



Securitisation case studies by Vinod Kothari

ICI CI 's first Indian CDO

First Indian CDO

Though securitisation has been in place in India over last 6 years or so, there has been no CDO/ CLO

There have been several loan sales by financial institutions. ICICI's CDO (roadshows started in Feb second week) is the first CDO/ CLO in India.

Called Indian Corporation Collateralised Debt Obligation Fund.

It is a balance sheet CDO, consisting of a pool of bonds, PTCs held by ICICI.

Capital relief could not be the purpose: if capital regulations as in BIS are applied, the deal will lead to capital erosion.

In terms of the distribution schedule, it is essentially a pass-through structure - reinvestments only if bondholders opt for growth plan

Use of mutual fund as CDO vehicle

Mutual fund is certainly the most efficient possible SPV for a CDO:

- avoids any withholding tax by obligor
- no tax on the vehicle
- distributions suffer 10% dividends tax
- no tax on the unitholders

But it creates an enormous tax haven in the system

Taxable incomes become tax free (other than dividends tax) : the originating institution paying tax before, now earns tax free income

Nothing stops the originator from repackaging his own portfolio into units through the mutual fund and hold them tax free

The interest on debt paid by the obligors gives them 38% tax relief, distribution of the same taxable only 10% - a 28% tax shelter

Not merely bonds, even loans have been indirectly made tax free:
existing loans first securitised
PTCs thereafter re-securitised
because mutual funds cannot buy loans, but can buy PTCs

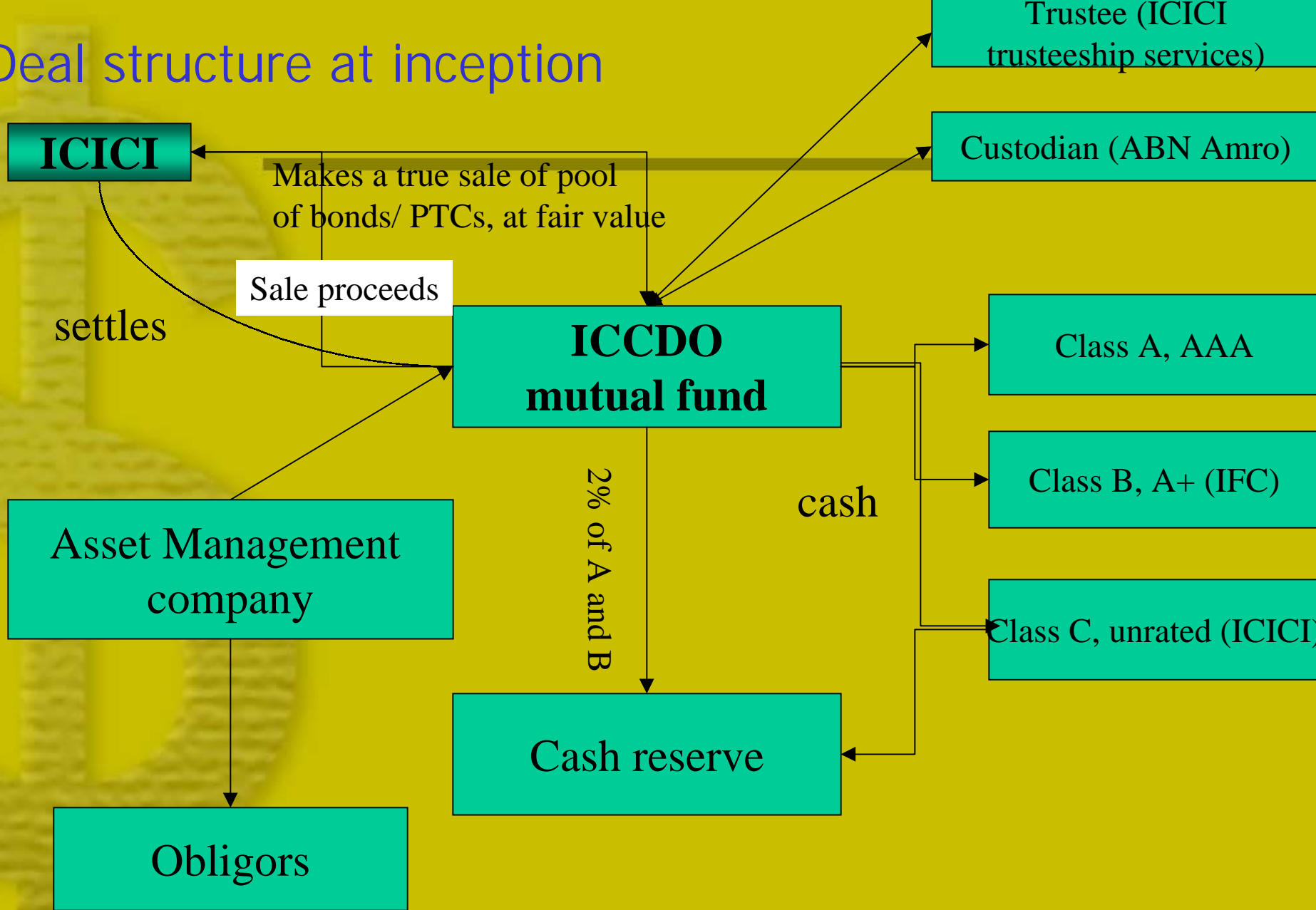
India's leading financial institution.

Proposed merger with ICICI Bank approved by shareholders; pending approval of the RBI.

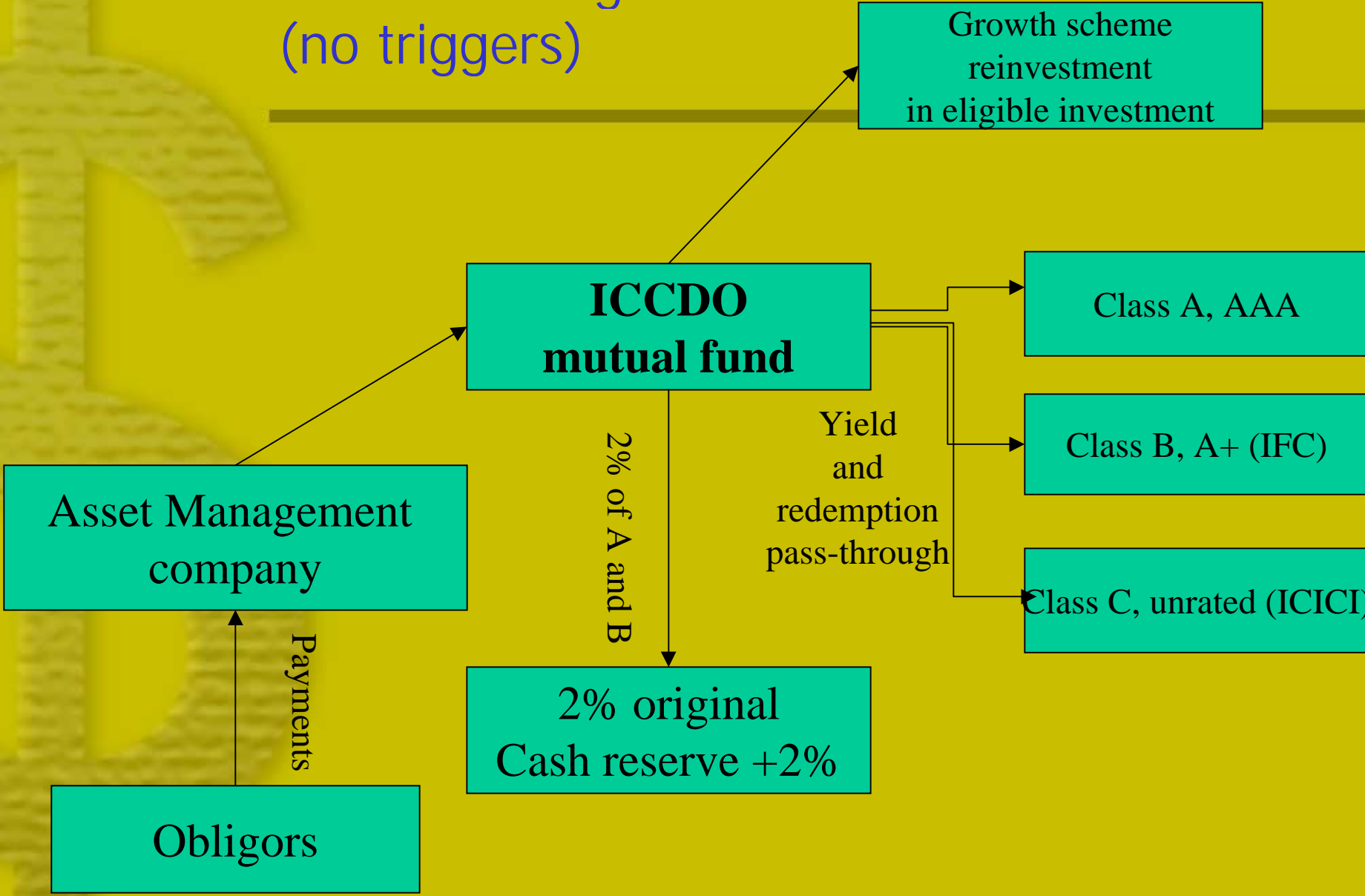
On merger being effective, ICICI will be the second largest bank in India.

Asset base after merger to be Rs. 950 billion (USD 20 billion approx.)

Deal structure at inception



Deal structure during term (no triggers)



Main features

ICICI to transfer portfolio (19 obligors) at fair value

Stated maturity: 6.25 years

weighted average maturity: class A

class B

class C

cash collateral of 2% immediately

to go upto 4% before any distribution to C

schedule of redemption of classes mirrors the expected cashflows into the scheme

class C recipient of all residual cashflows:
equivalent to economic equity

Triggers

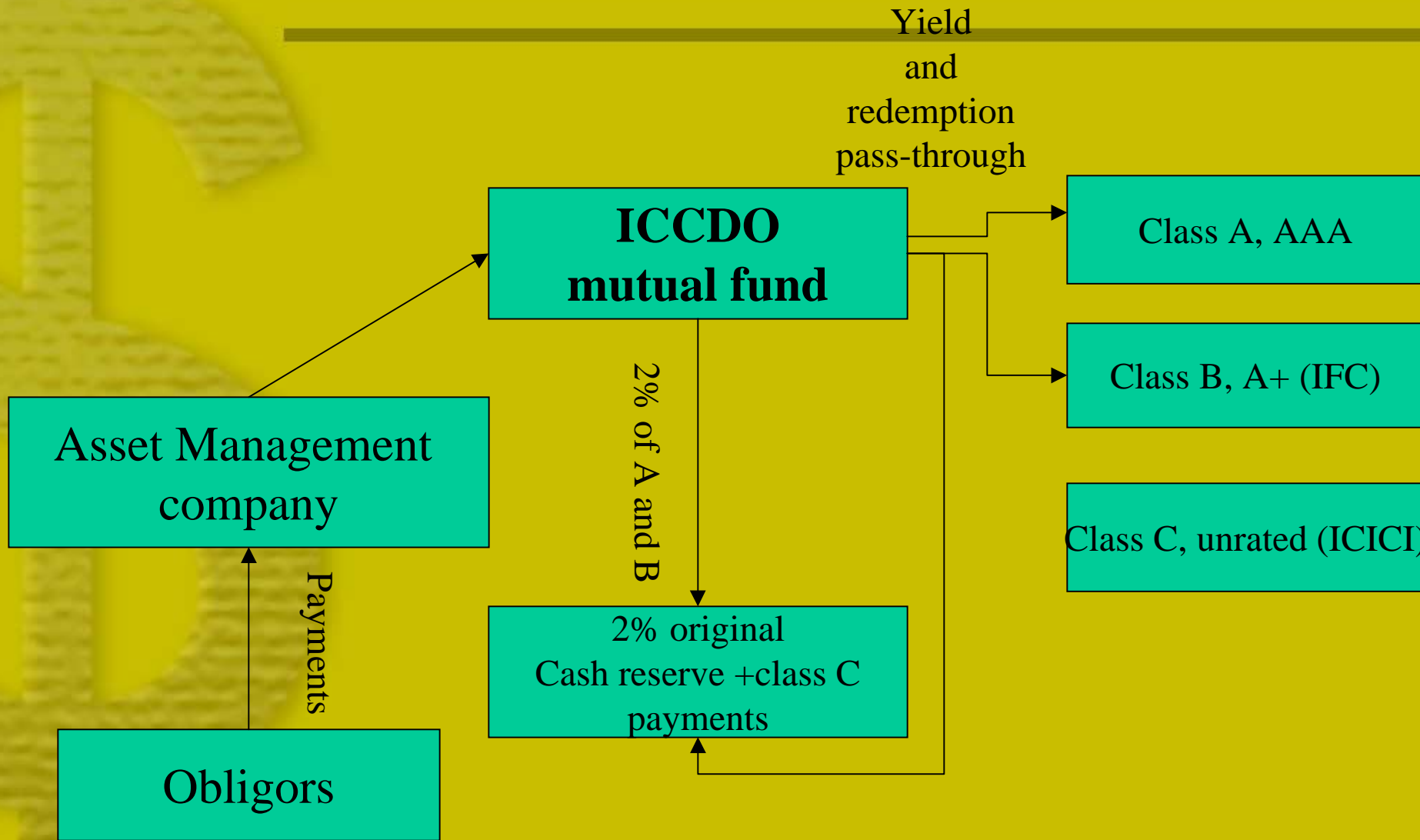
Early warning trigger: if an early warning trigger takes place, all scheduled payment to class C will go into Reserve

If the cashflows into the CDO fall below 120% of amounts due to Class A and B.

Sequential redemption triggers: all cashflows will be used to pay off sequentially class A and B before any payment is released to class C

If the cashflows into the CDO fall below 101% of the amounts due to Class A and B

Deal structure during term (early warning trigger)



Regulatory considerations

Independence of the SPV from the originator: the trustee is an affiliate; ICI CI is the settlor

No equity participation: Class C is residual economic interest; is economic equity

Management: AMC is an affiliate

If class C is transferred to affiliates of ICI CI: for regulatory purposes, a direct or indirect equity participation is considered

Accounting considerations

True sale? Yes

Transfer of portfolio at fair value? Yes

Transfer to a qualifying SPV : perhaps not.

Is the beneficial interest in the SPV transferable: yes

Is there a buyback option retained by seller: not apparent. On adverse tax events, portfolio to be auctioned

Any servicing rights with the seller: no

Any other control of the seller: not apparent.

Hence, off balance sheet treatment: yes

Accounting for Class C: is credit sensitive, prepayment sensitive class. Value to be reviewed each reporting period on fair value basis.