

Restructuring assets in regulatory quicksand

Scott Robertson and Gareth Mee September 2016

Objectives of this session

- To convince you that you we can still buy new assets as an industry
- To help you understand some of the pragmatic challenges and apply practitioners' solutions to common issues when restructuring
- To avoid you getting stuck in the quicksand





Why would I pay £ks to create something which doesn't change the risk?

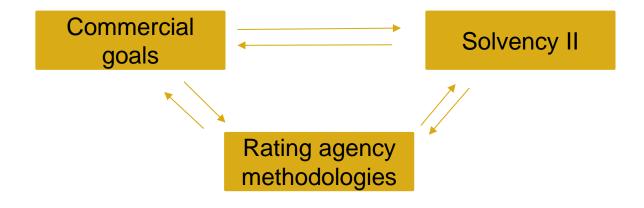


Benefits of restructuring assets

Reward Obstacle Availability of Potentially purchase assets where it is useful to bifurcate fixed from floating (e.g. property) assets Make MA Removal of unwanted features such as prepayment eligible Cashflow Structure provides completely fixed cashflows for matching certain matching Reduce capital The sum of the parts is not equal to the sum of the requirements whole when you add the MA in

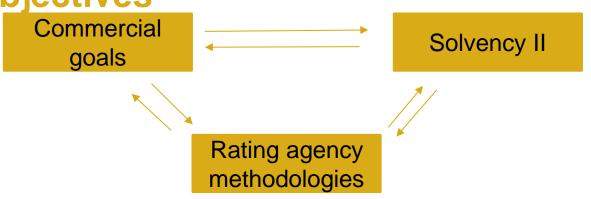


The optimal structure depends on the asset, firm and objectives





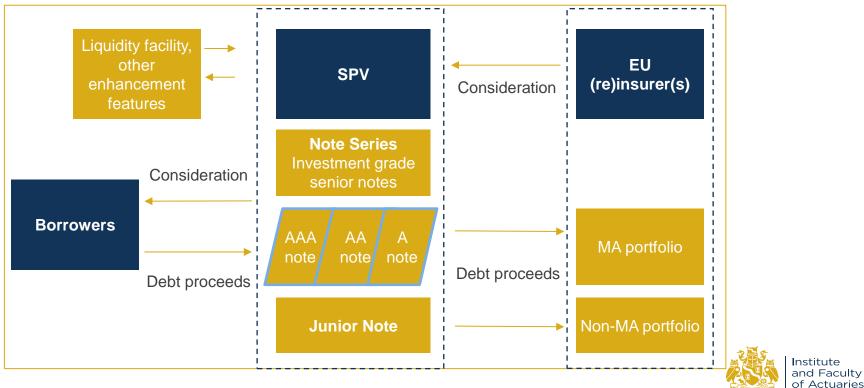
The optimal structure depends on the asset, firm and objectives



Examples of key considerations:



So the perfect solution is really complex, right?

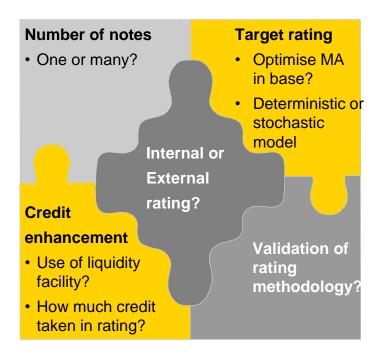




The rabbit holes and the goldmines

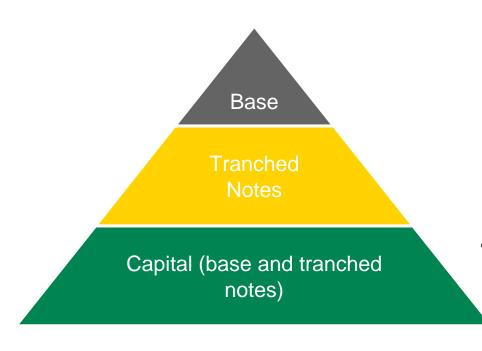


Obviously 5 notes are better, with a large AAA tranche?





Can I look up the price on Bloomberg?



Normal valuation principles

- Equation of value (PV(SPV Assets)= PV(SPV Liabilities))
- Relevant 1 in 200 scenarios follow valuation principles to re-price liabilities using equation of value



And then I just leave it there and wait for the cashflows to come in?







Now I know I like the asset and want to restructure, have I missed the boat?



Now I know I like the asset and want to restructure, have I missed the boat?





Alternative reshuffle

Evaluate 3 months asset class Make MA application Base loans and 3 months plus 6 months review standard SPV Apply to PRA for 3 months plus 6 months review Restructure Include in IM as Submit Internal Model Remove from critical path **Corporate Bond Change Control** Write Board paper 1 month Set up SPV Purchase asset 1 month

Total elapsed time – 1 year 2 months



Aggressive reshuffle

Evaluate asset class

3 months

Make MA application Base loans

Apply to PRA for Restructure

Include in IM as **Corporate Bond**

Write Board paper 1 month

Purchase asset

1 month

Set up SPV

3 months plus 6 months review

3 months plus 6 months review

Remove from critical path

Submit MA **Change Control** For SPV

Confirm MA treatment Of SPV

Submit Internal Model **Change Control**

Total elapsed time – 4 months



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

