afme/Regulatory challenges for securitisation: have we reached the end of the beginning?

SCI 6th Annual Pricing, Trading and Risk Seminar

London, 7th December 2012

Richard Hopkin Managing Director, AFME

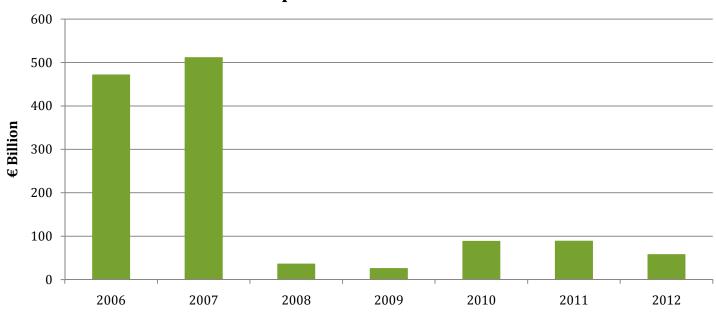


fme/ The Voice of Wholesale Capital Markets in Europe

- Represents some 170 global and European market participants
- Focus on wide range of wholesale markets, business and prudential issues, including topics previously covered by former European affiliates of the Securities Industry Financial Markets Association
- Main office in London with representation in Brussels
- An independent regional organisation with global integration through membership of the Global Financial Markets Association (GFMA), together with SIFMA in the US and ASIFMA in Hong Kong



European Placed Issuance



	2006	2007	20082	2009	2010	2011	20123
European placed issuance	471.3	511.2	35.6	25.5	87.9	88.3	57.7
European % retention	0	15%	95%	94%	77%	76%	69%
US issuance	2,455.80	2,147.10	933.6	1,358.90	1,276.70	1,013.72	1,121.45

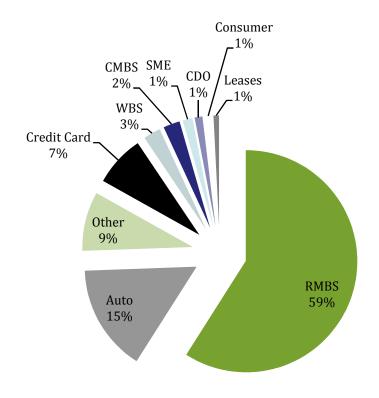
¹ Volumes include CDOs denominated in Euros

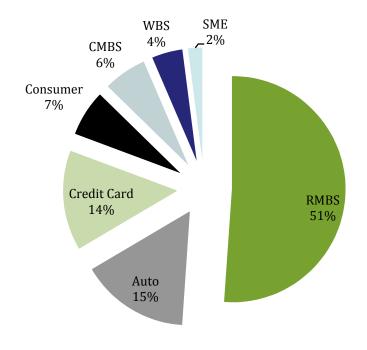
² Due to US originated and lack of information on certain CDO transactions, retained issuance may be in the range 89-95%. Retained volume assumes all Spanish issuance was retained

³ 2012 data includes the sum of Q1, Q2 and Q3 placed issuance

2011 Issuance by Collateral

2012¹ Issuance by Collateral

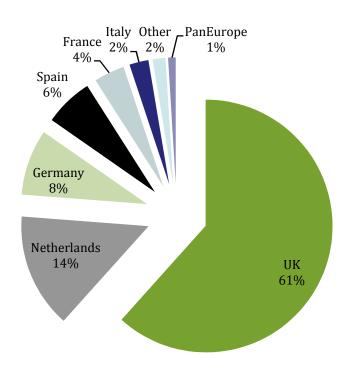


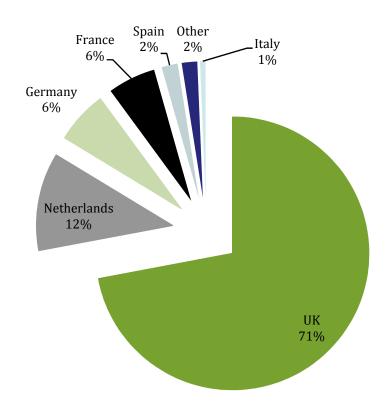


¹2012 data includes the sum of Q1, Q2 and Q3 placed issuance

2011 Issuance by Country

2012¹ Issuance by Country





¹2012 data includes the sum of Q1, Q2 and Q3 placed issuance

afme/ Global Regulatory Burden on ABS

Regulation	Effective Date	Advantages	Disadvantages
CRD Art 122a investor due diligence	Jan 2011	Forces less investor reliance on CRAs	Increases investor compliance process
CRD Art 122a retention for originators	Jan 2011	Forces originators to keep "skin in the game"	Increases investor compliance process; raises cost of securitisation
Solvency II	Jan 2013	Investor due diligence provisions are consistent with CRD Art 122a	Level of capital charges strongly discourages investment
CRD 3 complex resecuritisations	Dec 2011	Discourages bank investment in CDO squared	Affects other products
CRA rotation	ТВС	None	Negative signalling, could increase not reduce volatility of credit ratings
CRA Article 8(a)	TBC	Increased disclosure	Overlaps with existing CRD requirements; compliance uncertainty
Basel III and CRD 4 Net Stable Funding Ratio	2019	Encourages matched funding; incentivises securitisation	
Basel III and CRD 4 leverage ratio cap (33x)	2018	Encourages securitisation for highly levered banks	Discourages investment by capping leverage
Basel III and CRD 4 liquidity buffer restrictions	2015	Increases liquid assets as a means of improving financial stability	ABS investment may be considered eligible for liquidity book
ECB and Bank of England increased investor reporting, standardised definitions and prospectuses, cash flow models	2011/12	Improves investor confidence through improved data granularity and transparency	Increased IT and compliance costs for issuers; need for consistency
MiFID – post-trade price reporting changes	2014 [TBC]	Potential changes to pre- and post-trade reporting	Potential changes to pre- and post- trade reporting

afme/ Global Regulatory Burden on ABS

Regulation	Effective Date	Advantages	Disadvantages
SEC Reg AB II	TBD	Improves information disclosure (asset level, models), standardises structures, realignment of interests	Increased issuer compliance costs
Dodd-Frank	July 2010	Alignment of interest via retention, disclosure, R&W, reporting	Increased issuer compliance costs
US risk retention	ТВС	2011 NPR on new risk retention rules	Increased issuer compliance costs; need for consistency with the EU
CFTC Guidance regarding Cross-Border Application of US Swap Regulation	TBC	None	Increased SPV compliance obligations and costs

afme/what can we see, amid the winter's snow?

- Good news
- Work in progress
- Clouds on the horizon

afme/Glad tidings of great joy?

- CRD 4 liquidity buffers
 - cautious optimism re inclusion of at least some securitisations
- Solvency 2
 - Level 2 text prescribed 7% capital requirement per year of duration for AAA securitisations
 - Further consideration by EIOPA has been requested by the European Commission
- CRA 3
 - Mandatory rotation of CRAs now confined to only re-securitisations
- Prime Collateralised Securities launched and first label issued
- AFME Report on Agency for Business Lending ("ABLe")
- BoE Transparency Requirements: completed for RMBS
- Some more positive policy and regulatory signalling

afme/Three Wise Men

- "... for the Commission ,securitisation is considered as an efficient mechanism to increase the credit availability and lower the cost of credit ..." *Emil Paulis, European Commission, November 2011*
- "[The securitisation market is] ... a very important market that deserves to repair its damaged reputation and restore investor confidence." *Steven Maijoor, Chairman of ESMA, February 2012*
- "Europe needs a healthy securitisation market and we are confident that [the PCS] initiative, alongside regulatory changes, will revitalise the market as a source of funding for the real economy." *Francesco Papadia, formerly of the ECB and Chairman of PCS, November 2012*

afme/God Rest Ye, Merry Gentlemen? Not yet.

- CRD 4 Article 412
 - Severe treatment of liquidity lines to ABCP Conduits under the LCR
- Article 122a risk retention
 - Transposition into Article 395 of CRD 4
 - Will the CEBS Guidelines and Q&A continue to be available?
 - Implementing Technical Standards to be issued by the EBA in Q1 2013
- CRA 3 Article 8(a)
 - New disclosure regime for securitisations
 - Interaction with existing legislation unclear
 - ESMA to examine, and propose guidelines
- ECB and the European DataWarehouse
 - Loan-by-loan disclosure requirements
 - European DataWarehouse formally launched November 2012
 - Website: http://www.eurodw.eu/
- FSA CP 12/19
 - Restrictions on the retail distribution of unregulated collective investment schemes and close substitutes

afme/In the Bleak Midwinter

- "Shadow "Banking consultation by the FSB
 - Banks' interactions with shadow banking entities
 - Money market funds
 - Other shadow banking entities
 - Securitisation
 - Securities lending and repos
- CFTC Rules on commodity pools and swaps
 - Requiring securitisation SPVs to register as "commodity pool operators"
- Basel proposals for new risk-weightings for ABS
 - "The Committee's objective is to ... [make] capital requirements for securitisation products simpler, better reflective of risk, less reliant on credit ratings and without significant cliff effects," Stefan Ingves, Chairman BCBS 15th November 2012
- Continuing negative perceptions
 - "Securitisation enables long-term credit (e.g. loans) to be financed by short-term funds (e.g. ABCPs)." FSB, consultation on Shadow Banking, November 2012
 - "In many respects, securitsiation was designed to circumvent the bank capital framework (Basel I) in place before the crisis"

afme/Ding dong merrily on high!

Credit performance of European securitisations mid-'07 to Q4-'11

	Original Issuance	- 4 - 4
_	(EUR billion)	Default Rate (%)
Europe		
Total PCS eligible asset classes	957.8	0.09
Credit Cards	33.2	0.00
RMBS	753.0	0.07
Other consumer ABS	68.7	0.13
SMEs	103.0	0.20
Only senior tranches to be PCS labelled, the default rate for which	ch is zero, like Covered Bonds	
Total Non-PCS eligible asset classes	736.8	3.41
Leveraged loan CLOs	71.3	0.10
Other ABS	71.0	0.16
Corporate Securitisations	67.7	0.22
Synthetic Corporate CDOs	255.1	1.99
CMBS	165.2	3.76
Other CDOs	77.8	6.09
CDOs of ABS	28.9	30.47
Total European securitisation issuances	1,694.7	1.53
Covered Bonds	901.4	0.00
Total European issuances	2,596.1	1.00
Select US asset classes		
Credit cards	295.4	0.00
Autos	198.2	0.04
Student loans	266.8	0.22
RMBS	3,255.0	12.65

Source: Standard & Poor's

afme/where do we go from here?

Key problems

- Funding the "real" economy
- Consistency and clarity
- Time for reflection
- Global co-ordination
- Market incentives

Ways forward

- Positive engagement by the industry must continue
- Cut through "headline" risk and stress the facts
- Encourage non-bank investors to return
- Seek more positive regulatory signalling
- Insist on a level playing field
- Incentivise, do not discourage, issuance and investment in securitisation



The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

London	Brussels
St Michael's House	3rd Floor
1 George Yard	Square de Meeûs 38 -40
London EC3V 9DH	1000 Brussels
United Kingdom	Belgium

Tel: +44 (0) 20 7743 9300 Tel: +32 (0) 2 401 8724

www.afme.eu