

2018 Risk Retention Survey

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Maples and Calder
Maples Fiduciary Services

2018 Risk Retention Survey

Working with over three quarters of all US CLO managers, Maples Fiduciary is often asked questions about the state of the market.

As 'open market' US CLOs are now exempt from US risk retention rules, we have conducted a survey of our CLO manager clients to garner insight on their views of the impact of the ruling and how the market will evolve as a result.

58% 

of managers with risk retention structures plan to keep them in place. Notwithstanding,

61% 

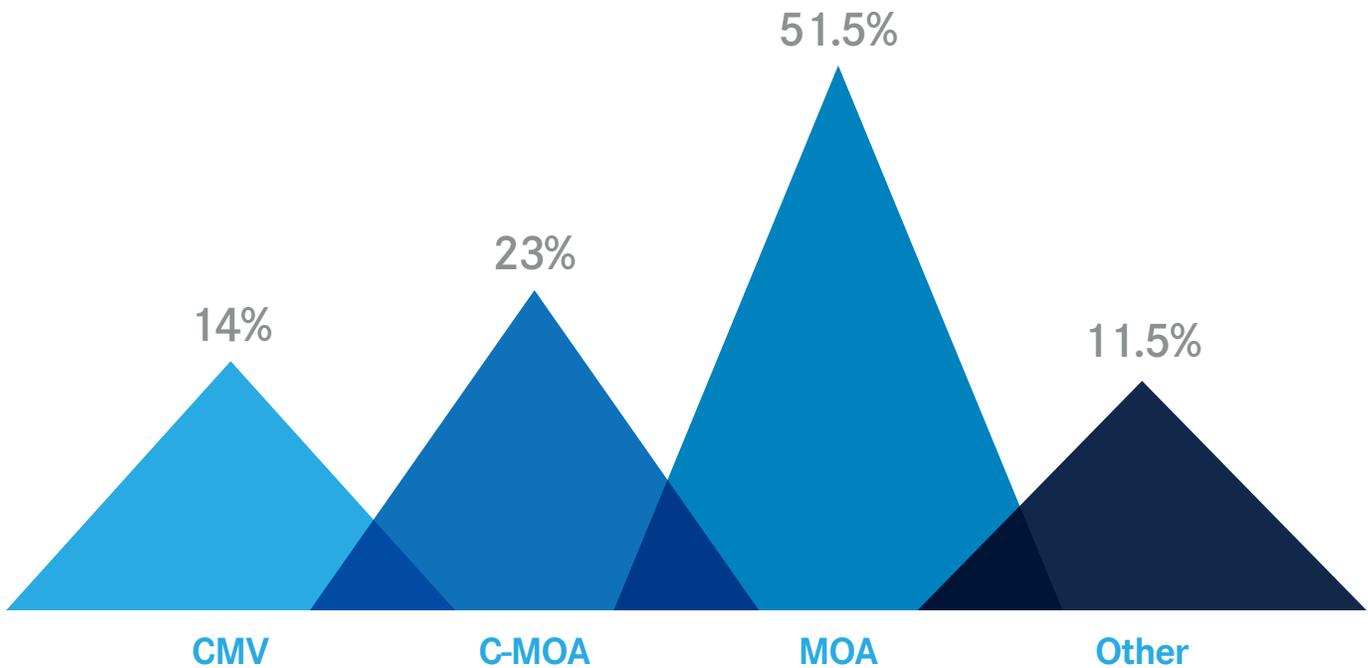
of managers who had issued a risk retention compliant CLO said that they planned to sell some or all of the related risk retention interest

50%+ of US CLO managers responded

Our managers were asked if they had issued a risk retention compliant BSL CLO.

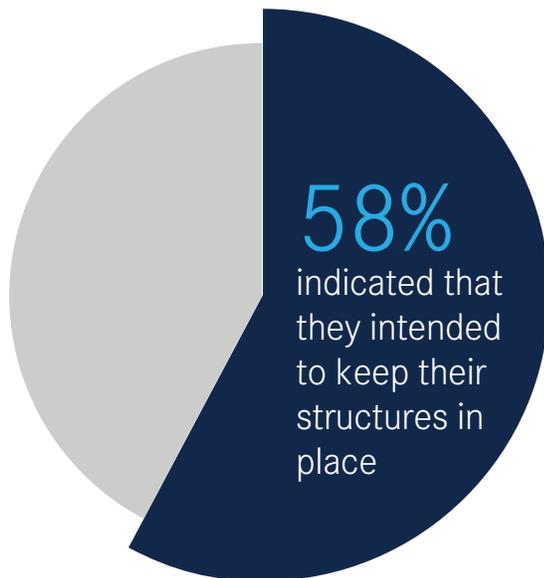
87%+
confirmed that they had

For the 87% of managers that had issued a risk retention compliant CLO, the risk retention structures they had put in place were as follows:

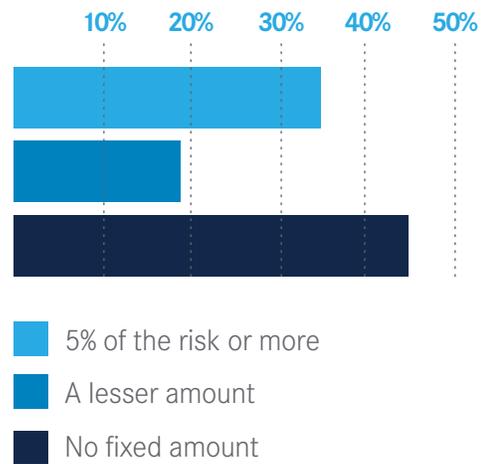


We also asked those managers that had issued a risk retention compliant CLO:

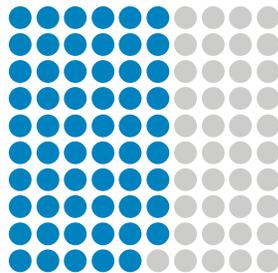
A) If they anticipated keeping their risk retention structure in place



B) What (if any) percentage of risk they would continue to invest in



C) If they proposed to sell some or all of their existing risk retention interest



61%
said they would look to sell

One respondent noted: "Most of our pre-risk retention deals would have been compliant or near compliant. If particular senior investors are looking for us to retain a significant portion of the equity, we would likely do so if it meant good execution."

Managers were asked if they thought investors would tier managers based on whether they continue to retain risk or make significant investments in the equity.

57%
✓

43%
✗

One top tier manager answering 'no' commented: "This was not a significant factor pre-risk retention and I don't expect it to be post-risk retention. Also, as a debt investor, it isn't always clear if it is a positive or negative for a manager to retain significant equity."

Managers were then asked if they would consider an EU risk retention compliant CLO to attract EU investors.

59%
✓

41%
✗

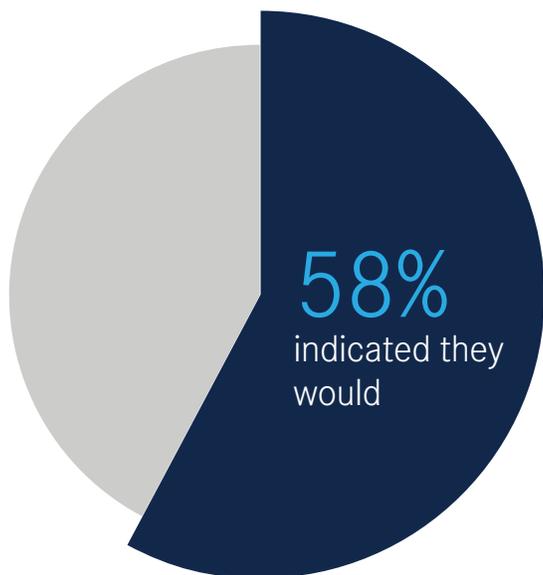
One manager commented: "We see increased opportunity with an EU compliant CLO if some managers no longer look to be EU compliant; there might be better execution approaching EU investors."

Of the 59% of managers considering an EU compliant CLO, they were asked how they would comply with the EU rules.

86%

said they would comply as originators

The 86% of managers choosing the EU compliant originator route were asked if they would also comply with the US risk retention rule.



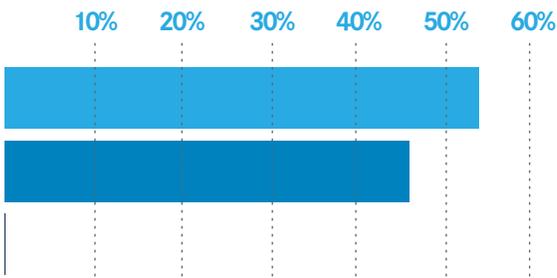
Scott Macdonald, Partner at Maples and Calder, Cayman noted: "This seemed to be a question high on managers' lists when we were helping MaplesFS compile the questions. Several managers have raised a concern that the EU manager-originator approach may lead to the CLO falling outside of the 'open-market' CLO exemption set out in the LSTA ruling."

Despite these concerns, there is some good news on the horizon...

Stephen McLoughlin, Partner at Maples and Calder, Ireland, noted: "Under the existing European risk retention regime, US managers have to opt for the originator route as the MiFID authorisation requirements mean the 'sponsor' approach is restricted to EU based managers. However this looks set to change next year under the new European Securitisation Regulation as the definition of 'sponsor' has been opened up to include credit institutions whether inside the EU or not as well as 'investment firms' whose regular business is the provision of one or more investment services to third parties. The de-coupling of the definition of sponsor from MiFID authorisation looks to have opened up the sponsor approach to non-EU managers."

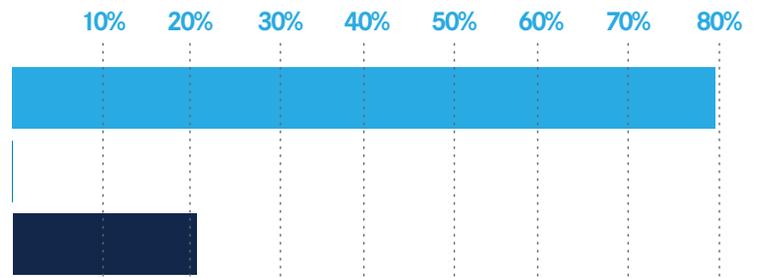
Now that the US risk retention rules no longer apply to 'open market' US CLOs, we asked managers:

A) If they thought the risk retention ruling would increase or decrease the number of active managers



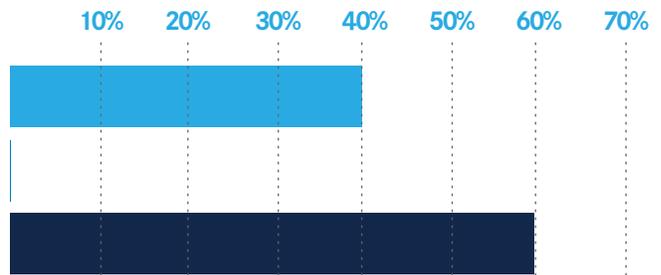
- Increase - more than 10
- Increase - less than 10
- Decrease

B) If manager diversity would increase or decrease in terms of type of firm (e.g. PE firms, small boutique managers, return of inactive managers) entering the market



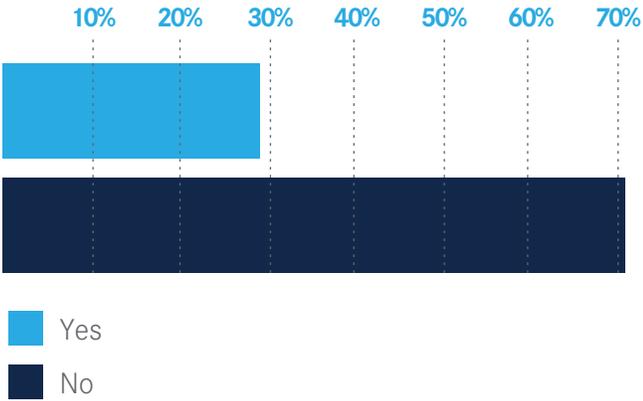
- Increase
- Decrease
- No change

C) If managers thought the number of investors in the space would increase or decrease



- Increase
- Decrease
- No change

We also asked our managers if risk retention capital funds would disappear.



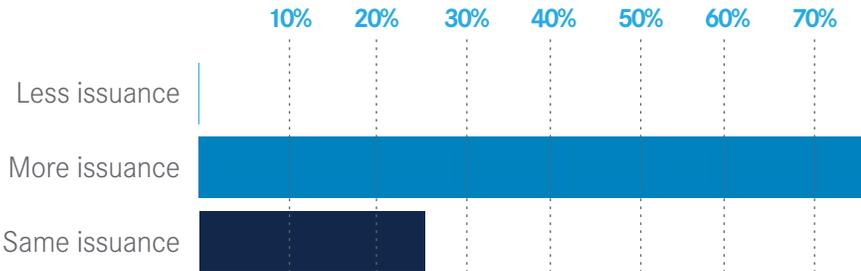
Less than **30%** of managers thought that funds previously established to invest in risk retention securities would disappear

Of the 71% of managers answering 'no,' we asked if risk retention capital funds might evolve (e.g. invest in other parts of the liability stack).

57%
✓

43%
✗

Finally, we canvassed views on what the net effect of the LSTA ruling would be on CLO issuance levels.



74% of managers said that the LSTA ruling would result in more issuance

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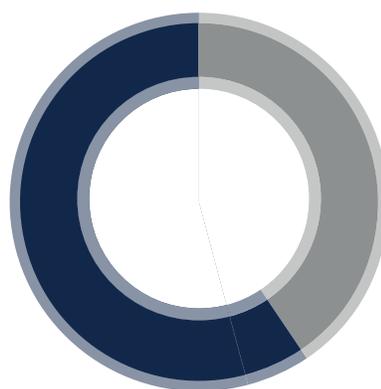
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