



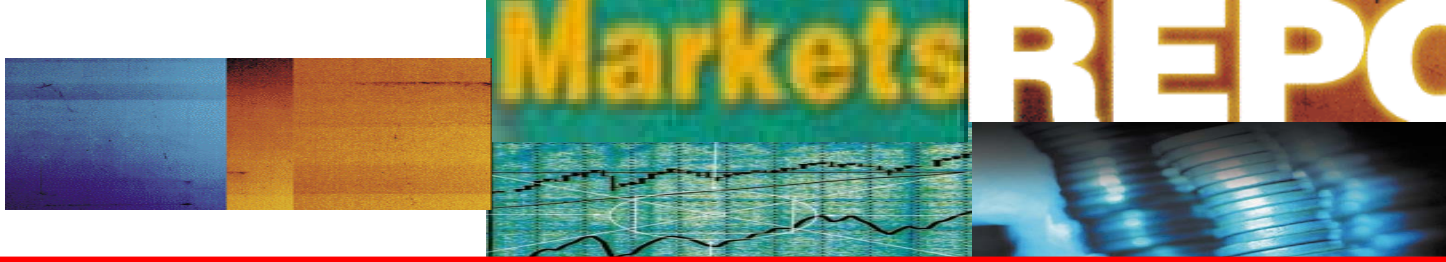
Balance sheet funding using synthetic structures

GARP, London
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Agenda

- /// **Banking liquidity and diversified funding sources**
- /// **Funding off-balance sheet: Basket TRS as synthetic repo**
 - **Basket TRS**
 - **Synthetic swap arrangements**
- /// **Funding the book at close to Libor using credit derivatives**
- /// **Synthetic conduit structure**

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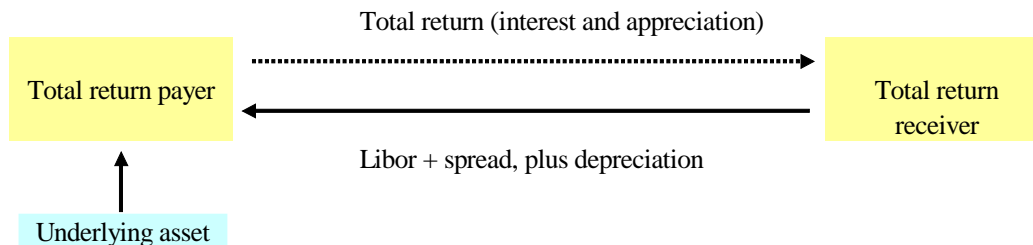
Liquidity for financial institutions

- /// **Money markets:** interbank quality institutions with credit lines and access to unsecured cash
- /// **Secured borrowing lines:** where collateral is liquid and/or tradable
- /// **Repo**
- /// **Bank lending**
- /// **Primer brokerage**
- /// **Key considerations:**
 - /// **Credit quality of borrowing institution**
 - /// **Quality of assets given as collateral**

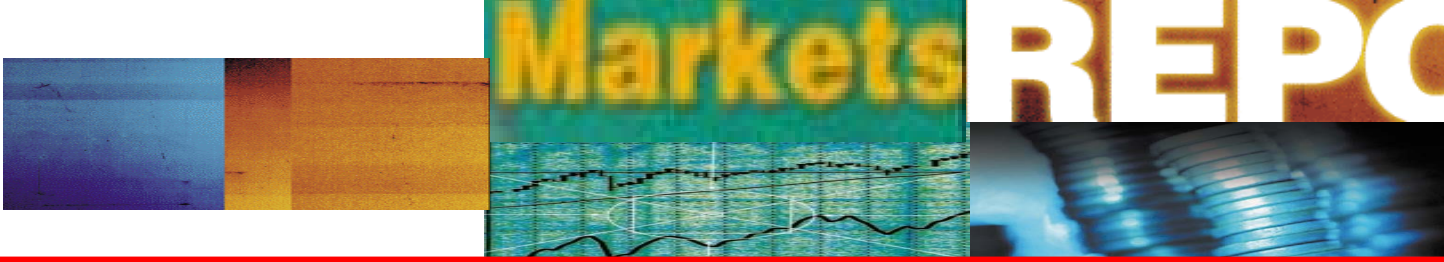


Total return swaps

- /// **Total return swap:** Like a credit default swap, a bilateral contract, but where the protection buyer exchanges the economic performance (“total return”) achieved by the reference asset in return for periodic payment that is usually a spread over Libor. Similar to asset swaps, allowing the total return receiver to create a synthetic leveraged position in the reference asset



- /// **Funded and unfunded TRS**



Basket TRS arrangements

/// **The conventional funded TRS**

- Basket of tradeable securities
- Equities, convertibles, structured finance securities
- Funding counterparty uses balance sheet or off lays assets
- Spread over Libor function of credit quality of counterparty and quality of assets

/// **Swap arrangement (unfunded) and exchange of cash flows**

/// **Prime brokerage arrangements**

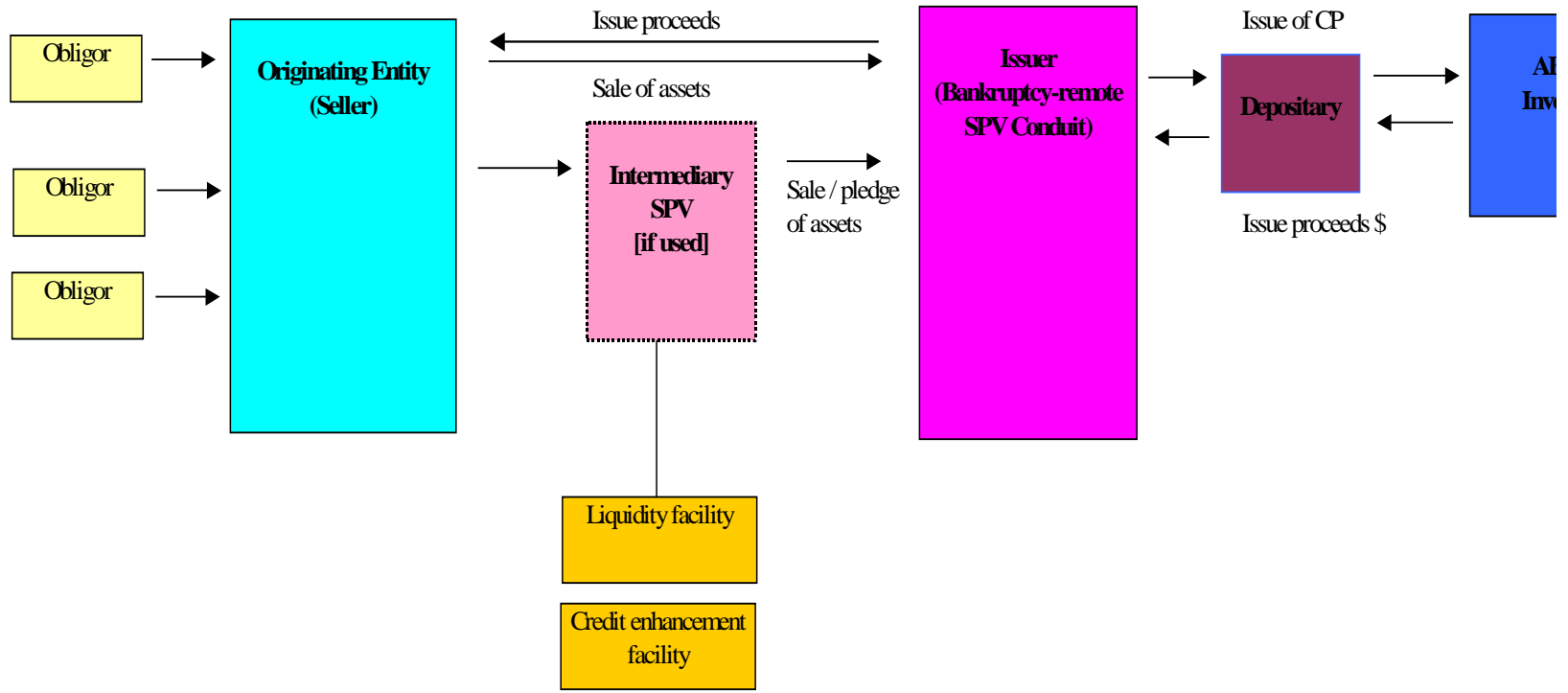


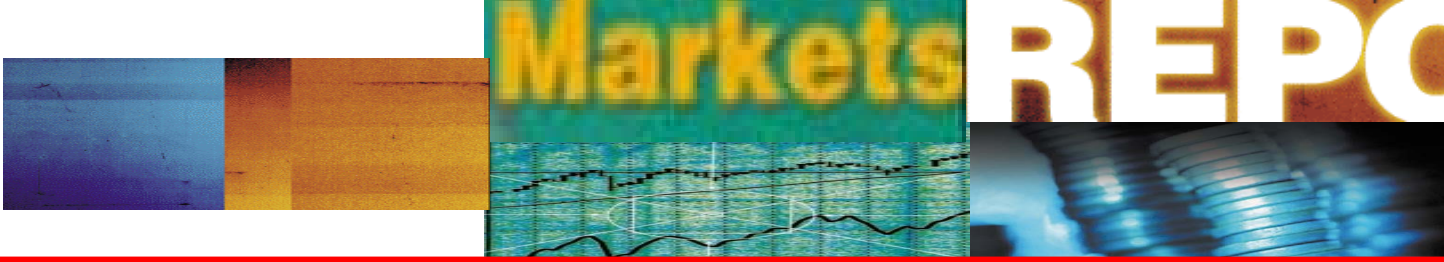
Synthetic ABCP conduits

- /// Conduit is just another name for an SPV but this time used in the money markets to issue short-term commercial paper.
- /// Asset-backed conduits apply standard securitisation techniques and are a means by which an originator (say a bank or corporate) can issue commercial paper that is backed by assets such as bonds or equipment lease receivables.
- /// A synthetic conduit is also asset-backed but the issuing vehicle does not purchase the assets, it references them via a credit derivative such as a total return swap.
- /// The conduit credit rating is in effect a rating of the quality behind the total return swap.
- /// Hypothetical example above



Conventional ABCP



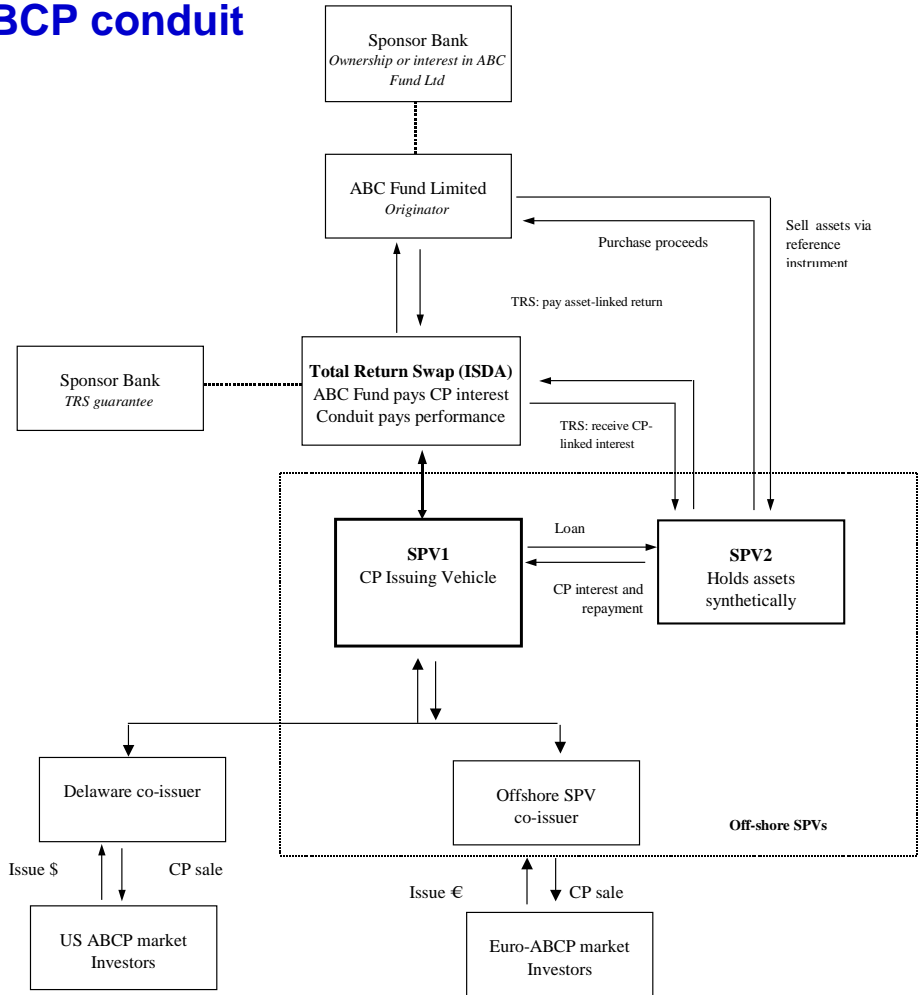


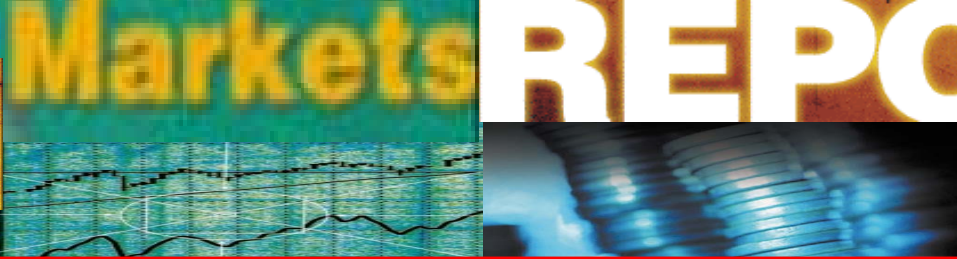
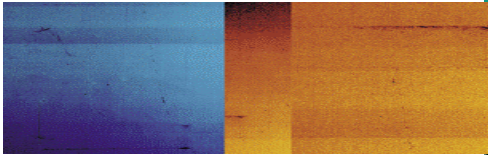
Synthetic ABCP conduit structure

- /// Access to CP market
- /// Illiquid and/or un-tradeable assets
- /// Uses TRS rather than actual cash assets as backing for conduit:
 - In place of liquidity line back-stop (conventional ABCP)
 - Needs sponsor or liquidity provider guarantee
 - Partially funded: both credit-linked notes and credit default swaps



Synthetic ABCP conduit





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