STRUCTURED FINANCE & ASSETS SECURITISATION: PARTICIPANTS' MOTIVATIONS AND COMPETITIVE ADVANTAGES

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Abstract: In today's highly-demanding and over-competitive global banking systems and financial markets ecosystem every market participant is continuously exploring new routes to secure a better marketplace position able to supply it with sizeable competitive advantages in forerunning the competition. We are investigating herewith the reasons and benefits of why and how structured finance and assets securitisation are incentivising market participants in reaching the competitive edge.

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1. INTRODUCTION

Structured finance is a highly complex financial process that involves sophisticated private and public financial arrangements aiming at efficiently secure access to financing and refinancing sources and effectively transfers or hedges the risks in order to successfully achieve the lowest costs of capital and funding. It can be defined, in a broader sense, as being that particular type of finance created especially to provide funding and manage risks using intricate financial and legal techniques, instruments and entities. Both financial and non-financial institutions are employing structured finance because of its benefits regarding issuers' flexibility in terms of maturity structures, security designs and asset types.

A special purpose entity/vehicle (SPE or SPV) is a legal entity specially created to fulfill a few key predefined, narrow, specific and temporary objectives. SPEs are typically used in structured finance, especially in assets securitisation transactions, as well as in other complex project finance or structured leasing deals. SPEs are also commonly used in any complex financings in order to separate different layers of debt and equity funding, each with separate risk/reward profiles. Some of the reasons for creating and employing special purpose entities are: risk sharing and risk transfer, multi-tiered funding, investment and capital raising, assets transfer and assets management, regulatory capital management, and so forth.

Assets securitization is that structured finance process of pooling and packaging various types of contractual debts and selling this consolidated debt in the form of asset-backed securities to various institutional investors via capital markets. From originators' perspective, securitisation enables them to transfer the risks of ownership to third-party investors by opening the door to the capital markets-based funding and broadening the funding resources at more favorable rates.

Structured finance and assets securitisation have become widely accepted as the most suitable financing, refinancing, risks management and diversification techniques around the world, whereas they have developed into deep and resilient standalone markets, which have been accessed by a broad cross-section of entities for differing purposes. The originators and sponsors base include corporations, banks, investment managers, governments, finance companies and insurance companies. Consideration of the motivations and competitive advantages of structured finance and assets securitisation should, therefore, be addressed from the points of view of a number of participants, including corporations, financial institutions, investors, regulators, governments and at a larger scale the financial markets and economies as a whole.

2. STRUCTURED FINANCE

Structured finance is one of the most versatile financing instruments across the whole finance and investment spectrum. Therefore, market participants employing this innovative financial tool are achieving outstanding outcomes and, hence, their purposes in bringing into play this mechanism in various complex funding transactions are quite numerous.

2.1. Originators' motivations when participating in structured finance transactions

The key motivations for originators, sponsors and issuers when using structured finance transactions include: (1) to lower funding and capital raising costs; (2) to perform transformations in the debt-equity composition of the balance sheet; (3) to take public companies private and vice versa; (4) to free up balance sheet and financing capacity; (5) to monetize illiquid on-balance sheet assets; (6) to finance and refinance balance sheet assets; (7) to perform regulatory capital arbitrage; (8) to shelter originators from potential operating liabilities; (9) to enhance the risk transfer and risk management; (10) to finance various corporate finance, investment banking and leveraged transactions (LBO, M&A, etc); (11) to diversify funding and liquidity sources; (12) to improve financial and liquidity ratios; (13) to achieve accounting and tax management incentives; (14) to enhance and diversify the investment strategies employed by hedge funds and private equity funds.

2.2. Originators, issuers and investors' competitive advantages when participating in structured finance transactions

Structured finance is providing numerous competitive advantages to transactions' participants including: (1) it enables the expansion and diversification of traditional finance solutions by providing additional innovative financing means to numerous asset classes that previously may have been financed only by traditional borrowing methods, while it provides genuine financing capabilities for those asset classes that could not be financed at all without structured finance; (2) it facilitates the expansion and diversification of traditional liquidity sources by monetizing the illiquid on-balance sheet assets; (3) it provides originators and issuers with a much larger flexibility in terms of structuring the securities with regard to maturities, designs and underlying asset classes; (4) it allows investors to benefit from enhanced risk adjusted returns by providing them with highly customized securities and a superior degree of portfolio diversification according to various degrees of investors' appetite for risk; (5) it contributes to establishing more comprehensive, deeper and liquid global capital markets by offering a trade off along the efficient frontier of optimal diversification at minimum transaction cost; (6) it offers originators and issuers with new means to acquire higher credit ratings and to enhance their leverage ratios compared to other forms of traditional finance; (7) it provides originators with considerable reduced borrowing, financing and capital raising costs; (8) it supplies issuers with alternative funding and liquidity options by converting the on-balance sheet illiquid assets into cash; (9) it equips issuers and originators with advanced mechanisms for risks transfer and risk management; (10) it provides bank's originators innovative tools to allow them to engage in additional businesses with retail and corporate clients without expanding their on-balance sheet commitments; (11) it enables financial institutions to exploit multiple options of regulatory capital arbitrage; (12) it shelters originators from potential operating liabilities; (13) it provides corporations with additional financing and investing alternatives to acquire assets used in the course of their business; (14) it enables issuers to take advantage of the off-balance sheet financing treatment; (15) it delivers to originating banks enhanced tools for the asset-liability management by means of balance sheet optimization.

3. Special Purposes Entities

Special purposes entities represent an essential element incurred in virtually any complex financing and investing transaction, since they are one of the most adaptable financial tools across the entire finance universe. Thus, market participants making use of this groundbreaking instrument are achieving superior results and, hence, their objectives in exploiting this toolbox in various complex financing and investment transactions are quite various.

3.1. Originators' motivations and competitive advantages when employing special purposes entities in structured finance and assets securitisation transactions

Sponsors, originators and issuers' key motivations for using special purposes entities in structured finance and assets securitisation transactions include: (1) to reach the most suitable solution to disaggregate the risks of an underlying pool of exposures and to reallocate and distribute these risks to third party institutional investors; (2) to achieve the highest degree of risk transfer and risk management when offsetting credit, interest rate, currency exchange, liquidity, prepayment, market, event or other risks types; (3) to provide diversification of funding and liquidity sources; (4) to improve the overall operating expenses management by reducing the financing and capital costs; (5) to acquire a better, more cost-effective and direct way to access the capital markets; (6) to achieve off-balance sheet accounting treatment for assets; (7) to improve balance sheet financial and capital ratios along with the overall financial performance; (8) to accomplish better regulatory capital management in case of financial institutions; (9) to carry out off-balance sheet financing; (10) to expand origination markets and to facilitate continued growth of assets portfolio in case of financial institutions; (11) to develop the originate-to-distribute business model in case of financial institutions; (12) to extend the sell assets without selling customer relationships business model in case of financial institutions; (13) to legally isolate originator's risks and exposure from the assets involved in the securitisation transaction; (14) to generate additional revenues for the originators when acting as servicing providers for the SPE; (15) to enhance liquidity management by means of advanced asset-liability maturities transformation in case of financial institutions; (16) to improve the overall capital management by diversification and multiplication of funding and refinancing sources; (17) to obtain additional tax breaks.

3.2. Investors' motivations and competitive advantages of employing special purposes entities

Involving in transactions that are making use of special purpose entities and investing in securities issued by SPEs are endowing institutional investors with numerous motivations and competitive advantages including: (1) it stimulates portfolio diversification through exposures to new types of asset classes; (2) it facilitates the removal of regulatory and internal limitations concerning credit quality, credit rating and portfolio concentration of exposures relating to certain sectors, industries or borrowers; (3) synthetic transactions provide investors with additional incentives since credit exposures do not require funding at the outset; (4) it provides a secured lending and investing alternative to high-rated borrowers; (5) it offers additional business opportunities when acting as eligible counterparties in structured finance and securitisation transactions; (6) it enhances the portfolio management strategies by allowing investment in tailor-made securities customised in accordance with a broader range of investors' risk/reward profiles; (7) it boosts up the investment management outcomes by means of portfolio exposures to highly liquid securities with a deep secondary market; (8) it improves the management of regulatory capital arbitrage in case of Basel-governed financial investors.

4. ASSETS SECURITISATION

Assets securitisation is by far one of the most resourceful funding techniques across the entire finance and investment mixture. There are abundant economic motivations and competitive advantages for non-financial and financial institutions to employ assets securitization. Based on various categories of participants in a securitisation transaction, their reasons could break down into several classes.

4.1. Originators and sponsors' motivations when participating in assets securitisation transactions

4.1.1. The case of corporate originators

Corporations' key motivations when acting as originators of securitisation transactions include: (1) to reduce funding and capital raising costs; (2) to diversify funding and liquidity sources; (3) to improve the overall corporate funding and liquidity management; (4) to manage and transfer corporate risks; (5) to achieve off-balance sheet financing; (6) to accelerate earnings for financial reporting purposes; (7) to improve financial and liquidity ratios; (8) to acquire further debt and equity financing capacity by means of balance sheet management; (9) to facilitate swift and direct access to the credit, capital and financial markets; (10) to improve the design and mixture of securities' types, classes and tranches to be issued and placed with the institutional investors; (11) to improve the overall operating expenses management by means of reducing the funding and capital costs; (12) to generate additional operational incomes by servicing the securitized assets; (13) to achieve benefits resulting from the off-balance sheet accounting treatment; (14) to limit credit exposures to certain asset classes which are subject to the securitisation transaction; (15) to improve the efficiency of on-balance sheet management; (16) to create risk transparency; (17) to increase return on assets and return on equity ratios by shifting off-balance sheet certain balance sheet' assets along with their related funding.

4.1.2. The case of financial institutions originators and sponsors

Financial institutions' key motivations when acting as originators and sponsors of securitisation transactions include: (1) to generate additional fee income (servicing fees); (2) to realize value from the on-balance sheet assets; (3) to reduce minimum regulatory capital requirements; (4) to secure alternative low-cost funding sources; (5) to acquire an additional resource of funding the assets it owns; (6) to support assets' growth at a faster pace; (7) to diversify and to optimise the funding mix; (8) to reduce the total entity-level funding costs; (9) to reduce the overall balance sheet maturity mismatches; (10) to obtain better financing terms by means of delinking funding from bank's individual credit rating; (11) to enhance the asset-liability management; (12) to improve balance sheet capital management; (13) to achieve regulatory capital relief; (14) to realize economic capital relief; (15) to diversify sources of Basel-related capital; (16) to optimize the risk management and credit risk transfer; (17) to limit credit exposures to certain asset classes which are securitized; (18) to improve the efficiency of the on-balance sheet management; (19) to create risk transparency; (20) to increase return on assets and return on equity ratios by shifting off-balance sheet certain balance sheet' assets along with their related funding; (21) to get access to off-balance sheet financing; (22) to increase on-lending abilities; (23) to avoid Basel's regulatory equity capital taxation; (24) to enhance the internal structuring of equity vs. debt costs by means of a cost-benefit analysis; (25) to facilitate advanced options that permit debt to be substituted for equity, leading to various degrees of regulatory capital being freed up; (26) to provide special tools for assets' portfolios restructuring that lead to lower regulatory capital requirements.

4.1.3. The case of originators in ABCP securitisation transactions

Non-financial and financial institutions' key motivations when acting as originators and sponsors of ABCP securitisation transactions include: (1) to enhance the funding process by financing short-term assets through the issuance of long-term securities; (2) to improve the asset-liability management; (3) to access the cheapest achievable short-term funding resource; (4) to remove short-term loans from the balance sheet; (5) to provide further funding sources diversification by means of financing the on-balance sheet short-term loans through direct capital markets funding operations; (6) to supply sponsoring banks with enhanced financing and refinancing sources diversification by means of short maturity commercial papers and longer maturity medium-term notes; (7) to facilitate sponsoring banks to incentivise third parties ABCP securitisations by providing liquidity facilities in favor of other ABCP conduits; (8) to generate additional fee income (liquidity fees).

4.1.4. The case of sponsors in CDO securitisation transactions

In addition to the incentives provided by conventional securitisations, originators and sponsors involved in CDO transactions benefit of further key motivations, including:

A. Concerning Cash CDOs: (1) to generate additional fee income (servicing fees, administration fees, hedging fees); (2) to remove on-balance sheet assets off the balance; (3) to improve the overall balance sheet management; (4) to transfer the credit risks associated with the on-balance sheet' removed assets; (5) to improve the risk management by reducing the overall credit exposures or adjusting certain risk stratification particulars; (6) to enhance further the regulatory capital relief; (7) to increase return on capital by removing lower-yielding assets from the balance sheet; (8) to secure alternative cheaper sources of funding and refinancing; (9) to free up lending capacity with respect to certain categories of borrowers or economic sectors and industries; (10) to achieve lower capital relief available compared to synthetic CDOs; (11) to benefit from additional capital arbitrage returns; (12) to enhance the liquidity management; (13) to access additional means to enhance the overall capital structure arbitrage; (14) to enhance the minimum regulatory capital arbitrage; (15) to employ an effective tool for regulatory capital management; (16) to make use of an efficient tool for capital ratio management; (17) to improve return on equity and return on assets ratios; (18) to attain portfolios' risk adjusted performance; (19) to upgrade the management of other balance sheet attributes; (20) to augment credit limit management.

B. In relation to Synthetic CDOs, additional motivations to Cash CDOs include: (1) to accomplish a greater flexibility to accommodate tailor-made solutions for credit risk requirements through the use of credit derivatives; (2) to maintain intact all the initial relationships established with entire bank customers base; (3) to achieve lower closing costs than cash CDO securitizations; (4) to facilitate the avoidance of true sale treatments; (5) to acquire the means for low-priced transfer of credit risk exposures; (6) to make possible the securitisation of heterogeneous assets pools.

C. Relating to resecuritisation CDOs, additional motivations to Cash and Synthetic CDOs include: (1) to supply enhanced investment arbitrage strategies in order to maximize the transactions' returns; (2) to afford superior means to optimise the liquidity supply and the depth of secondary securitisation market for the lower rated tranches issued on the securitization transactions carried out in the primary market.

4.2. Participants and markets' competitive advantages generated by assets securitisation transactions

4.2.1. Corporation originators' competitive advantages

Corporate originators are acquiring numerous competitive advantages when participating in securitisation transactions including: (1) it provides the most attractive funding alternative exhibiting the lowest-price cost of funds; (2) it offers swifter, efficient and direct access to capital markets for unrated or lower rated corporations supplying them with more attractive pricing than otherwise available through the traditional bank and debt capital markets; (3) it supplies the best way to access corporate finance by means of complete banking disintermediation through accessing directly the capital markets; (4) it leads corporations to be better positioned to negotiate funding agreements between competing funding sources; (5) it is perceived as an effective asset management tool for a corporate borrower since it offers a non-recourse financing approach; (6) it provides the ideal way to tap the debt capital markets for the medium-sized enterprises that are not large enough to issue corporate bonds or if doing so will encumber much higher costs due to their lower rating status; (7) it facilitates securing off-balance sheet financing; (8) it supplies the optimum method of corporate deleveraging by allowing swift reducing of the company's gearing (debt/equity ratio); (9) it smooths the progress of corporate refinancing by selling on-balance sheet assets and using the proceeds to repay the more expensive conventional debt; (10) it enables the freeing up of existing bank credit lines for future business expansion; (11) it can be employed quite effectively as an alternative to the traditional acquisition finance by providing longer tenor and cheaper pricing compared to traditional bank loans or corporate finance options; (12) it can be employed quite effectively as an alternative to the traditional trade finance, factoring, invoice discounting, supply chain finance and working capital finance for larger international corporations by means of the ABCP conduit-based operations; (13) it minimises issuer-specific limitations on the ability to secure financing and to raise capital; (14) it converts illiquid assets into cash; (15) it diversifies corporations' funding sources, investors base and funding transactions structures; (16) it provides accessible capital raising for financing the acquisition of additional assets or for investments in other more valuable uses; (17) it provides enhanced assets and liabilities matching via improved balance sheet management leading to risks curtailing; (18) it facilitates funding and implementing M&A, LBO and divestiture transactions more efficiently; (19) it provides efficient funding sources diversification by additionally achieving the lowest funding costs; (20) it transforms on-balance sheet illiquid assets into marketable securities; (21) it generates additional revenues by means of servicing fees; (22) it provides various accounting and financial reporting benefits (off-balance sheet accounting treatment, removal of balance sheet assets in order to improve leverage capital ratio, return on assets ratio, return on equity ratio).

4.2.2. Financial institutions originators and sponsors' competitive advantages

Financial institutions acting as originators and sponsors in securitisation transactions are attaining plentiful competitive advantages including:

A. Competitive advantages of financial institutions when acting as originators in securitisation transactions include: (1) it reduces risk-based capital requirements against own-balance sheet assets; (2) it frees up risk-based capital; (3) it facilitates the allocation of freed up capital to generate more assets or more businesses; (4) it improves the returns on risk-weighted assets; (5) it enhances the operational bank management outcomes by optimally reallocating bank's exposures to particular economy industries, sectors, business lines and borrowers' profiles; (6) it reduces asset-liability mismatches; (7) it reduces the risks of funding mismatches; (8) it improves the overall asset-liability management; (9) it improves the overall funding and liquidity management by utilising the cash raised through securitisation to supplement or to replace the existing short-term interbank funding and deposit-based funding with medium or long-term capital markets asset portfolios and funding techniques; (10) it creates comprehensive and well-thought internal policies and procedures focusing on better understanding, management and funding systems for the asset portfolios by means of thorough evaluation, capital markets discipline and the rating process; (11) it fully retains the economic upside on the securitised assets; (12) it provides efficient diversification of funding and refinancing sources; (13) it achieves the lowest funding costs; (14) it transforms on-balance sheet illiquid assets into marketable securities; (15) it generates additional revenues (originating fees, underwriting fees, structuring fees, credit enhancement fees, liquidity enhancement fees, credit arbitrage revenues); (16) it provides various accounting and financial reporting benefits (off-balance sheet accounting treatment, removal of balance sheet assets in order to improve leverage capital ratio, return on assets ratio, return on equity ratio); (17) it expands financial institutions' market share without creating balance sheet concentration; (18) it provides enhanced means for regulatory capital arbitrage management.

B. Competitive advantages of financial institutions when acting as sponsors in securitisation transactions include: (1) it provides an innovative product available to financial institution's customers as a low-cost alternative financing technique; (2) it allows banking relationships preservation and their further development without breaching whichever approved credit limits for any client's credit exposures; (3) it improves the credit exposures to any customer's account by facilitating borrowers to repay outstanding loans with the proceeds raised via the respective securitisation transactions; (4) it generates substantial fees income-stream without increasing the regulatory balance sheet size; (5) it consolidates banking relationships with customers-base by improving the individual relationship risk-weighted returns; (6) it generates additional revenues (originating fees, underwriting fees, structuring fees, credit enhancement fees, liquidity enhancement fees, credit arbitrage revenues); (7) it expands financial institutions' market share without creating balance sheet concentration.

C. Competitive advantages of financial institutions when acting as collateral managers or investment advisers for certain types of securitisation transactions include: (1) it encourages the use of assets securitisation as an innovative technique providing financing and refinancing alternatives for customers; (2) it provides an innovative technique for managing investors' funds that can lead to leverage off the existing credit processes for evaluating risks as an arranger or investor in third parties transactions; (3) it provides an additional product which is leading to the development of a new business line by means of managing portfolios of asset-backed securities acquired by institutional investors clients who do not wish or are unable to take principal risk themselves; (4) it builds a whole new track-record in respect of the credit processes for those asset classes contained within the managed asset-backed securities portfolios, opening the doors to a new business line in the asset management business line; (5) it encourages the use of assets securitisation as an innovative technique for risk intermediation on behalf of customers.

4.2.3. Investors' competitive advantages

Assets securitisation is providing institutional investors with abundant competitive advantages including: (1) it provides portfolio diversification by means of multiple industries, sectors and borrowers of interest; (2) it facilitates access to different and better-quality risks adjusted returns profiles; (3) it offers access to economic sectors and issuers that are otherwise not open to them; (4) it allows the ability to tailor risk/return profiles by providing better risk/reward performances; (5) it diversifies the overall portfolio risk exposures; (6) it provides a highly versatile and comprehensive tool for portfolio investment management; (7) it upgrades the portfolio risk management; (8) it improves the overall investment management outcomes by providing higher portfolio returns by means of the enhanced risk-adjusted returns; (9) it enhances the investment management policies by assuming certain standards and strict prudential rules because of acquiring securities with investment-grade ratings and high-credit quality; (10) it enhances overall portfolio management by investing in securities less volatile than traditional portfolio mix components (equity, bonds, etc); (11) it supplies investment portfolio diversification into new asset classes; (12) it delivers portfolio diversification by investing along a wider credit spectrum; (13) it contributes to investment portfolio diversification by spreading the risks between various economic sectors and industries by reference to the assets generated in those sectors and industries; (14) it benefits from the highest level of legal, structural, operational and functional designs, structurings and implementations; (15) it facilitates a higher degree of transparency on a continuous basis across all the risks involved in the securitisation transaction; (16) it reduces the degree of exposures to corporate entities-level whilst it increases the degree of exposures to industries and sectors-level in which those corporate entities operate; (17) it supplies considerable volume and liquidity of highly rated securities that may not be available in the markets otherwise; (18) it facilitates portfolio investment in high-credit high-quality securities; (19) it supplies higher yields and risk-adjusted returns relative to other instruments of comparable credit quality; (20) it manages portfolios-level risks by providing exposures to asset classes and securities that have a low correlation with other traditional portfolio components (equities, bonds, etc); (21) it provides internal portfolio diversification by means of multiples geographical originations.

In case of CDO securitizations, investors' additional competitive advantages include: (1) it is offering a higher return than other investments with a similar level of risk exposure; (2) it represents a higher degree of diversification away from conventional ABS and ABCP investments; (3) it facilitates portfolio diversification via investments in securities that are highly uncorrelated with traditional capital markets; (4) it is offering better perspectives to achieve portfolios' alpha returns; (5) it provides a fully customizable portfolio investment with respect to size, asset classes, degree of underlying concentration and diversity (geographical, industries, sectors, borrowers), rating diversification, term-to-maturity mixture; (6) it enhances the ability to customize the risk/return profiles and the indirect exposures to asset classes or borrowers categories that are otherwise out of reach.

4.2.4. Regulators' competitive advantages

Banking and financial markets regulators are one of the most valuable indirect beneficiaries from assets securitisation transactions and their competitive advantages include: (1) it provides an important financial technique beneficial in assisting financial institutions' operations and their regulation; (2) it improves financial institutions' management of their exposures to particular economic industries, sectors, business lines and borrowers' profiles; (3) it introduces a higher degree of transactions transparency through third party reviews and market discipline to assets origination and servicing processes; (4) it encourages medium and longer-term funding of medium and longer-term assets through capital markets operations; (5) it encourages funding and refinancing diversification, especially for the medium and longer-term assets and liabilities, away from the short-term interbank market and the deposit taking options; (6) it allows a more efficient use of the regulatory capital within the overall financial system; (7) it facilitates a more efficient risk management approach by shifting risks from regulated institutions to capital markets-based institutional investors; (8) it promotes higher orderly financial and banking markets by incentivising regulated financial institutions to discharge regulatory capital from capital constrained businesses by way of reinvesting it in generating more assets in the respective businesses.

4.2.5. Governments and public authorities' competitive advantages

Governments and public authorities are just another group of the most valuable indirect beneficiaries from assets securitisation transactions. Governments' benefits are both direct and indirect. When acting as securitisations' promoters the governments' benefits are indirect by means of encouraging and enabling national corporations and financial institutions to make use of assets securitisation in order to acquire the competitive advantages described earlier herein. In addition, more and more governments have accessed the securitisation markets directly by means of public funding and refinancing programs or through privatisation programs where the privatised assets were funding by way of assets securitisation. In summary, governments and public authorities' competitive advantages include: (1) it monetises right away the future cash flows from public sources which otherwise would be received over time; (2) it removes the risks related to the level and timing of public cash-flows which otherwise would be retained exclusively by the governments and public authorities; (3) it reduces the overall government debt's level by means of converting the on-balance sheet public assets, counting as part of the public debt, into public income streams usable at present time; (4) it promotes a higher degree of public government transparency by involving securitisation programs to manage the liquidation of government assets and businesses; (5) it enables a higher degree of public government transparency by means of securitisation programs which must adhere to transactions' thorough evaluation, rating process and market discipline imposed by capital markets operations; (6) it secures transparent pricing procedures and policies for public assets disposals; (7) it provides superior and transparent pricing for public programs of assets disposals; (8) it retains full economic upside on the securitised assets following successful implementation of governmental securitisation programs; (9) it provides direct and in-hand means for a wide-range of government and public support programs for certain national development and competitiveness incentives: promoting securitisation programs meant to fostering the financing for small and medium sized enterprises, infrastructure projects, long term projects; boosting SMEs access to local debt and equity capital markets, etc; (10) it achieves highly efficient public asset-liability management; (11) it helps the selling, transferring and price financing of public assets involved in privatisation programs; (12) it provides extensive indirect benefits to country-level consumers and businesses by reducing the funding costs for corporations and the funding and capital raising costs for financial institutions; (13) it provides extensive indirect benefits to country-level consumers and businesses by reducing financial institutions' overall risk exposures to borrowers (consumers and businesses) assets, encouraging and facilitating thus increased on-lending levels with low-priced funding costs.

4.2.6. Economies, capital and financial markets' competitive advantages

National economies, capital and financial markets are just the other group of the most valuable indirect beneficiaries from assets securitisation transactions. The structured finance and securitisation markets are merely two examples of how the pace of innovation has changed global financial and capital markets. Assets securitization's economic and financial impacts are profound and the benefits of securitization on a country's financial and capital markets and the overall economy are overwhelming.

A. Structural arbitrage and rating arbitrage principles

Assets securitization's fundamental principle is based on the existence of an arbitrage in the risk/reward tranching of the cash flows which is leading to the result that in a securitisation transaction the sum of the parts is different from the whole. Financial markets' participants are encompassing a wide-range of investors groups, each of them having different needs and investment objectives, hence, they have different risk/reward profiles and appetites. Thus, securitisation's structuring principles are delivering to institutional investors a large spectrum of different risks exposures and preferences, which fully explain its economic sense.

Special purpose vehicles, involved in virtually any securitisation transaction, are acting as an arbitrage vehicle by acquiring originators' financial assets and funding the acquisition by issuing asset-backed securities, thereby SPVs are making an arbitrage profit in this securitisation process. Consequently, there is a clear arbitraging principle involved in the stratification of risks within the asset portfolio, hence, the principle of structural arbitrage is one of fundamental principles of assets securitization.

Securitization allows corporates to approach the capital markets directly and, undoubtedly, capital markets-based funding is more efficient and far richer than the funding provided by any kind of financial intermediaries.

In a conventional corporate funding process, the equity investors (i.e. corporations' shareholders) are acting as the first-loss position capital, therefore, this equity capital is in fact the credit enhancement mechanism employed by the bank lenders engaged in any corporate financing operations. The level set for such credit enhancements, in conventional corporate finance, is established by means of the corporate leverage ratios given by the local lending practices. Whenever this credit enhancement must be increased (i.e. the leverage ratios decreased) the borrowers must raise new equity to amounts based on the whole corporate level capital structure. In contrast, in a securitization transaction, the required credit enhancement level is linked directly only to the expected losses in the underlying securitized portfolio (i.e. it is associated just to the risks of financial assets within that portfolio)(5).

Since the equity capital is the costlier funding source compared to debt financing, improving the leverage requirements, from traditional lending perspective, at the expense of equity capital is actually imposing a higher weighted average funding costs for corporates. In turns, a much greater financial leverage is permitted and achieved by employing asset securitizations, which results in reaching an overall lower funding cost for the originating corporations, leading thus to further higher return on equity ratios being met, and all these are achieved by simply securing higher leverage at the expense of debt capital.

This spectacular outcome of lowering the weighted average costs for corporate originators is based on another fundamental principle of assets securitization, namely, the rating arbitrage principle. Securitisation's rating arbitrage allows total delinking of originators' corporate rating from the ratings assigned to the asset-backed securities, which are rated solely on the strength of the underlying assets and the credit enhancement mechanisms involved, remaining completely unaffected by the corporate rating assigned to the originator itself.

B. Banking and financial disintermediation

Assets securitization has generated banking and financial disintermediation, as conceived in the traditional sense, which is leading to significant benefits to any national economy.

In a world without financial intermediaries and public debt markets there are at least three major problems in performing financing and investment transactions with corporate borrowers: (1) transactional difficulties; (2) informational difficulties; (3) means of handling the perceived risks.

To fill this gap of individual investors lending and investing directly in corporations, financial intermediaries have appeared. Any financial intermediary should provide at least the following three economic functions: (1) providing maturity intermediation; (2) reducing risks via diversification; (3) reducing the costs of contracting and information processing.

However, traditional financial intermediaries, such as commercial banks, have miserably failed in performing and accomplishing any of these three basic objectives, from the perspective of any corporate borrower. Hence, new means and pioneering instruments were needed to carry out these desiderates and thus modern financial innovations had delivered the assets securitisation concept, which solved all these problems by allowing corporate borrowers to acquire funding directly from the capital markets rather than from the traditional financial intermediaries.

Securitization can successfully fulfill all these roles: (1) it settles the maturity intermediation by means of issuing asset-backed securities with different maturity ranges (short, intermediate and long term); (2) it manages diversification through the large number of underlying assets involved in a typical transactions; (3) it resolves the costs of contracting (which are provided by assets' originators) and the information processing (which is provided both at the assets' originating level and at the ABS' rating level).

The continuous development and expansion of the securitisation markets have multiple beneficial effects on the overall credit, capital and financial markets: (1) it introduces new classes of debt instruments; (2) it allows direct and easy access of new market participants (i.e. small and medium sized companies, corporations) to credit, capital and financial markets; (3) it enhances the liquidity and depth of capital markets by providing more issuers and additional financial instruments into trading and market-making operations; (4) it allows originators balance sheet assets disposal in a more efficient way; (5) it facilitates originators to achieve more beneficial financing profiles, additional funding and refinancing resources at far much better funding terms; (6) it allows investors to expand their investment universe to new asset classes of high-rated high-credit quality instruments; (7) it contributes to the exponential growth of primary and secondary markets for other financial market's constituents: mortgage markets, credit markets, structured credit markets, alternative investment funds markets, etc.

Furthermore, the emergence and expansion of assets securitisation within the global financial markets ecosystem have provided dramatic changes to the traditional banking systems across the world. Given that the assets-backed securities issued within the securitisation process must be underwritten and distributed to the global institutional investors via primary market operations and their secondary market must be maintained highly-liquid and fully-funded, the role played by investment banks have steadily become more important and widespread. Moreover, since numerous corporations across the globe are shifting their funding habitat from traditional financial intermediaries-based borrowing to capital markets-based funding, the role of investment banks and their specific corporate finance and investment banking services will exponentially increase in the near future while the role of commercial banks as traditional lenders will constantly decline.

This changeover trend is reinforced from both the asset-side and the liability-side of the financial institutions' balance sheet. Traditional deposits-taking business, as habitual savings mechanism, is consistently shifting into more institutional investment-like approach, since more and more money are moving from conventional term deposits to modern market investment fashion such as mutual funds, money market funds and alternative investment funds. On the lending side, financial intermediaries are more often embracing the originate-to-distribute business model instead of the traditional originate-to-service model, focusing on originating and distributing more assets than holding them on their balance sheet until maturity.

Correspondingly, just like assets securitization transactions are generating revenues by servicing the securitised assets, traditional financial intermediaries will change their types of incomes: fees incomes born from loans granting and their corresponding origination costs will be replaced by proceeds generated from servicing fees, distributing fees, market-making fees, etc.

C. Benefits for the economies at large

Just like any modern economy is built around strong and forward-looking capital and financial markets, structured finance and assets securitization are necessary and indispensable ingredients to any modern and fully functional economy.

Any securitisation's major outcome is the creation of tradable securities with highest liquidity degree for financial claims that would otherwise have remained bilateral deals highly illiquid on-balance sheet items.

Securitization contributes to improving any economy's banking system, capital and financial markets ecosystems through making financial assets tradable through: (1) it reduces agency costs by making banking, capital and financial markets more efficient; (2) it improves and multiplies the funding and liquidity sources for the underlying financial claims by reducing the funding, refinancing and liquidity risks in the overall financial and banking systems; (3) it provides much lower funding rates for both household and corporate borrowers contributing to funding the real economy on better terms and facilitating economic growth through incentives to both lending and consumption expansion on much realistic provisions; (4) it develops and expands primary and secondary markets for virtually any kind of assets classes involved in securitisation transactions (loans, bonds, structured credit, future cash flows, and so forth).

5. Conclusions

When searching for securing funding and liquidity sources diversifications; lowering financing, refinancing and capital raising costs; enhancing risks transfer and management; or acquiring any other competitive advantages in terms of both economic and financial provisions, financial and non-financial institutions are firstly and fore mostly turning to structured finance and assets securitisation as the most suitable financial and investment tools to meet their needs and objectives.

Herewith research-paper had highlighted a handful of originators, sponsors, issuers, investors, regulators, governments, economies, capital and financial markets' motivations and competitive advantages that are highly inspiring corporations and financial institutions to bring into play structured finance and assets securitisation while reaching their competitive edge in both local and global marketplace.

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