

Media Release

Rating On Class B Notes Of Standard Bank CBO 2007-1 Lowered; Off CreditWatch

August 14, 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 so far been unsuccessful in obtaining the tax refund since initiating the tax refund process in early 2018.
- In our view, there is at least a 50% likelihood that progress on the tax refund application will remain limited in the next four months and that the Class B notes may not be fully redeemed by the legal maturity date.
- We are therefore lowering the rating on the Class B notes to 'twCCCp (sf)' from 'twAAp (sf)'. We are removing the rating from CreditWatch with negative implications where we placed it on May 17, 2019.

Rating Action

Taiwan Ratings Corp. today lowered its rating on the Class B notes issued by **Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust** (Standard Bank CBO 2007-1) to 'twCCCp (sf)' from 'twAAp (sf)'. At the same time, we removed the rating from CreditWatch with negative implications where we placed it on May 17, 2019.

Rationale

The downgrade of the Class B notes reflects the increasing risk that the trustee may not obtain a full refund in time to fully redeem the Class B notes by the notes' legal maturity date on Dec. 15, 2019. This is because the prolonged tax refund process has shown no significant progress since March 2018 when the trustee began the process. In our view, whether or not the trustee can get the full refund in time to repay the Class B notes is now dependent on meaningful advancement of the tax refund process before the legal maturity date. We assess at least a 50% likelihood that progress on the tax refund application will remain limited in the next four months, and that the Class B notes may not be fully redeemed by the legal maturity date. 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 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

PRIMARY CREDIT ANALYST

Joe Lin
Taipei
+886-2-8722-5856
joe.lin
@spglobal.com
joe.lin
@taiwanratings.com.tw

SECONDARY CREDIT ANALYST

Caroline Shih
Taipei
+886-2-8722-5859
caroline.shih
@spglobal.com
caroline.shih
@taiwanratings.com.tw

refund of the withholding tax to be about New Taiwan dollar (NT\$) 71 million, which is slightly higher than the current Class B notes' outstanding balance of about NT\$69 million. The original outstanding balance of the Class B notes was NT\$ 2.75 billion, and about 97.5% of the notes has been paid down.

In our view, quantitative loss assumptions and the respective sensitivity test are not applicable in this transaction because the rating on the Class B notes is primarily driven by the tax refund process in the remaining transaction life.

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.

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
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, October 1, 2012

Related Research

- 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

Downgraded

	To	From
Standard Bank Cash Flow CBO 2007-1 Special Purpose Trust		
Class B	twCCCP (sf)	twAAp (sf)/Watch Neg

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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