



International Centre for  
Financial Regulation

## **ICFR Roundtable**

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### **Restarting the Securitisation Market**

**9 September 2010**

### **Summary**

**ICFR Roundtable: Restarting the Securitisation Market**  
**9 September 2010****Restarting the Securitisation Market – discussion summary**

The role of securitisation in the recent financial crisis and the changes needed to prevent the recurrence of its misuse and misunderstanding has been the subject of much debate. With time, however, proponents and opponents of the product have come to agree that re-starting this market will be vital for increasing the supply of credit to the economy, itself a precondition for renewed investment and economic growth. In spite of considerable private, public and legislative efforts, the multiplicity of objectives from different parties and the lack of agreement on intended outcomes, have led to overlap and inconsistencies. In addition, critical issues for a more viable and stable market, such as transparency and liquidity, have been largely absent from work and discussions to date. The International Centre for Financial Regulation (ICFR) invited market participants, regulators, trade associations, investors and academics to discuss what has been done to date, and what is still needed for the market to move forward.

The roundtable began by participants taking stock of all the measures taken to date to restore the functioning of the securitisation markets. Industry initiatives have included regular reporting of data on European securitisation. In addition, AFME/ESF<sup>1</sup> members have established “best practices” in the industry signed by all the major UK banks and a few European ones. In terms of regulatory initiatives, there have been developments in improving securitisation disclosures, retention requirements for originators, and significantly increased regulation of the use and provision of ratings including the removal of their “expert protection” from the Dodd-Frank Act. Bank regulation such as increasing bank capital, equivalent credit treatment of the trading and banking book, and proposed liquidity requirements will also have significant impact on the economic costs of securitisation. Solvency II may well have a significant effect on insurers’ willingness to hold securitised assets in their portfolios.

Legislative efforts will not help the market and may indeed limit its ability to restart, especially if they affect the ability of participants to supply liquidity to the market. Indeed, market participants feel paralysed by uncertainty surrounding regulatory consequences; investors are wary and are hoarding cash, which is further limiting liquidity, primordial to investors. All agreed it was important to draw a distinction between credit losses on securitised assets and “mark-to-market” losses, the latter of which were the largest part of the problem in Europe. Currently the market is caught in a vicious circle in which there are no investors without liquidity and there is no liquidity without investors.

The other issue looming large but politically difficult is the ongoing mispricing of underlying assets to securitise. The acceptance by the European Central Bank of Asset-Backed Securities (ABS) as collateral for its credit to the banking sector means that many originators have no incentive to raise lending rates that would make securitisation economically attractive to investors again.

The politicisation of the debate between covered bonds and securitisation was considered to be unproductive. Most market participants felt that in spite of the ‘true sale’ issue, most UK and European securitisations were used for funding diversification and not for genuine off-balance sheet treatment, since few such transactions actually qualify for off-balance sheet treatment. Other

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<sup>1</sup> The Association for Financial Markets in Europe/European Securitisation Forum

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participants considered that covered bonds and securitisation were two different financial products that complement each other.

Some participants felt that the market would sort itself out in an iterative fashion as rules came into force and were adapted in light of circumstances. Others believed that without significant reductions in central bank support to the market, the lack of re-pricing could make this market moribund for a very long time to come. The irony of regulation closing the market instead of providing regulatory arbitrage opportunities was not lost on the roundtable participants.

Pressure to reopen this market is likely to increase. Governments are under significant time pressure to restart their economies. The need to reduce leverage or increase capital among continental banks after the Basel Committee affirmation of increased capital ratios, is likely to put further pressure on those banks to find a way to shed assets together with a possible new leverage ratio, which has not yet been calibrated or agreed.

However, to achieve this, there must be a consistent view on the desired shape of the financial system, the real function of the banks, the appropriate transparency and liquidity of the funding markets, appropriate levels of leverage in the economy, and the appropriate price of credit to governments, corporate and consumers.

### Next steps

- A comprehensive review for senior government officials of the specific benefits that securitisation brings to European economic growth, including the effect of implicit subsidies on various types of existing and future funding methods, as well as incentives to issue and invest in various products, including securitisation.
- Work on whether there are pricing, discount or overcollateralisation changes that could be made in the ECB's policies which would gradually wean the market off ECB funding and address asset mispricing in the market.
- A look at alternative liquidity programs as another option to wean the market off ECB funding. It was mentioned in the discussion that Basel III liquidity allowing the use of AAA-rated ABS or alternatively an ECB purchase program for highly rated ABS would result in the market being provided with some standby liquidity.
- Creation of a new terminology that differentiates between types of securitisations so that simpler, more useful structures are not tainted by the legacy toxic assets in the category.
- A paper on the contradictions among various economic and regulatory objectives relating to securitisation for the official sector.
- Work on the initiatives that the industry could develop to increase the transparency and liquidity of the securitisation markets.

**The International Centre for Financial Regulation**

5<sup>th</sup> Floor

41 Moorgate

London

EC2R 6PP

United Kingdom

Telephone: +44 (0) 20 7374 5560

Facsimile: +44 (0) 20 7374 5570

E-mail: [enquiries@icffr.org](mailto:enquiries@icffr.org)

Website: [www.icffr.org](http://www.icffr.org)