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THE SECURITISATION PROCESS IN THE OECD COUNTRIES: PROPOSAL FOR A NEW QUESTIONNAIRE TO BETTER UNDERSTAND THIS PHENOMENON

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This document has been prepared by Miguel Ángel Menéndez and Beatriz Sanz
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I. General note

In 2006 the Bureau of the FSWG of the OECD considered that securitisation should be one of the work-streams of this Group, given its interest for users of different areas of economic analysis. This opinion was widely supported by the Group, as reflected in the resolution to include this matter in future work programmes. As a result, the agendas of the FSWG meetings of the last two years (2006 and 2007) have included this subject. However, consideration of this issue rapidly showed that there was a lack of sufficient data with a sufficient degree of homogeneity across countries, although in some of them securitisation had reached a significant stage of development. As a result, the first phase of the work consisted in approval by the Group of a questionnaire to be sent to all OECD member countries to find out the scope and characteristics of securitisation in each of them. The results of the responses to the questionnaire were presented at the October 2007 meeting and, in view thereof, the follow-up to be conducted before the next meeting was proposed to the Group and accepted.

As regards the results of the survey, the broad response was notable (26 countries completed the different sections of the questionnaire, while 2 more indicated that this phenomenon did not exist in their countries so that the questionnaire was not applicable to them). Also, it was clear that the development of securitisation had been highly uneven across countries. Finally, the responses showed that the various organisational and functional aspects of securitisation and the degree of complexity attained are highly varied.

Following the presentation of the results of the survey, the follow-up approved by the Group consisted of:

1. Gathering more qualitative information from the countries.
2. Attempting to obtain the quantitative information available.
3. Communication by the delegates of possible revisions to the document presented.

Several countries have sent amendments to the document that was presented at the FAWG meeting of October 2007. ***The revised version is attached to this note and the countries are invited to inform us of any additional revisions that should be made***.

The best way of performing items 1 and 2 of the follow-up has been strongly affected by the financial turbulence over the past year. The latter originated in the increase in sub-prime mortgage defaults and was extensively transmitted to other financial markets through complex mechanisms to transfer risk from the initial lending institutions to other agents. Transactions to securitise loans or to transfer credit risk have been at the centre of this whole process, showing that the complexity of these processes was much greater than had been assumed a year earlier. This meant, on one hand, that an in-depth understanding of the phenomenon of securitisation will take more time than it had seemed reasonable to assume a year earlier and, on the other hand, that close international cooperation across a broad spectrum of international organisations, supervisors, other national and international financial institutions and associations of specialists in this area is necessary. It should be noted here that the ECB together with the National Central Banks of the European Union has been carrying out a project for more than three years, and with the collaboration, in some phases, of certain international institutions or associations.

In this situation, it has proved to be much more difficult than was foreseen last year to try to cover all the possibilities, both as regards the agents who may be involved in securitisation and the transactions that they may perform. Consequently, the working method based on incremental increases in the knowledge of this area of financial market development envisaged by the document distributed two years ago, when it was proposed to the delegates the completion of the questionnaire, now makes even more sense and is clearly essential.

Accordingly, ***a new questionnaire is proposed to the delegates and the completion, fully or partially, of the table attached is requested.*** The purpose is to obtain further information to supplement that provided through the first questionnaire and to begin to explore the availability of information on the group of financial intermediaries that, under the generic name "Special Purpose Vehicles" (SPVs), are engaged in the activity of mediating in loan securitisation processes initiated by originators (original lenders).

Please complete this questionnaire and return to **Michèle Chavoix-Mannato** (michele.chavoix-mannato@oecd.org) by 15 February 2009

II. Securitisation questionnaire 2.

Country……………………..

Name and E-mail of respondent: ………………………………

To make processing the replies easier, please indicate your answer in colour.

1. The typical SPV involved in securitisation processes is assumed to be an entity that acquires an asset (assumed, for the sake of simplicity, to be a loan) or group of assets from another entity (the originator). The SPV finances this acquisition by issuing securities, which may be acquired by any sector of the economy or the rest of the world. This is what it usually called "traditional securitisation". If, instead of the assets being sold, only the credit risk is transferred then it is called "synthetic securitisation".

Depending on the accounting standards in force in each country, the originator entity of the securitisation may or may not be permitted to derecognise from its balance sheet the securitised asset. When derecognition is permitted, the securitisation transaction is a "true sale". The acquired loan will appear on the assets side of the SPV's balance sheet and the issuance of securities on the liabilities side. In the originator's balance sheet, the transaction will be recorded by means of a reduction in loans on the assets side and by means of an increase in cash or deposits, also on the assets side, relating to receipt from the SPV of the monetary flow obtained from the placement of the securities issued. If, on the other hand, under the accounting standards in force, the originator is not able to derecognise the loan:

a) What is the name in your country of the heading on the assets-side of the SPV's balance sheet under which the transaction is recorded?

b) If it is the same as in the case of "true sales", i.e. "loans", what mechanisms have been established to avoid a single loan being recorded twice (once in the assets of the originator and again in the assets of the SPV)?

c) Under which heading of the originator's liability side of its balance sheet is the receipt by the originator of the monetary flow from the SPV recorded when the securitised asset is not derecognised by the originator?

2. Let us suppose that such heading is “deposits” and let us suppose, further, that, subsequently, the originator buys part of the securities issued by the SPE. In such cases:

d. The general rule is that the originator nets out part of de “deposits” with the securities bought or, on the contrary, the deposits are shown in the liability side of the originator’s balance sheet gross and the securities bought by the originator are included in the corresponding heading of the asset side of the originator’s balance sheet?

3. In “synthetic” securitisation the originator only transfers the credit risk to the SPV, so that the loan itself remains on the assets side of the originator's balance sheet. This transfer of credit risk takes place by means of the generation of a derivative (included in the SPV’s liabilities) which is acquired by the originator (it will be reflected in the assets of this agent). The transaction entails a corresponding movement of cash or deposits between the two agents (originator and SPV). Subsequently, the SPV shall issue securities whose proceeds it shall deposit with the originator or invest in high credit quality securities (sovereign debt, for example).

e) Do the “synthetic” securitisation transactions performed in your country differ from what has just been described? If so, how do they differ?

4. The following two questions refer to the structure of the SPVs liabilities:

f) Do SPVs in your country frequently finance their medium or long-term lending transactions by issuing short-term securities that are continuously re-issued?

g) If they do, is there usually some formal or informal commitment by the originator to provide financial support to the SPV in the event that the issues of such SPV do not take place owing to adverse market conditions? Does this support take the form of the provision by the originator of lines of liquidity to the SPV?

5. Where securitisation takes place through an SPV, it is usually the case that the same SPV acquires the securitised asset (or the rights thereto) and issues the securities. However, there are cases in which one SPV acquires the asset (or the rights thereto) and another SPV issues the securities. In this case, the SPV issuing the securities provides the funds to the SPV that acquires the asset from the originator.

h) Is this type of securitisation (in two stages or through two SPVs) frequent in your country?

i) If it is, is the second SPV (the one that issues the securities) frequently a non-resident of the country of the originator?

j) Are you aware of other cases similar to the one just explained? If you are, please indicate what they involve?

k) Are there cases in your country in which the period between the acquisition by an SPV of the asset to be securitised and the issuance of the securities is lengthy?

l) If yes, give some examples of the length of this period.

6. Experience seems to show that a wide variety of institutions and types of transactions come within the scope of securitisation; however it also seems that the same transaction or the same type of institution sometimes has a different name in different countries, even though they perform the same function.

m) Do you consider that international organisations such as the IMF, OECD, ECB and BIS should work together to establish a terminology, concepts and homogenous definitions for the institutions, transactions and instruments used in securitisation?

7. Experience also shows that there are significant discrepancies in relation to the valuation of assets and liabilities linked to securitisation. In this respect:

n) Do you consider that homogenous valuation criteria should be established to facilitate the comparability of the available information? How do you think that the assets and liabilities should be valued in the SPV's balance sheet?

o) Should SPVs identify in the information they supply amounts corresponding to write-offs and write-downs?

8. The revision of the SNA currently under way is close to completion. The sections referring to transactions and institutions relating to securitisation are concise and general.

p) Do you consider that it would be helpful if the international organisations that have been involved in revising the SNA were to prepare "guidance notes" setting out in detail all the known securitisation possibilities and the recommended way of recording them in the System of National Accounts? Would it be sufficient for the "guidance notes" to include the result of the work referred to by question m) and, where applicable, by n) and o), with some examples?

SPEs BALANCE SHEET (end of the year)

€ Million

	2004	**2005**	**2006**	**2007**
ASSETS				
Currency and deposits				
Banks				
Other financial institutions				
Securities other than shares: short-term				
Non-financial corporations				
Banks				
Other financial institutions				
General government				
Rest of the world				
Securities other than shares: long-term				
Non-financial corporations				
Banks				
Other financial institutions				
General government				
Rest of the world				
Loans				
Banks				
Other financial institutions				
Non-financial corporations				
General government				
Households				
Rest of the world				
Shares and other equity				
Financial derivatives				
Other assets				

SPEs Balance-sheet (end of the year)

€ Million

	2004	**2005**	**2006**	**2007**
LIABILITIES				
Deposits				
Banks				
Other financial institutions				
Securities other than shares: short-term				
Non-financial corporations				
Banks				
Other financial institutions				
General government				
Rest of the world				
Securities other than shares: long-term				
Non-financial corporations				
Banks				
Other financial institutions				
General government				
Rest of the world				
Loans				
Banks				
Other financial institutions				
Non-financial corporations				
General government				
Households				
Rest of the world				
Shares and other equity				
Financial derivatives				
Other liabilities				