Amundi
ASSET MANAGEMENT

GLOBAL DEVELOPMENTS IN SECURITIZATION REGULATION

A consultation paper issued by IOSCO
June 2012

Amundi welcomes the opportunity provided by IOSCO through the present consultation to express views on "global developments in securitization regulation". Amundi is a major asset manager with close to 700 billions € under management. It ranks second in Europe and among the top ten asset managers in the world. It is active on many different types of strategies and serves a large number of clienteles, retail as well as institutional.
As a representative of the buy-side Amundi is not involved in the origination, montage or syndication of securitization. However it can express positions and suggestions from the investor point of view. That is the purpose of the following comments.

Securitization is useful for the economy:

As pointed out in the Paper, securitization represents an alternative way to contribute to financing useful projects and investments. At a time when banks will want to reduce their balance sheets with a view to optimize their capital requirement under CRD4 and Basel 3 regulations, it is particularly relevant to develop techniques which will enable actors of the economy to finance their needs. Direct access to financial markets is evidently an option for larger entities. In that respect securitization, together with covered bonds, should be encouraged as a means to foster financing of smaller companies. Incidentally, Amundi is concerned with the potential impact of Solvency 2 on the ability for institutional investors to invest in securitizations.
However, securitization is economically sound as long as it relies on real loans to the economy and avoids leverage or synthetic references. As a basis principle it should be firmly confirmed that a loan is only eligible to one securitized portfolio.
If the objective to develop an internationally homogeneous market for securitization can be shared, in practice it appears that a regional approach will probably be maintained for some time. In fact many aspects of a securitization relate to local market conditions and habits (credit distribution conditions, scorings, social comportment vis à vis credit…) and the legal framework is also very much based on local rules. Investors will tend to favour those structures they understand best and are more familiar with, thus developing a regional approach.

Risk retention at 5% minimum and without exemption:

The requirement to have the originator keep a minimum level of 5% of the risk of the securitized portfolio seems consensual, even if many institutional investors consider the figure to be too low. It should be stressed that in order to avoid the bias towards easy credit production (since it will be securitized and the

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risk transferred) the originator should be understood as the producer of the initial credit. It would then have an incentive to avoid too lenient and relaxed conditions when granting a loan. If the requirement relies on the sponsor, and if it designates an entity which does not hold the loan in its books when it is granted, there is a risk that the credit production will be biased.
The key difference between European and American approaches is highlighted in the Paper. In the US, the requirement relies on the issuer's regulation and there is room for exemptions based on the low level of risk of some loans. In Europe the risk retention level of 5% is a prerequisite for an institution to be able to invest in the securitization and there is no other exemption than government risk.
Amundi is very much concerned with the possibility to introduce exemptions in the US to the rule of a minimum capital retention ratio of 5%. It may severely impact the image of the industry on a product, securitization, badly hit by excessive leniency in the past. It seems totally counterproductive to envision exemptions to such a simple easily understandable principle as 5% risk retention. It appears to Amundi that it is one area where IOSCO should try and get a uniform and shared rule: defining various sets of rules to exempt different types of QRM, CRE, Commercial or automobile loans is inappropriate at a time when what securitization needs most is some recognition and seriousness. Furthermore if synthetic structures, which we do not consider favourably, are not submitted to any risk retention requirement we feel that it introduces a terrible loophole in the regulation and jeopardizes the expected move towards rehabilitation of securitization.
Incidentally one should note that European institutions will not be able to subscribe to an American securitization that does not meet the 5% risk retention ratio. If we assume that a more flexible regulation makes it possible to obtain a better return, then there is a distortion of competitiveness when it comes to comparing investment returns.

Disclosure should reach higher standards:

Be it in the framework of a public offer or of a private placement, access to information is of prime importance for the investor. As a consequence of the non-reliance on Credit Rating Agencies' assessments to evaluate the risk of a transaction, investors expect to have access to enlarged information both at the time of issuance and on a regular basis. The suggestion to file, as with the SEC, a computer program in order to simulate the waterfall of the transaction is very tempting, as it gives a direct view of the practical end-result of a legal documentation of several hundreds of pages. It presents the advantage to test the proper understanding of this documentation.
The disclosure of stress tests outcomes and substitution rights will be necessary to better understand the quality of the securitized portfolio. Information on the risk /reward profile of the ABS structure and the way it differs from the risk profile of the underlying assets seems also fundamental for an investor.
The question of a standardized template for periodic and/or initial disclosure leads to the problematic of the variety of transactions' structures. It is not relevant to ask for standardisation of presentation when main characteristics are not uniform and may strongly differ. If standardisation means to follow a check list of items which have to be disclosed, it is unquestionably a good suggestion. If it implies transmission of data on a common standard template it should be applicable for each type of securitization and would no longer be a standard. However the idea to obtain data which investors could download to process them is very pragmatic and efficient. Regular update of the evolution of the underlying portfolio of loans should be produced on such a format.

Securitization process:

It is not necessary to regulate the securitization process except for the requirement of full disclosure and risk retention. If investors have a transparent access to the main procedures of production, selection,

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substitution, track record and stress test… of underlying credits, they will be able to assess the risks and monitor them regularly.

CRA issues:

The central role of CRA in the securitization process before the crisis appears to have been excessive. The main two criticisms point out the undue reliance by investors on CRA's judgements and the opaque (and unfit) models they used. All measures that will address these two criticisms have to be encouraged.

Answer to the 3 issues raised in the Paper:

Issue 1: we consider that real differences are emerging on risk retention requirement in the US and the EU; we suggest that TFUMP not only monitors them but immediately responds to this threat.
Issue 2: Amundi thinks that, as a substitute to CRAs work on pooled assets, information should be disclosed by originators on stress testing and scenario analysis of pooled assets; we trust that market forces will lead to a spontaneous disclosure of these elements together with other pieces of information that are necessary to assess and monitor the risks.
Issue 3: Amundi totally agrees with the pragmatic approach suggested by TFUMP to encourage market participants to develop harmonised best practices in the matter of disclosure (that could result in standard templates).

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Société Anonyme au capital de 578 002 350 euros - 437 574 452 RCS Paris
Société de Gestion de Portefeuille agréée par l'AMF (Autorité des Marchés Financiers) sous le n° GP 04000036