SECURITISATION & STRUCTURED FINANCE - SWITZERLAND

Securitisation in Switzerland – an overview

06 November 2018 | Contributed by Walder Wyss

The Swiss securitisation market has developed steadily and successfully in recent years, attracting various issuers for both private and public transactions. Many of these issuers have become constant issuers on the Swiss market, which remains active and driven by the still low (or negative) interest environment.

Auto-lease assets and credit cards

There have been a number of new public transactions in the past two years, including those by:

- BMW (Schweiz) AG, Multilease AG (the Emil Frey Group's auto-leasing company and a significant importer of Toyota, Suzuki, Subaru, Land Rover and Jaguar-branded vehicles in Switzerland) and AMAG Leasing AG (the AMAG Group's auto-leasing company and the exclusive importer of Volkswagen-branded vehicles in Switzerland), all securitising Swiss auto-lease assets; and
- Swisscard AECS GmbH (a joint venture between Credit Suisse and American Express) securitising Swiss credit cards receivables.

In addition, a number of private asset-backed security transactions (ie, transactions that are refinanced through asset-backed commercial paper platforms or through direct investors or banks) have been extended and renewed. Further, the number of trade receivable securitisation transactions involving Swiss receivables or Swiss sellers has recently increased.

Further issuances by various players are in the pipeline.

Mortgage assets

There has been considerable recent activity in the residential mortgage loan sector. Various market players have considered refinancing their mortgage loan portfolios, as in the current interest environment there is high demand for this relatively safe (subject to proper compliance with lending criteria) but interest-bearing asset category. Structures have been implemented, including one-to-one refinancing transactions with predominantly institutional investors. In addition, originators are looking at covered bond and residential mortgage-backed security transactions.

In November 2017 Valiant Bank AG successfully placed a Sfr250 million covered bond with a 10-year term and a coupon of 0.375%. The transaction was the first public covered bond issuance entirely structured under Swiss law with a Swiss guarantor. A second tranche of Sfr500 million covered bonds with a six-year term and a coupon of 0.125% was placed in April 2018.

Asset-backed security market environment

Changes in financial market architecture

As a result of the 2008 financial crisis, the Swiss regulatory framework was fundamentally revised. The Federal Financial Services Act (FinSA), which was adopted by Parliament on 15 June 2018 and is

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expected to enter into force on 1 January 2020, provides for uniform rules with regard to prospectus duty. Further, a key information document will be supplied for financial instruments offered to retail clients with a view to enabling clients to make informed investment decisions and genuinely compare various financial instruments in a simple and understandable way. Such new regulations will essentially apply to the issuance of asset-backed securities on the capital markets.

In terms of content, the rules contained in the FinSA are based on the EU Markets in Financial Instruments Directive (2014/65/EU), the EU Prospectus Directive (2003/71/EC) and the EU Packaged Retail Investment and Insurance Products Regulation (1286/2014), with adjustments made to reflect the specific Swiss circumstances.

No specific securitisation legislation

Unlike other jurisdictions, Switzerland has not enacted legislation to deal specifically with securitisations. Accordingly, securitisation transactions are subject to the general legal framework applicable to any other financing transactions comprising private and public law, including general capital markets regulations. As a result, when transposing structures used in jurisdictions where securitisations are subject to specific regulations in a Swiss law-governed structure, various aspects must be carefully examined.

Asset-backed securities not eligible for SNB repos

In pursuing Swiss monetary policy, the Swiss National Bank (SNB) may enter into credit transactions with banks and other market participants, provided that the counterparty provides sufficient eligible collateral. Normally, open-market transactions and standing facilities are carried out by means of repo transactions. Only securities that fulfil stringent requirements with regard to credit rating and liquidity are accepted as collateral by the SNB. The criteria for the eligibility of securities are outlined and described in an instruction sheet issued by the SNB. However, irrespective of a potential fulfilment of the relevant criteria, only those securities explicitly included in the most recent list of collateral eligible for SNB repos, as published by the SNB, may serve as collateral for repo transactions. Further, the SNB may reject or exclude securities previously accepted without justifying its decision.

For the time being, asset-backed securities do not qualify as collateral eligible for SNB repos. However, the SNB has historically added asset-backed security transactions to its list of eligible collateral (eg, credit card asset-backed securities issued by Citibank Credit Card Issuance Trust in 2005). Regrettably, as of 2011, when the Swiss asset-backed securities market started to pick up speed, asset-backed securities have no longer been accepted by the SNB. Nevertheless, there is still hope that the SNB will reconsider its view in light of the position taken by the European Central Bank and other central banks. This would be welcome and would broaden the investor base and boost the Swiss asset-backed securities market even further.

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