

Solvency II Developments

Updates on the new EU Commission proposal regarding the capital treatment of securitisations

The EU Commission (EC) has recently published a proposal¹ amending several areas of the Solvency II EU Directive. Our analysis focuses on developments related to securitisations and how the proposed changes would impact Solvency II standard model capital charges. Should the EC go ahead with the proposals, we foresee them coming into effect from 2027.

Key Takeaways:

- **Senior tranches of Collateralized Loan Obligations (CLOs), Commercial Mortgage-Backed Securities (CMBS) and Asset-Based Lending securitisations (AAA-rated)** will be charged a materially lower capital charge compared to the previous regime, effectively aligning them with BBB-rated Corporates.
- **Senior tranches of Residential Mortgage-Backed Securities (RMBS) and Auto ABS**, among other “STS” (Simple, Transparent and Standardized) asset classes, should also benefit greatly—the new Spread SCR ratios will become comparable to those of Covered Bonds.
- In our opinion, whilst **non-senior non-STS securitization tranches** capital charges have also been lowered, they will remain relatively unattractive from a Solvency capital standpoint. For instance, a AA-rated CLO tranche with a 5-year Weighted Average Life (WAL), could attract a capital charge similar to that of a European equity investment. A less timid approach by the EC commission could provide additional appeal to these investments.
- Overall, the EC proposal creates important incentives for insurers to re-consider the role of securitisations in their Strategic Asset Allocation, especially with regard to their AAA-rated building blocks.

Context

Solvency II, in its current shape, categorizes securitizations into two “buckets”: STS (Simple, Transparent and Standardized) and non-STS. The STS label identifies securitisations that meet a set of clearly defined criteria with regard to asset types, structures and reporting standards (e.g. RMBS, SME loans and Auto ABS). STS investments benefit from relatively low capital requirements. In contrast, non-STS securitisations (e.g. CLOs, CMBS and other Asset-Based Lending structures), are typically more complex and/or lack standardization. Non-STS securitisations are therefore subject to higher capital charges.

¹ COMMISSION DELEGATED REGULATION (EU) .../... amending Delegated Regulation (EU) 2015/35 as regards technical provisions, long-term guarantee measures, own funds, equity risk, spread risk on securitisation positions, other standard formula capital requirements, reporting and disclosure, proportionality and group solvency - Publications Office of the EU

The EC proposal introduces two categories to the Solvency II framework for non-STS by suggesting a different capital treatment for the senior vs. non-senior tranches of those securitizations, thus aligning the approach to that already in place for STS securitisations.

Ultimately, the EC proposal's goal is to re-calibrate standard formula Spread SCR charges, in order to better align capital requirements with actual risks, and foster insurance investments in the securitized space. We think this objective is clearly evident in the Solvency capital reductions proposed (more on this in the next paragraph), although we feel it introduces differing incentives for investors interested in higher- vs lower-rated securitization tranches.

EC proposal capital charges and investment implications

Under the EC proposal, an overall "lighter" Spread SCR is applied across all securitisations, with reductions ranging between -25% and -79% across different segments (see table below).

Illustrative Spread SCR pre- and post-EC proposal table

Spread SCR: current / proposed (% change vs current framework)	3-year weighted average life		5-year weighted average life	
	AAA	AA	AAA	AA
Corporate Bond	2.7%	3.3%	4.5%	5.5%
Senior STS	3% / 2.1% (-30%)	3.6% / 2.7% (-25%)	5% / 3.5% (-30%)	6% / 4.5% (-25%)
Non-senior STS	8.4% / 6% (-29%)	10.2% / 7.8% (-24%)	14% / 9.8% (-30%)	17% / 12.8% (-25%)
Senior Non-STS	38% / 8.1% (-79%)	40% / 9.9% (-75%)	63% / 13.5% (-79%)	67% / 16.5% (-75%)
Non-senior non-STS	38% / 22.2% (-42%)	40% / 27% (-33%)	63% / 37% (-41%)	67% / 45% (-33%)

Source: DWS, EU Commission draft delegated regulation, as of July 2025

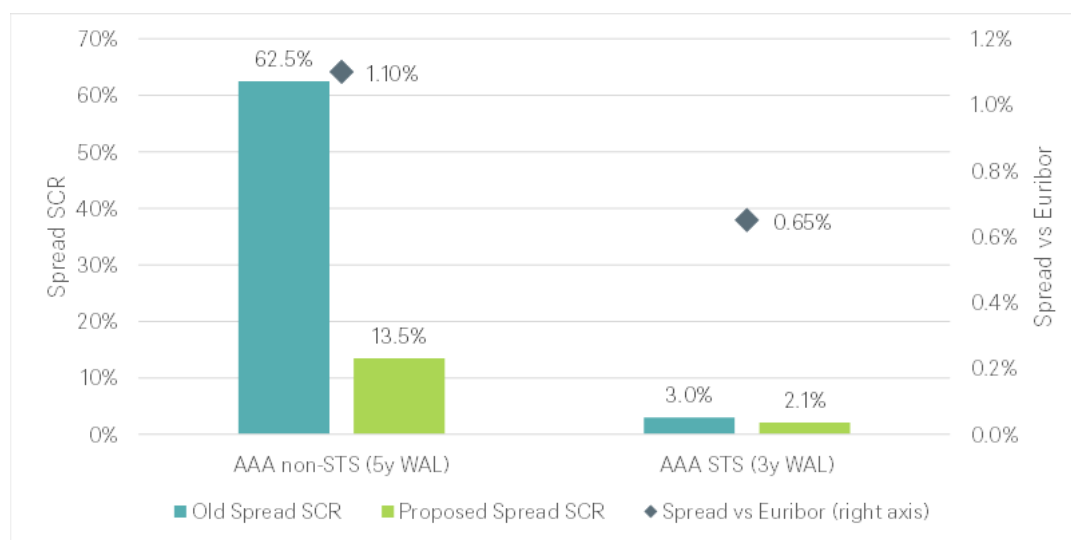
In our view, the EC proposal has the following investment implications:

- **Senior non-STS securitisations: Senior CLOs, CMBS and Asset-Based Lending structures** (typically with a AAA rating) will receive a Spread SCR similar to that of BBB corporate bonds, thus aligning with current market valuations (whereby 5-year WAL CLOs trade at 103bps swap spreads, on average about 20bps wider than BBB-rated corporate issuers). This would be a considerable improvement vs. the previous framework (see illustrative chart below), resulting in a -79% in Spread SCR, and an overall increase in capital efficiency;

For Institutional Investor and Registered Representative use only. Not to be shared with the public.

Further distribution of this material is strictly prohibited. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved. The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. No assurance can be given that any forecast or target will be achieved.

Illustrative Solvency Capital charges for AAA CLOs or CMBS (using AAA non-STS with a 5-year duration/WAL) and AAA RMBS or Auto ABS (using AAA STS with a 3-year WAL which is most common in the market)



Source: DWS, Solvency II article 178, EU Commission draft delegated regulation – Ares (2025)5843909, as of July 2025. For illustrative purposes. There is no guarantee the investment outcomes will be achieved.

- Senior STS securitisations:** Under the current regime, the capital treatment of AAA-rated senior notes is comparable to that of similarly-rated corporate bonds. The EC proposal further reduces these charges, and brings them in-line with those of similarly-rated covered bonds. Given the lack of Euro-denominated AAA-rated corporate paper, therefore, the proposed regulation would add an additional securitized option to the investor menu. The Spread SCR of AAA-rated STS investments has been reduced from 1% to 0.7%, and AA investments have gone from 1.2% to 0.9%. Considering a 0.65% Spread over Euribor valuation for a AAA-rated STS tranche, the proposed capital charges would potentially create incremental incentives for insurers to allocate to **senior tranches of RMBS and Auto Loans ABS**, among other STS instruments, thus strengthening the seemingly already robust case for their inclusion in insurance Strategic Asset Allocations (SAAs).
- Senior STS vs Senior non-STS tranches:** Senior STS investments would appear to become even more attractive than CLOs from a relative value standpoint, as the CLO capital charge will be 6.4x higher vs. a spread that is currently only ~2x as high.
- Non-senior, non-STS securitisations** will instead continue to be penalized. Whilst still benefiting from a Spread SCR reduction, they will retain a relatively high Spread SCR. For instance, a AA-rated CLO with a 5-year WAL will attract a 45% Spread SCR, higher than the capital charge of a European equity investment.

For Institutional Investor and Registered Representative use only. Not to be shared with the public.

Further distribution of this material is strictly prohibited. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved. The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. No assurance can be given that any forecast or target will be achieved.

Contributors

Paolo Gazzola
Head of Insurance
Advisory, -EMEA
ex-Germany

Cedric Chavot
Deputy Head of
Insurance Advisory,
EMEA ex-Germany

Bernhard Zahel
Senior Portfolio Manager-
Structured Finance & Private Credit

Important information

For Institutional Investor and Registered Representative use only. Further distribution is strictly prohibited.

Bond investments are subject to interest rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest.

Bond and loan investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Floating rate loans tend to be rated below-investment grade and may be more vulnerable to economic or business changes than issuers with investment-grade credit. Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest.

Loan investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. Floating rate loans tend to be rated below-investment grade and may be more vulnerable to economic or business changes than issuers with investment-grade credit.

Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities.

Mortgage-backed securities represent interests in "pools" of mortgages and often involve risks that are different from or possibly more acute than risks associated with other types of debt instruments. When market interest rates increase, the market values of mortgage-backed securities decline and volatility of the fund may increase. When market interest rates decline, the value of mortgage-backed securities may increase, but could expose the fund to a lower rate of return on investment.

Municipal securities are subject to the risk that litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest. The market for municipal bonds may be less liquid than for taxable bonds and there may be less information available on the financial condition of issuers of municipal securities than for public corporations.

All investments involve risk, including possible loss of principal. Private Credit, Direct Lending investments are "private" and may not be appropriate or available for retail investors in the U.S. Investments in Private Credit are subject to various risks including but not limited to market risk, general economic and market conditions, economic recession risk, and inflation/deflation risk.

Index performance is shown for illustrative purposes only and is not intended to represent historical or to predict future performance of any specific investment or DWS's. DWS products may have experienced negative performance over these time periods. Past performance is not indicative of future results. Investments are subject to risk, including possible loss of investment capital.

The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. Past performance or any prediction or forecast is not indicative of futures results. No assurance can be given that any forecast or target will be achieved.

The material was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. It is intended for informational purposes only and it is not intended that it be relied on to make any investment decision. It is for professional investors only. It does not constitute investment advice or a recommendation or an offer or solicitation and is not the basis for any contract to purchase or sell any security or other instrument, or for DWS and its affiliates to enter into or arrange any type of transaction as a consequence of any information contained herein.

Please note that this information is not intended to provide tax or legal advice and should not be relied upon as such. DWS does not provide tax, legal or accounting advice. Please consult with your respective experts before making investment decisions.

Neither DWS nor any of its affiliates, gives any warranty as to the accuracy, reliability or completeness of information which is contained. Except insofar as liability under any statute cannot be excluded, no member of DWS, the Issuer or any officer, employee or associate of them accepts any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission or for any resulting loss or damage whether direct, indirect, consequential or otherwise suffered.

This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS and/or its affiliates. Without limitation, this document does not constitute investment advice or a recommendation or an offer or solicitation and is not the basis for any contract to purchase or sell any security or other instrument, or for DWS to enter into or arrange any type of transaction as a consequence of any information contained herein. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Past performance is not a guarantee of future results. Any forecasts provided herein are based upon our opinion of the market as at this date and are subject to change, dependent on future changes in the market. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. Investments are subject to risks, including possible loss of principal amount invested.

For Institutional Investor and Registered Representative use only. Not to be shared with the public.

Further distribution of this material is strictly prohibited. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved. The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. No assurance can be given that any forecast or target will be achieved.

War, terrorism, sanctions, economic uncertainty, trade disputes, public health crises and related geopolitical events have led and in the future may lead to significant disruptions in US and world economies and markets, which may lead to increased market volatility and may have significant adverse effects on the fund and its investments.

DWS is the brand name of DWS Group GmbH & Co. KGaA and its subsidiaries under which they do business. The DWS legal entities offering products or services are specified in the relevant documentation. DWS, through DWS Group GmbH & Co. KGaA, its affiliated companies and its officers and employees (collectively "DWS") are communicating this document in good faith and on the following basis.

This document is for information/discussion purposes only and does not constitute an offer, recommendation or solicitation to conclude a transaction and should not be treated as investment advice.

This document is intended to be a marketing communication, not a financial analysis. Accordingly, it may not comply with legal obligations requiring the impartiality of financial analysis or prohibiting trading prior to the publication of a financial analysis.

This document contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. No representation or warranty is made by DWS as to the reasonableness or completeness of such forward looking statements. Past performance is no guarantee of future results.

The information contained in this document is obtained from sources believed to be reliable. DWS does not guarantee the accuracy, completeness or fairness of such information. All third party data is copyrighted by and proprietary to the provider. DWS has no obligation to update, modify or amend this document or to otherwise notify the recipient in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

Investments are subject to various risks. Detailed information on risks is contained in the relevant offering documents.

No liability for any error or omission is accepted by DWS. Opinions and estimates may be changed without notice and involve a number of assumptions which may not prove valid.

DWS does not give taxation or legal advice.

This document may not be reproduced or circulated without DWS's written authority.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject DWS to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

© 2025 DWS International GmbH /DWS Investment GmbH

Issued in the UK by DWS Investments UK Limited which is authorised and regulated in the UK by the Financial Conduct Authority.

© 2025 DWS Investments UK Limited

In Hong Kong, this document is issued by DWS Investments Hong Kong Limited. The content of this document has not been reviewed by the Securities and Futures Commission.

© 2025 DWS Investments Hong Kong Limited

In Singapore, this document is issued by DWS Investments Singapore Limited. The content of this document has not been reviewed by the Monetary Authority of Singapore.

© 2025 DWS Investments Singapore Limited

In Australia, this document is issued by DWS Investments Australia Limited (ABN: 52 074 599 401) (AFSL 499640). The content of this document has not been reviewed by the Australian Securities and Investments Commission.

© 2025 DWS Investments Australia Limited

In Latin America, for institutional investors only. Further distribution of this material is strictly prohibited.

For investors in Taiwan: This document is distributed to professional investors only and not others. Investing involves risk. The value of an investment and the income from it will fluctuate and investors may not get back the principal invested. Past performance is not indicative of future performance. This is a marketing communication. It is for informational purposes only. This document does not constitute investment advice or a recommendation to buy, sell or hold any security and shall not be deemed an offer to sell or a solicitation of an offer to buy any security. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer or its affiliated companies at the time of publication. Certain data used are derived from various sources believed to be reliable, but the accuracy or completeness of the data is not guaranteed, and no liability is assumed for any direct or consequential losses arising from their use. The duplication, publication, extraction, or transmission of the contents, irrespective of the form, is not permitted.

For Investors in Canada: No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence. This document is intended for discussion purposes only and does not create any legally binding obligations on the part of DWS Group. Without limitation, this document does not constitute an offer, an invitation to offer or a recommendation to enter into any transaction. When making an investment decision, you should rely solely on the final documentation relating to the transaction you are considering, and not the [document – may need to identify] contained herein. DWS Group is not acting as your financial adviser or in any other fiduciary capacity with respect to any transaction presented to you.

For Institutional Investor and Registered Representative use only. Not to be shared with the public.

Further distribution of this material is strictly prohibited. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved. The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. No assurance can be given that any forecast or target will be achieved.

Any transaction(s) or products(s) mentioned herein may not be appropriate for all investors and before entering into any transaction you should take steps to ensure that you fully understand such transaction(s) and have made an independent assessment of the appropriateness of the transaction(s) in the light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction. You should also consider seeking advice from your own advisers in making this assessment. If you decide to enter into a transaction with DWS Group you do so in reliance on your own judgment. The information contained in this document is based on material we believe to be reliable; however, we do not represent that it is accurate, current, complete, or error free. Assumptions, estimates and opinions contained in this document constitute our judgment as of the date of the document and are subject to change without notice. Any projections are based on a number of assumptions as to market conditions and there can be no guarantee that any projected results will be achieved. Past performance is not a guarantee of future results. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law. You may not distribute this document, in whole or in part, without our express written permission.

For investors in Bermuda: This is not an offering of securities or interests in any product. Such securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda which regulates the sale of securities in Bermuda. Additionally, non-Bermudian persons (including companies) may not carry on or engage in any trade or business in Bermuda unless such persons are permitted to do so under applicable Bermuda legislation.

The brand DWS represents DWS Group GmbH & Co. KGaA and any of its subsidiaries such as DWS Distributors, Inc. which offers investment products or DWS Investment Management Americas Inc. and RREEF America L.L.C. which offer advisory services.

© 2025 DWS Group GmbH & Co. KGaA. All rights reserved. 107179-1 (8/25)

For Institutional Investor and Registered Representative use only. Not to be shared with the public.
Further distribution of this material is strictly prohibited. Past performance is not indicative of future results. No assurance can be given that any forecast or target will be achieved. The comments, opinions and estimates contained herein are for informational purposes only and sets forth our views as of this date. The underlying assumptions and these views are subject to change without notice. No assurance can be given that any forecast or target will be achieved.