

Press release

June 23, 2015

Egorov Puginsky Afanasiev & Partners successfully completes the first domestic securitization of financial assets for Credit Europe Bank Ltd.

Banking & Finance, Capital Markets Team at Egorov Puginsky Afanasiev & Partners has announced a successful completion of the first Russian securitization of car loans.

Under the securitization, the originator (Credit Europe Bank Ltd.) transferred a portfolio of car loans, amounting to 12.5 billion rubles, to the issuer (SFO Europa 14-1A LLC). As a result, the market was offered a new product, i.e. bonds with car loans as collateral.

This securitization was the first to successfully test the new structural and legal mechanisms provided by the “Securitization Law” (Federal Law No. 379-FZ dd. December 21, 2013), including bond issue by a new-type of Russian SPV, special-purpose financial vehicle, the use of an escrow account to secure the rights of bondholders, new ways to reduce risk of bankruptcy of the issuer and many others.

The senior tranche bonds were purchased by market investors, which distinguishes this deal from the majority of capital markets transactions in Russia in recent years, where the senior-tranche bonds are normally bought by the originator banks themselves, by the issuer’s affiliates or by development institutions (The Agency for Housing Mortgage Lending, Vnesheconombank).

The Banking & Finance, Capital Markets Team at Egorov Puginsky Afanasiev & Partners under the supervision by the head of practice Dmitriy Glazounov, acted as legal counsel on the deal. The team consisted of senior associates Ilya Bareysha, Oleg Ushakov, associates Vladimir Goglachev, Nadezhda Morgunova and Olga Zhuravleva.

“Supporting a deal which is very unique for the Russian market is a real professional feat for the firm. We were actively involved in the preparation of the legislative framework to allow for the securitization of a wide range of financial assets in Russia. Work on the regulatory system began in 2007, and it later received a fresh impetus with the support of the Central Bank. It wouldn’t be an exaggeration to say that the Credit Europe Bank deal not only marks a new stage in the development of the Russian legislation on securitization, but in fact confirms that the legal framework for such transactions is in place, and ready for use. This deal will open a new chapter in the history of the Russian securities market. My colleagues and I have been waiting for this moment for a long time, and have done everything possible to speed up the process.”

A number of ambitious tasks and challenges were resolved during the course of the deal: together with the Bank of Russia, new Russian legislation was implemented for the first time. The deal also established structural and contractual mechanisms to allow senior bonds to be rated above the sovereign bond rating by two international rating agencies at once, which ensured a strong investor interest despite the turbulent times.

“We believe that this pilot transaction will be followed by other placements of bonds with consumer loans, SME loans, shared construction, leasing or factoring agreement claims and other financial assets used as collateral”, says Dmitriy Glazounov.



“Our transaction was carried out in parallel with the development of a regulatory framework. Its implementation required the development of new structural and legal instruments, further, the transaction was tested by the difficult conditions of the collapsed market. In the end, the deal closed on a high, both in terms of numbers and as an emotions. We were able to realize our plans: we issued a debt instrument with a rating 2 points higher than the sovereign, we found intelligent investors who assess risks in accordance with the emission documentation, and we found the right price balance. And I think, most importantly, we have laid one more path to facilitate the formation of a liquid market for ABS, we invite all those willing to join us!”, commented the Deputy Head of the Department for Regional Development at Credit Europe Bank, Sergey Ogorodnikov.

Main Features of the Deal

- The issuer has issued two tranches of bonds: Class A bonds (senior tranche) and Class B bonds (junior tranche) secured by the pledge of the same collateral: car loans and the issuer's rights under the bank account agreement. The issuer's obligations under the junior-tranche bonds are to be performed after and subject to the performance of the issuer's obligations under the senior-tranche bonds.
- The Class A bonds have been assigned an investment grade by two international rating agencies: Baa3 by Moody's Investors Service and BBB- by Standard & Poor's.
- The issuer placed the senior-tranche bonds with a total nominal value of 7.8 billion rubles on the Moscow Exchange. The demand for the Class A bonds has substantially exceeded the placement amount.
- The junior-tranche bonds, as is customary in securitization transactions, have been placed to Credit Europe Bank Ltd. by private subscription, which, on the one hand, provided credit enhancement to the senior-tranche bonds creditworthiness, and, on the other hand, ensured compliance with the legislative requirements related to the originating bank taking on the risks.
- This securitization was the first one to use pledge accounts opened with several banks, testing a complex collateral pool structure (“revolver”), to provide for a mechanism of accelerated bond amortization subject to terms as defined by the issue documents, to develop a unique system for monitoring compliance over the main parameters of the securitization.

About EPAM

Egorov Puginsky Afanasiev & Partners is the leading national law firm in the CIS with offices in Moscow, St. Petersburg, Kyiv, Minsk and associated offices in London and Washington, D.C. Founded in 1993, the firm combines extensive emerging markets experience with international professional standards. It provides full spectrum of legal services to national and international businesses, government agencies, international organizations and financial institutions all over the CIS.

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