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Association for Financial Markets in Europe

European Securitisation: market reflections on 2019, the impact of STS and current conditions

European Commission, Brussels
April 2020

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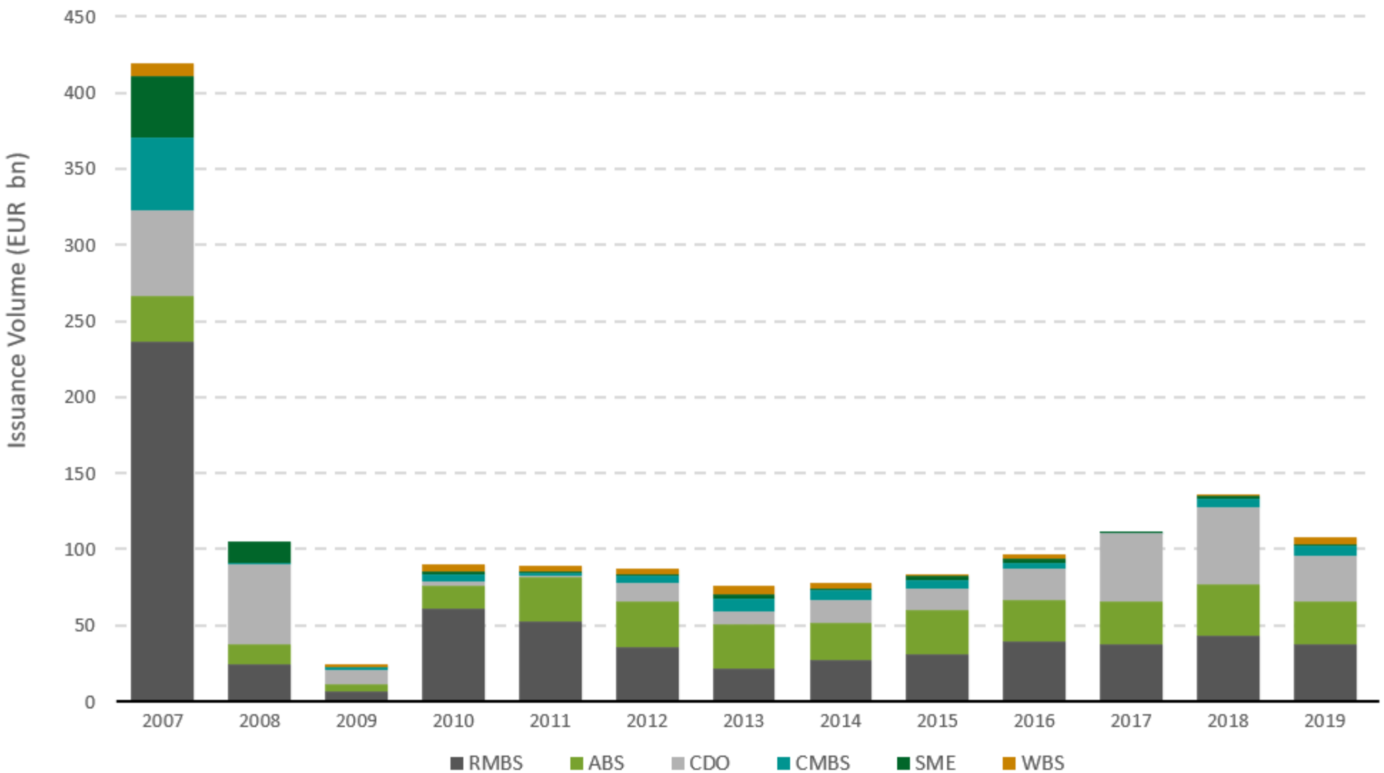
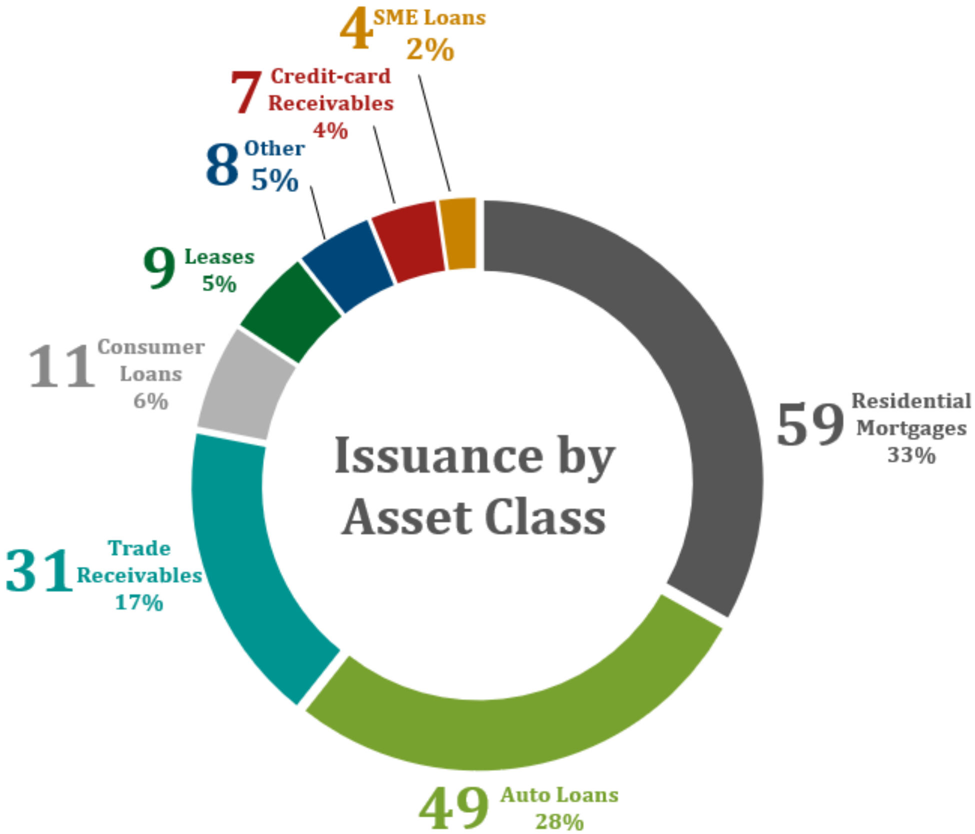
European placed securitisation issuance fell in 2019, reversing a five year growth trend

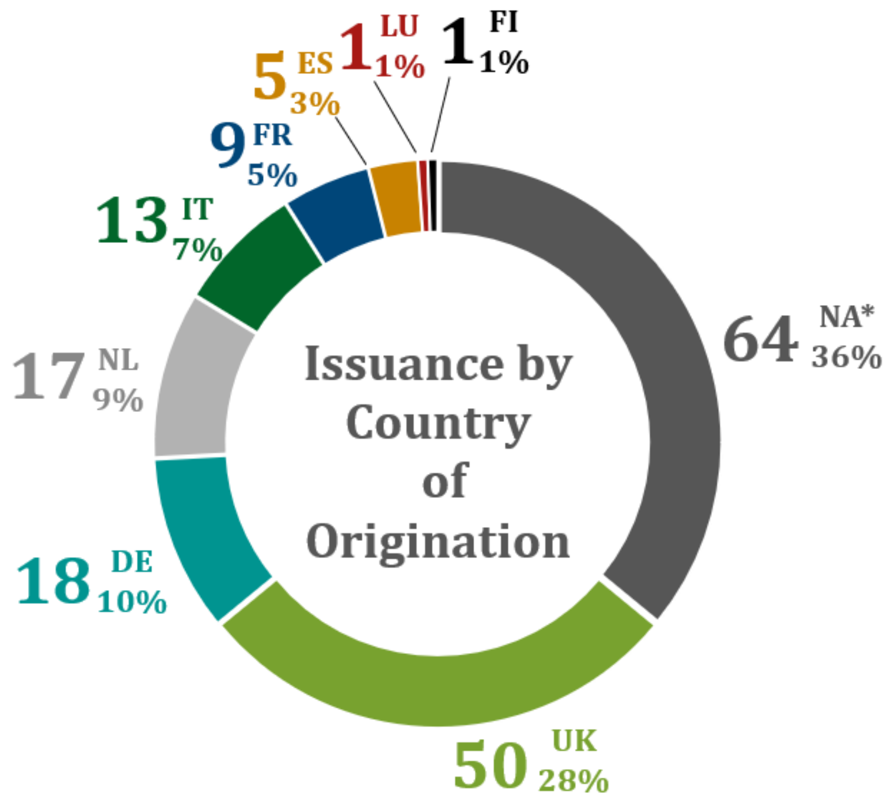


Values in EUR bn	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
RMBS	236.4	24.3	6.5	61.0	52.7	36.2	21.8	26.9	31.1	39.3	38.0	43.0	37.5
ABS	30.1	12.8	5.2	14.7	28.6	29.2	29.2	25.2	29.0	27.1	27.4	33.7	29.3
CDO	56.7	52.5	9.2	3.6	1.0	12.8	8.4	14.7	14.2	21.3	45.0	51.0	29.9
CMBS	47.0	1.6	1.8	4.6	2.2	4.2	8.3	6.2	5.9	3.6	0.7	5.2	6.0
SME	41.1	14.2	0.3	1.5	1.3	1.0	2.8	1.7	2.2	2.8	0.6	2.3	1.1
WBS	7.8	0.0	1.8	4.5	3.2	3.7	5.4	3.6	0.8	2.8	0.0	0.6	4.6
Total **placed** European	**419.2**	**105.5**	**24.7**	**89.8**	**88.9**	**87.0**	**75.9**	**78.2**	**83.2**	**97.1**	**111.7**	**135.7**	**108.4**
Total European Issuance	**594.9**	**818.7**	**423.9**	**378.0**	**376.8**	**257.8**	**180.8**	**217.0**	**216.6**	**239.5**	**236.0**	**268.8**	**203.3**
Placed (% of Total)	70%	13%	6%	24%	24%	34%	42%	36%	38%	41%	47%	50%	53%

Source: *AFME Q3 2019 Securitisation Data Report, SIFMA. Data for full year 2019 drawn from BofA Global Research.*

178 STS issues as of March 2020: 114 public, 64 private



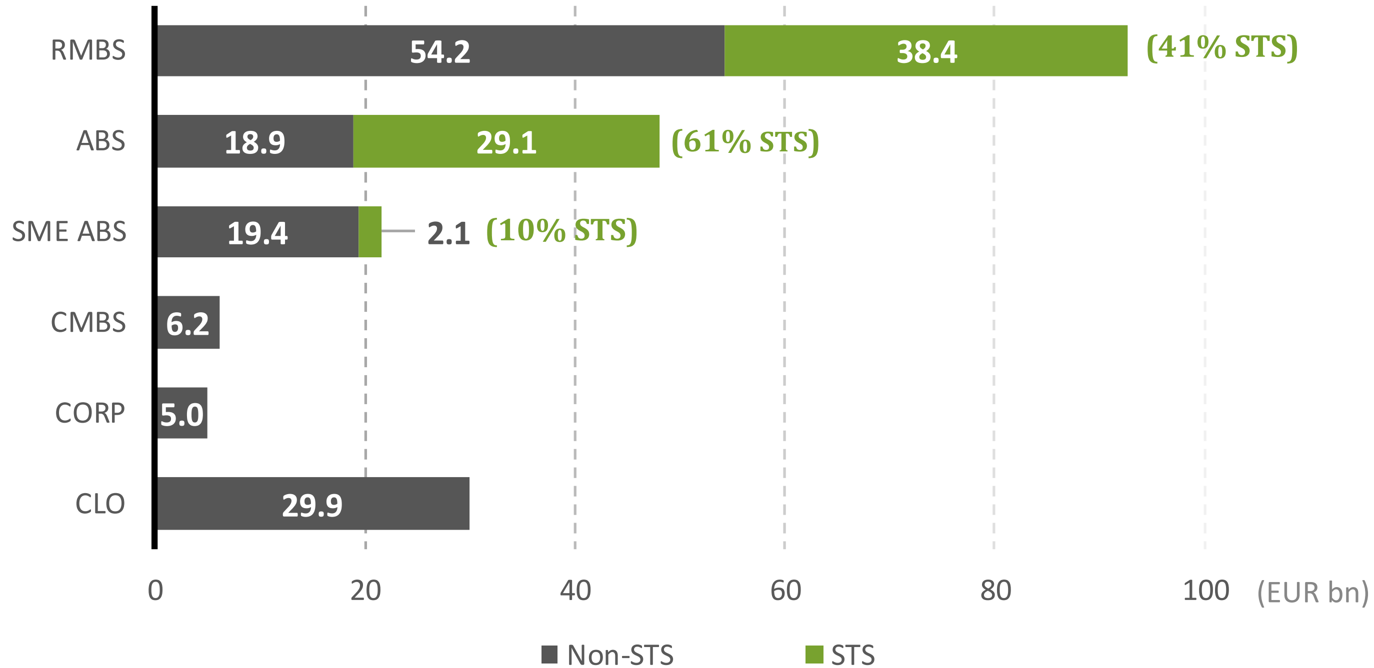


*Country of origination unavailable on ESMA website due to the transaction being private

Source: https://www.esma.europa.eu/policy-activities/securitisation/simple-transparent-and-standardised-sts-securitisation

2019 Securitisation issuance by asset class: STS vs non-STS

(EUR bn)	Non-STS	STS	Total	% STS
2019	133.6	69.7	203.3	34%



Source: BofA Global Research

The impact of STS in 2019

- STS issues in potentially qualifiable sectors were down while non-STS sectors (CMBS, CLOs) were up
- UK continued to lead in placed supply and Eurozone in retained supply
- STS new issue volume reached €70 billion, of which €36 billion was placed
- Most of the STS issues would have happened anyway
- STS did not stimulate issuance from the periphery
- Even before Covid-19 became a factor, the full market impact of STS remains to be played out: full implementation of regulations is not complete, and even then changes will be required to level the playing field with other fixed income sectors such as covered bonds if securitisation is to grow
- On a global basis, EU securitisation markets now rank third in placed issuance after the US (even without agency) and China and ahead of Japan and Australia
- Some investors have already been re-considering their portfolio allocations to reflect this

Source: BofA Global Research

Impact of Covid-19 on 2020 market outlook (1)

- Expected contraction in 2020 full-year primary issuance, the severity of which will be determined by:
  - Length of pandemic and related economic shut-down
  - Measures adopted by policymakers
  - The degree of coordination of the global response
  - How forceful the fiscal response is following the variety of monetary and liquidity measures implemented by ECB and national central banks.
- Covid-19 has created stressed conditions for market liquidity, which the recent regulatory measures below have started to address (although more needs to be done to support securitisation):
  - **EU**: PEPP (Pandemic Emergency Purchase Programme) by ECB: €750bn purchase programme for debt eligible under current ECB APPs, being applied flexibly as ECB sees fit to prevent market fragmentation of the EU market.
  - **UK**: Bank of England has reinstated its previous QE programme
  - **US**: The FED has restarted its QE programme, while the US government is working on a large fiscal stimulus

Source: BofA Global Research

Impact of Covid-19 on 2020 market outlook (2)

- Spreads have widened significantly across all securitisation sectors
- In primary, the public market is closed to new issues (spreads are unattractive for issuers) with little change expected over the second quarter; such little activity as remains is confined to the private markets
- In secondary, spreads have also widened, but not as badly as during the GFC
- Investors see spread widening as symptomatic of liquidity stress, not credit concerns (which remain contained for now)
- Liquidity conditions have eased somewhat in the last week
- There is significant differentiation in spreads between sectors supported by generous ECB intervention (corporates) and those where intervention has been more limited (securitisation)

Source: BofA Global Research

Finance for Europe

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The Association for Financial Markets in Europe advocates stable, competitive and sustainable European financial markets that support economic growth and benefit society.

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