

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: BSEC IN ISLAMIC BOND MANAGERS LEAGUE TABLE

July 19, 2004: BSEC - Bemo Securitisation SAL was ranked 16th in the Islamic Bond Managers' league table. Islamic Finance Information Service (IFIS), a Euromoney company, selected BSEC as one of several leading international Islamic Bond Managers. As a newcomer to the Islamic bond management market, BSEC has demonstrated its capability and innovation with the issuance of CARAVAN I Sukuk, the world's first Shariah compliant inventory fleet securitisation. BSEC is a Lebanon based financial institution specialized in

investment banking, with a focus on securitisation and cross border structured finance. BSEC has a notable track record in closing innovative and groundbreaking securitisation deals having largely contributed in lifting the profile of the MENA/GCC markets, and enriching the debate over emerging capital markets. Recently awarded an international oil & gas mandate, BSEC's structuring group is developing innovative structures that further narrow the capital markets divide. "Our goal is to originate our transactions

with a global view, seeking credible yielding asset classes in order to offer the sophisticated Shariah investors best in class investment products", said Iad-Georges Boustany, GM of BSEC. "We are excited to compete in this evolving marketplace, and are confident of our ability and agility to match up with international bond managers in offering our clients international standard services addressing their specific needs", added Ibrahim A. Mardam-Bey, Executive VP Marketing and Sales. ■

MENA AND GCC REGION

A \$250 million Ijara Sukuk was issued by Citibank, on behalf of the Bahrain Monetary Agency (BMA). The floating rate Sukuk have a five year maturity and pay a return of 45 basis above libor, that will be paid twice a year, on December 30 and June 30 of each year. They will be listed on Bahrain Stock Exchange, Luxembourg Stock Exchange and Malaysian Labuan International Financial Exchange. This issue seems to bring the total value of BMA issuance to a \$1.03

billion. An independent A-rating was assigned to this issue by S & P, which is the same sovereign rating for the kingdom of Bahrain already assigned by the rating agency. These Sukuk, issued on behalf of the kingdom of Bahrain, are the ninth offering of the BMA in its Ijara series. Investors showed a huge interest in this issue, and the final order book was distributed in 22% in Europe and Offshore-US, 12% for Asian investors and 66% for middle-eastern ones. It seems that the transaction

was priced at the same spread at which it was originally marketed. Citigroup acted as a sole lead-manager, whereas Gulf International Bank, National Bank of Bahrain and Arab Bank were the co-lead managers. This issue refinances an existing BD100 million (\$264 million) 30-year conventional bond issue which was launched on February 3, 1999, and matures on February 3, 2029. ■

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B-SECURITISATION ANALYSIS

FINANCIAL: STATUS OF CAPITAL MARKETS IN THE MENA/GCC REGION



Continued from NewsWire N. 14) Looking at the status of capital markets in the MENA-GCC region, we realize that the choice of securitisation often comes at a moment where a company would have exhausted other financing alternatives. This is a result of a deep stagnation of financial activities in the MENA/GCC and it has affected both the public and the private sector. Thus, potential clients to a securitisation transaction lack the basic awareness and information on this kind of financial services. Even when

a securitisation structure is put in place, it is hard to find a qualified regional trustee to monitor the correct evolution of the structure. This shortage of experienced Trustees can be overcome by delegating the task to foreign Trustees. Also, the absence of international rating agencies intervention and of understandable and regular data remains a hurdle in developing these markets. In developed markets, private players interact with regulatory bodies that play a pivotal role in defining tasks, requirements, flow of

information, quality of investors and other critical functions. In order to accomplish the mentioned duties, these regulatory bodies must be at least as competent as the most sophisticated players. The learning process is a self-feeding one where new initiatives build knowledge to all interacting parties. The scarcity of such initiative/transactions in the MENA/GCC region dilutes the knowledge base of the regional public and private players■

TAX AND ACCOUNTING: NEW TAX APPLICATION IN DUBAI, UAE



In a blow to the United Arab Emirates' (UAE) image as a "tax free" haven, UAE airports have introduced a flat Dh30 (US\$8) tax on passengers using the country's international airports. The UAE prides itself on having few taxes: there is no income tax, no capital-gains tax and no tax on profits except for foreign

banks and oil companies. Instead, the federal government earns most of its revenue from oil. The UAE highlight this low-tax environment as a major incentive for foreign investors and expatriate workers. But international companies operating in the UAE have been increasingly vocal in their complaints about the

introduction of back-door taxes, such as government fees and charges for processing visas. The introduction of the airport tax is seen by many as a significant extension of this trend. The tax is expected to net the Dubai government some Dhs300m (US\$82m) in its first year (*source: economist.com*)■

LEGAL: SHARIAH-BASED SYSTEMS



Analyzing the developments and opportunities in the MENA/GCC markets and examining Saudi Arabia and other Shariah based systems, experience has shown some stringent restrictions and uncertainties at many regulatory levels. Although transfer of assets or receivables is allowed, some restrictions apply as to the nature of the purchaser. Also, courts apply Shariah in their decision-making process. Shariah is itself divided in different schools. Although the Hanbali School is dominant in Saudi Arabia, the judge can decide to choose another school and to focus exclusively on substance,

ignoring what was created in form (a necessity in structured finance). This brings great uncertainty to the cornerstone of a securitisation transaction: the concept of true sale. The possibility of requalifying a true sale and of piercing the legal and corporate veil makes any investor very careful before taking such a risk. Another problem faced in Saudi Arabia and in some other Shariah based jurisdictions are the very strict laws on foreign ownership. Those handicaps bring us to the conclusion that one of the best ways to structure a securitisation transaction in such an

environment would be through two tier structure with both an SPV in the country of origination (the "Owner SPV"), and one in a foreign country, ("Issuer SPV"), with adaptable legislation (e.g. Jersey, Luxembourg, etc). It is necessary to mention that the option of creating an SPV as a subsidiary of the Originator is not an option since it would expose the "Owner SPV" (the "local" one) to consolidation risk and would remain under the control of the originating entity. Those two risks defy the very essence of a securitisation transaction■

C-SECURITISATION COMMENTARY

SPECIAL FOCUS

GOVERNMENT USE OF SECURITISATION IN MENA/GCC COUNTRIES



As a result of the growth of securitisation in the developed markets, regional governments have considered using this financial tool as a means to boost their economies. Therefore, some of the countries have looked at securitisation as a method that would help reduce the public debt. But although securitisation is a considerably important tool to use in governments' economic policy, it is a tool to use very carefully. The downside of the use of securitisation transactions in government operations is that some strict requirements would have

to be met in order not to put at risk the very qualification of the transaction. Therefore, and in reference to the standards set by the European System of Accounts (ESA 95), there is a risk that a securitisation transaction be treated as a government borrowing. This would happen in cases where a government is securitising future flows (among other). The very purpose of securitisation would be jeopardized in that a government borrowing would have embedded in it risks that are different from those of the securitised assets, and the investors would want to be aware of those risks. Also, guarantees given by the

government jeopardize the qualification of securitisation since it could be deemed that no substantial transfer of risks and rewards has been operated by the government which would have to support the structure in case of failure. Thus, this scheme is also considered as government borrowing. Finally, there is a number of guidelines that a government will need to follow in order to make sure the transaction will not be requalified. Thus, securitisation is not the easy and simple solution to governments' economic problems as some have tried to represent. ■

READINGS OF THE MONTH

"BOWIE BONDS GROUNDED: DOES IT SPELL TOUGH TIME FOR SIMILAR FUTURE FLOWS?" VINODKOTHARI.COM



The all known Bowie Bonds, the \$55 million future flow securitisation backed by royalty income of British rock star David Bowie, have been recently grounded. Rating agencies reduced them to just one notch above junk grade. Once regarded as a brilliant idea to hit Wall Street in 1997, the bonds seem to have undergone depleting sales and troubled situation in the music royalty industry. Following in Bowie's example, other stars have turned music notes into financial notes and the idea of using asset backed securities as a means of raising finance has also

been applied to other forms of entertainment ranging from Hollywood films to the 2002 Football World Cup in Japan and South Korea. However, the trouble with future flow securitisation is that it is almost like equity investment by the investors as they take all the operational risks of an operating business, but it does not have any of the upsides of equity investment. Bond investors get into future flow investments attracted by higher returns, but the experience has been quite mixed. While in straight forward asset backed bonds, backed by identified

pool of assets, future flows are backed by income which is to arise in future. The distinguishing feature of future flow securitisation is that the asset which is being transferred by the originator is not an existing claim against existing obligors, but a future claim against future obligors. The claims in that sense are yet to be created. So, is the Bowies example just a limited problem, or does it signal tough time for bonds backed by similar cashflows out of assets such as lotteries, music, beauty parlours, food chains, oil, etc? ■

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