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This month's focus: **“Toward Revitalization of the Securitization Market in Japan”**

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Originating in the US in the 1970s, securitization can be considered advanced financial technology with an aspect of credit engineering. Starting in earnest in Japan from the 1990s, supported by related legislation the securitization market developed steadily, but has been sluggish since 2007 when the US subprime loan problem became serious. From the viewpoint of transition to intermediated market transactions, it is essential to maintain/inherit professional human resources and practical know-how toward revitalization of the securitization market in Japan.

Challenges Facing Participants in Japan's Securitization Market — In Preparation for Revitalization in the Near Future *Yukio Egawa* 18

Securitization in Japan saw its origins in 1989 and made major progress during the 1990s. Securitization is typically used as an efficient means of raising funds rather than as a tool for transferring risk. Following excess expectations and subsequent disappointment, the issuance of securitized products nevertheless continues. To revitalize the securitization market, the author considers correcting certain discriminatory regulations and inheriting expertise the two most important factors.

Resurgence of US Securitization Market *Tomohiro Miyasaka* 29

The issuance of securitized products, asset-backed securities (ABS) and collateralized loan obligations (CLO), peaked in the US in 2007 at about \$394.9bn, but the market started contracting in 2008 due to the financial crisis triggered by the subprime loan meltdown. Issuance fell to \$108.6bn in 2010, but subsequently recovered to \$326.0bn in 2014. In this report we look at the resurgence of the US securitization market in the wake of the financial crisis.

The great variety of securitized products makes it difficult to reach a simple conclusion regarding the overall market and, in this report, we focus on auto loan ABS, credit card ABS, and CLO. Both auto loan ABS and credit card ABS are important sources of funding for originators, which have had a strong incentive to support their use. Ford Motor Credit preset credit enhancement measures capable of withstanding losses double the size of those incurred during the economic downturn following the financial crisis, while American Express faced ABS ratings downgrades due to increased default ratios on credit card bonds and put in place additional credit enhancement measures to guard against such downgrades.

In the case of CLO products, the main purpose is arbitrage rather than fund raising, and they are 100% dependent on the economic rationality of markets. With CLOs there is not the kind of securitization incentive for originators that applies to auto loan or credit card ABS. While the financial crisis resulted in major price declines and ratings downgrades, there was not one case of principal loss for originally triple A rated CLOs. This enabled recovery in investor confidence regarding the strength of the CLO structure, and resulted in resurgence of the CLO market.

Revitalization of Japanese Securitization Market and Credit Rating *Ichinori Kitahara, CMA* 41

In recent years, the primary issuance of Japanese securitization products has been approximately ¥3-6 trillion. The Japanese securitization market continues to slow. This report reviews the value, capabilities, and features of securitization products in Japan's financial market and presents a scenario of the market from my own point of view. In addition, I introduce several new transactions rated by R&I and consider how we can contribute to the development and support of the market as a rating company.

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