

Article 5 of EU Securitisation Regulation: Impact Analysis

Analysing Article 5 cost as a percentage of
AUM

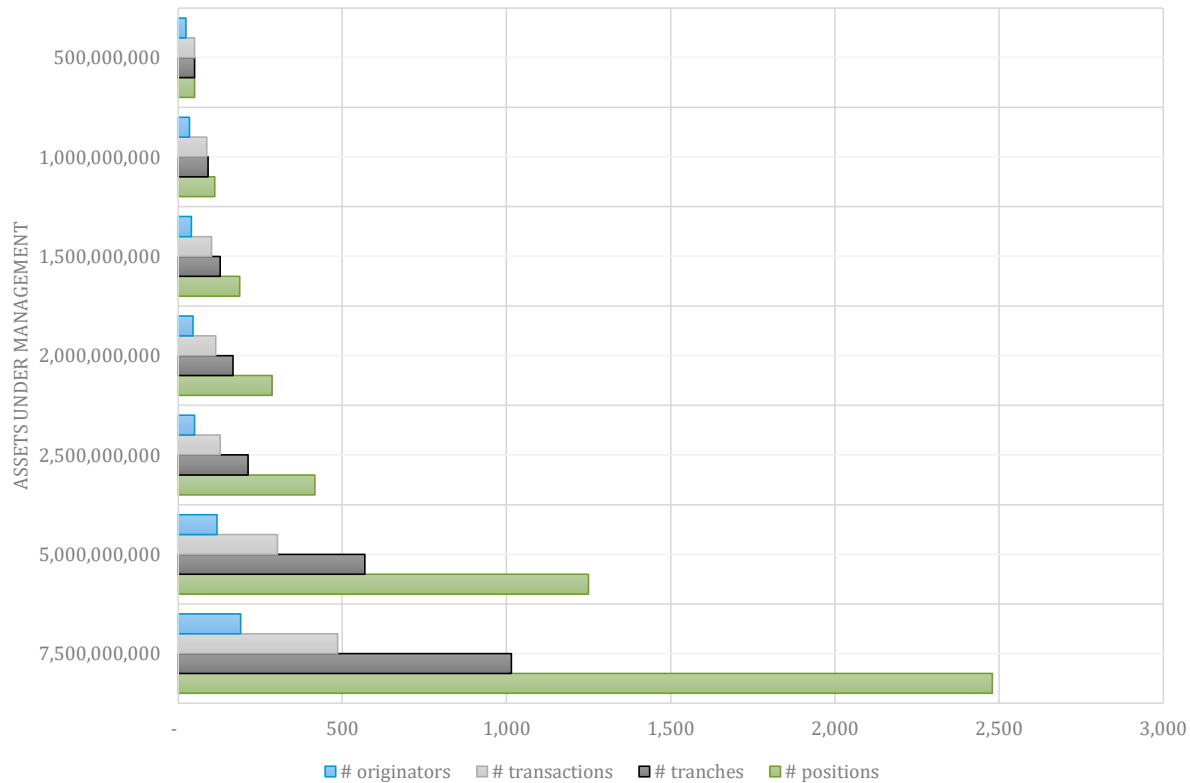
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Objective of Study:

- To estimate the regulatory cost as a percentage of an asset manager's ABS assets under management across a spectrum of portfolio sizes ranging from EUR500mm to EUR7bln. These costs are also measured against fees generated by a typical asset manager, when managing i) a Senior STS portfolio, and ii) a diversified ABS portfolio

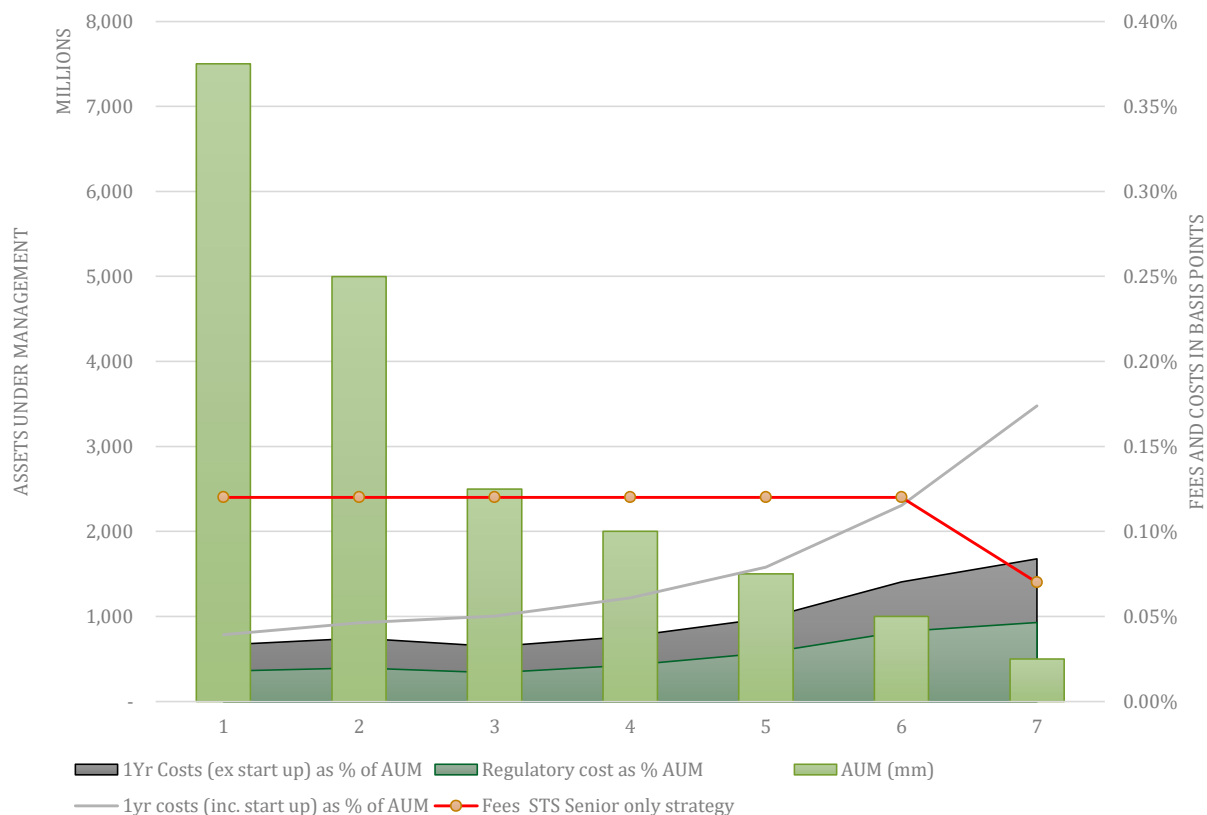
Efficiencies in scaling AUM



As AUM increase, the manager is afforded greater flexibility in the following ways;

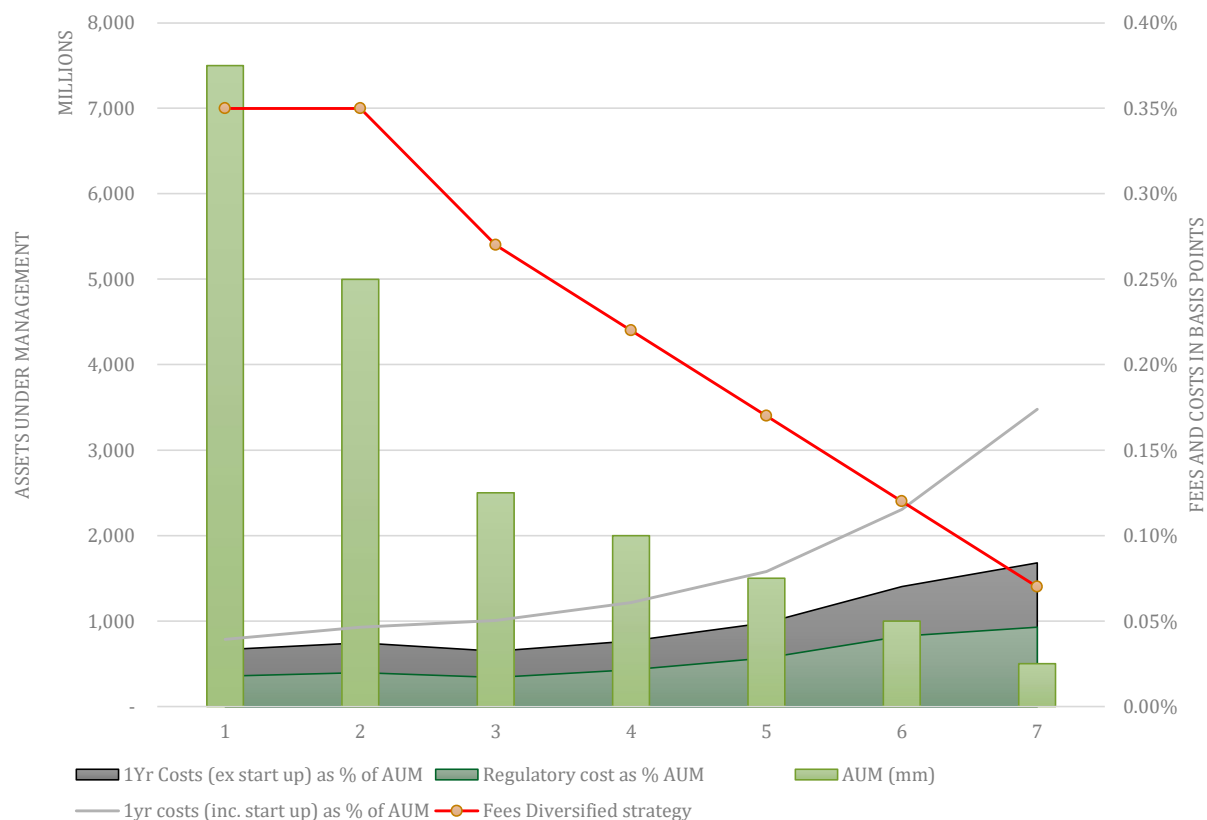
- Ability to allocate across different client mandates, positions in the same ABS tranche
- Ability to allocate different tranches of the same transaction across different client mandates with differing risk appetite (AAA to BB)
- Ability to allocate multiple transactions from the same originator across different clients
- Conversely, a manager managing low AUM (EUR500mm) loses the benefit of this scale and is more or less limited to one position per transaction per issuer
- Scale therefore has significant implications therefore for both the amount of credit DD and regulatory DD required across the AUM spectrum

Resource cost as % of AUM STS Senior only strategy



- AUM STS Senior constitute an ABS portfolio made up of AAA, AA and Single A STS exposures
- % Fees (red line) @ 12 basis points (bps) of AUM, dipping to 7 bps for AUM of EUR500mm
- As AUM decrease, costs (regulatory and credit) as a percentage of AUM, increase to the point that they are greater than the fees generated by the asset manager in managing the ABS portfolio (red line intersecting costs (regulatory and credit))

Resource cost as % of AUM - Diversified strategy



- A diversified ABS strategy is achievable only for asset managers at the larger end of the scale
- It enables managers to generate increasing levels of fee income (c.35bps of AUM) as AUM grow to critical mass
- More junior (and therefore higher fee paying) portfolios can be added to the managers' product suite (although note these tend to be smaller in size than large AAA portfolios)

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