STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

As Structured Finance Reaches Further, Can Visibility Keep Pace?

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As Structured Finance Reaches Further, Can Visibility Keep Pace?

At SFA's third annual Research Symposium, we invited participants to look at structured finance through a broader lens—not simply as a collection of products and asset classes, but as an increasingly interconnected system of capital formation.

Across discussions on private credit, fund finance, AI infrastructure and liquidity, a common question emerged: as structured finance reaches further across new assets and financing channels — is visibility into the information needed to understand, price and manage those exposures keeping pace?

Visibility, alongside transparency and disclosure, is fundamental to the integrity of structured finance. Daniel Ezra, CEO of Entegra and a panelist on "*Bridge to Term ABS,*" offered a useful lens through which to consider that question: "Visibility is the currency of liquidity."

As the recognized structured finance and securitization markets expand to new asset classes, while structured finance techniques are also applied beyond those traditional boundaries, that visibility is becoming both more important—and more difficult to achieve.

Structured Finance Is Reaching Further

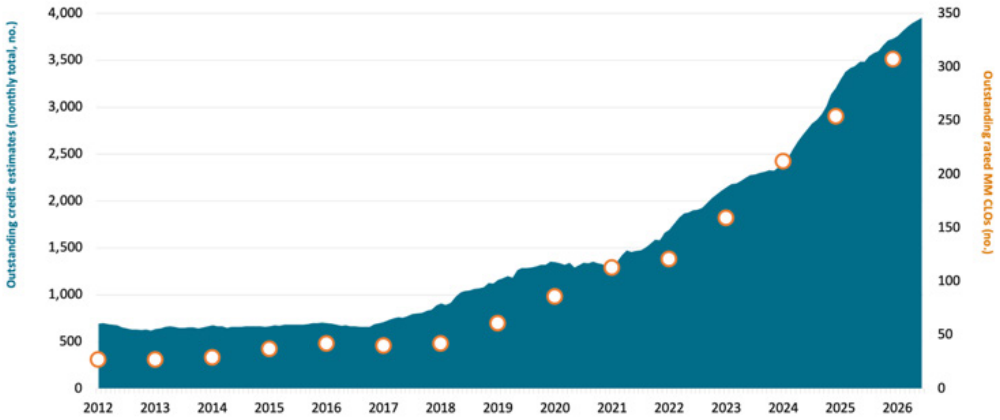
Structured finance has always connected assets with capital, while secondary markets have provided the liquidity needed to sustain that connection. What is changing is where and how those techniques are being deployed, and the effects on both the primary and secondary market.

Direct lending provides one example. As private credit has grown, structured finance has become increasingly important in funding that growth. Stephen Anderberg, sector lead of U.S. CLOs at S&P Global Ratings and moderator of "*Supporting the Flow of Capital to Middle Market Borrowers through Structured Finance,*" highlighted the expansion of middle market CLOs. At the beginning of 2020, S&P Global Ratings had 86 publicly rated middle market CLOs backed by loans to approximately 1,350 companies. Six years later, that had increased to more than 337 CLOs from 42 managers, backed by loans to approximately 4,000 companies.

CLOs are only part of the expanding toolkit. Anderberg also pointed to warehouse facilities, subscription lines, rated feeder funds, CFOs and other structures—several of which finance private credit funds and blur traditional financing boundaries.

Chris DiAngelo, a partner at Katten Muchin Rosenman LLP who moderated "*Structured Finance and Fund Finance,*" noted that some fund finance transactions can closely resemble conventional ABS economically, yet receive corporate rather than structured finance ratings and draw from a different investor base. That raises a broader question about where the boundaries of structured finance should be drawn. As techniques associated with securitization appear in products outside traditional securitization markets, market classifications do not always neatly reflect the underlying financing techniques.

Middle Market CLOs Have Seen Rapid Growth in Recent Years



Covers all outstanding S&P Global Ratings U.S. credit estimates, including a small number of estimates for obligors not currently held within a CLO transaction. §Excludes confidentially rated MM CLOs. CE—Credit estimate. MM—Middle market. CLO—Collateralized loan obligation. Source: S&P Global Ratings.

Structured finance is also reaching new assets. AI infrastructure is perhaps the most striking example. Building the infrastructure required to support artificial intelligence could require trillions of dollars of financing across securitization, project finance, construction lending, corporate bonds and other markets.

Data center securitization has already grown to roughly a $70 billion market across ABS and CMBS, according to Elana Lipchak, a panelist on "*Powering the AI Economy: Datacenters, Infrastructure, and the Next Wave of Securitization,*" who covers ABS at Barclays. Some investors are becoming more selective as allocations increase, while others are building expertise in a sector that has become too large to ignore. Lipchak expects the opportunity to broaden further, with AI compute equipment potentially emerging as another source of issuance.

The path from emerging asset class to established capital-markets sector can itself involve multiple stages of financing. As Fei Han, Associate Director in Private Credit at 400 Capital Management and a panelist on "Applying Structured Finance to New Asset Classes," observed, "Asset-backed financing can support the seasoning process before newer asset classes gain broader capital markets acceptance." Investors, she noted, generally look for structures that are right-sized to a platform's current stage and flexible enough to scale as the business develops.

Taken together, these developments point to a broader shift: recognized structured finance markets are expanding into new asset classes, while techniques associated with structured finance and securitization are also being applied across a wider range of financing channels.

Does Broader Visibility Come with Broader Reach?

As structured finance reaches further, does the information available to investors expand with it? The symposium highlighted several distinct dimensions of visibility and, in turn, secondary market liquidity.

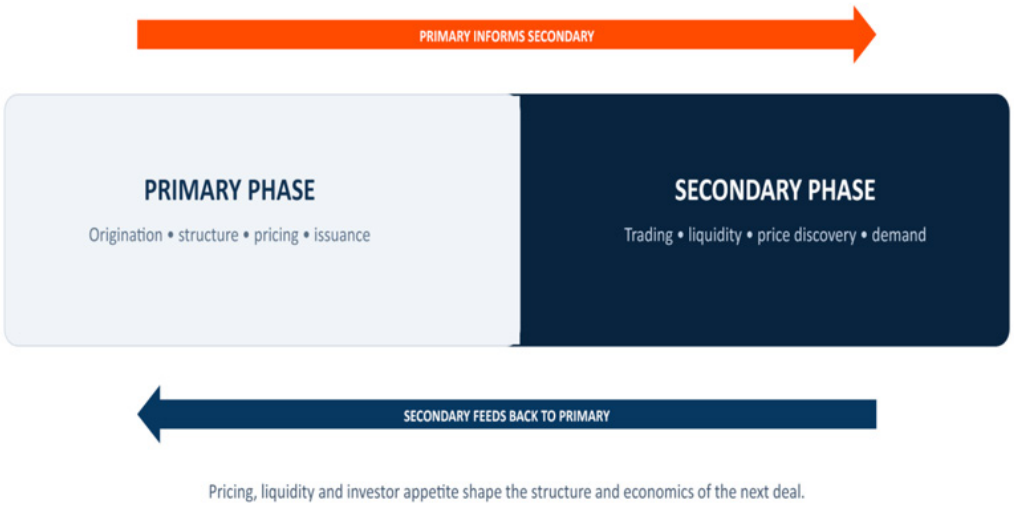
Fund finance provides one example. Belinda Ghetti, Managing Director at Fitch Ratings, noted during "*Bridge to Term ABS*" that while some transactions mirror term securitizations in their analysis and collateral, they may lack one of the guardrails that has become a hallmark of traditional securitization: regular data reporting. The distinction is more than one of classification. As securitization-like techniques extend beyond traditional securitization markets, similar structures may not come with the same information framework, potentially giving investors less ongoing visibility into the underlying assets and their performance.

Funding AI infrastructure presents a different visibility challenge: understanding exposure across financing channels. Lipchak noted that investors are increasingly looking to manage tenant concentration at the portfolio level, across not only ABS and CMBS but also construction and corporate markets. As financing for the same sector spans multiple channels, understanding aggregate exposure increasingly requires visibility across those channels.

Visibility also matters across the financing lifecycle. During the "*Bridge to Term ABS*" panel, Daniel Ezra described the primary and secondary phases as a continuum— "one market that feeds back on itself." The primary phase encompasses origination, structuring, pricing and issuance, while the secondary phase provides an ongoing test of pricing, liquidity and investor demand. Those signals, in turn, feed back into warehouse economics and the pricing and structuring of subsequent transactions.

When the secondary phase is less developed, that feedback loop is weaker. Limited trading and liquidity mean less price discovery and visibility into investor demand—information that can ultimately influence both the economics of the next transaction and the financing channel an issuer chooses.

Primary and Secondary are Two Phases of One Continuous Market



Source: Entegra, as prepared by Daniel Ezra for SFA's Research Symposium

Taken together, the three perspectives broaden what "visibility" means as structured finance expands: visibility into aggregate exposures, visibility into underlying collateral and performance, and visibility into how risk is priced and demanded by the market.

Can Tech Improve Visibility?

Improvements in technology may offer way to improve visibility. The "*Intelligent Securitization: AI Implementation & Governance*" panel highlighted the growing use of AI for information gathering, document review, data extraction, analytical support, coding assistance and workflow automation. Used effectively, these tools can help professionals gather and analyze information more efficiently, potentially making increasingly large and complex pools of data more accessible.

AI also adds another dimension to the visibility discussion. Armine Karajyan, Global Head of Structured Finance Research at KBRA and moderator of the panel, noted that as AI adoption moves from "pilot to production," implementation considerations grow as tools grow more complex and autonomous. These considerations include inaccurate or fabricated outputs, poor data quality, privacy and cybersecurity exposure, weak explainability, automation bias, insufficient review, vendor dependence and unclear accountability. Addressing them, she noted, requires users to understand where information comes from, assess the reliability of outputs and identify errors before they affect downstream analysis. Effective implementation therefore depends on reliable data, testing, clear ownership, performance monitoring and defined human-review procedures. Governance is evolving alongside adoption: panelist Cynthia Cole, partner at Alston & Bird, noted that only 9% of publicly traded companies have formal AI governance in place.

The opportunity and the visibility imperative go hand in hand. AI can help users gather, extract and analyze increasingly complex information more efficiently, while transparency into data, outputs and processes can help users evaluate and apply those insights effectively.

Visibility as Infrastructure

The fundamentals of securitization have not changed. Clearly defined collateral and cash flows, reliable data, strong underwriting, robust structures and controls, transparency and alignment remain central to understanding and managing risk. What is changing is the breadth of the ecosystem in which those fundamentals are being applied.

If "visibility is the currency of liquidity," the challenge is ensuring that visibility keeps pace as structured finance reaches further.