



Structured Finance

Guaranteed Offshore Liquidity Facility (GOLF)

HIGHLIGHTS

- Credit enhancement mechanism for cross-border securitizations
- Provides a liquidity guarantee to cover currency control-related payment disruptions
- Allows securitizations to pierce the currency control risk ceiling that may constrain transaction credit ratings
- For summaries of completed transactions, please visit www.ifc.org/structuredfinance

PRODUCT DESCRIPTION

IFC offers a credit rating enhancement product designed for use in cross-border securitization structures whose debt service-related cashflow could be impacted by government-imposed currency transfer and convertibility (T&C) controls. The IFC Guaranteed Offshore Liquidity Facility (GOLF) allows an onshore originator of assets to cover the T&C risk of a securitization in a cost-effective manner that provides benefits to both originators and investors.

Currency (T&C) risk can negatively impact the performance of a cross-border transaction by restricting the ability of onshore entities to convert domestic currency into foreign currency and/or transfer foreign currency abroad. For emerging market securitizations in which a Special Purpose Vehicle (SPV) funds a purchase of local currency-denominated domestic assets with the issuance of offshore foreign currency-denominated liabilities, the existence of T&C risk can lead rating agencies to cap the rating of one or more of the SPV liability note classes. This capped rating may be lower than the rating that otherwise would be attainable given the credit quality of the domestic securitized asset pool. The IFC GOLF allows securitizations to pierce this currency control risk cap and achieve the maximum rating possible.

HOW IT WORKS

- A guaranteed offshore liquidity facility (GOLF) is established, but not funded, at the time that the transaction closes.

- Should a transfer and convertibility event (TCE) occur, cashflow generated by the securitized assets will be trapped in an onshore escrow account for the duration of the TCE.
- The originator would have an obligation to fund the GOLF upon the occurrence and continuation of a TCE. The originator's maximum funding obligation during a TCE will be the lesser of: (i) an amount sufficient to cover senior expenses and interest payments on the covered SPV note classes for the estimated duration of the TCE or, (ii) the cashflow generated by the securitized assets within the estimated duration period.
- The estimated maximum duration of a TCE is determined by the rating agencies.
- If the originator is unable to fulfill its obligation to fund the GOLF during a TCE, IFC would make the necessary payments on its behalf.
- Upon termination of a TCE, repayment of any disbursements made under the IFC guarantee would be made from the balance of the onshore escrow account and available transaction cashflow.

- IFC would also retain recourse to the originator for any amounts disbursed under its guarantee but not repaid through the available transaction cashflow.

WHEN IS IT APPLICABLE?

A key advantage of GOLF for both originators and investors is the cost-effective credit rating enhancement that may be obtained through the mitigation of rating-constraining T&C risk. The provision of this high quality facility guarantee allows the rating of covered notes issued by a transaction SPV to rise to a level consistent with the credit quality of the portfolio and transaction servicer, unconstrained by T&C risk. GOLF is, therefore, a potentially useful product for cross-border existing asset securitizations whose SPV-owned assets reside in an emerging market but whose SPV liabilities are serviced outside of this jurisdiction.

BENEFITS

For Originators:

- Reduction in all-in pricing on a securitization due to the higher rating of the covered note classes without the need for political risk insurance (PRI).
- Potentially broader and deeper investor base for the SPV notes, particularly if the TCE mitigation allows covered notes originally rated below investment grade to achieve an investment grade rating.
- Cost-effective.
- Easy incorporation into transaction documentation.

For Investors:

- No waiting or evaluation periods of the type typically associated with political risk insurance policies.
- A guarantee from an entity (IFC) rated triple-A by both Standard & Poor's and Moody's Investor's Service.
- Higher quality investment.

