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A NEW ERA FOR SECURITISATION?

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The coming into force of the simple, transparent and standardised (STS) securitisation rules in January was intended to mark a fresh start for securitisation within Europe. Richard Hopkin examines the likely effects of the EUs new rules on securitisation across the bloc.

Richard Hopkin is the head of fixed income for the Association for Financial Markets in Europe, (AFME).

While reaching this stage is, in many ways, a considerable achievement, the fact that so much of the underlying technical framework remains incomplete has created considerable uncertainty for the sector. January 2019 was in fact the first January since 2009 without any European ABS issuance.

This somewhat shaky start is a shame given the high levels of ambition for the reforms. In December, European policymakers and regulators hailed the STS reforms as a key element in strengthening Europes capital markets, with Vice President Valdis Dombrovskis describing the reforms as one of the cornerstones of the Capital Markets Union (CMU) initiative.

Such language demonstrates the significant progress that has been made in rehabilitating the reputation of securitisation and in increasing levels of understanding around the important contribution it makes to well-functioning financial markets.

Securitisations value as a tool for increasing capital flows to the real economy and boosting economic growth, is now openly acknowledged. This is a much-improved state of affairs compared to where the industry found itself in the wake of the financial crisis.

At that time, despite the historically strong performance of European securitisation, the sectors public reputation rather unfairly suffered much the same fate as that of the problematic US sub-prime mortgage sector. As a result, the European securitisation market effectively dried up after 2008.

Over a decade on, and issuance in Europe is still at a fraction of the level it once was, having dropped from □□□ billion in 2008 to just □□□ billion in 2018 □ of which only half was actually placed with investors, the remainder still being retained by originators and used to support repo funding from central banks.

The European Commission has said it hopes the STS framework will be the catalyst for reigniting issuance and investment. However, while much of the underlying detail supporting the regulation remains to be finalised, this ambition will continue to be unfulfilled. Several critical mandates for technical standards and guidelines are still to be completed, creating considerable uncertainty for the sector.

A certain level of disruption is inevitable whenever significant regulatory reforms are introduced, and in that sense STS securitisation is no different. But in order for the new framework to begin making a positive impact these outstanding issues need to be resolved as rapidly as possible.

Whether, in the long term, the arrival of STS securitisation marks the beginning of a significant recovery for European securitisation is something which only time will tell. Arguably the market can only improve from where it currently is.

What is clear is that over the coming months Europes policymakers must renew their vows and recommit to creating an environment which helps European securitisation to thrive. Maintaining that focus will be essential if we are to see a vibrant, high quality and dynamic European securitisation market emerge, delivering funding for Europes businesses and consumers and adding stability to our banking system.

Kaynak/Source: