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GCR provides Highlights from Global ABS

The main themes of the IMN's Global ABS conference, held in Brussels last week, focused on regulation and the improving securitisation markets.

A common view was shared that the overall depth of the global securitisation markets has improved substantially over the past year. Investors are showing more enthusiasm for securitisation, particularly RMBS and CMBS. In some cases, with regard to RMBS there has been up to 30% house price depreciation with no loss to investors. It was therefore considered that transactions had been proven that they could withstand market shocks. Where previously investors were focusing on yields, the focus has now shifted to relative value. The securitisation market in Europe now has a deeper investor base and much better liquidity than it did a year ago as a consequence of this. Many senior bonds have greater than 40% CE at a AAA level with full recourse, and investors are able to buy them at good re-financing rates. Investors were also seemingly more comfortable with investing at lower rating levels, as they felt yield correlated to risk.

The European commission called for securitisation to play a key role in funding the economy. Securitisation is seen as pivotal in providing funding to SMEs, particularly through trade receivables transactions. Trade receivables transactions were considered to be robust and well perceived by investors. Securitisation currently provides for around a third of all funding in the European economy.

Regulation remained a key theme of the conference as it is still being developed. It was discussed that proposed capital charges did not reflect the credit risk of transactions. Work is being done to recalibrate and simplify the measurement of risk, which is expected to result in lower capital charges and provide further stimulus to the growth of securitisation markets. There was approximately Euro60bn of securitisation issuance in Europe in 2013 and this is expected to grow further going into 2014. Solvency II is also being reconsidered, and may be reformatted or delayed as the calibration appears incorrect. Currently insurance companies account for approximately 10% of securitisation investments, if the proposed capital charges under Solvency II remain as intended then insurers would look to stop or reduce their securitisation investments, which would be detrimental to the securitisation markets.

CRA3 was another key theme. This came into effect on 20th June. The result of this is that there needs to be further transparency on transactions and disclosure regarding ratings analysis. Also for any structured finance transaction 2 rating agencies need to be appointed independently of each other. It is also encouraged that the second agency have less than 10% market share in order to create competition within the market. Technical guidance for CRA3 is not due to be published until 2014, so there was some concern as to how this would be applied currently to future and existing transactions.

The mood was a lot more upbeat than in previous years and the revival of the securitisation markets seems to be occurring. 2014 is expected to be a year of growth provided that the uncertainty and lack of detail in respect of regulation doesn't hinder this.