# Synthetic Securitization Market Volume 2016 – 2022

## Select Survey Results

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# What we Did

- For the last ten years, the IACPM has provided the community with information to monitor the market of **synthetic on balance-sheet securitizations**.
- The collected data covers all public and private transactions, funded or unfunded, regardless of the instrument used for synthetic risk transfer, as long as transactions are executed by banks for their own balance-sheet management.
- The collection template has been continuously refined with input from the IACPM securitization working group, through discussions with regulators and feedback from the IACPM community to support regulatory discussions and provide market transparency for survey participants.
- Global policy makers across all jurisdictions find the results extremely useful as:
  - This survey is still the only available data source for monitoring the global market of synthetic on balance-sheet securitizations.
  - The number of synthetic securitization transactions is growing globally across all asset classes and jurisdictions, as investor demand increases, and banks want to expand their lending capacity to support the transition to a sustainable economy.
  - Collected data monitors the effectiveness of the regulatory frameworks specific to synthetic on balance-sheet transactions, notably the European Regulation for “Simple, Transparent and Standardized” (STS) (*) synthetic securitizations, which benefit from a more favorable prudential treatment.
- The aggregate data included in this deck represents the aggregated yearly production 2016 - 2022 as well as the current stock of transactions executed by 29 banks across the world. The data was collected per year and per trade based on inception date.

(*) STS securitization: Transaction complying with the EU criteria for simple, transparent and standard as per EU securitization regulation (https://ec.europa.eu/commission/presscorner/detail/es/MEMO_15_5733)

# Main messages – Markets dynamics and market players

| | |
|---|---|
| **Volumes** | ▪ Since 2016, the 29 contributing banks issued **408** synthetic securitisations, mitigating risk on **€792 bn of assets**, by protecting **€62 bn** of First Loss and Mezzanine tranches with average attachment/detachment points at 0.0%/5.4% and 3%/8.5% respectively. |
| **Dynamics** | ▪ In 2022, volumes of synthetic securitization issuance passed pre-pandemic level. Pool size notional reached close to **€200 bn** while protected tranches surpassed **€15 bn** and are both some 50% larger than in any prior year. Growth is expected to continue as more players globally entering this space.<br>▪ Large US banks and smaller local banks, mostly not yet captured in this survey, are also increasing their SRT use.<br>▪ Due to amortization, trades are mostly effective for risk/capital release in the first three years, after which the underlying pools drop by almost 50% compared to inception. After four years that percentage falls even further to 22%.<br>▪ Issuing banks are mostly regulated under the IRB approach, with 90% average in 2016-2022. |
| **Securitized Assets** | ▪ Corporate loans, represent almost two-third of the assets, with SMEs at 16% and a growing share of income-producing real estate (IPRE) lending, residential mortgages, auto loans, trade and asset-based finance. |
| **Investors** | ▪ **Investment funds** are dominant sellers of credit protection with just a slight dip in 2020 at the height of the COVID crisis. **Pension funds** (investors in first loss tranches) and **credit insurers** (investors in mezzanine tranches) have gained some ground over the past three years.<br>▪ Despite recession fears, credit investors – mostly only private – continued in 2022 to have an appetite in first loss tranches, with **average attachment point of 0.0% and average coupons paid only slightly higher than the prior year** (8.3%). |

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# Main messages – Structuring features

| | |
|---|---|
| **Protected Tranches and Risk Transfer Instruments** | ▪ Senior tranches continue to represent +/-80% of the underlying nominal, but synthetic securitization is not used for long term funding as senior tranches are retained in 99% of the deals.<br>▪ The share of deals issued without SPV increases year after year and represents now some 80% of the reported trades and 62% of the nominal of protected tranches.<br>▪ Financial guarantee (unfunded, collateralized or embedded in CLNs) is the main instrument used for risk transfer to SPVs (77% of the 47% protected tranche volume transferred to SPVs).<br>▪ In 2022, single First Loss tranches attached on average at 0% and detached at 7.6%.<br>▪ Trades with both, First Loss and Mezzanine tranches, attached 0% and detached 8.9% in 2022.<br>▪ Trades with single Mezzanine tranches on average attached on 2.9% and detached at 8.7% in 2022.<br>▪ The share of unfunded mezzanine tranches continues to increase but is not (yet) the most important. |
| **STS Qualification** | ▪ In 2022, **36%** of all new trades by issuers in the European Union (EU) qualified for STS (simple, transparent and standardised as per EU securitisation regulation), compared to 15% in 2021. |
| **Sustainability** | ▪ In 2022, the percentage of sustainability linked trades increased to 7%, up from an average of 3% over the past six years). For those deals that are sustainable linked, most are linked through underlying assets or usage of proceeds. |

Synthetic Securitization Market Volume 2016-2022

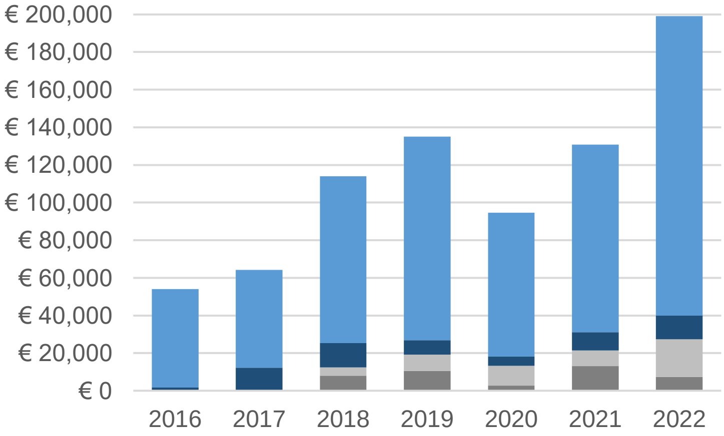
# BALANCE SHEET SYNTHETIC SECURITIZATIONS

Submissions from 29 Banks are included

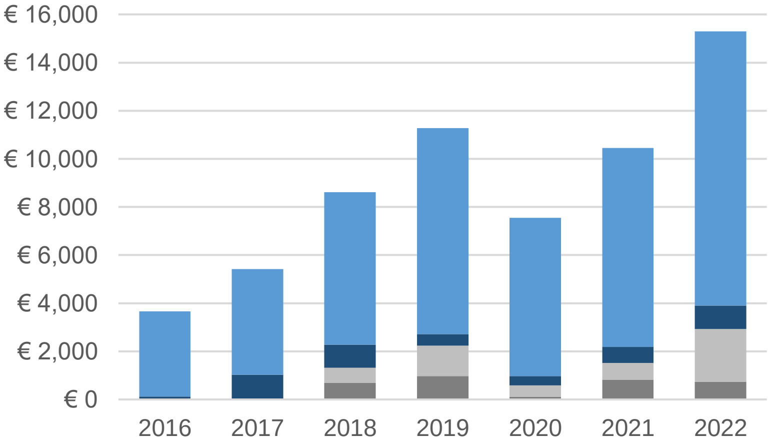
# Synthetic Securitization Volume (in mln Euro)

In 2022, 80% of synthetic securitizations continued to support commercial lending to SMEs and mid-Corps. By risk sharing with investors/ insurers, over the last seven years synthetic securitizations released at inception more than €50 bn of capital for new lending to this asset class.

## Underlying Pool Size at Inception
## In mln Euro, By Underlying Asset Class




## Protected Tranches* at Inception
## In mln Euro, By Underlying Asset Class




Business/ Real Economy Finance (1) | Asset Based Finance (2) | Retail Finance (3) | Other

(*) Protected tranche volume does not include placed senior tranche volume.

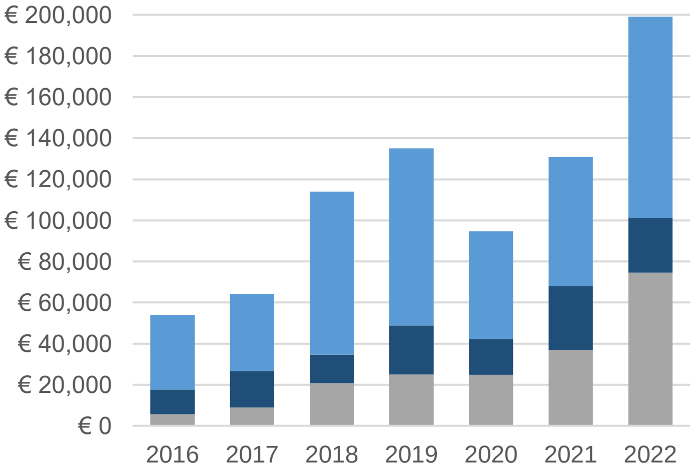
*Source: IACPM Synthetic Securitization Market Volume Survey 2023*

(1) Corporate, SMEs, Trade Finance, Mixed | (2) Project Finance, Object Finance, Commercial Mortgages, Income-producing Real Estate (IPRE) Lending | (3) Residential Mortgage Loans, All Other Retail Exposures

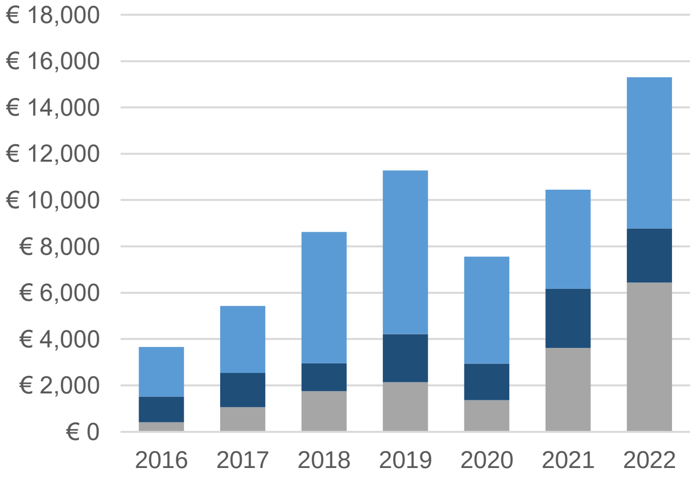
# Synthetic Securitization Volume (in mln Euro)

While dominated by European banks in the past with over 80% of the assets, the market is now opening to banks domiciled in the US, Canada and other regions.

## Underlying Pool Size at Inception
## In mln Euro, By Issuer Region




## Protected Tranches at Inception
## In mln Euro, By Issuer Region




European Union (EU) excl. UK  UK  Other Regions (1)

(*) Protected tranche volume does not include placed senior tranche volume.

*Source: IACPM Synthetic Securitization Market Volume Survey 2023*

(1) Other regions include Switzerland, United States, Canada, and Asia.

# Synthetic Securitization Trade Flow: Underlying Pool

## Grand Total

| Year of New Production | # of Trades | RWA approach underlying loans | | | STS (2) qualification | | Underlying pool size (notional) Sum (in mln Euro) | | Underlying Pool Size at Inception By Region (in mln Euro) | | | | | Protected Tranches (in mln Euro) | | % Placed with public trades (3) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | # of Trades | | | # of Trades | | | | | | | | | | | |
| | | **Advanced IRB** | **Foundation IRB** | **Standardized** | *Yes* | *No* | at inception | at reporting date | *Multi Region* | *European Union (EU) excl. UK* | *UK* | *North America* | *Other Regions (1)* | *At Inception* | *At Reporting Date* | *Weighted Average* |
| 2016 | 29 | 24 | 3 | 1 | 0 | 27 | € 54,009 | € 5,034 | € 13,125 | Not enough data points to disclose | | | | € 3,657 | € 1,326 | 5.8% |
| 2017 | 40 | 31 | 8 | 1 | 0 | 38 | € 64,317 | € 10,592 | € 17,867 | € 20,585 | € 10,693 | Not enough data points to disclose | | € 5,422 | € 2,052 | 2.6% |
| 2018 | 54 | 48 | 4 | 3 | 1 | 53 | € 113,945 | € 24,592 | € 56,190 | € 31,725 | € 4,351 | € 7,529 | € 14,149 | € 8,620 | € 2,837 | 3.2% |
| 2019 | 71 | 55 | 8 | 7 | 0 | 68 | € 135,020 | € 75,014 | € 53,168 | € 40,305 | € 14,478 | € 8,312 | € 18,758 | € 11,275 | € 7,254 | 2.3% |
| 2020 | 53 | 45 | 2 | 4 | 3 | 45 | € 94,716 | € 64,635 | € 37,095 | € 32,147 | € 5,326 | Not enough data points to disclose | | € 7,556 | € 5,429 | 0.0% |
| 2021 | 71 | 57 | 4 | 9 | 11 | 56 | € 130,848 | € 115,710 | € 71,692 | € 23,525 | € 8,619 | € 13,623 | € 13,389 | € 10,452 | € 9,816 | 4.0% |
| 2022 | 90 | 72 | 6 | 8 | 18 | 62 | € 199,137 | € 197,482 | € 81,343 | € 49,792 | € 1,864 | € 53,738 | € 12,399 | € 15,299 | € 15,050 | 5.8% |
| **2016 - 2022** | **408** | **332** | **35** | **33** | **33** | **349** | **€ 791,992** | **€ 493,058** | **€ 330,480** | **€ 221,719** | **€ 54,362** | **€ 96,735** | **€ 88,696** | **€ 62,280** | **€ 43,764** | **3.6%** |
| | **100%** | **81.4%** | **8.6%** | **8.1%** | **9%** | **91%** | **100%** | **62%** | **41.7%** | **28.0%** | **6.9%** | **12.2%** | **11.2%** | **7.9%** | **8.9%** | |
| | | | | | | | | | | | | | | % of Underlying Pool Size | | |

*Source: IACPM Synthetic Securitization Market Volume Survey 2023*

(1) Western Europe outside the EU, Central & Eastern Europe, South/Latin America, Asia, Multi-country (same region), Unknown
(2) EU designation. Prior to April 2021, trades qualified as STS under prior Article 270 regime.
(3) "Public trades" is referring to tranches that are distributed and quoted on public markets, i.e., non private transactions.

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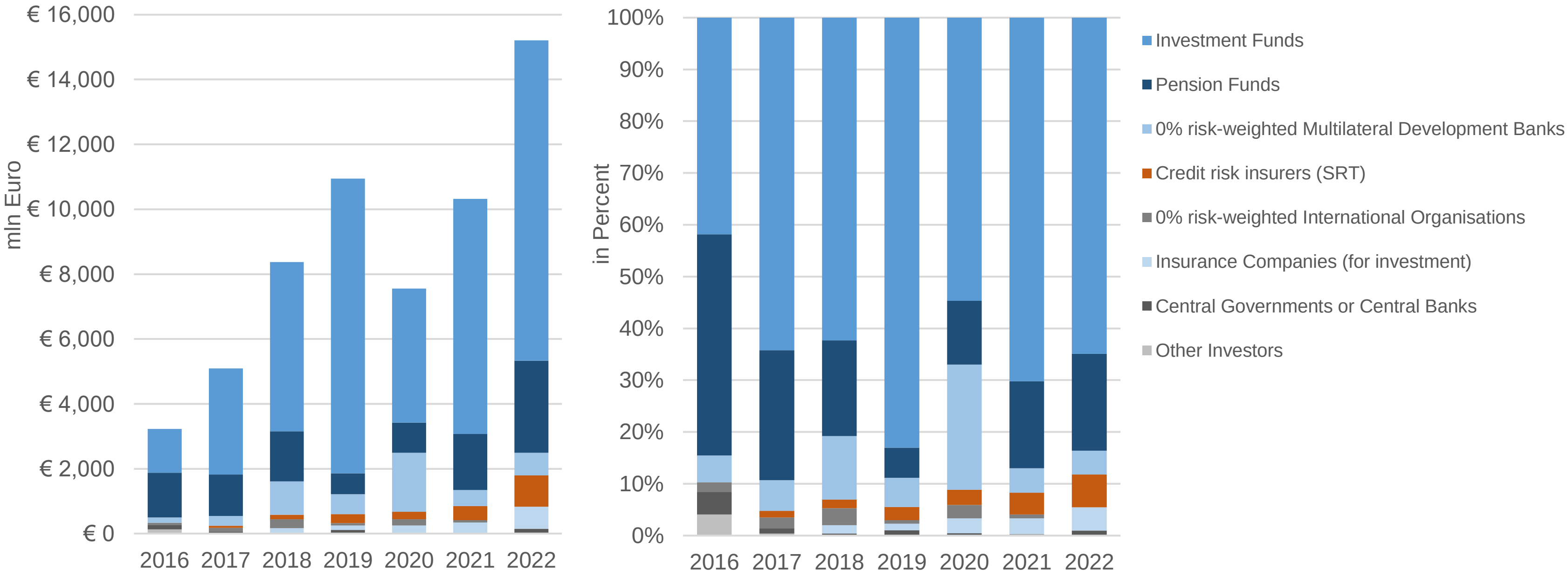
# INVESTOR BASE

Submissions from 29 Banks are included

# Synthetic Securitization Trade Flow:
## Protected Tranche Volume at Inception, By Investor Type over Time

Investment funds, dominant sellers of credit protection in 2019, lost some market share at the benefit of pension funds (investors in junior tranches) and credit insurers (investors in mezzanine tranches).

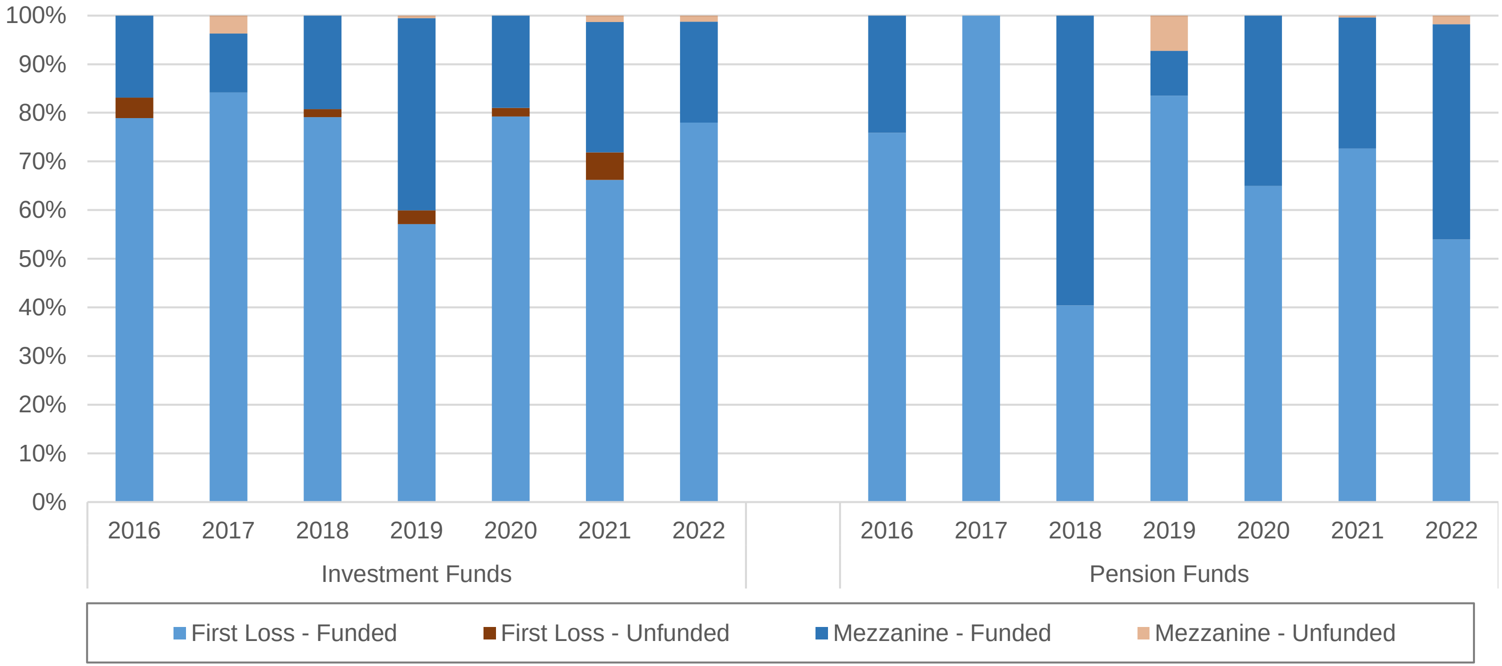



*Source: IACPM Synthetic Securitization Market Volume Survey 2023*

# Synthetic Securitization Trade Flow:

## Protected Tranche Volume at Inception Over Time

### By Tranche and Type of Risk Transfer Instruments




Note: Pension funds invest in synthetic securitizations either directly or via specialized credit investment funds.

*Source: IACPM Synthetic Securitization Market Volume Survey 2023*

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