Deepening global securitisation markets: An IOSCO perspective

A speech by Greg Medcraft, Chairman,
Australian Securities and Investments Commission

Australian Securitisation Forum Annual Conference (Sydney, Australia)
1 December 2015

CHECK AGAINST DELIVERY

Introduction

Thank you, Chris, and the ASF for the very kind invitation to speak at this conference.

It is a great pleasure for me to be back among friends and to see so many familiar faces.

I've been invited to speak to you today as Chairman of the International Organization of Securities Commissions (IOSCO).

In that capacity I want to touch on three topics.

- The first is to again emphasise the importance of sustainable securitisation markets to global economic growth.
- The second is to reflect on the work IOSCO has been doing to support the revival of sustainable global securitisation markets – with a particular focus on the work we have done in the last year.
- The third is to reflect on what we, in the official sector, are doing – and then to look forward to what we still need to do.

Afterwards, I'm happy to take questions.

The key message I want to leave you with has three parts.

The first is recognising that building sustainable securitisation markets is a joint project – between industry, regulators and policy makers. Our role as regulators is to develop the right regulatory settings. We cannot – and should not – do this on our own. We need to work with you to make sure the settings are, in fact, right. We also see our role as being a catalyst for action by industry to improve the global marketplace. On this side of the fence, we are simply not well placed to direct how those outcomes might be achieved. We depend on you to deliver those outcomes in the way that works best for you.

The second part of my message is the need for policy makers to work together – across borders and across sectors – to deliver the right outcomes. We need to ensure that the approaches we develop deliver a level playing field and don't together impose unreasonable regulatory burdens.

The third part – and I say this having sat on both sides of the fence – is the need for all of us to focus on investors – what they need and want – in building securitisation markets that will last. Industry has focused too much in the past on what is right for them. As I have said before, the future strength and contribution of securitisation markets to the broader economy depends on focusing single-mindedly on investors. I will come back to this later.

The role of securitisation

Let me now turn to my first point. This is the important role securitisation plays in financing the real economy globally.

I will not dwell on this point – this self-evident truth – other than to say the role securitisation plays in supporting the real economy has received increased attention in the official sector in the last year. There is now a general recognition that securitisation can once again play the role it once played in financing key market sectors – in particular, the SME sector.

The FSB and G20 leaders continue to recognise the importance of securitisation, with references to securitisation in published reports and communiqués over the last 12 to 15 months. Policy makers and industry are now united – I think – in their view that securitisation needs to be made to work to support recovery. And it is clear from the current issuance levels that there is more scope to grow securitisation markets.

European policy makers in particular have focused on the economic imperative of reviving these markets and have seen a role for securitisation in sustaining that revival. This is reflected in recently announced proposals to drive recovery in European securitisation markets as part of the Capital Markets Union project. These proposals are to be welcomed.

IOSCO's work on securitisation

Let me now turn to IOSCO's work in the last year in the securitisation space. This work has continued our focus since 2009 on how to revive global securitisation markets. We've given this work priority since the global financial crisis because of the important role securitisation markets can play in the real economy.

Our aim has been to restore investor trust and confidence in securitisation. We've done this by focusing on the following three key objectives:

- ensuring incentives across the securitisation value chain are aligned with the interests of investors, ideally through skin in the game measures
- ensuring investors have enough of the right information to be able to make confident and informed decisions about their investments, and
- supporting investors by simplifying and easing the due diligence they need to undertake in making investment decisions.

Our work in the last year has touched on each of these areas.

On incentive alignment, IOSCO recently published the findings of a peer review of implementation by Financial Stability Board (FSB) members of our 2012 guidance in this space. The review – led by ASIC – pointed to some progress in key markets in implementing this guidance – but also the need for further work.

Our work developing criteria for *simple*, *transparent* and *comparable* securitisations has focused on the other two objectives. Our report on this work – published mid-year – described 14 criteria for industry and regulators to consider in the design of securitisation products. These criteria would support and simplify the due diligence process investors need to undertake and provide them with information around three key sets of risks – asset, structure and service provider risks.

I'd like to make three comments about IOSCO's work on securitisation:

- The first is about the focus of the work, which was about investors and, particularly, non-bank investors. It was driven by the factors investors were telling us were dampening their trust and confidence in securitisation as an asset class. We appreciated the large number of submissions we received from industry about these criteria – and particularly the submissions made by the ASF.
- The second comment is about how the work was done. We decided to do it in cooperation with the Basel Committee and other standard setters. This was critically important. It reflected the importance of ensuring we had cross-sectoral perspectives – but also flagged the real importance of understanding the cross-sectoral impact of what we were doing.
- And my third comment is about the intent of the work. It was not about developing regulatory guidance. It was intended to catalyse action by industry and – where appropriate – by policy makers.

Looking forward

Let me turn now to my final topic – looking forward and the road ahead.

I will first comment on the work IOSCO will be doing and then make some comments directed both to industry and to national authorities.

IOSCO's work

Turning first to IOSCO. IOSCO will continue to work in the next 12 months with other standard setters to build on its work on simple, transparent and comparable securitisations. We are embarking on work to extend the simple, transparent and comparable criteria to asset-backed commercial paper, which is an important source of finance for SMEs in particular in both Europe and the United States (though less so here).

We will also be working to encourage industry to consider whether improvements could be made to standardising documentation and disclosures and what these improvements might be.

This is in line with the spirit of simplifying investor due diligence processes. We look forward to industry in Australia working alongside industry in other jurisdictions to support this work.

Industry's role

I want now to make some comments directed at industry. I would encourage industry, both in this country and globally, to engage with our work on simple, transparent and comparable securitisations and reflect on what changes and improvements you can make to transaction design and delivery.

I would also encourage industry in this country to participate in the upcoming work on standardising transaction documentation.

Official sector

And my final comments are to the official sector – particularly national regulators both here and globally.

Despite the work we have done at the global level in providing guidance and setting standards, more is needed.

In identifying the work we need to do we should, I think, reflect on what investors told us last year and earlier this year about what was dampening the appetite for securitisation.

Three things emerged:

- The first was uncertainty about the form regulation was taking. This concern was underscored by our peer review which showed that only five out of 24 FSB jurisdictions had fully implemented incentive alignment and related disclosure measures across all sectors.
- The second was concern about the full impact of regulation – capital requirements and disclosure requirements being the most often mentioned.
- The third was concern about the uneven playing field across comparable asset classes and between jurisdictions. This is a particular issue in Europe – and some other jurisdictions – where covered bonds are subject to lighter regulatory and capital requirements than securitisations. It also remains an issue in relation to cross-

border issuances. Our peer review showed that most jurisdictions had not considered the impacts on cross-border issuance and investment when setting their regulatory framework in place.

The challenge for the official sector is, therefore:

- firstly, to act decisively and far more quickly than we have previously to address the uncertainties
- secondly, to focus at all times on investors and their needs, and
- thirdly, to work together better – across borders and sectors – to achieve the outcomes we are looking for and without unreasonable impact.

I am committed in my remaining time as Chair of both IOSCO and ASIC to address these issues.

APRA’s proposed revisions to its prudential standards on securitisation are, I think, heading in the right direction. They have reflected on the detail of Australia’s securitisation market in settling on their proposals, including the incentives of issuers and other participants through the securitisation value chain. Their approach may also help facilitate cross-border activity of Australian ADIs, particularly in the context of a still-evolving global regulatory environment for securitisation, where potential cross-border issues have not yet been fully addressed.

Conclusion

In conclusion, I see sustainable securitisation markets as making an important contribution to global economic growth.

I see our work to date – particularly our current work with the Basel Committee – as laying a foundation for building securitisation markets to last.

Getting there will, however, depend on industry, regulators and policy makers continuing to work together to focus on what investors in these markets want and need.

Thank you. I would be happy to take any questions you may have.