

MARKET STATEMENT

Established in 1994 and operating in the structured finance arena, **BSEC - Bemo Securitisation SAL** was the first MENA financial institution to introduce locally structured securitisation, credit derivatives and cross-border structured finance.

NewsWire is a monthly private newsletter of **BSEC** focusing on securitisation news and analysis in Lebanon and the MENA/GCC countries; It puts into perspective the different issues pertaining to securitisation in the legal, financial, tax and accounting fields.



A-SECURITISATION NEWS

LEBANON

The objections of certain ministers on securitizing the government's share of tobacco revenues forced the ministry to shelve the scheme until further notice. It seems that the government could have easily generated \$500 million from the securitization of the tobacco revenues last year. The government generates almost LL200 billion from

the taxation of tobacco and cigarettes each year. According to the ministry, tobacco companies will pay their dues in dollars to offshore accounts. Revenues will then be transferred to the Lebanese Treasury to be pledged against the issuance of secured bonds. The net proceeds will be used to retire the more expensive local currency debt

instruments, reducing the cost of the public debt. The ministry said an extensive questionnaire was provided by banks and was filled out by the ministry, the Régie, the Central Bank and the Customs Authority. The last minute reservations by some ministers compelled the ministry to postpone this plan (*Source: The Daily Star*)■

MENA AND GCC REGION

Gulf Arab investors plan to set up a \$2 billion Islamic bank that would help develop Islamic capital markets, a senior investor said on Sunday. "This will contribute towards enhancing the economies of Islamic countries and enhance the activities of the primary and secondary market ..." said Saleh Kamel, chairman of General Council for Islamic Banks and Financial Institutions. He said the new bank would capitalise assets of companies and projects through securitisation and

innovative Islamic products and play the role of clearing house for Islamic banks. "The absence of an Islamic capital market is a big obstacle in the face of Islamic banks, because unlike conventional banks, they cannot invest in products that are not compliant with Islamic regulations," Kamel told reporters in Bahrain. Islamic banks do not pay or charge interest, considered usury by many Muslims. Money is made instead by using a system of profit-sharing from returns on

approved investments. Kamel said Jeddah-based Islamic Development Bank was a leading participant in the planned bank, which is expected to be established in 2005. The bank's location was yet to be decided. No other details were avowed about the other investors. Kamel said there are 270 Islamic banks around the world with total assets of more than \$260 billion and deposits of more than \$200 billion (*Manama, April 25, Source: Reuters*)■

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B-SECURITISATION ANALYSIS

FINANCIAL: MOODY'S - EMEA RATING CHANGES, FIRST QUARTER 2003



Moody's published a summary report of the rating actions implemented for publicly rated EMEA (Europe, Middle-East, Africa) structured finance transactions during the first quarter of 2004. A significant increase in downgrades was observed within this period, and which was primarily due to the recent default of Parmalat SpA affecting the credit rating of several transactions. 72 tranches were downgraded while 18

were upgraded; these results have more than doubled comparing to the 9 downgrades and the 33 upgrades of the last quarter of 2003. Examining the different sectors, the CDO market was on top of the charts with 79% share of the total rating downgrades in the EMEA region mainly due to weak performances caused by deterioration in credit portfolios. However, the CMBS market experienced 6 upgrades and 6 downgrades, whereas

no upgrades were applied to RMBS deals. Weak performances in the ABS sector resulted in the downgrade of 6 tranches and only 2 upgrades. For the total EMEA structured finance deals, 0.4% were upgraded and 1.8% were downgraded, comparing to the corporate market for this region, exhibiting 1.4% of upgrades and 1.5% downgrades in the same period. ■

TAX AND ACCOUNTING: FASB TO REWRITE FAS 140 ON QUALIFYING SPE'S



(Continued from Issue N.12) The decisions with regards to legal isolation and accounting for undivided interests were: (i) Legal isolation requirements would apply only to affiliates included in the consolidated financial statements in which a transferor is reporting the results of a transfer. In some circumstances, the

accounting for a transfer in the financial statements of a parent company would be different from the accounting in the separate financial statements of a subsidiary; (ii) Paragraphs 80–84 and various related paragraphs of Statement 140 would be amended to require that an entity that issues either beneficial interests or undivided

interests be a qualifying SPE in order to satisfy the criteria in paragraph 9(b) of that Statement. The Board noted that one implication of its decision would be that a qualifying SPE would be required for any transfer of a portion of a financial asset, not just for multiple-step transactions *(source: vinodkothari.com)*. ■

LEGAL: ISLAMIC BANKING IN ... LEBANON



(Continued from NewsWire, Issue N.12, March 04) The remuneration of the deposits, if jointly agreed upon with the depositor, comes either from the annual results of the bank or from the results of the operations linked to these deposits. Article 6 of the law requires that at least 50% of the assets shown on the balance sheet of the Islamic bank represent investments made in Lebanon. The right for the bank to own real estate properties is submitted to special rules set in article 5

of the law and which are derogatory to the common provisions applied to foreign ownership in Legislative Decree No.11614 dated January 4, 1969. Finally, the new law requires each bank to have, since its inception, a Sharia' committee composed of three specialists nominated for three years. The committee remits its reports to the board of directors and the general assembly of shareholders (article 9). ■

C-SECURITISATION COMMENTARY

SPECIAL FOCUS

LIQUIDITY FACILITIES FOR STRUCTURED INVESTMENT VEHICLES (SIV)



Following the recent Basel Securitisation Group meeting last February and its effort to analyze how the aspects of Basel Capital Accord would affect securitisation deals, several examples of European programmes/transactions were deliberated to understand how they would not fit within the recently proposed Internal Assessments Approach (IAA). One of the examples dealt with the structured investment vehicles (SIV). SIV's are leveraged financing vehicles which are set up as independently

managed companies. Income is earned on the spread between high grade term assets on the one side and short term funding from Commercial Paper (CP) and Medium Term Notes (MTN) on the other. To obtain A1+ / P-+ and AAA/Aaa ratings on the short term liabilities, there is a level of subordinated long term debt (capital notes) and liquidity facilities to support the CP and MTN's. The assets of a SIV are dynamically managed to meet operating tests and usually investors are provided with summary reports of the portfolio but not asset specific detail. Typically the capital notes

have not been rated, but increasingly these are receiving a formal rating. However, the liquidity facilities that are required by the rating agencies to support the high grade ratings of the short term liabilities are not rated. Usually these liquidity facilities would only cover a portion of the short term liabilities and would (like all investors) only receive summary reports of the portfolio. As such liquidity facilities are not extended to ABCP conduits, they would under the current rules not benefit from the IAA (source: *European Securitisation Forum*)■

READINGS OF THE MONTH

"ISSUER PRIORITIES REVEALED" ISR, APRIL 04, ISSUE 87



Trade receivables (invoices) securitisation seems to be a very attractive funding tool for large and small European corporations. It has reached a figure of 66% among all other securitised assets according to a recent research project commissioned by JMH Demica. Subjective feedback suggested two main reasons behind this figure. The first one being geographical where in countries like UK for example, the "invoice discounting" industry is well established; corporates favor this tool since it allows them to sell their invoice debt without notifying their customers.

Yet, the working capital finance is still available. Nonetheless, the rapid growth of invoice discounting in continental Europe was facilitated thanks to the legal acceptance of reporting requirements as a robust proof of ownership of an invoice pool. The second reason behind securitizing invoices is a matter of credit rating: the debt is rated according to the credit quality of the debtors, not the issuer. The legal separation of a securitised invoice pool from the issuer releases the debt-asset from the burden of the company's credit rating while many of these

companies were downgraded because of growing financial pressure. On another hand, many respondents to the survey accused the invoice securitisation of being expensive and time-consuming to set-up and administer. However, results showed that asset-backed working capital finance is focusing on the invoice as the most effective security to employ to reduce interest cost. Growth is predicted to be strong. Nonetheless, the European securitisation market is expected to grow by 19% in 2004 - as reported statistics from the European securitisation forum■

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