

Letter from the Editors

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SECURITIZATION

Securitization is a technique that has proven to be flexible enough to be used to refinance a broad array of financial assets from long term mortgages to future trade receivables. The structure of a securitization transaction is based on the isolation of the risks and benefits connected to a pool or future stream of assets from the creditors of the institution which originates and/or services the assets. Securitization insulates the performance of the securitized assets from management discretion. Separating the assets from the uncertainty related to the originator, gives the institution access to capital via the integrity of securitization structure. This is a valuable avenue for firms that have tapped out current sources of capital or who are marginally investment grade or unrated.

A nexus of explicit contracts, that enables the risks and benefits of the asset pool or stream of future receivables that are normally intertwined to be separated and distributed more efficiently, defines the structure of a securitization transaction. Securitization is a technique that if not explicitly utilized by financial institutions and industrial companies, should at least be a funding option against which others are measured. This will have the secondary benefit of forcing companies to build the systems necessary to sustain a securitization program. These systems will give companies the means to track and monitor the qualitative and quantitative facets of their short and long term assets. The efficiency of a firm's asset/liability and working capital management will thereby be enhanced even if securitization is not employed.

The international diversity and fluid nature of accounting standards, tax law, and banking regulations requires that management discretion over assets must be replaced with the necessary legal and accounting expertise to insure that securitization structures are efficient with respect to bankruptcy law, capital requirements and taxes. The authors of this issue are extending the scale and scope of the U.S. market for asset backed securities and increasing the depth and liquidity of the European securitization market. We thank them for investing their time and resources to make *The Financier* a valuable source of information.

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