Latest Developments of the European Securitisation Market

23 March 2011
## ABS Primary Issuance

### European Placed Issuance

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>European placed issuance</strong></td>
<td>471.3</td>
<td>511.2</td>
<td>35.6</td>
<td>25.5</td>
<td>87.9</td>
</tr>
<tr>
<td><strong>European % retention</strong></td>
<td>0</td>
<td>15%</td>
<td>95%</td>
<td>94%</td>
<td>77%</td>
</tr>
<tr>
<td><strong>US issuance</strong></td>
<td>2,455.8</td>
<td>2,147.1</td>
<td>933.6</td>
<td>1,358.9</td>
<td>1,276.7</td>
</tr>
</tbody>
</table>

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

Sources: Bloomberg, Dealogic, Deutsche Bank, JP Morgan, Bank of America-Merrill Lynch, RBS, Thomson Reuters, UniCredit, AFME & SIFMA
Placed Issuance by Country and Collateral

2010 Issuance by Country

- Netherlands 26%
- Italy 3%
- UK 49%
- Spain 0%
- France 3%
- Germany 11%
- Mixed 1%
- Other 7%

2010 Issuance by Collateral

- RMBS 70%
- Other 3%
- CDO 0%
- WBS 3%
- SME 3%
- CLO 3%
- Auto 10%
- Credit Card 4%
- CMBS 5%

Sources: Bloomberg, Dealogic, Deutsche Bank, JP Morgan, Bank of America-Merrill Lynch, RBS, Thomson Reuters, UniCredit, AFME & SIFMA
Outstanding vs. Repo Volumes

European Structured Finance Outstanding
Mar. 2008 - Dec. 2010

Sources: AFME/SIFMA
Members, AFME, Bloomberg, Dealogic, Thomson Reuters, SIFMA

Volume held on Repo at the ECB

Source: ECB
<table>
<thead>
<tr>
<th>European Asset class</th>
<th>Original Issuance (€ billions)</th>
<th>Ratings Transition Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Up</td>
</tr>
<tr>
<td>Credit cards</td>
<td>33.2</td>
<td>0</td>
</tr>
<tr>
<td>Other consumer ABS</td>
<td>69</td>
<td>8.2</td>
</tr>
<tr>
<td>SMEs</td>
<td>101.8</td>
<td>0.3</td>
</tr>
<tr>
<td>RMBS</td>
<td>756.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Overall European</td>
<td>1,868.30</td>
<td>1.4</td>
</tr>
<tr>
<td>US RMBS</td>
<td>3,254.00</td>
<td>0</td>
</tr>
<tr>
<td>Overall U.S.</td>
<td>5,794.40</td>
<td>0.7</td>
</tr>
</tbody>
</table>

*Figures do not show the downgrades that occurred as a result of major methodology changes by S&P in Q4 in 2010*
AAA Prime RMBS Spreads

Source: Markit

Spain
Netherlands
Italy
France
Germany

UK RMBS (Prime)
UK RMBS (Non-conforming)
## Current Investor Activity

<table>
<thead>
<tr>
<th>Active Investor Base</th>
<th>Inactive Investor Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Funds</td>
<td>• ABCP Conduits</td>
</tr>
<tr>
<td>• Bank Treasury</td>
<td>• Securities Lending</td>
</tr>
<tr>
<td>• Corporates</td>
<td>• Money Market</td>
</tr>
<tr>
<td>• Supranationalis</td>
<td>• Other Leveraged</td>
</tr>
<tr>
<td>• Insurance</td>
<td>• SIV</td>
</tr>
</tbody>
</table>

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Summary of the ABS Market

1. Primary issuance has improved
   - Increase in placed issuance volume
   - Decrease in percentage retention

2. Repo amounts:
   - Substantial amount of outstanding debt held on repo
   - ABS still makes up a large part of repo market

3. Generally, in 2010 European AAA RMBS spreads have remained stable

4. The investor base has significantly contracted
Timeline of Regulatory and Market Initiatives

December 2010
- CRD II Article 122a
  - CEBS guidelines published
  - Legislation comes into effect

January 2011
- Solvency II
  - CEBS guidelines published
  - Legislation comes into effect

February
- Basel III/CRD IV
  - Basel III released
- MiFID
  - Consultation released
- CRA III
  - Draft Klinz report
- Crisis Resolution
  - Consultation released
- BoE/ECB Collateral Framework
  - Implementation date

March
- Solvency II
  - QIS5 consultation released
- Basel III/CRD IV
  - AFME clarification letter to Commission
- MiFID
  - AFME met with Commission
- CRA III
  - AFME consultation response
- Crisis Resolution
  - AFME consultation response
- BoE/ECB Collateral Framework
  - Implementation date
- CRD III
  - AFME advocacy strategy

April
- Basel III/CRD IV
  - Final version of Klinz report
- AFME consultation response
- MiFID
  - Draft legislation
- Crisis Resolution
  - AFME advocacy strategy
- BoE/ECB Collateral Framework
  - Implementation of RMBS transparency framework for DWF is underway
  - BoE developing transparency framework for other asset classes, including consumer loans

May
- Basel III/CRD IV
  - Meeting with Member States and attaches
  - Policy maker trading floor sessions
- CRD III
  - AFME advocacy strategy

June
- Regulatory follow up
CRD II Article 122a

What is it?
• Issuers to retain 5% of issuance
• Due diligence to be taken by investors

Status
• CEBS guidelines published on 31 December 2010
• Article 122a came into effect on 1st January 2011

Key issues
• Parts of the CEBS guidelines still need further clarification
• Further product-specific clarification is needed, in particular for:
  • CLOs
  • ABCP

Next Steps
• Approach EBA to address Europe-wide implementation concerns
Solvency II

What is it?
• Details capital charges for insurance investors
• 122a-style risk retention and due diligence requirements

Status
• Directive legislated in November 2009
• Results of QIS5 released on 14 March 2011
• Commission intends to implement the requirements in January 2013

Key issues
• Encourages insurance investors to invest in riskier and less liquid products
• Allocates a high capital charge to all unrated assets

Next Steps
• AFME intends shortly to submit a letter to the Commission and EIOPA to highlight these issues
MiFID Review

What is it?

• Definition of Organised Trading Facility and Multilateral Trading Facility
• Pre-trade transparency requirements
• Post-trade transparency requirements

Status

• AFME submitted its response to the consultation on 1 February 2011
• Draft legislative proposal due in May 2011 and co-decision in Nov/Dec 2011
• Trilogues Q1 2012 and political agreement and text voted on Q2 2012
• Implementation by Member States 2013
MiFID Review

Key Issues

• Market structure one size fits all could limit user choice
• Transparency rules could impact liquidity and affect systemic risk
  - Liquidity arguments
  - Calibration arguments

Next Steps

• Hold trading floor educational days for policy makers
• Advocacy strategy
Consultation on Credit Rating Agencies (CRA III)

What is it?

- Overreliance on ratings
- Sovereign debt ratings
- CRA competition
- Civil liability
- Revenue model and “issuer pays”
- Endorsement

Status

- AFME submitted its response to the consultation on 7th January
- Final version of Klinz report published in March 2011
- New legislation expected in September 2011
- 17g(5)/CRA (8A) – Article 8A postponed to CRA3
Collateral Transparency Frameworks

What are they?
• ECB and the BoE transparency frameworks for repo or use of the Discount Window Facility (DWF)

Status
• Implementation is underway: by November 2011 for the BoE and June 2012 for the ECB

Key issues for the BoE
• Disclosure of legal documents by July 2011
• Bank of England rolling out similar initiatives for auto, credit card and consumer loan receivable ABS
• Originator concerns about overlapping regulatory burden
Other Regulations

- Basel III/CRD IV
  - Liquidity Coverage Ratio (LCR)
  - Net Stable Funding Ratio (NSFR)
- CRD III
  - Re-securitisations
  - Trading books
- Dodd-Frank
  - Repurchase history disclosure
  - Issuer review of assets
Key Issues and The Way Forward

Key problems
• Need for funding
• Securitisation as a brand
• Regulatory environment
• Market incentives

Ways forward
• Restoring investor perception
• Restoring regulatory perception
• Incentivising issuance and investment

Next steps
• Political awareness
• Regulatory awareness
• Funding gap analysis
• Other market initiatives
Global ABS

- Annual Global ABS Conference on 14 and 15 June 2011
- Brussels
- Around 3,000 attendees
- Some keynote speakers already confirmed, including Elemer Tertak from the European Commission, and Thomas Huertas, EBA and Banking Sector Director, from the FSA

- Key topics include:
  - How securitisation can contribute to meeting the €1.3 trillion funding need
  - Working through the congested regulatory landscape
  - Securitisation industry know-how

- Please see the AFME website for more information and to register for the event