

# EUROPEAN SECURITISATION

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10 February 2020

# AGENDA

- Portfolio Management Objectives
- Securitisation Assets in a Portfolio
- History
- Current Landscape
- Future developments

# Portfolio Management Objectives

- Generate a positive return on capital
- Positive cashflows:
  - Sale/redemption of assets
  - Dividends/interest payments
- Negative cashflows:
  - Purchase of assets
  - Writedowns due to default/bankruptcy
- Debt portfolios (including securitisation)
  - Maximise interest receipts
  - Minimise losses due to default

# Securitisation Assets in a Portfolio

- Access to specific asset classes (eg RMBS, auto leases)
- Allows investment at a defined level in the capital structure (ie known subordination)
- Regular reporting specific to asset portfolio securitised
- Loss mechanism well defined

# History

- Pre-2008
  - Massive inflow of investment 2004 onwards
  - Returns squeezed
  - Undesirable consequences of search for assets and yield
    - Reduced quality underlying assets
    - Poor and inconsistent information
    - Originate to distribute platforms
    - Resecuritisation (CDO<sup>2</sup>)
    - Compressed timelines for investors
    - Poor investment decisions
- 2009 – 2018
  - Low issuance volumes
    - Spreads too high vs alternative funding mechanisms
    - Tainted asset class for many investors
  - Much European issuance retained for use as ECB collateral
  - US issuance gradually picked up

# Current Situation

- Risk retention rules – 5% economic interest (2014)
- STS introduction (2019)
  - Better reporting
  - Should help credibility
- STS and non-STS securitisations co-exist
- Resecuritisation banned
- New issuance
  - Distributed proportion increasing
  - Issuer and asset class diversity increasing
- Secondary market
  - Illiquid due to lack of supply
  - “Bid lists” dominate (effectively secondary market auction)

# Future Developments

- Additional STS asset classes
  - CMBS (diversification issues)
  - CLO
- Risk Free Rate adoption
- ESG securitisations

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