



## Joint Forum report on assets securitisation incentives. July 2011.

The Joint Forum has just made public a Report on Assets Securitisation Incentives in line with the FSB and the G20 priorities to re-establish securitisation on a sound basis to strengthen the international financial regulatory system.

The report draws on an extensive literature review and interviews with market participants in several key jurisdictions and provides a perspective on the dynamics prevailing in securitisation markets. In addition, it aims to inform the continuing regulatory efforts internationally to facilitate a sound and responsible framework for securitisation markets.

The Report analyses the incentives to engage in securitisation throughout the market before the financial crisis, the distortions created by misalignments and conflicts of interest which emerged, and the interplay of incentives in the aftermath of the crisis. It also examines some of the reasons why there has yet to be a meaningful recovery in securitisation activity. The Report also outlines three recommendations to authorities on the tools and approaches they can employ to promote a sustainable and responsible securitisation framework.

The **key findings** of the report are:

- a) Funding diversification, risk transfer, revenue generation and regulatory capital benefits were the key drivers for originators and issuers before the crisis.
- b) The key incentives which drove participation in securitisation markets before the crisis remain today. Originators continue to view securitisation as a source of funding while investors are still generally willing to invest given the right assets and pricing.
- c) The return of investor appetite is important for meaningful recovery, but according to market participants, it is being hampered by macroeconomic conditions, concerns regarding the credit quality of the securitised exposures and uncertainty about pending regulation.
- d) In any case, market participants interviewed generally expect securitisation markets to recover to levels significantly below those prior to the crisis. This is mainly driven by significantly reduced demand for investments due to the withdrawal of various arbitrage vehicles, such as certain ABCP conduits and SIVs, from the market.

The Report recognises regulators can play a role in establishing a framework for securitisation that ensures that it is conducted in a prudent manner, continues to be an alternative funding source for institutions and contributes to the availability of credit to support the real economy. To this respect, the Report encourages policy makers, regulators and supervisors to strive for internationally and cross-sectorally consistent supervisory frameworks.

Finally, the **three recommendations**, above mentioned, to authorities specify that:

- a) Authorities should employ a broad suite of tools to address misaligned incentives which, among others, may include measures to improve loan origination standards.
- b) Authorities should encourage markets to improve transparency to ensure that investors, other market participants, and supervisors have access to relevant and reliable information.
- c) Authorities should encourage greater document standardisation and less product complexity to reduce information asymmetries and stimulate liquidity in secondary markets.

The Joint Forum Report has been published on the website of IOSCO at:  
<http://www.iosco.org/library/pubdocs/pdf/IOSCOPD355.pdf>