



Finance and Markets Global Insight - Issue 20, 2021

FINANCE AND MARKETS GLOBAL INSIGHT

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Change and sustainability are the core themes of this issue. The year is likely to see a momentous change in the current business environment with a return towards normality as mass vaccination programmes are rolled out to achieve a relaxing of lockdown rules and a return to a more normal business environment. Against this background there is a wave of regulatory change underway.

In Europe we are now seeing the UK operating outside the transition period resulting from Brexit. This brings into sharp focus the lack of a coordinated approach to financial services across Europe and whilst we wait to see policy develop there is a feeling that we may see more divergence than harmonisation in the route ahead. Here we look at the status of the Memorandum of Understanding on Financial Services and the outlook for equivalence or other approaches to recognition or lack of recognition of a joint approach between the UK and EU. Thankfully business continues to thrive in spite of the politics involved.

We are also seeing the development of ESG and climate change action come to the fore as businesses have to get to grips with measure intended to bring about a more active era of commitment to sustainability measures. We look at activities to develop green bonds, sustainability linked loans and derivatives and ask if this is a real and sustainable trend. We provide some examples of how sustainability linked derivatives are being used.

In relation to benchmark indices February saw the introduction of the EU Benchmarks Regulation providing a statutory replacement benchmark in the event that key indices cease to be available, however issuers are encouraged to assess and provide their own applicable fallbacks without simply relying on the statutory fallback.

This issue also provides some insight into developments in the securitisation market with new rules in Italy designed to allow for loans to be made available into special purpose vehicles to expand the range of securitisation structures available and we see the addition of new EU regulations to address NPE and synthetic securitisations across the EU. Not to miss out on movement towards commitment to a greener and more sustainable future we also look at initial developments in establishing a sustainable securitisation framework.

We hope you enjoy the insights brought to you in this issue and welcome your feedback.

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- New form of Italian securitisation transaction structure

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The Italian securitisation law has recently been amended to extend its scope to transactions involving the granting of loans to a special purpose vehicle to finance the purchase of receivables. With this amendment comes the possibility to implement new transaction structures, and offering greater flexibility to investors.

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- The statutory replacement of a benchmark

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In February 2021, the EU Benchmarks Regulation – which regulates indices used to price financial instruments and contracts or to measure the performance of an investment fund – has been amended to ensure that a statutory replacement benchmark can be put in place by the time a systemically important benchmark is no longer in use. The new provisions involve some considerations regarding fallback clauses and actions to be carried out by market participants and, in particular, by issuers.

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- How green are your hedges?

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What ESG-related derivatives are available in the market? Why they are helpful in a sustainable finance context? And how can your ESG-related goals be more efficiently achieved via ESG derivative products?

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