GCR
RATINGS

CRITERIA FOR RATING ASSET BACKED COMMERCIAL PAPER

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Scope of the Criteria

1. This criteria titled 'Criteria for Rating Asset Backed Commercial Paper' (the 'Criteria') will be used to rate each Asset Backed Commercial Paper ("ABCP") transaction and will be accompanied by a transaction specific report that will disclose any additional observations or modifications to the Criteria. The Criteria should be read in conjunction with GCR Ratings' ("GCR") Criteria for Rating Structured Finance Transactions, updated and published in September 2018.

2. This Criteria applies globally, although each individual jurisdiction and each specific transaction may give rise to additional observations and/or deviations, which will be disclosed in the transaction-specific reports.

Summary of the Criteria Changes

3. This Criteria is an update to the version published in November 2017[1]. There are no significant amendments to the Criteria. The update of this Criteria will not have an impact on any existing transactions that have been rated under it. Going forward, all new transactions will be rated using this Criteria.

[1] This version of the criteria, published in September 2019, has been updated for formatting, naming conventions and alignment with GCR's updated Rating Symbols, Scales and Definitions only. This criteria is applicable to all previous publications referring to "Global Asset Backed Commercial Paper (ABCP) Rating Criteria, November 2018".

Introduction

4. GCR's Criteria for Rating Asset Backed Commercial Paper (the "Criteria") lays down the fundamental considerations for any ABCP transaction rated by GCR. There are a number of different types of ABCP programme structures and support mechanisms, which are detailed in this Criteria. An ABCP is rated by analysing (i) the conduit and transaction structure, (ii) the capabilities of the sponsor and administrator as well as an analysis of the sponsor's investment guidelines and (iii) an analysis of the underlying collateral. ABCP programmes are accorded a short term rating, which reflects the short term exposure to default of the rated entity and its capacity to meet its financial obligations within a 12 month period. ABCP is short term debt, issued on a discount or interest-bearing basis, with a maturity not exceeding 364 days. ABCP ratings accorded by GCR are in respect of timely repayment of both principal and interest.

5. An ABCP programme is typically structured as a bankruptcy-remote special purpose vehicle ("SPV") that issues commercial paper ("CP"). The proceeds of such issuance are used to finance interests in various assets / securities via a traditional asset purchase or a secured loan. ABCP programmes, in general, issue short term liabilities to fund long term assets with structural mechanics to cover potential repayment shortfalls caused by timing mismatches. Typically the pools of assets are revolving, with no scheduled amortisation. An ABCP programme typically funds multiple and varied asset types creating a diversified portfolio.

Programme Structures

6. There are a number of different ABCP programme structures, being: multi-seller, securities backed, single-seller and hybrid. The programme structure is defined by the assets financed.

7. Mutli-Seller Programmes. Multi-seller programmes are the most common type of ABCP programmes. This structure has the flexibility to purchase multiple assets from many different and varied sellers. The programme sponsor typically uses the programme to provide an alternative financing solution to its clients. It should be noted that for multi-seller conduits, assets are typically not rated on a stand-alone basis, but are structured to be commensurate with the rating of the ABCP.

8. Securities Backed Programmes. Securities backed programmes invest in securities such as mortgage-backed securities, other asset-backed securities or corporate loans / securities which are rated or credit assessed. The proceeds of the CP issuance are used for such investment.

9. Single Seller Programmes. Single seller programmes are established where the sponsor is the sole originator of the financed assets and uses the programme as an alternative source of funding for its business activities.

10. Hybrid Programmes. Hybrid programmes are very common and are programmes that have the ability to finance both multi-seller type assets and rated/credit assessed securities. These programmes have the maximum flexibility for both the sponsor and for providing financing to their clients.

Support Mechanisms

11. A key part of the analysis is the support provided to the ABCP programme. As part of its analysis, GCR will review the support mechanisms provided, as well as the entities providing such support. Support is typically provided to ABCP programmes via credit enhancement and liquidity.

12. The type of rating analysis is determined by whether an ABCP programme is partially or fully supported. A programme that has support mechanisms that provide full protection against credit losses on the underlying portfolio are deemed to be fully supported. Where exposure to credit risk remains on the underlying portfolio these are deemed to be partially supported programmes. For fully supported programmes, the analysis focuses solely on the programme structure and support mechanisms. The support providers are considered to be taking the full credit risk on the underlying assets and as such an analysis of the underlying portfolio / transaction is not deemed necessary. For partially supported programmes, an analysis of the underlying portfolio / transaction, as well as the programme's structure and support mechanism is carried out.

13. For any type of ABCP programme, repayment is ultimately reliant upon the underlying institution providing the support, whether partially or fully. Therefore, a rating dependency exists in respect of the institution providing support to the programme and ABCP rating.

Liquidity Support

14. Adequate liquidity support is a key driver to GCR's rating analysis, as the rating addresses the timely payment of principal and interest. ABCP programmes rely upon rolling over of CP, i.e. issuing new CP to repay maturing CP, with an element of collection from the underlying assets. Therefore, should there be a market disruption or an issuer event, this may impact on the ability to rollover CP. Also, the liquidity facility can be utilised to cover timing delays particularly in respect of timing mismatches between collections on long term assets and short term payments due on the CP.

15. Typically, ABCP programmes have a minimum 100% liquidity support from an external source. Liquidity may be provided on a transaction specific or programme wide basis. For multi-seller conduits, liquidity is normally provided to each individual transaction on a transaction-specific basis. For securities backed programmes it is typically provided at a programme wide level. Liquidity should always be available to an ABCP programme on a same day basis, given its purpose to cover timing delays.

16. Liquidity support is generally provided by a liquidity loan agreement ("LLA") or a liquidity asset purchase agreement ("LAPA"), either of which should be provided on a committed basis. Often liquidity will cover other risks within the ABCP programme, such as seller/servicer risk, legal risks, and market value risk amongst others.

17. In some programmes, internal liquidity support may be provided, which reduce the need for 100% external liquidity support. This is usually achieved by match funding the maturities of the assets with the maturities of the ABCP. In this circumstance, the assets should have maturity dates either on or prior to the maturity dates of the ABCP. It is also possible for liquidity to be provided by total return swaps or repurchase agreements ("REPOs"). For a REPO to be considered, the repurchase date should be on or before the maturity date of the CP.

18. However, where liquidity is provided, it should be an unconditional commitment that is renewable on an annual basis. No CP should be issued after the maturity date of the liquidity facility. This will be considered when analysing the conditions precedent to issuing CP within the documentation.

19. GCR's analysis will look to when liquidity can be drawn and for what purpose. The liquidity support should not be diverted away from the payment of CP. If the liquidity proceeds are subject to the waterfall, GCR will expect anything ranking senior to the CP to also be covered by the liquidity commitment or an additional facility to be in place to cover senior ranking items. GCR will also consider the rating of the liquidity provider. Given the rating dependency, the rating of the ABCP will not be higher than the rating of the liquidity provider and any potential downgrade of the liquidity provider may also trigger a downgrade of the rating of the CP if remedial action is not taken to address the downgrade of the liquidity provider.

Liquidity Borrowing Base

20. The liquidity borrowing base is key to the rating analysis. The liquidity borrowing base calculates the amount of liquidity that can be drawn. The borrowing base is intended to equate to an amount at least equal to the outstanding CP less defaulted assets. For fully supported conduits the borrowing base should be able to repay CP in full without any deduction for credit losses. Therefore, the definition of default is crucial as the definition results in a deduction from the liquidity borrowing base. This may not always refer to written-off assets but may refer to severely delinquent assets. GCR, through its analysis, will expect as few deductions of liquidity as possible.

21. Liquidity 'Outs', i.e. instances where liquidity cannot be drawn, should be very limited. These should include:

- Insolvency of the SPV;
- Illegality i.e. it becomes illegal to provide such a facility;
- Funded amounts in excess of the commitment level;
- Default of credit enhancement provider; and
- Downgrade of a security below a predefined rating level.

Credit Enhancement

22. ABCP programmes are structured with credit enhancement either at the transaction level, programme level or a combination of both. Credit enhancement protects against losses on the programme's

underlying asset portfolio or in a fully supported programme, can be utilised at the programme level to provide full support.

Transaction-Specific Credit Enhancement

23. Transaction-specific credit enhancement protects against losses for a specific transaction and is not fungible across multiple transactions. Where both transaction-specific and programme-wide credit enhancement exist, transaction-specific credit enhancement acts as the first loss protection with the programme-wide credit enhancement acting as the second loss protection.

24. Transaction-specific credit enhancement is sized to address the credit risks of the underlying asset it applies to. It will typically be provided as over-collateralisation, a reserve or guarantee. For partially supported ABCP conduits, transaction-specific credit enhancement is a key driver to the rating analysis. GCR will review the credit enhancement provided to ensure it is sufficient to support the underlying assets and therefore ensure the asset is deemed to be commensurate with the rating of the ABCP to be issued.

Programme-Wide Credit Enhancement ("PWCE")

25. PWCE typically provides a second layer of loss protection where losses exceed the transaction-specific credit enhancement. It provides further protection against asset default and potential third-party liquidity defaults. PWCE is typically provided by subordinated debt, letters of credit, irrevocable loan facilities or guarantees. For a multi-seller programme the size of the PWCE will be a fixed amount ranging between 5% - 15% of the commitment amount or the amount of outstanding ABCP.

26. For securities backed programmes, PWCE will be dynamic and fluctuate in size based upon the underlying portfolio composition. GCR will use a matrix approach, as detailed below, to determine the PWCE considered appropriate for securities backed programmes within its analysis. For securities backed programmes investing in highly rated securities PWCE may not be necessary as it is inherent within the rating of the underlying security.

Table 1: PWCE Matrix

Rating of the Lowest Rated Security (excluding securities rated below BBB-(sf))	**Securities Coverage**	**Floor % Applied to the Portfolio**
AA-(sf) or above	Nil	0%
A+(sf)	Cover 100% of the value of the largest A+(sf) security	1%
A(sf) to BBB+(sf)	Cover 100% of the value of the three largest A+(sf) or lower rated securities	3%
BBB(sf) to BBB-(sf)	Cover 100% of the value of the four largest A+(sf) or lower rated securities	4%
Where securities are rated below BBB-(sf), PWCE is expected to cover 100% of the value of the securities.		

Source: GCR

Programme Exceptions

27. Some ABCP conduits may not reflect a typical 'traditional structure.' In these cases, GCR will review the structure of the programme on a case-by-case basis, and may therefore require additional or fewer support features to ensure the underlying assets are commensurate with the rating of the CP. Accordingly, GCR may deviate from the credit enhancement matrix discussed above in some instances. Where this occurs, GCR will state in each programme's rating report where such deviation has occurred. For some programmes for example; an expected loss calculation (which is also stressed for correlation) may be a more suitable analysis, particularly in cases where the structure enables the use of subordination.

28. Where subordinated notes exist and provide support, this can reduce the amount of credit enhancement provided by cash, reserves or other means, and as such the above matrix can or may be negated by the application of a correlation stress to be potentially applied to the expected loss or even the above matrix or to further tailored stresses. Another example may be where Total Return swaps or Repos may be used. There again, a credit linkage analysis or an expected loss analysis may also be applied. It is important to note that GCR will review each transaction on its own merits to determine the most appropriate analysis to be applied. Therefore additional stresses may be factored in on a case by case basis, to ensure the protection offered to the senior notes has been fully assessed.

Asset Analysis

29. For partially supported programmes, GCR will analyse each individual transaction to ensure its credit quality is commensurate with the rating of the CP to be issued. GCR will apply the appropriate asset criteria in analysing the transactions. Risks that are covered by the liquidity facility will be excluded from the analysis. GCR will determine if the transaction-specific credit enhancement and structural mechanisms are sufficient to reduce credit risk associated with the transaction. GCR will also consider the short-term nature of the risk and support provided as well as review the legal documentation.

30. To reduce the risk of portfolio deterioration, ABCP programmes typically include stop-issuance or wind-down triggers. If a trigger is hit, it prohibits the programme from issuing further CP and in some cases can trigger a liquidation of the asset portfolio. These triggers may be set at either the transaction or programme level.

31. Transaction-specific triggers may include, amongst others:

- Insolvency of a sponsor / administrator;
- Depletion of credit enhancement below a certain amount;
- Breach of covenants, representations or warranties;
- Material adverse change in the sponsor's ability to perform its duties; and / or
- Deterioration of a programme's assets below predefined performance triggers.

32. Programme-wide triggers may include, amongst others:

- Failure to repay maturing CP or liquidity advances when due, unrectified for a certain number of days;
- Programme documents cease to be in full force and effect;
- Draws on PWCE above a predefined amount; and
- Breach of covenant, representations or warranties.

33. Within its analysis GCR will also consider Conditions Precedent to CP Issuance. These are the checks made by the administrator prior to issuing CP. These should include, amongst others:

- No event of default has occurred;
- Credit enhancement is available;
- CP does not exceed the liquidity commitment amount or expiry date;
- CP does not exceed the predefined tenor;
- Asset / liability test has been met; and / or
- No performance triggers have been breached.

Sponsor and Administrator Review

34. As part of the rating process, GCR analysts will visit the sponsor and administrator to meet with key personnel and management involved in the programme. Normally, the sponsor is also the administrator of the programme.

35. GCR expects the sponsor / administrator to provide a presentation that addresses, amongst others, the aspects listed in Appendix A. GCR may also carry out an on-site review of originators of partially supported transactions, as it would for a term transaction. For existing transactions, a review is expected to be carried out on an annual basis to assess changes to policies and procedures.

36. In addition to the originator / servicer review, an independent audit opinion on the underlying collateral/ portfolio is required for each transaction, except in cases where the collateral is fully insured by an external insurance counterparty. GCR may request an additional audit opinion where it is felt the auditor has a conflict of interest or is not a highly recognised audit firm. In instances where an audit opinion is not provided, GCR may do a file review on a random selection of files relating to the underlying collateral.

Legal Considerations

37. GCR expects to receive all final transaction documents, as well as a full set of programme documents in order to ensure the programme and subsequent transactions are structured as presented. GCR also expects to receive a legal opinion which addresses:

- That a true-sale of assets has occurred;

- Bankruptcy remoteness of the SPV;
- The activities of the SPV comply with all the requirements of the relevant legislation; and
- The transaction structure and documentation is legal, valid and binding.

38. GCR may request independent external counsel to review the legal opinion.

Performance Monitoring

39. On-going monitoring of the performance of the programme and the underlying transactions is key to the rating process and maintaining current ratings. GCR expects sufficient performance information to be provided on a monthly / quarterly basis.

40. Upon each reporting period, GCR will review the performance information provided to ensure the credit quality of the underlying portfolios has not deteriorated and remains commensurate with the rating of the CP issued. Surveillance rating panels are held annually at a minimum or as events warrant. Negative performance of the underlying portfolio may trigger potential rating action.

41. For public transactions, GCR will publish a performance report on an annual basis at a minimum or as events warrant.

Disclaimer

42. Note that GCR is not a legal, tax or financial adviser and will only provide a credit opinion of the rated securities. For example, a rating does not cover a potential change in the applicable laws nor can it be regarded as an audit. Moreover, GCR is not a party to the transaction documents nor does it provide legal, tax or structuring advice.

Appendix – Originator / Servicer Review Agenda Points

An overview of the business

- History.
- Organisational and governance structure.
- Recent material developments and competition.
- Market share statistics.
- Financial performance and funding profile prospects for the future.
- Competitive environment.
- Experience and qualifications of senior management.

An overview of the administration and operations

- An overview of the underwriting department and origination channels, as well as an overview of the credit department.
- Experience of credit personnel and procedures for granting new credit limits.
- Credit and investment policy.
- Due diligence process.
- Client selection.
- Reporting and compliance process.
- Operations manual review.
- Investor relations.
- File maintenance.
- IT systems and disaster recovery.
- Performance monitoring systems.
- CP funding process.

An overview of the portfolio

- List of current transactions.
- Transactions funded over the past 12 months.
- Transactions terminated over the past 12 months.
- Current industry and seller breakdown.
- Transaction pipeline.

Glossary of Terms/Acronyms

Administrator	A transaction appointed agent responsible for the managing of a Conduit or a Special Purpose Vehicle. The responsibilities may include maintaining the bank accounts, making payments and monitoring the transaction performance.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Agent	An agreement where one party (agent) concludes a juristic act on behalf of the other (principal). The agent undertakes to perform a task or mandate on behalf of the principal.
Amortisation	From a liability perspective, the paying off of debt in a series of installments over a period of time. From an asset perspective, the spreading of capital expenses for intangible assets over a specific period of time (usually over the asset's useful life).
Arrears	General term for non-performing obligations, i.e. obligations that are overdue.
Asset	An item with economic value that an entity owns or controls.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Borrower	The party indebted or the person making repayments for its borrowings.
Call Option	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capital	The sum of money that is used to generate proceeds.
Cash Flow	A financial term for monetary changes in operations, investing and financing activities.
Collateral	An asset pledged as security in event of default.
Commingling	The mixing of various transaction parties' funds in an account.
Coupon	Interest payment on a security.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Credit Enhancement	Limited protection to a transaction against losses arising from the assets. The credit enhancement can be either internal or external. Internal credit enhancement may include: Subordination; over-collateralisation; excess spread; security package; arrears reserve; reserve fund and hedging. External credit enhancement may include: Guarantees; Letters of Credit and hedging.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The probability or likelihood that a borrower or issuer will not meet its debt obligations. Credit Risk can further be separated between current credit risk (immediate) and potential credit risk (deferred).
Debt	An obligation to repay a sum of money.
Debt Sponsor	Usually as Investment bank that brings a transaction to the capital markets, similar to an Arranger.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Desktop	An assessment of the property value, with the value being compared to similar properties in the area.
Downgrade	The assignment of a lower credit rating to a corporate, sovereign of debt instrument by a credit rating agency. Opposite of upgrade.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Excess Spread	The net weighted average interest rate receivable on a pool of assets being greater than the weighted average interest rate payable for the debt securities.

Guarantee	An undertaking for performance of another's obligations in event of default.
Guaranteed Investment Contract	A contract that guarantees the principal and interest repayment over a period of time. Typically GIC are used in relation to a bank account.
Income	Money received, especially on a regular basis, for work or through investments.
Index	An assessment of the property value, with the value being compared to similar properties in the area.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquidity	The ability to repay short-term obligations or short-term availability of liquid assets to a market or entity.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Loss	A tangible or intangible, financial or non-financial loss of economic value.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Option	Either a call or a put option. A call option gives the holder the right to buy assets at an agreed price on or before a particular date. A put option gives the holder the right to sell assets at an agreed price on or before a particular date.
Origination	A process of creating assets.
Originator	An entity that created assets and hold on balance sheet for securitisation purposes.
Owner Trust	Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Payment Date	The date on which the payment of a coupon is made.
Prepayment	Early or excess repayment of an obligation. Partial or full prepayment of the outstanding loan amount.
Prepayment Rate	The rate of prepayment in relation to the pool of obligations. Also called prepayment speed.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Property	Movable or immovable asset.
Provision	An amount set aside for expected losses to be incurred by a creditor.
Rating Outlook	A Rating Outlook indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Recovery	The action or process of regaining possession or control of something lost. To recoup losses.
Repayment	Payment made to honour obligations in regards to a credit agreement in the following credited order: 3.) Satisfy the due or unpaid interest charges; 4.) Satisfy the due or unpaid fees or charges; and 5.) To reduce the amount of the principal debt.
Reserves	A portion of funds allocated for an eventuality.
Seasoning	The age of an asset, the time period passed since origination.
Securities	Various instruments used in the capital market to raise funds.
Securitisation	Is a process of repackaging portfolios of cash-flow producing financial instruments into securities for sale to third parties.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.

Senior	A security that has a higher repayment priority than junior securities.
Servicer	A transaction appointed agent that performs the servicing of mortgage loans, loan or obligations.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Stock Code	A unique code allocated to a publicly listed security.
Structured Finance	A method of raising funds in the capital markets. A Structured Finance transaction is established to accomplish certain funding objectives whist reducing risk.
Subordinated Loan	A loan typically given by the Issuer to the securitisation vehicle that is more junior than a junior tranche.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Timely Payment	The principal debt, interest, fees and expenses being repaid promptly in accordance with the contractual obligation.
Tranche	In a structured finance, a slice or portion of debt securities offered that is structured or grouped to resemble the same degree of risk associated with the underlying asset or with a similar degree of risk. A junior tranche has a higher degree of default risk than a senior tranche.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Ultimate Payment	A measure of the principal debt, interest, fees and expenses being repaid over a period of time determined by recoveries.
Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Waterfall	In securitisation, the order in which the cash flows are allocated to the transaction parties.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.