MOBILIST

SECURITISATIONS: BLUEPRINT TO LISTING

MOBILIST
Product Platform

CONTENTS

1. PREAMBLE

A flagship UK government programme, Mobilising Institutional Capital Through Listed Product Structures (MOBILIST), supports investment solutions that help deliver the Global Goals for Sustainable Development and the climate transition. MOBILIST competitively sources and selects dedicated emerging and frontier market investment products.

Through its research and policy activities, MOBILIST strives to create an enabling environment for the proliferation of new listed products. This report is designed to provide prospective issuers with clear and practical guidance on what is required to structure and list specific product structures.

2. INTRODUCTION

Asset managers, project promoters, and businesses seeking to raise capital for sustainability-themed funds, projects, and businesses in developing countries have historically preferred to use private markets. There are good reasons for this preference: the illiquid nature of the underlying assets in question, the underdeveloped state of public markets in many developing countries, and a general lack of familiarity among major global public markets investors. Accordingly, specialist private market investors – especially development finance institutions (DFIs) and multilateral development banks (MDBs) – have been looked to for capital raising.

At the heart of MOBILIST – and by extension, its Source, Select, Support (S3) Process – is an understanding that public markets are vital to closing the SDG financing gap. The programme strives to stimulate the use of listed products for SDG-aligned investment by proactively making the case for the utilisation of public markets through its research activities. The programme also aims to provide practical educational materials to help close some of the common knowledge gaps and misperceptions around the costs and complexities of listing on a stock exchange.

The MOBILIST Blueprint to Listing report intends to provide clear and practical guidance to product promoters who may be deterred by the perceived costs and complexities of the listing process. The report presents specific, up-to-date, and usable information and includes step-by-step guides covering the necessary stages to complete a new listing.

This third chapter of the report focuses on securitisations. These complex transactions require a detailed understanding of capital markets and a firm grasp of the prevailing legal and regulatory considerations. For these and other reasons, securitisations have not been a major feature of the development finance landscape. However, they appear to be gaining increasing prominence. For example, securitisations are a key feature of the recommendations in the G20's Boosting MDBs' Investing Capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks report.

Securitisations (and risk transfer transactions more broadly) present several potential advantages to development finance actors. These include the ability to package and distribute assets to institutional investors in familiar and acceptable forms, transferring the risk of portions of portfolios to private investors, freeing up regulatory capital for bank-regulated DFIs and MDBs, and managing liquidity.

Risk transfer and securitisations are often distributed to private investors through public market instruments. With such structures attracting increasing attention, this chapter of the MOBILIST Blueprint to Listing report intends to support the market by providing a practical guide on the steps to market and the key stakeholders involved in them.

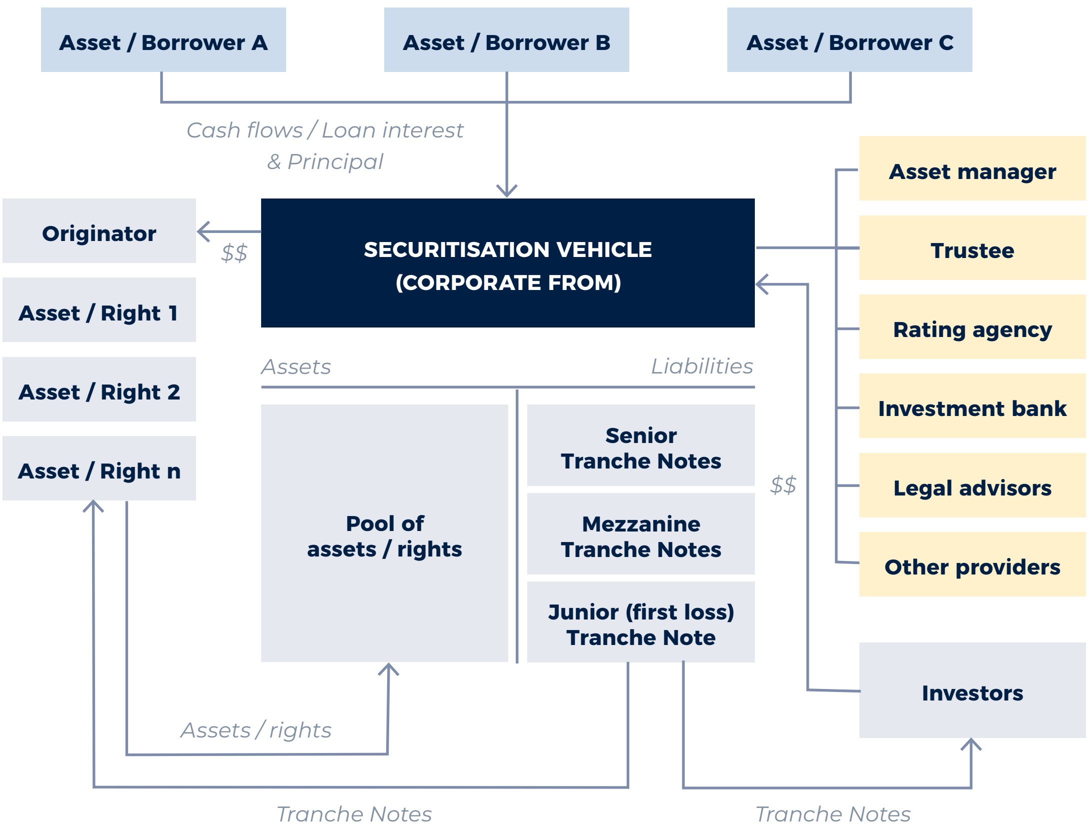
3. SECURITISATION

3.1. What is a Securitisation?

Securitisation is a financial process that transforms illiquid assets – typically loans or receivables – into marketable instruments backed by the future cash flows these assets will generate. This process has many inherent advantages for mobilising private capital in the context of sustainable or development investing, where most assets are necessarily illiquid.

The securitisation process typically involves several steps, unpacked in more detail below. First, an entity such as a bank or DFI gathers a pool of assets with similar characteristics and transfers them to a special purpose vehicle (SPV), which holds and manages the assets for the securitisation transaction. The SPV then issues securities backed by the cash flows generated by the underlying assets. These securities represent ownership interests in the cash flows derived from the asset pool.

Private investors purchase the securities from the SPV, providing the issuer – potentially a DFI or MDB – with cash that can be redeployed into new investments. The cash flows from the underlying assets pass through the SPV and finally to investors in the form of interest and principal repayments.



3.2. True Sale and Synthetic

Broadly, there are two established methods of securitisation: True Sale and Synthetic. In the former, assets are transferred off the originator's balance sheet and into the SPV. In the latter, the originator retains ownership and custodianship of the assets and transfers only the credit risk to the SPV. Each route has its advantages and drawbacks, and prospective originators should carefully consider both their own motivations and the likely appetite of investors before pursuing one or the other.

In the case of true sale, the originator receives upfront cash proceeds from the sale of the assets, which can provide immediate liquidity and reduce funding costs. This is not the case in a synthetic transaction, where ownership is retained by the originator. The originator does, however, maintain a revenue stream from ongoing ownership. This is typically through derivative contracts, such as credit default swaps or total return swaps, with investors or counterparties to transfer the credit risk.

In both instances, the originator's balance sheet can be optimised through regulatory capital relief. This is relatively straightforward in the context of true sale as there is a clear transfer of both credit risk and ownership of the assets. For synthetic securitisations, regulatory authorities can be expected to carefully evaluate the effectiveness of risk transfer to determine the level of regulatory capital relief.

A prospective originator would also want to consider control and investor appetite when deciding how to structure a securitisation.

Once the assets are sold in a true sale structure, the originator relinquishes control over these assets and the cash flows they generate. This might be the preferred scenario should the originator wish to focus on other business activities, for example. It might also be attractive to investors seeking direct exposure to the underlying assets and associated cash flows, which are more likely to come with clearly defined risk and return profiles.

Since the originator retains ownership of the assets in a synthetic structure, it also maintains control over the assets and can continue managing them as part of its operations. This can appeal to investors seeking exposure to certain assets that would otherwise be difficult to assess and manage. Specialist managers, like DFIs and MDBs, are well-positioned to originate and synthetically securitise development finance assets, especially where tranches of exposure can be configured to suit prospective investor requirements.

Securitisations are complex and carry risks for all parties. These risks must be well understood. Investors must assess the credit quality of the underlying assets, the structure of the transaction, and the potential for default or prepayment of the underlying loans. Furthermore, the proper disclosure of information and adherence to regulatory standards are crucial for the integrity and stability of any given transaction and the market as a whole.

Securitisation plays a vital role in financial markets by facilitating the efficient allocation of capital, risk transfer, and liquidity enhancement to the benefit of both issuers and investors. This very dynamic process can and should be replicated in the context of development finance.

4. KEY STAKEHOLDERS

Key participants in a securitisation transaction include the originator, who owns the underlying assets and the SPV. Rating agencies assess the credit quality of the securities issued by the SPV, while 'servicers' collect payments from the underlying assets and ensure cash flows reach investors. Underwriters may assist with structuring and distributing the securities, while regulators and legal advisors oversee compliance with regulations. These participants collectively enable securitisation by facilitating the transfer of assets, issuing securities, assessing credit quality, collecting payments, and providing regulatory oversight.

Below is an inventory of the likely stakeholders necessary to structure a securitisation and further details on their roles and responsibilities:

4.1. Originator

The originator is the entity that originates the underlying assets (which form the basis of the securitisation) and is typically the key promoter behind the transaction. It can be a bank or financial institution, specifically an MDB or DFI.

- Roles and responsibilities:
  - Originate and invest in the underlying assets, i.e. loans to developmental businesses and projects in developing countries.
  - Create a pool of assets with similar characteristics.
  - Conduct due diligence on borrowers and assess creditworthiness.
  - Provide ongoing support and expertise in managing the underlying assets.
- Requirements:
  - Strong understanding of the asset class being securitised.
  - Ability to identify and assess quality assets.
  - Compliance with relevant regulatory requirements and accounting standards.
- Remuneration:
  - Income generated through interest from the underlying assets.
  - Fees for structuring and managing the securitisation transaction.

4.2. Special Purpose Vehicle

The SPV is a separate legal entity created to hold and manage the assets for the securitisation transaction. It acquires the assets from the originator and issues securities to investors. The SPV ensures that the cash flows from the underlying assets are collected and passed on to investors.

- Roles and responsibilities:
  - Hold and manage the underlying assets.
  - Acquire assets from the originator.
  - Issue securities to investors, often on a public stock exchange.
  - Collect cash flows from the assets and make payments to investors.
- Requirements:
  - Separate legal entity, often a bankruptcy-remote entity.
  - Compliance with legal and regulatory requirements.

    - Accurate record-keeping of asset performance.
    - Transparent reporting to investors.
- Remuneration:
    - Fees collected from the underlying assets cover administrative costs.
    - Servicing fees for managing the securitisation process.

4.3. Trustee

The trustee plays a crucial role in a securitisation transaction, acting as an independent third party to safeguard the interests of investors and ensure compliance with the terms of the securitisation agreement.

- Roles and responsibilities:
    - Hold legal title to the assets on behalf of the investors.
    - Enforce the rights of investors in the event of default or breach of agreement.
    - Primary communications contact for investors.
    - Maintain accurate and up-to-date records and documentation.
- Requirements:
    - Strong understanding of securitisations and experience in handling similar transactions.
    - Demonstrable independence and objectivity.
    - Good understanding of the legal and regulatory requirements specific to securitisation transactions.
    - Financial stability and adequate resources to fulfil responsibilities.
- Remuneration:
    - Services fees can be fixed or variable.

4.4. Investors

Investors are individuals or institutions that purchase the securities issued by the SPV. They receive the cash flows generated by the underlying assets. Depending on the context, investors can include banks, pension funds, asset management firms, hedge funds, or individual investors.

- Roles and responsibilities:
    - Provide capital by purchasing issued securities.
    - Assess credit quality and evaluate risk-return profile.
    - Monitor asset performance.
    - Participate in the surveillance of the securitised assets.
- Requirements:
    - Sufficient available capital and appropriate risk/return appetite.
    - Understanding of the process and ability to conduct due diligence on assets.
    - Ability to assess credit quality, evaluate risk-return profile and monitor asset performance.
- Remuneration:
    - Income from interest payments and principal repayments.
    - Potential capital gains from selling securities in the secondary market.

4.5. Ratings Agencies

Rating agencies assign credit ratings to the securities based on their evaluation, providing an indication of the level of risk involved. These ratings help investors in their decision-making process and determine the pricing and marketability of the securities.

- Roles and responsibilities:
    - Assess credit quality and risk associated with the issued securities.
    - Assign credit ratings to provide an indication of the likelihood of default.
    - Provide information to investors for decision-making.
- Requirements:
    - Trusted brand.
    - Expertise in evaluating credit risk and analysing financial data.
    - Understanding of the specific asset class being securitised.
    - Compliance with regulatory requirements.
    - Independence and objectivity in the rating process.
- Remuneration:
    - Fees charged for rating services, typically paid by the issuer or originator.

4.6. Servicer

The servicer is responsible for collecting the cash flows generated by the underlying assets on behalf of the SPV and distributing them to the investors. They handle tasks such as loan administration, payment processing, and borrower communication.

- Roles and responsibilities:
    - Collect cash flows from the underlying assets.
    - Monitor borrower payments and communicate and mitigate delinquencies.
    - Assess, negotiate, and implement loan modifications.
- Requirements:
    - Expertise in loan administration, payment processing, and borrower management.
    - Robust systems and processes for asset management.
    - Compliance with relevant regulations and servicing standards.
- Remuneration:
    - Fees are based on a percentage of the outstanding loan balance or collected amount.

4.7. Investment Banks, Brokers and Underwriters

These financial intermediaries market the issued securities to institutional investors and facilitate the distribution and settlement process.

- Roles and responsibilities:
    - They conduct roadshows, investor presentations, and marketing activities to generate interest and solicit investment from institutional investors.
    - Advise and assist in structuring the securitisation transaction.
    - Coordinate and manage the entire issuance process, working closely with the originator and other parties involved.
    - Assess the creditworthiness and risk associated with the securitised assets.

    - Conduct due diligence on the securitised assets and assist in pricing the securities.
    - Maintain relationships with institutional investors and other market participants.
    - Assist in preparing offering documents and regulatory filings.
- Requirements:
    - Recognised and trusted brand.
    - Deep knowledge of securitisation techniques, capital markets, regulations, and investor preferences.
    - Strong analytical and financial modelling skills.
    - Extensive network of potential investors and access to trading platforms and technology infrastructure.
    - Strong communication and negotiation skills.
    - Compliance with regulatory requirements and industry best practices.
- Remuneration:
    - Variety, including underwriting fees, structuring fees, and placement fees based on the size and complexity of the securitisation.

4.8. Legal Advisors

Legal counsel provides legal guidance and expertise throughout the securitisation process, ensuring compliance with applicable laws and regulations.

- Roles and responsibilities:
    - Draft and review legal documentation, including offering documents, prospectuses, loan agreements, and servicing agreements.
    - Conduct due diligence on the securitised assets.
    - Ensure compliance with securities laws, disclosure requirements, and regulatory guidelines.
    - Provide legal opinions and advice on contractual matters.
    - Assess legal risks associated with the securitisation and provide guidance to mitigate such risks.
- Requirements:
    - Comprehensive knowledge of relevant laws, regulations, and industry practices.
    - Strong drafting and negotiation skills to prepare and review complex legal documents and negotiate favourable terms for their clients.
    - Effective communication skills to work collaboratively with clients, other advisors, and stakeholders.
    - Appropriate professional qualifications, licenses, and memberships.
- Remuneration:
    - Hourly rates or fixed fees for specific services rendered.
    - The fee structure may include upfront retainers, milestone-based payments, or a percentage of the transaction value.

5. STEPS TO MARKET

Any institution considering structuring a securitisation of its assets for the first time should be aware of the established set of steps that must be followed. This section outlines the necessary steps involved in a securitisation seeking to issue and distribute securities via a public (listed) market in simple, practical terms. It references the involvement of the various stakeholders at each point.

5.1. Step 1 – Identify the Portfolio

- Purpose:
  - The purpose of this step is to identify the specific assets that will be securitised, such as loans, receivables, or investments related to developmental projects. It involves assessing the quality, risk profile, and long-term sustainability of the assets.
- Who's Involved:
  - An originating institution – such as a DFI, MDB or fund manager – is responsible for identifying the specific development finance assets that will be securitised. They assess the quality, risk profile, and long-term sustainability of the assets.
- How it Works:
  - Determine the overarching objective of the securitisation, i.e. raising capital, transferring risk, and/or optimising the balance sheet.
  - Review the existing assets suitable for securitisation and determine the type of assets that will be securitised. In a sustainable investing or development finance context, these could include loans; receivables; or investments related to infrastructure projects, affordable housing, renewable energy, or other developmental initiatives.
  - Evaluate the quality and characteristics of the asset portfolio to assess its suitability for securitisation. Consider the projects' cash flows, risk profiles, and long-term sustainability.
  - Consider the marketability of the intended securities and the likely investor target audiences.
  - Conduct initial due diligence on the potential assets to assess their quality, performance, and associated risks.
  - Determine the size and composition of the asset pool required to achieve the desired securitisation goals and define selection criteria for the assets to be included in the final portfolio.

5.2. Step 2 – Establish a Special Purpose Vehicle

- Purpose:
  - The SPV is a legal entity created specifically for the purpose of securitisation transaction. It serves as the vehicle to hold the development finance assets, issue the securities, and manage the securitisation process. The SPV provides legal and operational separation between the originator or sponsor and the securitised assets.
- Who's Involved:
  - The stakeholders involved in establishing the SPV include the originator or sponsor responsible for establishing the SPV and legal advisors, who assist in its formation and ensure its legal and operational separation from the originator.
  - Trustees or custodians who provide oversight of the SPV's operations could potentially also be necessary.

- How it Works:
  - Decide on the appropriate structure and jurisdiction for the SPV, considering legal, tax, and regulatory implications. Ensure that the SPV is structured to be bankruptcy remote, providing legal separation from the originator or sponsor of the securitisation.
  - Draft the SPV's constitutional documents, including the articles of association, operating agreement, or trust deed to outline the purpose, powers, and governance structure of the SPV.
  - Specify the authorised activities of the SPV, which typically include acquiring and holding the securitised assets, issuing securities, and entering into related agreements.
  - Determine the management structure of the SPV, including the appointment of directors, trustees, or managers responsible for overseeing its operations.
  - Determine the capitalisation structure of the SPV, which involves injecting initial capital into the entity to support its operations and potential liabilities. Ensure the SPV maintains the necessary capital adequacy to meet regulatory requirements and support its ongoing activities.
  - Ensure compliance with anti-money laundering (AML) and Know Your Customer (KYC) regulations in the process to open bank accounts.
  - Establish a governance framework for the SPV, including procedures for decision-making, record-keeping, and reporting.
  - Appoint directors, trustees, or managers to oversee the affairs of the SPV, ensuring they possess the necessary expertise and fulfil their fiduciary duties.

5.3. Step 3 – Transfer Assets to the SPV

- Purpose:
  - This step involves transferring the identified development finance assets from the originator or sponsor to the SPV. The transfer can be through sale (true sale securitisation) or contribution as collateral (synthetic securitisation). It ensures that the assets are held within the SPV and separate from the originator's balance sheet.
- Who's Involved:
  - Again, this step involves the originator or sponsor and legal advisors. The former transfers the identified development finance assets or exposures from its balance sheet to the SPV. The latter assists in executing purchase and sale agreements or assignment agreements to transfer ownership of the assets to the SPV.
- How it Works:
  - Engage legal advisors to draft the necessary transfer documents, such as assignment agreements, sale agreements, or contribution agreements, to affect the transfer of assets.
  - Conduct legal due diligence to ensure the assets can be transferred without restriction and obtain the necessary consent from third parties.
  - Transfer the selected development finance assets from the originator or sponsor to the SPV. This transfer may involve selling the assets to the SPV or contributing them as collateral.
  - Execute legal agreements, such as purchase and sale agreements or assignment agreements, to transfer ownership of the assets to the SPV.

5.4. Step 4 – Structure the Securities

- Purpose:
  - Structuring the securities involves determining the characteristics of the securities,

such as payment structure, interest rate, maturity, and risk profiles. This step ensures that the securities align with the cash flows and risk profile of the underlying sustainable assets.

- Who's Involved:
  - The originator collaborates with investment bankers and legal advisors to structure the securities based on the characteristics of the underlying assets.
  - Investment bankers provide expertise on market conditions and investor preferences, while legal advisors ensure compliance with regulatory requirements.
  - Rating agencies assess the credit quality and assign ratings to the securities.
- How it Works:
  - Work with investment bankers and legal advisors to structure the securities based on the characteristics of the underlying assets. For example, these may be senior notes, subordinated notes, equity certificates, or other derivative instruments.
  - Determine the order of payment priority and the relationship between different tranches of securities based on their level of risk and expected returns.
  - Determine the payment structure, interest rate, maturity, and other terms and conditions for each tranche of securities. Tranches are different classes of securities with varying levels of risk and return.
  - Engage credit rating agencies to assess the creditworthiness of the securities and assign credit ratings.
  - Coordinate with the stock exchange where the securities will be listed in anticipation of fulfilling its listing requirements.

5.5. Step 5 – Conduct Due Diligence

- Purpose:
  - Due diligence involves a comprehensive assessment of the asset portfolio to evaluate its quality, viability, and associated risks. It helps validate the underlying projects and assets, providing assurance to investors.
- Who's Involved:
  - A variety of stakeholders are involved in this step. The originator leads the due diligence process with support from legal advisors, technical experts, and external consultants. They assess financials, legal documentation, project viability, and risk mitigants associated with the assets.
  - Credit rating agencies evaluate the creditworthiness of the securitised assets.
- How it Works:
  - Clearly define the objectives of the due diligence process, such as assessing the creditworthiness of the assets, identifying potential risks, or validating data integrity.
  - Gather all relevant documentation related to the asset portfolio, including loan agreements, leases, purchase contracts, financial statements, and any other supporting records.
  - Assess the credit quality of the assets within the portfolio:
    - Review borrower or lessee profiles, including credit scores, financial statements, and payment histories.
    - Analyse any collateral securing the assets, such as property appraisals or valuation reports.
    - Consider the diversity of the asset pool, including geographic distribution, industry sectors, and other relevant factors.
    - Analyse historical data and performance metrics of the assets to evaluate

    their financial performance and cash flow characteristics.
    - Review payment histories, delinquency rates, prepayment rates, and defaults.
  - Review the legal and regulatory compliance of the asset portfolio and evaluate compliance with consumer protection laws, securities regulations, anti-money laundering (AML) regulations, and other applicable laws.
  - Engage external parties, such as credit rating agencies or technical experts, to evaluate and assign credit ratings or validate project viability.

5.6. Step 6 – Prepare Offering Documents

- Purpose:
  - Offering documents, such as a prospectus or offering memorandum, provide detailed information about the securitisation, SPV, assets and securities being offered to inform potential investors about the investment opportunity, associated risks, and terms and conditions of the securities.
- Who's Involved:
  - The originator, legal advisors, and financial advisors collaborate to prepare the offering documents, ensuring compliance with regulatory requirements and providing accurate and comprehensive information to potential investors.
  - Credit enhancers such as guarantee providers may be involved to enhance the credit quality of the securities.
- How it Works:
  - Determine regulatory requirements and define a document structure.
  - Create a prospectus or offering memorandum providing detailed information about the securitisation, the SPV, the assets, and the securities offered.
  - Include comprehensive disclosures, risk factors, legal and financial information, and any other relevant details required by regulatory authorities.
  - Ensure that investors are considered when drafting the documents. Attempt to create a visually appealing and concise investor presentation highlighting the investment opportunity's key features and benefits.
  - Engage legal counsel and compliance professionals to review the offering documents for accuracy, completeness, and compliance with regulatory requirements.
  - Consider localising and/or translating the content to ensure cultural relevance and compliance with local regulations.

5.7. Step 7 – Obtain Regulatory Approvals

- Purpose:
  - Regulatory approvals are necessary to ensure compliance with securities laws and regulations in the jurisdiction or jurisdictions where the securities will be listed and traded. These approvals provide confidence to investors that the securitisation adheres to legal and regulatory standards.
- Who's Involved:
  - The originator, with the assistance of legal advisors and regulatory consultants, navigates the regulatory landscape to obtain the necessary approvals from regulatory bodies. They submit applications, disclosures, and offering documents to meet regulatory requirements.
- How it Works:
  - Determine the regulatory authorities responsible for overseeing the issuance and

listing of securities in the target jurisdiction and research and understand the specific regulatory framework, laws, rules, and regulations governing securitisations.

- Work closely with legal counsel to ensure compliance with relevant securities laws and regulations in the jurisdiction(s) where the securities will be listed and traded.
- Submit the necessary applications, disclosures, and offering documents to obtain approvals from regulatory bodies, for example, the Securities and Exchange Commission (SEC) in the United States or the Financial Conduct Authority (FCA) in the United Kingdom.
- Support any due diligence processes conducted by the regulatory authorities by providing access to the necessary documentation and information requested by the regulators.
- Once the regulatory approvals are obtained, ensure ongoing compliance with all applicable securities laws and regulations.

5.8. Step 8 – List the Securities

- Purpose:
  - Listing the securities on a stock exchange provides liquidity and enables trading among investors. It allows institutional investors to access the securities and provides transparency and market pricing.
- Who's Involved:
  - The originator collaborates with legal advisors, accredited sponsors, and stock exchange representatives to meet the listing requirements, complete necessary documentation, and pay listing fees to list the securities on the chosen stock exchange.
  - Rating agencies may provide rating surveillance after the listing.
- How it Works:
  - Identify the stock exchange(s) where you intend to list the securitised securities and seek to understand and ensure compliance with listing requirements, including securities laws and regulations.
  - Engage a qualified listing sponsor or advisor with experience in securitisations and stock exchange listings.
  - Coordinate with the exchange to complete the necessary documentation, pay listing fees, and meet any specific criteria for listing asset-backed securities.
  - Coordinate with market makers or designated liquidity providers and facilitate interactions with market participants to ensure liquidity and trading activity for the securitised securities.
  - Fulfil any post-listing obligations specified by the stock exchange. This may include ongoing reporting requirements, timely disclosure of material information, and compliance with corporate governance standards.

5.9. Step 9 – Distribute Securities to Institutional Investors

- Purpose:
  - Institutional investors play a significant role in providing the necessary capital and liquidity for securitisation. Distributing the securities to institutional investors involves marketing the securities and generating interest among qualified buyers.
- Who's Involved:
  - Working with investment banks, underwriters, brokers, and potentially asset managers, the originator markets the securities to institutional investors. They conduct roadshows and investor presentations and facilitate the distribution and settlement process.

- How it Works:
  - Develop a distribution strategy by defining the target market and identifying institutional investors likely to be interested in the securitised securities.
  - Engage reputable and experienced investment banks, brokers, and underwriters with strong networks and expertise in securitisation and institutional sales to market the securities to institutional investors.
  - Conduct thorough research and analysis on potential investors by assessing their investment criteria, portfolio preferences, risk appetite, and regulatory constraints. Also, assess their previous participation in similar securitisations or assets.
  - Utilise the expertise of engaged intermediaries to prepare marketing materials and conduct roadshows and investor presentations to generate interest and solicit investment from target buyers.
  - Be prepared to provide additional information and conduct due diligence as requested by institutional investors.
  - Facilitate the distribution and settlement process for the securities, ensuring compliance with relevant securities laws and regulations.
  - Maintain regular communication with key investors after the distribution process and provide timely updates to the market on performance and any material developments.

5.10. Step 10 – Service and Monitor the Securitised Assets

- Purpose:
  - This step involves establishing robust mechanisms to service and monitor the securitised underlying assets. It ensures the collection and distribution of cash flows, the monitoring of asset performance, and provides investors with regular reports.
- Who's Involved:
  - Asset managers, servicers, and technical consultants are retained to service and monitor the securitised assets. They ensure the collection and distribution of cash flows, monitor project performance, and provide regular reports to investors.
  - Trustees ensure the SPV complies with the securitisation structure.
  - Rating agencies provide ongoing surveillance of the securitised assets and update their ratings as necessary.
- How it Works:
  - Set up a dedicated servicing function or engage a third-party servicer to handle the day-to-day administration of the securitised assets. This should include processes for loan administration, collection of payments, and management of borrower accounts.
  - In true sale securitisations, ensure that legal ownership of the assets has been effectively transferred to the SPV. In synthetic securitisations, monitor credit default swap agreements, collateral values, and counterparty exposures.
  - Monitor and manage the cash flows generated by the underlying assets, collect and reconcile borrower payments, and implement cash management strategies to optimise liquidity and manage any cash shortfalls or excesses.
  - Implement robust compliance monitoring processes to ensure adherence to regulatory requirements and securitisation agreements.
  - Monitor the performance of the assets, project milestones, and impact metrics and maintain proper records of payments, defaults, and other relevant data.
  - Fulfil reporting requirements to provide investors with timely and accurate information about the securitised assets and the securities' social and environmental impact.

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Palladium
MAKE IT POSSIBLE

EIGHTEEN EAST