SCI

Capital Relief Trades Awards

2022


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London, October 2022

The capital relief trades sector is once again expected to reach record issuance volumes this year, amid challenging market conditions more broadly. Indeed, significant risk transfer activity has thrived in 2022, with transactions being customised to address an environment of higher inflation and interest rates. The STS synthetics label has also played its part by providing additional momentum to deal flow, broadening the issuer base and helping to legitimise synthetic securitisation.

The innovations and innovators recognised in SCI's Capital Relief Trades Awards this year are certainly a testament to an industry that continues to blaze a trail. From the first deal to benefit from capital relief in Hong Kong to the debut synthetic STS securitisations of shipping loans and positive impact commercial real estate, the utility of SRT technology is demonstrated in abundance.

The awards Roll of Honour on page 5 of this special edition of SCI underlines the vibrancy of the market, in terms of new asset classes, jurisdictions and issuers. Our congratulations to the deserving winners and honourable mentions of this year's awards, as well as to the CRT industry as a whole for its many achievements over the last 12 months.

We would like to wholeheartedly thank everyone who submitted a nomination for the awards. Our thanks and appreciation also go to our awards advisory board – comprising Holger Beyer of Alantra, Pratik Gupta of BofA Securities and Olivier Renault of Pemberton Capital Advisors (each of whom was recused from judging an award that they could be nominated for) – for its invaluable input. Final selections for the awards were made by the SCI editorial team, based on the pitches we received, colour from other market participants and our own independent reporting.

The qualifying period for the awards was the 12 months to 30 September 2022.

Looking to the next 12 months, it will be interesting to see the extent to which SRT is embraced by policymakers as a way of tackling the challenges of financing economic activity in the current difficult market environment, as well as addressing ESG concerns. SCI will certainly continue to keep you abreast of these developments and more!

All the best for the year ahead,

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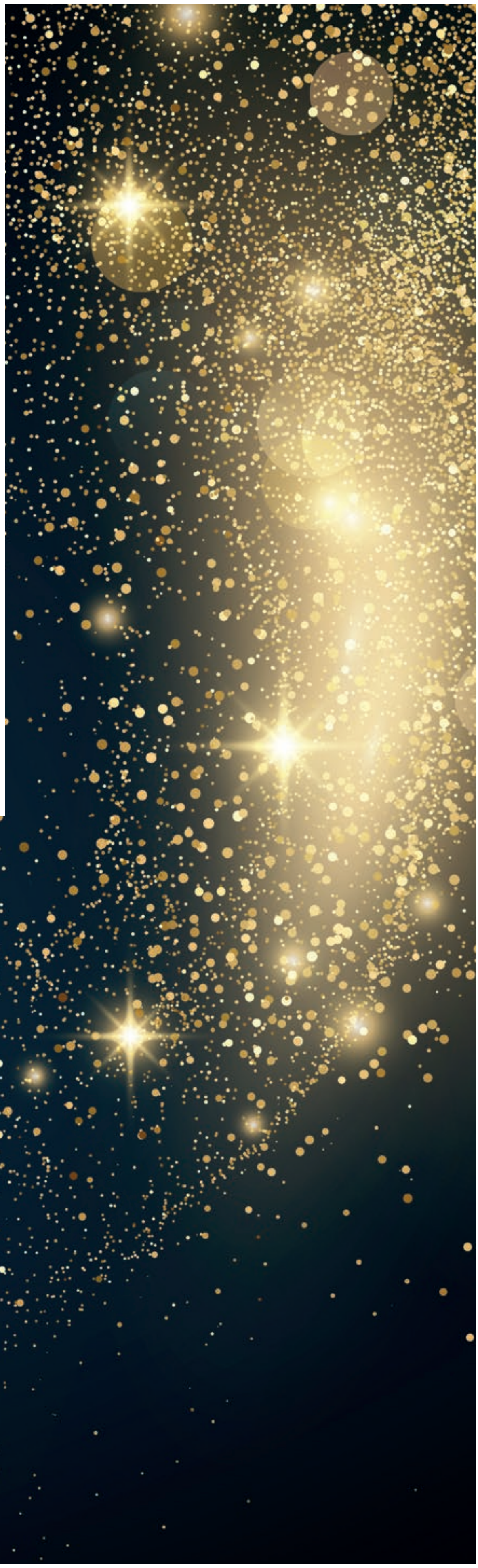


SCI Capital Relief Trades Awards 2022 Roll of Honour

TRANSACTION OF THE YEAR
Winner: Project Triton (Alantra, CRC, Piraeus Bank)
Honourable mention:
Project K2 (mBank, PGGM, UniCredit)

NORTH AMERICAN TRANSACTION OF THE YEAR
Winner: Algonquin 2022-1 (BMO)
Honourable mention:
Western Alliance Bank capital call deal

IMPACT DEAL OF THE YEAR
Winner: FCT Greendom 2021 (AXA IM, Societe Generale)
Honourable mention: Project Frida II (IFC, Santander)

INNOVATION OF THE YEAR
Winner: Sumeru IV (Alecta, PGGM, Standard Chartered)
Honourable mention: Elvetia 14 (Credit Suisse)

INVESTOR OF THE YEAR
Winner: PGGM
Honourable mention: Whitecroft Capital Management

CREDIT INSURER OF THE YEAR
Winner: RenaissanceRe
Honourable mention: Liberty Specialty Markets

ISSUER OF THE YEAR
Winner: Santander
Honourable mention: Barclays

ARRANGER OF THE YEAR
Winner: UniCredit Bank
Honourable mention: Alantra

BROKER OF THE YEAR
Winner: The Texel Group
Honourable mention: Aon

LAW FIRM OF THE YEAR
Winner: Simmons & Simmons
Honourable mention: Clifford Chance

CONTRIBUTION TO NORTH AMERICAN CRT
Winner: BMO
Honourable mention: Guy Carpenter

PERSONAL CONTRIBUTION TO THE INDUSTRY
Winner: Jessica Littlewood, Clifford Chance

TRANSACTION OF THE YEAR
WINNER: PROJECT TRITON

"SPECIALIST KNOWLEDGE IS REQUIRED TO LEND IN THE SHIPPING SPACE; THEREFORE, SUCCESSFULLY EXECUTING AN SRT IS AN EXCITING DEVELOPMENT"

Holger Beyer, Alantra

Piraeus Bank's Project Triton has won the Transaction of the Year category in SCI's Capital Relief Trades Awards for being for the first synthetic STS securitisation of performing shipping loans in Europe. The US$700m deal – which was arranged by Alantra – paves the way for banks to manage the risks and capital requirements of ship lending more effectively going forward.

Shipping finance has had a volatile performance history in the past, with the bail-out post-financial crisis of various large lenders in the sector. In a sector where the downside appears to outweigh the upside, the value for a bank of being able to transfer risk and manage its capital position efficiently is even greater, according to Alantra md Holger Beyer.

Triton represents the second-ever shipping CRT, following a Citi transaction from 2013. As such, opening up a new asset class was a further challenge.

"Specialist knowledge is required to lend in the shipping space; therefore, successfully executing an SRT is an exciting development. But it did not start as an easy proposition, given that there is little overlap between shipping industry experts and SRT investors," observes Beyer.

Fortunately, the investor in Triton – Christofferson, Robb & Company – combines an understanding of shipping finance with a considerable track record in the SRT market. "CRC has in-house shipping expertise and we were able to demonstrate that within the firm's macro view on the industry, Piraeus runs a solid lending business which is risk-managed properly," Beyer explains.

He acknowledges that Triton would have been a much harder sell if the investor hadn't had expertise in shipping. On the other hand, for regular shipping investors, SRT is a strange proposition – they typically either lend directly or buy non-performing loans and are not used to relying on banks' underwriting processes. Furthermore, if defaults occur, they are used to controlling the recovery process.

"When assessing SRT applications for the asset class, regulators are keen to understand the underlying risk – with an emphasis on correlation, given that senior retained tranches have much lower risk weights," notes Beyer. "As more deals are completed in the space, we'd like to see investors strengthen their expertise in shipping. By building on this momentum, shipping will hopefully become more relevant and we can create a new sector in the SRT market."

Any single sector portfolio is affected by correlation between loans in respect of PDs and LGDs, which are an amplified function of global economic conditions. Although there is some diversification across bulk, container and tanker vessels, compared to SME or corporate portfolios, shipping deals are less diversified.

The transaction involved Piraeus entering into a financial guarantee, with an SPV acting as the protection seller, buying protection from losses on a mezzanine tranche (from 2.5% to 10%). The risk on the other tranches was retained by the bank, together with 5% of the total portfolio to comply with regulatory risk retention requirements.

The protection seller issued CLNs to the investor and used the proceeds to purchase eligible collateral to secure its obligations under the guarantee and the notes. The deal features a two-year revolving period, allowing Piraeus to replenish amortised loans, and a time call option after 4.8 years. The transaction uses pro rata amortisation that switches to sequential if certain performance triggers are breached.

The originator has received approval that the transaction transfers significant risk and meets the STS criteria, resulting in a reduction of circa €400m in risk weighted exposure amounts. The deal was completed within eight months and settled in June 2022.

Auld Partners, a boutique shipping finance firm based in London, acted as Alantra's expert advisor on the transaction.

HONOURABLE MENTION: PROJECT K2 (mBANK, PGGM, UNICREDIT)

In recognition of the deal being the largest-ever securitised portfolio in Central and Eastern Europe (at PLN9bn); the first-ever STS synthetic securitisation from Poland; the first Polish SRT trade with a credit-linked note issued directly by a bank; and the first transaction in the Polish market executed entirely with a private sector investor.

NORTH AMERICAN TRANSACTION OF THE YEAR
WINNER: ALGONQUIN 2022-1

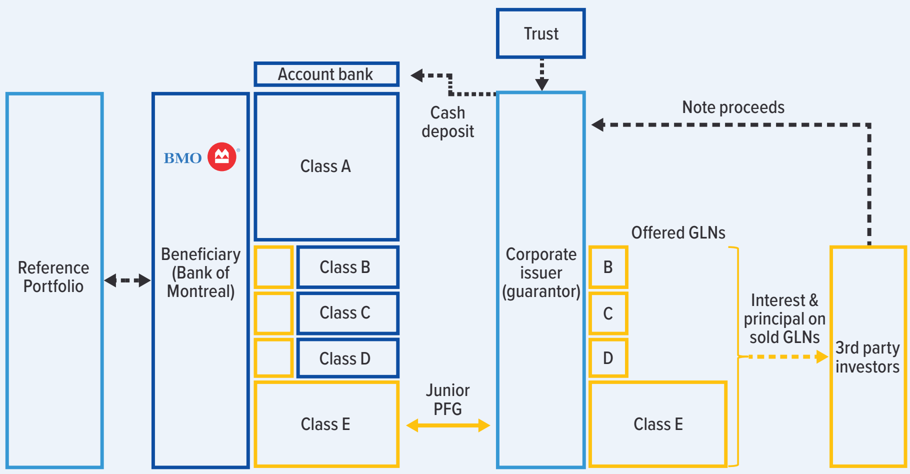
Bank of Montreal's (BMO) footprint in the CRT market is both extensive and well-established. But of the four programmes it operates, it would not be unfair to call Algonquin the jewel in the crown.

First unveiled in 2020, the platform recorded the largest US dollar-denominated CRT transaction in 2022. It was not a difficult choice to recognise Algonquin 2022-1 as North American Transaction of the Year.

Algonquin securitises US and Canadian SME corporate loans. The bank has a strong foothold in six Midwest American states – Illinois, Indiana, Wisconsin, Minnesota, Missouri and Kansas, and most of the US borrowers are to be found in these states.

The reference pool for the inaugural Algonquin offering of 2022, which was brought to market in April, comprised US$7.5bn in commercial credit facilities. The guarantee linked notes had a face value of US$532m, making it the biggest deal that BMO's risk and capital solutions arm – which is responsible for regulatory capital relief trades – has ever brought to the market. Despite the traumatic macroeconomic and geopolitical climate, headlined by the war in Ukraine, the strong response to this deal allowed it to be upsized by another US$2.5bn within only a couple of weeks.

Transaction structure



Source: BMO

"The pricing of this deal reflects what investors like about our platform. It's a North American portfolio, with a very good track record, which allows BMO to outperform its peers from a credit standpoint. That's what created the high demand for the transaction," explains Jean-Francois Leclerc, head of risk and capital solutions at BMO.

> "THE PRICING OF THIS DEAL REFLECTS WHAT INVESTORS LIKE ABOUT OUR PLATFORM"

In August, Algonquin 2022-03 – which securitised another US$4.4bn – was brought to the market. This makes US$14.4bn in total for the year to date. Bank of Montreal's other three CRT platforms contributed only US$4bn in total in 2022, underlining the importance of Algonquin to the issuer.

Not only is the dimension of the programme striking, the pricing that the initial offering in April was able to achieve is equally eye-catching. The unrated E tranche, with an attachment point of 0.0%, was priced at SOFR plus 850bp. Given the differential between SOFR and Libor, this tranche offered a slightly thinner yield to investors than the initial Algonquin offering brought to the market in 2020, despite this year's market turmoil and the spread widening that had affected all fixed income assets.

The E tranche attached at 0.0% and detached at 6.50% and, with a notional tranche size of US$487.5m, comprised 6.5% of the portfolio. Elsewhere in the capital stack, the low triple-B rated D tranche had an attachment point of 6.5%, a notional tranche size of US$187.5m and was sold at SOFR plus 355bp.

Further up the stack, the single-A rated C tranche attached at 9%, was worth 2% of the portfolio and yielded SOFR plus 225bp. The double-A rated B tranche attached at 11%, had a notional of 1.3% of the portfolio and offered SOFR plus 130bp.

While the issuer was not able to divulge how much capital this trade has freed up, it comments that it "is an efficient tool to manage RWA and support capital planning. However, while the initial forays into the market this year were able to shrug off the general softening of prices seen throughout asset classes, the most recent 2022-03 was not as fortunate and levels were about 100bp wider than the April deal, according to reports.

"In H1 we saw no widening. Since then, we have – but in line with the overall market, or a bit better. This reflects that fact that our portfolio is focused on North America, compared to some of our peers that have more of a European focus," says Leclerc.

A mix of investors, from pension funds to specialist CRT buyers, is drawn to the Algonquin programme. BMO now has regular participation from a pool of investors numbered in the mid-teens, says Leclerc.

"Ultimately, what attracts investors is BMO's risk culture and performance from a credit standpoint. This explains the strength of our programme. Investors are supportive because they see our track record through the cycle," he concludes.

HONOURABLE MENTION: WESTERN ALLIANCE BANK CAPITAL CALL DEAL

In recognition of the deal being the first of its kind in the US and, given the growing popularity of the asset class in Europe, likely to be the forerunner of many more of its kind.

IMPACT DEAL OF THE YEAR
WINNER: FCT GREENDOM 2021

Societe Generale's FCT Greendom 2021 has won Impact Deal of the Year in this year's SCI Capital Relief Trades Awards. Greendom marks the first CRE-backed transaction to be structured in compliance with the new STS synthetic securitisation regulatory framework introduced to assist in post-Covid-19 crisis recovery.

> "CONSIDERING THAT THE POOL WAS NOT VERY GRANULAR, WE PROVIDED A HIGH LEVEL OF DISCLOSURE WITH INVESTORS"

The transaction references a €1bn portfolio of more than 50 high-quality commercial real estate facilities, a decidedly unusual underlying asset class for synthetic securitisations. "Considering that the pool was not very granular, we provided a high level of disclosure with investors – investors which we also had to identify as suitable, who were able to perform some kind of fundamental credit analysis on a line-by-line basis, so they could acquire very good knowledge of the portfolio and price it accordingly," explains Pascale Olivie, director in asset-backed products at Societe Generale.

The €1bn underlying portfolio was originated by the bank across multiple jurisdictions and with a 4.5-year weighted average life and weighted average loan-to-value of just over 50%. "The first challenge was to select a portfolio and achieve a minimum level of granularity and diversification – which was quite challenging, considering the specific nature of the asset class, even though we have a large book of commercial real estate," states Olivie.

The transaction was supported by long-standing SG partner AXA IM, as investor, with SG operating as originator, sole arranger and sole lead manager. Greendom's credit protection is also structured as a funded financial guarantee (repackaged into notes issued by a French FCT) and covers a junior tranche of the portfolio.

The bank retains the senior tranche, as well as an unhedged economic interest of 10% of each reference obligation. Additionally, the trade features a revolving period of one year, and during this period the bank will be able to include other eligible assets in the structure to compensate for the natural amortisation of the portfolio.

"When you consider all of the features of the pool (asset type, asset country), it is quite diversified, and it was a discussion we had and approach we share to demonstrate that by the end of the day this portfolio is rather diversified," explains Olivie.

She continues: "Typically each asset repayment is backed by the asset itself, as well as the cashflow from the tenants, so I would say because of the assets themselves and this cashflow structure the portfolio was quite diversified."

The portfolio itself was comprised of 36% warehouse, 35% office, 17% retail, 4% residential, 2% hotel and 6% accounting for other assets. "The portfolio is representative of our books. There is a significant amount in Europe and in France, but also the US and elsewhere," says Olivie.

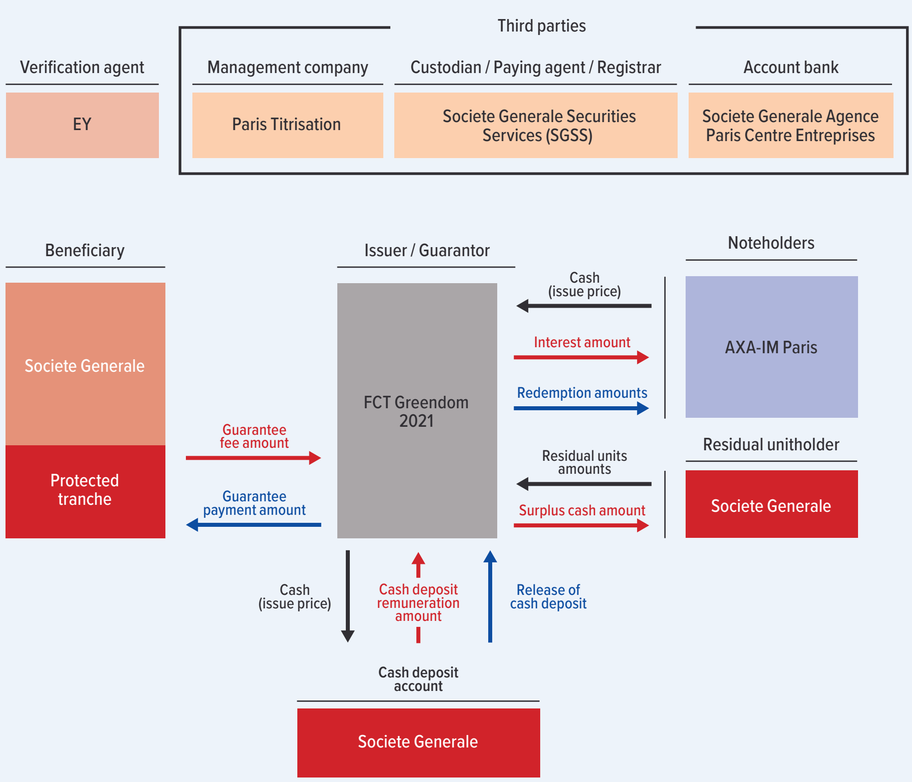
She adds: "We also try to be representative of the asset type – which is why we have a significant amount of warehouse, office and retail. Again, the idea being to set up a risk distribution solution on the core book of our commercial real estate business."

By transferring credit risk, Greendom frees up additional lending capacity for new origination. With the transaction, SG is able to increase its involvement in the financing of Positive Impact Commercial Real Estate (PI CRE) loans, committing to ambitious volumes of PI CRE underwritten by SG by the close of this year.

The transaction also features a pricing adjustment mechanism, which works to incentivise the bank to reach the objective and demonstrates willingness of the investor to foster the development of PI CRE loans.

"We had to identify the right partner and design the right portfolio," expands Olivie, "which is why this was a bilateral trade, because we needed to find a partner who had both good ▶

Deal structure



Source: Societe Generale

Pascale Olivie, Societe Generale

"THE INNOVATIVE TAP FEATURE ALLOWS SG TO RELOAD THE PORTFOLIO ABOVE THE INITIAL AMOUNT OF THE PORTFOLIO, OFFERING VISIBILITY TO THE BUSINESS FOR PORTFOLIO RAMP-UP"

knowledge of the underlying asset class and of our books, so they could really appreciate the quality of our underwriting in CRE and quality of each deal itself."

Olivie continues: "The logic of the risk-sharing partnership was very strong in this trade, and very different from the usual SME transaction, which is based on statistics, is very diversified and is on an undisclosed basis."

The trade also features an innovative tap feature, with a €500m tap once already seen in Q2 earlier this year – increasing the €1bn portfolio to €1.5bn. The feature proportionally increased the size of the deal under the same economic conditions – subject to shared agreement with the investor to the additional loans.

"The innovative tap feature allows SG to reload the portfolio above the initial amount of the portfolio, offering visibility to the business for portfolio ramp-up," comments Olivie.

SG has operated in the risk transfer space as a consistent and innovative issuer for many years – expertise which Greendom reflects as an innovative transaction fully embedding ESG strategy to meet the sustainability commitments of the bank. Greendom is a landmark transaction achieved by Societe Generale with sustainable use of proceeds: with the additional headroom for new production freed up with this transaction, the bank is committed and incentivised to increase its involvement in the financing of PI CRE loans. Positive Impact CRE loans include those that support access to affordable housing, greater access to education, and loans financing buildings with high levels of energy efficiency.

HONOURABLE MENTION: PROJECT FRIDA II (IFC, SANTANDER)

In recognition of the deal being the first emerging markets SRT with a climate risk mitigation objective. The PLN2.4bn Polish consumer loan transaction was the IFC's first SRT investment in Poland and its first where the underlying is not SME loans; it also contained a novel bilateral option to upsize the portfolio.

INNOVATION OF THE YEAR
WINNER: SUMERU IV

Alecta, PGGM and Standard Chartered have won the Innovation of the Year award in this year's SCI Capital Relief Trades Awards for their Sumeru IV transaction. The synthetic securitisation references a global portfolio of corporate loans and is the first transaction to benefit from capital relief in Hong Kong.

Exposures to Asian markets have always been a major part of Standard Chartered's CRT portfolios, given the bank's footprint. Although the lender sought capital relief from the group's regulator – the UK Prudential Regulation Authority (PRA) – throughout these years, the bank is now also focused on capital optimisation for its key subsidiaries. The decision by Hong Kong supervisors to implement the Basel framework when Standard Chartered first started exploring this transaction was a significant step in the right direction, but there were two areas that required further discussions.

First was SRT demonstration via self-assessment. Standard Chartered was able to address this by leveraging its existing platform, track record and extensive experience from the group's programme.

Second, Hong Kong regulations did not recognise the SPV as the protection provider. But this was subsequently changed via the Banking Rules 2020, which are effective from 30 June 2021.

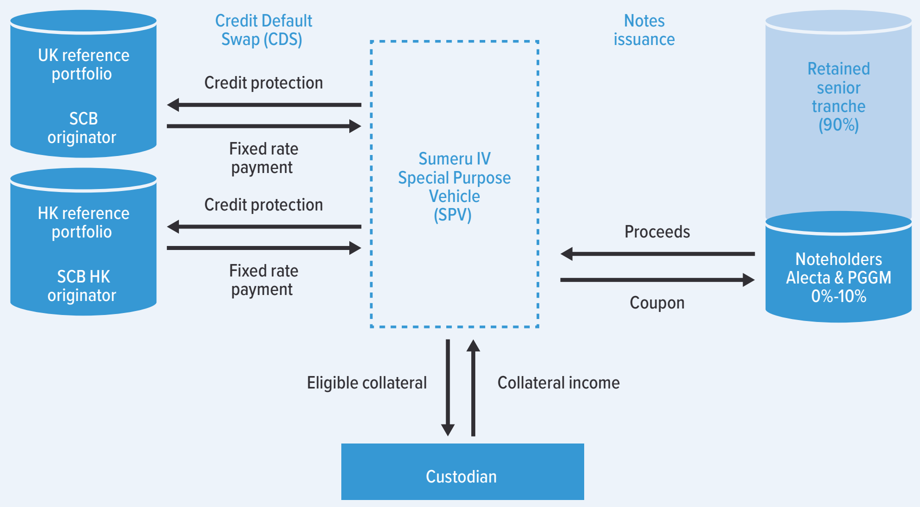
The Banking Rules rendered Sumeru IV's innovative structure possible. A typical synthetic securitisation involves one CDS that enables the bank to claim capital relief. The resulting legal entity is also the ultimate owner of the credit risk and due to ringfencing of entities that hold the domestic or regional lending books, this generally means two things.

First, a transaction only references exposures from the lending book of that entity, which may not be large or diversified enough to support a soundly structured transaction by itself. This then leads to exposures from that lending book not being used in synthetic ABS deals.

Second, a transaction referencing multiple lending books can only receive capital relief at a group level, but not at a subsidiary level where some of the loans are held. Hence, Standard Chartered CRTs have historically been executed at the group level to hedge a highly diversified portfolio.

However, Sumeru IV features a dual CDS structure that enables Standard Chartered to extend the same benefits of the hedge to its Hong Kong subsidiary. In particular, the structure consists of two CDS contracts but just one special purpose vehicle.

Deal structure



Source: Standard Chartered

> "THE PRESENCE OF ONLY ONE SPV RATHER THAN TWO IS EXPLAINED BY THE FACT THAT THE REFERENCE POOL IS STILL JUST A SINGLE GLOBAL PORTFOLIO"

The presence of only one SPV rather than two is explained by the fact that the reference pool is still just a single global portfolio. The structure has the flexibility to add other locations going forward if needed and it doesn't pose additional risks for investors, since it's materially the same as a single CDS structure.

Standard Chartered concludes: "Due to the collaborative efforts and an innovative structure, Sumeru IV has not only achieved the desired outcome, but also became a market-leading model for other jurisdictions. Thus, we can proudly say that it is an innovative transaction with great success for the CRS market in Hong Kong and we are hopeful that there will be more CRS transactions benefitting from capital relief in Asian countries going forward."

HONOURABLE MENTION:
ELVETIA 14 (CREDIT SUISSE)

In recognition of the deal being the first triple-tranche offering – created to address investor appetite – with each tranche in a different format: CLN, bilateral insurance policy and insurance policy with a club of insurers. In addition, both the junior mezz and senior mezz were offered to insurers; the deal also involved a leveraged first loss piece.

INVESTOR OF THE YEAR
WINNER: PGGM

Even by its own very high standards, the 2021/2022 awards year was a busy one for the winner PGGM. The firm further enhanced its reputation as one of the most experienced and largest active end-investors in credit risk sharing (CRS) transactions worldwide. PGGM saw record high transaction activity in the year, while continuing to innovate and engage with regulators.

Since September 2021, PGGM has closed 12 transactions, including eight transactions in 2022, for a total amount of €2.2bn capital and €33.6bn of underlying loan notional. Five of those transactions were labelled as STS, in which PGGM invested €1.1bn with a total underlying loan notional of €19.8bn.

This represented record high transaction activity for the firm in any 12-month period and included transactions representing large investments with long-term strategic partners, as well as new partnerships. Further, many were considered landmark transactions in their own right, such as:

- The K2 transaction with the Polish mBank, which resulted in the first STS synthetic securitisation from Poland;
- BBVA's inaugural project finance transaction – Verano I, referencing around one-third of renewable assets;
- Sumeru IV with Standard Chartered Bank – the first transaction to achieve capital relief in Hong Kong;
- Resonance 7 with BNP Paribas – the largest STS transaction to date;
- Sisu – the first Nordic STS transaction with Nordea;
- The first STS synthetic securitisation by Landesbank Hessen-Thüringen Girozentrale (Helaba).

"We find it important to be there for our risk-sharing partners, both in good and bad times," says Barend van Drooge, deputy head credit & insurance linked investments at PGGM. "We have demonstrated that during the global financial crisis of 2008, the Covid-19 crisis and we continue doing so during the current situation of inflationary pressures and geopolitical unrest as well."

He continues: "We manage to do this by staying close to the way the bank manages its loan book and by agreeing realistic constraints on the eligibility and portfolio criteria to that effect. Furthermore, we incorporate macro-economic expectations into our modelling to adequately price the risk. We have thus managed to find an acceptable balance between our interests and those of our risk-sharing partners and agreed mutually workable transactions."

The firm believes that its mission is to apply its investment expertise to build and maintain a portfolio that generates attractive risk-adjusted returns under different economic scenarios, while providing diversification to the overall portfolio of its sponsor, healthcare pension fund Stichting Pensioenfonds Zorg en Welzijn (PFZW). To achieve this mission, PGGM follows three core investment tenets:

- Risk sharing in core activities of market leaders to ensure continued dedication and focus on prolonging success.
- Being a reliable risk-sharing partner that values alignment of interest to ensure continuing prudent origination and risk management by the bank through the cycle.
- Bilaterally negotiated investments of significant size, resulting in high-quality transactions at low cost.

"The CRS mandate fits within our broader ambition to contribute to a sustainable financial system. By engaging in CRS transactions, we help the banking sector to manage credit risk efficiently, and the financial sector by reducing systemic risk," van Drooge explains. "This is particularly relevant at times of the uncertain post-pandemic economic recovery, which is put under pressure by high inflation, disrupted supply chains and the war in Ukraine."

On average, PGGM's CRS portfolio has returned over 11% per annum since its inception and is well in excess of its long-term return target. Unsurprisingly, sponsor PFZW is highly supportive of the CRS strategy, given that it has realised an equity-like return with lower volatility than public equity, while generating stable cashflows. The pension fund views CRS as both diversifying and complementary to its other investments.

Indeed, the CRS mandate has demonstrated resilience through past economic challenges, including the GFC and Covid-19 pandemic.

Barend van Drooge, PGGM

The strategy performed well during downturns in public markets, especially at times when the common stock of PGGM's risk-sharing partners was under pressure.

At the same time, PGGM continues to focus on regulatory engagement. As a pension fund asset manager, it has a long-term investment horizon and consequently needs to try to ensure the long-term viability and sustainability of the CRS market.

The firm believes that this objective is only achievable if a balance is found between the long-term interests of banks, investors and regulators. As a result, it has for many years been a vocal advocate for harmonisation of practices, appropriate standards for healthy transactions and transparency, through active dialogue with regulators, industry bodies, banks and investors.

Looking ahead, PGGM's commitment to market innovation and growth is unlikely to diminish. "Given our size and presence in the CRS market, we contributed greatly to shaping the market in areas such as transaction structure, robustness and due diligence standards," says van Drooge. "We will continue to do so and actively engage in such areas as industry forums and regulatory debates."

HONOURABLE MENTION: WHITECROFT CAPITAL MANAGEMENT

In recognition of the firm's continuing consistent, disciplined and stable performance, even in difficult market conditions, implementing a unique investor offering with one of the most diverse portfolios in the capital relief trade sector. Whitecroft has built on its track record of building innovative investment products by partnering with Copenhagen Infrastructure Partners to launch a climate-friendly SRT fund dedicated to renewable energy infrastructure, aimed to raise capital for what the firm believes to be a rapidly developing capital relief market.

CREDIT INSURER OF THE YEAR
WINNER: RENAISSANCE RE

RenaissanceRe has won the Credit Insurer of the Year category in SCI's CRT Awards, following another year of growth and achievements. The Bermuda-based reinsurance firm consistently impressed and continues to stand at the forefront of innovation in the capital relief trades industry.

Building on close to 30 years of experience and industry leadership in reinsurance solutions, the firm assumes risk on an unfunded basis, complementing cash market participants. RenaissanceRe works primarily with insurance companies (both diversified and monoline), banks and government agencies across the globe to match its capital with risk.

Offering first-class advice and products, the firm targets clients who are considering new and innovative risk transfer programmes. The credit business includes trade and financial credit, surety bonding, political risk, project finance, mortgage and bank capital solutions. Furthermore, the firm's geographical span and reach continues to grow, having transacted with multiple banks across Europe and Asia.

"The SRT market has definitely gone back to being healthy, buoyant and busy. What sets us apart in this market is our innovative and distinctive problem-solving approach. We have structured deals on different layers within the capital stack, writing equity and junior mezz tranches, with various features (sequential/pro-rata amortisation; back book with or without ramp-up features/replenishment, etc)," notes Fiona Walden, svp and global head of credit at RenaissanceRe.

She adds: "We have also completed trades on a bilateral, 'club deal' and broadly syndicated basis, and have participated alongside both unfunded and funded investors. We not only write a geographically diverse portfolio, but also an asset-class diverse portfolio, completing transactions across large corporate loans, SME loans, income-producing real estate, residential real estate and capital call facilities."

Walden also emphasises RenaissanceRe's institutional and technical investment in the credit team. "We possess an in-depth understanding of the transactions, which stems from a broad base of talent and expertise within the team. We made the decision to invest heavily in the credit team through resources and tools."

She continues: "We have grown substantially as a broader portfolio over the last few years and also within SRT, demonstrating the support of our executive management and RenaissanceRe's integrated system. This means we can deliver an educated view to our clients and make sure we have a two-way feedback loop with them as to what we think of a particular risk, inevitably allowing us to have superior risk selection and deliver efficient execution to clients. In the current ever-changing economic conditions, this deep understanding of risk will be imperative."

> "WE HAVE STRUCTURED DEALS ON DIFFERENT LAYERS WITHIN THE CAPITAL STACK, WRITING EQUITY AND JUNIOR MEZZ TRANCHES, WITH VARIOUS FEATURES"

The team includes former tax attorneys, investment bankers, software developers, actuaries and reinsurance and claims expertise. Such multifaceted expertise within the team brings different perspectives to the table when collaborating to solve risk challenges.

The firm further boasts a leading position in the US structured credit sector, specifically the private mortgage insurance credit risk transfer space, with a market share twice that of its closest competitor. Such prime market position and eminence is key in a growing jurisdiction for CRT.

"When we look at our overall book, we are market leaders in mortgage CRT in the US, being the largest reinsurer of US private mortgage insurers. Our hope is that we can build on this momentum in the US and SRT gets to a point of being in favour and being invaluable to US banks," Walden notes.

Additionally, year-to-date, the firm has deployed significant credit risk transfer limit to the GSEs and represents a top three market for the GSEs.

Fiona Walden, RenaissanceRe

Moving forward, as the SRT market becomes more mature and stable, the firm believes the market for non-STS transactions will remain sizeable. "It is a very valuable tool for banks to have; however, we are not at a stage where all transactions bear the STS designation. In an ideal world, there would not be this distinction with an STS between unfunded and funded; however, we are not seeing it as an obstacle in our ability to transact with our clients," Walden concludes.

HONOURABLE MENTION: LIBERTY SPECIALTY MARKETS (LSM)

LSM started focusing on CRT transactions over five years ago and over the last 12 months has had its largest capacity deployment period. Transactions closed across various asset classes (including SMEs, large corporate and CRE) and attachment points (including junior mezz), all of which represents LSM's contribution to the development of CRT market. LSM has reached many milestones over this awards period, from aggregate capacity deployed to new structures, and continues to develop further solutions that will aim to help CRT issuers going forward.

ISSUER OF THE YEAR
WINNER: SANTANDER

Santander has won the Issuer of the Year category in this year's SCI Capital Relief Trades Awards. The bank continues to be one of the largest and most innovative originators in the CRT space globally, with a total of 12 capital relief transactions issued by the group in the 12 months to September 2022 from a record seven countries.

Indeed, this year the bank executed trades referencing €17.6bn of Santander's global asset portfolio, placing €1.3bn of first loss and junior mezzanine risk with investors. All Santander transactions have been structured, arranged and placed by Santander CIB – and despite the challenging wider market backdrop, Santander CIB adapted placement strategies and continued to place three further transactions since May 2022.

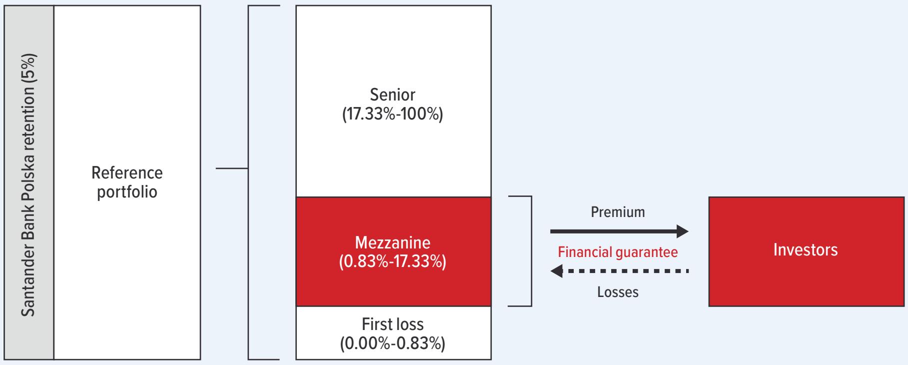
High volumes in 2022 were accompanied by innovative transactions. One such transaction was Project Frida II, an emerging market SRT.

The synthetic securitisation references a PLN2.4bn portfolio of consumer cash loans granted by Santander Bank Polska (SBP) to private individuals in Poland. Protection was provided by the International Finance Corporation (IFC) against a mezzanine tranche via an unfunded financial guarantee, with SBP retaining a small first loss tranche.

The protection enables SBP to optimise its capital and allows for further lending to the real economy. It is a unique transaction in that it was the first-ever SRT in emerging markets with a climate risk mitigation objective.

With the support provided by the IFC, SBP has undertaken to deploy the freed-up capital to issue at least US$600m-equivalent of new green lending. Specifically, the capital freed will support additional climate finance activities, involving renewable energy and water efficiency, as well as green building projects.

Frida II transaction structure



Source: Santander

Additionally, it offers the bilateral option to upsize the reference portfolio and capital structure by an additional PLN400m within the one-year replenishment period, allowing the issuer to maximise year-end capital benefits.

Another notable transaction issued by Santander was Syntotta Three, due to its ramp-up features. The ramp-up period allows Santander Totta – the bank's Portuguese subsidiary – to add up to €200m of new assets in the first six months of the deal.

David Saunders, executive director at Santander CIB, notes: "2022 posed challenges to the SRT business. However, our team has proven that with the right people, tools and expertise, we can continue to innovate to help optimise capital and increase lending to the real economy."

Moreover, the bank has been further expanding the investor base, having attracted over 90 investors in the space – with over two-thirds being first loss or junior mezzanine investors.

Finally, Santander has been actively advocating for regulations that help grow and support the securitisation market across the EU and UK. The bank's most notable contribution in this regard was the STS framework for synthetic securitisations.

> "OUR TEAM HAS PROVEN THAT WITH THE RIGHT PEOPLE, TOOLS AND EXPERTISE, WE CAN CONTINUE TO INNOVATE TO HELP OPTIMISE CAPITAL"

David Saunders, Santander CIB

HONOURABLE MENTION: BARCLAYS

In recognition of the bank executing a record 15 CRTs during the awards period, representing US$2.4bn of equity tranches and US$28bn of portfolio notional, including its first high-LTV mortgage deal and largest Colonnade deal. In 2021, the bank achieved the largest market share of any issuer. All deals utilise its sophisticated CRT platform, featuring automated infrastructure, market-leading quantitative tools, dedicated bank resources and global investor coverage.

ARRANGER OF THE YEAR
WINNER: UNICREDIT BANK

UniCredit Bank has won the Arranger of the Year category in SCI's Capital Relief Trades Awards, in recognition of the volume and scope of the deals it executed during the awards period. The bank arranged a record 15 deals over the last 12 months across five jurisdictions (Bulgaria, Germany, Italy, Poland and Spain) and four asset classes (auto, large corporate and SME loans and lease receivables), representing an underlying portfolio of over €20bn.

Five of these deals were inaugural transactions – for a top tier Italian bank, Banco Sabadell, Banca Popolare di Sondrio, BulBank and mBank – with UniCredit also acting as sole arranger on five out of the 15 EIF European Guarantee Fund (EGF) trades issued during the awards period. In total, the bank supported 10 clients, seven of which were external to the UniCredit Group.

"SRT is an important product for us. We began building our franchise years ago, with the aim of supporting third-party clients to become more involved in the space. This is possible because we have a large and unique team that is committed to sharing our knowledge of and expertise in the sector," observes Andrea Modolo, md and head of securitisation, asset-backed solutions, Italy at UniCredit.

He continues: "Over the last 12 months, we've concentrated on broadening the franchise outside of our main markets of Italy and Germany and across different asset classes. Importantly, this enabled us to bring SRT technology to a number of new counterparties."

One highlight was arranging mBank's inaugural deal in Poland (which has received an Honourable Mention in the Transaction of the Year category, see page 6). Sized at PLN8.9bn, Project K2 is the largest-ever securitised CEE portfolio, the first-ever STS synthetic securitisation from Poland, the first Polish SRT trade with a CLN issued directly by a bank and the first Polish SRT trade executed entirely with a private investor (PGGM).

Other highlights include a landmark Italian regional bank EGF deal (for BP Sondrio), the first synthetic securitisation for a Bulgarian bank and the first synthetic securitisation executed without supranational involvement for a top tier Italian bank (€2.2bn of Italian large corporate exposures) and Banco Sabadell (the €1.5bn Galera II). "We wanted to demonstrate that SRT is not limited to national champion banks, but can be adapted for smaller banks too. As with any new project, the challenge for first-time issuers is having the teams and processes in place that are completely focused on the transaction," says Modolo.

He adds: "Transparency about what will happen and why you're asking for certain information is helpful for gaining traction internally. Being smaller can allow greater efficiency, but it also means that typically there are fewer resources to allocate. Consequently, it's crucial to keep on track in terms of the transaction timeline."

Modolo notes that the STS synthetics framework is helpful in terms of providing regulatory guidance and reference points for new entrants to the CRT market. However, he points out that not all originators have the desire to meet the STS standard, given that internal policies are necessary with which to maintain and control eligibility.

Looking ahead, Modolo expects the CRT market to continue to grow, driven by the entrance of new participants, jurisdictions and potentially new asset classes. He predicts that over the next 12 months, the bulk of issuance will be made up of large corporate deals and more concentrated pools, for which investors can do their own due diligence. Other asset classes and smaller, more granular pools may begin emerging in 2H23.

Andrea Modolo, UniCredit

"Investors are looking for diversification and are open to seeing new jurisdictions and increasing their capacity. They see value in synthetic securitisations compared to other instruments and invest opportunistically. At the same time, incumbent originators still have other portfolios that they are interested in securitising," explains Modolo.

"OVER THE LAST 12 MONTHS, WE'VE CONCENTRATED ON BROADENING THE FRANCHISE OUTSIDE OF OUR MAIN MARKETS OF ITALY AND GERMANY"

He concludes: "Rather than being perceived as an alternative to capital instruments, SRT is now recognised as an additional tool to be used by banks, depending on the market opportunity. During the Covid crisis and the recent volatile market conditions, the CRT market remained open and effective – in some cases, with the EIF and in others, with private investors – unlike the market for some other instruments."

HONOURABLE MENTION: ALANTRA

In recognition of the firm executing five deals in the awards period, including: the first synthetic shipping securitisation in Greece and first shipping-only CRT since 2013; the first-ever synthetic STS mortgage securitisation; and the first synthetic STS mortgage securitisation in Greece. The firm maintains a key strategic goal to support new CRT originators through a hands-on approach across all work streams and developing innovative structural solutions.

BROKER OF THE YEAR
WINNER: THE TEXEL GROUP

The Texel Group has won the inaugural Broker of the Year category in this year's SCI Capital Relief Trades Awards. Texel is a specialist credit and political risk insurance broker with offices in the UK, Europe, Asia and the US and a dedicated focus on arranging non-payment insurance (or credit insurance) for some of the world's largest European, US and global banking groups, financial institutions, corporates and trading companies. The firm has a history of setting precedents with the insurance market since it was founded 25 years ago, applying credit insurance to new and emerging asset classes and via innovative risk transfer structures, including some of the first-ever applications of unfunded risk transfer to synthetic securitisations.

As a broker, Texel was an early mover in the synthetic securitisation space, hiring Alan Ball as head of its structured and bespoke solutions (SBS) team in 2018 with a specialist focus on SRT transactions. "Texel is extremely client-focused and outcome-driven and this means we often look to innovate or develop the insurance market to meet the evolving needs of our clients," explains Ball.

He continues: "The first synthetic securitisations were executed on a bilateral basis between a single bank and a single (re)insurer. We knew, however, that for our clients to fully realise the benefits of the insurance market in this area, there would need to be an actual 'market' – with multiple participants who could ultimately offer our clients the benefits of scale, pricing competition, counterparty diversification and diversity of risk appetite. Our goal was therefore to develop such a market."

In developing the market, Texel has achieved a number of milestones, including:

- closing the first-ever synthetic securitisation to be syndicated among multiple insurers;
- significantly growing the market capacity by introducing more than five major global insurers to their first-ever SRT transactions (which have since gone on to support multiple transactions in the SRT space); and
- developing bespoke programme documentation for their clients to help streamline the execution process with (re)insurers.

Some new or less experienced users of credit insurance may not be familiar with how an insurance broker fits into the transaction process for SRT. "The first point to note is that we, as a broker, act in the best interests of our banking clients – our sole goal is to achieve the best possible outcomes for them in the immediate and longer term – we are not tied to particular funders or investors and do not act on behalf of the insurers," Ball explains.

In relation to how a broker adds value, Ball remarks: "Fundamentally, a good broker should bridge any gaps between insurers and clients to get their clients' deal over the line, ideally leaving all sides with a positive transaction experience that they want to build on. In order to achieve this, it's critical to understand the perspectives and needs of both clients and insurers from the outset. Effective execution of synthetic securitisations using unfunded risk transfer therefore requires an understanding of the market practices, dynamics and technical requirements applicable to both banks and insurers alike – understanding just one side of this equation simply doesn't work."

Texel attributes its innovations and successes to having such cross-sectoral knowledge, with much of its experienced team having significant transactional and structuring experience from previous careers as underwriters, lawyers and bankers. "It's important for clients looking to deploy insurance on SRT transactions to appreciate that the credit insurance market has over two decades of established market practice and is a relationship-driven (as opposed to transactional) market. It's also an incredibly diverse market with diverse institutions, each with their own risk appetites, perspectives and processes," Ball notes.


Alan Ball, Texel

"As a broker, it's our job to know this market intimately, so that we are able to advise our clients on how best to achieve their desired outcomes – depending on the particular requirements of a client or transaction, we will potentially advise on different courses of action with different insurers. For some transactions, we'll advise a broadly syndicated placement; for others, we'll suggest a targeted focus on a few counterparties who we know, for example, have a deep understanding of a specialist asset class or geography from having worked with them over the last two decades."

This market knowledge has translated into concrete benefits for Texel's clients, with Texel able to secure highly competitive pricing, which can often represent a material discount to that offered directly to clients by some (re)insurers. Texel has also scaled clients' SRT programmes by introducing multiple new counterparties and arranging cover for specialist asset classes, such as project finance and lending types specific to local European or international markets – going so far as to bring in new market entrants to support a client's transaction.

"In addition to knowledge and experience, effective transaction and process management is critical – especially where parties are coming from different markets, such as the SRT market and (re)insurance market. We understand the market practices and expectations of both and are able to pre-empt gaps, obstacles or roadblocks in the transaction process ahead of time and plan to avoid last-minute fire drills or wasted costs and efforts. Where the transaction is particularly complex or niche, we'll put together detailed submissions, which allow insurers to quickly read into a client's transaction, navigate the relevant documents and get ▶

"AS A BROKER, IT'S OUR JOB TO KNOW THIS MARKET INTIMATELY, SO THAT WE ARE ABLE TO ADVISE OUR CLIENTS ON HOW BEST TO ACHIEVE THEIR DESIRED OUTCOMES"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the key issues on the table – which may be different to those focused on by a funded investor," Ball comments.

Notably, the firm acted as broker to Credit Suisse in arranging cover for its Elvetia CRT programme earlier this year in a transaction which referenced a CHF3.5bn blind portfolio of SME and corporate loans. The Texel team worked closely with Credit Suisse several years ago to develop the structure and suite of documents used for insurance cover of unfunded tranches of the programme.

Texel's reputation precedes itself in the market and the SBS team is well regarded by originators and professional advisers in the SRT market, with Texel receiving referrals from these groups and even from insurers themselves, where they may be working directly with a client but feels the transaction could benefit from Texel's input in terms of process management, input on the deal documents or scaling the client's programme more generally.

With interest growing in this space over the last five years, the firm hopes to continue to lead the market with its technical expertise without foregoing its roots as an insurance broker. Ball says: "We want to remain relevant by having market-leading expertise, but not forgetting our roots as an insurance broker who knows and has a good understanding of the needs and the requirements of the underwriters, so we can appropriately guide our clients. It is short-sighted to judge the success of a broker by whether they eventually managed to get an individual transaction over the line – this is obviously critical – but we like to act in the longer-term interests of our clients, constantly improving their experience and the value they get from transacting with the (re)insurance market."

> "WE ARE HUGELY EXCITED THAT BOTH TEXEL AND THE INSURANCE MARKET HAVE GAINED SUFFICIENT CREDIBILITY FOR EXPERIENCED ADVISERS IN THIS SPACE"

Going forward, Texel remains ambitious for the insurance market generally and has begun working with a number of first-time issuers in the SRT space, in conjunction with more traditional arrangers and advisers. "It's rewarding to see how unfunded risk transfer in this space has gone from being a marginal, more hypothetical idea five or six years ago to being a regular part of the conversation in SRT. We are hugely excited that both Texel and the insurance market have gained sufficient credibility for experienced advisers in this space to look at involving us in their work with several first-time and potential issuers, looking to create programmes where unfunded protection is an option from the outset rather than an afterthought," notes Ball.

He concludes: "We want to develop a bigger footprint with the client base and continue to give all of our clients a really positive experience of the insurance market. But in order to do that, we think it's important that they work with intermediaries who are technically competent, have real world transaction management experience, but also have a solid understanding of both (re)insurance and SRT markets as well."

HONOURABLE MENTION: **AON**

In recognition of the firm continuing to build on its first-mover advantage as the first insurance broker to identify the CRT opportunity for reinsurers, its ongoing advocacy for the CRT business generally and for having completed 17 transactions with aggregate risk transfer of US$12bn during the awards period.

LAW FIRM OF THE YEAR
WINNER: SIMMONS & SIMMONS

Simmons & Simmons wins SCI's Law Firm of the Year award, following a year which saw increased progress, volumes and international coverage for the firm in the capital relief trade sector. The international law firm impressed with its ability to deliver first-class CRT advice to investors in all major European CRT jurisdictions. As the CRT market continues to grow and mature, Simmons & Simmons stands at the forefront of legal advice for investors.

A leading international law firm, Simmons & Simmons boasts 21 offices across the UK, continental Europe, Ireland, the Middle East and Asia. Its large and well-established structured finance and derivatives practice advises clients on capital relief trades and broader risk transfer mandates, including derivatives products and associated regulatory advice. The firm additionally works extensively on other forms of financial guarantee and risk transfer transactions, including advising governments and supranational institutions on their Covid-19 guarantee schemes.

Sitting within this wider structured finance and derivatives team, Simmons & Simmons CRT practice is led by partner David Toole in London. "It has been a fantastic and breakthrough year for our CRT practice, in terms of growth and particularly in the spread of jurisdictions that we cover and operate in," notes Toole.

Acting on approximately 30 CRT transactions in the last year, the firm continued to expand its expertise of CRT outside of the UK, reflecting the spread of CRT transactions across Europe and its continued growth in more well-established markets, such as Italy and Germany. The practice has expanded and trained specialist across its offices to cover CRT in all major jurisdictions for the market. The firm's established international network has allowed it to successfully advise investors on CRT transactions governed by French, German, Italian, Irish, Luxembourg as well as English law (notably through its London, Paris, Frankfurt and Milan offices).

Simmons & Simmons has acted for significant investors in the market, including Alecta, Anacap, Christofferson, Robb & Co, the European Investment Fund, PAG, PGGM and various leading hedge funds and institutional asset managers. The firm supported these clients as lead counsel on many of their most important CRT transactions in the last 12 months. Having set up one of the strongest rosters of clients in this market, Simmons & Simmons positions itself as a preeminent advisor and actor in the CRT space.

"THIS MARKET HAS SHOWN ITSELF TO BE EXTREMELY RESILIENT"

Indeed, the firm advised clients on some of the most outstanding and notable transactions in the past 12 months. Such matters have included transactions structured as financial guarantees, as credit default swaps (both bilateral and embedded into SPV structures), credit-linked notes and credit-linked deposits.

The firm represented PGGM and Alecta in their investment in a CRT transaction originated by Standard Chartered Bank, in which Standard Chartered became the first bank to benefit from capital relief in Hong Kong (see Innovation of the Year, page 11). The landmark transaction features a sold first loss tranche with 10% thickness and a portfolio weighted average life equal to approximately 1.5 years, as well as a replenishment period of 3.25 years. Further features included a sequential amortisation structure.

The firm's role in this transaction demonstrated its position and role as adviser of choice to leading investors and its ability to provide seamless cross-border advice in new and developing CRT jurisdictions.

Simmons & Simmons also advised PGGM and Alecta as co-investors in the inaugural CRT issuance by Helaba – an STS synthetic securitisation backed by a €2.1bn portfolio of corporate loan portfolio and credit protection governed by German law. Additionally, the firm acted on the market's first STS-compliant SRT transaction involving pan-Nordic assets, referencing a €2.5bn portfolio of Nordic corporate loans and originated by Nordea Bank.

Such 'firsts' reflect Simmons & Simmons' sophisticated and innovative presence in the CRT market. It further highlights the firm's strategic goal to cement its position as the 'go to' firm for investors in this market.

"Although we act for many of the largest investors, our practice also supports arrangers and originators. This gives us a deep understanding of the perspectives of all market participants. By working with clients across multiple jurisdictions, we develop a strong institutional understanding of each investor, allowing us to support them across all their transactions," Toole explains.

David Toole, Simmons & Simmons

Moving forward, Toole expects the CRT market to continue to develop. "Obviously, there are potential challenges in terms of the global economy; however, historically this market has shown itself to be extremely resilient and we expect this to continue. We continue to see a lot of investor interest in the market and, despite the current challenges, we do see new investors coming in and I expect people to continue exploring new asset classes," he observes.

He concludes: "As the market now is pretty mature and better understood by regulators, I think banks do and will explore new asset classes. This is a trend we expect will continue and there is certainly still investor appetite for that."

HONOURABLE MENTION: CLIFFORD CHANCE

In recognition of the firm retaining its position as dominant law firm in both the European and North American CRT markets, acting as originator and drafting counsel on the vast majority of deals, across the full range of asset classes, jurisdictions and legal structures. Notably, the firm advised on Sumeru IV for Standard Chartered – the first local SRT in Hong Kong – and mBank and Getin Noble on the first SRTs placed with private investors in Poland.

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CONTRIBUTION TO NORTH AMERICAN CRT
WINNER: BANK OF MONTREAL

For much of the last 12 months, Bank of Montreal (BMO) has been not only a prominent player in the North American CRT market, but it has also been the only player in the North American CRT market. Additionally, at the time of writing, it is the only Canadian shop to have swum in CRT waters. For its continuous commitment to the market and breadth of assets covered, the bank is SCI's winner of the award for Contribution to North American CRT.

Indeed, in the waning days of September 2022 – just as the qualification period for this award was due to end – BMO demonstrated its innovativeness and expertise by bringing another asset class to the market. Its new programme, dubbed Killarney Series 1, securitises capital call facilities and it closed a deal worth US$100m that is due to mature in 2027.

This programme was added to the four that BMO already operates. The justly lauded Algonquin platform covers US dollar- and Canadian dollar-denominated SME corporate loans extended to US and Canadian borrowers (see North American Transaction of the Year, page 8).

The Muskoka platform securitises larger corporate loans and is the sister platform to Algonquin. Boreal deals with Canadian commercial real estate loans and remains the only Canadian dollar-denominated programme in the market.

Finally, the Sauble platform handles leveraged loans and should be seen as more of an origination partnership as the portfolio grows over time, notes Jean-Francois Leclerc, head of risk and capital solutions at BMO Capital Markets in Toronto.

There are also differences in the purpose of risk transfer as it applies to these four platforms. While the mechanism is chiefly viewed as a classic regulatory capital relief tool for Algonquin and Muskoka, it is seen more from the perspective of limit management for Boreal and Sauble.

The lender made its first visit to the CRT market in 2016, and in 2022 has concluded six transactions for a total of US$18.5bn in notional.

In January 2022, BMO issued Sauble III with a notional of US$2bn, and three months later upsized Sauble II – initially offered in 2021 – with an additional US$500m. This platform remains one of the few successful platforms devoted solely to leveraged lending in the CRT market.

The lender sold a new Boreal, dubbed 2022-01 with C$2.1bn of notional, in April 2022.

The Algonquin programme is the largest and catches most of the headlines. BMO returned to the market three times with this platform in 2022, securitising no less than US$14.4bn of SME corporate loans. It brought US$10bn in two separate deals in April, and followed this up with another US$4.4bn synthetic securitisation in August 2022.

> "WE THINK [THE ALGONQUIN PROGRAMME] IS A USEFUL TOOL TO TRANSFER RISK AND WE GET SIGNIFICANT BENEFIT FROM THESE TRANSACTIONS"

BMO's appreciation of the product is clear. "We think this is a useful tool to transfer risk and we get significant benefit from these transactions. The programmes have performed well through the cycle, including during Covid. There is recognition that this is genuine risk transfer," says Leclerc.

Jean-Francois Leclerc, BMO

The bank has cultivated investors in the US, Canada, Europe and Asia over the last year. The great majority are asset managers with a liking for the rewards that CRT offers and expertise in being able to value the risk.

Some deals are sold on a bilateral basis, others to two or three investors, while some transactions have attracted up to 10 buyers. In all, BMO deals with a regular pool of investors that is numbered in the mid-teens, many of which are repeat buyers.

"Many repeat investors have seen the value of our transactions, the quality of our origination practice and the good credit quality that we have at BMO. Ultimately, this is what they are attracted to," explains Leclerc.

In addition to the new asset class brought to the market in September 2022, another is due to see the light of day before the end of the year. The commitment to this market and resourcefulness within it are the hallmarks of BMO, and make it a worthy winner of this award.

HONOURABLE MENTION: GUY CARPENTER

In recognition of the firm's continued leadership role in a year when the reinsurance market has stepped up to take a much greater share of the mortgage credit risk transfer market – over US$18.5bn of mortgage risk will have been placed in the reinsurance market in 2022, almost doubling what was placed in 2020 – as capital market spreads have gapped wider. Not only has the firm played a key role in the redistribution of risk, it has also been a thought-leader and staunch advocate of the industry, consistently stressing the strengths and virtues of the CRT market and the increasingly important role that reinsurance brings to it.

PERSONAL CONTRIBUTION TO THE INDUSTRY

WINNER: JESSICA LITTLEWOOD, global operations and business transformation partner at Clifford Chance

The Personal Contribution to the Industry Award this year is dedicated to Jessica Littlewood from Clifford Chance. She has worked in the industry for 24 years and within that time has been commended for her knowledge, expertise and professionalism within the capital relief trades sector.

She notes: "It's a real honour to win this award. I was completely surprised to receive your email. It's very nice to have been recognised by the industry."

Littlewood is highly regarded by banks, regulators and investors alike as a leading lawyer in the synthetic securitisation market, or – as they prefer to call it within the legal world – 'credit risk sharing' transactions. Credit risk sharing can benefit the real economy by unlocking additional capital for lending and sharing credit risk outside the banking sector.

Littlewood has been praised for being instrumental in developing this market, where she has shown her legal prowess and creativity through her advice on many of the transactions done, often solving specific structuring issues banks were facing and thereby moving the market forward as a whole.

In addition, her peers believe that she has been a key voice of the market in dialogues about regulatory developments throughout the years. Littlewood has extensive knowledge of the market and its increasing regulatory landscape and she is clearly seen by the industry as a thought-leader.

She explains that the key to her success is down to a number of factors, which include a strategic way in which she views deals. "Seeing every deal as a partnership between the protection buyer and seller and to work with all parties in a constructive and collaborative way to get the deal done. To always go the extra mile to get a deal over the line."

Littlewood explains that every deal comes with its challenges. However, she does note that the wonderful aspect of the CRT market is that no deal is ever the same and each comes with a little variety.

She adds: "Even if you think it is going to be a repeat, there is always a curve ball thrown into the mix. There is always a lot of regulatory change in this market and that creates a challenging backdrop against which to advise clients."

> "THERE IS ALWAYS A LOT OF REGULATORY CHANGE IN THIS MARKET AND THAT CREATES A CHALLENGING BACKDROP AGAINST WHICH TO ADVISE CLIENTS"

Littlewood notes that despite having developed a strong reputation in the market, she is very grateful for the support of her colleagues at the firm, who work closely with herself and fellow partner Tim Cleary. She explains that these deals always reflect an incredible amount of expertise, dedication and hard work from the whole team and she couldn't be more thankful for their help and support.

As of July 2022, Littlewood has been appointed as global operations and business transformation partner at Clifford Chance. She says that the opportunities and challenges of navigating a leading global law firm through the post-Covid, digital world is exciting. Littlewood adds that there is certainly a great deal to think about within this sector and never a dull moment.

Her key passion is, and always has been, to see the CRT sector grow – both in terms of the size of the market and its sector, geographical footprint and number of issuers and investors. She notes that it has been wonderful to watch the development of the market over more than 20 years from a small sector with one or two participants to a truly global market with investors and issuers on all continents.

However, going forward Littlewood says that it would be good to see a more even global regulatory level playing field, as there are markets where the regulators can be a barrier to the market developing and it would be great to work with those regulators to address their concerns.

Legitimate questions

The adoption of STS synthetic securitisation has helped legitimise the capital relief trades market. However, as Stelios Papadopoulos reports, the EBA's most recent consultations could prove challenging.

STS synthetic securitisation issuance has soared since the execution of the first transaction in June 2021, adding momentum to this year's capital relief trade deal flow, further legitimising the market and broadening the investor base. However, the EBA's recent consultations on synthetic excess spread and homogeneity criteria could pose challenges for the market going forward, if the proposals are implemented as they stand.

The impact of the coronavirus crisis on the European economy boosted efforts to establish an STS framework for synthetic securitisations. Indeed, based on an EBA report from May 2020 and swift action from regulators, the STS label for synthetic securitisations was introduced by the European Commission in April 2021 as part of the Capital Markets Recovery Package (CMRP).

The CMRP amended the Securitisation Regulation to include STS requirements for on-balance sheet securitisations, thereby extending the STS framework to synthetic securitisations *(SCI 26 March 2021)*. The main objective was to facilitate Europe's economic recovery and allow banks to maintain and enhance their capacity to lend to SMEs and the real economy.

According to ESMA data, the number of STS synthetic securitisations now total 40 in number, following the finalisation of the first STS synthetic securitisation in June 2021. The high transaction activity seen in the first year of STS synthetic ABS demonstrates that the framework has added positive momentum to the development of the CRT market.

The figures are substantial when compared to overall market notional issuance. SCI data show that the number of deals for the first half of this year has now reached 34 overall, compared to 31 for the first half of last year. Last year proved to be a record, with nearly 70 transactions executed.

PGGM has been one of the most active investors in the STS SRT space. The firm has now closed €1.1bn across five such transactions, referencing underlying portfolios of €27.6bn with banks across Europe. Most of these trades were executed with Swedish pension fund Alecta.

As expected, the bulk of the STS SRT market consists of corporate and SME loan deals. "We started seeing STS deals in mid-2021 and the underlying pools have been dominated by large corporate and SME loans, but we've also seen residential and shipping loans," says Michael Osswald, md at STS Verification International.

Single concentrations for the transactions must be less than 2% of the portfolio for the deal to be able to benefit from the favourable capital treatment of the STS regime. This could be a problem for less granular portfolios, but is in practice mitigated by banks syndicating the loan or limiting the size of the exposure that goes into a securitisation.

Moreover, the synthetic format works better for some portfolios compared to the cash format. Harry Noutsos, md at PCS, notes: "STS synthetics can be done on a wide range of assets, including CRE or shipping. The biggest challenge for cash deals backed by CRE or shipping loans is refinancing risk."

He continues: "If unguaranteed residual value risk is over 50% in a cash ABS, then you cannot achieve STS. These types of loans amortise partially and not down to zero, so they struggle to meet the 50% requirement of cash deals. Yet no such requirement exists for synthetics where investors take on the refinancing risk."

Deal structures are varied and include unfunded deals with EIF participation, funded structures using SPVs with collateral in the form of cash on deposits or 0% risk weighted debt securities and direct CLNs.

STS brings additional requirements for synthetic securitisations – most notably stipulations on termination events, stricter collateral requirements and additional transparency requirements. The STS requirements around termination events, in particular, raise real challenges for banks wishing to turn their legacy deals into STS-compliant ones.

Suzana Sava Montanari, partner at Latham & Watkins, comments: "One of the major issues with legacy SRTs is that certain termination rights can't be used by investors in STS deals. The only terminations available to them are failure to pay and material breaches by the originator. Termination rights are a particular

Michael Osswald, STS Verification International

challenge for SPV structures, since although banks can support the SPV, there are situations where if that doesn't pay over to the investors, then the investors can't terminate the deal."

Legacy trades can be amended into STS synthetic securitisations and the Securitisation Regulation allows this on a retroactive basis. Yet the problem with existing deals more generally is that some STS criteria must apply at the time of notification, while others apply at the time of original closing. Hence, amendments are achievable but cumbersome *(SCI 14 April)*.

As part of the CMRP, the EBA is mandated to develop draft regulatory technical standards (RTS) that further specify which underlying exposures are deemed to be homogeneous as part of the simplicity requirements *(SCI 5 August)*, as well as clarify how banks will determine the exposure value of synthetic excess spread *(SCI 11 August)*. From the EBA's perspective, the aim of the consultation on the RTS for the homogeneity criteria of STS synthetic securitisations was to level the playing field with traditional ABS.

One of the main ways of doing so was to draw a line around the definition of large corporate exposures. This aims to ensure sufficient obligors in the portfolio and an easier analysis of the underlying pool.

In particular, the proposals adjust the homogeneity factors for on-balance sheet securitisations and more specifically the 'type of obligor' related to corporate and SME exposures. The latter exposures comprise the bulk of the synthetic ABS market. According to the consultation, banks treat large corporate exposures differently from the rest of their corporate book, which in turn are subject to similar credit granting criteria as SMEs.

"THE BIGGEST CHALLENGE FOR CASH DEALS BACKED BY CRE OR SHIPPING LOANS IS REFINANCING RISK"

Furthermore, determining whether loans acquired from other originators in secondary transactions were underwritten according to the same standards isn't straightforward. The latter is further complicated by the need to carry out an agreed-upon procedure (AUP) or audit, for which the same criteria as traditional cash ABS AUPs do not necessarily apply.

Nevertheless, the greatest challenge for STS SRTs right now are the latest proposals under the EBA's consultations regarding the homogeneity criteria and the determination of the exposure value of synthetic excess spread in STS synthetic securitisations.

Harry Noutsos, PCS

Consequently, to ensure a consistent and harmonised application of the requirements – considering that the term 'large corporate' varies greatly across jurisdictions – it was decided that the 'large corporate' definition would be used from the Commission's CRR 3 proposals. The CRR 3 proposals define the term as "any corporate undertaking having consolidated annual sales of more than €500m or belonging to a group where the total annual sales for the consolidated group is more than €500m."

The EBA wanted to use the same concepts from Basel 3, which explains the choice of the definition of large corporate exposures. Eirini Kanoni, policy expert at the EBA, notes: "The treatment of large corporate loans changes under Basel 3, since the modelling of LGDs under the IRB approach will no longer be possible for large corporates. Overall, risk drivers are therefore expected to be treated differently on bank balance sheets, so we had to align those balance sheets with the new securitisation rules. This explains our choice of the definition of large corporate exposures, which we are now consulting on."

However, CRT structurers argue that Basel 3 isn't yet in force, while pointing out that the EBA has missed the deadline in making these

Pablo Sinausia, EBA

changes. Nevertheless, the larger issue is the inability to mix corporate and SME loans, with no clear rationale and with the risk of ending up with less granular portfolios and less financing to SMEs.

Regarding the consultation on synthetic excess spread, the EBA provides two approaches – called the full model and simplified approach respectively – although both are effectively the same, since the focus remains on lifetime expected losses. Pablo Sinausia, policy expert at the EBA, explains: "The simplified model approach stipulates that if a deal has a 10-year legal final maturity, you can calculate it to the time call rather than the maturity. It also includes a scaler that reduces the exposure value of 'use it or lose it' (UIOLI) synthetic excess spread mechanisms."

He continues: "In the full model approach, on the other hand, the lower loss absorbing capacity of UIOLI synthetic excess spread compared to a trapped mechanism is already considered in the modelling."

The ECB's approach is very different and is based on the amount of committed excess spread in excess of expected losses – mimicking the approach currently used for true sale securitisations, which originators are unequivocally in favour of.

David Saunders, executive director at Santander, comments: "The EBA's paper is so prescriptive regarding the calculation of synthetic excess spread that when you consider it with all the other regulations, it raises real modelling complexity. The main driver of complexity in synthetic securitisations in the EU now is regulation by some distance."

The EBA has responded to lender concerns by stating that the revisions to the CRR prescribe a focus on lifetime expected losses when it comes to the capital calculation approach of synthetic excess spread. However, lenders have noted that the CRR can be interpreted in "different ways".