



GLOBAL SECURITISATION MARKET OVERVIEW, 2015

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HAS THE GLOBAL SECURITIZATION REBOUND HAPPENED?

- Post the crisis, the securitization market globally had been dead. Investors' confidence eroded and securitisation was tagged as too complex for market players
- Post the crisis, the regulators/ International organisations had emphatically supported the revival of securitisation
- In 2013-14 there was a substantial pick-up in the investors' interest and the momentum has continued both in terms of volumes and in terms of the credit performance
- A lot of securitization is effected by the recession in European countries and turbulence in China's financial system and the growth is largely dependent on the economic and regulatory developments specific to the country

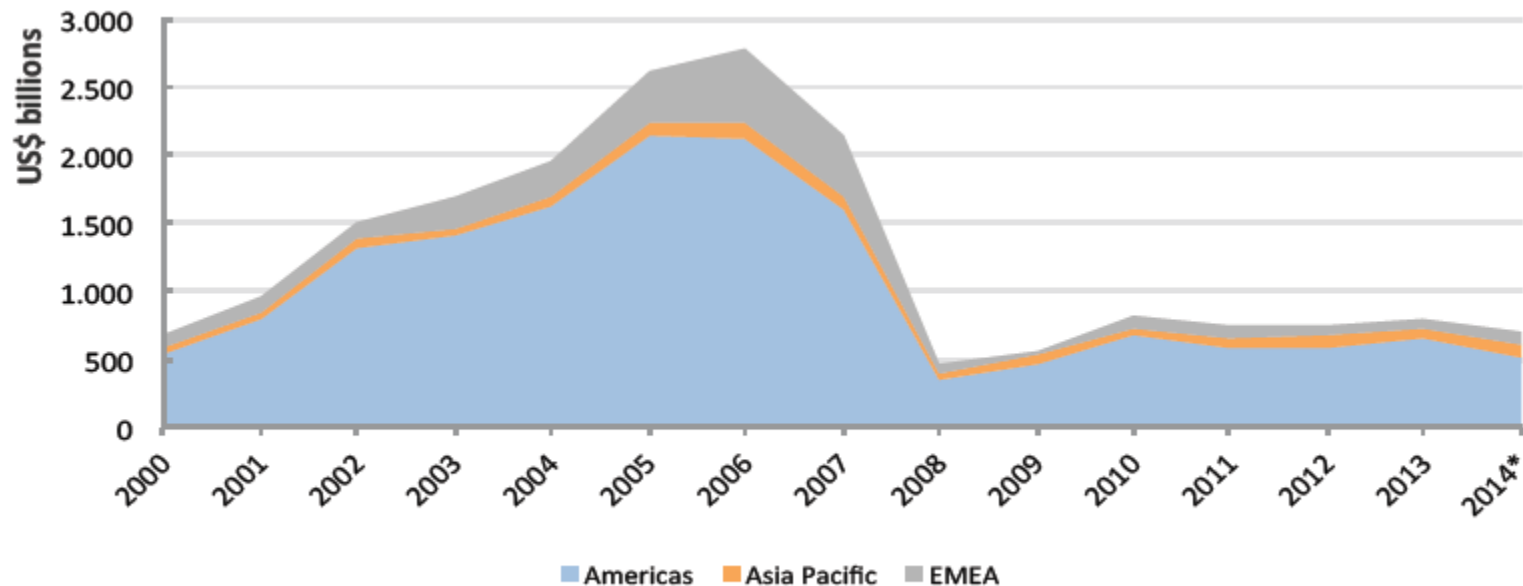


RESTARTING SECURITISATION

- IMF issued the Global Financial Stability Report on 21st September, 2009
 - The report recognizes that though most people were talking about what went wrong it was imperative to revive '*sound securitization*'.
- BIS in its Report on asset securitisation incentives dated July 2011 also recognised:
 - The Joint Forum recognises the potential benefits of securitisation, including its positive effect on credit availability. At the same time, the Joint Forum acknowledges that reforms are necessary to address the incentive conflicts and misalignments highlighted during the crisis, which distorted risk transfer, increased structure complexity and opacity, and led to extreme leverage in the financial system. If such negative aspects of securitisation are limited through rules and supervisory frameworks that better align incentives and promote appropriate disclosures, the foundation should be in place for a sustainable and responsible securitisation market.



ISSUANCE OF SECURITISED PRODUCTS (MBS & ABS)



Source: Dealogic

Note: *Annualised 2014 is IOSCO Research Department projection

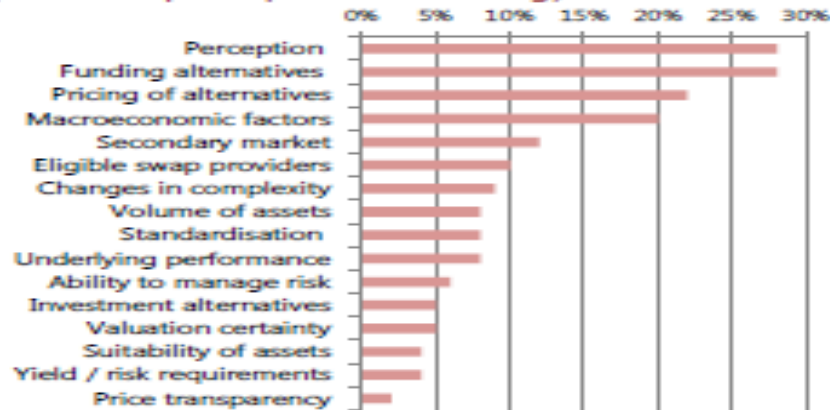
The securitization levels globally are below the pre-crisis level but may be inching towards the levels as in 2000-2001.

The securitization industry globally had peaked to \$2.8 trillion in 2006 and had a steep fall to \$475 billion in 2008 and was at \$690 billion in 2014

FACTORS IMPACTING AND HINDERING GROWTH POST 2009

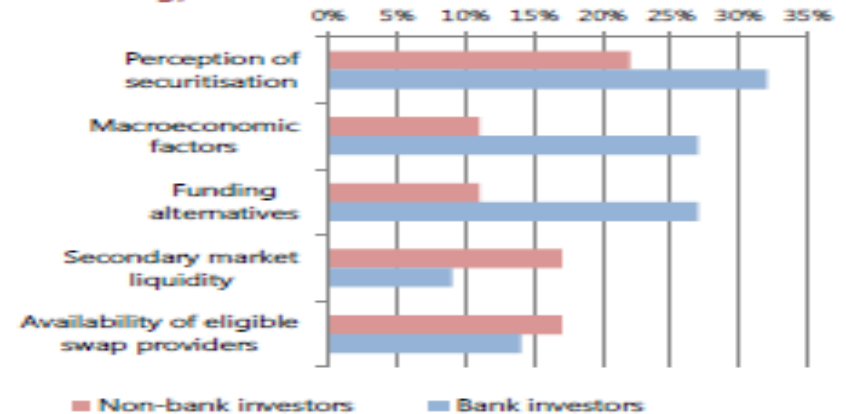
- A BIS report of 2015, highlighted the factors impacting and hindering growth post 2009, the graph reproduced as below:

Chart 1: Most important market factors contributing to market developments since 2009 (% market participants nominating).



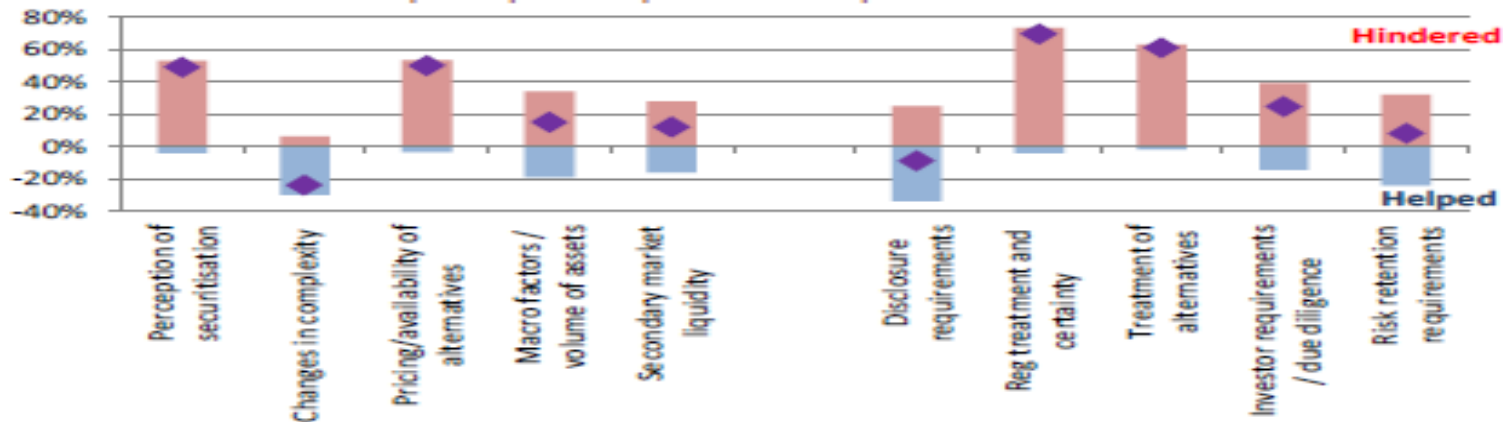
Source: Responses to the TFSM Survey.

Chart 2: Most important market factors contributing to market developments since 2009 (% investors nominating).



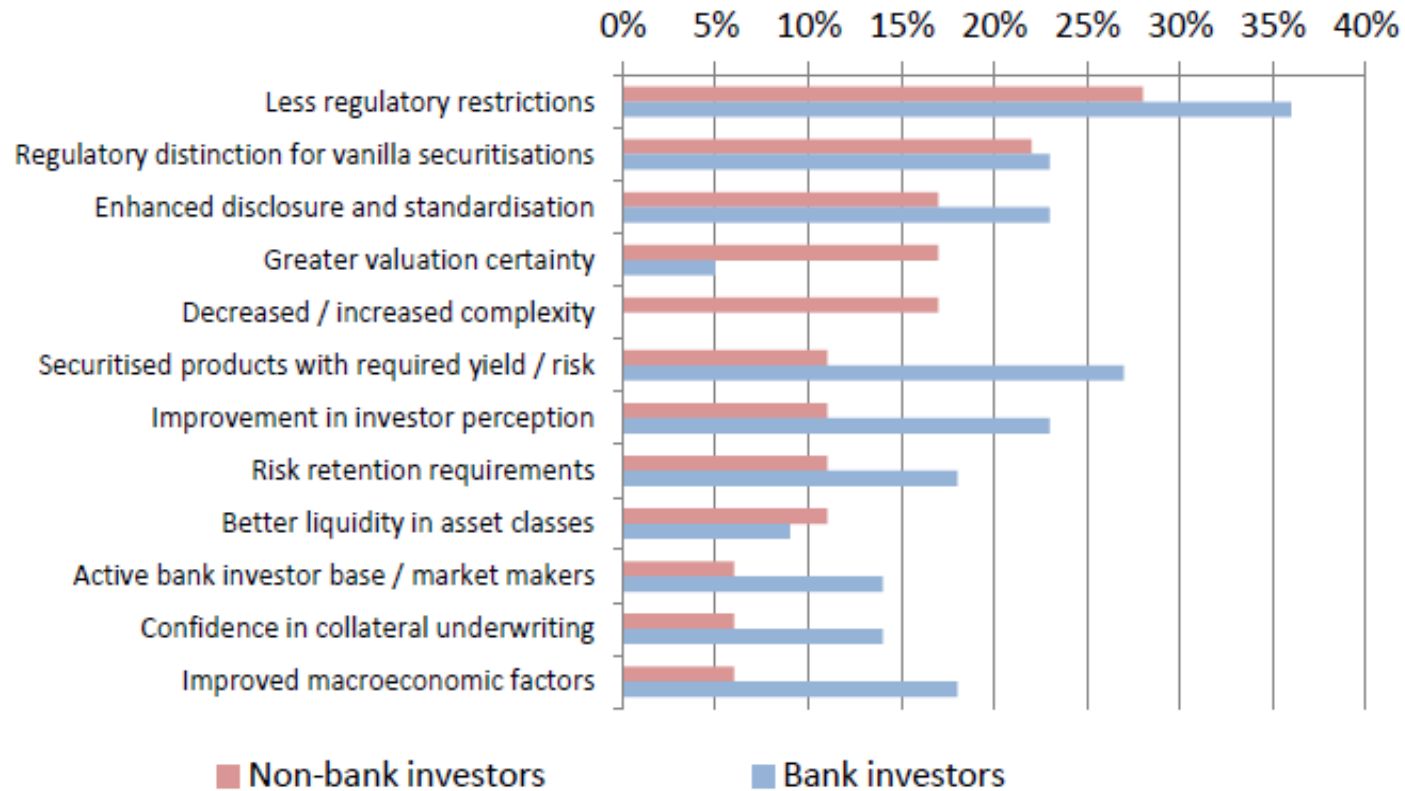
Source: Responses to the TFSM Survey.

Chart 3: Balance of market participant responses on impact on securitisation market since 2009



Regulatory treatment category includes capital and liquidity treatment. Purple markers reflect net results.
Source: Responses to the TFSM Survey.

FACTORS IMPACTING AND HINDERING GROWTH POST 2009 – INVESTORS’ PERSPECTIVE



Source: Responses to the TFSM Survey.



HISTORICAL REGIONAL VOLUMES

Historical Issuance			€ Billion
Year	Europe	US	Australia
2001	152.6	2,308.4	15.5
2002	157.7	2,592.7	19.4
2003	217.3	2,914.5	24.9
2004	243.5	1,956.6	31.7
2005	327.0	2,650.6	31.5
2006	481.0	2,455.8	36.8
2007	593.6	1,253.7	34.3
2008	819.2	915.8	6.6
2009	423.8	1,351.9	9.7
2010	379.1	1,170.1	15.5
2011	375.9	1,031.2	20.4
2012	253.2	1,554.7	14.8
2013	180.2	1,495.7	22.4
2014	216.3	1,070.3	22.1
2015	33.9	356.7	7.8

Table 1: Historical Issuances over the past few years
Source: AFME Securitisation Data Report, Q1:2015

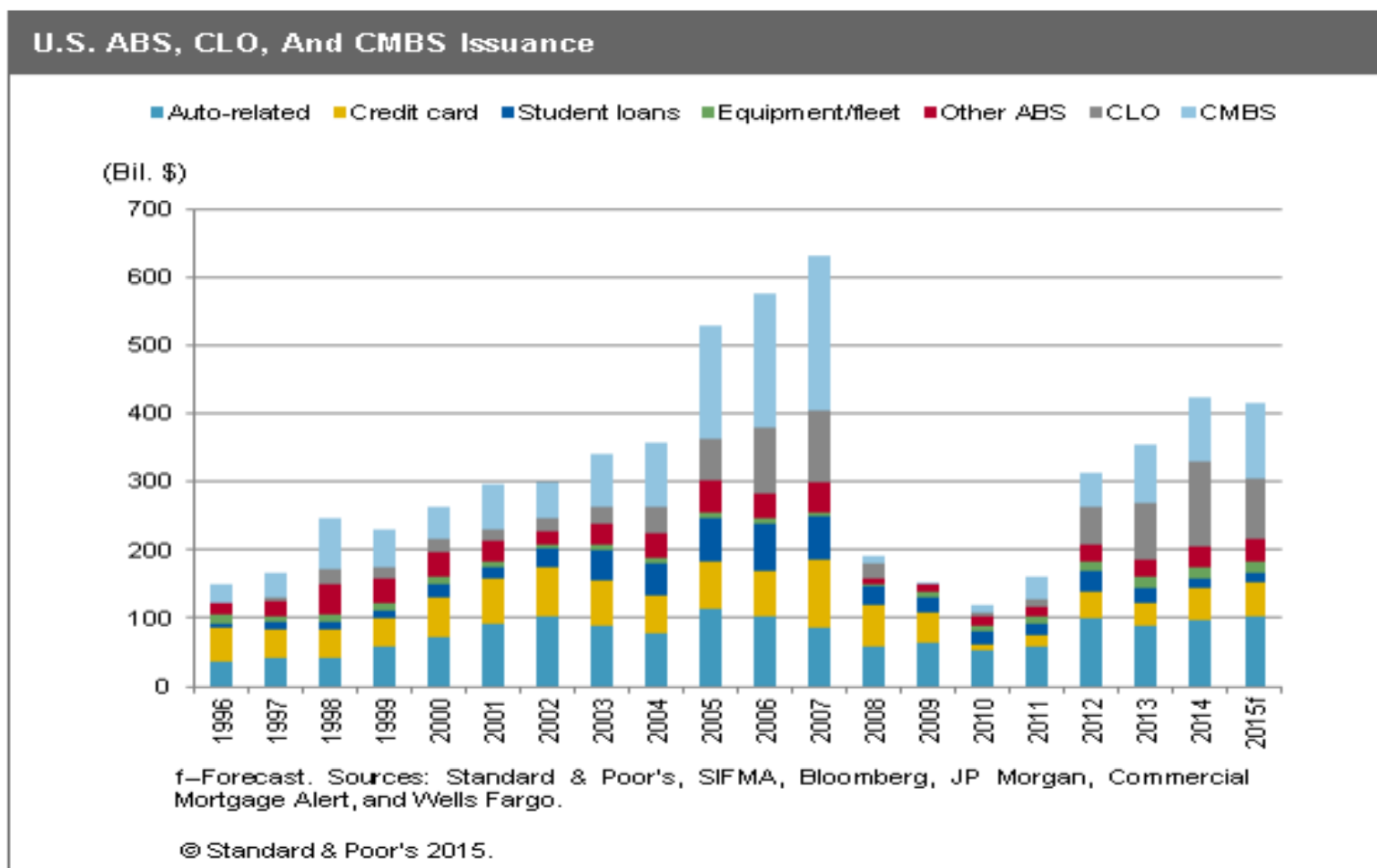


REGIONAL ISSUANCE VOLUMES

- The U.S.A. continues to be the largest market for securitisation, globally
 - There is clarity on the regulations relating to securitization
 - U.S. economy has been steadily recovering with labour market and GDP growth being evident
 - Generically there is a growth across ABS, MBS and CLOs in the U.S.
 - Auto and credit card securitisation has recovered strongly.
 - There is growth in MBS market but the non-agency RMBS market has remained a fraction of its former self.
- Europe's share in the securitisation market has been declining from 15% (just before the crisis) to 10.5% in 2014.
- Asia's share on the other hand has grown to 14% in 2014 and in absolute terms to reaching to almost pre-2006 levels.

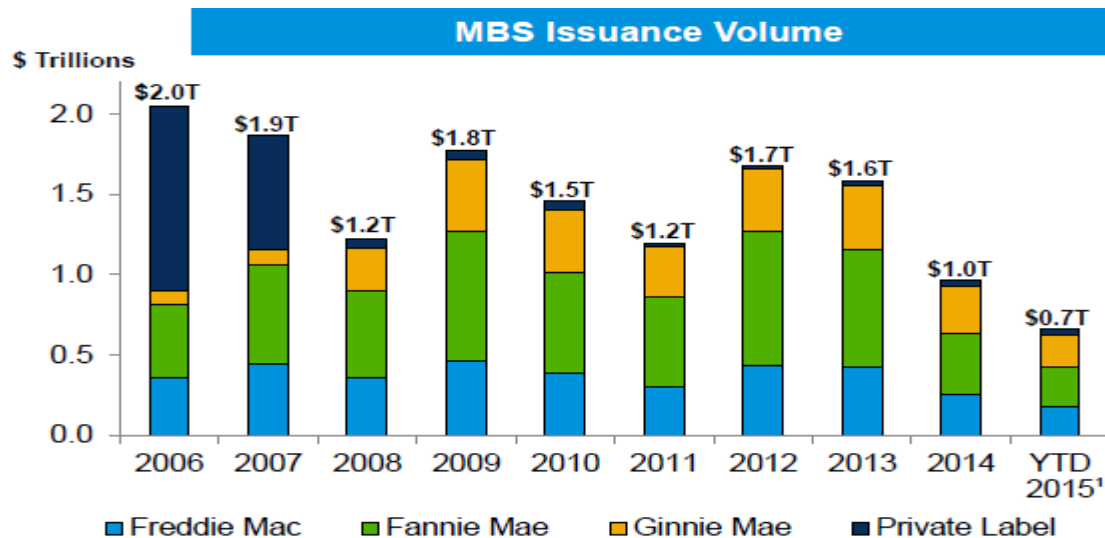


US ABS, CLO, CMBS ISSUANCES



US MBS VOLUMES

- While the US continues to be the dominant market in the securitization space, the private label transactions are slow to pick up as compared to agency MBS volumes



	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD 2015 ¹
Enterprises & Ginnie Mae	44%	62%	95%	97%	96%	98%	99%	98%	96%	94%
Private Label	56%	38%	5%	3%	4%	2%	1%	2%	4%	6%

Source: <http://www.freddiemac.com/>



RECENT SECURITIZATION STRUCTURES

- Peer to peer lending securitization – U.S.
 - The concept of peer to peer lending has been gaining traction in the Indian market in a big way
 - While P2P lending is merely 0.08% of the \$96 trillion global corporate and household outstanding debt, in the US P2P lending has been growing manifold in the last three years to a \$77 billion industry in FY 14.
 - The US is now securitizing the loans originated through the P2P model
- Alibaba's microloan securitisation (China's first)
 - Loans offered to Alibaba.com merchants have been securitised
 - There are regulatory restrictions on the leverage over capital for micro lending companies in China, and securitisation seemed like a logical way to address the issue



STATE OF THE EUROPEAN SECURITIZATION MARKET

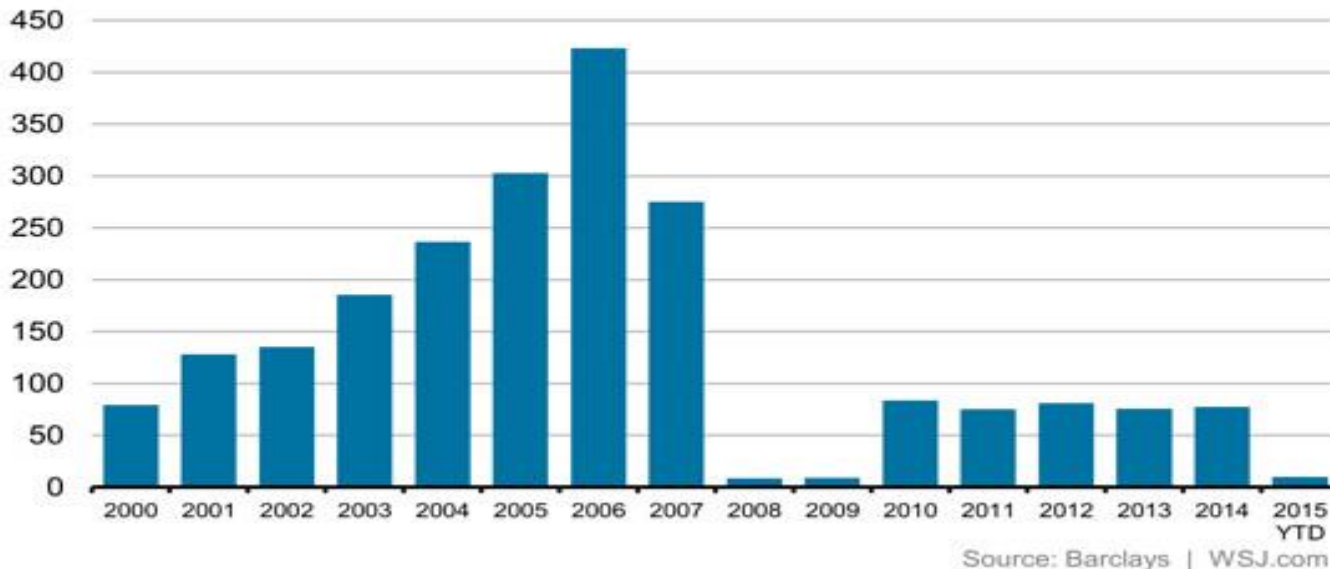
- Economic growth continues to be weak in the European countries and the securitisation levels have fallen to third of pre-crisis levels
 - a lot of securitization in Europe is supported by regulators
 - There has been a tangible support for structured finance in the form of central bank purchase programs
 - European central banks have purchased covered bonds and asset backed securities to support the structured finance market in Europe
 - The program for purchase of asset backed securities has not done well as there have been very few securitization transactions limiting the opportunities for purchases
 - Also the risk retention requirements have been disincentivising issuers and investors
 - Also Europe has covered bonds for funding mortgages which are secured against the banks as also against the receivables.
 - The prospects of growth of securitization in EU will depend on how the regulatory regimes in the countries deal with securitization
 - Some of EU members met recently to consider regulatory mechanisms to revive the securitization market and create a capital markets union in the eurozone
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STATE OF THE EUROPEAN SECURITIZATION MARKET (CONT..)

The graph below indicates that the issuances in the Eurozone have been on a low key post the crisis. There has been some activity which is closer to the level of issuances in 2000s.

No Boom

European securitizations placed with investors, in billions of euros

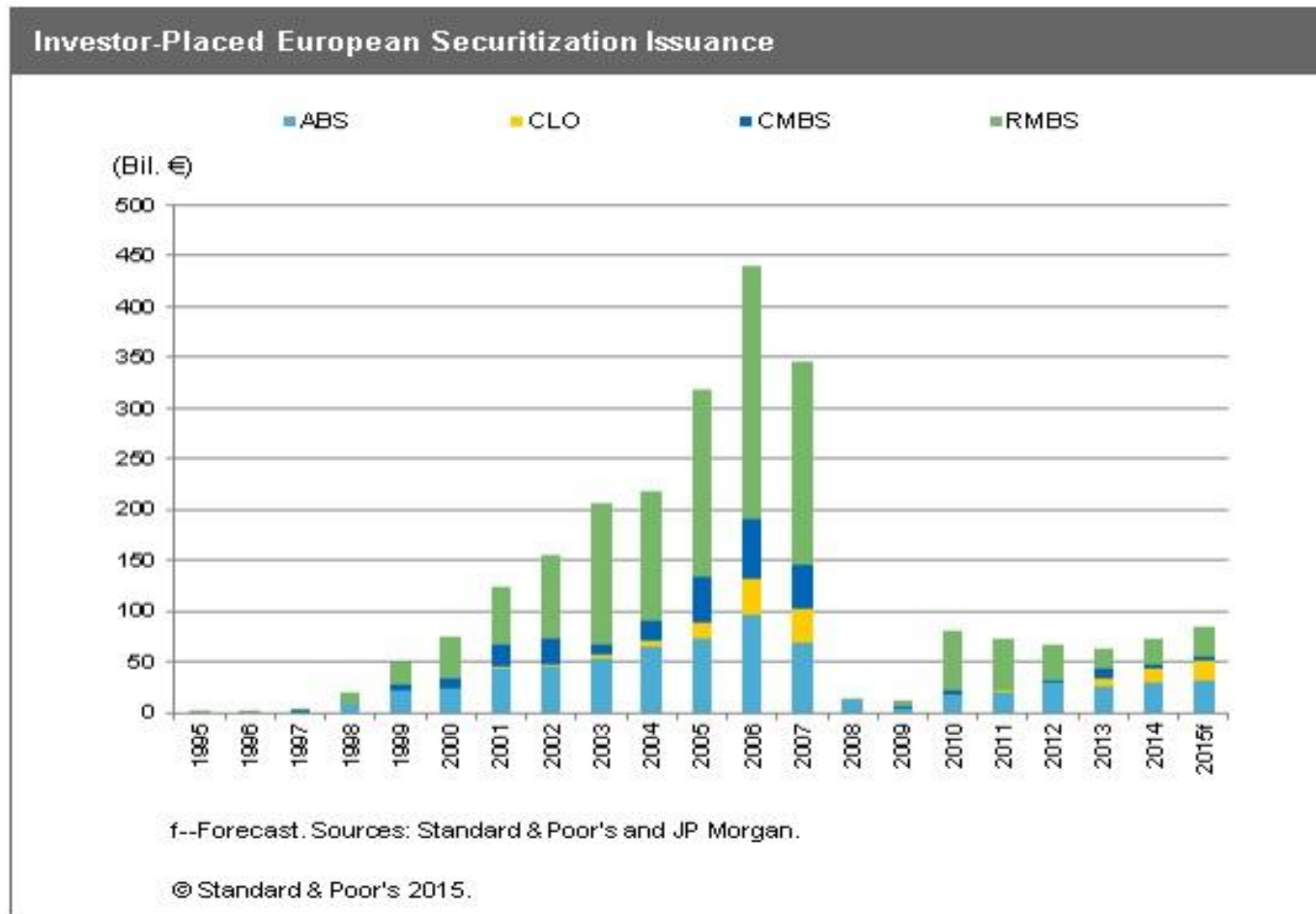


Source: Barclays | WSJ.com

Source: WSJ



EUROPEAN SECURITIZATION ISSUANCE DATA



Source: www.securitisation.com.au



GROWTH OF ASIAN SECURITIZATION MARKET

- The Asia-Pacific securitization market has been promising in the recent times and continues to show a trend of development.
- There has been a growth in the Asian market's share in the global volumes, however a part of that is attributable to fall in the European market's share of securitisation volumes as well.
- The collateral performance in the Asian countries has been strong despite the evident economic downturns
- The Australian markets also continued to grow year on year. The issuers have been widespread and investors have been both onshore and offshore
 - As per a report of BIS, Consumer ABS volumes have recovered to above their pre-crisis peaks
 - RMBS remains less than half its peak level
 - CMBS issuance has been dormant
- Japan's securitization market volumes declined in 2014. In the past few years, the Japanese securitization market has been on a low key.
 - Japan's securitization annual issuances have fallen to a third of the 2006 levels.

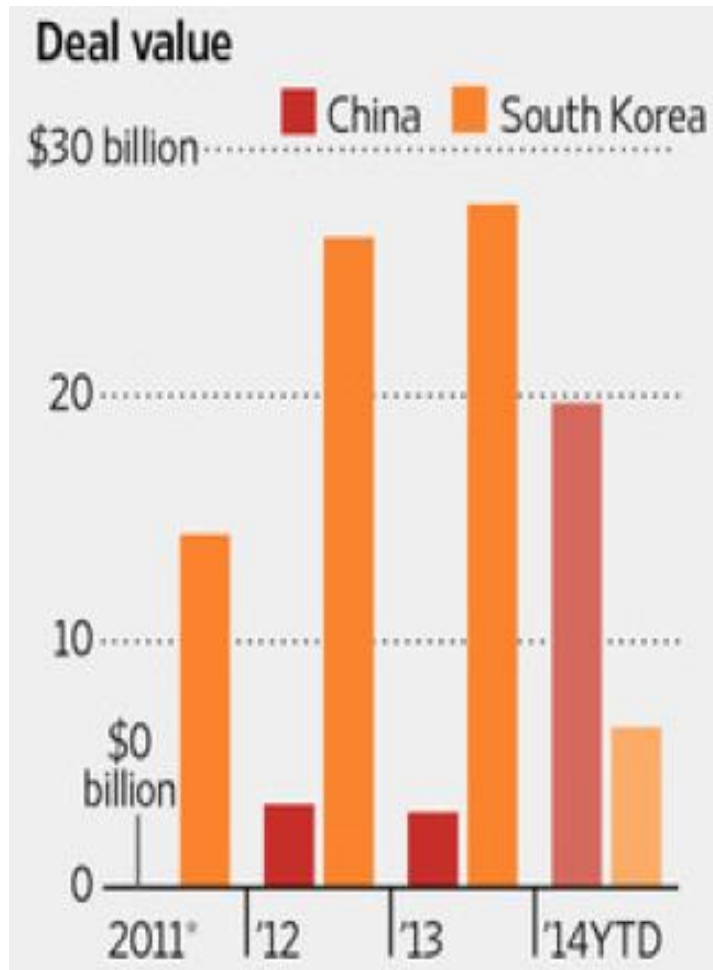


SECURITIZATION IN CHINA

- Securitization in China started with a pilot program in 2005 allowing banks to securitise the loans
- The 2008 crisis shelved the pilot program but was later re-started in 2012.
- China's securitization market has had a great upswing with RMB 210 billion or 300 billion Yuan worth of asset securitization which is twice the aggregate issuance volumes of 2005 and 2013 put together. The Chinese market may continue to grow considering the regulatory impetus and despite the signs of economic slowdown.
- The Chinese market is still in its nascent stage and needs constant regulatory monitoring to ensure that risks and rewards of securitization are maintained.
 - The regulators have recently banned asset management companies from securitization of local government debts
 - China's local governments have massive debt for infrastructure development and China's cabinet has announced that it would not bail out the local government in case they were to fail to pay their debt



SECURITIZATION IN CHINA (CONT..)



- China's securitisation market despite being in the nascent stage is fast growing.
 - Sale of ABS jumped to \$19.7 billion in 2014 as against \$3 billion in 2013
- In the data published by Dealogic, China's securitisation market is overtaking South Korea to be the biggest in Asia except for Japan. The jumbo value transactions in China have been that of government authorities largely.
- The graph below indicates China overtaking South Korea in securitisation transactions in terms of deal values



SECURITISATION IN INDIA

- The Indian securitisation market has been facing internal challenges over the last few years rather than the market being impacted by any external factors
 - India is probably the only country where assignment of receivables is also called securitisation.
 - Securitisation market is largely driven by the need for meeting the priority sector targets for banks, therefore there is greater dependence on demand for priority sector loans
 - The current tax regime has been most unfavorable for the growth of SPV structures.
 - The tax litigations with regard to mutual funds continue to keep the mutual fund investors on bay
 - The investors and issuers in the country are largely restricted to banks and financial institutions, which again continues to be a limiting factor in growth of securitisation in the country.
- ABS has been the dominant class in India
- Volume of ABS transactions declined by about 30% in FY15; volume of RMBS transactions showed a sharp decline of 80% as compared to last year



SECURITIZATION ISSUANCES OVER 5 YEARS

	FY 11		FY 12		FY 13		FY 14		FY 15	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
ABS	21819	69%	27344	71%	27230	90%	23504	82%	16453	95.65%
RMBS	5029	16%	7680	21%	3025	10%	5296	18%	747	4.35%
Total Retail Securitization	26848	84%	35024	92%	30255	100%	28800	100%	17200	100%
LSO	4441	14%	2217	6%	-	-	-	-	-	-
Others	536	2%	635	2%	-	-	-	-	-	-
Overall Total	31825	100%	37876	100%	30255	100%	28800	100%	17200	100%
Growth	(26%)		19%		(20%)		(5%)		(40%)	
Average Deal Size	200		174		151		149		-	

Includes rated bilateral transactions

INCENTIVISING SECURITISATION TO GROW

- Bank of International Settlement (BIS) has recently in 2015 issued Consultative Paper indicating *Criteria for identifying simple, transparent and comparable securitisations*.
- The paper talks about 14 criteria that shall make securitisation less complex and also enable building sustainable securitisation markets.
- The paper coins the idea of *simple, transparent and comparable* (STC) securitisation.
- Some of the criteria specified by BIS are as follows:
 - Identifying nature of the asset, its performance history, asset selection and transfer
 - Consistency of underwriting standards
 - Redemption cashflows
 - Asset liability mismatches
 - Voting and enforcement rights
 - Documentation
 - Transparency to investors
 - Fiduciary and contractual responsibilities, and so on.



ALIGNING INCENTIVES OF ISSUER AND INVESTOR

- Post the crisis, the need for aligning of incentives of the issuer with that of the investor was discussed.
- IOSCO recommended in its report titled Global Developments in Securitization Regulation, 2012
 - *'all jurisdictions should evaluate and formulate approaches to aligning incentives of investors and securitisers in the securitisation value chain, including where appropriate, through mandating retention of risk in securitisation products*
 - Used recklessly, securitisation could be dangerous, hence to have some skin in the game of the issuer risk retention requirements were imposed
- EU has issued regulatory directives on risk retention requirements in 2014, in the U.S., the requirement of 5% of risk retention by issuer shall become applicable from 2016.
 - India ofcourse adopted the requirements in 2012

