An asset-backed commercial paper (ABCP) conduit is a bankruptcy-remote special purpose company (SPC) that issues commercial paper to finance the purchase of trade receivables or term assets from one or more sellers (i.e. transferors of assets). Acquired assets may include a variety of short-, medium-, and long-term financial assets, including rated securities. ABCP conduits are typically established by commercial banks or finance companies to provide low-cost financing to their customers or for balance sheet relief for the sponsoring institution. More recently, conduits have been created to take advantage of arbitrage opportunities in the fixed-income markets. Dramatic growth in the ABCP market demonstrates the importance of this market as a funding source to both issuers and their customers.

Currently, there are more than 200 active ABCP programs representing more than $380 billion in outstanding and accounting for over 40% of the overall dealer-placed commercial paper market. These range from single-seller programs to securities arbitrage conduits to the multibillion-dollar multiseller programs that dominate today’s market. Recent market growth has been fueled by the continued expansion of existing programs; the entrance of new programs into the market; and the proliferation of new asset types being financed through conduits, including asset-backed securities (ABS), collateralized debt obligations, and commercial and residential mortgage-backed securities.

The dramatic growth of this market, as illustrated in the chart on page 2, demonstrates the importance of ABCP conduits as a funding source. The depth of the market also indicates widespread acceptance of this product among issuers, financial intermediaries, and investors. As the ABCP market continues to expand and innovate, Fitch IBCA’s rating criteria will evolve in step.

Fitch IBCA has established criteria for evaluating ABCP programs during the rating process that is supplemented by ongoing surveillance of each program’s performance data. Evaluation of any program includes an assessment of the administrative agent; the program’s operating guidelines and procedures regarding proposed credit enhancement levels, liquidity support, seller and obligor size, and credit quality limitations; asset performance triggers; interest rate and foreign currency risks; and legal structure. This report outlines Fitch IBCA’s ABCP rating approach in the context of partially enhanced multiseller and single-seller ABCP programs.
Overview of ABCP Conduits

Fully vs. Partially Supported

ABCP conduits are typically categorized by their level of programwide credit enhancement, which determines whether a conduit is fully or partially supported. In fully supported programs, the repayment of CP relies on a financial guarantee in the form of a credit agreement, surety bond, letter of credit, or third-party guarantee to cover all credit risks. Moreover, investors’ risk rests with the financial strength of the guarantor and is not affected by a default on the underlying assets. When evaluating fully supported programs, Fitch IBCA focuses its analysis on the program documentation and the ratings of the enhancement providers rather than on the underlying assets. As a result, the rating of a fully supported program is dependent on the ratings of program enhancers and liquidity support providers.

In contrast, partially supported ABCP programs rely primarily on the cash flow or market value of a pool of assets for repayment of the CP. Investors in partially supported programs are exposed to losses on the underlying program assets to the extent that such losses exceed pool-specific reserves and programwide credit enhancement (see Credit Enhancement, at right).

Single-Seller vs. Multiseller

ABCP programs are also categorized as either single-seller or multiseller programs. Single-seller programs are bankruptcy-remote SPCs that issue ABCP to fund the assets of a single originator or seller. Multiseller conduits combine the assets of several unrelated sellers into one diverse portfolio of assets supporting the CP issuance and are typically sponsored by large commercial banks or finance companies.

The multiseller conduit itself is also a bankruptcy-remote SPC that meets Fitch IBCA’s legal requirements (see Legal Issues, page 8). The asset portfolio is purchased and managed for the issuer by an operating or administrative agent, generally a division or dedicated group within a sponsoring bank or finance company, in accordance with the conduit’s operating guidelines.

Conduits have well developed credit and investment policies to manage asset liquidity and regulate the size, quality, and diversity of sellers and obligors participating in the program. The administrative agent’s role in conforming to these policies is critical.

Rating Methodology

Credit Enhancement

Generally, there are two levels of credit protection in ABCP conduits — pool-specific enhancement and programwide enhancement. Pool-specific enhancement is for protection against losses, dilution, yield risk, defaulting obligors, and servicing risk associated with an individual transaction funded in a CP conduit. Pool-specific enhancement is provided in many forms, including overcollateralization, recourse to the seller if it is rated ‘A’ or above, third-party credit support, or excess spread. Each pool acquired by a conduit must be structured to a credit quality level consistent with the conduit’s rating. Pool-specific credit enhancement only covers defaults on a specific seller’s receivables and cannot be used to fund losses in any other pool.

Pool-specific credit enhancement, the first layer of protection, is based on a seller’s risk profile and is generally sized to cover the following for a particular pool: a multiple of historical losses and dilutions; yield risk; the largest obligor of low credit quality; transfer of servicing; and other relevant risks. With the exception of highly rated securities whose underlying credit enhancement is inherent in its credit rating, each pool or transaction purchased must have an associated minimum enhancement amount.

Pool-specific credit enhancement can be structured as a fixed percentage of the asset pool, but it is often dynamic, and, as a result, the size of a transaction’s pool-specific reserve increases if the asset’s performance deteriorates. With fixed pool-specific enhancement, certain performance triggers may force an early amortization and require the program to cease issuing CP.

The second layer of enhancement, programwide credit enhancement, is a fungible layer of credit protection that is often provided by a third party. Programwide credit enhancement can be drawn when...
a transaction’s pool-specific credit enhancement has been exhausted. The rating of the third-party credit enhancement provider must be at least as high as that of the CP and may be in the form of an irrevocable loan facility, letter of credit, surety bond from a monoline insurer or other guarantee from an appropriately rated institution, or cash invested in permitted investments. The size of the fungible credit enhancement takes into account Fitch IBCA’s default stress scenarios, including a multiple of losses on the overall portfolio, a multiple of the largest seller and/or obligor exceeding the permitted concentration limits, and any other associated risks.

Programwide credit enhancement provides the conduit sponsor more flexibility in the application of its credit and investment policies and its ability to meet the unique needs of its clients. Absence of programwide credit enhancement could result in higher pool-specific credit enhancement requirements. Additionally, Fitch IBCA conducts a full credit analysis, including a due diligence, on each seller for programs structured without programwide credit enhancement.

**Liquidity**

Liquidity support is an integral part of every ABCP program and is an important element of Fitch IBCA’s program review. In many cases, the program’s rating reflects the credit quality of the liquidity providers. While credit enhancement covers asset defaults and dilution, liquidity providers commit to making funds available to the conduit for reasons other than credit deterioration of the portfolio assets to ensure timely repayment to noteholders. Such events may include market disruptions, an issuer’s inability to roll the CP, or asset/liability mismatches.

Some liquidity facilities go beyond covering market disruptions or timing mismatches and provide an element of additional credit protection to investors. If the liquidity facility provides credit protection in addition to covering liquidity risk, the conduit’s rating can only be as high as the liquidity bank’s rating.

Typically, maturing CP is repaid through either cash collections from portfolio assets or proceeds of new CP issuance. External liquidity would be critical any time new CP issuance is disrupted. Furthermore, during the program’s liquidation, external funds are needed to cover the mismatch between receivables collections and maturing CP obligations. External liquidity replaces or supplements the collections of the program’s assets, ensuring that CP will be repaid in full and on time.

Liquidity support is typically in the form of either a loan agreement or an asset purchase agreement. Under an asset purchase agreement, the liquidity provider agrees to purchase nondefaulted assets when liquidity is needed. Under a loan agreement, the liquidity provider agrees to lend funds to the conduit, which are secured by the cash flow on the underlying asset portfolio.

**Pool-Specific Liquidity:** Liquidity facility commitments can be provided either at the pool or program level. With pool-specific liquidity facilities, each facility
relates solely to the transaction of a particular seller and the related CP issued to fund the transaction. Pool-specific liquidity is not fungible, and any unused portion of one transaction’s liquidity facility is not available to provide liquidity support to another transaction in the program. As a result, each individual liquidity facility typically covers 100% of the face amount of the CP issued with respect to the related transaction.

Fitch IBCA also reviews the terms under which a liquidity provider may be relieved of its duty to fund the program. Liquidity providers are not typically required to fund against defaulted receivables. Additionally, there are certain conditions under which liquidity providers are not required to fund, including issuer or conduit bankruptcy, the bankruptcy of any surety bond provider guaranteeing the portfolio assets, and the exhaustion of credit enhancement. These conditions are acceptable since the issuer is a bankruptcy-remote SPC (see Legal Issues, page 8) and because the credit enhancement is sized to cover Fitch IBCA’s worst-case stress scenario for the assigned rating category.

Programwide Liquidity: A programwide liquidity facility is available to support all CP issued by the program. The liquidity facility is generally sized to support 100% of the face amount of the CP issued to maturity but may be sized at less than 100% if other forms of liquidity support, including asset liquidity, CP maturity restrictions (managing asset cash flows to their respective liabilities), or flexibility of credit enhancement providers, are available. In any case, the program must supply enough liquidity to repay all CP outstanding, whether it be through collections or external sources.

Key Parties and Conduit Operations

Administrative Agent: Multiseller conduits rely on highly capable program administrators to ensure that a program is operating properly. The evaluation of the administrative agent is critical to Fitch IBCA’s analysis of ABCP programs. The administrative agent’s role can include such duties as originating and referring new sellers, conducting due diligence reviews of prospective sellers, structuring asset purchases, negotiating with third-party credit enhancement and liquidity providers, managing liquidity positions, and closely monitoring each transaction’s performance. Because the multiseller conduit purchases assets from a variety of sellers, the administrative agent also manages the conduit’s portfolio risks and cash flows much like an actively managed investment portfolio.

Managing Agent: Many of the conduit’s administrative functions may be outsourced to independent, third-party managers who typically have established track records managing CP conduits and extensive accounting and securitization experience. Managing agent duties may include:

- Maintaining general accounting records, preparing financial statements, and retaining an accounting firm to audit the financial statements.
- Assisting outside auditors in conducting annual audits of a conduit’s books and records.
- Providing corporate bookkeeping and maintenance services.
- Arranging meetings of the board of directors and annual meetings of the shareholders.
- Maintaining and preserving books and records of the issuance, sale, and repayment of CP.
- Reviewing and evaluating each receivables sale agreement.
- Preparing monthly management reports relating to the issuer’s cash flows and profitability.

Due Diligence: An important element of the rating process is an on-site due diligence review of each program’s administrative agent, including the management and program administrative staff, to evaluate the administrative agent and its underwriting, operating, and surveillance policies and procedures, as well as its systems and controls. Additionally, Fitch IBCA reviews three to five years of operating history and performance data, if available, to ensure that the agent consistently adheres to program guidelines. Fitch IBCA also reviews annual audited financial statements, in addition to conducting an annual due diligence review. (For a sample due diligence outline, see Appendix, page 10.)

The initial review includes an in-depth assessment of several of the agent’s transactions to determine structuring expertise, hedging capabilities, the program’s asset quality, and the agent’s ability to monitor and report asset performance. Lastly, Fitch IBCA verifies the integrity of program policies and procedures by selectively reviewing specific transaction files to ensure that the administrative agent adheres to its written guidelines and to determine under what circumstances the administrative agent has deviated from its established guidelines.

Pre-Review vs. Post-Review: When evaluating an ABCP conduit, Fitch IBCA reviews the program administrator’s experience in the industry, its management team, credit and investment policy, operating policy, surveillance procedures, administrative abilities, and systems capabilities.
Fitch IBCA will treat established programs with strong track records, experienced administrators, and acceptable credit, investment, and operating procedures as specialty finance companies and may not review every transaction prior to funding. With this type of review, often referred to as “post-review status,” Fitch IBCA reviews all or select transactions on a post-closing basis, surveils the conduit monthly, and re-evaluates the program annually.

Fitch IBCA generally reviews every transaction funded in the program prior to closing for new issuers or administrative agents with shorter track records or when an administrative agent wants more flexibility with respect to its credit and investment policies. This type of review, referred to as “pre-review status,” will last until the agent has demonstrated an appropriate performance history. Fitch IBCA may continue to review each transaction for some programs, particularly small programs or those with unusual structural features.

**Systems:** Fitch IBCA also evaluates the administrative agent’s information systems, hedge execution, trading and risk models, and reporting capabilities. In particular, Fitch IBCA examines the agent’s hardware and software configurations, its systems capacity, plans for upgrades and expansion, capability to generate reports (including customized reports), system security, data backup, and disaster recovery procedures. Finally, the administrative agent’s Year 2000 compliance plan is reviewed, focusing on the agent’s awareness of policies regarding CP and conduit sellers. If appropriate, Fitch IBCA also ensures that the sponsor is meeting all federal and regulatory guidelines related to Year 2000 compliance.

**Credit and Investment Policy**

Fitch IBCA reviews the program’s credit and investment policy, which establishes parameters for such things as program size and quality and diversity of sellers and obligors, and stipulates seller and portfolio-specific trigger events. This policy should include the following:

- Restrictions regarding seller quality (minimum short- and long-term credit rating).
- Concentration limits for sellers, obligors, and industries.
- Requirements for credit and liquidity support.
- Asset eligibility criteria (i.e. term/trade asset mix and/or U.S. dollar- or nondollar-denominated assets).
- Triggers that may include but are not limited to a rating downgrade or withdrawal, delinquency, default, dilution, loss to liquidation, excess spread, and portfolio aging.

The policy also should demonstrate a standard of care by the administrative agent equal to that used for the sponsor’s own assets. While some flexibility is necessary to allow for management discretion, Fitch IBCA expects adherence to the policy terms and evaluates the administrative agent’s performance in this respect monthly. Divergence from a program’s credit and investment policy may be permitted, provided that prior approval is obtained from Fitch IBCA and other relevant parties.

Fitch IBCA also looks for incentives for the sponsor to be diligent in adhering to its credit and investment policy and in managing the conduit’s receivables. Among other things, the sponsor should have a significant financial stake in the program through participation in the liquidity and/or credit facilities, reserves, indemnification for breaches of its contractual obligations, subordination of its management fees, or some other means.

**Sellers:** Fitch IBCA reviews the program’s guidelines for seller quality limitations. The number of asset sellers or originators in an ABCP program varies significantly. Conduits typically include numerous asset sellers representing a variety of industries and may include rated asset-backed or mortgage-backed securities. (In programs where the conduit is purchasing rated ABS, Fitch IBCA considers each issuer a seller.) Diversity is often regulated by guidelines established for the credit quality and size of the sellers included in the program. As a result, these portfolios are highly diverse and are less reliant on the performance of any one asset or transaction.

The sellers’ credit quality dictates the type of structure and amount of credit enhancement the conduit requires to mitigate the risk of defaulted or deteriorating assets or seller bankruptcy to the program. Multiseller conduits typically limit the acceptable range of seller credit quality. For example, some programs permit purchases from investment-grade (i.e. rated ‘BBB–’ or above) sellers only, while others may allow a portion of purchases (or, in some cases, all purchases) to be made from unrated or non-investment-grade companies. In addition, exposure limits are usually set within each credit range.

For programs permitting non-investment-grade sellers, Fitch IBCA requires that the assets be sold to a bankruptcy remote entity or SPC — typically, a subsidiary of the seller — before selling them to the conduit. This two-tiered process, illustrated in the chart above, insulates the portfolio assets from claims or an automatic stay subsequent to a seller bankruptcy. Additionally, upon breach of certain...
Structured Finance

Two-Tier Legal Structure

<table>
<thead>
<tr>
<th>Seller</th>
<th>Special Purpose Corporation</th>
<th>Conduit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonconsolidation Opinion</td>
<td>Receivables</td>
<td>First Perfected Security Interest</td>
</tr>
<tr>
<td>True Sale Opinion</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

triggers, the issuer may seize control of lock box account(s) to mitigate the bankruptcy risk of those sellers.

If an existing seller is downgraded below investment grade, transactions may need to be restructured to include the two-tier structure to enable the conduit’s continued investment in that seller’s receivables. If a program is structured with purchase commitments from outside third parties, with credit ratings equal to its own, to buy deteriorating assets out of the portfolio, restructuring to a two-tier structure may not be necessary. Without such provisions, Fitch IBCA requires that the conduit stop purchasing from a non-investment-grade seller to protect the quality of the portfolio.

For those programs that require investment-grade sellers, Fitch IBCA does not require assets to be purchased through an SPC. These programs do not allow purchases to be made from non-investment-grade sellers, and existing purchases are liquidated or divested if the seller is downgraded below investment grade.

Receivables may be purchased by the conduit on either an “offered” or “committed” basis, dictating the terms by which the conduit can stop purchasing from any particular seller. The program’s purchases of assets on an offered basis may be terminated at the administrative agent’s discretion.

Purchasing assets on a committed basis does not give the agent as much flexibility, since the conduit is committed to purchasing the seller’s assets during the period covered by the purchase agreement. For programs with committed purchase agreements, Fitch IBCA requires that more conservative performance triggers be stipulated in the purchase agreement, mitigating ongoing exposure to any one seller. If the seller’s or assets’ performance breaches trigger levels, the commitment is terminated and the pool is allowed to liquidate.

Most programs, through credit and investment guidelines, also limit the total amount of exposure to a given seller. Generally, limits are higher for sellers with better credit quality. Size limits are set to eliminate excessive concentrations and ensure that seller risk is diversified.

Programs also may contain features providing additional security in the event of deterioration in the seller or purchased assets. For example, the seller may be required to pass more rigorous performance tests as a condition of future purchases. To mitigate the risk of commingled funds, obligors make payments to lock box accounts, which may be seized by the administrative agent at its discretion.

**Obligors:** Fitch IBCA evaluates the number and diversity of a program’s obligors. In partially supported programs, CP noteholders rely on the underlying obligors for timely repayment. A highly diverse group of obligors reduces the impact of any one obligor’s failure to repay its outstanding obligations.

Fitch IBCA requires that obligor concentration be restricted. For example, the credit and investment policy might restrict the size of the program’s exposure to any obligor to 5% of the individual pool, or 2% of the entire program. Concentration limits, among other factors, are used to calculate the minimum pool-specific loss reserve covering losses for that particular pool, as discussed on page 2. These limits reduce the likelihood of one obligor or class of obligors adversely affecting the program.

Obligors may exceed the standard concentration limit only if they are highly rated (special obligors) or if additional program credit enhancement is held to cover the concentration risk. Fitch IBCA requires that the conduit maintain heightened reporting requirements for these special obligors.

**Assets:** Assets supporting CP programs vary widely and may include trade receivables, credit card receivables, equipment leases, automobile loans, health care receivables, bank loans, tax liens, consumer loans, manufactured housing loans, dealer floor plan loans, and rated asset-backed, mortgage-backed, or corporate securities. Trade receivables have historically been the most frequently securitized assets in CP programs. However, more recently, term assets and rated securities have become the more commonly securitized asset types. Each transaction
financed by the conduit must be structured to a credit quality level consistent with the conduit’s rating.

For receivables, Fitch IBCA reviews three to five years of asset performance history for existing single-seller and multiseller programs. The asset portfolio’s overall performance is reviewed together with that of many or all individual pools for multiseller programs. Delinquencies, losses, receivables turnover rates, and seller and obligor concentrations are all considered during the rating process. While individual pool performances will vary, the long-term performance of the overall portfolio should be stable and predictable. Consistent performance demonstrates the ability of the administrative agent and the effectiveness of the credit and investment policy. Additionally, Fitch IBCA reviews monthly program performance to ensure that results are as anticipated.

Trade receivables have maturities approximating those of the CP, less than 270 days. Because of the high turnover or liquidation rate, trade receivables contribute a large amount of inherent liquidity to a program. In contrast, term assets have maturities exceeding one year and include credit card receivables, installment loans, and equipment leases. Programs with large investments in term assets often depend more heavily on external liquidity, because term pools lack the inherent liquidity of trade receivables pools. Despite the inherent timing mismatching, term assets often have predictable payment streams, which can help an administrative agent manage the program’s cash flows.

In addition to receivables, many conduit programs also purchase rated asset-backed, mortgage-backed, or corporate securities. Numerous program sponsors buy rated securities with little or no incremental credit enhancement based on the credit quality of the underlying assets and structural provisions designed to reduce a program’s exposure to asset credit defaults. Program investment limitations on asset types, ratings, country/currency exposure, and obligor concentrations also reduce the program’s risk exposure.

Nevertheless, programs that purchase rated securities are still exposed to downgrade and default risk of the

The following documents are typically reviewed by Fitch IBCA when rating an asset-backed commercial paper conduit:

- Term Sheet
- Credit Enhancement Agreement
- Liquidity Support Agreement
- Administrative Agreement (or Operating Agreement)
- Security Agreement
- Private Placement Memorandum
- Depositary, Issuing, and Paying Agreement
- Management Agreement
- Receivables Purchase Agreement (or Note Purchase Agreement)
- Investment Advisory Agreement (If Relevant)
- Hedging Agreement (If Relevant)
- Collection Agent Agreement
- Charter Documents
- Credit and Investment Policy

The liquidity, credit enhancement, and operating agreements should be read in conjunction with each other. Program wind-down events are typically described in the operating and liquidity agreements. Stop issuance events are usually described in the operating agreement.

The private placement memorandum is intended solely for disclosure purposes and is not considered a legal, binding document.

The following documents are reviewed by Fitch IBCA each time the conduit funds a new transaction:

- Liquidity Support Agreement
- Receivables Purchase Agreement
purchased security. While credit enhancement is inherent in the security as reflected by its credit rating, incremental protection against default risk may be provided through existing or additional asset-specific or programwide credit enhancement, structural protections, and the program’s investment policy guidelines. Structural provisions, including the posting of additional credit enhancement in the event of a rating downgrade, or a “put” to the liquidity provider, mitigate a program’s exposure to deteriorating assets. In all cases, Fitch IBC A evaluates program investment guidelines and structural provisions to determine the extent to which additional credit enhancement is necessary.

**Hedging:** To protect against interest rate or currency risk, irrespective of the asset, the administrative agent enters into interest rate and/or currency hedge agreements with highly rated financial institutions. This compensates for interest rate mismatches between long-term assets and short-term CP and mitigates currency fluctuation risk. Financial institutions that provide such hedge contracts must be rated at least as high as the CP.

**Stop Issuance and Wind-Down Triggers**

To minimize exposure to credit-related losses, programs are typically structured with mandatory stop issuance and wind-down triggers tied to a decline in portfolio quality below specified minimum levels. Transaction-specific triggers may include:

- Insolvency or bankruptcy of the seller/servicer.
- Rating downgrade of the seller below a specified threshold.
- Cross-default of the seller under other debt obligations.
- Material adverse change in the seller’s ability to perform as servicer.
- Deterioration of portfolio assets below specified levels (includes rating, delinquency, or dilution triggers).
- Erosion of credit enhancement below required levels.
- Default or breach of any covenant, representation, or warranty.

Programs also generally include performance triggers that give the administrative agent the option to terminate a conduit’s ability to purchase new receivables and/or to reinvest principal collections. Program-specific triggers include:

- Failure of the program to repay the full amount of maturing CP or the liquidity loan.
- Downgrade of the CP rating below a specified threshold.
- Default or breach of any covenant, representation, or warranty.

**Legal Issues**

Fitch IBC A reviews numerous legal issues when assigning a rating to an ABCP program to cover the risks related to the bankruptcy or insolvency of a seller or the issuer itself. These issues include the structure of the issuer, the true sale of the receivables, “no petition” covenants, and the issuer’s first perfected security interest (FPSI) in the receivables.

As previously noted, ABCP programs typically issue through bankruptcy-remote SPCs to reduce the risk of issuer bankruptcy or insolvency. Fitch IBC A requires the SPC to be unaffiliated with the sellers, sponsors, and other contracted parties. Additionally, unanimous consent of the board of directors of a conduit is generally required for the conduit to file for voluntary bankruptcy. This protection is further strengthened by requiring that the board contain at least two independent directors. To ensure that the issuer remains solvent, Fitch IBC A reviews its audited annual financial statement. Additionally, SPCs are typically prohibited from incurring debt other than rated CP. A solvent SPC has little or no incentive for a voluntary bankruptcy, and its creditors have no reason to force it into involuntary bankruptcy since assets are sufficient to cover the SPC’s debts.

To protect CP noteholders in the event of a seller bankruptcy, the issuer should either have a FPSI in the assets or own them as a result of a “true sale.” In addition, to further reduce issuer bankruptcy risk, documents should contain “no petition” covenants under which all interested parties (other than CP noteholders), including swap and hedge providers, agree not to file bankruptcy proceedings against the issuer for at least a year and a day after all CP has been retired. This is important not only because of the consequences of an issuer bankruptcy, but also because any such bankruptcy may release the liquidity providers from their obligations to fund maturing CP.

Counsel is required to provide opinions that indicate either that a true sale of the assets to the issuer has occurred or that the issuer has an FPSI in the assets. To address the risk of substantive consolidation when a two-tier structure is utilized (see Sellers, page 5), counsel will also render a nonconsolidation opinion stating that the selling SPC’s assets and liabilities would not be consolidated with those of a seller in the event of seller bankruptcy or insolvency. In addition, counsel should opine that all credit and

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liquidity facilities are valid, binding, and enforceable, notwithstanding any issuer bankruptcy or insolvency.

**Surveillance**

Fitch IBCA monitors all rated ABCP programs by thoroughly reviewing the performance data submitted by the conduits on an ongoing and continuous basis. Key performance information includes:

- Commercial paper outstandings.
- Pool-specific credit enhancement (required and actual).
- Programwide credit enhancement (required and actual).
- Confirmation of outstanding liquidity facility amounts and liquidity bank information.
- Seller concentration and Rule 2a-7 eligibility.
- Asset portfolio composition (for receivables, this may include aging schedules, chargeoffs, dilutions, collections, and exposure to the 10 largest obligors).
- Hedge information (interest rate and currency).
- Asset portfolio performance tested against program triggers.

Severe deterioration in the performance of program assets beyond pool-specific loss reserves may cause programwide enhancement to be drawn. Such an event may trigger a stop-issuance of CP and a program wind-down or an adverse rating action.

Fitch IBCA also monitors the ratings of the liquidity support and credit enhancement providers to ensure that their ratings remain consistent with that of the program. In the event that a liquidity provider is downgraded to a level that would cause the CP notes to be downgraded, the program is typically required to replace the liquidity provider with another qualified institution within a short time frame or reduce the size of the related asset pool to eliminate the need for the commitment of such bank.

Similarly, the downgrade of a credit enhancement provider may result in a rating downgrade of the program unless a replacement provider with the requisite rating is identified. This situation is particularly relevant for fully supported programs, which rely on a financial guarantee in the form of a surety bond, letter of credit, or other third-party guarantee to cover all liquidity, credit, and legal risks.

Fitch IBCA’s surveillance results are available on Bloomberg by typing “FII” and hitting GO or on Fitch IBCA’s web site at www.fitchibca.com.
## Appendix

### Asset-Backed Commercial Paper Conduits Due Diligence Outline and Information Requirements

**I. Sponsor Overview**
- Sponsor history and management background
- Business strategy and competitive environment
- Company organization, management, and expertise
- Financial condition of the sponsor

**II. Other Key Parties**
- Operating/administrative agent
- Management agent
- Issuing and paying agent
- Dealers
- Credit enhancement provider(s)
- Liquidity bank(s)
- Equity ownership

**III. Conduit Structure**
- Conduit strategy
- Portfolio composition and historical performance
  - Industry/seller/obligor concentrations
  - Obligor/seller jurisdictions
  - Top 10 obligors
  - Term/trade/asset-backed securities mix
- Portfolio growth rate

**IV. Originations Process and Transaction Structuring**
- Staff expertise and organizational structure
- Origination strategy
- Credit and investment policy
- Seller due diligence process
- Transaction structuring
- Legal structure of transactions
  - One- or two-tier
  - Legal opinions
  - Credit approval process
  - Acceptance/rejection rate
- Review of transaction file (credit and legal)
- Hedging strategy

**V. Commercial Paper Trading and Funding Mechanics**

**VI. Ongoing Conduit and Transaction Management**
- Staff expertise and organization of department
- Performance reporting (conduit and seller level)
- Seller audits (frequency and scope)
- Procedures for handling seller deterioration
- Policy on amendments to program documents and receivables purchase agreements
- File maintenance
- Internal/external audits and quality control
- Computer system (hardware/software)
- Disaster recovery and emergency plans
- Year 2000 compliance

**VII. Information to be Provided Prior to Site Visit (If Available)**
- Financials of sponsor and conduit (minimum three years)
- Historical program performance data
- Historical performance data on individual credits
- Credit and investment policy
- Servicing procedures manual
- Credit and structural transaction summaries
- Sample of monthly seller remittance report
- Sample of monthly conduit remittance report

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