Funds
Special Report

ABCP in European Money Market Funds

What Investors Need to Know

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Related Research

ABCP
- *Getting Started in ABCP in Europe in the Present Climate - An Investor Update* (April 2008)
- *Global Asset-Backed Commercial Paper Criteria* (February 2007)
- *The Importance of Liquidity Support in ABCP Conduits* (October 2007)
- *Special Purpose Vehicles in Structured Finance Transactions*, (June 2006)
- *Ongoing Monitoring and Review of European ABCP Conduits - Fitch's Approach* (May 2008)

Money Market Funds
- *Exposure Draft: Global Money Market Fund Rating Criteria* (January 2009)
- *European Offshore Money Market Funds: Summary of Changing Portfolio and Liquidity Characteristics* (November 2008)
- *French Money Market Funds* (May 2006)

Summary

- Over the past two years, European money market funds (MMF) have materially moved away from asset classes that proved riskier or were perceived as such (mortgage and asset-backed notes, structured investment vehicles (SIVs), asset-backed commercial paper and, more recently, bank floating-rate notes or CP). As MMF have played and continue to play a role as a safe asset class, and in the context of risk aversion, both in term of liquidity and credit, MMF have adopted very short-dated profiles and have on average reduced or, for some, even excluded asset-backed paper. On average, in Fitch European 'AAA' rated MMF, exposure to ABCP represents less than 10% of total portfolios.
- Based on discussions with various market participants, Fitch Ratings has recently noted renewed interest by European MMF managers in ABCP, although no material reallocation has yet taken place, notably given limited issuance. If the opportunity cost for MMF of staying completely away from ABCP was modest in 2008, given bank spreads and the compression of short-term rates, the levels reached today by the latter and the concentration of MMF portfolios in a limited number of banks and states explain why some investment managers have started to look again at ABCP.
- The first part of the report reviews the situation of European MMF in terms of volumes and asset mixes and discusses the challenges that are growing for MMF in the context of a low interest rate environment, likely to prevail in the near to mid term.
- To help investors form an educated opinion as to ABCP in a MMF context, the second part focuses on the structural and economic features of the current ABCP market. In light of the latest trends in the market and the definitive move towards "traditional" multi-seller programmes, the focus is mainly on the characteristics of the latter. As per Fitch criteria, the essential consideration is the nature of liquidity provided, whether full or partial, which directly influences the investor's exposure to the credit risks of the collateral. Although ABCP remains an eligible asset for Fitch-rated MMF given its creditworthiness, it may expose MMF to other risks, mainly counterparty concentration and liquidity (in the absence of a material state support scheme in Europe).
- For investors in MMF potentially committing money to this asset class, Fitch highlights the following:
  - Unlike certain mortgage-related products or SIVs, which have experienced significant stresses, multi-seller ABCP programmes keep, on average, solid credit profiles. Unlike SIVs and market value structures, a traditional ABCP conduit benefits from 100% committed liquidity support from third party providers.
  - Not all ABCP are equal and considerations must be given to the types of vehicle, the sponsors, the liquidity providers, the features of the support and the liquidity lines, the dealers and the transparency with respect to the collateral and the liquidity providers.
  - Given that the repayment of ABCP programmes at maturity (due to liquidity mismatch risk) and, for fully supported conduits, their creditworthiness, are very dependent on the liquidity providers, MMF must ensure proper

counterparty diversification, including both direct and indirect exposures to financial institutions.

- In the absence of a material state liquidity support scheme in Europe, investors in European ABCP do not have the same level of market liquidity support as their US counterparts. In this context, MMF need to balance investments in European ABCP programmes with the liquidity profile and redemption risks of their funds. Investors in MMF need to ensure that these parameters can accommodate exposures to less liquid assets.
- Partially supported ABCP programmes may expose MMF to credit risk on the collateral, which call for stringent ABCP research and monitoring processes by fund managers. Under Fitch's ABCP criteria, partially supported transactions benefit from specific structural mechanisms (overcollateralisation and cash reserve notably) set to a level commensurate with the rating of the ABCP programme to protect ABCP investors against the credit risk of the underlying collateral.

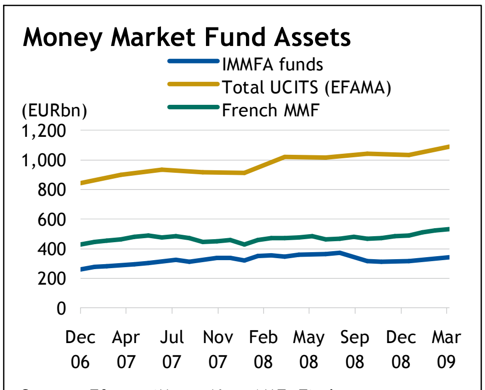
European Money Market Funds: Shift Away From ABCP

A Rational Move to Preserve Safety of Principal and Liquidity in a Flight to Quality Context…

Since July 2007, European MMF have experienced issues regarding the creditworthiness and liquidity of some assets combined with volatility of their investor base.

- In H207, MMF suffered from credit and liquidity deterioration in the ABS and MBS as well as SIVs segments.
- Throughout H108, MMF experienced increasing illiquidity and a perception of ABCP being risky, due to their "blind pool" nature.
- The collapse of Lehman Brothers in September 2008 froze the liquidity of most debt security markets and created a flight to Tbills. It also triggered an unprecedented sell-off of bank paper, notably floating-rate notes, which impacted MMF.
- In September 2008, the "breaking of the buck" of the US-domiciled Reserve Primary Fund triggered a massive redemption pressure on certain MMF (notably IMMFA funds) and a shift to funds invested in government paper.

Despite all these issues, MMF have had to play their role as a safe asset class, in a context of generalised risk aversion. As most risky assets lost a lot of their value in 2008, investors have looked for MMF to protect their capital (with a 4% to 5% yield before the rate cuts) pending better clarity as to the future direction of the economy and capital markets. As shown in the chart below, since end-2007, French-domiciled MMF have attracted around EUR100bn and in total the UCITS MMF market, EUR180bn. In spite of recent redemption pressures, IMMFA funds[1] have benefited, on a net basis, from the risk aversion, with stable AUM since end-2007.



Source: Efama, iMoneyNet, AMF, Fitch

Within the MMF segment, one can also observe a shift to treasury funds that solely invest in T-bills and to safe "prime" funds invested in paper with maturities below three months issued by strong banks.

MMF have, on average, significantly reduced their exposure to ABCP while shortening portfolio maturities.

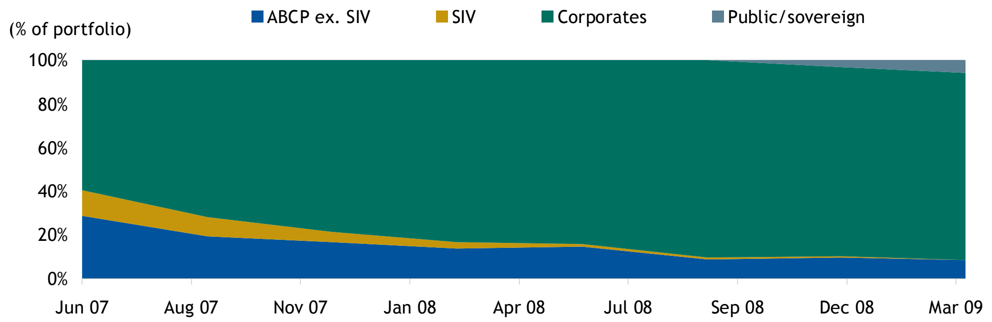
[1] The Institutional Money Market Funds Association, or IMMFA, is the trade body representing providers of 'AAA' rated money market funds.

In this context, MMF have adjusted their liquidity and credit risk profile[2] by:

- reducing maturities across the board, which on average are around one to two months;
- improving the asset liquidity profile with cash allocation in the range of 10-30%;
- moving away from instruments that became less liquid, eg FRNs (notably French MMF);
- substituting to safe, supported and diversified banks;
- investing in T-bills; and
- reducing exposures to asset-backed assets, namely ABCP.

On this last point, while the exposure is now very limited (does not exceed 10% on average for 'AAA/V1+' rated funds, see chart below), some variation is being observed with some funds not invested (even claiming an "ABCP-free" allocation) while others have 40% invested, notably in USD markets where ABCP benefits from several state-sponsored liquidity schemes, as detailed later in this report.

Asset Class Breakdown (Average of AAA/V1+ Rated Funds)



Source: Fitch

Compared to their foreign counterparts, French MMF have always been less exposed to ABCP, given:

- the limited outstanding of French ABCP, with the constraint until recently to invest in paper traded on "regulated markets" which excluded EuroCP; and
- cultural or portfolio construction reasons (French funds have picked extra-yield through one- to three-year FRNs, unlike some maturity-constrained offshore funds that favoured ABCP).

… Nevertheless, ABCP Remains an Eligible Asset in MMF, as per Fitch's Criteria

Highly rated ABCP (rated 'F1' and above) is treated as an eligible asset for Fitch-rated MMF, as per current and proposed criteria[3].

When rating MMF, and consistent with its rating criteria for ABCP, Fitch places a particular emphasis on the third-party liquidity support as well as the programme-wide credit enhancement (CE), both reflected in the Fitch rating (see section below). Fitch considers other details of ABCP programmes that may impact programme liquidity during periods of heightened stress such as the characteristics and the credit quality of the programme sponsor.

[2] For more details, see "European Offshore Money Market Funds: Summary of Changing Portfolio and Liquidity Characteristics", published 25 November 2008

[3] See "*Exposure Draft: Global Money Market Fund Rating Criteria*", published 26 January 2009

Given the history and robustness of this segment of the market, Fitch views financial institution-sponsored and some non-financial institution sponsored (on a case-by-case basis, given potentially reduced secondary liquidity) ABCP conduits as an eligible asset for rated MMFs. In fully supported conduits, commercial paper investors are paid in full regardless of the asset performance. Therefore, commercial paper investors rely on 100% support provided by the programme's sponsor bank or a third party. The credit risk is generally directly linked to the sponsor or such a party and justifies why an aggregate limit to a single financial group of 15%, including direct and indirect exposure, has been proposed recently in Fitch's MMF criteria.

In partially supported conduits (bank or non-bank sponsors), investors can be exposed to the losses in the pool of assets; however, the risks can be mitigated by the structural protections (typically pool-specific reserves or programme-wide CE). Partially supported programmes are viewed as eligible investments in money market funds, provided they are highly rated and the investment manager exhibits research and monitoring capabilities (notably at the underlying asset pool level), and does not rely solely on public information.

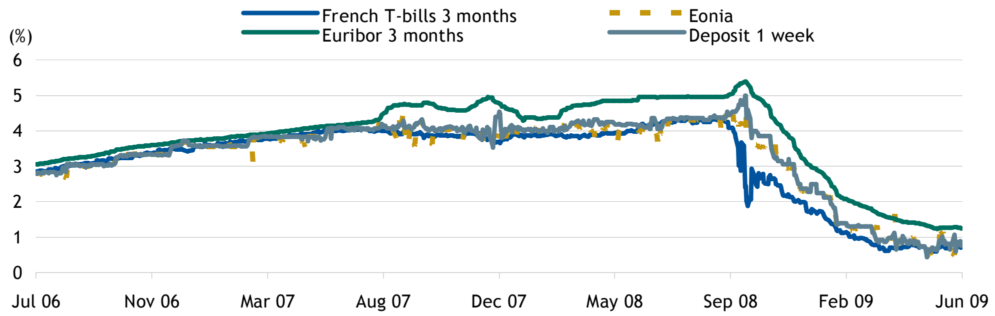
A Renewed Interest in ABCP by MMF Managers

MMF are now in a situation where:

- most of their assets are issued by states or financial institutions, part of which are themselves supported by states;
- overnight rates are extremely low (0.5% for euro-deposit; see chart below); and
- maturities in portfolios are relatively short-dated, which constrains funds' ability to manage the yield curve.

As a consequence, MMF managers are increasingly confronted with a need to diversify and find each basis point of performance. Given this context and the perceived risk/return profile of ABCP, some MMF managers have started to take a fresh look at this market segment. Nevertheless, as the economic situation is still very difficult, it is essential to make a detailed analysis of ABCP programmes and not "buy an asset class". This requires resources and a good understanding of ABCP structures and risks. In a MMF context, ABCP needs to be analysed in terms of credit, liquidity and diversification.

Representative Yields (Euro market)



Source: Fitch

ABCP in Money Market Funds: Credit Considerations

CP Versus ABCP

- CP can be defined as an unsecured obligation issued by a corporation or bank to finance its short-term needs. They are short-term securities with maturities ranging from overnight to one year. CP can be denominated in a wide range of currencies, can be either interest bearing or discounted and usually have a limited secondary market.

- ABCP bears all the characteristics of CP, but is:
  - a secured obligation;
  - secured by a portfolio of assets such as pools of receivables originated by corporates, loans or rated securities; and
  - issued by a limited-purpose, bankruptcy-remote vehicle (the so-called "conduit").

See *Appendix 1* for a typical structure of a multi seller conduit.

Accordingly, CP investors are exposed to the direct credit risk of the CP issuer, whereas ABCP investors are being exposed either to a diversified portfolio of assets and/or, in the case of a fully or partially supported conduit, to the financial strength of the bank sponsor and other liquidity providers.

Type of ABCP Vehicles

Different categories of conduits exist in the ABCP market. The distinction between the conduits' structures depends on:

- the number of originators using the conduit as a financing tool (single-seller versus multi-seller); and
- the types of assets the conduit invests in: receivables, loans, equipment leases, rated securities or a combination of assets and securities (hybrid).

A multi or single-seller conduit buys unrated (but structured to high investment grade) pools of assets from multiple originators whilst a securities-backed (or securities arbitrage) conduit buys publicly rated securities. A hybrid conduit is a mix between a multi-seller conduit and a securities arbitrage conduit.

Unlike SIVs and market value structures, a traditional ABCP conduit benefits from 100% committed liquidity support from third party providers. Investors are therefore not exposed to market value or liquidity mismatch risk but to credit risk.

In light of the latest trends in the market and the marked move towards "traditional" multi-seller programmes, the focus of this special report is mainly on the characteristics of traditional multi-seller programmes.

Conduits are usually established by banks or other financial institutions, "the sponsor", to provide financing alternatives to their clients. Indeed, such vehicles provide to the sponsoring bank the flexibility to buy an unrated pool of assets (trade receivables, consumer loans, equipment leases, etc) from many different unaffiliated sellers; the purchase of these assets is funded by the issuance of CP.

To support the rating of the ABCP issued by multi-sellers conduits, the creditworthiness of each purchased pool of assets (in Europe) or of the entire collateral (in the US) is structured (with CE) to be commensurate with the rating of the ABCP issued. Except for fully supported transactions, investors are exposed to the losses on the underlying pool of assets if such losses exceed the specific level of protection available in the transaction structure (see below "Underlying transaction-specific risks", in the ABCP Risks & Mitigants table).

The Importance of the Liquidity Structure

Timing Mismatches and Market Disruption

For short-term investors in CP, creditworthiness means timely repayment of the paper at maturity. The purpose of liquidity facilities embedded into ABCP programmes is to mitigate the risk of a timing mismatch between collections from the underlying pool of assets and CP repayment, as well as mismatches related to a disruption of the CP market and the inability to roll-over CP (ie to re-issue a new tranche of ABCP to repay a maturing tranche).

It is essential to understand that, unlike SIVs, ABCP conduits typically benefit from committed liquidity support sized at a minimum of 100% of outstanding CP. It should be noted, however, that liquidity facilities might not cover specific transaction risks such as defaulted assets, depending on the type of support provided by the liquidity facility (see below).

The type of liquidity support may vary from one conduit to another and, within each conduit, from one transaction to another. Each seller transaction will generally benefit from transaction-specific liquidity support, with the liquidity support being tailored to the particular risks in that transaction: there is no cross-collateralisation between sellers in a multi-seller conduit in respect of transaction-specific CE or transaction-specific liquidity. In other words, the CE available for one specific transaction cannot be used for other transactions refinanced through the conduit even if the latter have exhausted their available specific CE. In addition to transaction-specific mitigants, programmes benefit from programme-wide CE and liquidity support, which are fungible across different transactions.

Particular emphasis should therefore be put on the support provided by the liquidity facility at the programme and/or at the transaction level.

In a fully supported conduit and/or transaction, investors are rating dependent to the liquidity providers, ie the conduit's sponsor and other banks that are providing liquidity facilities to support the programme and/or the transaction.

Scope of the Liquidity Support: Fully or Partially Supported?

Conduits and/or specific transactions may benefit from one of two types of liquidity support:

- **Fully supported liquidity** covers all the risks at the transaction level or at the programme level, including defaults. In such an event, the risk borne by investors is related to the short-term rating of the liquidity providers. The rating of the liquidity provider has to be the same as or higher than that of the ABCP and the CP investors are exposed to the downgrade of the liquidity providers rating below that of the ABCP's rating, unless some remedial actions are taken in time such as drawing of the full commitment or a suitably rated replacement of the downgraded liquidity provider. If no such remedial actions are taken then such an event might trigger a specific transaction termination event and the investors will, then, be repaid through the cash flow received from the underlying collateral and CE available.
- **Partially supported liquidity** will not advance against defaulted assets and investors take the risk that the underlying assets default. Consequently, for partially supported transactions or conduits, CE is available to mitigate the risk of asset default at a level commensurate with the rating on the ABCP. However, other risks that might not be covered by the liquidity line as well, are more fully described below in the *Risk and Mitigants* section.

What is the Benefit of Having a Secured Position?

It is worth noting that there is no direct link to the sponsor of the conduit as the ABCP issuer is an SPV. The liquidity facilities are provided to ensure the timely repayment of the CP to mitigate possible timing or mismatch risk between the underlying assets and the CP. If the liquidity provider defaults then the CP will (almost certainly) not be timely repaid; from Fitch's rating perspective, it corresponds to an event of default. In such an instance, the ABCP investor (the MMF) is collateralised by the underlying assets of the SPV.

In partially supported conduits, CE and other structural mitigants are available to enhance the underlying collateral to a level commensurate with the rating of the ABCP. Nevertheless, in the case of fully supported programmes, the rating of the ABCP is directly linked to the rating of the liquidity providers. Fitch does not analyse the underlying collateral and the structural mitigants put in place, as the case may be, to address the risk of the underlying collateral. Then, for fully supported programmes, moderate recovery expectations should therefore be made. under the assumption of the liquidity providers defaulting.

Risks and Mitigants in Multi-seller ABCP

		Mitigants	
Risks	**Definition**	**Partially/not supported conduits**	**Fully supported conduits**
Underlying transaction-specific risks			
I - Asset pool			
Delinquencies, defaults, debtor concentration, dilution costs	***Delinquencies/default***: risk of non-payment or loss from the underlying debtors ***Dilution costs***: credit notes, returns or volume rebates that might be offered to a client during the ordinary course of business, which can reduce the value of a receivable after it has been sold to the conduit	• Partially covered by transaction's specific liquidity line • Covered by reserves determined as per Fitch's trade receivables methodology or other asset class methodology Usually, the reserves are dynamic and cover a multiple of past default and dilution and are in the form of overcollateralisation or a cash reserve	
II - Seller risk			
Commingling	Risk of monies being trapped in the bankruptcy estate of the seller	Covered by either a reserve or by transaction's specific liquidity line	Covered by transaction's specific liquidity line: CP holders rely exclusively on the bank liquidity providers' financial strength to be repaid
Operational risk	No performance risk should exist in a transaction as the service should be completed before the sale of the trade receivables but still rely on an operational basis on the seller's process to originate, recover and ensure the cash reconciliation	Either risk is limited/commensurate with conduit's rating level or covered by the transaction's specific liquidity line	
III - Fees/costs		Covered by either a reserve or by transaction's specific liquidity line	
Conduit level exceptional fees/expenses			
		Covered by programme-wide credit enhancement (typically provided by the conduit's sponsor and can be used for all the transactions refinanced under the conduit as the second layer of protection once the transaction-specific CE has been fully exhausted)	
Market liquidity risk			
Potential cash flow gap between asset flows and CP, ie provide cash (liquidity) to repay maturing CP Market disruption events Event risk: transaction-specific events		Covered by transaction's liquidity facility: • must be provided by banks rated at least as high as rating of CP; and • must have same day funding Exceptions: "Funding outs", ie conditions under which liquidity cannot be drawn. Typically, such events are insolvency of the conduit (set up as a bankruptcy-remote vehicle) and Illegality	

Specific mechanisms are also inserted in the documentation to protect CP against a rating downgrade of the liquidity providers such as the drawing of the liquidity line or the replacement of the liquidity provider
Source: Fitch

Structural and Collateral-Related Risk & Mitigants

When rating ABCP conduits, Fitch considers that there are four main risks that need to be analysed and addressed in an ABCP conduit:

- the legal structure;
- the credit risk & quality of the assets being purchased;
- the liquidity facility; and
- the programme's administrative support.

The different steps followed by Fitch to analyse the legal structure of the conduit (bankruptcy remoteness, true sale of the assets and security interest in the assets, eligibility criteria and termination events) and the programme's administrative support (sponsor's securitisation expertise and capabilities, asset-liability management functions, CP issuance tests, CE required and liquidity facility drawn amount) will not be described here. For more information on these aspects and Fitch's trade receivables methodology, please refer to the reports listed in the *Related Research* section on page 1 of this report.

Since the outset of the liquidity crisis, no Fitch rated multi-seller ABCP programme[4] has defaulted. A large number of programmes have been forced to use their liquidity facility or have their sponsors hold their CP on their balance sheet due to an inability to rollover CP and, it should be noted, not due to a default on the underlying assets.

In the absence of an explicit liquidity scheme in Europe, European ABCP still exposes MMF to heightened liquidity risks. Therefore, ABCP exposure should be considered in light of the overall liquidity profile and investor base of a fund.

ABCP in Money Market Funds: Secondary Liquidity Considerations

While the capacity of an ABCP programme to repay maturing CP ("primary liquidity") is largely reliant on the existence and robustness of a liquidity provider, MMF may also be exposed to a certain form of secondary liquidity risks, ie the risk of not being able to sell the asset before maturity at par. This capacity can play an important role in a stressed situation of massive investor redemptions.

Although ABCP markets exhibit much more limited liquidity than other short-term markets – even prior to the economic crisis - conduit dealers and sponsors generally actively deal ABCP to ensure a certain degree of secondary liquidity. There is naturally no legal obligation to do so but the reputation of dealers and sponsors play an important role here.

Since September 2008, when the liquidity of the CP market vanished following the freezing of the interbank market, central banks in the US and other affected economies injected liquidity to stabilise interbank markets. Open market operations of increased size and maturity were undertaken by the Bank of England, European Central Bank (ECB) and the US Federal Reserve. The types of securities against which banks could borrow were broadened by the US Fed to include ABCP. Therefore, USD asset-backed paper could be bought back by the sponsor at any time, having the possibility to repo it with the Fed.

In the US, to complement these open market operations, different liquidity facilities (among others, Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility) have also been set up whereby the Federal Reserve can lend money or exchange assets against ABCP. In other words, investors in ABCP have a window with the central bank (via dealers) and thus have, in practice, daily liquidity on invested ABCP. The plans were extended from April 2009 to October 2009 and then to February 2010[5].

By contrast, in Europe (the UK and eurozone), most ABCP do not benefit from state-supported facilities.

In October 2008, the Bank of England expanded the range of collateral eligible for its weekly sterling three-month repo facility to include highly rated ABCP, where the underlying assets would be eligible to the bank if securitised, which limits the eligible programmes.

At the same time, the ECB expanded the list of assets eligible as collateral in its open market operations to include all debt instruments issued by credit institutions

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[4] As already mentioned, multi seller ABCP programmes are exclusive of SIVs and market-value structures.

[5] See Federal Reserve communication, dated 25 June 2009

when traded on the accepted non-regulated markets, which includes domestic CP markets as well as STEP Euro-CP programmes. Subsequently, at the beginning of 2009, the ECB decided to exclude ABCP issues from its eligible list, given their "double structure" nature (i.e. structurally, ABCP conduits invest themselves in vehicles used to purchase the pools of assets).

More recently, the Bank of England issued a consultation proposing amendments to its Asset Purchase Facility (APF). Under the proposed framework, the facility would purchase eligible ABCP. The collateral of eligible programmes would include direct short-term credit to companies and short-term credit to consumers, but not asset-backed securities. Eligible ABCP must be sterling-denominated, with an original maturity of not more than nine months and a minimum initial short-term credit rating of 'F1' or equivalent. The underlying borrower also needs to "make a material contribution to economic activity in the UK". All these constraints make few programmes eligible, but as new programmes are created that comply with the criteria, such assets would be effectively liquidity supported.

As a consequence, at the moment, investors in European ABCP do not have the same level of liquidity support as their US counterparts. In this context, Fitch would expect MMF to balance investments in European ABCP programmes with the liquidity profile and redemption risks of their funds. Investors in MMF need to ensure that these parameters can accommodate exposures to less liquid assets.

ABCP in Money Market Funds: Diversification Considerations

As mentioned above, the creditworthiness of ABCP programmes is very dependent on the liquidity providers. Therefore, in addition to direct exposure to issuers, MMF may assume indirect exposure to such issuers through investments in ABCP programmes. While ABCP programmes may benefit from the diversification and credit support of underlying collateral, timely repayment of maturing ABCP – essential for short-term funds – is largely dependent upon liquidity provided by designated banks, particularly in periods of heightened liquidity stress. As a consequence, it is essential for MMF to ensure proper counterparty diversification, including both direct and indirect exposures to financial institutions.

In its recent exposure draft for MMF rating criteria, Fitch views an aggregate issuer exposure (ie both direct and indirect) of less than or equal to 15% as consistent with rated funds. At a fund manager level, it means being able to look through to the underlying liquidity providers and aggregate both direct and indirect exposures, taking into account group structures, parents and affiliates.

For partially supported programmes, another consideration is the sector concentration that may exist in the underlying collateral. It therefore calls for access to conduit-specific information from the sponsors and monitoring resources at the fund managers.

Key Considerations When an MMF Invests in ABCP

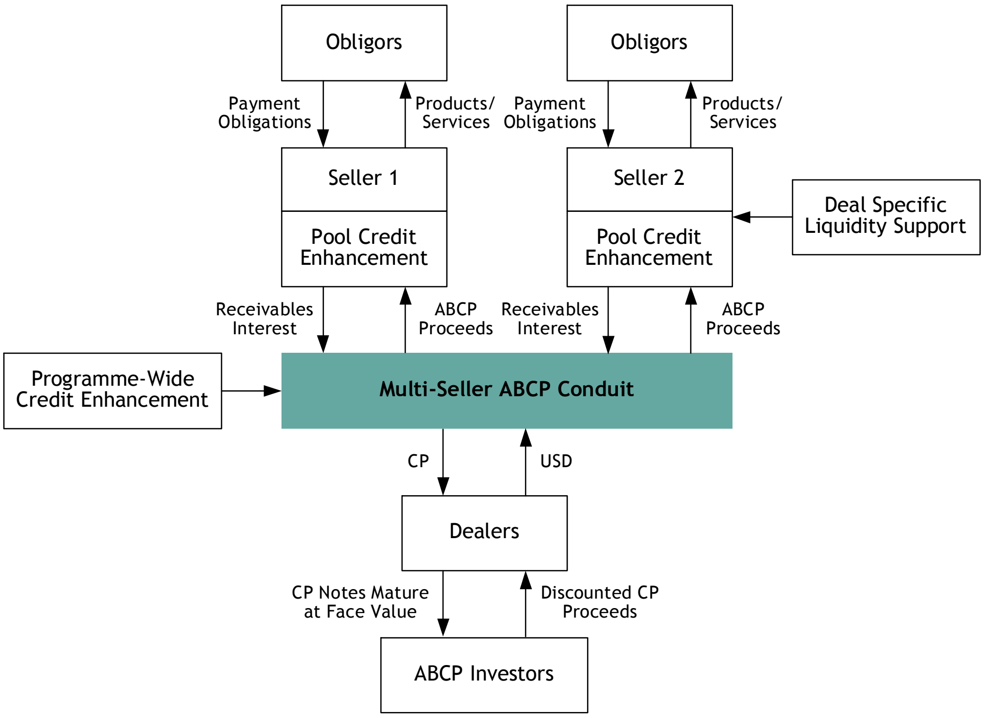
- What is the short-term rating of the programmes: 'F1+', 'F1' or 'F2'?
- Which type of vehicles: multi-seller versus securities arbitrage and/or hybrid and fully supported programmes versus partially supported programmes?
- What underlying risks:
    - only the sponsoring bank and the liquidity providers (ie fully supported programme); or
    - collateral credit risk (ie partially supported programmes where each transaction is structured to the appropriate rating and is secured by the underlying assets) in addition to the above entity risk?

    - collateral enhancement, for partially supported programmes: what are the stress levels applied to the underlying collateral to protect the transaction against risks such as default, commingling or dilution? For example, an 'F1' rated programme needs pools to be enhanced at least to an 'A' level (ie resist to 'A' level stress scenarios), as per Fitch's methodology.
- Sponsor: creditworthiness of this name?
- Liquidity line:
    - What are the liquidity funding outs in the conduits and are these the standard ones[6]?
    - What happens in case of downgrade of the sponsor and/or any liquidity providers below the conduit's rating?
- Secondary market:
    - Are the conduit dealers and sponsor actively dealing the ABCP to ensure a certain degree of liquidity in the secondary market?
    - Does the ABCP benefit from other forms of liquidity mechanisms either through a state liquidity scheme or dealers and sponsors offering the possibility to buy back the paper?
- Conduit-specific information:
    - What are the conduit's investment guidelines, ie type of assets to be financed, CP currency denomination, minimum credit quality of transactions, typical ABCP tenor and maximum maturity allowed?
    - What is the size of the conduit: total ABCP outstanding, percentage of retention of ABCP on the sponsor's balance sheet, etc?
    - What percentage does the MMF control of the conduit's ABCP average outstanding in real terms?
    - If investing in partially support programmes: does the conduit's investor report provide an appropriate level of information in terms of asset breakdown, industry breakdown and liquidity providers by ratings to be comfortable to invest in?
- Monitoring resources:
    - What are the tools and resources to monitor collateral of partially supported programmes?
- Diversification:
    - Does the fund manager monitor aggregate exposure to the sponsors/liquidity providers (direct or indirect)? Is there any portfolio limit to it?

[6] Outs are conditions under which liquidity cannot be drawn. Typically, such events are insolvency of the conduit (set up as a bankruptcy remote vehicle) and illegality.

Appendix 1

Multi-Seller Conduit



Source: Transaction document

The ABCP market has shrunk in volume and largely moved to bank-sponsored multi-sellers backed by 100% liquidity support.

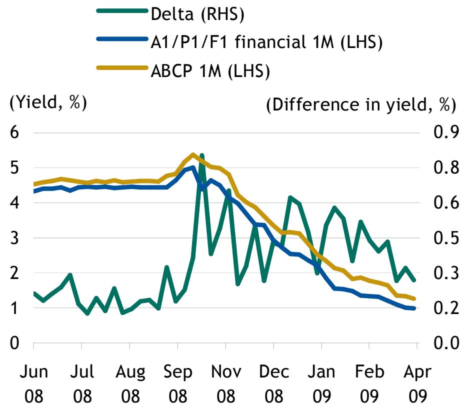
EuroCP are currently issued with spreads in the range of 20-50bps.

Appendix 2: A Snapshot of the ABCP Market

As in many markets, MMF are the natural buyers of CP, including ABCP, and the recent change in MMF allocation mix has directly impacted capital markets:

1. At the beginning of the crisis, ABCP vehicles were not able to re-issue CP as investors left the market en masse, driven by investor uncertainty surrounding the underlying asset composition backing their investments. As a consequence, a large number of programmes had to use their liquidity facility or their sponsors have held CP on their balance sheet (see next section).
2. The lack of demand from investors pushed spreads to high levels, eg 100bps above Eonia at one-month maturity in October 2008. As shown in the chart on the right, at one-month maturity, ABCP yields 30bps more than CP issued by a financial institution rated 'F1+/F1' or equivalent.
3. Demand has also concentrated on short maturities, which resulted in the average maturity at issuance decreasing to 10 days in September last year for Asset-Backed Euro CP.
4. Overall, volumes of outstanding CP decreased significantly, with a more pronounced decline in the euro market, which does not benefit from the same government support as in the US. From peak, US ABCP outstanding volumes have decreased by 50%, while European ones have declined by 85%. Asset-Backed Euro CP outstanding also continued to decline after September 2008.

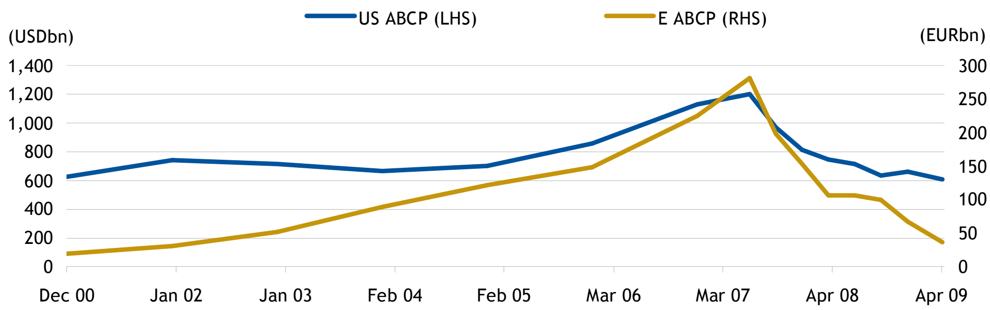
Yields for Euro Commercial Paper



Source: Euroclear

Nevertheless, market participants consider that a small number of European banks' conduit sponsors are currently holding their own ABCP on their balance sheet. Therefore, conduits' CP outstanding and European outstanding market volume might not be representative of the issuance volume in real placement terms.

ABCP Outstanding



Source: Federal Reserve, Dealogic, Merrill Lynch Market Survey

To regain investor confidence, the European ABCP market has been characterised, throughout 2008, by major structural changes to the existing programmes, which have included, among others, sponsors providing fully supporting liquidity or other forms of guarantee, and programmes amortising, or selling off their securities arbitrage portfolios. There has also been a definitive move towards traditional multi-seller programmes, ie bank-sponsored multi-sellers backed by 100% liquidity support.

Despite this difficult situation, it is essential to note that, in Europe and in the US, no Fitch-rated multi-seller ABCP conduits have defaulted during the liquidity crisis: ABCP conduits were able to draw upon their committed liquidity facilities when they were unable to issue CP and all ABCP has been repaid when due.