
Collateralising credit claims as securities

Collateralisation of credit claims

- A convincing business case
- Objectives and features of the project
- Current status of works
- Duplicability of the vehicle

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A convincing business case

Increasing needs for collateral...

- Bank's existing marketable collateral is already largely used
- Liquidity is available but does not circulate under uncovered format
- Combined impact on collateral demand of liquidity regulation (LCR) and OTC derivatives reform (EMIR) up to €4,1 trillion*
- Need to revive the interbank market and decrease central banks intermediation

...calling for an optimisation of collateral usage

- Development of triparty management services provide answers
- Collateral must not be captive of a specific context (domestic) or usage (with NCBs only)
- Operational efficiency and interoperability is key for an optimal collateral mobilisation

* BIS (2013), *Increased demand for collateral assets : implications for markets and policy*, CGFS Papers n° 49.

A convincing business case

Credit claims: a significant part of banks' balance sheets...

- Stable funding source for the euro area economy* : NFCs rely on bank loans for 40% of their financing needs in the euro area (for less than 10% in the US)
- Especially for SMEs as 25% of MFI loans smaller than €250,000
- Share of MFI lending to NFCs in total MFI assets in FR and DE : 10% ; IT and ES : 20%

... but remain an underused source of collateral

- Use of credit claims as collateral essentially with central banks and on a domestic
- Close to nil on cross-border basis and interbank market
- Underused source of collateral due to legal impediments and operational constraints

*ECB(2013), *The use of credit claims as collateral for Eurosystem credit operations*, Occasional Papers n° 148.

A convincing business case

The market calls for the securitisation of credit claims

- **Clear and unambiguous market support**
 - Strong commitment from the sponsor banks
 - Strong support from international banks
 - Interest from European market associations
 - Clear interest expressed by investors

In line with several public policy objectives

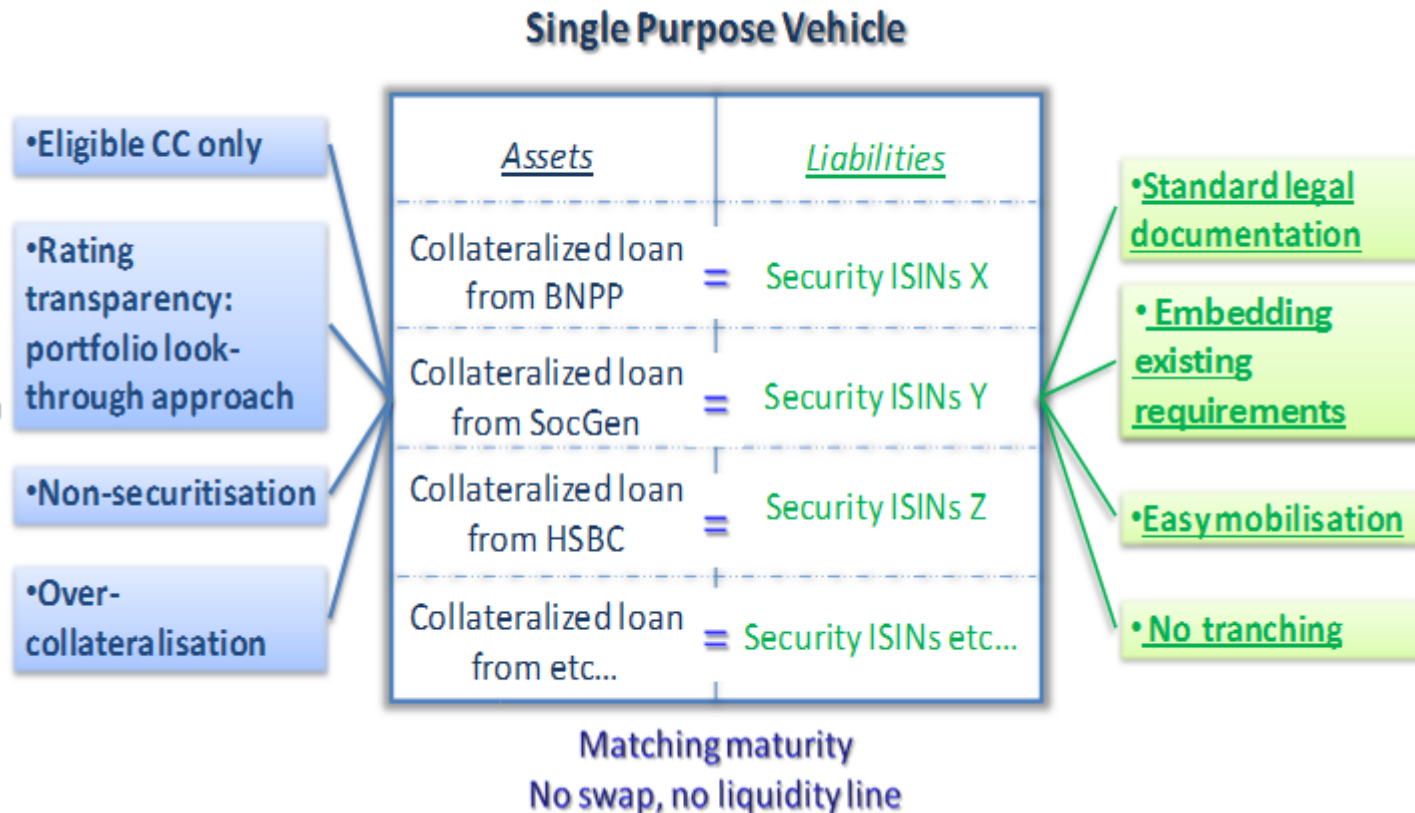
- **The securitization of credit claims will contribute to**
 - finance the real economic sphere, especially SMEs
 - increase the available amount collateral on the interbank market
 - revive the interbank market / decrease dependency on central banks
 - reduce dependency towards rating agencies

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Objectives and features

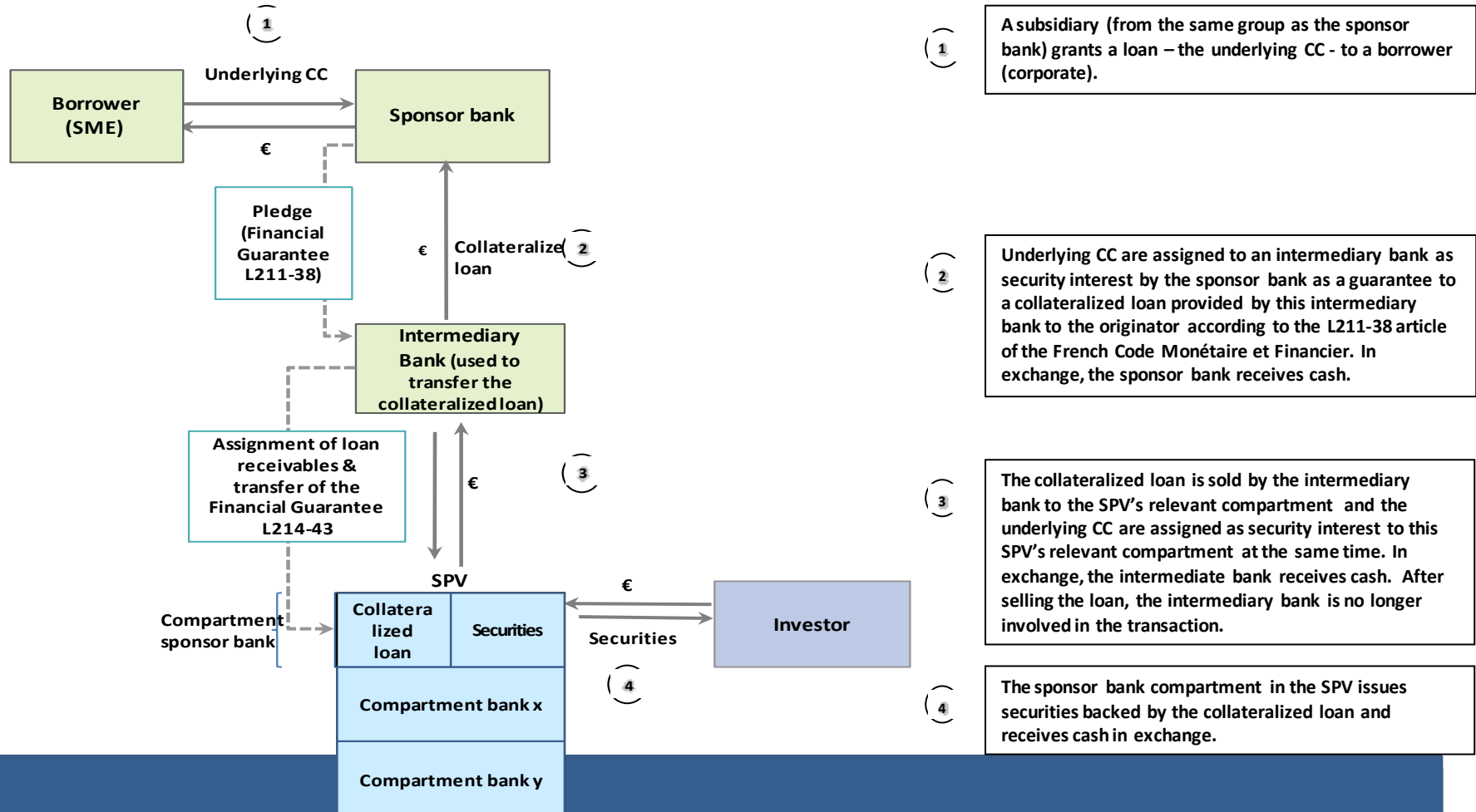
A simple and transparent instrument



Objectives and features

Detailed collateralisation process used in France

Credit claims (CC) mobilisation technique using the Collateral Directive (transposed in France via the Financial Guarantee - article L211-38 of the French Monetary and Financial Code)



Objectives and features

French project features

Simple set-up

- Common issuance structure and documentation for all sponsor banks
- Each bank has its own compartment(s)
- Mutualized setting-up costs

Risk control measures

- Very transparent structure
- Eligible credit claims only, assessed via NCB ICAS or banks IRB
- Asset manager and depository, compliant with securities regulation
- Full segregation of risks among sponsor banks
- Double-recourse for bond holders

Flexibility and efficiency

- Alignment of security characteristics with those of the underlying collateral
- Dynamic portfolio of credit claims modifiable twice a week to allow short term loans and cope with prepayment risk
- Issuance parameters under control of each sponsor bank

Objectives and features

French project features

Based on a very transparent and simple (no tranching) structure

- ✓ Robust and risk-adverse
- ✓ Replicable in different jurisdictions
- ✓ Designed to embed risk management measures
- ✓ Cost-efficiency and scalability

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Current status of works

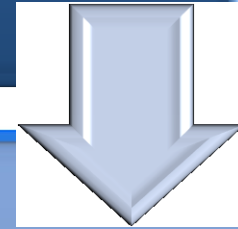
Project calendar

From concept

2012 - Initiative from High Level Market Place Committee

Q1-Q2/2013 – Feasibility study groups

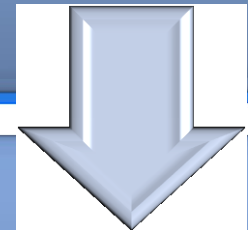
June 2013 – Finalisation of the project blueprint



To reality

- Q3/2013 - Project launched by six major international banks

- Oct.2013 - Selection of the providers – pre-operational phase



Currently

Q1/2014 - Set up fo the structure
 - First securities issuances

Current status of works

Market Place project and eligibility assessment in parallel

Market Place project

- Banking community's clear commitment and supportive role of Banque de France
- Project is now in its pre-operational phase
- Structure to be set up by Q1/2014 for the first issuance

Eligibility assessment

- Banks' requests for eligibility of the securities as collateral
- Eurosystem's analysis

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Duplicability across Europe

The business case goes beyond French borders

- Increasing collateral needs of the overall banking community
- The initiative relies on a common Eurosystem collateral class (credit claims)
- Securitisation can be very instrumental in jurisdictions where credit claims mobilisation is facing operational constraints

Market support is international

- Interest from European market associations (ECBC, ERC)
- Support from international banks and collateral management services providers
- Interest from international investors

Duplication in different jurisdictions

- Lies on common legal basis stemming from European Directives, subject to local adaptations
- Facilitated by a very simple and transparent structure
- Can capitalise on existing or future facilities and infrastructures

Conclusion

- **Project featured by**
 - ✓ an obvious market need
 - ✓ a clear market support
 - ✓ positive externalities
- **The business case goes across borders**
- **Current request for collateral eligibility**