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UCITS III change would expand loan investor base, says AFME

A change to the rules that govern investments by UCITS III funds could be the most significant step to increasing lending by institutions other than banks, according to the Association for Financial Markets in Europe (‘AFME’).

In its response to an HM Treasury discussion paper on Non-Bank Lending, sent today, AFME argues that a principal barrier to non-bank lenders providing loans to borrowers is the UCITS III treatment of loans as “ineligible assets” due to the perception that they are not liquid.

As a result, insurance companies, pension funds and closed-end or mutual funds are barred from the European loan market, but not the US loan market.

“Widening the UCITS III definition of "eligible assets" to include loans is the single most significant measure policymakers could take to improve funding channels for UK companies,” says Gilbey Strub, Managing Director.

“This modification is critical in the current market because the primary non-bank providers of loans in the last decade have been hedge funds and CLOs. These have been major drivers of growth in the European leverage finance market but the retrenchment of leverage has sidelined them. Long-only institutional investors are now even more critical to market liquidity.”

AFME’s submission also proposes that companies should obtain and publish credit ratings in order to obtain debt financing, providing an element of additional transparency to investors and ultimately to their end-clients.

In a further move towards greater transparency, AFME suggests that issuers should disclose material terms, including any changes, under loan agreements and full intercreditor agreements, including any amendments, governing enforcement rights as between high yield bondholders and senior lenders. It also argues that issuers should make disclosure reports available to the entire market via an electronic central repository and not solely to bondholders on protected websites.

A copy of the full AFME submission is available on request.

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Notes to Editors

AFME was formed on November 1st 2009 following the merger of LIBA (the London Investment Banking Association) and the European operation of SIFMA (the Securities Industry and Financial Markets Association). AFME represents a broad array of European and global participants in the wholesale financial markets, and its 197 members comprise all pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME provides members with an effective and influential voice through which to communicate the industry standpoint on issues affecting the international, European, and UK capital markets. AFME is the European regional member of the Global Financial Markets Association (GFMA). For more information, visit the AFME website, www.AFME.eu.