

ABCP Programs

1. Overview of the products

ABCP (Asset backed commercial paper) is a type of CP issued by SPCs (special purpose companies), which is backed by assets that are typically financial claims. In general, many of the ABCP programs currently operating in Japan were established by banks and other financial institutions for the purpose of purchasing financial claims and other assets held by their client companies.

2. General scheme

ABCP programs in which a financial institution becomes a sponsor and many client companies become asset sellers are called multi-seller programs. In contrast, there is a format called the single-seller program, in which a specific company founds an SPC only for the purpose of transferring its assets and issuing ABCP.

Assets to be purchased by SPCs vary depending on the program, which are wide-ranging. ABCP issued by SPCs is a means to finance a purchase of such assets, which are often short-term financial assets that include accounts receivable, notes receivable, lease payments receivable, healthcare receivables and a proxy right to receive loans from the Japan Housing Finance Agency. In some cases, the SPC purchases the asset in the form of beneficial interest of trust.

Like in other cases of securitization, the SPC itself is established to be “bankruptcy remote” from the sponsor and sellers. While, in general, a Cayman-Islands company or its Tokyo branch often becomes the issuer, in some cases, a joint-stock company in Japan is the issuer.

Currently, most ABCP issued in Japan are provided credit enhancement and liquidity support for the entire amount by sponsors (fully supported).

3. Key analytical points

Rating fully-supported ABCP is basically linked to the rating of the sponsor that provides the backup line. The key analytical points center on carefully examining the bankruptcy remoteness of the SPC itself and the contractual terms that facilitate efficient and timely supply of liquidity and credit enhancement necessary for the redemption of ABCP.

4. Documents required

- (1) Term sheet for ABCP
- (2) Documents related to the foundation of SPC
- (3) Contracts for liquidity and credit enhancement for ABCP (backup line agreement, etc.)



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Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza,
Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026
