MOODY'S
INVESTORS SERVICE

RATING METHODOLOGY

Future Receivables Securitizations Methodology

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This rating methodology replaces *Moody's Approach to Rating Future Receivables Transactions* published in July 2020. We added a section that mentions our approach to evaluating environmental, social and governance considerations. We also made editorial updates to enhance consistency and readability. The updates do not change our methodological approach.

Scope

This rating methodology applies to securities backed by future receivables.

In this methodology, we explain our approach to assessing credit risks for future receivables securitizations. Future receivables securitizations may be backed by different types of receivables, including future international credit and debit card merchant voucher receivables, diversified payment rights (DPRs), future exports, or airline ticket receivables.

Rating Approach

In this section, we summarize our approach to assessing credit risk for securities backed by future receivables, including quantitative and qualitative factors that are likely to affect rating outcomes in this sector.

In our rating approach, we analyze the future generation of receivables, the originator's fundamental credit quality, the sufficiency of the future cash flows to repay investors, sovereign risk, and structural and legal characteristics

Asset Overview

In future receivables securitizations, the originator transfers receivables yet to be generated (the future receivables) to a special purpose entity (SPE). Few of the receivables exist when the SPE issues securities. After the originator transfers the right to the future receivables' payments to the SPE, investors depend on the originator's ability to generate the receivables. Investors remain exposed to the originator's credit and business risks. As a result, the ratings we assign are linked either to the local currency rating of the originator or the counterparty risk assessment (CR assessment) when the originator is part of a banking group, and such rating or CR assessment generally acts as a cap on the transaction ratings. If an entity does not have a CR assessment, we use the best alternative proxy, which we may, for example, derive from that entity's senior unsecured debt rating (or equivalent) or, in some cases, its deposit rating (or equivalent).

Investors in cross-border future receivables transactions are also exposed to the risk that the sovereign will interfere with the transaction's cash flows and the debt service payment to offshore investors. Nonetheless, some cross-border future receivables securitizations can achieve a rating that exceeds the foreign currency bond ceiling of the country in which the originator is located if the securitizations contain certain structural features.

Typical examples of future receivables securitizations, which we describe in more detail in the appendices, include: international credit and debit card merchant vouchers, diversified payment rights deals, export receivables, or airline ticket receivables.

Key Risks

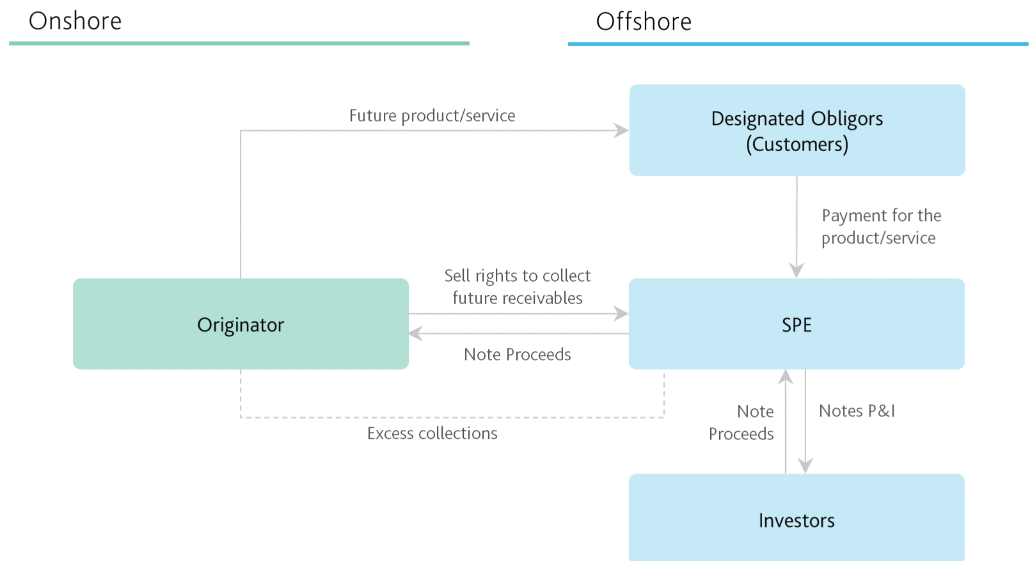
The risks and factors we consider when analyzing future receivables securitizations include:

- The future generation of receivables, including the originator's fundamental credit quality and ability to continue to generate future receivables, as measured by its local currency ratings or its CR assessment when the originator is part of a banking group.
- The strength and sustainability of cash flows, and whether, even under various stressed scenarios, they are sufficient to repay the debt issued.
- For cross-border transactions, the characteristics of the receivables and/or the transaction's structural features that mitigate the risk of sovereign interference.
- The strength and completeness of the transaction's structural and legal characteristics.

Transaction Structure

In a typical future receivables-backed transaction, an originator establishes an SPE and transfers the right to the future receivables to the SPE. In some structures, the originator does not sell the receivables but creates a security interest in the future receivables in favor of the SPE. The SPE issues securities and pays the related proceeds to the originator. The transfer of the future receivables to the SPE usually includes instructions to the receivables' obligors that they pay the receivables directly into a segregated collection account. A third-party fiduciary exclusively controls this account for the benefit of the investors. Typically, the payment instructions can change only with the written consent of the trustee acting on behalf of the investors. Exhibit 1 shows an illustrative transaction structure.

EXHIBIT 1
Illustrative Transaction Structure



Source: Moody's Investors Service

Cross-Border Transactions

In cross-border transactions, an originator generally targets ratings that exceed the foreign currency bond ceiling of the country in which the originator is located. In these cases, the SPE and the collection account into which receivables are paid are usually located in jurisdictions with local currency bond ceilings at least as high as the rating the issuer targets for the securities. Typically, receivable obligors are also located offshore. Because the obligors make receivables payments directly into the offshore trust account, the transaction cash flows will not enter the country where the originator is located during any collection period until scheduled principal and interest payments and ongoing transaction costs for the corresponding period have been paid.

True Sale vs. Secured Loan

Future receivables transactions are typically structured as a true sale or a secured loan. A true sale arrangement governs the sale of the receivables to an SPE. The true sale is generally supported by legal opinions affirming the asset sale to the SPE and confirming that the originator or transferor no longer owns the existing or future receivables. The true sale of receivables is an important structural consideration to achieve a rating commensurate with the originator's rating.

Some transactions incorporate a secured loan structure. The originator pledges its rights and interests of the present and future receivables to the SPE as security for its performance of the loan obligation. Investors are secured by the SPE's rights to the security granted by the originator. Under this arrangement, the SPE grants to the trustee a security interest in the receivables and all accounts the originator has established for the future receivables transaction, including any collection and reserve accounts.

Asset-level Analysis

In this section, we explain how we analyze the underlying assets that back future receivables securitizations and how we estimate potential losses on those assets.

Generation of Future Receivables

In future receivables-backed transactions, investors are exposed to the business and credit risks associated with the origination of receivables. If the originator fails to generate receivables at an adequate level over the life of the transaction, the SPE may not have the funds needed to repay the financing.

We assess the likelihood that the originator will generate receivables at the required debt service coverage levels and within the period required. As part of this assessment, we review data relating to the receivables and the originator's financial and operational strength. We also evaluate the commitment of the originator's management to sustaining the business and how that specific business fits in the originator's overall business plan.

We may also consider factors such as:

- The strength and breadth of the originator's branch network to back the generation of receivables.
- The market for the goods or services.
- The originator's position within the local market and its competitive advantage.
- The originator's relationships with relevant customers and obligors (for example, offshore importers, small businesses, dependents of overseas workers.)
- The importance of the originator, product or service, and industry to the national and local economy.
- Other factors that can affect the origination of the receivables.

Originator's Financial Strength

The originator's generation of future receivables depends on its ability to operate as a going concern. Even if an originator continues to operate in a bankruptcy scenario, the SPE's ownership or security interest in the securitized receivables may be successfully challenged, depending on the applicable law.[1] As a result, and unlike other asset-backed securitizations, the rating of a future receivables securitization typically does not exceed the rating or CR assessment (as applicable) of the originator.

In certain cases, obligors such as Visa and MasterCard in credit and debit card merchant voucher receivables transactions may also have the right to terminate automatically their respective agreements with the originator if the originator becomes insolvent.

If the credit and debit card merchant voucher or remittance business is a core activity of the originator, we may consider the CR assessment as the relevant reference point for our credit analysis. However, if the credit and debit card merchant voucher or remittance business is not a core activity of a bank, or if we have concerns about the viability of that specific business upon a bank failure, we will consider the bank's local currency senior unsecured debt rating (or equivalent) as reference point instead, and such rating will generally act as a cap on the rating of the securities.

1 For more information, see "Segregation of Assets" section.

Originator's Business

We evaluate business risks associated with the generation of future receivables and how those risks relate to the originator's overall operations. For example, if a transaction is backed by future receivables from a company's single business line, the viability and competitiveness of that business line are critical credit factors in our analysis. Even if the company as a whole prospers, the business line generating the receivables could become depressed because of an increase in competition.

We also consider the potential effect on the transaction of changes in demand following an originator's bankruptcy. For example, if a bank continues to operate in bankruptcy, account holders may prefer to transact with other banks. In such a case, the securitized receivables' cash flows could decline materially. If we deem this risk significant and it is not sufficiently covered by credit enhancement, we consider the bank's local currency senior unsecured debt rating (or equivalent) as the reference point instead of the CR assessment. In this case, the senior unsecured debt rating typically acts as a rating cap on the securities.

Asset Cash Flow Analysis

Historical Flows and Volatility

We analyze the projected cash flows under a variety of scenarios to ensure that the level is sufficient to repay the debt to investors with a probability consistent with the transaction's rating. For projected cash flows, we consider historical volumes to identify any trends and to determine the degree of volatility in the flows. Most importantly, we try to identify if volume trends and volatility are linked to specific events (such as local economic crises or currency devaluations, natural disasters, or strikes, etc.) or indicate strengths or weaknesses particular to the originator's receivables generating business.

Obligor Risk

The receivables backing the rated securities might not be well-diversified, and there could be obligor concentrations. In this case, we review the credit strength of the main designated obligors and their payment histories. We also evaluate transaction-specific concentration limits. If a single obligor contributes a significant portion of the cash flows, we might exclude that obligor's cash flow in our analysis or reduce that obligor's cash flow to assess the transaction's ability to withstand the loss of a key obligor. In some cases, the creditworthiness of an obligor contributing a significant portion of the cash flows will be the main credit driver of the analysis.

Sovereign Risk

The rating of cross-border future receivables transactions in emerging markets usually "pierces" the foreign currency bond ceiling of the country where the originator is located. This means that there is a likelihood the government may interfere with transaction cash flows in the event of a balance of payment crisis or a default on its bonds. We therefore assess the level of sovereign risk and the factors that mitigate it.

We generally evaluate a transaction' legal structure. We also look for political and financial disincentives that discourage a government from interfering with a transaction's cash flows, as well as the historical payment experience of these transaction types in a given country. We evaluate structural features that may reduce the likelihood that the government successfully interferes with a transaction's cash flows.

Below, we describe examples for which we expect a low probability of government interference with the future cash flows or payment redirection away from the SPE:

» The originator is a major company generating significant foreign exchange revenue, most of which comes back into the country after debt service payments. In such a case, the government might be less inclined to interfere with the transaction's cash flows because the originator is involved in transactions that generate foreign exchange income in a form that is difficult for the government to divert or control, such as cross-border credit card receivables.

» Designated offshore obligors pay hard currency to an entity or to an account outside the country, in a legal system with a satisfactory risk level. In addition, the originator notifies the obligors of its receivable sale and the related irrevocable payment instructions to an account located offshore and under the control of a trustee. The obligation of the obligors to make all payments to the SPE is governed by foreign law and subject to enforcement in the courts of that country.

» A transaction's debt service for a given period is low relative to its total cash flows during that period. In this case, the government might be less inclined to interfere if a large portion of the flows is periodically remitted back to the country. In cross-border future receivables transactions, the originator typically sets up an arrangement whereby, after using a portion of the cash flows to comply with the required debt-service coverage, the SPE periodically remits a substantial portion of excess cash flow to the originator. Any attempt by the government to divert or interfere with the cash flows would cause an accelerated payment of the securities and could potentially trigger a cross-acceleration to all outstanding issuances. Thereby, all or a substantial portion of the cash flows could be trapped in the offshore trustee-controlled account, reducing flows into the country.

» The total debt service for all future receivables-backed transactions issued out of the same country does not account for a significant portion of the country's total foreign currency obligations.

» The disruption or diversion of the delivery of the underlying goods or services that helps generate the future receivables is difficult, expensive and time consuming.

» The political and financial incentives for the government to interfere with the transaction are low.

» Where applicable, the sovereign explicitly waives sovereign immunity.

» Swaps associated with the transaction do not terminate if the government imposes foreign exchange controls.

» The transaction's legal structure is sound and enforceable as of the closing date under both the laws of the local jurisdiction and the laws governing the transaction. For true sale transactions, legal opinions confirm that the assignment of the receivables to the SPE is considered a true sale under local law and that the government cannot legally claim the assets are part of the originator's assets.

Structural features such as offshore reserve accounts or special payment mechanisms (for example, payment in kind) can mitigate transfer and convertibility risks and enable us to assign ratings higher than the foreign currency bond ceiling of the originator's domicile country.

Structural Analysis

In this section, we explain how we analyze the structural features of a future receivables securitization, including how cash flows are allocated to different classes of securities, taking into account asset cash flows and available credit support.

We analyze the transaction structure and structural protections. Below is a discussion of the main triggers in future receivables transactions.

Amortization Events

We typically use the debt service coverage ratio (DSCR) to evaluate the buffer available to investors relative to the receivables the originator generates. We calculate the DSCR by dividing the receivables amount by the maximum expected interest and principal payment on the securities using a fixed payment schedule over the transaction life.

Future receivables transactions typically have adequate DSCR levels at closing. However, investors are exposed to the risk that during the transaction life, the receivables cash flows could drop below the amounts that the SPE requires to service the debt.

To mitigate this risk, future receivables transactions incorporate event-based triggers. In the event of a breach, these triggers are intended to effect full repayment of the securities significantly in advance of the scheduled repayment date. Indeed, when such events occur, the transaction benefits from either an increase in the debt service amount due to the investors by a fixed amount (soft amortization event) or the application of a significant proportion of the cash flows to the SPE to immediately repay the securities (early amortization event).

On the other hand, an early amortization event may also, in certain scenarios, result in a cross-default of the other indebtedness of the originator. In particular this may be a concern in the case of a secured loan structure.

We generally give the same value for rating triggers that track the originator's local currency senior unsecured debt ratings (or equivalent) inserted by issuers in their deal documentation as for those that reference the originator's CR assessment.

Soft Amortization

Some structures incorporate soft amortization triggers, for example, linked to the rating of the securities. In that example, upon a downgrade of the securities' ratings below a certain rating level, the debt service on the downgraded securities increases by a predetermined multiple of the original debt service. As a result, the securities repay faster than expected. We do not give any benefit to these triggers, as they may have a negative effect on the originator's rating, hence as a result on the rating of the future receivables-backed securities.

Early Amortization

Typical early amortization triggers include those related to the level of flows or to the originator's rating. If an early amortization event occurs, the principal amount outstanding on the securities or secured loan becomes immediately due and payable to the extent that cash flows are available.

Other typical early amortization events include an obligor's exercise of its set-off rights against the originator, a decline in obligor cash flow below a specified level, a rapid and sustained decline in cash flows even if the DSCR level does not breach the DSCR triggers, or sovereign interference. When early amortization occurs, the SPE will typically allocate only a proportion of the cash flows collected (usually the amount above 50%) to repay the securities, and it must return the balance to the originator.

Automatic or Contingent Early Amortization

Structures that delay investors' receipt of accelerated payments once an early amortization event occurs increase the risk that investors won't be paid in full. In some transactions, once an early amortization event occurs, the investors' right to receive accelerated payments depends on another event, such as a vote by investors or the controlling party to accelerate payments. This additional condition delays the accelerated payments to investors and weakens the effectiveness of the early amortization event by allowing the release of additional funds to the originator instead of investors. In addition, a further decline in cash flow levels after an early amortization event exacerbates the risk of delayed payments to investors. Some transactions that incorporate contingent early amortization events mitigate this risk by immediately trapping cash flows for the benefit of investors, whereby the SPE must use the trapped cash to make payments to investors when the contingency has been satisfied and investors have voted.

Sale Rescission or Mandatory Repurchase Events

In addition to the amortization events, the SPE often benefits from sale rescission events (SRE) or mandatory repurchase events in true sale transactions. When an SRE occurs, the originator must repurchase the future receivables and make a sale rescission payment to the SPE in an amount equal to the then outstanding principal amount on the securities. SREs in future receivables transactions include:

» Breach of representations and warranties by the originator.

» Events with a material adverse effect on the originator's receivables business.

» Rapid decline in the level of the flows from the designated obligors.

» The originator's voluntary or involuntary insolvency.

» Cross-default on any other originator indebtedness.

» Non-payment by the SPE of amounts due on the notes, triggering an event of default under the notes.

An effective and enforceable SRE creates an unsecured claim against the originator and preserves the investors' rights against the originator when investors have not been paid in full because of insufficient cash flows or the default or insolvency proceeding of the originator. If a transaction lacks an effective SRE trigger, investors will not have recourse to the originator. Absent mitigating features, such as high DSCR or other types of triggers or external support to address this risk, the securities' ratings could be lower than the originator's rating.

When a country's foreign currency bond ceiling is very low relative to the securities' ratings, we might not rely fully on the SRE. The originator's ability to make the sale rescission payment is constrained by the likelihood that the government will impose a foreign-currency payment moratorium, the probability of which is linked to the local jurisdiction's foreign currency bond ceiling. However, such a moratorium would presumably last for only a specific period. Once the moratorium ends, investors could assert their unsecured claims against the originator.

Reserve Accounts

Depending on the transaction, cash reserve accounts, letters of credit or liquidity facilities are set up to cover risks associated with temporary payment disruptions, cash flow volatility or other unforeseen circumstances.

Guarantees, Insurance Policies and Off-Take Agreements.

Future receivables transactions could include other forms of credit enhancement in addition to cash flow coverage, such as guarantees from highly rated entities[2] that can be used to mitigate sovereign risk or ensure the payment of debt service to investors. Some transactions also incorporate off-takers that can guarantee the purchase of the goods under specified arrangements.

Other Considerations

Along with our asset, structural and liability analysis, we consider other quantitative and qualitative factors in our credit analysis such as transaction counterparties, legal risks, reliability and completeness of historical and portfolio data, country ceilings, and environmental, social and governance (ESG) considerations.

Legal Risks

Recourse to the Originator

In cross-border future receivables transactions, investors generally have recourse against the originator if the cash flows from the receivables are insufficient to repay the issued debt. If there is no recourse to the originator and the transaction lacks effective protection, the rating of the securities may be lower than the originator's rating.

Segregation of Assets

Investors may suffer a loss upon the originator's default if securitized receivables are not effectively segregated in favor of the SPE, regardless of whether the originator's credit card or remittance business continues. If we determine that the segregation could be ineffective and the originator is part of a banking group, we would consider the bank's local or foreign currency senior unsecured debt rating (or equivalent) as the reference point instead of the CR assessment. Such reference point usually acts as a cap on the rating of the securities.

To analyze this risk, we consider various factors including:

» Whether the courts in the country where the trust collections account is held will apply the local law of the originator as the governing law of the true sale or security interest.

» The strength of the true sale or security opinions under the originator's local or other relevant laws.

» The originator's incentive to interfere with the securitization cash flows in a distress scenario (e.g., importance of securitization financing compared to other standard debt financing, debt service coverage ratios, portion of flows flowing back to the originator, etc.).

» Structural features of the transaction that can mitigate the potential risk of the originator's creditors challenging the transaction's true sale of the receivables under the originator's local laws or other relevant laws.

» The potential interference of the government of the originator's domicile with the securitization cash flows, requiring foreign cash flows pertaining to local companies to be repatriated.

[2] For example, International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA, part of the World Bank), or Overseas Private Investment Corporation (OPIC, a U.S. government agency).

Environmental, Social and Governance Considerations

Environmental, social and governance (ESG) considerations may affect the ratings of securities backed by a portfolio of future receivables. We evaluate the risk following our cross-sector methodology that describes our general principles for assessing these ESG issues[3] and may incorporate it in our analysis.

Monitoring

In this section, we describe our approach when monitoring transactions. We generally apply the same key components as we apply when assigning ratings, except for those elements of the methodology that could be less relevant over time.

We generally apply the key components of the approach described in this report when monitoring transactions, except for those elements of the methodology that become less relevant over time such as the review of a legal structure that does not change over time. We typically receive data on transaction-specific performance that we use to monitor transactions.

The periodic performance report will show the DSCR as well as the other relevant triggers of the transaction. If the performance metrics show a significant change or trend, we undertake a more detailed review of the transaction.

Any changes to the sponsor's ratings reference point (either to the local currency rating of the originator or the CR assessment for originators that are part of a banking group), leads to a more detailed review because such a change could affect the sponsor's ability to generate new receivables, and the rating of the transaction's securities is generally linked to the rating of the originator.[4]

3 A link to a list of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

4 For example, in methodologies where models are used, modeling is not relevant when it is determined that (1) a transaction is still revolving and performance has not changed from expectations, or (2) all tranches are at the highest achievable ratings and performance is at or better than expected performance, or (3) key model inputs are viewed as not having materially changed to the extent it would change outputs since the previous time a model was run, or (4) no new relevant information is available such that a model cannot be run in order to inform the rating, or (5) our analysis is limited to asset coverage ratios for transactions with undercollateralized tranches, or (6) a transaction has few remaining performing assets.

Appendix A: Future International Credit and Debit Card Merchant Voucher Receivables

In addition to the general factors, we also consider the following when analyzing transactions backed by future international credit and debit merchant voucher receivables.

Asset Overview

The use of a credit or debit card in one country issued by a bank or other financial institution domiciled in a different country creates an international credit and debit card merchant voucher. A cardholder can use a card either to pay for goods or services or to obtain cash. A merchant voucher receivable is created each time a credit card company authorizes a transaction and transmits the transaction data. The dollar value of the receivable to the processing bank will be the product of (1) the local currency cost of the goods or services purchased or of the cash, and (2) the US dollar exchange rate applicable on the card transaction date.

The Visa, MasterCard and American Express associations act as clearinghouses for their member banks in settling receivables charged to their respective credit cards. Visa, MasterCard and American Express must pay the processing bank regardless of whether they receive payment from the bank that issued the credit card. The sale of the receivables does not affect the acquiring processing bank's right to this payment.

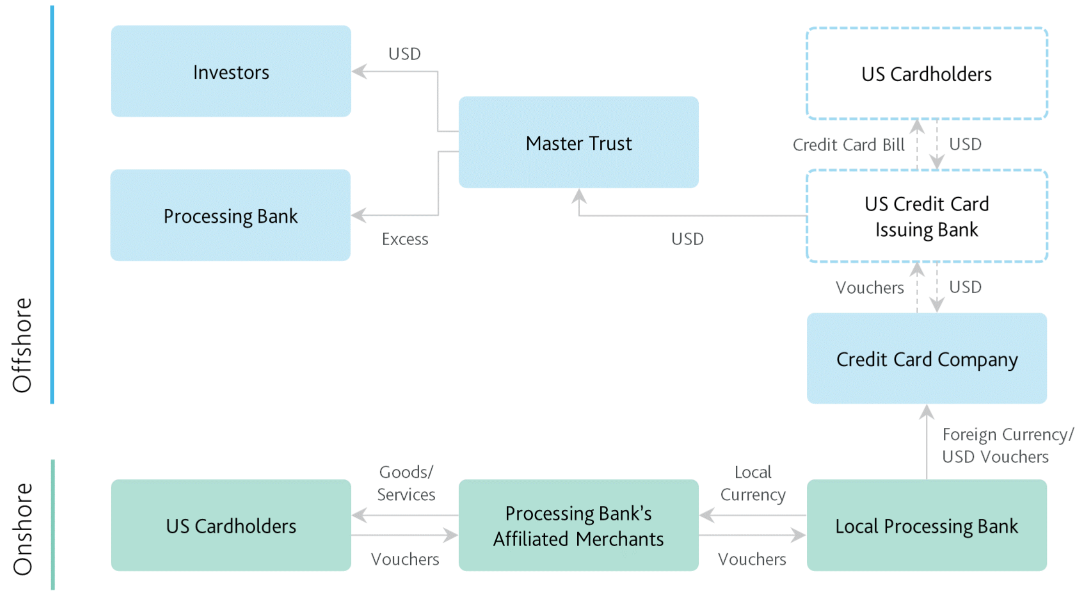
The clearinghouses do not net the receivables against amounts the processing bank (as card issuer) owes, and they must waive their right of set-off against the receivables any amounts, other than certain incidental charges, that the processing bank owes to the clearinghouses. In future receivables transaction documents, Visa, MasterCard and American Express contractually agree to remit payments they owe to a processing bank to a special account established for this purpose, usually in a highly rated offshore jurisdiction for the benefit of investors. The clearinghouses formalize this commitment by signing a consent agreement.

Transaction Structure

Exhibit 2 shows the typical structure of a future international credit and debit card voucher transaction. The receivables are generated as follows:

- A cardholder uses a credit or debit card issued by a bank domiciled in his or her country of origin to pay for goods or services, or to obtain cash in a different country (the local jurisdiction).
- The merchant where the cardholder made the purchase sells the voucher to a processing bank in the local jurisdiction in exchange for a payment, usually in the currency of the merchant's country, equal to the face value of the voucher minus the agreed-upon discount or fee.
- The processing bank that acquires the merchant vouchers transfers to an offshore SPE its rights to the future receivables of one or more identified card companies.
- The SPE issues securities and uses the sale proceeds to purchase the receivables from the processing bank.
- The processing bank directs the credit card companies to pay all receivables to an offshore account in the name and under the exclusive control of an independent, third-party fiduciary.
- The receivables are paid to the offshore trust account daily.
- The trustee sets aside the cash flow to pay the debt service, and, subject to specified performance criteria being met, pays any excess amounts to the acquiring bank (the originator of the receivables).

EXHIBIT 2
Typical Transaction Structure



Source: Moody's Investors Service

Asset Analysis

Generation of Receivables

Generation of the receivables depends directly on the use of cards issued by financial institutions at merchants that work with the local processing bank. Additionally, the payment of the merchant vouchers that generate the receivables depends on the ability of the originating bank to continue to operate. Therefore, the financial strength of the processing bank affects a merchant's decision in choosing a bank to work with.

When evaluating the receivables generation risk in future international credit and debit card voucher receivables transactions, we focus on the processing bank's ability to continue to acquire merchant vouchers from establishments that cater to foreign travelers. The three factors that most directly affect the processing bank's ability to acquire merchant vouchers are (1) the depth and breadth of a bank's branch and ATM networks, (2) the competitive environment, and (3) the quality of the bank's relationships with the credit card companies.

» **Network:** A strong branch network is important to the processing bank's continued acquisition of credit and debit card vouchers. First, a strong branch network with a sales and marketing staff enables the bank to pursue new business opportunities with merchants and to service existing clients. Second, an extensive branch network can help a processing bank increase the receivables volume it acquires from debit transactions because it can capture a greater share of cash advances through its large ATM network, for example. We also evaluate the non-branch-related ATM network, with a particular focus on size and strategic placement in locations that cater to tourists and business travelers. These factors allow the processing bank to gain solid market share in the acquisition of vouchers relating to debit cards and cash advances.

» **Competitive environment:** Evaluating the competitive landscape is also important because a highly competitive market can make it difficult for banks to maintain or increase market share. When we evaluate the competitive environment, we assess, for example, the number of the banks active in the merchant voucher acquisition business, as well as their pricing, service, technological innovation and market position.

» **Relationships:** We review the processing bank's relationships with the credit card companies. If a bank ceases operation or does not comply with certain agreements, the credit card company can immediately terminate its relationship with the bank. A potential originator insolvency, a non-compliance with obligations or a breach of representations and warranties is generally consistent with the originator's CR assessment. The rating of the securities is limited by the CR assessment of the originator.

We also consider other factors that could affect the processing bank's ability to acquire receivables. These include the processing bank's experience in the merchant voucher acquisition business, the line of business profitability, and management's commitment to the business line in the form of financial and management support.

Cash Flow Analysis

In our analysis, we identify the historical sources of the receivables, the relevant geographic regions, the types of establishments with transactions (e.g., hotel, store, restaurant, or airline), and any significant merchant concentrations. We try to evaluate any seasonality, downward trends and volatility evident in the data that could recur and jeopardize the debt service payments.

We also evaluate the importance of the travel industry to a country's economy and the factors that could negatively affect it. These include an economic downturn, political instability, and the likelihood and effect of natural disasters.

Obligor Risk

Credit card companies such as Visa, MasterCard and American Express are the obligors in these transactions. They settle the receivables charged on their cards and pay the acquiring bank the total amount of receivables, minus any incidental charges. We evaluate the credit card company's creditworthiness of the since its credit strength is very important for the performance of the transaction.

For unrated obligors, we evaluate the credit strength and any obligor-related risks. We consider the entity's duties under the transaction documents, its operating history, market share, historical relationship with the acquiring bank, the particular nature of any payment obligation and the company's ability to meet its payment obligation to the processing bank for the settlement of merchant vouchers.

We also consider structural features that mitigate obligor risk, such as an agreement by the credit card company contained in the transaction's documents that they will not net receivables against any other payments the acquiring banks owe to them. Obligors can also accept an acquiring bank's irrevocable instructions to remit payments owed to the processing banks from the receivables purchase to a special account established for the benefit of the transaction's investors.

Sovereign Risk

The factors indicating a low risk of a successful government interference include:

» The electronic and automatic authorization of a debit or credit transaction which creates receivables and limits the government's ability to interfere with their generation and terms.

- The payment obligations created at the location of the credit card company (i.e., offshore). All payments are recorded and effected through offshore accounts, except for those funds exceeding the debt service or unless approved by a fiduciary acting on investors' behalf. This settlement mechanism limits the ability of the processing bank's government to require repatriation of merchant voucher proceeds because the credit card companies are not subject to its jurisdiction.
- A credit card company's obligation to make all payments to the trust is irrevocable. Foreign law governs that obligation. The credit card companies are outside the jurisdiction and control of the government where the processing bank is domiciled, which limits the government's ability to influence the actions of the credit card companies. Failure to abide with the payment instructions could result in legal action by the investors against the credit card companies.

Appendix B: Diversified Payment Rights (DPRs)

Asset Overview

A diversified payment right (DPR) is the right of an onshore bank to receive payments from an offshore bank for a payment order initiated by a person, company or institution in an offshore jurisdiction in favor of a person or entity in the local jurisdiction. The payment order is usually initiated by overseas workers sending money to their dependents or by an importer in an offshore jurisdiction for goods or services provided by an exporting company. Sometimes the foreign currency payment order can be initiated by a payer in favor of a payee when both are in the same jurisdiction.

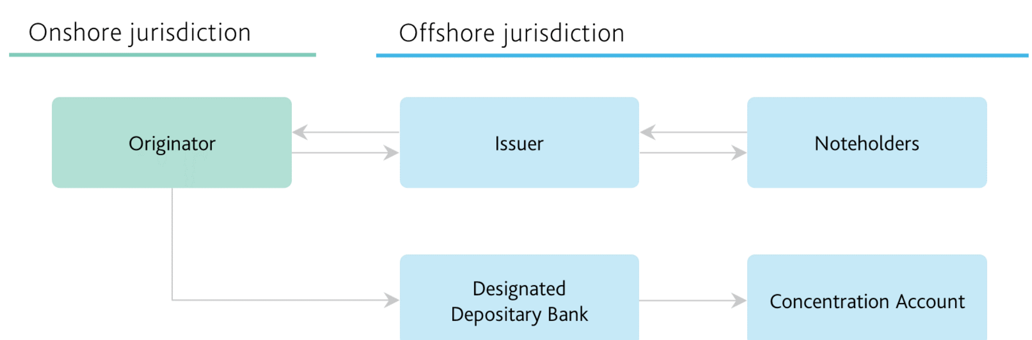
The *right* of the originator to receive the payment from the correspondent bank is separate from the *obligation* of the originator to pay the beneficiary on demand the amount credited to the latter's account maintained with the originator. Therefore, although foreign currency flows due from the correspondent bank to the originator arising from payment orders are diverted under the transaction documents to repay the securities, the beneficiaries can still expect the originator to repay, on demand, the full amount of the payment orders in the beneficiary's account.

Transaction Structure

The transaction identifies correspondent banks, which are those that generally maintain business relationships with the originator. The originator appoints a number of correspondent banks, or designated depositary banks (DDBs), which process a high percentage of the flows. Each DDB signs an acknowledgement agreement pursuant to which it must deposit the proceeds of the DPR flows in a concentration account in the name of the issuer (under the control of the trustee). We discuss the importance and relevance of DDBs in the context of a DPR transaction in the "Sovereign Risk" section below.

Exhibit 3 shows the typical structure of a DPR transaction.

EXHIBIT 3
True Sale Structure for DPRs



Source: Moody's Investors Service

Asset Analysis

Generation of Receivables

The future generation of DPRs that back the securities depends primarily on the remittance business' continuity and the originator's requisite operational and financial strength. We consider the originator's CR assessment to evaluate its ability to maintain its operations and remittance business. In our analysis, we consider the size and importance of the remittance business for the bank, DPR processing systems and other factors such as the bank's branch network, its market position and reputation.

Cash Flow Analysis

We typically compare the originator's historical DPR volumes to those of other institutions and the country. We determine whether trends in the originator's DPR volumes reflect the general economy or whether they indicate strengths or weaknesses particular to the originator's DPR business. We also examine the source of the originator's DPR business and consider how this factor influences DPR volumes. When we calculate the DSCR, (1) we only include flows from the DDB, and (2) barring mitigants, we consider that certain flows could be less immune to government interference.

Sovereign Risk

OFFSHORE DIVERSION OF CASH FLOWS

DPR cash flows can be diverted from the local jurisdiction by requiring payments from the offshore depository banks to be made directly into an SPE's offshore account. We assess the likelihood that a government has a residual ability to control the DPR cash flows and whether this likelihood is consistent with the desired rating. We consider the likelihood that transaction parties will comply with local authorities' orders while breaching transaction documents. If the repayment of the securities denominated in a foreign currency is protected from government interference, the rating we assign can pierce the local jurisdiction's foreign currency bond ceiling and, subject to other analytical aspects, achieve a level equal to the originator's CR assessment.

ROLE OF THE DDBs

The SPE typically enters into account agreements with the relevant DDBs to facilitate the process of depositing the DPR cash flows into an SPE account. The DDBs sign the account agreements and acknowledge the assignment of the future receivables to the SPE. Additionally, the DDBs deposit future receivables payments they receive on behalf of the originator directly into the SPE's designated offshore account. DDBs that are party to DPR transactions are often highly rated institutions with a considerable market share in processing foreign-currency-denominated payment orders.

DDBs also often forfeit any right to set-off against these flows any payments that the originator could separately owe to the DDB and also agree to take instructions only from the trustee with respect to the disposition of the DPR collections. Transactions often benefit from a trigger based on a minimum percentage of the flows the DDBs need to process because a decrease in these flows is detrimental to the SPE issuing the notes. If the flows a DDB processes fall below a minimum percentage, the originator must procure another bank.

The SPE will use the collections it receives in its offshore account to make the debt service payments. The SPE will pay any surplus to the originator. If the surplus is considerable, a government does not have an incentive to interfere because government interference triggers the trapping of cash flows offshore.

ONSHORE FLOWS

When both are located in the same jurisdiction, foreign-denominated payment orders can be generated by payers in favor of payees. These payment orders are denominated in a foreign currency and the relevant offshore DDBs can typically settle these payments. Notwithstanding the structural mechanism to divert cash flows from a jurisdiction, such onshore foreign-currency-denominated payment orders (onshore flows) are exposed to government interference. Although we do not exclude these flows completely from our analysis, we limit the benefit for onshore proceeds when we assess DSCR triggers. The foreign currency bond ceiling of a given country largely determines the proceeds we can attribute to onshore flows. If the originator is in a country with a low foreign currency bond ceiling, we give limited benefit to the flows in a DPR transaction.

PAPER VS. ELECTRONIC PAYMENT ORDERS

Because governments can divert paper payment orders and proceeds, we cannot assign ratings to securities above the foreign currency bond ceiling of the originator's country solely backed by future paper payment orders, unless there are strong reasons for government noninterference. The likelihood of interference could be low, depending on the relationship between the country from which the payment orders are sent and the country receiving them (for example, the United States and Mexico).

It is more difficult for a government to divert electronic payment orders than paper payment orders because no payment order instrument needs to enter the local jurisdiction. To divert the proceeds of electronic payment orders from a DPR transaction, a government must identify the offshore correspondent banks that are the source of the electronic payment orders. The government also must either convince these banks to (1) disregard their contractual obligation to pay the DPR cash flows to the SPE, or (2) replace the correspondent banks with other banks that remit proceeds to a government account.

Appendix C: Future Export Receivables

Asset Overview

Export receivables are generated when an exporter, generally in an emerging market country, sells products abroad. Each time the exporter sells products to clients, a receivable is created under mutually agreed-upon conditions, including payment terms.

Transaction Structure

There is no typical structure for future export receivables securitizations. Some transactions are structured as sales. In this case, the exporter sells the receivables directly to the SPE. In other transactions, the exporter assigns a security interest in the receivables and retains ownership. Some transactions contain third-party guarantees to ensure the product supply or the debt service if the cash flows are not sufficient to repay the securities. Some transactions are structured as forward sales in which the originator sets the price and delivery of a specified amount of product at closing. These types of transactions usually include an "off-taker," an entity that commits to purchase the product under specified terms during the transaction's life.

Asset Analysis

Generation of Receivables

The originator's global local currency rating is important to determine its ability and willingness to produce goods and services and generate receivables. Our analysis focuses on a detailed understanding of the products, industry, competitive and financial position of the company, and its liquidity. We also review other factors, such as its strike history, that could jeopardize its ability to generate receivables.

Cash Flow Analysis

We review historical volumes and cash flows to determine situations that could negatively affect the originator's receivable volume and the cash flows payable to the SPE. We assess sensitivities using various scenarios, stressing different variables such as production, demand, prices and the economy, as appropriate, to ensure that the debt service coverage levels are sufficient to repay investors. To derive the expected values, we work with industry experts. Our expectations will include actual and forecast price levels and production volumes.

Obligor Risk

Our analysis considers the number and diversity of obligors, their financial strength and their credit quality as reflected in their ratings or in our internal opinion of their credit quality. We also review a transaction's obligor concentration limits. If one obligor is the primary source of a transaction's flows, the rating of the securities will correlate more closely with that obligor's financial and operating strength than if there are multiple obligors. We further review obligors' payment history because we assume that even highly rated obligors do not always pay their trade receivables on time. Finally, we consider obligors' business relationships with the exporter, including the nature, terms and duration of any pre-existing contracts or business arrangements. Long-term business relationships can strengthen and add stability to the transaction.

Market and Price Risk

Our market risk analysis considers the product demand abroad and in the domestic market, as well as the exporter's ability to meet that demand. We evaluate the competitors, as well as the strength of the domestic market to assess the risk that the exporter may be forced to sell the product in the domestic market.

We also evaluate whether there is a strong spot market for the product. If the spot market for a particular product is strong, the exporter could find it economically advantageous to divert the product to the spot market. In this case, a government may have more incentive to interfere with the cash flows if the receivables are sold in the spot market because these flows can go back to the country instead of being captured offshore.

We evaluate historical sales prices for products and levels of price volatility and cyclicality in the industry. We review mitigants such as hedging or a price floor for a particular product. Long-term contracts that establish prices in advance can also mitigate price risk and could even be a credit positive.

Sovereign Risk

Our analysis considers the economic factors that would discourage the sovereign from interfering with the transaction's cash flows or products, as well as historical experience in the payment of these or similar types of transactions in a given jurisdiction

Some of the factors that indicate a low risk that a government will interfere in the future export receivables or redirect payments away from the trust of a transaction include:

- A determination that the government considers the exporter as strategically important to the country and the local economy.
- Existence of a notice of the sale to the exporter's customers including notification of irrevocable payment instructions to an offshore account under the control of the trustee.
- Existence of an arrangement whereby the payment of the export is remitted to an offshore account under the control of the trustee.
- Existence of an arrangement whereby a substantial portion of excess cash flow is remitted back to the exporter periodically after the issuer has used a portion of the cash flows to comply with the required debt service coverage.
- Any other characteristics of the product or the market that might make it impossible or impractical to divert the product to customers who are not obligated to pay into the trustee collection account.

Moody's Related Publications

Credit ratings are primarily determined through the application of sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector credit rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. A list of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

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