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INNOVATIVE MECHANISMS OF SECURITIZATION – INTERNATIONAL PRACTICE

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Under martial law, a priority task is to study financial innovations in the field of business financing and the opportunities for their application. Particular attention should be given to the banking sector. Considering that Ukraine's economy is experiencing a shortage of funds in most sectors due to military actions, banks have become the main suppliers of financial resources for the domestic economy. Banks currently have sufficient capacity to support the financial system, as demonstrated by the high financial performance and resilience of the banking sector in recent years.

In international financial practice, among the financial innovations of recent decades, securitization deserves attention. Securitization can be viewed as a mechanism for transforming future cash flows into real capital and as a way of redistributing risks, implemented through the transformation of assets (usually debt) into securities for subsequent sale to investors.

Many works by leading experts explore the potential use of securitization, but most agree that its key feature is the financing/refinancing of assets by converting them into liquid form through securities. This approach aligns with the provisions of the "U.S. Securities Rules," which state that securitization is a technique used to enhance asset liquidity through instruments that can be sold on the securities market. It is essential to consider the trends and conditions of the stock market where these securities are traded. Furthermore, a necessary condition for applying securitization is the presence of predictable cash flows – only cash inflows with stable dynamics can be securitized. To fully reveal the potential of this mechanism, it is advisable to study innovative examples of its application.

Securitization of "Non-Traditional" Assets. The volumes and types of non-traditional assets eligible for securitization are steadily growing. In foreign countries, "non-traditional" (non-traditional ABS) assets include securities backed by revenues not generated by mortgage payments, credit card debt, auto loans, student loans, or leases of liquid equipment (e.g., vehicles or widely used machinery). According to analysts from the American investment company Income Research+Management (IR+M), the use of non-traditional securitization increased by 35% in 2021 compared to the previous year, with the total volume of issued ABS exceeding $90 billion. Even in 2020, during the peak of the coronavirus crisis, when demand for mortgage or auto loans noticeably declined, the volume of non-traditional securitized assets continued to grow. Figure 1 illustrates the rapid growth dynamics of non-traditional asset securitization.

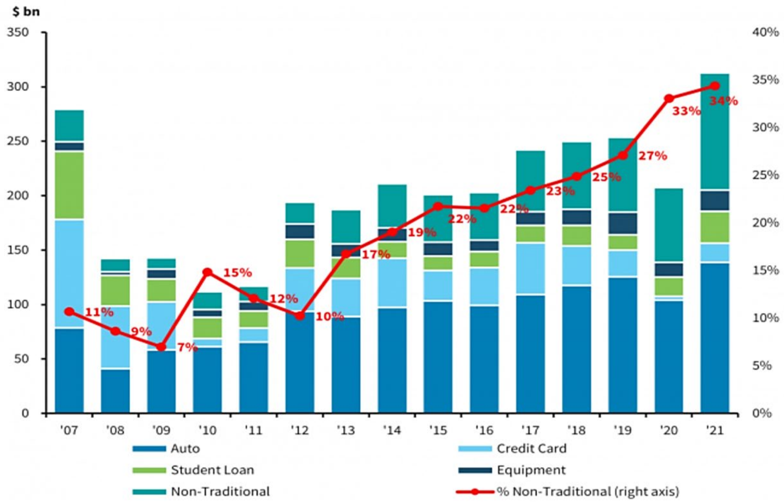

Figure 1. Historical Data on ABS Issuance Volumes

Source: [1]

According to experts, securitization is considered one of the most promising mechanisms for attracting investments while simultaneously reducing risks, and it is increasingly being applied in international practice. Corporate securitization is typically backed by almost all operational assets of a company capable of generating predictable income. Such assets include intellectual property, existing and future franchises and licensing agreements, royalties (both domestic and international), supply chain profits, commercial real estate used in operational activities, and the EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) of individual subsidiaries (legal entities) owned by the holding company.

Key factors of whole business securitization (WBS) enable the differentiation of the parent company's credit risk from the securitized debt. These factors include the isolation (segregation) of operational assets, the stability of cash flows (even in the event of the parent company's bankruptcy), and the long-term circulation of securitized securities.

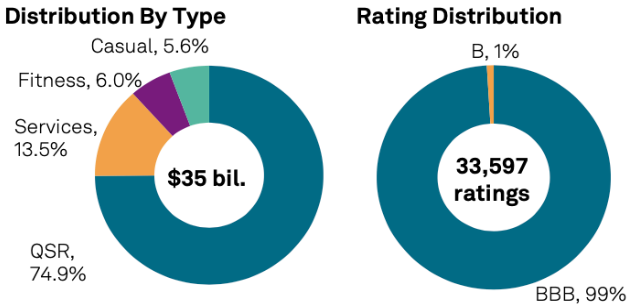

Figure 2. Total Volume of Securitized Operational Assets and the Investment Rating of Securities Backed by These Assets

Source: [2]

Corporate securitization is now widely used by fast food chains, pharmaceutical companies, family restaurants, cinemas, sports clubs, and other businesses with branch networks and/or franchise models.

According to a report by the rating agency *Standard and Poor's*, as of the end of 2022, the total amount of securitized operational assets reached approximately $35 billion. The structure of corporate securitization has significantly reduced the risk associated with securities backed by operational assets, with around 99% of all issuance prospectuses receiving an investment-grade rating (BBB). A higher credit rating lowers the cost of capital for issuers and attracts large institutional investors such as pension funds. Investors also benefit from WBS (Whole Business Securitization), as its more complex structure compared to standard debt securities typically offers higher yields than corporate bonds of comparable credit ratings.

Fast food chains currently dominate the use of WBS, accounting for about 75% of all WBS securities. Among these, *Domino's Pizza* has securitized the largest amount of operational assets, totaling over $5 billion. The company's most recent corporate securitization was conducted in April 2021. The 2021-1 series prospectus included two classes of ABS:

– Class A-2-I notes: Fixed annual yield of 2.662%, maturity of 7.5 years, totaling $850 million.

– Class A-2-II notes: Fixed annual yield of 3.151%, maturity of 10 years, totaling $1 billion.

The total issuance volume was $1.85 billion, with both classes receiving investment-grade ratings. The primary objective of this WBS was to restructure existing debt by early repayment of floating-rate bonds, which had risen significantly. The remaining funds were allocated to share buybacks and increasing working capital for corporate development.

Prospects for Corporate Securitization in Ukraine. Research suggests that corporate securitization holds significant potential for Ukrainian businesses. The WBS mechanism provides Ukrainian companies with opportunities to secure capital while retaining operational control. For example:

– **Pharmaceutical holdings** could finance R&D for new drugs by securitizing cash flows from existing products.

– **Consumer goods companies (FMCG)** could raise funds for expansion through asset-backed securities issuance.

– **Private medical facilities** could finance equipment purchases or facility modernization by securitizing future patient revenue.

Using historical data and market forecasts, companies can estimate future cash flows and issue securities backed by revenue-generating assets based on predictive calculations.

Conclusion. Securitization is a complex yet versatile mechanism with numerous applications tailored to the goals and capabilities of its initiators. It allows creditors to refinance their activities and redistribute risks among investors through the issuance of securities backed by cash inflows. However, the existing Ukrainian legal framework still requires refinement to enable the broader application of securitization in business financial practices.

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