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Securitisation innovation in focus

# Capital Relief Trades Awards 2020





# SCI Credit Risk Transfer Special Report 2021

A guide to the US CRT market

SCI Special Reports provide the market with granular, in-depth analysis of emerging sectors and noteworthy themes in the global securitisation markets. The research within each report runs up to 13,000 words covering over 20 pages, accompanied by detailed graphics showing industry trends, and up-to date market data.



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London, November 2020

**T**he capital relief trades market – as with everything else this year – has been tested by the Covid-19 fallout, but is arguably stronger as a result. Policymaker support for the sector has strengthened, in recognition of the crucial role significant risk transfer can play in the post-coronavirus economic recovery. But the levels of quality, innovation and negotiation involved in putting a CRT together have also stepped up as parties sought to address, as partners, the impact of the coronavirus crisis.

The phenomenal response and high-quality pitches the SCI editorial team received during the submissions period for the SCI Capital Relief Trades Awards are certainly testament to an industry that is on the rise. The awards roll of honour on page 5 of this special edition additionally showcases the vibrancy of the market and underscores the belief in genuine risk-sharing evident across both issuer and investor constituents.

The categories in this year's awards were expanded to include North American institutions, reflecting both the innovation of the GSE credit risk transfer programmes and the growing private CRT market in the region. The qualifying period for the awards was the 12 months to 30 September 2020.

Our congratulations to the deserving winners and honourable mentions of this year's awards, as well as to the industry as a whole for its many achievements over the last 12 months.

We would like to wholeheartedly thank everyone who submitted a nomination for the awards. Our thanks and appreciation also to our awards advisory board – comprising Frank Benhamou of Barclays, Kaikobad Kakalia of Chorus Capital, Virgile Maixandau of Nomura and Ruairi Neville of Arch (each of whom was recused from judging an award that they could be nominated for) – for its invaluable input. Final selections were made by the SCI editorial team, based on the pitches we received, colour from other market participants and our own independent reporting.

Looking to the next 12 months, it will be interesting to see how the implementation of the STS synthetics framework will shape the evolution of the SRT market. SCI will certainly continue to keep you abreast of these developments and more!

All the best for the year ahead,



**Corinne Smith**  
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ISSN: 2043-7900

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Printed in England by Print Spin Limited, Jarodale House, 7 Gregory Boulevard, Nottingham NG7 6LB  
www.printspin.co.uk

SCI is published by Cold Fountains Media.

Subscription rates:  
UK: £1550 + VAT for an annual subscription  
ROW: \$2480

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# SCI Capital Relief Trades Awards 2020 Roll of Honour

## TRANSACTION OF THE YEAR

**Winner:** Resonance 5 (BNP Paribas)

Honourable mention: Project Meno (Santander)

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## NORTH AMERICAN TRANSACTION OF THE YEAR

**Winner:** Chase 2019-CL1 (JPMorgan)

Honourable mention: CAS 2020-SBT1 (Fannie Mae)

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## IMPACT DEAL OF THE YEAR

**Winner:** Project Grasshopper (NatWest, Macquarie Infrastructure Debt Investment Solutions, BAE Systems Pension Funds Investment Management)

Honourable mention: CITAH 2019  
(Citi, Newmarket Capital)

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## INNOVATION OF THE YEAR

**Winner:** Vale Securities Finance 2019-1  
(Bank of Ireland, Mizuho)

Honourable mention: Elvetia Protection Facility  
(Credit Suisse, RenaissanceRe)

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## INVESTOR OF THE YEAR

**Winner:** Alecta and PGGM co-investment initiative

Honourable mention: ArrowMark Partners

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## CREDIT INSURER OF THE YEAR

**Winner:** RenaissanceRe

Honourable mention: AmTrust International

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## ISSUER OF THE YEAR

**Winner:** Intesa Sanpaolo

Honourable mention: Santander

## NORTH AMERICAN ISSUER OF THE YEAR

**Winner:** Freddie Mac

Honourable mention: Citi

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## ARRANGER OF THE YEAR

**Winner:** Credit Suisse

Honourable mention: BNP Paribas

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## NORTH AMERICAN ARRANGER OF THE YEAR

**Winner:** BMO

Honourable mention: Goldman Sachs

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## LAW FIRM OF THE YEAR

**Winner:** Allen & Overy

Honourable mention: Linklaters

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## NORTH AMERICAN LAW FIRM OF THE YEAR

**Winner:** Clifford Chance

Honourable mention: Mayer Brown

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## ADVISOR/SERVICE PROVIDER OF THE YEAR

**Winner:** US Bank

Honourable mention: Granular Investments

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## ANALYTICS FIRM OF THE YEAR

**Winner:** Mark Fontanilla & Company

Honourable mention: Open Source Investor Services

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## PERSONAL CONTRIBUTION TO THE INDUSTRY

**Winner:** Steve Gandy, Santander

## TRANSACTION OF THE YEAR WINNER: **RESONANCE 5**

**B**NP Paribas' Resonance Five has won the Transaction of the Year category in SCI's Capital Relief Trades Awards. The significant risk transfer (SRT) trade stands out for its highly competitive pricing, innovative structuring and successful execution in the midst of the Covid crisis. Indeed, the deal's execution process at the early stages of the SRT market's rebound in May offers a blueprint for other SRT issuers eyeing post-Covid transactions.

According to Bruno Bancal, deputy head of ABS markets at BNP Paribas: "The programme has performed well over time and the structure of the portfolio was conservative; it was a static pool and we excluded Covid hit industries from it, so pricing benefited accordingly. Pricing further benefited from the choice of anchor and through-the-cycle investors, as well as execution timing and the bidding process."

The €8bn capital relief trade achieved north of €3bn RWA reduction for BNP Paribas and was shareholder value accretive. However, from a structuring perspective, the most salient feature was the splitting of the mezzanine piece into a funded €324m CLN and an unfunded €100m insurance policy.

BNP Paribas engaged long-time partners as anchor investors to secure the best possible execution. As lockdowns neared their end in May, discussions were equally approaching the finish line on several issues, most notably on the status of the portfolio and rating thresholds. In the end, the bank reassured investors by agreeing on a static pool with strict and minimum ratings for non-food retail, autos, transportation and the leisure industries.

During the execution stages, the deal was anchored and structured around two large strategic investors, before a free-floating amount was offered in a competitive bid with counterparties who had expressed a long-term interest in BNP Paribas' capital management programmes.

The execution process, along with the scarcity of offers in the first half of the year proved to be the secret sauce pricing wise, as evidenced by a distinctly tight 7.49% coupon. The pricing is not only in line with pre-Covid levels for Resonance transactions, but is in fact the most tightly priced corporate capital relief trade of the year.

Innovation though was not limited to the funded tranche. The €100m unfunded policy references a €1.9bn portfolio and is governed by French law. It is BNP Paribas' first such trade and was reinsured by RenaissanceRe.

However, it took two years of extensive discussions to conclude it, due to a few challenges. One of the main ones was the identification of an entity that would offer the protection in a manner that complies with French banking monopoly regulations and both parties also had to cope with legal constraints linked to insurance policies under French law.

The structure involves a Lloyds insurance entity incorporated in Belgium and 100% owned by Lloyds of London. RenaissanceRe Syndicate 1458 – a Lloyd's syndicate – is the entity bearing the credit risk as the reinsurer of the Lloyd's Insurer.

As the insured party, BNP Paribas benefits from Lloyd's chain of security with a final recourse on the Lloyd's central fund, rendering the credit protection particularly robust. The latter is a crucial point, considering that an insurance policy is unfunded by nature and, therefore, the insured party remains exposed to the default risk of the insurer.

Another challenge was obviously the Covid-induced lockdowns. During the structuring phase, the market was practically closed and the spread widening observed in spring was a deal stopper for the lender. Hence, it decided to delay closing until 3Q20.

Additionally, during the summer some structuring adjustments had to be made to achieve that competitive pricing. Besides keeping the pool static and reducing exposure to Covid affected industries, the due diligence was organised in such a manner that would allow RenaissanceRe to make a thorough assessment of the BNPP loan origination process.

Overall, according to the French lender: "This achievement has been made possible due to the perseverance of both parties throughout this process, their willingness to reach the same objective and ultimately in the final phase, their capacity to adapt to a totally different market environment. We think this sets an important precedent for future market activity." ■

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**"THE PROGRAMME HAS PERFORMED WELL OVER TIME AND THE STRUCTURE OF THE PORTFOLIO WAS CONSERVATIVE; IT WAS A STATIC POOL AND WE EXCLUDED COVID HIT INDUSTRIES FROM IT"**

## HONOURABLE MENTION: **PROJECT MENO**

Santander's Project Meno was finalised in December 2019 and is the bank's first unfunded capital relief transaction. The synthetic securitisation – which was syndicated to three re/insurers – references

a €1.3bn portfolio of largely undrawn revolving credit facilities (RCFs) to large corporations and financial institutions.

The structure references the day one exposure at default (EAD) of each RCF

instead of the notional. Any increase in the EAD associated with an RCF – such as drawings under the RCF – will occur outside of this securitisation transaction.

## NORTH AMERICAN TRANSACTION OF THE YEAR

# WINNER: CHASE 2019-CL1

**I**t would take a brave man, or woman, to argue that JPMorgan's Chase Mortgage Reference Notes 2019-CL1 was not the most eye-catching CRT deal of the last 12 months in North America. As such, it is a worthy winner of the SCI North American Transaction of the Year award.

Of course, it was by no means certain after the deal was launched that it would win any awards, or indeed if it would remain a deal at all for very long. The US\$84m transaction was offered to investors in October 2019 and it was not clear whether it would attain the green light of approval from the OCC, ensuring favourable capital treatment.

The bank had attempted to issue a CRT about three years earlier and had not received the thumbs-up from the regulator, so the augurs were not all that promising. Indeed, JPMorgan retained the right to collapse the deal if it did not receive this regulatory backing.

Consequently, when the OCC gave its blessing – an event believed to occur in February 2020 – it was a red-letter day, not only for this deal but the entire North American CRT market. Since that day, JPMorgan has followed with another mortgage CRT, its first auto loan CRT and is at time of writing (late October

“WHAT IS THOUGHT TO HAVE WON ROUND THE REGULATORS IS THE FACT THAT THE DEAL IS A DIRECT OBLIGATION UPON JPMORGAN, RATHER THAN A TRUST OR SPV”

2020) believed to be marketing a CRT referencing corporate and SME loans.

The CRT market in the US has been dominated by the GSEs, but Chase 2019-CL1 shows that any US bank with credit exposure on its books can, in theory, make use of the mechanism to reduce capital obligations. It was hailed at the time as the first rated synthetic mortgage risk transfer deal from a US bank.

Principal payments are based on payments received from a reference portfolio of 979 prime quality residential mortgages with a total balance of US\$757.23m.

What is thought to have won round the regulators is the fact that the deal is a direct

obligation upon JPMorgan, rather than a trust or SPV. This means that the risk is unambiguously owned by the bank, but it does also mean that issuers following the same route and using the same mechanism are likely to be well-rated large banks, rather than smaller, regional institutions.

Though this landmark deal has been followed by a trickle of similar transactions rather than a waterfall, it does appear that its creation and acceptance by the regulators marks a sea change in the US CRT world. The US CRT market might never rival that of Europe, but it seems that Chase 2019-CL1 has lighted a path that others might follow. ■

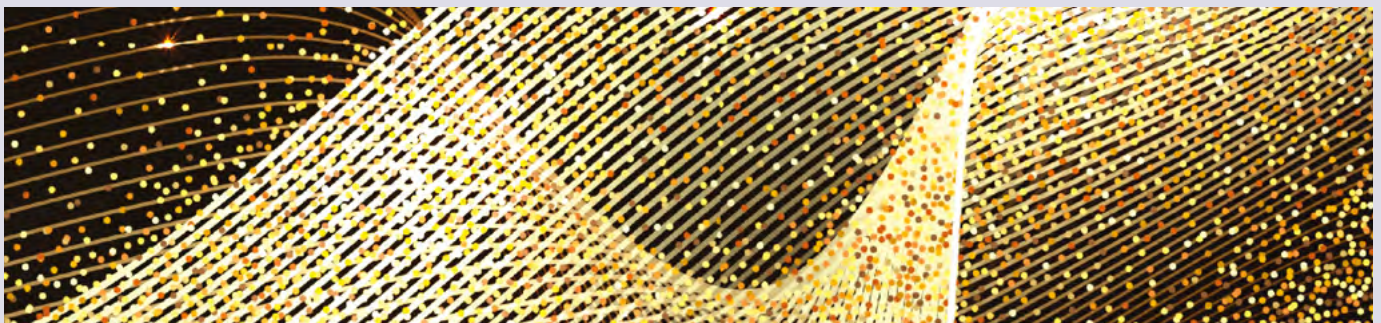
## HONOURABLE MENTION: CAS 2020-SBT1

In February 2020, Fannie Mae carved out another fresh frontier when it brought its first Connecticut Avenue Securities (CAS) Seasoned B-Tranche transaction, designated CAS 2020-SBT1. The deal, worth US\$966m, transfers a portion of subordinate risk from Fannie Mae to

investors on 11 B classes from eight CAS deals issued from late 2015 through 2016.

The reference pool for the deal consisted of over 700,000 single-family mortgage loans with an outstanding unpaid principal balance of approximately US\$152bn, the largest-ever reference pool for a GSE CRT transaction.

It was the second transaction in a new programme to transfer risk on the seasoned loan book and, as such, offers investors a different type of exposure to the usual CAS REMIC deals. There was strong demand for all tranches, with each over-subscribed, according to Fannie Mae.





## IMPACT DEAL OF THE YEAR

# WINNER: PROJECT GRASSHOPPER

**N**atWest has raised the bar for impact investment capital relief trades with December 2019's Project Grasshopper. A number of sector firsts – from its collateral to structural features – combined with a close fit to the bank's broader strategy make the deal a new benchmark.

Project Grasshopper is the only 100% green significant risk transfer transaction executed in the market to date, referencing a portfolio entirely consisting of 36 UK power projects across a range of green technologies, and was carried out for both capital relief and credit risk management purposes. Macquarie Infrastructure Debt Investment Solutions, in conjunction with BAE Systems Pension Funds Investment Management, invested in the securitisation.

Grasshopper's around £78m of capital relief was achieved in two distinct ways, utilising funded and unfunded structural features. First, through a fully funded financial guarantee on the junior tranche of the reference portfolio via a CLN. Second, through an unfunded second loss insurance policy on the mezzanine tranche, which in itself served to open up the SRT sector to the European insurance market – a new and highly liquid investor base.

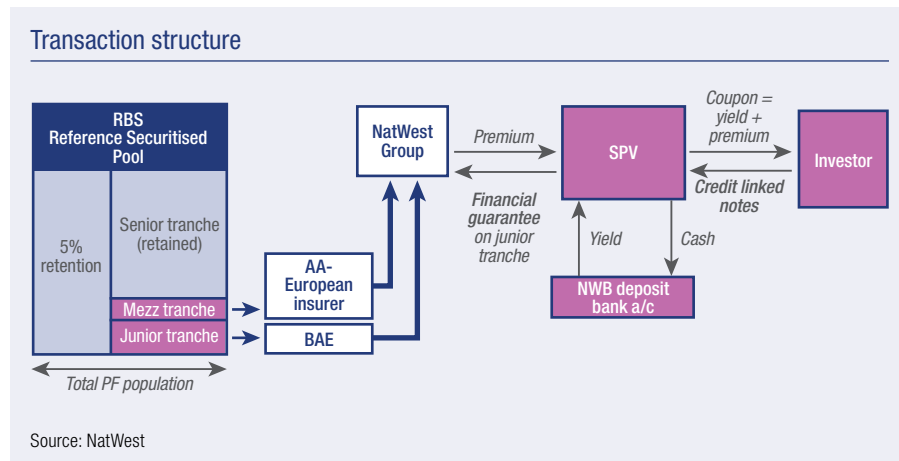
The deal is the UK's first fully ESG-compliant synthetic securitisation that provides credit protection against a reference portfolio of sustainable energy project finance loans. The £1.1bn portfolio includes loans to onshore and offshore wind, solar, smart meters, energy from waste and biomass power projects. The reference portfolio's annual electricity generation is anticipated to power the equivalent

of 4.6 million households, with the CO<sub>2</sub>e avoided equivalent to taking 2.3 million cars off the road.

Given the global importance in transitioning to a low carbon economy, clean energy projects are a core area of targeted growth for NatWest. Benedetto Fiorillo, head of portfolio risk mitigation at the bank, explains: "The attractiveness of the deal is evident in that it facilitates capital relief and provides ESG assets for investors. However, as importantly, Grasshopper also enabled us to recycle the capital to support investment in the renewables sector."

Fiorillo continues: "At the same time, it allows the bank to move towards carbon neutrality as per the United Nations Environment Programme Finance Initiative Principles for Responsible Banking, of which we are a signatory, and align our business to the UN Sustainable Development Goals and the 2015 Paris Agreement. Ultimately, the deal provided us with an ideal combination of a stand-alone business opportunity with the means of achieving a future goal to reach standards our management have set for the whole business."

In addition, Grasshopper featured a number of structural highlights, including: a three-year replenishment period to support new origination; a 10% clean-up call; and a regulatory call option. But most notable is that at 20 years, the transaction is the longest tenor synthetic risk transfer deal in the UK market, with a WAL of 13 years. The resultant long-term capital relief such a tenor allows was implemented to enable NatWest to achieve greater flexibility in further originating long-dated green projects. ■



## HONOURABLE MENTION: CITAH 2019

The US\$946m CITAH (Citi Affordable Housing) 2019 securitised 96 affordable housing loans that finance more than 11,500 Low Income Housing Tax Credit (LIHTC) programme rental units. The dual-tranche deal, issued by Citi and structured in conjunction with Newmarket Capital's IIFC team, innovatively engaged municipal bond buyers in a socially responsible investment structure.

With Newmarket's impact-focused IIFC strategy as the junior investor, CITAH 2019 enabled Citi to achieve funding and capital relief to maximise future resources for financing affordable housing. The senior notes were oversubscribed, offering investors tranching exposure to US affordable housing for the first time. Additionally, the transaction was structured to ensure that certain tax advantages of the underlying loans were passed along to each investor tranche.

The US LIHTC programme has provided housing for approximately 6.7 million families since inception in 1986, but even after 35 years of funding affordable housing, there continues to be a shortfall of around 7.4 million units. Newmarket and Citi sought to help fill this gap with the CITAH transaction and in doing so exemplified the ways in which capital markets can innovate to address urgent social needs.



## INNOVATION OF THE YEAR

## WINNER: VALE SECURITIES FINANCE 2019-1

Unfunded protection has historically been focused on capital relief trade senior mezzanine exposures, but Bank of Ireland Group (BOIG) debuted a pari passu unfunded tranche alongside a funded junior mezzanine tranche in its €265m Vale 2019-1 deal from December 2019. The transaction also facilitated the refinancing of 2016's Grattan Securities, which had reached the end of its replenishment period. As such, this ground-breaking transaction is awarded SCI's CRT Innovation of the Year.

Vale 2019-1 references a €2bn portfolio of predominantly Irish and UK corporate banking loans. Bank of Ireland and Mizuho were joint arrangers on the deal, with Mizuho acting as sole lead manager.

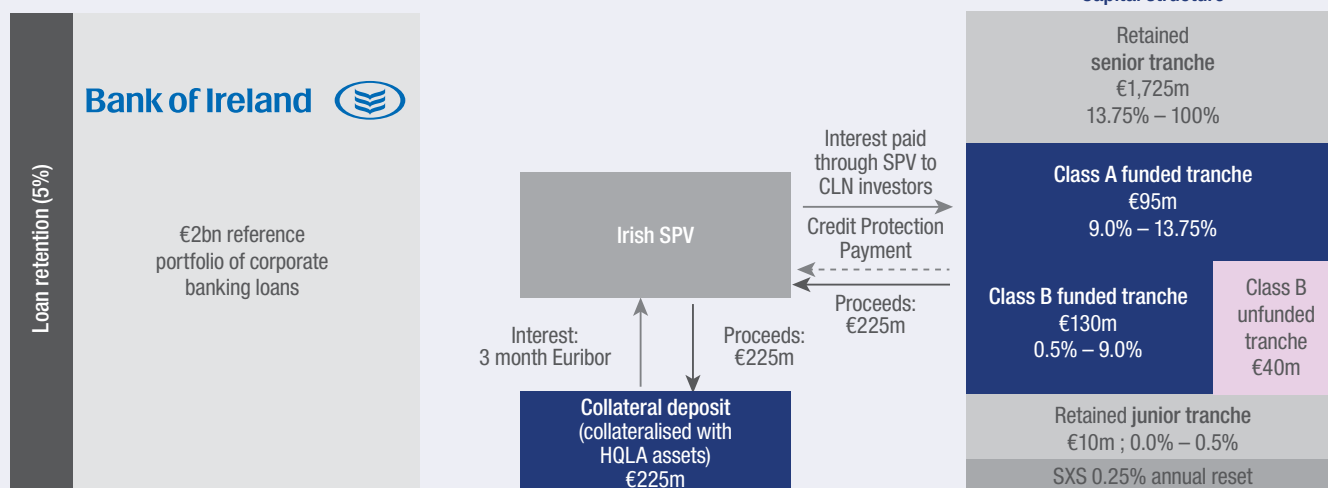
Risk-sharing was achieved through the placement of class A senior mezzanine

“BOIG OFFERED CREDIT ENHANCEMENT TO THE DEAL THROUGH BOTH A RETAINED SYNTHETIC EXCESS SPREAD LAYER, WHICH RESETS ANNUALLY, AND A JUNIOR TRANCHE”

(9%-13.75%) and class B junior mezzanine (0.5%-9%) protection, the CLNs on which priced at three-month Euribor plus 4.75% and plus 9.75% respectively. The class A credit protection comprises €95m of CLNs placed with

four investors. The €170m class B credit protection comprises €130m of CLNs placed with seven investors and a €40m bilateral unfunded credit protection deed (CPD) between Renaissance Re and BOIG. ▶

## Structure overview



Tranche	Size (€m)	Attach – Detach %	Credit protection fee p.a.	Placed / Retained
Senior	1,725	13.75 – 100	NA	Retained
Senior mezzanine (funded)	95	9.0 – 13.75	4.75%	Placed
Junior mezzanine (funded)	130	0.5 – 9.0	9.75%	Placed
Junior mezzanine (unfunded)	40	0.5 – 9.0	NA	Placed
Junior	10	0.00 – 0.50	NA	Retained
SXS	5	0.25	Annual reset	

Source: Bank of Ireland Group

## Transaction timeline

- **Pricing date** – 2 December 2019
- **Initial portfolio composition date** – 31 October 2019
- **Payment date** – quarterly commencing 28 January 2020
- **First optional call date** – December 2024
- **Scheduled termination date** – December 2029
- **Amortisation** – pro-rata subject to a subordination trigger event

Source: Bank of Ireland Group

The transaction is ground-breaking in that both funded and unfunded investors participate side-by-side in precisely the same risk, based on Clifford Chance's drafting of the unfunded credit protection deed to reference one core CPD. This was achieved by including a condition in the core CPD that provides for a 'multiplier' that determines the size of the funded portion of the class B tranche.

This unique structure allowed Mizuho, in turn, to leverage competitive tensions between both funded and unfunded investors to optimise the efficiency of the deal for BOIG. Oversubscription of the class A and B tranches at circa 1.5x and circa 1.3x respectively at final terms were representative of market support for the deal. A diverse investor base – comprising a mix of new names and some of those involved in BOIG's previous deals – participated in the

transaction, with interest from across Asia, Europe, the UK and the US.

BOIG offered credit enhancement to the deal through both a retained synthetic excess spread layer, which resets annually, and a junior

investors, given that the unfunded market is not as developed as the funded market. "We developed the transaction as a funded deal, based on existing documentation, then tried to bring the unfunded investor on board in a way that didn't impact upon the funded side," he explains. "We achieved this by creating a side agreement with RenaissanceRe, which meant we could run both sides of the deal in parallel until the last minute, when the split of funded and unfunded was decided. We had the deal fully allocated as a funded deal as a fall-back position while we completed the regulatory engagement, but ultimately including an unfunded portion was the most economically attractive option."

One additional complication that the arrangers addressed was switching some exposures from a granular and undisclosed portfolio (Grattan) to a less granular and

“THE VALE STRUCTURE WASN'T ONLY ABOUT CREATING PRICING TENSION; THE PRIMARY BENEFIT WAS EXPANDING THE INVESTOR BASE AND ACHIEVING A DE-RISKED EXECUTION”



Alan McNamara, Bank of Ireland Group

tranche. BOIG may replenish the portfolio during the first two years and the transaction features an optional call exercisable after five years.

Alan McNamara, head of financial solutions and markets execution for BOIG, notes that the bank initially focused the marketing of Vale on a group of traditional funded

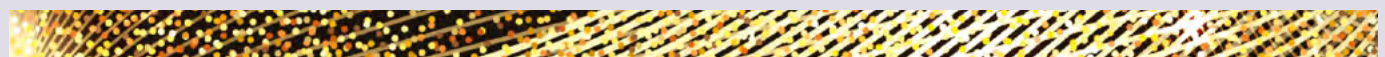
semi-disclosed portfolio (Vale). "The Vale structure wasn't only about creating pricing tension; the primary benefit was expanding the investor base and achieving a de-risked execution. Having a deeper investor base helps, especially in regards to the included undisclosed names in the corporate loan asset class," McNamara concludes. ■

## HONOURABLE MENTION: ELVETIA PROTECTION FACILITY

Credit Suisse closed in 2Q20 an unfunded dynamic hedge facility that enables it to draw down protection on an undisclosed portfolio of income-producing real estate when needed. Protection is in the form of a financial guarantee provided by RenaissanceRe.

Under the facility, the bank has a recurring option to purchase protection, such that the size of the portfolio and the protection can be adjusted to meet its capital requirements every quarter. This is achieved by pro-rata amortisation, with a trigger to sequential amortisation in the case of a default.

The portfolio can be ramped up to a maximum of Sfr2bn, at which point it will provide roughly Sfr87m of protection. The risk premium payable by Credit Suisse is based on the prevailing tranche size in the respective quarter, subject to a minimum facility commitment fee.





## INVESTOR OF THE YEAR WINNER: ALECTA-PGGM

**T**he coming together of Alecta and PGGM to focus on credit risk sharing transactions (CRS), as they term capital relief trades, is undoubtedly a major event for the sector. However, it is the sizeable voice they have created with the intention of influencing the adoption of high quality transaction standards and thereby stimulate the healthy growth of the market that makes the partnership SCI's Investor of the Year.

On 20 April 2020, Swedish occupational pension manager Alecta and Dutch pension fund service provider PGGM entered into a co-investment agreement to invest in CRS. The move is believed to be the first time that two of the largest European pension schemes have co-operated in such a close and direct manner.

Martijn van der Molen, senior director, credit and insurance linked investments at PGGM, explains: "The main rationale for the partnership is all about helping the CRS market to grow in a sound and standard way, while supporting its long-term viability. It helps to have a like-minded large investor with the same principles and standards. By joining forces with Alecta, it allows us to grow in the space and increase diversification, all at a faster pace than we would otherwise be able to."

Tony Persson, head of fixed income and strategy at Alecta, adds: "For some years we've



Martijn van der Molen, PGGM

**"THE PARTNERSHIP IS ABOUT HELPING THE CRS MARKET TO GROW IN A SOUND AND STANDARD WAY"**

been looking into the alternative investment space and to diversify out of our equity portfolio, but still with the need to generate equity like returns. To do so, we have been looking at a number of possibilities, but see CRS as a very important part of the fixed income space and a great fit with our requirements, including the ability to deploy in size."

He continues: "However, the sector requires intense and detailed due diligence, which is challenging. As a result, it gives us a great deal of comfort to be allied with such a major and experienced investor in the space as PGGM and to be able to tap into its expertise and network."

Both firms believe that collaborations such as theirs can be particularly beneficial in illiquid asset categories such as CRS, where the ability to leverage off each other's knowledge, skills and networks can be a considerable advantage. In addition, the economies of scale allow for more flexibility in portfolio construction for both parties, all of which ultimately benefits the pension scheme members they serve.

Consequently, Alecta and PGGM hope that their initiative sparks more collaboration efforts in the pension fund industry. However, its reach could extend beyond that.

"CRS is important for society as a whole. It enables banks to increase their lending capacity, at a time when countries need it most due to the economic fallout from the Covid-19 pandemic," says Persson.



Tony Persson, Alecta

"Our initiative substantially increases the amount of available capital to share in banks' credit risks," van der Molen concurs. "In a period where governments and central banks try to find ways to engage the private sector to help cushion the economic consequences from the pandemic, the Alecta-PGGM partnership offers a concrete opportunity to do this."

The agreement signed between Alecta and PGGM is long term in nature. As part of the agreement, PGGM will purchase 70% of each new CRS co-investment and Alecta 30%.

PGGM remains responsible for the sourcing and proposing of new transactions. The relevant originating bank needs to confirm that it is comfortable for Alecta to participate before the firm can be involved.

Alecta has the right but not the obligation to participate in any CRS transactions proposed by PGGM. Alecta will not source CRS transactions itself and will only enter into a CRS transaction if PGGM invests. ■

## HONOURABLE MENTION: ARROWMARK PARTNERS

ArrowMark has been a consistent and respected investor presence in the capital relief trades market since 2010, when it began deploying capital in the sector. That consistency and acceleration of capital deployment in the

face of pandemic-driven volatility is what has earned the firm this year's honourable mention in the Investor of the Year category.

ArrowMark has been seen to be very active in all asset classes and markets throughout

the awards year. Notably, the firm was able to quickly increase its focus in the secondary market, helping to bolster liquidity there as many stepped away from CRT primary and markets in general as the coronavirus crisis hit.

## CREDIT INSURER OF THE YEAR WINNER: RENAISSANCE RE

**R**enaissanceRe (RenRe) has won the Credit Insurer of the Year category in SCI's Capital Relief Trades Awards for breaking new ground on several fronts. The firm was the first reinsurer to execute an SRT guarantee over two years ago and has been pushing the frontier as an investor ever since.

Fiona Walden, svp and global head of credit at RenRe, notes: "As architects of unfunded protection by reinsurance companies for SRT transactions, we are proud to be the only unfunded market participant executing SRT trades in multiple formats – guarantee, insurance policy and reinsurance policy – across multiple asset classes and jurisdictions. We look forward to continuing to grow our book of business in the years to come, offering best-in-class, nimble service and innovative products to our clients."

The firm is responsible for a number of SRT firsts during the awards period: it is the first reinsurer to have executed an SRT transaction through Lloyd's of London and the first to participate in a side-by-side syndicated SRT transaction with funded investors. It also provided a financial guarantee for Credit Suisse's innovative Elvetia Protection Facility, which enables the bank to draw down protection on an undisclosed portfolio of income-producing real estate when needed.

Consequently, as one of the first insurer investors in the SRT market, RenRe has played a pivotal role in making unfunded protection through reinsurance companies a reality and to that end the firm has deployed approximately US\$500m of limit in SRT transactions to date.

Indeed, the firm continued breaking new ground well into the depths of the Covid crisis.

**"AS ARCHITECTS OF UNFUNDED PROTECTION BY REINSURANCE COMPANIES FOR SRT TRANSACTIONS, WE ARE PROUD TO BE THE ONLY UNFUNDED MARKET PARTICIPANT EXECUTING SRT TRADES IN MULTIPLE FORMATS"**

Having reviewed circumstances in the second quarter of the year, RenRe completed its post-Covid significant risk transfer transaction in June 2020 and has continued to remain active in the space.

The firm can boast of 27 years of industry leadership in reinsurance solutions across global platforms, matching well-structured risk with efficient capital. The focus is on delivering value-added service in a rapidly evolving

market, with a capital strength that has been tested through market cycles.

Since 2003, RenRe has structured customised financial and credit risk transfer solutions, assuming the risk on an unfunded basis as an alternative to other market participants. The firm offers best-in-class service and products, targeting clients who are considering new and innovative risk transfer programmes. The credit business includes trade and financial credit, surety bonding, political risk, project finance, mortgage, financial guarantee and bank capital solutions.

RenRe works primarily with insurance companies – both credit and monoline – and seeks to do business on portfolios of risk ceded from banks and government agencies. The team includes former tax attorneys, investment bankers, software developers, actuaries and reinsurance and claims experts. The multi-faceted expertise of this team brings different perspectives to the table when collaborating to solve risk challenges. ■



Fiona Walden, RenaissanceRe

## HONOURABLE MENTION: AMTRUST INTERNATIONAL

AmTrust International is one of a handful of insurers that has pushed boundaries with the unfunded format in the capital relief trade market. The firm's most notable transaction is Project

Woodbridge, which was completed in October 2019.

The deal references an approximately €1bn portfolio of Italian performing residential mortgages purchased from Barclays

by Intesa Sanpaolo. Intesa subsequently hedged the credit risk under the GARC programme via unfunded first loss protection, structured as an insurance policy provided by AmTrust.





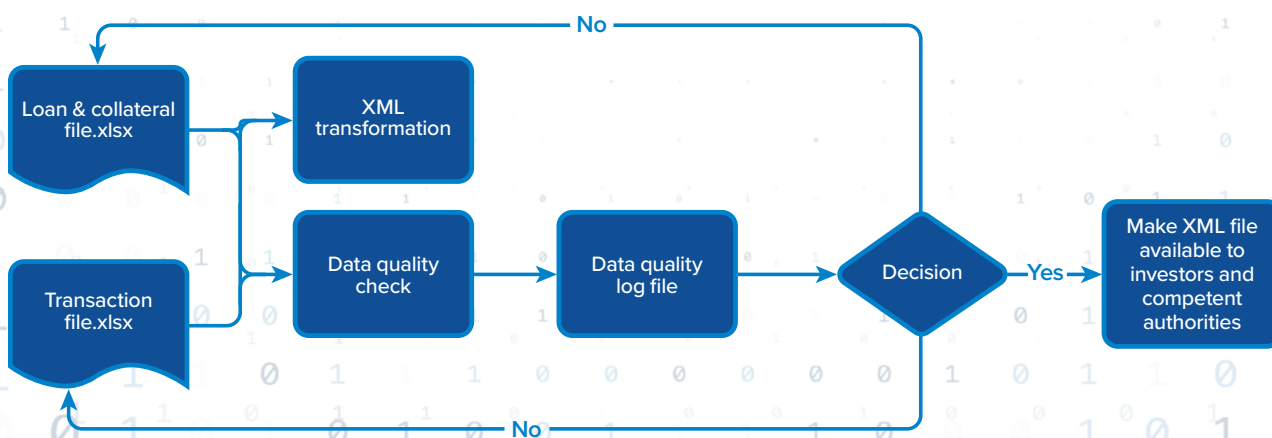
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## ISSUER OF THE YEAR WINNER: INTESA SANPAOLO

**I**ntesa Sanpaolo has won the Issuer of the Year category at SCI's Capital Relief Trades Awards for drastically expanding both its investor base and the asset classes it securitises via significant risk transfer transactions. Key to this success has been the holistic approach of the active credit portfolio steering (ACPS) unit.

Intesa Sanpaolo began its famous GARC programme in early 2014 as an SME programme and progressively expanded in terms of both investor base and range of asset classes and structures, with IMI C&IB - Global Markets Solutions & Financing acting as arranger and placement agent.

Indeed, over the last year the Italian lender finalised an unfunded mortgage transaction with AmTrust International, an SME and a corporate deal, as well as four SME transactions with the Italian guarantee fund. Innovation continued into the post-Covid period and in June the bank closed a capital relief trade backed by leasing assets, as well as another SME trade with the EIF in September.

According to Elisabetta Bernardini, head of credit portfolio management at Intesa Sanpaolo: "We started planning for an expansion of the asset classes we cover well before the pandemic, but the crisis led us to revisit our action plan by focusing on selected projects and taking into consideration the new issues that emerged. We acknowledged that the Covid pandemic created uncertainty across



Biagio Giacalone, Intesa Sanpaolo

**"WE STARTED PLANNING FOR AN EXPANSION OF THE ASSET CLASSES WE COVER WELL BEFORE THE PANDEMIC, BUT THE CRISIS LED US TO REVISIT OUR ACTION PLAN"**

the market regarding the evolution of credit portfolios, following the expiration of payment holidays and other government programmes."

As with other banks, Intesa enhanced the credit quality of underlying portfolios by excluding Covid-affected industries and higher risk borrowers. Payment holidays were permitted, since Italian moratoria have a broad enough scope that is not specifically aimed at struggling borrowers. Furthermore, extensive due diligence has been performed with the involvement of the CFO, CRO, CLO and other relevant business units, while the strong track record of the GARC programme has visibly paid off.

However, key to the bank's dramatic expansion has been the active credit portfolio steering unit within the CFO area. The unit was one of the leading initiatives of the 2018-2021 industrial plan and it was created for credit portfolio management purposes.

The ACPS mandate is to actively manage credit portfolios by supporting units to achieve a better risk/return profile through more targeted credit origination and a more dynamic management of both performing and non-performing loans. ACPS activities are carried out holistically across broad cross-functional teams, from CFO to CRO, business and credit officers, with direct access to all key decision-makers.

Biagio Giacalone, head of the active credit portfolio steering unit, comments: "In recent years, due to more conservative regulatory requirements, rising margin pressures and a need for a more forward-looking approach to credit risk, the role of credit portfolio management has acquired a broader scope. The ACPS unit was set up within the CFO area to address these changing needs and requirements. The purpose is clear: enabling the achievement of a target credit portfolio, which is sustainable and coheres with the risk appetite of the Group."

ACPS is still evolving its role, by focusing on each phase of the credit value chain, such as steering credit portfolio at origination, pricing adjustments for more attractive sectors, dynamically managing the performing portfolio, executing credit risk transfer transactions to optimise economic and regulatory capital for supporting new lending and identifying strategic NPL de-risking initiatives and partnerships with specialised investors.

Giacalone concludes: "This holistic approach can contribute to an active reshaping of the portfolio through risk-sharing and steering, enabling more credit flows at the business level for various asset classes and a larger base of private and public investors." ■

## HONOURABLE MENTION: SANTANDER

Santander remains a leader in the significant risk transfer market, in terms of transaction volumes, diversity and structural innovation. The bank has completed 12 capital relief

trades and broken new ground on several fronts during the awards period.

Most notably, it became the first issuer to syndicate an unfunded synthetic securitisation

across multiple re/insurers. Providing first-loss protection on a portfolio of revolving credit facilities, the transaction features a novel portfolio referencing mechanism.





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## NORTH AMERICAN ISSUER OF THE YEAR WINNER: FREDDIE MAC

**F**reddie Mac has several claims to fame over the last 12 months. One of the most arresting is that the GSE rejuvenated the credit risk transfer sector following the most traumatic period of market turbulence and investor alarm in the last decade.

On 8 July, over three months after its previous STACR deal and when this period of acute market dislocation was to a large extent still prevailing, Freddie closed its STACR 2020-DNA3. Rewarded for its boldness, the original US\$555m deal was upsized to US\$1.106bn. It drew 52 investors, over 80% of which were based in the US, but five names (one of whom resided outside the US) were entirely new to the CRT space.

"In April, it was a very tough time in all markets, but we saw good price recovery in May. And in the second half of that month we had conversations about the capacity to bring a new transaction and in the second half of June we felt confident enough to bring a deal," says Mike Reynolds, vp of single-family CRT at Freddie Mac.

Until this deal was launched, it had looked likely that the Covid-19 crisis had put paid to the agency CRT market for good. Indeed, Fannie Mae has not brought a CAS deal since before the coronavirus crisis engulfed the market.

The ice-breaking STACR 2020-DNA3 deal did contain several features that were designed specifically to help the transaction cope with the unique circumstances. First, any loans that were reported to be in forbearance were pulled out of the deal and, in addition, Freddie Mac made a commitment that if any loans were to enter forbearance during 2020 they too would be taken out.

This went a long way to buy investor confidence, says Freddie, but it also increased credit

**"IN APRIL, IT WAS A VERY TOUGH TIME IN ALL MARKETS, BUT WE SAW GOOD PRICE RECOVERY IN MAY"**

enhancement on all tranches. The retained first loss tranche was increased from 10bp to 25bp, the B1 CE was increased from 60bp to 75bp and the M2 CE from 110bp to 175bp.

Spread levels were also wider than had been seen in recent STACR deals. But not as wide, suggests Reynolds, as the general increase in the cost of credit seen during the selloff, thanks to these additional investor-friendly buffers.

Prior to the launch, Freddie also organised a series of virtual events spread over two weeks in June, in which it met its valued investor base to discuss a wide range of topics of concern and interest. The events were attended by over 270 investors from 100 different firms, and represents the most well attended the borrower has ever mounted.

Not only was DNA3 a success, it cleared the way for further issuance. Almost immediately thereafter, Freddie completed an ACIS

transaction, which covered an additional US\$425m of losses on the US\$48.3bn DNA3 reference pool and was also doubled from original size.

Another four STACR deals have followed in the wake of DNA3 and in fact 3Q20 was the busiest quarter for Freddie in the CRT market ever.

In mid-October, Freddie made the headlines again when it sold the first CRT deal referencing SOFR rather than Libor. The latter has been in use in a vast range of financial instruments since time immemorial, but is due to exit the stage at the end of 2021.

The STACR REMIC 2020-DNA5, worth US\$1.086bn, comprised four tranches. The M1, the narrowest, was priced to yield 130bp over 30-day average SOFR, while the B2, the widest, yielded 1150bp over 30-day average SOFR. "As a member of the Alternative Reference Rates Committee (AARC), Freddie Mac has been a leader in the shift from Libor to SOFR," says Reynolds.

The GSE had been in talks with investors, broker-dealers, data vendors and other market participants before it took the plunge to ensure that its transition from Libor to SOFR – still an unfamiliar benchmark to most in the market – would be as smooth as possible.

The next SOFR deal is due in November 2020 and, in fact, Freddie is now back to its regular issuance schedule. After the benighted year of 2020, this is no small achievement. ■



Mike Reynolds, Freddie Mac

## HONOURABLE MENTION: CITI

Quietly, without much fuss, but with persistence and continuity, Citi has demonstrated considerable commitment to the CRT market in the US. JPMorgan and Goldman Sachs have joined the arena in the last 12 months, broadening the scope

of participation in the CRT market, but Citi has been there for years.

Its deals tend to slip under the radar screen, often arranged between the borrower and one or two investors. But for Citi, the CRT market is as fundamental a

mechanism of capital management as any of those that are more generally used by the majority of US financial institutions. It is the grand-daddy of the non-GSE CRT market in North America.



## ARRANGER OF THE YEAR WINNER: CREDIT SUISSE

**C**redit Suisse completed two significant risk transfer transactions during 2Q20 that differ significantly from the typical capital relief trades executed during the height of the coronavirus crisis and were placed with different investor bases. The bank is SCI's CRT Arranger of the Year in light of its proven placing power, structuring capabilities and motivation to bring the SRT market forward.

The first of Credit Suisse's Q2 issuances was Elvetia 12, a funded transaction that references a Sfr1.8bn predominantly blind portfolio of SME and mid-cap loans, with a maximum concentration of 1%. The 0%-7.25% equity tranche was placed with two institutional investors, which benefit from 20% side-by-side risk retention.

Certain industry sectors most affected by the Covid-19 fallout were excluded from the reference portfolio and the structure features a 2.5-year replenishment period, based on pre-agreed criteria. "We took a cautious and conservative approach to the structure and

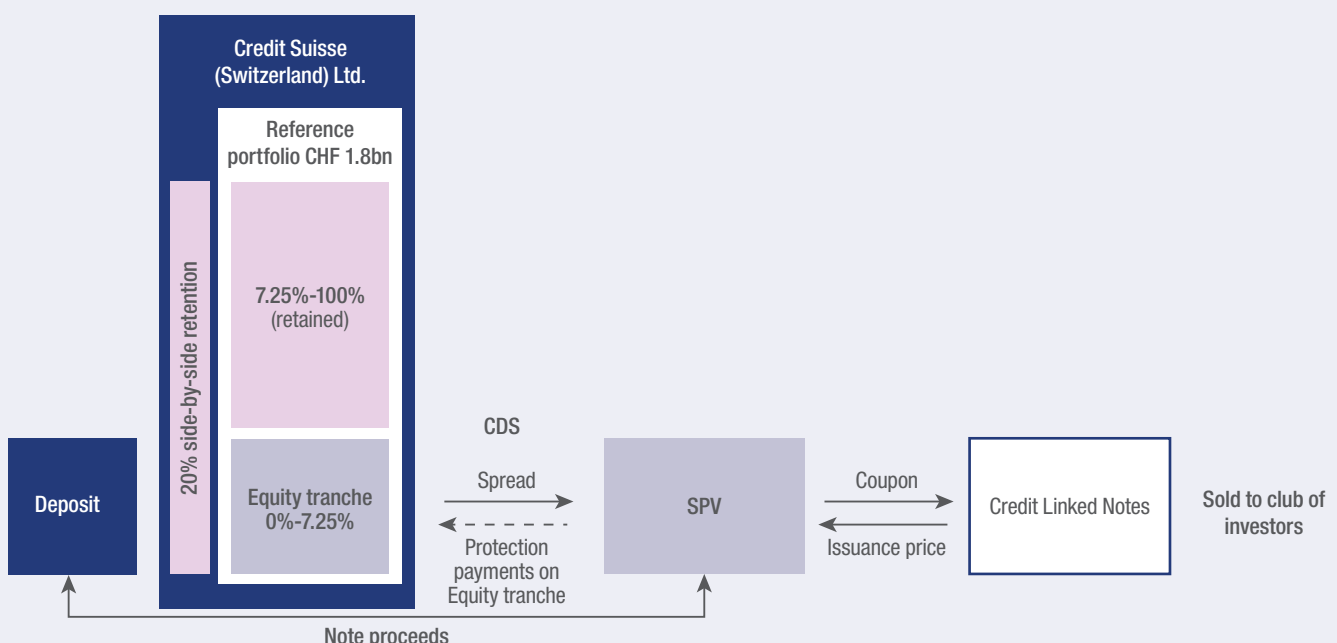
**"WE TOOK A CAUTIOUS AND CONSERVATIVE APPROACH TO THE STRUCTURE AND PORTFOLIO, INCLUDING ELIGIBILITY CRITERIA TO AVOID CONTAMINATING THE PORTFOLIO WITH COVID STRESSES"**

portfolio, including eligibility criteria to avoid contaminating the portfolio with Covid stresses," confirms Hannes Wilhelm, md at Credit Suisse. "We didn't approach as many investors as usual during the marketing phase – only those that we knew would be interested, despite the Covid stress in the market. We were surprised by the positive feedback, which

enabled us to lower the price and close without any difficulties."

The original plan was to bring a shorter deal and retain the equity tranche, but the ultimate investors were happy with the first loss and a longer term. "They are longstanding investors in the Elvetia programme, so have experience with our book and are comfortable with the risk," Wilhelm notes.

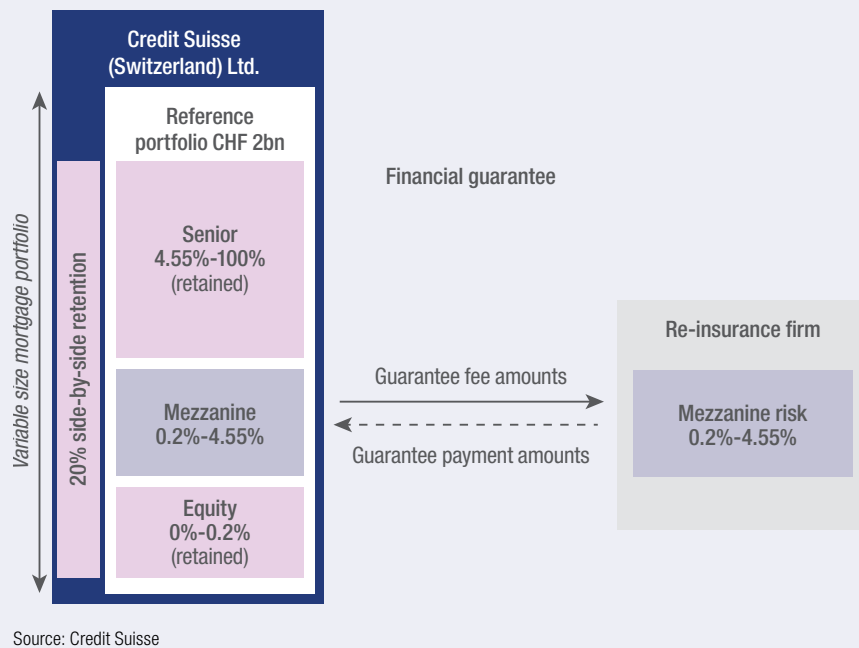
### Elvetia 12 – transaction overview



Source: Credit Suisse



## Elvetia Protection Facility



Hannes Wilhelm, Credit Suisse

real estate when needed. Essentially, the bank has a recurring option to purchase protection, such that the size of the portfolio and the protection can be adjusted to meet its capital requirements every quarter.

This is achieved by pro-rata amortisation, with a trigger to sequential amortisation in the case of a default. “If there is a default, it is difficult to scale up or down: if scaled down, the default could become too big relative to the size of protection. To solve this, upon a default, the transaction switches to sequential amortisation, with the existing pool and the unused portion of the facility continuing on the original terms,” Wilhelm explains.

The portfolio can be ramped up to a maximum of Sfr2bn, at which point it will provide roughly Sfr87m of protection. The risk premium payable by Credit Suisse is based on the prevailing tranche size in the respective quarter, subject to a minimum facility commitment fee.

Protection is in the form of a financial guarantee provided by RenaissanceRe, which took exposure to the mezzanine tranche (0.2%-4.55%). The transaction priced in the mid-single digits.

The fact that these transactions were executed during a difficult period at economic levels demonstrates that there is a true partnership between Credit Suisse and its investors, according to Wilhelm. ■

He suggests that demand was also driven by the lack of SME deals being offered at the time, given that large corporate CRTs were more straightforward to execute. “A number of investors don’t have the credit expertise to undertake bottom-up analysis of large corporates and

therefore rely more on statistical analysis, preferring granular pools.”

The second of Credit Suisse’s Q2 issuances was an unfunded dynamic hedge facility that enables the bank to draw down protection on an undisclosed portfolio of income-producing

“IF THERE IS A DEFAULT, IT IS DIFFICULT TO SCALE UP OR DOWN: IF SCALED DOWN, THE DEFAULT COULD BECOME TOO BIG”

## HONOURABLE MENTION: BNP PARIBAS

BNP Paribas placed nine significant risk transfer transactions totalling over €6bn-equivalent with external investors in 2019-2020, in both cash and synthetic formats across multiple jurisdictions.

In particular, the bank expanded its pioneering cash SRT programme – featuring the ‘use it or lose it’ excess spread mechanism – thereby helping to turn cash SRT into a publicly marketed ABS product and allowing the pricing outcome to be optimised. BNPP Personal Finance was the first issuer to bring

such a true sale SRT ABS and the mechanism was adopted by many others thereafter.

Meanwhile, a highlight of its activity in the synthetic space was Resonance 5, which enabled BNP Paribas to hedge a second loss tranche – split into funded and unfunded protection on a pari passu basis – referencing an €8bn portfolio of global corporate loans. As well as reinforcing the reputation of the programme with key institutional investors, the transaction achieved an RWA reduction of over €3bn and was shareholder value

accretive for the bank. Indeed, actively using securitisation technology to optimise the group balance sheet is a strategic objective for BNP Paribas.

But arguably what sets the bank apart is its vision for the SRT market, which is to bring the product to the core ABS universe. As such, it has built a strong flow and financing securitisation franchise and leading league table position, enabling it to leverage its knowledge and investor relationships when placing SRT transactions.



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## NORTH AMERICAN ARRANGER OF THE YEAR WINNER: BMO CAPITAL MARKETS

**B**MO Capital Markets (BMO) has led the way in true risk sharing trades outside of Europe for over four years. Its well-established programmes, combined with strong investor connections enabled it to be the first to close a deal after the declaration of the global Covid-19 pandemic and seal its place as SCI's North American Arranger of the Year.

BMO completed its first SRT issuance in 2016 and remains the only Canadian bank to have issued SRT transactions. Since expanding the programme in earnest the following year, BMO has now completed nine transactions with a total protected notional of over US\$13bn and notes placed with 18 investors totalling approximately US\$1.2bn.

The programme and BMO's arranger capabilities were put to the test with the arrival of the Covid-19 crisis-driven market volatility and widespread lockdown measures. Jean-Francois Leclerc, md & head, risk & capital solutions at BMO, recalls: "We have regular discussions with all of our investor institutions – it's an opportunity to catch up with what they're



Jean-Francois Leclerc, BMO

“TYPICALLY WE AIM TO ENGAGE A NUMBER OF INVESTORS FROM THE VERY BEGINNING OF THE DEAL, BOTH OLD AND NEW, AND THAT WORKS BEST FOR US”

doing and gauge interest in deals we are planning – and we did so as the Covid-19 market stress was beginning to materialise, focusing mainly on our existing book of investors.”

He continues: “That gave us insight into who was looking for opportunities and who was closed for business. So we were able to assess client interest for a deal that we were hoping to do in April.”

BMO considered a range of alternative partners, but ultimately decided a bilateral deal was the best choice in those market conditions. That deal was Muskoka 2020-1, where BMO structured, arranged and placed US\$132m in guarantee linked notes referencing a US\$1.887bn portfolio of large corporate loan facilities.

“We don't normally do bilateral deals; our preference is for small club deals,” says Leclerc. “However, it was different in the early days of the pandemic, where multiple investors would have been much harder to manage. A bilateral arrangement, which usually involves a bit of

give and take between issuer and investor, is easier to manage and was the best way to get something done at that time.”

Leclerc adds: “Typically we aim to engage a number of investors from the very beginning of the deal, both old and new, and that works best for us. But in most transactions, market conditions are much clearer and we are able to close the deal in that way.”

Indeed, BMO was back in the market in July with Muskoka 2020-2. This time, the US\$184m guarantee linked notes referencing a US\$2bn portfolio were widely marketed and successfully placed with a number of investors, including two equity buyers who were new to BMO's SRT programme.

As Leclerc concludes: “Relationships are key in arranging any SRT deal successfully, alongside the credibility of the team and the credibility of the institution. For investors to invest in a transaction, they must have faith in the risk management ability of the institution behind the trade.” ■

## HONOURABLE MENTION: GOLDMAN SACHS

Goldman Sachs' entry into the still early stages of the US non-GSE capital relief trades market would in and of itself be noteworthy. But to bring innovation to the structure and arrangement of its first deal in the sector merits an honourable mention from SCI in the North American Arranger of the Year category.

On 25 September 2020, Goldman Sachs Bank USA's Credit Linked Notes Due 2025

issued US\$98.56m senior mezzanine and US\$86.24m junior mezzanine tranches, which generated capital relief treatment. The deal synthetically referenced a portfolio of predominantly investment-grade revolver loan facilities under which Goldman Sachs or one of its affiliates is the lender.

On the same day, Goldman Sachs issued the CLNs to Absolute 2021-1, a Cayman-domiciled SPV, which in turn repackaged

the mezzanine tranches and issued pass-through class A and B notes. The decision to offer the CLNs in repack form is understood to have been in response to investor needs and facilitated the smooth and efficient placing of the deal.

It is expected that similar structures will be adopted by other arrangers in future as the US CRT market grows and repacks become increasingly popular with investors.



## LAW FIRM OF THE YEAR WINNER: ALLEN & OVERY

**I**n a highly disrupted year, Allen & Overy (A&O) has distinguished itself by not only maintaining its significant market share, but also by being able to expand its offering into new markets, advising on a variety of deals in numerous geographies as well as a variety of first-of-their-kind deals. At the same time, A&O has played a key role in framing post-Covid crisis documentation.

The key is the firm's holistic approach to the sector, according to A&O partner David Wainer. "We offer breadth and scope and have never viewed SRT as the domain of one or two partners operating in one office. We see it as a collaborative effort across a number of partners and teams in various offices and, as we've seen the market grow and diversify, that approach has paid dividends. In London alone, we have Parya Badie and Guy Antrobus, as well as myself actively working on balance sheet synthetics, and partners such as Salim Nathoo and Sally Onions supporting a busy cash SRT practice."

He continues: "Our primary focus has been to try and do the most interesting work for the most interesting clients. While we value working with seasoned issuers who regularly tap the market, we have worked hard to develop a reputation as a go-to firm for banks looking to do their first SRT trades or for others trying to do new or innovative things in the SRT space. The close collaboration that comes from helping our clients navigate their way through the myriad of legal and regulatory issues when executing these transactions is very rewarding. The process can be long and bumpy, but that experience helps foster stronger bonds."

The stand-out deals that A&O advised on over the last 12 months are too numerous to

**"OUR PRIMARY FOCUS HAS BEEN TO TRY AND DO THE MOST INTERESTING WORK FOR THE MOST INTERESTING CLIENTS"**

mention here, but include: the first SRT deal to reference a portfolio of exclusively UK ESG loans – Project Grasshopper; the first SRT transactions for Santander Consumer Bank in Italy and Sweden; the first SRT transaction for BNPP Fortis in Belgium; the first SRT transaction for Banco Sabadell in Spain; and the first syndicated unfunded SRT transaction involving insurers. Among those, Wainer says: "NatWest's Project Grasshopper was one highlight, a deal which garnered much interest for its novel ESG sector focus. We were proud to be involved in such a widely acclaimed deal."

Further, he says: "Another innovative deal was Santander's unfunded syndication to insurers, where we acted for Fidelis, and its successful conclusion reflected a long-talked about development in the market. We were also involved in a number of first transactions showing the market expanding into new geographies."

For example, A&O advised BNP Paribas Fortis on the first deal in Belgium last December and is now working for two other Belgian debutants. "That has become a familiar pattern – once we successfully close one deal in one jurisdiction, others tend to follow and our initial involvement places us in a favourable position

to be involved in the subsequent transactions," says Wainer.

"It is true also in other more mature markets like Spain, where our regular work advising on deals this year for Caixa, BBVA and Santander helped us scoop the mandate acting for first-time issuer Banco Sabadell – a deal which, given its launch mid-pandemic in June, was especially pleasing to see close successfully," he adds. "We've also benefited from a close relationship with the EIF and EIB, each of which became particularly active in the crisis, stepping in to help banks manage their capital and facilitate new lending into depressed markets."

Another highlight for the firm this year has been A&O's role at the forefront of drafting standard language to help the market come to terms with the impact of Covid-19-triggered general payment moratoria and the related EBA guidance on existing provisions (such as the impact of payment holidays on credit events and refinancing provisions). "This began with the development of standardised language for the EIF, which was a natural consequence of the deal work we were doing for them," Wainer says. "We started to build that new wording into EIF deals immediately and have since seen it replicated more broadly in other deals as well." ■

## HONOURABLE MENTION: LINKLATERS

As one of the major law firms in the SRT market it is to be expected that Linklaters has clients in every part of the market from arrangers and originators; to fund investors; to reinsurers; to the EIF. But it is the work it has done with investors and in the regulatory space that merits an honourable mention this year.

The list of deals on which Linklaters advised an investor, or sometimes multiple

investors with different teams of lawyers, is a list of landmark and innovative transactions. Highlights include many of this year's SCI award winners: Project Vale, Project Meno, Project Grasshopper and Resonance V. In addition, the firm assisted clients in a number of complex private deals.

Among Linklaters' regulatory work this year it has assisted the International Association

of Credit Portfolio Managers (IACPM) with its responses in two key areas. First, to the EBA's consultation paper on an STS regime for synthetic securitisations; and second, to the European Commission's request for information on how the Capital Markets Union could further assist banks and investors in contributing to real economy finance after Covid-19.

## NORTH AMERICAN LAW FIRM OF THE YEAR WINNER: CLIFFORD CHANCE

**T**he burgeoning development of the US bank capital relief trade (CRT) market has been one of the major talking points of the sector in 2020 – perhaps the major talking point – and Clifford Chance has been at the forefront of this business.

This coming of age of the US CRT market has been talked of for several years and, though there have been several false starts, 2020 seems to be the year when it has all come together. Several factors have coalesced to make this possible, most notably regulatory benevolence and the extent to which the Covid-19 lockdown has underlined the importance of sufficient capital adequacy.

Though some banks have had experience in the sector, others have been less experienced. Yet for the more experienced and for the less experienced, Clifford Chance has been on hand to pilot issuers through the shoals and past the reefs.

It has represented two of the three largest issuers in the US CRT market in 2020 – which have been Goldman Sachs, Citigroup and JP Morgan – and it is for its unrivalled legal footprint and expertise in this sector that it has been selected as SCI's North American Law Firm of the Year.

JPMorgan has made most of the headlines, with its breakthrough mortgage securitisation of 2019 securing regulatory approval in February and several new CRT transactions following that throughout the year, including its first auto loan securitisation in 14 years in August. Goldman Sachs issued two CLNs worth US\$184.8m in September, later repacked as pass-throughs, while Citi – one of the stalwarts of the US market – has continued to be active below the radar screen.

Though Clifford Chance was unable to confirm which two of these three it represented, it

“FOR THE MORE EXPERIENCED AND FOR THE LESS EXPERIENCED, CLIFFORD CHANCE HAS BEEN ON HAND TO PILOT ISSUERS THROUGH THE SHOALS AND PAST THE REEFS”

is clearly at the heart of the matter. In addition to its instrumental role in opening the market for US domestic issuers, the firm has represented foreign issuers, arrangers and investors in the US market for more than two decades and has been at the forefront of the development of many of the practices that allow global CRT issuers to reach US investors and investment managers.

The firm set itself the target of being the go-to practice for any bank contemplating CRT issuance in the US and, after 2020, it is hard to argue that it has not succeeded in this respect. It has a highly respected and experienced New York practice, headed by partners Gareth Old and David Felsenthal.

Felsenthal graduated from Princeton and Harvard law school, and started work at the Federal Reserve. He joined Clifford Chance in 1992, becoming a partner in 1997.

Old brings a wealth of international experience, having started his career with Clifford Chance in London in 1997, before moving to Hong Kong and Frankfurt and then to the New York office in 2004.

“We are delighted and honoured to have won this award from SCI, which reflects the fact that Clifford Chance is able to bring the strength in depth and expertise we possess in

CRT markets around the globe to the North American market,” says Felsenthal.

The Clifford Chance CRT team is anchored by partners Jessica Littlewood and Timothy Cleary in London, both well-known and highly respected names in the industry. The firm's global CRT team includes key partners in Madrid, Frankfurt, Luxembourg, Hong Kong, Singapore, Brussels, Amsterdam, Milan, Paris and Tokyo as well.

Clifford Chance's expertise covers the full range of CRT securitisation, from the use of an SPV acting as protection seller and note issuer to bilateral transactions between originator and investor, either in the form of a CDS, financial guarantee or credit insurance policy.

Clearly, in this world, staying abreast of key regulatory developments could not be more important, and no law firm is in closer touch with regulatory thinking or more cognisant of the import of all current and pending rules than Clifford Chance.

In short, few law practices possess the strength in depth across global CRT markets than Clifford Chance, but the fact that it has been the advisor to two-thirds of the banks active in the North American market means it has at the moment few significant rivals in this jurisdiction. ■

## HONOURABLE MENTION: MAYER BROWN

Any US issuer bent on a capital relief trade offering is sure to encounter the name of Mayer Brown sooner or later. The premier US law practice has been at the forefront of the synthetic securitisation market for a number of years, in Europe as well as the US.

In fact, Mayer Brown is the firm that can offer cutting-edge advice and guidance to borrowers which need to comply with both US and EU laws as part of the same transaction. It has well-respected partners in both London and New York to provide the necessary hand-holding to, for example, European

banks wishing to bring CRT deals in the US to cover obligations of North American subsidiaries.

It is also very well-placed to capitalise on the predicted boom of the CRT market in the US, not only from European borrowers but from US names as well.

## ANALYTICS FIRM OF THE YEAR

## WINNER: MARK FONTANILLA &amp; COMPANY

**M**ark Fontanilla & Company (MF&Co), founded in Charlotte, North Carolina in 2017, provides a host of financial market advisory and consultancy services. The CRTx Total Return Index and its data/analytics suite is the firm's flagship offering.

Unveiled in April 2018, the CRTx is the first and, as yet the only, commercial index that tracks the daily total return performance of all outstanding benchmark CRT at-issuance securities issued by Fannie Mae and Freddie Mac. "I perceived a gap in the market and set out to fill that gap. The GSE CRT market was one of the newest US bond market sectors and, unlike other major financial market segments, it did not have an independently administered, cash-based total return index to track and compare sector performance," explains Fontanilla.

The suite of indices comprises the CRTx Aggregate and a series of sub-indices, including the CRTx Upper Mezzanine, the CRTx Lower Mezzanine and the CRTx Subordinate, as well as annual deal vintage sub-indices. The CRTx Index suite gives the market a much-needed tool for the benchmarking and decomposition analysis of performance across the GSE CRT sector, allowing comparison and portfolio optimisation testing relative to other fixed income sectors.

The value of these indices was underlined during the period of acute Covid-19 related market dislocation in the spring of 2020. The CRTx was the only publicly visible index that provided a clear view of the GSE CRT market in toto, but also of the comparative performance of different tranches and vintages of GSE-issued CRT securities.

Fontanilla's firm also offers a range of financial, operational and strategic solutions that combine advanced analytics and human intelligence – but it is the human aspect that is deemed the firm's hallmark. This is in stark

## “I PERCEIVED A GAP IN THE MARKET AND SET OUT TO FILL THAT GAP”

contrast to some of MF&Co's competitors, perhaps, and it is seen as one of the firm's chief differentiating qualities.

"Instead of concentrating on data and models alone, we emphasise the human intelligence aspect. This is the primary value-added feature of MF&Co. We believe a human expert should be telling a model what to do, rather than a model telling the human expert what to do," stresses Fontanilla.

That human element is supplied by Fontanilla and his five colleagues at MF&Co, who have a rich financial services background. He brings over 20 years of experience in bond markets, mortgage finance, fixed income research and strategic advisory services to the table.

Before starting his own firm, he was a senior fixed income marketing strategist at Fannie Mae, which included specific involvement in the CAS programme. Prior to joining Fannie Mae, he was a mortgage research analyst at Wells Fargo and also traded RMBS, CMBS and ABS at RBC.



Mark Fontanilla, Mark Fontanilla & Company

Clients of MF&Co are chiefly large publicly traded firms and private companies, but there are investment funds and smaller local businesses on the roster as well. These clients receive strategic advice and solutions based on both proprietary methods and in-house analytic tools that decompose and benchmark risk and reward.

"We don't only look at the range of risks for an investment or company, but also whether that risk is worth the spectrum of rewards you may receive," says Fontanilla.

The firm's ambit of expertise covers US bond and rates markets, as well consumer finance, but its sweet spot is US mortgages, structured finance and complex securities. These are the key areas in which MF&Co's skills and knowledge are most abundant, and where it can best help clients to develop strategies that make a difference.

The firm's staff knows what investors are looking for and what questions need to be asked, they know how to assess the dynamics of a given market and they know how to determine the different risk/reward profiles of different strategies, explains Fontanilla. In an era in which ever greater fields of data and more powerful technology are seemingly prized above all else, it is refreshing to find that Fontanilla resides his faith in the fundamental power of human intelligence and the capacity to deploy that wisely.

"Ultimately, financial analytic tools and models are only as good as their creators," he says. ■

## HONOURABLE MENTION: OPEN SOURCE INVESTOR SERVICES

Greek goddess Athena was an uncompromising lady who sprang from the head of Zeus full-grown; she wasn't to be messed with.

One trusts that the powers that be at Open Source Investor Services (OSIS), a Dutch fintech founded in 2010, were versed

in classical mythology when it named its pioneering credit risk transfer analysis tool after the eponymous warrior princess. If so, it's a bold statement of intent.

Athena – the credit risk transfer tool, not the goddess – takes the perspective of

both the originator and investor to show the performance of a CRT deal as it operates under different types of economic conditions and under different types of regulation. It is used by brokers, investors, asset managers and structurers.



## ADVISOR/SERVICE PROVIDER OF THE YEAR WINNER: US BANK

**U**S Bank's global corporate trust team has established a strong presence in Europe over the past 10 years, ranking as the region's top structured finance trustee by deal volume, according to multiple sources including Moody's and S&P. Indeed, the firm has built a reputation for helping clients navigate complex deals and is trustee on a significant number of risk transfer trades in Europe. In light of its successful track record in the space, US Bank is SCI's CRT Service Provider of the Year.

US Bank prides itself on having the experience, reach and technology to navigate the mechanics of challenging deals with transparency, consistency and quality of service. Together with managing intricate and unique transactions across diverse jurisdictions, the firm views its role as protecting the interests of investors and effectively engaging with all

parties to a deal. Among the qualities necessary for such engagement are: agility, flexibility and responsiveness; advanced knowledge of new markets; the ability to be commercially aware, respecting a client's time and costs; detailed cash, currency and investor reporting; and proactive communication.

Anatoly Sorin, svp, CDO and CLN relationship management at US Bank, notes: "Our clients tend to be large banks; primarily UK banks, with huge portfolios of assets. Although our clients are the issuing CRT banks, our services also benefit investors, which appreciate the quality of our reporting. Investors tend to have preferences about which trustee is appointed on a deal and we often see repeat investors, given that only a handful specialise in CRTs."

US Bank differentiates itself from its competitors in the CRT trustee arena by being highly rated and having dedicated teams in Ireland and the UK. "If an underlying asset



Anatoly Sorin, US Bank

defaults, a certain process needs to be followed to enable the financial guarantee to continue. Verification is undertaken by an accounting firm and the asset is usually swapped out of the portfolio. But there is often a tight turnaround, the success of which can have a direct impact on investors' rate of return," says Sorin.

He continues: "Similarly, we often have to wait for months for deals to come to fruition and then they have to be executed speedily. The execution aspect is critical and is facilitated, in US Bank's case, by having consistent documentation across clients."

A leading magic circle law firm represents the majority of the firm's customers. "Having high-quality and standardised documentation in place helps deals get off the ground quickly and efficiently," Sorin notes.

He concludes that while CRT volume has slowed this year due to the Covid-19 fallout, December is expected to be extremely busy in terms of issuance, driven by the year-end closing of books and cleaning up of balance sheets. ■

“ALTHOUGH OUR CLIENTS  
ARE THE ISSUING CRT BANKS,  
OUR SERVICES ALSO BENEFIT  
INVESTORS, WHICH APPRECIATE  
THE QUALITY OF OUR REPORTING”

## HONOURABLE MENTION: GRANULAR INVESTMENTS

Founded by former Arch and PMI Europe senior executives Giuliano Giovannetti and Richard Sullivan in 2019, Granular Investments continues to gain traction in terms of bridging the gap between the different approaches taken by insurers and banks to capital relief trades. The firm acts as arranger and adviser to the former, while providing a single point of

contact for the latter to access multiple insurance counterparties.

Granular works with a panel of insurers that functions like a syndicate, comprising different risk appetites across the spectrum, including large corporate loans, SME exposures and consumer debt in the core European jurisdictions. As such, the firm has the ability to identify various sources of insurance

capacity, with the aim of increasing the size and stability of the CRT market by facilitating a diversified base of protection providers.

A notable success for Granular over the awards period was its role in advising Fidelis Insurance on a large SRT deal for a major European bank, the bank's first-ever unfunded SRT. The transaction references a €1.3bn portfolio of largely undrawn revolving credit facilities.



# A Tastier Alternative

Granular Investments and its re/insurance partners provide banks with capital relief through unfunded synthetic securitisation



Granular Investments

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## PERSONAL CONTRIBUTION TO THE INDUSTRY

# WINNER: STEVE GANDY, md and head of private debt mobilisation, notes and structuring at Santander

**A**t the helm of arguably the most active and diverse capital relief trades arranging team, Steve Gandy has demonstrated strong leadership in innovation and the introduction of new asset classes and jurisdictions to the market. However, this award also recognises his significant contribution to the industry in terms of thought leadership and advocacy with policymakers and regulators on significant risk transfer matters.

Santander first began exploring SRT issuance in 2008-2009, but began a programmatic organised issuance programme in 2014, after Basel 3 was fully adopted in Europe. "Since 2015, we have issued them in a strategic and disciplined way as part of the bank's capital planning process. We have a pipeline of deals approved at the beginning of the year, which we execute over the following 12 months on a regular basis," Gandy explains.

Santander has multiple points of entry to the SRT market, given that its principal subsidiaries are autonomous in terms of managing their own capital and liquidity. As part of the group budgeting process, they are all challenged to be more efficient in the use of capital.

"The bank's subsidiaries may choose to manage their capital in a variety of ways, one of which is to employ securitisation to recycle capital. SRT deals have proven to be an efficient way of recycling capital and reducing RWAs at below our cost of capital, so it makes sense to execute them," Gandy observes.

Securitisation has historically been a key product for Santander and securitisation is a cost-effective financing tool. Consequently, because securitisation is strategically important to the group, it is natural that the bank should be an advocate for the industry.

This advocacy includes the PCS initiative, which Santander and other market stakeholders established in 2012 to develop a labelling entity that encourages best-in-class features to be incorporated in securitisations, with the stated purpose of restoring the badly damaged reputation of ABS. PCS, in turn, was one inspiration behind the European Commission proposing the STS criteria – many of which were patterned after the criteria developed by PCS.

At around the same time, the ECB approached Santander – along with other

**“SRT DEALS HAVE PROVEN TO BE AN EFFICIENT WAY OF RECYCLING CAPITAL AND REDUCING RWAS AT BELOW OUR COST OF CAPITAL”**

banks – to drive increased transparency in the securitisation market and create a privately-owned data repository. The European DataWarehouse (EDW) was established in 2013 and is committed to developing ABS data templates to be included in the ECB collateral framework.

With the emergence of the STS debate, the European Banking Federation asked Gandy to chair its securitisation working group. He also joined the AFME's Securitisation Board EXCO through which he participates in EBA roundtables and provides testimony. Notable contributions made in this role include the EBA's SRT discussion paper and STS synthetics proposals.

"It's strategically important to Santander to maintain an open and constructive dialogue with regulators to ensure that the resulting legislation responds to the needs of market participants, so that securitisation can be an effective source of funding, for banks, and hence, for the economy," Gandy remarks.

Together with his involvement in the EBF and AFME, Gandy is a member of the EDW board and the PCS Association Board and chair of the PCS market committee. "Following the Covid crisis, policymakers have begun asking what they can do to help banks lend more in the real economy. The industry has responded that one key point is to make the SRT process more predictable and streamlined, and the EBA has responded through its helpful recommendations for streamlining the process in the SRT Discussion Paper," he notes.

Gandy looks forward to participating in the consultations related to the upcoming review of the securitisation legislation that the European Commission will commence in 2021 in the context of Capital Markets

Union. This includes the securitisation risk weights, the LCR treatment of securitisations and clearer rules around the controversial topic of excess spread. Additionally, there are many issues related to the new ESMA templates that the industry is struggling with, which is important for facilitating increased transparency across the SRT market.

Santander defends increased transparency in the SRT market. All of Santander's Magdalena and most of its consumer SRT deals are listed on stock exchanges, with publicly available performance data.

"More transparency would provide increased confidence to regulators, which would in turn facilitate increased volumes and attract more investors to the sector," Gandy concludes. ■

