates on the necessity to not only consider, but also carefully conceptualise, discourse within the field of critical political economy, which has until recently tended to neglect this essential part of social totality. In seeking to go beyond a misleading antinomy between ‘the material’ and ‘the conceptual’ (or ‘the
ideational’), I do not make an explicit conceptual distinction between ‘interests’ and ‘ideas’. Instead I conceptualise actors’ motivations i.e. the subjective and personal – if contextual – reasons actors themselves put forward to explain their actions, as well as actors’ discourse (rather than free-floating ‘ideas’) i.e. discourse that is always and necessarily produced by human beings who are situated in particular structure(s) and are thereby party to specific power relations. Such discourse and the representations, arguments and images embedded therein influence in turn the very structures from which they have emerged. This critical political economy framework centred on actors and agency (Knafo 2010) and reliant on a neo-Gramscian conceptualisation of discourse within capitalism (Bieler and Morton 2008) allows me to recognise the importance of perceptions and interpretations, and to question both the origin and effect of political relevant discourse as well as their grounding in the capitalist structure (see chapter 2).

Finally, considering that critical academic research does not – and should not seek to – exist outside the very structures and politics it analyses (Griffin 2011), I aim to contribute to the wider politicisation of finance, which is a first step in the collective effort to resisting and changing finance. In taking markets not only as structures but also as industries in which the motivations, strategies and discourses of specific financial market actors and their lobby organisations can be analysed, I disrupt “representations of modern finance as rational and scientific” which “serve to exclude alternative conditions of possibility and are central in the exercise of power” (Langley 2006: 284). I open the ‘black boxes’ of markets and finance which make them appear as normal, apolitical and ultimately inescapable. I locate into markets and finance the very tangible social relations of indebtedness that have grown pervasive in our society, and shed light on how public and private actors attempt to harness them to their own (perceived) benefits. Similarly, by looking in detail at a very specific part (the rehabilitation of securitisation) of broader financialisation dynamics, I show that financialisation is in no way a natural, irreversible development but is rather a process ridden with struggles, contestations, discursive and legal battles, the outcomes of which depend on the mobilisation of actors and their power resources in relation to the wider socioeconomic context in which they find themselves. Thus, this research also hopes to modestly contribute to the political search for “alternatively imagined financial futures and possibilities of political resistance to modern financial practices” (De Goede 2003: 97).
1.5. Research methods

1.5.1. A qualitative research based on process tracing

This research consists of a qualitative analysis based on process-tracing, and more specifically on “explaining-outcome process-tracing”, an iterative method to craft a “sufficient explanation” that can account for all the main aspects of a specific outcome in a particular moment in time (Beach and Pedersen 2013: 16). Process-tracing is one of the social sciences methods particularly appropriate for examining lobbying (Hofman and Aalbers 2017), and it lends itself well to the in-depth study of a limited number of actors over time (Collier 2011). Indeed, such a method can be used to identify “the key events, individuals, relationships and decisions that link causal conditions to outcomes (Young 2012: 671). Here ‘causal’ should not be understood as a close-ended and positivist ‘causal correlation’; I do not aim to expose the conditions and motivations that made the occurrence of an event necessary or inevitable, but rather seek to “understand the occurrence of events by learning the steps in the process by which they came to happen”, i.e. the steps through which that particular occurrence became possible (Becker 1998: 61).

Concretely, I used a range of primary and secondary sources (e.g. academic publications, publications from non-governmental organisation and thinks tanks, financial press, etc.). These helped me to prepare the collection of primary data in the form of interviews (see section 1.5.2) and to triangulate such new data in order to provide a rigorous qualitative analysis of key actors in the rehabilitation of securitisation – their perceived interests, interpretations of events, channels of influence, modes of action, etc. In terms of primary sources, I made extensive use of official EU material (speeches, press releases, green papers, regulatory proposals, public consultations, impact assessments, draft and final regulations as well as technical guidelines on regulations, minutes of meetings, etc.) produced by the ECB, the European Banking Authority (EBA) in charge of banking supervision and of advising the Commission on technical aspects of banking, the European Parliament and the European Commission. Within the latter, material from the Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA, previously DG MARKT) was the most relevant, as DG FISMA is responsible for the Capital Markets Union project and banking and financial regulation more broadly. To a lesser extent I also used documents published by DG ECFIN (the
Commission’s Directorate General for Economic and Financial Affairs) and the Council of the EU, as well as documents from non-EU institutions (e.g. the Bank of England and the US Federal Reserve) which usefully complemented EU sources. ‘Infra’ and ‘supra’ European sources were also mobilised, such as documents from EU member states and international organisations such as BCBS.

A significant number of lobby documents has been analysed for this research, including ‘reports’, policy papers and position papers explicitly promoting securitisation or exposing industry positions on policy initiatives related to securitisation. When they were made available online, letters to policymakers and responses to public consultations organised by the Commission, the ECB and BCBS were also used. Material relevant for this research was produced by lobby organisations representing the financial and banking sectors at the European level (such as the Association for Financial Markets in Europe (AFME), the European Banking Federation (EBF), the European Financial Services Round Table, etc.), but also by organisations lobbying or working specifically for the securitisation industry. This category involved international coalitions, European organisations (the European Datawarehouse (ED), a platform centralising securitisation data, and the securitisation label entity Prime Collateralised Securities (PCS), both created in 2012 and analysed in chapters 5 and 6) and national ones such as the Dutch Securitisation Association in the Netherlands. Importantly, I analyse in this thesis not only the material produced by such organisations, but also their very creation and mode of functioning. In this regard, I used the organisations’ websites as well as interviews with senior officials of these organisations or actors who have been involved in their creation (see section 1.5.2).

Specialised securitisation conferences such as the yearly Global ABS conference, hybrid forums such as the European Parliamentary Financial Services Forum (EPFSF) and more ad-hoc workshops where regulators, practitioners and lobbyists are asked to share their perspective on regulations under discussion were also interesting to look at, particularly when the programmes and participants’ presentations were made available online. They gave important insights into the evolution of discussions over time, the wording and content of such discussion, but also the type of actors involved in them. Market research (e.g. securitisation data reports produced by the European Securitisation Forum and later AFME) and ‘internal’ documents (e.g. not for lobby purposes) have been useful in
providing detailed data on European securitisation, as well as analyses of its evolution and regulation from the perspective of market practitioners. For instance, briefing notes from consultancy and law firms (Allen & Overy, Slaughter & May, Deloitte, etc.) and banking groups involved in securitisation (e.g., Santander, Barclays, Deutsche Bank, Société Générale, UniCredit, etc.) provide key information on the state of the European financial sector, its current and upcoming regulation and the consequences these are expected to have for various market actors.

Europe- and/or finance-focused NGOs (e.g., Finance Watch) have produced research that has been useful both as secondary and primary sources given their involvement in regulatory debates. Finally, I was able to access some confidential material (anonymised and indicated as such in the thesis) through interviews. For instance, an MEP shared confidential emails from lobby organisations, and other interviewees who were staff members of European lobby organisations provided me with internal notes and PowerPoint presentations that had been produced by national lobby organisations.

1.5.2. Fieldwork: preparing, conducting and analysing interviews

Secondary sources were complemented by primary data in the form of elite interviews, which are “vital to understanding how those involved in policy networks and lobbying view their interests, mandates, and themselves” (Johnson et al. 2013: 1018). As this research is interested not only in how actors have sought to portray and act upon securitisation, but also in how they have perceived the role and legitimacy of securitisation over time, as well as their own role in relation to this, in-depth elite interviews are particularly useful. Interviews, indeed, are a way to “understand the world from the subjects’ points of view, to unfold the meaning of peoples’ experiences, to uncover their lived world” (Kvale 1996: 1, cited in Hofman and Aalbers 2017).

This research thus involved three months of fieldwork, which took place in Brussels and London between March and May 2016. The choice of Brussels as the primary location for this fieldwork was driven by the fact that the day-to-day activities regarding EU policies are conducted around the European Council, Commission and Parliament buildings in Brussels, so that most EU institutions and lobby organisations relevant for this research are headquartered in the city. Given that financial regulation is enacted at the EU level (with responsibility for implementation at the national level), this is
particularly the case for financial sector lobby organisations. When interviewees were not in Brussels I also conducted phone interviews or travelled to London, where the offices of EBA, AFME, PCS and the International Capital Markets Association (ICMA) are located.

Overall I conducted 37 semi-structured interviews with a total of 41 individuals, during meetings in person in Brussels (29) and London (5) and over the phone (4). The interviews lasted between half an hour and two and a half hours, with an average duration of an hour and fifteen minutes. Semi-structured interviews allow for flexibility as the interviewee is not restricted to answering a strictly defined set of questions but can rather depart from initial questions, thereby potentially bringing about new insights that the interviewer was not aware of and did not ask about in the first place (Bryman 2012: 470). All interviewees were guaranteed anonymity and the safe storage of interview data, in line with University of Manchester ethical guidelines, and all agreed to the audio-recording of our conversations. As a result I could transcribe all the interviewees, and coded them using the NVivo software. Coding was not intended to use data in a quantitative way. Rather, NVivo coding was a way to organise and manage the large data set of transcripts; helped me to identify key themes and patterns; and allowed me to search for particular data through the many transcripts.

1.5.3. Selecting interviewees

Interviewees were selected ahead of fieldwork and through ‘snowballing’ i.e. through asking initial interviewees who they thought I should interview given the topic of this research. I used purposive sampling in that I targeted the main actors (or representatives of the main organisations) directly involved in the rehabilitation of securitisation, as well as actors likely to have been close observers of the evolution of lobbying and policy debates around securitisation since 2007. As such, I sought to interview three categories of actors: (1) representatives of EU institutions (policymakers and regulators) involved in debates on and regulation of securitisation; (2) representatives of the private financial sector involved in the securitisation market or its lobbying; (3) representatives of civil society organisations and think tanks observing or taking part in debates on European securitisation. The full list of interviewees is provided in the Appendix. Their repartition based on the above categorisation is as follows:
• 16 EU public officials from the Commission, including DG FISMA, DG ECFIN, the Commission President’s cabinet and the Regulatory Scrutiny Board (RSB), the Parliament, the Council, and EBA.

• 20 private actors representing securitisation, banks, financial markets, capital market investors, mortgages and covered bonds, fund and asset managers, pension funds, data infrastructure and SMEs at the European level; as well as Dutch securitisation, Danish mortgage banks and German cooperative banks at the national level.

• 5 actors representing European think tanks and civil society organisations.

Over the three-month period of fieldwork, it became evident that some of the individuals who had played a crucial role in the rehabilitation of securitisation had ambiguous positions and overlapping titles and functions, which complicated the above categorisation. For example, a senior manager in charge of the securitisation division of a large European bank was a market practitioner with ‘hands-on’ experience of securitisation, but was also extensively involved in lobbying (e.g. as chair or member of working groups on securitisation regulation) and informal discussions with regulators. Similarly, a policymaker involved in the drafting of regulation could also be acting as observer or board member in a lobby organisation or hybrid platform bringing together market and state actors (see for instance chapter 6).

In order to account for this specific issue when quoting interviewees in the thesis, I indicated either the function of the interviewee or the organisation of which the interviewee was part, depending on what information was most relevant and helpful to situate the interviewee and understand her quotes. For public sector officials I chose to indicate the specific institution or subdivision where the interviewee was employed, as this gives a relatively reliable indication of the interviewee’s role in the policymaking process. DG FISMA’ and ‘DG ECFIN’ thus refer to a Commission regulator concerned with financial or economic topics, respectively; ‘Commission Cabinet’ (for Commission President’s cabinet) is a more political and senior role; ‘Commission RSB’ (for the Commission’s Regulatory Scrutiny Board) indicates a (self-perceived) technical role in ensuring that all Commission regulations go through a cost-benefit impact assessment; ‘EBA’ refers to a regulator working on the so-called technical side of banking regulation; ‘MEP’ is an elected policymaker member of the European Parliament. When quoting
interviewees from the civil society organisation Finance Watch I directly indicated such
an affiliation, as Finance Watch holds a unique position at the intersection between
research, advocacy and public outreach.

By contrast, in the case of private sector actors I chose to highlight the function rather
than organisational affiliation of interviewees. The reason is that financial lobby
organisations form a complex network of organisations in which the topic of
securitisation is discussed in many different fora, and in which large banks and financial
firms are represented at different levels. In addition, as readers may not be familiar with
all the lobby organisations gravitating at the EU level, stipulating the official lobby
acronym (ICMA, UEAPME, ECBC, EFAMA, etc.) risked obscuring rather than
illuminating the perspective from which the interviewees was speaking, and hence the
meaning and analysis of the quote. To overcome this, I defined these interviewees
through their roles, i.e. the type of actors they sought to defend in EU lobbying. I
distinguished between ‘bank lobbyist’, ‘securitisation lobbyist’, ‘covered bond lobbyist’,
‘investor lobbyist’ and ‘SME lobbyist’.

This, inevitably, is not an objective or watertight classification but is rather the result of
judgment on the part of the researcher, who analysed the role of all private sector
interviewees to decide whether they could best be seen to represent the European banking
sector as a whole, the securitisation industry (including banks as issuers of securitisation),
the covered bond industry, financial investors also known as the ‘buy-side’ of financial
markets (including asset managers but also banks as investors in securitisation) or
European SMEs. Overall, these decisions were based on a thorough conceptualisation and
analysis of the European Union institutional framework and the European securitisation
market (see chapters 2 and 3), and have been made with the aim to both facilitate reading
and improve the clarity of the arguments defended throughout the thesis. These
arguments, and the overall logic of the thesis, are summarised in the following and last
section of this introductory chapter.

1.6. Structure of the thesis and main arguments

The present thesis is made of eight chapters, including this first introductory chapter.
Overall, the thesis consists of two main parts, the first one more theoretically-focused and
the second devoted to the empirical case of securitisation in post-2008 Europe. The first
part is divided into two chapters and moves from general theoretical considerations on discourse, agency and the reproduction of finance within capitalism (chapter 2) to a more specific conceptualisation of securitisation (chapter 3). The empirical part of this thesis (chapters 4 to 7) traces the progressive and contested re-legitimation of securitisation in a roughly chronological way. This allows me to gradually integrate into the analysis the increasing number of actors, narratives and motivations that have played out in debates on securitisation, going from considerations pertaining largely to large European banks and central bankers following the financial crisis (chapters 4); to banks constituted as the securitisation industry and their collaboration with the ECB in the making of transparent securitisation (chapter 5); to the firmer involvement of individual financial regulators in discussions aiming to define and construct ‘safe’ and ‘simple’ securitisation (chapter 6); and to the inclusion of the European Commission as a whole and the European Parliament in debates about the usefulness of securitisation not only for banks but also for the European economy at large (chapter 7). In doing so, the succession of chapters loosely mirrors the unfolding of the regulatory process, from informal discussions to technical regulations and to core regulatory changes requiring the approval of the Commission, Council and European Parliament, as well as the evolution of the crisis in Europe, from financial and liquidity crisis to banking and Eurozone debt crisis and finally prolonged economic crisis. Altogether, the four empirical chapters of the thesis provide a detailed and critical account of the gradual affirmation of a shift that saw securitisation going from cause of the financial crisis to legitimate solution to the failing European economy. In what follow I indicate the role that each chapter plays in the overall thesis, and summarise each chapter’s main arguments.

Chapter 2 outlines the conceptual framework of this thesis. In exposing the limits of both functionalist structural accounts of finance and ‘ideationalist’ IPE perspectives, I argue for a critical conceptualisation of discourse as a social practice anchored in capitalism. This neo-Gramscian approach to discourse allows me to make related claims: (1) structures are grasped through discourse, so that discourse is fully part of the construction and determination of actors’ motivations; and (2) it is important to consider the material basis of discourses and interpretations given that the elaboration, production, circulation and reception of discourse are social processes situated in and thus shaped by the capitalist system. I argue that adopting an actor-centred perspective allows applying the above considerations to concrete cases such as the EU endorsement of securitisation in
the post-crisis period. Thus, given that the empirical chapters of the thesis are concerned with tracing and analysing the agency of actors involved in the reshaping of the securitisation market, I outline the ways in which the capitalist structure and neoliberal framework of the EU give rise to varying and potentially contradictory mandates, objectives and concerns depending on where actors are situated, and insist that the former are not pre-determined but rather intersect with actors’ own interpretations and the discourses that contribute to shaping them.

In chapter 3 I build on the conceptual claims made in chapter 2 to argue that a thorough conceptualisation of securitisation necessitates exploring both how securitisation is related to the wider dynamics of capitalism, and how interpretations, expectations and discourses are central to the functioning of the securitisation. I analyse securitisation from an actor-centred perspective, and conceptualise securitisation as a (deeply political) process through which unequal social relations of debt are commodified and channelled to the benefit of securitisation issuers and investors. Arguing that such a conceptualisation overlooks some of the key particularities of securitisation as a contemporary financial market, I provide a detailed analysis of the mass-pooling, tranching and rating of underlying debt payments that underpin the creation and circulation of asset-backed securities. I argue that these processes constitute a depersonalisation which makes particularly crucial the way securitisation is represented and legitimised. In other words, I argue that a historical materialist conceptualisation of securitisation is usefully complemented by sociological insights on the constitution of markets, and that enhanced levels of financial accumulation through securitisation require not only the existence and reproduction of unequal debt relations, but also the market circulation and valuation of securitised assets, which depend on legitimation processes that typically underpin market liquidity and the reproduction of markets over time. Overall, this theorisation of the securitisation market and overview of its structure and functioning pave the way for empirical queries around the changing role of securitisation in the European financial sector following the 2008 crisis, and around the public and private discourses that have contributed to the reshaping of the European securitisation market.

Chapter 4 is the first empirical chapter of this thesis, and thematically closely follows on from chapter 3. Focusing on the political, geographical and temporal space of interest
here, chapter 4 looks into the role that securitisation has played in European-market based banking after the financial crisis. I argue that the crisis and reactions to it have led not only to the near collapse of the European securitisation market, but also to the emergence of new contradictions within market-based banking. Importantly, I argue that securitisation has been envisaged by both market actors and regulators as a way to alleviate such tensions, notably regarding the liquidity of large European banks, their stability and their profitability in terms of shareholders’ returns. In exposing the main functions (expected to be) performed by securitisation in the post-crisis period, but also the ambiguity that such new functions have triggered in relation to securitisation’s legitimacy crisis, the chapter provides for a general understanding of the motivations that have driven a variety of actors to seek to defend securitisation and even to push for its reviving and the reviving of investor demand. This chapter is thus key to explaining why large European banks, but also some of their regulators and the ECB, have deemed it necessary to devote time and efforts to the rebuilding of a market which was, in the post-crisis context, largely considered a danger to the stability of global finance. As such the chapter paves the way for the analysis, in chapters 5 to 7, of the struggles, strategies, confrontations and collaborations that have arisen from these tensions and new functions performed by securitisation.

In chapter 5, I concentrate on the ‘crisis years’ of securitisation and their early aftermath (2007 to 2012) and begin my analysis of (1) the lobbying strategies and specific narratives employed by the securitisation industry and (2) the relations between public and private actors involved on the securitisation market and its regulation. This chapter, as well as chapter 6 which covers the early post-crisis years, are crucial in that the eventual endorsement of securitisation by European institutions can only be understood in light of these earlier, less publicised and visible struggles around securitisation. First, I show that the securitisation industry was quick to organise its defence on a global scale, and self-regulated in the face of mounting regulatory threats. In addition I argue that the securitisation industry attempted to define the crisis in a way that would orientate regulatory debates towards questions of transparency, and away from the core risk/yield producing activities of securitisation. Second, I show that the more concrete implementation of ‘transparency’ and its culmination with the creation of the European Datawarehouse (a platform for the collection and distribution of data on securitisation deals) was the result of coinciding interests from issuers of securitisation and from the
ECB. Building notably on chapters 2 and 4 I argue that the ECB’s willingness to improve the transparency of securitisation was determined by its direct involvement on the market and by its position as central banker in the neoliberal EMU system. Overall, I show that the objectives pursued by private and public actors were, in this case, more similar than opposed and resulted in the public-private making of transparency for the securitisation market.

Chapter 6 continues the analysis of legitimisation strategies and of public–private relations around securitisation. I find that after initial opposition and confrontation both between lobbyists and regulators and within the securitisation industry, a key ‘bifurcation’ strategy was implemented on the market via the creation of a label for good quality securitisation, which excluded certain types of securitisation associated with pre-crisis practices and through this aimed to improve the legitimacy of label-worthy securitisations. Thus, if an initial strategy of the securitisation industry was to focus on transparency (i.e. making risks knowable) to undermine the idea that securitisation was inherently risky, a second strategy analysed in chapter 6 sought to rather isolate from ideas of riskiness a certain part of the securitisation market. In chapter 6 I also argue that regulators at EBA and the Commission were instrumental in the elaboration and implementation of this new strategy, and acted as advisors to securitisation lobbyists. Indeed, regulators sympathetic to securitisation considered that initial lobby arguments – e.g. arguments insisting on the good performance of securitisation in comparison to US securitisation constructed as its negative ‘other’ – were insufficient in providing guarantees that securitisation was now a safe practice that regulators could publicly and officially endorse, and hence advised the industry on other steps they could take to repair the regulatory legitimacy of securitisation. This resulted in the creation of the label organisation PCS whose existence, in conjunction with another set of more offensive pro-securitisation discourse, was crucial in leading regulators to consider the relaxation of capital regulations on securitised products deemed simpler, safer and of higher quality, for instance in the 2014 delegated acts and the 2015 STS securitisation regulation.

Chapter 7, precisely, turns to the more offensive and pro-active narratives that gradually took centre stage in debates on the regulation and potential reviving of securitisation. In such narratives, securitisation advocates sought to give positive justifications for the existence of securitisation, and sought to link this structured finance technique to broader
socioeconomic outcomes and more specific aspects of the ‘real economy’ (such as SMEs and households and their access to bank loans) which could seem more familiar to audiences not specialised in finance, such as citizens and policymakers. Indeed, I show in chapter 7 that securitisation advocates adapted their discourse to both the evolution of the crisis in the neoliberal framework of the EU (e.g. claiming that securitisation was a bank lending tool that could boost economic growth) and the progression of the regulatory process, i.e. the fact that a comprehensive revision of securitisation regulation (for instance to lower capital requirements in order to stimulate the market) required negotiations and approval not just among regulators but also at the European Parliament. I argue that during such negotiations, lobbyists but also European regulators (now reassured that securitisation was more transparent and had gotten rid of its ‘excessive’ pre-crisis practices) sought to ‘educate’ other policymakers about the benefits brought about by securitisation in terms of bank lending. Through this intensive lobbying process, through the co-optation of the main European SME lobby organisation and through the insistence that securitisation was a ‘service’ to the so-called real economy, securitisation advocates largely managed to depoliticise debates about securitisation, and contributed to the eventual approval, in May 2017, of two regulations supporting a (re)turn to securitisation.

Chapter 8 concludes the thesis and summarises the key contributions made to academic knowledge through this research. In returning to the four research questions that the thesis sought to answer, I reflect upon the empirical findings and arguments of the thesis, highlight their limitations and discuss avenues for further research.
CHAPTER 2
Conceptualising state and market actors in the uncertain reproduction of finance

2.1. Introduction

In this chapter, I provide the broader conceptual framework of this thesis, before turning to a more specific conceptualisation of securitisation in chapter 3. I present a critical political economy framework close to that developed by scholars such as Knafo (2010, 2017) and Bieler and Morton (2008), i.e. a broadly historical materialist framework grounded in a neo-Gramscian conceptualisation of discourse. Such a framework highlights the importance of considering agency in the reproduction of structures, as well as the need to situate agency within existing structures. This “dialectical interplay of structure and agency” (Drahokoupil, Van Apeldoorn and Horn 2009: 5) allows me to make two further interrelated conceptual claims. I argue that discourse and interpretation are crucial to explain the decisions made and constraints faced by public and private actors. At the same time, I argue that it is key to consider the material basis of such discourses and interpretation, i.e. the fact that the elaboration, production, circulation and reception of discourse are processes anchored in the capitalist system. In sum, in order to avoid flaws identified with overly structural approaches and apolitical ideational or constructivist approaches, I adopt an actor-centred perspective and argue that actors’ motivations and conceptions of the world cannot be understood in isolation from the power structure of capitalism, but equally cannot be simply and mechanically derived from capitalism and actors’ positions within it (Bruff 2010; Bieler and Morton 2008). Thus, the uncertain reproduction of finance – here looked at via the specific case of the reproduction of securitisation – can neither be understood as the necessary outcome of the unfolding of capitalist dynamics, nor can it be seen as a mere discursive process of legitimation which would occur outside or independently of the power relations of capitalism.

In the next section, I outline the limits of functionalist accounts of finance that implicitly assume some form of agency to structures, and the limits of constructivist ‘ideational’ IPE perspectives that overlook the capitalist framework in which ‘ideas’ exist. From this critical reading of existing literature, I draw out the contours of the framework I use to
understand the case of European securitisation post crisis. I make three related conceptual claims, which are developed in turn. First, after I specify that the state-market distinction is methodological rather than ontological (Bruff 2011b) I map out the position of public and private actors in European financialised capitalism and in the neoliberal EU system of governance. I characterise the general motivations of market actors and the various pressures they face within capitalism, before turning to a conceptualisation of the state at the European level, which allows me to outline some of the more specific mandates of EU institutions and agency. Overall, this section underlines that actors often pursue contradictory objectives, and hence face ‘problems’ that they intend to solve. In the empirical chapters of this thesis, I will thus be able to show how (and why) securitisation has often been constructed and represented as a solution to such problems.

Second, I draw on constructivist insights to nuance the claim made above, and argue that actors’ motivations do not simply emanate from the structure in which they are positioned. Rather, actors’ decisions are shaped by their understanding of reality and of the constraints they face, elements which are essentially discursively mediated. Indeed, material reality, including so-called structural constraints, cannot be instantaneously known to actors, but come to their understanding through multiple discourses. It is thus important to consider how discourse and narratives – and the specific arguments embedded therein – also contribute to making (a certain version of) reality comprehensible to actors, and in turn contribute to defining actors’ motivations in relation to their environment. Third and finally, I add a distinctive historical materialist component to the constructivist framework by emphasising that discourse is always produced (and received) by actors who hold specific positions in capitalism. This is significant in that, in the unequal and power-laden capitalist system, some actors are better placed than others to produce and circulate authoritative discourse. In turn, such discourse – which can be used strategically or not – does have an effect on a variety of actors, and on how actors understand and seek to act upon their reality.

Overall, the framework developed in this chapter allows me to analyse, in the empirical chapters of this thesis, how specific actors’ discursive practices and the material context of capitalism in which they arise are related to each other, i.e. how the structure of European financialised capitalism and the EU institutions within it gives rise to actors having specific mandates and discourse, and how the production and circulation of such
discourse is more or less effective (‘makes sense’ and translates into practice) depending on who it is addressed to and in what context, for instance depending on the evolution of economic and political conditions.

2.2. Including discourse within a critical political economy framework

In this section, I argue that the reproduction of finance is not simply the result of the evolution and ‘needs of’ the capitalist structure, nor is it the result of purely discursive or ‘constructed’ processes occurring independently of capitalism. In exposing the limits of functionalist accounts that overlook the role of agency (2.2.1) and the limits of ideational approaches that take ‘ideas’ as exogenous and seemingly apolitical elements (2.2.2), I delineate the (critical) constructivist political economy framework for this thesis (2.2.3).

2.2.1. Limits to the necessary reproduction of structures

I argue that the reproduction of finance – or within it, that of securitisation – is not simply the result of the evolution and ‘needs of’ the capitalist structure. Although capitalism and the social relations of production that are at its heart are, at a meta-theoretical level, structuring, structures themselves do not have “an inherent causal effect” so that one cannot “derive explanations from the structures themselves” (Knafo 2010: 508). This is overlooked in certain historical materialist accounts which explain outcomes by their necessity for capitalist dynamics, seemingly implying that structures evolve in function of what is required for capital to (temporarily) overcome its contradictions. In the words of Knafo (ibid: 498), such functionalism can be found where “social change is (…) explained in terms of the need to overcome various problems of the system”. In addition, “critical scholars often misleadingly oppose power to agency as if those with power have no agency and those with agency have no power” (ibid: 494), reinforcing the impression that there is no real agency involved in the reproduction of structures (agency being shown to be at play only in its resistance to capitalism, i.e. when attempting to thwart its reproduction or resist its dynamics).

This is often the case when it comes to studying finance, because “finance has generally been conceived from the perspective of crisis theory and embedded within a highly structuralist framework” (Knafo 2012: 7). For instance, when some form of (abstract) agency is acknowledged to explain the reproduction of finance, it is often the capitalist
state that is shown to be a major actor (see also section 2.4). However, considering state action as necessary for the reproduction of finance or financialised capitalism (e.g. Soederberg 2014a) does not provide, in and of itself, the analysis of the causes of such action at a more concrete level (Krippner 2011; Knafo 2010, 2017). To avoid the trap of explaining state action by the observation that such action is necessary for capital, tracing the concrete agency involved in the maintenance and reproduction of structures is as important as tracing the agency involved in the occurrence of social change.

More broadly, then, to avoid such functionalist issues, structures can be “analysed from the perspective of the agents involved and the change [or lack thereof] that they generate” (Knafo 2010: 511). Thus, when looking at the uncertain reproduction of securitisation through and after the crisis, it is necessary that “we do not stop at analysing the structures underlying the current configuration of social forces, but also give due attention to the agency of those social forces” (Drahokoupil, Van Apeldoorn and Horn 2009: 4). Although some authors insist on the need to look at “the agency of resistance” (ibid), it is equally important to consider “the agency of the powerful” (Knafo 2010: 509) – precisely because it is this (often rendered invisible) agency that collectively reproduces structures.

Looking at specific powerful actors – considering the agency of the powerful in the reproduction of structures – does not however preclude flaws linked to functionalism. For instance, drawing on Gramsci’s concept of the “organic intellectual”, “particular schools of neo-Gramscian thought” have been accused of assuming that have been accused of assuming that elites can fully grasp structures (Horn 2009: 131), i.e. can “read structural dynamics, constraints and imperatives, and invent fitting political projects” (Drainville 1994: 109, cited in Horn 2009). As Horn points out, actors, even when in a position of power, should not be assumed to “skilfully navigate between structural dynamics to advance the cohesion of a political project” (Horn 2009: 131). A simple reason for this can be found in the historical materialist assertion that material dynamics take on a fetishised appearance, and, importantly, that these “fetishised articulations of everyday social existence take differentiated but very real institutionalised forms” such as the state form (Soederberg 2014a: 48). Indeed, a historical materialist understanding acknowledges that “the way in which the capitalist mode of production is organised masks social relations of power” (ibid: 16). For instance, the “fetishised appearances of
money and credit as natural objects, *while quite real to all of us,* (...) hide the relations of domination and exploitation that characterise capitalism” (ibid, emphasis added).

Historical materialism, as a method of analysis, is what allows us to “break with the world of appearances” (ibid). Such an understanding prevents us from deriving directly actors’ motivations from the material dynamics in which they find themselves, as actors’ perceptions remain within the surface appearances of capitalist social relations which are ‘quite real to all of us’. Thus, just like it is “impossible to demystify money as economic category by remaining exclusively in the sphere of exchange” (ibid: 17), it is impossible to understand actors’ motivations – and thereby agency – by remaining in the ‘deconstructed materialist understanding of capitalist dynamics’ because such dynamics, by definition, appear to actors in a different form than that which is exposed through the methodology of historical materialism. In other words, a historical materialist analysis must take seriously its own claim regarding the fetishised appearance of capitalist social relations. Thus, although a historical materialist approach usefully captures how securitisation is related to wider processes of capital accumulation (Soederberg 2014a) (see chapter 3), this role cannot, in, and of itself, explain the attitude of a variety of market actors, EU regulators and policymakers toward securitisation, and thereby is not sufficient to answer the key research questions of this thesis.

What other element(s), then, should be taken into account in order to adequately conceptualise agency? I argue that historical materialist approach can be usefully complemented by a distinctive attention to discourse grounded in neo-Gramscian thought when it comes to explaining actors’ motivations in relation to the particular segment of finance that securitisation is. In the following section, I turn to constructivist political economy and critically assess this literature. In doing so I show the need for a different type of constructivist political economy, namely one acknowledging the materiality of discourses (i.e. focusing on questions of who produces discourse in capitalism, to what aim and to what effect).

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[2] Such world of appearances is, in the case of money and credit, reproduced “by scholars, policymakers and journalists of finance who not only continually treat money as a ‘thing in itself’ but also artificially separate the spheres of exchange and production, which can be seen in the dichotomous view of the ‘real’ economy (production) and financial markets (exchange)” (Soederberg 2014a: 24).
2.2.2. Limits to constructivist ‘ideational’ IPE

‘Ideas’ have been increasingly conceptualised in International Relations (IR) and International Political Economy (IPE) in recent years (Bieler and Morton 2008: 103), either as a way to remedy some of the lacunas highlighted above or as a critique of ‘rational choice’ approaches to political science (Siles-Brügge and De Ville 2015). Although such ideational perspectives (e.g. Blyth 2002) are laudable in that they underline the role of ideas in “constituting interests and determining ranges of (imaginable) policy options and goals” (Drahokoupil, Van Apeldoorn and Horn 2009: 9), much of the self-identifying constructivist IPE literature suffers from significant weaknesses.

First, constructivist IPE tends to reproduce positivist premises by treating ideas as independent variables (Bieler and Morton 2008: 104). Although IPE is generally characterized by “non-positivist ontological and epistemological stances” (Kranke 2014: 902), much of the constructivist literature within IPE “[retreats] significantly from the classic premises of constructivism to a considerably narrower focus on the importance of ideas in and of themselves, i.e. independent of other factors and processes” (Bruff 2016: 197). Indeed, when investigating the processes through which “social facts are constructed”, constructivist scholars have tended to “disaggregate a particular institutional actor in terms of the ideas, interests and identities that have gone into its making” and have “treated [these factors] as givens (data) without a history of construction” (Konings 2015: np). By considering ideas important but exogenous, independent variables, “the constructivist project” has, Ironically, “taken on a distinctly positivist flavour” (ibid) that reinforces the distinction between ‘material reality’ and the ‘realm of ideas’. For instance, constructivist authors have explained that the “analytical frameworks of social constructivism” serve to explore “the influence of ideas, norms, identities, and ideologies on the economic practices of governments, firms, and societies” (Abdelal, Blyth and Parsons 2005: 7). Ideas are here treated as exogenous and isolated variables that impact the practices of various actors. Thus, although constructivist approaches claim that “materialist-rationalist models of political economy” are inadequate as “material factors are insufficient in and of themselves, to explain outcomes” because “by definition, they lack agency” (ibid: 11), they reproduce a similar mistake by taking ideas as independent, change-inducing variables. Overall, the problems
already identified with mainstream IR approaches (e.g. neorealism and liberal functionalism) – where “ideas are still treated as causes, as possible additional explanatory variables” (Bieler and Morton 2008: 104) – have not been overcome in most constructivist IPE accounts. Such conceptualisations obscure the fact that ideas and norms do not exist ‘out there’ but are rather embedded in discourses produced and employed by specific actors, as explained in section 2.5.

Second, constructivist IPE literature that conceptualises interests as constructed through interpretations has little to say about the reasons behind the dominance of particular interpretations and ensuing particular constructions of interests. As section 2.4 will detail, constructivist approaches are correct in underlining that material reality is always interpreted before it can be acted upon, and thus in arguing that interests are constructed through interpretation: “Interests are social constructs, not material givens, and should be analysed as such. Before they can be something that ‘does the explaining,’ they themselves need to be explained” (Abdelal, Blyth and Parsons 2005: 14). Yet, interpretation seems to be autonomous and under-problematised. To give an example (ibid: 10, emphasis added):

How globalization impacts a state depends upon how it is seen by agents within that state. Thus, while the British seek to ‘embrace’ globalization as an opportunity, the French resist ‘Mondialisation’ as an alien import. Material facts, it seems, can be very underdetermining indeed.

Here, little is said about why French and British interpretations have diverged. It is as if actors were interpreting material reality in an individual manner rather than in an interactive way, and in a vacuum rather than in a capitalist context imbued with power relations. This type of constructivist approach “fail[s] to explain why certain ideas dominate over others at a particular moment in time” (Bieler and Morton 2008: 103), because “underlying power structures promoting individual discourses are overlooked” (ibid: 105). In other words, the social relations and ensuing power relations that allow certain specific interpretations and ideas (rather than others) to emerge and become dominant are left out of the picture (ibid: 109).

This critique can also be applied to literature that uses the concept of epistemic communities. An epistemic community can be defined as a “network of professionals with recognized expertise and competence in a particular domain and an authoritative
claim to policy-relevant knowledge within that domain or issue-area” (Haas 1992: 3). Problematically, in such literature the “ideas and conceptions through which epistemic communities influence and shape policy proposals” often seem to be “formed within a political vacuum” (Horn 2009: 128). Similarly, literature based on the notion of policy coalitions often remains “descriptive” (ibid). Policy coalitions are made of “actors from various governmental and private organizations who both (a) share a set of normative and causal beliefs and (b) engage in a nontrivial degree of coordinated activity over time” (Sabatier 1998: 103). Although it is sometimes (rightly) acknowledged that members of such communities or coalitions have a common political goal, too often the ways in which “these ideas and causal beliefs [that members of such a community share] are formed is left out of the equation. It appears as if ‘ideas’ (…) are perceived as neutral and isolated from material interests” (Horn 2009: 128). Overall, when authors do not seek to understand “where and how these ‘belief systems’ emerge”, they fail to explain “why certain advocacy coalitions seem to be more successful” than others in influencing policymaking (ibid).

2.2.3. An agency-focused political economy framework

In order to overcome the set of issues highlighted in the above paragraphs, I follow Bieler and Morton (2008) and adopt a critical political economy framework and an actor-centred perspective that highlights both the importance of discourse and interpretation for determining the course of action taken by actors in capitalism, and the material basis of such discourses and interpretations.

Although the object of this thesis is the uncertain and contested reproduction of European securitisation after 2007, I look at this aspect of the ‘financial structure’ through the prism of actors involved in its remaking following its near-collapse after the financial crisis. Indeed, structures are “the result of past human interactions” (Bieler and Morton 2001: 25, cited in Knafo 2010: 508), and thus their reproduction – as much as their disruption, either being an open-ended empirical question – involves agency. In other words, it is human agency that constantly reproduces and at the same time has the potential to challenge the capitalist or financial structure. Thus, in this chapter and the following, I will be “systematically tracing the agencies involved” (Knafo 2017: 96) in the making of securitisation as a legitimate practice worthy of European regulatory support. I will
thus show “against the overwhelming impression that individuals are simply governed by transcendental structural laws, that it is still people through their agency who make history, even if they do not do so under the conditions of their own making” (ibid).

Now that it has been established that this thesis will focus on the specific groups of actors involved in the remaking of securitisation post-crisis, one must problematise the motivations of such actors, including powerful ones. Actors hold a variety of beliefs, which they use to understand and act upon their reality. As Knafo (2010: 509) puts it, “social actors must conceptualize their complex reality in order to relate to it”. Thus, actors’ “conceptions of the world should be an integral part of historical materialist analysis” (Bruff 2010: 632). More specifically, it follows from the critiques summarised above that individual interpretations of reality can neither be solely derived from the abstract analysis of capitalist dynamics; nor can they be seen as purely down to individual beliefs or the availability of free-floating ideas. This leads me to make three interrelated conceptual claims, each fleshed out in the following sections of this chapter. First, agency must be understood in relation to structures insofar as actors hold specific positions (to which specific mandates and objectives are attached) in the capitalist structure. Second however, the discursive aspect of structures must be highlighted. By this, I do not mean that structures are not ‘real’ or ‘material’; rather I argue that actors can only grasp structure (and ‘structural constraints’ in particular) through the mediation of discourse. Third and finally, although such discourse indeed participates in the materiality of structures, it must be highlighted that discourses themselves have a material basis in that discourse is always produced and received by actors who themselves are situated within capitalism. I now detail each of these claims in turn.

2.3. Actors’ positions within the capitalist structure

In this section, I show how the capitalist structure gives rise to varying mandates and objectives depending on where actors are situated within it. To be sure, actors do not have pre-set, a priori objectives and concerns that directly emanate from their position within the capitalist structure. However, in order to analyse the agency involved in the rebuilding of the securitisation market, it is useful to identify the broad concerns that pertain to specific social groups and institutions within the European financialised capitalist framework.
At a most abstract level, agency in capitalism is ineluctably capitalist agency. Indeed, “in capitalist societies – because capitalist social life is the foundation of institutions – humans enact and re-enact on an everyday basis the formalised rules, practices and conventions that privilege capital over labour” (Bruff 2011a: 491), and it is through this continued re-enactment that capitalism comes to be reproduced. In other words, given that capitalist production is the basis for human survival in the capitalist system, “the efficient functioning of this system of production will generally take a higher priority than transforming it into a more equitable set of arrangements” (ibid: 489). However, if all actors belong in the capitalist society, they engage with it in different ways depending on their position within capitalism. For Hall, there are certain aspects of the world – or at least, of its surface (see section 2.2.1) – that actors can grasp: “we come […] to think of the capitalist system in terms of the bits of it which constantly engage us, and which so manifestly announce their presence” (Hall, 1996: 38; original emphasis, cited in Bruff 2010: 630). It is important, then, to take into due consideration the fact that such manifestations, although inscribed within the capitalist structure, are not the same for all actors depending on where they are situated in capitalist dynamics and what their roles are within its public and private institutions. In sum, the position of actors in European financialised capitalism and the neoliberal EU system partly determines their motivations.

After a consideration of the reasons for – and limits of – a distinction between state and market actors in the EU, I conceptualise market actors within European financialised capitalism before turning to a more detailed conceptualisation of the EU system of neoliberal governance and actors’ mandates linked to the various institutions therein. In doing so, I map out the organisations and institutions that are key to financial and securitisation markets in Europe, and underline how actors often have contradictory objectives and motivations, and hence face ‘problems’ that they intend to solve.

2.3.1. The state-market dichotomy

In European integration studies, both neofunctionalist and intergovernmentalist accounts tend to “take the separation of the state and market (…) as their ahistoric starting point of investigation” (Bieler 2005: 514). In politics and political economy, the ‘rise of’ financial markets such as the development of the securitisation market is often taken as an
exogenous factor that undermines state power (Brassett and Vaughan-Williams 2012: 662). As Aalbers and Engelen (2015: 1603) point out, market developments are seen as “the outcome of processes of state rollback” through which politicians have transferred power to the market and hence “lost it themselves” (Swedberg 2012: 14). In all of these examples, an underlying assumption is that ‘the state’ (a benevolent force) defends the ‘general interest’ against ‘the market’ (a malevolent force) which tries to advance its own private interest. In other words, the state is conceptualised “as something that possesses inherently more benign properties than ‘the market’” (Bruff 2011b: 97). Considering, on the one hand, that “the state (…) does not contain intrinsic, impersonal properties that are benign” (ibid: 96); and on the other that markets are, as much as states, constituted by social relations and hence permeated with power relations, I reject a strict dichotomy between states and markets. Thus, and although the distinction between the state (public sphere) and the market (private sphere) can be justified for analytical purposes and for clarity of exposition, it must be stressed that such a separation is only “methodological and not ontological, or ‘real’” (Bruff 2011b: 82 with reference to Gramsci 1971: 159).

With these considerations in mind, I turn to the varied positionality of market actors (in relation to state institutions) and state actors (in relation to the ‘market economy’), on which I will notably build when detailing the motivations of state and market actors in relation to securitisation specifically in chapter 3.

### 2.3.2. Market actors

As Karl Polanyi (1957) and subsequent scholars have argued, markets are far from being natural or purely technical forces opposed to the so-called political sphere; they “are rather fully social institutions [reflecting] a complex alchemy of politics, culture, and ideology” (Krippner 2002: 782). In fact, the very existence of markets depends on the action of states. In capitalist economies, and in that of the EU in particular, the state provides the key institutions and infrastructures that allow markets to emerge and function over time (Van Apeldoorn and Horn 2007; Tordjman. 2004). Once in existence, markets are operated by private actors (private companies), although state institutions do also get involved in markets. For instance, states issue sovereign debt on financial markets, and state institutions or agencies elaborate and enforce numerous market regulations (see below, and see also chapter 3).
The objectives and incentives of market actors must be understood in relation to the economic logic of the capitalist system, including in its most recent developments. First, although there is a diversity of private actors on financial markets (to cite but a few: investment banks, hedge funds, mutual funds, investment funds, insurance companies, pension funds, special purpose vehicles), all of them face competitive pressures on capitalist financial markets. By definition and in practice, private corporations must be profitable in order to maintain their existence. In other words, (private) market actors must secure financial accumulation, and must secure higher levels of profits than others in order to survive under capitalism. The ways in which market actors respond to such pressures is, however, an open-ended question.

Second, in addition to these general competitive pressures, actors also face various pressures and are exposed to incentives that are specific to the time periods and markets in which they operate. Although the extent and historical significance of such phenomenon is still debated (see section 2.4 for instance), the increased importance of financial sector accumulation in the operation of the global economy since roughly the 1970s has been highlighted by a wide range of authors (Epstein 2005; Krippner 2011; Lapavitsas 2014). These recent ‘financialisation’ tendencies of capitalism have modified the competitive logics of markets. An important change has been the emergence and affirmation of “shareholder value capitalism” (Williams 2000; Lazonick and O'Sullivan 2000), whereby it is increasingly the value on financial markets that determines the financial worth and related viability of private corporations or individual assets (see chapter 3 on the specific case of asset-backed securities).

Regarding banks more specifically, the model of market-based banking that is now prevailing in Europe (Hardie and Howarth 2013) is related to this shareholder value imperative. As will be detailed in chapter 3, this means that banks, in order to remain competitive on increasingly globalised financial markets, are particularly concerned about securing high levels of shareholders’ returns, calculated as returns on equity (RoE) (Admati et al. 2011). As the empirical chapters of this thesis will show, the 2008 crisis triggered difficulties for the banking sector, and European banks in particular have struggled during the crisis with the RoE they could guarantee to shareholders. As chapter 4 will show, after the crisis European banks have faced increased capitalisation pressures – that is, pressures to increase their capital to asset ratios. This led them to seek the use of
securitisation techniques as a way to alleviate such pressures and meet the potentially contradictory imperatives of higher capitalisation and sustained levels of returns for their shareholders. In chapters 4, 5 and 6 I will also explain that large European investment banks, which are the main actors of the securitisation industry, have faced liquidity shortages from 2007 onwards in the context of the global credit crunch, and a liquidity crisis on the securitisation market itself. This has been a pressing (and aggravating) issue that the industry and its representatives (lobby organisations) have attempted to solve in various ways, and notably through the use of securitisation.

Third, in the specific context of post-2008, the legitimacy of finance and its actors was challenged, throwing in particular the derivatives and securitisation sectors (most closely associated to the crisis) into a deep and enduring legitimacy crisis (see chapter 1). I detail in chapter 3 the reasons why, and specific mechanisms through which, reputation, legitimacy and confidence are crucial to the securitisation market and its participants. Finally, market actors must, to an extent at least, comply with existing regulation, be it at the national or EU level. Market actors are not, however, passive in the face of such regulation. Rather, they seek to influence the content and direction of regulation, as will be detailed in the next chapter. I now turn to a conceptualisation of the state, and of some of the more specific objectives pursued by state institutions and agencies.

2.3.3. State actors
Following a critical political economy of neo-Gramscian inspiration, I conceptualise the state as “a social relation that reflects the changing balance of forces in a determinate conjuncture” (Drahokoupil, Van Apeldoorn and Horn 2009: 7). At a more concrete level, the state is the “materialization of human thought/action” (Bruff 2011b: 94). As the state is “not a ‘thing’, with its own self-reproducing social purpose” (ibid), the human actions that constitute it do not exist in a neutral environment but are themselves embedded in the capitalist system, i.e. embedded in the structure and power relations of capitalism. However, although state institutions are constituted by human practices and hence permeated with the same type of power relations that exist in civil society (rather than being made of essentially different relations) (Bruff 2011a), the state is different from ‘society’ in that it is the “site where collectively binding decisions” and policies are made (Drahokoupil, Van Apeldoorn and Horn 2009: 9). When making decisions and
elaborating policies, state actors which occupy a specific position in the capitalist structure face various types of pressures, some of which are markedly different from those faced by market actors. Importantly, ‘the state’ cannot be taken as a homogenous actor; a variety of institutions and agencies constitute what we call the state, and each face particular types of pressures. Before I turn to this however, a conceptualisation of the state at the level of the European Union is necessary given that I focus throughout this thesis on actors active at the European level (see chapter 1). Examining the broad logic of the EU will help understand the particular declinations of state actors’ motivations within this institutional framework.

When considered at the European level, ‘the state’ includes not only national member states, their government and their representation in the Council of the European Union (and its declinations as the European Council of specific ministries) but also the other “institutional structures of the EU” (Drahokoupil, Van Apeldoorn and Horn 2009: 6). Among these the European Commission and the European Parliament are common to all EU member states. In addition, the ‘European system of financial supervision’ (introduced in 2010 and implemented in 2011) consists of the European Systemic Risk Board (ESRB) and three European Supervisory Authorities (ESAs), responsible for the regulation of banks (European Banking Authority or EBA), capital markets (European Securities and Markets Authority or ESMA) and insurance and pension companies (European Insurance and Occupational Pensions Authority or EIOPA). For countries members of the Economic and Monetary Union (EMU), the ECB is the common central bank and is also in charge of supervising large Eurozone banks (see below). The state, represented at European level by all of these institutions among others, remains “the quintessential arena of contemporary politics” (ibid). In fact, when it comes to providing “the regulatory framework that allows the capitalist market economy to function”, the EU has increasingly played a “key role” (ibid: 12).

This role, it must be noted, is not neutral. The EU, “since the end of the 1980s” at least, has undergone “a thorough neoliberalization” so that European governance has “become a supranational form of neoliberal governance” (ibid: 4). Neoliberalism can be defined as an (elite-driven) project that assumes that “human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade”
(Harvey 2005: 2). Such an evolution did not “take place without struggle”, and as such it must be “understood as a political project” rather than a mechanical or natural evolution (Drahokoupil, Van Apeldoorn and Horn 2009: 4). For instance the deepening of practices characteristic of the ‘new constitutionalism’ described by Gill (1998), whereby neoliberal principles are constitutionalised in core treaties of the EU, was “strongly influenced and shaped by transnational forces, above all financial and non-financial firms which developed an increasingly global orientation” (Bieling and Jäger 2009: 92; Van Apeldoorn 2002). Ultimately, the “political project [of the EU] reflects the agency of a dominant set of transnational social and political forces, [and is] articulated ideologically through the discursive and political practice of a multitude of (transnational) actors, such as expert groups, associations, lobby groups, think tanks, private forums and planning groups” (Drahokoupil, Van Apeldoorn and Horn 2009: 12). Through these networks of actors, “certain interests are brought to the fore and come to underpin the EU’s political discourse and shape the content of the regulatory framework it seeks to put in place” (ibid).

This regulatory framework, then, is underpinned by “principles of disciplinary neoliberal norms and macroeconomic austerity” (Cafruny and Ryner 2007: 148). For instance, the Treaty of Maastricht (articles 105 and 107) has made the European Central Bank independent and focused exclusively on price stability, and as a result “policy making is ‘locked into’ a monetarist framework to an unprecedented degree” (ibid). In parallel, the Stability and Growth Pact (SGP) is intended to prevent “attempts by individual member states to ‘free ride’ on policy credibility by pursuing expansionary fiscal policies without running the risk of a proportional rise of interest rates” (ibid: 149). This trend of fiscal disciplining has only increased following the financial crisis and the Eurozone sovereign debt crisis, so that the EU has remained “caught in an ordoliberal iron cage” (Ryner 2015: 275). Indeed, after the “recasting [of] the narrative of the financial crisis from one of dysfunctional financial markets to one of public finances and competitiveness” (ibid: 282), the crisis management pursued in Eurozone consisted of extending “an accumulation strategy and a hegemonic project based on ordoliberalism” (ibid). Ordoliberalism is “a particular variant of neoliberalism” (ibid) based on a theory of market efficiency and depoliticisation through politics (Bonefeld 2012). The new ‘post-crisis’ macroeconomic governance of the EU – for instance, the Treaty on Stability, Coordination and Governance (TSCG), the EuroPlus Pact and the ‘Six-Pack’ on
macroeconomic surveillance – is illustrative of such a deepening of neoliberal (or ordoliberal) policies in recent years (Ryner 2015). In addition, these economic policies have taken on an increasingly authoritarian character based on the proliferation of laws and notably constitutional laws (Bruff 2014).

I now turn to the specific mandates and objectives pursued by European institutions within this broad neoliberal legal framework. All European institutions face reputational pressures linked to the imperative of reproduction of their own institutions. Indeed, the state also “depends on public support” as there are, “beyond [exigencies] of economic performance and capital accumulation”, those of “popular control and legitimacy [that] provide a further (sometimes contradictory) set of concerns for policymakers” (Stritch 1991: 292). Thus, the legitimacy of the EU project – which underpins the very existence of all EU institutions – can be seen as a general concern shared, to varying degrees, by all EU policymakers and regulators.

However, the succession of economic problems resulting from the contradictions of the neoliberal project pursued by the EU and its member states (Cafruny and Ryner 2007: 154) have caused “legitimation problems” (ibid: 141), evidenced by the 2005 French and Dutch ‘no’ to referendums on the European Constitution. Indeed, when “economic growth slows and welfare state retrenchment proceeds” from neoliberal economic governance, the “social accords and distributive coalitions that lie at the heart of the European social order” come to be endangered (ibid: 157). The response to such economic and legitimacy problems has been “further and deeper neoliberal reform” (ibid: 154), so that in fact the contradictions of the neoliberal EU project have only aggravated in recent years. The global financial crisis, the Eurozone debt crisis and the worsening of economic conditions in Europe (e.g. low economic growth, higher unemployment, etc.) have further threatened the legitimacy of EU project since 2007. For example, the financial and economic crisis that began in 2007 is believed to have “sapped support for the euro and lowered trust in the European Central Bank” (Jones 2009: 3), making the EU “vulnerable to a decline in citizens’ support” (European Parliament 2014a: 9). The post-2007 period of crisis and the ways in which crises have been mediated through discourse (see section 2.4) have, overall, led to a “crisis of mass political legitimacy of the European project” (Jessop 2009: viii) and was met with increasingly ‘authoritarian neoliberal’ responses (Bruff 2014). During the financial crisis and as its consequences
proved enduring, one of the (many) objectives pursued by public actors in the EU was thus to restore their legitimacy by claiming to the public “that the conditions which led to crisis [could] be controlled and regulated” (Morgan 2010: 20).

These broad legitimacy and reputational concerns are articulated in differentiated ways within each institution. For instance, the legitimacy of financial regulators (the European Supervisory Authorities but also DG FISMA responsible for finance within the Commission) is broadly related to their ability to design and implement regulation that both ensures financial stability (especially in the post-crisis period where such question was salient) and allows financial actors to secure the type of accumulation deemed coherent with the competitive neoliberal EU project. The legitimacy of the Commission’s DG ECFIN, for its part, is more closely related to economic growth and the employment rate, and to debt to GDP ratios in individual member states, in line with the neoliberal orientation of the EU. This is significant when seeking to explain how actors within these institutions or departments perceive securitisation, but also for understanding how external actors (re)frame their discourse in attempts to make them fit with the concerns and mandates of their targeted audience (see chapters 6 and 7 in particular).

The ECB has a particular role within the EMU as guarantor of the value of the Euro (officially seeking to keep inflation at or below 2%), but at the same time given that it is the ‘bank of banks’ it is co-jointly responsible (along with regulators and supervisors) for banking stability. However, the objective of banking stability (potentially through more stringent regulation and capital requirements) can be, in the neoliberal framework of the EMU and in the context of globalised financial markets, at odds with the competitiveness of the European banking sector on a global scale, and hence at odds with the value of the Euro currency (Stockhammer 2013, 2016). Finally, policymakers that are elected (at the European Parliament for instance) face particular electoral concerns. Indeed, elected bodies “are held accountable for policy decisions and will try to behave in a way considered favourably by their electorate” (Woll 2013: 559), especially concerning salient issues. Salience can be defined as the degree of public and media attention attached to an issue (ibid). In the occurrence of a severe disruption of ‘the normal’ the salience of a profound financial or economic crisis is such that the political legitimacy of public authorities can be endangered. Thus, the way state actors make decisions and enact
policy is also influenced by the fact that not all objects of public policy attract the same level of public engagement.

These various mandates, motivations and pressures – and the extent to which they have translated into practice and policies – will be explored in more detail in the empirical chapters of this thesis. In particular, it will be shown that the financial crisis of 2007-2008 had a strong impact and heightened such pressures. Indeed, as the crisis exposed the disastrous consequences that financial markets could have on financial stability as a whole and on the so-called real economy of the EU, the overall imperative to ensure the competitiveness of the EU economy along neoliberal lines was complemented, officially and more overtly than before, by the need to safeguard against (further) massive disruption to the functioning of financial markets. In the empirical chapters, I will also look at the potential for the co-existence of contradictory objectives within the EU or even within specific EU institutions, and I will examine the ways in which actors have sought (if at all) to reconcile them. For instance, the European Commission as a whole may have certain objectives which can diverge from the aims pursued by DG FISMA or DG ECFIN, and/or from the individual aims pursued by policymakers. Another example is that of institutions that may seek to achieve certain objectives (e.g. the ECB’s official objective of low inflation and banking stability) while attempting to safeguard legitimacy and reputation (e.g. the reputation of the ECB also depends on how external actors assess the risks that the ECB takes when intervening on the market through QE – which it does notably to ensure banking stability).

Again, it must be emphasised that the above claims do not mean that state institutions in capitalism act in predetermined ways, i.e. in ways that guarantee the reproduction of capitalism (Clarke 1991). For instance, although the legal framework of the EU is a neoliberal framework, it does not follow that EU institutions automatically and necessarily fulfil the needs of the neoliberal economy, or automatically and necessarily collaborate with market actors in the creation and supporting of (financial) markets. Rather, the objective here is to emphasise that the specificities and mandates of institutions within capitalism do matter, especially when it comes to analysing discourse. Indeed, given that the focus of this thesis is the legitimisation and reproduction of the securitisation industry notably through its (attempted) re-legitimisation, I will look at how public and private discourse about securitisation have had variegated effects depending
on how such discourse has been fitting with (any of) the objectives pursued by, and concerns of, EU and market actors.

2.4. The discursive dimension of ‘material constraints’

As the first set of conceptual claims above has made clear, it is important to consider the position of social groups acting within capitalism. Yet following from the points developed in section 2.2 I also argue that the capitalist structure does not *predefine* social groups’ actions in relation to the constraints they (believe they) face. Indeed, discourse (which is itself anchored in capitalist social relations, see section 2.5) is crucial in determining actors’ perceptions of reality, on the basis of which they act. Hence, it is more accurate to say that structures are mediated through discourse, so that discourse is fully part of the construction and determination of actors’ *perceived* constraints. A significant illustration of this second claim – particularly relevant for the case at hand – is found in arguments about the structural power of finance in relation to the state. Indeed, as I show in this section, invoking the structural power of finance in the economy is, problematically, often synonymous with a mystification of such structural role, i.e. it is assumed that this role is evident to actors and notably to actors in charge of regulation. By contrast, I argue that the constructed dimension of the role of finance in the economy must be analysed when considering the ‘interests’ of and decisions made by policymakers.

As mentioned, from a neo-Gramscian perspective the state is a social relation “that reflects the changing balance of forces” in a given conjuncture, and the “mechanisms that ‘condense’ or ‘reflect’ such a balance include not only direct influence (…) but also indirect pressures and constraints, or structural power” (Drahokoupil, Van Apeldoorn and Horn 2009: 7). Indeed, “since state actors are dependent economically and politically on the (capitalist) economy, they are structurally dependent on those who control the production process” (ibid: 8). In other (more abstract) words, the reproduction of the state depends “on the reproduction of the capitalist social relations”, notably because the material necessities of the state (the “use-values appropriated by the state”) are produced via capitalist relations (Clarke 1991: 10). Thus the existence of the state is “subordinated to the need to secure the expanded reproduction of capitalist social relations of production” (ibid). This gives capital the “central role of private enterprise” in an
“economic order whose performance is vital to the immediate interests of all members of society” (Jessop 1983: 141). In particular, the structural role of finance in the European economy is often invoked as a structural power that would explain regulation favourable to this sector (Bieling 2014: 348) or more broadly would explain state decisions that support the reproduction of finance.

Yet authors following such a logic are not always clear in specifying how concrete state actions are constrained by accumulation necessity or “the interests of capital” (Jessop 1983: 140). Indeed, and as briefly evoked in section 2.2.1, although capital in general – defined as “the overall circuit of capital considered apart from the particular, competing capitals through which the circuit is reproduced” – is “a real structure with specific effects”, it is not an “agency with powers of calculation and control over production, distribution, or exchange” (ibid: 146). The capitalist state, in other words, is not “a functional agency that can resolve [the] contradictions” inherent in the reproduction of capital (Clarke 1991: 9). At a more concrete level, considering the agents that form state institutions, it is equally unclear how such structural constraints can be or come to be known to state actors.

This is particularly the case regarding finance and its ‘structural power’. First, given that it is still contested within academic and policy circles “how far the finance-dominated regime of accumulation has progressed and consolidated” (Bieling and Jäger 2009: 90) one can legitimately wonder what scope there is for the ‘structural power’ of finance to be known to policymakers. Second, acknowledging that there is a consensus – albeit “rather vague” – that finance-led growth is an “important feature of present capitalism and promoted by global and European developments” (ibid) leads to assuming, at best, that state actors would be vigilant to the ‘health’ and ‘stability’ (the adequate functioning over time) of finance as a whole. An example of this would be the ‘bail outs’ of large banks by numerous governments (i.e. taxpayers) during the financial crisis. However, it is not clear how a variety of actors could ‘know’ (and act according to) the degree to which specific sectors of finance – let alone specific financial mechanisms, financial products or asset classes within them – are essential to the economic growth they seek to maintain (e.g. as a way to achieve broader legitimacy, see above). In simple terms, given that it is difficult to pinpoint and measure the importance of each component of ‘finance’ in capitalism, it is equally difficult to argue that the financial sector wins regulatory battles
(which each concern specific points of regulation targeting specific elements of ‘finance’) on the basis of its structural power. In summary, the structural dependence of the capitalist state is not self-evident; it is “too simple” to see “political initiatives aiming to transform the surrounding institutional and regulatory setting” of finance as the mere “expression of the structural power of transnational financial firms” (Bieling 2014: 348). In other words, the “location of social class forces in production processes” does not directly determine “interests and political strategies” (Bieler and Morton 2008: 120), even in the case of finance.

Instead, the political economy framework developed here allows to better address the question of the structural power of finance. Namely, when considering the potential for the financial sector to be a ‘real’ or ‘material’ constraint, one should also consider how these constraints and structural power are mediated through indicators and wider discourse, and in turn are grasped by actors who act in or in relation to finance. Indeed, structural power is constructed, not in the sense that it is necessarily not or less ‘real’ but in the sense that regardless of this reality, competing sectors will seek to be perceived as structurally important, i.e. key to production and to state legitimacy, for instance because such sectors seek to secure state support. To come back to a higher level of abstraction, one can say that the capitalist state seeks to enforce what appear to be the conditions for accumulation (and which may in fact not be so). It must be emphasised here again that this is not because the state strives to serve some abstract interest of capital determined outside of it. Rather, it is because it seeks to ensure its own reproduction via the reproduction of capital relations, and to ensure the material reproduction of society (which also depends on capital relations in a capitalist economy).

De Goede’s (2003) work, within the poststructuralist tradition, is here useful to illuminate some of the deeper assumptions that underlie these claims. She explains for instance that material reality does exist, but “material reality (…) is never knowable without human intervention and interpretation” (ibid: 92). Indeed, any grasping of reality (including economic reality) “requires definitions, categorisations and classifications” (ibid: 90). In other words, “before events and phenomena can be discussed in policy forums [or otherwise] (…) they must be ‘rendered into information’, in the form of, for instance, ‘written reports, drawings, pictures, numbers, charts, graphs, statistics’” (ibid: 95). What we often take as facts, then, “especially economic and financial facts”, are in fact always
“produced through human writing, reporting, calculating and analysis” (ibid). Thus, given that it is “these discourses that bring economic and financial reality into being, and that render certain (policy) interventions more possible than others” (ibid), analysing such discourse is absolutely crucial when analysing the making of specific regulation that hinders or supports or otherwise modifies financial activities such as those of the securitisation market.

Such an endeavour is all the more necessary given the specific topic and time period under consideration. Concerning the topic of securitisation (see chapter 3) it is significant that “the more one analyses the realm of money and finance, the more one realises that an attention to discursivity is required to come to an understanding of it” (Leyshon and Thrift 1997: 289). Such an insight will inform my conceptualisation of the securitisation market in chapter 3, where I will argue that securitisation is a tool for enhanced financial accumulation not only insofar as it is anchored in wider (exploitative) capitalist relations, but also insofar as specific discursive and legitimation practices ensure sustained market value and liquidity for securitised products on financial markets.

Concerning the timeframe under consideration, although it is always relevant to identify what “discourses of the right and proper” limit financial agents or what “regulative practices (…) govern the limits of the financial domain” (De Goede 2003: 95-96), the post-crisis period examined here gives rise to a slightly different type of challenge. Namely, in the aftermath of a financial crisis (or other significant disruption to the ‘normal’ course of events), previous interpretations or understandings of the world are called into question, regulative practices are being reconsidered and the boundaries of the ‘legitimate’ are being redrawn (Morgan 2010; Engelen et al. 2011; Orban 2016). Given the puzzling legitimacy shift examined in this thesis – securitisation is known to have played a key negative role in 2007-2008 financial dynamics, yet from 2012-2013 onwards EU financial discourses, policies and regulations show that securitisation is increasingly seen by a variety of actors to perform an important, useful and legitimate role in the European financial sector and in wider European economy (see also chapter 1) – it is crucial to interrogate the type of discourses that have (re)made (or sought to remake) securitisation legitimate in the eyes of numerous European actors. In other words, as the legitimacy of securitisation is not “something innate” but rather is “socially constructed and, as such, always has to be made”, the present research is “concerned with..."
the processes and practices of such making” (Christophers 2011: 114-115), including (but not limited to) discursive practices of legitimation.

Thus, in the case of securitisation it will be important to analyse not only the nature and logic of arguments about securitisation, but also the “technologies of representation” (Christophers 2013: 59) through which securitisation has been widely represented and apprehended. Indeed, as I will show in the empirical chapters of this thesis, the embodiment of particular political ideas about securitisation was not only significant in explicit ‘ideas’ and arguments about securitisation, but was also prevalent in the widely accepted data and categorisations that represented securitisation, and which often appeared normal, natural and apolitical. This allowed a specific perception of reality to emerge, leading to corresponding decisions and actions, notably on the part of policymakers.

In a similar way, when economic, financial or political crises are said to be constraints or windows of opportunities, it must be emphasised that it is not just crises in and of themselves that are restrictive or enabling, but also the way in which crises are apprehended (i.e. through particular indicators), discursively constituted, and interpreted. Thus following Hay (1996: 253) I argue that a crisis is “a moment of decisive intervention” and what matters, therefore, is not just how actors respond to the crisis, but also who is able (and in what way) to “identify, define and constitute crisis in the first place” (ibid: 254).

2.5. The material basis of discourse in capitalism

Finally, I argue that there is a material basis to discourse, not in that discourse is truthful to or a direct representation of structures (it never is, see above), but in that discourse does not exist outside of capitalism precisely insofar as actors who produce and are influenced by discourse are situated in capitalism. Thus the social relations of production and power structures that underpin capitalism are significant not just in that actors are differentially situated within them and hence do not face the same types of pressures (see section 2.3), but also in that discursive processes themselves emanate from capitalist relation of production and power relations. It is here, then, that “the turning point toward
historical materialism is made” within a constructivist framework (Bieler and Morton 2008: 105).

I draw on neo-Gramscian perspectives that “insist on the discursive constitution of reality” (Drahokoupil, Van Apeldoorn and Horn 2009: 9) and that point out, in opposition to mainstream constructivist IPE, that “ideas do not float in an endless universe of meaning” but are rather “produced by human agency in the context of social power relations, and as such are also linked with the strategic action of social (class) actors” (Van Apeldoorn 2002: 19). Beliefs, values, interpretation, knowledge, discourse and other notions deemed to pertain to the realm of ideas are in fact “shaped within [the] power relations [of capitalism]” (Drahokoupil, Van Apeldoorn and Horn 2009: 9).

The simple reason for this is that discourse – and the ideas, arguments and representations embedded therein – is not autonomous. It is always produced by actors. No discourse or idea can emerge on its own, nor can it be influential on a standalone basis. Discourse is rather one of the media through which agents act: “Discourse does not simply act upon people; rather, people act through discourse, so the world cannot be reduced to discourse alone” (Bieler and Morton 2008: 122). In sum, the production, circulation and reception of discourse, which itself shapes’ actors’ interpretation of reality, is made possible by the capitalist structure. Discourses and narratives, then, are not to be considered apart from material dynamics. Rather, analysing discourses must be done whilst considering the material relations of production and exchange of capitalism.

This is notably the case regarding the emergence of discourse, and particularly the type of widespread, publicly available discourse that is studied in social sciences. Discourse, as mentioned, is produced by actors who hold specific positions in capitalism; it follows that some actors are better able or better placed to produce and circulate discourse. Indeed, although “all humans have conceptions of the world, no matter how fragmentary and

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3 Considering that “common sense is not just produced and fought over; it is the precondition for such production and conflict to take place at all” (Bruff 2010: 617), one could argue that perceptions and interpretations are not just produced and fought over but are also, at the ontological level, the precondition for such production and struggles to even exist. However, as the scope of this thesis is restricted to explaining the emergence of pro-securitisation attitudes within European institutions (and corresponding regulation) I focus on the formation of representations and perceptions of securitisation that can explain such attitudes and leave aside the formation of a wider ‘common sense’ at the European level.
composite” (Bruff 2008: 68), and although all humans can and do produce discourse that reaches their immediate social circles, not all humans in society are in a position to produce politically relevant discourse. I define politically relevant discourse as discourse that is considered an authority on a topic, and/or that is circulated through official, recognised media, be it news pieces or official institutional publications, and thereby reaches a wide and/or influential audience. This type of discourse, then, is not solely about ‘ideas’, but is rather about which ideas are concretized and articulated (strategically or not) through the agency of specific actors (Bieler and Morton 2008: 121) and with what effect.

Thus, the production of discourse is related to the context of capitalism in two chief ways. First, the actors producing discourse are situated in capitalism, and this position, in the first place, determines their very ability to produce politically relevant discourse. Indeed, given that “capitalism is not just a historically specific means of organizing production” (Bruff 2011a: 489) but is also “a mode of exploitation [and] a relationship of power” (Wood 1981: 19, cited in ibid), not all social groups have the same resources and authority – in other words, power – to produce and circulate discourse. For instance, as mentioned in section 2.4, the mediation of economic reality – its discursive rendering into existence, on the basis of which actors grasp such reality – requires “definitions, categorisations and classifications” (De Goede 2003: 90). Yet this type of discursive mediation is not randomly done by individual actors; it “requires a large and reliable statistical apparatus and adequate financial resources” (ibid). Going back to the case of epistemic communities and policy coalitions, then, these groups are not “detached from social structures and context” (Horn 2009: 129) notably in that it is often their privileged position within capitalism and its institutions that allow them to collectively produce and circulate politically relevant/ influential discourse. Hence, “the role of expert groups in the transformation of corporate governance is essentially political, rather than a question of expertise and technical detail” (ibid). In the case of elites or ‘organic intellectuals’: “rather than benefitting from ‘structural literacy’, it is the hegemonic position of the political project which they [organic intellectuals] are organically linked to which

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4 Although I do not use the Gramscian terminology of “organic intellectuals”, I distinguish between actors producing discourse (all humans) and actors producing politically relevant discourse, so that the latter can be seen as a specific form of ‘organic intellectuals’ (I do not consider all actors contributing to the sedimentation of common sense (Bruff 2008) but rather only consider actors contributing to the rehabilitation of securitisation).
provides them with a position which is favourable to their recommendations and policy advice” (ibid: 131). In sum, the position of actors or groups in the capitalist structure allows them to have more or less authority on an issue, more or less economic resources to produce and circulate discourse in various forms and in various fora, which gives them more or less access to other (influential) actors such as key decision-makers. For example, I will analyse in the empirical chapters what groups of actors have been considered ‘experts, and how their discourse has the potential to be perceived positively in regulatory and policymaking circles because such discourse is recognised as well-informed, authoritative, ‘apolitical’ and therefore closer to ‘the truth’.

At the same time I will insist that context always matters: I will show that crisis circumstances can de-legitimise or re-legitimise specific expert discourse, so that ‘expertise’ in and of itself does not guarantee an influential voice in policy debates. Another illustration of these points will be that the economic means and financial resources to produce and circulate discourse are important, so that for instance large financial firms, whilst not always recognised as ‘independent experts’ on financial regulatory topics, have enough money and economic power to convincingly articulate and circulate arguments that will reach a wide audience. Finally, keeping in mind that “theory is always for someone and for some purpose” (Cox 1981: 128) such power can be used strategically (although it is not necessarily the case, see below) to disseminate a certain view of the world or specific arguments, for instance in hopes to advance a regulatory agenda. The content of discourse, then, is also related to actors’ position in capitalism, so it is important to consider the “economic significance” of “the promotion of certain discourses, in favour of particular interests and purposes” (Bieler and Morton 2008: 123).

Second, discourse is directly related to the capitalist context. Rather than being a realm existing independently of it, discourse has an effect on actors, and hence on their perceptions, motivations and actions. As mentioned in section 2.2, the reproduction, evolution and disruption of structures is not a mechanical affair; it is the product of (multiple) agency. Thus, if certain types of ideas come to be circulated through discourse and the agents that produce and promote them, such ideas and arguments can become widely influential and in turn can result in changes to (or ensure an enduring lack thereof) structures. Thus, regardless of whether it is “‘used instrumentally’ and ‘disingenuously’
or not”, discourse is “always relevant” (De Ville and Orbie 2014: 154), precisely because it does have an effect regardless of the original intentions of those who produce and reproduce it. It follows from these conceptual considerations that it is essential to analyse how the capitalist structure, at specific points in time, allows actors (collective or individual) who are “fundamentally linked to and thus part of social groups” (Bruff 2008: 54) to produce and circulate discourse, and the effect such discourse has. It is by “acknowledging the location of these actors within the social relations of production, that is, the underlying power structure” that it will then be “possible to address the question as to why a certain set of ideas, rooted within these material relations, dominates at a particular point in time” (Bieler and Morton 2008: 123).

Going back to the case of securitisation, the framework developed here will be key in examining the emergence of increasingly favourable discourses and attitudes towards securitisation at the EU level, even among policymakers initially willing to restrict the activities of the securitisation industry. Namely, in order to explain why and how the “political potent perception” of securitisation as legitimate has come “come to achieve the [apparent] hegemony that it now enjoys”, this thesis will explore the recent and “contested history of boundary negotiation” (Christophers 2011: 112) that has resulted in the endorsement of securitisation at the EU level. Following on from the agent-centred framework outlined above, this thesis will analyse the ways in which agents or social groups have attempted to influence the redefinition of (financial) legitimacy boundaries in an attempt to influence the elaboration of regulation around securitisation. Tracing the origins of such change will require taking into account the content of discourse (for instance, specific and often technical arguments that seek to place securitisation on the ‘right side’ of the legitimisation boundary); the relative position and power of actors concerned with securitisation and involved in its (re)making, and how these translate into capacity to produce and circulate discourse; the channels and fora through which different social groups can share specific types of discourse; and finally the effect (intended or not) such practices have had on how various actors perceive and seek to act upon European securitisation over time.
2.6. Conclusion

I have developed here a critical political economy framework that underlines both the discursive dimension of structural or material constraints and interests, and the anchorage of discourse in the capitalist structure, i.e. a framework that considers the importance of discourse and representation whilst not shying away from addressing the *cui bono* question “intrinsic to political economy” (Bieler and Morton 2008: 113). I have shown that historical materialist analyses and mainstream constructivist approaches are incomplete on their own to explain the evolution of actors’ stances toward securitisation. I have then argued that constructivist approaches as understood by neo-Gramscian political economists are more useful in that they have incorporated the analysis of discourses into rigorous political economy analysis. Thus, this actor-centred political economy framework simultaneously considers the constructed and contingent nature of actors’ motivations, whilst considering the materiality of perceptions, interpretations and discourse. Rather than seeking to demonstrate “the centrality of [so-called] nonmaterialist forces in the realm that appears most resolutely materialist - the international economy” (Biswas 2011: 672), I have developed a framework that will allow me to show, in the remainder of this thesis, that actors’ motivations and perceptions are materially constructed. In other words, “what is denied here is not that objects are constituted through discourse; instead the rather different assertion is made that this is itself a material social practice: a practical activity developed through means of social production and reproduction as a material relation” (Bieler and Morton 2008: 123). Such a framework allows to understand that – and empirically analyse how, in the case of securitisation – the prevalence of certain perceptions and interpretations over others at a certain point in time is determined by specific and contingent power struggles in which a multitude of actors, who themselves hold specific positions in the wider capitalist structure, seek to influence (through material and discursive practices) such interpretations and hence the actions of others.

Overall, I acknowledge that “historically contingent, contradictory and open-ended social relations of production” are central to this thesis, but equally I consider that “the role of ideology, ideas and identities is [also] crucial in the (trans)formation of social formations” (Drahokoupil, Van Apeldoorn and Horn 2009: 5). As mentioned, however, although ideas that form actors’ conceptions of the world are “fundamentally oriented
towards our [capitalist] conditions of existence” they are “not mere expressions of material factors” (Bruff 2010: 629) – as such, analysing specific and contingent actors’ interpretations of the(ir) world and motivations in relation to securitisation will be a central task of this thesis. Before I apply this broad framework to the empirical analysis of the reproduction of European securitisation in the post-crisis period, the next chapter turns to a conceptualisation of securitisation per se. In doing so, I build on the conceptual claims made here to specify how state and market actors benefit from, relate to and (discursively and otherwise) act upon securitisation in the context of the neoliberal EU legal system, which itself is embedded in the wider capitalist structure.
CHAPTER 3

Conceptualising securitisation: the commodification, circulation and market valuation of social relations of debt

3.1. Introduction

Now that chapter 2 has set the broader theoretical framework for this research and has conceptualised the role of public and private actors and their discourses in the reproduction of financialised capitalism, the present chapter provides a more specific conceptualisation of securitisation itself. According to the theoretical insights outlined in chapter 2, understanding actors’ motivations and decisions around securitisation requires understanding what securitisation does, in structural terms, and how actors are positioned, specifically, on and in relation to this market. I thus analyse securitisation from an actor-centred perspective, looking in particular at issuers, investors and regulators. I conceptualise securitisation as a political process and a market through which financial actors (notably large investment banks) channel, structure and circulate commodified social relations of debt. Throughout the chapter, I detail the different functions that securitisation performs and the benefits it brings to a variety of actors, and I show how these benefits are related to (and in turn contribute to shaping) wider capitalist dynamics. Thus, in contrast to financial economics and industry representations of securitisation as a financial tool inherently beneficial to all, I argue that the ‘benefits’ brought about by securitisation are neither mutually beneficial nor the result of technical processes endogenous to financial markets. Rather, they are the result of political, social and legal processes that reflect “the asymmetries of position and power relations” that give rise to markets “and to which [markets] may give rise” (Coriat and Weinstein 2005: 2) within the framework of capitalism.

The chapter is divided into two main sections. Drawing on historical materialist approaches to finance I first conceptualise securitisation as a political process closely related to broader capital dynamics, through which issuers and investors benefit from the commodification and channelling of social relations of indebtedness and, indirectly, from exploitative relations in the sphere of production (3.2). However, taking into account the neo-Gramscian understanding of discourse evoked in chapter 2 as well as economic
sociology insights on the constitution of markets, I then argue that such an approach can be usefully complemented by conceptualising securitisation as a market which requires not only the circulation and market valuation of securitised assets, but also depends on legitimization processes which notably underpins, directly and indirectly, the liquidity of the market (3.3). Overall, by providing a detailed conceptualisation of securitisation and an overview of the structure and functioning of the European securitisation market, this chapter lays the groundwork for more specific empirical considerations around (1) the changing role of securitisation in the European financial sector following the 2008 crisis, and (2) the ways and extent to which lobby organisations and state-like institutions at the EU level have continued to be essential to the reshaping of the European securitisation market in the post-crisis period.

3.2. Securitisation as debt commodification in the capitalist context

As explained in chapter 2, processes of legitimization involve discursive aspects (see also section 3.3) but can only be fully understood when considered in the historically-specific context of capitalist relations. In this section I draw on historical materialist conceptualisation of securitisation to argue that securitisation is tied to wider capitalist dynamics and exploitation most notably through the centrality of underlying debtors’ capacity to pay. This tie, precisely, facilitates the reproduction of financialised banking and financial accumulation to the benefit of financial firms that issue and invest in securitisation.

3.2.1. Securitisation as a political process related to capitalism

Bank securitisation is commonly defined as the process through which illiquid loans are pooled and turned into tradable financial products called asset-backed securities. In critical historical materialist terms, securitisation can be defined as the “commodification of debt” (Soederberg 2014a, b, c), through which the social relations of indebtedness between initial debtors and creditors (typically banks) are transformed into commodity-like financial products, which can be bought and sold by financial firms. Securitisation is

5 In this thesis I deal with bank securitisation i.e. the securitisation of bank assets such as loans. However there are many types of assets producing regular cashflows (rents, royalties payments, medical and utility bills, insurance premiums, etc.) that can be securitised (see Gaschler 2009).
6 Social relations of debt have long been commodified in the form of bank loans, as these have been tradable commodities for decades (Juutilainen 2016) so that it is more accurate to say that
thus the process through which financial instruments are created out of specific financial relations between debtors and creditors (Pineault 2013). From this definition it is clear that debt relations (which I call underlying debt relations to distinguish them from the qualitatively different debt relations between an issuer and investors which are created through the issuance of securitisation) are at the heart of securitisation.

More specifically, in spite of an appearance of distancing between the final investors and the initial debtors, credit must “return to its place of origin for recovery, namely, to the debtor” (Soederberg 2014a: 44). In other words, “the success of ABS depends on a future gamble that the debtor can access enough funds to repay the loan” (ibid). Such logic is most apparent when a wave of unexpected defaults results in losses for investors as was the case during the US subprime crisis, which made evident the “very real and determined social relations” between on the one hand creditors and investors, and on the other “insolvable bankrupt households” (Pineault 2015: 12). Thus, although ABS may appear distinct from their underlying assets, their ‘success’ or ‘performance’ is in fact tied, to a large extent, to underlying debtors’ capacity to pay.

**Debtors’ payments and exploitation in capitalism**

The continuity of cashflows derived from a securitisation – its capacity to deliver the expected returns and hence to contribute to financial accumulation for investing firms – depends on underlying debtors’ capacity to accrue enough revenues to pay their loans. Yet this relation between ABS and underlying debtors’ payments is not a mere ‘technical’ link, and the political nature of securitisation cannot be fully understood if one only considers the credit system and remains in the realm of exchange.

First, the performance of ABS is tied to accumulation processes in the sphere of production (Pineault 2013: 135). In the case of corporate loan securitisation, the performance of ABS is down to the underlying corporations’ capacity to extract profit through primary exploitation in the sphere of production (Soederberg 2014a: 35). In the

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7 I use the verb ‘pay’ rather than ‘repay’ to highlight that the creation of the loan is a form of money creation (rather than the allocation of existing money that would need to be ‘repaid’ or paid ‘back’) and consists in the further extraction of money from debtors in the form of fees and interests.
case of mortgage and consumer loan securitisation, interest and principal payments are
the result of secondary forms of exploitation (Harvey 1999) whereby workers use a share
of their wages (and/or state benefits) to pay their debts. Besides the performance of
securitisation, the very issuance of ABS depends on the existence of loans – or, at least,
on the collective belief that such loans will exist in the immediate future.⁸ Therefore the
broader economic conditions that influence corporations’ and households’ decisions to
borrow are highly relevant for securitisation. For instance, households’ decision to take
out a loan is often linked to low wages or unemployment, and to intensifying
consumerism (Montgomerie 2007). Thus higher rates of unemployment or the
intensification of precarious work may increase the amount of loans available for
securitisation. Yet a durable state of economic stagnation and high level of household
indebtedness can also mean that households are attempting to stay away from further
expenses (e.g. buying a house) and indebtedness, thereby decreasing the amount of loans
available for securitisation.

At the same time, dynamics on the securitisation market can impact back on
accumulation processes in the sphere of production. For instance in the case of the US
MBS market, once a profitable securitisation ‘pipeline’ had been set up, sustained levels
of demand meant that issuers needed to secure “a supply of raw mortgages” in order to
“guarantee themselves fees at all parts of the [securitisation] process” (Goldstein and
Fligstein 2014: 4). This illustrates two ways in which securitisation can have
repercussions back on the credit system and in turn on the wider economic environment.
Firstly, in order to respond to strong demand on the securitisation market, there needs to
be a constant supply of raw material (loans). As a result, originators of loans can be
willing to expand the range of debtors (for instance including more ‘risky’ or vulnerable
segments of the population, see) to which they issue loans (Rankin 2013). Not only does
this potentially increases the likelihood of defaults and hence endangers both financial
accumulation and ‘financial stability’, but the so-called financial ‘inclusion’ of previously
‘excluded’ populations also has specific political and social implications (see below).

⁸ When there is high and sustained demand for securitised products, ABS can be issued before the
underlying loans exist. In these cases, the ABS contracts stipulate that these loans will be made in
the future, and investor demand thus relies on their belief that such loans can and will be made.
Secondly, the expansion of lending can sustain consumption and in turn production in particular sectors of the economy (e.g. the housing market and construction in the case of mortgage securitisation, the production of cars in the case of car loan securitisation, etc.). Importantly however, this is not an automatic link but depends on market dynamics and notably investor demand. In chapter 7, I will show that this potential link between securitisation, loans and the wider economy was a key topic of discussion among EU policymakers, but that the discussion rested on a particular selection of arguments and ‘data’, and was largely depoliticised in the sense that bank loans were generally treated as unquestionably positive and necessary ‘cogs’ of the economy, devoid of power relations.

The politics of debtors’ payments

Second, then, it is important to highlight that as securitisation rests on debt, it also depends on the deeply unequal relations that debt entails, particularly when it comes to consumer and household debt. Indeed, in spite of the “seemingly harmonious nature of lending as a mechanism of labor mobility” in which debt is “a voluntary, consensual, and rational choice” (LeBaron 2014: 769) and the “the dominant legal and economic treatments of debt as a technical and equal exchange of money between a creditor and a debtor”, debt is a form of power (Roberts and Soederberg 2014: 662). At the individual level, debt operates “psychologically and morally to produce feelings of responsibility and guilt” (Davies, Montgomerie and Wallin 2015: 37). More structurally, through the mediation of the state and its regulation of the credit market, debt serves to “redistribute wealth upward from the poor to the rich”, thereby reinforcing unequal power relations in favour of creditors and “deepening inequality along the lines of race, gender, and class” (LeBaron 2014: 772; Wyly and Ponder 2011; Rankin 2013).

On the one hand, the continuity of securitisation’s cashflows secured by debt payments means that debtors’ disposable incomes diminish. Indeed, through private debt “workers are dispossessed of their wages, greater proportions of which are being spent on interest, commissions and fees associated with lending” (Roberts and Soederberg 2014: 663). On the other hand, debt is a “class-based form of power that disciplines all sectors of the labor market” (LeBaron 2014: 765). Debt contracts and their enforcement by the state discipline workers and push non-workers to seek employment, thereby ensuring a supply of labour force and potentially allowing for intensified exploitation of labour in the
sphere of production (Soerderberg 2014a). For instance, consumer debt has been shown to push middle classes to precarious and underpaid jobs or to delay retirement (Soederberg 2012; Roberts 2012), and as such it can be said that debt “squeeze[es] more work out of the indebted” (Gusterson and Besteman 2010: 7). State-backed debt structures can thus “lock participants into particular life choices and limit future possibilities by requiring their situated participation in unequal and unfree capitalist debt relations” (Coco 2014: 716; LeBaron and Roberts 2010, 2012). Overall, then, debt is “asymmetrical and deeply exploitative in nature” (Roberts and Soederberg 2014: 663). Finally, debt operates in more exploitative ways for oppressed categories of people (e.g. women, racialized groups, poor people, migrants, etc.) and thereby contributes to “deepening inequality along the lines of race, gender, and class” (LeBaron 2014: 772; Dymski 2009).

Securitisation, through which financial instruments are created out of financial relations between debtors and creditors, is thus far from being an apolitical financial practice. As the empirical chapters of this thesis will argue, in the post-crisis period the European securitisation industry has continued to benefit from (and contributed to reproducing) the unequal power relations that debt entails. In addition, as chapters 5 to 7 will demonstrate, official discourses produced by both the securitisation industry and European institutions, which for instance present securitisation as a way to enhance ‘access to credit’ for European citizens, obscure such power relations and thereby contribute to normalising and legitimising debt as an equal exchange benefiting both parties.

3.2.2. Investors: exposure to debtors’ payments

The insights presented above are sometimes presented as a way to ‘uncover’ the links that exist between financial actors and underlying or ‘everyday’ debtors and the forms and degree of exploitation determining their debt payments. Yet these links are very well recognised within the industry itself. As Pineault (2013: 127) notes, rating agencies’ analysts would not contest the idea that securitisation results from the commodification of credit relations between individuals and corporations or banks, as it is precisely “their job to know that the security in circulation (…) in fact encapsulates a credit relation and in fine derives from it its financial value”. For instance, the advisory firm Guggenheim
Investment (2017: 2) acknowledges that “assets backing a securitization, without exception, must include ‘contractual obligations to pay’” from “a payer”.

In fact, these links to debtors’ payments are a key reason why investors choose to invest in securitisation rather than other financial products. Indeed, securitisation gives investors direct ‘exposure’ (in financial jargon) to assets that are generally not accessible to them. For example, although a Dutch insurance company is typically not involved in the business of lending to German SMEs or UK households, through investing in securitisation it is able to receive a return on investment linked to the cashflows generated by these German SMEs or UK households. This is particularly advantageous when ‘riskier’ loans are securitised because such loans have higher interest rates and thus allow higher yield than other bonds similarly rated. Evidently, the higher yield associated with higher interest rates on underlying assets is not a technical feature of these assets, but instead is inherently political (see section 3.2.1 and chapter 5). Indeed, it is the most precarious social groups (lower classes, women and especially single women, racial ‘minorities’, etc.) who obtain the lowest credit scores and are charged higher interest rates (Montgomerie and Young 2010; LeBaron 2014). All in all, through the state-supported enforcement of debt payment by private (servicers, debt recovery agencies, etc.) and public actors (law courts, etc.), these ABS based on particularly ‘predatory’ debt relations bring higher returns to investors thereby perpetuating and reinforcing the class, gender and racial inequalities of society. In other words, through this type of lending and securitisation, the unequal and exploitative relations exposed earlier are exacerbated, allowing for intensified financial accumulation for financial market actors.

Far from being a neglected or forgotten characteristic of securitisation, this direct connection between investors and underlying debt payments is safeguarded by the ‘bankruptcy remoteness’ feature of securitisation (Slaughter and May 2010: 6), whereby the issuing bank is less able to interfere with investors’ exposure to the underlying assets. Indeed, the transfer of assets to a special purpose vehicle (SPV) is a ‘true sale’ and thus detaches the assets from the originator. Thus, by selling the loans to the SPV, the bank that has originated them in the first place surrenders any rights to the cashflows they generate. This means that investors in these ABS will not be affected by a bankruptcy or insolvency of the originator, as investors’ payments solely depend on the performance of the underlying loans (Gaschler 2009: 672). In addition, investors in ABS rank more
senior than other creditors of the issuing bank, so that even if the issuing bank experiences financial troubles, it will not be able to use the underlying cashflows to reimburse its other creditors. As such the ‘bankruptcy remoteness’ is considered to be one of the “investor-friendly features” of securitisation (Guggenheim Investment 2017: 1). More broadly, as I will discuss in chapter 7, the official discourse according to which simple and safe securitisation could “act as an effective funding channel to the economy” (Commission 2015a: 4) represents a striking discursive reversal of the securitisation dynamics exposed here, whereby it is the cashflows generated by ‘everyday’ relations of indebtedness and wider capitalist exploitative relations that are ‘channelled’ toward the operation and constant reproduction of financialised capitalism (Langley 2006).

3.2.3. Issuers: funding and capital management

The above-described ability for investors to directly ‘tap into’ underlying assets also brings specific advantages to issuers (i.e. generally large banks), such as liquidity and regulatory advantages. As such, securitisation is central to the functioning of market-based banking (see also chapter 1).

From the perspective of issuers, securitisation constitutes a form of borrowing. Securitisation is thus first and foremost a liquidity tool as it allows a bank or another corporation to borrow money on financial markets on the back of assets that generate cashflows. Thus, instead of borrowing money from a single bank, a firm can issue ABS thereby borrowing money (which will have to be paid back in the form of interest on the ABS) from multiple other financial firms (the investors). This form of borrowing can be particularly advantageous if underlying debtors’ capacity to pay is deemed more credible than the issuing company’s own capacity to reimburse debt. Under conditions of bankruptcy remoteness and true sale (see above), if the underlying assets are considered to be of higher credit quality than the originator itself, the interests paid on ABS are lower than those resulting from borrowing based on the originator’s own (inferior) creditworthiness (Slaughter and May 2010: 2). As a result, borrowing through ABS issuance – that is, on the back of underlying assets – can be cheaper than borrowing through via a bank or the interbank market.
Thus not only does securitisation allow banks to generate fees (BCBS 2011) and raise cash quickly through the sale of a large number of initially illiquid loans, it also makes such liquidity cheaper than other forms of funding. Importantly, as section 3.3 will argue, this form of ‘credit arbitrage’ rests as much on underlying debtors’ actual capacity to pay as it rests on the *credibility* of such payment commitments. In addition to being potentially cheaper, this type of borrowing can also improve diversification on the balance sheet. The ability to tailor ABS to meet investors’ needs allows an originator to expand its investor base, thus diversifying its source of financing away from other type of debt and equity financing (BCBS 2011: 9-10), the latter being a particularly expensive and hence disliked form of funding (see below).

This capacity for banks and other issuers to derive financial benefits from underlying and deeply unequal contractual obligations of debt will be further discussed in chapters 4 and 5. I will argue that due to changing collateral rules at the ECB in the post-crisis period, banks have been able to access central bank liquidity on the back of ABS and their underlying debt relations. As this has partly compensated the evaporation of market liquidity that was available through securitisation pre-crisis, such a process has contributed to reproducing European market-based banking and maintaining and/or restoring financial accumulation through banks. This new use of securitisation also explains that securitisation activities have been ongoing in Europe even in the midst of a market legitimacy crisis that resulted in a massive drop in investor demand. At the same time, this meant that the ECB became a key player on the European securitisation market, and found itself having concerns similar to those of the securitisation industry, pushing it to collaborate with market players in the making of ‘transparency’ for the market.

Finally, the advantages that the ‘transformation’ of loans into ABS brings to issuers must be understood in relation to specific banking regulations (see also section 3.3.4). Bank capital requirements, specifically, have often been pointed out as initial triggers for the emergence of financial ‘innovations’ such as securitisation (Calomiris and Mason 2004). Since 1988 the Basel Committee on Banking Supervision (BCBS) has devised capital requirements for banks and introduced a risk weight methodology. According to this methodology, capital requirements for banks are not calculated solely as a ratio of capital to assets, but as a ratio of capital to *risk-weighted* assets, with each class of asset being assigned a specific risk weight obtained through internal bank calculations (a
possibility introduced by the 1996 Basel revision) or external, standardised measures (see figure 3 below). The Basel I Accord required banks operating internationally to maintain a minimum of 8% of capital based on their total amount of risk-weighted assets (RWA). Basel I was updated in 2004 (Basel II) and 2010 (Basel III) following the global financial crisis. Basel rules were adapted into EU legislation initially via the Capital Adequacy Directive, which was later updated by four successive Capital Requirements Directives (CRD) and Regulation (CRR) (see chapter 5).

**Figure 3. Schematic bank balance sheet and capitalisation level**

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-Weighted Assets (e.g. loans)</td>
<td>Debt</td>
</tr>
<tr>
<td></td>
<td>Capital</td>
</tr>
</tbody>
</table>

Source: Author’s design

These Basel and EU rules, and more precisely “the calibration of capital requirements to the risks that banks were recognized as having taken” were key incentives for banks “to shift risks out of their books through various operations” such as securitisation (Hellwig 2010: 11; Major 2012). Indeed, in order meet the required capital ratios banks can either raise capital or reduce their RWA. Yet capital is the most costly and least favourite form of ‘funding’ (i.e. the liability side of the balance sheet) for banks. It is generally taxed more than debt, lowers nominal return on equity (RoE) to the detriment of the bank’s

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9 For a critique of Basel regulation and its methodology, as well as an overview of its evolution post-crisis, see Hellwig (2010) and Admati et al. (2011). For an analysis of lobbying at the level of Basel, see Blom (2014). For an assessment of Basel regulation as neoliberal regulation, see Major (2012) – bearing in mind that throughout the article capital requirements and reserve requirements are often confused, a fallacy common in the literature as highlighted by Admati et al. (2011).
shareholders and constitutes a negative signal on financial markets as a banks’ performance is generally measured in terms of its RoE (Finance Watch 2012: 9; Admati et al. 2011). In this context, banks have increasingly turned to securitisation. Indeed, by transferring some of its loans to an SPV, a bank reduces its RWA and improves its capital ratio without raising additional capital. In other words, “the constraints imposed by the Basel Accords” are commonly cited as incentives for the “extensive use” of securitisation “to free up regulatory capital” (Pistor 2013: 320; see also chapters 4 and 7).

Thus, from the perspective of a bank originator of loans and subject to both capital requirements and imperatives of shareholders’ returns, securitisation can be a way to facilitate regulatory compliance and improve its position on competitive financial markets market, while giving access to liquidity and generating extra revenues through various fees. In other words, banks have turned to structured finance and securitisation not only to comply with regulations but also “to alleviate the costs of regulation” (ibid). This ‘regulatory arbitrage’ is one of the key reasons invoked to explain the popularity of securitisation among large banks, even as of today. In light of this research’s empirical findings, these conclusions must however be nuanced. Indeed, although to an extent securitisation as a ‘capital management tool’ contributes to improving a bank’s capital ratio and secures financial accumulation for the bank’s shareholders, this is not automatically the case, as will be explained in detail in chapters 4 and 7. In fact, as chapter 4 will show, there were other crucial reasons why large European banks have been keen on keeping the securitisation business alive after the financial crisis. Importantly though, the rhetoric of ‘freeing’ bank capital through securitisation was prominent in pro-securitisation discourse, and was associated to arguments around banks’ (in)ability to lend and a supposed dearth of ‘access to bank loans’ for SMEs in Europe. Such a discourse, in the context of deteriorating economic conditions in Europe, contributed to improving the legitimacy of securitisation in the eyes of a range of EU policymakers, and ultimately made the endorsement of securitisation politically acceptable at the EU level (see chapter 7).

10 For an acute discussion of shareholders’ demands for nominally high returns in relation to bank stability, systemic risk and the socialisation of costs linked to banking crises, see Hellwig (2010), Admati et al. (2011) and Admati and Hellwig (2013).
Overall, I have shown in this section that securitisation is a process through which individual debt relations – or more precisely debtors’ continued payments – become accessible and profitable to financial firms not initially involved in such debt relations (the investors), while also bringing benefits to the original creditor in the debt relations. The underlying debtors’ capacity to pay is related both to the legal framework on which debt contracts are based and which enforces them, and to wider capitalist relations that involve first and secondary forms of exploitation. In light of this, I will consider in the empirical chapters of this thesis not only the securitisation market itself, but also some of the wider capital dynamics in Europe post-crisis – and, importantly, the way such dynamics are perceived and in turn represented by influential actors (see chapter 2). The above analysis will also lead me to analyse how lobbying and official discourses rely on and contribute to the normalisation of the deeply unequal power relations of indebtedness in Europe (see chapter 7 for instance). For now however, I argue that considering securitisation as a political process anchored in the capitalist structure is key but insufficient, and in the following section I complement the above analyses by looking at the specificities of securitisation as a financial market.

3.3. Securitisation as the circulation of assets in a context of legitimacy

In this section, I argue in line with the political economy framework developed in chapter 2 that the reproduction of the securitisation market and the benefits it entails for financial actors cannot be said to solely or directly depend on underlying debtors’ capacity to pay. Drawing on economic sociology and its conceptualisation of market mechanisms as deeply social processes, and to a lesser extent on performativity theory which looks at how mathematical models and calculations also constitute markets, I analyse securitisation not only as a component of the wider capitalist structure but also as a financial market with specific internal social dynamics. I show that it is a variety of social processes of legitimation that allow relations of indebtedness to enter into financial circulation and take on market value beyond that of the original loans. More specifically, the market image and legitimacy of securitisation is crucial to the liquidity of the market, which is further related to state regulatory structures themselves partly dependent on how various state actors perceive securitisation. Overall, I argue throughout this section that the market legitimacy and regulatory legitimacy of securitisation – and hence also the discursive practices that contribute to such legitimacy – are crucial in allowing
securitisation to perform the above-mentioned functions key to the reproduction of market-based banking.

3.3.1. Securitisation as a market: liquidity and valuation

As the previous section of this chapter made clear, there are tangible reasons to consider that securitisation and its ‘performance’ are directly related to underlying debtors’ payments. However, the idea that “the success of ABS depends on a future gamble that the debtor can access enough funds to repay the loan” (Soederberg 2014a: 44) does not shed sufficient light on the particularities of securitisation as a financial market. Indeed, the same analysis can be applied, and even more obviously so, to credit that is not securitised: consumer credit and credit to corporations also rest on a gamble i.e. the anticipation and expectation that debtors will make all of their scheduled debt payments. Thus, if loans are already assets whose performance relies on debtors’ capacity to pay, what makes securitised loans different? What makes a “securitised financial relation” radically different from a “classical financial relation of indebtedness” (Pineault 2013: 142)? I argue that securitisation not only requires the creation of assets backed by underlying debt relations, but also involves social processes of circulation and market valuation of these assets, through which further financial accumulation can occur. In other words, securitisation is a market which involves the making of asset-backed securities that have a certain market value and a certain degree of liquidity.

**Liquidity**

In mainstream finance literature, securitisation is often defined as a mechanical “transformation of illiquid assets (...) into liquid assets” (Wolfe 2000: 353). Critical social studies of financial markets help to challenge and refine the elusive notion of liquidity. When markets are said to be liquid, the idea is generally that “exchange occurs easily and frequently” (Carruthers and Stinchcombe 1999: 353). In fact, financial markets are constituted by, rather than existing outside of, exchanges between sellers and buyers (Christophers 2015: 89). Market exchange, in turn, can be defined as “a legal transfer of ownership” (Coriat and Weinstein 2005: 1) matched by a money transfer (see also below). This is evidently the case in securitisation, where the product sold is the right to some of the cashflows generated by the underlying assets. When assets are qualified as liquid, it is sometimes implied that these particular objects have certain liquid
characteristics. However, what is meant by liquid assets is nothing but the fact that they “can be bought and sold easily” (Carruthers and Stinchcombe 1999: 356), and, importantly, without loss of value (Pineault 2015).

Liquidity is also a self-reinforcing process: an asset liquid or seen as liquid (hence already implying a certain demand) will be “demanded for its liquidity characteristics”, while “one that is perceived as lacking in liquidity will lose demand” (Crockett 2008: 15). In other words, a lack of demand is synonymous with a lessening of liquidity, and conversely reviving demand for a given asset creates further liquidity. This possibility to exchange and redeem for cash – the existence of “an exit option” for investors – is precisely what makes securitisation particularly attractive in comparison to other types of investments (Guttmann 2008: 15). The liquidity and tradability of securitisation is therefore of significant importance to both issuers and investors (see chapters 4 and 5).

*Market value*

Besides liquidity, the determination of prices or market value for the products to be exchanged is a process fundamental to any financial market. Indeed, given that “a market transaction is a monetary transaction” (one party acquires a title of ownership in exchange for a sum of money), mechanisms that determine the price of the product are constitutive of markets (Coriat and Weinstein 2005: 1). Markets, in other words, are also calculative devices (Callon 1998) and on any market the price of commodities must be determined. The calculation of prices is a complex process which is also related to liquidity. Indeed, once ABS are issued on financial markets, the quality of their circulation or the degree of liquidity influences the market valuation of ABS (at what price ABS are exchanged on the secondary market). In turn however, the pricing of ABS also influences investor demand and hence the liquidity of the market. This co-dependency is reinforced by the type of accounting used for valuation on financial markets, namely mark-to-market accounting (Crockett 2008: 17). Liquidity depends on continued, reliable valuation (investor demand cannot exist if ABS are not priced). However, valuation on contemporary markets is often based on mark-to-market accounting – which itself “depends on the availability of reliable prices in deep and liquid markets” (Banque de France 2008: i). Thus liquidity depends on valuation, and valuation
depends on liquidity. In other words, marking-to-market reinforces the circularity between market valuation and liquidity.

As can be understood from the above definition of securitisation as a market resting on liquidity and valuation, financial accumulation through securitisation is closely related to the possibility and conditions of circulation of the securities on the market. Thus the liquidity of the securitisation market is a chief concern to securitisation market actors, and has been especially so in the post-crisis period as chapter 4 will show. However, the creation of liquid ABS or in other words the existence of a liquid securitisation market is not a natural and automatic outcome of ‘financial engineering’. As the following sections will demonstrate, “the making of liquid financial capital out of pooled social relations of indebtedness” (Pineault 2013: 124) is rather a political, social and relational process that requires the abstraction and depersonalisation of underlying debt relations, as well as particular regulatory structures enacted and implemented by state institutions.

3.3.2. Depersonalisation through pooling, tranching and rating

Now that I have established that liquidity (the interrelated circulation and market valuation of asset-backed securities) is key to the securitisation market, I show that such liquidity cannot be directly derived from underlying debt relations. I argue that, taken together, the mass-pooling, tranching and rating that the securitisation market entails constitute a form of depersonalisation of underlying debt relations, so that financial accumulation through securitisation can be de-correlated, for sustained periods of time, from underlying debtors’ payments.

The creation of asset-backed securities first involves the ‘pooling’ of a large number of assets. Typically an originator (often a bank) issues loans, and an issuer (the originator or a different firm that acquires the loans from the originator) pools together a large number of these loans. This is done via a legal entity specifically created for that purpose, called a special purpose vehicle (SPV). In a true-sale securitisation the SPV purchases these loans. To do so the SPV raises funds by issuing securities that are backed by the (future) cashflows these loans will generate. This mass-pooling of assets means that each ABS is now based on many underlying debtors. For instance, a credit card ABS can include receivables from tens or even hundreds of thousands of individuals. Thus, the mass
pooling of assets constitutes a first form of “depersonalisation” (Pineault 2013: 144) in that each investor is now related not to one underlying debtor and its ability to pay, but to a mass of credits that has been securitised as a whole. Second, most securitisations undergo a process called ‘tranching’. Tranching refers to the issuance of a prioritised structure of claims called tranches, backed by the mass-pool of underlying assets (Coval, Jurek, and Stafford 2009: 3). In other words, the attribution of cashflows derived from the underlying pool follow is hierarchised: the most senior tranches are first entitled cashflows from the pool, while the most junior ones (equity or residual investors) only receive remaining cashflows, i.e. those that remain after all obligations to the more senior classes have been fully met. In simple terms, this means that defaults on the underlying loans impact first the investors who hold the most junior tranches. Tranching in turn is part of the determination of the ratings of each security.

Third, then, asset-backed securities must be rendered into a set of abstracted information or standardised indicators that form the basis on which market actors rely for their assessment of and investment in ABS. Underlying social relations of debt are first decomposed into “abstract particles” (amount of principal and interest, interest rate, credit score of the debtor, etc.), before going through further processes of abstraction whereby these particles are re-assembled through algorithms and mathematical tools that generate key information about the structured securities (Pineault 2013: 145). In other words, a first set of abstracted information about each loan is replaced by further abstractions about each asset-backed security. Among such indicators attached to each security, credit ratings play an important “symbolic role of legitimation” and are essential for markets to be liquid (ibid). In fact, asset-backed securities can only “circulate within the financial community” once they have received an official rating from a credit rating agency (ibid). However, the rating of each tranche does not simply reflect the ‘risk’ of default of one underlying debtor nor does it reflect the average risk of the pool of assets. Rather, it reflects the risk of that specific tranche considering the anticipated cashflows derived from the underlying debtors (themselves related to exploitative relations in capitalism, see section 3.2) in conjunction with the particular structure of the securitisation.

Indeed, tranches have different risk ratings and yield although they are derived from the same pool of assets. A structured securitisation then includes senior tranches rated triple A, subordinated tranches (mezzanine and junior tranches) with a rating inferior to triple
A, and a residual equity tranche that is unrated. Senior tranches are thus considered safer than others, and possibly safer than the average asset in the underlying pool. For example, senior tranches rated triple A can be issued out of the securitisation of mortgages all rated triple or double B, and these senior tranches are thus considered safer than any of the individual mortgages in the pool. This is possible precisely because the senior tranches are supported by less senior tranches that ‘absorb’ losses and hence make the senior tranches ‘safer’. Thus the relatively higher ratings associated with securitisation – which contribute to the attractiveness of securitisation, especially for institutional investors looking for returns above average but required to invest in triple A assets – are only possible because of the existence of demand for riskier securitised products. Crucially, then, the tranche structure and corresponding ratings and returns are closely related to investor demand and confidence on the market, as will be emphasised in section 3.3.4.

Taken together, the mass-pooling, tranching and abstraction of debt relations constitute a form of “depersonalisation” (Pineault 2013: 144) or “impersonalisation” (Juutilainen 2016: 751). In concrete terms, the returns of each asset-backed security are “detached from the underlying debt relations” (ibid: 753), notably in that investors “do not require every underlying payer to perform in order for the ABS debt to receive all principal and interest payments” (Guggenheim Investments 2017: 7). This form of depersonalisation is crucial as it allows ABS to enter into financial circulation and to attain market value. In turn, the circulation of asset-backed securities reinforces this de-correlation between investors’ revenues and debtors’ payments. Indeed, the liquidity of the securitisation market means that investors do not necessarily ‘hold to maturity’ asset-backed securities as they can trade them on the market. This allows financial accumulation through securitisation to be decoupled from underlying debtors’ payments for sustained periods of time: even if at some point in the future the ABS stop to ‘perform’ for example due to defaults, the securities can still accrue profits to investors who manage to sell them at a higher price than the initial purchase price.

These insights usefully complement historical materialist perspectives that emphasise securitisation’s ties to underlying debtors in capitalism whilst overlooking the mass-pooling, tranching and rating processes which allow market circulation and valuation and thus characterise securitisation as a market. To summarise, although financial liquidity
and financial accumulation in the case of securitisation are not strictly “endogenous to the sphere of financial circulation” (Pineault 2013: 132) in that they rely on debt contracts themselves linked to wider capitalist dynamics (see section 3.2), the structuring and financial circulation of assets allow market actors to escape this tie for periods of time whose ending cannot be defined ex-ante, making it important to fully consider the dynamics that occur in these intervals of time. In other words, if financial accumulation through securitisation cannot be fully understood by looking at underlying debt relations, other mechanisms are at play that guarantee market value and liquidity on – and hence accumulation through – the securitisation market. These crucial social mechanisms, I argue, are the processes of legitimation that are empirically examined in chapters 4 to 7.

3.3.3. The legitimacies of securitisation

As liquidity (comprising both market circulation and the maintenance of market value, see section 3.3.1) does not simply reflect underlying debt relations because of the relative depersonalisation that securitisation structuring processes entail, it is important to address the more concrete making of liquidity. I argue that market actors’ and regulators’ perceptions – or more precisely the market legitimacy and regulatory legitimacy of securitisation – are key in determining the liquidity of securitisation, and in turn the kind of financial accumulation that securitisation facilitates.

As far as markets are concerned, legitimacy can be conceived as the “generalized perception or assumption that the actions” of the market are “desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995: 574). In other words, “financial markets do not autonomously supply the rules of the struggle to achieve legitimacy”; rather, in order to be perceived as legitimate, financial market actors and products need “behaviour and values that cohere with those pervading society at large” (Norberg 2009: 219). Legitimacy, then, is not self-referential but rather relational as it has to be understood in reference to ‘societal values’ more broadly. However, as different actors or segments of society hold and follow different values and norms, legitimacy to one audience is not necessarily the same as (and does not guarantee) legitimacy to another audience (Deephouse 1996). As a result, I argue that the legitimacy of an object (here,
securitisation) is not a single, homogenous attribute of that object, but rather should be conceived of and analysed in light of different audiences or categories of actors dealing with securitisation. I distinguish between market legitimacy (considering the perceptions of market actors) on the one hand, and regulatory and policy legitimacy (considering the perceptions of financial regulators and policymakers) on the other. This will allow me to analyse in the remainder of this thesis the construction of legitimacy not as a single, one dimensional process whereby securitisation is (or is not) legitimised, but rather as a multi-dimensional process whereby securitisation can be legitimised in the eyes of certain actors whilst being at the same time considered illegitimate in the eyes of others. Thus, the empirical chapters of this thesis will be concerned not with the construction of legitimacy (single) for securitisation, but with the attempted constructions of legitimacies (plural) for securitisation, and the potential conflicts and struggles that have resulted from these attempts.

**Market legitimacy**

As can be seen from the brief analysis of tranching and rating provided above, investor confidence in securitisation is key to both issuers and investors: it determines how easy it is to exchange the ABS on the market and at what price, but also how many investors are interested in junior and equity tranches (thereby providing potential capital relief to issuers) and hence how many triple A tranches can be produced out of underlying assets (ensuring the production of securities attractive to institutional investors, and corresponding liquidity for the issuer). Thus, I argue that securitisation must be understood in relation to market confidence and *market legitimacy*, i.e. the ‘outputs’ but also the signals, discourses and wider market structures that can make securitisation appear as a legitimate and attractive investment prospect.

What I call market legitimacy is close to the “pragmatic legitimacy” defined by Morgan (2010: 20) as a form of legitimacy “that rests predominantly on the self-interested calculations” of market participants and on the continued production of “rewards” for them. In the case of securitisation, these rewards are different depending on which market actors are considered. For investors, the most evident rewards on capitalist financial markets are returns on investment (yield). However, these cannot be known in advance but can only be anticipated through abstract indicators (see above) which may or may not
be ultimately reliable. Indeed, “compared to a tangible object, it is hard to evaluate financial assets”, notably because they involve ‘promises to pay’ which are related to “the future behaviour of a particular individual or organization” (Carruthers and Stinchcombe 1999: 355). Thus, as this future behaviour cannot be ascertained in advance, a valuation of a financial asset partly rests on the “credibility of the promisor” (ibid) and on “strategies of signalling and reputation building” (Tordjman 2004: 21). In other words, signals and discourses around the certainty of market rewards matter, as they influence investors’ confidence and their investment decisions (which in turn signal to other market actors whether a particular product seems worth investing in).

As the empirical chapters of this thesis will show, efforts to (re)build the market legitimacy of securitisation through discourse and ‘reputation building’ were evident in the post-crisis period. They included the production of transparency discourses and initiatives on the part of the securitisation industry (chapter 5), as well as the establishment of a label for ‘high quality’ securitisation aimed at demonstrating ‘best practices’ on the part of securitisation market actors (chapter 6). Thus, contrary to analyses that understand the rehabilitation of securitisation as a two dimensional interaction between on the one hand the securitisation industry and on the other European policymakers (e.g. Engelen and Glasmacher 2018), I consider it as part of a three dimensional interaction between issuers, investors and policymakers (themselves further divided into financial regulators and ‘non-financial’ policymakers). Overall, the way securitisation has been portrayed in various discourses, and how this has enhanced or endangered the market legitimacy of securitisation, is key to explaining the evolution of the securitisation market, as will be made clear in the empirical chapters of this thesis.

Regulatory and policy legitimacy

In this section I disagree with Christophers (2015: 89) when he argued that market infrastructure, including regulations and norms, is “contingent rather than critical” in the functioning of markets, so that markets and “perhaps even rudimentary financial markets (...) can exist without such infrastructure”. Instead I argue here that the regulation of securitisation is crucial to the emergence and reproduction of the securitisation market and its liquidity, and that such regulation must be understood in relation to how legislators perceive securitisation.
As mentioned in chapter 2, and as scholars in critical political economy and economic sociology have argued, markets are the result of “social and historical developments” (Coriat and Weinstein 2005: 1). Markets “do not spontaneously spring into being, but have to be constructed and maintained – by governments” (Stockhammer 2012: 47). Market exchanges, indeed, are a type of “social interaction” that is made possible by “legal, and hence state-backed ‘infrastructure’” (Engelen and Glasmacher 2016: 6). Market exchange can be defined as “a legal transfer of ownership” and thus the existence and functioning of markets requires rules around ownership rights. Indeed, “without property rights, there is no market: by defining what can be privately exchanged, regimes of property rights should be considered as constitutive rules of markets” (Tordjman 2004: 21). In addition, there must be mechanisms that ensure the respect of these rights. These are usually set up by ‘third parties’ such as “state legal and political structures” (Coriat and Weinstein 2005: 2; Pistor 2013).

Furthermore, the object to be exchanged on the market “is not self-evident: it must be constructed” (Coriat and Weinstein 2005: 2). In other words “commodities are not given ex ante, they are not pre-existing out of any exchange process” (Tordjman 2004: 21). The creation of (or transformation into) commodities is “the result of an historical process mainly involving the creation of a system of transferable property rights” that also involves changes in the “balance of power among classes or groups of agents” (ibid: 22). Market objects are further created through ‘acts of framing’ (Callon 1998). To become a tradable commodity, an object must indeed “be bounded and limited; it must identify itself with certain characteristics that are transferred over the market and it must be freed from any loose or more social or moral obligations that might, in certain circumstances, cling to it” (Morgan 2008: 64). In the case of securitisation, the existence of a market for pooled and tranched cashflows indeed presupposes power struggles – some of which are mentioned in section 3.2.1 – around the emergence of the practical, legal and moral possibility to transform individual debt payments (such as credit card debts, consumer loans, student loans, etc.) into tradable and profitable financial instruments (see Quinn 2010; Juutilainen 2016). I will consider, in chapter 7, the latest social and moral justification around the creation of securitised products in the post-crisis period in Europe.
Besides these elements, the existence of a market also means that exchanges are generalised and standardised to an extent (e.g. an ad-hoc exchange taking place once does not constitute a market) (Coriat and Weinstein 2005: 2). This requires the existence of specific market infrastructure (for instance, stock exchanges or data repositories) as well as a coherent set of rules that frame the interactions of market participants over a period of time longer than the duration of each individual transaction. Thus, a further central element of markets is “the regulation of competition” (Tordjman 2004: 21), determined and enforced by specific actors and bodies such as “third parties responsible for supervising the transactions, monitoring the participants, defining the conditions for the application of the rules and possibly modifying them” (Coriat and Weinstein 2005: 3).

The European securitisation market is no exception to this: regulators and supervisors notably at the European level (DG FISMA, EBA, and the ECB) are co-responsible for creating, sustaining and enforcing competition, and for elaborating prudential and regulatory requirements that shape the securitisation market. Thus, besides state-backed property rights and state-back regulation and enforcement of debt (see above) which are crucial to securitisation but are not the focus on this thesis, market infrastructures and more specific banking and financial regulation (such as the various capital requirements regulations) also influence the attractiveness of securitised products relative to other financial investments, and hence influence the level of investor demand and overall liquidity on the market. This way, regulation itself can be seen as a component of the market legitimacy of securitisation, as it influences market participants’ perception of, and involvement in, securitisation.

At the same time, the way financial regulators and policymakers perceive securitisation is also not a given and must be understood in terms of regulatory and policy legitimacy. Indeed, the way the entire legal structure and its various pieces of regulation are designed (e.g. do they enable the market in the first place? Do they aim at boosting, restricting, or re-shaping it in a different way?) partly depends on how legislators perceive this market in relation to their own mandates and to the broader financial, economic and political environment. This thesis, through a thorough analysis of EU documents but also through in-depth interviews with EU legislators (see chapter 1) aims to shed light on these perceptions, their evolution, and the way and extent to which they have informed the regulation of the securitisation market, and in turn have influenced its liquidity and reproduction over time.
The evolution of regulation, however, should not be taken as an exogenous event having a unidirectional ‘impact’ on the securitisation industry. Rather, the securitisation industry, like any other powerful financial industry, has sought to achieve particular regulatory outcomes for securitisation activities, namely aiming for supportive (e.g. lower capital requirements) rather than restrictive (e.g. higher capital requirements) regulations. As I will explain in chapters 4 to 7, a key challenge for the securitisation industry in the post-2008 period – when regulators have been (re)assessing the ‘riskiness’ of securitisation practices in light of the financial crisis – has been to orientate regulators’ perceptions of securitisation. In other words, the securitisation industry has sought to influence and improve the regulatory legitimacy of securitisation (see chapter 6) and later its policy legitimacy (see chapter 7). This has involved self-regulatory initiatives aimed at thwarting restrictive re-regulation (see chapter 5), as well as the introduction of new market practices and the production and circulation of specific discourses highlighting that post-crisis securitisation was radically safer than pre-crisis securitisation, and could bring about various benefits to the financial sector but also to the European economy and its citizens (see chapters 6 and 7).

3.4. Conclusion

The main function of (bank) securitisation is to put into profitable financial circulation the debts that result from households’ and private companies’ bank financing (Pineault 2013: 124). The reproduction of the securitisation market and the benefits it entails for financial actors thus requires the production of both market value and liquidity. Indeed, securitisation is not only a process relying on underlying debtors’ payments and the unequal social relations these entail, but is also a market constituted by the financial circulation and market valuation of these transformed debt relations. Such circulation and valuation are made possible by the specific structuring processes (e.g. mass-pooling, tranching and rating) that induce a depersonalisation between initial debtors and final investors. The depersonalisation both allows and is accentuated by financial circulation, so that financial accumulation through securitisation can be de-correlated, for sustained periods of time, from underlying debtors’ payments. In addition, the demand for and liquidity of securitisation is related to the regulation of securitisation activities.
Overall, the co-dependent making of market value and liquidity rests on (1) the existence of a legal infrastructure that allows the market to exist and supports its functioning; and (2) the existence of a variety of investors to whom securitisation appears as a legitimate and attractive investment prospect. The reproduction of securitisation and the type of financial accumulation that derives from it are thus closely related to social processes of legitimization, both when it comes to the reproduction of investor demand (linked to market legitimacy, i.e. market actors’ perceptions of securitisation) and when it comes to the regulation of securitisation (linked to regulatory and policy legitimacy, i.e. regulators’ and policymakers’ perceptions of securitisation). As the next chapters of this thesis will show, then, understanding the evolution – and gradual rehabilitation – of the securitisation market requires analysing how the legitimacy of securitisation has been changing over time, and importantly how state and market actors have confronted each other and/or collaborated to create, maintain, disrupt or reshape the securitisation market and its legitimacy.

Now that I have specified in this chapter the central role that securitisation plays (in general) in financialised capitalism and market-based banking through the commodification of everyday debt, the following chapter turns to the role that securitisation has played (specifically) in the post-2008 European context of interest here. Chapter 4 is thus the first empirical chapter of this thesis, but it thematically closely follows on from the present chapter. By exposing the functions performed (or expected to be performed) by securitisation in the changing European financial sector following the crisis, the next chapter aims to give an overview of the repositioning of actors (particularly investors, issuers, central bankers and financial regulators) in relation to European securitisation in the post crisis period, and to provide an understanding of actors’ motivations behind the subsequent efforts directed toward the legitimation and regulatory facilitation of securitisation. Altogether, the four empirical chapters of this thesis provide a detailed account of the emergence and gradual affirmation of a shift that saw securitisation going from ‘culprit’ in the financial crisis to ‘saviour’ of the European economy.
CHAPTER 4
Securitisation as a solution to the post-crisis contradictions of European market-based banking

4.1. Introduction

This first empirical chapter has two main objectives. The first is to expose how the financial crisis and its specific modalities in the European context have affected the European securitisation market and the motivations of actors (issuers, investors, central bankers and regulators) in relation to securitisation. Thus, after having exposed in chapter 3 the central role that securitisation plays in financialised capitalism and the benefits that the circulation of commodified debt relations brings to a variety of financial actors, and before turning to the lobby strategies, confrontational and cooperative processes that have paved the way for the rehabilitation of securitisation (chapters 5, 6 and 7), this chapter examines the repositioning of actors and their changing motivations in the context of crisis in Europe, and therefore explains the very reasons behind their mobilisation in relation to securitisation.

The second and related objective of this chapter is to highlight the key tensions that have underpinned the struggles around securitisation in the post-crisis period. Namely, the securitisation market almost broke down because of the crisis, and securitisation has been seen as one of the main causes of the crisis; yet at the same time the very reactions to the crisis (from market and state actors) and changes they triggered have (re)made securitisation a valuable practice from the point of view of large banks issuers of securitisation, but also from the perspective of bank regulators and central banks. On the one hand, the losses experienced by financial firms because of disruptions in securitisation cashflows, the tarnished image of securitisation and the (anticipation of) stricter regulation of securitisation activities due to its role in the crisis have meant a continued liquidity crisis on the securitisation market. On the other hand, the novel environment brought about by the crisis – the widespread credit crunch and dearth of liquidity on financial markets as a whole, and the expectation of increased bank capitalisation in the medium term – is precisely an environment in which securitisation has been envisaged as a strategic tool that could contribute to solving funding, capital and
regulatory issues that large European banks were facing or were expected to face in the near future. In other words, the capacity of securitisation to channel, structure and circulate commodified social relations of debt (see chapter 3) was all the more valued by market actors and regulators in the post-crisis period of widespread uncertainty, illiquidity and re-capitalisation pressures. Importantly, it has been clear to issuers, central bankers and regulators that securitisation could only play this role in a dynamic market environment, i.e. under conditions of sustained investor demand.

In the post-crisis period, then, large banks issuers of securitisation have sought to revive investor demand for securitisation. As subsequent chapters will detail, this has meant tackling the lack of investor confidence in securitisation i.e. the negative ‘market image’ of securitisation (chapter 5) as well as addressing investors’ concerns over (anticipated and actual) higher capital charges for securitisation positions (chapters 6 and 7). Regulators, for their part, broadly sought to ensure the smooth functioning of market-based banking. This meant, most immediately, seeking the return to ‘normal’ and liquid market and banking conditions, as well as putting in place regulations aimed at avoiding further crises (themselves detrimental to financial accumulation but also to regulators’ own reputation as institutions tasked with ensuring such functioning). Insofar as regulators were aware of both the (negative) role that securitisation played in the financial crisis, and the (positive) functions it could perform in relation to bank liquidity and capital, their position was ambiguous and was later articulated in concrete struggles around the regulation and rehabilitation of securitisation.

The chapter is divided as follows. Section 4.2 analyses securitisation as a funding tool in relation to the liquidity crisis experienced on European financial markets since the onset of the financial crisis. I argue that the scope of the liquidity crunch and the evolving modalities of the liquidity measures taken by the ECB eventually made securitisation a useful ‘collateral-producing’ technique for banks. This way, the securitisation market became a retained market in which ABS remained on issuing banks’ balance sheets and were used as collateral to access ECB liquidity. In spite of this newfound function however, banks wanted the securitisation market to be a ‘real’ rather than a retained market and were thus particularly concerned about the lack of investor demand and confidence on the market.
Section 4.3 looks at the role that securitisation plays in relation to bank capital requirements. I explore the idea that securitisation, defined this time as a capital management tool, is particularly useful to banks in the context of increasing capital requirements in Europe. I argue that the evolution of regulatory and market conditions post-crisis – and actors’ particular understandings thereof – is here again crucial to understand actors’ concern over the lack of investor demand for securitised products, and hence their motivation in rebuilding the market. I show that the logic of securitisation as capital management rests on the emergence of competing pressures towards on the one hand increased bank capitalisation and on the other sustained returns on equity i.e. the realisation of banks’ shareholder value. In this context, securitisation is one of the key mechanisms through which large banks can comply with regulatory responses to the crisis (increased capital requirements) without endangering their profitability and competitiveness. Thus, whether considered a liquidity or capital management tool, securitisation has been understood by large European banks and their regulators as a necessary component of the overall functioning of market-based banking within financialised capitalism in the crisis and post-crisis period.

4.2. Securitisation as a liquidity tool

In this section I argue that it is both the scope of the liquidity crisis and the modalities of ECB support measures in reaction to this that (re)made securitisation a useful funding tool for banks. Although securitisation initially became dysfunctional or ‘useless’ to issuers given the liquidity and confidence crisis on the securitisation market (4.2.1), the actions taken by the ECB to alleviate the deepening liquidity crisis and respond to the liquidity needs of banks (4.2.2) subsequently remade securitisation as useful, this time in the form of a retained securitisation market (4.2.3). Finally, I underline that in spite of this newfound function for securitisation, the securitisation industry ultimately wanted the securitisation market to be a ‘real’ rather than a retained market, and thus sought to revive investor demand (4.2.4).

4.2.1. The financial crisis and securitisation: no longer a liquidity tool?

As explained in chapter 3, the issuance of securitisation by banks gives them access to funding, and thereby enhances their liquidity. According to a covered bond lobbyist “the basic definition of securitisation (…) is that you transform illiquid collateral into a liquid
bond” (interview 26). What some call a transformation of “illiquid assets into liquid assets” (interview 37, EBA) is, in fact, the possibility to access more liquid assets or ‘liquidity’ (cash) on the back of assets that are less liquid. This is permitted by the pooling, abstracting and structuring of unequal social relations of debt that underlie the asset-backed securities (see chapter 3). Thus securitisation has “always been considered a good funding tool” for issuers (interview 13, investor lobbyist): “in 2006 when the securitisation market was booming” securitisation was “one of the major sources of funding for the mortgage sector” (interview 26, covered bond lobbyist).

More specifically, securitisation allows issuers to access liquidity in two ways. Funding liquidity corresponds to the obtainment of funding in the form of borrowing, for instance by borrowing short-term on money markets against some assets that play the role of collateral (Brunnermeier 2009: 91). Market liquidity refers to the ease with which one can raise money by selling assets, rather than by borrowing against them (ibid: 92), and is thus directly related to market demand. Prior to the crisis the various types of ABS that are the end-products of securitisation could easily be traded on financial markets (market liquidity), but could also be used as collateral to access short-term funding from other market participants (funding liquidity). The utility of securitised products was further enhanced by the fact that certain tranches of securitisation could be used to manufacture further structured products such as CDOs, CDO squared and even CDO cubes (Goldstein and Fligstein 2014).

The financial crisis and securitisation’s liquidity and market legitimacy crises

This possibility to borrow or raise money through securitisation, which rests on the (collective) belief in and materialisation of underlying debt payments made by debtors part of the ABS pool (see chapter 3), was challenged by the crisis. The most immediate cause of the financial crisis was a wave of sudden defaults in so-called non-conventional and subprime US mortgage-backed securities (Goldstein and Fligstein 2014: 1). The crisis, in other words, was sparked by unexpected interruptions of the ABS cashflows, themselves derived from interruptions of payments on the part of underlying debtors belonging for a large part to the most vulnerable categories of the US population (Wyly and Ponder 2011). This affected subprime lenders and investors in subprime-related products such as hedge funds in the first half of 2007. Confidence in this specific type of
‘high-risk’ securitised products quickly evaporated. The losses triggered the “collapse of a key constituent of the securitisation investor base” (BCBS 2011: 18), which meant that existing securitisation issuers found themselves without investor demand for their products.

Soon however, non-subprime securitisation – as well as much of the financial sector in the Western world – was also in crisis. A key question then has been “how the original loss of several hundred billion dollars in the mortgage market was sufficient to trigger such an extraordinary series of worldwide financial and economic consequences” (Brunnermeier 2009: 91). The spread of the crisis occurred through two main channels. First, complex interconnections meant that seemingly remote firms had in fact traded in a series of products (MBS, MBS-CDOs, CDO squared, CDS, CLN, etc.) made out of or based on now-defaulting subprime mortgages. Second, and most importantly, contagion occurred through widespread market uncertainty and notably “a combination of investor uncertainty and fear” (Wainwright 2009: 273), which was linked to a lack of knowledge regarding both the investment positions of market actors and the composition of structured products themselves.

Interviewees indeed explained that if “the securitisation market [had] virtually dried up as a whole” (interview 29, bank lobbyist) during the crisis and in subsequent years, it was because of “sentiment” (interview 13, investor lobbyist). Investors “had got spooked in the crisis” (interview 12, DG FISMA) and were “afraid of running into the same problems” that were associated with US securitisation (interview 36, securitisation lobbyist). Ultimately “a lot of those guys left [the securitisation market], either because they lost money or because they just panicked” (interview 14, securitisation lobbyist). As chapter 5 will show, this insistence on the irrational reaction of investors was also part of a broader crisis discourse developed by the securitisation industry, which focused on investors’ individual responsibility in knowing and assessing the risks of securitisation and as such constituted one of the first defensive moves on the part of the securitisation industry in Europe.

Nonetheless, such quotes illustrate that although the crisis was triggered, in the first place, by borrowers “ceased to maintain their repayment schedules” in early 2007 (Poon 2009: 2), the crisis became much more pervasive due to doubts about products and
structures that were complex, apprehended through abstract indicators and reliant on constant liquidity to be priced (Gorton and Metrick 2012). Indeed, the very structure of contemporary financial markets means that their functioning relies not only on actual cashflows but also on legitimacy, trust and confidence in the realisation and continuation of such cashflows, as mentioned in chapter 3. Overall, then, underlying debtors’ capacity to pay did matter – confirming theoretical insights from historical materialism (e.g. Soederberg 2014a) – but what turned a local crisis into a global crisis was that the initial wave of defaults spurred a confidence crisis, i.e. an interruption in the belief that underlying payments and corresponding ABS cashflows would materialise. In turn, this confidence crisis translated into an enduring liquidity crisis (drop of investor demand and rarefication of exchanges on the market). At that stage, not only had US subprime mortgage securitisations become illiquid, but the “creditworthiness of even the senior tranches of securitisations of high-quality assets” was also called into question (BCBS 2014: 6), and previously liquid assets were recast as ‘toxic assets’ that could no longer be traded. The securitisation market, in other words, had entered a liquidity crisis rooted in a wider market legitimacy crisis.

In sum, the crisis challenged the very purpose served by securitisation, as it was no longer possible to use ABS either as collateral against which to access funding from other market actors or as placement with investors to access market liquidity. One can thus wonder why a number of large investment banks were still considering securitisation a necessary part of their business model, to the point of creating an organisation devoted to labelling high quality securitisations and lobbying for their rehabilitation (see chapter 6). The reason, as the next paragraphs will show, was that some of the very actions taken by the ECB to alleviate the broad financial liquidity crisis (itself partly caused by securitisation) created a new, positive role for securitisation.

4.2.2. ECB collateral as liquidity crisis management

Since the financial crisis, central banks have appeared as the “necessary backstop for capitalism’s inherent volatility” (Mann 2010: 602) and notably as the ultimate backstop against the disruptions caused by (privately operated) financial markets, an observation which “stands as the most embarrassing empirical objection to any case for ‘unfettered’ markets and the ‘rolling back’ of the state” (ibid). After the Lehman Brothers episode in
September 2008, and in the face of prolonged illiquidity on financial markets, US and European central banks “acquired a new (and never explicit) superordinate policy objective of keeping the banks and markets going” so as to avoid the “collapse of business lending and the disruption of everyday life that would ensue from bank failure” (Bowman et al. 2013: 465). In the Eurozone, where a significant aspect of the ECB’s monetary policy consists of lending money to banks through open market operations such as the main refinancing operations (MRO) and longer-term refinancing operations (LTRO), the first signs of drying up on the interbank market in October 2008 led the ECB to switch to “full allotment”, meaning that it was open to meet all banks’ demands for liquidity (Van Bekkum, Gabarro and Irani 2015: 5). Between July 2007 and January 2012 the balance sheet of the ECB increased from about 12.5% to over 30% of overall EU GDP (Bowman et al. 2013: 469). Thus, the liquidity crisis partly triggered by defaulting securitisations in the US resulted in massive intervention by central banks that exerted and extended their traditional role as lender of last resort (ibid: 456).

The particular modalities of central bank lending – namely, lending against collateral – explain that it is precisely in its attempt to alleviate liquidity issues on financial markets that the ECB remade securitisation a useful funding tool. The logic behind secured lending is that central bank lending “includes significant risks, that are ultimately borne by the public purse, and should therefore be mitigated by lending only against ‘good collateral’” (Eberl and Weber 2014: 2). Thus, to access credit operations of the Eurosystem (the ECB and the national central banks of Eurozone member states) banks need to pledge assets as collateral, which gives the ECB a guarantee in case of default by the borrower. In other words, the ECB “would not lend you unsecured” because “they want security” (interview 14, securitisation lobbyist). In addition, central banks put in place risk management measures for the collateral they accept, such as eligibility criteria, valuations and haircuts (ECB 2013: 10). Thus by only lending against ‘adequate collateral’ (in the official ECB terminology) the ECB is supposed to be protected against credit risk, since in case of default it still owns assets of supposedly the same value of the money lent.

Although collateralised lending through repurchase agreements (known as ‘repo’) is, in principle, a form of protection against risks inherent to lending, in times of crisis central bank backstop may involve a “commitment to accept as collateral a significantly larger
set of securities”, by which central banks play a role of “dealer of last resort” (Mehrling et al. 2013: 9). Indeed, when central bank interest rates are close to zero and central banks already provide unlimited liquidity – as was the case in the Eurozone since the switch to ‘full allotment’ – central banks may decide to use collateral policy as a tool to respond to banks’ funding needs (Eberl and Weber 2014: 2). In these cases, central bank monetary policy and bank rescue measures become closely interlinked. In the Eurozone, such collateral measures played a key role in crisis management since the 2008 financial crisis. Namely, the ECB came to expand the range of assets accepted as collateral so as to “provide sufficient liquidity to banks in the euro area periphery in particular but also to some banks in the core” (European Parliament 2014b: 4).

The reason for these changes was that the issue of liquidity had become vital: “it was fundamental to provide liquidity to the banks in [that] period, otherwise we would not be speaking here about securitisation and maybe not even about banks” (interview 26, covered bond lobbyist). Since it was politically controversial for the ECB to lend taxpayer’s money “directly to banks of different countries” (e.g. peripheral ones whose financial and banking systems were in critical conditions), a more “politically acceptable and safe way for the ECB (…) to act as a lender of last resort” was to provide “discount facilities with (…) good quality collateral” (interview 14, securitisation lobbyist).

Regarding securitisation more specifically, when interbank lending dried up in 2008, the ECB began accepting RMBS rated triple-A as collateral (Van Bekkum, Gabarro and Irani 2015: 5). As the Eurozone sovereign debt crisis aggravated and as conditions on financial markets deteriorated, the loosening of eligibility requirements for ABS became more evident from late 2011 onwards (ibid), as summarised in figure 4 below.
Figure 4. Securitised products accepted as collateral in Eurosystem credit operations

<table>
<thead>
<tr>
<th>Date</th>
<th>Type of securitisation accepted as collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>AAA-rated RMBS</td>
</tr>
<tr>
<td>December 2011</td>
<td>Single-A rated homogenous* RMBS and SME ABS (temporary)</td>
</tr>
<tr>
<td>June 2012</td>
<td>BBB-rated homogeneous* RMBS, SME ABS, CMBS, auto, leasing and consumer finance ABS (temporary)</td>
</tr>
<tr>
<td>August 2012</td>
<td>Single-A rated homogenous* RMBS (permanent)</td>
</tr>
<tr>
<td>September 2012</td>
<td>All remaining temporary measures prolonged to March 2013</td>
</tr>
<tr>
<td>March 2013</td>
<td>All measures included in the General Framework, without formal expiration date</td>
</tr>
</tbody>
</table>

*Homogeneous securitisations are based on assets of one homogenous type.

Source: Author’s compilation of Eberl and Weber (2014) and Van Bekkum, Gabarro and Irani (2015).

As an official from the European Banking Authority observed:

[The ECB] started to change [its] position on securitisation in 2012, (…) when it started to look at the product more positively and to understand the benefits that it could bring. And that’s also when they started to reduce some haircuts and make some differentiations [in the collateral criteria]. (Interview 37).

Thus, the ECB had come to see securitisation not just as a cause of the financial crisis and a potential threat to European banking (BoE and ECB 2014: 6), but also “as a tool to have more assets that may be pledged as collateral” (interview 06, GUE MEP). As an interviewee who wished to remain unidentifiable on this specific point put it, the ECB is “the bank of banks, its job is also to help banks, [so] the ECB’s agenda is to create
collateral to make QE [quantitative easing] more efficient, that’s part of its programme (…) of unlimited liquidity”. This need to expand the range of assets accepted as collateral was “not a universal need” but rather corresponded to the needs of peripheral countries: in “Germany, France, there is no particular concern over the capacity [of banks] to find collateral for repo operations. It’s always the few countries that are in financial difficulty [where] sometimes banks really struggle to find collateral” (interview 20, DG ECFIN). The next subsection turns to the effect that these collateral changes had on the securitisation market.

4.2.3. Securitisation: a (renewed) liquidity tool for banks

The evolution of ECB collateral criteria regarding ABS had an impact not only on the structure of the securitisation market itself, but also on the relevance of securitisation as a tool for large European banks. First, in reaction to the above-mentioned ECB collateral rules notably regarding the eligibility of residential mortgage-backed securities (RMBS), banks started securitising mortgages and retaining “the newly-created RMBS on their own balance sheets”, thereby making “self-securitization” or “retained securitization” a much more common practice (Van Bekkum, Gabarro and Irani 2015: 6). This is confirmed by many interviewees. For instance, an interviewee explained that in Europe, “clearly after the financial crisis there were lots of [ABS issuances] which weren't sold to investors but really retained and used for repo purposes, and that was kind of for a while the predominant source of new transactions” (interview 28, European DataWarehouse). A lobbyist observed that during the crisis “the only thing” going on in the securitisation market “was retained” securitisation, “and just used for discount [with the ECB]” (interview 36, securitisation lobbyist). Securitisation thus creates “favourable collateral” that can be pledged with the ECB: “during the crisis (...) banks were more interested in getting the cheap funding, so they were retaining these [ABS] (...) to have eligible collateral to post with the MROs [main refinancing operations] of ECB” (interview 12, DG FISMA).

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11 In a retained securitisation, the originating bank sells assets to an SPV, which issues securities backed by these assets. The difference with a placed securitisation is that, in a fully retained securitisation, the originating bank is the only ‘investor’ buying the ABS issued by the SPV; there is no involvement of any external investor. In the end, then, the securitisation is issued but retained on the bank’s balance sheet.
Although securitisations were no longer placed on the market as investor demand had dropped significantly (see above), and although as a result issuances of securitisation “declined markedly across jurisdictions” since the beginning of crisis (BCBS 2014: 3), ABS that met ECB eligibility requirements became increasingly attractive: “a lot of the banks (...) said, well I'm gonna actually do these [securitisation] transactions to make sure that (...) if I do have a liquidity issue as a bank, I do have sufficient collateral” so that “if needed, [I can] rely on central bank liquidity and then use that [securitisation] as collateral” (interview 28, European DataWarehouse).

As a result, securitisations arranged after 2007 were for the large part structured specifically (e.g. a large share of triple A tranches and other characteristics conforming to central bank collateral criteria – see also chapter 5) to access central bank liquidity (BCBS 2014: 4), as underlined by an interviewee:

Retained securitisation is not designed to be placed. (...) We see a lot of (...) banks that are [doing] securitisation (...) just to keep them, because if ever they need any emergency liquidity funds from the ECB, they've got the securitisation there (...). So now [banks] have a whole bunch of securitisations on their book, but they get it rated because of course the ECB has a rating requirement, (...) and if they ever need any money from the ECB, they'll just say here is my collateral, they don't have to waste time. (Interview 14, securitisation lobbyist).

Thus, in spite of the very low demand for ABS, they could still be useful when they were “structured as retained transactions [to be] used a liquidity tool to get liquidity from the central bank” (interview 21, securitisation lobbyist). The securitisation market, then, became essentially a retained market. Large European banks issuers of securitisation continued to structure ABS (albeit in much lower volumes than in the peak years of securitisation), but they now to massively retained them on their balance sheets. As can be seen in figure 5 below, prior to the crisis the entire share of asset-backed securities issued was placed – that is, 100% of issued securitisation were sold to external investors such as banks, pension funds, insurance companies, hedge funds, etc. After the crisis appeared in Europe, a nearly total reversal occurred: securitisation issuances found little to no demand, and placement declined strikingly fast between 2007 and 2009, after which it remained at much lower levels than in the pre-crisis period. In two years, then, retained securitisation had gone from non-existent to representing nearly 100% of the market.
Three related conclusions can be made from these observations. First, the reduction in placed issuance shows that the European securitisation was disrupted first and foremost on its ‘buy-side’: if many issuers were still willing to be active on the market, investor demand was clearly lacking. Second, as mentioned, the securitisation was qualitatively changed: from liquid market it became a retained market. Third, given this change and the striking decline in investor demand, the (relative) importance of the ECB as quasi-participant on the market grew significantly. As chapter 5 will show, this had important implications for how the ECB considered the securitisation market and its own role in relation to it. Indeed, the shift toward a retained market, which was specific to the securitisation market in Europe, proved enduring:

A very probably unique aspect of the European securitisation market is the presence of so many retained transactions (...). That's not a typical thing that you see in other markets. (...) To this day the [real] market is only barely starting to come back to life. (Interview 36, securitisation lobbyist).

Data on retained securitisation confirms that this trend was not reversed in subsequent years. New issuance volumes remained low, and most securitisation were retained except...
for auto loan ABS and UK and Dutch RMBS which were generally placed with investors (BCBS 2014: 4). For instance, most of the €100 billion of SME securitisations issued since the crisis were designed to be used in repo with the ECB and the Bank of England (AFME 2013a: 49), while about two thirds of all European RMBS issuances were retained in 2014 (AFME 2014a). In June 2014, Yves Mersch, a member of the Executive Board of the ECB speaking at the Global ABS conference organised by the securitisation industry in Barcelona, considered that ABS were “an important component of the Eurosystem’s own balance sheet” given that as of the end of March 2014 “307 billion of ABS collateral was pledged, amounting to 15% of the total pledged collateral for Eurosystem operations” (Mersch 2014).

Thus, although investment banks can earn fees by arranging securitisation deals, the fact that securitisations were mostly retained after 2008 shows that it was not direct profits that made securitisation attractive for banks at the time, but rather its potential for serving their funding needs. Indeed, when retaining a securitisation transaction, the actual margin is null (the income stream from the asset pool is the same no matter the structuring) or even negative as setting up the SPV is costly. So the reason for retaining securitisation is to be found elsewhere, namely in the role that securitisation can play in relation to liquidity. As expressed by a securitisation lobbyist, a retained securitisation allows to “basically [convert] illiquid loans into a security (…) which then can be posted as collateral with the ECB” (interview 36), thereby increasing “the liquidity of assets on the balance sheet” of banks (Van Bekkum, Gabarro and Irani 2015: 6). Securitisation therefore came to once again represent a crucial liquidity tool for European banks.

In critical political economy terms, this meant that in the crisis and post-crisis period the debt relations that provide the basis for the cashflows in securitisation were mobilised by banks and the ECB in specific ways, namely to be put at the service of Eurozone banks’ liquidity needs. Ensuring the continued production of bank liquidity – itself a condition for financial accumulation in contemporary financial markets (Langley 2010) – has thus depended on the continued reproduction of these unequal social relations of debt that involve a variety of individuals who consider themselves to be ‘outside’ of the ‘financial sphere’ (see chapter 3). This insight is only implicit, if surfacing at all, in the interview quotes cited here, and was further obscured in official (industry and EU institutional) discourses, as will be explained in subsequent chapters. The unequal and exploitative
social relations that are at the heart of securitisation, then, remain obscured while ‘the securitisation market’ made up and operated by private financial firms and central banks appears as a technical fix for the banking sector thrown into a liquidity crisis ... itself largely the result of the very practices of these financial firms in the past 30 years.

To summarise, the gradual loosening of EBC collateral eligibility criteria in favour of specific types of ABS turned securitisation into a central bank funding liquidity tool and a retained market. As the next chapters of this thesis will show, these ECB changes to collateral policy had further implications for securitisation and its legitimacy in Europe. Namely, chapter 5 will demonstrate that as the ECB became a quasi-investor in securitisation, it needed to ‘know’ the market and therefore cooperated with securitisation issuers in the creation of the European Datawarehouse, a data repository on securitisation transactions which aimed at improving transparency of securitisation. Before turning to this, however, the following subsection explains why issuers have been keen on repairing the investor side of securitisation – securitisation’s market liquidity.

4.2.4. Seeking to revive the securitisation market

Although securitisation was useful to banks as it gave enhanced access to ECB liquidity, market participants wanted to rebuild a ‘real’ market that could function without the support of the ECB. In addition, given that ECB extraordinary liquidity policies were seen as temporary measures that would have to be replaced by market funding sources, banks but also regulators and central bankers concerned with banking liquidity and stability considered that a dynamic securitisation market was necessary.

Issuers’ concerns over the lack of investor demand for securitisation

In spite of the new role played by ABS in repo transactions with the ECB, many large European banks still sought a return of investor demand for these products. Retaining securitisation was seen as “not even a choice” but rather a last resort option resulting from the “complete lack of investors” at the time (interview 26, covered bond lobbyist). As such, interviewees were at pains to explain that retained issuances should not be included when considering the state of the European securitisation market: “I ignore retained. (…) I mean a lot of people look at the figures and say, oh look at the issuance. No, retained issuance [is] not issuance” (interview 14, securitisation lobbyist). Other lobbyists insisted
that a retained market was “not a healthy market [in the] long term” (interview 13, investor lobbyist). This view was expressed through a medico-biological metaphor commonly used by financial lobbyists (see chapter 7):

[The ECB] is like a hospital. So the patient is the securitisation market, and that patient is living (…) connected to the oxygen and the medicine that are given in the hospital. Now we want that patient to stand up and walk [by] himself. That’s what the revival objective is about; to have a securitisation market that no longer needs the help of the ECB. (Interview 29, bank lobbyist).

Thus, financial firms that had traditionally been active on the securitisation market, particularly on the sell-side or as arrangers, were keen on rebuilding demand from “real money investors” i.e. “everything that’s not ECB” (interview 21, securitisation lobbyist).

As following chapters will show, some of the main financial lobby organisations representing the securitisation industry were quick to organise lobbying strategies at the global and EU level. This concern about the disappearance of the securitisation market in Europe was compounded by actors’ expectations about the future.

Securitisation as an alternative funding source in a hypothetical post-QE world

The quantitative easing (QE) policies pursued by the ECB were, from the beginning, understood as temporary crisis-management measures. As mentioned by a securitisation lobbyist, “at some point the idea is that the central banks [should not be] the lender of first resort” (interview 14). This idea that the ECB would end QE was widely shared by both market participants and European regulators: “not only the banks but also the politicians and the regulators, they were clearly aware that there would be a time that the ECB would have to step back” (interview 21, securitisation lobbyist). An EBA official for instance explained that EU macroeconomic policy, was overall, about ensuring economic growth “without support of the central bank” (interview 37).

In light of this expected withdrawal of the ECB, market participants and regulators likewise considered that reviving the securitisation market was necessary, particularly insofar as securitisation could be used as a funding tool (see section 4.2.3). Securitisation was seen as part of a wider array of financial practices that could help banks meet their liquidity needs. A bank survey conducted in 2012 found that most European banks were “striving to reduce their reliance on the ECB’s ‘exceptional support’ by deleveraging and by pursuing alternative private funding sources” (Deloitte 2012: 5, emphasis added). As
a securitisation lobbyist put it, “as the ECB is withdrawing on providing liquidity we desperately need all markets, (...) there has to be a good balance of securitisation, covered bonds and securities” (interview 21). This understanding was shared at DG FISMA: “when the ECB monetary policy normalises and interest rates change, I think this [securitisation] will be an important funding channel. And that’s something that the ECB has been saying” (interview 09). This concern over the post-QE funding of banks was, for the ECB and the European Commission, “one of the major drivers, [if not] the main driver, to have securitisation back” (interview 26, covered bond lobbyist).

Thus, although the changing state of the European securitisation market and of financial markets more broadly were determinant in informing market actors’ motivation regarding securitisation, actors’ expectations about the future also influenced their stance toward securitisation. Indeed, it was also in anticipation of the expiration of exceptional ECB liquidity policies that securitisation was considered a necessary market liquidity tool for banks. Thus, a securitisation lobbyist believed that an earlier end or reduction of ECB liquidity support would have made the case for securitisation quicker than in the present scenario:

I think if we had had economic growth and we didn’t have the ECB involved at the moment and you would see the banks would be suffering to find sufficient funding sources and then I think there would be much more priority for working on [supportive] securitisation regulation. (Interview 21).

Overall, then, the liquidity advantages initially brought by securitisation and impaired by the 2008 financial crisis and the collapse of the securitisation market have been repaired in two ways in the post-crisis environment. First, changes to the collateral rules of the Eurosystem have meant that certain types of securitised products have remained ‘liquidity-enhancing’: through the structuring of commodified everyday debt relations such as mortgages or auto loans, banks have been able to improve their capacity to access ECB liquidity. Second, (supposed) temporary nature of QE liquidity measures has allowed securitisation to be seen as a necessary alternative source of funding in the hypothetical ‘normalised’ future of the Eurozone. Thus, it is the very measures taken to alleviate the confidence and liquidity crisis plaguing European financial markets (which had been caused, in the first place, by the intense financialisation of the 2000s and by securitisation practices in particular) that have provided new ground for the reviving of
securitisation markets. The recovered usefulness of securitisation as a liquidity tool – be it central bank liquidity or market liquidity as an alternative to the former – was, however, not the sole advantage brought by securitisation in post-crisis Europe. As the second part of this chapter will show, the motivation behind the reviving of securitisation also rested on the second function commonly performed by securitisation, that is the capital management or ‘risk transfer’ function of securitisation.

4.3. Securitisation as a balance sheet management tool

This section unravels the complex relations between securitisation and banks’ capital requirements in the post-crisis years. After a brief reminder of the off-balance sheet regulatory treatment of securitisation and its significance for banks’ balance sheet management, I show that crisis-induced regulatory changes and new market expectations meant that banks faced increased capitalisation pressures in the post-2008 period (4.3.1). These have had a double and contradictory effect, which I detail in section 4.3.2. On the one hand, the logic of capital requirements made securitisation attractive as a tool facilitating regulatory compliance and mitigating the effects of capitalisation on banks’ returns. On the other hand, potential increases in capital charges for securitised products made securitisation relatively less attractive to investors. This situation was problematic given that investor demand is a precondition for securitisation to serve as a capital management tool, and explains that large banks, their representatives and some of their regulators were particularly concerned about the liquidity crisis on the securitisation market (4.3.3). Overall, I argue in this section that it is once again market and regulatory reactions to the crisis – as well as actors’ understandings and expectations thereof – that have (re)made securitisation a technique central to the management of European market-based banking in the post-crisis period.

4.3.1. The re-capitalisation context and off-balance sheet securitisation

I explained above that securitisation was used by issuing banks as a funding tool. However, banks “also use (...) securitisation for capital management purposes” (interview 21, securitisation lobbyist). Indeed, as mentioned in chapter 3, another important reason for securitising loans can be found in what is called the ‘capital relief’ or capital management characteristic of certain specific securitisation transactions. As an interviewee summarised it, “there were always two reasons why an issuer (...) would be
interested to do this [securitisation] business. One would be for capital relief (...), and the other would be for funding” (interview 12, DG FISMA).

More specifically, it is the off-balance sheet regulatory treatment of securitisation that allows banks issuing securitisation to lower the capital they are required to hold. The structuring of securitisation involves the creation of a special purpose vehicle (SPV), to which the bank sells a pool of assets. The accounting treatment of the SPV might differ from its regulatory treatment, but what matters in terms of capital requirements is the latter (interview 36, securitisation lobbyist). Regulators consider that the SPV, although created by the bank, is independent of it and hence that the assets owned by the SPV are not part of the bank’s balance sheet. Thus, once the bank had sold the assets to the SPV, the ‘risk weight’ of its balance sheet is reduced by the number of assets multiplied by the individual risk weight of each asset.

This specific off-balance sheet treatment (‘deconsolidation’ or ‘derecognition’ in financial jargon) is what makes securitisation stand out as a capital management tool. Indeed, although other techniques such as the issuing of covered bonds can “create fantastic quality collateral”, they leave the balance sheet ‘encumbered’ (the underlying bonds are not considered off-balance sheet) unlike securitisation which creates “good quality collateral, while not encumbering the balance sheet of banks” (interview 12, DG FISMA, emphasis added). Thus, when “in the very early days most securitisations were deconsolidated from the balance sheet of the banks, [securitisation] was another popular way of managing the balance sheet, to remove assets from the balance sheet” (interview 36, securitisation lobbyist). Securitisation was “used for capital management, to release capital, so it was seen as a positive tool that helped banks in different ways” (interview 37, EBA). Securitisation has been valued by market participants not only for its liquidity advantages, but also for its capital-related benefits:

The only way to really manage capital with a funding transaction is through securitisation. (...) sometimes people say, oh why are you fighting for securitisation? Just give it up, there are other ways to manage your balance sheet. But there are some typical aspects that banks – and investors – really value, and it's typically the trancheing and the capital management side. (Interview 21, securitisation lobbyist).

This role performed by securitisation in relation to risk-weighted capital requirements became particularly important in the crisis context.
**The financial crisis and the imperative for banks to recapitalise**

As a consequence of the global financial crisis, banks have been required to recapitalise, that is to hold more capital relative to the size of their debt and overall balance sheet. First, crisis dynamics created a need for banks to raise capital or deleverage by selling assets. Many banks had to conform to the regulatory capital charges of the assets they were forced to take on following the losses in the conduits and structured investment vehicles they had sponsored,\(^\text{12}\) while at the same time the frequent devaluations of bank assets meant an increase in the amount of capital they were required to hold against them (Hellwig 2010: 3-4).

Second, the crisis prompted regulatory changes that required banks to improve their capitalisation levels. Indeed, in spite of attempts by the securitisation industry to promote an alternative narrative of the crisis (see chapter 5), the financial crisis was seen as the outcome of excessive risk and insufficient financial regulation (a point which had implications for the reputation of regulators, see chapter 6). The crisis, it was argued, stemmed from the fragility of financial institutions, and notably an “insufficiency of bank capital” or “excessive indebtedness” relative to capital (Hellwig 2010: 3):

> [When] you look at the levels of capitalisation in some of the big banks [pre-crisis], it was really low (…). And then we had to scramble to kind of rebuild bank balance sheet and also to create confidence that the banks could stay open for business, I mean there was really a fear that they could collapse” (Interview 08, DG FISMA)

Thus, as the crisis deepened between 2007 and 2008, the Basel Committee on Banking Supervision (BCBS) in charge of coordinating global banking rules started its revision of the Basel II Accords of 2004 and recommended the implementation of stricter capital ratios. This eventually resulted in the Basel III agreement of 2010. Basel III provided for a stricter definition of what is considered bank capital; increases in the risk weights of assets (such as securitisation) that had proved problematic in the crisis; a leverage ratio (based on the asset-to-capital ratio independent of the risk-weights of assets, thereby preventing banks from using internal risk models to ‘optimise’ the ratio); and additional

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\(^{12}\) Prior to the crisis many banks had set up conduits and structured-investment vehicles (SIVs) that had allowed them to invest in ABS without holding the capital required for direct exposures to ABS (Hellwig 2010: 3). When these conduits and SIVs suffered losses and write-downs, sponsoring banks stepped in and took on additional assets on their balance sheets, often finding themselves “short of equity” or even “insolvent” (ibid; see also Gorton and Metrick 2012).
capital buffer, countercyclical buffers and liquidity requirements. The latter, in the form of a liquidity cover ratio (LCR), required banks to hold a certain amount of specifically liquid assets to guard banks against liquidity crises and funding shortages.

At the European level, the Commission began reforming in late 2007 the first Capital Requirements Directive (CRD), itself adapting Basel II into EU legislation. The Commission (2008b: 5) aimed to impose “more stringent and restrictive capital requirements” on banks. CRD II was eventually published in 2009, rapidly followed by CRD III in 2010. Finally, the new Basel III rules of 2010 were adapted into EU law in 2013 as the Capital Requirement Directive IV and the Capital Requirements Regulation (CRD IV-CRR). All in all, the new set of rules “increase[d] the proportion of capital that must be of proven loss absorbing capacity” (Howarth and Quaglia 2013: 335) and banks were thus required to “rebuild their balance sheets and rebuild their capital reserves” (interview 08, DG FISMA) over a gradual implementation period extending until 2019. Although the implementation of these changes discussed since late 2007 was ‘phased in’ over a 10-year period, “market expectations” of improved capital ratios pushed banks to try and meet Basel III standards as quickly as possible (Deloitte 2012: 3). Thus, not only did the new rules incentivise banks to “find new ways to structure their balance sheets” (Major 2012: 546), but market participants themselves, and notably banks’ shareholders, also expected such a restructuring to take place.

In light of all these growing expectations of better capitalised banks, it appeared that “European banks were completely over-leveraged” (interview 37, EBA) and needed to improve their capital ratios. EBA indicated in late 2011 that the capital shortfall for EU banks was 8% higher than initially expected, and was particularly important for Italian and Spanish banks, with Santander singled out for having the biggest shortfall among European banks (EBA 2011). Morgan Stanley (2011) predicted that same year that European banks would have to reduce the volume of their balance sheets by €1.5 to €2.5 trillion over 18 months in order to meet new capital requirements. EBA (2012) later showed that, unless they restructured their balance sheets, only 44% of large European banks would reach the Basel III threshold of 7% equity as of end June 2011. The question, therefore, was not whether banks would have to improve their capital ratios, but rather how they would attempt to do so – and, importantly for the case at hand, what role securitisation could play in relation to this.
4.3.2. Securitisation: managing bank capital and returns

Banks can increase their capital ratios in two ways, either by increasing capital (e.g. issuing new shares or retaining profits) or by reducing the volume of risk-weighted assets, which for a given amount of capital increases their capital ratio. Difficulties in raising capital in the crisis and post-crisis contexts as well as competitive pressures to maintain high levels of returns on equity (RoE) explain that banks have preferred the second option, commonly called ‘deleveraging’.

First, European banks were reportedly reluctant to raise capital through share issuance because of the low price at which shares were trading (PCS 2013), which was due to the fact there was “little investor appetite for new equity” (Deloitte 2012: 4). Second, even when raising equity was a possibility, many banks sought to find ways around it because it has several disadvantages for banks. Equity tends to be costly to banks because most tax systems penalise equity over debt (Hellwig 2010). More importantly, raising capital lowers a bank’s nominal shareholders’ returns (Admati et al. 2011) as such returns are, by definition, expressed as RoE. Given that RoE is “the most commonly used measure of performance and profitability” and influences managers’ pay and bonuses, banks seek to achieve the highest RoE possible, notably by reducing the volume of capital on their balance sheet (Finance Watch 2012: 9). In sum, “in a world of ‘shareholder value’ and ‘market discipline’ (…), bank managers have strong incentives to go after these returns” (Hellwig 2010: 6).

All in all, these different factors explain that during the 2008 financial crisis and its aftermath, “there was only limited scope for raising new capital” and hence that “a lot of deleveraging had to take place” (Hellwig 2010: 4). In other words, in light of upcoming regulations and changing market expectations in terms of capitalisation “the difficulties of raising new equity, or of generating capital through profitability and growth” as well as banks’ and shareholders’ bias towards high RoE, “caused banks to rely more heavily on defensive strategies, including deleveraging the balance sheet, to squeeze out improvements to capital ratios” (Deloitte 2012: 4). This was all the more the case as many assets on banks’ balance sheets were also expected to undergo increased risk weights and capital charges, making it even more advantageous, from a bank’s
perspective, to get rid of such assets. It is in this configuration, then, that securitisation – through which assets are removed from the balance sheet – was considered a particularly useful technique.

Securitisation: a capital management tool for banks?

In the context of these deleveraging tendencies, the transfer of bank’s assets to an off-balance sheet SPV through securitisation (see section 4.3.1) was coveted as it could improve bank’s capital ratios. Given this potential for securitisation to facilitate banks’ compliance with new or upcoming regulations, European regulators’ stance on securitisation was contradictory or at best ambiguous. On the one hand, the crisis highlighted that structured finance – and securitisation in particular – could disrupt the overall functioning of finance and the stability of the European banking sector. As a result, regulators sought to regulate securitisation, for instance by requiring more capital to be set aside in securitisation investments (increases in securitisation’s risk weights) or by forcing issuers to retain some of the assets’ risk on their balance sheet (see chapter 5).

On the other hand however, this same concern over bank stability in Europe meant that regulators were interested in securitisation’s capacity to help banks manage their balance sheet and thereby comply with new prudential regulation. For instance, an EBA official explained that a general concern for European regulators in the financial crisis years was that European banks “need[ed] to fix their balance sheets” in order to comply with regulations (interview 37, EBA). More specifically, an official at DG FISMA mentioned that “securitisation is a tool that is really helpful when we are talking about deleveraging” (interview 09). Indeed “the securitisation technology helps” insofar as “on the bank balance sheet is already a lot of mortgages” which can readily be repackaged and sold off to an SPV so as to reduce the volume of existing assets on the bank’s balance sheet (interview 09, DG FISMA).

Securitisation, overall, was perceived by financial regulators as “one of the easier ways, especially in light of the adoption of Basel III, to give banks a little room to manoeuvre” (interview 35, DG MARKT). Thus, although it was recognised that the financial crisis had been partly caused by securitisation, the interpretation of the global financial crash as a crisis of under-capitalised banks and the corresponding regulatory reactions paradoxically (re)made securitisation as a necessary tool serving the needs of European
banks. The implications of these potentially contradictory objectives (restricting securitisation as it is a threat to stable financial accumulation; promoting securitisation as it has specific characteristics that can help banks meet their liquidity, capital and RoE needs) and the ways in which particular regulators and central bankers have sought to navigate them will be examined in the following chapters of the thesis.

Securitisation and its capacity to improve banks’ capital ratios without affecting nominal RoE was, unsurprisingly, also valued by large banks and their representatives in the context of what a bank lobbyist described as the “very stringent conditions of capitalisation (...) imposed after the crisis” (interview 29). Such regulatory changes gave banks “incentives” to use securitisation as a capital management tool (interview 08, DG FISMA). For instance, a securitisation lobbyist explained that “with all the capital charges on mortgages on balance sheet [that] are going up” due to upcoming CRD IV-CRR legislation, securitisation “can create quite a lot of capital relief” (interview 21). Hence, “the trade-off between securitising and keeping them on balance sheet may change, you may see some more of these capital relief transactions in the future” (interview 21). And indeed, as figure 6 below illustrates, many banks such as the Dutch bank Rabobank have since the crisis promoted the use of securitisation and its function of ‘capital relief’ (on this specific notion, see also chapter 7).

Figure 6. Rabobank promoting the use of securitisation for capital relief purposes

Focus on ABS: Capital relief securitisations

14 January 2016  Marketing Communication  Financial Markets Research

Capital relief: the future of securitisation?

- Securitisation could play an important role to increase banks’ capital and leverage ratios, by transferring risks and/or assets from banks’ balance sheets to external investors.
- Despite their bad name post-crisis, synthetic securitisations are a very useful tool to accomplish such capital relief trades, in particular to sell the risks of more complex assets on banks’ balance sheets to third parties.
- True-sale securitisations are not only able to achieve capital relief (a reduction of risk-weighted assets), but a reduction of total assets is also a possibility. As such, these structures could enhance a bank’s Leverage Ratio, conditional that the accounting derecognises the assets in the securitisation transaction.
- RMBS is increasingly in focus as a balance sheet relief tool. We have recently seen several transactions in which all tranches were sold, and given the upcoming stricter regulations on banks’ capital and risk weightings, we expect more of such trades in the future.

Source: Rabobank (2016)
Overall, the logic of securitisation as capital management technique can be summarised by the below quote, from a securitisation lobbyist:

[In] today's market where capital is king and capital in the banking system is going up, and therefore banks are deleveraging to meet those higher capital charges, securitisation becomes even more important because of its ability to achieve significant risk transfer. (Interview 36).

The post-crisis re-capitalisation imperative, in a context of unchanged competitive pressures towards high RoE, have remade securitisation useful as a capital management tool. Thus it is again through the emerging contradictions of market-based banking – namely, the potentially conflicting objectives of higher capitalisation and sustained returns for shareholders – that securitisation could remain valuable to European banks and their regulators. However, as the above quote and the Rabobank document shown in figure 6 indicate, securitisation’s function as a capital management technique depends not only upon its capacity to transfer assets out of the bank’s balance sheet, but also upon its capacity to transfer away the risks associated with such assets.

4.3.3. Achieving SRT: the need to revive investor demand

In this final subsection, I argue that issuers’ and regulators’ motivation to revive investor demand for securitised products can be explained by the specific modalities of capital relief securitisation transactions. Namely, the capital management advantages mentioned above only arise when ‘significant risk transfer’ is achieved, which itself is conditional on riskier tranches of the securitisation being placed with investors on the market.

First, as mentioned earlier, a capital relief securitisation is different, in its objective and in the way it is executed, from a securitisation issued for funding purposes. For securitisation to achieve capital relief, it must prove that it does effectively transfer credit risks away from the bank’s balance sheet. Then, if such effective transfer of risk – known as significant risk transfer (SRT) – is achieved, the risk-weighted assets (RWA) of the bank decreases (the bank is perceived as holding less risk or less risky assets on its balance sheet), which in turn, all other things remaining equal, increases its capital ratio (capital / RWA).
Achieving SRT, be it through synthetic or true sale securitisation, requires satisfying several complex requirements and ‘mechanistic tests’ described in the Capital Requirements Regulation and the 2014 EBA guidelines (EBA 2014a). Furthermore, it is down to national supervisors in EU member states to “exercise [their] discretion under the SRT regime of the CRR to appraise whether the capital relief achieved was commensurate with the level of risk transferred” (Deloitte 2016: 1). The overall principle of SRT is simple, however: for a bank to obtain capital relief, it must prove that thanks to the securitisation it is bearing less risk (e.g. risk of default or credit risk of assets) than it would do without the securitisation. As true sale securitisation usually involves creating several tranches which bear different levels of risk (see chapter 3), the placement of tranches matters in order to determine whether risk has been effectively transferred. Indeed, as the most senior tranches are, by virtue of the existence of the lower tranches, considered very safe (triple A), merely selling these does not remove much risk away from the issuer’s balance sheet (as these tranches are in themselves not considered to be bearing much risk). Conversely, placing with external investors the entire structure, including the riskier mezzanine and junior tranches, is likely to lead to SRT and hence capital relief. As two securitisation lobbyists explain, then, “if you only sell the senior bonds [of a securitisation], and retain the junior tranches, you won't get any benefits, from a capital point of view” (interview 14); and, correspondingly, “if you sell a loan transaction down to the highest risk part, then you can get capital relief” (interview 21). Thus, “for them [banks] as originators, [if] they can place the whole capital structure, get rid of the equity [tranche] as well and then derecognise [the assets and the SPV], which is capital relief, then that is value” (interview 12, DG FISMA).

Given these considerations, the same official at DG FISMA expressed doubts about the argument that securitisation could serve as a capital relief tool: “let’s remember, banks only free up capital if they place the equity [tranche], if they’re retaining the equity, they’re not freeing any capital. So let’s be quite real” (interview 12). In light of the 2008

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13 Synthetic securitisation does not involve a transfer of assets but solely a transfer of risk through the use of Credit Default Swaps (CDS). The issuing bank buys credit protection on a pool of assets in the form of CDS. In case of defaults it is the seller of the CDS that take the losses. The bank has thus lowered the credit risk of its balance sheet, and can thereby obtain a lower RWA and improve its capital ratio. Traditional securitisation (also called true-sale securitisation), on which this section focuses, involves selling a pool of assets to an SPV which issues ABS on the back of such assets.
crisis and ensuing loss of investor confidence and demand in securitised products, the fact that securitisation can only achieve ‘capital relief’ when there is investor appetite for the riskier tranches of securitisation transactions becomes evidently problematic:

[And] right now, even if people do want to pursue capital relief (…), they don't have the investors who are keen to step in and to buy the junior, first-loss pieces (…) that are directly exposed to the losses in the portfolio. (Interview 12, DG FISMA).

Not only are there few investors interested in those higher risk tranches, but of course the more junior the tranche (i.e. the more exposed to losses), the higher the yield that the issuer has to pay on it, and hence the lower the net benefits (or excess spread)\(^{14}\) the issuing bank will make:

[If] you want to get [the securitisation] really off balance sheet, then you have to sell basically everything, so then you have to sell also the lower-rated parts, and of course there is a cost associated in those higher margins, but the owner has a benefit because it can create quite a lot of capital relief. (Interview 21, securitisation lobbyist).

Thus although the capital management function of securitisation was widely recognised and appreciated by market participants (and by some regulators who mentioned it as a reason for the need to make securitisation available to banks), such a capital relief is not automatic and requires the securitisation market to be fully active, with investors willing to buy junior tranches of securitisation issuances. This conditionality led some interviewees to question the idea that securitisation could serve as a form of capital management for banks: “that's a big element that's missing for me, in the whole puzzle: who are these buyers who are buying the junior? Do we have sufficient buyers [e.g. risk-seeking investors] keen to buy the junior again?” (interview 12, DG FISMA). Mostly, however, the dependence on sustained investor demand for achieving significant risk transfer through securitisation led actors interested in securitisation as capital management to seek a reviving of investor confidence in securitisation. Overall, both the requirement of ‘significant risk transfer’ for securitisation to improve capital requirements and shareholders’ returns and the requirement of a ‘real’ market for securitisation to be a liquidity-enhancing tool independent of ECB support (see section 4.2) explain that large banks and some of their regulators have pushed for regulatory incentives that could attract investors to the securitisation market.

\(^{14}\) The excess spread is the margin on the assets (e.g. the revenues given by the cashflows of the underlying assets) minus the margin (or yield) paid on the ABS placed and the expenses paid to the SPV (interview 36, securitisation lobbyist).
As the following chapters will explain, securitisation issuers thus attempted to improve the market image of securitisation (chapter 5), notably as a way to address the market confidence and market legitimacy crisis mentioned in section 4.2.1. To do so they eventually collaborated with pro-securitisation regulators in an attempt to achieve regulatory outcomes that could attract investors back to the market (see chapter 6 for instance). Regulators, insofar as securitisation could appear as a legitimate financial practice (see chapter 5 on the market legitimation of securitisation, chapter 6 on its regulatory legitimation and chapter 7 on its policy legitimation), have for their part publicly endorsed securitisation and have been keen on modifying its regulatory treatment in a way that would support rather than hinder securitisation activities. For instance, the simple, transparent and standardised (STS) securitisation legislation drafted by the European Commission in September 2015 proposed to lower the risk weights and hence capital charges associated with investment in (certain types of) securitised products, notably in view of boosting investor demand and enhancing securitisation’s potential as a capital (and liquidity) management technique for banks.

However, as will be explored in more detail in chapter 7, the ‘capital requirements as constraints on banking’ narrative was not circumscribed to the idea that securitisation should help banks manage their balance sheet and meet higher capitalisation expectations. Rather, such a narrative was developed and extended to the (relatively) wider debate on bank lending, and particularly bank lending to the so-called ‘real economy’, of which small and medium-sized enterprises (SMEs) are commonly said to be the backbone. As the last empirical chapter of this thesis will show, the initial logic according to which securitisation is necessary as a tool enabling European banks to better navigate the complex post-crisis financial environment was just the beginning of a broader – and arguably more powerful – narrative in which securitisation could be portrayed not only as a solution to the emerging contradictions of market-based banking, but also as way out of the enduring economic and social crisis of the European ‘real’ economy as a whole.
4.4. Conclusion

In this chapter I have explored the main functions performed by securitisation in European market-based banking post-2007. In doing so, I have exposed the time- and location-specific reasons why large European banks, issuers of securitisation and some of their regulators deemed it necessary to devote time and efforts to the rehabilitation of a financial technique that was also a cause of the financial crisis and thus potentially detrimental to the stability of finance. I have argued that post-crisis financial and regulatory changes – and, importantly, actors’ understandings and expectations thereof – have provided a context in which securitisation was valued for its capacity to facilitate the reproduction of market-based banking. Indeed, changes induced by the crisis created tensions within the functioning of market-based banking. Such tensions, it was believed, could be alleviated through the use of securitisation. In addition, and importantly, I have drawn upon the political economy framework outlined in chapter 2 to stress that the expectations of further changes induced by the crisis only heightened those tensions, and hence the (perceived) need for securitisation to be available to banks in the form of a liquid market.

Overall, the newly emerging contradictions of European market-based banking and the way they have been apprehended by actors are crucial to explain banks’ and regulators’ motivation in relation to securitisation. More specifically, on the one hand the global financial crisis was, for the securitisation market, a liquidity crisis in which investor demand evaporated, and on the other it appeared that such market demand was essential for securitisation to be a liquidity and capital management tool. Therefore, large European banks and their regulators have sought to attract investors back to the securitisation market. This broadly defined pro-securitisation motivation has translated into various practices and initiatives (public, private, or public-private), which are analysed in the remainder of this thesis.

In outlining the reasons behind the seemingly puzzling public and private efforts made to revive securitisation in Europe, the chapter has also highlighted how the European securitisation market changed through the crisis, and how securitisation remained beneficial to market participants and issuers in particular. First, although the liquidity crunch on financial markets meant that securitisation no longer gave access to market
funding, the production of ABS still gave access to central bank funding. Indeed, during and after the crisis the ECB widened the range of assets it accepted as collateral, and notably accepted a wider range of ABS. That way, the securitisation market became a retained market. Second, securitisation was envisaged as a capital management tool in light of (existing and upcoming) increases in capital requirements. Importantly, both functions can only be performed in liquid conditions, meaning that bank issuers of securitisation – but also regulators eager to see them able to use securitisation to comply with said regulations – were concerned with reviving investor demand for ABS.

Securitisation has been perceived by large European banks and their most immediate supervisors and regulators as a way to solve the new problems (expected to be) arising from European responses to the financial crisis. The remainder of this thesis is devoted to explaining how these early proponents of securitisation have, in a post-crisis atmosphere broadly suspicious of banking and structured finance, attempted to create the conditions in which both a deregulation of securitisation and a return of its investors could be possible, and how these eventually resulted in the institutional endorsement of securitisation as a tool necessary not only for financial and banking stability, but also for the economic well-being of the EU. However, it will also be highlighted that the broadly favourable position described here was neither homogenous nor fixed: subsequent chapters will show that there were significant struggles within the securitisation industry over the type of legitimisation strategy that should be implemented (chapter 6), just as among EU policymakers not everyone agreed to the idea of promoting a return of securitisation (chapters 6 and 7). Before I turn to these questions, however, the next chapter takes a closer look at the liquidity and market legitimacy crisis of securitisation mentioned in the present chapter, and examines the various ways in which ‘transparency’, as a discourse and a market practice, has been mobilised by investors and the ECB as quasi investor to defend securitisation.
CHAPTER 5
The making of transparent securitisation: crisis narratives, self-regulation and public-private cooperation

5.1. Introduction

From 2007 onwards, representatives of the financial industry worldwide and in Europe put in place a significant number of initiatives aimed at improving the transparency of securitisation. The ECB, in the years following the crisis, gradually set up reporting requirements that enhanced the level and quality of ‘disclosure’ of information regarding securitisation transactions. In 2012 the European DataWarehouse (ED), a platform for the collection and distribution of loan-level data on securitisation deals, was created by the industry upon request by, and through collaboration with, the ECB. By focusing on the making of transparency on the securitisation market in the years 2007-2012 this chapter has two related objectives, which correspond to its two main sections. First, I analyse initial steps in the post-crisis lobbying in defence of securitisation, in a context where the existence of the securitisation market was endangered by a liquidity crisis and by potential re-regulation. Second, I identify and examine the reasons behind a first type of de facto public-private collaboration between the ECB and market actors in the making of transparency for European securitisation. Overall, this chapter analyses the role played by a set of discourses and (self)regulatory practices related to transparency in the wider process of rehabilitation of securitisation and reproduction of its industry after the crisis.

Drawing on the conceptual framework developed in chapter 2, I argue in section 5.2 that the financial industry was not only responding to the financial crisis, but was also seeking to “identify, define and constitute crisis in the first place” (Hay 1996: 254). The securitisation industry, in developing its own analysis of what, precisely, had constituted a crisis on financial markets, and in acting accordingly through self-regulation, sought to orientate regulatory debates so as to achieve particular regulatory outcomes for securitisation activities. Namely, the industry sought to shield from criticism, and hence regulation, its core activities i.e. the production of yield for investors, and the management of banks’ return on equity (see chapters 3 and 4). Leaving aside questions about the existence and production of risk or the politics of debt commodification, the
securitisation industry focused on the importance of making financial risks ‘knowable’ to
market participants – in other words, on making financial products and their risks more
transparent. Thus, in the years 2007-2008 securitisation lobbying was first and foremost
defensive; market actors and lobby organisations, faced with increasingly credible threats
of regulations, coordinated their efforts in order to defend a practice bringing key
advantages to its users. As chapters 6 and 7 will show, pro-securitisation lobbying itself
gradually became a public-private endeavour, with key public actors informally joining in
efforts to improve the image of securitisation and promote regulation that would support,
rather than hinder, the market.

Public-private collaboration did occur in these early years, but it took the shape of ad-hoc
collaboration in the making of transparency for European securitisation, as section 5.3
explains. The reconfiguration of actors’ positions and concerns following the onset of the
financial crisis (see chapter 4) meant that both the ECB and European banks
manufacturers of securitisation were interested in making the securitisation market more
transparent. For securitisation issuers, transparency was a matter of liquidity and
legitimacy, i.e. an attempt to render ABS yield more credible so as to tempt investors
back to the market. Indeed, the securitisation market was thrown into a liquidity crisis
following the onset of the financial crisis, and was becoming a ‘retained market’ in which
issuers retained ABS to use them as collateral to access ECB liquidity. Yet large banks
were not satisfied with this situation, as securitisation has the potential to bring many
more benefits under conditions of liquidity, when ABS can be exchanged easily on the
market (see chapter 3). The present chapter looks at the ways in which securitisation
industry actor sought to tackle the market legitimacy crisis synonymous with investors’
suspicion toward (and divestment in) securitisation.

These objectives pursued by private actors were not necessarily opposed to those pursued
by public actors; in fact, the making of transparency was the result of coinciding interests
from issuers seeking to restart the securitisation market and from the ECB following its
new role on the market. First, the ambiguous position of the ECB as central bank
responsible for monetary stability and as quasi-investor on the market following changes
to collateral rules meant that the ECB wanted to better ‘know’ the market. Second,
increased transparency was also a means to an end for the ECB, just like it was for
securitisation issuers. As part of its prudent risk management practice – itself important
for the ECB to maintain its central bank reputation in the neoliberal EMU – the ECB wanted to ensure that it could, if necessary, sell the ABS that could remain on its balance sheet. For that to happen, the market had to be liquid. Thus, the ECB found itself aligned with the securitisation industry in its effort to improve transparency, as enhanced disclosure on ABS loans was (seen as) a key precondition for investors to come back to the market. Overall, transparency narratives and initiatives were addressed to both market investors and policymakers who, for different reasons, were all concerned about the opacity and scarcity of information available regarding securitised products. Transparency was a means to (various) ends rather than a goal in itself: while financial lobby organisations sought to thwart regulation through self-regulation and a discourse focused on risk assessment, the ECB together with the securitisation industry attempted to alleviate the market legitimacy crisis with a view to improving its liquidity.

5.2. Transparency as a response to regulatory threats

As regulators were (re)assessing the risks posed by securitisation in light of the unfolding financial crisis, a key aim of the securitisation industry was to orientate regulators’ perceptions of securitisation. Indeed, as mentioned in chapter 2, a crisis is “a moment of decisive intervention” (Hay 1996: 253). Not only is the ‘normal’ course of events disrupted (opening up a period of uncertainty as to what will happen next), but the understanding of what is happening is also unfixed as previous frameworks of analysis seem unable to provide adequate explanations. What matters, therefore, is not just how the financial industry or regulators responded to the crisis, but also who was able (and in what way) to “identify, define and constitute crisis in the first place” (ibid: 254).

In this section, I argue that in a context where political pressures in favour of financial reforms were growing, the securitisation industry coordinated its lobby activities on a global scale and elaborated self-regulations aimed at improving the transparency of the securitisation market (5.2.1). The focus on transparency was not only a response to regulatory demands; it also derived from the industry’s specific interpretation of the financial crisis, according to which losses due to securitisation (the trigger for the financial crisis) were the result of opacity and inadequate risk assessment on the part of investors (5.2.2). Thus, at the same time as these self-regulatory initiatives were attempts to rebuild investors’ confidence in securitisation (see section 5.3), they were also
addressed to regulators and policymakers. In claiming that securitisation was not inherently risky and that market failures could be avoided by making information available to improve risk assessment, the securitisation industry hoped to avoid a restrictive re-regulation of the market.

5.2.1. Self-regulation as a way to pre-empt new regulations

In October 2007 EU finance ministers in cooperation with the European Commission agreed “to respond to the main weaknesses identified in the financial system” (Commission 2008a) in the wake of the financial turmoil. They committed to tackling “transparency in the market, notably with respect to banks’ exposures relating to securitisation and off-balance sheet items” and improving asset valuation practices, but also to “strengthening the prudential framework for the banking sector, including (...) banks' capital requirements for securitisation” and to investigating “the ‘originate and distribute’ model” on which the US subprime securitisation market was believed to be built (Commission 2008a). On 19 October 2007, at the Lisbon European Council, French President Nicolas Sarkozy, UK Prime Minister Gordon Brown and German Chancellor Angela Merkel announced they would look into improving transparency and risk management on financial markets (Council 2007). Although they stressed that “market solutions” were key in achieving these, they also stated that the European Council of Finance Ministers (the ECOFIN Council) was likely to legislate not only on “the adequate diffusion of information” related to structured finance products but also on “weak points in the risk management of securitisation vehicles” (ibid). As an investor lobbyist put it, policymakers at the time “identified what they thought was an obscure and opaque funding technique [i.e. securitisation] as a source for a lot of (...) problems, therefore it became the target of a lot of regulatory attention” (interview 13).

On 19 November 2007 the European Securitisation Forum (ESF) – the main lobby organisation for European securitisation at the time – held a symposium on European securitisation markets. The keynote speaker was David Wright, then Deputy Director-General responsible for financial services policy at the Commission’s DG MARKT. His position involved preparing legislative proposals based on the policy decided by EU Commissioner Charlie McCreevy, as well as liaising with other regulators and market participants (Wright 2008). At the symposium, he explained that the Commission
favoured “market-led solution” but “urgently need[ed] to see a plan” that would “address questions by regulators on transparency and securitisation valuations” (Euromoney 2007). ESF Head Rick Watson reminded the audience of the self-regulations and codes of conducts already implemented by the industry. Yet as participants considered that further regulation was “quasi inevitable”, a widespread sentiment was that it was best to be proactive rather than let the authorities “dictate a reform programme” (Les Echos 2007).

A delegation from the ESF was “summoned to speak” with Mr Wright in the first week of December 2007, when the industry was asked to come up “with an action plan to tackle the industry’s problems” by early 2008 (Euromoney 2007). Arguing that there was “clearly a lack of information on the securitisation market”, the EU official gave “an ultimatum” to securitisation market participants: should the industry fail to prove by the end of January 2008 that it had effectively worked towards the improvement of transparency on the market, the European Union could decide to legislate on the matter (Les Echos 2007). The fact that “mandatory regulation” was not ruled out (Reuters 2007) was “the worst of threats” for market players (Les Echos 2007). The securitisation industry believed that the EU was likely “to ban certain types of investor from buying European ABS unless the industry [cleaned] up its act with regard to transparency and valuation” (Euromoney 2007).

Responses of the securitisation industry

In this context, the most notable action on the part of financial lobby organisations was their concerted effort to self-regulate. Although their objective is often to fight against, dismantle or water down regulation, private companies can also choose to self-regulate precisely as a way to avoid (further or more restrictive) regulatory interference from outside (Power 2009). The various groups representing different segments of the securitisation industry in different regions of the world, which were until that point only loosely coordinating their lobby activities, joined forces first at the EU level and then at the global level, as the 2007-2008 financial crisis was still unfolding. At the beginning of 2008, eight key financial lobby organisations began discussing a coordinated response to transparency demands. Five of them were European associations (European Banking Federation, European Association of Co-operative Banks, European Savings Banks Group, London Investment Banking Association and ESF) and three were global

In February 2008, these organisations sent a joint letter to the European Commission in which they committed themselves “to improving transparency for investors, markets and regulators and produce results by June” notably regarding “comprehensive disclosure of securitisation exposure, frequent publication of data on the overall activity in the markets for securitisation and providing investors with comprehensive and standardised information about individual securitised products” (Commission 2008a: 6). In July 2008, the same associations and an additional one (the European Association of Public Banks and Funding Agencies) produced the promised ‘deliverables’ which they summarised in a publication entitled “Ten Industry Initiatives to Increase Transparency in the European Securitisation Markets” (ICMA 2008). A first initiative was the development of draft “good practice” guidelines on securitisation disclosures under the leadership of Deutsche Bank (AFME 2008: 3). A second was the creation of a new “Quarterly Securitisation Data Report” providing “comprehensive, frequent and relevant statistical data on EU and US securitisation markets” (ICMA 2008: 1). The eight other initiatives were notably “designed to standardise issuer disclosure practices, broaden and facilitate investor access to transaction information (…) and strengthen investor good practice” and included the development of “data portals” centralising access to prospectuses and investor reports (ibid). Overall, they covered a broad range of securitised products, addressing for instance disclosure in the ABCP, RMBS and ABS markets. Several workstreams were set up, some of which were spearheaded by the investment banks Bank of America, Unicredit, HSBC and Morgan Stanley or the legal and consultancy firms Allen & Overy and Clifford Chance, known for their specialisation in securitisation (AFME 2008: 3-4).

When publishing the Ten Initiatives, the associations made explicit reference to the October 2007 ‘Roadmap’ of the European Council of Finance Ministers (ECOFIN) which had called for increased transparency, and claimed to be “consistent” with

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15 Representatives of the European Banking Federation, the European Savings Banks Group, the International Capital Markets Association and the ESF were interviewed for this research. In the latter case, the interview took place after ESF had been integrated as the Securitisation division of the AFME, itself was formed in 2009 and merging the London Investment Banking Association and the European arm of the Securities Industries and Financial Markets Association (AFME 2016a).
recommendations of the Financial Stability Forum, itself mandated to make recommendations to policymakers on global financial reforms (ICMA 2008: 2).

In December 2008, another key step was taken by the industry. The Securities Industry and Financial Markets Association, the American Securitization Forum, the Australian Securitisation Forum and the ESF, the main finance and securitisation lobby organisations in the Western world, launched the “Global Joint Initiative to Restore Confidence in the Securitization Markets” (Global Joint Initiative 2008). The Initiative identified “important market practice improvements” that would “help restore confidence in the securitization markets and help prevent future market failures” (Global Joint Initiative 2008: 3). Although such an initiative was also a response to market demands and an attempt to restore market confidence in securitisation (see section 5.3.1), it was equally an attempt to restore regulatory confidence in securitisation.

To this aim, the joint effort focused once again on transparency, and on the industry’s capacity to self-regulate. The report as well as its recommendations and action plan for implementation were presented as “the early stages of a practical, industry-led response” to the crisis, focused on “actions that the industry [could] take that [did] not require regulatory or legislative action” (ibid). The industry sought to demonstrate that market actors themselves could take measures in light of problems that the crisis had evidenced. Tellingly, none of the identified priorities for action concerned changes to capital requirements – a topic that was, besides that of transparency, a key concern of financial regulators. In fact, the issue of capital requirements is only mentioned twice in the 76-page long report, which explains that market participants (including issuers, investors, dealers, servicers, and rating agencies) interviewed in preparation of the report deemed the “revision to regulatory capital requirements for securitized products” to be the least important factor (ranked 17th out of 17) in restoring confidence in the securitisation market (ibid: 41). Instead, then, the accent is on the improvement of transparency. Two out of the four priorities “for immediate action” are related to transparency, either that of the underlying assets or that of underwriting and origination practices (ibid: 9). For example, the first recommendation is to improve the disclosure and reliability of information regarding RMBS, while the second addresses the ease of access to such data (ibid: 11).
Overall, the securitisation industry organised at the European and global level during the very years of the global financial crisis, and responded to regulatory threats by putting in place self-regulatory initiatives aimed at improving the market’s transparency. As the following section will show, the focus on transparency on the part of the securitisation industry was also part of a broader attempt to keep discussions (and regulations) away from issues outside transparency, such as issue of capitalisation and capital charges which were far more worrying to the industry.

5.2.2. Crisis narration as a way to orientate regulatory debates

In parallel to discussions of transparency, discussions of other aspects of financial regulation were ongoing. The adequacy of banks’ capital requirements was notably a key topic for regulators and policymakers.\(^\text{16}\) As far as securitisation was concerned, a first question was that of the ‘originate to distribute’ model of securitisation, whereby issuers pass on the entirety of the risks attached to a pool of loans to external investors. A second question was that of the capital charges (or risk weights) for securitised products, an increase of which would make it more costly (in terms of capital) for investors to buy ABS (see chapters 3 and 4).

In the EU, work to reform the first Capital Requirements Directive (CRD) started in late 2007. In light of the financial turmoil, the Commission decided to amend the Directive before its full entry into force planned for January 2008 (Commission 2008b: 7). The Commission (ibid: 2) stated that “rules related to capital requirements and risk management for securitization positions” had to be re-examined. More specifically, the Commission stated that the crisis “raised the question of whether more stringent and restrictive capital requirements should be imposed with regard to the ‘originate to distribute’ model” of securitisation known to be at the origin of the subprime debacle (ibid: 5).

In the ‘originate to distribute’ (OTD) model, an issuer originates loans specifically to pass them on to third party investors, e.g. through securitisation. Because the entirety of risks is transferred to investors (improving the issuing bank’s capital ratio), the originator of

\(^{16}\) Capital requirements regulations determine the amount of capital relative to the total amount of risk-weighted assets on the bank’s balance sheet, and the specific risk weights attached to various types of assets in which banks can invest (see chapters 3 and 4 for more detail).
the loans no longer has an interest in ensuring the continuity of loan payments. It was argued that this model had led to the subprime crisis as increasingly higher risk high loans (so-called ‘subprime’) were securitised and traded on financial markets. Thus, regulators debated the idea that issuers should be legally required to retain some of the risks in order to retain a stake in the underlying debt repayments that constitute the cashflows of the securities. In terms of capital requirements, as securitisation had turned out to be ‘riskier’ (triggering more losses) than previously expected, regulators in the Basel Committee and at the European level were considering increases to the risk weights attached to securitisation as an investment, which would increase the capital charges for investors. In sum, at the heart of these debates was the consideration that securitisation was risky, and the securitisation industry complained that post-crisis regulation “was really focused on trying to diminish all the risks” (interview 15, securitisation lobbyist).

No finance without risk: securitisation as the production of risk/return

There are three main reasons why the industry wanted to avoid securitisation being associated with ‘riskiness’. First, the portrayal of securitisation as a technique risky by nature was likely to durably stain the image of securitisation as a tool able “to disperse and redistribute credit risk to a broader and more diverse investor base” (Blommenstein, Keskinler and Lucas 2011: 260), thereby challenging one of the rationales behind the existence of securitisation. Second, the perception that securitisation is risky paves the way for the imposition of restrictions on the activities of arrangers and issuers (making it more costly, more arduous and less advantageous to issue ABS), and underpins increases in risk weights for securitisations, which make investment in securitisation more costly. The securitisation industry, then, was opposing these regulations which would make it less attractive to issue and invest in ABS, and would thus indirectly further repel investors from the securitisation market (see also chapter 6). As an investor lobbyist put it, the fact that securitisation was “the target of a lot of regulatory attention (…) increased the stigma around it” (interview 13) and threatened to prolong the liquidity crisis on the market.

Finally and more fundamentally, risk and return on investment (yield) go hand in hand in finance, as theorised in financial economics and other mainstream theories of finance. This view that finance is, fundamentally, about the estimation and trading of risk was
shared by interviewees. A securitisation lobbyist stated for instance that “finance is about risk so you cannot avoid risk. All finance is about risk. If there is no risk, there is no finance, because you earn money because you are taking a risk” (interview 33). As explained in chapter 3, securitisation is no exception to this rule. The lowest tranches of a securitisation transaction bear most of the risk of default, but also yield the highest returns. From a critical political economy perspective, the yield derived from a financial asset is not a technical feature inherent to this asset or to the risk taken by the investor. Rather, the production of such yield is political in that it is tied, in the case of securitisation, to underlying social relations of debt that are deeply unequal and that are themselves related to wider processes of capital accumulation and exploitation (see chapter 3). Yet it remains the case that higher yield is synonymous with higher chances of defaults, notably in that higher yield is made possible by higher interest rates charged to the most precarious and vulnerable sections of the population (LeBaron 2014) – who are also the most likely to default. Securitisation exacerbates unequal, exploitative and uncertain relations of debt, and this, precisely, allows for intensified financial accumulation for financial market actors. From a market actor perspective the above meant that it was unrealistic to “remove all the risks” because “that's what investors are also looking for. There's an appetite for risk, because risk is also yield” (interview 15, securitisation lobbyist).

Promoting risk assessment over the banning of risk

In the face of such discussions centred on the risks involved in securitisation and the OTD model, the securitisation industry “developed [its] own analysis of what had gone wrong” (Morgan 2010: 39) on the securitisation markets in the run up to and during the crisis. Namely, the industry argued that instead of regulating risk itself, regulators and market actors should act upon knowledge of risk and responsibility over risk-taking. It was argued that “so as long as there is risk that is manageable, that's fine” (interview 15, securitisation lobbyist).

In addition the industry focused on investors’ responsibility in assessing risks. According to this narrative, losses on securitisation markets had less to do with the structuring of ABS the mass pooling and complex tranching of loans that eventually defaulted on a large scale, and more to do with the fact that such products had been bought carelessly by
investors. The securitisation industry concluded that the management of risk was the responsibility of individual investors, rather than the responsibility of issuers or regulators: “the question is whether you understand the risk or not, this is for me the key. If you know that what you are buying is risky and you are taking the risk, then it's your decision” (interview 33, securitisation lobbyist). This view was shared by an interviewee working at Finance Watch, the self-defined ‘public interest counterweight to the powerful financial lobby’: “And investing in risky products is not an issue, as long as it is done consciously, without relying on ratings and dodgy mathematical models” (interview 01, Finance Watch). Thus, complex structures such as re-securitisation (CDO and CDO squared, which played a key role in the crisis) were not considered problematic as long as investors understood their risks:

You can have [re-securitisations]. Why not. There are hedge funds, there are people who like risk. So the question here is that you understand the risks you are taking. This is the key for me, it's not about banning risky things, why? (...) And certain institutions and investors should not [take] high risk, they shouldn't invest in these things but if you are a private investor and want to invest in complicated things, why not? (Interview 33, securitisation lobbyist).

The focus on transparency – and on the responsibility of investors – was partly successful in shifting perceptions and regulatory attention away from risk itself and onto narrow questions of knowledge about risk. A bank lobbyist explained that such re-orientation constituted a “quantum leap” in “the perception of what a securitisation is” (interview 29):

At the beginning, after the crisis, (...) the only variable assessed was riskiness. People only thought in terms of certain securitisation like subprimes are very risky and others are not, but there is a shift in that approach, and we started thinking in terms of transparency. Because what went wrong in the crisis about securitisation, was not the riskiness, it was the lack of transparency. And the misinformation about certain instruments, that people thought to be of a high credit quality, when they weren't. (Interview 29, bank lobbyist).

The focus on transparency served to deflect more fundamental challenges to the core activities of securitisation, in an attempt to make upcoming regulation the least restrictive possible. In other words, promoting transparency as a crucial condition for adequate risk assessment and adequate risk distribution in finance was not solely the ‘logical’ conclusion of an alternative reading of the crisis; it was also a way to avoid securitisation being recast as a risky practice in and of itself. Thus, in a way similar to the derivatives industry studied by Morgan (2010: 39), the securitisation industry tried “to narrow down
issues from broad questions of the legitimacy of financial markets as a whole to narrower questions [such as] how to keep the markets going in a way which [would enable] them to function effectively according to notions derived from financial economics”.

De Goede observed in 2004 that the “re-articulation of the uncertain future as a classifiable, calculable, and measurable risk (…) provided a durable moral and political defence for speculative financial trading” (De Goede 2004: 204). In the specific case of securitisation, the political nature of risk was re-articulated as a technical issue of knowledge about risk, in an attempt to provide a defence for the trading of commodified debt. As this section has shown, then, the uncertain reproduction of the securitisation industry through and in the aftermath of the financial crisis cannot be solely analysed in terms of the functions performed by securitisation in financialised capitalism in general (see chapter 3), or in Europe (see chapter 4). Rather, it is crucial to consider the type of discourses and interpretation of the crisis provided by the securitisation industry itself, and to analyse it in its defensive dimension, that is as an attempt to prevent regulation that would restrict the scope of financial accumulation made possible by the pooling, structuring and circulation of exploitative social relations of debt. Yet, if attempts to improve transparency on the securitisation market were defensive moves in the face of upcoming regulations, they also constituted a response to market demands, as the next section shows.

5.3. Transparency as a response to market demands

In this section, I explain that as potential investors were demanding the disclosure of loan-level information (5.3.1), and as the ECB had a direct interest in ensuring that the securitisation market was more transparent and liquid (5.3.2), the securitisation industry and the ECB collaborated in the creation of the European DataWarehouse, a data repository for securitisation transactions whereby loan-level data on ABS is made available to both the ECB and market participants (5.3.3). By highlighting the close imbrications between this new market institution and the ECB, I show that the attempted rebuilding of the market’s liquidity through transparency was neither an attempt by policymakers to ‘regulate’ and ‘rein-in’ market forces in the wake of the financial crisis, nor was it solely a private endeavour aimed at repairing the market’s legitimacy. Rather,
it was the result of converging interests from private and public actors and constituted a first step in the broader re-legitimation of securitisation post-crisis.

5.3.1. Issuers facing a market legitimacy crisis

As explained in chapter 4, securitisation played the role of central bank funding tool during the crisis, as ASB could be used as guarantees to access to ECB liquidity. Yet other functions (e.g. market funding or capital management) could only materialise in dynamic market conditions i.e. in conditions of sustained investor demand. The sudden lack of investor demand on the securitisation market was therefore highly concerning to issuers of securitisation. A chief way in which securitisation issuers sought to solve this liquidity and market legitimacy crisis was by responding to investors’ demand for more detailed information about securitised product.

Although the securitisation industry was developing its own analysis of the crisis in which it was insisting on the intrinsically good value of European securitised products (see section 5.2; see also chapter 6), such a denial of wrong-doings on the part of securitisation originators was not successful in bringing investors back to the market:

The European banking industry always said (...) it’s not that bad, in Europe [the securitisation market] functioned better, but even their members were not following. It was something that their representatives were saying but when you take a closer look, markets were flat, it meant that there was scepticism on the part of investors themselves. (Interview 20, DG ECFIN).

No matter the narrative, “a lot of the market was dead” (interview 14, securitisation lobbyist), “and with it, all the benefits that it entails” (interview 29, bank lobbyist). Thus, issuers of securitisation who had an immediate interest in attracting investors back to the market sought to take action in order to make securitisation more legitimate and more appealing to potential investors. In 2007 already, the head of the ESF Rick Watson explained that the market was “now much more of an investors’ market” as their requests were “being taken much more seriously than they were before” (Euromoney 2007). In the Netherland likewise:

[The] complete disappearing of securitisation in 2010 was a big concern to the [Dutch] market and that's why the issuers and investors at that time decided that they have to look into some kind of solution to get the market back on track again. (Interview 21, securitisation lobbyist).
Taking seriously the demands of (prospective) investors and implied, in the context of the global financial crisis, to hear demands concerning transparency.

_Investors’ demand for loan information_

More specifically, investors demanded more direct access to information that was until that point condensed into abstract indicators. As mentioned in chapter 3, among such indicators credit ratings play a “symbolic role of legitimation” and allow financial products to “circulate within the financial community” (Pineault 2013: 145), which makes them essential to market liquidity. During the financial crisis, however, the credibility of ratings was challenged. Indeed, the crisis was triggered – and the legitimacy of securitisation called into question – when it surfaced that there was a discrepancy between official information symbolising a guaranteed yield (triple A ratings) and the actual materialisation of such yield in the form of continued payments. In other words, the fact that triple A products (often based on subprime loans) were massively defaulting challenged the credibility of ratings:

[D]uring that time it was simply unclear which transactions would turn out to be actually good ones (...) and which ones might have potential problems. So the transparency in terms of what works well and what might not work well was certainly a challenge at the time. (Interview 28, European DataWarehouse).

Thus, when during the crisis triple A rated securitisations defaulted on an unexpectedly large scale, “there was a reaction against all instruments involved in the crisis” (interview 29, bank lobbyist), and many investors started selling their securitisation exposures, causing a fall in prices, and eventually a liquidity crisis.

Consequently, as investors felt they could no longer rely on the ratings obtained through the abstraction of pooled debt relations, they demanded more specific information on these underlying debtors. Such provision of information was meant to help investors assess whether ABS would be ‘performing’ (bringing the yield promised) and continuously channel cashflows produced in the ‘real economy’. These market demands for enhanced levels and quality of information were formulated in the broad term of transparency:

So the whole area of transparency, did investors understand what they were buying, have they actually reviewed the underlying assets, understood their quality, how they were originated and serviced, was there enough information provided (...), these
are all questions that have arisen as a result of the crisis. (Interview 36, securitisation lobbyist).

As a securitisation lobbyist put it, “it was really noticed, especially in the discussion also between issuers and investors” that there was “a lack of transparency” in securitisation transactions (interview 21). “Investor trust”, in other words, “was undermined by the lack of detailed loan performance information and the means to form independent judgments” on the value of European ABS (Colling and Samborn 2012: 2), and such detailed information had to be given to restore market confidence in the asset class. More specifically, investors “demanded the information and the loan-level data, which they had to be given otherwise they weren’t going to invest” (interview 09, DG FISMA). Improving information disclosure at the level of the underlying assets was perceived as a precondition for investors to come back to the market, and hence for the market to solve its liquidity crisis. Overall, it was clear that transparency (whether it was achieved through the market or through regulation) was essential to boost investor demand for securitisation:

To encourage these types of investors to invest, you need to really build up the confidence in the market, [make sure] that the structures are in place and regulatory framework is in place to ensure that they can rely on what they are being told and what they are seeing. (Interview 09, DG FISMA).

The securitisation industry, then, organised itself in order to provide such structures of liquidity. Issuers “increasingly made information available” to investors (Euromoney 2007), for instance through the self-imposed transparency initiatives mentioned in section 5.2.1. A regulator at DG FISMA who was in contact with investors confirmed that the move toward transparency was “something that even the market had driven itself, investors had demanded this level of data” (interview 09).

Thus, at the same time as industry claims about investors’ lack of information regarding European securitisation were an attempt to orientate regulatory debates away questions on the core content of securitisation and onto its form (i.e. transparency) (see section 5.2), investors themselves made clear that they would come back to the market only if its transparency was improved. As such, industry efforts toward enhanced disclosure were also a response to these market demands, and constitute one of the first post-crisis attempts to repair the (market) legitimacy of securitisation. In parallel to this, the ECB
was, for reasons exposed below, also interested in collecting data on underlying assets and in rebuilding the market’s liquidity.

5.3.2. ECB and transparency: navigating an ambiguous position

I show that as the ECB had become a quasi-investor on the market, it wanted to exert its due diligence like other investors, i.e. to know and assess the risks of the ABS posted as collateral on its balance sheet. At the same time, increased transparency was a means to an end for the ECB, just as it was for securitisation issuers (see above). As part of its prudent risk management practice – itself important for its reputation as central bank in the neoliberal EMU – the ECB wanted to ensure that if ABS remained on its balance sheet, it could re-sell them on the market. For that to happen, the ABS market had to be liquid. Thus, the ECB found itself aligned with the securitisation industry in its effort to improve transparency, as both issuers and the ECB saw transparency as a key precondition for investors to come back to the market.

The ECB as quasi-investor on the securitisation market

As detailed in chapter 4, most securitisations issued post-crisis have been retained on banks’ balance sheets and used as collateral against which banks borrow ECB liquidity. In 2007, the annual average share of ABS pledged as collateral to the ECB was 16%, up from 12% and 6% in 2006 and 2004 respectively (González-Páramo 2008: 7). It was expected in 2009 that the asset class would “continue to be significant in the future for Eurosystem counterparties” (ECB 2009: 1). The reason is that investor demand for securitised products continually dropped after 2007, at the same time as the ECB modified its collateral framework (accepting a wider range of securitised products as collateral, see chapter 4) in order to provide enough liquidity to banks so as to ensure financial stability. Through these repo transactions, the ECB took on its balance sheet (on a rolling basis) certain types of ABS products, some of them illiquid. This way, the ECB “substitut[ed] for traditional buyers of securitization products” and became one of the “investors of last resort” on the securitisation market (IMF 2009b: 77), if not “the largest ABS investor in Europe” (interview 36, securitisation lobbyist). This was an ambiguous position: The “ECB is a bit weird (…) because they are not only a supervisor, (…) the ECB is also a participant in the market” (interview 34, S&D MEP).
Getting to know the market: assessing risks and maintaining reputation

Yet, if the ECB was now a quasi-market participant in the securitisation market, it “lacked the understanding of the product” (interview 37, EBA), just as regular private investors on the market did (see above). As such, the ECB wanted to ‘know’ the market, that is, to have a clearer knowledge of the characteristics of the products it accepted as collateral. As an interviewee explained:

[T]he ECB said okay, if banks want to continue to use us as liquidity providers and want to use ABS or RMBS as collateral, we need better data. So one way or the other we need to have a good warehouse of data, on a really low-level basis. (Interview 21, securitisation lobbyist).

Thus, in addition to abstract indicators attached to securitised end-products (such as ratings) the ECB wanted more detailed information on the pool of underlying loans e.g. concerning the type, value and location of the loans; loan characteristics and performance such as expected default probability, actual days in default and late payments, underlying debtors’ accounting performance, bank’s assessment of the debtor’s probability of defaulting on a loan within the next year, etc. (Ertan, Loumioti and Wittenberg-Moerman 2016: 12). In this context, the ECB decided to make the provision of this type of data a requirement for banks posting ABS as collateral.

After internal discussions, the ECB launched a public consultation in December 2009 on the possibility for market actors to provide loan-level information on ABS. A year later, the ECB confirmed its decision to implement loan-by-loan data requirements for ABS. Throughout 2011 it encouraged and supported the creation of a platform dedicated to processing and verifying such data. Finally, in the second half of 2012, once the European DataWarehouse had been launched (see section 5.3.4), the ECB announced that providing loan-level information (on mortgage-backed securities first, and gradually on other ABS asset classes) was compulsory for banks to use these assets as collateral in ECB transactions. In sum, the ECB gradually implemented reporting rules that required banks willing to use ABS as collateral to provide comprehensive loan-level information about underlying assets in the ABS pool. This set of requirements, then, were first of all a way for the ECB to fulfil its ‘due diligence’ duties given its new role as quasi-investor on the market. Importantly, though, this ECB requirement was also an attempt to deal with the contradictory imperative to both maintain financial stability in the banking system (e.g. providing liquidity and accepting ABS as collateral) and maintain its solvency and
reputation as a central bank within the neoliberal monetarist framework of the EMU (see also chapter 2).

Indeed, in a period during which central banks were becoming “an object of controversy and public attention after being pivotally involved in crisis management” (Bowman et al. 2013: 457), the evolution of central bank collateral policy was itself “a controversial aspect of monetary policy” (Van Bekkum, Gabarro and Irani 2015: 1). In 2008 already, questions were asked about the extent to which the range of collateral accepted by central banks should be broadened (e.g. Crockett 2008). In 2014 a report of the European Parliament aptly summarised these debates by inquiring whether the “Eurosystem collateral policy and framework” had been “unduly changed” (EP 2014: 1). It was notably pointed out that central bank acceptance of “poorer quality, difficult-to-value and non-tradable bank assets as collateral” (Bowman et al. 2013: 466) could conflict with central banks conventions, and with central bankers’ famous dictum that “to avert panic, central banks should lend (...) against good collateral” (Tucker 2009: 3).

Although the ECB had put in place several rules to ensure adequacy of collateral (valuation, haircuts and eligibility criteria such as type and location of issuer, credit quality of the asset), accepting ABS as collateral was particularly threatening for its reputation as prudent and financially sound central bank of the EMU, notably given the role that securitisation played in the crisis, and given the illiquid state of most of the ABS. Thus, having access to more detailed ABS data was a way for the ECB to (show it could) better assess and control the risks temporarily and potentially taken on its balance sheet:

> From a Eurosystem perspective (...) if we actually accept ABS as collateral, then we need to know what's really in there, we need to have a level of control and transparency which allows us, as Eurosystem (...) to have a clear view in terms of what's the underlying risk. (Interview 28, European DataWarehouse).

Such concerns dated back to June 2008, when a member of the Executive Board of the ECB expressed the “need for the Eurosystem to refine its collateral policy (...) and ensure that the collateral continues to meet the Eurosystem’s risk tolerance level” (González-Páramo 2008: 8). They were further expressed in the consultation of December 2009 where the ECB explained that one of the aims of such an initiative was to “ensure an
adequate risk assessment of the ABSs that the Eurosystem accepts as collateral” (ECB 2009: 1).

*Making the market knowable to investors: transparency as a means to liquidity*

Finally, the loan-level reporting initiative was also a means to an end. Indeed, to conjugate the imperative of bank and financial stability with that of preserving its own reputation as a central bank, the ECB also had to ensure the liquidity of the securitisation market – which itself depended on the improvement of transparency.

Indeed, the growing use of ABS as collateral meant that the ECB, now acting qua investor, had a clear interest in ensuring that it could, if necessary, re-sell ABS on the market. As explained by a member of the Executive Board of the ECB in a speech, “if a counterparty were to default on its obligations, the Eurosystem would gain ownership of this ABS collateral and would then seek to liquidate it in secondary ABS markets without incurring a loss” (Mersch 2014). Given the waves of (unexpected) defaults that had triggered the subprime crisis, and given that the pricing and market valuation of ABS was disrupted throughout the crisis, a concrete fear was that the ECB could end up with illiquid (non-tradable) assets on its balance sheet, and could suffer losses if such assets turned out to be ‘non-performing’. As a result, just like the securitisation industry itself, the ECB had “a strong interest in ensuring that ABS [was] a safe and transparent asset class traded in well-functioning, liquid markets” (Mersch 2014). An official at the European Banking Authority (EBA) shared this idea:

The expectations back when the ECB became involved, what they wanted [was to fix the market, so that they could] start to offload the repos and the buying that they have back into the market, if the market is revived again. So that was the idea a couple of years ago, (...) let's create a well-functioning market, and then that helps the ECB to offload their positions in the market. (Interview 37).

Thus, although “supporting the ABS market [was] not an end itself”, the ECB still “placed great importance on the health of European ABS markets” (Mersch 2014). In other words, rebuilding the market’s liquidity was an important objective for the ECB, which it pursued notably through the improvement of transparency. The ECB, then,

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17 See chapter 8 for suggestions of critical research interrogating the meaning and implication of the terms ‘performance’ and ‘non-performance’.
found itself aligned with the industry in recognising that transparency was a precondition for investor to return to the market:

The other element was clearly also to bring back the confidence into the market. It wasn't only, we need to know what's in there, but also (...) the whole market actually should know what's in there. [There was a] view that the market should come back and you really basically need to have a higher level of transparency generally (...) so that the market could ultimately function again. (Interview 28, European DataWarehouse)

Indeed, given that ECB reporting requirements were going to be make data available not only to the ECB but also to market participants, the ECB aimed to “help both investors and third-party assessment providers with their due diligence” in hopes that this would “restore confidence in the securitisation market” and in turn would make the market more liquid ((Kanoni and Schaber 2013: 919). An interviewee confirmed that “the other reason [for supporting the creation of a data platform] was purely [to] bring back confidence” on the securitisation market and ensure that investors “have a high level of confidence in what they buy” (interview 28, European DataWarehouse).

As enhanced disclosure on ABS loans was (seen as) a key precondition for investors to come back to the market, and as the ECB and the securitisation industry were both concerned (for different reasons) about the liquidity of the market, the ECB and the industry found themselves to have the common objective of making the market more transparent. As the next paragraphs show, this situation resulted in their collaboration in the creation of the European DataWarehouse, considered by a lobbyist to be “the incarnation of the concept of transparency” (interview 29, bank lobbyist).

5.3.3. The public-private creation of the European DataWarehouse

In its creation and in the way it has operated, the European DataWarehouse (ED) can be seen as hybrid public-private market institution at the service of both the ECB and securitisation market participants. First, the ECB “very much stimulated this whole idea of loan-level data provision” (interview 21, securitisation lobbyist) and was “the key driver” in the development of the ED (Kanoni and Schaber 2013: 919). For instance, it was the ECB which together with the financial services firm LCM Partners introduced in 2009 the idea of setting up a centralised European database for loan-level reporting on ABS transactions that would allow market players, including the ECB, to access such data. As mentioned, the ECB organised a public consultation on the topic, which closed
in February 2010 and revealed “very strong support” on the part of market participants and particularly investors (ECB 2010: 1). Investors notably indicated that increased transparency would “contribute to more informed risk assessments, thereby helping to restoring confidence in ABS markets” which would then improve “the general level of liquidity in the market” (ibid). Late in 2010 several ‘technical working groups’ were formed to “advise and assist” the ECB in its formulation of specific ABS reporting templates for various ABS asset classes (Kanoni and Schaber 2013: 920). The membership of these groups shows that the loan-level reporting initiative was a public-private endeavour: besides investors, issuers, credit rating agencies and lobby associations, the working groups included representatives of five national central banks (ibid).

The ECB wanted the future data platform to be run by the market itself. In the early months of 2011, the ECB “encouraged the creation of a data warehouse (…) by an independent constructor external to the Eurosystem” (Colling and Samborn 2012: 4). Jean-Claude Trichet, then ECB president, asked market players to support and lead this project, so that ultimately nine of the top financial firms in the ABS business (on the issuing and investment side) formed a so-called ‘Market Group’. The Group organised the creation of what would become the European DataWarehouse, notably by advising on the selection of firms that would themselves run the ED. Eventually, following a procurement process in which more than 50 companies participated, the European DataWarehouse was established in July 2012, a few months after the ECB published its first reporting templates for RMBS and SME ABS (without reporting being binding at that stage).

The European DataWarehouse, based in Frankfurt, started its operations in January 2013. On its website, it is presented as “the first central data warehouse in Europe for collecting, validating and making available for download detailed, standardised and asset class specific loan level data (LLD) for Asset-Backed Securities transactions” (ED 2016). It is a private company that with 17 shareholders including major transnational European banks that are key players on the securitisation market such as Santander, BNP Paribas.

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18 The consultation received 53 responses from investors, market data vendors, credit rating agencies, audit firms, stock exchanges, law firms, public authorities and central securities depositories (ECB 2010: 1)
Crédit Agricole, Société Générale, UniCredit, but also securitisation lobby associations such as the Dutch Securitisation Association.

The ED is thus a “central data repository owned and operated by the market for the market”, but it also has “the unique feature of being endorsed by the Eurosystem” and the ECB in particular (Colling and Samborn 2012: 4). The ECB as well as several national central banks act as observers in the Supervisory Board and the Pricing Committee, which notably decides on the fees charged to ED clients who wish to upload or access data. In addition, the ECB is in charge of the elaboration of the loan-level data templates that must be used by data providers to ensure the standardisation of ABS information (ED 2014: 16)

Finally, the official logic of the ED is that “with more transparent and timely information on the underlying loans and their performance, (...) investors will be able to achieve the required due diligence to reduce risk” (Colling and Samborn 2012: 7). As executive officials at the European DataWarehouse put it, the data made available through the ED could allow for “the better assessment of credit risk inherent in the pools” of ABS (Kanoni and Schaber 2013: 922, emphasis added). Thus the function performed by the ED, as well as the official narrative around it, correspond to the narrative put forward by securitisation lobbyists and exposed in section 5.2.2, according to which risk is not a problem, let alone a political question, as long as it is kept in check through due diligence i.e. through market participants’ assessment of the risks they deal with.

**The public-private rebuilding of transparency and liquidity**

The making of transparency for securitisation was a gradual and multifaceted process in which the motivations and actions of the securitisation industry and the ECB were intermeshed. On the one hand, the private sector – and notably leading securitisation firms – accepted the burden of setting up a privately-run data repository which the ECB itself could use as a risk and reputation management tool for its own collateral framework. The ECB, indeed, made it a requirement for banks to use the ED to upload data and prove the eligibility of the ABS: “to use a securitisation as collateral (...) it has to meet a certain quality criteria in terms of loan-level data. The file has to be uploaded on
On the other hand, by making the provision of loan level data mandatory for banks accessing ECB liquidity, the ECB contributed to modifying the securitisation market. First, transparency contributed to restoring investor confidence: “the information (...) gathered on the loan-level data basis through the European Datawarehouse (...) gave further comfort” to market participants about securitisation (interview 21, securitisation lobbyist). As a financial regulator explained: “The drives for increased transparency and data provision have helped a lot [the securitisation market], and investors (...) are very happy with the drive for greater transparency and data provision” (interview 09, DG FISMA).

In fact, transparency requirements on collateral-eligible ABS spread to other types of ABS. Since January 2013 failure to provide valid ABS data forbids banks to access ECB liquidity on the back on such ABS. Such potential loss of ECB funding was problematic for banks given continued and deepening liquidity issues on financial markets. It could also be “costly given the very low interest rates the ECB offers to banks” (Ertan, Loumioti and Wittenberg-Moerman 2016: 2). Thus, ABS originators had clear incentives to provide data and comply with ECB reporting requirements. As investors and other market participants started accessing data on ABS transactions posted as collateral, they came to expect such level of transparency for all ABS on the ‘real’ market, i.e. outside of the ECB repo market. In other words, although it was first primarily “ECB eligible deals” that were uploaded on the ED, “voluntary reporting” was gradually becoming more relevant throughout 2013 (Kanoni and Schaber 2013: 921). The result was enhanced disclosure of loan information on the market as a whole: “even though that's an ECB requirement, it has become a standard market practice, regardless of whether you do it for the ECB discount or not, investors now demand and expect to receive access to the loan-level detail of the underlying assets” (interview 36, securitisation lobbyist). As a senior member of staff at the ED explained, the database hosted by the ED included many more ABS deals than those specifically used as collateral:

The obligation to publish loan level data is not regulatory obligation, at least not yet, (...) [but] issuers clearly have a high incentive to retain repo eligibility so that's why
Thus, the creation of the ED were the result of coinciding interests from issuers seeking to restart the securitisation market and from the ECB following its ambiguous role as central bank indirectly involved on the securitisation market. The making of transparency was, more fundamentally, related to the (attempted) rebuilding of liquidity and legitimacy for the securitisation market. As an interviewee put it, “it’s always the first thing when you want to create a market, it’s to give sufficient information to potential investors” (interview 20, DG ECFIN). Overall, then, rather than solely observing a “tension” between the objective pursued by market actors seeking to get markets going again, and that of policymakers and regulators seeking to restrain and control such markets (Morgan 2010: 22), we observe here an ad-hoc cooperation. As the following chapters of this thesis will show, this pragmatic form of cooperation was only the beginning of closer collaboration between market and state actors in the rebuilding of the European securitisation market.

5.4. Conclusion

In this chapter, I have explored ECB and industry motivations regarding the European securitisation market in the years 2007-2012. I have argued that private initiatives toward transparency, and the accompanying narrative according to which the crisis was due to inadequate levels of information and knowledge about risk, was first an attempt by the industry to defend the securitisation business in the face of regulatory threats. At the same time however, efforts to improve the market’s transparency must be understood in the context of the market’s liquidity crisis, itself related to the fact that investors’ confidence in securitisation dropped throughout 2007-2008. As investors demanded disclosure of information at the level of underlying loans, the securitisation industry had to tackle the transparency question, and took steps to ensure that such information was provided to potential investors. Such steps notably took the form of enhanced collaboration with the ECB, and culminated with the establishment of a European-wide market-run data handling infrastructure, the European DataWarehouse. To explain this type of ad-hoc public-private cooperation, and explain why the ECB was also interested in making the securitisation market more transparent, I have closely examined the role of the ECB in relation to the securitisation market. In the crisis and in the years following it, the ECB became more involved on the market. Through its acceptance of (potentially illiquid and
non-performing) ABS in its repo operations, the ECB saw its traditional role as central bank guarantor of monetary stability in the EMU to be compromised. Thus, to be able to assess the risks related to ABS, the ECB made it a requirement for banks to report data regarding underlying loans. The ECB, in addition to its willingness to better ‘know’ the market, wanted to ensure that the market was liquid so that, if necessary, collateral assets could be re-sold on the market. In that way, the ECB found itself pursuing the same objective as the securitisation industry eager to solve the market’s legitimacy and liquidity crisis. Ultimately, the European DataWarehouse was created and run by market participants in close cooperation with the ECB, and in turn the data reporting rules imposed by the ECB for its own repo transactions influenced the market as a whole.

However, if the market was made more transparent through self-regulatory initiatives and ECB requirements, the overall image of securitisation in wider European policymakers circles was not improving. This was, at least, the opinion of market participants who worried about the progression of regulatory debates on securitisation, notably regarding changes to risk weights and capital requirements. The following chapters focus precisely on the (attempted) repairing of securitisation’s regulatory and policy legitimacy i.e. its image in the eyes of regulators and policymakers, in view of obtaining more favourable regulatory treatment. Chapter 6, in particular, will show that the ECB-market cooperation that constituted a first step in the rehabilitation of securitisation was followed by another type of public-private collaboration, this time between European securitisation lobbyists and specific regulators at the EBA and the European Commission. This informal coalition worked to re-establish the regulatory legitimacy of securitisation, which was, just like the market legitimacy mentioned in this chapter, considered by market actors to be a precondition for the European securitisation industry to reproduce itself in the post-crisis period.
CHAPTER 6
From good performance to good quality: confrontation and cooperation towards the regulatory legitimation of securitisation

6.1. Introduction

After having analysed in chapter 5 the making of transparent securitisation, which involved collaboration between the securitisation industry and the ECB, this chapter turns to the dialogues that took place in parallel, this time between the industry and European financial regulators, including the ECB but also DG MARKT and the European Banking Authority (EBA). The chapter focuses on legitimisation strategies that sought to counter the image of securitisation as a risky practice, notably so as to improve regulators’ perceptions of (and hence actions upon) securitisation. Building on the conceptualisation of financial markets as inherently socio-political phenomena in which state actors play an active part, and on the concepts of salience and legitimacy defined in chapters 2 and 3, this chapter has two main objectives.

First, the chapter continues the analysis developed in chapter 5, and contributes to deconstructing the rigid state-market dichotomy whilst shedding light on specific ways in which state and market actors have collaborated in the rehabilitation of securitisation. On the one hand, I open up the black box of ‘the market’ by showing that the securitisation industry is not a homogenous entity; different factions within it have voiced different concerns, leading to internal struggles notably over what lobby strategy the industry should adopt. On the other hand, the chapter shows how lobbyists and regulators have cooperated to rebuild the legitimacy of securitisation. Such cooperation stemmed from concerns, common to issuers and regulators for separate but related reasons, regarding the prolonged lack of liquidity on the market, which actors considered necessary for securitisation to solve emerging or expected contradictions of market-based banking, as exposed in chapter 4.

Second, this chapter examines two of the tactics that have been implemented by market participants (at times with regulators) in view of rebuilding securitisation’s legitimacy and obtaining a more lenient regulatory treatment for securitisation. Legitimacy is neither...
stable nor inherent to an object but is rather constructed, notably by creating differentiations or negative ‘others’ against which positive aspects can be underlined. I show that credit rating agencies, large investment banks and their lobbyists built and mobilised data on the performance of asset-backed securities in the United States (US), which constituted a negative other against which the performance of European securitisation could appear particularly positive. A second legitimation strategy was based on a fragmentation of the European securitisation market through the creation of a quality label awarded to certain types of securitisations. The label, rather than simply recognising the higher quality of these products, enacted it. Indeed, it is through the (contested) exclusion of ‘other’ ABS from the label that eligible securitisations could be seen as more legitimate. Thus, building on the neo-Gramscian conceptualisation of discourse developed in chapter 2, this chapter stresses that the constant re-drawing of the legitimacy border is permeated with, and emerges out, of power struggles in which actors seek to define what is legitimate so as to position themselves on the right side of legitimacy. That way, in contrast to Orban (2016: 556) who seeks to “demonstrate[e] how moral boundaries shape power relations and the political agenda”, I show how moral boundaries themselves are shaped through power relations before in turn influencing them and the political agenda.

The chapter is divided as follows. In section 6.2 I show that the securitisation industry sought not only to improve the transparency of the market (see chapter 5), but also to build the positive image of a European securitisation market performing better than the US securitisation market. The construction and circulation of data to that effect was partially successful in that the good performance of European ABS became a ‘fact’ in market and policy circles. Yet such a strategy was not entirely effective in that it failed to take into account the changed political context that the financial crisis had induced. Namely, the higher degree of attention to financial regulation following the 2008 crisis meant that most regulators, even when privately supportive of securitisation, would not publicly endorse its reviving.

Section 6.3 looks into the public-private construction of legitimacy. I argue that public actors acted as informal advisors to the securitisation industry. They helped devise and put in place a new legitimation strategy based on a fragmentation of the European securitisation market along the (constructed and contested) lines of quality and simplicity.
However, by shifting the boundary of what was deemed legitimate, this strategy faced strong resistance on the part of some sectors of the securitisation industry, and was only officially adopted once the liquidity crisis on the securitisation market had deepened to the point of making the creation of the Prime Collateralised Securities (PCS) label acceptable. In other words, the state of the market and power relations therein were determinant in the implementation of changes based on novel moral boundaries. The fragmentation of the market into ‘good’ and ‘bad’ (simple and safe / complex and risky) securitisation allowed for the re-legitimation of particular segments of the securitisation market, but also improved the image of the industry as a whole as the industry demonstrated its willingness to learn from the crisis.

6.2. Improving the image of European securitisation in a context of crisis

In this section I argue that the securitisation industry’s early lobby strategy demonstrated little awareness of the political context of the time, and as such was only partially successful. I first explain how data on the good performance of European asset-backed securities during and after the crisis was constructed through the discursive unification of the European securitisation market set against the US securitisation market. Drawing on my conceptual framework, I analyse the politics of such data construction (6.2.1), through which the industry sought to highlight that investments in securitisation did not deserve, in moral and regulatory terms, higher capital charges (6.2.2). However, although the differentiation that was made between European and US securitisation became firmly entrenched in policy discourses, it was not sufficient to allow regulators to publicly endorse a reviving of the securitisation market. Indeed, securitisation lobbyists were confronted with the high salience of financial market issues which meant that EU regulators, even when privately supportive of securitisation, were reluctant to officially endorse it (6.2.3).

6.2.1. The political construction of the ‘good performance’ discourse

As explained in chapter 4, the financial crisis was, for the securitisation industry, a crisis of market legitimacy and a liquidity crisis. Investor demand was further endangered by regulatory changes or the anticipation thereof. For instance discussions of increased capital charges for securitisation in the various reforms of the EU Capital Requirements Directive meant that investing in securitisation could become comparatively less
advantageous than investing in other financial products. The securitisation industry, then, aimed to improve the regulatory legitimacy of securitisation – to change regulators’ perceptions that securitisation was a risky practice whose risk weights and capital charges had to be increased. To do so, the industry sought to improve the transparency of securitisation (see chapter 5), and added to this another defensive narrative which emphasised that asset-backed securities had performed well through the crisis and hence did not deserve increased capital charges. This second type of defensive lobby narrative was underpinned by ‘hard data’ showing that asset-backed securities originated in Europe had lower default rates than similar products originated in the US. Securitisation lobbyists made extensive use of tables produced by credit ratings agencies (see below) which featured the “historical loss default rates of European ABS, year after year after year” and showed that “the quality of the European ABS market was very high, the default rates were very low, and the performance was very good” (interview 36, securitisation lobbyist). Such data on the long-term default rates of European securitisations, when graphically juxtaposed to US data showing higher default rates, highlighted the (comparatively) good performance of European securitisation. The US securitisation market functioned as a negative ‘other’ against which the European securitisation market could appear as more legitimate – and hence as worthy of a more favourable regulatory treatment.

No matter how accurate or ‘true’ one considers the good performance of EU securitisation in comparison to its US counterpart to be, the emergence of such data was not a random development. Indeed, as argued in chapter 2, the ideas, definitions and categories that mediate actors’ understanding of reality are not givens (De Goede 2003). Besides lobby narratives and economic theories commonly studied in interest group literature and performativity literature respectively, it is particularly important to investigate the “technologies of representation” that are “constitutive of the social totality” (Christophers 2013: 59). Such technologies of representation, including graphs and tables, are constructed by actors specifically located within capitalism (Bieler and Morton 2008). Yet as capitalism is defined and traversed by power relations (Bruff 2011a), not all social groups within it have the capacity to produce and disseminate this type of discourse. Thus when looking at the “history of construction” that has led to the emergence of specific data and arguments (Konings 2015: np), it is essential to identify the actors taking part in such construction; to analyse how data is constructed out of a
specific selection and articulation of ‘facts’; and to consider the effect of discourse, notably on actors’ perceptions and practices.

*Producing discourse*

As several securitisation lobbyists pointed out, “most of the numbers” underpinning the narrative outlined above “came from the industry” (interview 14): “a number of large investment banks [did] a lot of research” on the “liquidity in the market” and its performance through the crisis (interview 21). JP Morgan and Bank of America Merrill Lynch, two large US banks active worldwide and on European securitisation markets – both banks are members of AFME’s Securitisation Division – were for instance “two of the most active in European ABS research”, providing “studies and analyses demonstrating the better performance of securitisation” in Europe (interview 36, securitisation lobbyist). AFME itself “played a big role” in conducting research and providing data on the European securitisation market (interview 14, securitisation lobbyist). In terms of data on the default rates and loss-record of securitisation, there were “not many other sources than the rating agencies” (interview 21, securitisation lobbyist) such as Fitch Ratings and Standard & Poor’s (S&P). Their European-level data made out of data from individual European countries “have been very important, because they have kind of an unusual overview of the whole European market” (interview 21, securitisation lobbyist) and its overall better performance than its US counterpart.

As this brief account underlines, it is specific market actors such as large transnational investment banks and leading credit rating agencies that were responsible for the production of data highlighting the good performance of securitisation in comparison to that of US securitisation. This group of actors is not “detached from social structures and context” (Horn 2009: 129), notably in that it is their privileged position within the capitalist system that allow them to produce and circulate discourse. Indeed, the production of large-scale historical data (aggregating and abstracting hundreds of thousands of individual debtors’ payments) such as the one showing the average default rates of European asset-backed securities is a task that “requires a large and reliable statistical apparatus and adequate financial resources” (De Goede 2003: 90). In the contemporary capitalist structure it is precisely these large transnational financial firms (investment banks, credit rating agencies, etc.) and their representative lobby
organisations that possess the expertise as well as the financial resources necessary to pay specialised financial researchers and the technology required to produce such large-scale data on structured finance products, and have the capacity (as leading market players) to make such data circulate widely among market actors and policymakers.

Selecting and leaving out facts

In order to craft a narrative in which EU securitisation could appear positively the industry also carefully selected the type of data collected. The focus on default rates was a deliberate choice rather than a self-evident process, as transpires from some interviewees’ scepticism towards the US vs EU performance narrative: “the argument that in principle securitisation is a sound investment” arises out of a specific “credit fundamental perspective” (interview 28, European DataWarehouse). The interviewee argued that from a “more critical” perspective the “real problem [was the] price volatility element” and the issue of liquidity on the market – in other words, “the market pricing performance” of securitisation (interview 28, European DataWarehouse). By focusing on default rates expressing the continuity and reliability of underlying debtors’ payments, the narrative omitted the ‘market’ part of the securitisation process, i.e. the circulation and market valuation of ABS. Indeed, the narrative operates as if securitisation was solely about the issuance of ABS that would be held to maturity, when in fact securitisation is a market made up of recurrent exchanges that partly determine the fluctuation of prices, i.e. the valuation but also potentially devaluation of ABS and corresponding financial gains or losses (see chapter 3). A focus on data showing the evolution of market valuation for ABS, however, would not have given such a positive image of European securitisation as it is precisely in the area of pricing and valuation that the European securitisation market turned out to be dysfunctional, as explained in section 4.2.1 (Acharya et al. 2009; Gorton and Metrick 2012).

The choice of comparing EU securitisation to US securitisation was also strategic. Indeed, the existence of a stark contrast between US and EU loss levels is due to the fact that the subprime phenomenon and the mass production of CDOs, together responsible for the majority of defaults and losses on securitisation markets (EBA 2014b), occurred principally in the US. Yet this was not necessarily due to the higher virtues of European securitisation issuers. For instance, a member of the European Parliament pointed out that
although “the underlying loans that were securitised were much more problematic in the US in the last crisis than in Europe”, several “governments in Europe were about to allow that type of subprime” when the crisis broke out (interview 06, GUE MEP). Similarly, an interviewee explained that “Europe was saved by the bell, in 2007 [then French president] Sarkozy wanted to introduce subprimes in France” (interview 01, Finance Watch). With analogous arguments resting on the idea that European securitisation markets were simply less developed than their US counterparts, a former DG MARKT official compared the performance narrative to a “straw man”:

The crisis started in the US because they were far more advanced than we were, it’s not because we are smarter than they are. (…) [The] US have much deeper financial markets, much more developed financial markets than we do, much more integrated financial markets than we do, so it’s no surprise that that potential for danger materialised there earlier. (Interview 35).

Overall, the selection of certain types of data (historical default rates) and, correspondingly, the omission of others (market valuation of securitisation), as well as the choice of comparison (‘advanced’ and subprime US financial markets vs European ones) was not random; it served the specific purpose of giving policymakers a clear picture of the good quality of European securitisation (see below).

More broadly, such a discourse has contributed to the depoliticisation of private debt relations and the capitalist system of which they are part. Indeed, asset-backed securities’ default rates are nothing but pooled information about the continuity of underlying debtors’ payments (see chapter 3). Yet the political nature of this process is obscured when the process is abstracted through numbers in a narrative or numeric points on a graph. The debtors whose amalgamated regular payments constitute the ‘performance’ of securitised products are never explicitly mentioned by the industry or policymakers. Thus, the narrative which builds on debtors’ payments in order to legitimise securitisation in fact erases the existence of such debtors and obfuscates the political conditions (among which the capitalist mode of production in its financialised form) that lead them to enter into unequal debt relations and further discipline and/or coerce them into making continued payments on their debts (LeBaron 2014; Roberts and Soederberg 2014; see also chapter 3).
6.2.2. Making use of the ‘good performance’ discourse

These depoliticised numbers were held by the securitisation industry as “proof that European securitisation products have been solid” over the years (interview 21, securitisation lobbyist). They gave credit to industry arguments that “there [was] absolutely no reason to say, well this very instrument brought a lot of losses” (interview 28, European DataWarehouse), and, as such, they were instrumental in building this image of a legitimate European market that was better performing than US counterpart.

As a lobbyist explained, the data and the narrative built upon it were widely used by lobbyists and “cited by everyone in their discussions with politicians” and “were very important in that respect” (interview 21, securitisation lobbyist). This is confirmed by a former DG MARKT official who recalled that “the industry was systematically saying, why are you worried about securitisation in Europe, we didn't create the problem, it was in the US” (interview 35).

This was true in public lobby documents, too. A document published by AFME (2012: 2) in February 2012 stated that “there is a world of difference between badly underwritten sub-prime mortgages originated (...) in the United States which have since performed poorly, and the regulated, bank-originated prime-quality mortgages originated (...) in the EU which have performed very well through the crisis”. AFME supported this claim by stating (without citing any source) that “cumulative defaults to date incurred by European mortgage backed securities originated in mid-2007 (...) amount to only 0.07 per cent” (ibid), and concluded that “it is essential that this strong track record of performance through the financial crisis is recognised by policy-makers and regulators” (ibid: 9).

It was not only lobbyists who were making use of the good performance data. After extensive informal discussions between the industry and its regulators, “everyone [has been] in fact referring to these Fitch and S&P studies” and data on defaults were notably taken up by “the EBA, and the Commission” (interview 21, securitisation lobbyist). For example, in its report discussing “the merits of (...) promoting a safe and stable securitisation market” in response to the European Commission’s call for advice of December 2013 (EBA 2014b: 1), the EBA dedicated its first section to the “historical credit performance of the securitisation market” (ibid: 11) and displayed three graphs in
which European securitisation was compared to US securitisation. The graphs exhibiting the 3-year default rates of securitisations rated triple A (reproduced below) and triple B, both covering the period July 2001-January 2010, were based on ratings from Standard & Poor’s, Fitch and Moody’s.

**Figure 7. Three-year default rates at AAA level per asset class (July 2011-January 2009 – S&P, Moody’s and Fitch)**

![Graph showing three-year default rates at AAA level per asset class](image)

Source: EBA (2014b: 12)

The EBA (2014b: 12) highlighted that “within the ‘AAA’ segment by far the highest default rates are those reached by US RMBS subprime products and US CDOs” while in the ‘BBB’ segment US RMBS also reached “the highest default rates, at approximately 60% for subprime products and 40% for non-subprime products”. The solid black line visible on the graph above “displays the performance of the securitisation segment if no distinction is made between different asset classes” (i.e. mixing US and EU securitisations) (EBA 2014b: 11). According to the ECB the “relatively high default rates” reflect the fact that most securitisations were US securitisation “and in particular RMBS and CDO products” which had high default rates (ibid). In other words, the black line shows the average defaults of securitisation as a whole (US and Europe) and, importantly, allows to see that all the lines representing EU securitisation are situated below this average.
A year later, in the STS securitisation regulation proposal of September 2015, the European Commission referred to the same numbers and tables, stating that “unlike the US, EU securitisation markets withstood the crisis relatively well, with realised losses on instruments originated in the EU having been very low compared to the US” (Commission 2015b: 3). In the impact assessment accompanying the proposal, the three EBA/Fitch graphs used in the EBA document analysed above are reproduced. Central banks likewise made use of credit rating agencies’ data. For instance in their 2014 discussion paper making “the case for a better functioning securitisation market in the European Union”, the ECB and the Bank of England cited “a recent analysis by Standard & Poor’s” and a study by Fitch Ratings to highlight the good performance of European securitisation compared to that of US securitisation (BoE and ECB 2014: 10). The paper states that “most European structured finance products performed well throughout the financial crisis from a credit standpoint” (ibid).

Overall, the data initially produced and circulated by large private financial firms (favourably positioned market actors who possessed the expertise and resources to produce large-scale financial data) was both privately circulated by lobbyists during meetings with regulators, and reproduced extensively, a few years later, in publications by the EBA, the Commission and the ECB. This gave such data ‘political’ authority and the appearance of neutrality. Through this process, the highly selective focus on European debtors’ continued debt payments (opposed to the interruption of such payments by US subprime debtors) was turned into ‘facts’ and corresponding ‘factual’ graph representations, which formed part of a discourse that contributed to shaping regulators’ and policymakers’ understanding of reality (De Goede 2003). Thus, although (pre-existing) moral boundaries can be shown to influence power relations and the political agenda (Orban 2016), it is equally important to underline how the power relations of capitalism – in which large financial firms have the financial and human resources to produce large-scale historical data representing debtors’ payments in abstracted terms – can lead to the emergence of a certain discourse from which new forms of legitimacy (EU securitisation) or illegitimacy (US securitisation) arise.
Mobilising legitimacy boundaries for regulatory outcomes

Yet, as mentioned, for the securitisation industry the objective of the EU vs US narrative was not simply to show that “nothing really went wrong” (interview 21, securitisation lobbyist) on the European securitisation market. Rather, it was to convince policymakers that “what [was happening] to securitisation in Europe” in terms of investor demand and regulation “was very unfair” (interview 26, covered bond lobbyist). Lobbyists claimed that EU securitisation, with its low level of defaults and losses throughout the crisis, was a safe practice that was about to be unjustly penalised by higher capital charges and other forms of re-regulation:

It is unfair that the healthy European securitisation market is dried up, because of a stigma that comes from the origination in other jurisdictions. (...) If you invest in risky products, originated elsewhere, you should back those investments with a lot of capital. But that shouldn’t be the case for EU-originated instruments that abide by (...) a tradition of very low losses. (Interview 29, bank lobbyist).

And indeed, official documentation and interviewees did not merely mention the better performance of European securitisation in comparison to US securitisation; they also used normative terms and moral references in relation to European securitisation. As a securitisation lobbyist put it, the aim was to convey the message that although securitisation in Europe had been “found with the knife and the blood on its hands”, the good performance data raised doubts as to “whether it [had been] the person who committed the crime” (interview 15) – and hence as to whether it should be punished for it.

This conception of securitisation and regulation in moral terms (innocent or culprit, fair or unfair) is also evident in interviewees’ description of the unfairly negative reputation of securitisation on financial markets and in regulatory circles. Securitisation, it was said, suffered from an “image problem” (interview 28, European DataWarehouse) which came “from the origination in other jurisdictions” i.e. the US (interview 29, bank lobbyist). European securitisations “got the bad name, like by association” with US defaults (interview 12, DG FISMA). All types of securitised products were therefore “tarnished by the stigma” (interview 09, DG FISMA) and considered “toxic” (interview 37, EBA), so that “everything that had to do with securitisation was excluded by definition” (interview 11, DG FISMA). This, at least, proved true in one case, as the next section will show: European regulators, who privately recognised the key role that securitisation
could play in the European banking sector (see chapter 4), were however reluctant to officially and publicly proclaim their willingness to restart the European securitisation market.

All in all, the performance narrative outlined above can be deemed successful in that it became an established ‘fact’ commonly cited in regulatory debates. However, when considering the objective pursued by the securitisation industry, namely to influence capital requirement regulation to see a return of investor demand, the success of the EU vs US narrative was only partial, at least in the first years after the financial crisis. Indeed, although many regulators agreed that “European securitisation had not been the same problem as in the US”, they nonetheless “felt that the time was not right to come out with such an opinion” (interview 21, securitisation lobbyist). In the following subsection, I look into regulators’ ambivalent stance toward securitisation, which will allow me to analyse their relations with securitisation lobbyists.

### 6.2.3. Regulators’ reputational risks and concerns over the safety of securitisation

Some policymakers and regulators reacted bluntly to early securitisation lobbying (interview 36, securitisation lobbyist). Yet, the position of other regulators was much more ambiguous. During the crisis and its aftermath, roughly from 2008 to 2012, EU financial regulators who recognised some of the potential benefits of the securitisation market (see chapter 4) were reluctant to openly endorse its reviving, as will be shown below. In order to understand why “it wasn’t possible (...) politically” to endorse securitisation (interview 20, DG ECFIN) or why, at the very least, “the public endorsement [of securitisation] certainly wasn't an easy one at the time” (interview 28, European DataWarehouse), it is necessary to consider the economic and political context and notably the salience of financial issues in those years.

The global financial crisis had made ‘finance’ a key topic in political and policy discussions, and ‘public opinion’ on banking and structured finance was generally negative. Although an awareness of such a negative public opinion certainly made EU policymakers cautious in their public support for securitisation (see chapter 7), one can also contend that unelected and self-identified ‘technical’ regulators are less directly connected to voters than are for instance MEPs (see also chapter 2). Thus, concerns for a
hypothetical ‘constituency’ cannot fully explain the reluctance of regulators at DG MARKT or the European Banking Authority to officially support securitisation. I argue that another factor was at play: regulators’ own legitimacy and reputation. Indeed, a crisis such as the global financial crisis challenges the reputation of policymakers and regulators as “their claim to be exercising authoritative control over markets (…) is undermined” (Morgan 2010: 20). As an interviewee commented, “one can argue [that the crisis] was due to bad regulation or inadequate regulation to some extent” (interview 35, DG MARKT). Thus, there was generalised suspicion not only toward finance but also toward the role that financial regulators had played – or rather, failed to play – in the years leading up to the crisis. Finance as well as financial regulation had become salient topics. According to a DG FISMA official the crisis had thus been “a traumatic development for the economy but also for the financial regulatory policy community. [It] left a lot of scars” (interview 08).

Thus, in a context where “popular mood (…) demanded tough reins on the banking sector” (interview 10, DG ECFIN), regulators were keen on showing that “the conditions which [had] led to crisis [could] be controlled and regulated” (Morgan 2010: 20), and more specifically that they had learned the lessons of the crisis, especially when it came to securitisation. As a DG FISMA official explained, “mistakes were made in the past [and] clearly we have to try and learn the lessons of where securitisation had been badly managed in the past and avoid that happening again” (interview 08). A covered bond lobbyist observed that the Commission had “a very careful approach” to securitisation, and was “very conservative [because of] what happened” in the crisis (interview 26). According to a securitisation lobbyist, regulators were saying: “we can see the benefits of securitisation (...) but we can’t ignore what happened in 2008, and we can’t just forget subprimes, CDO squares, CDO cubes, all that” (interview 14).

These concerns about the reputational risks that a public endorsement of securitisation would entail were all the more acute in the context of uncertainty regarding the evolution of the financial crisis. For instance, there were still frequent downgrades of ABS products between 2009 and 2011 (AFME 2011). Thus, in spite of data highlighting the ‘good performance’ of European securitisation (see above), policymakers feared that European securitisations might still run into troubles:
When I would say, when I was [talking to policymakers] in 2009, look, some securitisation were fine, there was no problem, look at these securitisation, RMBS, it’s all okay, the reaction you would get (...) was, you’re saying this is all good, but you know what, this may just not have crashed yet. (Interview 14, securitisation lobbyist).

A Commission official who worked at DG MARKT at the time confirmed that the reaction to the securitisation lobby was one of uncertainty: “people had a feeling that there was not yet enough clarity as to how these kinds of products would actually work” (interview 24). To conclude, the attitude of EU policymakers in the crisis and its aftermath was an ambivalent one in that it was both quietly supportive of securitisation and reluctant to voice such support publicly, for reasons linked to financial uncertainty and the high salience of financial issues in the context of crisis. As this Commission official summarised:

I remember that back in maybe 2010, 2011, there was already an (...) industry-based initiative where the industry was already thinking, what can we do to try to revive this market? (...) I remember that we as policymakers at the time, we were listening with interest but (...) there was very little appetite to concretely do much about it from a kind of policy perspective at that point in time. (...) I think we said, yes, this is interesting, and please go on with your work, but at that point we did not have the political willingness to put our name behind it (Interview 24, Commission).

Thus, although work was under way to improve the transparency of securitisations (see chapter 5) and securitisation lobbyists were deploying the ‘US vs EU’ narrative in order to demand lower capital requirements for securitisation, the uncertainty still surrounding finance and securitisation was such that “no one politically was ready to support [securitisation]” (interview 26, covered bond lobbyist) in the first few years after the crisis. However, if regulators refrained from officially endorsing securitisation, they nonetheless began to informally participate in its rehabilitation, as the next section argues.

6.3. The public-private production of legitimacy for European securitisation

This section turns to the co-production of legitimacy by market actors and regulators. It is divided into four subsections. I first argue that financial regulators acted as informal advisors to the securitisation industry: they helped devise a new strategy based on a fragmentation of the European securitisation market along the lines of quality (6.3.1). However, this attempted re-drawing of the legitimacy border was initially opposed by some actors in the securitisation industry, who deemed strategy to be detrimental to their
interests (6.3.2). The material and symbolic support of regulators was significant to garner industry-wide support for the new strategy, but ultimately the enduring liquidity crisis on the securitisation market was decisive in overcoming market opposition and uniting the industry, resulting in the creation of the industry label and organisation Prime Collateralised Securities (PCS) in 2012 (6.3.3). Overall, the PCS model and the contested fragmentation of the market into ‘good’ and ‘bad’ securitisation paved the way for the re-legitimation of (certain types of) securitisations and, eventually, for their preferential regulatory treatment in European technical regulations and legislative proposals in 2014 and 2015.

6.3.1. European regulators as informal advisors to the industry

In the early post-crisis years, the securitisation industry was actively self-organising, self-regulating and putting forward arguments justifying the use and benefits of securitisation (see chapters 4, 5 and above), but lobbyists were also in continuous dialogue with regulators as part of their efforts to defend securitisation. Through this dialogue, some EU regulators and central bankers became closely involved in what can be considered typical lobbying activities consisting of elaborating and planning a European-wide legitimation strategy for the rehabilitation of securitisation. More specifically, regulators who privately voiced their approval of securitisation advised the securitisation industry to change its practices so as to give evidence – and thereby, reassurance – that securitisation would not be a threat to European finance, as for instance US subprime securitisation had been:

And so they [market participants] were talking to the public sector about this, and the public sector sort of reaction (…) was to say (…) we in principle agree with what you just said (…) [but] if you want us to help you, you need collectively as a market, you need to show us two things, you need to show us that you understand what went wrong. So when you say well you can use securitisation safely, that you understand what that means (…) to have a safe securitisation. And secondly, you need to show us that it’s what you are doing. (Interview 14, securitisation lobbyist, emphasis added).

As the quote above shows, by encouraging a change in market practices regulators sought to alleviate remaining doubts over the quality of securitisation, and hoped to make it possible for them to publicly and more actively support a reviving of securitisation. More specifically, individuals at the European Commission (likely at DG MARKT considering the information given by several interviewees) were advising securitisation lobbyists to
create a quality label for securitisation:

It was definitely the case that since 2010, 2011, the Commission was telling the industry, you need to create some kind of label, high-quality label, you need to differentiate between some types of securitisation products. (...) The Commission was telling the industry, securitisation has problems, things went wrong, fix it and then come back to us. (Interview 37, EBA)

This strategic piece of advice was repeatedly given by EU regulators during “a series of conversations that took place over time [in] 2010 [and] 2011” between market participants and EU regulators (interview 14, securitisation lobbyist). Regulators, in sum, were being the unofficial advisors to the securitisation lobby, so that a new strategy aimed at legitimising securitisation was being jointly designed by public and private actors.

Following these discussions, a few lobbyists particularly involved in the securitisation business began working on the elaboration of a securitisation label. Although the idea of establishing a quality label was first controversial among market participants (see section 6.3.2), the organisation Prime Collateralised Securities (PCS) was eventually established in June 2012 by leading firms in the securitisation industry and associated lobby organisations (PCS 2012a). The official mission of PCS was to award “labels for high quality securitisations that meet best practice in terms of quality, transparency, simplicity, and standardisation” (ibid).

Specific criteria for the PCS label had thus to be defined. In the end, the bulk of the criteria centred on seniority, ratings, underlying assets and reporting requirements, notably in accordance with ECB reporting standards (AFME and EFR 2012: 2) (see chapter 5). For instance, only securities part of the most senior tranche of a securitisation deal became eligible, and they had to be rated “to the highest level achievable” by at least two credit rating agencies (PCS 2012b: 7-8). The label can only be awarded to securitisations based on eight types of assets: auto loans and leases; non-auto leases; auto dealer floorplan loans; consumer loans; credit card receivables; residential mortgage loans; and SME loans (ibid). Given that there are over fifty types of assets that can be securitised, this was a very specific selection that excluded numerous (albeit less common in Europe) types of securitisation. Guarantees were asked regarding the continuity of cashflows from these underlying assets, and assets in default were excluded (PCS 2012b:).
13). Through these criteria the label was meant to signal good quality to market participants so as to “deepen the securitisation investor base in Europe and, in turn, improve overall liquidity” (AFME and EFR 2012: 2). If this objective of market legitimacy and investor confidence was important (see also section 6.3.4), the label was also an attempt to focus the regulatory stigma that securitisation had faced since the onset of the crisis onto categories of newly defined ‘bad’ securitisations, so as to remove such blame from the ‘good’ side of securitisation.

Making securitisation politically acceptable: fragmenting the market, fragmenting regulation

As mentioned, there were extensive interactions between lobbyists and policymakers between 2008 and 2012. Through this, some securitisation lobbyists came to understand “the political side a little bit better” than other market actors who “did not understand how politics works and how people who are not part of the financial market, who are not part of securitisation, look at this product” (interview 37, EBA). Namely, these lobbyists became aware of the extent to which finance and its regulation had become salient among EU policymakers (see above), leading to their “realisation that if there was going to be any move [in favour of securitisation from regulators] the industry would have to show some goodwill” (interview 37, EBA). Thus, and although the label’s criteria were not given in advance but were rather negotiated among market participants over several months, the broader objective underpinning the creation of PCS was to separate securitisation from the practices associated with the global financial crisis.

To begin with, the choice of the name Prime Collateralised Securities illustrates the industry’s willingness to stress its difference from subprime loans whose defaults were identified as a key cause of the crisis, as Engelen and Glasmacher (2018: 179) also point out. Regarding the ‘originate to distribute’ model mentioned in chapter 5, here again the industry sought to distance itself from pre-crisis practices: the label required that issuers retain a “material net economic interest” in line with the requirements of article 122a of the Capital Requirements Directive (PCS 2012b: 9). In addition, the industry decided that re-securitisations (CDOs, CDO squared and cubed) and synthetic securitisations were not eligible for the PCS label (ibid: 7). These two types of securitisations are based, respectively, on a first layer of securitisation contracts or on derivative contracts, rather than on simple loan contracts. As CDOs and derivatives such as Credit Default Swaps
(CDS) had created complex and opaque interconnections in the financial system (see chapter 4) they were the types of securitisations most strongly associated with the crisis. The circulation of ‘good performance’ data mentioned above had also clearly exposed the “severe underperformance” of CDO products in the US (Fitch 2012: 2) and their high default rates between 2007 and 2009 (EBA 2014b: 11). Downgrades of ABS in Europe were highly concentrated on the CDO segment in 2010-2011 (AFME 2011), highlighting the lack of market confidence in these products.

By setting up a labelling entity whose criteria drew a line between pre-crisis practices and post-crisis securitisation, the industry sought to fulfil the “requirements” of regulators and “demonstrate that [the PCS criteria] enshrine[d] the lessons of the crisis” in the very practices of the market (interview 14, securitisation lobbyist):

[The] establishment of PCS [was a way to] say to the Commission or let’s say more the public sector, that the industry was willing to learn from their mistakes and that there were mistakes, and that not all securitisations were equal to each other. (Interview 37, EBA).

Thus, just like other pro-securitisation narratives and transparency initiatives developed alongside it, the PCS label “was never an end in itself” but was “always a means to demonstrate to the regulators and to the public sector bodies and to the policymakers that [the securitisation industry] knew what good securitisation looked like and that [it was] what [they] were doing” (interview 14, securitisation lobbyist). In other words, the aim of PCS was to make securitisation “politically acceptable” to policymakers:

[What] we had in our mind was that we wanted to (...) use PCS to give policymakers, politicians and regulators a politically acceptable way of supporting securitisation, by saying, look, we are not supporting securitisation, securitisation is the bad stuff, this is new, this is PCS, this is better, this is a different animal. (Interview 36, securitisation lobbyist).

The elaboration of PCS, then, resulted from the awareness that the objective of reviving securitisation as a whole (i.e. encompassing the entire European securitisation market) was not compatible with the climate of suspicion toward structured finance that existed at the time Its creation was part of a conscious lobby strategy based on a differentiation within European securitisation (rather than in opposition to US securitisation) elaborated through close cooperation with regulators.
Ultimately, the objective of the industry was to achieve a better regulatory treatment for securitised products falling on the ‘legitimate’ side of the new divide. As an interviewee explained, “it was always quite explicit from the very beginning (...) that if we could [create] this [PCS], then we could get a better regulatory treatment, a system that acknowledged the difference between a CDO cube and a Dutch RMBS” (interview 14, securitisation lobbyist). Although the PCS website and its official documentation insisted on the industry’s genuine willingness to improve market resilience and standards of quality and transparency, the International Organization of Securities Commissions (IOSCO 2012: 58) clearly explained in its 2012 report on global developments in securitisation that one of the two “key goals” of PCS was to “signal to policymakers that the European securitisation industry has proactively addressed concerns over quality, transparency, simplicity/standardisation” notably “so that over time (...) policymakers may consider a favourable regulatory and capital treatment” for PCS securities. This point is further exemplified by an unpublished internal document (obtained during an interview) issued by a national banking federation in January 2016, as European legislators were discussing the recently published proposal regarding the regulation of simple, transparent and standardised (STS) securitisation. In that document, the answer to the title and question “what is a simple and transparent securitisation?” begins with “one that can justify the reduction in Leverage Ratio for banks and the reduction in Capital Charge for insurers” (Fédération Bancaire Française 2016: 24). For the securitisation industry, then, the labelling of ‘high quality’ securitisation was above all a (self-regulatory) means to a (regulatory) end.

Such a legitimation strategy based on a label differed from the EU vs US performance narrative described in section 6.2.1 in that it was not just a discursive reframing of securitisation, but also introduced more direct material changes to the market. Namely, the strategy involved the creation of two categories within the securitisation market and, importantly, the creation of a hierarchy between these categories – as only the ABS meeting PCS criteria would be worthy of a good quality label, and potentially a more advantageous regulatory treatment. As the next subsection shows, such a strategy implying a “bifurcation” of the market (interview 14, securitisation lobbyist) was deemed unnecessary and even contrary to some market participants’ interests, and, as such, was initially opposed by a large segment of the securitisation industry.
6.3.2. Internal resistance to the fragmentation strategy

Discussions about the creation of a label for securitisation occurred not only between securitisation lobbyists and EU regulators but also internally, within the securitisation industry. These latter discussions were at first confrontational. A few financial firms and individuals who had come to believe that a label was a way to improve the product’s legitimacy found themselves opposed to others who rejected the idea for three related reasons.

First, the establishment of a label’s criteria and the setting up of a labelling entity were seen as arduous tasks. They required getting “independent private parties to spend time on a voluntary project to create a label” and “to approve budget money to establish the secretariat, to run it, etcetera” (interview 36, securitisation lobbyist). Not all market actors believed that the situation on the securitisation market warranted such efforts. For instance, a securitisation lobbyist reported that some banks considered that “if we can sell it [securitisation] to willing buyers, why should we, you know, burden ourselves?” (interview 14). A primary reluctance, then, stemmed from the perception that both the state of the securitisation market and securitised products were not problematic enough to require that level of action. The fact that certain types of asset-backed securities could be retained and used as collateral to access ECB liquidity (see chapter 4) compounded this view; it “[look] like there was not a big issue with the banks, at least not from a liquidity point of view, because they would just structure [securitisation] that way [so as to fit the ECB requirements] and not place it with investors” (interview 21, securitisation lobbyist).

Second, the ‘good performance’ narrative according to which European securitisations all performed relatively well in and after the crisis was not solely a lobby argument; it had also become a ‘truth’ to many market participants, who therefore did not see the need to spend time and resources to further prove or enhance the quality of European securitisation:

There was a lot of negative reaction from the industry back in 2010, 2011, 2012 (…). The Commission was telling the industry [that it should fix securitisation’s problems]. But for two years [the industry] was basically fighting and saying, (…) look, there are no defaults! In Europe, it went very well, so why do we need to fix something that worked perfectly fine throughout the crisis? There is no sense in what you actually want us to do. (Interview 37, EBA).
Third and most importantly, some members of the securitisation industry had more substantial concerns over the fragmentation of the market that a label would introduce. An EBA official reported that “the industry [would] say, (…) by creating this high quality label, you [the Commission] want to split our market into two or three and that will create a lot of problems” (interview 37). As all securitised products were believed to be and shown to be of good quality in Europe (see above), the label was seen as inducing an artificial stigma on what would become non-label securitisations:

[Some banks were saying.] we are going to create a bifurcation, things that can get the label, things that can't get the label, we are going [to get a] fragmentation of the market, things that don't get the label will be stigmatised, even though they really are perfectly good products. (Interview 14, securitisation lobbyist).

Indeed, the repositioning of the legitimacy border which was, until then, discursively separating US securitisation from European securitisation as a whole (see section 6.2.2) would this time make a distinction within the market. The creation of a quality threshold would mean that products of the securitisation industry were going to find themselves below it, i.e. on the illegitimate side of the new boundary. Importantly, what mattered was the material impact that this repositioning would have: market actors who feared that their securitisation activities would fall on the ‘bad’ side of the newly defined legitimacy boundary were concerned about the negative material consequences of this new stigma.

Two such material consequences can be identified. First, in addition to ratings, default and loss rates associated with particular asset classes, a label would introduce a new formal distinction between financial instruments that were until that point considered of equivalent quality. If the awarding of a label was a positive signalling strategy, it would also, by opposition, tarnish the image of non-labelled securities and affect their market value. Consequently, market actors engaged in the structuring and issuance of, or investment in, securitisations unlikely to meet the requirements of a quality label, such as re-securitisations or synthetic securitisations, were concerned about the further degradation of the image and market value of these products.

Financial firms specialised in CDOs – the second largest asset class within securitisation in terms of volumes outstanding in 2009 and 2010 (see figure 8) and a significant portion of European securitisation issuance up until 2009 (see figure 9) – were not keen on introducing a quality label that might be detrimental to their activities. These financial firms comprised banks and non-banks such as hedge funds and specialised investment
boutiques, many of which had been “attracted by an asset class still offering very attractive risk reward opportunities” in 2006-2007 (Deutsche Bank 2007: 9). Thus, as new CDO issuance still represented about a quarter of all European issuances in 2009 (see figure 9), banks and non-banks which had been involved in the CDO business in the past still hoped to see a return of this activity, and hence feared that the exclusion of CDOs from a quality label would damage CDO issuance.

**Figure 8. European securitisation outstanding by collateral (Euro billions)**

Source: Author’s compilation of AFME / ESF Securitisation Data Reports (2010 to 2015)

**Figure 9. European securitisation issuance by type (Euro billions)**

Source: Author’s compilation of AFME / ESF Securitisation Data Reports (2007 to 2012)
The synthetic securitisation market, for its part, was not as severely affected by the crisis as the CDO market. For instance, although European synthetic issuances dropped from around €30 billion in 2008 to below €10 billion in 2010, issuances recovered the following years, reaching €25 billion and €20 billion in 2011 and 2012 respectively, i.e. not far below the levels observed in 2008 (EBA 2015a: 14). There were about a dozen large European issuers of synthetic securitisation in the period 2008-2015, mostly banks acting as originators (ibid). Their main goal was to transfer credit risk away from their balance sheet, in view of obtaining “regulatory capital relief” (ibid: 19) (see also chapters 4 and 7). The investor base of synthetic securitisation in Europe largely consisted of non-bank entities, with about 47% of hedge funds, 22% of pension funds, 10% asset managers and 20% of others including banks (ibid: 15). Thus, large banks as originators (and to a lesser extent, investors) as well as non-bank financial firms investing in synthetic securitisation pre and post-crisis were likely wary of the impact that a label explicitly excluding synthetic securitisation could have.

Second, as mentioned, the introduction of a label precisely aimed at paving the way for a regulatory fragmentation, but the flip side and condition of such a strategy was that not all securitisations would benefit from a lighter regulatory treatment. In other words, market actors expected that the market fragmentation induced by the label would be followed by a similarly fragmented recasting of capital requirements, i.e. lower risk weights for qualifying securities and higher ones for non-qualifying securities. Industry members were therefore worried about the legitimacy of their products insofar as such legitimacy could influence capital requirements and hence the attractiveness of products on the market. As argued in chapters 3 and 5, contemporary financial markets and financial accumulation rest on the production, management and trading of risk/yield itself related to enhanced exploitation, so market actors were concerned that non-labelled (and later non-STS) securitisations would be penalised. In other words, when an investor lobbyist worried that “the end result” of the STS regulation might be “the simple narrative (…) that STS is good, and non-STS is bad” (interview 13), his concern was that potentially higher yielding non-STS securitisations could face increased and costly capital charges.

All these considerations explain that only a minority of financial firms or lobby organisations were initially in favour of establishing an entity such as PCS:
AFME and [EFR] basically created PCS and this whole thing, but that took two years, so that means that a lot of their members were completely against it. So it took them two years to get enough members on board to create PCS. So obviously there were some members (...) that were pushing for it but this was a minority. (Interview 37, EBA).

Overall, then, there was reluctance “from the industry in Europe” and such a “counterproductive perspective (...) delayed the process of moving forward” (interview 37, EBA) with the rehabilitation of securitisation. Given that the fragmentation strategy was at first not unanimously approved by securitisation market participants, how can one explain that four major European financial lobby organisations eventually agreed and worked collectively on the creation of the novel industry body PCS?

6.3.3. Towards the political legitimation of ‘good quality’ securitisation

A combination of factors explains that the ‘high quality strategy’ eventually won out. First, EU policymakers did not solely advise the securitisation industry on how to make securitisation more politically correct (see section 6.3.1); they were also informally involved in the creation of the label. European institutions such as the ECB, the EBA and DG MARKT at the Commission were “in the background” and “helping along” (interview 14, securitisation lobbyist) in the actual setting up of PCS. One interviewee mentioned for instance that the Commission was “encouraging from the point of view of listening to what we [industry proponents of a label] were doing and saying, yes we think that's a good idea” (interview 36, securitisation lobbyist). More concretely, the Commission requested meetings with market participants involved with the label initiative “because they were interested to know how they [could] help to revive the securitisation market” (interview 36, securitisation lobbyist). At the same time, “the Bank of England, the ECB and the Commission all sent delegates” to meetings that were held by the industry to work on the creation of the label (interview 14, securitisation lobbyist). The ECB was the most directly involved in the setting up of PCS. A securitisation lobbyist described the ECB as a “sponsor” of PCS, explaining that:

[The ECB] didn't obviously contribute any money, but they allowed [us] to use their premises, or they would use their influence to call industry participants to meetings at the ECB to debate the whole PCS initiative and to encourage us to spend some time and effort to establish it. (Interview 36).

Thus, although PCS was officially a market-led initiative, the ECB was in fact materially contributing by lending office spaces and by using its authority to encourage reluctant
market participants to join preparatory meetings. Once the idea of establishing PCS had become more concrete and its members were developing criteria on which the quality label would be granted, policymakers were closely following such work and voicing their support:

[As] we were developing the criteria [for PCS] we went to visit national central banks, so for example we went to the Bank of Spain, Bank of England, all the regulators that we spoke to were very supportive of the project, they liked the idea, they were very encouraging. (Interview 36, securitisation lobbyist).

As far as the internal governance of PCS is concerned, several EU institutions became official ‘PCS Observers’, a role which does not involve any decision-making responsibility but allows attendance of meetings and access to documentation. The ECB and EBA, but also the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Fund (EIF) became such Observers. One interviewee confirmed that these were “regular attenders of [PCS] board meetings” (interview 36, securitisation lobbyist) after PCS had been formally launched in 2012. Furthermore, the Board of Directors (the governing body of PCS) included at its inception not only high-level officials from large banking groups and insurance companies but also three former senior public officials, including two from European organisations. Jose Campa was the former Secretary of State for the Economy in the Ministry of Economy and Finance in Spain. Anneli Peshkoff was formerly the Director of Treasury at the EIB. Francesco Papadia, who was appointed first Chairperson of the Board, was Director General for Market Operations at the ECB for 14 years, from June 1998 to May 2012. His appointment as Chairperson came as a result of the dialogue that took place between PCS and the ECB’s department for Market Operations (interview 14, securitisation lobbyist). A lobbyist closely involved in the elaboration of the label explained that PCS was “very fortunate” in this appointment, and benefitted from “a really useful coincidence” in that Francesco Papadia “was just retiring” from its position at the ECB “at the time [PCS was] launched [and thus] accepted to be the Chairman for PCS” (interview 14).

These appointments of EU institutions officials as observers or members of the Board strengthened and formalised the existing links between PCS and regulators, thereby giving further political legitimacy to the project, but also potentially allowing PCS
members to gain access to the knowledge and networks of these regulators. The case of PCS thus also confirms that the supposedly strict border between ‘the state’ and ‘the market’ is in fact a porous one, as market and state actors have closely cooperated (and have forged alliances in the face of both market and regulatory opposition) in the rehabilitation of European securitisation.

The deepening of the crisis on the European securitisation market

Beside the support of EU policymakers, the efforts of some individual members of the securitisation industry, combined with the aggravation of the liquidity crisis on the European securitisation market, were decisive in orientating the legitimisation strategy towards a fragmentation of the market. Firstly, as mentioned by several interviewees closely involved in PCS, individual banks such as Santander from Spain, UniCredit from Italy and “a few Dutch banks” (interview 37, EBA) took the lead in the creation of a label. The Netherlands has been among the top three biggest issuers of residential mortgage-backed securities (RMBS) in Europe since the mid-2000s, and was the second country in Europe in terms of total securitisation issuance in 2010 and 2011 (see figure 10 below). Securitisation as a funding tool is a key part of Dutch banks’ business model (Engelen 2015). Given that the securitisation business in the Netherlands mainly consists of RMBS business, Dutch banks were less likely to be concerned about the banning of CDO and synthetic securitisations.

Figure 10. European securitisation issuance by country (Euro billions)

Source: Author’s compilation of AFME / ESF Securitisation Data Reports (2010 to 2015)
Spain, for its part, was the second most important country in Europe in terms of securitisation issuance in 2008 and 2009, and the third one in 2010 and 2011 as figure 10 shows. Santander, the largest Spanish banking group and one of the largest banks in Europe, was also the second largest issuer of securitisation between 2008 and 2011 (GlobalCapital 2011), or according to an interviewee “the biggest issuer [of securitisation] on a Europe wide basis” (interview 28, European DataWarehouse). Yet whereas Santander issued and placed €30,250 million of securitisations on the primary market and sold a further €1,111 million of securitised products on the secondary market in 2007 (Santander 2007: 144), the situation changed drastically after the onset of the crisis in late 2007. In 2008 and 2009, Santander reported no activity on the secondary market, and could not place any new issuance but rather retained the entirety of its securitisation for a value of €74,000 million (2008) and €16,000 million (2009) due to “the difficulties of the securitisation market since August 2007” (Santander 2009: 178). Correspondingly, whereas in 2007 Santander was able to obtain capital relief through the derecognition of €3,742 million of assets that it securitised (Santander 2007: 225), no derecognition was achieved in 2008, 2009 or 2010.

The Italian transnational banking group UniCredit was similarly affected by the crisis. Whereas between 2001 and 2007 almost all of UniCredit securitisation transactions were conducted for “capital relief” and “funding” purposes, the three securitisation transactions it carried out in 2009 (which included the securitisation of leases related to cars, capital goods, real estates and craft for €1,700 million; mortgage securitisation worth €3,500 million and SME loans securitisation amounting to €994 million) were “counterbalancing” self-securitisations, i.e. securitisations retained and used for liquidity purposes with central banks (UniCredit 2009: 288). Thus, for Santander and UniCredit as for other large banks engaged in securitisation (for example BBVA, BNP Paribas, Credit Suisse, HSBC, Société Générale, Barclays, Crédit Agricole, Deutsche Bank, ING and UBS) the question of maintaining or reviving an active securitisation market and an investor base outside the ECB so as to place securitisation and achieve capital relief (see chapter 4) was a crucial one. So for these banks “the needs [to see a return of securitisation] were bigger”, and in particular “the need in southern Europe to create viable funding tools was bigger than in other jurisdictions” (interview 37, EBA) due to the particularly acute financial and banking crisis they were going through.
Secondly, the prolongation and deepening of the crisis on the European securitisation market as a whole explains that others, including initially reluctant firms such as UK companies, became gradually more favourable to the idea of a quality label. Indeed, as a securitisation lobbyist put it, “for a long time some of the Anglo-Saxon banks’ views were, look, we are going through a bad time, we are going through a crisis, but things are going to pick up, we don’t need to burden ourselves” (interview 14). However, as figure 10 shows, issuance levels which had dropped significantly, particularly for the UK, between 2008 and 2009 did not pick up in subsequent years. Although they stabilised between 2009 and 2010 (albeit at levels much lower than 2008 levels) they actually kept on slightly decreasing from 2010 onwards.

Moreover, when considering the ‘real’ securitisation market (excluding the ECB and other public actors) it appears that the market was even more in trouble than the lowering issuance levels would suggest. As explained in chapter 4, and as illustrated by the cases of Santander and UniCredit above, between 2007 and 2009 there was a nearly 100% increase in retained securitisations. If there was some placement of securitisation (i.e. with external investors) between 2009 and 2010, such amelioration was short-lived and placed issuance stagnated at very low levels afterwards. This was particularly problematic given that market research suggested that “€650 billion of senior unsecured and covered bond funding [was going to] mature in 2012 for European banks”, thus rendering access to securitisation as a funding tool for issuers “increasingly important” to overcome the expected “funding shortfall” (AFME and EFR 2012: 3).

Thus, although “in the first few years after the crisis, people were still just wondering, ok maybe the crisis may disappear again, things may go back to normal”, from 2010 onwards “people really saw that this [was] not going to recover without a lot of effort and a lot of work” (interview 21, securitisation lobbyist). As an interviewee explained, “the tainted [image of securitisation] that was experienced in Europe because of what had happened in the US, that took people by surprise”, and thus it took several years for the industry to realise that “this was [going to be] a long fight to get the image [of European securitisation] polished up” (interview 32, Finance Watch). In other words, the crisis on the European securitisation market was more serious and enduring than expected, with a prolonged lack of investor demand explained by both investors’ lack of confidence in securitisation and investors’ anticipation of punitive regulation on securitisation (see
In light of these developments, market participants that were initially reluctant began to agree to the idea of working toward an industry label for good quality securitisation:

The Anglo-Saxons came round because months went by, and months went by, and the market wasn't coming back, (...) and the regulators weren’t changing [the regulation], and it became more and more obvious that something quite radical was going to have to be done. And so by late 2011, the Anglo-Saxons started to acknowledge that yes, just waiting for this to pass (...) was just not going to happen. And so that’s how [PCS was] set up. (Interview 14, securitisation lobbyist).

Ultimately, the Association for Financial Markets in Europe (163 corporate members including 39 part of its Securitisation Division), the European Financial Services Round Table (23 leading European banks and insurance companies), the European Banking Federation (32 national banking associations in Europe that together represent 3,500 banks of all types) and the European Fund and Asset Management Association (62 corporate members and 28 national member associations all representing the investor’s side of the financial sector) decided on the creation of PCS, and over 30 financial firms committed to fully fund this new industry body for its first two years of operation (AFME and EFR 2012: 2). As shown in this section, PCS was agreed upon as a result of a combination of factors: not only was there a deepening of the liquidity and market legitimacy crisis on the European securitisation market which motivated large banks involved in securitisation to find solutions to rebuild the securitisation market, but there was also a significant level of strategic support from key central bankers and regulators who encouraged the securitisation industry to create a quality label for securitisation. The introduction of PCS, combined with the graphic representation of EU securitisation performing better than its US counterpart, paved the way for a more positive view of European securitisation.

6.4. Conclusion

This chapter has shown that the boundary determining the legitimacy (or illegitimacy) of European securitisation has been shifting under the decisions and actions of key regulators, lobbyists and market participants, whose perceptions, motivations and strategies were in turn influenced by the wider political and economic context. For instance, securitisation lobbyists gradually came to appreciate the ambiguous position of regulators, who in spite of being (mostly privately) supportive of securitisation also felt
that their reputation and responsibility for financial stability was at stake in the post-crisis context. Building on chapter 5, I have analysed the evolution of public-private relations around securitisation. I have argued that a cooperative relation was established between certain lobbyists and regulators, which led to the joint devising of a new lobby strategy. The ‘bifurcation strategy’ aimed at excluding certain types of securitisation from a good quality label, so as to improve the image of securitisation and eventually achieve wider regulatory support that could translate into lower capital requirements for ‘qualifying’ segments of the market. Such as strategy was implemented by the industry, with support from the ECB and regulators, through the label entity Prime Collateralised Securities (PCS).

Although authors such as Engelen and Glasmacher (2016, 2018) have rightly analysed PCS as a strategic move on the part of the securitisation lobby, this view must be nuanced in light of the present findings. First, the securitisation industry is not a homogenous whole and the labelling strategy initially faced strong internal resistance. Second, the strategy was actually suggested by regulators, who saw the benefits of securitisation but sensed that, in the post-crisis political context, the industry needed to demonstrate that its practices were different from those that had led to the 2008 financial turmoil. Thus when Engelen and Glasmacher (2016: 28) claim that PCS’ own definition as “independent” organisation “strikingly obscures its true lineage” with powerful lobby organisations, and further deplore “the willingness of the EBA to gloss over PCS’ origins and present it as an ‘independent’ initiative” (Engelen and Glasmacher 2018: 179), they are missing the point that the very idea behind PCS emanated from regulators. The fragmentation strategy, then, was not simply the expression of a unified financial industry’s interest that had succeeded in capturing the agenda of EU policymakers. Rather, the strategy that paved the way for the further legitimation of securitisation as a financing tool at the service of the ‘real economy’ (see chapter 7) was the time- and space-specific outcome of both struggles within the securitisation industry and close strategic collaboration between securitisation lobbyists and regulators.

In light of the evolution of European securitisation regulation, this new legitimacy strategy can be deemed at least partially successful in that it achieved a differentiated regulatory treatment for securitised products. Both the ‘technical’ modifications to liquidity and solvency rules (the LCR and Solvency II delegated acts of October 2014,
see Metz 2015) and the Commission’s September 2015 proposal for simple, transparent and standardised (STS) securitisation include a distinction between different categories of securitisation and grant lower risk weights to the ones deemed ‘safer’. The STS regulations, for instance, provide for a set of 55 qualitative criteria according to which lower or higher capital charges will be granted to investment positions in securitisation transactions. Yet, as will be explained in the following chapter, such regulatory changes could not have taken place without the implementation of a more offensive legitimation strategy, which attempted to show that securitisation was not only a safe and transparent technique useful to the financial sector, but also useful and necessary to facilitate bank lending to the ‘real economy’ and thereby restart the stagnating European economy.
CHAPTER 7

Serving the real economy? Securitisation as a financing solution to the stagnating European economy

7.1. Introduction

In this final empirical chapter I look at a crucial narrative in the attempted rehabilitation of securitisation, which portrayed securitisation as a service to the ‘real economy’. I analyse how the changing European economic and political landscapes – and actors’ interpretations of and reactions to them – allowed the ‘real economy narrative’ to become audible and credible. In doing so, the thesis mirrors the extension in scope, space and time of the policy debate on securitisation, and expands on the theme of public-private cooperation in the reproduction of finance. In chapters 4 and 5, I showed that central bankers and market participants collaborated in reshaping the securitisation market, and in chapter 6 I looked at the involvement of financial regulators in discussions aimed at defining simple and safe securitisation. I now trace the emergence in 2015, and approval in 2017, of two regulations lowering the capital requirements for securitisations deemed simple, transparent and standardised (STS). To do so, I turn to debates and lobbying that took place at the level of the Commission prior to 2015, and to lobbying as a form of ‘educational process’ targeting members of the European Parliament until 2017.

As explained in previous chapters, post-crisis European securitisation was becoming more transparent and securitisations awarded a PCS label were believed to be of high quality. Yet the elaboration of a comprehensive regulation aimed at boosting STS securitisations required the approval of a wide array of European policymakers, many of whom still strongly associated securitisation with the global financial crisis. Thus, as the regulatory process gradually involved the entire Commission, the Council and the European Parliament, a new type of narrative gained prominence in Europe. Namely, securitisation lobbyists argued that securitisation was not only useful to the banking sector, but was useful – and even necessary – to the European economy as a whole.

19 For a summary of the legislative process regarding the STS proposals, see European Parliament (2018).
To be sure, before and in the early aftermath of the financial crisis lobbyists were already eager to point out the economic benefits of securitisation. However, as I show in the first part of this chapter, claims about the economic usefulness of securitisation only found favour when the economic situation deteriorated in Europe, in a context where European policymakers considered economic growth to be indispensable to the legitimacy of the ‘European project’. I argue in accordance with the theoretical framework developed in chapter 2 that the neoliberal interpretation of (and neoliberal reaction to) the banking and Eurozone debt crises made the ‘financing of the economy’ a key policy problem, to which the capital relief function of securitisation could be presented as a solution. As policymakers in the neoliberal framework of the EU widely believed that public spending was constrained, and as financial lobby organisations argued that post-crisis financial reforms were hindering banks’ ability to ‘fund’ economic growth, arguments centred on securitisation’s capacity to facilitate bank lending were particularly powerful.

This narrative was also mobilised in particular ways in discussions at the European Parliament, as the second part of this chapter shows. When recasting securitisation markets as “long-term financing instruments” (Commission 2013a: 11) and promoting the 2015 STS proposals, advocates of securitisation (lobbyists, regulators and those at the Commission who considered securitisation as a last resort solution to economic issues) realised that the public legitimacy crisis of securitisation was such that technical arguments were not always audible, especially to members of the European Parliament. Indeed, the financial crisis had significantly deteriorated the image of securitisation, and had discredited ‘expert claims’ about finance. The financial sector’s ‘expertise’, which had until that point been relatively successful in rallying actors to the cause securitisation, proved less effective once the topic of securitisation was no longer a matter of ‘quiet politics’ (Culpepper 2011; Woll 2013; Keller 2015). As a result, advocates of securitisation sought to ‘educate’ sceptics about the economic benefits of securitisation, through lobby and policy documents and informal conversation, but also through the organisation of collective training sessions at the European Parliament and via the co-optation of the European SME lobby. Although debates at the European Parliament could have potentially triggered a politicisation of securitisation, the ‘training’ of policymakers further depoliticised securitisation, and normalised the debt relations that underpin it. At the same time, the repetition of selective and simplified arguments portraying
securitisation as a tool serving the ‘real economy’ contributed to legitimising the idea of an EU-supported reviving of securitisation.

7.2. Economic crisis, neoliberalism and the recasting of finance as financing

The financial crisis took a particular turn in Europe, evolving into a banking and sovereign debt crisis in the Eurozone, and translating into continued economic stagnation.\(^{20}\) In this section, I analyse the interrelations between the economic and financial conditions in Europe, the EU institutional framework and various discourses about finance that together came to constitute a particular “economic political momentum” favourable to securitisation (interview 32, Finance Watch). Although policymakers (particularly at the Commission) were worried about the lack of economic growth (7.2.1), they also firmly believed that the ‘financing’ of economic growth was hindered by both EU neoliberal rules and the post-crisis regulatory constraints which, according to financial lobbyists, hindered bank lending (7.2.2). Given this tension, the question of the banking sector’s capacity to provide an adequate supply of loans to economic actors was becoming a key policy question at the EU level (7.2.3), and advocates of securitisation built on this contradiction to present securitisation as a tool at the service of the European economy (7.2.4).

7.2.1. Economic crises and the viability of the European project

The lack of economic growth in Europe grew concerning to EU policymakers in the years following the financial crisis. A Commission interviewee explained that the longer-term consequences of the financial crisis on the economy were “of course something which you couldn’t see in 2008-2009, you had more immediate problems to deal with” (interview 24, Commission Cabinet). A former DG MARKT official recalled: “At the time we were mostly done with the [prudential] regulatory agenda, (…) but growth wasn't coming” (interview 35, DG MARKT). It was becoming clear that the “longer [term] effect” of the financial crisis in Europe was “on things like growth [and] unemployment” (interview 24, Commission Cabinet).

Yet to policymakers, achieving economic growth was an absolute imperative. This is related to their position in the neoliberal institutional framework of the EU (see chapter 2)\(^{20}\) Detailing the causes and interrelations of these evolutions is beyond the scope of this thesis.
and to their particular understanding of popular support for the European project. A policymaker argued for instance that to “win a lot of votes” there was no use in “saying we are going to reign in the banks” but rather politicians could “promise some better job opportunities and growth and some increase in their salaries and purchasing power” (interview 10, DG ECFIN). Another interviewee mentioned that achieving economic growth was a way of “showing to the European citizens that there is hope maybe in the project”: “You have to show, [as] politicians, that you know what you are doing. And the best way to show that (...) is the increasing growth rate. That you have not 0.2% but 2% of growth per year” (interview 02, Finance Watch).

A lobbyist further argued that European policymakers had to secure growth to maintain the legitimacy of the European project: “it is also the responsibility of every single stakeholder (...) to contribute to the project, to make growth happen, because without growth the European project is at risk” (interview 26, covered bond lobbyist, emphasis added). For another lobbyist, the growing economic difficulties faced by European citizens were notably fuelling the rise of political parties thriving on anti-EU rhetoric and as such endangering the legitimacy of the EU:

Marine Le Pen, (...) the Northern League were starting to win elections (...). It's going to be Syriza and Golden Dawn, it's going to be Podemos, it's going to be Brexit, it's going to be the far right in Germany and Austria. (Interview 14, securitisation lobbyist).

This view that Euroscepticism is related to economic deterioration is partially supported by statistics and academic research (e.g. Ehrmann, Stracca and Soudan 2013), but what matters here is that the view was common among EU policymakers. An official at DG ECFIN highlighted that “curves showing support to the European Union and growth curves are correlated” (interview 20, DG ECFIN). Another Commission official indicated that “during the crisis, there was a great correlation between (...) being an economy under financial stress and losing confidence in Europe”, and added that the financial crisis “played a role in the rise of scepticism and the loss of confidence in Europe and in the project of the Eurozone” (interview 18, Commission RSB). The same interviewee explained that economic difficulties could “endanger the whole European project” (interview 18, Commission RSB). Thus, the EU’s “legitimation problems” that had already arisen from the contradictions of the neoliberal project pursued by the EU and its
member states in the 2000s (Cafruny and Ryner 2007: 141) were further aggravated by the crisis and the neoliberal responses to it.

Overall, EU policymakers perceived their mandate and position in the political system of the EU to be endangered by prolonged economic stagnation. As a securitisation lobbyist explained, these concerns went beyond self-interest: “this is their life, this is their project, this is (...) existentially who they are, and for them the failure of the European project is literally an existential threat. (...) I mean it's the failure of their life” (interview 14). Ultimately, the (expected) political outcomes of economic deterioration were making politicians increasingly “desperate for growth” (interview 32, Finance Watch). As “the whole European project [was] looking bad, and the Euro crisis looked like it was potentially [going to] destroy Europe, as all of that was mounting up, there was a sense, you know, we really need to do something” (interview 14, securitisation lobbyist). What policymakers believed could be done about this, however, was framed by the particular neoliberal analysis of the economy and the role of the public and private sectors in relation to it, as explained below.

7.2.2. Constraints on economic growth in Europe

In this subsection I relate the economic crisis mentioned above to the increasingly neoliberal turn taken by EU institutions through the Eurozone debt crisis, and to the widespread financial lobby discourse arguing that financial regulation further damages the economy.

Constrained public financing? A neoliberal interpretation of the economic crisis

The supply-side neoliberal interpretation of the crisis has to be understood in relation to the neoliberal legal framework of the EU and EMU (see chapter 2). According to treaties such as the Stability and Growth Pact, member states must stay below specific thresholds in terms of their government debt (60% of GDP) and deficit (3% of GDP). European policymakers were well-aware of these rules that underpin the neoliberal project of the EU. An interviewee explained that ensuring compliance with such rules was, precisely, the task of DG ECFIN:

DG ECFIN (…) has always been focusing on budget and fiscal policy, that is our role today, predominantly following member states economies and their budgetary
policies to see if they achieve debts and deficits that are in line with all these rules in the SGP and all that. (Interview 10, DG ECFIN).

The progression of, and reactions to, the financial, banking and debt crises in Europe prompted the deepening of neoliberal rule in the EU. On the one hand state spending increased via ‘stimulus packages’ decided in light of the economic difficulties that followed the financial crash, and the financial ‘assistance’ provided by the IMF and the European Financial Stability Facility (later the European Stability Mechanism) transformed private debt into public debt, so that many European states saw durable increases in their debt-to-GDP ratios (Stockhammer 2013: 11). On the other, EU responses to the debt crisis reinforced the neoliberal and disciplinary character of the EU (Bruff 2014). For instance, the 2012 Treaty on Stability, Coordination and Governance imposes a limit on member states’ structural deficits as well as sanctions in case of breach. This indicated a (renewed) “commitment to austerity” (Radice 2014: 318) that further restricted governments’ spending possibilities. This EU version of the ‘there is no alternative’ argument was at play at the European Parliament. An interviewee reported that the “macroeconomic policy rules” which form part of the “institutional logic” of the EU (interview 06, GUE MEP) were invoked by members of certain political parties to restrict the range of options deemed possible to address economic issues:

[We] have created an economic policy framework where the state cannot invest anymore (…) because everything is attached to the deficit rule (…). [When] I say well we need a public investment programme, Social Democrats would tell me, well probably you are right, but we have the Fiscal Compact and the SGP. (Interview 06, GUE MEP).

A DG FISMA official commented that “when you are [over] 132% debt to GDP you don’t have many places to turn [to] anymore” (interview 08). Similarly, an interviewee holding a senior position at DG MARKT during the Eurozone debt crisis explained that public spending was no longer considered feasible:

[You] wonder, how is this going to be solved? Is the government going to start getting fiscal expansion? Well it can't, there is no money to do that, (…) and already in fact the public sector plays a huge role in providing employment, there’s no room for more. So how are you going to reconstruct the economy? (Interview 35, emphasis added).

Overall, if anything was to be done to address concerns over economic growth, it had to be compliant with the EU framework and the neoliberal interpretation of the Eurozone debt crisis according to which states’ ‘fiscal space’ was severely restricted. Instead of public financing, then, it was increasingly suggested that “private financing [would] have
to play a bigger role” in the European economy (interview 10, DG ECFIN). As an interviewee who had been observing this evolution put it, policymakers realised that they “[were] in the shit” and ended up wondering “why don’t we ask finance to help (...)?” (interview 03, Finance Watch). According to another Finance Watch interviewee, the EU’s response to economic stagnation was “just supply-side economics”, i.e. “flood the market with cheap credit, and that way people are going to consume more, it will create demand and hence employment” (interview 01). As the next section will show, however, private financing was also seen to be limited.

Constrained private financing? Financial regulations as brakes on bank lending

Financial lobbyists not only claim that regulations endanger the functioning of the financial sector and its ‘competitiveness’, they also claim that regulations have repercussions onto the broader economy. Bank lobbyists, for instance, have claimed that increases in capital requirements impede banks’ capacity to lend to companies and households. The aim here is not to assess whether bank regulation does hinder bank lending; rather it is to give an overview of the narrative’s logic and show how it was mobilised by securitisation advocates precisely because it allowed securitisation to appear as a tool indispensable to European economic well-being (see section 7.2.4).

The idea of a contradiction between “a safer financial system” and “a financial system that is able to lend” (interview 33, securitisation lobbyist) was developed in light of the upcoming Basel capital increases, comprising both the implementation of Basel II in the EU (CRD II in 2009 and CRD III in 2010) and the elaboration of Basel III, transposed in the EU with the 2013 CRD-IV/CRR package. Bankers, in fact, “mounted a campaign” against these changes, arguing that they would restrict banks’ ability to grant loans to the economy (Admati et al. 2011: 11). For instance the securitisation label and lobby organisation PCS (2013: 3) predicted that “new prudential capital and liquidity rules for banks” were causing a “gap in funding” for the European economy due to the fact that “at the very least €4 trillion of necessary oxygen [was] being steadily taken out of the room” (2013: 10). PCS (2013: 3) estimated in dramatic terms that “unless this funding gap [was] bridged, Europe face[d] the potential of an economic wasted decade”.
Lobbyists often invoked a mechanical causality relation between regulation and banks’ lending capacity. Bank lobbyists explained that “the flip side of very strict regulations (...) is that it's more difficult to lend” (interview 29) and that “currently you cannot [lend more] because you have all [these] requirements which (...) limit your ability to lend” (interview 19). According to a securitisation lobbyist “banks said well, considering capital constraints (...), I'm not going to lend more” (interview 14). In sum, “the financial sector said that [it could not] really anymore lend to the economy because of all the prudential regulation” (interview 02, Finance Watch). In theatrical terms, a securitisation lobbyist announced that policymakers regulated so much “that [they] basically choked off finance (...), and the economy cannot start again when it's limp, if there's no money going into it, it will just die” (interview 14). As the next paragraphs detail, such ‘death threats’ were worrying to policymakers.

7.2.3. EU concerns over banks’ lending capacity

Given the growth imperative felt by EU policymakers and the deep-seated perception that public spending was out of question in the neoliberal EU system, EU policymakers were “particularly concerned by assertions that increased [capital] requirements would restrict bank lending and would impede economic growth” (Admati et al. 2011: 1). Policymakers were particularly worried about ‘access to loans’ when it came to Small and Medium-sized Enterprises (SMEs), notably because SMEs are thought to constitute the “backbone” of the European economy (interview 36, securitisation lobbyist). The “lack of credit to the real economy and to small companies in particular” was something which “of course, as policymaker, (...) has to worry you” (interview 24, Commission Cabinet). Another interviewee at the Commission confirmed that SME financing had become “one of the problems we [the Commission] had to solve”:

The possibility that new banking regulations (...) would not completely asphyxiate the SME sector was seen as a necessity (...). It was around 2011, 2012 that this [realisation] took place. Once we had restored the conditions of financial stability we were left with banks which (...) were not lending much (...) and so there SMEs suffered a lot. (Interview 18, Commission RSB).

As economic conditions worsened between 2011 and 2013, policymakers became increasingly willing to try “anything they can do to promote funding for SMEs” (interview 36, securitisation lobbyist). Faced with an economic crisis threatening the political viability of the EU project, the European Commission was “looking for ways to
revive the financing of the economy” (interview 14, securitisation lobbyist). As public investment seemed out of question and as there appeared to be a “fundamental contradiction” between “the view that on the one hand banks need to be much safer and on the other [that] they should really lend to everybody who comes to get a loan” (interview 14, securitisation lobbyist), the Commission was eager to find ways of “providing capital relief to banks so they can do more lending to SMEs” (interview 36, securitisation lobbyist). This notion of capital relief – and the ways it relates to bank lending and securitisation – is what I turn to now.

7.2.4. Securitisation as a solution to the bank lending problem?

This section explains why a policy focus on “difficulties of financing the economy” constituted “the hook that permitted the securitisation market to catch the attention of policymakers” (interview 29, bank lobbyist). As mentioned, securitisation is generally a “technique that is off the balance sheet” (interview 13, investor lobbyist). Securitisation is thus not only a funding tool, but also a risk transfer tool, as the risks associated with assets can moved off the balance sheet. Because capital requirements are determined in relation to the overall volume of risk-weighted assets, such a reduction in assets increases the capital ratio of that bank, facilitating its compliance with capital regulations. Securitisation, then, functions as a capital management or capital relief tool.

Through this particular function, securitisation was portrayed as a fix helping to overcome the bank lending problem highlighted above. As an interviewee explained, “if we can sell the risks to third parties [through securitisation], then we will be able to continue our lending” (interview 22, bank lobbyist). Theoretically, the sale of risk-weighted assets allows a bank to achieve significant risk transfer (SRT), i.e. to reduce the overall risk on its balance sheet. This then allows the bank, with the same amount of regulatory capital, to issue new loans. In other words, “the multiplying factor of securitisation in the balance sheet of banks is very important [as it] means that with the same capital, we can lend to more borrowers” (interview 29, bank lobbyist). Thus, securitisation “is a way of making space on your balance sheet” and is about “about extending additional credit” to households and corporations (interview 19, bank lobbyist). Using expressions typical for describing this lending role played by securitisation, AFME argued in 2013 that “securitisation can improve the availability of credit, by allowing
banks to *free up* their balance sheets for further lending” and concluded that “a recovery in the securitisation market should play an important role in *unlocking* credit markets and supporting a wider economic recovery across Europe” (AFME 2013b: 24, emphasis added).

This understanding of securitisation as a capital relief tool, albeit not factually incorrect (see chapters 3 and 4), is a particular and selective one. First, achieving capital relief through securitisation is possible but by no means the most common function of securitisation. Indeed, securitisation is largely used by European banks for liquidity or funding purposes. As explained in chapter 4 this was particularly true in the post-crisis period when banks largely retained securitisation in order to access ECB liquidity – a process which does not reduce the volume of risk-weighted assets and hence does not provide capital relief. In addition, as pointed out by several interviewees (see also section 4.3.3), achieving SRT requires that investors buy riskier tranches in the transaction. Given the context of liquidity crisis and low demand for securitised products, it is not entirely clear how securitisation could provide massive capital relief to banks.

Second, there is no guarantee that a bank ‘freeing up’ space on its balance sheet would use it to give out loans, let alone to specific actors such as SMEs. An investor lobbyist explained that “there may not necessarily be a direct correlation between capital freed up as a result of the use of more securitisation and lending to the economy, for sure” (interview 13). A DG FISMA official admitted that rather than a certainty it was a “sort of aspiration that [banks] would use the space that is freed on the balance sheet to focus on corporate lending” (interview 08). Indeed, the Commission does not aim to “force banks or any market players to do certain outcomes” but simply wishes to set “the right risk sensitive incentives” (interview 09, DG FISMA). Credit ‘allocation’ is not a mechanical function of securitisation as the narrative would have it, but rather a business decision on the part of the banks whose objective is to maximise profits and shareholders’ returns: “a bank makes a calculation with return on equity, I mean they have a social function but that doesn’t mean that they will put all their money on SMEs just because the community wants it” (interview 21, securitisation lobbyist). An interviewee also pointed out that the banks most likely to partake in securitisation were not the ones likely to lend to the economy: “[big] banks don’t lend anyway much, because they do casino banking” whereas other banks “like the Sparkassen in Germany, saving loans banks, they...
do lend, but they don’t engage in this kind of securitisation business” (interview 06, GUE MEP).

Third, as the BoE and ECB (2014: 16) remarked, securitised products require “a large granular pool” of loans to be attractive to investors, and in fact such assets may not be available in large quantity “if there is low underlying demand for loans from real economy borrowers”. This shows the limit and contradictory nature of the ‘securitisation as bank lending tool’ narrative: if the production of ABS depends on the existence of loans, can the reverse causation (securitisation creating loans) also be true? When asked this question, interviewees gave elusive answers, calling this “a chicken and egg” type of problem (interview 12, DG FISMA). Overall, the idea that the commodification of loans can ‘unlock’ banks’ capital and facilitate bank lending does not reflect a somehow more technical and scientific understanding of banking logics, but rather arises from the clever generalisation of a particular function performed by securitisation in specific cases.

**Making the political case for securitisation**

Importantly, this partial representation of securitisation as a bank lending tool was used by lobbyists to demand the easing of capital requirements in view of restarting the European securitisation market:

> They [banks] would come with these big arguments (…), if you give us [a lowering of capital requirements] on securitisation which makes securitisation easier or what have you, then this is going to take off and you know, there's going to be great expansion on credit, especially to SMEs. (Interview 35, DG MARKT).

As European policymakers were “interested in (…) getting the banks to lend to the economy more” (interview 13, investor lobbyist), securitisation’s supposed capacity to facilitate bank lending made “the political case for securitisation” (interview 24, Commission Cabinet). Commission officials faced with the double imperative of requiring banks “to load up on capital” and to “continue to lend” sought to “help banks (…) manage their balance sheets in different ways”, that is to allow them to “move stuff off the balance sheet” through securitisation (interview 08, DG FISMA). This was all the more so as policymakers were concerned that reduced bank lending would be detrimental to economic growth and the European project. Despite doubts over the lobby narrative on capital relief, a former Commission official explained that he “became more receptive to
securitisation” as the economic crisis in Europe became acute during the summer of 2013:

I'm thinking when, when did I realise [securitisation] wasn't bad? (…) [Staring] at the prospect of the Euro collapsing (…) versus let's be more pro-active or more optimistic even in terms of securitisation (…), well certainly I thought, alright, we need to give a real good chance to securitisation, if that's the only way to bring money to these 25 or 50% of young kids that are trying to find a job, let that be it. At least we come out of the hole. (…) For me it was more a situation so desperate that you're contemplating every option available. (Interview 35, DG MARKT).

As a lobbyist put it, “of course if you [had] a fantastically growing economy in Europe probably [the] Commission wouldn’t even look at securitisation” (interview 15). Hence although “there were obviously efforts to try to rehabilitate” securitisation before 2013 (see chapters 5 and 6), these initiatives “didn’t really find favour until frankly the economy had gotten so bad that this search for new funding techniques for banks to be able to lend more to the economy became more acute” (interview 13, investor lobbyist). The reviving of securitisation, then, became a relevant and necessary objective not only for the banking sector and its direct regulators, but also for policymakers at the Commission who in spite of acknowledging that securitisation had been “at the core of the financial crisis” (Commission 2013b: 8) were also deeply concerned about the supply of credit available to the European economy.

Although policymakers were aware that securitisation was “not a silver bullet that [would] solve European economy problems” (interview 15, securitisation lobbyist), efforts to frame securitisation as a tool responding to the needs of the economy were successful in legitimising securitisation. Specific concerns over SMEs’ access to loans were “a big, big impetus to introduce the STS legislation [and] to restoring the securitisation market” (interview 36, securitisation lobbyist). The recasting of securitisation as a lending tool made it “politically possible and desirable for the Commission” to officially and legally support a reviving of securitisation (interview 14, securitisation lobbyist), so that ultimately securitisation became, for better or for worse, “part of the solution” (interview 15, securitisation lobbyist).

Thus, when at the end of his mandate in 2013 DG MARKT Commissioner Michel Barnier “brought to the table proposals on the long-term financing of the economy”, MEPs “were told that it couldn’t be done without a return of securitisation” (interview 30,
This MEP mentioned having had “strong doubt” at the time: “As soon as I heard ‘reviving of securitisation’ (...) my warning signal went off, because as soon as I’m told about securitisation I am suspicious after all!” (interview 30, S&D MEP). As this quote highlights, although the Commission eventually published a double STS proposal in September 2015 on the ground that “a high-quality framework for EU securitisation” could “unlock capital, making it easier for credit institutions and lenders to lend to households and businesses” (Commission 2015b: 2), there was no guarantee that this proposal would be approved by the European Parliament. The ways in which advocates of securitisation sought to get the STS proposals approved through the EU co-decision process involving the Council and the European Parliament, is, precisely, the object of the following section.

7.3. The public-private ‘education’ of European policymakers

This section focuses on the legitimacy crisis of securitisation, and on the fact that such legitimacy crisis was concerning to lobbyists and other securitisation advocates (7.3.1). As was made clear in preceding chapters, a majority of central bankers and financial regulators had become supportive of securitisation, notably due to its potential to fund the economy. Yet in order to implement a comprehensive regulation supportive of securitisation going beyond piecemeal adjustments through delegated acts (see chapter 6), a wider approval of securitisation at the European Parliament was necessary.21 In order to overcome potential opposition to a reviving of securitisation, lobbyists and Commission officials who had worked on the STS proposals since 2014 envisaged lobbying as a form of seemingly neutral education (7.3.2) about securitisation’s capacity to serve the real economy and SMEs in particular (7.3.3). Such a discourse contributed to the re-legitimation of securitisation, but also involved a depoliticisation of the debt relations that underpin securitisation (7.3.4).

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21 Discussions on changes to the regulatory treatment of securitisation were already ongoing in January 2014, when the Commission asked the EBA for advice on how to designate ‘high-quality’ securitisations which could benefit from lower capital requirements (EBA 2015b). Similar discussions took place at the Basel Committee on Banking Supervision (BCBS and ISOCO 2014; BCBS 2016). For a discussion on lobbying and regulation at BCBS, see Blom (2014).
7.3.1. From legitimacy crisis to political opposition

The financial crisis raised the salience of financial issues. There was important media coverage of financial topics between 2007 and 2013 (Pagliari 2013), and the crisis made explicit the negative impact that the ‘financial sphere’ could have on the ‘economic sphere’. This “massive delegitimation” (Morgan 2012: 394) affected most particularly credit rating agencies, hedge funds, derivatives and securitisation instruments which were identified as causes of the crisis. Lobbyists, but also financial regulators, were concerned about securitisation’s “huge stigma in the public and the media” (interview 11, DG FISMA), not so much because they were worried that reviving securitisation would be at odds with public opinion, but because such negative views could translate into political opposition on the part of policymakers crucial to the regulatory reviving of securitisation.

Lobbyists and Commission officials mentioned an increased suspicion toward finance on the part of EU policymakers following the financial crisis. A covered bond lobbyist observed that “the subprime crisis (…) changed the behaviour of the MEPs in the Parliament [and of] every single politician” (interview 26) so that the position of many policymakers towards securitisation shifted from ignorance or tacit acceptance to generalised “suspicion” (interview 32, Finance Watch). There was “certainly in the European Parliament but also in some member states and the general public, a general sense that securitisation is a bad thing” (interview 24, Commission Cabinet). According to a lobbyist, “some parties (…) are more suspicious” of securitisation than others (interview 33, securitisation lobbyist). For instance, “the extreme Left and the Green were very much against securitisation, (…) because they felt uncomfortable with it, saying this is evil, this is crisis, we don't like it” (interview 21, securitisation lobbyist). A Commission Cabinet official similarly argued that “clearly at the European Parliament, the Green party or the Socialists to some extent of course very must see [securitisation] as something linked to the subprime” (interview 24), while an EBA official deplored that “the Greens still hate securitisation” (interview 37) and a DG FISMA official mentioned that “on the Left, there is this idea that [securitisation] is just good for the banks” (interview 11, DG FISMA). The creation in 2011 of the financial watchdog Finance Watch – whose motto is ‘making finance serve society’ – at the initiative of a group of MEPs concerned about the one-sided influence of the financial lobby (Schumann 2012) also highlights that finance was considered legitimate only insofar as it had a
socioeconomic purpose. Referring to Finance Watch as a “social organisation” aiming to “counterbalance what the industry wants”, a securitisation lobbyist argued that Finance Watch was “lobbying against securitisation” and fuelling “resistance [to securitisation] in the Parliament” (interview 15).

The potential transposition of popular discontent into political disapproval meant that securitisation advocates were particularly wary of policymakers they saw as accountable to their electorate. As a securitisation lobbyist interviewee put it, “because they are politicians they also need to have something to bring back to their constituencies, something that they can present in order to be re-elected” (interview 15). A common view was that “[the] closer policymakers are to voters, the more reluctant they are to support securitisation” (interview 14, securitisation lobbyist). MEPs, in their capacity of directly elected policymakers, were thus seen as particularly concerned with their public stance on securitisation:

[MEPs] are accountable to their electorate. The Commission is not accountable, the Council is not accountable directly to the people. The Parliament is more concerned about the image, and the perception that the public will have of the discussions [on securitisation]. (Interview 22, bank lobbyist).

An official at DG ECFIN voiced the idea that MEPs were more sceptical about securitisation “because parliamentarians by definition are people who are more likely to react like the man on the street, and the man on the street, when you talk about securitisation, he thinks subprime and things like that!” (interview 20). Thus, as the next subsection explains, although advocates of securitisation had plenty of ‘technical’ arguments to defend securitisation, these were not always audible in the face of securitisation’s legitimacy crisis.

7.3.2. Lobbying as an ‘educational process’

Proponents of securitisation believed that the “bad stigma” around securitisation (interview 33, securitisation lobbyist) was making it “harder” (interview 14, securitisation lobbyist) to successfully argue in favour of a reviving of securitisation:

The general perception in the press and thus from a large share of policymakers was that securitisation was the main culprit at the origin of the financial crisis. So when you arrive with the line, let’s relaunch securitisation, you are met at best with profound scepticism. (Interview 20, DG ECFIN).
More specifically, lobbying and discussions based on technical arguments and addressed to policymakers part of the co-decision process were not bringing the expected results. Indeed, the “strategy” which had “consisted of proving, empirically, that the [negative] perception [of securitisation] did not fit with reality” was not successful (interview 20, DG ECFIN). As an interviewee put it, “the political landscape was more reflective of public mood rather than maybe kind of 100% rational” (interview 28, European DataWarehouse). A lobbyist believed that opposition also stemmed from misrepresentations of securitisation in popular culture which did not take into account the ‘established fact’ (see chapter 6) that only certain types of securitisations had proved faulty:

[Some MEPs] are a little bit completely [sic] against this, and saying things that are not really accurate, that are based on some books, and I know this Big Short is mentioned all the time (…). When you watch this movie, it seems like securitisation is (…) horrible. But this is just one part of securitisation. (Interview 33, securitisation lobbyist).

Similarly, an official at DG ECFIN explained that “when we meet MEPs and when we tell them (…) the default rate of securitisation is extremely low in Europe, there aren’t many who believe us” (interview 20). As a market participants explained in May 2016, “the experts at the time were certainly not as well heard as they are maybe now” (interview 28, European DataWarehouse). In other words, “the image [of securitisation] was so catastrophic that people who had this discourse [about reviving securitisation] were inaudible” (interview 20, DG ECFIN). In sum, the ‘quiet politics’ approach was failing (Culpepper 2011). The financial crisis had eroded the relation of trust between policymakers and financial lobbyists, as a securitisation lobbyist put it: “frankly the days where bankers could say, look, trust us, we are not going to do anything stupid, those days are gone” (interview 14).

Even the Commission had “problems with getting the [pro-securitisation] message across to the European Parliament” (interview 21, securitisation lobbyist). DG FISMA regulators who had worked on the STS proposals since 2014 explained that they were “making the case [for securitisation] but it is very difficult to be understood” (interview 11, DG FISMA). Indeed, “while the industry is extremely keen, member states and regulators are comfortable and supporting the idea, us included, public opinion is not

there yet, and Parliament has followed all this work from a distance and it’s split on it” (interview 11, DG FISMA).

Some interviewees were of the opinion that “the politicians (…) just needed time to understand” securitisation (interview 21, securitisation lobbyist) as “it simply takes a number of years until basically the rational understanding [of securitisation] gets more to the forefront” (interview 28, European DataWarehouse). However, many advocates of securitisation rather estimated that, as MEPs had to “go through quite a steep learning curve to understand the details of securitisation” (interview 21, securitisation lobbyist) and were in fact “still in the process of learning” about securitisation (interview 33, securitisation lobbyist), there was “a need for pedagogy” (interview 20, DG ECFIN). Thus, contrary to the view that “banks simply had to sit out the post-2008 storm to get their way” about securitisation (Engelen and Glasmacher 2018: 167), the next section argues that securitisation advocates, in the public and private sector, reframed their lobbying as a form of neutral ‘education’ targeting policymakers supposedly unequipped to understand the complexity of the STS files and victims of the overly negative portrayal of securitisation in the media.

Educating policymakers about the economic benefits of securitisation

A securitisation lobbyist explained: “we did a lot of work to make [policymakers] understand [securitisation]. (…) It’s a whole educational process that we went through” (interview 21). A investor lobbyist also considered that there was “a massive educational process (…) to be done to explain how it works, why it works, and the purpose” of securitisation (interview 27). MEPs (interviewees 06, 30 and 34) mentioned that many financial lobbyists had approached them regarding securitisation. For example, an MEP closely involved with the STS files reported to have been “quite massively” approached by lobbyists and “especially [by] the financial sector itself” (interview 34, S&D MEP).

Besides these individual interactions, lobby organisations also orchestrated collective “training sessions for MEPs and assistants of MEPs” which aimed to “explain in detail how [securitisation] works, what's the risk, what's not risky, what can be done to make it work” (interview 04, SME lobbyist):
Players on the securitisation market, including UEAPME [the lobby for European SMEs] and others, banks, investors, companies using securitisation, made training sessions for MEPs and their assistants to explain them what the impact is, how it works, that they shouldn’t be afraid. (Interview 04, SME lobbyist).

This interviewee member of the European Association for Craft, Small and Medium-sized Enterprises (UEAPME), the lobby organisation representing SMEs at the European level, said that UEAPME was involved in two such events focused on securitisation in 2015-2016 and believed that “there has been more than those two”, some of which organised by the British Bankers' Association (interview 04, SME lobbyist).

The European Parliamentary Financial Services Forum (EPFSF) is one such forum that held so-called training sessions attended by “lots and lots and lots” of parliamentarians (interview 30, S&D MEP). The EPFSF (2017a) was founded in 2000 “to foster a dialogue between the European Parliament and the financial services industry”. On its website, it announces that it “does not lobby” (ibid). Rather, its objective is to “deploy the joint expertise of its financial industry Members to spread factual information about financial markets and services to the European Parliament” (EPFSF 2017b, emphasis added). In spite of this facade of neutral and evidence-based expertise, the Forum was criticised by NGOs such as Corporate Europe Observatory (CEO 2006) and SpinWatch (2008), which described it as a “vehicle for lobbying” (ibid: 19). In 2008 the Chair of its Financial Industry Members committee was the European Banking Federation, one of the biggest bank lobbies (ibid), and as of 2017 it was the European Fund and Asset Management Association, one of the main lobby organisations for financial investors in Europe (EPFSF 2017c). Its corporate members include Barclays, Citigroup, Deutsche Bank, JP Morgan, Lloyds and UBS as well as key financial lobby organisations such as the International Swaps and Derivatives Association, the Association for Financial Markets in Europe, Eurofinas-Leaseurope, PensionsEurope and Insurance Europe (ibid).

The Forum organises frequent meetings, breakfasts, evening receptions and training sessions. Between 2010 and 2017 it organised ten training sessions, of which at least two involved discussions on securitisation (EPFSF 2017d). On 2 October 2014, the EPFSF organised a seminar entitled “Introduction to Banking”. This “training sessions for MEP assistants” aimed to introduce them “to the role of banks in the wider economy” (EPFSF 2014: 1). Reflecting the concern for ‘long-term finance’ epitomised by the eponymous
2013 Commission green paper, the session involved discussions on “securitisation & longer-term financing”, and speakers included the manager of the Securitisation Division at AFME, the secretary general of the European Mortgage Federation & European Covered Bond Council as well as a senior official at the European Banking Federation (ibid: 2). On 16 April 2015 another session entitled “Economic Role of Banks in Financial Intermediation” examined interactions between potential banking structure reforms and “recent policy initiatives such as the EU Investment Plan and the forthcoming Capital Markets Union” (ibid: 1). Securitisation was discussed during a panel called “how does bank activity relate to financing the real economy and to properly manage its risks?” (ibid: 2). Speakers included senior managers from banks active in securitisation markets such as Société Générale, Deutsche Bank and ING.

As the regulatory process progressed toward the Parliament, then, pro-securitisation lobbying took the shape of an education. This appearance of neutral, factual and evidence-based explanations about securitisation obscured the fact that this ‘training’ was far from neutral but was rather organised jointly by regulators and large European banks and financial lobby organisations who all sought to improve the wider legitimacy of securitisation so as to get the lower capital charges for STS securitisations approved. The negative reputation of securitisation was further attenuated by the more specific content of this educational process, which focused on the ‘real economy’ and the SMEs that embody it.

7.3.3. Securitisation as a service to the real economy

Advocates of securitisation recognised that a “gradual effort” (interview 20, DG ECFIN) was needed to change the negative image of securitisation in post-crisis Europe. As the titles of the training sessions mentioned above suggest, this effort implied a shift away from purely technical talk and toward securitisation as a way of “financing the real economy” (EPFSF 2015: 2). If they wished to “communicate with Parliamentarians”, financial experts had to abandon their “totally crazy technical” tone (interview 04, SME lobbyist):

So it is kind of an educational process, and maybe to change the way market participants are presenting the file. Because they often come to the nitty gritty of the file, (...) [and] quite quickly go to the technical details. (Interview 27, investor lobbyist).
Acknowledging that “during the crisis there was this fear that some finance might just be for the same purpose, self-fulfilling prophecy”, a DG FISMA official explained that when the CMU project was launched in 2015 the Commission “tried to move that in catch-democracy with a focus on start-ups, innovations, infrastructure, investment, more concrete sort of things you can visualise” (interview 09). This conscious “focus on reconnecting finance with the sort of real economy end-users, business infrastructure, SMEs, jobs, etcetera” (interview 09) was particularly evident in the case of the STS securitisation file, which is the first building block in the CMU project (Commission 2015c).

First, lobby as well as policy discourse insisted on and sought to illustrate the idea that “securitisation is a tool at the service of the real economy in the sense that it increases the financial sector’s capacity to lend” (interview 20, DG ECIN), notably to SMEs. As mentioned, SMEs are known to trigger “the enthusiasm of policy elites” notably given their “mythical capabilities for providing employment” (Danreuther and Perren 2012: 39). In simple terms, “SME sells” because they are “nice and small, creating employment, are responsible for innovation, [are] small and poor, and everyone wants to help them” (interview 04, SME lobbyist).

Figure 11 below shows the evolution of (selected) thematic prevalence in four lobby documents authored or co-authored by AFME and promoting securitisation in 2008, 2013, 2014 and 2016.\(^{23}\) Whereas in 2008 the theme of the financial crisis represented by words such as CDO, subprime and synthetic was (unsurprisingly) very present, this theme becomes the least important of the three after 2013. The emphasis on good quality securitisation remains somewhat constant, but it is with the theme of the real economy

\(^{23}\)The documents are: The 2008 “Global joint initiative to restore confidence in the securitization markets”, co-authored by the European Securitisation Forum (ancestor to AFME); “The economic benefits of high quality securitisation to the EU economy” (AFME 2013b), “High-quality securitisation for Europe: the market at a crossroads” (AFME 2014b) and “European securitisation: an essential tool to fund economic growth” (AFME 2016b) Methodology: For each theme I counted the occurrence of words illustrating the theme (‘crisis securitisation’: average occurrence of the words subprime, CDO and synthetic; ‘quality securitisation’: words transparent/transparency, disclosure, standards/standardisation, simple/simplicity/simplification and high quality securitisation; ‘real economy securitisation’: words job(s), growth, real economy, SME(s) and household(s)). [Calculation of the $\%$ ratio for word x in document y = (occurrence of the word x in document y)*1000/ (total number of words in document y). Average occurrence per theme per document = (ratio word 1 + ratio word 2 + ratio word n)/n].
that the most radical change is noticed. The expression ‘real economy’ and related words such as jobs, growth, SMEs and households are virtually absent in the 2008 document, but they grew strikingly more prevalent after 2013. The image of securitisation as a service to the real economy, then, was predominant in AFME lobby reports on securitisation in 2013, 2014 and 2016.

**Figure 11. Thematic prevalence in selected lobby publications (average occurrence per thousand words)**

![Chart showing thematic prevalence](chart.png)

The 2016 publication by AFME is clearly addressed to an audience less familiar with finance; it is made of colourful diagrams illustrating the connections between capital markets, securitisation and the real economy. For instance, the image displayed below (figure 12) depicts not only banks, money and large industries, but also smaller scale real economy actors such as SMEs and households, as well as purchasable goods such as cars, tractors and washing machines, and even more mundane items such as tools, calculators, smartphones, shopping bags, paint and paint brushes, credit cards and wallets. This collection of items represented in this illustration, as well as the virtuous cycle (at the bottom left) and organised circulation (at the bottom right), give the impression that...
securitisation, albeit not a product destined to retail investors, is related to and benefits the (fantasised) average European household and SME.

Figure 12. Illustrating securitisation and the real economy

The clear attempt to link securitisation to tangible aspects of the ‘real economy’ is exemplary of lobby tactics in contexts of high salience, i.e. contexts in which topics are discussed publicly and/or with a high level of sensitivity. In those cases business groups often try “framing demands in terms of some widely shared ‘public interest’” (Callaghan and Lagneau-Ymonet 2012: 389), as the (constructed) belief that “financial firms perform crucial public functions may entice governments to watch out carefully” the interests of these industries (Mügge and Stellinga 2010: 325). However, the case of securitisation shows that such a tactic was not only used in ‘traditional’ lobbying by private actors seeking to influence public actors.
Indeed, the private financial lobby was not alone in making use of the real economy narrative. The European Commission, besides its significant use of the word ‘SME’ – the abbreviation appears 49 times in the 2015 CMU green paper (Engelen and Glasmacher 2018: 167) – also published a series of colourful infographics about the CMU in February 2015. At a time when the EU was organising a public consultation on simple, transparent and standardised securitisation, these infographics show a willingness to portray capital markets and securitisation as services to the real economy, and to SMEs in particular.

Figure 13. Capital Markets and SMEs in the EU

![Image of a map showing 35% of SMEs in the EU didn't get the complete financing they asked for in 2013.](source: Commission (2015d))

For instance, in an infographic entitled “Capital Markets and SMEs in the EU”, the Commission (2015d: 1) explains that “in the euro area, 35% of SMEs didn’t get the complete financing they asked their banks for in 2013”. A piggy bank representing either a benevolent but incapacitated bank or a dangerously empty SME account is depicted near a red cross indicating a lack of credit (see figure 13 above). Yet, as strengthened capital markets would “help SMEs raise finance more easily” (2015e:1), a second infographics replaces the cross with a green tick (figure 14).

Figure 14. Help SMEs raise finance more easily

![Image of a green tick beside the piggy bank and SME building.](source: Commission (2015e))
More specifically, as a third infographic shows (figure 15), securitisation can “benefit businesses and households” notably by helping “to free up capital for banks, allowing them to lend more to households and businesses” and can thus offer “an alternative source of funding for SMEs” (Commission 2015f: 1). This time, thanks to the implicit presence of securitisation working its magic in an invisible financial background, the picture represents people benefiting from a full piggy bank or bank account, as well as an arrow indicating a healthy and ever constant SME growth.

**Figure 15. Making securitisation simple, transparent and standardised**

Thus, lobby groups but also public sector advocates of securitisation sought to modify their language in order to adapt to a context where finance had, after the crisis, been seen as detrimental to the ‘European interest’ of financial and economic stability. In the case of securitisation, besides the change of language from technical to mundane, the securitisation lobby also sought to change its position, or at least to appear closer to that of ‘real economy’ actors.

*Co-opting SMEs*

Indeed, another way in which securitisation advocates sought to stress the connection between securitisation and the real economy was through the co-optation of the European Association for Craft, Small and Medium-sized Enterprises (UEAPME), the official SME lobby organisation in Europe. As mentioned, UEAPME took part in training sessions targeting MEPs. However, a senior UEAPME official explained that he initially disagreed with bank lobbyists who argued that a facilitation of SME securitisation (through public subsidies or supportive regulation) could be beneficial to SMEs, because when securitisation is used “to sell existing portfolios, the SME who is
in the portfolio doesn’t have anything out of it” (interview 04, SME lobbyist). In other words, facilitating the sale of existing SME loans through securitisation was not going to make any difference to the SMEs whose loans were already in the portfolio, nor would it help SMEs who struggled to obtain loans or other forms of funding.\(^{24}\) The only benefit would be, precisely, to banks doing the transaction at a lower cost thanks to lower capital charges or European public bank subsidies (see Mertens and Thiemann 2018). The same interviewee explained that lobbyists used the ‘capital relief narrative’ (see section 7.2.4) to overcome this reluctance: “in the end they [the banking industry] tried to convince us that it is also a good idea to sell existing portfolios because then they will be able to give fresh money to these SME actors” (interview 04, SME lobbyist). UEAPME, eventually, agreed with the bankers’ logic – and with the turn of phrases typical of securitisation advocates:

Later we changed our position a little bit, because we say if, after the crisis, to make banks able to restart SME financing, it could make sense for one-off to help them sell their old portfolio, to have room to free up capital, to then give new loans to SME sector. (Interview 04, UEAPME).

In addition to having convinced UEAPME to support the idea that SME securitisation was, in fact, beneficial to SMEs, large banks and banking lobby organisations also made ‘undercover’ agreements with the SME lobby organisation:

Sometimes we make a deal: they pay events at the European Parliament, and I am allowed to say what I have to say there, but I'm accepting to be co-organiser of this lunch, dinner or breakfast debate or whatever, which helps us to get visibility for our position, and helps them to get a better image when we are on board. Every month they do events with some of them together. (Interview 04, UEAPME).

The advantage, from the perspective of large banks, was that they came to be associated with SMEs, thereby countering the image of financial firms linked to the global financial crisis and disconnected from the ‘real economy’:

Big banks are the bad guys at the moment so nobody listens to the banks, but if I go to the [European] Parliament and say [this regulation] is bad for SMEs, then they listen to me. But if they go and say it is bad for big banks, then they say, that's good! (Interview 04, SME lobbyist)

UEAPME, for its part, “played this game” because “they [banks] are paying for” the events (interview 04, SME lobbyist). This striking testimony shows that SMEs were not only invoked in order to frame securitisation in a way that would make it more

\(^{24}\) See the ECB / Commission joint surveys on the access to finance of enterprises, conducted since 2009 and available on the ECB website.
attractive to policymakers (Engelen and Glasmacher 2018), but were also co-opted through their umbrella lobby organisation, i.e. at the level of their EU political representation. This example of co-optation, which borders bribery or corruption given the exchange between financial resources and enhanced access to decision-making circles, confirms that a context of high salience pushes private actors to seek alliances (overt or covert) with other groups, and notably groups seen as more legitimate by the public or by policymakers (Woll 2013; Keller 2015).

As was highlighted throughout the section, the SME-heavy real economy narrative was not only used by lobbyists and pro-securitisation regulators in their discussions with the European Commission (see section 7.2), it was also repeated by the Commission and particularly DG FISMA (responsible for the STS file and the CMU project) in its formal and informal inter-institutional negotiations with the European Parliament. The SME narrative “served to rally politicians” to the cause of securitisation and of the CMU at large (Engelen and Glasmacher 2018: 170). The real economy narrative, in sum, was a key lobby strategy on the part of a public-private coalition of securitisation advocates seeking to overcome the widespread legitimacy crisis of finance. Ultimately, the articulation of a contradiction between banking regulation and bank lending in the context of a stagnating European economy, together with a focus on securitisation as capital relief, has allowed the idea to spread that “securitisation has a role to play in financing the real economy” (interview 28, European DataWarehouse) so that in fine, “if [securitisation] is well done, it's good for the public” (interview 33, securitisation lobbyist).

### 7.3.4. Real economy securitisation: legitimation and depoliticisation

This idea that securitisation benefits ‘the public’ rather than sole market actors signifies a shift in the image of securitisation. Indeed, the newfound function of securitisation as ‘financer’ of activities deemed purely ‘economic’ such as those of SMEs allowed advocates of securitisation to build a new legitimacy demarcation in which the new, transparent, safe and simple (see chapters 5 and 6) post-crisis securitisation could appear more legitimate than the one still associated with the financial crisis and its damaging effect on the economy. For instance, an interviewee argued that when household and SME loans were securitised there was “a very direct link between
securitisation and [the] real economy” (interview 33, securitisation lobbyist). This practice was contrasted with that of re-securitisation whose lack of legitimacy, the interviewee explained, stemmed from its less direct or inexistent link to the real economy: “you are not creating new value, with re-securitisation it's people doing securitisation on securitisation, so there is no real value on the economy” (interview 33, securitisation lobbyist). An official at DG ECFIN made a similar distinction, arguing that although some financial products such as derivative products “could seem disconnected from the real economy” this was not the case of securitisation:

Securitisation is par excellence a financial product at the service of the real economy. (…) It is hard to find products that are more linked to the real economy. It’s not like naked CDS or things like that which are, in the end, speculative instruments. (Interview 20, DG ECFIN).

The link between securitisation and the real economy, has been, according to several lobbyists, successful in rallying policymakers to the reviving of securitisation; in fact, it is “the reason why [policymakers] put it in the agenda” (interview 29, bank lobbyist). The “focus on the supply side and on the fact that we need to help banks to securitise” made a wide range of policymakers “more favourable” to securitisation (interview 14, securitisation lobbyist). Indeed, through this narrative “it appeared that actually securitisation [was] important not only for banks, you know, for their capital purposes, but also for the real economy” (interview 15, securitisation lobbyist, emphasis added).

The fact that securitisation can provide an “additional funding channel” is the reason “why you see for example the Commission and the Parliament and others now, traditionally very sceptical in principle, promoting the idea of better securitisation” (interview 28, European DataWarehouse):

People understand that Europe needs the revival of the economy, and especially funding of SMEs, that's the big topic in the Parliament and the Commission and the Council. And this proposal [on STS securitisation] is the number one that is aimed to achieve this. So that's why even someone who used to be much more sceptical now is looking, ok, maybe, maybe now it's the way forward, maybe let's make it workable. (Interview 19, bank lobbyists)

An MEP from one of the main political groups (S&D), who initially had “great doubts” about the reviving of securitisation as proposed in the 2013 Commission green paper on the long-term financing of the economy (see section 7.2.4), confirmed that her support for a reviving of securitisation would be conditional on reassurance that it would bring benefits to the real economy:
If we must come back to securitisation, it cannot be to just please financial services, [it must be] because we need it [to achieve] the goal of financing the economy (...). Well at least if I have to speak about securitisation again (...) it’s not with the aim that financial markets get returns of 17% again, but it is to allow the financing of long-term investments and the ecological transition, this is my objective, this is where we find a common interest. (Interview 30, S&D MEP).

A depoliticisation of debt relations

The widespread representation of securitisation as a service to the real economy rests on particular understandings (explicit or implicit) of securitisation, debt, ‘finance’ and ‘the economy’. First, this representation builds on a key aspect of securitisation generally obscured in more ‘technical’ discourses that do not seek to connect finance to the broader economy. Indeed, although the idea that securitisation could facilitate bank lending is a generalisation of a ‘capital relief’ function linked to particular structuring, accounting and regulatory practices and related to investor demand for junior ABS tranches (see section 7.2.4), such an idea does illuminate the fact that securitisation is a financial product connected to spaces and actors considered non-financial such as households and SMEs. Paradoxically, then, this lobby and legitimation narrative comes close to revealing that ‘ordinary people’ and their daily debt practices constitute securitisation and hence are indispensable to the reproduction of market-based banking of which securitisation is a central component.

However, contrary to what the narrative implies, the way securitisation relates to these non-financial spaces and actors is neither mutually beneficial (a ‘service’) nor neutral (a ‘tool’); debt is what allows the connection to be made between on the one hand a person having a credit card, a household contracting a mortgage, an SME asking for a credit line to its bank and on the other financial investors such as large banks, pension funds or insurance companies (see chapter 3). In other words, although the 2008 financial crisis increased the salience of topics related to financial markets and their regulation, and although policy debates around securitisation were broadened to encompass questions of economic stability and economic growth as they reached the more openly political site of the European Parliament, the demarcation between policymakers in favour and against a reviving of securitisation only constituted a very superficial politicisation of the issue, and in fact contributed to the normalisation and depoliticisation of indebtedness. It is no accident that the words ‘debt’ (used frequently in the ‘sovereign
debt crisis’ discourse) is seldom used in policy discourses on securitisation which rather refer to sanitized and positively connoted terms such as ‘loans’ and ‘credit’. Bank loans and bank credit are, in the real economy narrative analysed in this chapter, treated as unquestionably positive and necessary ‘cogs’ of the economy, devoid of power relations. Thus, in addition to obscuring that securitisation relies on unequal social relations of debt, the discourse according to which securitisation is beneficial precisely insofar as it facilitates bank lending obscures that securitisation, then, would only help banks reproduce such unequal relations of debt whereby individuals are locked into repayment schedules and financially dispossessed, especially when they belong to the most marginalized groups in society.

Finally, it is noteworthy that the financial circulation and commodification of social relations of debt in which households and SMEs epitomizing the ‘real economy’ are engaged was depicted as a way to restore “normal lending” in the European economy (Commission 2012). Such a discussion not only perpetuates a false distinction between finance and ‘the real’, but also connects the two in questionable ways. Indeed, through this discourse the financial accumulation directly achieved by banks and other financial firms able to structure, issue, value, trade or invest in commodified debt relations was, in an impressive twist, presented as a solution to wider economic problems – which, partly, had been caused precisely by intensive financial accumulation through dispossession in the years leading up to the global financial crisis (Harvey 2005, 2014). Thus, the neoliberal ‘unlocking’ of financial markets and capital – in fact, the state-supported facilitation of debt commodification and financial trading by large European banks – is promoted as a way to solve the contradictions of the neoliberal EU economic system. More specifically, as the financialisation of everyday debt relations is called upon to restore ‘normal’ debt relations in the economy, the very underlying debtors whose debt would be securitised are implicitly requisitioned to become the (unknowing yet profitable) fix necessary to restart the debt-led growth regime upon which the neoliberal European project depend. All in all, the official lobby and policy discourse according to which revived securitisation markets could fund economic activity represents a striking discursive reversal of the securitisation dynamics exposed in chapter 3, whereby it is the cashflows generated by ‘everyday’ relations of indebtedness and wider capitalist exploitative relations that are ‘channelled’ toward the operation and constant reproduction of financialised capitalism.

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7.4. Conclusion

By adopting the framework developed in chapter 2, this chapter has made two related claims. First, I have shown that a discourse about the economic benefits of securitisation was only successful insofar as it corresponded to a deterioration of economic conditions. On the one hand, the morphing of the financial and sovereign debt crises into an economic crisis gave policymakers a sense of desperation; on the other, the supposedly damaging impact of bank regulation on the ‘financing’ of the economy was, in the neoliberal EU context, the more specific basis upon which advocates of securitisation constructed the legitimate, economic need for a reviving of securitisation. By portraying securitisation as a capital relief tool facilitating bank lending, regulators and lobbyists were successful in getting the European Commission to consider a legally-supported reviving of securitisation as a workable fix compatible with the neoliberal framework of the EU and capable of aiding the financing the European economy.

Second, I have argued that faced with securitisation’s deep-seated legitimacy crisis, advocates of securitisation (both within the industry and within regulatory circles) have shifted the focus of their discourse, going from arguments highlighting the intrinsic characteristics that made securitisation a harmless financial practice (chapters 5 and 6) to arguments that presented securitisation at the service of the real economy. This made them more likely to be audible to policymakers concerned with social and economic issues beyond the state of the banking sector itself. Indeed, as the debate around securitisation progressed and involved a larger share of actors and notably MEPs aware of securitisation’s role in the financial crisis and hence potentially suspicious of its reviving, the finance-real economy links that securitisation epitomises were mobilised in specific ways to gain the support of such actors.

Overall, this chapter has highlighted that crises can be threats or opportunities for the securitisation industry. The financial crisis made less credible ‘technical’ and ‘expert’ arguments about securitisation as useful financial tool. Yet it is through the prolongation of this financial crisis that, paradoxically, securitisation could be rehabilitated. Indeed, the deepening of the economic crisis in Europe – and, importantly, its neoliberal interpretation – meant that European policymakers were increasingly concerned about
the issue of supplying ‘finance’ to the stagnating European economy. In a context where financial lobby organisations as a whole were discursively presenting post-crisis regulations as constraints on bank lending, insistence on the ‘capital relief’ function of securitisation meant that securitisation was ultimately rehabilitated as a tool at the service of the ‘real economy’. Thus, I have shown that a specific discourse or line of argumentation can become more influential in certain conditions, for example if the discourse resonates well with what actors observe outside of that specific discourse. This chapter therefore illustrates Gramsci’s argument about economic crises: ‘‘It may be ruled out that immediate economic crises of themselves produce fundamental historical events; they can simply create the terrain more favorable to the dissemination of certain modes of thought.’’ (Gramsci 1971: 184, emphasis added, cited in Bieler and Morton 2008: 117). More broadly, this final empirical chapter has built on the theoretical chapters of this thesis as well as the previous empirical chapters to show that state and market actors, but also the way they have crafted and employed legitimating discourses, have been crucial to the reshaping and gradual rehabilitation of the European securitisation in the post-crisis period. The following chapter, which concludes this thesis, will relate these last empirical findings to those of previous chapters, and will organise them in a way that clearly shows how I have, throughout the thesis, answered to four research questions that have driven this inquiry and thereby made original contributions to academic scholarship.
CHAPTER 8
Conclusion

8.1. Introduction

In this thesis I aimed to understand how the securitisation “poison” that had plagued global finance in 2007-2008 was, in the span of a few years, changed “into medicine” (Reuters 2017). The objective of this research was not to assess whether securitisation should be seen as poison or medicine in ethical or financial stability terms. Rather, I sought to interrogate the processes and discursive practices through which a range of actors in EU institutions came to consider that securitisation was, in fact, much more a cure than a disease, and as such required supportive infrastructure and regulation. In sum, I sought to answer the following overarching question (research question 1): How did securitisation go from being perceived as one of the main causes of the financial crisis, to being promoted and legally supported by European institutions as a potential solution to economic stagnation in Europe?

To address the main research question stated above, this dissertation sought to answer three subsidiary research questions:

**RQ 2** - How has the financial crisis reconfigured the role that securitisation plays in relation to European banks’ profitability, liquidity and stability, and to what extent has this informed regulatory and lobby attitudes toward securitisation?

**RQ 3** - What types of discourses about securitisation, its legitimacy and its role within the financial and economic sectors have emerged after the financial crisis, and what effect have these had? What actors have produced such discourses and with what intention?

**RQ 4** - In what ways have securitisation industry actors and European financial regulators and policymakers cooperated in the re-making of the European securitisation market, and more specifically in its legitimation?
The findings and arguments that resulted from this qualitative research project based on process-tracing, interviews and the analysis of key lobby and EU documents (see chapter 1) are summarised in the present chapter, which concludes the thesis. In the following three sections, I bring together the findings detailed throughout chapters 2 to 7 and arrange them so as to answer the above research questions. Indeed, as each question is not answered by a single chapter but rather by insights developed in all chapters, bringing these various and related insights together helps to show how I have answered the research questions. In doing so I highlight the original contributions this thesis has made in relation to the research and policy themes that were broached out in chapter 1. Finally I highlight the thesis’ limitations and discuss avenues for future research.

8.2. Answering research question 2
How has the financial crisis reconfigured the role that securitisation plays in relation to European banks’ profitability, liquidity and stability, and to what extent has this informed regulatory and lobby attitudes toward securitisation?

At its core, the question focuses on securitisation, and interrogates how this key component of contemporary finance and European market-based banking (see chapter 1) has evolved in the post-crisis period. As mentioned in chapter 1, recent work has looked at the attempted reviving of European securitisation, but such work has mainly focused on the STS regulations part of the European Commission’s Capital Markets Union (CMU) project (Hübner 2016; Engelen and Glasmacher 2018). By contrast, the present thesis has traced both the evolution of securitisation regulation and that of the market, and has done so in a longer time frame, covering the years 2007-2017. Indeed, prior to discussing in chapter 7 the elaboration of the STS regulations and the intra-EU lobbying that occurred between the publication of the proposals in September 2015 and their official adoption in May 2017, three chapters are dedicated to uncovering the recent history of securitisation, the struggles around it and its gradual and contested rehabilitation. Thus, the most immediate empirical contribution of this thesis is to our understanding of the European securitisation market itself. I first detail some of the most straightforward empirical findings of this thesis in relation to this, before turning to three more elaborate arguments made in relation to the above research question.
8.2.1. Securitisation, through and after the crisis: key evolutions

In the thesis I have highlighted the evolution of securitisation market dynamics and explained their significance. For instance, chapter 4 stressed that the sudden lack of investor demand for securitised products was of significant concern for issuers of securitisation and bank regulators, and chapters 5, 6 and 7 looked at the ways in which these actors have sought to address this issue. I showed that the securitisation market underwent important transformations in its structure, infrastructure and practices, which in fact went well beyond “cosmetic exercises to render securitized assets simple, transparent and standardized” (Aalbers and Engelen 2015: 1600). For example, the creation of the European Datawarehouse in 2012 was instrumental in answering crisis-induced concerns over the market’s opacity and contributed to attenuating the market legitimacy crisis of securitisation (chapter 5), while the creation of Prime Collateralised Securities (PCS) that same year effectively established a fragmentation of the market along a newly defined legitimacy line, which was key in improving the regulatory and policy legitimacies of securitisation (chapter 6).

More broadly, I highlight that securitisation has remained a practice central to market-based banking (the type of banking exercised by large, cross-border European banks active on capital markets), and describe in chapter 4 the specific ways in which the crisis remade securitisation useful to banks in relation to newly emerging contradictions of market-based banking (see below). In terms of the actual reviving of the market, I find that in spite of much talk in the media and the financial industry about the ‘collapse’ of European securitisation, the most remarkable and durable change on the securitisation market was its transformation into a retained market, i.e. one in which the securitised products to be exchanged are not issued and placed with investors but are retained on banks’ balance sheets, notably as these assets allow to access central bank liquidity. It is still too early to assess whether the May 2017 agreement on STS securitisation, due to take effect in January 2009, will have the announced impact and will effectively help re-launch the European securitisation market, but as I suggest in section 8.5, this should indeed be a topic for further investigation.

Besides an overview of key changes on the securitisation market, the thesis also provides an answer to the first part of RQ2, which interrogates more specifically what
the 2008 financial crisis has meant for securitisation and European market-based banking. The first is in relation to this is that *the financial crisis led to significant modifications in European finance, which in turn (re)made securitisation key to European banking, albeit in novel ways*. The second finding is that these new functions performed by securitisation in relation to banks have been underpinned by the core activity at the heart of securitisation i.e. the pooling, structuring and re-channelling of commodified debt relations. In other words, *the crisis has not fundamentally challenged the way everyday debtors unwillingly and unknowingly contribute to financial accumulation through securitisation*. I now address these two findings in turn.

### 8.2.2. Securitisation, changed: performing new functions after 2008

A main finding of this research is that although securitisation was one of the immediate causes of the 2008 turmoil, the financial crisis reconfigured the modalities of European market-based banking so that securitisation played a renewed and central role within European banking. Thus in spite of its role in the crisis – or more accurately through the very consequences of that crisis – securitisation remained a crucial, if suspicious and contested, tool at the service of large European banks. In chapter 4 I detailed the two functions performed by securitisation in the post-crisis period, namely facilitating the provision of (central bank) liquidity to banks, and providing a way for them to comply with prudential regulation whilst maintaining competitive levels of shareholders’ returns. Overall, changes induced by the financial crisis (both on financial markets and in central banking and regulatory practices) created tensions within the functioning of European market-based banking – tensions which could, it was hoped, be alleviated through the use of securitisation.

Importantly, I have drawn upon the theoretical framework outlined in chapter 2 to contend that most of these changes were not the mechanical result of ‘the crisis’ but rather resulted from how the crisis and its effects were interpreted and understood by actors. Through the method of interviews (for which the rationale is detailed in chapter 1) I was able to refine my understanding of what those interpretations and motivations were, and I concluded that not only changes on markets and in their regulations mattered, but the *expectations* of such changes mattered too. Thus, in adequacy with what was asserted at a theoretical level in chapters 2 and 3 – namely, that actors’
perceptions are constitutive of the total ‘material reality’ of financial markets and regulation – it was found that actors act in anticipation of changes as well as in reaction to them. All in all, then, it is more accurate to say that not only the crisis but also actors’ interpretations of and reactions to the crisis modified the role that securitisation plays in European banking and finance. Yet, if securitisation was able or expected to perform new functions, these were all in fact underpinned by the fundamentally unchallenged process at the heart of securitisation: the transformation of debt relations into tradable financial commodities.

8.2.3. Securitisation, continued: reproducing debt commodification

The second main claim I make in relation to RQ2 derives from the thorough conceptualisation of securitisation developed in chapter 3. I argue that the new roles detailed above remained underpinned by and dependent upon social relations of debt which the crisis did not fundamentally alter. In chapter 4, I showed that the debt relations that provide the basis for securitisation were mobilised by issuers and the ECB in specific ways during and after the crisis, namely to uphold the liquidity of the banking sector, itself a crucial condition for financial accumulation in contemporary finance (Langley 2010). Indeed, it is through the structuring of commodified everyday debt relations such as mortgages or auto loans that large banks able to structure securitised products have improved their capacity to access ECB liquidity via collateralised repo transactions. In chapter 5, I highlighted that the (expected) scope and degree of certainty of the cashflows received by investors, expressed by the yield and default rate of ABS, were similarly tied to underlying social relations of debt. Namely, the higher yield, on average, that securitisation secures for investors is made possible by the higher interest rates on loans and fees paid by the most precarious social groups in capitalism (Rankin 2013; LeBaron 2014).

In sum, in spite of actual and tangible changes in the transparency, infrastructure and regulation of the securitisation market, the underlying politics of debt that sustain it remain alarmingly unchallenged. The benefits that securitisation brings to market participants (and indirectly to central banks and regulators) still depend on the continued reproduction of social relations of debt, which are deeply unequal and related to wider processes of capital accumulation and exploitation. Perhaps unsurprisingly,
these insights barely surfaced in interviews and official (lobby and EU) discourses about securitisation. What this means, effectively, is that the unequal social relations of debt that are so crucial to securitisation, and by extension to market-based banking and the stability of the EU financial sector, are constantly obscured, notably discursively as I discuss in section 8.3.

In providing a clear account of (1) how the post-crisis reproduction of European finance remains dependent on underlying debtors’ payments; and (2) how lobby and EU discourses about securitisation serve to obscure or normalise such unequal debt relations, the thesis speaks to scholars interested in the politics of debt (Lazzarato 2012; Roberts and Soederberg 2014; Tabb 2014). By questioning not only the readily observable ‘excesses’ of securitisation when it comes to the ‘stability’ of global finance, but also the normalised ‘excessiveness’ of securitisation itself (no matter how safe, simple, transparent or regulated it is), the thesis hopes to be part of a wider and collective effort to politicise finance, banking and debt (see also Metz 2016), so as to empower the individuals who, believing to be outside of the ‘financial sphere’, are often unaware of their role in securing financial accumulation – and hence of their potential power to disrupt it.

8.2.4. Securitisation, acted upon: understanding actors’ motivations

The second part of RQ2 relates to how the post-crisis functions of securitisation have influence actors’ attitude toward securitisation. In wondering about the extent to which securitisation and its role in banking inform regulatory and lobby attitude toward securitisation, I operationalise the theoretical considerations developed in chapter 2. Namely, I do not take actors’ ‘interests’ as a simple function of securitisation’s ‘real’ or ‘material’ role in the financial structure. Indeed, the new roles of securitisation cannot be analysed in a vacuum (as if they mattered in and of themselves) but should be analysed in relation to actors’ own motivations, which are varied but related to the position of actors within the European capitalist system and intuitional framework of the EU.

More specifically, I highlighted that there was no shortcut to be made between securitisation’s functions and policymakers’ support of securitisation, and argued that
understanding actors’ reputational concerns is key to understand their motivation in relation to securitisation. Indeed, reputational concerns of public actors intersected with their perception of securitisation (the role it could play but also the risks it could pose) and this had various consequences. For instance chapter 5 shows that the ECB was willing to protect its own reputation and maintain the stability and value of Euro, which meant a desire to know the risks posed by the securitisation market in which it was now involved. This ultimately translated into a form of ad-hoc collaboration with issuers of securitisation in the making of transparency for securitisation.

When carefully taking into account reputational concerns we can better understand why other forms of collaboration took place, this time involving central bankers, regulators and lobbyists. Namely, I show in chapter 6 that although a significant number of central bankers and regulators were interested in securitisation’s potential to ease the functioning of European market-based banking, this could not directly or immediately translate into a public and official endorsement of securitisation, because the support of a market at the origin of the 2008 crisis could endanger the reputation of those in charge of financial stability. Public-private collaboration took place when public actors advised securitisation lobbyists on the route to take in order to alleviate their reputational concerns, i.e. in order to make it possible for regulators to publicly voice their support to a reviving of European securitisation. In a similar way, I argued in chapter 7 that the European Commission and European Parliament support for securitisation was (indirectly) linked to their concerns over the reputation and legitimacy of the European project, itself strongly related to the adoption of ‘orthodox’ or neoliberal discourse and practice such as restrictions on national debt-to-GDP ratios.

To summarise, the findings of this research with regards to RQ2 are that, in the aftermath of the financial crisis, securitisation turned into a retained market but nonetheless played significant new roles in the (expected) reproduction of European market-based banking. Importantly, these new roles have been underpinned by unequal social relations of debt that the crisis itself has not fundamentally challenged and that often remain invisible. When it comes to explaining EU support for securitisation (the overarching research question of this thesis) it must be noted that these new functions should be analysed in relation to actors’ own readings of the crisis as well as their position within the EU institutional framework. Actors’ motivations in relation to
securitisation are also related to the way securitisation is discursively represented. This, precisely, is the point raised by the third research question of this thesis, to which I now turn.

8.3. Answering research question 3

What types of discourses about securitisation, its legitimacy and its role within the financial and economic sectors have emerged after the financial crisis, and what effect have these had? What actors have produced such discourses and with what intention?

Broadly, this thesis has shown that discourse matters enormously for finance – in terms of lobbying and regulation, but also in terms of the inner working of financial markets – and that discourse is contextual. I make three more specific arguments in relation to this: (1) Overlapping legitimation discourses were instrumental in the rehabilitation of securitisation; (2) Legitimation and (the effect of) discourse are contextual and relational; and (3) Financial market actors and regulators have been ideally placed to produce influential discourse on securitisation. I examine these three points in turn.

8.3.1. Legitimation discourses and the rehabilitation of securitisation

I find that the post-crisis lobbying effort in favour securitisation involved the juxtaposition of several types of discourses that sought address the legitimacy crises of securitisation. Here I discuss findings related to the nature and content of these discourses. As made clear throughout this thesis, the securitisation industry faced a deep-seated legitimacy crisis, itself part of the broader discredit of finance that resulted from the 2008 crisis. A straightforward contribution in that respect is the refined understanding of what this increased salience has meant, in concrete terms, for the European securitisation industry and its regulation. For instance, I have argued that such legitimacy crisis was not necessarily initially understood by the securitisation industry in all its dimensions. Rather, there was a gradual realisation (notably through confrontations and discussions with regulators, see below) of the scope and consequences of that confidence crisis, which led the securitisation industry to adapt its discourse and strategy. Through the roughly chronological progression that the chapters mirror I have traced the evolution of this discourse, and argued that there was a gradual
shift from *defensive* arguments highlighting the harmless nature of securitisation (chapters 5 and 6) to more *offensive* arguments presenting securitisation as an instrument serving broader socioeconomic objectives (chapter 7).

*Defensive discursive strategies*

In what I identify as a first phase of lobbying, the securitisation industry was mainly *reacting to* accusations of opacity, complexity and riskiness linked to the role played by securitisation in the US subprime crisis and ensuing global financial crash. Such accusations were particularly worrying to the industry when they were accompanied by threats to restrict the core activities of securitisation through new regulations. A first defensive discourse claimed that what mattered for financial stability was not the individual risks of securitised products, but rather their transparency and investors’ capacity to assess them (see chapter 5). A second defensive narrative consisted of demonstrating, notably through the construction of large-scale data, that European securitisation had ‘performed’ better than its US counterpart, and was thus much safer (see chapter 6). A third type of defensive discourse (also analysed in chapter 6) aimed at isolating pre-crisis securitisation from a supposedly safer, simpler and higher-quality type of post-crisis securitisation. The discursive construction of ‘negative others’ marked by their spatial or temporal distinctiveness was a key legitimation strategy used by the securitisation industry to improve its image. Overall, these three sets of defensive discursive strategies were partially successful: the good performance of European ABS became a ‘known fact’ in policy circles, and the 2015 STS regulations are indeed based on a qualitative distinction within European securitisations.

In making these observations I corroborate, and add new angles to, De Goede’s (2004: 204) argument that technical discourses about and calculations of risk provide “a durable moral and political defence for speculative financial trading”. Indeed, the question of risk in relation to securitisation was articulated as a technical issue of *knowledge about* risk, and in that way shielded from political inquiry the exploitative relations of debt which allow for the very existence of high risk and yield. In addition, the unequal politics of debt are invisible in the graphs and tables that exhibit the low default rates of European securitisation, just as they are masked by the idea of a ‘high quality’ label, making securitisation seemingly remote from the exploitative social
processes that sustain it – and paving the way for the political endorsement of a seemingly unproblematic and apolitical financial technique.

The present analysis of legitimation discourses also complements recent literature on the adaptation of lobby practices to the post-crisis context of salient financial issues (Woll 2013; Keller 2015; Orbal 2016) and the centrality of national and EU narratives to the re-legitimation of securitisation (Engelen 2015; Engelen and Glasmacher 2016, 2018). I contribute two important elements to the above literature. Firstly, as I will reiterate below in more detail, I show that it is also through cooperation with (rather than solely in opposition to) regulators that the securitisation industry managed to make its lobby narrative more efficient. Indeed, one of the reasons why the construction of a ‘negative other’ within European securitisation (in additional to the external US one) drove increasing numbers of EU regulators to openly endorse securitisation is that those very regulators had contributed to the elaboration of that strategy – they had been advisors to the securitisation lobby. Such dimension of cooperation in the very elaboration of legitimation discourses is often neglected, perhaps due to the underlying and implicit belief that the state “possesses inherently more benign properties than ‘the market’” (Bruff 2011b: 97), which leads authors to overlook that state actors themselves can and do take part in the crafting of lobby strategies.

Secondly, I emphasise that the above-mentioned defensive discourses were addressed to policymakers and market actors. Indeed, both the focus on transparency (chapter 5) and the discursive fragmentation of the securitisation market into ‘good’ and ‘bad’ securitisation (chapter 6) were attempts to remedy the market legitimacy crisis that the securitisation industry faced, at the same time as they were attempts to repair the regulatory legitimacy of securitisation. This insight relates to the conceptual analysis of securitisation proposed in chapter 3: the confidence and trust to which legitimation discourses contribute are key components of the very functioning and liquidity of financial markets. By insisting on the importance of discourse not only about but also in and on financial markets, I refine the understanding of discourse in relation to finance found in most political economy literature. Specifically, I argue (theoretically in chapters 2 and 3, empirically in chapters 5 to 7) that discourse does not simply shape policymakers’ perceptions of finance but also shapes market actors’ perceptions of finance, and hence directly contributes to the reproduction and/or disruption of finance.
As mentioned in chapter 3, such a finding nuances the idea that “the success of ABS” depends on whether the underlying debtor “can access enough funds to repay the loan” (Soederberg 2014a: 44). If financial accumulation through securitisation is, undeniably, related to debtors’ payments (see above), such an analysis does not take sufficiently into account the processes of legitimation and representation that are essential on financial markets. The present findings, then, usefully complement historical materialist approaches to finance that rightly point to securitisation’s ties to underlying debtors but overlook that financial products take on value and allow profit-making through their circulation among various market actors who produce, and in turn are influenced by, discourses about finance.

**Offensive discursive strategies**

If defensive and often very ‘technical’ arguments about securitisation were relatively successful in rallying increasing numbers of regulators to the cause securitisation, the widespread legitimacy crisis of securitisation was such that these arguments were not always audible to policymakers outside financial circles. In other words, I find that the financial sector’s ‘expertise’ was less influential once the topic of securitisation was no longer a matter of ‘quiet politics’ (Culpepper 2011) and had entered the relatively more political realm of the European Parliament (see also below).

In this later phase of lobbying a more offensive narrative took centre stage. This discourse, which I analyse in chapter 7, was instrumental in rebuilding the policy legitimacy of securitisation and notably its legitimacy at the European Parliament. Its aim was not so much to defend securitisation against external criticism, but rather to portray securitisation as *necessary* to the struggling European economy. This idea of securitisation being a service to the ‘real economy’ took prominence as financial regulators elaborated what would become the STS regulations, and remained central in policy discussions between the publication of the STS proposals in September 2015 and their final approval in May 2017.

A distinctive feature of this narrative is its focus on households and SMEs, which epitomize the so-called real economy (Dannreuther 2007). The narrative is thus remarkably different from narratives analysed in chapters 5 and 6 which largely focus
on the inner functioning of finance. The real economy narrative, although it involves a technical and highly selective definition of securitisation as a ‘capital relief tool’, nonetheless relates securitisation both to socioeconomic objectives (e.g. economic growth and employment) and to more concrete entities in the economy (households and SMEs). This re-orientation toward more general economic concerns and more discrete actors was aimed at policymakers (and indirectly, the citizens who constitute the electorate of MEPs or the wider ‘audience’ of EU discourse and policy) who were either not familiar with finance or reluctant to hear about a return of self-serving finance in the post-crisis context. More specifically, such a narrative aimed at creating a clear connection between securitisation and positive socioeconomic outcomes of concern to policymakers and European citizens. To the extent that the STS proposals were eventually approved in spite of initial controversy, the narrative can be deemed quite successful.

Overall, the thesis provides a thorough analysis of the evolution of pro-securitisation discourse, and concludes that the combination of several types of discourse, both defensive and offensive, was key in rebuilding the legitimacies of securitisation. Through the case of post-crisis securitisation, I have thus illustrated the assertion that legitimacy is neither stable nor inherent to an object, but is rather constructed (notably through discourse) and evolves over time. I now turn to the importance of considering a discourse’s specific audience and context.

8.3.2. Legitimatio and discourse: contextual and relational

Here I summarise findings that support the argument that discourse and legitimacy are contextual and relational. Although I have analysed above the emergence of discourse in a loosely chronological way it is important to reiterate that these discourses overlapped and were often, if not always, used in conjunction with one another. What I emphasise through a chronological analysis is that specific contexts or time periods made certain types of discourses more audible than others.

First, changes in economic and financial conditions – and in particular the occurrence and evolution of crises – matter, although the way in which it does so is neither fixed nor self-evident. In this thesis I have shown that crises can be threats or opportunities
for the financial sector. In chapter 4 I outlined several ways in which the financial crisis and its consequences on financial markets remade securitisation a coveted financial technique. By contrast, I showed in chapter 7 that the intensity of the financial crisis, and the impression it made on citizens and policymakers, meant that ‘technical’ and ‘expert’ arguments presenting securitisation as useful financial tool were largely discredited, particularly among a certain category of policymakers at the European Parliament. However, I also show that it is through the prolongation and specific evolution of this same financial crisis that, paradoxically, securitisation could be rehabilitated. Indeed, the aggravation of the economic crisis in Europe deepened European policymakers’ (neoliberal) concerns over the supply of ‘financing’ to the stagnating European economy, so that arguments presenting securitisation as a tool facilitating bank lending caught the attention of a wide range of policymakers.

Second, I argue that discourse is relational in that its audience is key in determining whether discourse is influential. Indeed, a same discourse may be highly influential if it ‘makes sense’ to one specific audience, but it may not be to another. Hence, discourse cannot be analysed in and of itself, and throughout the thesis I have sought to take into account the kind of audience to which specific discourses are addressed. Theoretically, I modified Morgan’s (2010) typology of legitimacy. Instead of opposing ‘pragmatic legitimacy’ (the rewards that finance brings to its participants) to ‘political legitimacy’ (the legitimacy that policymakers derive from ‘controlling’ finance), I developed in chapter 3 a triple declination of securitisation’s legitimacy which I used throughout the thesis. Market legitimacy, regulatory legitimacy and policy legitimacy were defined as the legitimacy of securitisation in the eyes of market actors, regulators and policymakers respectively. Through this, I ensured that I never considered legitimacy as a characteristic attached to securitisation once and for all and which would ‘travel’ with it. In other words, each time I analysed securitisation’s legitimacy, I did so in relation to a specific ‘audience’, itself situated within wider the power structure of capitalism (see below).

Thus, a crucial reason why discourse becomes influential is found neither in the inherent power of ideas imbedded within it (as most constructivist IPE literature would have it) nor in the coherence of discourse in relation to ‘facts’ (as a positivist reading would suggest), but rather in the audience to which it is spoken, as well as the broader
financial, economic and political environment in which the discourse makes more or less sense to that audience. The present thesis thus contributes to a refined understanding and analysis of discourses in political economy, which goes beyond the limited analysis proposed in most constructivist and positivist accounts.

8.3.3. Financial ‘expert’ and the production of influential discourse

In addition to the above, I argued in chapter 2 that in order for discourse to be analysed rigorously as part of wider capitalist dynamics, it is useful to consider that discourse is always and necessarily produced by actors – and hence to examine who these actors are, where they are located in capitalism and whether that relates not only to the content of discourse but also to actors’ capacity (financial and otherwise) to produce and circulate discourse in the first place. Throughout the chapters of this thesis I have provided an empirical illustration of the theoretical insights developed by Bieler and Morton (2008), and I have put into practical application Knafo’s (2010, 2017) theoretical and methodological considerations on the role of agency in relation to structures. These considerations have informed the very formulation of the second part of RQ3 (‘what actors have produced discourse and with what intention?’) as well as the way I sought to address it.

For instance, I traced in chapter 6 the origin of the discourse opposing European to US securitisation, and identified the large transnational investment banks and credit rating agencies which have produced the data that underlie it. I highlighted that these actors are not “detached from social structures and context” (Horn 2009: 129); it is their privileged position within the capitalist system that grants them the financial resources, expertise, technology and social networks which allow them to produce aggregated and long-term data on securitisation, and further allow them to circulate it to the many financial firms and press offices with which they have connections. The analysis (in chapter 7) of the co-optation of the European SME lobby organisation by the financial industry equally benefits from an actor-centred perspective and a neo-Gramscian conceptualisation of discourse. Indeed, analysing the discourse produced about or by the European SMEs lobby in isolation from material inequalities inherent to capitalism would be of limited interest, as it would not allow to grasp the significance of the limited financial resources of the SME organisation compared to those of large
European banks. By contrast, I show that such an imbalance was decisive in pushing the SME lobby organisation to accept ‘deals’ with the financial lobby: the latter would organise expensive receptions and meetings ‘about SMEs’ with senior EU officials, and would hence benefit from the good reputation and image of SMEs, while the SME lobby gained access to policymakers at no cost. The present research thus contributes to a neo-Gramscian understanding of lobbying and discourse, which situates both within the power structure of capitalism.

To conclude, I have argued and showed in this thesis not only that discourse is contextual and relational, but also that this ‘context’ is not random and cannot be analysed on an ad-hoc basis (e.g. considering that every single aspect of the ‘context’ is of equal importance). Rather, the specific context of capitalism matters, and within it the power dynamics and structural inequalities that have taken on specific forms in the case of securitisation. Thus, the construction of legitimacy itself cannot be analysed outside of the structure of capitalism which entails sharp inequalities regarding who has authority and resources to produce and widely circulate discourse. Such a claim contrasts with recent literature that has looked at similar ‘legitimation stories’ related to finance (e.g. Morgan 2010; Orbal 2016; Keller 2015). Indeed, although these accounts provide interesting analyses of narratives and the moral values embedded therein, they tend to disregard capitalist dynamics and hence the power relations that allow specific actors to produce politically relevant discourse in the first place.

8.3.4. Discursive reversal and the depoliticisation of securitisation

I have argued in this thesis that the links between securitisation and debtors that have been fundamentally unchallenged by the crisis (see above) have however been discursively mobilised in particular and novel ways after the crisis. Securitisation, it should be clear by now, is a remarkable financial technique and market in that it is an integral part of banking practices and capital markets (additionally being one of the key drivers of financialisation) whilst being dependent upon cashflows generated in the ‘everyday economy’, that is outside of what is usually considered the realm of finance. These links have been exposed in an acute way through the financial crisis – the interruption of subprime mortgage payments had enormous consequences on the securitisation business and on global financial markets.
In subsequent years this dependency relation has been *discursively reversed* when securitisation was portrayed as a tool that *serves the needs* of SMEs and households. Three striking discursive effects of this narrative are worth highlighting again here. First, the financial accumulation directly achieved by banks and other financial firms able to structure, issue, value, trade or invest in commodified and securitised debt relations is, in a notable twist, presented as a solution to wider economic problems – which, partly, had been caused precisely by intensive financial accumulation through dispossession in the years leading up to the global financial crisis (Harvey 2005, 2014). Second, as already mentioned, in these narratives social relations of indebtedness are only implicit and always depoliticised in that the unequal and exploitative dynamics inherent to debt and further exacerbated by their securitisation are made invisible. Third, and relatedly, as the financialisation of everyday debt relations is called upon to restore ‘normal’ indebtedness in the economy, the very underlying debtors whose debt would be securitised are requisitioned to become the (unknowing yet profitable) fix necessary to restart the debt-led growth regime upon which the neoliberal European project depend.

To conclude, although the financial crisis that occurred ten years ago increased the salience of topics related to financial markets and their regulation, and although policy debates around securitisation came to encompass questions of economic stability and economic growth as they reached the more openly political site of the European Parliament, the content of discussions in fact constantly contributed to the *depoliticisation* of securitisation and finance. Indeed, the clearer demarcation between policymakers in favour or against a reviving of securitisation only constituted a very superficial polarisation. ‘Doubts’ over a reviving of securitisation remained circumscribed to its complexity, riskiness and self-serving purposes, and counter-arguments pointed to the fact that securitisation could facilitate indebtedness in the so-called real economy and thereby boost economic growth. The politics of debt and finance, but also critical perspectives on the endless pursuit of economic growth and full employment, have been almost absent from debates.

To conclude, I have answered the third subsidiary research question of this thesis by reasserting that the uncertain reproduction of securitisation through and after the
financial crisis benefits from being analysed both in historical material terms (i.e. looking at the functions performed by securitisation in relation to the conditions of post-crisis financialised capitalism in Europe) and in more discursive terms (i.e. considering the discursive representation of securitisation and actors’ perceptions and interpretation of their changing environment). On the latter point, I went beyond analyses that consider lobby narratives in a single dimension (i.e. as attempts to thwart regulation) and instead showed that discourses aimed at improving the market, regulatory and policy image of securitisation were also intended to further various specific ends, such as: deterring the implementation of restrictive regulation; enticing investors back to the market; allowing regulators to officially and publicly endorse securitisation; and convincing reluctant policymakers and notably address their worries about financial safety as well as their reputational and/or electoral concerns.

8.4. Answering research question 4

Why and in what ways have (parts of) the securitisation industry and European financial regulators and policymakers cooperated in the re-making of the European securitisation market, and more specifically in its legitimation?

This research question indicates that the thesis did not solely look at discourse, but also considered the role of the state in finance, and more precisely the way state and market actors interact and at times cooperate in the reshaping of finance. In other words, the aim of this thesis was not only to examine how discourses participate in the re-legitimation of securitisation, but also how such re-legitimation involves both state and market actors and what kind of relations, struggles and cooperation exist among and between these two sets of actors. The main argument sustained by the empirical findings of this thesis is that European state-like institutions have been deeply involved in the reproduction of European securitisation. First, I summarise and reflect upon the evolution of state-market interaction over the years 2007-2017. I argue that, overall, this evolution can be characterised as a deepening collaboration that went from ad-hoc cooperation in specific aspects of market-making, to a form of closely collaborative lobbying aimed at improving the broader legitimacy of securitisation. Second, I nuance the above claim by highlighting that such evolution and eventual close collaboration was not an imperative or a natural unfolding of political and financial developments, but
was rather the historically contingent outcome of struggles within the securitisation industry and within EU institutions, as well as between them.

8.4.1. Ad-hoc collaboration: a case of coinciding concerns

First, as I explain at length in chapters 4 to 6, the ECB has been a crucial player on the securitisation market and in its reshaping. Not only did the ECB provide incredible liquidity and support to European banks (thereby ensuring that the main issuers of securitisation remained afloat), the ECB, through changes to its collateral policy, also had a pivotal role in the transformation of the securitisation market into a retained market. The role of the ECB in turning securitisation into a ‘dormant’ (rather than collapsed) market, however, was not ‘thought out’ but was rather an unintended consequence of ECB attempts to solve the widespread liquidity and stability crisis of the European financial sector. Thus, the ECB’s unintended rescue of securitised banking (paving the way for its potential reproduction) illustrates Krippner’s (2011) argument that financialisation is a process that often results from state decisions not initially or consciously intended to foster such financialisation.

In chapter 5, I argued that the involvement of the ECB in securitisation became more active and direct. This was linked to the ECB’s own role as quasi-investor on the market and to concerns over its reputation as central bank in the neoliberal EMU system. Indeed, the ECB was (momentarily) taking on large amount of ABS on its balance sheet, and as such it wanted to both ‘know’ the market and ensure its liquidity. In the post-crisis context where the opacity of securitised products had been criticised by both regulators and investors who had massively left the market, knowing the market and repairing its liquidity required that serious changes be made to the transparency of securitisation. As large banks traditionally issuers of securitisation too were concerned with the market legitimacy crisis of securitisation, there were coinciding interests on the part of the industry and ECB in increasing the availability of information and data on securitisation. Thus, de-facto collaboration took place in the creation of the European Datawarehouse, a new and important market infrastructure through which loan-level data is created, standardised and shared among market actors including the ECB itself.
8.4.2. Strategic collaboration: regulators as lobby advisors

This ad-hoc collaboration was followed by a more strategic form of cooperation, i.e. cooperation done more explicitly in the name of repairing the market, regulatory and policy legitimacies of securitisation so as to make its reviving possible. I argued in chapter 6 that the ECB played an important role in the creation of another key market institution, the labelling and lobbying organisation PCS. The ECB was an informal sponsor of PCS. It contributed to convincing reluctant segments of the securitisation market (see below) to join the project. It did so through informal discussions (using its own influence as central bank) but also through lending office space that could be used to organise preparatory meetings on the topic. Thus, although PCS was officially a market-led initiative, the ECB in fact materially contributed to it and was a strategic ally in its creation.

Besides the ECB, EU financial regulators were also closely involved in the rehabilitation of securitisation (often in an individual rather than official capacity), as I have demonstrated in chapters 6 and 7. In chapter 6 I argued that regulators (as well as the ECB) acted as informal advisors to the securitisation industry. Aware of the political context of salience regarding ‘finance’ and of the negative reputation of securitisation, but also concerned about their own reputation should they openly support a practice that was still largely unchanged and associated to the US subprime crisis, these public actors advised the securitisation industry to operate a fragmentation within the European securitisation market. In so doing, they helped devise and put in place a new legitimisation strategy based on a fragmentation of the European securitisation market along the (constructed and contested, see 8.3 and below) lines of quality and simplicity.

Thus – and this is where I add to literature that highlights how financial lobby organisations adapt their strategy and narratives under conditions of salience (Woll 2013; Keller 2015; Orban 2016) – such a realisation that the high salience and deep legitimacy crisis required a change of tactics came about not ‘on its own’ but through interactions with policymakers, as it is central bankers and regulators interested in putting securitisation to use within market-based banking who advised lobbyists to change the focus of their discourse, and who supported (symbolically and materially)
the implementation of new tactics aimed at furthering the wider policy legitimacy of securitisation.

8.4.3. ‘Educat[ing]’ policymakers: a matter of joint lobbying?

A last phase in public-private interaction was examined in chapter 7. There, I argued that in seeking to ‘educate’ more sceptical (or expected to be so) policymakers about the benefits of securitisation, advocates of securitisation in the private and public sector were in fact undertaking a form of joint lobbying. As mentioned earlier, the content of this latest lobbying discourse was markedly different from previous narratives, and focused on the ‘real economy’. Importantly, it is not only the content that was different, but also the appearance that such lobbying took as well as the type of actors involved in it.

This phase of lobbying directed to members of the European Parliament (as the STS proposals were or were about to be discussed there) was called by interviewees an ‘educational process’. The shape of this lobbying, then, was less clearly antagonistic as both lobbyists and DG FISMA officials claimed that they were ‘training’ policymakers about finance. In claiming to bring ‘knowledge’ about securitisation, they reinforced the idea that such a topic was complex, technical and difficult to understand without external ‘expertise’. They also depoliticised the topic of securitisation by arguing that there was one ‘truth’ about it (i.e. securitisation could bring clear benefits to the European economy) that did not need to be debated or disagreed upon, but simply needed to be understood through education and learning. Thus, regulators added their voice to the wealth of lobby documents that emphasised the economic usefulness of securitisation and to the ‘training sessions’ organised specifically for parliamentarians.

This type of joint lobbying was particularly important in the context where large banks and the financial sector in general were very much considered to be responsible for the financial crisis of 2008 and hence for the economic and social consequences thereof. Thus, the representative bodies of these firms were not always well-received when they sought to lobby policymakers outside financial circles. Large banks and financial lobby organisations were aware of this lack of legitimacy, and for that reason the securitisation lobby sought to co-opt the European SME lobby and benefit from the ‘nice’ image of the SME. In light of this, the ‘educational process’ done with the help of financial
regulators was particularly useful to lobby more suspicious policymakers, as financial regulators did not suffer from such a discredit. In fact, they could put forward their ‘neutral’ expertise or even their intention to act in the public interest given their status as employees of the European Commission, thereby lending their own legitimacy to the rehabilitation of securitisation.

To conclude, considering the above and the evolution of legitimation discourse mentioned earlier (section 8.3), one can distinguish two phases of securitisation lobbying. During and right after the financial crisis, particularly in the years 2007-2009, pro-securitisation lobbying was first and foremost the result of coordinated efforts on the part of market participants and lobby organisations who, in the face of re-regulatory pressures, sought to defend a practice bringing key advantages to its users (chapters 3 to 5). Afterwards, pro-securitisation lobbying itself became more of a public-private endeavour, with key public actors informally joining in efforts to improve the image of securitisation and promote regulation that would support the market (chapters 6 and 7). This way, the present research findings contribute to political economy literature interested in lobbying, but also to interest group literature itself, and invites the latter to consider the possibility that lobbying itself be a public-private enterprise.

8.4.4. Ambivalence, struggles and confrontations

In this thesis, I have sought to uncover the recent history of the securitisation market and its regulation, and notably the history of public-private cooperation that has underpinned it. Two important points need to be emphasised in order to evade the impression that the attempted reviving of securitisation was a seamless and unavoidable process of state-market collaboration. First, although the distinction between private and public (market and state) actors employed throughout this thesis has been analytically useful to identify the different motivations, concerns and means of action that derived from the different positions held by these actors, I have also sought to open the black boxes that ‘the state’ and ‘the market’ often are. Thus, I have made distinctions among these two groups, and have highlighted that there were struggles and disagreements among them.
Regarding the public sector, I distinguished actors based on their function in the EU political system as well as their degree of ‘familiarity’ with finance, and highlighted the different roles they played alongside or in opposition to one another. For instance, chapter 7 clearly showed that regulators at DG FISMA were more closely aligned to the securitisation industry than they were to the European Parliament. Regarding the private sector, instead of talking about ‘markets’ or ‘finance’ I specified in chapter 1 and 3 that it was large, cross-border banks active on capital markets that made up the majority of the securitisation industry and hence sought to defend it.

I also showed that the securitisation industry comprised distinct segments and financial firms which did not always agree. For example, chapter 6 provides an account of the internal battle that began when some lobbyists (advised by regulators) sought to initiate a fragmentation of the market based on different levels of quality awarded to securitised products. Given that the quality criteria aimed to isolate pre-crisis securitisation and signify that post-crisis securitisation was simpler and less risky, it was expected that certain segments of the market (e.g. the CDO and synthetic securitisation businesses) were going to fall on the ‘low quality’ side of the new legitimacy boundary. These parts of the industry, then, were initially firmly against that strategy. It took the persuasive efforts of the ECB, as well as the aggravation of the liquidity crisis on the securitisation market, to overcome this reluctance. In other words, the state of the market and power relations therein were determinant in the implementation of changes based on novel legitimacy boundaries. Thus, in contrast to Orban (2016: 556) who aims to “demonstrate[e] how moral boundaries shape power relations and the political agenda” I showed how moral boundaries themselves were shaped through power relations before in turn influencing them and the political agenda.

Second, as I suggest in chapter 2, the involvement of state actors in the reproduction of the securitisation market was not an ‘imperative’, but was rather contingent on specific conditions at the time. In a context where liquidity is absolutely central to banking, financial markets and hence financialised capitalism and its accumulation dynamics (Langley 2010), the 2008 financial crisis and ensuing liquidity crisis was a key concern to regulators, and explains much of their motivation in relation to securitisation. Indeed, as securitisation was found in the crisis and post-crisis period to perform functions key to the liquidity and stability of the large European banks that dominate the EU banking
sector and operate European financial markets, central bankers and regulators were particularly interested in ensuring that securitisation remained a tool available to large banks. This required, most immediately, the return to ‘normal’ and liquid market and banking conditions, as well as the implementation of regulations aimed at avoiding further crises (themselves detrimental to financial accumulation but also to regulators’ own reputation as institutions tasked with ensuring such functioning). Insofar as regulators were aware of both the (negative) role that securitisation had played in the financial crisis, and the (positive) functions it could perform in relation to bank liquidity and capital, their position was ambiguous and translated into ambivalent decisions in relation to the regulation of securitisation. For instance, although European regulators announced and drafted regulations that increasing capital requirements and targeted investments in securitisations, many regulators were privately supportive of securitisation and actively attempted to rebuild its legitimacy, as I have shown in the empirical chapters of this thesis.

Overall, as mentioned in section 8.2 and throughout the thesis, securitisation was after the crisis a central yet *contested* tool at the service of European market-based banking, and as such securitisation was envisioned in contradictory ways by both market and state actors. Thus, through the conceptual framework develop in chapter 2 the thesis avoids the trap of a priori determining the state’s relation to finance. On the one hand, the state is not taken as the necessary reproducer of finance, contrary to what some functionalist and structuralist accounts within historical materialist literature seem to suggest, as Knafo (2012: 7) points out. On the other, the state is not seen as the natural and benevolent defender of the ‘public interest’ against finance, as interest group literature often implicitly posits. If the conceptual premise can very well be that state is *fundamental* to finance and its reproduction (Soederberg 2014a), it does not derive from such a premise that the state will *always* act according to abstractly and somehow omnisciently defined ‘needs’ of ‘finance’. In looking at specific EU state agents’ perceptions of finance, of the crisis, of securitisation and of their own mandates and interests in relation to these, this thesis has rather provided an empirically rich account that traces the struggles within, but also the opposition and significant cooperation between, market and state actors which together have contributed to reshaping securitisation and its legitimacies.
8.5. Limits and avenues for further research

In this final section I identify and reflect upon the limitations of this thesis, and discuss avenues for future research. First, the choice to focus on the EU level and to analyse in detail the involvement of four institutions of the EU (the European Commission, European Parliament, ECB and EBA) in the reshaping of securitisation meant that there was no scope to examine either the relations between the EU and its member states or those between the EU and international organisations such as the Basel Committee in charge of coordinating banking regulation at the global level. Related to this, I eventually chose to exclude the European Council from the analysis, in spite of having conducted interviews with an administrative member of staff at the Council and a civil servant representing France at the Council. There are two reasons for this. First, the STS regulations were approved rapidly by the Council, and although it would be interesting to further investigate the content of discussions there, the swift agreement was a sign that nothing extremely contentious happened there. From what interviewees revealed, the Council is not where DG FISMA and lobbyists had to focus most of their efforts.

Second, and most importantly, the Council represents the member states of the EU, and as mentioned the present research focuses strictly on the EU level. The European Council indeed is made of civil servants and national ministers, so that decisions made there are largely based on domestic considerations. Rigorously looking into the Council also posed a methodological issue; there are no minutes of Council meetings, and the two interviewees mentioned above felt strongly that they could not reveal confidential information, so that the detailed content of Council discussion was likely to remain obscure. Given that many sectors of finance implement a “multi-level strategy” (Mahoney and Baumgartner 2009: 1262) and lobby at the national and EU level, future research could fruitfully examine how national concerns over securitisation (notably in relation to ‘champion banks’ and ‘champion industries’ that may make use of securitisation such as car companies) have interplayed with the more global concerns of representatives of the securitisation industry at the European level.

Second, the method of interviews involves necessary limitations. Although in the present case I managed to interview some of the most senior regulators and lobbyists involved in securitisation, other potentially interesting interviewees could not be
reached. For instance, accessing ECB staff member proved difficult, especially given that time and financial resources constraints prevented me from organising a research visit in Frankfurt where the ECB is located. Other targeted interviewees declined to be interviewed (e.g. BusinessEurope) or never responded to requests (e.g. law firms). When interviews do take place, other elements can compromise their quality: the conditions can be difficult (a noisy environment for instance), interviewees can withhold information or lie, they can turn out to have only partial information, or they can reproduce discourse so similar to that of their official documents (e.g. lobby documents) that there is little added value in the interview. In spite of these limitations, the content of interviews proved absolutely irreplaceable in informing the analysis developed in this thesis.

Third, and finally, because I focused on the reviving of securitisation as a whole – and because of evident constraints in terms of the length of the final thesis – I could not include in the analysis new niche evolutions in securitisation such as the rise of auto loan (including subprimes) securitisation in the UK, the development of rental-backed securitisation notably in Spain, or the development of a securitisation market based on non-performing loans. Non-performing loans (NPLs) are ‘non-performing’ in that debtors have interrupted payments and/or the loans are fully in default. NPLs have been a pressing policy issue in Europe for the past three years, as bank supervisors and regulators have become aware of large volumes of NPLs on European banks’ balance sheets and fear this will endanger financial stability. The topic of NPL is of particular interest to critical political economy, and further research could ideally build on the present work in order to address it. This is, precisely, what I intend to do in my postdoctoral work, as I explain in the next paragraphs.

NPL securitisation: default-backed securities and the commodification of austerity

It is easy to see that the worrying increase in NPLs is correlated to EU-backed austerity measures implemented in Europe, particularly in so-called peripheral countries. Indeed, the 2018 list of European ‘high NPL jurisdictions’ (countries with the highest ratios of non-performing loans) is close to matching the list of countries that underwent the harshest ‘reform programmes’ following the Eurozone debt crisis: Greece with an distressing 45% ratio, Cyprus with 32% (down from 47 % in 2016, the highest ratio out
of 114 countries), Portugal 16%, Ireland and Italy both nearly 11%, Slovenia nearly 10% and Spain 4.5% (ECB 2018: 85). Thus, an evident line of research would be to look into this correlation. More precisely, focusing on non-performing consumer loans, one could look into how state budget cuts, welfare provision rollback and rising unemployment are related to household income, indebtedness and (in)capacity to make debt payments. A critical perspective could also interrogate the very statistics and assumptions that underlie the ‘NPL problem’ and the way it is framed in EU policymaking circles, i.e. wondering what the ‘financial stability’ that NPLs are said to endanger is and who it serves, what and who counts as non-performing, what the very appellation of performing means and does in terms of reproducing a depoliticised view of finance. A more distinctively feminist and post-colonial perspective on such links could further interrogate not only their class dimension, but also the gendered and racialised nature of loans defaults and debt payment enforcement through coercive and self-disciplining measures (LeBaron and Roberts 2010, 2012).

Considering that NPLs are also being securitised, such research could expand on the crucial point this thesis made regarding the connection (often ignored or rendered invisible) between the high sphere of finance and the daily life of ‘ordinary citizens’. Research on NPLs and its booming securitisation market could further evidence how, specifically, banks but also specialised financial firms profit from the austerity-induced crisis of social reproduction, the deepening of inequalities and intersecting systems of oppression that constantly operate, in and out of the household, to reproduce work and debt discipline. In other words, this research could build on the present findings regarding the securitisation of commodified debt to look into the further commodification, marketization and overall financialisation of austerity. Taken together, both works would contribute to a finer understanding of financialisation processes in Europe, connecting the financialisation of banking practices via securitisation to the financialisation of everyday life which provides the very raw material of securitisation.

In addition, building on the theoretical and empirical insights developed in this thesis, research on NPL securitisation could continue exploring the very definition and mechanisms at the heart of securitisation. In simple terms, how can default-backed securities be profitable to arrangers, issuers and investors? What does this new
dimension of securitisation adds to a historical materialist understanding of securitisation that sees it as inherently linked to the continuation of debtors’ payments? Finally, in the spirit of de-naturalising and politicising markets, the current development of the still nascent NPL securitisation market (and the business and investment opportunities they represent for financial firms) is also an ideal terrain for examining the creation of a market. In that respect, the present thesis lays the groundwork for a detailed examination of the ways in which state and market actors are involved, often in contradictory ways, in the construction of financial markets, as well as in the continued (discursive) legitimation that is vital to their reproduction.
Appendix

List of Interviews

*Not quoted directly in the thesis

Interview 01 – Finance Watch
Senior member of staff, Research, Finance Watch
Brussels, 17.03.2016

Interview 02 – Finance Watch
Senior member of staff, Public Relations, Finance Watch
Brussels, 18.03.2016

Interview 03 – Finance Watch
Senior member of staff, Coordination, Finance Watch
Brussels, 21.03. 2016

Interview 04 – SME lobbyist
Senior member of staff, European Association of Craft, Small and Medium-Sized Enterprises (UEAPME)

Interview 05 – Bank lobbyist*
Senior member of staff, Public Relations, German Association of Cooperative Banks & Other Cooperatives (Deutscher Genossenschafts- und Raiffeisenverband e. V.)
Skype interview, 19.04.2016

Interview 06 – GUE MEP
Member of the Confederal Group of the European United Left/Nordic Green Left (GUE/NGL), ECON Committee, European Parliament

Interview 07 – Council*
Member of staff, Working Party on Financial Services, European Council
Brussels, 22.04.2016

Interview 08 – DG FISMA
Senior member of staff, Financial Stability, Financial Services and Capital Markets Union Unit, DG FISMA, European Commission

Interview 09 – DG FISMA
Member of staff, Financial Stability, Financial Services and Capital Markets Union Unit, DG FISMA, European Commission
Interview 10 – DG ECFIN  
Senior member of staff, DG ECFIN, European Commission  

Interview 11 – DG FISMA  
Senior member of staff and junior member of staff, Financial Services Policy, Inter-institutional Relations and International Affairs Division, DG FISMA, European Commission  

Interview 12 – DG FISMA  
Senior member of staff, Macro-prudential Policy Unit, DG FISMA, European Commission  

Interview 13 – Investor lobbyist  
Senior member of staff, Asset Management and Investors Council (AMIC), International Capital Markets Association (ICMA)  
London, 03.05.2016

Interview 14 – Securitisisation lobbyist  
Senior member of staff, Prime Collateralised Securities (PCS)  
London, 03.05.2016

Interview 15 – Securitisisation lobbyist  
Senior member of staff, Securitisation Division, Association for Financial Markets in Europe (AFME)  
London, 03.05.2016

Interview 16 – Bruegel*  
Senior member of staff, Bruegel think tank  
Skype interview, 05.05.2016

Interview 17 – Pensions lobbyist*  
Member of staff, PensionsEurope  
Brussels, 06.05.2016

Interview 18 – Commission RSB  
Senior member of staff, Regulatory Scrutiny Board (RSB), European Commission  
Brussels, 10.05.2016

Interview 19 – Bank lobbyists  
Two members of staff, European Banking Federation (EBF)  
Brussels, 13.05.2016

Interview 20 – DG ECFIN  
Senior member of staff, Finance, Coordination with the EIB group, EBRD and IFL Unit, DG ECFIN, European Commission  
Brussels, 17.05.2016
Interview 21 – Securitisation lobbyist
Senior member of staff, Dutch Securitisation Association (DSA)
Brussels, 21.05.2016

Interview 22 – Bank lobbyists
Two members of staff, European Savings and Retail Banking Group (ESBG)
Brussels, 18.05.2016

Interview 23 – Bank lobbyist*
Member of staff, European Savings and Retail Banking Group (ESBG)
Brussels, 18.05.2016

Interview 24 – Commission Cabinet
Senior member of staff, President Jean-Claude Juncker’s Cabinet, European Commission
Brussels, 19.05.2016

Interview 25 – Bank lobbyists*
Two senior members of staff, Brussels Office, EU and European Affairs, Association of Danish Mortgage Banks
Brussels, 19.05.2016

Interview 26 – Covered bond lobbyist
Senior member of staff, European Covered Bond Council (ECBC)
Brussels, 20.05.2016

Interview 27 – Investor lobbyist
Senior member of staff, European Fund and Asset Management Association (EFAMA)
Brussels, 20.05.2016

Interview 28 – European DataWarehouse
Senior member of staff, European Datawarehouse (ED)
Skype interview, 23.05.2016

Interview 29 – Bank lobbyist
Senior member of staff, European Banking Federation (EBF)
Brussels, 23.05.2016

Interview 30 – S&D MEP
Member of the Socialists & Democrats (S&D) group, ECON Committee, European Parliament
Brussels, 24.05.2016

Interview 31 – Council (France)*
Financial services attaché, European Council
Brussels, 24.05.2016

Interview 32 – Finance Watch
Senior member of staff, Public Relations, Finance Watch
Brussels, 25.05.2016
Interview 33 – Securitisation lobbyist
Member of staff, Public Relations, Securitisation Working Group, Leaseurope-Eurofinas
Brussels, 26.05.2016

Interview 34 – S&D MEP
Member of the Socialists & Democrats group (S&D), ECON Committee, European Parliament
Brussels, 27.05.2016

Interview 35 – DG MARKT
Former senior member of staff, DG MARKT, European Commission
Brussels, 27.05.2016

Interview 36 – Securitisation lobbyist
Senior member of staff, Securitisation Division, Santander Global Corporate Banking
London, 01.06.2016

Interview 37 – EBA
Senior member of staff, Securitisation, Covered Bonds and Market Risk Division, European Banking Authority (EBA)
London, 01.06.2016
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