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Finance Industry Launches ‘PCS’ Securitisation Label to Revitalise Market

The Association for Financial Markets in Europe (AFME) and the European Financial Services Round Table (EFR) today announce the launch of Prime Collateralised Securities (PCS) - an industry-led, nonprofit project to develop a label for high quality securitisations which meet best practice in terms of quality, transparency, simplicity, and standardisation.

With the first label expected to be granted by the PCS Secretariat towards the end of this year, a number of key milestones have been reached:

- establishment of the PCS Association and the PCS Secretariat as bodies to respectively govern and operationally administer the PCS label;
- the appointment of the Head of the PCS Secretariat;
- identification of asset classes and structures which are eligible and not eligible for the label;
- compliance with required loan by loan reporting standards of the ECB and Bank of England;
- the fundraising target was fully achieved.

Access to securitisation markets for issuers is becoming increasingly important to overcome a real economy funding shortfall¹ in Europe. Asset Backed Securities can be an important component of the instruments that investors have available to them, especially as they do not use up the same credit line capacity as other investments, such as corporate bonds and covered bonds.

Yet, despite the very strong underlying performance of European asset-backed securities since 2007, a smaller investor base and the reduced level of issuance over this period could have knock-on effects for companies reliant on capital markets funding, as well as Europe’s broader economic recovery.

The PCS initiative - developed by a broad group of market professionals comprising issuers, investors arrangers, and other market participants, in collaboration with other European industry associations, as well as observers such as the European Central Bank, European Investment Bank and Bank of England - will comprise a two-tier governance structure:

- a PCS Association, comprising independent non-industry directors, as well as a mix of industry professionals;
- a PCS Secretariat, led by experienced industry professional Ian Bell, responsible for the day-to-day administrative and managerial operations. The PCS Secretariat will grant the PCS label to securities, certify a transaction and monitor the label after it is issued.

¹ Recent estimates show that €650 billion of senior unsecured and covered bond funding will mature in 2012 for European banks; for sovereigns, funding of over €900 billion will be needed and that an additional €1.5 – €1.9 trillion of funding will be needed to power any growth. Sources: Bloomberg and BAML Global Research Dec 2011, Standard & Poor’s May 2012.

PCS is more than just a positive label for eligible securitisations – it provides the basis for a definition of agreed market standards, as well as an enforcement mechanism of these agreed standards, based on a label which can be granted and withdrawn depending on compliance and as verified by the PCS Secretariat.

Rick Watson, Head of Capital Markets at AFME, commented:

“Investors and regulators need a clear reference point, setting out best practices around which to build investment guidelines and regulations, which, in turn, will encourage issuance as well as investment and support the real economy. Combining the expertise and market coverage of both AFME and EFR members has resulted in the ability to move forward on this very important initiative.

“PCS will bring added quality, transparency and standardisation to the market, which will deepen the securitisation investor base in Europe and, in turn, improve overall liquidity. Europe needs a healthy securitisation market and we are confident that this initiative, alongside regulatory changes, will provide a significant boost to the market.”

Sebastian Fairhurst, the EFR’s Secretary-General, commented:

“The PCS label will be awarded on a deal-by-deal basis and subjected to a verification process by the newly established PCS Secretariat. It will be granted to transactions backed by asset classes that have performed extremely well through the financial crisis and are of direct relevance to the real economy, including European auto, residential mortgage, SME, consumer and credit loans.

“Issuers will need to provide high quality reporting on an ongoing basis, in accordance with the relevant ECB and Bank of England reporting standards.”

Ian Bell, PCS’s newly appointed Head of Secretariat, commented:

“It’s exciting to be part of such an important industry initiative, which has seen so much support from investors, issuers and policymakers alike. With commitments to fully fund PCS’ first two years of operations from over 30 institutions in the industry, PCS demonstrates the seriousness of the industry’s intent to establish a vibrant, yet robust European securitisation market capable of funding the growth Europe so badly needs.”

-ENDS-

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Notes:

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association through the GFMA (Global Financial Markets Association). For more information please visit the AFME website, www.afme.eu
2. The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy. For more information please visit the EFR website, www.efr.be
3. The PCS label has been followed by policymakers throughout its development. For example, **Andrea Enria, Chairperson of the European Banking Authority** provides the following comment:

“EBA believes that the European securitisation market can play an important role in meeting the funding needs of the originators and the asset diversification needs in Europe in the future. The PCS label could be an important component to re-establish a sound and well controlled market for securitisation in Europe. The EBA will continue to monitor the securitisation market closely once the PCS label starts to be operational.”

A further example includes a letter from **Mario Draghi, President of the European Central Bank** which comments:

“The ECB welcomes the initiative, which aims at increasing the attractiveness of asset-backed securities among investors and originating banks. A well-functioning ABS market in the EU would allow investors to diversify their investments and ...thereby contribute to a smooth financing of the economy.

“The ECB has been able to follow this project since 2009 and we are pleased to see you are ready to launch the labeling process.”