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WILL BASEL II AFFECT THE GROWTH OF THE STRUCTURED CREDIT PRODUCTS MARKET?

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ABSTRACT

This paper looks at the impact of Basel II on the Structured Credit Products Market (Securitisation and Credit Derivatives) and how the new Regulatory Capital rules will impact the growth of the market in the future.

Given the recent issuance of the guidelines and the pace of growth of the markets, this study will identify if any change will occur in the growth of the market due to regulatory changes. Having analysed the key issues, we met with a number of Banks, Investors, Regulators, Advisors and related parties to gain their input to these issues.

The main finding of the project was that whilst Regulatory Capital is an important factor in determining the rationale for conducting this business, it is not the only one, and in fact is not even the most important one. Most market participants will not change their business strategies fundamentally, however, smaller players will have to make considerable investments in systems in order to keep with the larger players if they want to be key participants in the market and receive advantageous regulatory capital relief for their business and thus also earn Economic Value additive returns for their shareholders.

Whilst Regulatory Capital Arbitrage may be reduced going forward the other motivations for the growth of this business remains strong and the expected future growth is expected to continue undiminished. What will be evident is

that the nature of structures will change and the allocation of capital will become more risk sensitive and efficient.

Keywords: Structured Credit Products, Regulatory Capital, Basel II, Securitisation, Credit Derivatives

