

Global Securitization Markets and Selected Issues

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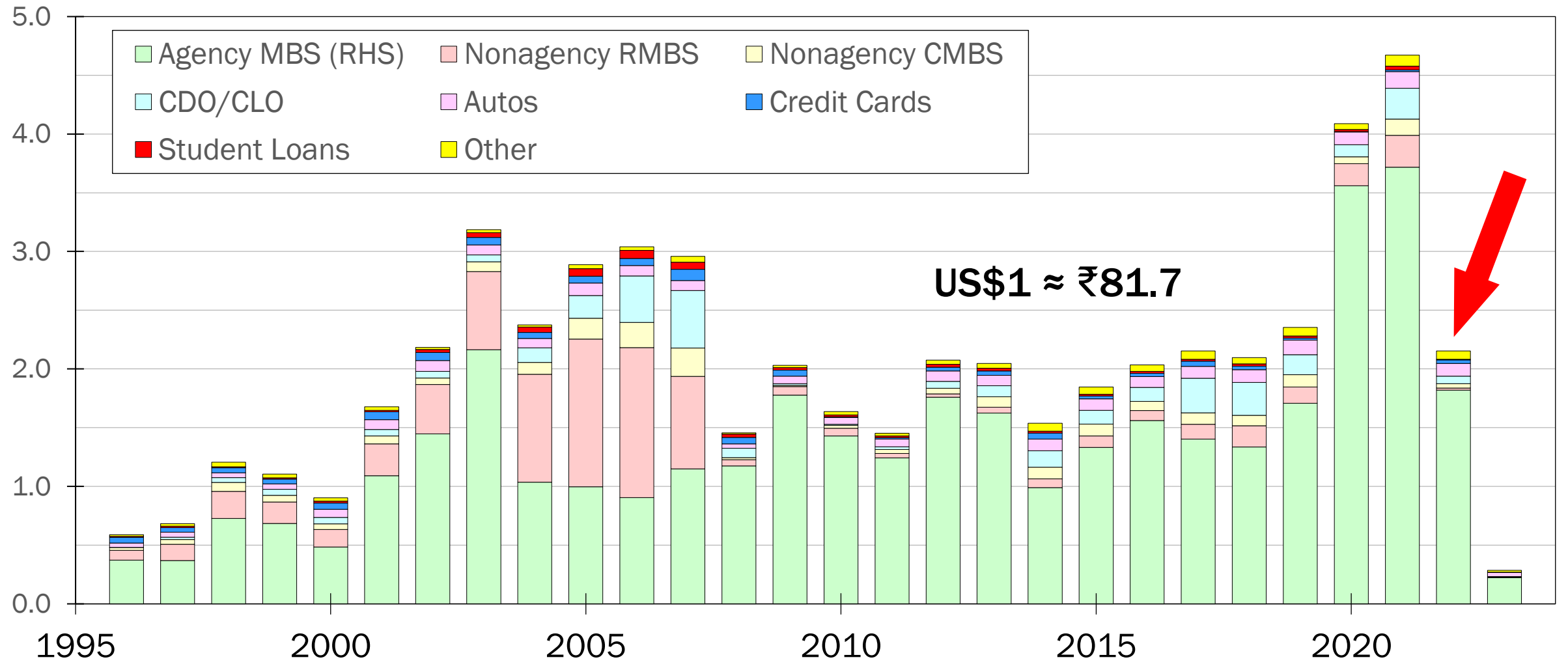
11th Securitisation Summit

Novotel Mumbai International Airport
Mumbai, India, 19 May 2023
Vinod Kothari Consultants

Overview

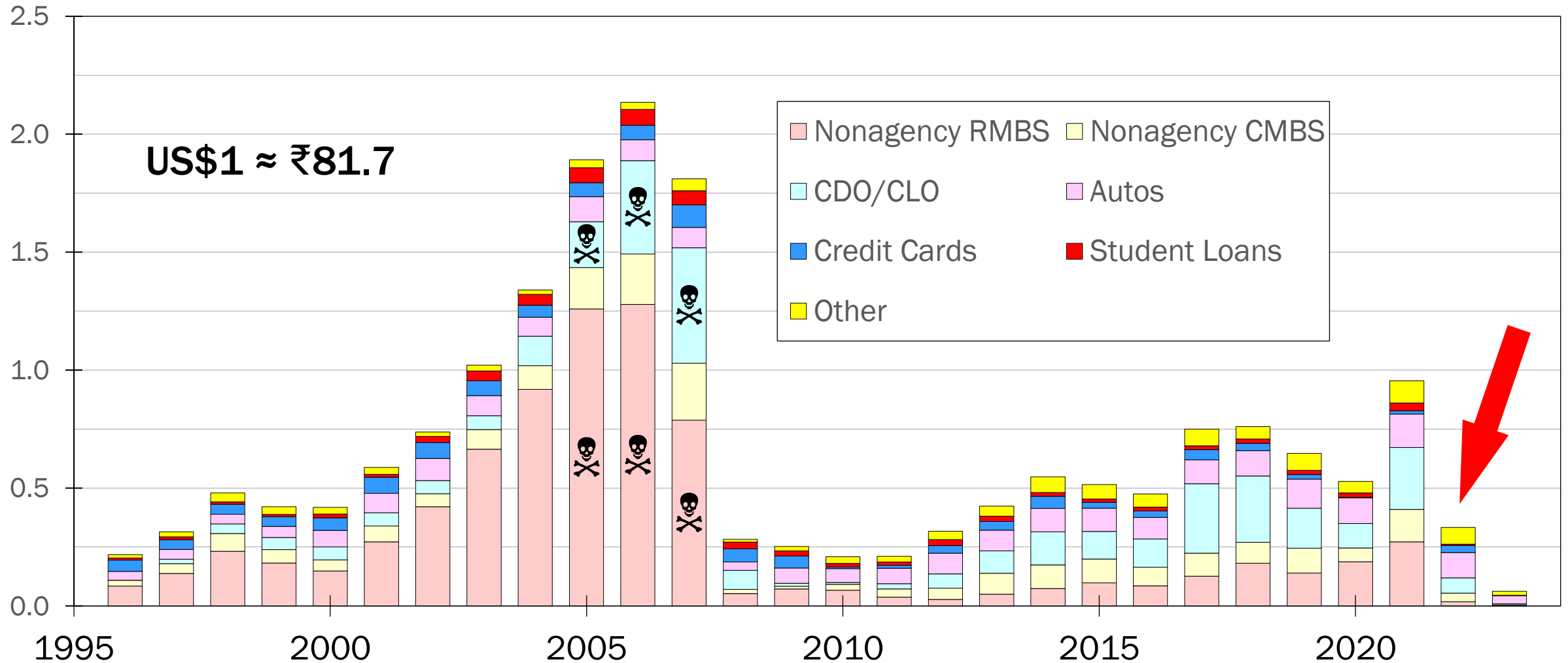
- Declining global securitization activity (U.S., Europe, China)
- Economic headwinds
 - macroeconomic: inflation and possible recessions in both U.S. and EU
 - Hot real estate markets in the U.S.
- Other issues and challenges
 - SEC proposed conflict-of-interest rule
 - EU transparency regulation
 - ESG: Environmental, social and governance considerations

U.S. Structured Finance Issuance Volume (US\$ trillions)



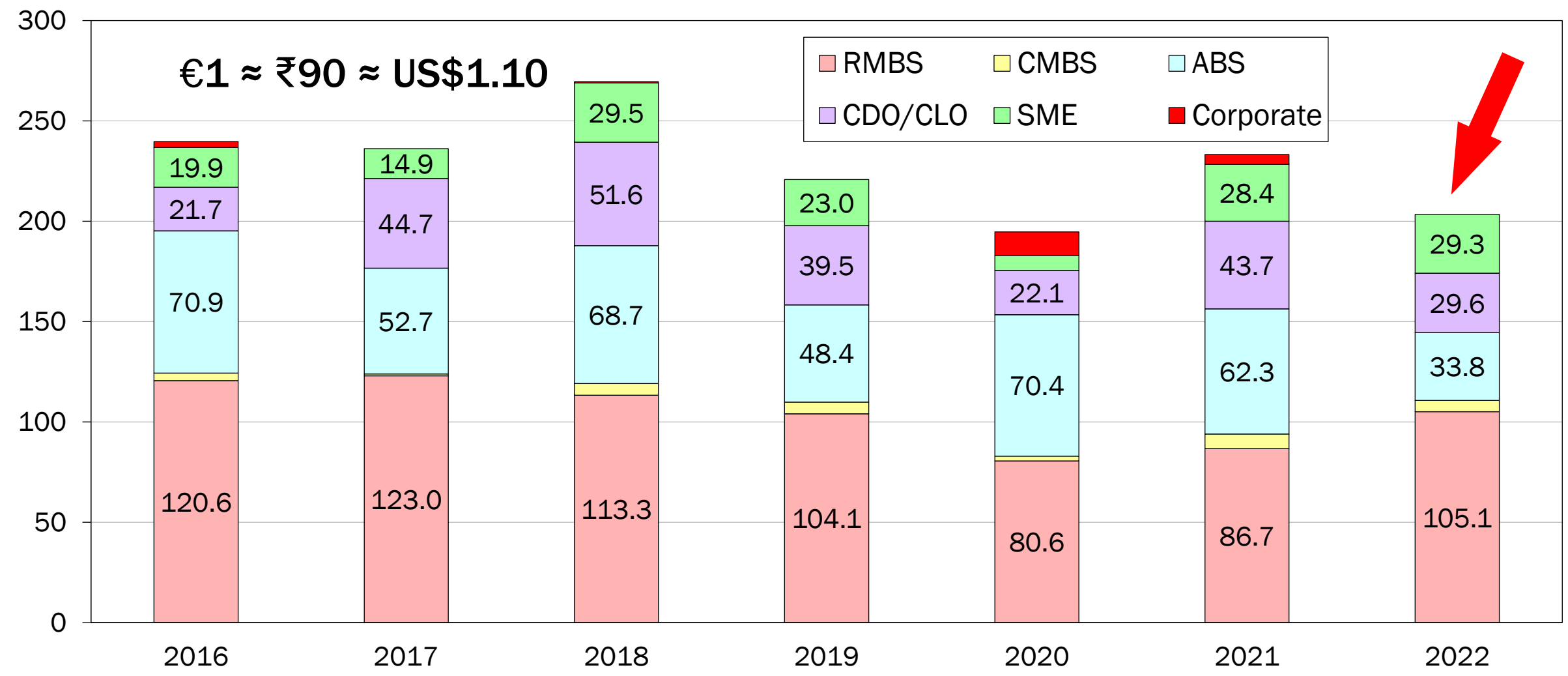
Source: SIFMA. Note: 2023 is through March.

U.S. Structured Finance Issuance Volume, ex-Agency MBS (US\$ trillions)



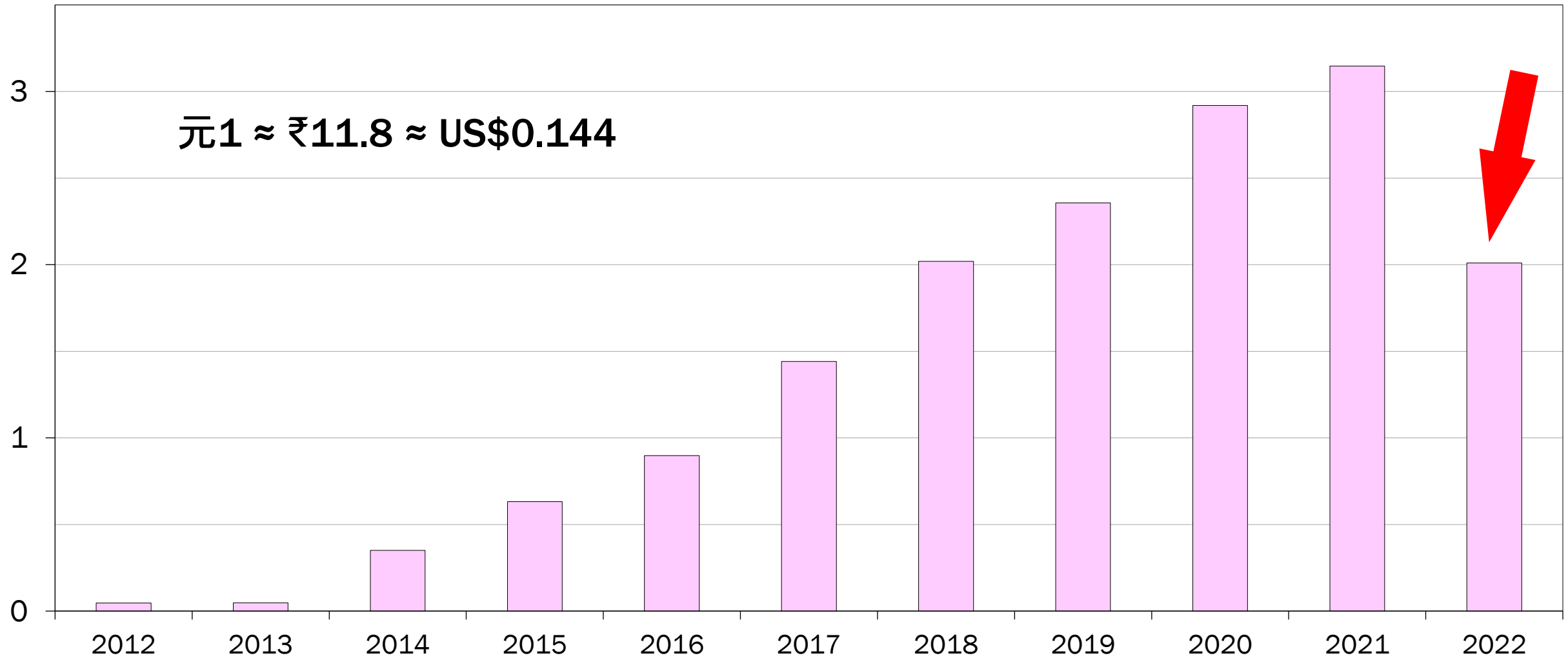
Source: SIFMA. Note: 2023 is through March. ☠ symbol denotes troubled vintages.

European Securitization Volume - Placed & Retained (€ billions)



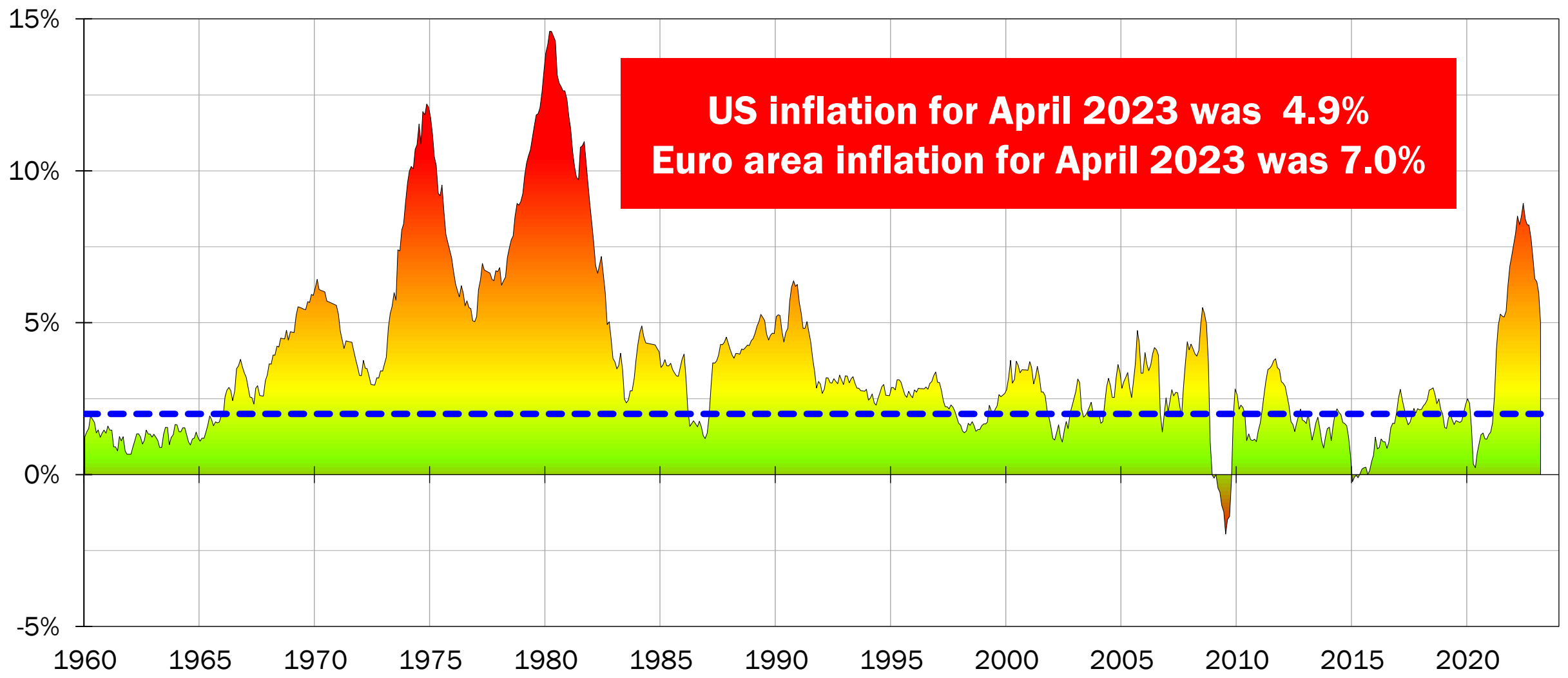
Source: AFME Annual Q4 Securitisation Data Reports.

Chinese Securitization Issuance Volume (元 trillions)



Source: S&P.

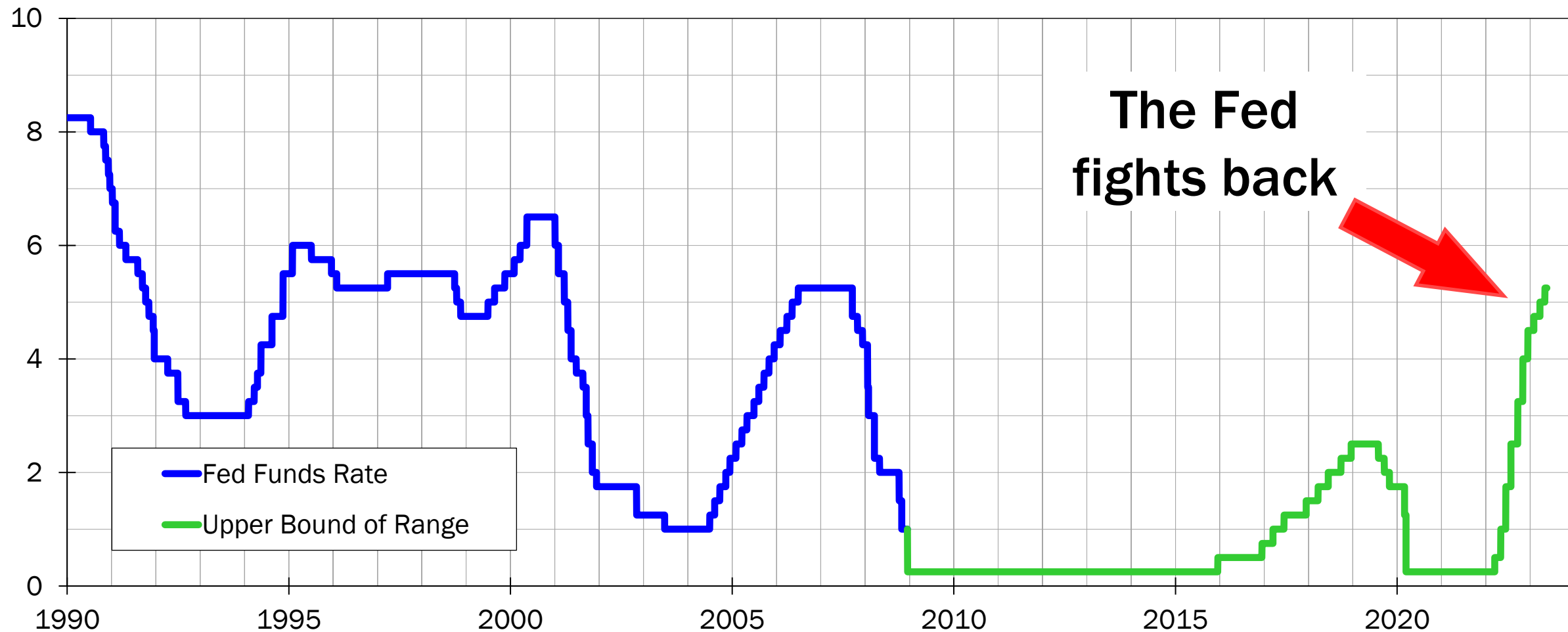
U.S. Inflation: Consumer Price Index (12-month Change)



US inflation for April 2023 was 4.9%
Euro area inflation for April 2023 was 7.0%

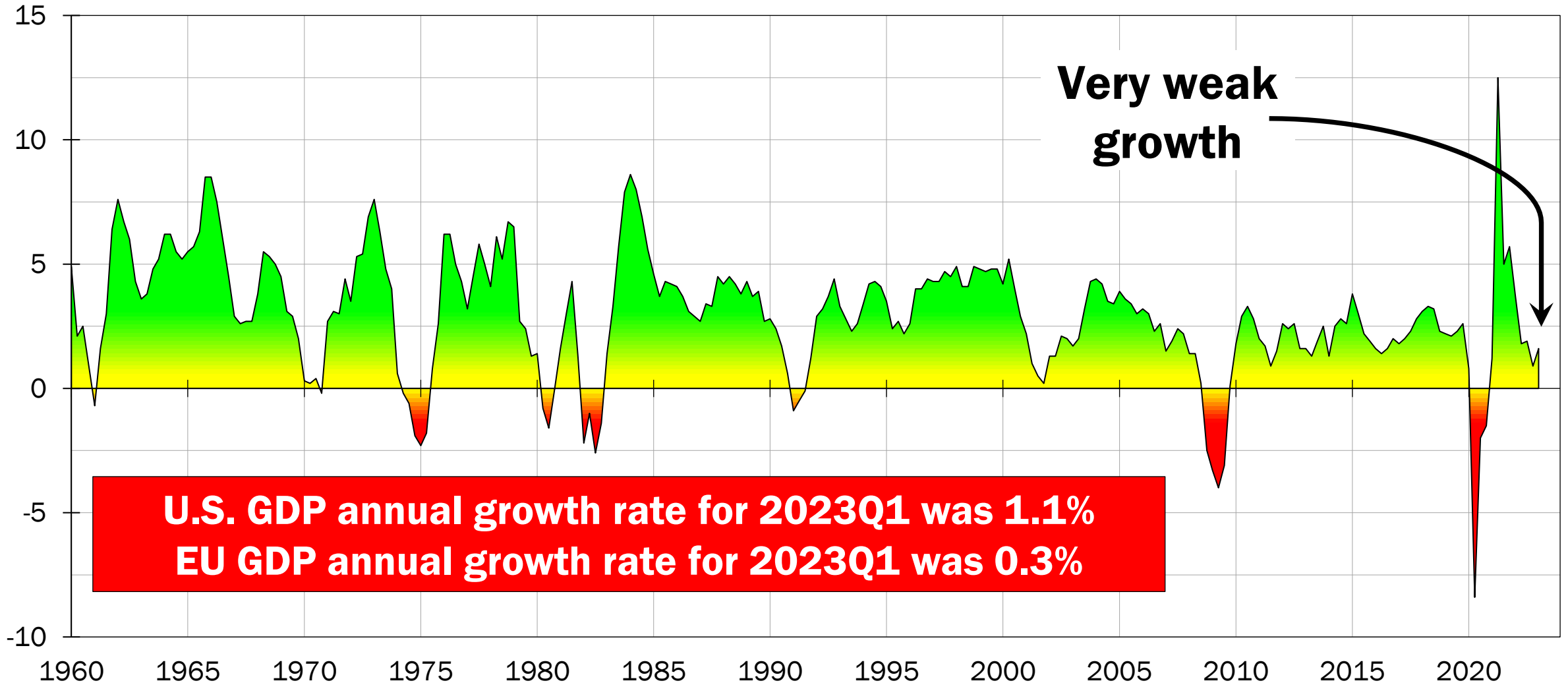
Source: Federal Reserve Bank of St. Louis (CPIAUCSL)

U.S. Inflation: Federal Funds Target Rate (%)



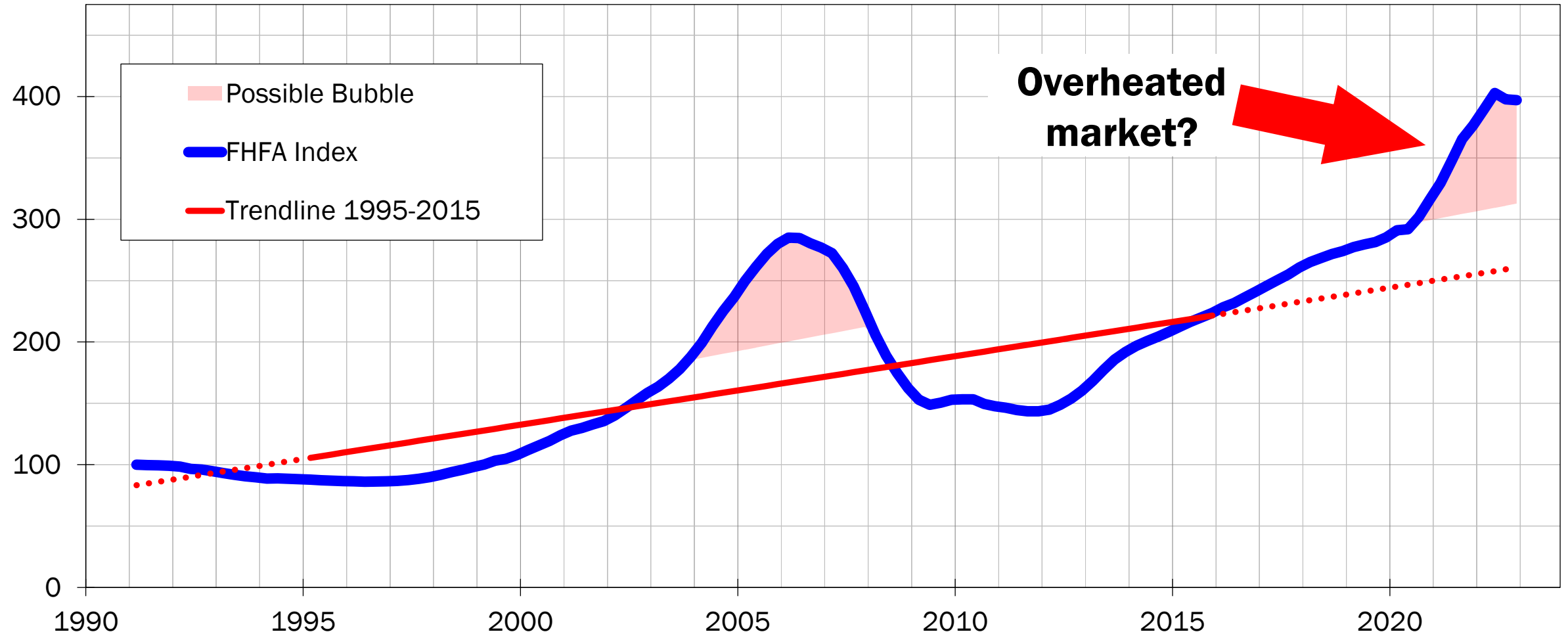
Note: The Federal Funds target rate started being given as a range on December 16, 2008. Values shown after that date reflect the upper bound of the target range.

Possible Recession: U.S. Real GDP (12-month Change, %)



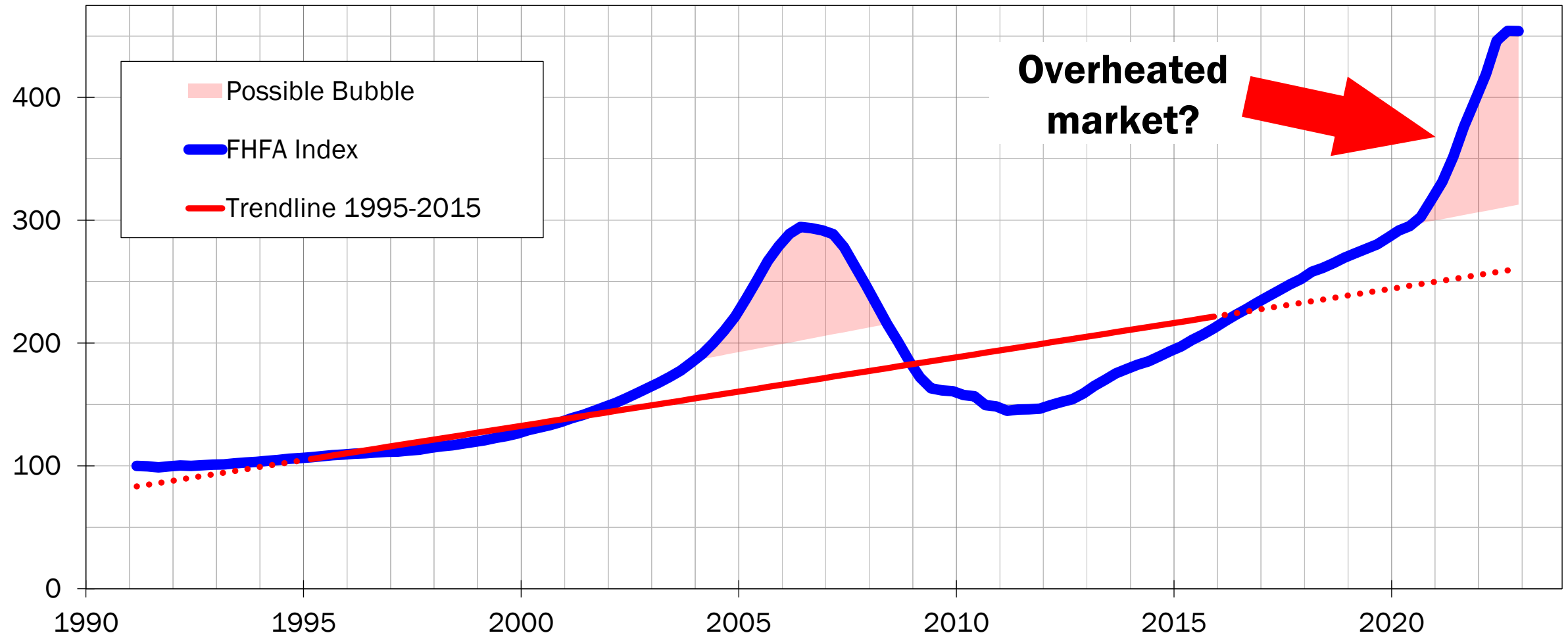
Source: Federal Reserve Bank of St. Louis (A191RO1Q156NBEA)

Hot Real Estate Market: California, FHFA Home Price Index



Note: A “possible bubble” is shown where home prices are more than 20% above the 1995-2015 trendline. Source: Federal Housing Finance Agency (HPI_EXP_state.xls).

Hot Real Estate Market: Florida, FHFA Home Price Index



Note: A “possible bubble” is shown where home prices are more than 20% above the 1995-2015 trendline. Source: Federal Housing Finance Agency (HPI_EXP_state.xls).

SEC Conflict-of-Interest Proposal

- Proposed Rule 192 would prohibits conflicts of interest in securitizations ([quick fact sheet](#), [rule proposal](#))
- Prompted by episodes where a participant in a transaction “bet against” the transaction
 - [Abacus CDO](#) (Goldman Sachs settled for US\$550 million)
 - [Magnetar](#) (Various settlement incl. Merrill Lynch for US\$131 million)
- [Many comments](#) rec'd, including opposition from [industry groups](#) and the [American Bar Assoc](#)

EU Transparency Requirements: Int'l Application

- Strict interpretation of current regulation prevents EU investors from investing in non-EU deals unless the deals strictly comply with EU transparency standards
- EU Commission [report](#) on the [securitization regulation](#) (SECR)
 - Investor due diligence (SECR Art. 5)
 - Risk retention (SECR Art. 6)
 - Transparency (SECR Art. 7)
- Trade association [opposition](#)

ESG – Definitional & Other Issues

- Environmental:
 - Solar, wind, hydroelectric ✓
 - Coal ✗
 - [Natural gas?](#) [Nuclear?](#) Oil? Air travel? Hazardous waste disposal?
 - Measuring greenhouse gas (GHG) emissions and “carbon footprints”
- Social:
 - Low-income housing, electric vehicles, fuel efficient vehicles, [Fannie Mae social index](#) ✓
 - Products produced with slave labor ✗
 - Increasing availability of credit to the poor?
 - Armaments/national defense?
- Governance:
 - It’s about the relationships among the participants in a transaction, incl. investors
 - Is there understanding and agreement about how things are supposed to work?
 - Litigation signals a failure of governance

ESG – Initiatives

- U.N. Dept. of Economic & Social Affairs: [17 Goals](#)
- [PRI Association](#): based on U.N. sponsored “Principles of Responsible Investment”
- [Net Zero Asset Managers](#) goal to achieve net zero emissions
 - Vanguard [withdraws](#) from NZAM in Dec. 2022
- EU laws: SFDR
- US laws: some progress, but headwinds

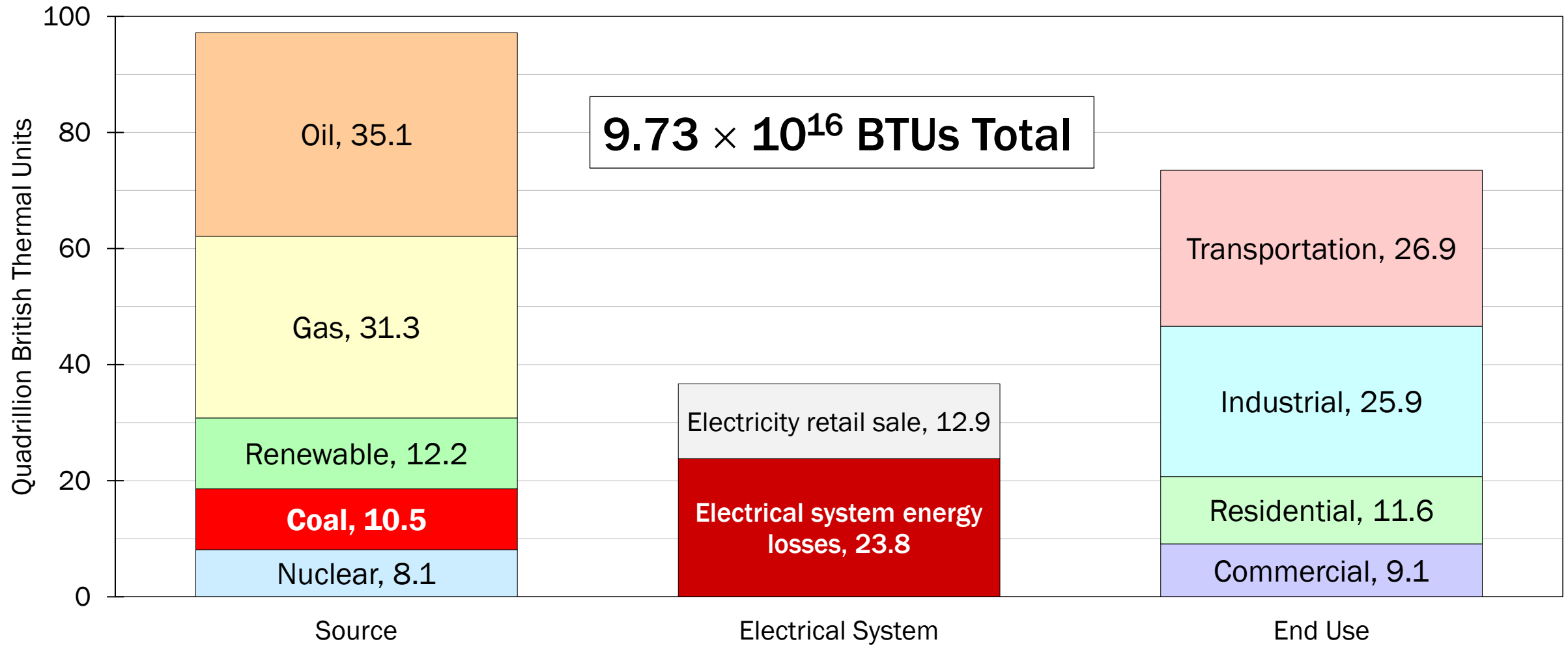
ESG – European Laws

- Europe is ahead: Sustainable Finance Disclosure Regulation (SFDR)
 - Commission Delegated Regulation (EU) [2022/1288](#) of 6 April 2022
 - Regulation (EU) [2019/2088](#) of the European Parliament and of the council of 27 November 2019
 - [Joint Consultation Paper](#) on the Review of SFDR (12 April 2023)
- Classes of products
 - Products that have sustainable investment as an objective (Art. 9)
 - Products that promote environmental or social characteristics (Art. 8)
- **The key is that the EU is far along in creating standards**

ESG – U.S.

- SEC
 - [Proposed ESG disclosures](#) for financial advisors and funds
 - [Enforcement task force](#) on climate & ESG issues
 - No proposals yet for comprehensive ESG disclosures by securitization issuers
- No widely accepted standards/definitions
- Headwinds
 - Potential Cong. override of solar cell exception ([H.J. Res. 39](#))
 - Attempted Cong. override of DOL permissive ESG regulation ([H.J. Res. 30](#))
 - Attempted Cong. override of clean water expansion ([H.J. Res. 27](#))
 - Republican Senators [warning](#) to law firms
 - [CFPB proposed](#) PACE loan regulation
 - **State anti-ESG laws** (e.g., [Florida](#), [Kansas](#), Texas bills [1](#) & [2](#))

ESG – U.S. Energy Consumption by Source and End Use, 2021



Source: U.S. Energy Information Administration (<https://www.eia.gov/energyexplained/us-energy-facts/>).

ESG – Investment Approaches

1. Considering how a company's governance and its environmental and social impact affect its financial performance.
2. Negative screens to promote social and environmental good by avoiding investment in disfavored products or services (“socially responsible investing”)
3. Positive screens, which seek to achieve positive social or environmental impact by investing in favored industries or activities (“impact investing”)
4. Active engagement with company management



Mark Adelson is an independent consultant, the editor of [*The Journal of Structured Finance*](#), and the content director at [Portfolio Management Research](#) (f/k/a Institutional Investor Journals). He was chief strategy officer of The BondFactor Company LLC from November 2012 to April 2016. Adelson served as S&P's chief credit officer from May 2008 until December 2011 and then held a research position at the company through August 2012. As S&P's chief credit officer he supervised the overhaul of the company's rating criteria in the wake of the financial crisis. He previously worked at Nomura Securities and Moody's. He started his career in the MBS department of Thacher Proffitt & Wood. He is a frequent author and speaker on securitization topics, with particular emphasis on MBS and CDOs/CLOs, and he is a member of the [Structured Finance Committee](#) of the NYC Bar Association.