



3rd Economics & Finance Conference, Rome, Italy, April 14-17, 2015 and 4th Economics & Finance Conference, London, UK, August 25-28, 2015

Securitisation funds in Poland in Investment Fund Companies' perspective

Dorota Krupa^a, Michal Buszko^a

^a Nicolaus Copernicus University, Gagarina 11, Toruń 87-100, Poland

Abstract

The main objective of the paper is identification and characteristics of a new research area that combines collective investment schemes and process of securitisation. In the paper we provide a descriptive analysis of securitisation investment funds in Poland and consider their role in the process of securitisation. We also identify major issues related to the development of the securitisation and securitisation funds market. The paper contains considerations related to the potential and to the direction of the securitisation funds development in Poland.

In the paper we used critical analysis of legal solutions in Poland, as well as statistical data analysis. The work is based on statistical data of the domestic market of investment funds from The Chamber of Fund and Asset Management. The background for the analysis is the results of the original research prepared and conducted by the authors. The questionnaire was directed at management boards of nineteen Investment Fund Companies, which manage securitisation investment funds in Poland.

At present a share of securitisation funds in the investment funds market in Poland isn't large, however it is very quickly increasing. We can observe that the development of the securitisation fund market is intense. Despite this, the participation of investment funds in the process of securitisation is still in an early stage in Poland, however its influence on the future development of securitisation is considered as high. In Poland, Investment Fund Companies systematically increase the offer of securitisation funds by creating funds directed to individual investors (non-dedicated). Investment certificates of non-dedicated securitisation funds may encourage individual investors to diversify their investment portfolios. The potential development of the domestic market of securitisation funds is related to the legal and tax aspects of securitisation in Poland and the efficient cooperation between entities in the securitisation process.

© 2015 The Authors. Published by Elsevier B.V. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of IISES-International Institute for Social and Economics Sciences.

Keywords: Securitisation; investment fund; securitisation fund; receivables; Investment Fund Company; non-standardised fund

1. Introduction

The main objective of the paper is identification and characteristics of a new research area that combines collective investment schemes and process of securitisation. In the paper we provide a descriptive analysis of securitisation investment funds in Poland and consider their role in the process of securitisation. We also identify major issues related to the development of the securitisation and securitisation funds market. The paper contains considerations related to the potential and to the direction of the securitisation funds development in Poland.

In the paper we used critical analysis of legal solutions in Poland, as well as statistical data analysis. The work is based on statistical data of the domestic market of investment funds from The Chamber of Fund and Asset Management. The background for the analysis is the results of the original research prepared and conducted by the authors. The questionnaire was directed at management boards of nineteen Investment Fund Companies, which manage securitisation investment funds in Poland.

The paper is divided into four major parts. The first part is related to the characteristics of the investment funds market in Poland. It contains a brief description of legal aspects and types of investment funds. The second part is related to the securitisation fund as a type of investment fund in Poland. Definitions of the securitisation fund and key terms connected with the securitisation process were included. Afterwards, the paper presents the state and size of the securitisation funds market. The third part shows results of the research conducted by the authors in Investment Fund Companies. The last part presents conclusions.

2. Investment funds market in Poland

The Polish investment funds market was created in 1991. Nowadays according to Polish law (Act of 27th May, 2004 on Investment Funds) there exist three main types of investment funds: open-end investment fund, specialized open-end investment fund and closed-end investment fund. In Poland, an investment fund can only be created by the Investment Fund Company (IFC).

Open-end funds are harmonized investment funds at European Union level. This type of fund is called UCITS funds (undertakings for the collective investment in transferable securities¹). The legislative instrument covering these funds is Directive 2014/91/EU (amending Directive 2009/65/EC). The other two types of investment funds in Poland are non-harmonized at EU level and they are called non-UCITS funds. Domestic law regulates each kind of non-UCITS fund in European countries.

At the end of February 2015 the Polish Financial Supervision Authority licensed fifty-eight Investment Fund Companies. Forty-one IFCs reported to The Chamber of Fund and Asset Management. Net Asset Value (NAV) of the investment funds market in Poland reached almost PLN 216 billion (nearly EUR 52 billion) which is only about 0.5% of NAV of the European investment funds market (UCITS and non-UCITS).

Open-end investment funds, which are mostly UCITS funds, had a 43% share of the Polish investment fund market at the end of February 2015 (Fig. 1.). Other funds with a share of 53% of NAV of investment funds market in Poland were non-UCITS funds (specialised open-end investment funds and closed-end funds). A securitisation fund, in accordance with Polish law, is one of the types of closed-end investment funds. Fig. 1. represents the share of securitisation funds in the investment funds market in Poland, which is only 2%.

¹ The acronym "UCITS" refers to a series of European Union directives that established a uniform regulatory regime for the creation, management and marketing of collective investment vehicles in the countries of the EU. The first Directive was Council Directive 85/611/EEC of 20 December 1985.

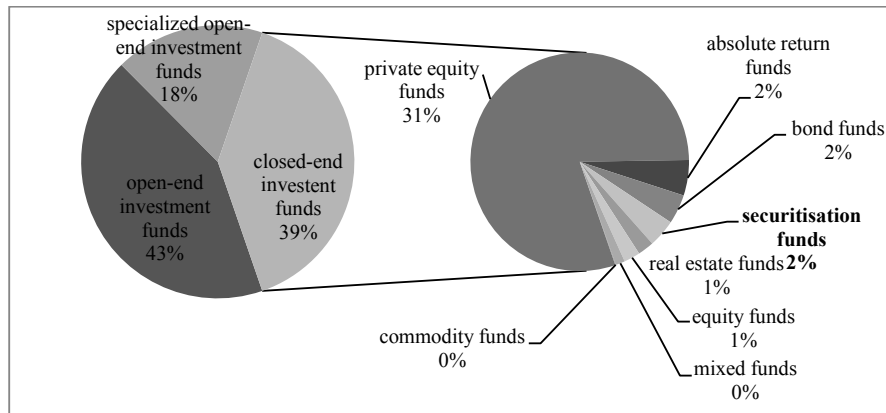


Fig. 1. Securitisation funds on the investment funds market in Poland, end of February 2015, % of NAV

Source: Compiled by the authors based on the data from The Chamber of Fund and Asset Management (IZFiA), <http://www.izfa.pl>

3. Securitisation fund as a type of investment fund in Poland

A closed-end investment fund may be created as a securitisation fund which issues investment certificates in order to accumulate funds for the acquisition of receivables, including receivables financed with public funds, as defined in separate regulations, and/or for the rights to income from specific receivables (Act of 27th May, 2004 on Investment Funds). It is important to emphasise key terms in the securitisation process, which were defined in Polish law: securitised receivables, an originator and pool of receivables. Securitised receivables shall mean receivables in which a securitisation fund invests, and receivables ring-fenced by the originator or another entity that has concluded an agreement with the fund obligating it to transfer to the fund any income received in relation to such receivables. An originator shall mean a local government body, an association of local government bodies or a commercial entity which sells a pool of receivables to a securitisation fund or which undertakes to transfer all the income received by it from a specific pool of receivables to the securitisation fund. Pool of receivables shall mean a group of uniform-type receivables that generate a regular income, which is held and ring-fenced by an originator, where each of the receivables constituting in total at least 75% of the group, generates a regular income and each of the receivables meets the criteria defined in the fund's articles of association.

It is significant to remark that the securitisation fund is assessed as the best intermediary in the securitisation process in Poland (Liskowska, 2006). In this process it fulfils the role of a special purpose vehicle (Zwolińska-Doboszyńska, 2005). The role of a special purpose vehicle in the securitisation process was presented by Buszko (2006). In the securitisation process the role of organiser (e.g., a bank) and the investor are important. The investor buys investment certificates that are issued by a securitisation fund. The objective of a securitisation fund investment is to acquire receivables. The supplier of receivables, because of tax benefits, may sell them only to a securitisation fund. A securitisation fund works with a debt collection company (licensed by the Polish Financial Supervision Authority). Debt collection companies are better experienced in the recovery of debts (Półtorak, 2009). The securitisation process was discussed by Nastarowicz (2013) who characterised it from the perspective of banks. The review of actual legal conditionings of securitisation proceedings applied in the Polish bank sector was prepared by Szaraniec (2010). It should be emphasised that entities within various sectors (not only banks) are increasingly willing to sell pools of receivables to securitisation funds.

According to Polish law a securitisation fund can be created as a standardised or non-standardised investment fund. The main differences between a standardized and non-standardized investment fund is shown in Fig. 2.

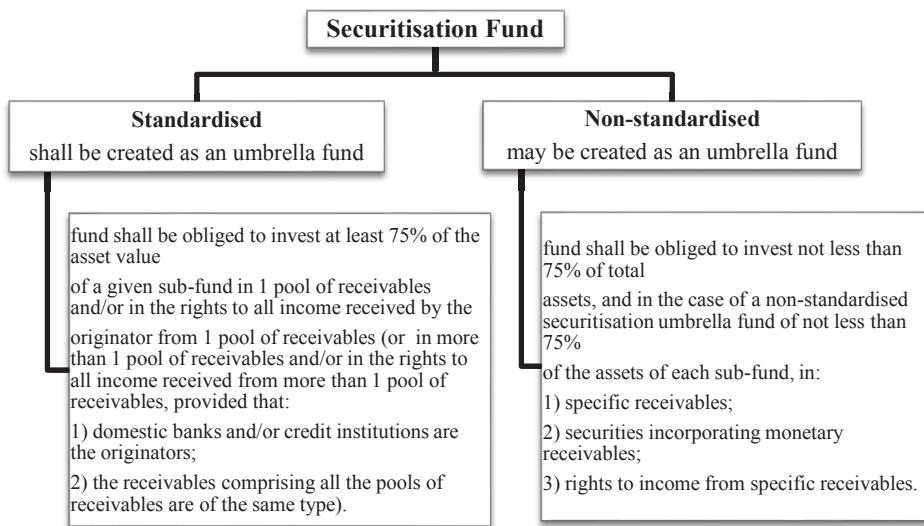


Fig. 2. Types of securitisation funds in accordance with Polish law

Source: Compiled by the authors based on the Act of 27th May 2004 on Investment Funds

In practice, only a non-standardised fund is used to create a securitisation fund in Poland (Szablowska, 2010). From 2010 a non-standardised securitisation fund can be created as an umbrella fund.

The securitisation fund market in Poland has existed for almost ten years. The first securitisation fund (S-Collect FIZ NFS) was created in 2005 by PKO/Credit Suisse Investment Fund Company (PKO/Credit Suisse TFI S.A.). At the end of February 2015 in Poland there existed 70 securitisation funds offered by nineteen IFCs. Net asset value of all securitisation funds was PLN 3,661 million (approximately EUR 400 million). Fourteen of these IFCs which manage 46 securitisation funds are reporting to The Chamber of Fund and Asset Management.

In spite of a low share of securitisation funds in the investment funds market (see Fig. 1.) we can see that the development of the securitisation fund market is rather intense (Fig. 3.).

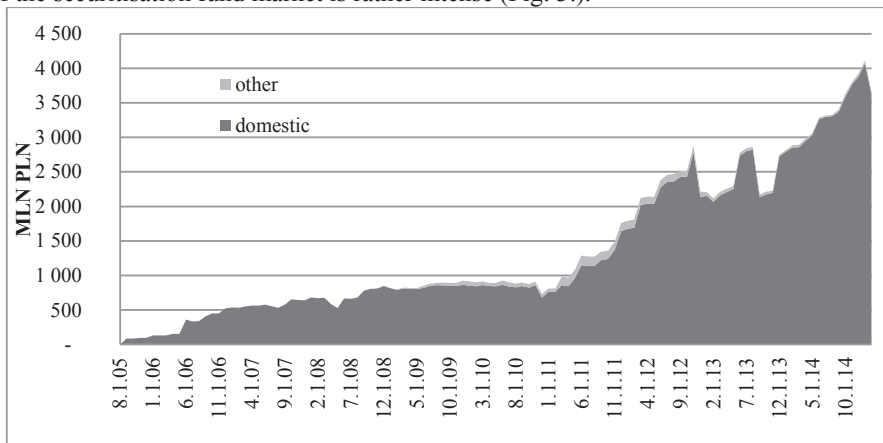


Fig. 3. Net Asset Value of securitisation funds in Poland (01.08.2005 – 28.02.2015)

Source: Compiled by the authors based on the data from The Chamber of Fund and Asset Management (IZFiA), <http://www.izfa.pl>

A very early stage of the securitisation fund market in Poland is noticeable in the number of registered entities. As we can see in Fig. 4., despite the fact that the balance between registered and deleted funds is positive, the number of new registered funds was rather small in each year.

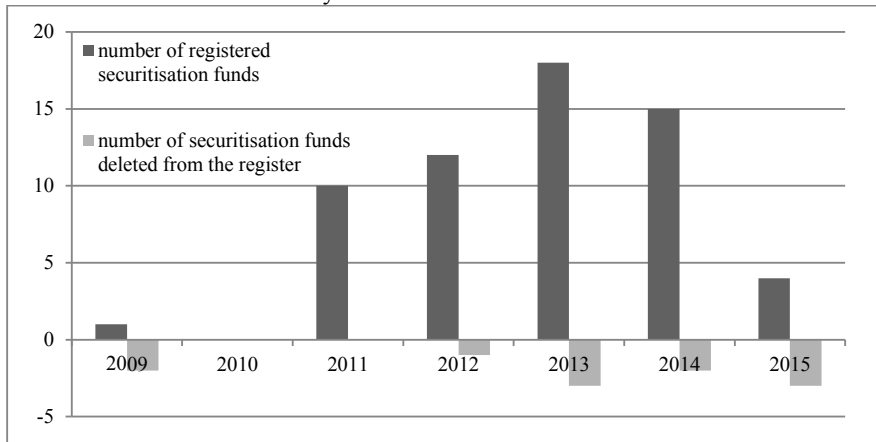


Fig. 4. Number of securitisation funds registered and deleted from the register (01.2009 – 02.2015)

Source: Compiled by the authors based on the data from The Chamber of Fund and Asset Management (IZFiA), <http://www.izfa.pl>

Hence, Investment Fund Companies systematically increase the offer of securitisation funds by creating funds directed at individual investors (non-dedicated). Investment certificates of non-dedicated securitisation funds may encourage individual investors to diversify their investment portfolios. Non-dedicated funds may be more popular in the future. The share of non-dedicated securitisation funds of NAV and of a number of securitisation funds in Poland is presented in Fig. 5.

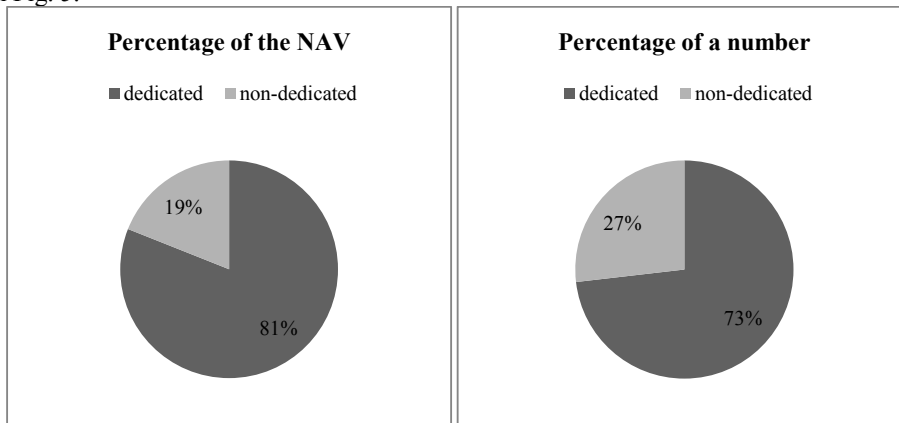


Fig. 5. Dedicated and non-dedicated securitisation funds in Poland

Source: Compiled by the authors based on the data from The Chamber of Fund and Asset Management (IZFiA), <http://www.izfa.pl>

4. Securitisation funds research

In the research conducted in 2005 (Krupa, 2008), experts from a respondent group indicated (in the time horizon of the next 5 years) that a securitisation fund would be one of the three types of closed-end investment funds with the best perspectives of development in Poland (after real the estate fund and capital protection fund). Experts have

emphasised that investment certificates of a securitisation fund could be attractive in diversifying an investor portfolio. In other research (Szablowska, 2010), analysis of the development of securitisation funds on the Polish market was carried out. The period of analysis was 2005-2009. In the same period of analysis, research was also conducted by Nastarowicz (2013). Both authors emphasise that the amendments to Polish banking law in 2004 and Act of 27th May, 2004 on Investment Funds, have implemented new solutions enhancing securitisation of banking assets and have enabled the establishment of securitisation funds. Additionally, Buszko (2006a) argues that the new regulations seem to have a critical influence on the securitisation development process in Poland.

Therefore, after almost ten years of the existence of the securitisation fund market in Poland, it seems important to know the perspective of Investment Fund Companies about securitisation funds. The method of measurement was the questionnaire method and a standardised questionnaire as a research tool which was available on-line. The authors carried out the research with the technical support of the Student Scientific Organization of Banking of Nicolaus Copernicus University. The questionnaire was directed at the management boards of nineteen Investment Fund Companies, which manage securitisation investment funds in Poland. The research was conducted in March 2015. The authors received responses from eight Investment Fund Companies, which manage thirty-eight of the seventy securitisation investment funds operating in the period of research. Results of the research process conducted by the authors were presented below.

Fig. 6. represents institutions whose initiatives were used to create a securitisation fund by IFCs. In six cases Investment Fund Companies indicated their own initiative, in 5 cases a debt collection company and in two cases other institutions (financial investor and dedicated investor). No IFCs chose a bank.

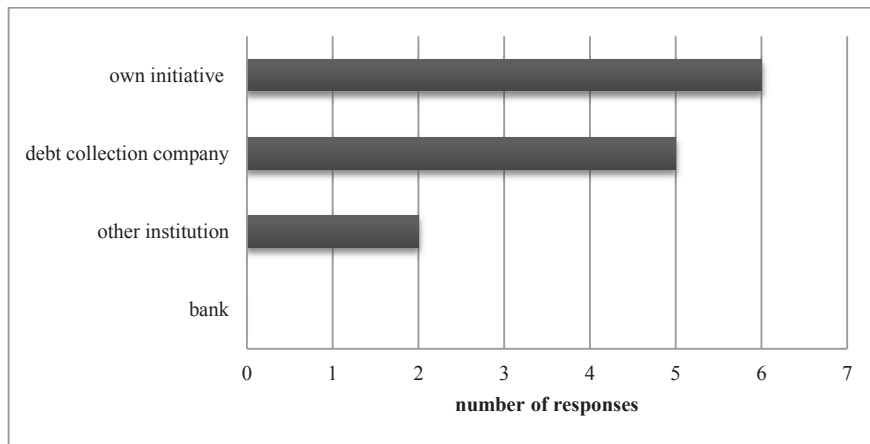


Fig. 6. Institutions whose initiatives were used to create a securitisation fund by IFCs

Source: Compiled by the authors based on own research, N=8, multiple choice

Fig. 7. shows the different kinds of receivables that dominate the securitisation process in surveyed IFCs. In six cases overdue consumer loans were indicated, in four cases overdue receivables of non-financial entities and in two cases overdue mortgages and overdue financial receivables (excluding loans). No IFCs chose non-overdue receivables.

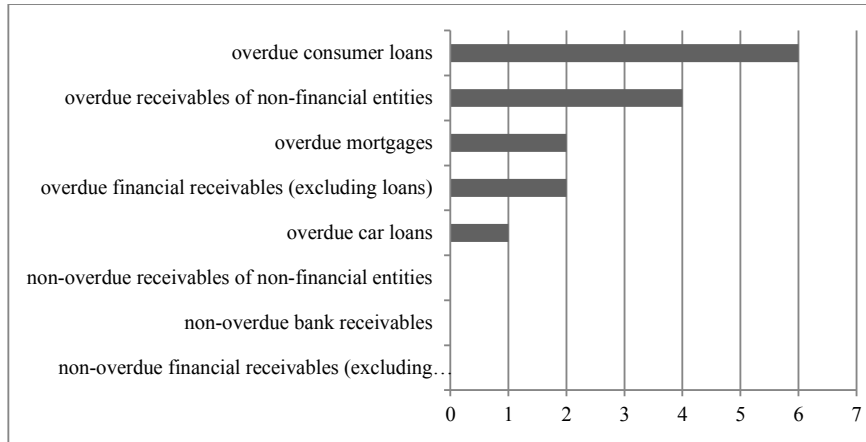


Fig. 7. The kind of receivables that dominate the securitisation process of securitisation funds in surveyed IFCs

Source: Compiled by the authors based on own research, N=8, multiple choice

Surveyed IFCs were asked about a target group of investors of securitisation funds, most frequently indicated debt collection companies (in 5 IFCs), other entities and individual investors in 3 cases (Fig. 8.).

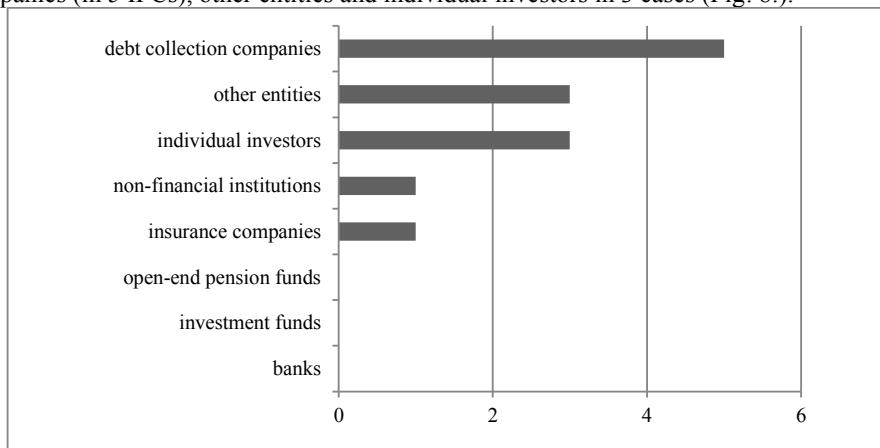


Fig. 8. Target group of investors of securitisation funds in surveyed IFCs

Source: Compiled by the authors based on own research, N=8, multiple choice

IFCs were asked about particular limitations in the process of creating securitisation funds. Only one IFC responded that there were two kinds of limitations: legal restrictions and a lack of adequate investors purchasing certificates of the securitisation fund. Also, the question about particular limitations during management of investment funds was asked. Five IFCs indicated that they hadn't any limitations during management of securitisation funds. The other three IFCs indicated limitations. Legal restrictions were indicated most frequently, in second place was low securitised asset quality, in third place ex aequo were: low cooperation quality with participants of the securitisation process, a lack of appropriate human resources and high asset portfolio management costs.

IFCs were asked about the assessment of development prospects for the asset securitisation process, which is presented in Fig. 9.

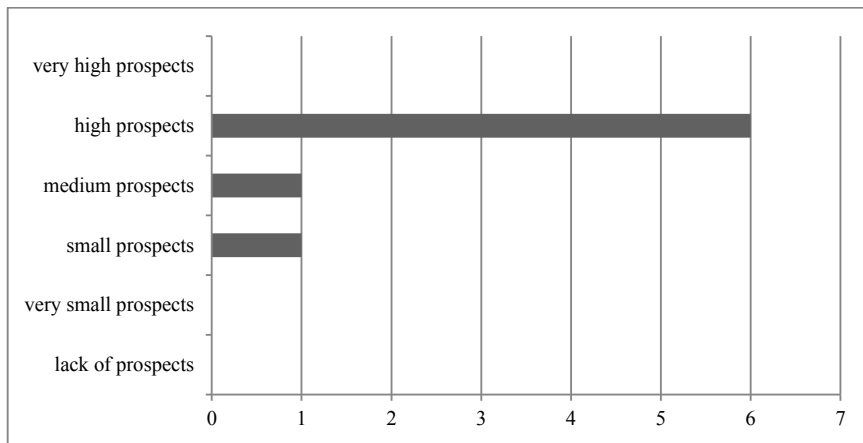


Fig. 9. The assessment of development prospects for the asset securitisation process

Source: Compiled by the authors based on own research, N=8

IFCs who were asked about the assessment of the prospects for an investment fund participation in the receivables securitisation process, responded in six cases that the securitisation would have medium significance for IFCs and in two cases, that the significance of the securitisation would be marginal.

Only two of the eight IFCs considered the existence of limitations on the development of the securitisation process in Poland. They highlighted, in the first place, most important are: a lack of adequate law regulations, the high complexity of the securitisation process and tax problems, and in second place, a lack of interest of investors, a lack of interest of creditors, the possession of sufficient sources of funding by creditors, a lack of appropriate assets for securitisation, high costs of securitisation and the high complexity of the securitisation process.

Predictions of IFCs for the creation of securitisation fund types, related only to the non-standardised securitisation fund type. Six IFCs indicated the dedicated non-standardised fund type and two IFCs pointed out the non-standardised securitisation fund designed for retail clients. The type of standardised fund (dedicated or non-dedicated) wasn't chosen. IFCs pointed out reasons for the use of only the non-standardised type during the creation of a securitisation fund. The reasons include:

- the early stage of securitisation market development,
- the possibility of further issues of investment certificates in non-standardised securitisation investment fund type,
- lower limitations and higher elastic investment policy in non-standardised securitisation investment funds,
- a lack of economic sense of standardised securitisation fund,
- a lack of uniform-type receivables for standardised fund.

5. Conclusions

Critical analysis of statistical data as well as the research conducted by the authors allows the formulation of the following conclusions:

- In spite of a low share of securitisation funds in the investment funds market we can see that the development of the securitisation fund market is rather intense. The market of securitisation funds has high growth potential due to the increase in the outstanding debts of Polish people.
- The participation of investment funds in the process of securitisation is still in a very early stage in Poland. Investment Fund Companies systematically increase the offer of securitisation funds by creating funds directed at individual investors (non-dedicated). Predictions of IFCs for the creation of securitisation fund types relate only to the dedicated non-standardised securitisation fund type.

- The development of the receivables assets market as well as the deterioration of the quality of bank loans could impact the creation of securitisation funds.
- The potential development of the domestic market of securitisation funds is related to the legal and tax aspects of securitisation in Poland and the efficient cooperation between entities in the securitisation process.
- Due to limitations of the banking law in Poland related to capital companies, the only effective solution of a special purpose vehicle (SPV) in the securitisation process are securitisation funds.
- Due to the exclusive right of securitisation funds to use the subparticipation as the legal instrument of transfer of benefits from securitised assets, they will constitute the major form of SPV in Poland (which is not typical for Western countries).
- Investment Fund Companies create securitisation funds mostly with their own initiative or with the initiative of debt collection companies.
- Debt collection companies are the main target group of investors in securitisation funds in Poland.
- Securitisation funds are established primarily upon overdue loans (non-performing loans). As the value of such loans is increasing, their role will be even more critical.
- There is no securitisation based on non-overdue loans in the banking sector.
- The most important particular limitations in the process of creating or managing securitisation funds by IFCs were legal restrictions.
- There exists high development prospects for the asset securitisation process in IFCs opinions.
- The prospects of participation for an investment fund in the receivables securitisation process would have medium significance for IFCs.
- Most IFCs consider that there exists no limitation of the development of the securitisation process in Poland (any limitations are connected with law regulations, the high complexity of the securitisation process and tax problems).

References

- Buszko, M., 2006. Fundusze inwestycyjne w procesach sekurytyzacji wierzytelności w Polsce. *Prace Naukowe Akademii Ekonomicznej we Wrocławiu, Zarządzanie finansami firm: teoria i praktyka*. No 1109, p. 94-102.
- Buszko, M., 2006a. Prawne oraz instytucjonalne uwarunkowania rozwoju sekurytyzacji wierzytelności w Polsce. *Ekonomia i Prawo*. No 2, p. 305-317.
- Krupa, D., 2008. *Zamknięte fundusze inwestycyjne*. 1. wyd. Warsaw: CeDeWu.
- Liskowska, D., 2006. Fundusze sekurytyzacyjne jako forma refinansowania wierzytelności, in "Nowe usługi finansowe". In Gabryelczyk, K. (Ed.), 1. wyd. Warsaw: CeDeWu, p. 25.
- Nastarowicz, E., 2013. Wierzytelności bankowe w funduszach sekurytyzacyjnych działających na rynku polskim. *Bezpieczny Bank*. 2013. No 1(50), p. 7-28.
- Półtorak, B., 2009. Regulacje i praktyka polskich funduszy sekurytyzacyjnych. *Prace Naukowe Akademii Ekonomicznej we Wrocławiu*. 2009. No 61, p. 115-124.
- Szablowska, E., 2010. Niestandaryzowane fundusze sekurytyzacyjne. *Zeszyty Naukowe Wyższej Szkoły Bankowej w Poznaniu*. 2010. No. 29, p. 241-249.
- Szaraniec, R., 2010. Uwarunkowania prawne procesów sekurytyzacyjnych w polskim sektorze bankowym. *Zeszyt Naukowy Wyższej Szkoły Zarządzania i Bankowości w Krakowie*. 2010. No 12, p. 139-150.
- The Chamber of Fund and Asset Management (IZFiA), <http://www.izfa.pl>.
- Zwolińska-Doboszyńska, A., 2005. Sekurytyzacja wierzytelności z udziałem funduszy sekurytyzacyjnych na tle innych uregulowań dotyczących sekurytyzacji. *Przegląd Prawa Handlowego*. 2005. No 2, p. 19.