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ASSETS' SECURITIZATION MODEL TAILORED TO THE NATIONAL ENVIRONMENT

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The purpose of this paper is to analyze assets' securitization model tailored to the national environment in conditions of accelerated growth of production, transfer it to the new technologies and innovation achieved by attracting investments generated by the financial market. The implementation and functioning of securitization in the Republic of Moldova will bring the private environment to a new level of business; they will help different types of entities to achieve optimization of their activity.

Keywords: securitization, asset, transaction, special purpose vehicle.

MODELUL DE SECURITIZARE A ACTIVELOR ACTUALIZATE LA MEDIUL NAȚIONAL

Scopul acestei lucrări este de a analiza modelul de securitizare a activelor adaptat la mediul național în condiții de creștere accelerată a producției, transferul acesteia către noile tehnologii și inovare obținute prin atragerea investițiilor generate de piața financiară. Punerea în aplicare și funcționarea securitizării în Republica Moldova va aduce mediul privat la un nou nivel de afaceri, ceea ce va ajuta diferite tipuri de entități să-și optimizeze activitatea.

Cuvinte-cheie: securitizare, active, tranzacție, vehicul investițional special.

Introduction

In recent years, the participants of the Moldovan market are more and more interested in the process of asset securitization. In developed countries, the securitization market is rapidly growing over the past few decades, giving the participants an effective tool for diversification of sources of financing and risks of investments in various assets. Through securitization, new types of financial instruments come in sight, and it has been granted the access to the market for new participants, which contributed to the expansion and deepening of the global capital market. Certainly, securitization market has a lot of potential in the Republic of Moldova.

Basic Research

Securitization is the process of transformation of illiquid assets into securities. Thus, under the assets we mean accounts receivable, cash receipts (for example, loan payments, rental and leasing payments, export revenues, trade receivables, credit card receipts, etc.). For example, a loan that is not a liquid asset is quite difficult to sell. However, if to transform the loan in liquid assets, such as a security, to sell it will be much easier.

Ensuring the sustainability of the national economy and its modernization are in the center of the Moldovan Government's attention. The accelerated growth of production, its transfer to the new technologies and innovation achieved by attracting investments generated the financial market. In developed financial markets in Europe and America, a great importance for the real economy of financial resources are secure financing techniques – securitization, structured and project finance. The total volume of securities traded on the international markets and issued in the course of securitization transactions is more than \$9.8 trillion [1,2].

Using secure financing techniques, it is possible to raise funds of institutional and private investors in the sphere of housing and commercial construction, car industry, the production of consumer goods, including durables, small and medium business, education, including funding for education loans, the financing of objects of transport, engineering, energy and industrial infrastructure.

In contrast to developed financial markets the securitization market (secure funding) doesn't exist in Moldova today. One of the main reasons for this situation is the lack of appropriate legislation. Secure financing techniques hasn't yet become the main mechanism for raising funds.

Secure financing technique can be used for credit support to small and medium businesses. In the small business lending market it is possible to create a system similar to that operating in the mortgage market. At

the head of such a system should be the National Bank of Moldova, which will set the standards for lending to finance banks and agents to control the release of secured bonds, as well as the National Commission of Financial Market. The prerequisite for this is the adoption of the relevant legislation.

One of the main constraints to increase the volume of investment lending to small business in terms of the banking sector are limited possibilities of refinancing that pushes the national market to the development of legislation and securitization practices. The Securitization Law is intended to improve the legal regulation of the local securitization of financial assets and, above all, the portfolio of loans to small and medium-sized businesses. This will increase the availability of credit and lowers its cost.

Tasks to support small business lending market, mortgage, and car loan, need to be addressed with the use of a common approach - secure financing, which today are successfully tested in Europe and the US.

Enterprises of the Republic of Moldova are in need of asset securitization transactions. Moldovan securities market participants are relatively actively engaged in public offerings and, accordingly, they will not remain indifferent to such an innovative way of financing, as the securitization of assets. Securitization transactions help to achieve optimization of the enterprise [3].

First, the securitization will help to make more flexible the corporate finances. This is achieved by the fact that the company will be able to offer their assets virtually to any market where there may be or may enter different investors/lenders, who for various reasons don't want to or can't provide funding directly, but with great interest will make it via specially created financial intermediary. Thus, geographical diversification of funding is achieved.

Second, securitization will help to optimize the cost of financing. At the same time, it will be able to credit arbitrage. To carry out such transactions it's necessary professional judgment and assessment of rating agencies. They help to assess the quality of assets, the rejection of which is being prepared. In the case of ordinary transactions of credit, the creditor has its own system for assessing the risk of the fund, which will be incorporated in the interest rate. The degree of risk is also affected by the country's sovereign rating. Thus, the interest rate in most cases will not be lower than the set for a given country. Rating agencies can assess the quality of assets rejects higher than the country rating. That is, the emphasis is on the quality of assets, but not limited to the assessment of the country's rating. Ultimately, by using the right business, the models could be achieved given a rating of higher assets than the country limit, which will significantly reduce the cost of financing.

Thirdly, it will be possible to transfer a part of the assets to SPV, with proper planning of such transactions and the correct preparation of a basket of assets, as well as the funding tranches will be possible to achieve a more balanced assets and liability management, liquidity and financial risk enterprises. Also it will be possible to reduce exposure to currency, interest rate risk, the risk of rupture of the maturities of assets and liabilities, the risk of early repayment of the financing.

It is reasonable to assume that this is mostly important for financial institutions, but it can be assumed that these risks are also subject to the enterprise, in which funding for the most part carried out in the short dollars, and product prices, the production cycle is long enough, recorded in national currency.

Fourth, I would like to mention one of the most important factors of the securitization – is keeping the requirements of the Basel II to capital adequacy.

The main reasons and advantages, which are offered by securitization, make it popular in the future, as factors such as the optimization of corporate finance, improve the quality of risk, management assets and liabilities, as well as the effective implementation of the requirements of the Basel II capital adequacy, will be relevant always.

In order to acquire a competitive advantage of securitization transactions, it is necessary to consider its compliance with the accounting standards.

The main issues of relevant accounting standards, considered in determining the accounting policies of the real deal are:

Firstly, the need for consolidation of the SPV, as its creation is a prerequisite for the transaction.

Secondly, it is necessary to comply with the criteria for the asset is derecognized on the originator's balance sheet as the transaction involves a "sale" of assets.

Third, because the assets can be realized in accordance with the structure of the transaction at a price different from their carrying amount and fair value, it is necessary to comply with the criteria for the recognition of gains or losses from the sale.

In addition, since the SPV is a private company, it is necessary to take into account the assets and liabilities, and the account will be carried out in accordance with IAS (International Accounting Standards), as well as to make statements under IFRS. Thus, the range of application of IFRS is extended to the maximum. The most telling example is IFRS 7 "Financial Instruments: Disclosures".

During the transaction in accordance with IFRS it was used the following standards for the development of accounting policies were used:

Table

Securitization Accounting Standards

Consolidation of SPV	IAS 27, IFRS 3
Criteria for recognition and cutting the assets recognition on the balance sheet	IFRS, IAS 39
Criteria for the recognition of sales gains or losses	IFRS, IAS 39
Accounting of derivative instruments and hedging activities	IFRS, IAS 39, part 4

Source: Elaborated by the author based on the data from the Accounting News Portal Available: <https://www.iasplus.com/en> [4].

The consolidation is usually governed by IAS 27 "Consolidated and Separate Financial Statements", and IFRS 3 "Business Combinations".

On the one hand, the IAS 27 requires the consolidation of subsidiaries to the parent (with some exceptions), and the subsidiaries are controlled by the parent company. Thus, it is introduced a concept, as a control. The control, in IASs understanding is the ability to control the financial and operating policies of an entity to obtain benefits from its activities. This way, IAS 27 specifies a numeric expression control, almost 50% of the capital.

SPV is created on the territory of a favorable tax regime or a favorable legal framework (these are Cyprus and Luxembourg referred to above). As a general rule, the shareholders of the Company (including for risk minimization) are independent directors, members of a certain company, who are entrusted to the trust management of the SPV. The capital of the company is usually minimal and tends to zero in the foreign currency equivalent. Therefore, if you rely on the requirements of IAS 27, it is virtually no more or less a standard securitization does not entail such a problem, as consolidation. But then the question of de facto reflection of economic activity in its entirety in the parent company accounts. Perform at least one of the following criteria says that the SPV is subject of consolidation.

Thus, to control characters which are shown in the IAS 27 the following was added: the SPV activity actually carried out on our behalf in accordance with special needs, with the result that the company receives profits from the activities of the SPV [4].

This point intersects with the requirements of IAS 27, the control of which also takes place in the presence of the right to govern the financial and operating policies in accordance with the articles of association or by agreement. Thus, if the structuring of the transaction there is a need to enable the SPV consolidation balance sheet and the company is ready to manage the activities of the SPV, this fact should be reflected in the statutes of the SPV and directly in the Prospectus of the transaction; the company actually has a right to participate in decision-making (including rights obtained after the formation of SPV) in order to obtain a greater portion of the profits from the SPV or by going to operate on the principle of "autopilot", gave it the right to making decisions.

The principle of "autopilot" is the most convenient for transactions of this kind. The originator develops a mechanism of the SPV immediately before the transaction. Every procedure and process is prescribed. Then, after the launch of this mechanism, in fact activities of the SPV is managed by the company on trust management of which it is, and only the originator can control the process.

If the originator independently develops the principle of "autopilot", it means that the originator has used its right to control in advance and SPV should automatically be consolidated;

- the company actually has a right to receive a greater portion of the profits from the activities of the SPV and therefore exposed to the risks inherent in the activities of the SPV;

- the company actually retains most of the risks of the equity in the net assets related to the SPV, in order to profit from its activities.

In addition, it is necessary to solve a number of additional issues.

Firstly, in practice it is very difficult to determine what it is: a big part of the profit or most of the risks. This question is complicated by the fact that the SPV itself is created, as a rule, as a company that does not go bankrupt. That is, when structuring the deal worked out all possible mechanisms to achieve this. Moreover, almost all the parties involved are trying to minimize their risks and increase profits. Therefore, it seems that the deal itself is a kind of panacea, as a minimum, the risks of any one of the parties is not present. And because all or receive a commission for the service (for example, for maintenance) or income (interest income on bonds), then to identify which side exactly is most exposed, it is very difficult.

In order to determine which of the parties is entitled to receive the greater part of the profits from the activities of the SPV and, therefore, subject to risks, it is necessary to consider what is happening, including, and with assets that participate in the securitization transaction: which party continues to control them or transfer this right to another party.

Secondly, these points indicate that the current standards allow the presence of the two definitions of control, which indicates the need for consolidation. On the one hand it is part in the structure of the company (more than 50% IAS 27); on the other hand it is still entitled to a majority of the economic benefits or risks from exposure to most activities [4]. It is obvious that this situation is unacceptable.

To originator, before the structuring of the transaction, it is necessary to determine the possibility and extent of the consolidation of the SPV in one of the enterprises of the group (for example, a subsidiary, a holding company, at the level of the shareholders etc.).

Conclusion

By defining specific goals, we can already structure the transaction properly. It is necessary to work out and agree with the experts on IFRS and the structure of the transaction and related arrangements and to reflect this in the relevant documents governing the transaction.

One of the main principles of IFRS is a prevalence of essence over form, and it remains in force. If a deal to form a holding company structured the originator (the principle of "autopilot" in form), but most of the risk remains on the level of the originator, the consolidation will move to the level of the originator (in fact). At the same time in the business world there is a tendency to emphasize the importance and legal side of the issue. Ideal (at least to agree on sensitive issues of accounting policy on complex financial transactions with the external auditors) - this is where the essence and form are the same.

Once again, it is important to emphasize that if the issue of consolidation and consolidation levels is critical for the business, then the issue should be worked out before the conclusion of securitization transaction.

Implementation and operation of securitization in the Republic of Moldova will bring Moldovan undertakings to a new level of business; they will help different types of entities to achieve the optimization of their activities.

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