SRTs Are Not the New CRTs

A point that is still often overlooked: today's Synthetic Risk Transfers (SRTs) are fundamentally different from the Regulatory Capital Trades (REG CAPs) or Capital Relief Trades (CRTs) that dominated the market before and immediately after the Global Financial Crisis.

Having worked in this space both before and after the crisis, and now advising clients and investors, I see these as two distinct categories of instruments operating in very different market, regulatory, and strategic contexts.

Twenty years ago, banks faced both real and theoretical capital constraints. CRTs, built on the relatively simple logic of credit default swaps (CDS), served multiple objectives: P&L generation, arbitrage, and capital optimisation.

That market eventually lost momentum. In my view, three forces mattered most.

First, regulation became far less supportive of securitisations, for both originators and investors. Due diligence and compliance requirements drove execution costs and complexity materially higher.

Second, years of ultra-low rates pushed capital toward other trades and strategies.

Third, expected returns no longer matched the hurdle rates investors had in mind. The economics became less compelling, and the market shrank.

The real turning point came later, with the STS framework for on-balance-sheet synthetic securitisations under Regulation (EU) 2021/557 and, subsequently, Commission Delegated Regulation (EU) 2023/2175 on risk retention.

That is why today's SRTs should be read differently. They operate within a distinct prudential framework shaped by the Capital Requirements Regulation (CRR) and supervisory expectations, and they respond to a very different strategic need.

For banks, SRTs are tools to actively manage capital, optimise balance sheets, relieve RWA pressure from CRR3 and the final Basel III reforms, and support new lending. In short: they can be highly accretive to return on equity.

For investors, SRTs offer access to diversified credit portfolios that are otherwise hard to source or syndicate. They also provide a valuable diversification angle within broader credit underwriting strategies.

It is no surprise that more investors are now allocating to the asset class in search of differentiated yield and new product exposure for their clients.

This is not a revival or a new dress of the old market. It is a new banking paradigm. Embracing this viewpoint helps to dispel uncertainties and critiques surrounding SRTs.

The most advanced banks have already embedded SRT programs into their long-term capital planning, with growing operational consistency and increasingly standardised documentation. I expect more institutions to follow as the structured market continues to evolve and mature.