TSI statement on

measures due to the COVID-19 crisis:

Securing the liquidity of ABCP programmes

Frankfurt am Main, 25 March 2020

Current situation: ABCP programmes finance the real economy in Germany and Europe

The receivables volume of the ABCP programmes in Germany amounts to around EUR 27 billion (as of September 2019, according to the TSI survey). Approx. 70% of this is refinanced by the issuance of ABCP. Approximately EUR 19.8 billion, i.e. 75% of this amount, is covered by the six major ABCP sponsor banks BayernLB, Commerzbank, DZ-Bank, Helaba, LBBW and UniCredit.

Approximately 43% of receivables are trade receivables, i.e. trade receivables of large and medium-sized companies (e.g. Claas, Continental, Nordzucker, Wepa) from their commercial customers. Around 51% of receivables are from the leasing of mobile assets (cars, trucks, agricultural machinery, construction machinery, production machinery, etc.) with predominantly commercial lessees. The lessors are manufacturers (e.g. MAN, Jungheinrich, Kion, individual automobile manufacturers) as well as non-company-specific providers such as AKF Leasing, Wuppertal (Vorwerk Group), abc finance, Cologne (Werhahn Group) or Deutsche Leasing AG (Sparkasse Group). A further 6% or so of the volume is accounted for by consumer receivables from sales credit financing and instalment purchases (e.g. Creditplus, Otto Group).

With an average transaction volume of around EUR 100 million, over 200 companies are involved as sellers of receivables. The receivables originate from the regular business activities of the respective receivables seller and have a term of 30-180 days for trade receivables and 3-6 years for leasing receivables. Each transaction is reinforced by additional collateralisation measures to the extent that the combination of portfolio default probability plus credit enhancement in the form of cash reserves, overcollateralisation or tranching results in default probabilities in the rating range from A to AA, while the credit ratings of the sellers of receivables are usually in the range of BB- to BB+. In addition, seller risks are hedged by measures such as overcollateralisation, dilution reserves or pledged collection accounts. In contrast to public ABS bond transactions, securitisations in the ABCP area regularly have a revolving phase with monthly sales of receivables that is committed for a period of 1 to 3 years. But this phase can be terminated prematurely in the event of a significant portfolio deterioration or increasing seller risks.

All transactions fall under the new EU securitisation regulation, which has been in force since January 1, 2019, and the ABCP sponsor banks are additionally liable to investors for the repayment of the ABCPs (’fully supported’). The proportion of STS transactions is rising steadily, as the participating banks are successively converting both new business and existing business to the new STS criteria, which is quite possible for the majority of transactions.

In Europe, the market comprises a volume of approx. EUR 90 billion of issued ABCPs (September 2019, source Moody’s). The underlying transaction volume is likely to be approx. 40% higher, as not all transactions or programmes are financed by issuing ABCPs.

In recent years, both the German and the European market have grown continuously at a rate of 5-10% per year. The market share of French banks in the EU-27 should be 40-50%, while the six German banks cover 25-30%.

As a result, ABCP securitisation makes an important contribution to financing the real economy. This instrument offers medium-sized companies with often no or limited access to the capital market a sustainable form of financing that is hardly dependent on their own rating. Banks can thus also provide significant amounts of financing at very low risk to companies with medium credit ratings.

ABCP securitisation represents a highly collateralised form of financing, so that even in the event of the insolvency of a seller of receivables, no loss is to be expected for the ABCP sponsor bank and thus, of course, not for the ABCP investor either. From the investor's point of view, an ABCP with maturities of 1-12 months is comparable to a Covered Bond of short maturity due to the strong collateralisation structure and the liability of the ABCP sponsor bank (’dual recourse’).

- **Recommendation: Liquidity assurance of ABCP programmes by the Deutsche Bundesbank and/or the ECB through recognition as collateral or inclusion in the purchase programmes**

In the last 10-14 days, liquidity has shrunk massively as many ABCP investors have withdrawn. In the other major currency areas, the central banks US FED, Bank of England and Bank of Canada also recognise ABCP as collateral in their liquidity programmes; a corresponding recognition by the ECB in the PEPP (Pandemic Emergency Purchase Programme) would only be consistent and compatible with the main criteria of the ECB's collateral framework. The collateral position of the central bank is significantly better when lending against or purchasing an ABCP due to the collateralisation and dual recourse than when purchasing unsecured corporate loans or bonds.

If the commercial banks cease to recognise that their ABCP programmes have a liquidity advantage over corporate loans in the coming weeks and months, the ABCP financing volume may possibly decrease significantly. Other credit products are not likely to offset this decrease due to the reduced liquidity and the scarce economic and regulatory capital of the banks. The various measures adopted by the Federal Government within the framework of the Economic Stability Fund would be counteracted.

Some banks are making full or partial use of the Securitisation Standard Approach (SEC-SA), which was newly created in the CRR in January 1, 2019, and no longer refinance all securitisations by issuing ABCPs. It should therefore be taken into account that, as an alternative to the purchase of ABCPs by the central bank, an economically equivalent result can also be achieved by subscribing to a credit line or promissory note to finance corresponding programmes.