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SME Securitisation – at a crossroads?

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Abstract[1]

SMEs are the backbone of the European economy. The financing situation for European SMEs is slightly improving, but also differs very much from country to country. In Europe, SMEs' financing strongly depends on banks and also after the crisis banks will remain the main external financing source for SMEs.

Against this background SME securitisation (SMESec) can form an important element in the efforts to enhance access to finance for SMEs in Europe. It can be essential in helping financial intermediaries broaden their funding base, achieve capital relief and ultimately, increase their SME financing. Despite the financial and sovereign crisis, the European securitisation market has performed relatively well so far, with the SME segment showing low default rates. The reputation of the SME securitisation market segment is continuously improving; a de-stigmatisation is happening, and the general perception is shifting from one of "toxic waste" to an instrument that could help overcome the negative effects of the crisis.

But overall, the SMESec market in Europe is underdeveloped and is still suffering from the crisis. A compelling case can be made for public assistance to enhance access to finance for SMEs (market failure based on information asymmetries, high transaction costs, and spill-overs – exacerbated by the recent credit crunch in many economies associated with the financial crisis), and for supporting the European SMESec market. The present working paper describes the current state of the SMESec market and puts EIF's support for this market segment into perspective.

In order to revitalise the SMESec market, significant changes to the regulatory environment (i.e. liquidity risk standards and capital requirements) would be necessary to avoid unintended negative impacts – from both perspectives, issuers and investors. However, despite regulatory efforts, no dramatic improvements are currently foreseeable. Mitigation of the originally unintended negative effects can be achieved through the creation of a High Quality Securitisation (HQS)[2] market segment that should receive preferential regulatory treatment. We present and discuss the latest developments in this paper.

At pan-European level, the EIF - and the EIB Group[3] as a whole – has supported SMESec already since many years and continues to do so – to help the market to take the correct direction at the crossroads (and beyond).

[1] This paper benefited from comments by Philippe Dorin and Wouter Torfs, for which we are very grateful. All errors are of the authors.

[2] We use here HQS as term – in the current discussion, also other terminologies are used in the same context, e.g. STS (simple, transparent, and standardised) securitisation, used e.g. by the ECB, or STC (simple, transparent and comparable) securitisation, used by BCBS-IOSCO, or SST (simple, standard and transparent) securitisation, used by the European Banking Authority. September's proposed regulation published by the European Commission suggests that the STS acronym will prevail in European regulation.

[3] Consisting of the EIB and the EIF.

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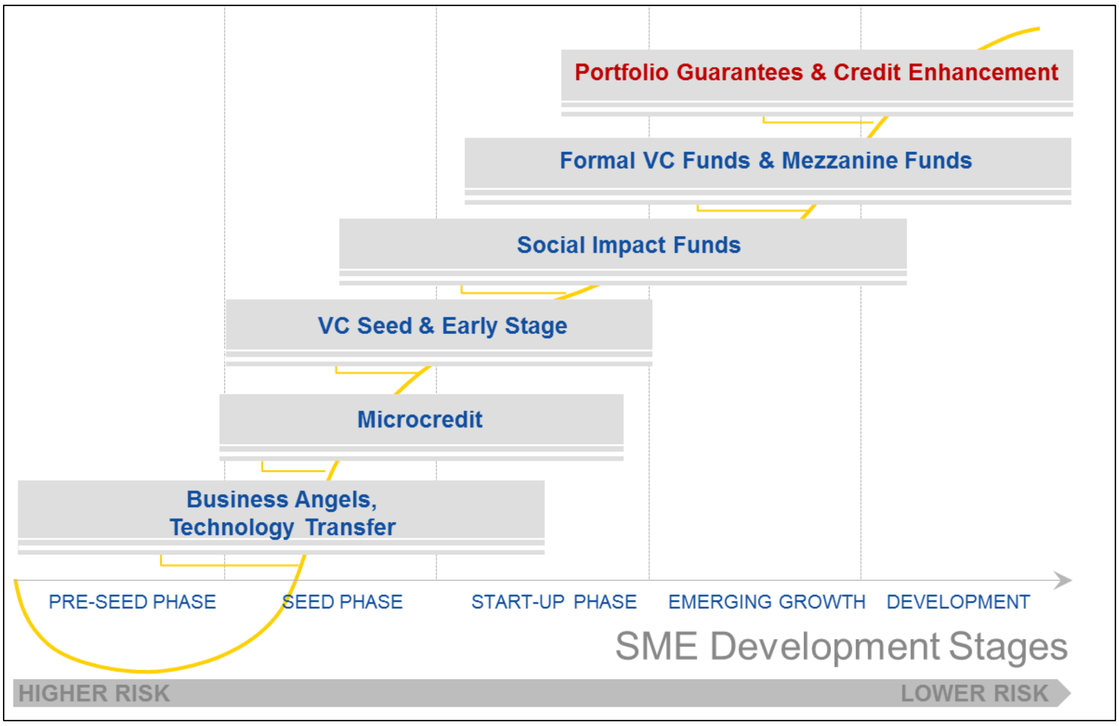
1 Introduction

The European Investment Fund (EIF) is the European Investment Bank (EIB) Group's specialist provider of risk financing for entrepreneurship and innovation across Europe, delivering a full spectrum of financing solutions through financial intermediaries (i.e. equity instruments, guarantee and credit enhancement instruments, as well as microfinance).[4]

The EIF focuses on the whole range of micro to medium-sized enterprises, starting from the pre-seed, seed-, and start-up-phase (technology transfer, business angel financing, microfinance, early stage VC) to the growth and development segment (formal VC funds, mezzanine funds, portfolio guarantees/credit enhancement). Figure 1 shows the range of EIF's activities. Via these financial instruments, EIF enhances the access to finance for SMEs and fosters EU objectives, notably in the field of entrepreneurship, growth, innovation, research and development, employment and regional development. In the area of Portfolio Guarantees & Credit Enhancement, SME securitisation (SMESec)[5] - the focus of this Working Paper - is an important tool for EIF to support SME financing.

Figure 1: EIF's tool kit for SMEs



Source: EIF

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[4] Parts of this paper are based on EIF's European Small Business Finance Outlook (Kraemer-Eis, Lang, and Gvetadze, 2015) where interested readers can find further information about SME financing.

[5] The term SME Securitisation (SMESec) comprises transactions backed by SME loans, leases, etc. It is important not only to look at banks/lending when analysing SMESec, but equally at leasing companies, which form part of the securitisation market. Given that bank financing is and will be less available for leasing companies post-crisis, it can be expected that SMESec will be particularly relevant in the leasing area. For more information on the importance of leasing for SMEs finance, see Kraemer-Eis and Lang (2012 and 2014).

Following Kraemer-Eis, Schaber, and Tappi (2010) and Kraemer-Eis, Passaris, and Tappi (2013), this is the third EIF Working Paper, specifically dedicated to SMESec. Against the background of ongoing difficulties in this market and discussions about how to revive it – in particular in relation to regulatory uncertainties and measures to mitigate these – this paper contributes to the public debate by providing information about the status quo of SMESec, public support measures, and in particular proposals for the classification of the High Quality Securitisations (HQS).

Before we go to the specific SMESec topics, we very briefly highlight selected elements of the SMEs' market environment – in order to show their relevance for the European economy, and the relevance of SMESec for SMEs.

2 SMEs and their framework conditions

2.1 SMEs and their business environment

SMEs are defined by the European Commission as having fewer than 250 employees. They should also have an annual turnover of up to EUR 50m, or a balance sheet total of no more than EUR 43m (Commission Recommendation of 06.05.2003), see Figure 2.

Figure 2: EU definition of SMEs[6]

Enterprise category	Employees	Turnover	Balance sheet total
Micro	<10	≤ EUR 2m	≤ EUR 2m
Small	<50	≤ EUR 10m	≤ EUR 10m
Medium-sized	<250	≤ EUR 50m	≤ EUR 43m

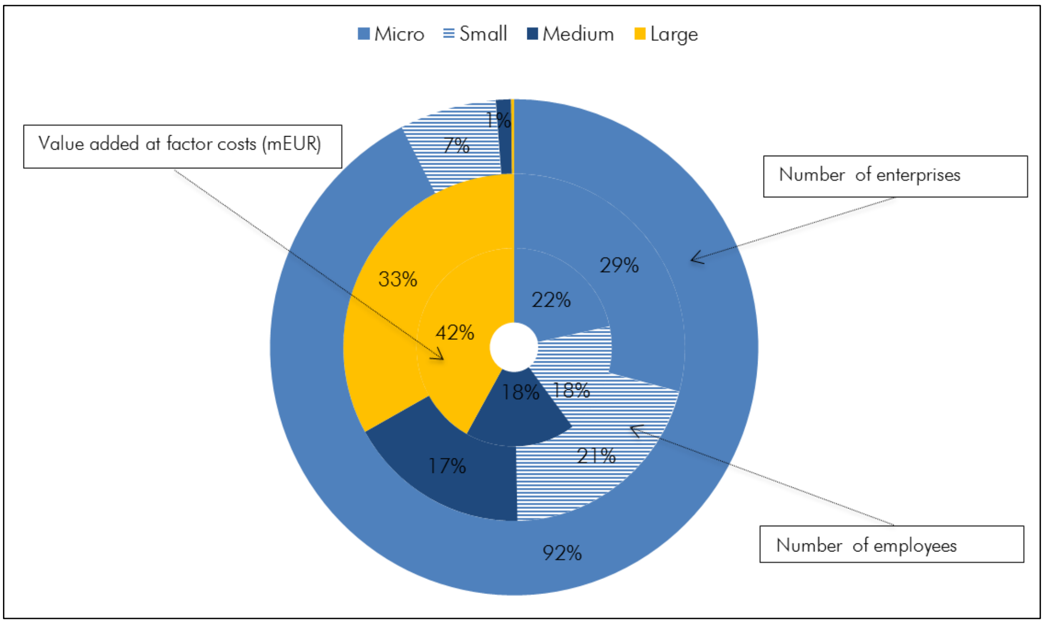
Source: European Commission (2014)

Small and medium-sized enterprises are often called the backbone of the European economy, contributing to job creation and economic growth. In 2013, more than 21.5m of SMEs in the European Union made for 99.8% of all non-financial enterprises, employed 88.8m people (66.9% of the total employment), and generated 58.1% of total added value (see Figure 3).[7]

[6] For information: In the context of defining enterprise categories, often also the category of midcaps is mentioned in between the categories of SMEs and corporates. We define midcaps as enterprises with a minimum of 250 and a maximum of 2,999 employees; moreover, there is the sub-category of small midcaps, with a maximum of 500 employees.

[7] Gross value added is the difference between output and intermediate consumption. As an aggregate measure of production, GDP is equal to the sum of the gross value added of all resident institutional units (i.e. industries) engaged in production, plus any taxes and minus any subsidies, on products not included in the value of their outputs. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Category:Glossary

Figure 3: SMEs, Employment and Value added, 2013



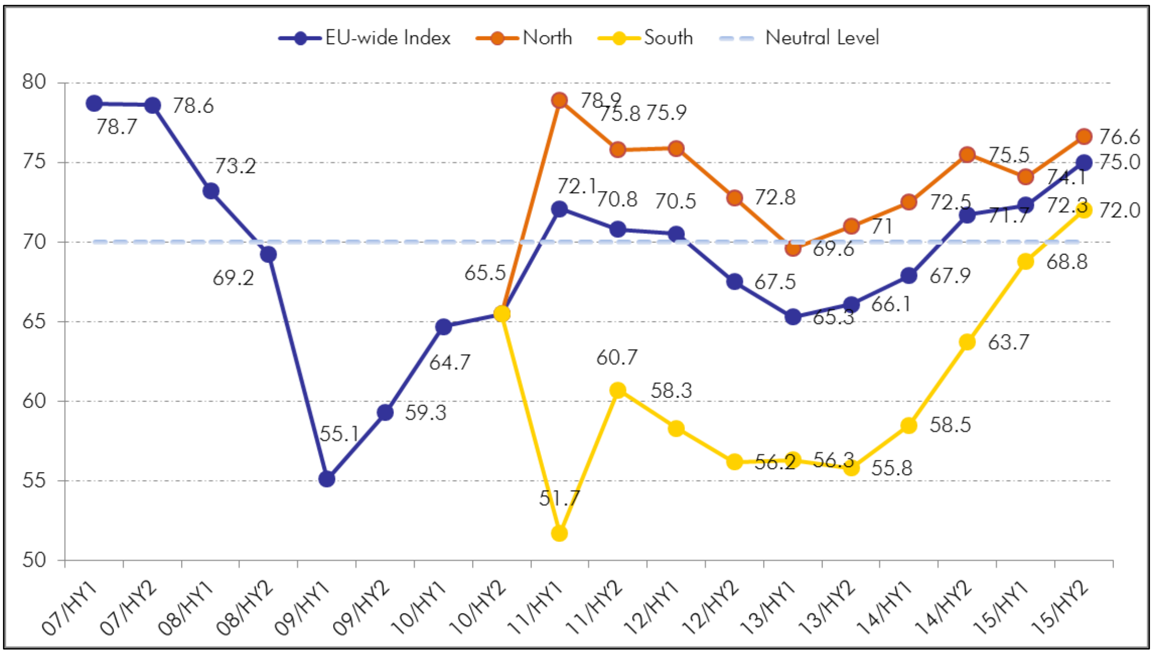
Source: European Commission (2014)

The financial, debt and economic crisis had dramatically worsened the business environment of European SMEs since 2008, and in particular in those countries that had suffered the most of the crisis. However, in the recent past, some changes to the better have become visible. As an example: the SMEs' business climate - as analysed by UEAPME (UEAPME Study Unit, 2015) - has improved again (see Figure 4).

According to this analysis, European SMEs express more confidence in their economic future: the index has recently (publication: Oct-2015) increased by 2.7 percentage points, reaching 75 for the entire European Union.[8] Moreover, the confidence gap between countries in the South and countries in the North/Centre of Europe decreased to the lowest level seen since the beginning of the sovereign crisis. The analysis shows that SMEs on average exceeded their expectations in HY1/2015 for each economic indicator. For HY2/2015, each size class and sector of SMEs expects improvements. According to this data, the real economy appears to be close to a period of growth. However, at the same time, it seems that SMEs are still utilising existing capacities and do not yet see the need for new investments and additional hiring in the foreseeable future. According to UEAPME, SMEs need a stable economic outlook and enhanced access to finance in order to transform these positive signals into a solid and sustainable long-term economic growth (UEAPME Study Unit, 2015).

[8] The analysis is based on surveys on about 30,000 enterprises run by the UEAPME members. The UEAPME SME Business Climate Index is calculated as the average of the current situation and the expectations for the next period resulting from the sum of positive and neutral (meaning: no change) answers as regards the overall situation for the business. For example, for "semester A" with 25% positive, neutral 55%, and 20% negative answers, the Index would be (25 + 55 =) 80 and for "semester B" with 40% positive, 30% neutral, and 30% negative answers it would fall to (40 + 30 =) 70. However, the respective balances of positive minus negative answers would show an opposite result growing from "semester A" (25 – 20 =) 5% to "semester B" (40 – 30 =) 10%. Therefore, these balances should also be examined and are reported in UEAPME's EU Craft and SME Barometer.

Figure 4: SME Business Climate Index[9]



Source: Authors, based on UEAPME Study Unit (2015)

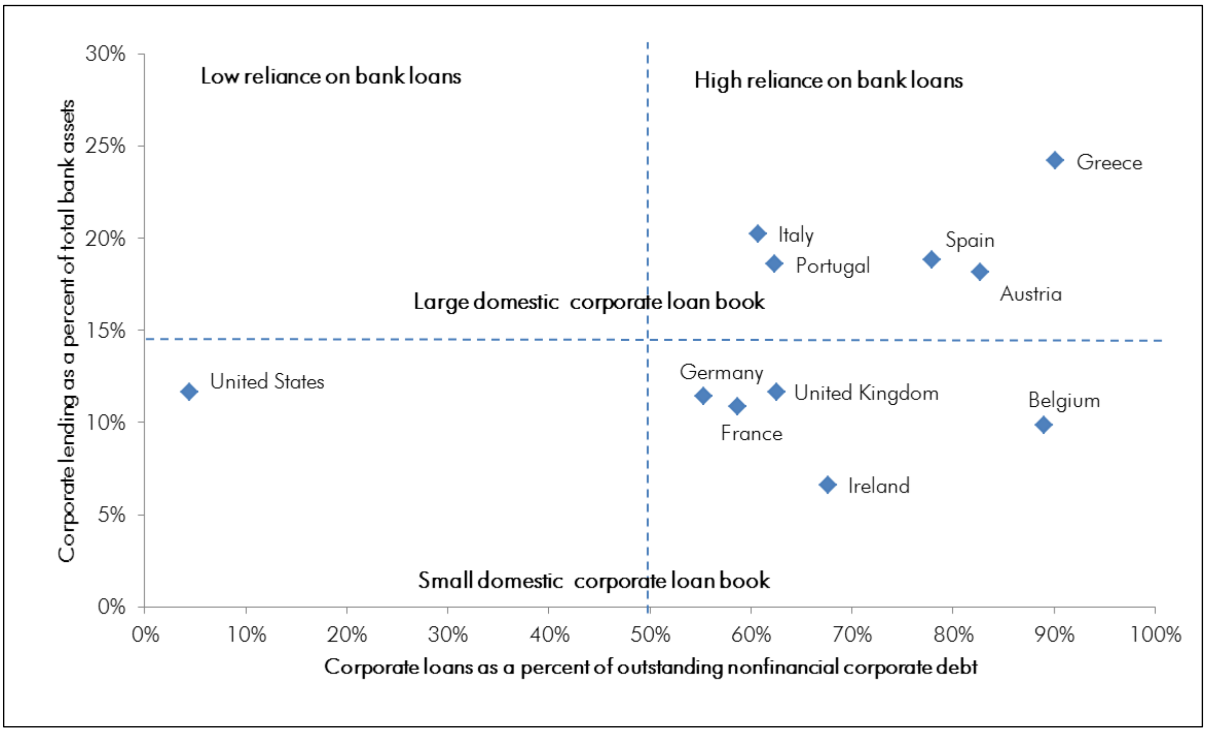
2.2 Bank lending activity

European SMEs depend very much on bank financing; Figure 5 provides an indication based on IMF data. ECB president Mario Draghi mentioned in an often quoted statement that "in the United States 80% of credit intermediation goes via the capital markets. […] In the European situation it is the other way round. 80% of financial intermediation goes through the banking system" (Draghi, 2013).

As outlined in more detail in Kraemer-Eis (2014), this ratio is moving towards more capital market action: Cour-Thimann and Winkler (2013) state that external financing of the non-financial corporate sector (financing other than retained earnings) is dominated by bank financing (in the euro area). However, as the authors point out, this split refers to the stock - in terms of flows the figures fluctuate significantly; in particular as the corporate sector can to some extent substitute bank lending with other sources of finance. This possibility exists for SMEs only to a very limited extent. During the crisis part of the declining bank lending was offset by an increase in capital market funding (see Figure 6): debt securities issued by corporations (but also quoted shares issued) increased. But, "such substitution is primarily possible for large corporations; it is less so for small and medium-sized firms, which constitute the bulk of employment and activity in the euro area" (Cour-Thimann and Winkler, 2013).

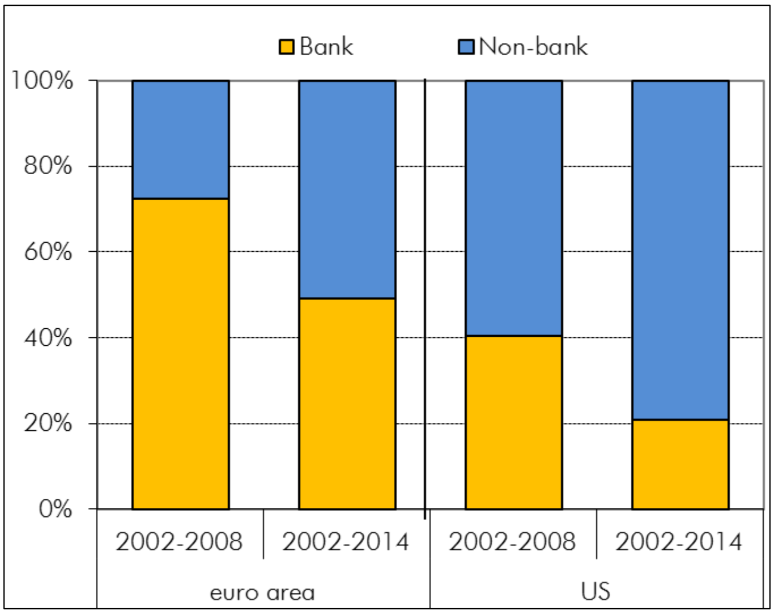
[9] Country classification - North/Centre: Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Luxembourg, Netherlands, Poland, Romania, Slovakia, Sweden and UK; South (and Periphery): Croatia, Cyprus, Greece, Ireland, Italy, Malta, Portugal, Slovenia and Spain.

Figure 5: Reliance on bank financing by non-financial corporations (in %)



Source: Authors, based on IMF (2012) and updated information for 2014.

Figure 6: Funding of non-financial corporations in the euro area and the United States (shares in accumulated debt transactions)



Source: Authors, based on Cour-Thimann and Winkler (2013), with updated data.

There are some positive signs with regard to the SMEs' lending environment – however, it is important to note that there are significant inter-country differences and that the adjustment processes in the banking sector – following the crisis – are still ongoing. Positive flags are for example (for details please see Kraemer-Eis, Lang, Gvetadze (2015)):

- According to the ECB's latest Bank Lending Survey (BLS, see ECB, 2015b),[10] on balance, the reporting euro area banks have continued to ease their credit standards to SMEs.
- According to the ECB's Survey on the Access to Finance of Enterprises (SAFE, see ECB, 2015a), euro area SMEs reported, on balance, a significant fall in interest rates. The interest rate statistics for monetary financial institutions, published by the ECB, provide information about the interest rates and volumes for different size classes of new euro-denominated loans. Overall financing costs for euro area MFIs have recently continued to fall across most external financing sources. The aggregate improvement in financing conditions was driven by improving financial market conditions and a better economic growth outlook.
- Among the "most pressing problems", according to the ECB's SAFE, access to finance moved from the fifth to the sixth most pressing problem for euro area SMEs compared to the previous survey round. The divergence across the countries remained large - on the high side, 34% of the SMEs in Greece, 15% in Ireland and in the Netherlands, mentioned 'access to finance' as the most pressing problem, compared to around 7% of the SMEs in Germany and in Austria on the low side.

On the other hand, according to ECB data, the overall trend in lending to non-financial corporations (NFCs) in Europe has been declining since 2009 and still has to bottom out (see Figure 7).[11] Compared to the peak of EUR 4.61tr reached at the beginning of 2009, the volume of outstanding loans has decreased by 12% to EUR 4.06tr in the Euro area in September 2015.

Given the strong increase in loan accumulation, the deleveraging is a necessary process to some extent, leading away from potentially unsustainable levels.[12] However, the recent downsizing in loan volumes fosters the risk of exaggerating to the downside - morover, as mentioned, there are significant differences between countries. On average, the availability of loans to SMEs seems to slightly improve, but

1. there are doubts that banks will be able and willing to provide loans once the demand starts to further increase (according to the reporting banks of the ECB's Bank Lending Survey (ECB, 2015b), net demand for loans to NFCs continued to be positive and recovered further in Q3/2015. For enterprises, banks expect a further significant increase

[10] This survey was conducted on 141 euro area banks and reports changes during the third quarter of 2015 and expectations of changes in the fourth quarter of 2015.

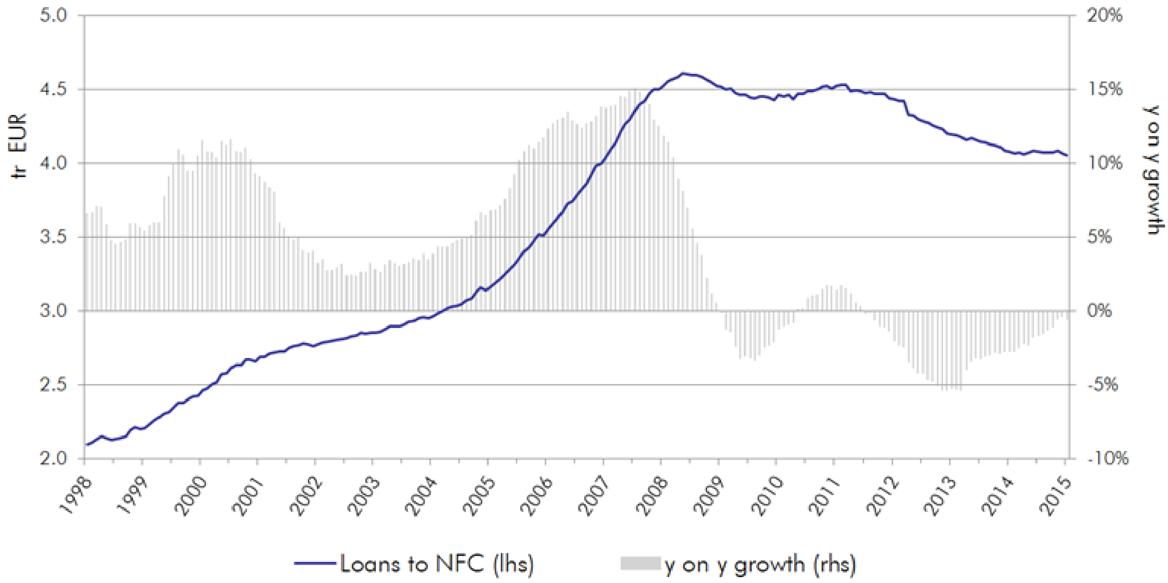
[11] Please note that the data refers to all NFC, not only SMEs (as such data does not exist for SMEs only).

[12] Also the BIS (2014a) stated that "high private sector debt levels can undermine sustainable economic growth. In many economies currently experiencing financial booms, households and firms are in a vulnerable position, which poses the risk of serious financial distress and macroeconomic strains. And in the countries hardest hit by the crisis, private debt levels are still high relative to output, making households and firms sensitive to increases in interest rates. These countries could find themselves in a debt trap: seeking to stimulate the economy through low interest rates encourages the taking-on of even more debt, ultimately adding to the problem it is meant to solve."

in demand in Q4/2015. In particular, the general level of interest rates contribute to the increase in demand, and

2. credit is often allocated away from "risk", in particular away from smaller and younger companies – with related adverse effects for the economy.

Figure 7: Outstanding Loans to Non-Financial Corporations in the Euro Area[13]



Source: Authors, based on data from ECB

Against this background, a well-functioning securitisation market can be a way to easing supply problems by helping banks diversify their funding and achieve capital relief. Euro area banks are holding a large stock of relatively illiquid loans that could be transformed into liquid assets/negotiable securities through securitisation. SMESec can provide indirect access to the capital market for SMEs – making SME loans "liquid".

[13] September 1997 to September 2015.

3 SMESec market activity[14]

As we stated already in previous publications (e.g. Kraemer-Eis, Schaber and Tappi (2010)): securitisation per se is not good or bad - it is a toolbox, an instrument, a technique. As such it is value-free; but its aggressive, opaque, and overly complex use by some market participants has negative consequences for ultimately both issuers as well as investors. Negative repercussions are however also created by an overly simplified discussion where everything related to structured finance is lumped together and sometimes dismissed or branded as “toxic”. The instrument is neither “toxic” nor is the underlying asset (in the case of SMESec loans to SMEs) “toxic waste”.

On the contrary - loans to SMEs are a key driver for the functioning of the economy and, properly applied, the securitisation technique is a replicable tool that can enhance access to finance for SMEs. Using this instrument in developed capital markets, public sector support for SMEs (e.g. guaranteeing mezzanine tranches) can create multiplier effects - and hence it is an efficient use of public resources, which is especially important against the background of a high public debt burden in many key countries. ”Taken together, strengthening SME securitisation may be one of the most effective ways to facilitate the flow of funds to the real economy, while not creating too much distortion” (Kaya, 2014).

The reputation of the SME securitisation market segment is continuously improving; a de-stigmatisation is happening, and the general perception is shifting from one of “toxic waste” to a means that could help overcome the negative effects of the crisis. However, as we will see later, SMESec placed with investors currently represents only a very small portion of the total issuance and there is for the time being only a very limited primary market. The European securitisation market had grown steadily from the beginning of the previous decade until the outbreak of the crisis. However, the European market is much smaller than its US peer (see Figure 8).

During the crisis, issuance remained initially at high levels (compared to pre-crisis values) in Europe, but these volumes were almost exclusively driven by the eligibility of ABS as collateral for ECB liquidity operations;[15] then the overall market activity decreased to the 2003/2004 levels, in particular due to regulatory uncertainties[16] and tighter euro system collateral rules.

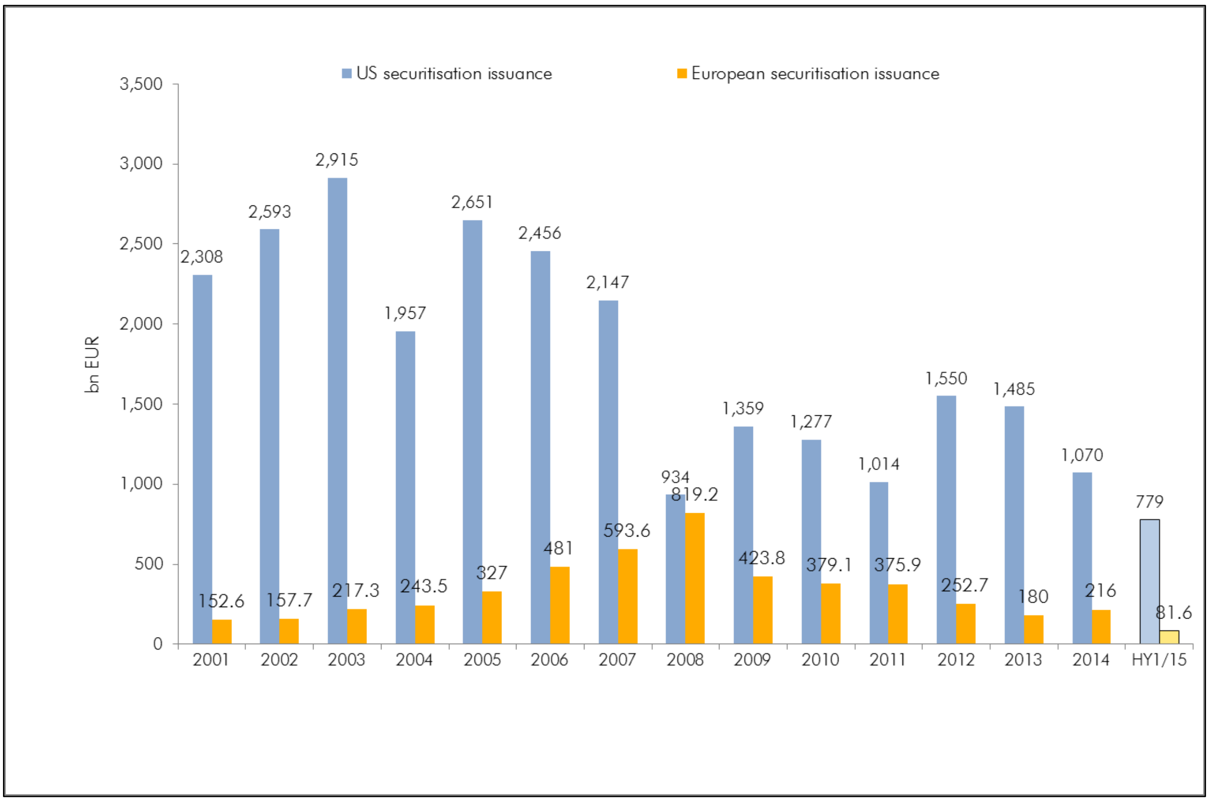
To date, public issuance is still hindered in particular by the regulatory framework (and related uncertainties) that makes transactions less attractive for originators and investors – as well as by ECB eligibility rules under the repo-collateral framework that favour alternative instruments (such as sovereign bonds or secured or unsecured bank debt (Scope, 2015)).

[14] This chapter is based on Kraemer-Eis, Lang, and Gvetadze, 2015. If not flagged otherwise, the data source is AFME, the Association for Financial Markets in Europe (i.e. AFME, 2015).

[15] The ECB’s asset repurchase or "repo" facility allows (among other assets) Asset Backed Securities to be used as collateral for funding.

[16] See for details concerning the regulatory developments e.g. Wehinger and Nassr (2015) and Segoviano, Bradley, and Lindner (2015).

Figure 8: Securitisation issuance Europe versus US (annual issuance 2000 - 2015, bn EUR)



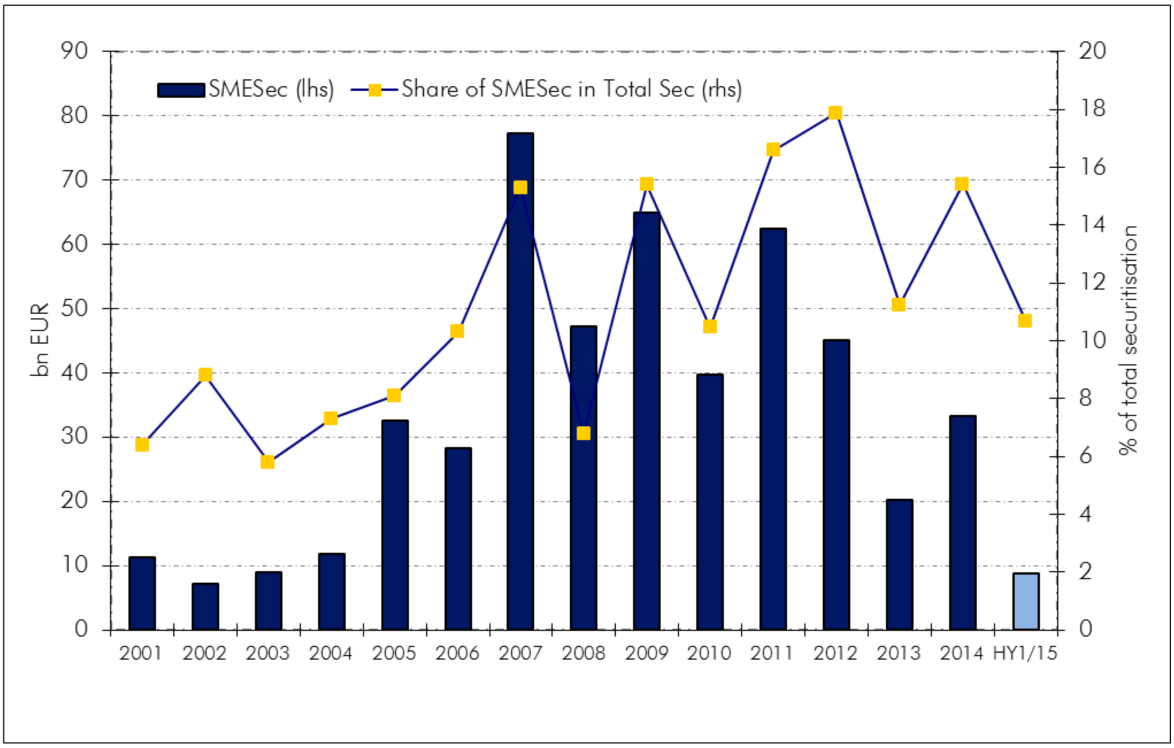
Source: Authors, based on data from AFME/SIFMA

The most active markets in 2014 in terms of *overall securitisation issuance* were France (market share: 23%), UK (23%), Spain (13%), the Netherlands (12%), Italy (9%) and Germany (9%). In 2015, so far (HY1), UK (23%), Spain, the Netherlands (both slightly below 17%), and Italy (12%) were the most active countries. In line with the shrinking volumes, the number of active market participants is also declining: there is a reduced number of active securitisation professionals, i.e. at investors, issuers, rating agencies, agents and brokers (Bank of America/Merrill Lynch, 2015a).

Issuance

SMESec issuance is still suffering from the crisis, however the overall issued volume of SME deals in 2014 (EUR 33.3bn) was significantly higher than in 2013 (see Figure 9) – but the issuance in HY1/2015 (EUR 8.7bn) was significantly lower than in the same period the year before (EUR 19.3bn). The market share of SMESec in overall securitisation issuance rose (with some volatility) from 6% in 2001 to 18% (of total yearly issuance) in 2012, the highest value ever registered in Europe. This, however, came about due to the base effect, as the overall activity went down (while SMESec activity decreased slightly less). In 2014, the share of SMESec was 15% - and so far 10.7% in 2015 (HY1). During the crisis, also the large volumes of synthetic SMESec transactions, that were evidenced pre-2007 on SME portfolios dominated primarily by German SMEs on the back of KfW's PROMISE program, virtually disappeared (we go more into the details of synthetic securitisations later on). Rating downgrades, based on revised rating agency criteria (i.e. counterparty and country ceiling criteria, without grandfathering), on downgrades of counterparties involved in the transactions, and on negative credit trends, contributed to the overall negative market sentiment.

Figure 9: SMESec issuance in Europe (volume and share of total securitisation, bn EUR and %)



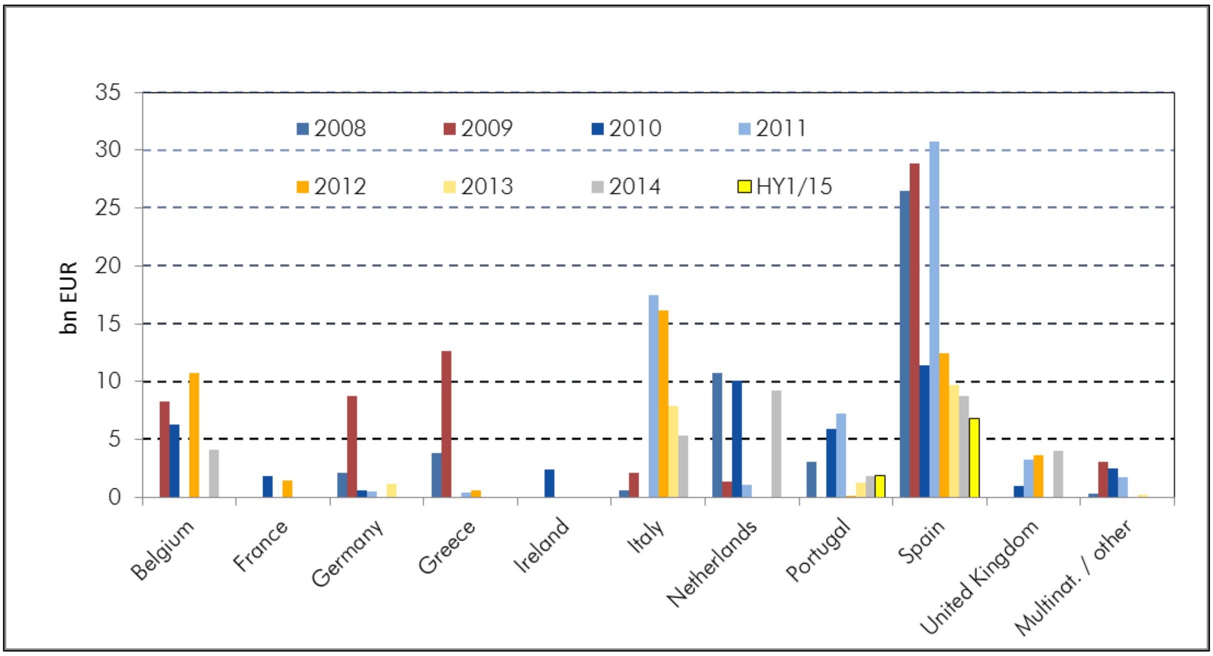
Source: Authors, based on data from AFME and own calculation

In terms of countries, the market activity is concentrated: The SME related issuance in 2014 occurred only in the Netherlands (EUR 9.3bn, 28% of SME issuance), Spain (EUR 8.8bn, 26%), Italy (EUR 5.3bn, 16%), Belgium (EUR 4.1bn, 12%), UK (EUR 4bn, 12%) and Portugal (EUR 1.8bn, 5%) – see as well Figure 10 for an overview of the SMESec issuance by country during the crisis. In HY1/2015, market activity happened only in Spain and Portugal.

However, it has to be noted that the AFME data, used above and in many of the following figures, classifies only *lending*-based transaction in the SME basket. Most leasing-based transactions, classified in AFME's data under ABS Leases in the overall ABS basket, are de-facto SME transactions. Hence, the numbers, shown here, are an underestimation of the SMESec market size. A recent example is ALBA 7, an EUR 785m securitisation transaction of leases to Italian SMEs, originated by Alba Leasing. This *SME transaction* was successfully issued into the capital market in April 2015 (with the support of the EIB Group), but is - in terms of statistics - registered in the ABS basket. This example shows that the real volumes of SME transactions is higher and the country coverage is wider than revealed in the official data.

Typical originators are large banks or banking groups – some of them are active as originators in several countries (e.g. UniCredit, Raiffeisen, ING Group), but as well mid-sized banks. Moreover, in particular in the field of leasing, non-bank asset finance providers are active as originators; for instance, Alba Leasing in Italy and the small and medium size asset-finance providers in the UK which are the primary target recipients of the British Business Bank ENABLE program.[17]

Figure 10: European SMESec issuance in Europe during the crisis (by country, in bn EUR)

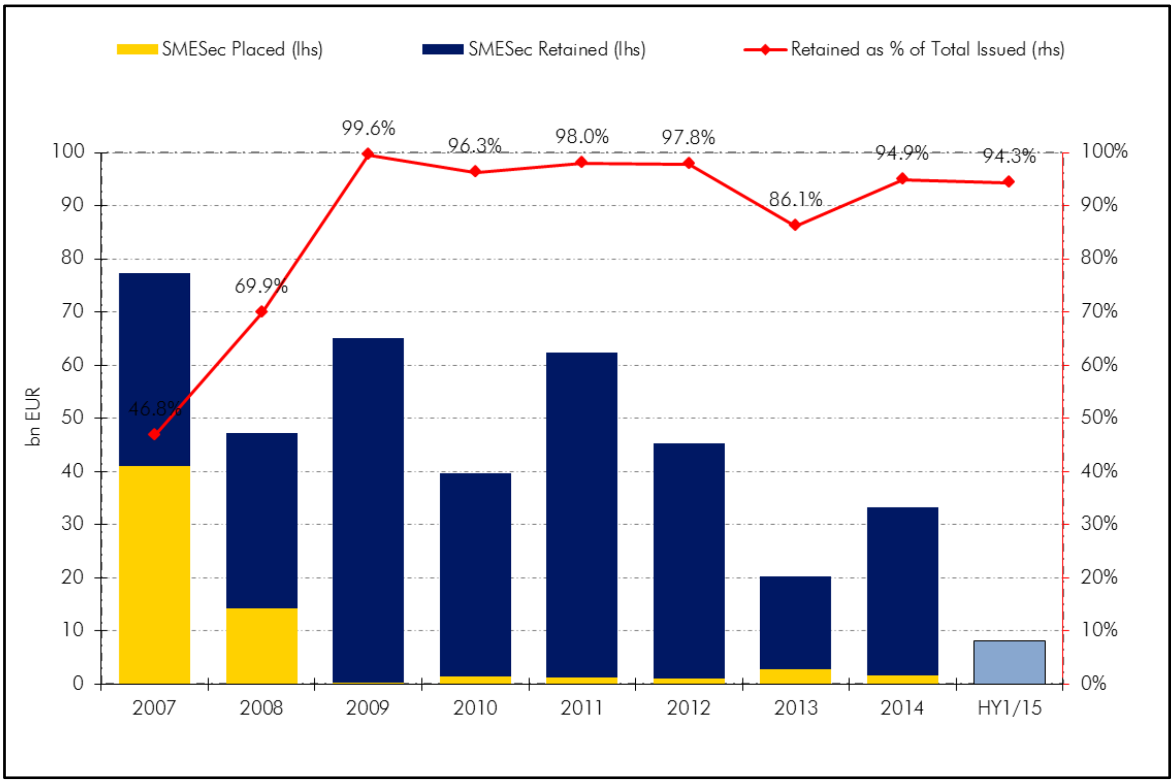


Source: Authors, based on data from AFME

As already mentioned, it is important to note that only a very small fraction of the issuance has been placed with investors (see Figure 11): the nature of the SMESec market changed from a developing market (pre-crisis, with most transactions placed in the primary market) to a purely retained/ECB repo-driven market during the crisis (with almost no placement on the primary market). This shift led to liquidity drying up and originators accepting higher all-in costs as, in addition to the credit enhancement, the repos envisage considerable haircuts to the face value of the notes.

[17]See for more information e.g. http://british-business-bank.co.uk/become-a-partner/wholesale-solutions/

Figure 11: European SMESec by retention (bn EUR and %)



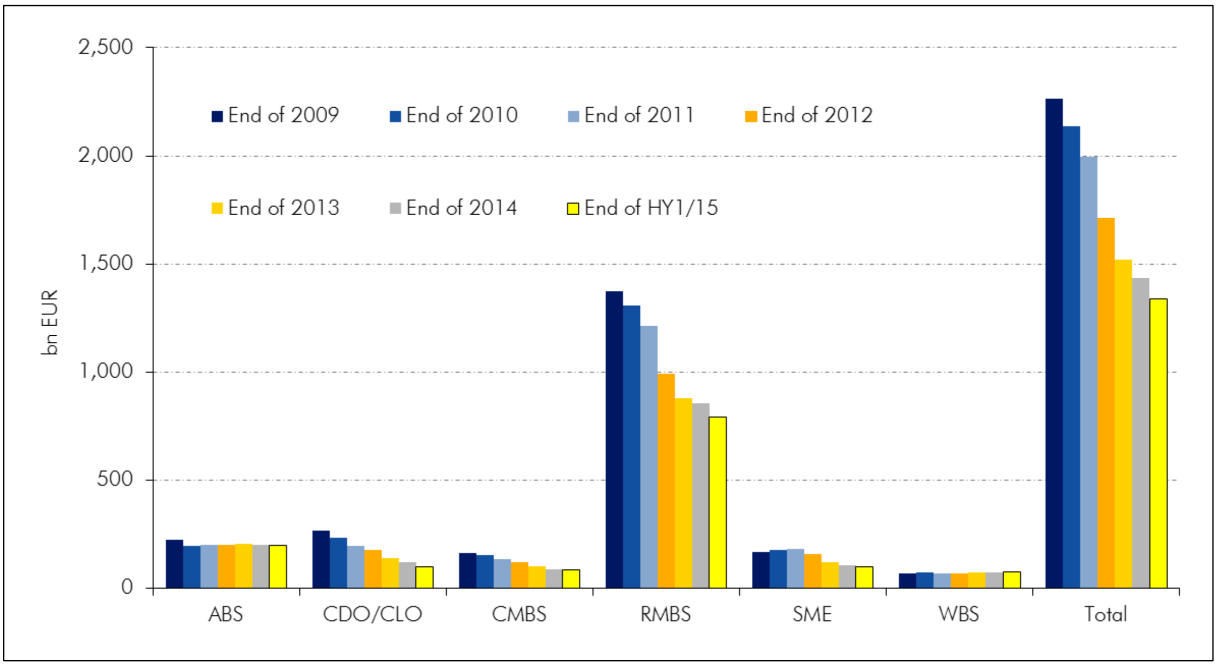
Source: Authors, based on data from AFME

Outstanding

Due to low new activity levels, the volume of *total outstanding securitisation transactions* (see Figure 12) is on a downward trend (negative net supply). Compared to the end of 2014, until end of HY1/2015, the total outstanding decreased by another 6.4%. Since the end of 2009, the volume of total outstanding securitisation transactions decreased by 41%. During the same period, the volume of outstanding SMESec transactions decreased by a similar magnitude (by 42%), from EUR 168bn to EUR 97bn.

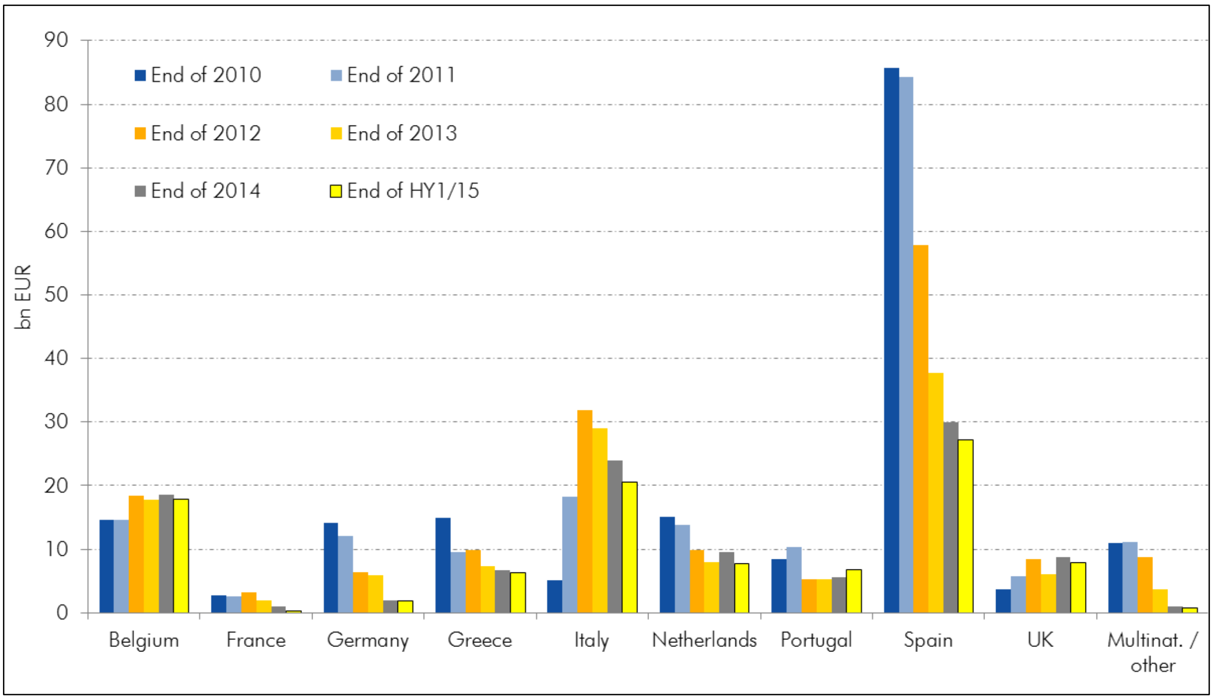
If SMESec volumes per end of HY1/2015 are broken down by country (see Figure 13), the Spanish (28%) and Italian (21%) markets together count for almost half of the overall outstanding - despite decreasing volumes - followed by Belgium (18%), the Netherlands, and the UK (each almost 8%).

Figure 12: European outstanding securitisation transactions by collateral (bn EUR)



Source: Authors, based on data from AFME

Figure 13: European SMESec outstanding volume by country (bn EUR)



Source: Authors, based on data from AFME

Although the market activity is concentrated in a few countries, there is a higher number of potential jurisdictions where SMESec is a viable solution, and in general, according to an assessment by PwC (2015), *public* SME loan securitisation transactions happened already in 17 European countries (but only in 9 of those countries 8 or more transactions have been executed).

The by far most active market is Spain with more than 170 transactions, followed by Italy and Germany (see Figure 14).

Figure 14: Number of public SME loan securitisation transactions in Europe[18]

Country	Number of transactions	Country	Number of transactions
Spain	171	Denmark	4
Italy	61	**Poland**	4
Germany	46	**Austria**	2
Portugal	24	**Bulgaria**	2
Greece	12	**Serbia**	2
United Kingdom	12	Ireland	1
Netherlands	11	**Czech Republic**	1
France	10	**Finland**	1
Belgium	8		

Source: PwC (2015), based on PwC research and data from AFME

In the event that framework conditions for securitisation improve, there is also significant potential for SMESec transactions. Altomonte and Bussoli (2014) - for example - estimate a potential securitisation volume of EUR 325bn of SME ABS – spread mainly over the main markets Spain (19%), France, Germany (17% each), Italy (14%), Portugal (7%), Ireland (6%) and the rest of Europe (22%). Their estimate is predicated on the current outstanding loan volumes, adjusted by several "haircuts" based on different eligibility parameters.

SMESec performance trends

Despite the financial and sovereign crisis and the prolonged negative economic cycle, the European securitisation market in general has performed relatively well with comparatively low default rates.[19] The low losses are not only based on the typically high granularity, diversification and seasoning of these transactions, but also on the structural features (such as large credit enhancement) that helped counterbalance the negative effects of the deteriorating European economy (i.e. increased SME default rates).

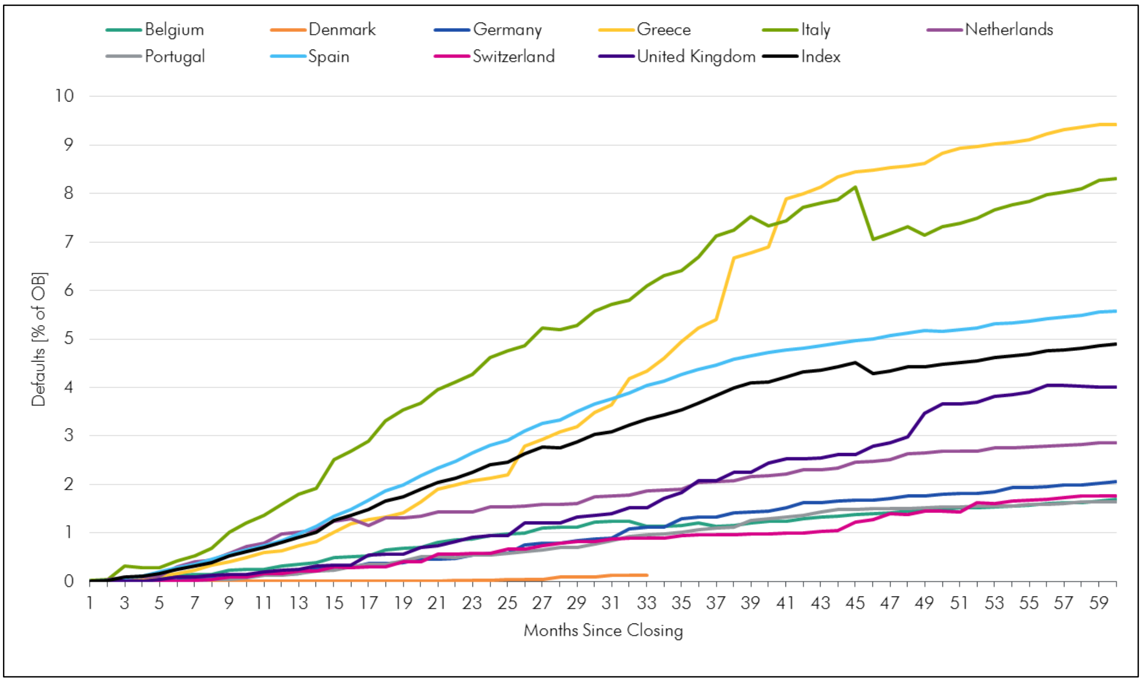
The track record of SMESec in Europe is relatively limited: the market started only towards the end of the 1990s – at the time, this segment was relatively unknown to investors and rating agencies (based on the novelty of the applied tools, but as well based on the heterogeneity of SMEs/SME loans), and the securitisation technique was also new to most of the originators – and many banks were not in a position to securitise SME loans (a typical hurdle is represented by the IT infrastructure that has to be able to adequately support the securitisation transactions).

[18] Countries with EIF involvement in SME loan securitisations are marked in bold. More details about the history of EIF's intervention are presented in chapter 4.

[19] With some exceptions, i.e. the non-granular hybrid transactions (German Mezzanine CDOs). For more details see Kraemer-Eis, Passaris, and Tappi (2013).

On the one hand, before the crisis started, SMESec volumes were small compared to the overall securitisation market – and the market had not had much time to develop. On the other hand, the limited track record was one of the reasons for the relatively conservative SMESec structures which could explain the relatively good SMESec performance in Europe compared to other segments of the European securitisation market and to the US.[20] Figures 15 and 16 below show the cumulative credit events or defaults on original balance by country and by vintage (of the SME transactions in the EMEA region rated by Moody's).

Figure 15: EMEA ABS SME loan and lease cumulative credit events or defaults on original balance (seasoning by country)[21]

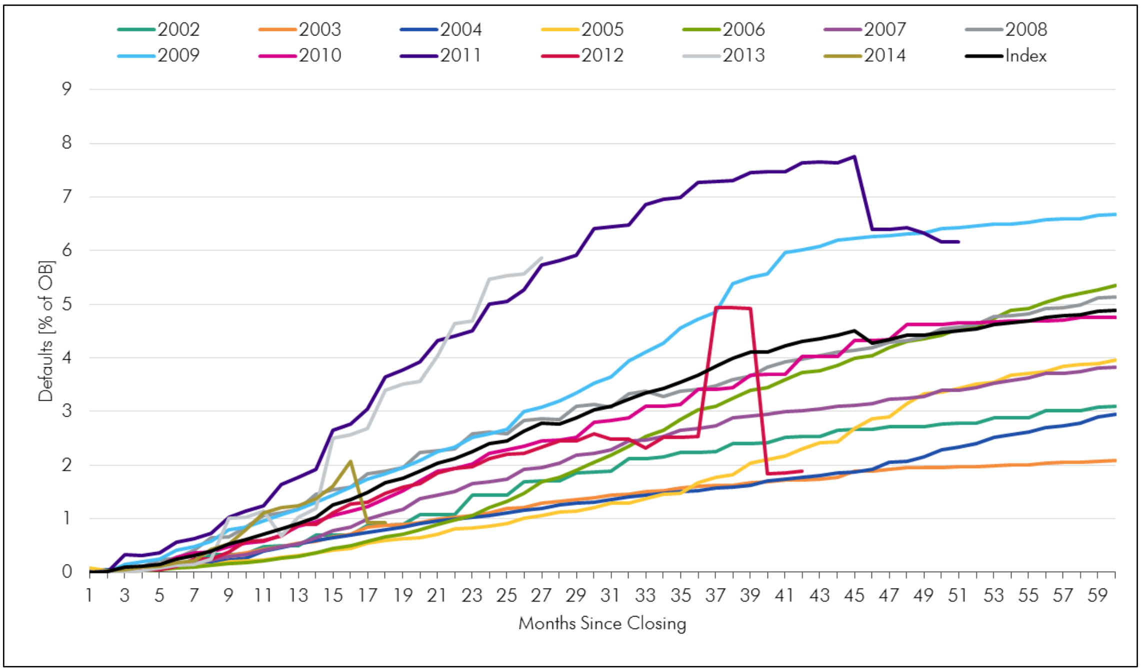


Source: Moody's (2015)

[20]According to Standard & Poor's (2014), only 1.58% of European Structured Finance notes (rated by Standard & Poor's) outstanding in mid-2007 had defaulted by mid-2014. The cumulative default rate for SMESec transactions was at 0.55% – for comparison: the cumulative default rate for US Structured Finance notes was at 19.3%, the one for CDO of ABS was at 41.08%. See also EBA (2014) for an analysis of historical credit performance of the securitisation market. It is sometimes stated that securitisation might lead to higher risk taking by banks (or lower lending standards). This is neither confirmed by performance data, nor by research. In a recent study, Kara, Marques-Ibanez, and Ongena (2015), analysing data from the euro-denominated syndicated loan market, found out, that in the run up to the financial crisis, banks, relying on securitisation, did not lower their lending standards more than other institutions.

[21]Terminated transactions are included in the index calculation, hence here "cumulative" curves can show as well a drop. Moody's believes that this information must be included for an accurate representation of trends over time. Additionally, Moody's notes show that vintage seasoning charts might move unexpectedly for the last few data points, because transactions start at different points in time within a vintage and, hence, some transactions may be more seasoned than others. The index includes only the transactions rated by Moody's.

Figure 16: EMEA ABS SME loan and lease cumulative credit events or defaults on original balance (seasoning by vintage)[22]



Source: Moody's (2015)

As explained in more detail in our previous working papers, the SMESec market has also been hit by a wave of downgrades due to weaker (crisis-driven) performance effects in the underlying portfolios, as well as the rating methodology changes. Typically, AAA tranches show strong rating stability, but during the crisis also AAA and AA tranches migrated downward. This was mostly driven by downgrades of the respective country/sovereign ratings, and the limitation by the country ceilings, or they may be driven by downgrades of (not replaced) counterparties (whose rating is in turn affected by the respective sovereign ratings).

The rating transition data shows that the downgrade pressure for SME transactions persists across all tranche levels. The example below (Figure 17) shows the rating migration of SME Collateralised Loan Obligation (CLO) transactions (rated by Fitch, migration since transaction closing). For example, of all the tranches initially rated AAA, 56% (by number[23]) have paid in full (pif), 11% are still AAA, 12% moved down to AA etc. Meanwhile, there has been very limited upgrading, but no tranche was upgraded to AAA.

[22]See footnote 21.
[23]Relative to the number of tranches in a given initial rating category.

Figure 17: Fitch European SMEs Rating Transition Matrix (October 2015)[24]

% of tranches		Current rating									
		PIF	AAAsf	AAsf	Asf	BBBsf	BBsf	Bsf	CCCsf	CCsf	Csf
Initial Ratings	AAAsf	56%	11%	12%	15%	3%	3%	1%	0%	0%	0%
	AAsf	27%	3%	39%	9%	3%	6%	12%	0%	0%	0%
	Asf	8%	0%	31%	31%	3%	13%	10%	3%	0%	3%
	BBBsf	6%	0%	3%	9%	12%	15%	12%	12%	26%	6%
	BBsf	0%	0%	0%	0%	0%	25%	25%	6%	31%	13%
	Bsf	0%	0%	0%	33%	0%	67%	0%	0%	0%	0%
	CCCsf	0%	0%	0%	0%	0%	0%	22%	0%	33%	44%
	CCsf	0%	0%	0%	0%	0%	0%	0%	0%	40%	60%
	Csf	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Fitch (2015)

Integrated EU capital markets (and their need for transparency and standardisation) and the relative complexity of securitisation techniques require considerable know-how and show the necessity for specialised institutions. As an established and respected player in the European market, EIF can play a role via market presence, reputation building, and signalling. This role, as well as various initiatives to support SMESec, are explained in the following sections.

4 EIF's SME support via SMESec

4.1 Type of intervention

A compelling case can be made for public assistance to enhance access to finance for SMEs (market failure based on information asymmetries, high transaction costs, and spill-overs – exacerbated by the recent credit crunch in many economies associated with the financial crisis), and for supporting the European SMESec market (for details see Kraemer-Eis, Passaris, and Tappi, 2013). Fifteen years ago, public support in the form of national programmes (e.g. FTPYME (by the Kingdom of Spain) in Spain and PROMISE (by KfW) in Germany) and EIF-support on supranational level already contributed significantly to the emergence of a European SMESec market. EIF was instrumental to initiate transactions in many countries, including Belgium, Bulgaria, Czech Republic, Denmark, France, Germany, Greece, Italy, Netherlands, Portugal, Poland, Serbia, Spain, and UK (see Figure 22 for an overview; see also Figure 14 above: it shows that most of the jurisdictions, were transactions took place, have been supported by EIF).

For the re-emergence of a primary European SME securitisation market, official sector support is as well required (Aiydar, Al-Eyd, Barkbu, and Jobst, 2015) - and it could form an important element in the efforts to enhance access to finance for SMEs in Europe. In this context, not only does the supplied volume matter, but the positive signalling effect, triggered by the public involvement and support, could be equally important. However, despite increasing "mental support", currently – with the exception of Spain's FTPYME, no European country has launched significant support programmes to revive the SMESec market. In this context, joint forces of key

[24]The addition sf indicates a rating for structured finance transactions.

public market players might help - in terms of financial resources and know how - to provide scalable solutions; and we present a related project later in this paper.

At pan-European level, the EIF - and the EIB Group as a whole – has supported the SMESec market already since many years, based on "own risk"; more recently third party "mandates" have also been designed to provide support to SMESec.[25] By facilitating the execution of securitisation transactions, EIF provides guarantees to banks and financial institutions, allowing them to diversify their funding sources and to achieve economic and regulatory capital relief through credit risk transfer. The focus is on the following asset classes:

- SME loans
- SME loan guarantees
- Small ticket lease receivables
- SME trade receivables
- Venture financing (lease/loans)
- Micro-loans

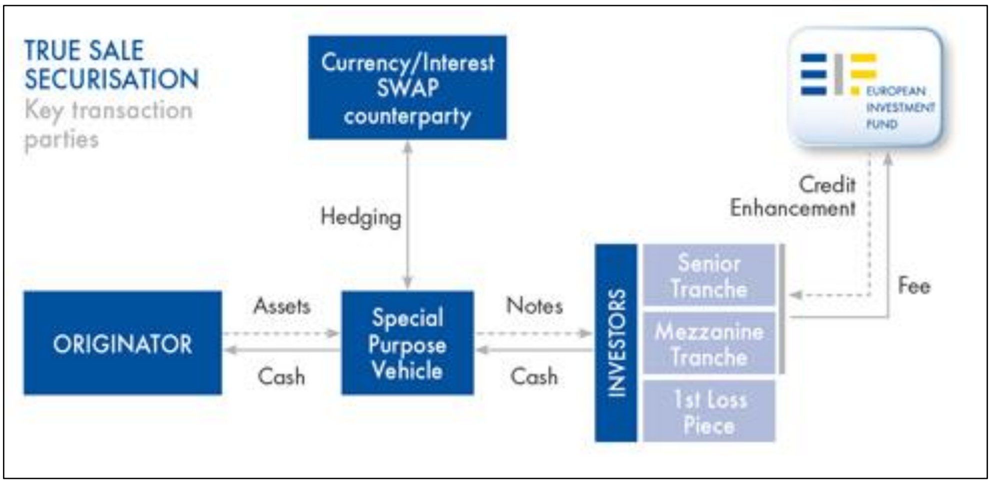
The selected financial institutions benefit from the following features:

- ABS backed by an EIF guarantee enjoy (explicitly or implicitly) a AAA/Aaa/AAA rating.
- EIF can sell protection on the underlying portfolio itself, e.g. directly to the benefit of the originator in synthetic deals.
- Credit risk transfer and capital relief - through the placement of notes with cash investors or otherwise - are further facilitated by the zero risk-weighting assigned to the assets EIF guarantees, thanks to its Multilateral Development Bank status.
- The guarantees are offered at competitive prices, after a detailed analysis of the transaction and of the originator.

EIF can provide in the form of "wrap" (i.e. with the EIF guarantee embedded in the ABS transaction structure) or bilateral guarantees on senior and/or mezzanine tranches of risk. The equivalent rating spectrum of the credit risk covered by EIF's guarantees varies between AAA and low BB (see also Figure 18).

[25] "Own risk" means that EIF uses its own capital to credit enhance tranches of SME loan or lease securitisation transactions, facilitating SME risk transfer from financial institutions and enabling access to term funding through the placement of guaranteed asset-backed securities with capital market investors. With the "mandate" activities EIF manages resources of third parties, e.g. the EIB, the European Commission, or Member States, facilitating the granting of loans and leases to SMEs.

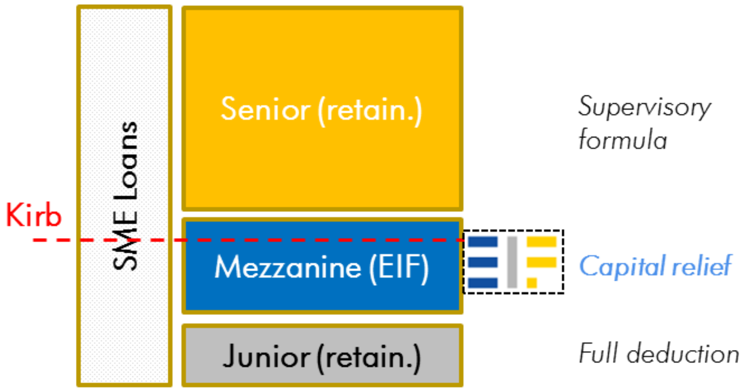
Figure 18: Diagrammatic example of EIF's involvement in a SMESec transaction



Source: EIF

To show examples for the various elements of these transactions, we have to distinguish between unfunded transactions and funded structures. A typical unfunded transaction (portfolio tranched cover) is depicted in Figure 19.

Figure 19: Features of an unfunded transaction



Source: EIF[26]

In an unfunded transaction, EIF typically provides a guarantee on a mezzanine tranche. Since EIF usually does not take first-loss risk, the junior tranche is generally retained by the originator (or sold to a third-party protection seller, such as a credit fund), while the senior tranche is retained by the originator.

As comparison, a typical cash (true sale) transaction is depicted in Figure 20.

[26]Kirb means the sum of the expected loss and regulatory capital that a financial intermediary assigns to an exposure (a portfolio) by using an Internal Rating Based (IRB) approach.

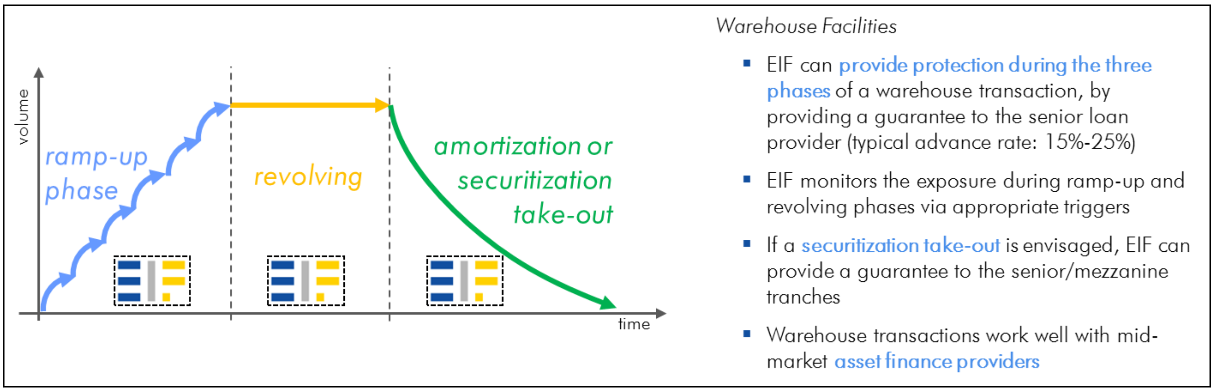
Figure 20: Features of a cash transaction

Source: EIF

In order to maximise the funding made available to the originator, cash transactions are sometimes carried out alongside EIB's investment. In a typical transaction, the EIB purchases highly rated tranches, while EIF provides a first demand guarantee to the investors underwriting the mezzanine notes.

Finally, over the course of the last year, the EIF has been involved in a number of warehouse transactions in the United Kingdom, most of them in cooperation with the British Business Bank under its ENABLE programme of. In these transactions, EIF provides guarantees on the senior funding to an originator (typically a non-bank asset-finance provider) for the purpose of building up a portfolio of SME loans/leases (see Figure 21).

Figure 21: Features of a warehouse transaction



Source: EIF

4.2 History of intervention

EIF started its securitisation business already in the late 1990s and – until the start of the crisis – it was a rapidly growing business line. EIF contributed significantly to the development of this market segment in Europe. At the time, the business was fully based on own resources (own risk) and became a core business activity of EIF. The objective was (and still is) not only to support the transactions, but to contribute to the market development, including through spreading of know-how and best market practices (including support in terms of transaction structuring, discussions with regulators and national authorities etc.). As mentioned above, EIF was and is active in core as well as in non-core markets (see also Figure 22). Groundbreaking transactions have been supported in terms of market coverage or underlying assets: for example a multi-country transaction in Eastern Europe, a microfinance bank loans securitisation, as well as securitisation of a portfolio of venture debt finance to be ramped-up across Europe. EIF played a key role in the primary market, but was also active in the secondary market.

Due to the crisis, in 2009 the market came to a halt – and there was no EIF SMESec transaction. In 2010, EIF re-started with two transactions (in UK and Germany). In 2011, EIF participated in transactions in seven countries. In 2012, the first SME-asset backed transaction in Turkey was signed – in this case it was a SME-backed covered bond. During 2013, EIF remained an active player in the recovering securitisation market, by investing EUR 588m in a variety of transactions in Europe, including Germany, France, Italy and Spain and in candidate countries such as Turkey, where EIF boosted market activity. In 2014, the total volume of executed SME securitisation guarantees amounted to EUR 647m and catalysed EUR 2.3bn, demonstrating EIF's substantial added value in the segment and its ability to enable more lending capacity for SMEs.

In the recent years, market's focus shifted to capital relief for larger bank groups, and to funding for smaller non-bank asset finance providers. Against this backdrop, in 2015 EIF executed two tranched cover synthetic transactions aimed at releasing regulatory capital, to be then re-deployed for the provision of additional funding to SMEs. EIF also executed two warehousing facilities[27] allowing small asset finance providers in the UK to scale up their lending activities.

From 1997 to September 2015, EIF participated as a guarantor in 134 SMESec transactions, with a total commitment of approx. EUR 9.4bn. These transactions covered 19 countries, with Italy, Germany and the UK accounting for 24.7%, 19.9% and 10.0% respectively (see Figure 22). EIF has been a recurrent party in a number of repeat transactions, e.g. in Italy and Germany. Italy,

Figure 22: EIF's securitisation support – 1997 to September 2015

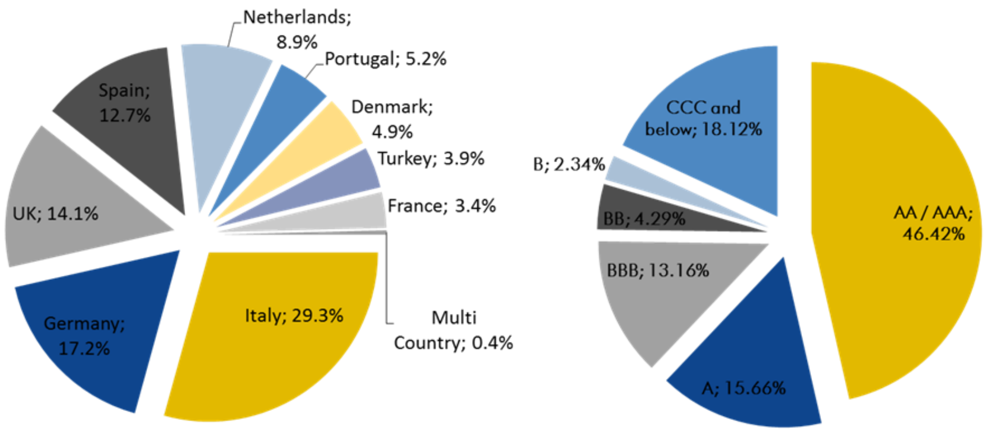
Country	EUR m	%	Country	EUR m	%
Italy	2,324	24.7%	Denmark	213	2.3%
Germany	1,871	19.9%	Sweden	179	1.9%
UK	938	10.0%	France	170	1.8%
Belgium	667	7.1%	Turkey	158	1.7%
Spain	639	6.8%	Bulgaria	143	1.5%
Netherlands	443	4.7%	Austria	105	1.1%
Poland	414	4.4%	Serbia	98	1.0%
Portugal	358	3.8%	Greece	61	0.6%
Czech Republic	305	3.2%	Switzerland	40	0.4%
Multi Country	267	2.8%	Finland	14	0.1%

Source: EIF

[27] The press release for the Kennet Equipment leasing transaction can be found at http://www.eif.org/what_we_do/guarantees/news/2015/commerzbank.htm, while the press release for the Hitachi Capital transaction in cooperation with the British Business Bank is available here: http://www.eif.org/what_we_do/guarantees/news/2015/hitachi-britishbusinessbank.htm?lang=-en .

With regard to currently outstanding transactions Germany and UK represent the largest exposures (see Figure 23). 75% of EIF outstanding securitisation portfolio is rated investment grade. Rating drift on pre-crisis transactions has been mainly linked to the deterioration in performance of the underlying portfolios and evolving rating agencies' methodologies which resulted in lower ratings. This effect has been balanced by new business being originated at relatively high rating levels. As of today, of these 134 SMESec transactions, 8 have defaulted.

Figure 23: Geographical split and rating breakdown of EIF's outstanding securitisation portfolio



Source: EIF

4.3 Joint Initiatives with EIF involvement

With the combination of long-term liquidity provided by the EIB and EIF's longstanding market experience in providing guarantees for SME portfolios, the EIB Group is well placed to contribute to reviving the securitisation market. EIB can purchase ABS backed by SME loans/leases or other asset classes (as well as covered bonds, diversified payment rights securities and similar) as loan substitutes for Loans for SMEs and/or midcaps. In the current highly liquid and price-competitive market context, originators seek clear advantages of EIB purchases e.g. as an alternative to the ECB's ABS purchase programme. They are also looking at regulatory capital relief opportunities utilising SMESec. Overall, the EIB Group's support to the European SME securitisation market since 2014 amounts to nearly EUR 4bn (EIB purchases of SME-related ABS and EIF guarantees for SMESec).

In addition to (and in combination with) its "own risk" SMESec activities, the EIF is involved in several financing initiatives to re-start the market. The EIB Group as a whole has maintained its presence and support of the SMESec market during the whole period of the recent economic turmoil. This has been manifested by the launch of several initiatives in the securitisation domain, namely

(i) the EIB Group ABS Initiative for SMEs, and

(ii) credit enhancement of mezzanine tranches under the "EREM" (EIB Group Risk Enhancement Mandate) ABS Credit Enhancement window.

Moreover, there are joint initiatives of the EIB Group and the European Commission (and Member States), namely

(iii) the Joint SME Initiative with the European Commission, as well as

(iv) a securitisation platform to be launched under the Investment Plan for Europe (an initiative with National Promotional Institutions (NPIs)).

In addition, there is (v) the possibility to support SMESec transactions under the so called COSME programme, managed by EIF and financed by the European Commission. These initiatives will be presented in the following paragraphs.

4.3.1 EIB Group initiatives ((i) and (ii))

(i) EIB Group ABS Initiative for SMEs

The "EIB Group ABS Initiative for SMEs" is a cooperation between the EIB and the EIF. Launched in 2013, the initiative aims at increasing the Group's involvement in ABS and at facilitating the execution of SMESec for originators. It combines EIB investments in senior SME-backed ABS notes at favourable conditions, with EIF guarantees for other notes of the same ABS, to the benefit of market investors. This facility for SMEs enhances the EIB Group's effectiveness in the priority area of SME lending and builds on the specialisation and complementarities between EIB and EIF in the ABS domain. The EIB Group's involvement further encourages originators to launch new ABS transactions by facilitating deal execution through increased underwriting capacity, and provision of credit enhancement to third party investors at attractive conditions.

Since 2014, the origination efforts of the EIB Group under the initiative led to EIB purchases of EUR 2.8bn in 11 SME-backed ABS transactions in Spain, Italy, Germany and Poland and EIF providing an aggregate volume of guarantees of nearly EUR 500m for 7 of these transactions. EIB relies on EIF's expertise for due diligence and monitoring of ABS transactions and the initiative is as such a clear example of enhanced EIB Group synergies.

(ii) EIB Group Risk Enhancement Mandate (EREM)

In response to the request in June 2013 of the European Council to leverage private sector and capital market instruments for SME finance and enhance the risk bearing capacity of EIF, the EIB Board of Directors approved in December 2013 the EIB Group Risk Enhancement Mandate (EREM), a new mandate to be managed by EIF on behalf of EIB. The EREM is envisaged to fully exploit synergies between EIB and EIF to enhance the SME finance activities of the EIB Group.

EREM foresees, over a 7-year timeframe 2014-2020, up to EUR 4bn of EIB resources, complemented by up to EUR 2bn of EIF own resources to be made available across several windows relating to credit enhancement/securitisation or specific new SME target segments/novel intermediary channels (e.g. cooperative banks and smaller institutions, microfinance, social impact finance, debt funds). Under EREM there is capacity for up to almost EUR 2bn to guarantee mezzanine tranches. In addition, EUR 300m are earmarked to be combined with securitisation transactions in relation to the Joint EU SME Initiative (see below). So far, 6 transactions have been executed under the EREM ABS Credit Enhancement (2 true sale and 4 synthetic) amounting to EUR 404m for mezzanine risk taking, corresponding to a securitised volume of nearly EUR 10bn.[28]

4.3.2 EC / EIB Group initiatives ((iii) and (iv))

(iii) Joint EU SME Initiative

The Joint SME Initiative is a joint financial instrument of the EC and the EIB Group that aims, in response to the financial crisis, to stimulate new debt finance for SMEs by financial intermediaries in the participating Member States. It contemplates the blending of European Structural and Investment Funds (ESIF) of a participating Member State and EU budget resources - from COSME and/or Horizon 2020 - with EIB Group financing and EIF as implementing agent.

The Joint SME Initiative covers two products: an uncapped portfolio guarantee for new SME finance provided by financial intermediaries (Option 1) and securitisation of new or existing SME finance (Option 2) - see for a detailed description of the different options Kraemer-Eis, Passaris, and Tappi (2013).

Two countries contributed with EUR 800m (Spain)[29] and EUR 15m (Malta) of ESIF funds. The EIB contribution will take the form of (i) a senior risk participation up to EUR 2bn for Spain and EUR 50m for Malta and (ii) an upper mezzanine risk participation under EREM of approx. EUR 130m for Spain and EUR 3m for Malta, shared 2/3 EIB and 1/3 EIF.

The initiative was signed in Spain in January 2015, with Malta following in July 2015. Other Member States, such as Italy (especially in respect of Option 2), Bulgaria and Romania are currently in the pipeline.

(iv) Investment Plan for Europe

The global economic and financial crisis has hampered investment in infrastructure, innovation and the private sector. As part of the *Investment Plan for Europe*[30], the European Fund for Strategic Investments (EFSI) aims to unlock investment by addressing market gaps and mobilising private resources. By taking on some of the risk, the EIB Group can help increase the appetite to invest. The EIB Group will provide loans and other financial products that will be partly covered by an EU budget. As there is abundant liquidity in the market, sound projects and risk-absorbing financial products will be able to attract more funding, especially from private investors.

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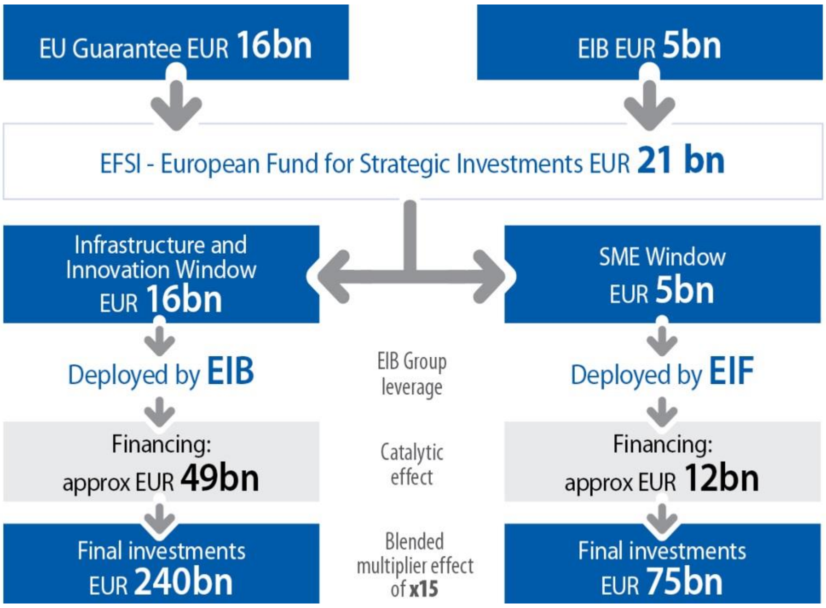
[28] Moreover, EREM provides - inter alia - resources to support diversified loan funds - these structures are similar to un-tranched true sale securitisations.

[29] See EIF (2015).

[30] See for more information: http://www.eib.org/about/invest-eu/index.htm and Council of the EU (2015a).

EFSI is a strategic partnership between the EC and the EIB Group. The EIB Group will contribute EUR 5bn to the new initiative alongside a EUR 16bn guarantee from the EU budget (see Figure 24). The EFSI SME window will be implemented by the EIF through guarantee and equity agreements between the EIF and financial intermediaries signed in 2015-2018. The financial support must be additional to what would have been delivered under the existing and already foreseen programmes in the period 2015-2018.

Figure 24: EFSI structure



Source: EIB Group

The resources under EFSI enable EIF to deploy its existing support for SMEs at a higher and faster rate than initially planned to satisfy strong demand of support to SME access to finance. Over time additional instruments are foreseen to be implemented under EFSI, including uncapped guarantees and SMESec. These products are currently being discussed with the European Commission with the view to be launched end soon.

Initial EFSI resources under the SME Window will be used to accelerate and enhance the deployment of existing EU flagship programmes which EIF manages – i.e. COSME, InnovFin – and to significantly increase the Risk Capital Resources (RCR) mandate for equity investments, which EIB has entrusted to EIF. Thanks to EFSI, also the RCR equity mandate which EIF manages on behalf of EIB has been increased by EUR 2.5bn.

A front loading of the InnovFin SME and COSME SME guarantee programmes was approved in April 2015 by the EIF Board, including a EUR 0.5bn warehousing capacity by EIF. Several transactions were already in preparation, of which the first one under EFSI was signed on 12th of May with the French public investment bank Bpifrance (a subsidiary of Caisse des Dépôts). The guarantee agreement will increase lending to innovative SMEs and small mid-caps in France. As indicated, the transaction was signed even before EFSI was formally established. This reflects the

EIB Group's commitment to respond swiftly to calls from Member States, the EC and the European Parliament for a rapid launch of concrete initiatives under EFSI.[31]

In the context of EFSI, the EIB Group and various National Promotional Institutions (NPIs) are working on a concept to design a joint securitisation platform. The working group aims at defining a platform that will allow national and multilateral promotional institutions as well as potentially other public sources (as for example resources from the European Structural and Investment Funds, ESIF) to offer interested originators (in particular, banks and leasing companies) a common framework of parameters to support their securitisation transactions. There is also value in common definitions of the promotional institutions' requirements, for example definitions of target group (SME definition), portfolio requirements, pricing conditions, timeframes and reporting requirements. However, whilst most benefit would come from a pan-European approach, the different mandates of NPIs may require a differentiated approach.

There are no reasons to limit the scope of the proposed instrument's objective (funding, capital relief, reduction of portfolio concentration and deconsolidation) or structure (true sale vs. synthetic) as long as SME lending is stimulated and the transactions are compliant with NPIs' mandates and internal guidelines on acceptable risk. NPIs, EIF/EIB and private investors can take on different roles in securitisation transactions corresponding to their individual mandates and risk appetite. A hypothetical example is shown in the following Figure 25.

Figure 25: Example for a potential tranching/risk sharing

Tranche	*Potential Investor Group*
Senior	private investors NPIs EIB EIF
Mezzanine	*private investors* NPIs EIF EFSI or other public funds
Equity	private investors other public funds (e.g. ESIF)

Source: EIF

In general, participation of national and multilateral promotional banks should aim to strengthen and stabilise the investor base for SME securitisations in Europe. In recent years,

[31] As per end of Sept-2015, overall 46 SME operations have already been signed under EFSI, with total financing over EUR 1.9bn, which is expected to trigger more than EUR 15 billion of investments. Some 50,000 SMEs and Midcaps are expected to benefit, including in Belgium, Bulgaria, Czech Republic, France, Germany, Italy, Luxembourg, Netherlands, Poland, Portugal and UK. For more information see: http://www.eif.org/what_we_do/efsi/index.htm.

most transactions have been structured for funding purposes with a most parts of it retained for ECB repo. In order to transfer risk efficiently and/or to achieve reasonable balance sheet management, a transfer of the whole portfolio or at least mezzanine and junior tranches to the market is necessary. This includes especially the equity tranche, since otherwise there would be no deconsolidation.

Private investors are willing in principle to invest in SME securitisations. However, small market volume often does not allow build-up market know-how in a cost-efficient way. Furthermore, spread levels required by investors are often unattractive for originators (both compared to funding alternatives as well as for capital release purposes). The number of investors willing to take mezzanine and equity risk is particularly restricted, with a large proportion coming from outside Europe. These investors are yield-driven and sometimes opportunistic, therefore not providing a stable investor base. In addition, the costs of capital release often prevent banks using securitisation for that purpose. Public intervention from NPIs and EIF/EIB is needed to revive and stabilise the market. However, most of these promotional institutions are currently either inactive in the securitisation markets or restricted with respect to the credit risk they are allowed to take. EFSI and other public funds' participation in mezzanine and especially equity tranches, can provide the catalytic effect for an increase in the current size of the market.

4.3.3 EC / EIF initiatives (v)

(v) CIP/ COSME

Under the European Commission's Competitiveness and Innovation (CIP) Programme of the previous programme period, the support of SMESec transactions was possible. EIF signed in March 2013 two transactions under the so called *CIP Securitisation Window* with UniCredit Italy on two portfolios originated by UniCredit Italy together with, respectively, Federconfidi and Federascomfidi, two Italian mutual guarantee associations (federation of Confidi). Under the successor programme, COSME it is still possible to provide guarantees to mezzanine tranches of portfolios to be built-up; the risk is envisaged to be split between COSME and EIF's own funds.

4.3.4 Summary of actions

Figure 26 below provides a short summary and shows different possibilities to combine resources.

Figure 26: Summary of initiatives

Initiative	Resources	Scope	Can be combined with:
Cash sec.	EIF's own funds; EREM	Guaranteeing a cash investor which purchases a tranche of an SME-backed ABS or Covered Bond (internally rated BB or above)	EIB's cash purchase. See Figure 20.
Synthetic sec.	EIF's own funds; EREM	Providing capital relief to an originator by guaranteeing a mezzanine tranche of an SME portfolio.	Third party risk-takers to transfer them the first-loss risk. See Figure 19.
COSME sec.	COSME and EIF's on funds	Guaranteeing/counter-guaranteeing the originator/guarantor of a portfolio to be built-up in order to provide capital relief.	N/A
SME Initiative	ESIF; H2020/COSME; EIF's own funds; EIB funds	Multifaceted initiative to provide funding and/or capital relief to both standardised and IRB banks via synthetic or cash transactions.	Third party risk-takers to transfer them a portion of the first-loss risk.

Source: EIF

5 Regulatory changes: the state of play for securitisation

There are many ongoing regulatory work streams, potentially affecting the securitisation market (with impact on originators and investors) – we often speak of a "regulatory wave". The most prominent ones are the proposed Basel (III) securitisation framework, as well as the Solvency II treatment, proposed by the European Insurance and Occupational Pension Authority (EIOPA). A significant boost to these work streams was given in May 2014, when the European Central Bank and the Bank of England published a joint paper on the need of revitalising the European securitisation market via the establishment of a regime for simple and transparent securitisation ("STS"). Since then, momentum built up towards the opportunity of acknowledging the existence of a plain securitisation market: three more consultations followed (EBA, BCBS-IOSCO and the EC in the Capital Markets Union request for comments) as regulatory bodies aimed at defining the features of transactions that would qualify for a preferential treatment.

5.1 The starting point: Basel III

The new securitisation framework (BIS, 2014b)[32], to be phased-in on 01.01.2018, marks a significant departure from Basel II. On the bright side, it addresses the long-awaited reduction of the reliance on external ratings and it allows standardised banks to determine risk-weights via a formula-based approach, but at the same time it introduces an overly conservative calibration of such risk-weights.

External ratings (traditionally embedded in the legislation in the form of look-up tables) have become a fall-back option, in that the hierarchy of approaches to computing the risk weights for

[32] http://www.bis.org/bcbs/publ/d303.htm

tranches has been reversed. Under Basel III, a bank has to rely on external ratings (called "external ratings based approach", or ERBA) only if it is not able (and authorised) to use the simplified supervisory formula (called "internal ratings based approach", or IRBA), while in Basel II external ratings sat at the top of the hierarchy. The banks unable to use either the IRBA or the ERBA are required to use a formula-based approach, which is similar to the IRBA, but requires as input the capital charge of the underlying pool computed under the standardised approach. These positive changes are however offset by the increase of the risk-weight floor (up to 15% from 7%) and by the indexation of the risk-weights to the maturity of the tranche for both ERBA and IRBA (which, in securitisation, is generally a poor proxy for the duration of the bond). The new framework has attracted a number of critiques, the most significant can be summarised as follows[33]:

- **Inconsistency with portfolio's risk weights:** As securitisation does not add or reduce the overall risk of the underlying assets, rather it simply modifies its allocation, holding the full capital structure of an ABS should be tantamount to holding the underlying portfolio. Under the new Basel III proposal, this does not hold true, in fact a securitisation can absorb up to 5-7 times more capital than the underlying (non-securitised) portfolio.
- **Inconsistency between the approaches:** There appears to be a disconnect between the risk-weights implied by the ERBA and those returned by the formula-based approaches (IRBA and SA). More in detail, for most senior tranches, ERBA risk-weights are on average five times higher than those implied by IRBA and SA.
- **Uneven level playing field for investors:** The European regulator prevents banks from employing the IRBA approach except for securitisations whereby they know the inputs needed to compute the pool capital ("Kirb"); as a consequence banks can only apply IRBA to the transactions they have originated. On the other hand, in the US the regulator has precluded banks from employing the external ratings (on the back of the Dodd-Frank act enacted in July 2010), and allowed them to rely on proxies to estimate the Kirb. The outcome of this regulatory mismatch is that US investors will use IRBA, while EU investors will be forced to rely on the more conservative ERBA.

5.2 "High Quality" as mitigation of negative effects[34]

In order to revitalise the SMESec market, significant changes to the regulatory environment (i.e. liquidity risk standards and capital requirements) would be necessary in order to avoid unintended negative impacts – from both perspectives, issuers and investors. A more holistic view than in the past is required and regulations should not be introduced with a silo perspective, as this prevents the ability of the market to develop and start functioning properly again. Strong, but smart regulation is needed.

[33] For a detailed analysis of Basel III's drawbacks, see: Duponcheele, Linden and Perraudin (2014).

[34] As mentioned before, we use here HQS as term – in the current discussion, also other terminologies are used in the same context, e.g. STS (simple, transparent, and standardised) securitisation, used e.g. by the ECB, or STC (simple, transparent and comparable) securitisation, used by BCBS-IOSCO, or SST (simple, standard and transparent) securitisation, used by the European Banking Authority. September's proposed regulation published by the European Commission suggests that the STS acronym will prevail in European regulation.

Insufficient regulatory differentiation is not the only impediment to SMESec, but it is the main obstacle. Other issues are (inter alia) the cost of issuance, fragmented national insolvency and debt enforcement regimes, and the lack of harmonised credit information (see for more details Aiyar, Al-Eyd, Barkbu, and Jobst, 2015). Banks are generally willing to use securitisation – but given the current market environment, their interest is not primarily driven by funding demand (as there are cheaper alternatives available), but rather by the motivation to achieve regulatory capital relief to boost their capital base and allow themselves to re-ignite their lending to their respective SME sectors. This is particularly important for those banks that are allowed by the regulator to use their internal rating models for purposes of regulatory capital allocation (Internal Rating Based banks).

Up until the end of last year, each securitisation transaction needed to have the approval of the respective national regulator. Following the creation of the Single Supervisory Mechanism (SSM), the ECB is progressively assuming responsibility for the banking supervision in the euro area from the national regulators. One of the key prerequisites for a revival of the SMESec market is an efficient and rapid implementation of the new supervision mechanisms.

With regard to the fine-tuning of the various regulations, no dramatic improvements are currently foreseeable. Mitigation of the originally unintended negative effects can be achieved through the creation of High Quality Securitisations (HQS), which should comprise of structures that are simple, transparent and efficient and which should receive preferential regulatory treatment. Also the European Commission's proposal for the establishment of a Capital Markets Union (CMU) mentions HQS as important policy element.[35] Transparency should be a prerequisite for any structured transactions. Hence, a particular focus should be put on the promotion of simple structures and well-identified, transparent underlying asset pools with predictable performance. Naturally, an adequate, clear, and pragmatic definition of HQS is key to achieve its potential.

It is important to note that a label *HQS* (or similar) does not necessarily mean that a transaction has a lower risk profile compared to transactions without such a label. However, it means that the structure fulfils defined transparency requirements and standards that enable investors to properly analyse and understand the inherent risk of such transaction (see e.g. Möglich and Raebel, 2015).

5.2.1 The European Banking Authority's approach

The European Banking Authority (EBA) published on 07.07.2015 two documents, related to this topic, as part of its advice to the European Commission:

1. A comprehensive document entitled "*EBA Report on Qualifying Securitisation – Response to the Commission's call for advice of January 2014 on long-term financing*"[36], in which it discusses the state of the EU securitisation market, regulatory reforms and impediments,

[35]See the EC's papers concerning "Building a Capital Market Union (European Commission, 2015b, c, d) and "An EU framework for simple, transparent and standardised securitisation" (European Commission, 2015a, d). The CMU is now often discussed – see as example Aubrey, Thillaye, and Reed (2015).
[36]This summary is based on EBA (2015a and b), as well as on UniCredit (2015).

capital treatments and the development of a "qualifying" securitisation framework along with capital treatment of qualifying securitisations. EBA proposes a set of recommendations and acknowledges that a one-size-fits-all regulatory approach to securitisation may no longer be appropriate as it may result in an unduly conservative treatment of transactions that are simple, standard, and transparent, as well as being collateralised by relatively less risky exposures. Hence, the authority argues, the capital treatment proposed for "qualifying" transactions should aim at neutrality of capital charges, i.e. more similar capital charges applying to a given portfolio of non-securitised assets and the sum of those applying to all the tranches of the same portfolio in securitised form. According to the EBA, the requirements of the qualifying framework, as well as the empirical evidence on the performance of qualifying transactions, justify extending the re-calibration of risk weights to both senior and non-senior tranches of qualifying transactions.[37]

2. A second, shorter document entitled "*Opinion of the European Banking Authority on a European framework for qualifying securitisation*", which focuses on the recommendations. In this document, the Authority outlines its advice on important aspects related to the establishment of a qualifying securitisation framework. The recommendations related to "qualifying" securitisations include
    - the - from us often advocated[38] - holistic review of the regulatory framework,
    - the creation of a framework for such securitisations,
    - criteria-defining "qualifying" term securitisations and ABCP securitisations, and
    - the re-calibration of the BCBS 2014 framework applicable to "qualifying" securitisation positions.

However, as shown in Figure 27 below[39], the proposal does not dampen down the steep increase that the risk-weight will experiment under the new Basel III framework vis-à-vis the current legislation[40]. On the positive side, the risk-weights that would be applied by standardised banks ("SA BIS3 RW SR" line in the chart) do not substantially differ from those computed by IRB banks for non-STS tranches ("IRBA BIS3 Senior Tranche" line in the chart).

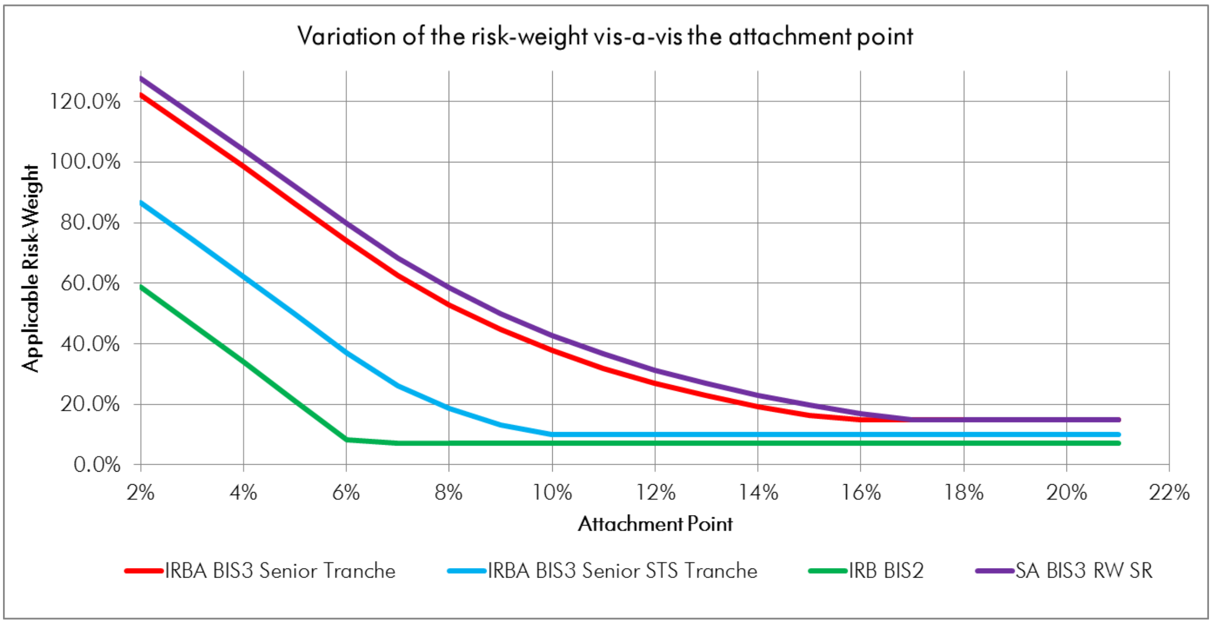
[37] In addition, it recommends a downward re-calibration of the BCBS 2014 framework for qualifying securitisations across the hierarchy of approaches, i.e. the internal ratings-based approach, the external ratings-based approach, and the standardised approach. According to the proposal, the formulae-based approaches are re-calibrated to include a fifty percent haircut of the supervisory "p" parameter, while the approach based on external (long-term and short-term) ratings is re-calibrated to achieve a lowering of risk weights which is consistent with the re-calibration of the former approaches. It also proposes a re-calibration of the risk weight floor to a value of 10% (from the original 15% value of the BCBS 2014 framework) for senior qualifying tranches only (see UniCredit, 2015).

[38] See for example Kraemer-Eis, Passaris, and Tappi (2013) or Kraemer-Eis, Lang, and Gvetadze (2013).

[39] The chart shows the applicable risk-weights under the proposed BIS 3 framework ("IRBA BIS 3 Senior Tranche"), the proposed BIS 3 framework for STS transactions ("IRBA BIS3 Senior STS TRANCHE"), the current BIS 2 legislation applicable to IRB banks ("IRB BIS 2"), the current BIS 2 legislation applicable to Standardised banks ("SA BIS 2"). The assumptions used are 6% Kirb, 25% LGD, 300 borrowers, 0% delinquencies.

[40] For a detailed analysis of EBA's proposal, see: Perraudin (2015).

Figure 27: Risk-weights across legislations



Source: EIF

At the same time, EBA's paper was not considering the qualification of high quality to synthetic transactions; however, as the focus of European banks is shifting from funding to capital relief, the topic of a qualifying synthetic securitisation has stimulated discussion among the market players (including EIF) under the aegis of the PCS initiative and AFME.

5.2.2 The STS definition and its implications in the forthcoming regulation

In order to revive the securitisation market, it is of paramount importance to lay out as soon as possible the features that the securitisation transactions will need to display in order to qualify for the label "simple, transparent and standardised" and as such to benefit from a preferential capital requirements treatment. But what can qualify under this label? This question is now frequently debated - see for example the discussion in IMF (2015). After longer debates it is now beyond question that transactions, backed by SME loans, should be eligible – a more difficult question is whether synthetic transactions should qualify. Box 1 below discusses this point.

In September, the European Commission published two draft legislative proposals (European Commission, 2015e). The first document comprises of the amendments to the Capital Requirements Regulation (CRR) which reflect the new Basel III framework, along with the favourable treatment warranted to STS as per EBA's July proposal. At the same time, the proposed article 270 opens-up to synthetic STS securitisation (see Figure 28 that exemplifies the capital relief computation under three different regulatory regimes: Basel 3 STS, Basel 3, Basel 2). We deem these changes to be beneficial to the market, subject to the concerns on the risk-weights expressed in 5.2.1.

The second paper comprises, amongst provisions that will apply across the board to any securitisation, of the elements that will constitute the STS framework: they are informed to EBA's July proposal and will be subject to review in the next months as to incorporate the criteria developed by BCBS-IOSCO (BIS, 2015). We note that the document is silent as to the portfolio diversification criteria. In this respect we believe that the tightening of such requirements could be envisaged, in exchange for a sensibly lower risk-weighting.

Figure 28: Exemplified capital relief

Steep increase from Basel 2 to Basel 3

EIF cannot take FLP, the intermediary either retains it or sells it to a credit fund

	Thickness	Basel 3 STS	Basel 3	Basel 2	Retention	Basel 3 STS	Basel 3	Basel 2
Senior	93.0%	18.4%	51.8%	7.0%	100.0%	1.4%	3.9%	0.5%
Mezzanine	6.0%	1200.0%	1200.0%	980.3%	5.0%	0.3%	0.3%	0.2%
Junior	1.0%	1250.0%	1250.0%	1250.0%	100.0%	1.0%	1.0%	1.0%
					Retained:	*2.7%*	*5.1%*	*1.8%*
					% freed	43.6%	0.0%	62.7%

EIF's guarantee

Computed applying the regulatory formula "SFA"

No capital relief!

Source: EIF

Box 1: Can synthetic SMESec be HQS?

As described in earlier EIF working papers (see e.g. Kraemer-Eis, Schaber, and Tappi, 2010), in *synthetic transactions* traditional securitisation techniques are combined with Financial Guarantees or Credit Default Swaps (CDSs) in order to provide credit protection on a pool of loans. An originator buys protection on (part of) a portfolio of loans or leases. The credit risk is transferred to the protection seller without transferring the assets themselves (hence the term "synthetic", compared to a "true sale").

There is a variety of different synthetic structures used with different objectives, e.g. based on granular portfolios / concentrated portfolios, funded / not funded, CDS against whole pool / individual tranches, based on managed / static pools, and also "squared" transactions (e.g. CDS on different ABS tranches), etc. These approaches vary significantly in terms of complexity, transparency, and standardisation – a synthetic securitisation can be rather simple and standardised, but as well highly complex and intransparent. Hence, it is not correct to speak of synthetics as ONE single market segment. Synthetic securitisations have typically lower administrative costs than their cash peers, as well as less legal and operational complexity (Moody's, 2014). Although different concerning several characteristics, in terms of risk, synthetic transactions do not differ significantly from their cash deals, as they are "usually designed to replicate the exposure of cash deals" (Moody's, 2014).

Box 1 continued:

Synthetic transactions were used in the past - mainly until the crisis - in a number of European countries and based on different asset classes. According to Bank of America/Merrill Lynch (2015c), most of the synthetic issuance in Europe came from the CDOs and RMBS sectors, in particular driven by the transactions under KfW's Promise (SME transactions) and Provide (RMBS) platforms. These transactions were highly standardised bank balance sheet CDOs.

The same source confirms that there is "no conclusive general evidence that synthetic securitisations have performed credit-wise worse than comparable traditional securitisations, yet performance has varied significantly across asset classes and structures." The authors find similar performances in synthetic SME ABS transactions compared to their cash peers, in particular as the performance of the underlying exposures is the key performance driver – then mitigated or magnified by structural features (Bank of America/Merrill Lynch, 2015c).

The current discussion around HQS focusses on structural features, in particular simplicity, transparency, and standardisation, as well as on quality criteria for the underlying assets. For synthetic SMESec, the latter can be generally the same compared to cash transactions. Concerning the structural features, strict criteria can be defined in order to achieve simple, transparent, and standardised transactions in the spirit of HQS that should receive preferential regulatory treatment. These criteria should in particular be related to the definition of the credit event, the credit protection payment timing and amount, the avoidance of moral hazard (in particular referring to the role of the calculation agent), waterfall features, as well as collateral and counterparty risk in funded synthetic transactions (see for more details Moody's, 2014 and Bank of America/Merrill Lynch, 2015c).

Against this background – the answer to the introductory question of this Box is: "yes it can"![41]

6 Final remarks

In general, a well-functioning securitisation market can be essential in helping financial intermediaries broaden their funding base, achieve capital relief and ultimately, increase their SME financing. Strengthening the SME securitisation market can be an effective way to facilitate the flow of funds to the real economy, while not creating too much distortion. In this respect, public initiatives that support SMESec may be helpful though of course, in doing this, the introduction of new risks should be avoided (for instance, securitisation transactions have to be transparent and have standardised structures; in addition, originators have to have sufficient *skin in the game* to avoid moral hazard (Kaya, 2014)). Moreover, these initiatives can be an efficient way of using public resources as they lead to a multiplier effect.

[41] Another element to be considered in the context of synthetic transactions is the fact that this technique can be used as efficient risk management technique – properly applied, this can reduce systemic risk and contribute to a more sustainable financial system (see e.g. PGGM, 2015). For more details see as well Cerveny and Krauss (2015); the authors discuss the relevance of synthetic securitisations for a well-functioning Capital Markets Union in detail (article only available in German).

But overall, the SMESec market in Europe is underdeveloped (AFME and BCG, 2015). There are many advantages of SMESec – for banks, for investors, and – most importantly - for the SMEs (see for a detailed discussion Kraemer-Eis, Schaber, and Tappi, 2010, Wehinger and Nassr, 2015, Bank of America/Merrill Lynch, 2015a, Aiyar, Al-Eyd, Barkbu, and Jobst, 2015, or OECD, 2015). At first sight, the advantages are mainly for banks and investors, but these benefits can channel through to a positive effect on SME's access to finance and hence to the SMEs themselves, especially as a result of a targeted intervention aimed specifically at this goal. A recovery and development of the primary securitisation markets could play a role in unlocking credit supply and economic recovery. However, this will only be to the benefit of SMEs if the freed-up capital / fresh liquidity is going to be used to finance the real economy (i.e. for new SME lending).

In November last year, the ECB started its Asset Backed Purchase Programme (ABSPP)[42]. The overall objective is to enhance the transmission of the monetary policy, support the provision of credit to the euro area economy and, as a result, to provide further monetary policy accommodation. The ECB's support of the ABS market in general, and the SMESec market in particular, is a positive step, however, the programme so far has not achieved significant volumes As per 31.10.2015, EUR 14.577bn have been bought by the ECB (mainly in the secondary market (71%)), compared to around EUR 131.144bn under the Covered Bond Purchase Programme (source: ECB[43]). Even though ECB's activity in the primary market recently started to rise, the overall market impact of the ABSPP is so far limited. On 10.09.2015, the ECB clarified its intention to buy mezzanine tranches of European ABS with an eligible third party guarantee. However, the ECB's requirement of a *guarantee on demand* ("The guarantee shall be payable on first demand independently of the guaranteed marketable asset or credit claim") leads for guarantors to a gap between their payment obligation to ECB (on demand) and the receipt of payment from the mezzanine ABS tranches (see as well Bank of America/Merrill Lynch, 2015d). This feature limits the number of potential guarantors significantly since a wrap of this sort would not be a market standard.

The reputation of the SME securitisation market segment is improving; a de-stigmatisation is happening, and the general perception is shifting from one of "toxic waste" to a means that could help overcome the negative effects of the crisis. However, as described above, even 7 years after the start of the financial crisis, the European SMESec has still not recovered. There are many public initiatives to support the market development - and we described several of them where financial support is provided - but there is still no re-emergence of a real primary market. Unbalanced regulation is still to be seen as the main impediment. Most individual proposed regulations make sense on a stand-alone basis, but negative spill-overs from an non-holistic approach lead to unintended consequence that hinder a market development. Originators and investors need to have certainty and clarity – many of them are already looking for alternatives.[44] Short and medium term perspective, reasonably defined HQS could be a way out of this dilemma.

[42] See our previous ESBFO for a summary, see as well for more information Möglich, 2015 (in German), or Bank of America/Merrill Lynch, 2015b.

[43] https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html.

[44] There is already an increasing interest in alternative risk transfer solutions like debt funds. EIF also supports these developments (see Kraemer-Eis, 2014). As mentioned, some of these debt funds structures are similar to un-tranched true sale securitisations.

The EIB Group, leveraging on the structured finance capabilities of EIF, has engaged in providing responses to several consultations aiming at testing market's sensibility in respect of high quality securitisation. The response to "Criteria for identifying simple, transparent and comparable securitisations" published by BCBS-IOSCO provides an exhaustive summary of our view on this topic[45]. As mentioned in 5.2.2, we note that the approach likely to be steering the forthcoming regulation suggests a "light" set of high quality criteria, which in turn translates in a marginal (rather than substantial) reduction in the risk-weights.

In our opinion, more could be achieved in the forthcoming Capital Requirements Regulation (CRR) with a view to both increasing the breadth of the market for synthetic transactions, and to reduce the overall reliance on rating agencies, especially in respect with a view to establishing level playing field among different asset classes and funding instruments.[46] To this extent, in the ongoing discussions about the amendment of *Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms* the EIB Group has recently put forward that:

I. the newly introduced provision governing synthetic securitisation (art. 270) includes investors other than public institutions, provided that a multi-lateral development bank or a central government/bank is also involved; and

II. the hierarchy of methods (art. 254) used for SME securitisation transactions is unconditionally reversed, so that the formula-based approach for standardised banks should be applied before resorting to the external-ratings approach.

Overall, the EIF - and the EIB Group as a whole – has been supporting SMESec already since many years and continues to do so – in order to help the market to take the correct direction at the crossroads (and beyond).

[45] EIB Group's response is available at the consultation's web page: http://www.bis.org/bcbs/publ/comments/d304/overview.htm

[46] See Council of the EU (2015b).

Annex 1: Securitisation Glossary

- **Attachment Point:** The attachment point is the level of subordination that a particular tranche has beneath it. The attachment point is a proxy of percentage of the transaction that will absorb losses before the senior tranche is adversely affected.
- **Credit Default Swap:** An agreement used in synthetic securitisations where the originator (protection buyer) sells the credit risk of an underlying portfolio to a counterparty (protection seller) without transferring the ownership of the assets.
- **Credit Enhancement:** Refers to one or more measures taken in a securitisation structure to enhance the security, the credit quality or the rating of the securitised instrument, e.g. by providing a third party guarantee (such as the EIF guarantee). The credit enhancement could be provided in the form of:

  (i) Structural credit enhancement (tranching of the transaction in senior, mezzanine and junior tranches);

  (ii) Originator credit enhancement (cash collateral, profit retention mechanism, interest sub-participation mechanism);

  (iii) Third party credit enhancement (e.g. EIF or monoline insurers).
- **Credit Linked Notes (CLN):** A security issued by an SPV (or directly from the balance-sheet of the originator) credit-linked to the default risk of an underlying portfolio of assets. Usually used in synthetic securitisations for the mezzanine tranches of a transaction.
- **Collateralised loan obligations** (**CLOs**) are a form of securitisation where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches.
- **First Loss Piece:** Part of a securitisation transaction which is usually kept by the originator (as an “equity piece”) and which covers the risk of first loss in the portfolio. Its size is a function of the historical losses, so as to protect the investors against the economic risk (estimated loss) of the transaction.
- **Issuer:** Refers to the SPV which issues the securities to the investors.
- **Kirb:** means the sum of the expected loss and regulatory capital that a financial intermediary assigns to an exposure (a portfolio) by using an Internal Rating Based (IRB) approach.
- **Mezzanine Risk:** Risk or tranche which is subordinated to senior risk, but ranks senior to the First Loss Piece.
- **Originator:** The entity assigning receivables in a securitisation transaction (funded transaction) or seeking credit risk protection on the assets (unfunded transaction).
- **Primary market:** The market in which securities are issued.
- **Secondary market:** The market where issued securities are traded.
- **Senior:** The class of securities with the highest claim against the underlying assets in a securitisation transaction. Often they are secured or collateralised, or have a prior claim against the assets. In true sale structures they rank senior in the cash flow allocation of the issuer’s available funds.
- **Servicer:** Refers to the entity that continues to collect the receivables, enforcement of receivables, etc. Generally, the originator is also the servicer.
- **Special Purpose Vehicle (SPV):** Issuing entity holding the legal rights over the assets transferred by the originator. An SPV has generally a limited purpose and/or life.
- **Subordinated:** The classes of securities with lower priority or claim against the underlying assets in a securitisation transaction. Typically, these are unsecured obligations. They are also called Junior (or Mezzanine) notes and bonds.

- **Synthetic securitisation:** A transaction where the assets are not sold to an SPV but remain on balance sheet; and where only the credit risk of the assets is transferred to the market through credit default swaps or credit linked notes.
- **Tranche:** A piece, a portion or slice within a structured transaction.
- **Portfolio Tranched Cover:** The technique by which an Originator can buy protection on a portfolio. Such protection is only activated when the losses exceed a given threshold (Attachment Point).
- **True sale:** It refers to the separation of the portfolio risk from the risk of the originator, i.e. there is a non-recourse assignment of assets from the originator to the issuer (special purpose vehicle). To be contrasted with synthetic securitisations where only the underlying credit risk is transferred.
- **Whole Business Securitisation (WBS):** Securitisation of the general operating cash flow arising from a certain line or area of the business of the originator over the long term.

Annex 2: List of acronyms

- ABCP: Asset Backed Commercial Paper
- ABS: Asset Backed Securities
- ABSPP: Asset Backed Securities Purchase Programme
- AFME: Association for Financial Markets in Europe
- BCBS-IOSCO: Basel Committee on Banking Supervision-Board of the International Organisation of Securities Commissions
- BIS: Bank for International Settlements
- BLS: Bank Lending Survey
- bn: billion
- BoE: Bank of England
- bp: basis point(s)
- CDO: Collateralised Debt Obligation
- CDP: Cassa Depositi e Prestiti, Italy
- CDS: Credit Default Swap
- CIP: Competitiveness and Innovation Framework Programme
- CLN: Credit Linked Note
- CLO: Collateralised Loan Obligation
- CMU: Capital Markets Union
- COM: European Commission (also: EC)
- COSME: Programme for the Competitiveness of enterprises and SMEs (COSME) 2014-2020
- CRD: Capital Requirements Directive
- CRR: Capital Requirements Regulation
- EBA: European Banking Authority
- EC: European Commission (also: COM)
- ECB: European Central Bank
- EFSI: European Fund for Strategic Investments
- EFTA: European Free Trade Association
- EIB: European Investment Bank
- EIF: European Investment Fund
- EIOPA: European Insurance and Occupational Pension Authority
- EL: expected loss
- EMEA: Europe, Middle East, and Africa
- EREM: EIB Group Risk Enhancement Mandate
- ERB: External Ratings Based
- ESBFO: European Small Business Finance Outlook
- ESIF: European Structural and Investment Fund
- EU: European Union
- EU27: the 27 EU Member States
- EU28: the 28 EU Member States
- EUR: Euro
- FLP: First Loss Piece
- FTPYME: Fondos de Titulización de activos para Pequeñas Y Medianas Empresas (Asset Securitisation Funds for SMEs)
- GDP: Gross Domestic Product
- HQS: High Quality Securitisation

List of acronyms continued:

- HY: Half Year
- IMF: International Monetary Fund
- InnovFin:
- IRB: Internal Ratings Based
- k: thousand
- KfW: Kreditanstalt für Wiederaufbau, Germany
- Kirb: IRB capital requirements for the underlying pool of securitised assets
- LGD: loss given default
- m: million
- MFI (in the context of ECB): Monetary Financial Institutions
- NBFIs: Non-bank Financial Institutions
- NFC: Non-financial corporation
- NPB: National Promotional Bank
- NPI: National Promotional Institution
- NPL: Non-performing loan
- OECD: Organisation for Economic Co-Operation and Development
- PCS: Prime Collateralised Securities
- PD: probability of default
- pif: paid in full
- Q: Quarter
- RCR: Risk Capital Resources
- RMA: Research and Market Analysis
- RMBS: Residential mortgage backed securities
- RSI: Risk-Sharing Instrument for Innovative and Research oriented SMEs and small Mid-Caps
- SA: Standardised Approach
- SAFE: Survey on the Access to Finance of Enterprises
- sf: Structured Finance
- SFA: Supervisory Formula Approach
- SME: Small and medium sized enterprise
- SMESec: SME Securitisation (comprising transactions based on SME loans, leases etc.)
- SPGM: Sociedade Portuguesa Garantia Mutua, Portugal
- SPV: Special Purpose Vehicle
- SSM: Single Supervisory Mechanism
- SST: simple, standard and transparent
- STC: simple, transparent and comparable
- STS: simple, transparent and standardised
- UEAPME: European Association of Craft, Small and Medium-sized Enterprises
- UK: United Kingdom
- US: United States
- VC: Venture Capital
- WAL: weighted average life
- WBS: Whole Business Securitisation

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