GlobalCapital ABS DAILY BARCELONA
THE VOICE OF THE MARKETS

As STS fog clears, Global ABS to focus on new themes

Max Adams

THE 21ST ANNUAL GLOBAL ABS event kicked off on Tuesday in Barcelona, with attendees and the event organiser saying that the 2017 event will shift focus from previous years, with more focus on new and emerging themes which have characterized European securitization over the past year.

Over 3,300 European securitization pros were registered ahead of the event, according to conference organiser, IMN. Conference goers say they will be looking to get a read on a handful of new developments as the regulatory fog around the 'simple, transparent, standardised' (STS) framework for European securitization clears in the aftermath of the agreement between the European Parliament, Council and Commission at the end of last month.

The rise of private equity and their role in cleaning up some of the stock of European non-performing assets will be among this year's hot topics. According to Jade Friedensohn, director of programming for IMN, the conference had seen a decline in the number of investor attendees in recent years, likely due to some of the regulatory uncertainty around ABS in Europe. This year however, private equity firms, which have recently taken the role of both investor and issuer, have filled the void. Friedensohn says that as many as 30 private equity firms are in attendance at this year's event.

The conference this year will also feature an 'NPL fast track' on day three. Responding to feedback from its inaugural NPL conference in Milan in November, IMN has built in a track of panels PAGE 4 »

The crowd gathers on day one of Global ABS

EU risk retention to be up for review every three years

Sam Kerr, Jean Comte

RISK RETENTION levels in European securitization are to be reviewed at least every three years by the European Systemic Risk Board (ESRB), according to a paper released by the government of Malta on Monday.

The review period makes up part of the final political agreement on the 'simple transparent, standardised' framework for European securitization and was revealed by Malta, which holds the presidency of the European Union until the end of June.

The paper states that the general agreement, which is in line with the latest commission non-paper proposal, was that that the ESRB would regularly report on risk retention in European securitization 'where necessary and at least every 3 years'. PAGE 4 »

Firm eyes €5bn market for European PACE bonds

David Bell

GLOBAL NEW Energy Finance laid out ambitious plans to bring the property assessed clean energy (PACE) loan market to Europe on Tuesday, with managing director Davide Cannarozzi telling Global ABS delegates in Barcelona that the firm was aiming to launch PACE programmes in four European cities in 2020.

GNE Finance is aiming to become the first provider of PACE loans in Europe, with four European cities targeted for initial lending programmes. The firm is aiming to have €200m of committed funding from private sources lined up by 2021 and estimates that the "EuroPACE" market could reach €5bn by 2025.

"It's quite a challenge but also an incredible opportunity," said Cannarozzi on Tuesday, during a panel discussion on the outlook for PACE in Europe.

The PACE loan product, which is repaid by the borrower through an addition to property taxes, has expanded from California and Florida in the US into Canada and Australia, while a programme is also under development in Cape Town, South Africa, said Cannarozzi.

Appetite from institutional investors is likely to be strong, said Michael Adams, chief executive of Law Debenture Corporation, because of the strong performance history of the asset class in the US as well as the tenor of the bonds, which typically tend to PAGE 4 »

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10:45
Refreshment Break in Exhibit Hall

08:15
Registration & Breakfast

09:00
Keynote Address
Simon Lewis OBE, Chief Executive, AFME (Moderator)
Stephanie Flanders, Managing Director & Chief Market Strategist, J.P. MORGAN ASSET MANAGEMENT

09:45
Global Regulatory Watch: What It All Means, Where Are We in the Process, and Where Is It Headed?
Update on the CMU's Securitisation workstream: how has the political process affected the course of ABS revitalisation? Will more stringent resolutions post – trilogue meetings mean that securitisation in Europe is permanently sidelined? Have the most damaging regulations been removed from the table?
Divergence of regulations globally: what does this mean for cross border investors, and issuers?
To what degree will there be a reversal of regulation in the US, and to what degree does that constrain European efforts to increase stringency?
Will a lot of the regulatory activity taking place in Europe (especially the UK) encourage risk capital to return to the US?
Does the loss of the UK reduce pro-markets, pro-finance voice for EU regulation?
Will EU investors continue to buy UK financial assets?
Implications for Euro ABS Issuance: how much supply will we have? Where will it come from?
Will the UK continue to play a significant role?
How worried should we be about Brexit?

11:00 TRACK A
Where is Bank Lending Headed?
How do changes in bank capital and other rules affect loan origination and distribution?
Are there winners and losers in different markets and regions?
Will constraints on lending lead to more opportunities for securitisation?
How will banks' roles evolve as non-bank lending grows?

11:00 TRACK B
The End of Quantitative Easing: What it Means for the ABS Market
Timeline for the winding down of ECB and BOE Term Funding Scheme
What will be the impact on spreads on ABS, covered bonds, sovereign spreads?
If spreads blow out, does ABS remain executable as a funding choice?

11:00 TRACK C
STS/STC Compliance
Will STS revitalise the market if regulatory treatment of qualifying deals is greatly improved?
Will STS be adopted as a global standard, or will it remain purely European? If purely European, how will this affect foreign issuers from Asia, Australia, US?
How does a deal qualify as STS? Who qualifies it? Where does the burden of due diligence lie?
Would it affect the credit rating of a deal? How are CRAs viewing STS?
How will the STS designation be allocated and attested?
Should originators self-certify, or is one or more third parties required?

11:00 TRACK D
CRE Finance: CMBS vs. Portfolio Trades and Loans
Underlying macro-factors including commercial property occupancy rates, foreclosure rates, price trends and demand for commercial e- lending
Loans versus CMBS: why are loans currently favored as the funding tool of choice?
Will we see a revival of the CMBS market anytime soon?
What would be required to restart the market?

11:50 TRACK A
Consumer Finance Trends: Issuer Roundtable
Continued appeal of ABS as a funding tool
Outlook for credit cards, consumer loan ABS volumes in 2017/2018
Role of non-bank, specialty lenders in the consumer space: online and offline
Profiling the new non-conforming lenders in mortgages, autos, credit cards and potential supply for ABS
How difficult is it for a new lender to launch?

11:50 TRACK B
The Role of Balance Sheet Synthetic Securitisations in Bank Capital Relief
Is there harmonisation or divergence in definition or risk transfer from one country to the next?
What has been executed, and where is the risk going?
Where is the risk transferred to?
Distinguishing from synthetic CLO transactions
Is this a return to the structures we saw at the height of the crisis?
How likely are these deals to be called if funding conditions shift?

11:50 TRACK C
Risk Retention as a Political Football: U.S. versus European Proposals
Diverging approaches: impact on cross border issuance
How do US and European risk retention rules dovetail?
How do they clash?
What is the potential for harmonisation of the rulings?
Will it be possible to create a master structure compliant with both U.S. and European rules?
Outlook for risk retention in CLOs and CMBS in the U.S.
Outlook for the EU regulatory process and where we may end up

11:50 TRACK D
The European CLO Market Outlook in 2017
What's the outlook for the coming year?
How does European CLO performance compare with other investments?
What are the current structural trends?
Leveraged loan market outlook: low collateral supplies and how this impacts primary issuance volume and speed
Is regulatory change finally stabilising? How will regulation change the market over the coming year?
CLO Resets and Refis vs. New issuance in 2017. Which will prevail?

12:40
Delegate Luncheon
Commence Concurrent Tracks 'A-D'

13:45 TRACK A
Alternative Lending in Mortgage Finance
Role of non-bank, specialty lenders
Do the risk/return economics yet work for RMBS as a core funding mechanism?
How difficult is it for a new lender to launch?
Will we continue to see the smaller issuers placing RMBS or will the mainstream lenders dominate?

13:45 TRACK B
The ABS Research Analysts' Roundtable
Impact of the end of QE measures by BOE and ECB
Issuance bright spots: Autos, consumer credit, RMBS
ABS versus corporate bonds, equities, emerging markets

13:45 TRACK C
Third Party Country Recognition: The UK Issuer and Fund Manager Roundtable
The UK will be outside the EU and the Single Market: how will this affect UK transactions
Assessing the likelihood of equivalence for the UK now Article 50 has kicked off the two year procedure.
How will this impact UK firms seeking to raise funds from the EU ABS investor base? Will the subsequent increased cost of funding discourage ABS or Covered Bonds issuance?
Will UK asset managers still be able to manage European funds?

13:45 TRACK D
CLO Managers' Roundtable
How risk retention has impacted CLO managers
How CLO 2.0 structures have impacted managers
Is the change in manager landscape a good development for investors or not?
Are PE firms better placed to be CLO managers?
Assessing different types of managers
Challenges in launching a new fund

14:35 TRACK A
Auto ABS: In High Gear?
Increasing auto sales across Europe: will the positive trend continue or does the boom of 2016 mean leaner years to come?
Will tougher regulations on diesel emissions have an impact?

14:35 TRACK B
Market Liquidity Challenges: The Traders' Roundtable
Will FRTB worsen already difficult liquidity conditions in Europe by sidelining the banks as major providers of risk trading capital?
If so, are these alternative providers of liquidity and facilitation of markets?
E-Trading: Can electronic trading substitute for the absence of bank capital?
Can the market use technology to create more efficient trading of loans and shortened settlement periods?
Has the potential for volatility in valuations re-directed a lot of risk capital into direct lending as opposed to ABS?
Does this end up increasing hidden risk in the system?

14:35 TRACK C
Women in ABS: Ensuring Gender Equality in Structured Finance
Is the industry where it needs to be with respect to women achieving professional success and/or with respect to this being appropriately supported?
What does progression in this regard mean for the industry and what should we be aiming for? Are more concrete goals necessary and/or realistic?
Have things improved in recent years or are they largely staying the same?
What are the challenges to progression for women within the industry, within firms and at a personal level?
What do you see as the single biggest factor with respect to your own progress?
What would you identify as a single 'top tip' for success for women starting out today?

14:35 TRACK D
Assessing Relative Value: A CLO Investor Roundtable CLOs vs. corporates, or ABS
Liquidity of CLOs: why do they always price wider than anything else?
There seems to be a permanent premium for the asset class, why is this the case vs. granular consumer ABS?

15:25
Refreshment Break

15:25 TRACK C
Women in ABS Networking Reception

15:45
Examining the U.S. and European Markets: Performance Expectations and Regulatory Divergence Concerns
What are the prospects for convergence and co-operation? Are the EU and U.S. growing even further apart?
How do US and European regulations rules dovetail?
How do they clash?
What is the potential for harmonisation of the rulings?
For mutual recognition or substituted compliance?
Will it be possible to create a master structure compliant with both U.S. and European rules?
Volcker emerging market practice/unresolved issues
The U.S. SEC's REG AB II implications for European issuers; how will it impact 144a issuance into the U.S.?
How far will 144a market align itself with the registered market post REG AB II? Will it impact purely local issuers as well?
How much of a hurdle are misaligned reporting and disclosure templates?

16:30
Keynote Address
Carol Hitselberger, Partner, MAYER BROWN LLP (Moderator)

17:15
Day Two of Global ABS 2017 Concludes

Review period set

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A regular review period has been a point of contention for European issuers given the potential to create fresh bouts of uncertainty. However, it is clear now that the 5% risk retention level in Europe will be under the constant eye of the ESRB, something only hinted at when terms were agreed upon last week.

While The ESRB is not expected to regularly change risk retention rules, the fact that there will be a review every three years has some players concerned, though attendees at at this year's Global ABS conference in Barcelona shrugged off the development.

"I don't think it is a huge issue," said one conference goer on the sidelines on day one of the event. "As long as we operate sensibly then there really shouldn't be a need to change the risk retention levels, and I think the ESRB will see that."

It was also confirmed in the paper that there will be no agreement over third countries in the final STS framework. The provisions were sought after by the European Parliament but will now likely be wrapped up in the overall negotiations regarding Brexit, MEP Paul Tang told GlobalCapital last week.

An agreement on STS has been long sought after by the market, but according to issuers, it alone may not be enough to open up the European securitization market in the way the European Commission and Council had originally envisaged.

"Although positively perceived in the market we do not necessarily see a significant increase in issuances induced by or directly linked to the finalisation/agreement of the STS framework," said Christian Kunz, head of structured finance at BMW Group. "Moreover, we see the number and amount of issuances being affected by not only one but several factors. Amongst regulatory implications the general economic environment, monetary policy or the geopolitical situation are, inter alia, key determinants." ▲

Attendees scope new developments

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discussing the state of the NPL securitization market, which has boomed over the last 18 months.

"It might be that NPLs are the big growth asset class for the future, and it is nice to see that [IMN] has recognized that and put on these panels to address it," Rob Ford, portfolio manager at TwentyFour Asset Management, said.

There will also be talk of budding new sectors in European ABS. In the renewable energy finance space, for example, panels at the event will focus on the emerging Property Assessed Clean Energy (PACE) market in Europe. Already well developed in the US, PACE programmes finance energy efficiency upgrades for residential and commercial properties, and issuers have regularly tapped securitization for financing, with payments collected through a borrower's property tax obligation. The potential opening up of the market in Europe has received considerable buzz (*see related stories*). Other emerging sectors that will receive air time at the event include the handset securitization market and the growing market for synthetic ABS.

But while regulation is less of a focus than in past years, a considerable amount of the discussion will be devoted to where the market goes from here now that STS has been finalized and whether the rule reinvigorates European securitization.

"I think there are investors out there who don't care if a deal is STS or not, but what is important is that it takes away the uncertainty," Ford said, adding that market participants are curious to see if the finalization of the rule jumpstarts issuers' origination plans.

Still, while fears over the final look of STS have abated, there is some concern from attendees that the regulatory headwinds could strengthen, and market players appear to be divided on how much more pain is in store. Discussions on the regulatory outlook, STS compliance and capital requirements under Basel will take place over the three days.

As usual, attendees this year will be wined and dined at venues across the city. Allen & Overy will host its reception on Wednesday, June 7 at Bestial, while Baker McKenzie will host guests at La Pergola Terrace at the Hilton Diagonal Mar Hotel the same evening. Also on Wednesday, Deutsche Bank will throw its bash at the Carpe Diem Lounge Club. ▲

PACE market shows big promise

« FROM FRONT PAGE

be longer dated than other securitized asset classes.

"The asset managers who would be interested in buying this are pension funds and insurance companies looking for the securitized version of the asset, versus direct lending," he said.

But getting to that stage could take some time given the market's early stage of development.

"A typical pension fund would have an allocation to this sort of asset of £1bn. So there's quite a jump in this product before we get to that stage."

He said the main issue was how the legal structure of the product would be replicated and implemented across Europe and the UK.

Cannarozzi said that EuroPACE bonds would benefit from the "simple, transparent and standardised" securitization framework, the principles of which were agreed by the European Parliament, Council and Commission last week.

The PACE projects would focus on renovating and retrofitting residential properties across Europe to make them more energy efficient. While PACE loans on commercial properties has developed into a viable market in the US, with the first securitization of those loans expected later this year, Cannarozzi said the programmes would focus on residential buildings which account for 75% of properties in Europe.

He said that Germany and France were European market leaders in terms of energy efficiency and retrofitting, while there were "suboptimal" levels of investment in Italy, Poland and Spain, among others, creating an opportunity to increase investment through EuroPACE programmes.

GlobalCapital reported last month that Deutsche Bank is looking to get in on the ground floor for PACE ABS in Europe. The bank, which has led transactions from issuers in the US, is said to be looking to offer similar services to European PACE finance shops when they are ready to securitize.

Still, while talk of PACE is building, a debut ABS transaction could be a few years off, sources say.

In the US, meanwhile, PACE ABS has boomed. A stable of issuers has regularly hit the market with multiple deals a year since 2013. Despite this though, the US market is moving against stiff headwinds. As PACE loans are collected with property taxes, they are senior to the mortgage. PACE liens, therefore are not accepted by the government sponsored enterprises Fannie Mae and Freddie Mac, and are not eligible for purchase by the GSEs.

In addition to this, the programme has been targeted by legislators in Washington, DC, who allege that residential PACE lenders use predatory lending tactics when pitching their products to borrowers. Bills in the House of Representatives and the Senate have been floated in recent months, with the aim to bring PACE lenders under the same consumer protection guidelines as other products. Industry advocates fear that such a move would hobble the industry and kill origination activity in what has become a nearly $4bn market. ▲

PACE takes root in Europe as US booms

PROPERTY ASSESSED Clean Energy (PACE) ABS has boomed in the US and is seeing growing demand from European investors. Meanwhile, the PACE model is starting to take root in a handful of countries across Europe, with issuers and institutional investors looking to get in on the action.

PACE lending finances energy efficiency upgrades for residential and commercial properties, and are senior to the mortgage. Payment are collected with a borrower's property taxes. The US PACE industry, which began in California in 2007, hit over \$3.7bn originations year to date in May on the residential side, and \$380m on the commercial side, according to data from industry group PACENation.

In the securitization market, PACE bonds from issuers Renovate America, Renew Financial and Ygrene Energy Fund have been snapped up by investors drawn by the relative high yields on offer. Though the majority of the bond buyers are domestic, interest has from European ABS and other fixed income buyers has grown.

> "The number of European investors has grown incrementally"

Renovate America, which has previously expressed interest in marketing to the European investor community, told *GlobalCapital* that a growing portion of their investors are now coming from across the pond. The company is the largest issuer of US PACE ABS, having issued over \$2.2bn of bonds from its Home Energy Renovation Opportunity (HERO) platform since its debut in 2014.

"Our first non-US account participated in mid-2016. It took around six months or more of spadework before we got European investors into the HERO ABS program," said Craig Braun, head of capital markets at Renovate America.

"The number of European investors has grown incrementally. For our last offering, we did a club deal and didn't offer it broadly so it was flat in that respect, but the European investor base has definitely grown since our first deal," Braun added.

Nicole Montecalvo, head of investor relations at Renovate America, noted that the company will continue its outreach to European investors as part of its agenda for 2017.

"Outside of the UK, which is where all of our current European investor base is, we did do a mini tour in northern Europe, and there's a lot of interest in PACE there. They're not all ABS buyers, but there's dedicated green bond pockets there," she said, adding that the company will head to Vienna, Germany and Paris in the latter half of the year to gauge interest among institutional investors there.

Yet, despite the growing demand from Europe, Renovate America will not be structuring dual-compliant deals for now.

"On our last deal, our discussions with both our green and ABS investors showed that there's enough interested parties out there that don't need the deal to be dual risk retention compliant," Braun said.

"There's no sunset provision and they're also thinking about raising the limit. There's just too much uncertainty about the rule, so we decided that we had enough demand away from the buyers who wanted the deal to be dual-compliant," he said.

Planting the seeds

Meanwhile in Europe, the PACE industry has come to resemble the US PACE market in its early days. However, industry observers told *GlobalCapital* that the time is ripe to introduce the programme in Europe, and that its implementation is unlikely to encounter fierce opposition in the same way US Government Sponsored Enterprises (GSEs) like Freddie Mac and Fannie Mae have chosen not to recognize the seniority of the PACE lien over the mortgage.

Nadia Ameli, senior researcher at UCL Institute for Sustainable Resources in London, noted that the European mortgage market, which experienced significantly lower default rates than the US during the 2008 recession, is unlikely to clash with the European PACE market over lien priority.

"With regards to PACE potential implementation, the European housing finance system might seem more suitable than the American context. PACE's senior lien status over an existing mortgage might seem to be a less relevant issue in a market that generally showed low default rates," Ameli wrote in a 2016 research report.

Davide Cannarozzi, managing partner at GNE Finance, notes that potential PACE markets in Europe include Spain, Netherlands and Italy. The company aims to bring PACE to Europe and is working on developing PACE financing in select cities.

"We are focusing on countries where there has been some delay in the energy efficiency financing for the residential sector. If you analyze the European goals for 2030, there's the target of achieving 27% of savings compared to the 2005 baseline. The European Commission understands that if they want to reach this goal, they will have to implement a large scale energy efficiency program for buildings. In our analysis, we found that the residential sector was underserved," Cannarozzi told *GlobalCapital*.

"There are presently 28 states in Europe – 27 after Brexit – so we want to create a roadmap for the implementation of PACE to get support from the European Commission. We want to analyze the legal system, the fiscal system and the authority the local administration has to implement taxes or levies that can resemble the kind of property assessments like US PACE," he added.

> "We are focusing on countries where there has been some delay"

GNE Finance is in the process of setting up a preliminary PACE program in Catalonia, and wants to launch a pilot program starting with Spain in 2018, with a target of €1bn in residential PACE originations by 2023 as the program takes off in other countries.

However, UCL's Ameli told *GlobalCapital* that despite the positive industry buzz over PACE in Europe, not all countries may be successful in their implementation of the program. She pointed to the failure of the UK's Green Deal, which was introduced in 2013 to allow borrowers to benefit from energy efficiency upgrades to their homes. The loans repaid through energy bills instead of through property taxes, but transferred with the property in the same way PACE liens do.

"Unfortunately, the Green Deal failed and it only reached around 2% of its targeted population, so it was withdrawn in July 2015," said Ameli.

"It's still not really clear why PACE is successful in the US, but yet the Green Deal didn't work out in the UK. I think that maybe it was not well implemented here, or maybe they did not do the right outreach activities then," she added.

Though it is still early days, a wide range of investors are wading into the space to hunt for opportunities. Cannarozzi added that several investment funds have already signed up to be GNE Finance's equity contributors in the early stage, and could soon look to the European Investment Bank (EIB) down the road.

"The EIB has a program called European Local Energy Assistance (ELENA), which provides technical assistance to energy efficiency financing projects, so once we have large cities that want to launch PACE programs, the EIB can support us in financing these initiatives," he said. ▲

MEP Paul Tang on the future of EU ABS

Member of the European Parliament Paul Tang spoke with GlobalCapital in May about STS, Brexit and the role of securitization in Europe.

The outlook for European securitization has been a hotly debated topic in the year since the European Union has begun working on the final version of the 'simple, transparent, standardised' (STS) framework for European ABS. Many market participants have been vocal critics of what they see as an attempt by the European Parliament to curtail activity and stymie growth of the sector.

Paul Tang, Member of the European Parliament and rapporteur for the Committee on Economic and Monetary Affairs, has been a leading figure in the struggle to curb the excessive risk-taking many European policy makers associate with the collapse of the subprime housing market in the US and the pain of the Great Recession. With deliberations between Parliament, The European Commission and the European Council coming to the final straight, Tang spoke with GlobalCapital to offer his views on STS, Brexit and the role of securitization in Europe.

GlobalCapital: What is the role of securitization in funding the European economy in your view?

Tang: It has a role to play in the future. If you look at the situation currently the market is mute and there are good reasons for that. First of all the, the European economy is still recovering. It's getting better but it takes time. There needs to be more demand for new sources of financing, but this is developing. On the other hand, if you look at the supply side of financing there is cheap money from the European Central Bank and unexploited opportunities in covered bonds.

I would say there is a hierarchy between money from the ECB, covered bonds and securitization in that order. That's the reason the market hasn't really recovered. The market is also waiting for the re-calibrating of risk weights, which may also contribute to make securitization a more attractive source of financing. I think the market will need to redevelop and that will take time, but I expect it to grow later on, especially as the economy starts to grow further.

GlobalCapital: Ideas around risk retention have changed from the original proposal of 20% retention to 10% vertical retention and 5% horizontal retention. What is the thinking behind that change and what prompted parliament to settle on these levels?

There are four broad changes that parliament has made to the proposals. The first is in CRR file and trying to reduce dependence on rating agencies, which I think is one of the crucial issues. Then in the STS file, for transparency, we have come forward with a system of decentralised public data repositories. On supervision, we feel that if you want a European capital market you need European supervision, so you need a strong role for ESMA, for example, and the EBA.

On the prudential framework, I never tried to reduce it to a single number on the retention rate. The market needs to redevelop and we don't know necessarily what is going to happen, so the prudential framework is very important. We want to watch the development closely.

STS is intended to come up with a sound product in a sound market, which means the market should not collapse in bad times. To arrive at that point you need to have micro and macro prudential frameworks. The retention rate is one of the issues, but what we really need is the supervisors to keep this market under a close watch. They need to be prepared to intervene when necessary to make sure that you don't see problems arise at the moment they occur, but see them beforehand — so we can prevent the problems from occurring. That is the major change.

What I find still striking is that a lot of discussion has been on the retention rate but it's the retention method that needs to be discussed. Parliament didn't touch on the 5% horizontal method, where you take 5% of the first loss, which is very different from taking 5% of every loss [tranche]. Taking 5% of the nominal first loss means that you have skin in the game, especially when the loss rate is low, of almost 100%, which is very different from 5% of all tranches.

GlobalCapital: There has been some focus on the two year review period in the proposals. Some in the market are saying that is too little time and it does not allow for sufficient planning. What would you say to that?

I'm a bit sceptical. This is a supervised market where supervisors can and will intervene at some point. This has always been a part of financial markets and financial institutions are perfectly able to live with that. What you don't want of course is unpredictable behaviour from supervisors, which is different.

But no one is arguing to make the behaviour of supervisors erratic. When we argue for a prudential framework we want supervisors to keep this market under a close watch, that's all. That can have implications, but only if the market doesn't develop as the supervisors, or as we, the politicians, want it to.

GlobalCapital: There is much talk over the future of UK given Brexit. Is there now more emphasis on sort some sort of third-country provision, given that the UK is leaving the European Union?

TWe would rather see the UK enter the market than not, both on the supply side and on the demand side. That has been the signal from the European Parliament. Whether that is part of third-country equivalence or part of a broader view on Brexit that's fine, as long as it is clear that this is the intention of the European Parliament. The problem is that third-country equivalence may not be enough. Third-country equivalence is relatively weak, particularly for the issuers, because it is a one-sided measure. The commission grants third-country equivalence but also can take away that grant, so the legal uncertainty is often too large. I think that rather than be about third-country equivalence it should be about access to and from the UK that is at stake. This is the clear signal from the European Parliament and I think that it will be taken up in the Brexit negotiations on a more general level.

GlobalCapital: There are people in the market that say there are some in parliament who don't want securitization to play a major role in European financing. Is this view correct?

When I first came to the parliament I was pleasantly surprised that it was of course critical of securitization — but at the same time, constructive. What I see is that people seem stuck on just one part of that. Personally I have also been critical but I have been constructive at the same time. The European Parliament adopted a compromise and took a position with a broad majority so I don't say it is impossible. Of course there are discussions on the table but I think that is fine and it is also good for this market that it gets political backing. You want a market to operate in a stable setting and if there is political fire from everywhere the market may be damaged in the future. So I see being critical and constructive as twin views — they are both in the European Parliament at the same time and we will try to combine them. ▲

afme
Finance for Europe

AFME examines shifting landscape for ABS in Europe

The first half of 2017 has proven to be a considerable shift from the themes seen last year in the European securitization market. Where it was once all regulation all the time, the conversation has shifted. The 'simple, transparent, standardised' (STS) framework is nearing the final stretch of negotiations, with a resolution hopefully in sight.

Market participants have turned their attention to developments on the ground across Europe. Private equity is playing a bigger role than it has previously, stepping in to buy portfolios of distressed assets and reoffering them to investors as ABS. The increased presence of private equity in European securitization has led to discussions of how these firms might be able to address the larger non-performing loan issue that has weighed on European banks. Finally, recent synthetic securitizations have received considerable attention, with many in the market wondering if there is more to come.

AFME gathered a group of experts at its London headquarters to get a read on new developments in European securitization and the future of the industry as a source of funds for Europe's economy.

Participants in the roundtable were:

Emmanuel Blind, head of asset backed products UK, Société Générale
Neil Hepworth, managing director, CarVal Investors
Richard Hopkin, managing director, AFME
Lynn Maxwell, managing director, HSBC
Erik Parker, executive director, Nomura
Francois Terrade, managing director, Demica
Damian Thompson, managing director, NatWest Capital Markets
Sam Kerr, moderator, *GlobalCapital*

GlobalCapital: **Let's begin by looking at the role of private equity in European securitisation. How has this dynamic influenced European ABS markets?**

Neil Hepworth, CarVal Investors: From our perspective, we've now got six UK non-performing trades to our name. In terms of changing the dynamic, what we've done over the last few years is use securitisation as a funding tool. It allows you to bid more aggressively, I think, on performing and semi-performing portfolios from sellers and to bridge that bid-offer spread on non-core portfolios that are being sold. I think the reason we've had an interesting role in the market is because your traditional issuers have had other funding sources, whether via the Bank of England or the European Central Bank.

So, in a sense, we've kept that market going slightly. If you think about who the main issuers have been over the last five years of securitisations, it probably has been non-bank and private equity secondary portfolio traders. Going forward, we will continue to use securitisation, if we think it's a useful funding tool. From our perspective, ultimately, if we're bidding on portfolios, it's all about the price that we can bid to win, and the returns that we can get. We obviously use alternative sources of funding and things will change but at the moment, so as long as securitisation continues to be a stable, useful, funding tool for us, we'll continue to use it.

Damian Thompson, NatWest Markets: I think there's a circular link here between private equity, securitisation and the change or restructuring of the banking market over the last seven or eight years. A large part of that is performing assets, in fact almost all of the performing assets that have become non-core and left the banking industry, have ended up with private equity. And probably, the only realistic way for private equity to have been able to fund those assets at a price that banks would be willing or able to sell them has actually been to access the capital markets.

Damian Thompson
NatWest Capital Markets

Essentially, securitisation, or public securitisation, is one of the few routes they've got to access capital markets. So, there has been this circle created, which has allowed the restructuring of the banking industry and for private equity funds to make attractive investments, and be the best bid for many of these assets which drive volumes of issuance in the market. We're also now seeing a number of big private equity firms set up new origination platforms and in doing so they are creating a new source of credit for consumers and corporations across Europe.

Erik Parker, Nomura: That's been allowed to happen, partly, because the banks have taken a step back from those types of originations. Neil makes a good point that from a securitisation perspective, banks generally have not issued as much as they previously did pre-crisis or even pre-2011 which was probably the post-crisis peak for prime RMBS issuance in the UK. Since then, liquidity schemes have absorbed too much of that collateral, so private equity securitisations have picked up to fill that gap, and provided the supply the market's been looking for.

Lynn Maxwell, HSBC: I think it's a good example of the securitisation market providing cost effective financing, and also, long-term tenor. The sellers of the portfolios previously, when the securitisation market wasn't really working particularly well, couldn't obtain a price to be able to sell the assets. This dynamic relates to many assets including the portfolios that even the UK government had, like the Northern Rock portfolios or the Bradford & Bingley portfolios. It was only once the securitisation market was active enough to introduce cost effective financing at medium to long-term tenor that, all of a sudden, the capital markets make financing available for the assets and then they can be sold at a value that makes sense for both taxpayer, seller and for the purchaser.

Francois Terrade, Demica: Interestingly enough, there have been some recent transactions where parts of financial institutions have been sold to private equity firms. The securitisation market facilitated such transactions (often more difficult than the average) by providing a clear methodology to assess risks of the portfolio, a market price for the assets and it helped to demonstrate that those businesses had sustainable financial resources. That is a new way for private equity to make acquisitions. However, it must be stressed that it takes time to set up and market conditions must be right.

Richard Hopkin, AFME: This is fascinating to hear. One of the things that we've heard from prudential regulators over the years is that they don't want to revive the securitisation market for it to become a "bank-only" market again. Before the crisis, everyone thought we were transferring risk outside the banking system. In fact, it was all going around in a big circle inside the banking system. Would you say that now that we're seeing more private equity type investors coming in that transfer of risk and funding outside the banking system is really beginning to happen? And the other interesting point is that this is all happening before any of the new regulations come into force. So, it's almost like the market has self-adjusted, to some extent.

Thompson, NatWest: It depends how narrowly you define private equity. Is it just what we would call a PE firm with a capital P and capital E? Or do you actually mean non-bank capital doing transactions? We would consider the market almost being bifurcated between traditional bank issuance and everything else. On year-to-date issuance we've seen €4bn from the banks and €24 billion from the non-banks in Europe. Half of that €24bn is the Bradford & Bingley trade. But, nevertheless, even if you discount that, you've got three times as much issuance coming from non-bank sources as you have bank sources. You could argue that our market isn't a bank market now and it's the banks that are the minority of the market. We've talked about this, Richard, several times, but in terms of how we think the market is set up going forward, it's very easy to fall into the trap of designing a market for bank issuance, when actually, that's not where most of the issuance is. And the issuers of non-bank securitisations are in many ways playing a very valuable role, either to deleverage banks or to create new capital. Those are the things that are really helping in terms of the underlying economy. Whereas at the moment, banks have plenty of alternative funding sources, and they'll use the securitisation market if it's cheaper, but it's just one of a series of marginal choices about funding.

Parker, Nomura: At the moment, while some banks may have capital constraints, there doesn't seem to be a significant number of the north western European banking giants that have those kinds of capital constraints. Therefore, they can pick covered bonds, or liquidity schemes, as an exit, rather than securitisation, which, ultimately, is the tool to try and get the capital relief.

GlobalCapital: Non-performing loans are a huge issue for Europe. We have had the situations in Ireland and Spain,

and then there is Italy to think about. Can securitisation can be used to solve Europe's bad debt dilemma?

Emmanuel Blind, Société Générale: I think that one of the first elements of securitisation is the knowledge of the assets. The people involved in securitisation can provide value to investors and to sellers by analysing and getting the relevant data. In NPLs, one of the key issues is getting the relevant data. Then when you look at recent transactions that are currently non-performing, there have been a lot of transactions whereby the asset portfolio has been directly purchased by private equity, without funding necessarily attached to it. But this may come in the second stage, where there are re-performing portfolios, or certain historical data. Then securitisation may be entered into at that phase.

Emmanuel Blind
Société Générale

You see this, particularly, for instance in Italy, with the GACs scheme. There, securitisation can be used from inception to help finance the assets in the NPL portfolio. There will be different phases from accessing the portfolio to tranche financing and getting a proper rated securitisation.

Thompson, NatWest: That's the important point. If you look at what is the connecting factor between the recent transactions in Ireland and Spain, they're both residential markets where the underlying property markets tend to be more visible, liquid and homogeneous. They're all in situations where the portfolio has been owned and managed for a period of time. So people are able to demonstrate some real data around how the assets are performing and what the expected recoveries are.

Also, both are markets where the economy has stabilised or has rebounded. So those factors make something that feels like it's ready to go to the public markets, and is ready for rating agency and investor acceptance. To your point, the obvious challenge in other non-performing markets is you haven't got that level of data and confidence in the ability to underwrite huge cash flows. So, it's not securitisation that makes the difference but rather other factors that enable securitisation to provide bulk funding.

Parker, Nomura: Like you say, in Spain and Ireland the economics of the housing market are performing much better these days. So, that helps give that confidence and expectation that that rally will continue, whereas I think Italy is still gradually grinding and slowly lowering. On the commercial side, I'd argue that non-performing portfolios across north western Europe, because they're liquidating portfolios, have been too short really to get a viable public exit and securitisation. By the time you've got it through the rating agency process, your pool has significantly changed. Whereas, you've got the flipside in more peripheral Mediterranean countries, where a lengthy workout process means that the gap between bids and where banks are willing to trade are still too far apart. And I think you can see that with the lack of take-up in the Italian NPL ABS scheme.

Maxwell, HSBC: I'm a bit doubtful as to the scalability of securitisation for NPLs. I think that in certain environments, where there's a robust legal environment, and a history of successful servicing and turnaround of NPLs, then it works. But in so many countries in Europe, that's not the case. Whether it's because of the type of collateral, or the legal system, or just the way that the bank has been managing it, or the lack of other professional servicers in the market. There are so many elements that are very bespoke to a given transaction and a given asset pool. I'm just not 100% confident that the securitisation market is really a silver bullet for NPLs.

Terrade, Demica: The huge NPL issue is probably a unique opportunity for the securitisation market to gain a very good name. To show the good technology that we have, and, let's say, the capacity to attract investors to the right solutions and with the direct or indirect support of governments to resolve this massive NPL problem. It's a unique opportunity.

Hepworth, CarVal: From an equity point of view, the way we look at it there are some positives there and some negatives. On the positive side, as you mentioned, if you have a structure, which results in publicly traded notes, it can bring in other investors and it can bring in government entities, as we've seen in Italy. You can allow sellers to take sub-participation notes that somehow might allow them to bridge the gap on pricing. And overall, you'll get a lower cost of funding.

Where we've found the negative side is that when you go down the public route, you tend to get less flexibility in what you can and can't do. There are a lot of stakeholders in the trade that you have to deal with. There are specific rules and triggers that you have to follow. And therefore, it gives you less ability to work the book. We have bought lots of non-performing loan portfolios over the years, and they are generally hard work. You need to go and see the assets, meet the borrowers and go and sit with a servicer. You need to go through that business plan, forensically, and then as time passes, revisit it. There are a lot of staff hours required to get an NPL trade to work well, and get your best return. And you might want to do certain things in an NPL trade that are outside the rules and regulations that you have to abide by in the securitisation.

The other thing that we found, especially with the GACs trades, is if you're buying the equity tranche, it's hard to get comfortable, given the time constraints, with that kind of "take it or leave it" view. We can kick the tyres a little bit. We can look at the business plan and flex it up and down but it's very difficult for us, as a fundamental credit investor, to have full confidence in the ultimate sale prices and confidence in the interim cash flow.

GlobalCapital: How has the market reacted to the UK government's sale of large portfolios of assets like Bradford & Bingley?

Erik Parker
Nomura

Parker, Nomura: One point to start with is that while the Granite and Bradford & Bingley sales went down very well, they were in essence refinancings of existing securitisations. The redemptions took supply away from the market and the portfolio sales just provided it back again a few months later, though not all investors in the prior trades may have wanted to continue on. But it was also filling a gap where there hasn't been enough issuance. Too much recent issuance was very low yielding senior paper. Investors that are looking for higher yielding paper including mezzanine tranches, have had to look at these deals to achieve their target returns.

Thompson, NatWest: Generally, it's a very positive development that we're seeing assets move from the public sector back to the private sector where they rightly belong. And almost back to my earlier point, I think it's hard to see how that could have happened in the same volume, and certainly at the same price, without the securitisation market being there to fund it. The alternatives would have been to try and sell assets to strategic bank buyers, who probably wouldn't have paid the same price and created the value to the taxpayer that the way they have been sold, did.

Maxwell, HSBC: Yes, the timing is key. Really, the market conditions were perfect for those types of transactions. With the Bradford & Bingley sale, six or seven years ago, we were already looking at that, in order to try to solve some issues. Initially, the securitisation market just wasn't there for buy-to-let collateral in such volume. And over time, that changed. As a result, you saw in the Ripon transaction that there was a consortium of banks that were very keen to help to facilitate the sale, and provide the staple. So, that just helps to facilitate access back into the markets, which is beneficial, and ultimately is the sign of the end of a legacy from the financial crisis. These assets that end up on the public balance sheet, have to come off at some point in time. And when market conditions are as good as they are today, where there's a lot of liquidity, there's a lot of appetite for assets, especially highly granular assets, then it makes a lot of sense to securitise.

GlobalCapital: Did you see any evolution over the course of these sales processes, from Granite through to Ripon?

Parker, Nomura: The initial media response after the Granite securitisation was fairly negative towards the government on the price achieved. At the time when they agreed the sale, it was a fair price, but by the time the securitisation came out, the market had rallied significantly. What they did for the Ripon trade was to learn from that experience. So they structured in a clawback, that if the seniors went tighter than a certain level, then the government would benefit from that upside. In the end, the seniors priced at 80bp over Libor, and we believe the initial sale was priced around 20bp wider at about 100bp over Libor. Thus, at 80bp the government got that 20bp benefit back. That was quite an effective way to show that they had achieved value for the taxpayer and thus minimise the potential for any negative price commentary.

Hepworth, CarVal: The main change really, was the fact that they'd pre-packed Ripon. Both in Slate and Neptune it was a whole loan trade and you had to do your own structuring. Ripon, almost everything was done for you. So, in that sense, it made perfect sense for the seller to do that work, because it allows a much wider variety of bidders in to take a look. There are some guys who can structure a trade themselves; there are others who can't.. Obviously, they're incurring a fair amount of costs doing that themselves, which wasn't the case on the two earlier trades. But as Lynn said, the timing was pretty good, so there wasn't really a chance that it would not fly off the shelves. That was the main difference for us, the fact that it was all predone, the structure was there and that wasn't a differentiating factor for bidders.

Hopkin, AFME: What changed in the investor base over the years then? You said that a couple of years ago, the transaction might not have been as well received as it was. Have there been big changes in the investor base over that time?

Maxwell, HSBC: I really think it's pricing of risk. I'd be interested to know what everybody else thinks, but I think it's just a difference of pricing. A couple of years ago a prime residential, large portfolio like Neptune attracted a lot of bidders. At that point in time, probably a big buy-to-let portfolio would not have attracted significant investor interest. But then, as you see more and more collateral being recycled into the public markets and performing well, investors naturally get more and more comfortable with looking at seasoned buy to let portfolios like Ripon.

Blind, Société Générale: There is a lack of supply in securitisation and these sales definitely help the diversification of the asset class. When you look at auto loans for instance, we are into the negative yield territory and it helps finding liquidity on alternative classes, such as this one.

GlobalCapital: We have seen the European Investment Fund issuing guarantee notes for Spanish SME collateral as well as its synthetic transaction with Commerzbank. Are the governments and central banks becoming a competitor to the private market, and what are the implications of this?

Blind, Société Générale: They have been very active in supporting the market and it is part of their mandate. It's true that EIB and EIF, have been involved for many years, especially in Southern Europe. It has been helping banks, who don't have access to the ECB repo, so they are contributing to the asset drive, public securitisation. Now I think we see, with the spread tightening, potential issuers are willing to come back to the public market, to diversify their source of funding, so that will be transitional. But, definitely, all those entities are competitors to the public market.

GlobalCapital: Can the private market compete with the balance sheets of the EIF and EIB?

Maxwell, HSBC: I think their focus is relatively small and on the SME lending sector. So there are a lot of other asset classes that are available for financing.

Lynn Maxwell
HSBC

Hepworth, CarVal: And I think the other thing really is in a lot of the Southern European countries there is probably a higher level of real risk in those portfolios, risk of default and risk of loss.

That will come through to your equity returns and also your triple-A returns. So on the one hand your triple-A would have to price at a wider spread and then in order to get the equity returns you have to issue loans at higher interest rates and you're going to take losses in that. So I would have thought the economics don't add up quite so well at an interest rate for the underlying borrower that really makes sense and can therefore compete with the home banking market there.

The UK and Netherlands have relatively stable economies, growth prospects and low loss rates, so you can price more competitively there than in, say, Spain or Italy where there's still this NPL overhang. You don't know quite where housing prices are going to go in that country.

GlobalCapital: STS is obviously moving ahead; what is the status of the regulation at the moment and what needs to be done?

Hopkin, AFME: Well, I think we're coming close to finalisation of the STS process that began in September 2015, so just over 18 months ago.

I think there's a strong momentum building in the Parliament, Council and the Commission to finalise matters by the end of June, when the Maltese presidency ends. I'm cautiously optimistic that we'll end up with something that will be reasonable but I fear that it won't be completely suitable. I think there will be some issues perhaps that will continue to be problematic for the industry. At AFME, while we are still very firmly focused on the contents of the regulations, we're also beginning to focus more on the implementation of STS. STS is after all means to an end, it is a way of getting more sensible capital treatment and liquidity treatment for European securitisations, not just for bank investors but also insurance companies under Solvency II.

None of that secondary but very important work can start until the framework is finalised. So we're keen to get STS finished but the arguments we're making now to the various policymakers and authorities are along the lines of "Look, we need to get this done but at the same time the new framework needs to be implemented in a coordinated and simultaneous way." There's no point pushing bank requirements sky high before you've been able to bring Solvency II capital requirements down. So that's where we're beginning to turn our attention and I think there's some sympathy for that approach. On the other hand I think there's not a lot of sympathy for looking at, or reopening, the whole discussion around bank calibration, although interestingly the Basel Committee has said that on its work program for next year they're going to look at some details of the capital regime. So I'm optimistic that perhaps through that process we'll be able to fix some of the more egregious aspects of the Basel framework. But I think it's key now to get the implementation right.

Terrade, Demica: Let's see what the outcome will be. Clearly there are a few things that were in the drafts and could even end up in the legislation which would be harmful to terminal for parts of the market. There's no question about that. And I think there does seem to be constructive dialogue going around to try and get it to the right place, but that train has not arrived at the station yet. People should be under no illusions; it is potentially existential for parts of the market which I think are valuable, not only in terms of what they mean for the banking sector but in terms of what they mean to the real economy. So there's some real danger there still but hopefully there's positive progress. I would endorse what Richard said. the proposed future risk weightings for bank regulatory capital treatment are likely to increase the cost of funding and they will directly feed through to the cost of borrowing for the underlying credits in all of these markets. If they go through, they will impact the market, consumers and corporates.

Maxwell, HSBC: The other thing is that the Basel framework was intended to be an international framework, but actually what's happened is that different regulators have chosen bits and pieces of it. So it's great that in Europe there's been the STS dialogue and I think it's been essential because actually the Basel framework itself doesn't take into consideration the strong performance of European asset pools.

But having said that, APRA's taken a different view for the Australian market, Hong Kong's Monetary Authority is consulting on their view but they're quite likely to have a different regime and most importantly the US looks unlikely to adopt the Basel III securitisation framework. So what are we going to end up with? We're going to end up with regulatory arbitrage in various different jurisdictions and I don't think that was what was intended by the regulations.

Hepworth, CarVal: Another issue that we have to deal with is the uncertainty. If you're bidding via a securitisation funding structure you've got a question over what to pay for the assets today, but also what would a third party pay for the assets at the call date? Now, if your risk retention is going to change or if the capital ratio is going to change, that will materially change that potential exit value and that's going to feed back to your price today. In a parallel universe where STS existed and had done for 30 years then we'd have worked around that and the price would adjust accordingly. But at the moment we're bidding in an area that is uncertain and is subject to change. So you have to incorporate it in your credit analysis and your bid strategy.

Neil Hepworth
CarVal Investors

Maxwell, HSBC: And that favours the use of capital markets where banks are less involved, but then that leads back into the question of, have we built up a big enough investor base of non-banks in Europe to actually cushion that potential increase in cost? It doesn't look like we have and that's largely because of Solvency II keeping the insurers out of the market and various other regulations that have impacted the buy side. So we need to do a few more things if we're going to really develop the European capital markets union through securitisation rather than relying continuously on bank balance sheets, which are subject to ongoing fluctuations in appetite and cost of capital.

GlobalCapital: Are we a long way from the original intent of the rule, which was to make securitisation simple and transparent?

Hopkin, AFME: securitisation is certainly very transparent; disclosure standards are the best they have ever been, set to go even further, and are already in absolute terms way

Richard Hopkin
AFME

above what you see in other fixed income or even equity markets. As for simple, well the aim of STS is to designate a sector of the market that is simpler, certainly. I'm not sure that securitisation will ever be "simple". But it is a question of identifying those types of securitisations with "known unknows" rather than "unknown unknows".

One of the areas of STS where I think we are still a little bit worried is the rules around STS ABCP which haven't really changed very much since the original proposals. This has not been for want of trying on the part of the industry. The rules are still in our view overly complex and in many cases just not practical, so I'm not so sure that people are as optimistic about how many ABCP programs will actually qualify as STS post the regulations.

More optimistically, the leverage ratio proposal is a very positive development. Indeed, apart from STS, it's the first wholly positive piece of prudential regulation for securitisation I think I've seen in seven years at AFME.

Terrade, Demica: Indeed very few of them would qualify. As a matter of fact if originators need to be regulated for example, that's something which could dramatically change the face of trade receivables securitisation where originator companies often invest in the subordinated tranches of their transactions.. I'm not sure that market participants have taken the gravity of the issue seriously.

In a way it's quite strange because it's an area which is very close to the real economy. We're talking about corporates, typically the medium to large corporates, so you would think that it's close to the heart of policymakers. So there is some concern. At the end, I think it could probably strengthen the position of the banks as intermediaries between corporates and the financial markets, which would go against the trend of disintermediation.. Corporate trade receivable securitisation has a number of benefits that have not been sufficiently put forward. It is also important that the same assets support the same capital charge, be they financed by securitisation or by the factoring arms of the banks. So we are looking very, very carefully at what's happening but generally speaking, corporates are not aware in the slightest about this.

Maxwell, HSBC: How different is it then from today? You say that it would move those securitisations out of the conduits and onto the bank balance sheets but all the conduits are on the bank balance sheets already.

Francois Terrade
Demica

Terrade, Demica: Those transactions are currently financed by SPVs raising financing from bank sponsored conduits. Conduits provide competitive pricing. If they stop, the receivables will be sold directly to the bank that will hold the assets itself on its books as is the case for factoring.

Maxwell, HSBC: There's no reason why it wouldn't just turn into a securitisation that they hold on their balance sheet instead of on the conduit that is already 100% supported by liquidity from the balance sheet anyway?

Terrade, Demica: Yes indeed and some banks are offering this type of financing. But this will make it difficult for non-bank investors to invest into this asset class.

GlobalCapital: Another issue with STS is the third country status which obviously wasn't as important leading up to Global ABS last year. But now we have Brexit on the horizon. Should there be more focus on fixing third country equivalence?

Hopkin, AFME: Yes, this has been a key part of our advocacy in recent weeks and months. When we started off with the STS dossier and we talked about third countries, we thought we were talking about the mainly the US of course, but now it's the UK as well.

We've seen a shift in the tone of the discussion around this because we started off by arguing for equivalence. Now with Brexit, that whole idea in the relatively small context of the securitisation dossier of course has been overtaken by the much bigger picture of equivalence writ large across all of financial services (and other matters). Some of the points made in the debate recently, from some countries, is that equivalence is really only something that can be talked about in the context of Brexit as a whole. It's not just in the context of this particular dossier that happens to be going through the process at the moment.

So we've shifted our emphasis a little bit and now we are pushing for what we call the submission approach, which is really nothing very different from how things operate today if you issue from Europe into the US markets for example. If you issue a 144a deal in the US, you play by the US's rules. It's been like that for many, many years. While we're hoping that at least the door can be kept open for equivalence if that doesn't work then we could go down the submission route because if someone is willing to come to Europe, to issue into Europe and to deliver product to European investors which has long-term benefits for Europe then there should be a way for them to do it.

As long as there is some kind of regulatory nexus that the authorities in Europe can focus on, so if there's a breach of the rules then somebody is responsible, then we don't see why that shouldn't be a reasonable thing to ask for. So that's certainly something we're still pushing on.

GlobalCapital: Obviously it's impossible to predict what things will look like at the end of 2019 or any transition period following, but given everyone's unique perspective, what is the current thinking on Brexit?

Hopkin, AFME: AFME has just produced a paper focusing on the practical aspects of Brexit. It's not securitisation specific but it's about things like the enforcement of legal contracts, maintaining access to clearing and other issues. And without a doubt there is a lot of work there and there are many issues that need to be thought through. So having been fairly tightly plugged into the European financial system for 40-plus years, of course it's going to be complicated if the UK is going to extract itself from that, assuming we know how much of an extraction that's going to be.

So I think it is hard to say. Let's just hope that it will still be possible to sell UK RMBS to European investors or German car loans to UK investors. It's in everybody's interest for that to keep happening.

Hepworth, CarVal: Everyone could probably agree it's going to be more hassle and more work, more things that you'll have to check, from more straightforward issues like do you have portfolios with foreign owners of UK assets and vice-versa through to the extreme case like if Scotland leaves the UK and re-denominates to euros, then what happens to all the Scottish mortgages?

There are all kinds of weird and wonderful options that can happen and I think everyone agrees that it's going to be a lot more hassle and a lot more work.

Maxwell, HSBC: I think it will add cost. So today if we do an issuance, say 144a, in order to tap into the US market, there's a lot more cost to doing that. So even if we have an equivalence regime, one would expect that there will be slight differences between them. So if you're doing an offering and you want to issue to European investors and UK investors then there will just be additional work to be done and additional cost. That needs to be justified by a significant amount of depth of investors in that location.

So assuming that today the deeper investor base in euros is obviously in Europe, if you wanted to do a euro denominated issuance into the UK you'd have to be pretty confident that it makes sense to do that. So I guess it remains to be seen what the buy side does around where their funds are located, but one would hope that we don't end up getting this silo effect of if you do Euro denominated issuance it only gets issued in European format and if it's Sterling it will only get issued in UK format. That would be a real pity. ▲


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