Securitisation

What do you do when your Finance Director returns from lunch with the investment bank and announces that the company has agreed to refinance its borrowings with a securitisation?

An increasing number of treasurers are being faced with this news, as the bankers find ever more ways to apply this technique for corporate finance.

In recent years *The Treasurer* has carried descriptions of the basic structure, different types of transactions, and more recently a discussion about some of the drawbacks, by Gill Rowe and myself (Letters – October 2000). In February, Standard and Poor's sponsored a Symposium for the ACT, which succeeded in presenting a balanced view of the advantages and disadvantages, and the purpose of this Spotlight is to illustrate areas where securitisations can be useful, as well as looking at some other aspects.

This Spotlight starts with an overview of the benefits, provided by **Steve Din** of Morgan Stanley summarising, what is agreed by all involved, a complex structure.

No treasurer should miss the contribution by **Mark Daley** of Berwin Leighton which considers 'Who is looking after the corporate's interest'. In particular, it emphasises the importance of understanding the full implications and potential risks of the process, and the commitment required not just from the corporate financial management, but from line managers and other professional advisors, such as the auditors. It also describes the other parties who are usually required to contribute to a successful transaction.

Something which is not often discussed, is that the technique freqently requires a significantly increased level of reporting, and the response of software suppliers to this aspect is addressed by **Tim Nicolle** of Demica.

Rating agencies can play a key role by providing an independent evaluation of the security of the debt being issued, and **Karen Naylor** of Standard & Poor's describes the process and the active participation of the ratings agencies.

Turning to individual examples of how the technique is applied, **Graham Wood** describes how Powergen describes how they securitised its receivables, including its planning of the process prior to their selection of the arranging bank, and then how they worked with that bank.

The technique has proved to be especially suitable for realising value from cashflows, such as receivables by Powergen, music publishing rights by Chrysalis, which is described by **Robert Horowitz** of the Royal Bank of Scotland. It has also proved to be useful for raising borrowings secured on an entire business, as in the case of Ranks Hovis McDougall, by **Jonathan Laredo** at JPMorgan, and even for acquisition finance, illustrated by **Chris Moore** of Deloitte and Touche.

So, before your Finance Director next visits your investment bank, make sure that you are both briefed on the main aspects of securitisations – both the advantages and disadvantages. ■

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