

Media Release

Rating On Class B Notes Of Standard Bank CBO 2007-1 Placed On CreditWatch Negative

May 17, 2019

Overview

- The repayment of the current outstanding balance of the Class B notes primarily relies on the expected refund of a withheld interest income tax (withholding tax) from the Taiwan tax authorities. The withholding tax relates to an underlying bond that matured in late 2017.
- Despite an independent tax analysis based on an explanation from the tax authorities that supports the expectation of the aforementioned refund upon transaction closing, the trustee has been unsuccessful in obtaining the tax refund to-date.
- While we believe the trustee will continue the effort to obtain the tax refund per the transaction documents' mandate, there is a risk the trustee may not obtain a full refund in time to help fully redeem the Class B notes by the notes' legal maturity date. We are therefore placing the 'twAAp (sf)' rating on the Class B notes on CreditWatch with negative implications.

Rating Action

Taiwan Ratings Corp. today placed its 'twAAp (sf)' rating on the Class B notes issued by **Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust** (Standard Bank CBO 2007-1) on CreditWatch with negative implications.

Rationale

The rating on the Class B notes is currently weak-linked to the lower of the rating on Taiwan sovereign (unsolicited; AA-/Stable/A-1+ assigned by S&P Global Ratings) with reference to the refund of a withholding tax and the rating on **Land Bank of Taiwan** (twAA/Stable/twA-1+) in its capacity as bank account provider. The CreditWatch action reflects the increasing possibility that the transaction may not obtain a full refund of the withholding tax from the relevant tax authorities in time to fully redeem the Class B notes by the transaction's legal maturity date on Dec. 15, 2019. The refund of the withholding tax is the primary payment source for the current outstanding balance of the Class B notes.

The withholding tax relates to a pre-paid income tax on the deemed interest portion of an underlying bond issued by KGI Bank, which matured in late 2017. At the closing of the transaction, there was an independent tax analysis based on a tax explanation from Taiwan's tax authorities, which supported a full refund of the withholding tax in a prevention of double taxing on the trust income. The expected refund of the withholding tax represents about 2.6% of the initial principal amount of the Class B notes, and slightly higher than the current outstanding balance of Class B notes.

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However since initiating the tax refund process in March 2018, the trustee has been unsuccessful in obtaining the refund of the withholding tax to date. While we believe the trustee will continue the effort to obtain the tax refund per transaction documents' mandate, there is a risk that the trustee may not obtain a full refund in time to help fully redeem the Class B notes by the notes' legal maturity date.

Land Bank of Taiwan acts as the bank account provider in this transaction. According to the transaction arrangement, the proceeds of the expected tax refund shall be deposited with Land Bank of Taiwan, and be used to pay down the notes on the immediately following principal repayment date. As such, we decide to weak-link the rating on the Class B notes to the rating on Land Bank of Taiwan, given that the invested amount represents a significant portion of the remaining assets and any decline in the creditworthiness of the bank could result in corresponding credit deterioration of the Class B notes.

We believe quantitative loss assumptions and the respective sensitivity test are not applicable in this transaction because the rating on the Class B notes is weak-linked to the lower of the ratings on Taiwan sovereign and Land Bank of Taiwan.

An agreed-upon procedure is adopted for the independent data check by an independent accountant. We believe the information provided to us for ratings analyses has been reviewed according to this procedure. As a rating agency, we do not conduct separate due diligence checks on the data or information received.

We will resolve the CreditWatch status of the Class B notes within the next 90 days based on the progress of obtaining the withholding tax refund. We could resolve the CreditWatch status and affirm the 'twAAp (sf)' rating on the Class B notes if there is certainty that the transaction shall obtain the refund, and the amount is sufficient to help fully redeem the Class B notes by the legal maturity date of the transaction. Conversely, we could resolve the CreditWatch status and lower the rating on the Class B notes by multiple rating categories if there is increasing uncertainty for the transaction to receive the withholding tax refund in time, or we believe that the refund will not be not come with sufficient amount to help fully redeem the Class B notes by the notes' legal maturity date.

Related Criteria & Research

Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com, June 26, 2018
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, December 19, 2014
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, October 9, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, October 9, 2014

Related Research

- Guidance | Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Assessing Credit Quality By The Weakest Link, February 13, 2012

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

CreditWatch Action

To

From

Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust

Class B

twAAp (sf)/Watch Neg

twAAp (sf)

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