

European Investment Bank

Commercial Paper and Securitization : Market Fragmentation EIB Experience

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European short Term Paper markets

1. Background and structure of European markets

Short Term paper markets have not integrated as well as bond markets due to :

- differences in legal systems
- lack of homogeneity of the features and Terms and Conditions
- Lack of a single settlement system in Europe
- Vested interests



European short Term Paper markets

Commercial paper : three market segments

- ECP
- Billets de Trésorerie
- Domestic markets

T-Bills : each country issues its own format



European short Term Paper markets

2. Impact on issuers and investors

- ECP the only cross border market
- Credit not efficiently priced
- Reduced liquidity in the secondary markets of T-bills raises borrowing costs



European short Term Paper markets

General observations :

While issuers may have reduced issuance capacity and overpay, it is mainly the investors who suffer.

Investors are not well organized and therefore, their views are not always properly represented.

A number of initiatives to improve the situation :

- STEP initiative – ACI / ECP
- Proposals to centralize the issuance of T-bills
- Other developments



European short Term Paper markets

Clearing and settlement issues :

- Preparations for same day settlement of ECP have been completed, but take up is low
- Same day liquidity is mainly important for corporates and money market funds
- The size of European MM funds, outside of the French Sicav's still small
- French BdT market is a same day market



European short Term Paper markets

The case of EIB :

- EIB is both an issuer and an investor.
- We issue in Global format, which means in the European markets we sell ECP.
- French investors can buy up to 10% of unregulated paper.
- Our ECP is not eligible collateral at ECB but our bonds are.
- Scattered proposals to use EIB as a centralized issuer for euro denominated T-bills.



Securitization

1. Background and structure of European markets

European securitization landscape is a mosaic of different legal and regulatory environments.

Differences stretch from types of securitized assets to types of originators and from true sale to synthetic structures.

A moving target : legal and regulatory environment in constant evolution but without co-ordination.



Securitization

2. Impact on issuers and investors

- High issuance costs and smaller deal sizes, with low repeatability
- Predominance of one asset class in a geography, e.g. RMBS in UK and NL, leases in Italy
- Excess investor demand leading to unrealistically expensive pricing
- Due to diverging structures, investors find it burdensome to handle the fine detail of the documentation and tend to rely on external ratings and be less diligent about post-issuance monitoring



Securitization

General observations :

- European Securitization Forum : developing cross border dialogue
- Basel II : need to harmonize the implementation

True Sale initiative in Germany shows how complex the issues are.

Only Pan-European issues have been autoloans



Securitization

Clearing and settlement issues :

ABS and covered bonds settle in the same way as other bonds, however, often the similarities end there.

Many ABS have a complex methodology to determine coupon amounts or amortizations, resulting in uncertain cash flows, mainly due to late information about the changes in the pool of assets and/or delays in the communication chain.

Consequently, the actual amounts received differ from the Payment advice received from the ICSD's resulting in :

- *back office, accounting and reconciliation problems;*
- *system problems;*
- *Lack of development of repo markets*



Securitization

The case of EIB :

- Currently EIB is involved as an investor, both in Treasury and as a substitute for loans
- EIF underwrites junior tranches of various european securitization transactions.
- A substantial study on developing a Pan-european platform to securitize SME loans from a number of European jurisdictions.
- Multicountry, multioriginator transaction : highly complex and demanding in terms of resources, while studies on SME access to finance inconclusive.
- Proposal for a European mortgage finance agency (European Fannie Mae ?).

