

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

It was reported that central bank of Lebanon is recommending the securitization of government revenues, since the government was unable to privatise the state owned assets, mainly due to political incoherence between the ruling classes. The proceeds from securitization were meant to reduce public debt (estimated at \$33billion). However, the government

was hoping to securitise future revenues from tobacco and telecom sectors over a seven-year period. But these reforms failed to be executed. Recently, number of local bankers stated that they favour a swapping of the expensive eurobonds, maturing in 2005 and 2006 with cheaper issues. This solution would be in fact temporary and would not solve the issue of the public

debt. But since local banks were very liquid, they could afford to use some of their cash to buy new issues of Eurobonds at lower interest rates. However, no one can anticipate how interest rates would change in the future. Banks hold more than 75% of the government's treasury bills and eurobonds, making them vulnerable to the negative effects of the public debt. ■

MENA AND GCC REGION

Dubai's Department of Civil Aviation (DCA) has appointed Dubai Islamic Bank as lead manager, arranger and bookrunner for the largest Islamic finance package, a \$750 million Sukuk Al Ijara issue, to raise funds for the Dh15 billion (\$4.1 billion) Phase II of the expansion of Dubai International Airport. The Sukuk will have a five-year maturity and is expected to be listed and traded at the Dubai Financial Market. The issuance is meant to raise funds for DCA to support its Phase II expansion of the Dubai International Airport.

The repayment will be done through income generated by the airport operations. However, this mandate confirms the DCA ability to independently finance its own projects. This deal shows the need for GCC based entities to develop the region's financial markets by offering financial instruments like Sukuk to serve boost domestic liquidity and attract investors to regional capital markets. This issue is expected to encourage other planned projects in the region and help expand the investors' base. Sukuk issues,

which are acceptable to both conventional and Islamic, have been one of the most innovative forms of securities in the global capital market. The number of passengers at Dubai airport is increasing at a phenomenal rate; the airport is expected to attract \$60 million passengers in 2010. Including the DCA latest offering - which will be the largest global Islamic securities issuance to date - the total Sukuk market is estimated at \$3.5billion to date. ■

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B-SECURITISATION ANALYSIS

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



Capital market efficiency is measured by many parameters. The regional markets lack some basic parameters. Thus, there is both a lack of infrastructure for accurate return and, a lack of superstructure of risk measurement. Simply stated and in a market ignored by the Rating agencies, there is a real problem with information collection, transparency, processing, analysis and disseminating. This is a direct result of poor harmonization of the

available data, not only on a regional level but also within the same country where the reporting requirements and levels of disclosure are rarely to be counted on. In building the financial markets of the European Union, the issue addressed at the highest levels in the 4th and the 13th Directives. In the rare cases where the above handicaps can be overcome, some additional factors come into play. Second, on the investors' level, there is real hesitation to engage in what

still seems to be an exotic financial instrument. This results from the lack of experience but also in case of banks, the fear of change. With the boundaries of commercial banking and investment banking yet to be defined and, more importantly, to be clearly understood by the players in the region, the market will experience disruptions that will impede its natural evolution (*to be continued on Issue 14 of NewsWire*)■

TAX AND ACCOUNTING: APPLIED STANDARDS IN THE MENA/GCC REGION



Beyond the absence of harmonization of the standards used throughout the region, which already makes the data eventually available hard to understand, the implementation of the International Accounting Standards (IAS) raises another problem. These standards (IAS or other) are the result of a lengthy

nurtured process stemming from back and forth "trial and error" actions in Europe or other sophisticated markets. Standards have been put to the test and improved on numerous occasions. They grew in sophistication along with the markets. This is a major difference with MENA – GCC where these standards have been imported in their

most refined/sophisticated version. Thus, instead of starting to evolve at their own pace, regional markets have to cope with complicated accounting standards that developed markets. This puts an additional hurdle for innovative financial instruments■

LEGAL: STATUS OF SECURITISATION REGULATIONS IN THE MENA/GCC REGION



Several countries have addressed the securitisation issue in a formal way. In this respect, Turkey has already issued a regulation as early as in year 1992 treating the subject from the sole aspect of asset-backed securitization. Other types of securitizations (e.g. mortgage-backed securitization) are not specifically addressed by this regulation although the evolution of the legal framework and its flexibility permit the securitisation to be a very popular product in the Turkish economy and to be broadly used by banks to reshape their balance sheets. Tunisia has done the same by

including the concept of securitisation in its plan to reshape the banking sector. The trend was also confirmed with the adoption of Law N. 2001-83 dated July 24, 2001, addressing many of the issues related to Funds but also creating a new entity in the Tunisian legal framework, the "*fonds commun de créances*". This structure mirrors the legal situation of securitisation in France and is an adaptable structure for such transactions. Lebanon offers an adequate framework for structured finance operations with the Fiduciary Trust Law N. 520 dated June 6, 1996, dealing with "Financial Markets

Development and Fiduciary Contracts". Egypt, which has been reserved in addressing the subject, has included a securitisation provision in some regulation treating with real estate. Egypt still has to enact a broader and more comprehensive law treating with the issue, although some operations have already been closed (Securitisation of credit card receivables for example). It is also interesting to mention that the absence of such a precise and predetermined setting for securitisation has not been a hurdle for securitisation transactions, a number of which has already close in some MENA/GCC countries■

C-SECURITISATION COMMENTARY

SPECIAL FOCUS

ECONOMIC ASSESSMENT FOR SECURITISATION OPPORTUNITIES IN MENA/GCC



For the last couple of years, the MENA/GCC markets have been pushing for more diversity in their financial activities. In that respect, securitisation has been a catalyst front and is experiencing notable growth that has already materialized in markets like Egypt, Lebanon, the GCC countries and very recently Saudi Arabia. From an economic point of view, investment banks, whether international or regional, have constantly tried to offer the same range of products they offer in

developed countries to companies in the MENA – GCC regions. This global but also simplified approach to corporate finance has yet to succeed. The main reason for such failure is that this approach ignored the opportunities offered by the status of a typical regional company's balance sheet. Therefore, the size, the customers' growing assets and the structure (family owned) of a majority of those companies were not in most cases taken into account in order to offer tailored products that would reasonably match the needs of these companies and

compete with services offered by the banking sector. Never did the investment banks' community take the time and allocate the necessary resources required to understand the needs and specificities of the Emerging Markets. This lack of interest can be explained and better understood if one was to look at the equation: Cost of needed information/analysis far outweighs expected returns. Investment banks have therefore offered US-like equities, debt and M&A products where asset based solutions were needed. ■

READINGS OF THE MONTH

"ISLAMIC BANKERS TAKE THE MEASURE OF ISDA", *EUROMONEY* VOLUME 35, NUMBER 422



The International Swaps and Derivatives Association (Isda) is writing to capital markets regulators in the Middle-East to see whether its derivatives documentation can be used in Islamic jurisdictions. The purpose of this requirement is to help Isda members to solve the problems encountered when using the Isda Master Agreement on Shariah compliant deals. The members need to see if the financial regulators in Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE, can comply with the concept of single-agreement, which means that the Isda Master Agreement and all confirmations under it form a single agreement between

the parties. The Master Agreement being an agreement entered between the OTC derivatives transactions participants setting the economic terms of the transaction, including terms related to the general legal and credit relationship between the parties. Isda responsible clarified that "this is critical in a close-out situation to permit the values of all transactions to be calculated and netted off against each other and produce a single amount payable by one party". Other big issues include to see whether this close-out situation is enforceable under Shariah law, because close-up netting seems to reduce

credit risk by "letting parties net their exposure under different OTC derivatives transactions against one another". If the close-up is not enforceable under Shariah, the Master Agreement is then not usable. Also, Isda is raising the issue of whether certain commodity derivatives are tradable or not under Shariah principles. The association is holding discussions with several prominent Islamic bodies in the GCC region, such as the International Islamic Financial Market (IIFM) in Bahrain, and is expected to have answers by the coming autumn season. ■

D-CONTACTS AND DISCLAIMER

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