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# Recent developments in the Swiss securitisation market in 2019/20

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IN 2019 AND IN THE FIRST HALF OF 2020, THE PUBLIC SWISS ABS MARKET HAS AGAIN SEEN A NUMBER OF TRANSACTIONS BY CONSTANT ABS ISSUERS SUCH AS CEMBRA MONEY BANK AG, MULTILEASE AG (THE AUTO LEASE COMPANY OF EMIL FREY) AND SWISSCARD AECS GMBH. IN ADDITION, IN THE MORTGAGE SECTOR, THERE WAS A LOT OF ACTIVITY. ADDITIONAL ISSUERS TABBED THE COVERED BOND MARKET. JUST VERY RECENTLY, CRÉDIT AGRICOLE NEXT BANK (SUISSE) SA SET UP A NEW SWISS COVERED BOND PROGRAMME OF UP TO CHF2BN AND BECAME THE THIRD SWISS BANK WITH A PROGRAMME ALLOWING ISSUANCES OF COVERED BONDS (ASIDE OF CREDIT SUISSE (SCHWEIZ) AG AND VALIANT BANK AG). AS THE COVERED BOND MARKET BECOMES MORE AND MORE ESTABLISHED IN SWITZERLAND, SEVERAL BANKS ARE ALSO LOOKING AT LAUNCHING COVERED BOND PROGRAMS. IN ADDITION, A SIGNIFICANT NUMBER OF BANKS, INSURANCE COMPANIES AND OTHER MARKET PARTICIPANTS ARE LOOKING INTO RMBS TRANSACTIONS. FINALLY, A NUMBER OF BANKS AND OTHER MARKET PARTICIPANTS HAVE SET UP REFINANCING PLATFORMS THAT AIM AT ONBOARDING INSTITUTIONAL INVESTORS FOR PURPOSE OF PROVIDING AN EFFICIENT REFINANCING, IN PARTICULAR IN THE MORTGAGE SECTOR.

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## The Swiss securitisation market 2019/20 – overview

In March 2019, Cembra Money Bank AG closed another public Swiss auto lease ABS transaction involving the issuance by Swiss Auto Lease ABS 2019-1 GmbH of CHF250m Notes with a coupon of 0.150% with an optional redemption date in March 2022.

In June 2019, Swisscard AECS GmbH (a joint venture between Credit Suisse and American Express) closed a public Swiss credit card ABS transaction involving the issuance by Swiss Credit Card Issuance 2019-1 AG of CHF190.8m 0.04% Class A Notes, CHF6.2m 0.750% Class B

Notes and CHF3m 1.750% Class C Notes (all with a scheduled redemption date in 2022).

In July and December 2019, Valiant Bank AG successfully placed further covered bond tranches, the last one with a 25-year term and carrying a coupon of 0.125%. The transactions showed that there is a high demand for covered bonds in the Swiss domestic market.

Multilease AG (the auto lease company of the Emil Frey Group) issued CHF227m 0% Class A Notes, CHF13.5m 0.625% Class B Notes and CHF9.5m 1.50% Class C Notes (optional redemption in December 2022) in December 2019 and CHF183m 0% Class A Notes (issued above par),

CHF12.1m 0.500% Class B Notes and CHF6.1m 1.375% Class C Notes (optional redemption in February 2023) in February 2020. The 2020-1 transaction was the first ever Swiss public ABS transaction that has been issued at negative yield.

In March 2020, Cembra Money Bank AG closed another public Swiss auto lease ABS transaction. The transaction was placed just when the COVID-19 pandemic hit Switzerland and pricing occurred just a couple of days before the lockdown in Switzerland; the transaction involved the issuance by Swiss Auto Lease ABS 2020-1 GmbH of CHF250m Notes with a coupon of 0.000% with an optional redemption date in March 2024.

In June 2020, Swisscard AECS GmbH closed its latest public Swiss credit card ABS which was the first transaction following the outbreak of the COVID-19 pandemic. The transaction involved the issuance by Swiss Credit Card Issuance 2020-1 AG of CHF190m 0.625% Class A Notes, CHF6m 1.750% Class B Notes and CHF4m 2.500% Class C Notes (all with a scheduled redemption date in 2023).

On August 18, 2020, Crédit Agricole next bank (Suisse) SA launched its CHF2bn covered bond programme.

A number of private ABS transactions (i.e. transactions that are refinanced through ABCP platforms or through direct investors or banks) have been extended and renewed. Also, the number of trade receivable securitisation transactions involving Swiss receivables and/or Swiss sellers has increased.

Recently, a fair number of market lending platforms have been looking at refinancing their portfolios. As most of the portfolios are still relatively small, most of the (potential) transactions involve the refinancing of the portfolios via single investor structures set up for warehousing purposes.

Finally, there continues to be a lot of dynamic in the mortgage loan market. Various players in the market are seeking at refinancing their mortgage loan portfolios. Structures include one-to-one refinancing transactions, fund structures, pension funds structures and others. One of the most remarkable transactions was Goldman Sachs' launch of a new Swiss residential mortgage business platform partnered by the Swiss mortgage service firm

Avobis Group Switzerland-based mortgage broker, Moneypark and UBS's launch of its "key4" digital mortgage platform that allows third-party investors to participate. Also, originators are looking at covered bond and RMBS transactions and it can be expected that some transactions will come to market during the next 12 months.

## Hot topics

### The COVID-19 pandemic

#### *General situation in Switzerland*

More recently, the emergence of the novel coronavirus (SARS-CoV-2) and related respiratory disease (coronavirus disease (COVID-19)) has had an adverse impact on the Swiss economy in general, even though the Swiss economy has been less affected than others. The Swiss gross domestic product (GDP) dropped by 8.2% in Q2 2020 as compared to the Q2 2019.

On March 16, 2020, the Swiss Federal Council declared Switzerland to be in an 'Extraordinary Situation' pursuant to the Swiss Epidemics Act and introduced measures to protect the public from the COVID-19. Measures included the closing of shops, bars, restaurants and entertainment and leisure facilities until April 19, 2020 and beyond. Schools have been closed and public and private events have been prohibited until June 2020. Certain restrictions are still in force today.



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The Swiss government passed various regulations in response to the pandemic, including measures to avoid bankruptcies of businesses which may arise as a consequence of the COVID-19 pandemic (e.g. availability of an emergency moratorium for small and mid-cap size businesses of up to six months, subject to less formal requirements than a general composition moratorium, temporary standstill measures and others).

Currently, a draft of a proposed Swiss COVID-19 Code has been submitted to the Swiss parliament. According to such draft of the Swiss COVID-19 Code, relatively broad authority would be granted to the Swiss Federal Council to enact ordinances in certain areas of law which deviate from the legal framework, to the extent necessary to respond appropriately to the COVID-19 pandemic. The draft legislation is currently under heavy debate in the Swiss parliament.

### ***Impact of the COVID-19 pandemic on portfolios***

Since the outbreak of the COVID-19 pandemic, originators that issue ABS to the Swiss capital markets as well as investment banks started to monitor the relevant portfolios very closely. However, in the consumer lending space, the number of reminder letters sent out to customers remained stable and no increase of delinquency rates could be identified. Default rates are, for most originators, even at record lows.

Still, the outbreak of the COVID-19 pandemic had a massive impact on the ability of originators to originate new assets during the months of March, April and May 2020. Since essentially all structures in Switzerland are revolving transactions, originators in Switzerland started working on contingency plans for purposes of ensuring a proper replenishment of the portfolios or for purposes of further allowing the substitution of assets by cash.

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However, in June 2020, business picked up quite heavily and portfolios started to grow again. In the auto lease sector, June, July and August 2020 have been record months for some originators. Accordingly, public ABS transactions proved to be very robust, even during the crisis and the situation in Switzerland appears to be under control so far.

### **Response of capital markets to the pandemic**

Capital markets in Switzerland reacted quite heavily and, as in most European countries, April and May 2020 have been very difficult months for the Swiss capital markets in general. However, in June 2020, the first ABS transaction since the lockdown was successfully marketed in Switzerland. Whilst coupons have been higher than in previous transactions, it was important for originators and the market more generally that this transaction was successfully placed.

### **Focus of rating agencies**

Lately, during the structuring process of the latest Swiss ABS transactions, rating agencies had a strong focus on the collection policies around granting payment holidays to customers and on governments imposing mandatory payment holidays by emergency legislation.

So far, the Swiss government did not impose emergency legislation that would impose obligations on originators to grant payment holidays to private customers or businesses. Also, it appears that voluntary payment holidays have been granted by originators only in very exceptional cases. Finally, payment holidays have been granted such that the underlying credit arrangement would not be extended. Rather, instalments have been shifted by a couple of months. Accordingly, deal structures accommodated rating agencies concerns on recent transactions.

### **New prospectus requirements under the FinSA**

In a general attempt to bring the Swiss regulatory framework in line with international regulations, such as MiFID II and the EU Prospectus Directive, the Financial Market Infrastructure Act (FinMIA), the Federal Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) replaced major portions of the existing regulations.

The FinSA and the FinIA entered into force on January 1, 2020 along with the explanatory Financial Services Ordinance (FinSO, relating to the FinSA) and the Financial Institutions Ordinance (FinIO, relating to the FinIA).

For the first time in Switzerland, the FinSA introduced a new comprehensive prospectus regime that covers and harmonises disclosure requirement for different types of financial instruments and establishes a level playing field with the EU Prospectus Directive. This also affects the issuance of instruments to the capital markets in securitisation transactions.

According to the FinSA, "any person offering securities for sale or subscription in a public offering in Switzerland or any person seeking the admission of securities for trading in a trading venue as defined in the FinMIA must first publish a prospectus".

The most important novelties introduced by the FinSA in relation to the prospectus requirements are the following:

- a prospectus must be published also in secondary offerings;
- a prospectus must be published in the event of any admission for trading of securities on a trading platform (not only in case of a listing);
- a prospectus must be pre-approved prior to publication by a new regulatory body licensed as such by FINMA; certain exemptions apply also in relation to ABS securities, the exemption will apply and that there will be an ex post approval as under the current regime;
- there are now (further) codified exemptions from prospectus requirements.

Exemptions are based either on the type of offering, the type of securities offered or, in the case of the admission to trading only, related to the admission.

Type of offering: No prospectus is required if securities are offered (i) to professional clients, insurance companies or companies with a professional treasury; (ii) to not more than 500 investors; (iii) with minimum investments or minimum denominations of CHF100,000; and (iv) with an aggregate volume (over the last 12 months) of not more than CHF8m.

Type of securities: No prospectus is required in case of exchange of equity securities, offerings in the context of a merger, spin-off, conversion or asset transfer transaction (to the extent equivalent information is available) or in case of offerings to executives or employees.

Finally, certain exemptions apply for admissions to trading.

Under the newly introduced prospectus pre-approval regime, the FinSA grants the Swiss Financial Market Supervisory Authority FINMA the authority to designate and grant a licence to the reviewing bodies for prospectuses. On June 1, 2020, FINMA designated and granted a licence to BX Swiss AG (the Berne Stock Exchange) and SIX Exchange Regulation AG (Zurich) to act as a prospectus review body. Hence, even though in force since January 1, 2020, the mandatory pre-approval process applies only once a six months period lapsed following June 1, 2020 as per the transitional provisions of the FinSA. Nevertheless, some issuers have already gone through the approval process recently.

### **Repo eligibility**

A substantial number of Swiss franc bonds are trading at negative yields in secondary markets, but hardly any ABS

issuers were able to issue Swiss franc debt securities to primary markets at negative yields. In fact, it was only Multilease AG that was able to place its latest ABS transaction at negative yield just before the COVID-19 pandemic crisis. Investment bankers close to the industry are of the view that the main reason is the fact that ABS are not included in the list of eligible collateral for repo transactions with the SNB. There is still a hope that the SNB will accept ABS as eligible collateral at some point and follow the position of the European Central Bank (ECB) and other Central Banks. This would broaden the investor base substantially.

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