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**Credit FAQ:**

# Increasing Transparency In Asset-Backed Commercial Paper Conduits

**Primary Credit Analysts:**

Andrew Engel, New York (1) 212-438-6305; [andrew\\_engel@standardandpoors.com](mailto:andrew_engel@standardandpoors.com)  
Philip Galgano, New York (1) 212-438-2463; [philip\\_galgano@standardandpoors.com](mailto:philip_galgano@standardandpoors.com)

**Secondary Credit Analysts:**

Andrea Quirk, London (44) 20-7176-3736; [andrea\\_quirk@standardandpoors.com](mailto:andrea_quirk@standardandpoors.com)  
Elizabeth Steenson, Melbourne (61) 3-9631-2162; [elizabeth\\_steenson@standardandpoors.com](mailto:elizabeth_steenson@standardandpoors.com)

**Surveillance Credit Analyst:**

Aaron Jones, New York (1) 212-438-1113; [aaron\\_jones@standardandpoors.com](mailto:aaron_jones@standardandpoors.com)

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On Feb. 7, 2008, Standard & Poor's Ratings Services announced a broad series of measures intended to enhance transparency and our ratings process (see "Detailed Descriptions Of S&P's New Actions Aimed At Strengthening The Ratings Process," on RatingsDirect and [www.spnewactions.com](http://www.spnewactions.com).) As one of these actions, Standard & Poor's is establishing greater minimum portfolio disclosure standards for all asset-backed commercial paper (ABCP) conduits that we rate. We have been listening to market participants about the additional information they value and which they would like to receive in order to analyze the risks inherent in these conduits. In light of recent market events, conduits have been subject to increasing scrutiny. Some market participants appear to view conduits as a whole, without making substantive differentiation among the structures. Yet, the conduit structures, asset composition, risks, and mitigants may vary widely. For example, depending on the structures and investment policies, conduits may finance term rated securities, pools of financial receivables, corporate loans, or some combination of these assets. In addition, repayment of the ABCP may come from a variety of sources, such as the cash flow from the natural amortization of the assets, the sale of the underlying assets (or securities), draws on liquidity facilities, and recourse to third parties.

## Frequently Asked Questions

### What does transparency mean to Standard & Poor's?

We believe that a goal of transparency is to provide relevant ratings information, and not necessarily more information, to the market in a consistent, timely, and easy-to-use format. In addition, to the extent possible, the information should be in a standardized format that allows for easy comparison among individual conduits as well as the market in the aggregate. Standard & Poor's receives monthly portfolio information from the conduit administrators and will be working with them to accelerate the timing of our receipt of this information.

### How will more transparency benefit the market?

Standard & Poor's publishes monthly CP performance data articles on RatingsDirect for each conduit we rate based on the monthly information that administrators provide us. However, we believe that by increasing our reporting of statistical performance and portfolio compositions that back ABCP conduits we will provide better information to the market on asset exposures, rating dependencies, market risks, and potential correlation across market sectors. It is our opinion that this will enable credit risk officers, financial institution managers, investors, and analysts to more effectively evaluate their risk positions.

Enhanced reporting will also provide investors greater insight into our analytics, as well as additional relevant information that they can use to analyze, monitor, and compare the various conduits before making their investment decision. With more insight about the key analytical assumptions, methodologies, and rationales that support our ratings, the market will be in a better position to differentiate between the various conduit structures, recognize the inherent risk factors, identify the related mitigants, and understand the repayment sources.

### **How does relevant content in a standardized format aid transparency?**

Standard & Poor's has identified standardization of reporting where possible as a helpful step in promoting greater market transparency. We intend to create standard nomenclature that we will use internally in our analytics; define and share this nomenclature with the market; and request that market participants report information to us using the same terms. We plan to publish this information in a standard format, which we believe will make it easier for investors to analyze the information and our opinions and make well-informed investment decisions. In addition, standardization should reduce the time it takes for us to receive performance information and improve our ability to analyze and share it with the market.

### **What are investors saying about transparency?**

Over the past few months, Standard & Poor's has had discussions with various market participants, including money market fund managers, government agencies, and corporate treasurers, about transparency. Generally, larger investors have indicated a preference for conduit administrator reports that stratify the asset composition and portfolio metrics in a variety of ways. These investors typically report that they rely on their own internal surveillance and usually monitor losses versus available credit enhancement because delinquency information is not always readily available in the reports at the pool level for multiseller conduits. However, these investors have also indicated a desire for more uniformity and consistency in the reports that are provided to the market. Meanwhile, smaller investors have indicated that they lack the available analytical resources and structured finance tools to fully evaluate how Standard & Poor's rates these programs. These investors feel they would benefit from increased commentary on transaction-level mechanics. Particularly, investors want more clarity and specificity on our methods and assumptions we use to size credit enhancement and evaluate risks. Overall, investors are searching for additional insight to evaluate the underlying asset pools' performance and compare the risk profiles of the various conduits, which will allow them to make more informed investment decisions.

### **What additional information has the market indicated Standard & Poor's should provide in order to increase transparency?**

Standard & Poor's focused its discussions with market participants on the key factors important to our analytics and also to investors. We have concluded that the market currently believes it will be best served by our ability to collect, synthesize, and consistently disclose information with greater transparency in the following ways:

- Publish more granular asset metrics, including sector concentrations and breakdowns, such as collateral type and ratings, for each conduit and the overall market;
- Provide comparisons of concentrated exposures, such as collateral types and top 10 pools against available programwide credit enhancement for each conduit;
- Publish liability metrics for each conduit and the overall market;
- Publish the names of counterparties on which the rating depends on, such as liquidity providers, credit enhancement providers, swap counterparties, and guarantors for all issuers;
- Increase disclosure in our rationales and rating considerations for all pools financed in conduits;
- Increase disclosure on the deal level and liquidity mechanics for all pools financed in conduits;
- Report relevant information in a more timely fashion when we receive it in advance of the market;
- Disseminate information that we use in our initial rating and surveillance processes currently not available to the market;
- Report consistent performance information on a more granular level with increased commentary for all conduits;
- Publish relevant market value modeling and default assumptions; and

- Publish aggregate performance information at a market level so that investors can evaluate the conduits on a stand-alone basis and in context with the overall market.

**What progress has Standard & Poor's made in standardization?**

We have taken the following steps toward standardization:

- We developed and implemented data flow metrics to measure the timing, completeness, consistency, and accuracy of the reports we receive from issuers;
- We are performing a gap analysis to determine the consistencies and differences in information that various conduits currently report to us; and
- We are redesigning our data articles and performance screens to align with this enhanced reporting.

In addition, in the upcoming weeks, Standard & Poor's will provide a list of standard collateral classifications to conduit administrators that we would like to receive for all pools that are credit assessed and financed in their conduits. For explicitly rated securities, issuers should provide us information about individual securities in the conduit (that is, CUSIP level information), which can be used to facilitate the mapping of collateral types. These collateral codes will be the basis for the increased granular disclosure of asset compositions and comparisons described earlier and will create consistency for all conduits.

Standard & Poor's is also in the process of standardizing seller summary details ("a seller snap shot") that we will disclose for each new pool or security financed in multiseller conduits. These details are expected to include key analytic considerations, such as collateral type, credit support levels, key wind-down triggers, exposure period to losses, and liquidity mechanics.

**What are Standard & Poor's next steps to increase transparency in its ratings process for ABCP conduits?**

We will continue to work with market participants to promote more standardized reporting processes. Our ongoing publishing initiatives will provide further insight and explanation into our rating methodologies and rationales for ABCP conduits and we will update the market on these developments.

Standard & Poor's encourages market participants to contact any of the individuals listed above with any comments or questions regarding our efforts to increase transparency.

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