Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Statistical Release

Special Purpose Entities Statistics Q1 2018 27 June 2018

Special Purpose Entities (SPEs)[1] Statistics Q1 2018

- ***The total asset value of Irish-resident SPE vehicles fell in Q1 2018, by €58.6bn to €674.5bn***. However, this fall is attributable to a small number of non-securitisation (other) SPEs no longer availing of taxation provisions under Section 110, of the Tax Consolidation Act 1997, which defines the reporting population.

- ***Financial Vehicle Corporations (FVCs), or securitisation SPEs,*** saw a small increase in total assets, of €1.3bn to €402.3bn and an increase in SPE numbers of 24 to 988 in Q1 2018, driven by ***Cash CDOs.***[2]

- ***Within Other SPEs, the impact of certain large SPEs leaving the reporting population mainly drove the €59.9bn decline in total assets to €272.2bn*** despite an increase in SPE numbers of 39 to 1,148 in Q1 2018. Within the other activity types, the main movement was a decline in external financing activity by Russian-sponsored SPEs.

[1] Definition of a SPE, a FVC and other SPEs can be found on page 5 – in Notes.
[2] CDOs are collateralised debt obligations backed by a potentially wide range of debt securities or loans.

Total assets of Irish SPEs declined to €674.5bn in Q1 2018, from €733.6bn in the previous quarter. SPEs no longer reporting to the Central Bank of Ireland following their decision to exit Section 110 taxation status accounted for €55.6bn of this decline. Section 110 is currently used to define the Other SPE reporting population though work is ongoing to define the SPE population more broadly. A reduction in external financing activity (€4.8bn), mostly by Russian sponsored entities (€3.8bn), was the other main factor behind the decline.

Within FVCs, numbers of entities continued to expand strongly, to a record high of 988 in Q1 2018 from 964 in the previous quarter. Total assets only increased marginally, however, to €402.3bn from €401bn (Chart 1). This pattern continues the evolution of the industry since the financial crisis from one largely based on the securitisation of large mortgage pools to a much more diversified range of securitisation undertaken in smaller FVCs. Changes in total assets per quarter are driven by offsetting effects from maturing mortgage-based debt securities and new debt security issuance underpinned by non-mortgage based loan and debt securities.

Within Other SPEs, the overall longer term trend is quite similar to FVCs. The number of SPEs continues to increase strongly, to 1,148 in Q1 2018 from 1,109 in the previous quarter. Total assets peaked in Q1 2017, however, and have been quite volatile since, even excluding Section 110 effects in Q1 2018. The exit of vehicles from Section 110 designation in Q1 2018 (Chart 2) drove total assets down to €272.2bn from €332.1bn in the previous quarter. Resolution SPEs also exist within Other SPEs, which account for some of this volatility. A decline in intra-group financing activity by non-financial corporations is being offset by an increasing use of SPEs by investment funds to undertake investment activities.

Chart 1: Total Assets and Number of Reporting FVCs

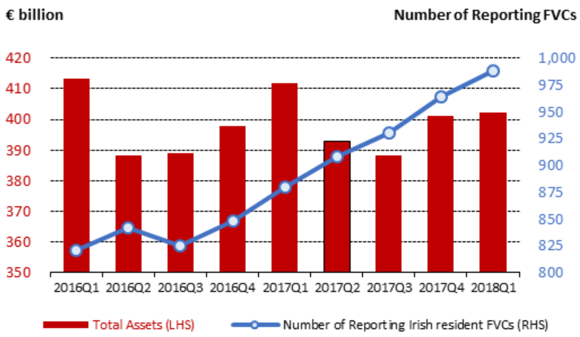
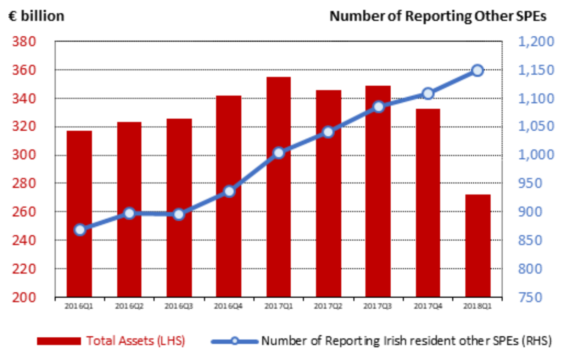
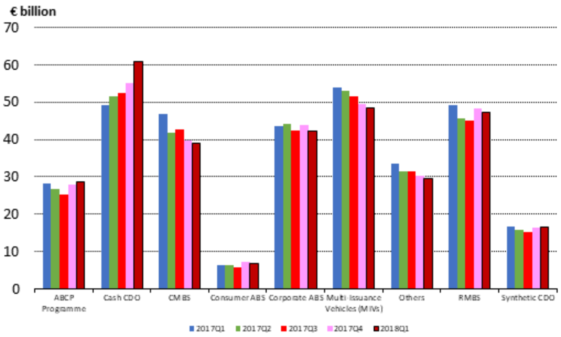


Chart 2: Total Assets and Number of Reporting Other SPEs



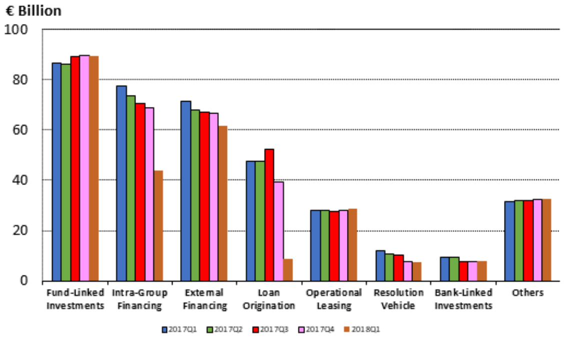
Within FVCs in Q1 2018, Cash CDOs saw a particularly sharp increase in total assets, of €5.8bn, to €61bn, cementing its position as the largest category (Chart 3). The asset category "Securities other than Shares" increased, by €4bn, reflecting the placement of debt securities in FVCs by sponsor entities, or their intermediaries, to facilitate new debt security issuance. The other main categories were largely flat in Q1 2018, though total assets declined somewhat on a cumulative basis for all categories, except Cash CDOs. Among resolution and mortgage backed SPEs (RMBS and CMBS), the pace of maturing debt securities issued slowed significantly though these tend to be quite volatile quarter-on-quarter.

Chart 3: Evolution of FVC types since Q1 2017 (total assets)



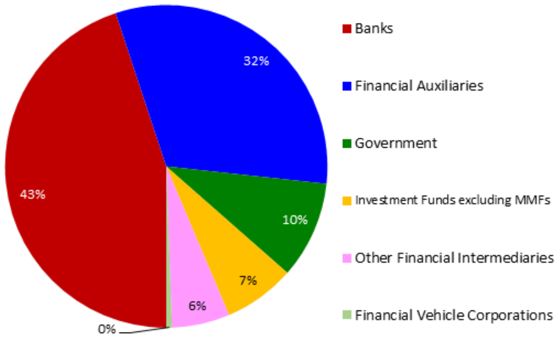
Within Other SPEs, Q1 2018 saw little movement in most activity types apart from changes in the reporting population, mentioned above. Declines were recorded in external financing activity, largely driven by Russian-sponsored SPEs (Chart 4). The net effect is a significant increase in the diversity of activities. The top three categories, namely fund-linked investments, intra-group financing and external financing, accounted for 59 per cent of activity in Q1 2018, compared to 68 per cent in the previous quarter. Operational leasing replaces loan origination as the fourth largest category.[3]

Chart 4: Evolution of other SPEs types since Q1 2017 (total assets)



The main sponsors of FVCs are banks, though, at 43 per cent, this is well below their historical share (Chart 5). Financial auxiliaries represent an ever increasing share of FVC sponsors, standing at 32 per cent in Q1 2018. These comprise a range of investment entities including asset and capital managers, advisors and servicers.

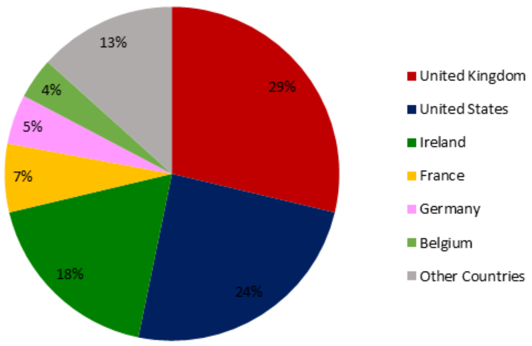
Chart 5: Breakdown of Irish resident FVCs Sponsor sector Q1 2018



[3] Uniquely within SPEs, operational leasing is classified as non-financial activity in national accounts and does not form part of the Irish financial sector.

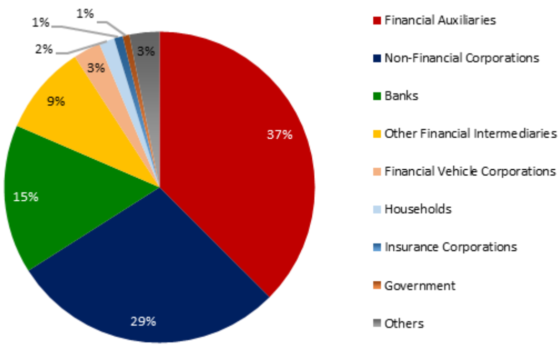
The location of entities sponsoring FVCs is largely unchanged over recent quarters, although there has been some replacement of bank sponsors by financial auxiliaries (Chart 6). Irish entities sponsoring FVCs account for just 18 per cent of total assets, including NAMA-linked FVCs. UK and US sponsors account for over half of total assets, while Western European countries make up the other main sponsors. Notwithstanding this clustering pattern, the other category contains 35 different country sponsors.

Chart 6: Breakdown of Irish resident FVCs Sponsor country Q1 2018



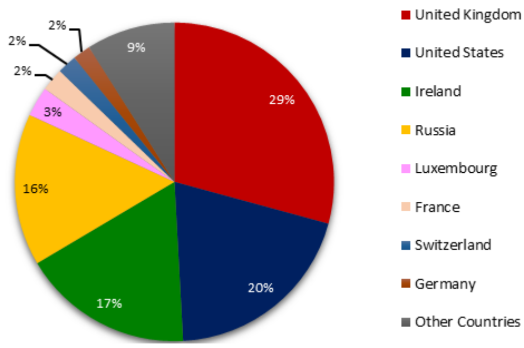
The main sponsors of Other SPEs are financial auxiliaries, at 37 per cent, while the share of bank and non-financial corporate sponsors has declined following the exit of certain vehicles from Section 110 designation. (Chart 7). Bank sponsored SPEs now comprise just 15 per cent of the population, compared to 23 per cent in the previous quarter. The decline in the share of NFC sponsored SPEs was less marked, at 29 per cent down from 31 per cent.

Chart 7: Breakdown of Irish resident other SPEs Sponsor sector Q1 2018



The location of Other SPE sponsors are similar to FVC sponsors in some respects but are somewhat more diverse overall (Chart 8). Like FVCs, the UK and US are the largest sponsor countries with Ireland, at just 17 per cent including NAMA-linked SPEs. Within the remaining population, however, Russia is prominent due to external financing activity. The total population comprises 45 countries.

Chart 8: Breakdown of Irish resident other SPEs Sponsor country Q1 2018



Appendix

Notes

These data was collected under the requirements of Regulation (EC) No. 24/2009 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30), which was passed on 19 December 2008, obliging financial vehicle corporations to report quarterly balance sheets. Reporting is obligatory for all financial vehicle corporations resident in Ireland.
The full data series for Ireland is available on the Central Bank of Ireland website here and euro area statistics are available from the ECB website here.

A Special Purpose Entity (SPE) is a legal entity created to fulfil narrow, specific or temporary objectives.

Financial vehicle corporations (FVCs) are undertakings which are constituted pursuant to National or Community Law and whose principal activity meets both of the following criteria:

- to carry out securitisation transactions which are insulated from the risk of bankruptcy or any other default of the originator;
- to issue securities, securitisation fund units, other debt instruments and/or financial derivatives, and/or to legally or economically own assets underlying the issue of securities, securitisation fund units, other debt instruments and/or financial derivatives that are offered for sale to the public or sold on the basis of private placements.

Securitisation refers to a transaction or scheme whereby: (i) an asset or pool of assets is transferred to an entity that is separate from the originator and is created for or serves the purpose of the securitisation; and/or (ii) the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments and/or financial derivatives issued by an entity that is separate from the originator and is created for or serves the purpose of the securitisation.

Other Special Purpose Entities (other SPEs) are vehicles not engaged in securitisation.

Further information

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