INNOVATION OF THE YEAR

WINNER: FCT JUPITER 2019

Societe Generale's US$3.4bn FCT Jupiter 2019 transaction has won SCI's Innovation of the Year Award for introducing a number of ground-breaking structural innovations in connection with the redeployment of released RWA. The deal not only frees up a dedicated capital envelope, whereby capital can be reallocated in favour of positive impact finance assets, but also debuts a pricing reduction feature incentivising the Bank to participate in new Positive Finance lending.

"THE TERMS OF THE TRANSACTION INTRODUCE A PRICING INCENTIVE FOR ADDITIONAL IMPACT ALLOCATION"

The credit protection is structured as a funded financial guarantee and covers a low mezzanine tranche, which was privately placed with Mariner Investment Group's International Infrastructure Finance Company Strategy (IIFC Strategy), while Societe Generale retains unhedged the thin first-loss tranche and the senior tranche. The credit protection is 'mutualised' across the obligors, enabling it to cover a wide scope of assets across Societe Generale's business units.

The portfolio references more than 250 diversified specialised lending assets from both project finance (energy, infrastructure, metals and mining) to asset finance (shipping, aircraft, real estate) and corporate assets in over 40 countries. The transaction features a four-year replenishment period, during which amortisation of the underlying assets can be compensated for by the addition of new eligible assets of the same type.

As well as being one of the largest synthetic risk transfer deals referencing infrastructure assets, Jupiter distinguishes itself through significant innovation in the impact investment arena via embedded conditionality requirements. Through a first-of-its-kind Positive Impact Capital Allocation factor, the Bank has committed to dedicate 25% of the risk-weighted asset reduction within three years to reduce the capital burden for new Positive Impact Finance lending.

The Positive Impact Capital Allocation feature, whereby credit risk transfer effectively frees up a dedicated capital envelope, serves to absorb and offset some of the RWA density of Societe Generale's impact lending book. This, in turn, enables the Bank to proactively attribute a lower effective risk weight for borrowers whose projects correspond to certain positive impact transactions.

"JUPITER DISTINGUISHES ITSELF THROUGH SIGNIFICANT INNOVATION IN THE IMPACT INVESTMENT ARENA"

Furthermore, the terms of the transaction introduce a pricing incentive for additional impact allocation. If Societe Generale redeploys 50% of the RWA release towards Positive Impact Capital Allocation factor by the end of the replenishment period, the coupon on the transaction will be reduced, thereby enhancing its capacity to originate Positive Impact Finance projects.

By reallocating the released capital from the legacy loan book and dedicating it to enhance the capacity to lend to positive impact sectors, the parties aim to strongly advance the UN Sustainable Development Goals.

This transaction helps Societe Generale increase lending headroom, while also enabling the Bank to pursue its commitments related to positive impact. It is hoped that the framework will also serve as a model for transactions in the future, both for the IIFC Strategy and other investors.

The transaction is structured in compliance with the new Securitisation Regulations and significant risk transfer rules.■

HONOURABLE MENTION: **SIMBA**

ING Bank's capital relief trade for its German subsidiary ING DiBa was noteworthy for being the first unfunded significant risk transfer transaction executed between a European bank and an insurance counterparty (Arch Mortgage Insurance). Dubbed Simba, the deal references a €3bn subset of a German residential mortgage loan portfolio and was the first mortgage SRT to be approved by the ECB.

The transaction helps ING future-proof its lending businesses by ensuring it has the flexibility to address changes in the regulatory and competitive landscape in the future, and by creating an additional balance sheet management tool that is being considered for other portfolios in the future. By transferring the economic risk on asset portfolios, the tool releases capacity for additional lending.