EFR Secretariat

4 October 2010

Summary of Outcome of PCS Investors' survey

The PCS Investor Survey was distributed in early July 2010, and responses were received through the summer and the end of August. 43 responses were received.

- **43 investors participated in the survey**: the EIB Group (two separate groups), 18 asset managers, 5 insurance companies, 2 pension funds and 16 banks). Many of the major European "real money" investors participated in the survey

- the replies (Questions 3.4 and 3.5) confirm that there has been a sharp reduction of the investor base (around 25%), compared to pre-crisis time; 58% of respondents indicate that the PCS initiative is expected to increase and diversify the **investor base**, compared with the present 30% consider this will not be the case (Q 8.3);

- 53% of respondents indicated that a **label** per se would not cause them to look at investing in new securitisation or to increase it (Q 4.1), vs 30% of the opposite view. Around 60% answered that the adoption of the ECB/Bank of England transparency initiatives will not cause them to participate in new securitisations, 14% were of the opposite view (Q 4.2). Respondents often expressed the need to perform internal valuation and due diligence beforehand, demanded tighter conditions for the eligibility criteria, expressed that changes to the regulatory treatment (i.e Basel III and Solvency II) of securitised products are important in promoting liquidity before it can cause them to invest. Moreover investors recommended: i) more homogeneous structure, ii) effectiveness in enhancing liquidity, iv) the substance of the framework behind the label is more important than the label per sè.

- 80% of respondents consider that the PCS-style initiative will positively impact the **recovery in the securitisation markets** going forward (Q 8.2); 15% of the respondents were of the opposite view;

- more than 80% of respondents do not find any problem in the proposed **market segmentation** (PCS vs non-PCS) and do not feel constrained in their investment decisions because of the label (Q 4.3, 4.4, 4.5);

- more than 55% of respondents (65% of financial institutions) expressed concerns that will require provisions addressing **legacy assets** (Q 7.1); a few were concerned that investors will rely too much on the label, like a quality rating;

- 70% of respondents indicated that PCS would trade at **spreads** tighter than non-PCS (Q 4.6), around 10% of respondents do not expect this to happen. 60% of respondents consider that PCS will lower **spread** levels relative to other funding debt instruments (Q 8.4), 25% of respondents do not expect this to happen;

- all investors are aware of the increased structuring costs for issuers (Q 7.3), 51% is not willing to share the costs of the issuers through lower issuance spread, versus 25% of willing investors;
- around 60% of the respondents consider that PCS could be an important factor in improving **market liquidity** in the securitisation market (Q 7.4); around 25% did not share this view;
- around 55% of respondents consider that tighter detailed **asset eligibility criteria** than in current securitisations are desirable (Q 5.1);
- more than 60% of respondents consider the **PCS governance** structure should be in place and more than 80% of respondents that it would require an **independent third party** (Secretariat) to grant and withdraw the label (Q 6.1); however the fact that the label (Q 7.2) may be withdrawn during the life of the transaction in case the originator fails to comply with respect to the requirements set by the PCS is a matter of concern for 50% of the respondents (59% among financial institutions, and 38% among asset managers and insurances);
- around 30% of the respondents are concerned that PCS would restrict access to the market (Q 8.1) (for those issuers or certain asset classes who would not qualify for the label) or that it would have **unintended consequences**; (among financial institutions the percentage raises to 40%, among asset managers and insurance the percentage of concerned investors is 22%).