PCS launches its new PCS Risk Transfer Label

As growth tentatively returns to Europe, questions remain around the amount of new financing that can be made available by the banking sector to sustain it. New and substantially higher capital requirements now need be met by European banks and may soon be further raised by new proposals. However raising capital is not straightforward in the current environment. Question marks over the future business model of European banks and the impact of the new regulatory environment as well as the well known areas of general uncertainty in the current environment create multiple challenges.

Ensuring that the necessary additional financing can be made available by banks to sustain growth in the real economy is the key reason why both the financial sector and policy makers are focusing on securitisation. In addition to the funding diversification benefit provided by true sale securitisations, by allowing banks to transfer risks on some of their assets to non-bank investors, securitisation can also allow banks to continue financing the economy even when capital becomes constrained. This is one of the key reasons behind the European legislative project to encourage "simple, transparent and standardized" true sale securitisations ("STS") currently being discussed in Brussels.

Another way banks may break the iron link between how much equity they hold and how much lending they can extend to the real economy is through the issuance of risk transfer/synthetic securitisations. This channel allows banks to transfer, against compensation, the credit risk of assets on their balance sheet to other investors. Since the risk is now with these investors, the bank need not hold capital against it – thus allowing this existing capital to be used for additional lending.

Because of the poor performance of some risk transfer/synthetic transactions during the crisis, there is a strong desire though to ensure that any future transactions meet the simplicity, transparency and safety standards necessary to underpin a market that is safe and stable. To this end, the European Commission has asked the European Banking Authority to look into what a framework for such a market would look like. The European Council has also indicated a desire to see such a framework in place within the future European regulatory architecture.

It is in this context that PCS is launching a new risk transfer quality label.

In 2012, amidst general concerns around identifying high quality true sale securitisations and avoiding a regulatory regime that punished the good with the bad, PCS launched its true sale quality label to do just that. In addition to helping issuers and investors and adding transparency to this market, the PCS label was also a catalyst for the debate that helped regulators and policy makers design the current STS draft legislation.

PCS hopes that its new label will, once again, help support the market by assisting both protection buyers and investors through standardisation and added transparency. It also hopes to contribute to a debate that may end in a new, better regulatory regime for this key European market based on a bifurcated treatment of risk transfer securitisations based on key simplicity, transparency and standardisation criteria.

The new PCS Risk Transfer Label, may be awarded to risk transfer transactions that meet all the strenuous criteria devised by the PCS Association to identify the key elements for a simple, transparent and standardised instrument.

For further information, please see information on the outline of the PCS Risk Transfer label, and the PCS Risk Transfer label sections.