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DRAFT REPORT ON THE WPFS WORKSHOP ON SECURITISATION HELD IN MADRID (SPAIN) ON 27-28 MAY 2010

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Executive summary

Further to the work by the WPFS of the OECD since 2006 in the field of securitisation, with the active participation of the Banco de España, a Workshop was held in late May 2010. In addition to a broad representation of the regular members of the WP, the workshop was also attended by analysts, supervisors and expert practitioners in the industry. The aim was to exchange views so as better to understand securitisation from various angles and, consequently, so that the future work of statisticians might be as complete and useful as possible

The Workshop was divided into four parts. The first began with some words of welcome by the Director of the Statistics Department of the Banco de España, who stressed the importance of statistical work in the field of securitisation against the current background of financial crisis, and remarked on recent progress by international organisations (IOs), in particular the ECB. The work by the WPFS since it began focusing on this matter was then reviewed, and the main reasons for organising the Workshop were set out.

The second part comprised the presentation of the viewpoints of analysts, regulators/supervisors, the industry and international associations concerning the past, present and future of securitisation. The presentations addressed:

a) The main causes that had triggered the current financial crisis and the key role that certain securitisation processes had played in it.

b) The main problems identified in the statistical field in the current period of financial turbulence: the scant information, opaqueness and heterogeneity in respect of securitisation processes. On a positive note, however, the efforts that the industry, international associations and IOs have been making in recent years to provide useful information for analysts, investors and the public at large were acknowledged. Nonetheless, it was noted that since the production and dissemination of statistics is very costly, there is a potential risk of seeking to encompass the topic of securitisation with too broad a perspective. Accordingly, a balance must be struck between transparency and efficiency since, very often, providing extensive information does not necessarily entail having better information.

c) Some outlines were drawn regarding the expected (or desirable) future of securitisation, suggesting that it will probably be easier than in the past, less prone to risk-transfer and more focused on the management of the financing of the originators.

The third part addressed the role of statisticians in the production and dissemination of information on securitisation processes. Some presentations described the efforts made in attempting to define what should be understood by securitisation, seeking to encapsulate the agents who intervene and the operations that are undertaken. Accounts were given of the significant work undertaken recently seeking to compile uniform and comprehensive information on securitisation. An example here is the ECB Regulation approved in late 2008, which has enabled extensive and homogeneous information for the euro area countries and some other EU members to be made available. Although the ECB has been receiving data from the countries subject to this new regulation since February 2010, the data are currently undergoing quality control and, once their quality is considered acceptable, they will be disseminated. A second example is the Handbook on Securities that has been drafted following close cooperation between the IMF, the BIS and the ECB, which goes beyond securitisation.

In this part of the Workshop some countries explained specific aspects of securitisation processes that were being conducted in their respective countries, on the basis of which they highlighted the difficulty of defining the processes in the attempt to set out a uniform methodology and to compile full information on specific operations, especially when these extended beyond national borders. The necessary exchange of information between countries and the means of doing this are matters in which resolute future work will undoubtedly be needed.

The accounting aspects of securitisation in the balance sheets of credit institutions, the main originators of securitisation operations, were covered in the Workshop. The changes adopted recently by the US FASB in respect of accounting regulations and the progress this entails in achieving greater uniformity with European IASB rules were also presented.

Further, there was analysis of the integration of securitisation operations into the financial accounts, along with the information and scope-related difficulties still to be resolved so that such integration is sufficiently informative to analysts from different perspectives.

The fourth and final part of the Workshop was a roundtable. Four participants, one from a statistical institution, another from a central bank, and two from IOs, set out their viewpoints on four matters: i) the need to harmonise terms regarding operations, agents and practices, and whether any international organisation should take the lead on this; ii) the need to have harmonised legislation or at least a certain common methodology and uniform dissemination of statistics; iii) the need to exchange information among countries, in particular regarding difficulties encountered in collecting information, and how this exchange of information could take place, whether bilaterally or through IOs, such as the ECB for the euro area countries, and the corresponding IO for other regions; iv) the need for the OECD to collect/disseminate securitisation data for a selected group of countries along the lines of the ECB request; and, v) thoughts on securitisation after the crisis.

Opinions on these points included most notably: the unavoidable need to produce comparable statistics, which entails the harmonisation of definitions and terms regarding operations, parties and agencies involved in securitisation. One way to work in this direction could be through the production of manuals and guidance notes with illustrative examples. On the method of work to put this into practice, rather than have just one IO take the lead, it would be better to adopt a pattern of collaboration. The Handbook on Securities drafted by three IOs is a good example in this respect.

The main points raised in this roundtable served as a basis for drawing the **main conclusions** of the Workshop from the statistical perspective. These conclusions can be structured around three recurring keywords during the sessions: **transparency, harmonisation** and **cooperation.** These terms plot a path for the future work of statisticians in this field. In conducting such work in the future it will be necessary to define from the statistical standpoint the production of data on securitisation processes since, on one hand, the need to analyse this phenomenon from different perspectives will lead to a most extensive demand for information. On the other hand, regard must be had to the most substantial cost in terms of time and resources that the production of statistics entails, especially when the processes extend beyond strictly domestic confines as they frequently do. Accordingly, joint work among statisticians, involving analysts, supervisors, accounting standard-setting institutions, IOs and representatives of the industry and international associations, will be unavoidable.

Introduction

In 2006, the Working Party of Financial Statistics (WPFS) of the OECD decided to begin working on securitisation. It did so in view of the increasing significance of this phenomenon, its growing impact on financial credit and monetary analysis, and the lack of systematic information with some degree of homogeneity. Since 2006 the agenda of the WPFS has always included this topic on the agenda in an attempt to better understand the different features of this process, their development in the various OECD countries and the best means to collect information on it. The outbreak of the financial crisis revealed the tremendous complexity of securitisation processes and has highlighted sharply the concern to understand it and the need to compile data on a country-comparable basis. As a consequence, after three years working regularly on this issue and reporting annually on and taking stock of the work at the annual meeting of the WPFS, it was considered appropriate last year to reflect in greater depth on this subject by means of a workshop on securitisation. The workshop finally took place at the end of May 2010. The Banco de España has actively participated in this work from the outset in coordination with the OECD, and it hosted this workshop at its headquarters in Madrid. The workshop was chaired by Beatriz Sanz, (Banco de España Statistics Department) member of the WPFS bureau since 2001, with Michèle Chavoix-Mannato (OECD) acting as Rapporteur.

From the very start, the organisers of the workshop thought it would be a good idea to take the opportunity to share experiences in this complex field among different experts who address securitisation in their working agendas from different perspectives. Therefore, colleagues from a wide range of fields - users, supervisors, the industry, the related European associations and the international organisations - were invited to participate together with statisticians. All those asked to contribute to this workshop showed great interest from the outset, contributing substantially to most fruitful discussions. The following sections summarise the main points raised and discussed in the different parts of the workshop (see Agenda in Appendix 1 and list of participants in Appendix 2).

1. The work on securitisation at the OECD. Where do we stand? Reasons for this workshop

This section started with some words of welcome by Eduardo Rodriguez-Tenés, the Director of the Statistics Department of the Banco de España who noticed the significant importance reached by the securitisation phenomenon during the last past years, in many countries and areas. Accordingly, central banks, other data compilers and international organisations have had to work intensively to develop their methodological framework to measure the economic and financial aspect of this activity.

For the statisticians, the challenge involves providing relevant information on all the facets of the securitisation process including monetary analysis, transferor risk, financial intermediation and financial stability assessment. Moreover, in the global economy this information must be comparable across countries and areas. This calls for common definition of instruments, participants and practices and, if possible, the collection of homogeneous information and the dissemination of common templates.

In this connection, he recognised the relevant work of the OECD WPFS since 2006. The Banco de España has collaborated with the OECD actively in this task and this workshop is a further step in this direction. He also mention another important initiatives in this field yielded by the European Central Bank (ECB) since 2004 when its Statistic Committee included this issue in his programme of work. As a result, a highly detailed statistical framework was set up to obtain data from financial vehicles that intermediate the securitisation process and from credit institutions as originators. The ECB has started to collect data according to this framework in 2010 and the result will be available in the very near future.

He assessed this work in the ECB context as a very important step for providing information on securitisation that could serves as a basis for further international harmonisation. Among a list of initiatives in this field, there is the Handbook of Securities which has been drafted jointly by the IMF, the BIS and the ECB. In this workshop, the issue is tackled in a broader context. To produce relevant information, statisticians need to understand the phenomenon from every angle and exchanging views with data analysts, markets participants, supervisors and International organisations is crucial.

Summary of the work already done in the WPFS and the main reasons for the workshop

Miguel Angel Menéndez (Banco de España. Statistics Department) referred firstly to the reasons that lead the OECD WFPS to start working in the securitization issue in October 2006 and the method of work followed to better understand this phenomenon and to collect information in the different OECD countries. He reviewed the development of the securitization that began with financial institutions mainly, credit institutions, that monetise their loans by issuing securities collateralised by these loans. This process increase its complexity with the emergence of financial intermediaries specialised in these transactions issuing securities collateralised by the credit institutions assets, named asset backed securities.

A variety of ways of carrying out securitisation transactions and a great variety of agencies intervening on different terminology for the same agents and transactions added to this complexity. The important impact of securitisation on the analysis of financial flows, monetary analysis, financial stability, transfer of risk and completion of financial accounts were other challenges that reveal the lack of systematic information with a certain degree of homogeneity. This situation illustrates, clearly, the room for work of the statisticians to try to fill the information gaps more a more evident. Other international organisations consider also the need of working on securitisation, as the ECB since 2004 as had been referred to by Eduardo Rodríguez-Tenés just some minutes ago.

The method of work to collect information from the OECD countries was organised through the completion of subsequent questionnaires, whose results were considered and discussed at the different WPFS meetings. Thus, the first questionnaire, launched after the October 2006 meeting, included questions referring to the existence of securitisation process in OECD countries, the type of securitisation carried out through special purpose entities (SPE) or financial vehicles corporation (FVC) (in terms of ECB terminology) and questions related to the sources of information and data available.

In the 2007 meeting, the responses to the first questionnaire were summarised in a document of the OECD. The main conclusions of this meeting were that, giving the implication of some securitisation operations for monetary and financial analysis, it was stressed the need of having more information both quantitative and qualitative on SPEs or FVC business. Therefore, an agreement of a new questionnaire to further understand the process in the different countries was reached. The contribution of the ECB relating to the statistics of FVC in the system of national accounts and that of the Bank of England on the statistical treatment of securitisation vehicle in the UK were discussed also in this meeting. One of the most important results of the meeting was to see, for the first time, some quantitative information. The data presented refers to the assets of SPE as a percentage of the total assets of financial corporation in the respective countries and also outstanding securitisation amount issued by SPE as a proportion of all securities issued by financial corporations. This allowed having an idea of the different importance of the securitisation process in the various OECD countries.

In the 2008's meeting of the WPFS, a proposal for a new questionnaire to better understand the phenomenon was approved. Its main points refer to accounting issues, main counterparties and problems of double counting; references to the synthetic securitisation; details of the structure of SPE liabilities and questions related to the role that the international organisation should play in trying to homogenise terminology, definition of involved entities, transactions and instruments. Some other questions related to the valuation of assets and liabilities linked to securitisation, the treatment of write on and write off and more detailed quantitative information than that obtained from the first questionnaire mainly the SPE balance sheet for the period 2004 to 2008. In this meeting, the ECB updated to the WPFS delegates with to the work done so far in the European System of Central Banks related to statistical data on securitisation by means of a Regulation.

In the 2009's meeting, the results of the second questionnaire were summarised being the main conclusions: i) that studies and reports on how securitisation was being developed in each country should be one of the avenues to be pursued; ii) as the WPFS meets only once a year, a workshop should be held in 2010; iii) the WPFS's future work should be dedicated to following up the securitisation process in the OECD countries, taking note of the process under the new ECB Regulation; and iv) cooperation with all the international organisations should be strengthen and the countries should encourage them to write guidance notes, manual and practical examples.

Having in mind the work done so far, the **main reasons to organise this workshop** were to discuss on the shortcomings in place, among others, the following: securitisation of insurance risk; the identification of securities' holders of FVC through securities databases in order to complete the securities statistics; to.try to have some details of new statistics frameworks; the integration of available information on securitisation into the financial accounts to deal with the question of consolidated versus non consolidated statistics; the consequences of the final crisis on the development of the securitisation process; to consider the need of harmonised terms referring to definitions of agents, practices and statistics regulation. Finally, one of the most important aims of the workshop was to exchange ideas between statisticians, analysts, supervisors and agencies in this industry.

2. The securitisation process from the standpoint of analysts, supervisors and the industry

The presentations of this section illustrated the reasons behind the significant surge of the securitisation industry, the main explanations for its sharp decline and the steps taken to cope with the major deficiencies identified that refers to conflict of interest, disclosure and transparency.

2.1. The boom in securitisation (The pre-crisis period, 2000-August 2007)

The expansion in securitisation market

Roberto Blanco (Banco de España. Monetary and Financial Studies Department) illustrated on the noticeable growth of securitization taking the Spanish market as an example. In Spain, the issuance of ABS increased considerably during the period 2000 to 2007. These increases had made Spain an important country on the European market for ABS, the second after the United Kingdom with 13.2% of the European outstanding in June 2007, and the third country with 13.5% of total outstanding of covered bonds.

Driving factors of the expansion of the securitisation market:

- From macro-financial perspective the global imbalances (plus demographic factors) caused a global "savings glut" according to *Oscar Arce* (National Securities Market Commission (CNMV), the Spanish supervisor for Securitisation funds and companies). Indeed, emerging countries and oil exporters registered since the early 2000s a **trade surplus** in their current balance while developed countries saw their trade deficit widening. Those surpluses created a demand for high quality assets that the financial system of those countries could not absorb.

For *Stephen Lumpkin* (OECD) it is not clear to what extend all of these assets fall in this category of safe assets. It should have been drawn the extremely long period with very low rates and an absence of the inflation that gave everybody a comfort level which facilitated the borrowing rates and this explain why all this debt was created.

The other thing was what we call banking, in general, was extremely instable in the sense that they were financing long term assets by callable assets. The fact that these assets are financed by other sources like securitisation played a good role but this structure became so complex. The subprime mortgages represented a tiny fraction of securitisation but it triggered all the market. Here, the role of the statisticians becomes interesting if they can implement a tool that would detect this type of events. By imposing capital ratios to limit loans, the lending activity has been able to increase only by the use of securitisation.

- For the **case of Spain**, we find mainly the **funding factor**. The financing of the economy was the main reason for the expansion of the ABS market. Net flows of loans exceeded the net flow of deposits so we could observe a financing gap that only the issuance of ABS solved. The Spanish market present some different characteristics compared with same markets in other countries. In Spain, credit risk was not transferred. ***On how it was the case?*** *Roberto Blanco* asserted that ABSs are issued in different tranches with different risks. The risk is concentrated in the equity tranche. The first one is like an insurance because it absorbs the first losses. The other tranches have less risk. The fact that originator keeps the equity tranche means that he keeps the bulk of the risk. For this reason, most of the assets securitised in Spain have not been derecognised.

2.2. The crisis period (since August 2007)

Anna Zennaro Associate at the Association for Financial Markets in Europe **(AFME)**, which represents the shared interests of a broad range of global and European participants, provided data which add context to the collapse of the securitisation market. According to AFME figures, the European securitisation issuance during 2009 amounted to **414 € bn, compared to more than 700 € bn in 2008**. The **retained deals** accounted for about **99% of total issuance in 2009** and 98% in 2008, compared to about 24% in 2007.

Dominique Durant (Banque de France) raised the issue of the differences observed between the outstanding of securitisation in the AFME statistics and the national figures according to the ECB survey on FVC statistics. *Anna Zennaro* explained that the data published by AFME take into account **the country of the underlying collateral**. SPVs may be located in a different country with respect of the collateral for many reasons including the relevant legal and tax frameworks. For certain transactions, information which is not available on some databases could be found in others, therefore, AFME alongside The Securities Industry and Financial Markets Association (SIFMA) crosscheck data from a rage of different sources to improve accuracy of the securitisation issuance and outstanding figures.

For *Oscar Arce,* although the amount of subprime defaults was not large compared to the size of the US mortgage market, the fact that around 75% of these loans had been securitised caused a slump in investor confidence in this kind of structured products and was sufficient to trigger a global debacle in securitisation markets with sharp falls in prices, vanishing private demand and causing secondary markets drought. Another reason for the collapse was the fact that **credit rating agencies** underestimated real risks and the ABS complex structures gave rise to multiple problems of incentives and conflicting interests.

In Spain, there was a drop in ABS issuance after the summer of 2007. However, another type of program replaced the old emissions and it consists of retained issuance. Indeed, they serve as collateral for refinancing operations at the ECB.

Factors for the collapse of the ABS market were, according to *Roberto Blanco:*

- **Lack of investor confidence** for ABS due to the lack of transparency regarding underlying assets caused by the complexity of the products and the conflict of interests between originators and investors

- The **Exit of SIVs** and ABCP conduits who played a crucial role in transforming maturities in ABSs

- **Market liquidity was very weak** and not at that level to restore investor's confidence.

- The **uncertainty regarding credit quality** was fuelled by the losses on tranches with low risks.

From the point of view of the industry, the financial crisis has brought asset **information** as one of the main causes for the collapse but, according to José Antonio Trujillo (Intermoney Titulización SGFT, one of the main securitisation management companies in Spain), **ABS opacity** may have contributed to the collapse of markets but it was not its main cause.

2.3. The distinction ABS market / Covered Bonds market

There is a great difference between the asset backed securities and the covered bonds that was pointed out.

Roberto Blanco pointed out that **ABS** differ from **covered bonds** in several ways:
First, their **average maturity** is not the same. The ABS has an average maturity of 23 years while it is 8 years for the covered bond.

There is no **maturity mismatch** for ABS while there is one for covered bonds. This is because the maturity of the ABS follows that of its underlying assets which is not the case for covered bonds.

ABS allows **the transfer of risk** (although it was limited in practice in Spain) while covered bonds does not permit a **trenching** that allows different combinations of performance and risk, while not for covered bond.

ABS can have **all sorts of underlying assets** while covered bonds have only as collateral mortgages or loans to the government.

Finally **the structure** of ABS can be rather complex, while it remains simple for covered bonds.

For the industry, the ABS market will disappear in favor of the covered bonds market for the following main reason given by José Antonio Trujillo:

First, **transferring credit risk** by means of securitisation and consequently reducing capital consumption has become more difficult.

Secondly, **rating agencies** have modified their criteria giving more importance to counterparty risk and commingling risk. The wave of massive downgrades was due to a changing in **rating methodologies**. More than 50 % of the changes were based on methodologies changes.

The **lack of homogeneity** of ABS, even within the same class of collateral, reduces the possibility of liquidity.

There are also **institutional initiatives** that *José Antonio Trujillo* decries such as the **SEC amendment** to Rule 17 g-5 which complicates ABS rating processes and increases its costs. Also, the **ECB triple-A rating requirement for ABS** penalises this kind of instruments. The double triple-A requirement, the higher haircut compared to the rest of discountable bonds and the opacity of the ABS valuation criteria, draw a gloomy perspective for ABS market.

2.4. Special role of the securitization in the economy

Securitisation is also a tool to support Small and Medium Entities[1] (SME) financing. This role of securitisation is played through the European Investment Fund (EIF), as explained by *Helmut Kraemer-Eis* (EIF). This Fund is a part of the EIB Group.

SMEs account for a large proportion of Europe's (and not only Europe's) economic activity. Securitisation is important to support the financing of SMEs because it transforms illiquid SME loans into liquid asset class and represents an alternative source of funding for the originating banks.

The general purpose of EIF's credit enhancement operations is to support new SME financing. EIF guarantees senior and/or mezzanine tranches of risk, typically with a minimum rating equivalent to BB/Ba2. The guarantees are provided in different forms, such as note guarantees, bilateral guarantees, credit default swaps, etc. EIF guarantees facilitate the execution of securitisation transactions, allowing financial institutions to diversify their funding sources and/or to achieve economic and regulatory capital relief via credit risk transfer.

On the question of *"is there any rating in the case when EIF gives a guarantee to a deal?"* The EIF does internal analyses and calculates the expected losses of portfolio and the necessary fees related to that. With regard to the internal analyses, the EIF acts in the similar way like rating agencies. The EIF applies also voluntarily the Basel rules and builds up the reserves in order to be able to pay guaranties calls.

EIF may conduct its activities in the territory of the Member States of the European Union, in candidate and potential candidate countries to the European Union and in the European Free Trade Association (EFTA) countries.

2.5. Accounting treatment of securitisation

The accounting rules are important for information on loans. Securitisation follows two objectives: cheap funding and risk transfers in order to lease the regulatory constraints.

In this regard *Stephen Lumpkin* pointed out that we had in the past pass-through certificates. The SPE was created to hold securities. There was a true sale and securities were registered out off the balance sheet. The entity did not do anything. Till we have the same conditions, we will still have true sale determination which cannot happened if we have any type of management or trenching that change the pass-through effect and consequently reduce also the true sale effect.

Fernando Garcia thinks that the main problem is to consider a transaction as true sale. Jurisdictions treat true sale differently. So meeting the pass-through arrangements remains quite difficult.

On the question of *Susan H. McIntosh* if the Spanish accounting works with IASB to make the rules the same and what will be happening.

Fernando Garcia (Universidad Complutense de Madrid) asserted that, basically, the requirements tend to be the same, they stem from the conceptual framework that the assets has to be defined in the same way. The American rules also require that assets that are transferred to be bankruptcy remote. The rules are to be adopted in consolidated basis. If the originator controls the vehicle, he has to consolidate. The SPV has to consolidate from IASB and FASB perspective before applying derecognising rules on consolidated basis.

1 According to the EU definition, SME have less than 250 employees and have a turnover less than 50 M€ or less than 43 M€ of assets.

On the importance of accounting rules, *Antonio Matas* (ECB) asserted that individual accounts are of interest for three types of persons: the tax man, the insolvency lawyer and the statistician. Legal entity level accounts are important because consolidation across sectors and countries will provide figures for macro-statistics that have no sense.

Concerning the derecognition *José Antonio Trujillo* prefers the old rules of Basel I where there was 8% for everyone because the new rules which are finer allow more freedom and are partly responsible for our current situation. He claims for adopting a simple rule where A-rated securities are kept in the balance sheet and the securities rated B are derecognised because it is a transfer of risk.

For *Fernando Garcia* Basel II perspective is to give more tick rules. The IASB and the FASB are bound by their conceptual framework in order to make the definitions be applied for all countries.

2.6. Initiatives for the recovery of securitisation

Regarding the initiatives, the importance of enhancing the **information in the ABS market** can be noticed.

From Oscar Arce's point of view, it should be two main areas for regulatory action: incentives and transparency.

In the **incentives** we can list the Minimum retention rules supported by G20, followed by 5%-rules by US and EU Governments. This initiative is likely to induce a more diligent attitude by originators and remove incentives for the revival of the "originate-to-distribute" model.

In the **transparency** field, *Oscar Arce* mentioned the IOSCO (ABS Disclosure Principles, April 2010) initiative which provides set of standards on the information to be included in public offerings and listings of ABS. Among this list we can find the identity, functions and responsibilities of the intervening parts; the main characteristic of the pool of assets and the structure of the transaction. Concerning the transparency based on loan by loan data, *Oscar Arce* reports that CNMV has promoted a pioneering framework for public information disclosure on securitization and this works thanks to a slow market. From his personal point of view it is necessary to do a tradeoff between information and the cost of information. By becoming more expensive (retention rules, information disclosure) securitisation will be not a profitable activity at all.

On the question of ***how can we obtain a high level of transparency?*** *Roberto Blanco* considers that the ECB initiative is a good one. It will be required that ABS should display information at the loan level. This will help to increase transparency. Investors used to rely too much on rating agencies and should do their own analysis.

For the industry, José Antonio Trujillo pointed out that enhancing the information is also a good way to restore securitisation by requiring better information at the originator's and cash-flow servicer's levels, by **standardising** and enhancing reporting obligations with some level of aggregation, and facilitating access to information on a decentralised basis. But he thinks too high expectations have been placed on disclosure and information enhancement as a means of restoring ABS markets. In his view, **it is necessary to do a good balance between disclosure and efficiency**. In this respect, broad loan-level disclosure of granular portfolios advocated by the ECB and Bank of England is irrelevant for credit risk analysis as well as unified portal open to all investor to access loan-level.

In this respect, important efforts have been done by the industry, for example AFME publishes regularly information on the markets and is trying to enhance four aspects of data disclosure: transparency, accessibility, comparability and granularity.

2.7. Future of securitisation

For the industry the future of the securitisation is not clear. For instance the benefit of matching cash flows within the originating bank cannot be the only justification for securitisation. The concept of secured loan, which is the covered bond concept, can be easily expanded to all types of assets. So Bank funding should concentrate in high rated bonds, with simple financial characteristics, that is: adequately secured bullet bonds, issued in ample and potentially liquid markets where investors are concerned by and properly informed about the cover pools, but do not require loan-level information to evaluate market risks.

For *Roberto Blanco* the pre-crisis levels will not be reached in the medium term because of lower demand (SIVs and conduits have disappeared and should not reappear) and lower supply: deleveraging of the financial and non-financial sectors. On the opinion of the necessity of the disappearance of SIVs, *Dominique Durant* pointed out that in France conduits still exist. *Roberto Blanco* asserted that the conduits and SIV did not appear in Spain. “Should not” refers to the way they use to be in the past. The conduits were not regulated in some countries and were a part of the shadow industry. They played an important and very risky role of transforming maturities by buying long term securitised assets and issuing short term commercial papers.

According to *Oscar Arce* securitisation can restart if we impose simplification of the securitised products and standardisation of the products to enhance comparability across countries.

3. The role of statisticians in the process

3.1. Trying to delimit the securitisation phenomenon: definitions, agents who intervene (originators, SPVs or FVCs, administrators) and kinds of operations

3.1.1. On the definition of the originator

In the FVC Regulation the originator is defined as "the transferor of the assets, or a pool of assets, and/or the credit risk of the asset or pool of assets to the securitisation structure”. It is assumed also that assets have already been created before securitizing.

Eric Klaaijsen (De Netherlandsche Bank) presented four cases of securitisation in the Netherlands which are examples of the difficulties to determine if some structures come under the FVC regulation.

Case 1: Issuing company pass-through bonds

It is a structure characterised by the issuance of bonds for financing non yet existing loans: no first lender and no transfer of already created assets. Thus, it can be concluded that this **does not fall under the FVC regulation** because the issuing company is a first lender and a specialised lending corporation rather than FVC.

Case 2: Funding corporation US and purchasing company NL

This is a structure in which a funding corporation resident in the US issues short-term securities (Asset-Backed Commercial Paper), of which the proceeds are lent in the form of bilateral loans to a purchasing company resident in the Netherlands. This purchase, or asset holding, company uses this money to purchase asset-backed securities issued by Dutch FVCs.

Both entities are FVCs, but funding corporation is not a Euro area resident and therefore **it is not included in the euro area FVC statistics.**

Case 3: Real estate loan fund

A real estate loan fund has taken over the risk of real estate loans from a bank by means of credit default swaps. The loans are secured by real estate abroad. It has raised capital through private loans (not through issuance of securities) placed with two creditors. The proceeds are put on deposit. The entity thinks about issuing notes if there is sufficient interest from investors.

Since the amount issued is less than 500 M€ and the number of creditors does not reach five creditors, the structure is not included in the statistics under the FVC regulation.

Case 4: Issuing company UK, holding company and originator NL

An issuing company resident in the United Kingdom issued commercial mortgage backed securities (CMBS). Then it lent the proceeds of the note issuance to a holding company (the borrower) who in-turn, lent the loan proceeds to two companies which own a portfolio of UK real estate. The holding company and the real estate owning companies are Dutch residents.

Still the entities are FVCs, this case will not be included in the FVC statistics because the issuing company is a UK resident.

Regarding these cases in Netherlands and other cases in other countries the application of uniform interpretations of definitions remains important for harmonised and consistent FVC statistics. It is of utmost importance be aware of differences between countries and take into account market practices and economic realities.

3.1.2. On the kind of operations in Ireland

Securitisation in Ireland uses Special Purpose Entities (SPEs). As in other common law jurisdictions, the vehicle is typically set up as a bankrupt remote company with the beneficial shareholding held on trust by share trustees. The register of FVCs must include the nature of securitisation: true-sale, synthetic, or other FVC. There is not an official register of FVCs, but information is obtained through banks.

True-sale operations stand for 72% of total assets residents FVCs. Synthetic securitisation represents 19%. The remaining 9% are in the other nature of securitisation category. These include, in the main, vehicles which are carrying out both true-sale and synthetic securitisations. Thus, FVCs are a very heterogeneous group and the analysis of the sector is being greatly enhanced by additional qualitative information on the vehicle.

The main securitised assets are: Residential MBS, Commercial MBS, Consumer ABS, Corporate ABS, Cash (i.e. true-sale) CDO, Synthetic CDO, ABCP and Multi-Issuance Vehicles (MIVs) and Others.

For *José Antonio Trujillo* the classification is not always clear and relevant. Indeed, structured covered bonds use securitisation to create a vehicle to reinforce the cover pool. It is a sophisticated pledge as far as the issuer does not fail. In this case, it is not securitisation under the issuer default. It is a dormant securitisation like the retained securitisation with a trigger event in the contract.

On this issue *Antonio Matas* asserted that it is covered by the ECB regulation. Covered bonds, nor even structured covered bonds, should be covered by the FVC regulation. In this case we have a “cover pool holding company”. It is a requirement that the securities that are ultimately sold to investors must **not be payments obligations of the originator**. The investor must not have dual recourse. The investment shall not have recourse to the originator, otherwise it is not securitisation.

Regarding the double counting issue, *José Antonio Trujillo* pointed out that retained ABSs are used as a pledge for covered bonds and we cannot identify that is retained transaction. The bonds are retained to be used as a guarantee.The ABS and Covered Bonds are both registered in Spain at the CNMV so there is a possibility of double counting.

For *Antonio Matas* we already have a fair model experience with dealing with double counting. The amount of double counting that we have to deal with due to retained securitisation in order to create "pledgeable" collateral has been outstanding and it has been difficult to cope with. We have an official kind of manual that we have to follow: the ECB regulation and the international agreed statistical standards. Indeed, because these standards evolve much lower than market practices, in the case of retained securitisation, we end with double counting in terms of total assets and total credit to the private sector. The loans are not derecognised according to IFRS but we have already been able to control that. We might be able to find solutions.

3.1.3. Is the Danish mortgage system a piece of the securitisation landscape?

Maria José Alvarez (Statistics Denmark) explained this system: The Danish mortgage model has more than 200 years and has emerged after the Great Fire of Copenhagen in 1795. In this system the mortgage institutions grant loans (which cannot excess 80% of the value of the property) secured by mortgages on real property, having only one source of funding: bond sales. According to the **balance principle,** mortgage institutions do not retain repayment risk and fund their lending activities by issuing mortgage bonds with cash flows that fully match those of the underlying mortgage.

The Danish mortgage bond market is one of the largest in the world with an outstanding amount of 300 Billions € which represents 72% of the total Danish bond market. It has survived all economic downturns thanks to a strong foundation. Therefore it is considered as *a key factor in the Danish financial stability*.

On the nature of investors asked for by *Dominique Durant, Maria Jose Alvarez* asserted that they are mainly banks and pensions funds. This can change with the new Basel law because the new definition of liquid assets fail to allow for the fact that Danish mortgage-credit bonds are just as liquid as many government bonds. If the proposal of the new law is adopted, it will undermine parts of the Danish mortgage system.

Regarding the securitisation field, the Danish mortgage model satisfies the OECD's definition of securitisation which is a "process whereby an institutional unit raises funds by issuing securities and enabling the investors investing in these securities to buy directly parcels of specific financial assets" and can be considered as securitisation if we want to do statistics on assets backed securities but not if we want to capture new information on recent development of the securitisation process.

For *Eric Klaaijsen* these types of entities would be MFIs in the euro area and expressed his preference for one definition and not different definitions from the BIS, IMF or OECD. For *Mads Kristoffersen* from Danmarks Nationalbank there is one reason to consider these entities as MFIs: traditionally they are a big part of lending in Denmark and actually there is one law covering all financial acts in Denmark. This law covers both banks and multi-credit institutions, thus, the National Bank lists this as no securitisation.

On this issue, *Beatriz Sanz* thinks that we must do our best to try to gain in clarity. In this vain, we have no other alternative than to nominate both kind of securitisation in different ways. In Spain, at the beginning of the eighties the securitisation starts through covered bonds and this kind of operation has been always called securitisation because the assets are mobilised through the issuance of bonds. Later on, the SPVs appeared and securitisation refers then to a more complicated structure. Thus, we have seen these two kinds of securitisation in very different ways but, it is clear that the regulation of the ECB refers to the securitisation that takes place through an SPE. And the other one is securitisation that is issued by the originator. We can agree on two definitions of securitisation. So, securitisation is of different kinds and of different degrees of complexity.

For *José Antonio Trujillo*, it would be preferable to use the words **securitisation** and **secured bonds** to identify these two kinds of operations. *Antonio Matas* is of the same opinion and asks for having two categories: **Asset backed security** and the **other asset covered security**.

3.1.4. Nature of FVCs in Portugal

The nature of FVCs was discussed in the context of the presentation "Assessing securitisation activity in Portugal, compilation and measurement issues" made by Ana Margarida de Almeida (Banco de Portugal).

The Securitisation Law in Portugal allows for two types of Financial Vehicle Corporations (FVCs):

- **Securitisation Companies** (*Sociedades de Titularização de Crédito,* or **STCs**) which are single purpose, limited liability companies and which finance their activities by issuing **equity and securitisation bonds**.

- **Securitisation Funds** (*Fundos de Titularização de Crédi*to, or **FTCs**) which are very similar to those of investment funds and finance loans acquisition by issuing **securitisation units**. In Portugal, the units issued by resident FTCs are typically acquired by non-resident financial vehicles. In turn, the non-resident financial vehicles issue bonds in foreign securities markets.

Both kinds of FVCs are **supervised by the CMVM** (the Portuguese securities market commission) which grants activity permission and regulates the securitisation activity.

FVCs and statistics

FVCs do not report **statistical** data to the *Banco de Portugal* (**BdP**). Indeed, STCs and FTCs have to submit **accounting** data to the **CMVM**, for supervisory purposes and there is formal **agreement** between BdP and CMVM, for regular remittance to BdP of those data: STCs report Audited annual balance sheets and Semi-annual balance sheet data; FTCs report monthly data.

The accounting information is complemented by data collected from the originators (in particular when they are resident MFIs), issuance prospectus and FTC's management rules and regulations, Balance of Payments data and information from the BdP security-by-security and investor-by-investor database, in order to breaking down the accounting data into the envisaged categories and for checking the quality of primary data.

Ana Margarida de Almeida also mentioned conditional on the loans being derecognised or non-derecognised in the originator's balance sheet, securitisation transactions are recorded differently:

- If the securitised loans are derecognised (off-balance sheet securitisations), the amount of "loans" outstanding in the assets side of the originator balance sheet is decreased, together with a matching increase in "cash". In the FVC's balance sheet loans are recorded vis-à-vis the original debtor sector.

- If the securitised loans are not derecognised, (on-balance sheet securitisation) in the originator balance sheet the amount of "loans" outstanding is kept unchanged; to balance out the increase in "cash" on the assets side of the balance sheet, an additional liability to the FVC is recorded. In order to avoid affecting the money aggregates, the entry on the liabilities side is allocated, by convention, to the category "deposit-like instruments, vis-à-vis OFIs, over two years". In the FVC's balance sheet, the loans are recorded vis-à-vis the originator's sector to circumvent double-counting.

According to the **Regulation ECB/2008/30**, the *BdP* has submitted to the ECB, since February 2010, harmonised data on the FVCs' balance sheets. Based on these statistical data, aggregated results are compiled for the following three sub-categories: (1) FVCs engaged in traditional securitisation; (2) FVCs engaged in synthetic securitisation; and (3) other FVCs. Data refer to end-of-quarter outstanding amounts, and financial transactions are provided on a quarterly basis.

Regarding the remark of *Eric Klaaijsen* on what makes the difference between mutual funds and the securitisation units. *Ana Margarida de Almeida* pointed out that the issue of the classification of the securitisations units was raised at the ESCB Working Groups on Euro Area Accounts and Monetary and Financial Statistics. Currently, securitisations units are recorded under the item "other equity" (AF. 513) which is the financial accounts' terminology deemed most adequate for the securitisations units, in the absence of a specific financial instrument within ESA95 for this type of units. It is of course a separate entrance from the one of mutual funds shares (AF.52).

Moreover, the revision of the ESA should take into account this issue and the proposal could go in the following direction: there could be a general entrance for units issued by funds (other than pension funds) and then introduce sub-categories depending on the nature of the fund, i.e. i) units issued by investment funds; ii) units issued by securitisation funds; and, iii) units issued by other funds. This way, units issued by securitisation funds would not be included in "other equity" which is a residual category for shares and other equity and should mainly reflect non-financial small and medium companies (SME) financing. In fact, "other equity" is basically used to record the capital issued by the SME which has nothing to do with the financing of securitisation operations. Another proposition could be the splitting of "the mutual funds share" category in two in order to separately identify the mutual funds shares (*stricto sensu*) and the securitisation funds units.

Regarding the securitisation funds units in the FVC reporting, *Andreas Hertkorn* from the ECB expresses that the ECB is not in favour of having institutions in the FVC list issuing mutual funds. On this basis, one should keep these two things separated. Economically, the securitisation funds have only one type of liabilities which are called units and it is why mutual funds record them. The other point is that financial vehicles have very limited equity. In the FVC regulation, equity tranches which cover the first losses are classified as securities. For comparability, they have to be recorded as securities.

Clive Jackson notices that these securitisations funds units are recorded in Ireland as other assets.

Ana Margarida de Almeida confirmed that securitisation funds units are registered as equity but the financing of SME should not be mixed with the financing of banks involved in securitisation. It is why a revision in F52, which is the subcategory of F5 which takes into account funds' units, would be appreciated with the creation of sub-items: one would be for mutual funds shares (*stricto sensu*) and another for securitisations funds units. The revision of ESA could provide a window of opportunity in this respect allowing a more straightforward classification between the institutional sector classification of a unit vis-à-vis the type of financial instrument.

On the issue of double counting, *José Antonio Trujillo* asserted that since the securitisation funds units are purely instrumental, and operations exists across countries such Ireland, the double counting is possible.

Teresa Crespo (Banco de Portugal) mentioned that it is possible to avoid the double counting since in the Irish report to the ECB the amount of securities held by Irish FVCs issued by other MUMs FVCs is indicated.

3.1.5. The Handbook of securities and definitions of securitisation

The Handbook of securities has been drafted by the BIS, the IMF and the ECB and has been setting up to improve information on securities markets and to develop a conceptual framework for presentation of statistics on different types of securities issued. It is consistent with international statistical standards and harmonised with **2008 SNA and BPM6**. *Christian Dembiermont* from the BIS presented the main characteristics of this Manual.

The Handbook distinguishes three types of securitisation:

- **Type 1** consists of a structure where there is no transfer of the assets to a Special Purpose Entity (SPE) and in the event of bankruptcy of the originator, the investor have a recourse against the pool of mortgages over which security interest had been created. This mechanism refers to the issuance of secured bonds (commonly called covered bonds).

- **Type 2** refers to an operation in which the underlying assets are transferred to the SPE. This transfer is often assumed to be a true sale. This case corresponds to a cash securitisation.

- **Type 3** is a transaction in which the underlying assets are not transferred in full to the SPE and only the credit risk associated to the assets is transferred to the issuer.

These three types of securitisation lead to an attempt of defining securitisation that, according to the Handbook of securities consists of "*debt securities for which coupon and principal payments are backed by payments on specified assets or future income streams*".

This definition is not in line with the ECB's definition of securitisation. Indeed, in the ECB regulation (ECB/2008/30), securitisation means "*a transaction or scheme whereby an asset or pool of assets is transferred to an* ***entity that is separate from the originator*** *and is* ***created for or serves the purpose of the securitisation."*** The securities issued must "**not represent the originator's payment obligations**".

Concerning this point, *Antonio Matas* thinks that this chapter on securitisation in the manual is a worthy effort specially taking into account that the audience is basically global. Thus, we have to think about countries in which securitisation are not developed. But, why defining securitisation, since we can avoid this by defining **ABSs** with their characteristics and **asset covered securities** or **covered bonds** with their characteristics.

The other argument is that if we agree that securitisation is backed by "*future income streams*" we can notice that this argument is very weak because, for example, when the German government issues Bunds, securities are also created here and it is not securitisation.

The other problem is in the definition of securitisation because it includes the covered bonds. In the covered bonds: the principal and interests are not derived from the payments of specific assets future income streams but it derives from payments obligations of the issues which is usually a bank. Only in case that the issuer default (which is not the usual thing) then you can start to look at the collateral. In Spain, for instance, there was no default for covered bonds. Thus, when we try to reconcile the ECB definition with the broad one in the manual, we face the problem of including covered bonds.

For the aspect on balance sheet and off balance sheet, we come to the issue of recognition/derecognition. We can have also a vehicle involved in the case of covered bond.

For *José Antonio Trujillo* we are trapped by words because there is no consensus on the definition of securitisation. There is also a difference between ABS and RMBS whereas they are all backed by securities. We cannot define securitisation by securities backed by future flows because it is not an asset but right of flow of something that could be a rental for example. It is not an asset in a corporate balance. Defining securitisation is not worthy and adopting definition for securitisation such the securitisation of type 1 will lead to consider bond issued by corporation that has a pledge as a securitisation. In the case of debt that has a pledge, it is rather secure bonds and covered bonds are a special case of secured bonds.

Stephen Lumpkin shares the same views and specified that the word mortgage backed security was the first one because it was the first security to be off the balance sheet and when the same technique was used for other assets, the term "assets backed securities" was adopted. For covered bond there is a reference pool somewhere that is backing bonds, and it is traded and priced differently. The future flows are the way for emerging economies to get access to capital. They securitise future flows of income. But for the definitions, the easier category remains the ABS.

For *Beatriz Sanz,* really we face with a complicate issue. In her view, it is a task that international organisation should tackle with a consultation with the different countries involved in order to come to an agreement. In her opinion, in fact, covered bonds are a special type of securitisation.

Ana Margarida de Almeida, in the same vein, warms that if we drop this concept of securitisation, we will assume that securitisation is linked to FVC (especially regarding the ECB regulation) whereas, in her opinion, securitisation is a larger concept.

For *Dominique Durant* it is a wording problem. If we define securitisation by the necessity of having a FVC we will stick to the ECB regulation regarding FVCs and if we define securitisation in a way that is away from FVC, we will face a problem.

3.2. Trying to collect information

3.2.1. The new ECB statistical framework for securitisation

According to *Antonio Matas* data on securitisation are needed for a reliable interpretation of MFI credit data by correcting for negative financial transactions when loans are securitise and to follow loan redemption and repayment patterns irrespective of securitisation. The data are also needed to monitor the securitisation process and its impact on the creation of money and credit, on the capital markets and on the financial stability.

Prior to the *new framework of the ECB*, data were insufficient because definitions were non-harmonised. Thus, as for the compilation approaches, there was a different availability and coverage of the phenomenon across euro area. Finally the data were highly sensitive to different national accounting rules on asset derecognition.

The New statistical framework consists of:

- New statistical requirements for MFIs, which are an extension of the already existing statistics and covers traditional MFI loan securitisation (including via non-resident vehicles) and other MFI loan transfers to/from non-MFIs.

- New statistical ECB Regulation addressing the FVCs in the euro area directly. This includes a requirement of self-identification and a publication of FVCs list since February 2010.

National Central Banks can choose one of three compilation approaches:

- Direct reporting by the resident FVCs.

- Direct reporting by the resident FVCs complemented by reporting of loans serviced by MFIs ('integrated approach').

- Compilation of FVC data using other statistical, public or supervisory data sources.

Eric Klaaijsen stressed that only consolidated data to correct the FVC positions are going to be available but aggregate position would be also of interest for the users. On that *Antonio Matas* asserted that the ECB presents the aggregate MFI balance sheet and the consolidate MFI balance sheet. But referring to FCVs, only the consolidate balance sheet will be presented because in the case of aggregate FVC balance sheet, it will be hard to interpret and we will have to use the micro data to understand the complexity of the structure. Indeed, FVCs positions allow to have consolidate and non-consolidate data by having the intra position of FVC.

3.2.2. Collection of data on securitisation in Australia

The Australian securitisation market is predominantly backed by residential mortgages. Its main characteristics were presented by *Wendy Raedt* (Australian Bureau of Statistics). The collection of data is done through an ABS securitiser survey where the single trust or SPV are the statistical units. All resident SPVs not reporting to the Australian Prudential Regulatory Authority (APRA) and having a rating from an independent rating agency are concerned.

Regarding the types of securitisation, it is worth to mention "the internal Securitisation" also called 'self securitisation' where the originator sells assets to related SPV and buys all resulting securities. It is mainly used for liquidity through repurchase agreements with the Central Bank.

On internal securitisation *Antonio Matas* wondered whether in such case, the MFI retain all the securities or is really an institutional unit being set up or if the securities are issued. According to *Wendy Raedt* the internal securitisation is not considered as securitisation in the traditional sense. It is just a mechanism to enable the banks to access to liquidity and these securities have been created purely for the purpose of repurchase activity only with the Central Bank.

3.2.3. Collection of data through Central Securities Depository

The need to identify the final holder or the holding sector is increased, especially after the recent financial crisis.

But identifying the exact holder is always one of the most challenging tasks for statistical compilers because balance sheets are useful but not always available.

Yoshiko Sato (Bank of Japan) informed of the system set up in Japan. Such data are being collected through the Central Securities Depository (CSD) which is an institution that offers safekeeping and book-entry transfer services of securities in a centralised network. It has two advantages in data collection: i) centralised information; and ii) wider universe than that of the administratively collected data.

The challenges pertaining to CSD data as a statistical source to identify final holders of securities are:

- The problem of cascade structure of accounts. Indeed, most countries have access to supplementary source data other than CSD. CSD data are selectively used (e.g. for ABCP) or not used.

- The question of confidentiality of customer accounts (there is a clause which allows only to process aggregate data).

- The need of better cooperation with CSD and securities-related industry.

3.2.4. Incorporating Securitisation of insurance risk statistics in the ECB statistics

Securitisation of insurance risk is a specific type of securitisation, as explained Dominique Durant (Banque de France).

By making the assets in banks tradable, securitisation allows to access to new sources of funding and the outsourcing of credit risk related to securitised assets. This dual function of securitisation is also used in the field of insurance. The insurance and reinsurance can then transfer insurance risk to financial markets and finance their activities more easily. The large-scale natural disasters such as Hurricane Andrew (1992) and the Northridge earthquake (1994) led to the creation by insurance companies and reinsurance market for catastrophe bonds to cover losses by the financial markets. Financial markets are now acting as an insurer of last resort. The securitisation of insurance risk uses a technique similar to that of synthetic securitization: an insurer transfers the insurance risk to an SPV; it covers the potential losses of the insurer in exchange for receiving a portion of insurance premiums. To finance coverage of possible losses, the SPV issues securities that will be invested in high quality collateral. The remuneration of these securities is based both on the placement in riskless assets and on the premiums paid.

In France, the Ordinance on the securitisation of 13 June 2008 established a specific framework of the securitisation of insurance risk. The prudential framework of Solvency II also allows the development of Insurance securitisation establishing criteria similar to reinsurance and securitisation for their inclusion in the assets covering technical provisions. The new International Accounting Standards (IFRS4) is also taking into account the instruments of securitisation as an alternative to reinsurance provided, however, they make a genuine transfer of risk.

Regarding the Insurance securitisation in ECB statistics: the ECB regulation 2008/30 on statistics on FVCs defines securitisation in a way that may exclude insurance securitisation from the scope of the reporting (art.1. para 2): synthetic securitisation is included only for credit risk. This may impede collection of data on a still limited but potentially increasing activity. However, many countries may also collect data for the implementation of ECB regulation on the basis of national law for SPVs. This is not consistent with the development of statistics on insurance corporations (ITIP statistics) and for macro-prudential analysis. Where such financial intermediaries should be classified in national accounts if they are not FCVs? This may create gaps in the identification of holders of bank deposits as these entities may invest in such deposits.

3.3. Integrating the information collected into the financial accounts and other statistics

3.3.1. The Effect of FAS 166/167 on the United States Financial Accounts

Susan Hume McIntosh (US Federal Reserve Board), explained how the FAS 166 and 167 change the way financial institutions account for securitisations and Special Purpose Entities (SPEs) and takes effect for reporting periods beginning after November 15, 2009:

- FAS 166 considers whether securitisations and other transfers of financial assets are treated as sales or financings.

- FAS 167 redefines previous accounting rules on determining when assets may be securitised and moved off the balance sheet.

The changes under the new standard are that prior to FAS 166/167, a sponsor's balance sheet showed only the fair value of the interests that it retained in a securitisation. Now, under FAS 166/167, the "primary beneficiary" will be required to include the entire carrying value of the securitised assets on the asset side of its balance sheet, and include the securitised debt as liabilities. The Banking organisations affected by the new accounting standards generally will be subject to higher risk-based regulatory capital requirements.

On the question of *Antonio Matas* on how the US deal with global financial firms. Susan H. McIntosh explained that from the bank data that they get, there are weekly reporters and that group is tracking for the domestic banks and gives them the amount that they have to incorporate. Moreover, what it is measured now in the ABS sector and the Government-Sponsored Enterprises (GSE) pool are measured from the asset side. They care about that they do not lose the mortgages the household have taken. The Fed is concerned by borrowing by households. She said they have had the GSE for 40 years.

3.3.2. Securitisation and the Euro Area Accounts

Andreas Herthorn (ECB) explained the main characteristics of the Euro Area Accounts (EAA). They are a complete set of financial accounts and non-financial accounts by institutional sector. The main financial accounts are: non-MFI financing to Households (HH) and Non-financial corporations (NFCs).

Since 2007 there is a full coverage of financing and investment of all sectors by providing comprehensive and consistent presentation of intermediated financing (loans), security markets (debt securities and shares) and other financing (e.g. other equity and, accounts payable/trade credits).

But EAA's complete presentation of financial markets became increasingly complex due to different treatment of retained securitisation:

- Recording of security issues by FVCs.
- Non-recording of security purchases by MFIs (in some countries before harmonisation of MFI BSI statistics).

Thus, there is an increased data needs for monetary, economic and financial stability analysis. The answers to questions like: Who is financing whom? How is the risk distributed? Who bears holding losses? Call for a better information to analyse financial links between sectors, including harmomised and comprehensive coverage of securitisation.

In this regard, *Dominique Durant* wonders whether the FVC is considered an institutional unit and that perhaps the answer can be different in a different context. The criterion to be able to manage its activity can be tricky.

For *Andreas Hertkorn* FVCs are always institutional units. As it is the case of the mutual funds that have not the autonomy of decision and are managed by financial auxiliary who make the decisions. It was decided to recognise mutual funds as individual units in order to have a look on their balance sheet.

For *José Antonio Trujillo* it is the first time that a comparison between FVC and mutual funds is made because we do not manage FVCs and we do not make decisions. Decisions come when we have to substitute a loan by another but the influence is very limited. *Stephan Lumpkin* shared the same view because if we are to find a bank that want to create a mutual fund and want to put its loans on the mutual funds, then we will think differently about the mutual fund.

4. Roundtable

The last part of the Workshop consisted of a roundtable on the following specific questions addressed to four participants: *Allan Thomas* (Statistics Canada); *Jochen Henn* (Deutsche Bundesbank); *José María Cartas* (IMF) and *Stephen Lumpkin* (OECD).

4.1. Need to harmonise terms regarding operations, agents and practices. Should any international organization take the lead on this?

For *Allan Thomas* the data must be comparable in order to be relevant. By increasing comparability and relevance the quality of the information we have will be enhanced. It have been seen through the Workshop that need to harmonise definitions and terms regarding operations, parties and agencies involved in securitisations in common and specific practices is very important. Terms mean not the same, giving differences and practices and types of securitisations. However there are many similarities on which we can build amongst all the countries here. For example, residential and commercial mortgage backed security programs.

For *Stephen Lumpkin* the motivations for securitisations are two: transforming the risk or the financing and it is done trough an entity that is managed or passive and it is not complicated in this sense. The accounting profession is taking the view of the investors in the OECD area while statisticians try to compile the data to some level of aggregation or disaggregation.

It is also clear for *Jochen Henn* that the discussion shows the need for the clarification of concepts and that the common understanding should be enhanced. For instance we could come up with guidance giving examples.

Regarding this aspect *José Maria Cartas* said that the Handbook of securitisation is an example of how different international organisations come to a common ground, discuss and make progress. The Handbook goes beyond securitisation. That is also a good example to have common language between different parties.

Allan Thomas expressed that any work done on harmonisation will provide more details to users related to the methodology and documentation. It will also enhance the research with the goal to promote the better functioning of the global financial system and overall global stability both domestically and internationally.

For *Jochen Henn* there is a need for more transparency and more information and we have to keep balance between benefits end costs. In the same respect, *José Maria Cartas* expressed that is necessary to do a cost-benefit analysis because it will affect the industry. There is a cost for the reporters, cost for the compilers and sometimes too much information is not useful. When we give lot of information, it becomes difficult to compare.

Finally, for *Stephen Lumpkin* harmonising is not doing the same thing but having practises being close enough in order to be meaningful.

On the second part of the question: Should any international organization take the lead on this?

For *José Maria Cartas* it is preferable to talk about coordination more than one organisation taking the lead using the example of Handbook of securities.

According to *Allan Thomas* dealing among international frameworks needs to be captained. Such as the international standards: SNA 2008, BPM6, the upcoming ESA and the BIS-IMF-ECB Handbook of securities. The ECB has noted the importance of monitoring the securitisation process itself and its impact on the creation of money and credit. It has also noted the importance of funding the expansion of credits and understanding the interrelations and functioning of capital markets. The ECB new statistical framework can serve as part of the basis for harmonisation of terms and operation. A lot of excellent work has been done. *Jochen Henn* expresses the same views.

4.2. Need to have harmonised legislation or at least a certain common methodology and uniform dissemination of statistics

Allan Thomas wonders whether all the countries can break the data within their macroeconomic statistics to see what they have in Covered Bonds (CB). So there is the topic of structured CB and it is pretty challenging to harmonise the definition.

According to him there is a need to have harmonised legislation at least a certain common methodology and uniform dissemination of statistics. In term of legislation, it is best left to regulators of each individual country. It will be important to have harmonised accounting rules. Here we are talking about IFRS and FAS in the US. Canada has moved to IFRS and the goal is to have IFRS and FAS in line. We will have harmonised accounting rules and also harmonised surveys such as the coordinated portfolio and investment surveys used for the balance payment purposes. For him, we need to harmonise the rules in place to ensure international comparability of the statistics in order for them to be as relevant as possible.

Jochen Henn qualifies the requirements of harmonisation, saying that cross-country comparability is important but enough room for flexibility for national practices should still remain.

On the dissemination of statistics, *Allan Thomas* explained that we have to try to take into account stocks and flows, cross border transactions and positions as well as considering activity within the institutional sectors.

The goal and objective to meet the need of harmonising will be challenging because of multitude of users of financial statistical data. There are many users such as tax men, insolvency lawyers, regulators, rating agencies, economists, academia's. They all have a lot of things they are looking for. Some specific uses, one of them is the macroeconomic account including those accounts that monitors the mechanisms and lubricants the financing of economic activity which are the financial accounts and the balance sheet accounts.

In the same perspective for *José Maria Cartas* three levels of data are needed:

- Market participants: they want information in credit risk and market risk.

- Monetary statistics: interested on the credit and the money.

- Financial accounts: who is financing whom and it is more demanding than for monetary statistics.

For *Allan Thomas* the presentations of the Workshop noted the importance of bringing the demand and supply views together when looking at the ABS market. That is what financial accounts do in macro-context. There is also the use of micro-research for academic research papers and for that it will be a challenge to look to the effect of secured security for an economic analysis. For example some countries have a lot of mortgage security programs such as the US and Canada.

Right now, there are some issues around the margin determining whether some vehicles are inside or outside the FVC definition. Covered Bonds are a part of the Handbook of securities but they are not a part of the ECB regulation. There is a new topic to meet the differences between the two sources here. The wider issue of credit risk transfer is also concerned. It is possible to track each micro loan with the great technological advances, but how to process this large amount of data?

For *Stephen Lumpkin,* the ECB is trying to track a certain exposure and certain risks. It is a good job of getting these risks. All these views have to overlap where they can overlap.

For *Jochen Henn* the discussion shows that there is a need for the clarification of concepts and that the common understanding should be enhanced. We could, for instance, come up with guidance giving examples. When we talk about harmonisation, cross-country comparability is important but enough room for flexibility for national practices should still remain.

4.3. Need to exchange information among countries, in particular regarding difficulties met to collect information, and how this exchange of information could take place (Bilaterally? Through International Organisations? Such as the ECB for the EU countries, another IO for other OECD countries?)

On the question of what elements are contained in the exchange of information? *Allan Thomas* thinks that the OECD proposal of a new financial subsector would be efficient to collect data.

Jochen Henn adds that as regards information, we have to distinguish between experience and data. The exchange of experience is essential and can be done bilaterally as well as in international fora (like the WPFS). The exchange of data is less clear-cut. In case of the euro area also depend on the decisions taken in ESCB committees and working groups on the publication of the MFI securitisation data and FVC statistics. For *Allan Thomas* electronic discussion group may be beneficial. We have to develop a way to exchange the examples that we have seen.

For *Stephen Lumpkin* the difficulty of reporting comes from the linkage between entities and tracking it is going to demand some effort. So we constructed on relational basis, national accounts and financial accounts and we are trying to track certain concepts in those accounts. Every transaction that involves a financial obligation should fit into the financial accounts in some way. Being micro prudential regulator or macro prudential overseer, there is a need for information contained within accounts.

For *Allan Thomas* there is the issue of capturing non-publically rated securitisation and he wonders whether all the countries face the similar challenges to house data captured for non-publically rated securitisation. The ECB noted that it was interesting to have requirement of self identification.

In Canada, there is not a specific requirement. We focus more on the banks or on securitisation entities to let us know and it is not as ideal to have requirement in place. Synthetic structures are very complex to most investors and economists and also for the statisticians especially for identifying the collateral.

4.4. Need for OECD to collect/disseminate securitisation data for a selected group of countries, in line of the ECB request

For *Allan Thomas* especially amongst the Euro area, harmonisation is very important for bilateral and international comparisons and here an agency like the OECD may take the lead together with the group working on the Handbook of securities.

The OECD is working in a comprehensive fashion. The Handbook focuses primarily, at the moment, on securities but combining the experiences can be fruitful. OECD has some experience on capturing the securitised receivables and the group formed by the BIS, IMF and ECB has expertise in securities. They should complement each other, and the organisations should work together. The OECD headed by Bank of

Spain has undertaken the methodological surveys on countries practices and going forward and focusing on collection data as well.

There should be some subsectors of the OECD financial accounts submission or even a publishing of the securitised receivables and asset backed securities as new institutional investor subsector as a part of institutional investor or a submission of a kind of supplementary table as a part of other financial institutions.

Allan Thomas appreciates also a supporter objective of being consistent and harmonised to SNA 2008 and BPM6. It remains work to be done and some strong different views still exist, even amongst the same institution. There will be also challenges in harmonising and capturing the data issued such as on the balance sheet third party securitisation.

Finally, for *José Maria Cartas* it will be helpful for the Handbook of securities that other international organisations like the OECD participate.

4.5. Thoughts about the securitisation after the crisis.

For *Stephen Lumpkin* there was a time where very few banks were highly rated because banks are inherently very instable and periodically they got wrong. The investors who look to invest did not do it within a bank. Long ago, the entities created under the common law (which was influenced by Roman law) were called trusts. They have some advantages because we can stick securities on them and separate these securities from the entity they are coming from. It has also certain taxes advantages that proved to be very useful. These vehicles have also the advantage to allow a bank's assets to be rated higher than the bank itself. This concept of trust does not exist in the Napoleon code, so we needed a special law to create such entities and to incorporate them in the civil codes.

According to *Allan Thomas* the securitisation has been before the crisis an extremely powerful form of financing that no doubt had contributed to the economic growth as well as it was responsible of the severity in the transmission of the financial crisis. Both these aspects warn about the importance of statistical data. Monetary policy institutions such as the ECB, IMF or the OECD member countries central banks have been in an agreement that securitisation needs to healthy resume and going forward as the global economy emerges from the last financial crisis. The Bank of Spain and others have noted the importance of spreading credit risk funding sources for new loans, for SME financing and the wider type collateral options that are available through securitisation. It will require statics for securitisation to be monitored.

On to the question of how can we measure the performance of securitisation and its effect on economy if we do not have the harmonised statistics? *Allan Thomas* affirms the importance of identifying both the securities and securities data bases as well. Surveys should be designed to avoid any possibility of double counting to properly track the financial instruments involved for both assets and liabilities.

We have also seen securitisation activity revert back to its foundation types such as mortgages back securities in many countries and away from synthetic in many cases.

Major issues are going to be changing accounting for securitisation. There are new accounting standards and regulations and possible consolidations but how can we deal with this without losing the details? We have talked about institutional units and legal entities, and by keeping their legal entity, they keep their own financial statement. As a statistician, we can still choose the data in the way it should be chosen. So long as the legal entity is still in place, we can adopt this angle for securitisation.

The market valuation is also very important especially regarding synthetic securitisation that is not traded and depends on the underlying exposure. In this regard, getting market information is always a challenge.

For *Jochen Henn* the securitisation market will in the near future likely not see the amounts of issuance we had before the crisis. There will be a competition between securitisation in the narrow sense and the covered bond market. It seems that after the crisis it is useful to perceive the risks and what profile has changed in relative attractiveness.

Conclusions

Beatriz Sanz pointed out that, regarding securitisation, we face what is a typical issue for statisticians, because when something unexpected occurs in the economic arena, everybody realises that one of the problems was that there was not enough information. For example, going back into the last two decades, 1994 saw the Mexico crisis. At that time, the balance of payments statistics did not clearly show Mexico's short-term positions to finance its current-account imbalances. This brought about the GDDS and SDDS of the IMF. Some years after, the foreign reserves crisis in the emerging countries gave rise to the template for the reserves of the IMF.

In the present financial turbulence, when it emerged that securitisation was the main vehicle through which the crisis had expanded, everybody realised that the information available on these processes was so scant and heterogeneous that it did not allow an accurate assessment of the risks involved and who the final agents were that actually bore the risks.

Throughout the Workshop, some key words have appeared repeatedly: **transparency**, **harmonisation** and **cooperation.** All three pose significant challenges for statisticians and outline the path for our future work in this field. Also, they are closely interconnected: on one hand, harmonisation is necessary to gain transparency; and on the other, given the complexity and the differences across countries in types of operations, agents and practices involved in these kinds of processes, most substantial cooperation will be needed among countries and international organisations to be able to progress significantly. We therefore need to broach the three fields simultaneously. But where do we start? As we would in other complex tasks, let us start by trying to understand one another better and let us use a measure of flexibility and common sense.

Beginning with **harmonisation,** we can try to bring terminologies regarding agents and operations uniformly and fully into line. Yet certainly, in doing that, we will realise that the different terms and practices are very well established among the public at large in the different countries. Therefore, let us start rather by trying to make a record of the different uses in each country. This would make for readier comparability and, in a subsequent step, we could work towards more comprehensive homogeneity. In parallel, some figures would have to be collected, but the different methodologies would have to be made suitably explicit. In this way, important steps would have been taken towards **transparency**.

As we can readily imagine, the work described in the previous paragraph would be much easier and fruitful if it were done through active and efficient **cooperation** between international organisations and the countries concerned, and among the former themselves. As stated, the drafting of manuals and guidance notes would be of great help.

But cooperation should go beyond the statisticians themselves. As we have had the opportunity to see throughout this workshop, the exchange of views among analysts, supervisors, accountants, the industry and statisticians is of the utmost importance to clarify concepts, valuations and the need to economise on resources, and to ensure we are moving in the right direction. We all know that the production of statistics is very expensive in terms of both time and resources, so we must do our best to work in the most useful possible direction.

We, as statisticians, are aware that we are the final link in the chain. When the need to have certain information is identified, statisticians are urged to make it available in a short period and with good quality. Primarily, however, in order to be able to produce good statistics, we have to be able to understand what we are describing. In this respect, we have to understand what securitisation is, and what the role everyone plays in this field is. Undoubtedly, this is a very difficult challenge but, at the same time, a very appealing and rewarding one.

Appendix 1: Agenda

Working Party on Financial Statistics - Workshop on Securitisation, 27-28 May 2010, Madrid, Spain

Venue: Banco de España
Room Europa
27 – 28 May 2010

Thursday 27 May

8:35 Registration at the identification desk

1. THE WORK ON SECURITISATION AT THE OECD. WHERE DO WE STAND? REASONS FOR THIS WORKSHOP

9:00-9:45	After some brief words of welcome by the Director of the Statistics Department of the Banco de España, Beatriz Sanz and Miguel Angel Menéndez, co-organisators of the Workshop on Securitisation, will present a brief summary of the work already done in the WPFS and the main reasons for this workshop

2. THE SECURITISATION PROCESS FROM THE STANDPOINT OF ANALYSTS, REGULATORS AND THE INDUSTRY

The aim would be to have some presentations setting out exactly why and what kind of information is necessary for analysts, how supervisors see the need to regulate this activity, and how tight regulation should be, but also what are the consequences of the securitization process for the credit channel of banks (if any). Similar questions could be addressed to the industry

9:45–10:15	*"The securitisation market in Spain: past, present and future",* by Roberto Blanco, Banco de España, Monetary and Financial Studies Department
10:15–10:45	*"Towards a resilient securitization framework for the post-crisis era",* by Oscar Arce, Comisión Nacional del Mercado de Valores (CNMV) - Spanish Regulator for Securitisation funds and companies (National Securities Market Commission)
10:45–11:15	*"Information and disclosure issues in the asset-based securities markets",* by José Antonio Trujillo, Intermoney Titulización SGFT (one of the main securitisation management companies in Spain)
11:15–11:40	Coffee break
11:40–12:10	*"European securitisation: market update and transparency initiatives",* by Anna Zennaro, Association of Financial Markets in Europe / European Securitisation Forum (AFME / ESF

12:10–12:40	*"Securitisation as tool to support SME financing",* by Dr. Helmut Kraemer-Eis, European Investment Fund
12:40–13:10	*"Accounting treatment of securitisation. Derecognition principles and current proposals",* by Pablo Pérez, Banco de España, and Fernando Garcia, Universidad Complutense de Madrid
13:10–13:45	General Discussion
13:45–15:00	Lunch hosted by Banco de España

3. THE ROLE OF STATISTICIANS IN THE PROCESS

3.1. Trying to delimit the securitisation phenomenon: definitions, agents who intervene (originators, SPVs or FVCs, administrators) and kinds of operations

The aim would be to have some presentations/discussions on the securitisation activities in OECD countries

15:00–15:30	*"Implementation of the FVC definition; specific cases in Netherlands",* by Eric Klaaijsen De Nederlandsche Bank *"Packaging of loans through securitisation stalls, covered bonds gain popularity*", in DNB/Statistical Bulletin December 2009
15:30–16:00	*"Overview of securitisation activities in Ireland",* by Clive Jackson, Central Bank & Financial Services Authority of Ireland
16:00–16:20	Coffee break
16:20–16:50	*"Securitisation and the Danish mortgage credit system",* by Maria José Alvarez Pelaez, Statistics Denmark
16:50–17:20	*"Assessing Securitisation Activity in Portugal - Compilation and measurement issues",* by Ana Margarida de Almeida, Banco de Portugal
17:20–17:50	*"Securitisation process within the Handbook on Securities Statistics",* by Christian Dembiermont, Bank of International Settlements
17:50–18:30	General Discussion
18:30–19:15	Short visit to the artistic part of the Banco de España
21:00	Dinner hosted by Banco de España

Friday 28 May

3.2. Trying to collect information

9:00–9:30	*"The new ECB statistical framework for securitisation"*, by Antonio Matas, European Central Bank
9:30–10:00	*"Australian Securitisers Collection",* by Wendy Raedt, Australian Bureau of Statistics
10:00–10:30	*Bank of Japan's recent exploration of CSD data as a statistical source of securities holders' information",* by Yoshiko Sato, Bank of Japan
10:30–11:00	*"Securitization of insurance risk"*, by Dominique Durant, Banque de France
11:00–11:20	Coffee break
11:20–11:50	General Discussion

3.3. Integrating the information collected into the financial accounts and other statistics

The aim would be to have some presentations/discussions on empirical evidence in the flow of funds and balance sheets, in particular for the financial sector, on the link between financial accounts and supervisory information

11:50–12:20	*"Effects of FASB166/167 on the Financial Accounts of the United States",* by Susan Hume McIntosh, Federal Reserve System
12:20–12:50	*"Securitisation and the euro Area Accounts. The institutional sector framework to financing",* by Andreas Hertkorn, European Central Bank
12:50–13:15	Discussion regarding the two different models for compiling statistics on securitisation: -- consolidating the SPV with the institution which has created it (this is the option preferred by USA and the UK) -- or not consolidating (position of the ECB and the vast majority of the EU countries)
13:15-14:15	Lunch hosted by Banco de España

4. ROUNDTABLE TO DISCUSS THE MAIN TOPICS, DRAWING THE SUMMARY AND CONCLUSIONS FROM IT

14:15-15:15	Some specific questions might be addressed to the participants in the roundtable for further discussion. -- *Need to harmonise terms regarding operations, agents and practices. Should any international organization take the lead on this?* -- *Need to have harmonised legislation or at least a certain common methodology and uniform dissemination of statistics* -- *Need to exchange information among countries, in particular regarding difficulties met to collect information, and how this exchange of information could take place (Bilaterally? Through International Organisations? Such as the ECB for the EU countries, another IO for other OECD countries?)* -- *Need for OECD to collect/disseminate securitization data for a selected group of*

	countries, in line of the ECB request -- *Thoughts about the securitization after the crisis* Participants: Allan Tomas (Canada); Jochen Henn (Germany); José Maria Cartas (IMF); and Stephen Lumpkin (OECD).
	Summary and conclusions

Appendix 2: List of participants

List of participants

Participant's organisation	**Name of participant**	
Banco de España	Ms. Beatriz Sanz	Chairperson
OECD	Ms. Michèle Chavoix-Mannato	
	Mr. Stephen Lumpkin	
	Ms. Isabelle Ynesta	
Australian Bureau of Statistics	Ms. Wendy Raedt	
Banca d'Italia	Mr. Massimo Coletta	
Banco de España	Mr. Roberto Blanco	
	Mr. Miguel Ángel Menéndez	
	Mr. Pablo Pérez	
	Ms. María Auxiliadora Moreno	
Banco de Portugal	Ms. Ana Margarida Machado de Almeida	
	Ms. Maria Teresa Loreto de Sousa Crespo	
Bank of England	Ms. Anjli Shah	
Bank of Finland	Ms. Elina Salminen	
Bank of Japan	Ms. Yoshiko Sato	
Banque de France	Ms. Dominique Durant	
	Mr. Omar Birouk	
Cap. Markets Board of Turkey	Mr. Murat Haholu	
	Ms. Neslihan Ivaz	
Central Bank of Ireland	Mr. Clive Jackson	
Czech Statistical Office	Mr. Vaclav Rybacek	
Danmarks Nationalbank	Mr. Mads Kristoffersen	
De Nederlandsche Bank	Mr. Eric Klaaijsen	
Deutsche Bundesbank	Mr. Jochen Henn	
Federal Reserve Board	Ms. Susan H. McIntosh	
Oesterreichishe Nationalbank	Mr. Martin Bartmann	
Statistics Canada	Mr. Allan Tomas	
Statistics Denmark	Ms. María José Alvarez	
Statistics Sweden	Ms. Marianne Biljer	
AFME	Ms. Anna Zennaro	
BIS	Mr. Christian Dembiermont	
ECB	Mr. Antonio Matas Mir	
	Mr. Andreas Hertkorn	

CNMV	Mr. Óscar Arce Hortigüela
	Ms. Rosario Martín Martín
European Investment Fund	Mr. Helmut Kraemer-Eis
EUROSTAT	Mr. Ismael Ahamdanech-Zarco
IMF	Mr. José Maria Cartas
IntermMoney Titulización SGFT, S.A.	Mr. José Antonio Trujillo
	Mr. Manuel González Escudero
Universidad Complutense de Madrid	Mr. Fernando García Martínez

Other attendance

Banco de España	Mr. Orestes Collazo
	Mr. Arturo Fraile
	Mr. Ignacio Fuentes
	Ms. Sofía Galmés
	Ms. Carmen García
	Mr. Antonio García
	Mr. Víctor García-Vaquero
	Mr. Ricardo Gimeno
	Mr. Ignacio Hernando
	Ms. Blanca Iglesias
	Mr. Alberto Lorenzo
	Ms. Esther Martín
	Ms. Patricia Portero
	Mr. Carlos Rodríguez
	Ms. María Ángeles Ruiz
	Mr. Javier Sanjuán