

ANNEX [10]

CESR Proposal for the Asset Backed Securities – Securities Note Building Block

DEFINITIONS:	
<p>Asset Backed Securities: “debt securities of a type which either”</p> <ol style="list-style-type: none"> 1. represent an ownership interest <u>of the issuer</u> in a pool of discrete assets (including any rights designed to assure servicing, or the receipt or timeliness of receipts by holders (? – issuer, servicer ?) of assets of amounts payable thereunder) – <u>It should be clear the holders of the notes do not have direct access to the underlying assets, there will be always a security trustee, who will enforce the assets and distribute the proceeds from such enforcement. Owner of the Assets is the Issuer or if assigned for security purposes to the Security Trustee such trustee; or</u> 2. are secured by assets and the securities, which by their terms, provide for payments of principal and interest (if any) relating to payments or reasonable projections of payments calculated by reference to a pool of those identified or identifiable assets. 	
DECLARATIONS:	
A. THE SECURITIES	
A.1	The minimum denomination of an issue.
A.2	<p>Where information is disclosed about an undertaking/obligor which is not involved in the issue, disclosure in the following form:</p> <p>‘The information relating to the undertaking/obligor has been accurately reproduced from information published by the undertaking/obligor. So far as the issuer is aware and is able to ascertain from information published by the undertaking/obligor no facts have been omitted which would render the reproduced information misleading.’</p> <p>In addition, the issuer must identify the source(s) of information in the Securities Note that has been reproduced from information published by an undertaking/obligor.</p>
B. THE UNDERLYING ASSETS ¹	
B.1	The Prospectus must demonstrate that the assets backing the issue have characteristics that demonstrate capacity to produce funds to service the interest and principal payments due and payable on the securities and liquidity sufficient to generate repayment of principal on redemption.
<i>Without prejudice to the generality of the foregoing, the following information must be given;</i>	
B.2	<p>Where the assets backing the issue represent an ownership interest <u>of the issuer</u> in a pool of discrete assets:</p> <p><u>Only applicable for synthetic transactions as ABS-conduits might purchase different asset types these assets can only be described in generality.</u></p>
B.2.1	the legal jurisdiction(s) to which the assets are subject;
B.2.2	(a) If the obligors are companies, the general characteristics and descriptions

	<p>of the obligors must be given;</p> <p>(b) a description of the economic environment will be provided, as well as global statistical data referred to the loans (guarantees of the loans, average yield, geographical distribution of the debtors etc);</p>
B.2.3	the legal nature of the assets;
B.2.4	the expiry or maturity date(s) of the assets;
B.2.5	the amount of the assets;
B.2.6	loan to value ratio or level of collateralisation;
B.2.7	the method of origination or creation of the assets, and for loans and credit agreements, the principal lending criteria and an indication of any loans which do not meet these criteria and any rights or obligations to make further advances;
B.2.8	an indication of significant representations and warranties given to the issuer relating to the assets;
B.2.9	any rights to substitute the assets and a description of the manner in which and the type of assets which may be so substituted; if there is any capacity to substitute assets with a different class or quality of assets a statement to that effect together with a description of the impact of such substitution; and
B.2.10	a description of any relevant insurance policies relating to the assets. Any concentration with one insurer should be disclosed if it is material to the transaction;
B.2.11	<p>Where the assets comprise obligations of 5 or fewer obligors or where an obligor accounts for 20% or more of the assets, or where an obligor accounts for a material portion of the assets, so far as the issuer is aware and/or is able to ascertain from information published by the obligor(s) the information required in respect of each obligor will be the same as that which would be required if it were itself the issuer of the securities unless the obligor has securities already admitted to trading on a regulated market or on the markets of the third countries for which the Commission has decided in application of Article 20, par. 3., of the Directive that the broad equivalence of prospectuses is ensured or the obligations are guaranteed by an entity admitted to trading on a regulated market or on the markets of the third countries for which the Commission has decided in application of Article 20, par. 3., of the Directive that the broad equivalence of prospectuses is ensured, in which case only the name, address, country of incorporation, nature of business and name of the market in which its securities are admitted must be disclosed in respect of the obligor and also the guarantor (if applicable);</p> <p><i><u>Too extensive – what information should be provided? Banking secrecy problems will occur. Who should be responsible for the correctness of the published information, as such company is not involved in the issuance and therefore has no own interest in taking responsibility for this issue. Only</u></i></p>

<u>general information can be provided by the issuer about such assets.)</u>	
B.2.12	If a relationship exists between the issuer, guarantor and obligor, details of the principal terms of that relationship must be provided in the Securities Note;
B.2.13	Where the assets comprise obligations that are not traded on a regulated market or on the markets of the third countries for which the Commission has decided in application of Article 20, par. 3., of the Directive that the broad equivalence of prospectuses is ensured, a description of the principal terms and conditions of the obligations must be provided; <u>How should trade receivables, leasing receivables or other asset types which are based on from originator to originator on different terms and conditions be treated?</u>
B.2.14	Where the assets comprise equity securities that are admitted to trading on a regulated market or on the markets of the third countries for which the Commission has decided in application of Article 20, par. 3., of the Directive that the broad equivalence of prospectuses is ensured: (a) a description of the securities; and (b) a description of the market on which they are traded including its date of establishment, how price information is published, an indication of daily trading volumes, information as to the standing of the market in the country and the name of the market's regulatory authority; and (c) the frequency with which prices of the relevant securities, are published.
B.2.15	Where more than five (5) per cent of the assets comprise equity securities that are not traded on a regulated market or on the markets of the third countries for which the Commission has decided in application of Article 20, par. 3., of the Directive that the broad equivalence of prospectuses is ensured, a description of those equity securities and equivalent information to that contained in the Core Equity Registration Building Block in respect of each issuer of those securities; <u>Too extensive. Only general information can be provided. (See also B.2.11)</u>
B.2.16	Where a material portion of the assets are secured on or backed by real property, a valuation report (<u>where is the limit – what happens if hundred of residential properties are securitised</u>) relating to the property setting out both the valuation of the property and cash flow/income streams. Compliance with this disclosure is not required if the issue is of securities backed by mortgage loans with property as security, where there has been no revaluation of any of the properties for the purpose of the issue, and it is clearly stated that the valuations quoted are as at the date of the original initial mortgage loan origination.
B.3	Where the assets backing the issue represent an ownership interest in an actively managed pool of assets;

B.3.1	equivalent information to that contained in B1&B2 to allow an assessment of the type, quality, sufficiency and liquidity of the asset types in the portfolio which will secure the issue;
B.3.2	the parameters within which investments can be made, the name and description of the entity responsible for such management including a description of that entity demonstrating suitable expertise and experience, a summary of the provisions relating to the termination of the appointment of such entity and the appointment of an alternative management entity, and a description of that entity's relationship, if any, with any other parties to the issue.
C. INVESTMENT CONSIDERATIONS	
C.1	<p>A statement as to whether the issuer proposes to or may issue further securities backed by the same assets, a prominent statement to that effect and unless those further securities are fungible with or are subordinated to any class of existing debt securities of the same issuer, a statement that, and the manner by which the prior approval of the holders of that class will be sought.</p> <p><i><u>This can never be achieved/done for ABS-Conduit MTN Programmes; will make issues under such Programmes and therefore the financing function to elaborate.</u></i></p>
C.2	<p>Average life and method of calculation for the securities for different prepayment rates.</p> <p><i><u>How should this calculation work? It will differ for revolving transaction from asset type to asset type and from transaction to transaction.</u></i></p>
C.3	Details of any ratings issued by a recognised rating agency.
D. STRUCTURE AND CASH FLOW	
D.1	D.1.1 Description of the structure of the transaction
	D.1.2 Description of the entities participating in the issue and description of the functions to be performed by them.
	D.1.3 A description of the method and date of the sale, transfer, novation or assignment of the assets or of any rights and/or obligations in the assets to the issuer or, where applicable, the manner and time period in which the proceeds from the issue will be fully invested by the issuer;
	D.1.4 an explanation of the flow of funds including:
	<p>(a) how the cash flow from the assets will meet the issuer's obligations to holders of the securities; on an illustrative basis, a financial service table and a description of the assumptions used for the development of the table maybe included.</p>
	<p>(b) information on any credit enhancements, an indication of where material potential liquidity shortfalls may occur and the availability of any liquidity supports and indication of provisions designed to</p>

	cover interest/principal shortfall risks;
	(c) without prejudice to the generality of the generality of (b) above, details of any subordinated debt finance;
	(d) an indication of any investment parameters for the investment of temporary liquidity surpluses and description of the parties responsible for such investment;
	(e) how payments are collected in respect of the assets;
	(f) the order of priority of payments made by the issuer to the holders of the class of securities in question; and
	(g) details of any other arrangements upon which payments of interest and principal to investors are dependent.
D.1.5	the name, address and significant business activities of the originator or creator of the assets backing the issue; <i><u>Before using an MTN Programme for ABS-conduits a lot of different transactions have to be originated and therefore such description will be too extensive.</u></i>
D.1.6	Where the return on, and/or repayment of the security is linked to the performance or credit of other assets which are not assets of the Issuer, the disclosures contained in B2 and B3 are necessary;
D.1.7	the name, address and significant business activities of the administrator, calculation agent or equivalent, (if any), together with a summary of the administrator's/calculation agents responsibilities, their relationship with the originator or the creator of the assets and a summary of the provisions relating to the termination of the appointment of the administrator/calculation agent and the appointment of an alternative administrator/calculation agent;
D.1.8	the names and addresses and brief description of: (a) any swap counterparties and any providers of other material forms of credit/liquidity enhancement; and <i><u>This might change throughout the lifetime of the bonds or Programme. The rating agencies require a specific type of hedge counterparties which can be for example an OECD bank with a certain minimum rating.</u></i> (b) the banks with which the main accounts relating to the transaction are held.
E. POST ISSUANCE REPORTING	
E.1	The issuer shall indicate in the prospectus whether or not it intends to provide post-issuance transaction information regarding securities to be admitted to trading and the

performance of the underlying collateral. Where the issuer has indicated that it intends to report such information, the issuer shall specify in the prospectus what information will be reported, where such information can be obtained, and the frequency with which such information will be reported.