



# Securitisation EIB Group

## EIBG SRT Market Activity

16 April 2021



# EIF in the SRT market

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# EIF SRT Activity

## Presence in the Synthetic SRT Market



- EIB group is a reference investor in capital relief trades
- EIF and EIB (EIB Group) have already entered in c. 62 SRT transactions since 2015 to December 2020, out of which c. 56 have been executed in synthetic format
- Total investment/guaranteed amount up to December 2020 is nearly EUR 11bn, out of which c. EUR 7.7bn have been executed in synthetic format
- c. 86% of Synthetic SRT transactions closed in 2020 have a Synthetic Excess Spread (always capped to 1Y EL from 2017 year-end onwards)
- c. 86% of Synthetic SRT transactions closed in 2020 have a pro-rata amortization, at least temporarily
- Boost of the activity from 2017/18 thanks to EFSI “Juncker Plan” funds (European Commission funds). Additional securitization activity expected under Pan-European Guarantee Fund
- Committed new lending to European SMEs thanks to EIBG SRT synthetic activity in was c. 5.6bn EUR in 2019 and c. 10bn EUR in 2020

# EIF SRT Activity

## Presence in the Synthetic SRT Market

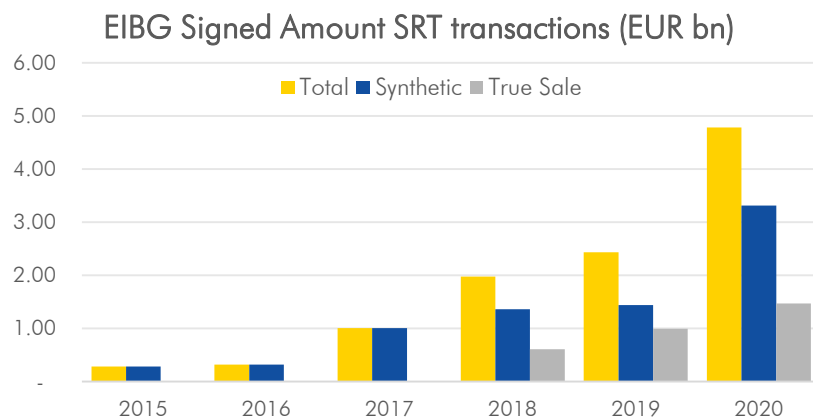


### EIBG amounts invested using European Commission EFSI funds

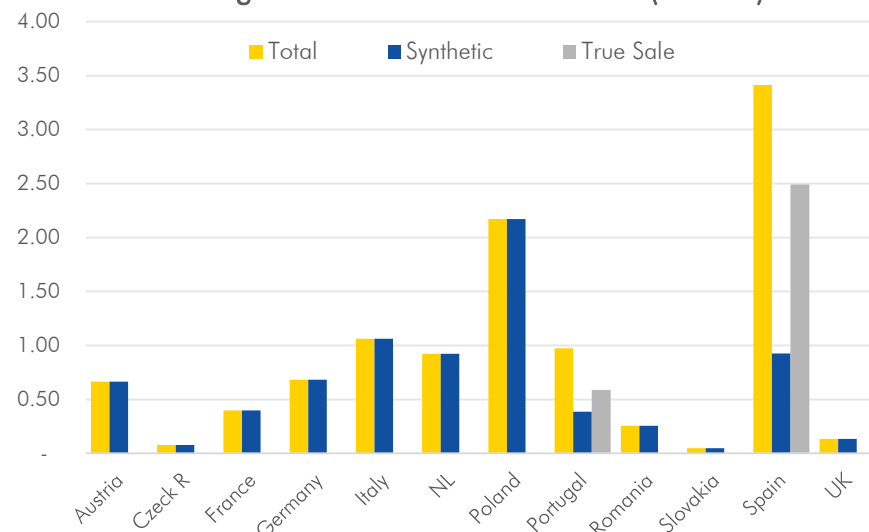
62 SRT transactions in total

- 56 Synthetic
- 6 True Sale

12 countries covered, 7 of which have received investments for SRT trades from EIBG for more than 0.5bn EUR



### EIBG Signed Amount SRT transactions (EUR bn)



In 2020, out of a total 19 SRT synthetic transaction closed, 15 have Synthetic Excess Spread, 14 amortize pro-rata

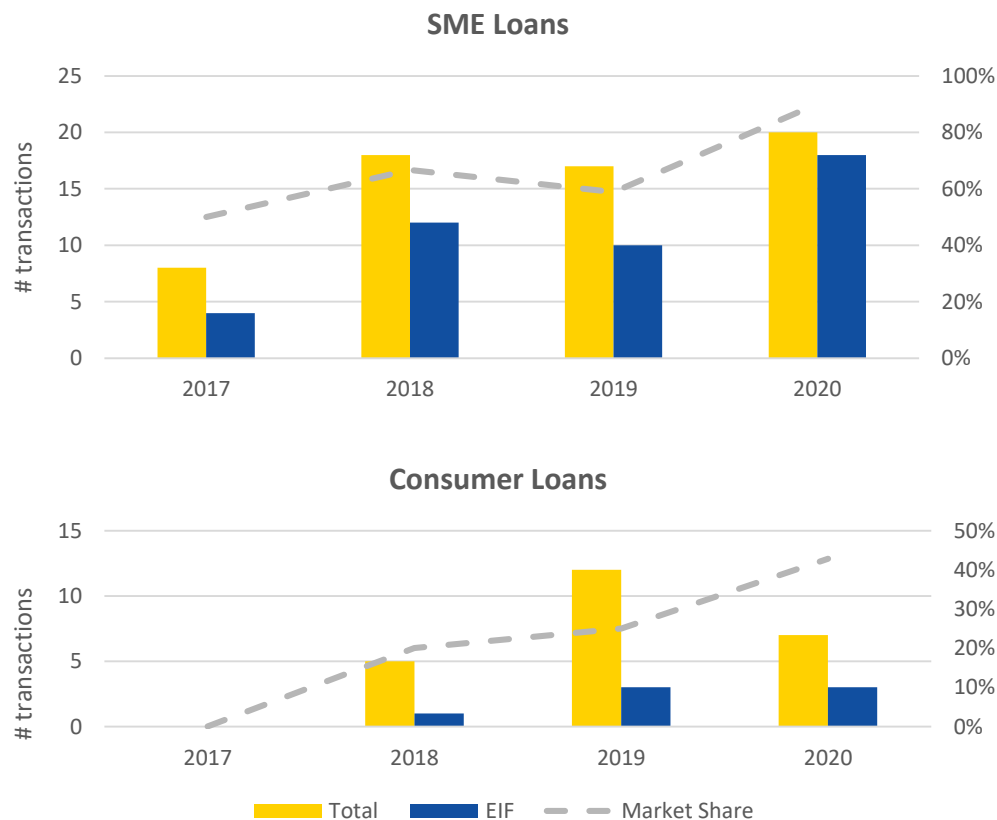
In 2019, out of a total of 8 SRT synthetic transactions closed, 6 had synthetic excess spread, and 6 amortize pro-rata

# EIF SRT Activity

## Presence in the Synthetic SRT Market



EIF market share\* in European SRT transactions (by number of transactions)



\* Deals incorporated in SCI database. Due to the private nature of credit risk transfer transactions, the market share is only a rough estimate.

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# EIF real life examples

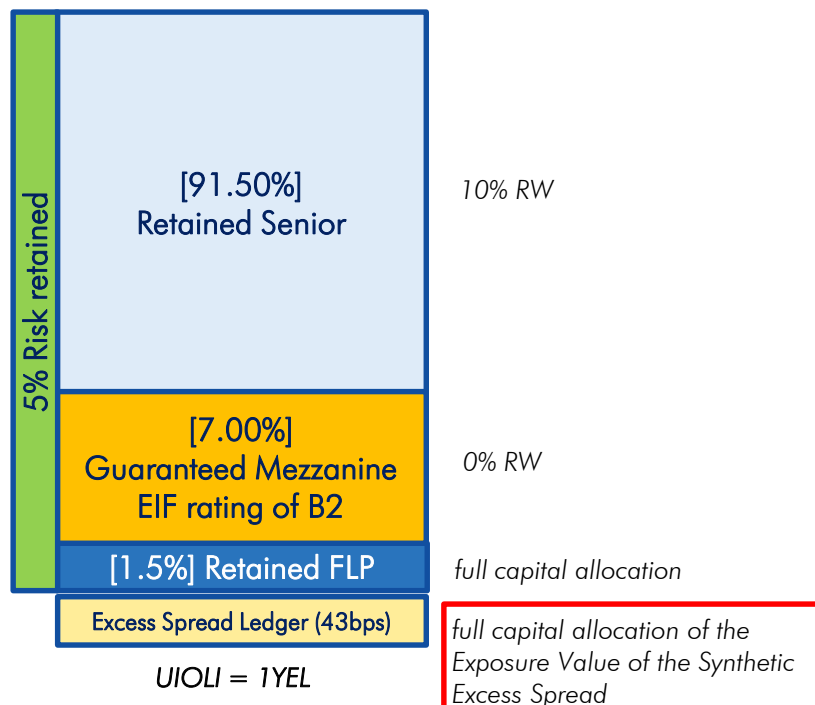
SES treatment and EBA tests

# Real Life Example

## Standard EIF synthetic transaction



Example of a real life Transaction. Stylised European Transaction.



### Structural Features:

- 1) **Pro-rata amortisation** of Senior and Mezzanine tranche with Trigger Levels for sequential
- 2) The structure benefits from **an excess spread** equal to the annual expected loss. The amount will be accounted and accumulated in a ledger (i.e. not physically paid)

### Securitised Portfolio Parameters:

- **Portfolio Size**: EUR 1bn; **WAL**: c. 2.5 years;
- **Revolving**: No
- **Expected Loss**: 43bps; **1y PD**: 0.70%; **RW**: 52%;
- **CET1**: 13%; **Retention**: 5%
- **LTEL**: 1.0%; **UL**: 4.1%
- **Guarantee Fee / Cost**: 5.5%
- **Portfolio Capital (Ex-ante)**: EUR 67.1m

### Additional Portfolio (SMEs/Small Mid Caps):

- 6x the size of the **Guaranteed Mezzanine** in 2 years, of which 1x before closing

# Real Life Example

## Synthetic Excess Spread



### Synthetic Excess Spread mechanism being commonly used

- The Synthetic Excess Spread (SES) is designed to cover the **Expected Losses (provisions)** of the underlying portfolio
- Therefore, the SES is calibrated and **capped at 1Y EL** – if during a year the total losses exceed the EL, the additional losses (UL) would impact the capital structure

### Exposure Value of Synthetic Excess Spread as per article 248.1.e)

- EVSES definition suggests a potential **full deduction of the Lifetime Synthetic Excess Spread (LSES)**, even if it is UIOLI.

However, this approach:

1. Takes into account neither the (1Y) cap on the SES mechanism, nor the time horizon (1Y) under which regulatory capital and provisions are calculated
2. Would imply a double counting of reserves, as the 1Y EL of the portfolio are already considered in the provisions of the bank. Besides, using a lifetime approach would also bring upfront and capitalize lifetime provisions, which implies an even more unfair double counting of reserves
3. Would result on a **capital relief below the 50% threshold** required by the new PBA test in **all our transactions, therefore non-viable**
4. Would result in **drastically worse transaction economics**

### Proposal

**Keep using the current treatment** (which acts as market standard and is widely accepted by regulators):

The EVSES should be limited to the past, current and future losses to be allocated to the SES **over a period of 1Y**, and should be adjusted by the realised losses and the unrealised losses already considered in the provisions.

### Current treatment vs New Article 248

Stylised European Transaction

#### Current Treatment

$$\text{EVSES} = 1Y \text{ SES} - \text{Provisions} - \text{Losses}$$

Ex-Post Capital <sup>1</sup>	26.9
Capital Relief	59.9%
Cost per unit of capital	9.6%

#### New Article 248 EVSES = Lifetime SES

Ex-Post Capital <sup>1</sup>	26.9
Capital Relief	45.6%
Cost per unit of capital	12.6%

↓  
**> ROE of most European FIs**

<sup>1</sup> Ex-post Capital = Senior tranche capital + Mezzanine tranche capital + Full capital deduction FLP + Full capital deduction EVSES



# Real Life Example

## EBA test proposal



### PBA Test

	EBA Proposal	At Day 0
Reg UL on transferred positions	1,900,000	26,280,000
Reg UL on PF	41,280,000	41,280,000
Ratio	<b>4.6%</b>	<b>63.7%</b>
Threshold	50%	50%
PBA Test	<b>Failed</b>	<b>Passed</b>

### CRT Test

Capital Pre Sec	4.56%	4.56%
Capital Post Sec Senior	0.73%	0.73%
Capital Post Sec Junior	1.50%	1.50%
Capital Post Sec	3.22%	2.23%
<b>Ratio 1</b>	<b>29.3%</b>	<b>51.0%</b>
Lifetime EL + UL on transferred position	0.19%	2.63%
Lifetime EL + reg UL on PF	5.12%	5.12%
<b>Ratio 2</b>	<b>3.7%</b>	<b>51.36%</b>
CRT Test	<b>Failed</b>	<b>Passed</b>

- Large majority of standard EIF transactions will neither pass PBA nor CRT
- All pro-rata transactions fail the PBA test (modelled at even EL distribution); back-loaded EL distribution makes it worse
- 50% threshold is worse for EIF when deploying public mandates (e.g. European Commission). Sometimes a transaction has an efficiency <50% but is still economically viable.
- Back loaded UL distribution is very conservative and not realistic, when cumulative losses exceed substantially the EL it happens in the early times of the transaction.
- Only transaction with **full sequential amortization** can pass the tests, **significantly worsening the economics of the transactions.**

# Real Life Example

## Transaction Economics



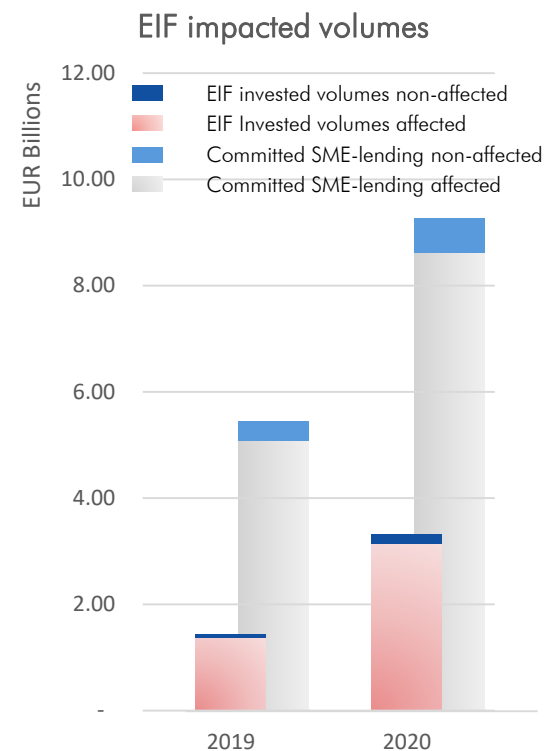
### Economics of a real life Transaction – comparison of SES treatment and amortisation types

Day 0:	EVSES as per Current treatment (1Y SES – Provisions – Losses)		EVSES as per New Article 248.1.e) (Lifetime SES)	
Ex-Ante Capital	67.1mn		67.1m	
Ex-Post Capital	26.9m		36.5	
Capital Released	40.2		30.6	
Capital Relief	59.9%		45.6%	
Costs per unit of Capital	9.6%		12.6%	
Lifetime (w.a. values to call date):	Scenario 1 (pro-rate)	Scenario 2 (sequential)	Scenario 1 (pro-rate)	Scenario 2 (sequential)
Expected w.a. Capital Relief	49.7%	50.4%	36.4%	37.4%
Cost per unit of capital	11.9%	18.4%	17.9%	26.4%

Measures that are not compatible with the use of SES or pro-rata amortization result on non-economically viable transactions.

# Conclusion

1. Using a **Lifetime approach** for the capital allocation of the EVSES would make **uneconomical all or most of the existing EIF synthetic SRT transactions outstanding**.
  - If transactions closed with EIBG during 2019 and 2020 that count with SES become inefficient in (i.e.) Q2 2022, approximately RWA 1.8bn EUR will be returned to the system. This is equal to say that at least 3.9bn EUR to new SME clients in Europe are lost.
2. Proposed **SRT tests** strongly discriminate against market standard pro-rata structures, which make up largest share of EIF investments
3. Measures that are not compatible with the use of SES or pro-rata amortization reduce flexibility for SRT transactions going forward, by limiting the structuring possibilities and as a consequence the type of investors involved. This makes securitisation SRT transactions a very expensive tool difficult to justify.
4. We propose to:
  - Consider the current treatment - **1Y-horizon for capitalizing SES** and to avoid double counting of reserves
  - Consider more flexibility on the proposed CRT/PBA tests to allow for sound and well-tested pro-rata amortization structures.



Large majority of EIF transactions features either SES or pro-rata structure, affecting both the invested amounts and the additional lending to SMEs



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