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We begin this issue with an article by Ken Marin and Samuel Hu on the mandatory clearing requirements in the Dodd–Frank Wall Street Reform and Consumer Protection Act for swaps between financial entities and swap dealers or major swap participants. The authors note that the clearing rules are potentially a major obstacle for securitization issuers who use swaps to hedge mismatches between securitized assets and their issued liabilities. Clearing would require a securitization issuer to post collateral in the form of cash or highly liquid treasury securities, which would be prohibitively expensive for securitization issuers seeking low-cost financing to pass on to their underlying borrowers. Unfortunately, exceptions granted to commercial end users who use swaps to protect against movements in interest rates would not be available for securitization issuers. There are a number of exceptions to the clearing rules that may be available for securitization issuers. Even if issuers can avail themselves of such exceptions, however, the relief will only be short lived because securitizations will face similar obstacles in regulations proposed by the prudential banking regulators and the Commodity Futures Trading Commission (CFTC) that would require end users to post liquid collateral to their counter-parties to uncleared swaps. Dodd–Frank and its avalanche of regulations will have significant consequences for securitizations—some intended, some not—and the clearing rules are the newest concern facing the industry.

Lawton Camp, Hilary Christian, In Cho, and Jamie Fertig give us a regulatory update on covered bonds. Increased issuance of covered bonds on a worldwide basis could potentially broaden sources of residential housing finance, lower consumer costs, and profit banks, and such issuance is encouraged by preferential treatment under CRD IV and Solvency II, but regulatory concerns in the U.S., Canada, and Europe are preventing covered bonds from realizing their potential in the overall structured finance product portfolio.

Paul Burke and Michael Morcom discuss measures to improve issuer–investor communication in U.S. asset-backed security (ABS) transactions. In the past, they observe, information has not flowed as effectively as it should have between issuers and investors in the amendment, waiver, and consent (AWC) process. Moreover, the market's move to book-entry securities and the resulting separation of legal and beneficial ownership in the underlying securities, compounded by the complex deal structures and distribution of investors into multiple classes has complicated the ability of issuers to effectuate AWCs easily. The authors discuss ways to improve these information flows.

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Ann Rutledge, Sylvain Raynes, Andriy Bulava, and Francis Galasi explain how they believe commercial mortgage-backed security (CMBS) analysis could be dramatically sharpened by synthesizing three expert perspectives into a single framework: CMBS market expertise on CRE (commercial real estate) value and monitoring, CMBS academic research into CRE risk, and the statistical RMBS (residential mortgage-backed security) information model, which makes credit comparisons on CMBS tranches more precise. "For once, academia leads industry in blazing a trail towards a more robust and credible valuation paradigm in CMBS structures," the authors observe.

John Hwang, Giancarlo Sambalido, and In Cho provide an update on performance and regulatory trends in the credit card ABS sector. The market appetite for credit card ABS remains strong and continues to grow steadily, driven in no small part by the strong performance of the credit card master trust portfolios. However, enforcement actions by the Consumer Financial Protection Bureau (CFPB) during its first two years have brought some uncertainty and threaten to restrict competition in the credit card industry. Mr. Hwang's regular updates on this major asset class have been, and we hope will continue to be, a great service to this journal.

In his overview of U.S. single-family residential investment strategies, Ron D'Vari explains that the U.S. single-family residential asset class has traditionally encompassed home builders, RMBS, and public or private companies/REITs focused on mortgage origination, lending, mortgage insurance, servicing, and securitization. However, the credit crisis has caused fundamental changes in the capital formation process and how it is deployed in the residential space. Having been involved with the sector from its early years, Mr. D'Vari provides readers an overview of how differently the new players are approaching the asset class and discusses the tools, processes, and types of expertise that are being deployed.

Philipp Kusche brings us up to date on insurance-linked securities (ILS), a constantly growing alternative asset class. He notes that the persistent low-interest-rate environment keeps institutional investors searching for high-yielding assets. Alternative assets have been receiving constantly increased allocations from many institutional investors, and within this asset class, ILS have become more and more a standard product choice for investors beyond just real estate and commodities. The article provides an in-depth overview of the ILS market and products as well as different investment strategies used.

In his article on synthetic real return bonds, Jack Schnabel observes that over the past few decades, the governments of many developed countries have issued debt securities that contractually protect the investor against inflation, but only in a very limited way. Consequently there is not a liquid market and investors impose a price discount on such debt instruments to compensate for the illiquidity. Mr. Schnabel argues that governmental timidity regarding the issuance of real return bonds need not impede their use by investors and hedgers because a financial institution can synthesize a real return bond by combining a nominal return bond with a portfolio of inflation swaps and a bank loan and/or deposit, all with the same maturity.

John Joshi explains that the solar distributed generation sector has been growing at a fast rate and more and more firms are looking for additional sources of capital to support the sector, but the sector's dependency on relatively few tax-equity investors has constrained its growth. Access to public capital markets could provide a steady and diversified source of funding capital and allow the sector to grow. As stakeholders work toward developing standards and solutions for solar energy backed securities, explanation and clarification of the risks in the underlying assets is important for the development of robust rating criteria and for investors to understand relative value on a risk-adjusted basis. Mr. Joshi's article explains 10 important categories of risks related to solar energy backed securities.

Harikumar Sankaran, Violeta Díaz, and Salvador Espinosa explain their proposal for a bi-national bond to finance strategic infrastructure along the U.S.–Mexico border. Recent research documents the increasing gap between border infrastructure needs and available funding.

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Large-scale projects have traditionally been funded through federal government budget allocations in both countries. Evidence shows, however, that budgetary allocations for border infrastructure projects have been declining. Many of the costs and benefits associated with many of these projects affect residents on either side of the border. The authors present their article as one of the first attempts to design an innovative financial instrument to attract much-needed capital to the border region. They believe the most interesting feature of this structured product is that the design of the cross-currency interest rate and currency hedge allows the issue to be either in Mexican pesos or U.S. dollars. They consider this feature best suited for the U.S.–Mexico border infrastructure projects because there are investors on both sides of the border. They leave the mechanics of the debt service and allocation of proceeds from such a bond issue as important issues for future research.

Guntur Anjana Raju and Mythili Kurpad note that since India became independent in 1947, small- and medium-scale enterprises (SMEs) have formed the backbone of its economy. Despite numerous government loan programs and other legislation favoring the sector, there has been a persistent financing gap. The authors believe securitization could help SMEs grow and realize more of their potential. They trace the history of SME securitization in various European, Asian, and Islamic countries, explain current legal impediments to securitization in India, and propose a model for helping SME securitization grow in India's developing economy.

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