Since the onset of the global credit crisis, there have been calls for greater transparency in financial markets, particularly in the secondary marketing of asset-backed securities (ABS). So, eight years after the onset of the crisis, and six years after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, just what is the state of transparency in the secondary market today?

The short answer is – it’s a mixed bag. Some of the proposed solutions from Dodd-Frank are in effect and producing the hoped-for results, some proposals have yet to take effect, and there are still some issues that need to be decided.

**Asset-Level Insight**

In the wake of the credit crisis, a consensus gradually developed among the various international regulatory bodies that a lack of transparency had played a substantial part in the lead-up to the crisis. Here in the U.S., the Dodd-Frank Act – one of the most complex pieces of financial legislation ever written – outlined a great many mandatory rulemaking provisions meant to help promote the long-term sustainability of the U.S. financial system.

One of Dodd-Frank’s key measures geared specifically toward increasing transparency in the secondary markets directed the Securities and Exchange Commission (SEC) to enact a rule requiring and standardizing loan-level disclosure information for all ABS “backed by residential mortgages, commercial mortgages, auto loans and leases, debt securities, and resecuritizations of those asset classes.”

That rule – governing “Asset-Backed Securities Disclosure and Registration” (Release Nos. 33-9638; 34-72982; File No. S7-08-10, but commonly referred to as Reg AB II) – has been finalized and adopted. As a result of Reg AB II, public securitizations occurring after Nov. 24, 2016, will provide investors with unprecedented access to asset-level data. In addition, the data will be normalized and definitions standardized in such a way that – assuming investors have some way to process the raw data and put it to work for their businesses – it will theoretically be easier than ever to consume.

Of course, for some investor and asset classes, loan-level data is nothing new. In fact, Black Knight Financial Services Data & Analytics has been providing industry-leading loan-level mortgage performance data to the financial services industry for years. For others, however, this will be a new and welcome development, and it is a good step forward for transparency since more data will be available, at least in public deals.

**Lack of Global Consensus**

While strides certainly have been made here in the U.S. in terms of increasing transparency in the secondary market, an unfortunate result has been the exacerbation of the divide between varying global securities. While there is without question a global investment market, there is no global standard when it comes to the laws that guide securitization.

Likewise, there are different bankruptcy codes among the various international judiciaries, different national sensitivities to privacy issues, and – quite frankly – there are simply different philosophies and business models that governments adopt in order to inject liquidity into the capital markets. All of these elements have, in turn, impacted the level and types of disclosure required in these respective markets, creating a lack of uniformity across geographies.

So, on an international level, the state of transparency is muddled. For the global investor this can create radically different opportunities – and challenges – depending upon a given market.
Public/Private Misalignment

Here in the U.S., the two most prominent government-sponsored enterprises (GSEs) – Fannie Mae and Freddie Mac – have been making strides to disclose granular mortgage data. At the same time, however, there is a basic misalignment of the public and private markets when it comes to securitized assets. For the past five or more years, the GSEs have been producing nearly all securitizations, while the private-label securities market has been virtually nonexistent since the aftermath of the credit crisis.

It’s an odd sort of misdirect, given the repeated calls for GSE reform. On one level, the stated goal is to somehow have less of the nation’s mortgage balance sheet in the hands of the federal government. At the same time, the GSEs have been tasked with taking on more and more of the role of the private-label market until the market conditions are such that private-label securitizations can finally return. Without a doubt, markets abhor uncertainty. At this point, the only thing that is certain is that this uncertainty is not helping the private-label ABS market return any sooner.

The Current State

Looking back, we’ve come a long way from the crisis years in terms of transparency, but the current state remains very mixed. In today’s environment, a great many rules are in place geared toward increased transparency. At the same time, there is a lack of consistency on a global level, which creates both challenges and opportunities for investors.

New asset-level data disclosure in particular has the potential to increase transparency, at least in public securitization deals. And, for the time being, the still-tight credit window – and to some extent the outsized role the GSEs are playing in the public securitization market – keeps the long awaited return of the private-label ABS market still somewhere out on the horizon.