FitchRatings

Asset-Backed Commercial Paper Rating Criteria

Sector-Specific

Table of Contents

This report updates "Asset-Backed Commercial Paper Rating Criteria," dated Feb. 28, 2022.

Related Criteria

Bank Rating Criteria (September 2022)

Global Structured Finance Rating Criteria (October 2021)

Related Research

Structured CP/ABCP Primer (ABCP Sector Expands into Structured CP; Less Reliance on Underlying Asset Performance as New Programs Increase in Relevance) (August 2021)

Scope

This report describes Fitch Ratings' approach to assigning and maintaining ratings on structured commercial paper and asset-backed commercial paper (collectively referred to as ABCP). It is applicable to fully and partially supported programs (also referred to as conduits or vehicles in this report). These criteria generally apply to ABCP programs with collateral and investment guidelines and key parties, including the vehicle's sponsor, and credit enhancement (CE) providers, liquidity providers and other parties who enter into agreements (CP support contracts) with the issuer whose commitments provide funds that satisfy the full and timely payment of ABCP.

These criteria are applied to assess the vulnerability to default of the rated securities and relate to the capacity to meet financial obligations under the terms of the securities. The rating analysis heavily relies on documentation governing these obligations. Fitch typically assigns short-term issue-level ratings to these securities; however, long-term issue-level ratings may also be assigned where the tenor of the securities is greater than one year.

Key Rating Drivers

The relative influences of the qualitative and quantitative factors described below are listed in order of importance.

Support Provider Credit Quality: The liquidity, CE and CP support contract providers' ratings are key elements in assessing the rating of the related ABCP. Support providers mitigate most, if not all, of the risks relevant to Fitch's analysis to which conduits are exposed. Short-term credit ratings assigned to ABCP will not be higher than the applicable short-term rating of the lowest rated support provider(s). Similarly, ratings assigned to long-term securities issued by conduits will not be higher than the long-term rating of the lowest rated support provider(s).

Sponsor/Administrative Agent Capabilities: ABCP programs are perpetual vehicles that issue and pay maturing ABCP on a continual basis. The sponsor/administrative agent plays a key role in managing this process. Given the importance of this role, Fitch's rating process includes a review of the sponsor/administrative agent and ABCP operations. This review focuses on credit and investment policies and management and staff, as well as an assessment of operating policies and surveillance procedures of the program.

Legal Structure and Support Contracts: ABCP conduits are structured to isolate the assets funded through the vehicle from the bankruptcy or insolvency risks of the entities involved in each transaction (asset sellers and/or originators and the sponsoring entity, among others); and to instruct counterparties to perform daily operations and establish the terms of the agreements that provide risk support to the program. Fitch reviews both program-level and, where relevant, transaction-level documentation, including legal opinions, to identify the transaction parties' obligations and their limitations.

Credit Quality of Assets: Fitch performs credit analysis on assets that introduce credit risk to the conduit. The liquidity facility, asset-specific CE, programwide CE (PWCE) and other support provided to the program influence the level and depth of the asset analysis.

Support Provider Credit Quality

Liquidity and credit support mitigate most of the risks to which conduits are exposed. Ratings assigned to ABCP are directly linked to the applicable short-term rating of the support provider, and ABCP ratings will not be higher than the rating of the lowest rated support provider (weakest link approach).

Risks posed to ABCP and covered by liquidity, credit and other support providers include, but are not limited to, the following:

- Systemic market risk;
- Maturity mismatches between the ABCP liabilities and the portfolio of assets;
- Interest rate mismatches between the ABCP liabilities and the portfolio of assets;
- Foreign exchange risk;
- Credit risk;
- Market value risk; and
- Asset-specific risks not covered by the transaction that pose risks to the conduit.

As these risks are mitigated, they are not discussed in the Credit Quality of Assets section on page 8.

Fitch categorizes ABCP programs as either fully or partially supported. In fully supported programs, all credit risks associated with the assets are borne by the support provider(s). In partially supported programs, the credit risks associated with the assets are supported by asset-specific credit support and are analyzed to determine their credit quality. *(For more information regarding asset-level analysis, see the* Credit Quality of Assets *section on page 8.)* All other risks are borne by the support provider(s).

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Liquidity Support

In the normal course of business, conduits will use proceeds from rolling ABCP, which is the process of issuing new ABCP and a portion of collections from the underlying assets to pay off maturing ABCP. However, the likelihood of timely and full repayment of ABCP cannot be precisely quantified based on cash proceeds from these sources. Timing mismatches typically exist between collections on underlying assets and payments due on ABCP, as well as systemic market risks that can compromise the conduit's ability to roll ABCP. To mitigate these risks, traditional ABCP conduits benefit from external liquidity support covering at least 100% of outstanding notes.

This liquidity support, which is available in various forms based on the related program, is critical to Fitch's ABCP rating analysis, as Fitch's short-term rating speaks to the timely and full repayment of the face amount of ABCP (interest plus principal for interest-bearing ABCP) on its maturity date. The most common support is provided by banks in the form of a liquidity asset purchase agreement (LAPA) or a liquidity loan agreement (LLA). Under the LAPA, the liquidity provider agrees to purchase the assets from the conduit and, under the LLA, the liquidity provider agrees to advance funds to the conduit, each on a committed basis.

Regardless of the type of support agreement, the program is structured with a support agreement that will cover this risk. Fitch will apply the weakest link approach for a maximum of five Fitch-rated support providers. Fitch would still apply the weakest link approach but also consider notching the ABCP's rating downward where there are more than five providers.

In addition to covering the cash flow gaps that may exist between the assets and ABCP liabilities, the liquidity facilities may provide coverage for other risks. These include, but are not limited to, interest rate, foreign exchange, market value, seller and servicer and legal risks. Certain liquidity facilities may cover for the credit risks associated with the underlying asset(s), which would render the asset(s) fully supported. If credit risks are not covered by the liquidity provider, Fitch will look for other mitigants *(see* Other Program-Level Support *on page 4)*. These programs are typically considered partially supported. The Credit Quality of Assets Section *(page 8)* discusses the funding mechanisms employed in liquidity facilities.

Which Rating to Use?

Bank Support Providers

Fitch assigns Issuer Default Ratings (IDRs) to banks at the entity level and may assign senior debt ratings at the issue level in certain jurisdictions based on applicable banking regulations. In Fitch's view, the risk profile of the ABCP is most appropriately reflected by the support provider's short-term senior debt rating, where assigned. This rating captures the protection, if any, afforded to more senior obligations, including liquidity commitments, by more junior resolution debt buffers such as EU bank senior "nonpreferred" debt or senior holding company debt.

Where the support provider is a nonbank subsidiary of a prudentially regulated banking group, the subsidiary may potentially benefit from the resolution framework governing the bank holding company. Under such a scenario, Fitch will assess the propensity of support by following the rating approach outlined in the "Uplift Within a Banking Group" section of Fitch's Bank Rating Criteria report.

The short-term senior debt rating is issue-specific, as opposed to the short-term IDR, which is issuer-specific. Not all support providers may have a short-term senior debt rating assigned. Where a short-term senior debt rating is not assigned, the applicable rating considered in the analysis of the ABCP will be based on the support provider's short-term IDR.

The short-term IDR may be increased by one category if all of the following conditions are met:

1. The support provider has a long-term senior ("senior preferred" if the senior debt class is split) debt rating assigned;
2. The long-term senior debt rating of the support provider is notched up versus its long-term IDR; and
3. The only mapping option as per the rating correspondence table in the Bank Rating Criteria, also reported on the right, is above the short-term IDR. The rating correspondence table establishes the relationship between short-term and long-term ratings.

Note that the short-term IDR will not be increased by one category where the rating correspondence table provides two short-term rating options associated with a given long-term rating, i.e. the short-term rating mappings for 'A+' through and including 'BBB'.

The following example clarifies how the method described above works for a fully supported ABCP program, considering a support provider with no short-term senior debt rating outstanding with a long-term IDR and a long-term senior (preferred) debt rating of 'A+' and 'AA–', respectively. The application of the rating correspondence table indicates that, should short-term senior (preferred) debt be issued, it would be rated 'F1+' as it is the only available option for a 'AA–' long-term senior (preferred) debt rating. Hence, Fitch can consider a rating of 'F1+' to accurately reflect the creditworthiness of the ABCP.

In cases where Fitch has not assigned a long-term senior (preferred) debt rating, the derivative counterparty rating can be used as a reference point instead, as it would be aligned with the long-term senior (preferred) debt rating. If the long-term IDR is the only rating assigned, Fitch will apply the correspondence table logic referenced above to derive the short-term rating considered in the analysis of the ABCP.

Nonbank Support Providers

Given that the overwhelming majority of nonbank support providers lack the junior debt buffers or similarly strong regulatory frameworks as banks, the process described above for banks (or nonbank subsidiaries of banks) is typically not applicable. Rather, the rating anchor used in the derivation of the rating assigned to ABCP is typically the support provider's IDR. However, the analytical team responsible for assigning ratings to the support provider(s) will be consulted to determine where the support provider's commitment to the ABCP ranks in relation to the support provider's existing ratings.

In case the identified applicable rating is a long-term rating only, the same above-described correspondence table logic will be used to derive the short-term rating considered in the analysis of the ABCP.

Rating Correspondence Table

Long-Term Rating	Short-Term Rating
From AAA to AA–	F1+
A+	F1 or F1+
A	F1 or F1+
A–	F2 or F1
BBB+	F2 or F1
BBB	F3 or F2
BBB–	F3
From BB+ to B–	B
From CCC+ to C	C
RD	RD
D	D

Source: Fitch Ratings.

Programwide Credit Enhancement

The availability of PWCE is a key component in Fitch's analysis of partially supported ABCP programs. Current market convention for partially supported programs is to include PWCE ranging from 8%–10% of outstanding ABCP or purchase commitments with a minimum floor amount. PWCE typically exists in the form of an irrevocable letter of credit (LOC), loan facility, surety bond or guaranty. In some cases, the program sponsor will hold subordinated debt of the issuer to provide loss protection once asset-specific CE has been exhausted.

PWCE is available to provide a second layer of credit protection that is fungible across the pool of assets and is considered in Fitch's analysis on a case-by-case basis. Fitch evaluates the credit quality of the assets placed in ABCP conduits to assess if they are commensurate with the rating assigned to the ABCP. If the asset analysis determines that there is a shortfall in CE, after taking into account the terms of the liquidity facility, Fitch may consider that a portion of PWCE may be available to cover the insufficiency *(see* Asset-Level Analysis *section on page 8)*. Fitch monitors the amount of PWCE used to supplement asset-specific CE in its surveillance process to ensure that there is sufficient coverage for the program.

For multiseller programs, the amount of PWCE is typically a fixed percentage of the conduit's commitment amount or ABCP outstanding. In many cases, certain highly rated assets may be excluded from the PWCE calculation because the credit quality exceeds the requisite level necessary to be consistent with the rating assigned to the ABCP. For example, a 'AAA' explicitly rated asset may be excluded from the PWCE calculation for a conduit that issues 'F1sf' rated ABCP.

Securities-backed programs limited to investing in highly rated assets (primarily 'AAA' rated securities, with a limited amount of 'AA' rated securities) may not have PWCE. Conversely, when programs invest in lower rated securities, they are generally equipped with PWCE that is dynamic and fluctuates in size based on the rating distribution of the securities.

Other Program-Level Support

In conventional multiseller programs, foreign exchange, market value risk, credit risk and other risks may not be covered by the liquidity facility but rather by other types of support obligations such as swaps, repurchase agreements, LOCS or guarantees provided by rated entities. As stated, the ratings of all support providers are considered in the rating assigned to the ABCP, and the weakest link of the support providers (or their guarantors) will be used to assign the rating.

Atypical ABCP program structures, i.e. structures other than traditional multiseller programs, may use support contracts other than liquidity asset purchase/loan agreements and PWCE to cover their risks. Examples include repurchase agreements, total return swaps and asset purchase agreements.

Sponsor/Administrative Agent Capabilities

Because of the perpetual nature of ABCP, Fitch assesses the ability of the sponsor/administrative agent to maintain ongoing operations. As part of the initial and ongoing rating process, Fitch participates in discussions with these entities that include reviews and/or updates with management and staff.

These reviews include an assessment of the management of the program, operating policies and procedures and surveillance procedures. Fitch also examines the administrative agent's information systems, including hardware and software configurations, systems capacity, report-generating capabilities, system security, data backup systems and disaster recovery procedures.

If the sponsor/administrative agent is engaged in providing credit advisory services, the scope of Fitch's review includes the parties' financial and operating history, experience in the industry, structuring capability, credit approval process and underwriting policies and procedures. Appendix A on pages 12–13 includes a list of items that Fitch will typically discuss during onsite review meetings and/or updates with ABCP issuers. Fitch may put less emphasis on the origination and credit review processes during operational reviews where the program is deemed to be fully supported. Since all credit risks associated with the assets in fully supported programs are covered by the support providers, the conduit's asset origination and credit review processes have less (if any) impact on Fitch's assessment of the credit quality and performance of the assets.

Pre- and Post-Review Status

For partially supported ABCP programs, Fitch analyzes the creditworthiness of all assets prior to their inclusion in the pool unless the sponsor has been granted post-review status. Fitch may grant post-review status to conventionally structured multiseller programs or to certain core ABS collateral types in programs of sponsors/administrators that have proven track records. Fitch considers the sponsor's/administrative agent's and support providers' ABCP program management and support history, their capabilities in managing ABCP programs, their commitment to the product and historical portfolio exposures and originations by collateral type and characteristics. These are generally very large and highly regulated commercial banking institutions that have been managing daily issuance of ABCP for several decades.

Assets that have been granted post-review status enable the sponsor/administrator to include them in the conduit prior to being reviewed by Fitch. Fitch will conduct an analysis of such assets following their inclusion as described in the Asset-Level Analysis beginning on page 8.

The rating committee will determine the level and depth of analysis performed on specific assets based on the following factors:

- The overall strength of the sponsor/administrative agent and support providers, as well as the regulatory environment to which it is subject.
- The sponsor's/administrative agent's incentives and commitment to the ABCP product as part of its overall line of business.
- The alignment of interests resulting from the support providers' exposure to the asset risks, i.e. the credit and non-credit risks borne by the support provider(s) that are not taken by CP investors. Since the tenor of the asset is usually longer than the tenor of the CP issued to fund it, and given the usual presence of a short-tail exposure under the liquidity facility, the liquidity bank will bear the majority of the credit risk, as well as other inherent risks of the asset.
- Sponsor's/administrative agent's ABCP program management history; their record of managing long-running, uninterrupted ABCP conduit platforms; their ability to manage programs through credit and economic cycles; and market-moving headline events (including disasters and news related to seller/originators).

The nature of the funded portfolio, including:

- Consistency with documented credit and investment policy.
- Asset mixes (conduits primarily funding core ABS collateral types — including but not limited to trade receivables, credit card receivables, auto loans and leases, unsecured consumer loans, equipment loans and leases, student loans and generic RMBS — less likely to be subject to full asset-level analysis).

The sponsor is expected to notify Fitch of each new asset and to furnish Fitch with the transaction documents and data for Fitch's review. Fitch analyzes the creditworthiness of assets subject to post-review status and may employ an abridged analytical approach, based on its view of the sponsor's/administrative agent's asset-specific underwriting standards.

Legal Structure and Support Contracts

Legal Structure and Asset Isolation

ABCP conduits are expected to be formed and operated in a manner designed to mitigate the likelihood of bankruptcy, whether voluntary or involuntary, and can take many forms (corporations, LLCs and trusts, among others). Bankruptcy remoteness is necessary for ABCP issuers to isolate their assets from the bankruptcy or insolvency of other entities involved with the vehicle (asset sellers and originators, among others) and to ensure that the support providers will be able to transact with and lend to the vehicle. It is important that liquidity and other support facilities are available to pay when needed, and bankruptcy or insolvency of the conduit are among the limited instances where a support provider would not be required to fund under the support agreement. For example, the liquidity provider would not be required to fund under the liquidity agreement if the conduit were bankrupt or insolvent.

Considerations related to the analysis of bankruptcy-remote entities (also referred to as special-purpose entities, or SPEs) are discussed in more detail in Fitch's research on "Global Structured Finance Rating Criteria."

Program-Level Analysis

Program-level analysis is necessary to assure that the conduit's daily operations support full and timely payment to the noteholders at a level consistent with the assigned rating. For the initial rating analysis, Fitch reviews conduit documentation, including formation documents, program-level agreements and legal opinions. The documentation establishes the duties and responsibilities of the administrative agent, issuing and paying agent and other counterparties.

The formation documents usually outline the guidelines that establish the bankruptcy remoteness of the issuer, although these guidelines may be set forth in the program-level agreements instead. The program-level agreements establish the daily operations of the conduit, payment mechanisms (including liquidity and PWCE drawing instructions), cease issuance and program wind-down triggers, credit and investment policies and counterparty guidelines. Program-level agreements are established based on the structure of the program. For typical multiseller ABCP programs, the agreements usually include, but are not necessarily limited to, an administration or management agreement (with the issuer's credit and investment policy usually attached as an appendix), an issuing and paying agency agreement, a PWCE facility agreement, a form of the liquidity agreement, other program-level support agreements and dealer agreements.

Legal Opinions

Legal opinions are expected to address the risk of consolidation of the conduit with its controlling party, the nature of various asset transfers in the transaction and the enforceability of the agreements against the issuer and the counterparties. The opinions relating to the nature of the transfers may address a true sale and/or the creation, perfection and priority of any security interests in favor of ABCP holders for those conduits in which the ABCP is a secured liability. Fitch reviews general corporate and enforceability opinions stating that the duties, obligations and agreements executed by the conduit are valid and binding, enforceable against the conduit in accordance with their terms, and may request other legal opinions depending on the terms of the contracts formulating the program structure.

Counterparty Risks

Fitch's ABCP rating process includes a review of the various agents with which the conduit contracts to obtain services in connection with the administration and operations of the program. If a counterparty presents a credit-risk exposure to the conduit, Fitch will consider the counterparty's rating to evaluate if it is commensurate with the rating assigned to the ABCP. Fitch assesses operational exposure on a qualitative basis.

Issuing and Paying Agent/Depositary

If the issuing and paying agent/depository holds the conduit's operating accounts, Fitch will review the rating requirements as specified in the transaction documents and the remedial actions upon a rating downgrade and evaluate whether the liquidity support covers any potential liquidity gaps or commingling losses in case of a default. Fitch reviews the financial stability of the institution acting as issuing and paying agent/depositary, as well as the program's documentation, to assess whether commingling risk is mitigated.

Fitch will also review the procedural peculiarities of payments to ABCP investors in case of default of the issuing and paying agent/depositary.

Collateral Agent/Security Trustee

For programs in which the ABCP is a secured obligation and a collateral agent is appointed, the agent will maintain a first priority security interest in the conduit's assets, property, rights and interests for the benefit of the secured parties, which may include ABCP investors.

Transaction Account Banks

For ABCP issuers that hold operating accounts with banks other than the sponsor, Fitch considers the ratings of the account banks. In most cases where cash is held uninvested, it may be commingled with the assets of the account bank.

Where the account bank role is fulfilled by a third party, Fitch will consider whether the account bank deposit rating (DR, where available) or its IDR is commensurate with the rating of the ABCP. Remedial actions outlined by transaction documents, such as mechanisms that reduce the length of the credit exposure to the account bank, are also considered. Where no remedial actions are in place, Fitch may be unable to assign a rating to the ABCP issued by the program. Similarly, Fitch may consider a rating action on the ABCP as part of its surveillance of existing programs.

Often program sponsors are large banks that manage the conduits, acting in several roles such as liquidity provider and issuer account bank. In this case, their short-term DR (if assigned) would be aligned to their short-term senior debt rating and therefore would not limit the maximum achievable rating for the ABCP.

Hedging Agents

ABCP conduits can often issue ABCP in multiple currencies and at both floating or fixed rate. Any exposure to currency or interest rate risk can be hedged by entering into agreements with eligible counterparties who will bear this risk.

The program's sponsor often fulfils this role. In this case, similar considerations as described in the *Transaction Account Banks* section above apply.

Where the counterparty role is provided by a third party, Fitch will look at the rating requirements under the related documentation. Should the minimum required rating be below that of the ABCP, Fitch will assess the materiality of the agreement in the program and, should the agreement be deemed as particularly relevant, Fitch may be unable to assign a rating to the ABCP issued by the program. Similarly, a rating action on the ABCP may be considered as part of its surveillance of existing programs.

Qualified Investments

If cash that would otherwise be held in the conduit's operating account may be invested in certain investments (qualified investments), Fitch will review the transaction documentation regarding the types of eligible investments. Due to the short-term nature of CP, Fitch will look to see that short-term credit ratings of the qualified investments are at least equal to the CP rating. Fitch may consider a rating action when qualified investments fall to a rating that is below the rating assigned to the CP.

Daily Operations

An ABCP program is a financial vehicle that is actively managed on a daily basis. ABCP can be issued on a daily basis and can be issued with staggered maturities so that it does not all mature on any one day. The portfolio of assets is managed in parallel, and each asset has its own payment terms and schedules. Collections are deposited as they are received and performance metrics are monitored based on each asset's reporting schedule. The program is usually managed by the program's sponsor, which in most cases is also the liquidity bank and the PWCE provider.

Issuance Tests/Wind-Down Triggers

Issuance tests and program wind-down triggers provide the investor protections if a program does not perform as expected. To address losses resulting from a deteriorating asset portfolio or the occurrence of an event that threatens the conduit's ability to repay maturing ABCP in full, ABCP programs are structured with mandatory ABCP stop-issuance or wind-down triggers. These triggers can be set at the asset or program level. If breached, any of these triggers may cause the conduit to immediately cease issuing new ABCP or begin liquidating its asset portfolio.

Issuance tests that Fitch considers in its analysis include (but are not limited to) the following as listed below. If certain tests are not present, Fitch may not be able to rate the ABCP.

- Liquidity covers the face amount of ABCP (outstanding plus any proposed additional new issuances) issued at a discount or principal plus interest payable at maturity of interest-bearing ABCP. The minimum PWCE required by the transaction documents is maintained. If the amount of PWCE is less than the floor, ABCP cannot be issued.
- All program documents are in full force and effect so that the program can run effectively.
- Funded assets are not in default or in breach of any performance triggers. Nonperforming assets would no longer be funded by issuance of ABCP and liquidity

would likely be drawn to pay maturing ABCP. The appropriate hedging is in place to mitigate any foreign exchange risk.

- The maturity of the ABCP is within the limits required by the transaction documents (typically no more than between 270 days and 397 days for U.S. ABCP and up to 364 days for Euro ABCP).
- The maturity of the ABCP is within the expiration of support contracts such as the liquidity facilities, programwide credit facility and hedging contracts.
- If the issuer or the program administrator/sponsor is subject to any regulatory, tax or accounting consequences as a result of the issuance.
- If an insolvency event with respect to the issuer has occurred.

Payment Mechanisms

On the maturity date, if there are insufficient funds from the issuance of new ABCP, collections from the assets will be transferred to cover the shortfall. If there are still insufficient funds, liquidity will be drawn upon. Fitch will look to see that the drawing instructions are in line with what is required under the liquidity agreement for timely payment to the noteholders. If there is still an insufficiency, PWCE is drawn upon next as required by the terms of the PWCE support agreement for timely payment to the noteholders. All funds are deposited in accounts held with the issuing and paying agent or depositary, pursuant to the terms of the respective program documents, and the noteholders are paid by these respective agents from these accounts.

Credit Quality of Assets

Fully Supported Assets

Conduits employing support mechanisms that provide for the full protection against credit risks are referred to as fully supported ABCP programs. The credit quality of the assets purchased and the structure of transactions entered into by fully supported programs are inconsequential to the rating of ABCP, as noteholders are relying exclusively on the support provider (usually the liquidity provider) to cover for credit risks. In these instances, asset-specific CE features benefit the liquidity provider. Since the credit risk of the asset is borne by the liquidity provider, the focus of the analysis will be on the contracts between the ABCP program and liquidity support provider that provide for the full repayment of notes.

Partially Supported Assets

Conduits that are fully protected from liquidity risk but potentially exposed to the credit risk of the underlying assets are referred to as partially supported ABCP programs. Fitch conducts asset-level analysis on partially supported assets as described below.

Asset-Level Analysis

Asset-level analysis is intended to assess whether the risks associated with each specific asset posed to the conduit are consistent with the rating being assigned to the program's issuance. For example, if a partially supported program is rated 'F1sf', the asset-level analysis would test whether individual assets are able to withstand stress assumptions commensurate with an 'A–sf' scenario. Where funded assets carry public term ratings, a rating committee will consider if the ratings are consistent with Fitch's relationships between long- and short-term IDRs

The liquidity funding formula is the starting point from which the asset-level analysis begins and will indicate whether the asset is fully or partially supported, based on what the liquidity bank will fund for. Asset-level analysis will generally be narrower in scope than a full term credit analysis and will be focused on the likelihood of defaults and losses in excess of asset-specific CE, as other risks are usually covered by the liquidity facility.

Analysis for Partially Supported Assets

Each asset placed in a conduit is typically structured with its own intrinsic CE. Asset-specific CE provides loss protection for a particular asset only and cannot be used to cover losses stemming from other assets in the conduit's portfolio, unlike PWCE, which can cover losses on any asset in the portfolio. If a program is structured with both asset-specific CE and PWCE, asset-specific enhancement usually serves as a first layer of loss protection, while the programwide credit facility serves as a second layer of loss protection.

Asset-specific CE is typically available to address the unique characteristics and credit risk of the underlying asset. It can take the form of overcollateralization, a third-party guaranty or a reserve account. Fitch applies relevant aspects of its sector criteria when reviewing asset-specific loss protections.

In partially supported ABCP-funded deals, asset-specific liquidity support mechanisms often mitigate many of the risks addressed in the criteria for a term asset analysis. When evaluating the creditworthiness of a conduit-funded asset, Fitch will apply asset analysis assumptions from sector-specific criteria. However, these will be amended to reflect the risk horizon faced by the ABCP investor and will focus on the risks that are not covered by the liquidity agreements. For example, the liquidity support for an ABCP-funded asset may fund for the outstanding amount of ABCP less the amount of defaulted assets accumulated within a specific window of time. Under this scenario, the credit-risk evaluation would focus on the likelihood of defaults within the prescribed time frame, i.e. a “short-tail” exposure.

Short-Tail Mechanism

In a partially supported liquidity facility, the liquidity bank will typically fund for performing assets, i.e. assets that have not defaulted. In many cases, the credit-risk exposure is limited by the liquidity funding formula, and a short-tail liquidity funding formula is the most commonly used. With a short-tail funding formula, the liquidity funds the value of the assets (the borrowing base) as reported prior to the occurrence of a performance trigger, subtracting the amount of defaulted assets accumulated within a specific window of time, typically 30 days. In this scenario, the CP holder is exposed only to asset defaults within the prescribed time frame (30 days in this case), and Fitch’s credit analysis will focus on the reduced exposure period.

Asset-Specific Triggers

Fitch will assess the structural protections built into the transaction agreements to protect the conduit and ABCP investors from asset-specific losses in excess of levels consistent with the rating assigned to the ABCP. Early amortization of the asset and automatic liquidity drawings are both examples of structural protections from credit-related events. Structural protections are executed when asset-specific triggers are breached. Examples of asset-specific triggers are tailored to the asset’s characteristics and include, but are not limited to, events similar to the following:

- Borrowing base deficiency.
- Deterioration of portfolio assets based on defaults, delinquencies or dilution.
- Depletion of CE to a level that is below a required minimum amount.
- Insolvency or bankruptcy of the seller/servicer.
- Downgrade of the seller’s long- or short-term credit rating below a specified level.
- Material adverse change in the seller/servicer’s ability to perform its duties as servicer.
- Default or breach of any covenant, representation or warranty by the seller or servicer.

Post-Review Assets

Fitch may employ an abridged analysis when post-review status is granted *(see* Pre- and Post-Review Status *section starting on page 5)*. The liquidity agreement is reviewed to assess consistency with the sponsor’s/administrative agent’s standard liquidity forms for the respective asset class, and performance ratios are reviewed to assess the asset’s creditworthiness and performance.

ABCP Surveillance Procedures

Fitch reviews all conduits annually. At the program level, the review involves an analysis of trends in outstanding amounts of ABCP, asset-type distributions, liquidity support, PWCE amounts and overall performance. Partially supported assets are also reviewed during the annual review process. The analyses of partially supported assets are updated, and asset performance is evaluated.

Fitch monitors all ABCP programs it rates on an ongoing basis by reviewing regular (i.e. monthly/quarterly) performance reports provided by the sponsor/administrative agent. Monthly reports typically include the following information:

- Liabilities outstanding.
- Assets added or removed from the funded portfolio.
- Amount of liquidity and PWCE available.
- Liquidity and CE counterparty names and commitments.
- Amounts and providers of hedging arrangements.
- Asset names, asset ratings (if rated), sellers and seller credit quality.
- Asset portfolio composition, which may include total commitment of conduit, amount currently invested by conduit, obligor exposure and industry- and asset-type concentration.
- Asset performance metrics such as aging schedules, collections, chargeoffs and dilutions.
- Asset-specific CE such as overcollateralization, reserves and subordination amounts.
- Whether or not program-level or asset-level triggers have been breached.
- Whether or not a program termination event has occurred.

Counterparty Exposure Surveillance

Fitch monitors the ratings of all support providers and counterparties of ABCP programs on a daily basis.

Rating Confirmations

Program administrators may request rating confirmations from Fitch based on amendments to the program-level agreements, additions of assets to the portfolio or amendments to specific assets. A rating confirmation from a credit rating agency is a written indication that a proposed limited change to a transaction, in and of itself, will not have a negative impact on the current rating assigned to the transaction. Fitch is not a transaction party and has no obligation to provide a rating confirmation. In respect of requests for rating confirmations, Fitch will continue to exercise its discretion in deciding whether a rating confirmation will be delivered.

Data Sources and Adequacy

Fitch does not have specific quantitative data needs for analyzing structural elements of ABCP conduits. It monitors all ABCP programs it rates on an ongoing basis by reviewing regular (monthly/quarterly) performance reports provided by the conduits' sponsor/administrative agents. When Fitch reviews underlying assets according to the Asset-Level Analysis section on page 8, Fitch applies elements of sector criteria and may seek data relevant to analyzing those elements as prescribed in the applicable sector criteria reports. The key rating assumptions for the criteria are informed by Fitch's analysis of the asset documents and data and information received from issuers, sponsors/administrators, other third parties, public information and Fitch's analytical judgment.

Rating Assumption Sensitivity

In the case of a fully supported ABCP conduit, the rating of the CP is linked to the rating of the lowest rated liquidity and/or credit support provider and, therefore, any change in the rating of any of the liquidity and credit support providers will be mirrored in the rating of the CP.

In the case of a partially supported ABCP conduit, the rating of the CP is capped at the rating of the liquidity and/or credit support provider. A downgrade to the rating of the liquidity and/or credit support provider will likely result in a downgrade to the rating of the CP. An upgrade in the rating of the liquidity and credit support provider will result in an upgrade to the rating of the CP only if Fitch's asset analysis supports such higher rating. In addition to the rating of the liquidity and/or credit support provided, the rating of partially supported ABCP may be negatively affected by asset performance.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on an asset-by-asset or issuer-by-issuer basis and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind Fitch's ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific asset or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria but where the analysis described in the criteria requires modification to address factors specific to the particular asset or entity.

Criteria Disclosures

In the initial rating report or rating action commentary, Fitch expects to disclose the derivation of the ABCP rating in those instances where a short-term senior debt rating has not been assigned to the related support provider.

Limitations

This report describes Fitch's approach to analyzing ABCP issued globally. Fitch assigns a rating to ABCP based on an examination of the issuing entity's structure, collateral and investment guidelines, as well as key parties involved, including the vehicle's sponsor and CE and liquidity support providers. The criteria take into account the nuances and nature surrounding regional markets and application therein, as well as legal frameworks and the availability and applicability of relevant data. This may result in potentially varying degrees of analysis and applicability and limitation thereof on a regional basis.

Ratings, including Rating Watches and Rating Outlooks, assigned by Fitch are subject to the limitations specified on Fitch's Ratings Definitions page at https://www.fitchratings.com.

Appendix A

ABCP Conduit Review Discussion Points

Business Overview

- Organizational overview and structure.
- Senior management industry experience and company tenure.
- Business strategy and conduit strategy:
  - Competitive environment for the next 12 months.
  - Forthcoming changes in regulatory and accounting treatment.
- Important strategic initiatives completed in the current year.
- Important strategic initiatives for the coming year.

Operational Overview

- Origination and structuring overview:
  - How the origination team works within the framework of the financial institution.
  - Client selection.
  - Program administrator's asset-specific due diligence process.
  - Asset-approval process and the role of the credit department.
  - Credit policy for renewals/amendments/increases.
  - Structuring goals and criteria.
  - Staff expertise and tenure.
- Conduit management overview:
  - Conduit regular (monthly/quarterly) reporting and compliance.
  - Conduit external oversight and audits — scope, frequency, findings, recommendations and management responses.
  - Seller compliance process — agreed-upon procedures and quarterly filings.
  - Asset surveillance and monitoring procedures.
  - Asset remediation process.
  - Investor relations.
  - File maintenance.
  - Staff expertise and tenure.
- Treasury operations and administration overview:
  - Conduit systems.
  - Accounting and cash management process.
  - CP funding process for new and existing assets.
  - Disaster recovery and emergency plans.
  - Staff expertise and tenure.
- Credit-risk management overview:
  - Role of credit-risk management group.
  - Asset-approval process.

- Signing authority.
- Staff expertise and tenure.

Portfolio Overview

- List of current assets, including applicable ratings — public, internal and seller ratings. Provide internal rating scale with comparison to rating agency long-term rating.
- Assets funded during the past 12 months.
- Assets terminated during the past 12 months and explanation for terminations.
- Asset type, seller industry, seller ratings, commitment amounts and CP outstanding, including:
  - Trend and percentage change from 12 months prior.
- Current industry and seller rating breakdown.
- Highlighting any particular seller and/or obligor concentrations.
- Asset pipeline.

Additional Information

- Financials of conduit for the past two years.
- Credit and investment policy.
- Policies and procedures manuals.
- Asset summaries.
- Sampling of asset surveillance and monitoring.
- Sampling of asset files to review for:
  - Consistent application and documentation of credit policies and approval processes.
  - Consistent seller review process and documentation.
  - Appropriate application of asset criteria to evaluate CE levels.
  - Appropriate hedging.