

Contemporary Phase of Securitization in the Russian Federation

Fase contemporánea de titularización en la Federación Rusa

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ABSTRACT:

The article reviews the practical development of securitization in the Russian Federation, the application of securitization schemes in specific examples, their advantages and disadvantages; identifies successive stages of its development and provides a forecast about its future in the Russian Federation. The article analyses the emergence of securitization and the associated trends in the Russian financial market, the relevance of securitization to the market in question and their interconnection. The research reveals that securitization has found its way into the Russian financial market. The advancement of these schemes can facilitate the development of Russia's financial market under sanctions.

Notwithstanding some inherent risks, growth of securitization seems justified, especially if these risks are managed, a task undertaken by the government through the Agency for Housing Mortgage Lending. Securitization in the Russian Federation is analyzed thoroughly in terms of its influence on the development of Russia's financial market and the need to avert financial shocks, which might dramatically increase the volatility of the currency and financial markets and thus affect the real economy. The article identifies successive stages of securitization development in the Russian Federation, focusing on the most important of them.

Keywords: securitization, collateralized debt obligations, mortgage-backed securities, mortgage, the Factory of mortgage securities.

RESUMEN:

El artículo revisa el desarrollo práctico de la titularización en la Federación Rusa, la aplicación de esquemas de puesta en seguridad en ejemplos específicos, sus ventajas y desventajas; identifica etapas sucesivas de su desarrollo y proporciona un pronóstico sobre su futuro en la Federación Rusa. El artículo analiza el surgimiento de la titularización y las tendencias asociadas en el mercado financiero ruso, la relevancia de la titularización para el mercado en cuestión y su interconexión. La investigación revela que la titularización ha encontrado su camino en el mercado financiero ruso. El avance de estos esquemas puede facilitar el desarrollo del mercado financiero de Rusia bajo sanciones. A pesar de algunos riesgos inherentes, el crecimiento de la bursatilización parece justificado, especialmente si se administran estos riesgos, una tarea emprendida por el gobierno a través de la Agencia para préstamos hipotecarios para la vivienda. La bursatilización en la Federación de Rusia se analiza detalladamente en términos de su influencia en el desarrollo del mercado financiero de Rusia y la necesidad de evitar choques financieros, lo que podría aumentar drásticamente la volatilidad de la moneda y los mercados financieros y afectar así la economía real. El artículo identifica etapas sucesivas de desarrollo de titularización en la Federación de Rusia, centrándose en el más importante de ellos.

Palabras clave: titularización, obligaciones de deuda colateralizada, valores respaldados por hipotecas, hipoteca, la Fábrica de valores hipotecarios.

1. Introduction

Since the early 1990s, the Russian Federation has intensified integration of its economy into the world economy, which has propelled the arrival of global trends in the Russian market. As the modern world economy is increasingly dominated by the financial sector, both the global economy and the Russian economy face the growing impact of financial trends, which are gradually becoming decisive. The need to promote the development of the Russian financial market is becoming one of the most urgent tasks of our time, because the financial market provides not only alternative funding sources, but also helps hold down inflation pressures (Kotova, 2013, 2014a, 2014b). Securitization is designed to fuel the development of the national financial market. And even though the Law on Securitization was not adopted in Russia until 2013, and large-scale issues of mortgage-backed securities have only been offered since 2016, the advent of this practice dates back to the early 1990s.

2. Methodology of the study

The study is based on statistics disclosed by Russian banks and the Agency for Housing Mortgage Lending and relies on methods of retrospective analysis, a systemic approach, analysis and synthesis, which has made it possible to identify the features of the current stage of securitization development in the Russian Federation and successive stages throughout its history.

Unlike the world-wide practice, where the securitization market originated in mortgage lending (the US financial market), and then spread into other sectors, the first securitizations in the Russian Federation occurred in bank lending, and then slowly (again unlike American practice) spread into other sectors, including the mortgage market, which later came to dominate. However, the complexity of these operations increased as they developed in all countries.

Various aspects of securitization have been in the focus of attention among international researchers for quite a long time,

among the fundamental studies are the works of F. Fabozzi and V. Kothari (2008), H.P. Bär (2007), J.J. de Vries Robbe and P. Ali (2008), M. Segoviano Basurto and others (2013). Yet this subject has not been researched extensively in the Russian economic literature. All the studies have more or less concentrated on an analysis of the theoretical aspects of securitization, in particular, its definition. It was pointed out by M. Lavoie (2012) that securitization cannot occur without opening of the capital account. A study by C.M. Kaplan (2014) was devoted to the genesis and some prospects of securitization. A lot of attention has been given to securitization through banks (Le et al., 2015; Instefjord, 2005), in terms of its capacity to produce a powerful effect on the banking system (Hänsel & Krahn, 2007; Uhde & Michalak, 2010).

Recent international studies primarily regard securitization as a process through which large companies shift away from direct borrowing through savings and loan institutions as the main funding source towards securities issues, the so called method of "asset-based financing" (Bär, 2007), and subsequently as a method of SME financing (Kraemer-Eis & Passaris, 2015), which can spur its development (Lockwood et al., 1996), as well as make it more risky (Douglas & Raghuram, 2009; Purnanandam, 2009; Shin, 2009).

Contrary to recent international studies the approaches of Russian researchers can be generalized in the following way. Russian experts consider securitization as a mechanism for selecting the assets, pooling them, transferring them to a special purpose vehicle (SPV), issuing collateralized securities (Russian equivalent to asset-backed securities, ABS) (Aleksandrova, 2007), the process of transforming cash flows generated by the company's assets (Selivanovsky & Gafarova, 2005) and a set of rules for refinancing cash receivables (Tuktarov, 2005). It is believed that the first and classic definition of the term "securitization" was given in 1977 by Salomon Bros., a bank, in the context of mortgage-backed securities (MBS), which then spread to other asset classes (loans, cash, etc.), thus going far beyond the limits of mortgage contracts. A fresh perspective on securitization was provided by L.R. Cohen, L. Samuelson and H. Katz (Cohen et al., 2017), with regard to a wider spread of blockchain technology. Nevertheless, B.G. Buchanan (2016) still considers securitization as one of the latest financial innovations. In summary, this article defines securitization as a scheme for creating securities collateralized by any assets that generate cash flows. This mechanism can lead to either profit or loss because of intrinsic advantages and disadvantages (Table 1).

Table 1
Advantages and disadvantages of asset securitization

Advantages	Disadvantages
The positive effects of securitization include, first of all, increasing liquidity, minimizing risks through their distribution and transfer, guaranteeing, and lowering the interest rate on loans.	The negative effect is the great potential for moral hazard - the involvement of an abusive borrower in a transaction, which can lead to deterioration in the credit quality (however this risk may be reduced by the introduction of special requirements for the originator).
As securities are collateralized with real assets, the credit rating of such securities may be higher than that of their issuer, thus it is possible to use mechanisms of credit quality enhancement.	Securitization can also involve significant expenses (for the related services), which is, however, beneficial for large market participants, while others can offset such expenses with conduits [3].
Securitization provides an opportunity to manage the maturity gap and the prepayment risk more effectively.	Another negative effect is excessive complexity of transactions.

In addition, Russian studies tend to analyze the international experience of securitization, most often that of the US, where securitization has been flourishing, and to a much lesser extent that of Europe, firstly, due to European securitization lagging behind that of the US, and secondly, due to a special direction in development of institutional investors in the region (using the UCITS schemes and the Basel Recommendations). Specifics of Russian securitizations draw far less attention, and until 2017 such transactions were not standardized.

Records of the very first securitization transaction in the Russian Federation vary (Kuchinsky, 2011; Khmyz & Sergeeva, 2017). Some experts believe that such was the restructuring of foreign debt, carried out in 2000 by the Russian Credit Bank, because in the course of this transaction, firstly, a SPV (on the Cayman Islands) was set up; secondly, collateralized notes were issued; and thirdly, a foreign institutional investor, ING Barings, was involved. Consequently, the operation was similar to a conventional securitization. However, other experts believe the first securitization transaction was conducted by the Russian Standard Bank in 2002, with bonds issued on the back of consumer loans. However, the collateralized assets were not removed from the balance sheet, which casts doubt on whether this operation was a genuine securitization. Nevertheless, this scheme helped minimize the potential risk of default on the underlying asset, which is typical of a securitization operation. Yet another group of experts claims that the first securitization occurred with the sale of a mortgage pool by Delta Credit, a bank. However, although this operation involved institutional investors (Moskommertsbank was the counterparty), it was an institutional sale, the first such deal in the Russian Federation, rather than a securitization.

In general, it is important that, although these transactions cannot be considered as genuine securitizations, they exposed some progress towards securitization in the Russian Federation, as well as the willingness and readiness of economic entities to participate in their implementation.

3. Findings of the study

As legislation on derivatives (as opposed to conventional securities) was slow to materialize, bank loans were the underlying assets in the first securitization transactions. It was commercial banks that became the first participants in securitization operations in the Russian economy, acting as counterparties in the transactions, which led to closer ties and caused interweaving of bank lending and securitization. Over time this relationship has grown even stronger due to the special position of banks in the Russian financial market, which investment companies have been unable to compete with, primarily due to financial reasons as well as legal restrictions. Admittedly, the overall trajectory is in line with a new stage in the development of European securitization – 'simple, transparent and standardized', aimed at minimizing the problems of transition to a new system of building and regulating financial markets and monetary policy considerations by the European Central Bank (Braun, 2018).

As securitization has evolved in line with international practices, today housing mortgage lending accounts for the bigger share of securitizations in Russia and has become a kind of basis for securitization operations and ABS. Indeed, the mortgage market would not have achieved this dominance but for state support. To facilitate its development, in 1996 a special institution was set up, the Agency for Housing Mortgage Lending (AHML) (Government of the Russian Federation, 1996), designed to provide general support for residential mortgages in the country, as well as make direct loans. These goals were laid down in the state programme "My Home", adopted in 1996 (Federal Target Program "My House", 1996).

A significant impetus to the development of securitization in the Russian Federation was given by the adoption of the federal law "On Mortgage Securities" (2003), which formally introduced the concept of "MBS" and the entities involved in their issue and circulation. Under the law the concept of ABS was confined to MBS. Restrictions designed to minimize risks were laid down and enforced. Thus, the amount of MBS was not to exceed 80% of the property cost; the property was not to be replaced or disposed of. The law made insurance compulsory.

It is noteworthy that the norms and schemes laid down by the law were somewhat different from those in place on the global financial market, which led to some difficulties, since previously securitizations involving both Russian and international institutional investors were carried out in accordance with the Western practice. Now even the terminology was different. The law provides for the creation of mortgage-backed bonds and mortgage participation certificates. While mortgage-backed bonds (an equivalent of US MBS) are conventional instruments for the global financial market, representing financial instruments that are partially or fully collateralized by mortgages, the mortgage participation certificate grants the holder, among the variety of rights, one that stands out: the right of beneficial ownership for proper trust management and the right to a share in the mortgage collateral, as well as the cash receipt in the event of non-performance. Mortgage-backed bonds are issue-grade securities, whereas participation certificates do not need to be registered, which lowers the cost of and accelerates their issuance. However, their share in the Russian market is still small, although it is not necessary to employ a SPV for their issue.

Federal Law No. 379 "On Amendments to Certain Legislative Acts of the Russian Federation" of December 21, 2013 laid down provisions governing the Russian securitization market, which were better aligned with international practices. Thus, the securitization market in the Russian Federation is becoming increasingly well-organized. Consequently, we witness a convergence of Russian and international securitization practices.

Summary of the findings: 1) the retrospective analysis identifies the turning points and key events in the Russian securitization market, which marked successive stages of its development; 2) a conclusion is drawn that the gradual development of the Russian securitization market is directly related to the variety of instruments it uses and the expansion of their number within the legal framework; even though the emergence of securitization in the Russian Federation was due to the needs of market participants, i.e. bottom-up approach, its development is promoted by the state, i.e. top-down approach. 3) the study reveals a relationship between the performance of the Russian securitization market and the performance of the Russian financial market and the maturity of the banking industry; 4) the study points out the invaluable support of the state, including that provided through AHML, which has become one of the main participants in the Russian securitization market and contributed not only to the diversification of its participants, but also to a reduction in the overall level of risk. Operation of the US mortgage market has shown the importance of not only state regulation of MBS, but also support provided by a specialist institution. In a bid to minimize risks, this segment is only considered suitable for qualified investors.

4. Findings review

The first genuine securitization transaction in the Russian Federation was an operation of Gazprom, which securitized over \$1 million worth of assets for future cash flows from gas exports in 2004. This operation was approved by international rating agencies, which assigned investment ratings appealing to potential buyers.

In 2004, another institutional investor conducted a securitization transaction. Rosbank issued Eurobonds, with future receivables from debts on Visa and MasterCard payment cards serving as collateral. The deal was rated by Fitch and Moody's. The transaction worth over \$220 million was successful, and in 2005 the scheme was applied again and was equally successful.

In 2005, automobile loans were securitized by Soyuz Bank (with the participation of the Russian Standard Bank), and rouble-denominated consumer loans were securitized by Home Credit and Finance. In 2006, JSC «Russian Railways» securitized future cash flows from leasing contracts, and AHML and VTB24 did the same with receivables from mortgage contracts. Foreign institutional investors were involved in these transactions, and the securities were safe enough to be sold in the global financial market. In the same year, the first offshore (Luxembourgian SPV) securitization was initiated (completed in 2009), in which the Russian Standard Bank used consumer loans and future cash flows.

The International Financial Corporation (IFC) facilitated the integration of the Russian Federation into the global securitization market, promoting the arrival of securitization in the Russian Federation and setting up a working group on the issue. It pointed out a number of positive effects that securitization would produce in the Russian financial market (World Bank, 2005). In 2006 IFC assisted VTB in its securitization of senior and mezzanine tranches with GOLF products designed to minimize exchange rate risk. IFC played a crucial part, acting as an investor, structurer and credit enhancer. It is noteworthy that it facilitated standardization of securitization techniques in the Russian financial market and general popularization of this mechanism.

In 2007 the global financial crisis had yet to spread to the Russian financial market, so, in contrast to the securitization squeeze in developed countries, securitizations in Russia kept gaining momentum, especially in the mortgage market. Moreover, the overall favourable environment prompted the issuance of Russian collateralized debt obligations.

Later on, steady development of the Russian securitization market was interrupted by ripples sent by the American mortgage crisis. The government supported mortgage markets via the activities of AHML and VEB, preventing their collapse. These entities drew up special programmes with a view to resolving the crisis. For example, Vnesheconombank's programme of investment in affordable housing and mortgage projects of 2010 - 2013 proved vital, since VEB's share of the MBS market was significant in the early 2010s. A collapse was averted, but the unfavourable environment lasted for several years until 2012 (Agency for Housing Mortgage Lending Statistics, 2017), which did not contribute to the growth and frequency of securitizations. On the whole, the Russian securitization market stagnated, with its capitalization declining and new issues being rare. A turning point was not seen until 2012, when receivables were securitized with support of an Austrian bank.

In 2013 the value of Russian ABS exceeded 140 billion roubles, of which more than half were denominated in roubles, over a

third - in dollars, and only 10% - in euros. The bulk of these instruments were long-term (with maturity of 25 to 30 years). Banks, especially the largest ones, were expanding their mortgage holdings and were willing to acquire liquid long-term financial instruments.

The market continued to gain pace. New participants entered the market: 2013 saw the first securitization by a non-bank lending institution when "St. Petersburg Center for Affordable Housing" securitized mortgage loans, with AHML guarantee attached to the bonds. This support has been crucial, as so far banks (and non-bank lending institutions in particular) do not have significant mortgage holdings to act as originators.

In the same year AHML became the insurer and reserve service agent for the securitization undertaken by OJSC "Transcapitalbank" with VTB Capital acting as the originator, a sign of mortgage insurance gaining momentum.

The first multi-originator mortgage securitization involved CJSC "East Siberian Mortgage Agent 2012" and regional branches of AHML. As the pool of MBS must amount to at least 3 billion roubles to yield a return, this approach lowers transaction costs. Home Credit and Finance also securitized consumer loans by means of two SPVs.

Another incentive for the development of the Russian securitization market was provided by a special law on securitization (Federal Law No. 379 "On Amending Certain Legislative Acts of the Russian Federation", 2013) aimed at promoting securitizations (some other regulations [4] had to be updated as well). It expanded the notion of securitization (introducing the concept of "bonds with debt collateral") and envisaged establishing general and project "special financial entities" for securitizations - depending on the instruments used (assets or infrastructure bonds). These purpose-built enterprises are becoming conduits of long-term financing. A special financial entity can now act as an SPV, if current or future receivables are to be securitized. A special entity of targeted project finance can do so, if future cash flows of a project are to be securitized (these are long-term, running for at least three years) (Nurmukhametov, 2015). On top of that, the legislation extended the range of underlying assets eligible for securitizations to include virtually any senior cash claims capable of generating a continuous cash flow.

The formal expansion of the variety of eligible assets has also set a stage for structuring, which was previously possible only in foreign jurisdictions. Consequently, since Law No. 379 entered into force (01.07.2014), Russian securitization activity has no regulatory incentives for fleeing abroad.

This enhanced the legal framework for setting up SPVs. With a view to minimizing investor risks, Law No. 379 introduced a mechanism similar to "bankruptcy protection" in the West, designed to ensure protection in case of SPV's bankruptcy - the law tightened control over cash flows from securitized assets so as to keep apart cash flows from various assets. Moreover, the right to file for bankruptcy of an SPV is reserved only for owners of senior tranches. An issuer cannot be liquidated until its MBS have been redeemed. Prior to offering securities the issuer is legally obliged to be rated by either two rating agencies or one international rating agency with an AHML guarantee attached. And, while in global practice the originator buys only 5% of the issued ABS to minimize moral hazard, in Russia the figure can go up to 20%.

Heavy concentration persists in the market of the Russian Federation, which is dominated by several major banks. This may limit its efficiency through lack of competition both among sellers (specialized banks) and buyers. After all, the market is still shallow, which poses the threat of securitization turning into a niche product. Large banks are more willing to become originators (and participants) of securitizations. In fact, the concentration leads to non-market nature of securitizations, where ABS (especially MBS) are purchased either by originating banks or their affiliated entities. These schemes may not be due only to lack of willing buyers of ABS, but also their use in repo or lombard operations of the Central Bank. But the market has seen some progress: back in 2006 only four banks acted as originators of securitizations, whereas in 2016 almost 40 did so. Recently, streamlining of the number of Russian deposit institutions has led to an inflow of funds into government-sponsored banks (Davtyan & Dankevich, 2014). Therefore, medium-sized banks, among others, are looking for new financial opportunities. In the future they are likely to engage SME or private-label securities, as their peers in other countries do (Goodman, 2016).

By 2014 over 100 securitizations by Russian institutions had taken place, however, cross-border activity accounted for only 20% of them, with internal mortgage securitizations leading the market. AHML came to play the main part, which fuelled (and coincided with) the beginning of a rally in the financial market as well as in the housing sector of Russia. The Strategy for development of housing mortgages up to 2030 (which was adopted in 2014, expired in 2017 and has been replaced by the priority project "Mortgage and rental housing"), sets the goal of promoting the development of the secondary mortgage market in the Russian Federation by increasing offerings of mortgage securities to finance mortgages.

In 2015 the market was static, with investor demand depressed and economic growth lackluster. Amid this adverse environment and notwithstanding favourable regulatory changes, securitization activity was sluggish (although Credit Europe Bank securitized automobile loans). 2015 was marked by financial instability, partly prompted by geofinancial problems and free float of the rouble at the end of the previous year and contraction of the mortgage market due to higher interest rates and AHML overhaul.

2016 saw resurgent appetite for securitizations as VTB and Promsvyazbank announced their transactions. The complexity of the transactions increased. VTB, for example, conducted an on-balance-sheet securitization, collateralized by loan portfolios. Such deals are common in international practice, but were new to the Russian market. Promsvyazbank used a renewable collateral pool made up of various loans, which therefore generated uneven cash flows. The Eurasian Development Bank, the International Investment Bank, top international rating agencies were among those who participated in the transactions.

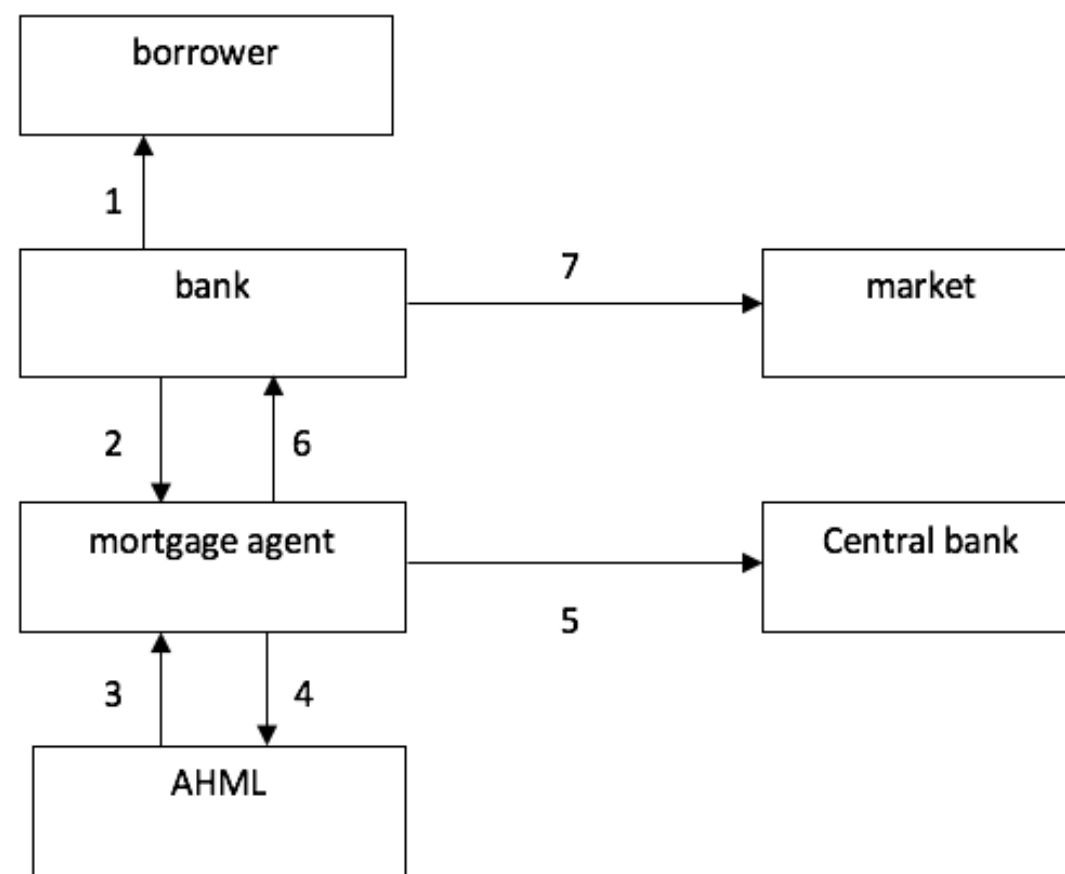
By the middle of 2016, the value of Russian ABS was close to 50 billion roubles, whereas the stock of retail loans amounted to over 10 trillion roubles.

In 2016 AHML launched a new scheme called a factory for MBS, whose activities are aimed at standardization of MBS and turning them into one of the most liquid instruments of the Russian financial market. Mortgage Agent "MBS Factory" LLC, a subsidiary of AHML, was established to promote mortgages and mortgage securitization in the Russian Federation by issuing standardized single-tranche MBS with an AHML guarantee attached. These efforts should improve the liquidity of the Russian mortgage market and the securitization market, making it easier for banks to refinance mortgage pools.

Similarly to the activities of globally known US mortgage agencies, the Factory purchases diverse mortgage claims (rus. "zakladnaya") and issues MBS. This has led some experts to refer to it as Russian Fannie Mae. Acting as a universal institution for development of the housing market, AHML ensures the repayment of impaired mortgage assets. It also plans to issue mortgage securities electronically to simplify formalities (via the introduction of the "electronic zakladnaya"), which should minimize costs and reduce risks.

As the Factory is supposed to meet reasonably strict requirements to mortgage securities it offers, which contributes to their high standard, the regulatory requirements will not be as stringent as those to earlier issues. This should boost liquidity of such securities and their overall appeal to investors.

Figure 1
Issue of mortgage securities through the Factory



Note:

1. provision of a mortgage by the bank to the borrower
2. transfer of mortgage documents (zakladnaya) to the agent by the bank
3. receipt by the agent of an AHML guarantee for 4. a fee
5. issue of MBS by the agent, their registration with the Central Bank (mega-regulator)
6. transfer of MBS from the agent to the bank. The bank may add these securities to its portfolio or
7. sell them on the market.

Thanks to accelerated registration with the Central Bank and application of this scheme in general (Figure 1), the liquidity of mortgage-backed securities remains high. The originating bank no longer needs to build up substantial reserves, which makes it possible not only to simplify the refinancing process (and lower its cost), but also to reduce the mortgage rate. Due to the government guarantee attached, MBS are standardized, thus becoming safer, and the associated risk declines, approaching the benchmark. Thanks to these advantages of MBS and higher returns than those on federal loan bonds "OFZ", the new securities are likely to be popular with various institutional investors. Investments in MBS are to be expected from private institutional investors, whether private pension funds, investment or insurance companies, (even if conservative investors are initially wary of investing in the new instruments, demand will come from hedge funds). Demand for mortgages is still quite steady and commercial banks have already intensified their activity on the back of persistent demand from private investors.

Although the mortgage market in the Russian Federation (4.5 trillion roubles) is not large by global standards, it expanded by 13% in 2016 alone, which was due to a growing economy, a reduction in the key interest rate (and a reduction in the mortgage rates from an average of 13% to 10.5% between mid-2016 and early 2017), banks' willingness to offer mortgages, and new reliable schemes). MBS have become the fastest growing banking product. Over 70% of MBS involve state-owned VTB and Sberbank, which adds to their reliability. As such Sberbank raised 50 billion roubles via the Factory in April 2017 in one of the largest issues of mortgage securities. It is followed by VTB Capital, which offers similar securities.

AHML plans to increase the share of new RMBS to 45% by 2020. AHML and Sberbank are set to issue a series of single-tranche MBS worth 300 billion roubles via the MBS Factory within three years. AHML is to act as a guarantor and Sberbank is to supply mortgages. A cut in mortgage rates to 9% in 2018 will contribute to the expansion of the mortgage market. New loans will also need refinancing with MBS. To date, only about 10% of the mortgage portfolio is funded through MBS.

5. Conclusion

Although the Russian securitization market has by now passed through the initial stage, it is far from being mature. The legal framework has largely been established, a sufficient number of regulations have been adopted, but so far healthy development of the market has been impeded by scarcity of eligible financial instruments and willing investors. Thus, the present shallowness of the Russian securitization market is attributable to general underdevelopment of Russia's financial market. The US mortgage crisis (which appeared to test the resilience of the Russian securitization market) was another drag on the sector, and so was the global financial crisis, which, however (due to the underdevelopment of the Russian financial market) did not inflict a huge loss on the Russian economy. Its negative effects were mitigated by government control over the sector and the activities of AHML, a specialist government agency. Therefore, while abroad the original function of securitization, i.e. risk reduction, has undergone serious tests and has virtually declined to next to nothing, in the Russian Federation the securitization market helped to lower the volatility of the national financial market, thereby fulfilling its basic function.

Moreover, the government keeps putting effort into risk reduction. In 2016 the Central Bank of the Russian Federation introduced new requirements to the capital of financial entities with regard to junior tranches of MBS and ABS. International experience shows that when such restrictions are introduced, institutional investors begin to design even more complex derivatives in a bid to circumvent the imposed requirements. Therefore, in the future the Russian mega-regulator is expected to conduct a flexible policy, encouraging both local and international investors to acquire MBS.

This provides further evidence of favourable prospects for the Russian securitization market on two fronts – in transactions involving foreign institutional investors and those not involving them. Given the increasing scale of its activities, AHML may prove able to promote the development of private mortgage securitization. Cross-border cooperation at both regional and

global levels may also foster the development of securitization, for example, within the Eurasian Economic Union. Belarus has followed Russia to promote securitization in the country.

The research into the emergence of securitization in Russia has made it possible to identify the following main stages of the market development. While the history is still short, the track record is impressive.

Stage 1 (1996-2003) – birth of the market, which saw sporadic transactions not fully consistent with the nature of securitization, lack of sector-specific legislation, AHML's nominal presence on the market.

Stage 2 (2004-2007) – development of the market with the arrival of MBS, international institutional investors, global ratings, the emergence of new instruments, the expansion of the range of eligible assets, the adoption of relevant legislation amid general liberalization of the Russian financial market.

Stage 3 (2008-2011) – stagnation of the securitization market in the Russian Federation amid the worldwide gloom.

Stage 4 (2012-2017) – a rebound, which saw the market reach new heights, with the development of sector-specific legislation and the establishment of an "MBS Factory" designed to promote the Russian securitization market (in particular, MBS).

Being a consequence of the integration of Russia's financial market into the global financial market, securitization has in its turn contributed to strengthening this integration through closer cooperation between Russian institutional investors and leading international institutional investors involved in securitizations.

The analysis of securitization trends in the Russian Federation has shown that securitization has become increasingly well-organized over time. This suggests it should be further enhanced and continuous effort should be put into minimizing the risks created by and involved in securitizations. The government should act as a major catalyst, with activities of the Agency for Housing Mortgage Lending and Mortgage Agent "MBS Factory" being of paramount importance.

On the whole, securitization is gaining momentum in the Russian Federation, albeit rather fitfully due to its inherent features: 1) uncertainty – on the one hand, it contributes to the development of the financial market and can contribute to the development of the real sector of the economy, but on the other hand, as international experience has shown, it can inflate bubbles and provoke crises, which is especially perilous in the property market; 2) growing scale – and related concerns among experts and regulators fearing a surge in instability, however, this is welcomed by speculators eager to earn juicy returns through turnover and volatility; 3) insufficient regulation of securitization schemes, which is attributable to immaturity of the Russian market, peculiarities of securitization in the Russian economy stemming from specifics of the national financial market, continuous creation of new derivatives and adjustment of securitization schemes. All this makes securitization increasingly more important for the Russian economy.

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 3. So far, conduit securitization has not turned into an established practice in the Russian Federation.
 4. Particularly, the Civil Code of the Russian Federation (2017).
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