

# *Panorama*



Global Perspectives on the Debt Capital Markets

*Summer 2009*



BNY MELLON

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# To the Reader...

Welcome to the premiere issue of *Panorama*, published semiannually by the Corporate Trust division of BNY Mellon.

Straight from ancient Greek, the word “panorama” means “seeing all things,” and a comprehensive view of the world of corporate trust is what we promise twice a year—a look at the topics of top concern to participants in the debt capital markets. The view comes directly from the division’s senior managers. In their varied locations around the world, they are uniquely positioned to take the pulse of the marketplace, identify nascent trends, and highlight critical concerns. For this inaugural issue of *Panorama*, we’ve asked them to look through the lens of their experience and expertise at where the debt capital marketplace stands today and at where it may be going.

No one disputes that the global financial crisis has had an impact on the debt capital markets. What is the nature of that impact on different segments of the market? How, if at all, have issuer needs changed? What kinds of trust services will those changed needs require? And what will be the effect on the relationship between issuer and trustee? Those are the questions we asked the writers of these essays to address.

What has proven fascinating is that in doing so, these senior business leaders see common elements

across the diversity of the debt capital markets. While U.S. municipal finance is a world away from Asian project finance, for example, and while Latin American debt products present different challenges from those faced by global environmental markets, the commonalities are more striking than the differences. Around the world and across the palette of product initiatives, these senior managers see a market focusing on financial strength, demanding transparency in disclosure, and requiring new products and services to meet shifting needs. And while all agree that the debt markets have certainly been disrupted, all are able to look forward to more stable and orderly times ahead.

It’s germane to note that the writers speaking to these points in the nine essays presented here represent the world’s leading provider of corporate trust and agency services for all major debt categories, across conventional debt, structured credit, and specialized services. BNY Mellon Corporate Trust services nearly \$12 trillion in outstanding debt from 58 locations in 20 countries worldwide. The clients these managers serve include governments and their agencies, corporations, financial institutions, and other entities

that issue debt in every corner of the world, and they provide to these clients a full range of issuer and investor services, as well as customized solutions. In other words, they know their business, their markets, their clients, and their products. All are experts in their particular responsibilities, and all are experienced in the debt capital markets. It means that when they are asked to articulate the long view and assess the big picture, these managers are particularly well qualified to do so.

We believe you’ll find what they have to say both interesting and thought-provoking.

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# The Post-Crisis Debt Capital Markets: A Changing Role for Trustees

By **Scott Posner**, Chief Executive Officer of  
the Corporate Trust division of BNY Mellon

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If there is one paramount legacy of the global financial crisis in the debt capital markets, it is clients' need for confidence in their financial partner. Three attributes fulfill that need: financial strength and stability, global scale and expertise, and third-party independence.

What do those terms really mean? Financial strength and stability mean an institution's financial well-being, as expressed by the strength of its balance sheet and its proven ability to both thrive and deliver in all market conditions. With banks and financial firms worldwide having lost or written down more than \$1.4 trillion since the financial crisis began in 2007, and as they struggle even now to deal with additional losses and shed non-core businesses, this concern remains uppermost.

Global scale and expertise are the well of capabilities and expertise a financial partner can draw from to generate service solutions for the lifetime of an issuer's transactions—as well as the partner's ability to summon those capabilities and expertise and put them to work on a global basis.

Third-party independence means that the trusteeship business is a neutral party that can protect the interests of issuers and investors alike with no conflict of interest, thus ensuring that the terms of the agreement, which can at times last for decades, are adhered to.

The necessity for clients to feel confidence that their financial partner fulfills these three needs is a legacy that will clearly persist into, during, and after the recovery expected in 2010-2011. By that time, the debt capital markets will look a bit different from the way they look today.

## What Will Be Different?

As I view the situation, I expect governments around the world to continue to drive efforts to stimulate the global economy—at least for the foreseeable future. This will represent new opportunities for trust services providers—everything from serving as an outsourcing destination for tasks government agencies cannot perform to handling document custody in the case of many transactions to creating new solutions that assist governments in navigating new territory.

We also project a return to simplicity in many debt transactions, making these transactions less complex, more focused, and more straightforward. At the same time, there will be a need to provide a greater range and depth of information and to do so in real-time. This too will require more of trustees—in terms of technological capabilities as well as commitment. In our view, trustees need to be at work now readjusting or rearranging their core competencies to be able to deliver the requirements of this changed marketplace.

### **New Bottom Line for Trustees**

What will it mean for the trustee relationship in debt transactions?

I see the partnership between issuer and trustee starting earlier in the process and changing in nature. Traditionally, selection of a trustee was the last step in setting up a debt transaction. After all, it was assumed that the trustee's role was simply to do the recordkeeping and monitoring, execute the interest payments, and perform the accounting—all seen as footnotes to the main story. The wisdom learned over the past year, however, teaches that there can be value

in bringing a trustee into the process at an earlier stage. The unwinding of certain structured credit transactions, for example, has highlighted the potential benefits that might accrue if tighter documentation standards were established at the outset, perhaps at the time the term sheet or agreement is written. Equally beneficial might be the advisory contributions of trustees experienced in a range of transactions, especially if such advice is forthcoming *before* the transaction.

Involving the trustee earlier on in the process therefore also changes the nature of that role. We see a definite appetite on the part of issuers for independence in their trustee, and this signals a move away from lenders serving as trustees. And investors will increasingly demand that their investments are looked after by third-party trustees, avoiding even the appearance of conflict.

The financial crisis showed the crucial value of a proactive trustee when markets come under pressure. Now that kind of proaction is seen as critical at any time. That represents a big undertaking for trustee organizations, one that they fail to fulfill at their peril—and at the peril of the debt capital markets.



# The International Debt Marketplace: Looking for Confidence Along a Bumpy Road

By **James W. Maitland**, manager of the international business line within the Corporate Trust division

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The international debt capital markets remain in the grip of the world financial crisis, although to varying degrees depending on the region. And the corresponding shifts in marketplace needs and service provider response have in many ways been profound. The worldwide decline in new issuance, for example, has meant that for trust services organizations like ours, the greater part of our engagement has been focused on restructurings and government-backed schemes aimed at dealing with the financial crisis. As I write this, we have arrangements with at least 18 different jurisdictions around the world, each of which has required a different level and style of support. Moreover, the spurts of activity from infusions of government stimulus require new responses as defaults, wind-downs, and restructurings are worked out.

With this kind of variability in the debt capital markets, it is no wonder that virtually all market participants are looking not so much for activity as for stability. They are looking for it mostly in the U.S., where the crisis began and where, it is fairly universally agreed, the key to real recovery must first be turned. Signs of stability there will breed the confidence the global marketplace seeks to drive performance.

As this premier issue of *Panorama* goes to press, the international debt markets have not yet arrived at that confidence. Yes, there are some bright spots on the horizon—even in these summer doldrums—with projections of new activity for this coming autumn that could signal upward trend lines. But the road forward still looks bumpy and full of holes. Prognostication is a foolish if not a dangerous exercise, and all we can say is that there is reason to hope—even expect—that by the end of this year, the international debt markets will have seen the worst of the global financial crisis.

But the crisis will have left its mark, and we believe that when the dust settles, marketplace realities and participant needs will have shifted in several significant ways.

## **New Realities, New Needs**

For one thing, we expect to see a substantive increase in the issuance of sovereign and government-based debt. Around the world, as the headlines make clear, an incredible amount of money is being committed. A corresponding need to raise the capital to fund these commitments is self-evident, and we expect a direct increase in government and quasi-government debt activity across the international marketplace as a result.

We also see a move toward increased project financing, as governments establish programs to stimulate job growth and other economic activity by initiating major infrastructure projects. We expect that this level of project financing will play a significant role in satisfying the need for stability in the global recovery.

We project shifting product needs. We don't think securitization is dead, but we believe that the use of credit enhancements and wrapping a transaction in investment-grade debt will yield to new requirements for transparency vis-à-vis the underlying asset—with a profound impact on the documentation demands from regulators as well as from both issuers and investors.

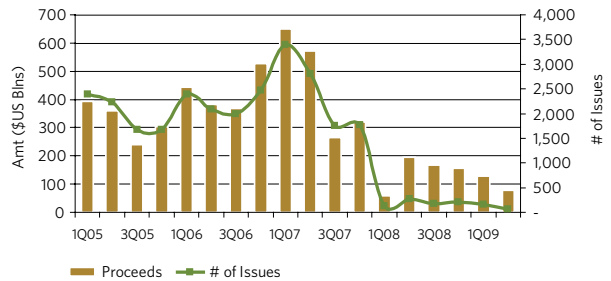
And we expect that wholly new products will be born. For example, a number of financial institutions have begun to examine the concept of a “bad-bank” area where they can wall off non-performing assets, monitor them, establish a separate balance sheet, and gather the data for evaluating next steps. Implementing such a concept would require new kinds of reporting and evaluation procedures and suggests the need for new products to meet those requirements.

Another area that cries out for product innovation is the “green” arena. Environmental initiatives represent a rapidly growing space in the international debt capital marketplace. Such initiatives require a plethora of recordkeeping, custody, and other support services for trading and settling carbon credits and for other initiatives as well. That bespeaks a new and fresh market need and a substantial opportunity for trust service providers like us.

Finally, among market participants especially, we expect to see an increasing emphasis on program-based re-packaging structures, which afford greater flexibility for issuers. We're also seeing a move toward credit opportunity funds and hybrid transactions that are both cost-efficient and adaptable for changing trade strategy quickly and easily.

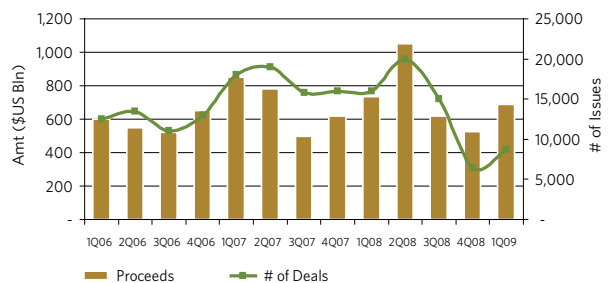
For both market participants and for the providers who serve them, therefore, this is a transformative moment in the international debt capital markets. As confidence finds its way back into the marketplace, all the players will have their work cut out for them in creating a lasting and sustainable recovery.

### EMEA (XS ISIN) Issuance Activity



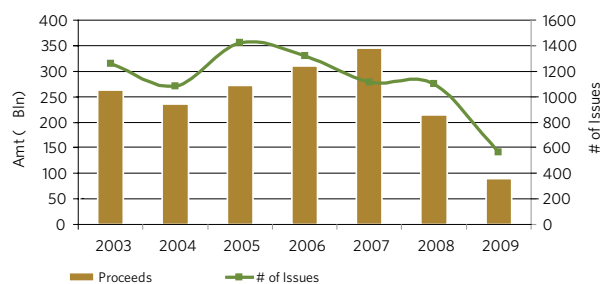
Displays total of XS ISIN debt volume issued and known by Dealogic in the EMEA market quarterly.  
Source: Dealogic

### Total Euro MTN Issuance (Including Repacks)



Source: Dealogic

### EMEA Covered Bond Issuance Activity



Covered Bonds as defined by Bloomberg League Tables, includes Pfandbrief issuances.  
Source: Bloomberg

# The Global Americas Region: Value-Added Services Prove Their Worth

**By Elizabeth DaSilva**, manager of the  
Global Americas business line within the  
Corporate Trust division

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Although it is both difficult and somewhat deceptive to generalize about so richly diverse a market area as the Americas (exclusive of the U.S.), it is safe to say that across the region, a sense of normalcy is returning, albeit in varying degrees depending on the particular country. While the markets for structured credit remain sluggish, there is evidence of increased activity among debt products.

In both Canada and Latin America, for example, the volume of new debt issuance spiked sharply during the first half of 2009. The sharpness of the spike could be attributed to how far debt issuance volume had sunk in the latter part of 2008, but the spike itself is clear evidence of renewed activity. In Canada, a 32 percent increase in issuance was largely government-backed. The 97 percent increase for Latin America, where volume for the last quarter of 2008 had plummeted to its lowest level since 1999, could be attributed primarily to conventional debt offerings from agencies and sovereigns in the first quarter and a return of corporate borrowers to the market in the second quarter.

The effects of the global financial crisis, therefore, seem clearly to be diminishing across the region. And while it is likely to be some time before we understand fully the long-range impacts of the crisis, if any, one legacy seems clear—namely, that while the price of service is always a pertinent issue, particularly across Latin America—where trusteeship administration is concerned, there is a renewed sense that value-added services are becoming more essential. In other words, service that goes beyond providing a “commodity” should increasingly become a differentiator in the debt capital markets across the region. The reason is simple: Going forward, we expect that client needs will increasingly require the kind of enhanced solutions that add value in terms of both operations and products.

## Emerging Product Solutions

A few emerging product solutions already resonate across the region. Catastrophe bonds, for example, once seen as uncorrelated to the financial markets, have stirred renewed interest as risk transfer solutions—provided there is sufficient transparency on the underlying collateral. It's a perfect example of clients requiring enhanced services beyond the basic commodity.

The focus on energy exploration and on environmental finance, notably in areas of active oil and gas exploration, is another growing trend in this marketplace, although the emphasis varies from country to country. We are currently seeing initiatives in carbon credit trading, a nascent product that we believe has potential for growth around the region and another area in which clients will expect enhanced value in service solutions.

Energy exploration also continues to prompt project finance deals to meet renewed infrastructure needs around the region. We see this particularly in markets like western Canada and Brazil, where energy exploration is traditionally a major impetus for construction. Adding substantially to Brazil's infrastructure needs and accompanying needs for project finance are the preparations already well underway for the 2014 World Cup that Brazil will host.

And in most of the nations in the region, as issuance levels creep back up, we project increased demand for service solutions that embrace both local capital markets needs and cross-border international capital requirements.

## Different Needs

The differences from nation to nation around this widespread and varied market will also surface shifts in needs for service solutions.

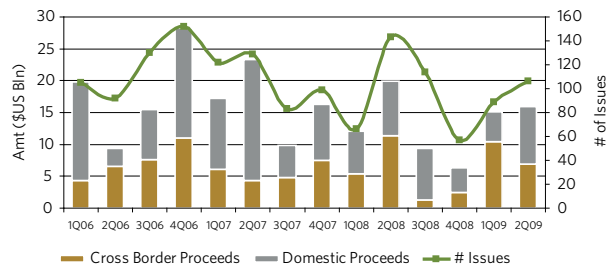
In Argentina, where the market remains stagnant because of the "distraction" of elections and the resulting changes in the make-up of the government, we expect that cross-border issuance activity by high-tier corporations or even at the sovereign level will revive once there is greater political certainty.

In Mexico, economic woes have been exacerbated by other events, domestic in nature, which have slowed recovery substantially. Nevertheless, in this the one country in the region where mortgage-backed securities were common and where the repercussions were severe, it is interesting to note a new interest in the European model of covered bonds. We project that covered bond securitization is likely to be a new structure in Mexico's debt capital picture.

Brazil, which emerged from the financial crisis with great resilience, is successfully tapping the local capital

### Latin America

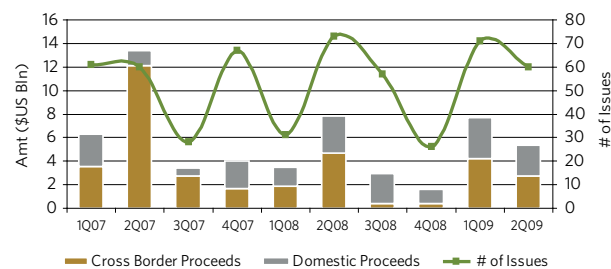
Quarterly Debt Activity



Source: Bloomberg, Dealogic

### Latin America (Excluding Mexico & Brazil)

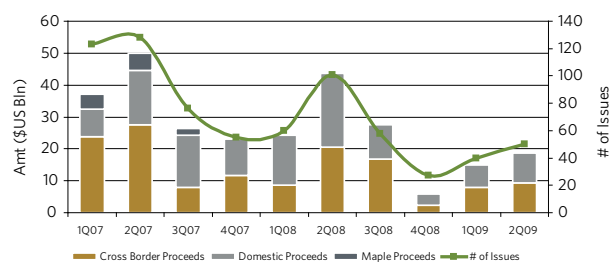
Quarterly Debt Activity



Includes Private and Public Corporate and Structured Debt in Latin America issued from 1/1/07 to 6/30/09 known to Bloomberg.  
Source: Bloomberg, Dealogic

### Canada

Quarterly Debt Activity



Includes Private and Public Corporate and Structured Debt in Latin America issued from 1/1/07 to 6/30/09 known to Bloomberg.  
Source: ThomsonReuters

markets and, in the process, requiring the use of local fiduciary agents. We project in fact that local fiduciary agents will increasingly be required to assume an enhanced role and deliver other global services as well.

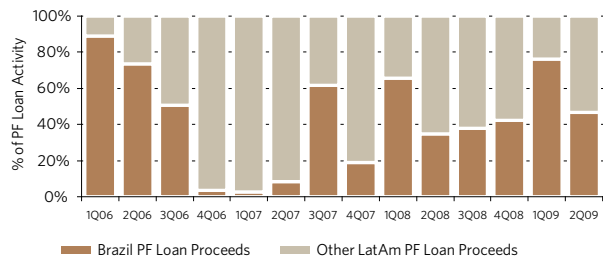
The same might be said for Chile, Peru, and Colombia, where capital markets are again up and running—even thriving. In fact, throughout the *Cono Sur*, the southern cone of South America, as elsewhere in the region, participants will increasingly issue debt instruments both locally and internationally—and the administrative needs for both will have to be accommodated.

Canada presents its own story, born of a different narrative from much of the rest of the region. Relatively insulated by its regulatory framework from the worst of the mortgage-driven financial crisis, Canada nevertheless did see a collapse in commercial paper liquidity. That has generated a need for debt restructuring. Our local Canadian subsidiary, BNY Trust Company of Canada, for example, has been working with a group of major banks and investors, with the backing of the Canadian government, in the restructuring of Canada’s non-bank sponsored asset-backed commercial paper market. We anticipate further restructurings in Canada—not dissimilar from the restructurings driven by the Term Asset-Backed Securities Loan Facility (TALF) in the U.S.

Around the region, therefore, the pipeline of activity is being replenished. Our expectation is that confidence will return as the pipeline fills, and that the return of confidence will help close the deals now being arranged. That, in turn, will make room for more innovative structures, more of which will require—and be differentiated by—value-added services.

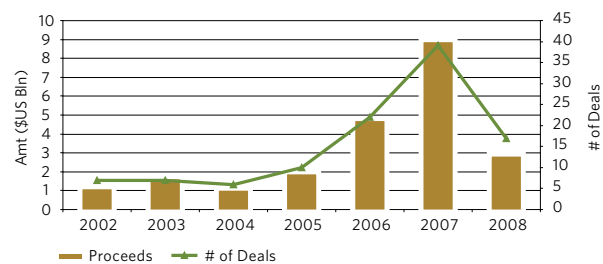
### Latin America & Brazil Project Finance

Loan Volume



Based on loan transactions volume in Central America, South America, and Caribbean domicile regions with proceeds directed to Project Finance initiatives known to ThomsonReuters. Source: ThomsonReuters

### Catastrophe Bond Activity



Source: BNYM GCT Product Management

# Asia-Pacific Region: Coming Back Strong and Growing Fast

By **Gary Lew**, regional head of the  
Corporate Trust division for  
the Asia-Pacific region

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The Asia-Pacific region was perhaps the last region in the world to feel the bite of the global financial crisis, and the bite here has been less sharp than elsewhere. There are fewer shuttered storefronts, fewer foreclosed homes, and shorter unemployment queues than those we read about in the United States and Europe.

And while there has certainly been a slowdown in the traditional debt market, with a marked decrease in issuance volume, the impact is clearly not as severe here as in other parts of the world. Indeed, signs of renewed activity were already evident in the spring of 2009, and early summer has seen continued good news from the equity markets. Overall, we believe that this region, the last to be hit by the global crisis, will be the first to recover as well.

The fact that the region has escaped the worst of the crisis has offered a kind of breathing space, an opportunity for participants in the debt market—issuers, investors, and service providers—to review service needs as the overall forward growth of the industry returns. As we see it—and as our clients tell us—the region is going to require a widened palette of services across a widened range of geographies, and service providers to this marketplace will need to be prepared with an unprecedented array of competencies and a depth of expertise to back them up.

## Focus on Soundness

We have seen financial crises before in Asia, and experience tells us that memories are short: once the deals start flowing again, the good intentions formed during the bad times fade quickly. But we believe that the lessons learned about financial soundness in this recent crisis have real staying power.

Certainly, the focus on financial soundness is a primary concern to both issuers and bondholders right now. Those blue-chip corporate and financial institutions still coming to the market are being much more careful about the service providers they work with. The truth is that in the past, a brand name sufficed; reputation took the place of careful examination in the due diligence process. No more. There is a far higher level of scrutiny

today, with clients demanding to know a service provider's capital ratios and probing overall financial soundness.

There is also a much closer look at structure, especially where restructuring of existing deals is at issue, or in cases of default. The need to ensure that the proper mechanics and protections are built into the deal is essential to all players—corporations, financial institutions, sovereign governments, arrangers, investors, trustees—and service providers will need to be up to the mark.

### New Products, Expanding Value Chain

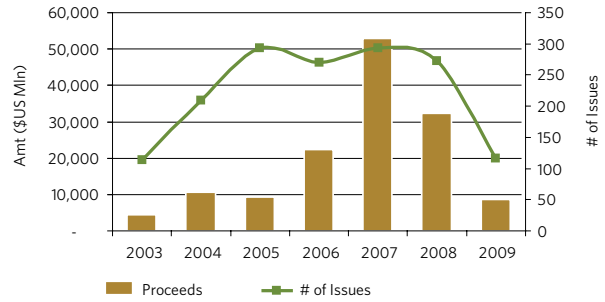
As the pace of growth in the Asia-Pacific region picks up, we project the need for varied product innovations along an extended value chain.

In Australia, for example, where the economy unexpectedly avoided a recession, the mortgage business is on the upswing, and consumer confidence recently enjoyed a record spike, prompting expanding market needs for such services as document custody and discharge services, to take just two examples.

In Korea, improving market conditions have created a robust deal pipeline, while in Japan, changes in regulation are sparking a need for security trustee services—hitherto unknown in that country.

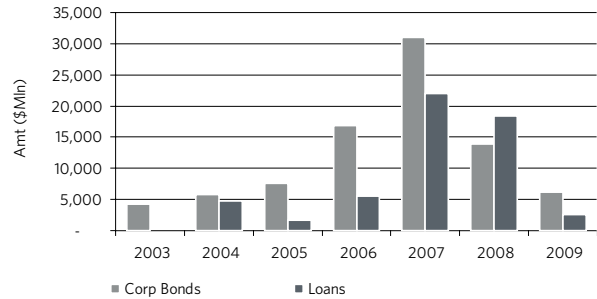
Islamic financing is another area of potential growth around the Asia-Pacific region, as interest grows in expanding the investor base to include this critical community. Service providers to the Islamic market across southeast Asia and the Middle East require expertise across the range of financing products and mechanics; familiarity with local markets and their laws, codes, and practices; and of course knowledge of the religious principles that govern these transactions in Islamic communities. That is a tall order for service providers—in addition to the financial strength they must demonstrate. As a leader in cross-border Islamic financing in the region, we also see a growing need for this alternative in domestic markets like that of Malaysia, with its large population of issuers and potential investors.

### Islamic Finance Issuance Activity



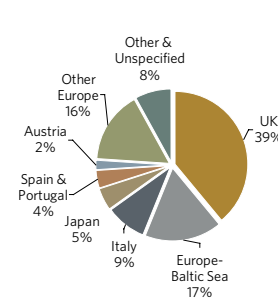
Source: Bloomberg

### Islamic Financing Activity Issuance by Security Type



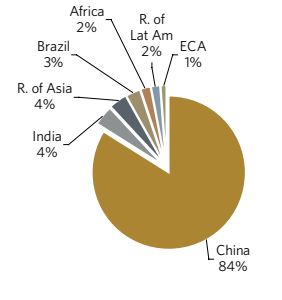
Source: Bloomberg

### Primary Clean Development & Joint Implementation Buyers (2008)



Source: World Bank

### Primary Clean Development & Joint Implementation Sellers (2008)



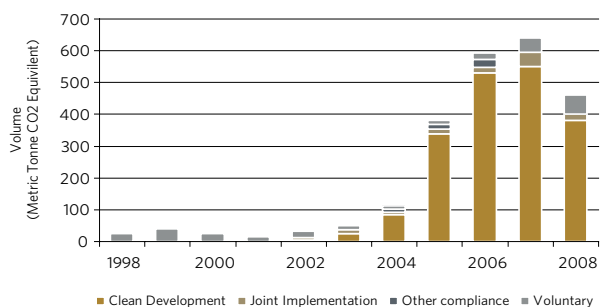
Source: World Bank

Carbon credit trading represents yet another growth area for financing services in the region—especially, as we see it, in India and China. The challenge for providers is in administering the variety of regulated and unregulated standards of carbon credits on different registries. Reporting and tracking of these trades on varied systems and spreadsheets can be both time-consuming and complex—a burden for carbon credit traders. Custody, escrow, and trade settlement are thus key issues for service providers in this growing space.

Finally, we see infrastructure requirements producing a need for project finance servicing. The need is evident everywhere around the region but may be said to be particularly acute in India, the Philippines, and China. It will require from providers competency in dealing with a range of investor classes as well as experience in offering varied servicing solutions for complex deals embracing diverse debt structures.

As this market continues to expand strongly, therefore, so will service needs. The market will require not just a greater number of service solutions but also a greater diversity of solutions and across a wider geographic area. The challenge for service providers is substantial—as are the opportunities.

**Annual Volumes of Project-Based Emission Reductions Transactions (vintage up to 2012)**



Source: World Bank



# The Evolving World of Structured Credit: Smarter, Simpler, Stronger

By **Patrick J. Tadie**, manager of the  
structured credit businesses within the  
Corporate Trust division

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This is a transformational time in the world of structured credit. The market has shrunk and continues to struggle, and there are those who question the viability of securitization down the road. But with apologies to legendary American writer Mark Twain, reports of the death of structured credit products are grossly exaggerated.

The reason is simple: these products are essential to a vibrant economy. Whatever the abuses and excesses of recent years, both the United States and the world economies need these sources of financing. At the same time, we know we cannot go back to the practices and processes that preceded the 2007-2008 credit crunch and the ensuing financial crisis.

That's why this transformational time represents an opportunity to focus on basics, strengthen the health of structured credit, and improve the process—aims shared by all market participants, aims that can benefit all.

## The 'Down' Market Will Continue

Right now and for the foreseeable future, however, the economy's credit crunch continues, and the market for structured credit products remains stagnant. Despite strong mortgage issuance volume, the U.S. residential market, which has fallen 32 percent from its high in the second quarter of 2006, stays slack, according to the Standard & Poor's Case-Shiller Home Price Index. Home prices were down 19.1 percent in the first quarter of 2009 over the same period in 2008, foreclosures proliferate, and there is little new construction.

Consumer credit is down across the board. For the month of April, 2009, the last month for which U.S. Federal Reserve figures are available as this publication goes to press, consumer credit in the U.S. decreased at an annual rate of 7½ percent, continuing a trend in which Americans seem to be morphing into savers. Credit card usage has maxed out, auto loans are down, students—and 2009 is seeing the largest class of college freshmen ever—are settling for less expensive colleges and universities closer to home to avoid debt.

For a nation that has seen household debt rise steadily and considerably over the 60 years since World War II, these shifts mark a substantive change.

We're seeing the change reflected also in ABS proceeds in the U.S. According to the *Asset Backed Alert* newsletter, which maintains a global database on asset-backed securitization, issuance slipped from \$598 billion in 2007 to \$143 billion in 2008 and was stalled at \$40 billion as of the end of June, 2009.

And in our view, until the residential housing market turns around—and that is not expected till perhaps the end of 2010 or early 2011—the consumer credit market will also remain stagnant.

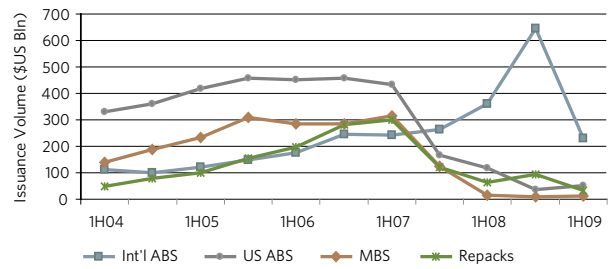
Government involvement through TALF—the Term Asset-Backed Securities Loan Facility—has mitigated the situation somewhat, jump-starting the ABS market for non-mortgage consumer assets, and there has also been an encouraging increase in the number of non-TALF deals, which bodes well for a return to activity. Still, we believe the changes in the residential housing and consumer credit markets are sufficiently significant that they signal a substantive shift in the need for structured credit products, the kinds of products that may be needed, and the way those products will have to be delivered.

## The Evolving Structured Credit Market

What we see ahead is a structured credit market that is smarter and simpler and for those reasons potentially stronger than ever before.

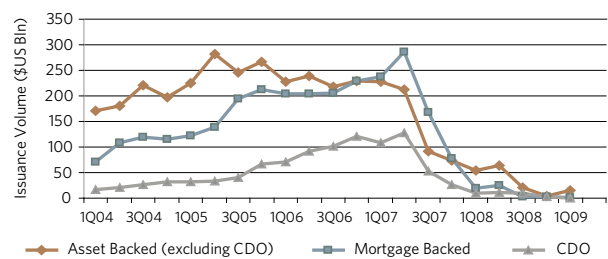
It will also be a smaller market in terms of both volume and the number of participants. We believe that the behavioral shifts referenced above—in both the home-buying and consumer credit arenas—are likely to be long-lasting. Anticipated government regulations may also prove to be incentives for the behavior. Meanwhile, consolidation in the number of issuers proceeds apace, and we believe that the number of large servicing and trusteeship organizations will also dwindle.

### International Structured Market Activity



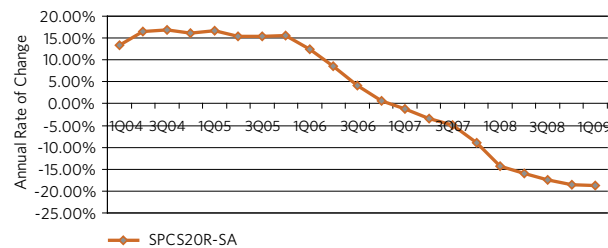
Source: *Asset Backed Alert*

### US Structured Market Issuance Activity



Source: *ThomsonReuters*

### Case-Shiller 20-City Composite Index (Annual Rate of Change)



Source: *S&P*

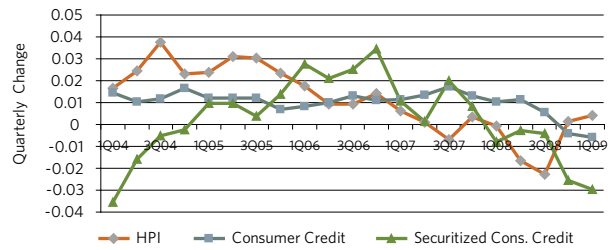
This smaller market will be a simpler market, with less complex financing structures and asset types. We believe we may be saying goodbye to some of the entrants in the alphabet soup of structured instruments, and while there will be structured credit securities, both their structures and their nomenclature will be simpler. Moreover, such highly complicated instruments as protected bonds and companion bonds in collateralized mortgage obligations, with their sensitivity to prepayment volatility, are not likely to survive in their present form with their present insufficient levels of information and explanation.

As part of this trend to simplicity, we also expect to see a rise in direct-to-consumer lending, especially on the mortgage front, where mortgage broker networks are already in decline.

This smaller, simpler market will be a lot smarter in terms of the products originated and the service needs for those products. With an end to so-called “no-doc lending” in the consumer credit and mortgage marketplace, we expect to see a much tighter focus on both the comprehensiveness and precision of documentation vis-à-vis collateral, securities, structures, and underlying assets. Bond buyers will demand more loan-level and issuer-specific due diligence and will differentiate among issuers much more closely on the quality of the issuer’s capitalization, servicing capabilities, and reputation in the marketplace.

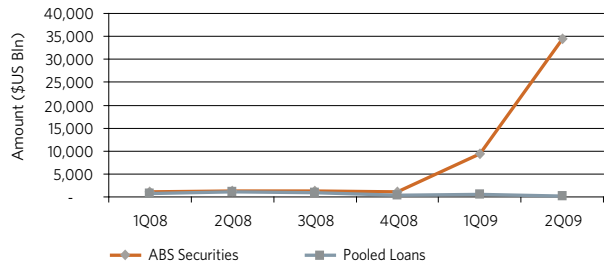
Along with these new standards for due diligence and documentation will come stringent requirements for all data to be provided in a format that every participant can easily understand. Transparency thus becomes a foremost priority, and the ability to deliver that transparency at the right time, in the right manner, in whatever format is required will be a paramount service need in this evolving structured credit market.

**Quarter/Quarter Change of FHFA House Price Index (Seasonally Adjusted) vs. Total Consumer Credit Owned and Securitized (Seasonally Adjusted)**



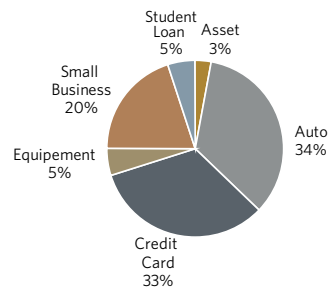
Source: FHFA, Federal Reserve

**US Issued TALF Eligible Securities**



Source: Bloomberg

**Collateral Type of TALF Eligible Securities (\$US 52.6 Bln)**



Source: Bloomberg

By the same token, while credit enhancement will remain a major component of every deal, the market will add its own due diligence in addition to that of the rating agencies, which have themselves been chastened by the decline of reputation they suffered in the financial crisis.

On the administrative and servicing front of this evolving market, tighter regulation, consolidation of the trustee industry, and above all client needs will generate a new emphasis on best practices. The marketplace today places a greater value on the roles and functions of a trustee than it ever has, and leadership, financial strength, demonstrated commitment to the business, and of course performance will become even more important as differentiators in this area.

Around the world, the evolving structured credit market has the attention of a number of entities that are all working together to ensure a viable future for the securitization process and for the financing doors it opens. We believe a smarter and simpler structured credit market is the healthy path to a stronger future.



# Shifting Service Needs in the U.S. Municipal and Corporate Bond Market

By **Troy L. Kilpatrick**, manager of the corporate and municipal trust businesses for the U.S. market within the Corporate Trust division

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The U.S. municipal debt market has been a stressed area of the debt capital markets since the failure of the auction rate market in early 2008. Dislocations, downgrades, and substantial losses among bond insurers, liquidity providers, and investment agreement providers have been disruptive. In addition, as property and sales tax revenues have plummeted, virtually all states and cities across the U.S. today face enormous budget pressures.

Now comes the American Recovery and Reinvestment Act of 2009, passed in February, committing \$787 billion in fiscal stimulus for the economic emergency, most of it pledged to states and municipalities in the form of direct aid and new bond authorizations. Clearly, this is a fresh reality that will profoundly affect the way state and local governments interact with the capital markets.

Yet as this issue of *Panorama* goes to press, stimulus funding is just beginning to reach municipalities, and an air of uncertainty still hovers over the few “green shoots” in the economy—will they take root or blow away? Until we know the answer for sure, it seems clear that the pain in the municipal space is going to be felt for some time.

And that in turn is going to mean changes in the way trust services for this market are conceived, implemented, and delivered.

## State and Local Governments: New Needs for New Services

One of the certain legacies of the global financial crisis across all areas of the debt marketplace is the need for greater transparency—a need for which providers will be expected to furnish effective tools. For one thing, the Recovery Act imposes rigorous guidelines for reporting requirements, oversight, and accountability. It asks questions municipalities have not had to answer before—Exactly how many jobs have been created? Exactly how many jobs have been saved?, etc.—and it demands an equally unprecedented level of verification. Neither clients nor providers have ever seen anything quite like the transparency that is now being demanded, and it is putting provider organizations to the test as they seek to develop pertinent and effective responses for their state and local government clients.

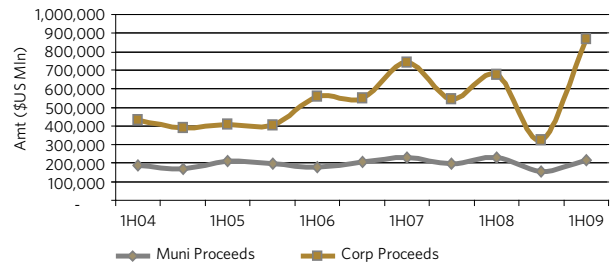
Nor is it just government agencies that seek transparency. Bondholders, investors, and other stakeholders are today demanding more information in greater detail and on a continuing basis about the securities they're buying and the underlying collateral.

In addition to the depth of disclosure required on traditional transactions, new ways of financing are being introduced, and they will require their own disclosure and verification. Federally driven funding programs directed to state and local governments and such new bond authorizations as Qualified School Construction Bonds and the Build America Bonds are aimed at giving municipalities access to a wider range of investors. At the same time, these initiatives also create new complexities for issuers in terms of data collection, analysis, and reporting, and it will be a provider's task to help issuers navigate their way through these complexities.

To take one example, municipalities will have to account for their use of stimulus funding at a level of detail sufficient to enable the states to complete their required reporting; this is new and uncharted data collection and analysis territory for local governments. Or take the case of the taxable Build America Bonds, aimed at making it possible for state and local governments to finance capital projects at lower borrowing costs. Issuers of these bonds are to receive a new direct federal subsidy payment from the Treasury Department as a credit for a portion of their borrowing costs, but critical details of the process for claiming the credit subsidies remain somewhat murky as this publication goes to press, and the danger is that unless and until the operational nuts and bolts of the process are clarified, the intended benefit of these bonds won't be fully realized. Service providers must play a role in finding solutions for these challenges before the bonds are issued and in monitoring the process for these obligations once they are in the market.

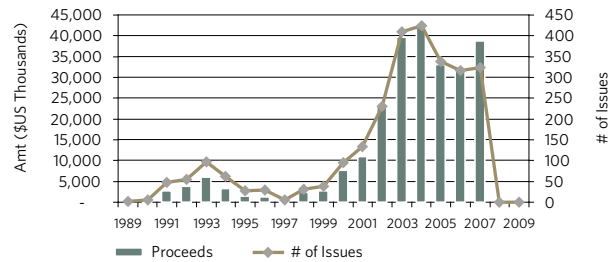
Such solutions can't come too soon, for it is evident that we are headed for more regulation and greater oversight. The solutions that service providers create today must also lay the groundwork for meeting the compliance requirements of tomorrow's new, more stringent regulatory environment.

### US Domestic Issuance Volume Corporate & Municipal Debt



Includes Corporate Straight Debt as defined by ThomsonReuters to include US 144A Investment Grade, High Yield, Emerging Market, Agency/Sovereign, MTN take downs sold to US investors and US public long-term municipal new issues.  
Source: ThomsonReuters

### Auction Rate Securities US Municipal Market



Includes Municipal Auction Rate Securities issued in the US Domestic market known to ThomsonReuters.  
Source: ThomsonReuters

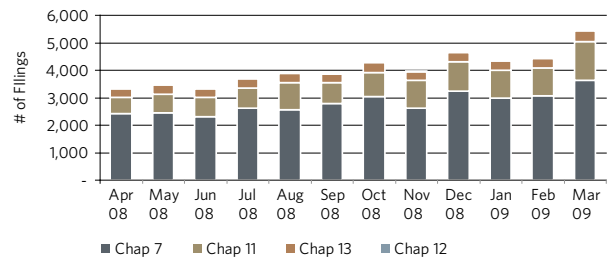
## Corporates: Being Ready for the Upswing

Where corporate bond issuance is concerned, we believe service providers need to be preparing now for a modest upswing later this year in new issuance and in the number of merger-and-acquisition transactions. We also see a rising need for depositary/collateral agency services for project finance and asset purchase transactions—particularly in cases where the trustee’s rating might be an issue that a collateral agent can mitigate.

In general, in fact, corporate issuers will be looking for a new level of independence in their service providers. Sobered by the events of 2007-2008, issuers want to see firewalls between the lending function and the administration of financing documents. Increasingly, such impartiality in a service provider is seen as essential to the financial strength not just of counterparties but of the economy as a whole.

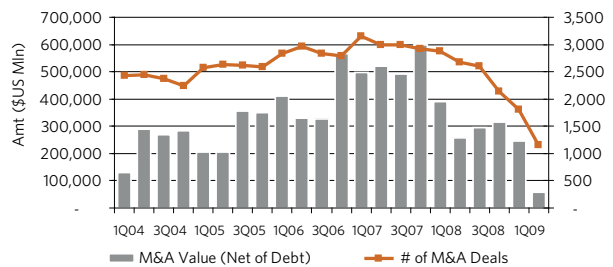
It’s clear, therefore, that across the U.S. municipal and corporate bond market, service providers have a responsibility to play an essential role in ensuring that the green shoots don’t blow away but rather take root and grow.

**Business Bankruptcy Filings By Type**  
(# of Filings)



Source: US Courts

**US Merger & Acquisition Activity**



Includes eligible mergers, acquisitions, repurchases, spin-offs, self-tenders, minority state purchases and debt restructurings closed during each quarter from 1/1/04 to 6/30/09.  
Source: ThomsonReuters



# Transparency: Fresh Relevance for a Tired Word

**By Robert L. Griffin**, manager of specialty services for government and corporate clients within the Corporate Trust division

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Where the debt markets' special needs are concerned — agency services, escrow, insurance trust, auction, default administration, and more—the last 18 months have taught one lesson above all: Focus on transparency.

This is hardly an original idea. “Transparency” has long been a buzzword in the financial industry in general and in the trust services arena in particular, and the word has grown tired. The global financial crisis, however, has given this tired old word new meaning and fresh urgency, and from where I sit, overseeing the provision of a range of services to meet diverse client needs, nothing is quite as relevant as transparency. There are two main reasons for this.

## Burned and Wary

The first reason is the crisis itself—and its consequences. The defaults, the drying up of liquidity, the domino effect of losses because transactions were not fully understood or were based on assets not fully known: All of this has burned investors, issuers, and other participants in the debt capital markets, and their antennae are way up. One major result is a growing insistence on transparency.

It's simple: Market participants are going to be asking a lot of questions, to which they will demand clear, well documented answers. They are less willing to rely on rating agencies and more inclined to do their own risk assessment; certainly they want to know precisely how a particular rating was derived. They want more facts and more fact-finding—What are the underlying assets? What are the terms?—and they want the information on an ongoing basis. That is going to be a tall order for issuers and for service providers as well, but it is going to be a key driver of the market. For providers of trust services with a comprehensive range of competencies, this demand for transparency can be a significant market opportunity.

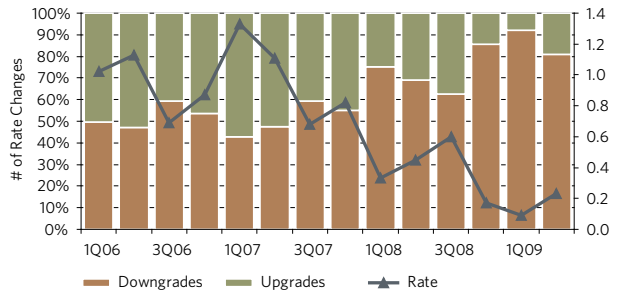
## Growing Complexity

The second reason transparency has become such a pressing priority in the world of debt financing is that, despite certain debt structures having gone out of fashion—even if just temporarily—the increasing complexities we have seen in transactions over the past ten years persist. Even traditional transactions are becoming more intricate, and the need for greater risk assessment, compliance, and reliance on legal experts has become routine.

In default transactions, for example, we are seeing demands for an unprecedented level of detail. When certain structured vehicles unwind, which bondholders should be paid first? When? Which assets should be sold first to maximize value? Which should be sold last? How do different classes of bondholders feel about these questions—and do you risk pitting one class against another? Against the background of the Lehman Brothers collapse and the uncertainty surrounding the U.S. automotive industry, the elaborate detail required in a workout or unwinding today is so substantial it virtually constitutes a new kind of transaction. And these new kinds of transactions require new kinds of service solutions. In such an environment, all parties will be insisting on the highest level of transparency possible.

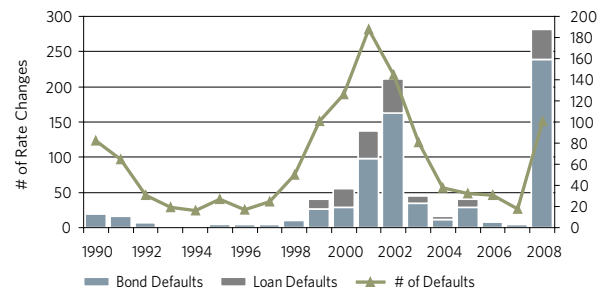
In addition, as fundamental shifts in the debt marketplace produce new market segments, or transform the service needs of traditional segments, innovative service responses are more and more required. We see this globally in the growth of government programs for fiscal stimulus and financial stability. These programs surely signal a widening need for loan servicing support and new forms of reporting. Again, absolute transparency on an ongoing basis is the best form of risk mitigation as service providers track and report on grant activity, or perform the pooling and paying agency services for government agencies.

### Corporate Bond Upgrades / Downgrades (By S&P)



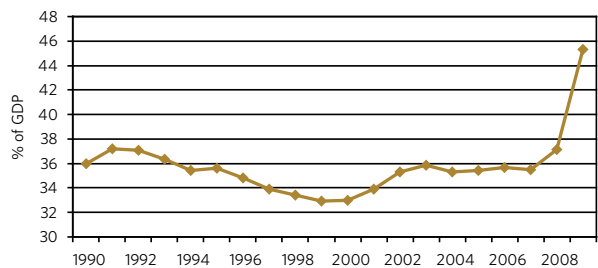
Source: S&P

### Corporate Bond / Loan Defaults by Moody's Issuers



Source: Moody's

### Federal Spending (as a % of GDP)



Also around the world, tightened credit and worries about counterparty risk are prompting a shift from Letters of Credit (LCs) to insurance trust products. With liquidity still tight, the absolute cost of LCs is rising while their availability is declining. The insurance trust structure is proving both more cost-effective and a more flexible form of collateral for meeting insurance obligations. Long used in U.S. markets, insurance trusts are finding wider acceptance internationally as a risk management tool that can help meet both the growing needs for cross-border collateral and the stringent requirements these needs occasion. These trusts are typically governed by documentation recognized only in the provider's jurisdiction and can be precisely customized, but they require strong trusteeship and global custody service capabilities on the part of the provider.

Across the board, therefore, the need for these more complex transactions underscores the urgency of transparency as a key driver in reducing the turmoil of the last 18 months and sowing the seeds of a successful recovery.



# Managing Cash Investments: Changing Marketplace, Changing Needs

**By William J. Dombek**, manager of the Investment Management Group for BNY Mellon's Financial Markets & Treasury Services sector, which includes the Corporate Trust division

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Around the world, participants in the debt capital markets seek alternative structures for investing the cash that may flow through a particular transaction. From debt servicing to escrow funding to project financing, the need to invest the transaction's cash for a specified time to meet a specified purpose is a common one. Traditionally, corporate trust clients have looked to a range of financial instruments as investment destinations for this cash, seeking—as investors do—to balance goals for yield, liquidity, and risk.

The global financial crisis, however, has prompted a virtual sea-change in that scenario, and there is little on the horizon to suggest that the new scenario will shift back—or in any direction—any time soon. What are the factors driving the sea-change? We see three in particular that have rewritten the investment management script for these kinds of transactions.

## Comfort Level

The first driver in this re-prioritization of short-term cash investments is capital preservation, which has propelled investing organizations to seek the safest havens in the industry. Specifically, that means the cash is flowing to those financial institutions that have demonstrated financial soundness and stability, that have maintained a solid balance sheet before and during the global crisis, and that have passed the recent stress tests.

It started in the fall of 2008, as Lehman Brothers was teetering on the brink and similar firms were holding their breath, and it was clearly a response to the turmoil and uncertainty of the previous months. But if it initially represented a financial “stress response,” it has persisted as a trend. Today, as investing organizations seek a refuge for their investable cash in financially sound institutions, the field of destinations for these cash investments has narrowed dramatically.

Comfort level clearly counts.

## Risk Management and Liquidity, Not Yield

The second driver re-shaping the management of investment cash is a new set of priorities for the investments. Traditionally—at least until September, 2008—the top priority for most investments was to achieve the right balance among yield, liquidity, and

risk. In the new model, however, risk management and mitigation come first and foremost. Next comes liquidity. Yield is almost not part of the discussion, but if it is, it's as a distant third priority.

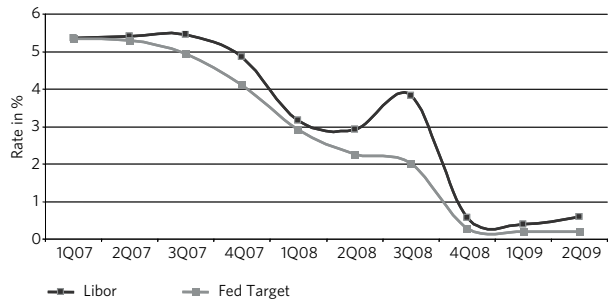
This shift in the model also means that investing organizations are asking more and better questions and demanding more and better answers about their investment options. In the past, for example, many short-term fixed-interest rate investments were assumed to be simple and relatively low-risk; that was the received wisdom accepted at face value. Nobody accepts face value anymore. Today, assumptions are challenged, and detailed justification for every bit of received wisdom is expected. No investment seems simple these days; instead, investors are prepared to go through rigorous analysis of exactly how the cash flows, exactly what the underlying asset is, exactly how the terms of the investment are structured. The marketplace has seen tens of billions of investment dollars move from greater to lesser risk, and it is clear that this trend will hold true for the foreseeable future.

### Product Offering: Varied Options, Objectively Presented

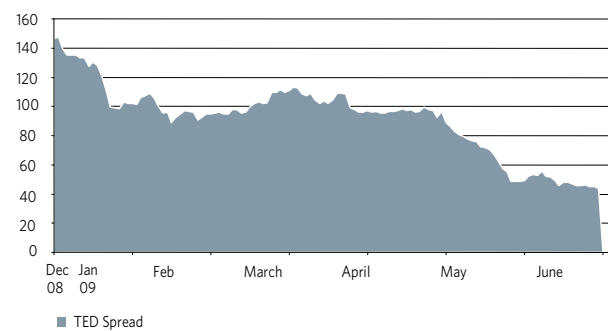
The third driver is that this changed set of investment priorities has implications for the product offerings service providers are able to extend: Simply put, the broader the range of options, the better. Providers of investment options are expected to offer a varied risk profile that runs the gamut so that as risk tolerance waxes and wanes, they will be able to provide the product that can meet the particular client's particular risk appetite.

At the same time, we believe clients today seek a new level of objectivity when investment options are presented to them. They want to hear from independent experts on investment alternatives and regard that as a value-added service. Such independence and objectivity are attributes a changing marketplace requires and appreciates.

**IMG Rate Impacts**



**3 Month TED Spread**



Source: Bloomberg

# A Need for Stability and Certainty

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# Corporate Trust: Setting the Standard for Debt Infrastructure and Execution

By **Andrew Zelter**, manager of global  
business development within the  
Corporate Trust division

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There is a reason BNY Mellon Corporate Trust recorded unprecedented gains in market share during the first six months of 2009. There is a reason we were awarded more than 300 successor trustee appointments during that same period. The reason is that in a time of crisis, the marketplace turned toward stability and certainty; where debt capital was concerned, it sought a sense of comfort and confidence in the infrastructure and in the execution of debt issuance. Simply put, the market looked for core competency. As the world's leading provider of corporate trust and agency services, we were there—ready, able, and equipped with the working model.

As you will read in the case studies that follow, this core competency working model has consistently brought a range of debt market participants to our door. Yet I believe that as the debt capital markets climb out of the current crisis, as perspectives and needs change, the model will become even more relevant, and core competency will be even more pertinent.

## Core Competency: A Model With Meaning

Just what does this core competency model consist of? What does it mean? Perhaps foremost, it means that debt servicing is the focus of our business—not an adjunct to investment banking or a “support” service to credit relationships. And it means that we have committed the resources and capabilities required to provide issuers and advisors around the world whatever is needed—in products and in expertise—so they can effectively execute their debt financing strategies.

That requires first a comprehensive product offering—and ours, covering conventional debt, structured credit, specialty services, and other products designed to address evolving trends in both middle- and back-office outsourcing needs, is unmatched in breadth and depth.

It requires a global footprint—and ours spans some 58 locations in some 20 countries, touching every major market and supporting multi-currency, multi-jurisdictional programs.

It requires expert professionals to perform the work—and our global, multilingual staff of more than 3,500 comprises some of the most talented, knowledgeable, experienced people in the business, people who roll up their sleeves on their clients' behalf every day.

This combination—comprehensive product offering, global reach, expert and conscientious people—ensures that we are at home in virtually all circumstances, so when we talk to issuers anywhere about global strategies or local tactics, we are speaking their language.

### Independence and Innovation

Increasingly, however, the core competency model requires even more, as you'll read in many of these case studies. As the market emerges from the global financial crisis, the demands for transparency and institutional independence become ever more pressing. Given the heightened scrutiny of underlying conflicts and potentially competing interests, the old scenario in which a single institution acted in multiple roles—as advisor/arranger, lender to the issuer, and trustee to the bondholders—is, rightly, less acceptable than it once was. The marketplace demands a greater level of objectivity and impartiality, and if it doesn't get it, it may impose higher costs of capital on issuers.

At the same time, it seems clear that product and structural needs will continue to evolve—possibly with greater frequency, conceivably with greater urgency. Commoditized services will give way to value-added support and innovation in this evolving market. The partner of choice will need to be able to adapt to an issuer's changing situation almost before the issuer identifies the situation, responding with *de novo* solutions to market needs and opportunities. A premium will be placed on the ability to innovate opportunistically, and that will require deep knowledge of the markets, wide experience in servicing a range of transactions, and the wherewithal to achieve efficiencies in transforming concepts. Increasingly, issuers ask us: "Can you partner with us to build X structure or Y product?" You'll see that illustrated in these case studies too.

### A True 'Working' Model

The market wants comfort and confidence; it finds comfort where it sees strength, and the strengths it sees instill confidence. The world financial crisis has shone a powerful spotlight on the strengths differentiating BNY Mellon Corporate Trust: financial stability, product range, expert people, independence, demonstrated commitment to clients over the long term—in other words, core competency in the business of global debt servicing.

The shape of the debt capital markets may change. The services needed in the future may not even be discernible to the marketplace at this time, and providers like us will need great agility to innovate effective solutions. Within BNY Mellon Corporate Trust, we will continue to refine our working model of core competency to meet changing needs. But the strengths on which that core competency model has always rested will be as essential as ever—maybe more so—in the market that emerges from this crisis, and we will be there—ready, able, equipped with the working model, and setting the standard as always.

# Case Studies

## Committed to the Business

It is 1868.

In Washington, D.C., Congress has impeached the American president.

In Paris, cyclists are participating in the world's first-ever bicycle race.

A Milwaukee inventor introduces the QWERTY typewriter design.

And miles north of what was then the city limit of New York, a wily financier named Leonard Jerome persuades two small municipalities to issue bonds for construction of a road to his new racetrack.

Jerome had built the elegant track, Jerome Park, in hopes of luring New York's upper crust to travel to its nether reaches to enjoy the sport of kings, which at the time played second fiddle to harness racing. Showing a touch of marketing genius, Jerome even named races after some of the City's legendary swells; the first Belmont Stakes, named for banker August Belmont, was run at Jerome Park.

But the swells had to get to the Park, and it was a long way from their usual stomping grounds. Enter the small municipalities—cash-strapped West Farms and Morrisania, whose city fathers were delighted to issue hundreds of bonds, backed by Jerome, paying seven percent interest and maturing at different times.

It was one of the wiliest of the wily financier's moves—and not just because the new road did indeed bring high society to the horses. Jerome's thinking was that as New York grew northward, the little municipalities would be swallowed up by the City, which would end up having to pay off the bondholders. That's exactly what happened; in 1874, New York absorbed the towns of West Farms and Morrisania and assumed the debts of both.

Leonard Jerome is long gone, of course, although he left some lasting legacies. One legacy is the avenue in the Bronx that bears his name—Jerome Avenue, well known to every New Yorker. Another legacy came through his daughter, Jennie, who married a British aristocrat and gave birth to Winston Churchill. Jerome's racetrack, however, is now a City reservoir. West Farms and Morrisania are neighborhoods in the Bronx, New York's northernmost borough.

Yet every March 1 and September 1, BNY Mellon, the City's trustee administering the bonds Jerome backed, dutifully mails off checks representing seven percent interest to the remaining bondholders. With the last bond not due to mature until 2147, that represents a commitment to trusteeship of commendable longevity.

# Case Studies

## Multiple Needs, Single Solution

When the borrower of a multiple-tranche loan from a 320-lender syndicate was forced to restructure the debt, it spelled trouble for the role of agent, which had been filled by the syndicate's lead arranger. The restructuring process made it clear that the various lender groups in the syndicate had different priorities. The restructuring interests of senior lenders differed from those of mezzanine lenders, whose interests in turn differed from the interests of second-lien lenders. Citing clear conflict of interest, the agent resigned from representing all but the senior loan financing, and the syndicate suddenly found it needed replacement agents for the lender groups for the two other tranches.

Attorneys for several of the second-lien lenders recommended BNY Mellon Corporate Trust. As the pioneer in the field and the largest third-party administrative agent in the industry, it was the obvious go-to provider. Perhaps more important was BNY Mellon Corporate Trust's well recognized independence; it meant the division could represent the lender groups of not just one but both financings—mezzanine and second-lien—thereby providing a single solution for multiple lenders' multiple needs.

## Time for a Change

It's a small, highly specialized U.S. government agency that does essential work. So when it was determined that the trustee reporting for its capital financing program was inadequate in terms of accuracy and timeliness, the staff decided to put out a Request for Proposal and make a change.

Answering the call was a partnership that billed itself as "two companies, one voice." One of the companies was a minority-owned investment bank, which would handle underwriting and financial advisory services. The other company was the trustee the investment bank considered

the best in the world, BNY Mellon Corporate Trust. Its wide experience in working with the Federal government, expertise in trust services, and unmatched financial strength made it the investment bank's clear choice. The two companies promised a single point of contact into all the capabilities of the partnership.

To the agency staff accountable for every penny of taxpayer money and needing all possible help to do the agency's important work, it was a no-brainer: time to change trustee—and go with the best.

## An Institution in Trouble

A large European financial institution was sufficiently plagued by distressed assets on its books that it asked the central bank of its home country to step in. Under the terms agreed, the central bank would create a master fund comprising five grantor trusts and one LLC as buyers of the distressed assets. The financial institution's balance sheet risk would thus be minimized, and the master fund would securitize the assets to capitalize the equity.

All that was needed—and it was needed fast—was a trustee with three attributes: adequate financial strength,

the full range of varied capabilities required to structure and administer the master fund, and the kind of global reach and local expertise that would enable it to step in quickly and do the job right.

BNY Mellon Corporate Trust met all the qualifications. In a short period of time, the division was serving as trustee, master servicer, and data aggregator of the fund. A legendary European financial institution's balance sheet was stabilized, its capital ratios strengthened, its longevity and effectiveness reclaimed.

## Essential Role

The Enhanced Equipment Trust Certificate—EETC—is a form of secured debt financing used by airlines to fund the multiple aircraft purchases or leases typically needed to keep their fleets up-to-date and state-of-the-art. For this essential industry, a vital component of the nation’s infrastructure, the EETC is therefore a virtual necessity. And central to the EETC is the role of the depository holding the debt proceeds for funding the respective aircraft deliveries.

To be eligible as a depository, an institution is required to demonstrate the highest debt rating handed down by both Moody’s and Standard & Poor’s. In the wake of the global financial crisis, however, a number of potential

depositories were downgraded; some others that might have qualified on ratings lacked requisite skills in some cases and sufficient capabilities in other cases. So when the lead underwriters on a purchase of 16 new aircraft had arranged the deal and lined up the investors, they found themselves looking around for a sound and stable depository.

They didn’t have to look far. BNY Mellon had the ratings, and its Corporate Trust division had the depository services expertise and the innovative resourcefulness to complete the transaction. With BNY Mellon Corporate Trust as depository, the deal closed, and the ageing fleet got its upgrade.

## Out of Confidence and Almost Out of Business

When the collapse of Lehman Brothers sent ripples of uncertainty throughout the bond market, one product that looked like it might be swamped was catastrophe bonds—cat bonds, the reinsurance alternative that transfers insurers’ disaster-driven losses to investors. Unsure how to track underlying collateral, investors suddenly seemed to have lost confidence in the very structure of these instruments. Without that confidence, the cat bonds’ credit risk just looked too high, and insurers worried they had lost this valuable means of financing.

Enter the savvy, innovative, and flexible professionals of BNY Mellon Corporate Trust. Working with two separate insurance bond issuers in the first half of 2009, they enhanced the cat bond structure, initiating a new standard of transparency and establishing procedures for effecting the standard. With website reporting on certain aspects of the bond’s collateral assets, investors had the clarity and transparency they sought—and cat bonds were back in business.

## Outsourcing Needed

When a large government purchaser of U.S. whole-loan mortgages needed to reduce costs and avoid capital outlays, it decided that one good way to do so would be to outsource its document custody function. But there were challenges.

First, the document custodian would have to produce a series of customized reports to accommodate rigorous mortgage market controls. Second, the amount of files involved was huge—several million. In addition, speed was of the essence: the government agency needed to transfer the first million files within three months! Speed, volume, and customized services: a tall order for any document custodian.

Because of its wide-ranging experience in serving government agencies, BNY Mellon Corporate Trust was appointed by this government purchaser. A dedicated team from the division quickly put together all needed capabilities in an innovative solution that met—and exceeded—the challenges. The solution comprised document custody and tracking, the review and certification of all documents, safekeeping, and loan-level and aggregate performance tracking across the portfolio.

As for the first million files that needed to be moved in three months, the team got the job done in even less time.

## Tackling the First-Ever Qualified School Construction Bond

A key provision of the American Recovery and Reinvestment Act of 2009—a core stimulus initiative of the U.S. economy—is the issuance of Qualified School Construction Bonds to fund the building, rehabilitation, or repair of public school facilities in districts with a demonstrated need for additional resources. When the first district ever to issue this new type of financing sought a paying agent for the transaction, both the district administration and its investment bank looked to the agent with proven expertise in tackling new categories of bonds—namely, the Corporate Trust division of BNY Mellon.

Because the bond structure provides tax credits rather than paying interest, it was necessary to develop a

process specifically tailored to the particulars of the structure. Since the tax credits may be traded separately, BNY Mellon Corporate Trust will serve as registrar and transfer agent as well. In addition, special quarterly reporting procedures have been put in place for notifying the Depository Trust Corporation about expiring tax credits.

The school district and its investment underwriter were confident that BNY Mellon Corporate Trust, with its track record of innovation, could develop the right processes and procedures for their needs—and make it all work.

They were right.

## Even an Island Needs Liquidity

When the government of a small but prosperous island nation agreed to guarantee shares issued by its biggest bank, the role of the trustee became particularly crucial. At stake was the bank's ability to raise capital in the adverse environment of the global financial crisis. To the bank issuing the shares, to the government guaranteeing them, and to investors buying them, it was essential that the chosen trustee demonstrate both the know-how to process any and all claims and the financial stability that generates confidence.

BNY Mellon Corporate Trust met both criteria.

And when the division's staff scrutinized the documents of the structure and discovered—24 hours before the scheduled closing—that the local transfer agent was unable to provide the services required, they were able instantly to mobilize the bank's own resources to provide the agent services specified and, at the eleventh hour, rescue the transaction from further delay. It wasn't just expertise; it was the range of expertise the division was able to deploy—and its ability to turn on a dime to deploy it.

## Contingency Planning

Directed by their auditors to create a disaster recovery plan, the administrators of an institution of higher learning in the U.S. sought assistance in creating a backup contingency for data on a new issuance in their debt portfolio. Although not the institution's traditional debt trustee, BNY Mellon Corporate Trust came up with a creative and innovative solution that earned the division the trusteeship of the new issuance.

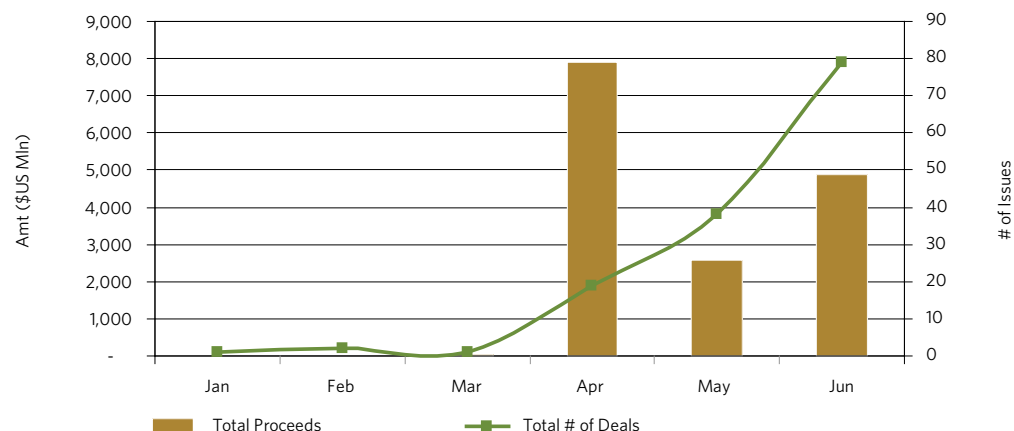
Right on the bank's own Investor Reporting website, the client academic institution posts its electronic files containing all the governing documents, debt service information, and statements on the new issue. This secure data is accessible only to the institution's financial personnel but is readily available should a disaster ever compromise records housed at the institution itself.

# A Statistical Review

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Global Maturing Debt .....	37
Global Project Finance Activity .....	40
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# Global Stimulus Efforts

## Bond Issuance Under US Recovery Act



Disclaimer: Issuance activity comprises bond authorizations under the ARRA including BAB, CREB, QSBC, QZAB bonds since 1/1/2009 known to ThomsonReuters.  
Source: ThomsonReuters

## International Stimulus Programs (For six months ended June 30, 2009)

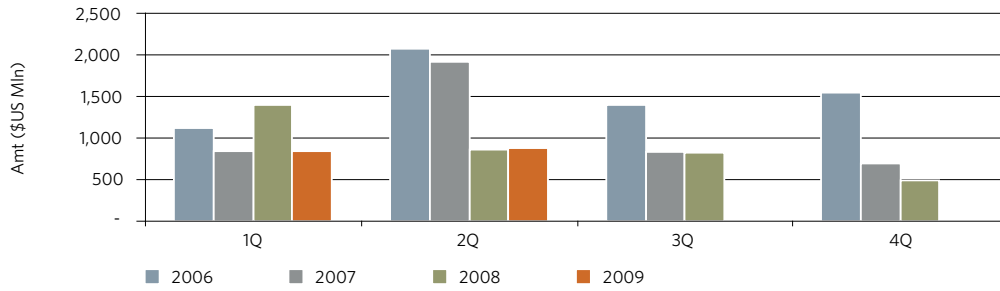
Country	Initial Conditions	Spending in 2009		Total Size of Stimulus	
	Gross Public Debt (percent 2008 GDP)	USD amount (Bln)	Percent 2008 GDP	USD amount (Bln)	Percent 2008 GDP
US	60.80%	268	1.90%	841.2	5.90%
China	15.70%	90.1	2.10%	204.3	4.80%
Germany	62.60%	55.8	1.50%	130.4	3.40%
Japan	170.40%	66.1	1.40%	104.4	2.20%
Spain	38.50%	18.2	1.10%	75.3	4.50%
Saudi Arabia	17.70%	17.6	3.30%	49.6	9.40%
Canada	62.30%	23.2	1.50%	43.6	2.80%
UK	47.20%	37.9	1.40%	40.8	1.50%
Russia	6.80%	30	1.70%	30	1.70%
Korea	27.20%	13.7	1.40%	26.1	2.70%
France	64.40%	20.5	0.70%	20.5	0.70%
Australia	15.40%	8.5	0.80%	19.3	1.80%
Indonesia	30.10%	6.7	1.30%	12.5	2.50%
Mexico	20.30%	11.4	1.00%	11.4	1.00%
Brazil	40.70%	5.1	0.30%	8.6	0.50%
South Africa	29.90%	4	1.30%	7.9	2.60%
Italy	103.70%	4.7	0.20%	7	0.30%
India	59.00%	6.5	0.50%	6.5	0.50%
Argentina	51.00%	4.4	1.30%	4.4	1.30%

Sources: IMF, CIA World Factbook, various news sources and calculations by The Brookings Institute

# Asia-Pacific Market Summary

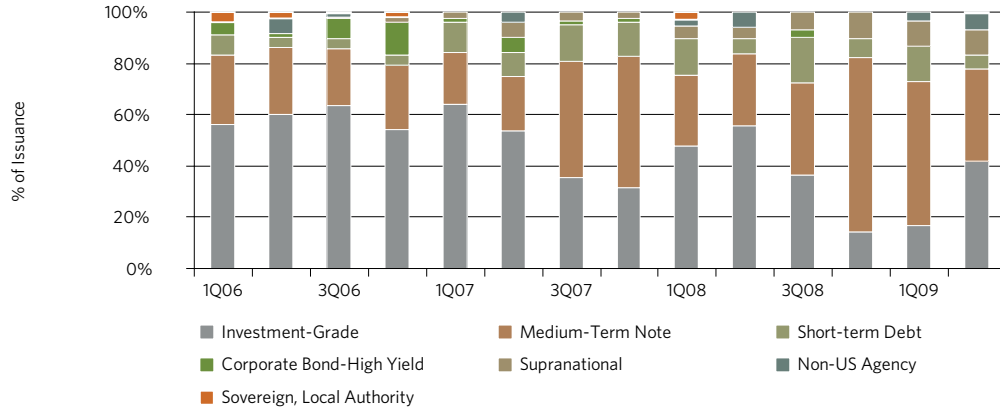
## APAC Cross Border Corporate Debt

Average Deal Size by Quarter



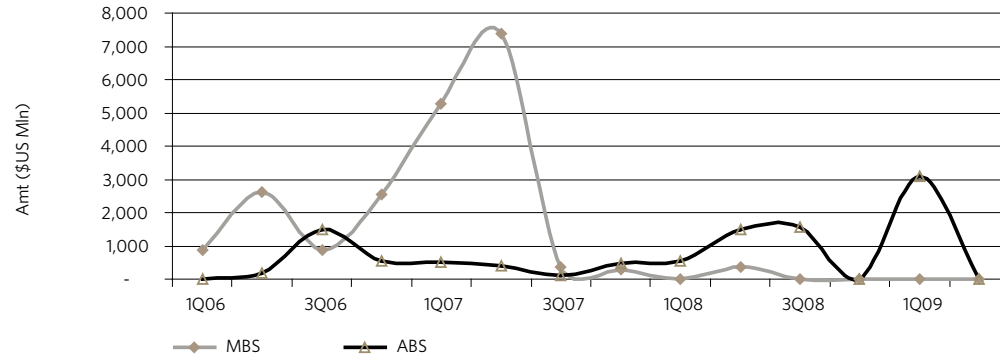
Average deal size of XS ISIN issued stand alone corporate debt in the APAC market quarterly. Corporate debt includes Investment Grade, High Yield, Sovereign/SupraNational, Non-US Agency, and Short Term Debt.  
Source: Dealogic

## APAC Cross Border (XS ISIN) Debt Issuance (By Bond Type)



Displays percent of total of XS ISIN volume issued corporate debt in the APAC market quarterly. Corporate debt includes Medium Term Notes, Investment Grade, High Yield, Sovereign/SupraNational, Non-US Agency, and Short Term Debt as defined by Dealogic.  
Source: Dealogic

## APAC Cross Border (XS ISIN) MBS & ABS Debt Issuance

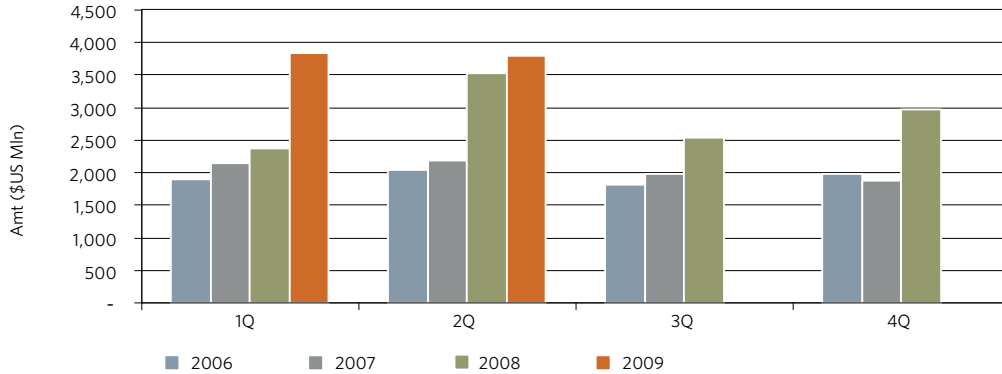


Displays total of XS ISIN structured debt volume issued in the APAC market quarterly. Structured debt includes Asset Backed and Mortgage Backed securities issued publicly and known by Dealogic. May not include all structured deals placed in the defined market.  
Source: Dealogic

# Europe, Middle East and Africa Market Summary

## EMEA (XS ISIN) Corporate Debt

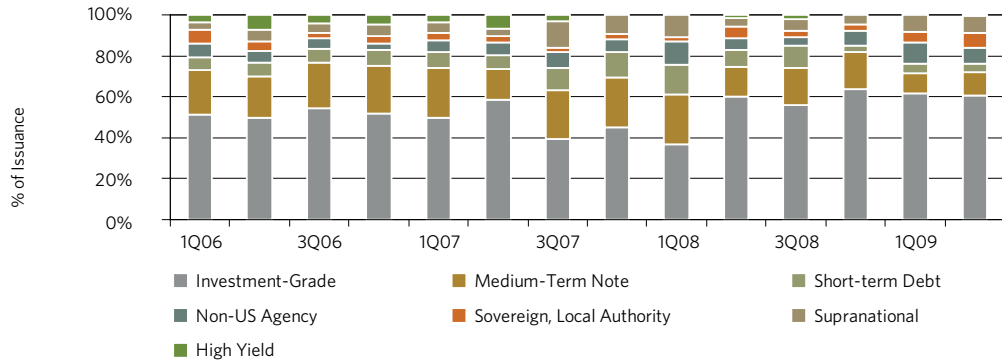
Average Deal Size by Quarter



Displays average deal size of XS ISIN issued stand alone corporate debt in the EMEA market quarterly. Corporate debt includes Investment Grade, High Yield, Sovereign, SupraNational, Non-US Agency, and Short Term Debt.  
Source: Dealogic

## EMEA Cross Border (XS ISIN)

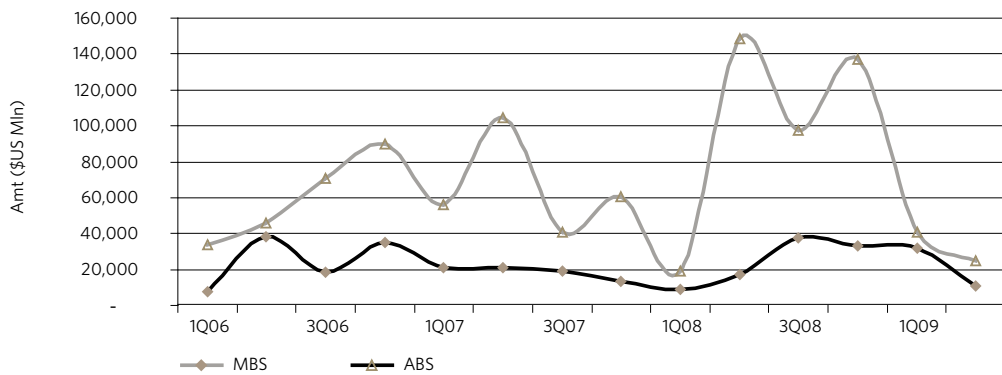
Debt Issuance (By Bond Type)



Displays percent of total of XS ISIN volume issued corporate debt in the EMEA market quarterly. Corporate debt includes Medium Term Notes, Investment Grade, High Yield, Sovereign, SupraNational, Non-US Agency, and Short Term Debt as defined by Dealogic.  
Source: Dealogic

## EMEA Cross Border (XS ISIN)

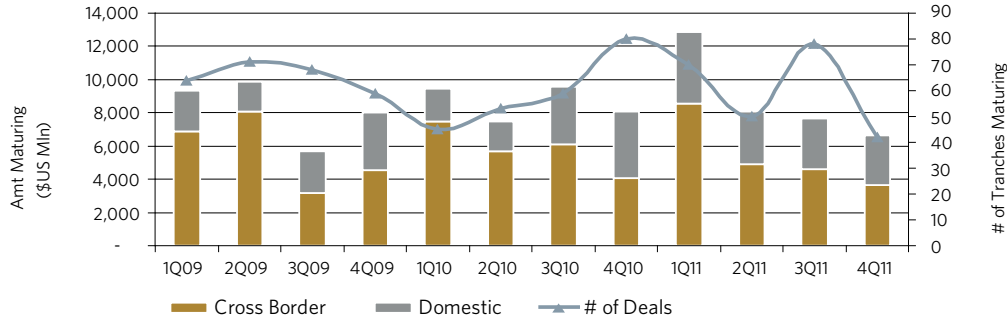
MBS & ABS Debt Issuance



Displays total of XS ISIN structured debt volume issued in the EMEA market quarterly. Structured debt includes Asset Backed and Mortgage Backed securities issued publicly and known by Dealogic. May not include all structured deals placed in the defined market.  
Source: Dealogic

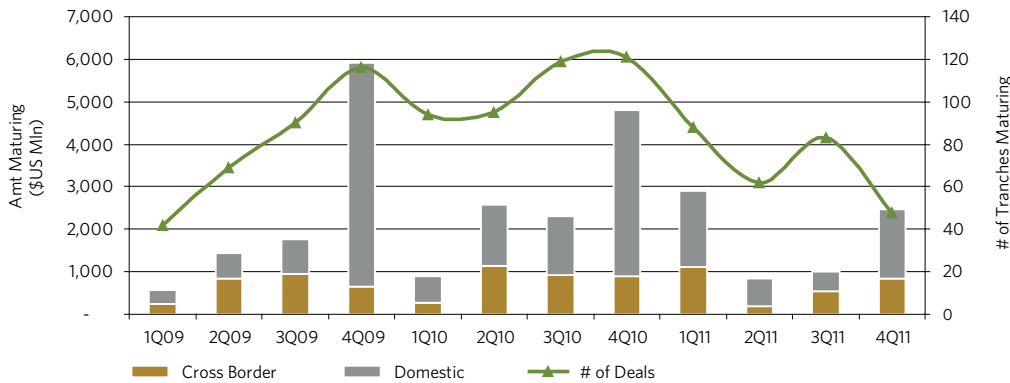
# Global Maturing Debt

## Debt Maturing In Latin America (Maturing Through 2011)



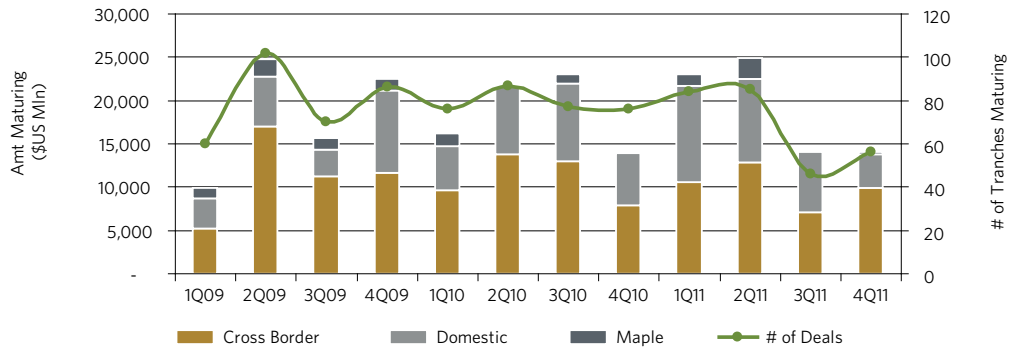
Comprises Latin America corporate and sovereign debt issued between 1/1/1999 and 12/31/2008, still outstanding, with a maturity between 1/1/2009 and 12/31/2011.  
Source: Bloomberg

## ABS & MBS Debt Maturing in Latin America (Maturing Through 2011)



Comprises Latin America Asset Backed or Mortgage Backed debt issued between 1/1/1993 and 12/31/2008, still outstanding, with a maturity between 1/1/2009 and 12/31/2011.  
Source: Dealogic

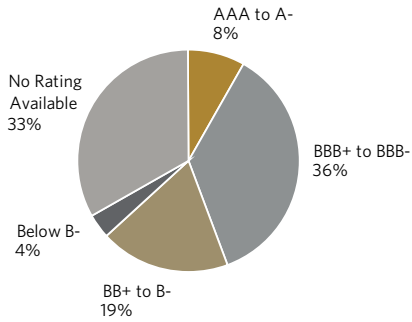
## Debt Maturing in Canada (Maturing Through 2011)



Comprises Canadian Cross Border, Domestic, and Maple Corporate & Structured debt issued between 1/1/1986 and 12/31/2008, still outstanding, with a maturity between 1/1/2009 and 12/31/2011.  
Corporate debt includes Investment Grade, High Yield, and Agency/Sovereign issued securities.  
Structured Debt includes Asset Backed or Mortgage Backed securities.  
Source: ThomsonReuters

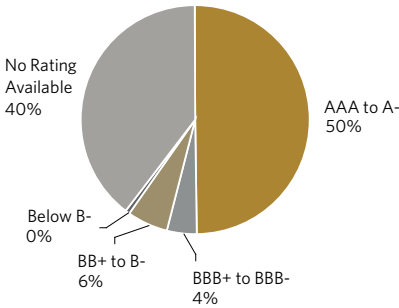
# Global Maturing Debt (continued)

## Latin America Debt Maturing By 2011



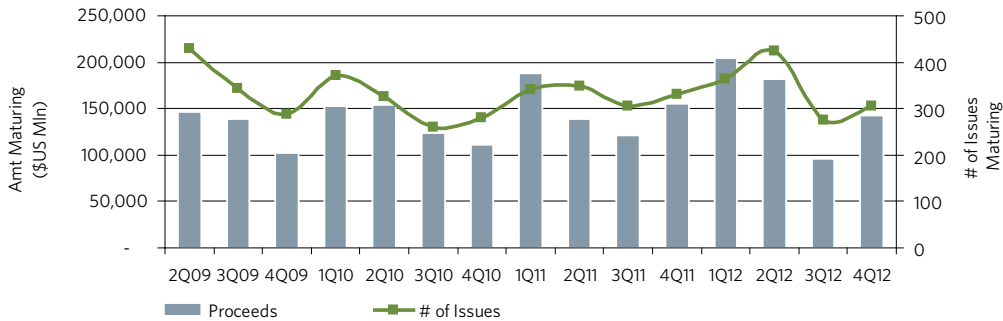
Comprises Latin America corporate and sovereign debt issued between 1/1/1999 and 12/31/2008, still outstanding, with a maturity between 1/1/2009 and 12/31/2011.  
 Ratings by S&P according to Bloomberg.  
 Source: Bloomberg

## Canada Debt Maturing By 2011



Comprises Canadian Cross Border, Domestic, and Maple Corporate & Structured debt issued between 1/1/1986 and 12/31/2008, still outstanding, with a maturity between 1/1/2009 and 12/31/2011.  
 Corporate debt includes Investment Grade, High Yield, and Agency/Sovereign issued securities.  
 Structured Debt includes Asset Backed or Mortgage Backed securities.  
 Ratings by S&P according to ThomsonReuters.  
 Source: ThomsonReuters

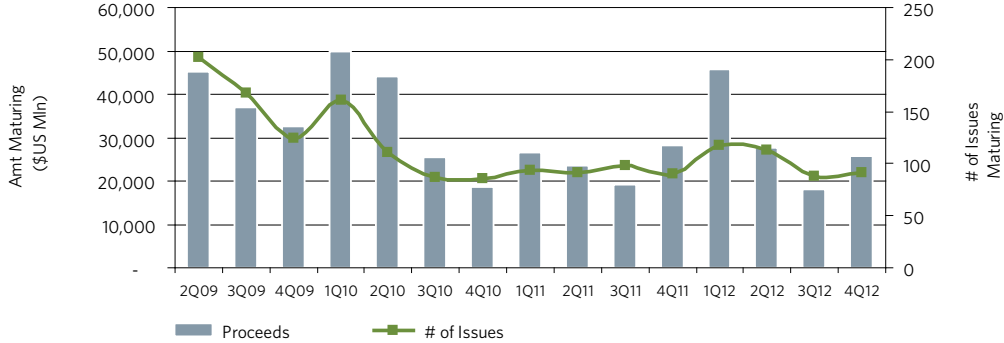
## Corporate Debt Maturing in the US (Through 2012)



Corporate Debt issued on or after 1/1/1988 and sold to US investors. Includes US 144A, Investment Grade, High Yield, Emerging Market and Agency Sovereign debt.  
 Source: ThomsonReuters

# Global Maturing Debt (continued)

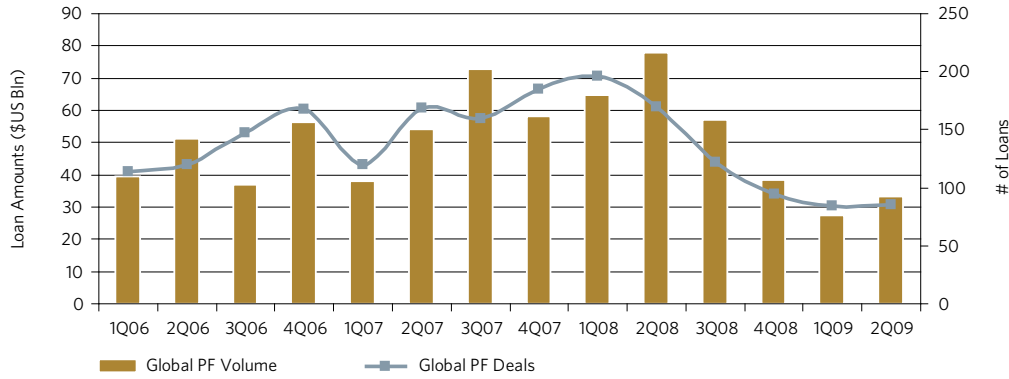
## Corporate MTN Takedowns Maturing in the US (Through 2012)



Corporate Debt issued on or after 1/1/1988 and sold to US investors. Includes US 144A, Investment Grade, High Yield, Emerging Market and Agency Sovereign debt.  
Source: ThomsonReuters

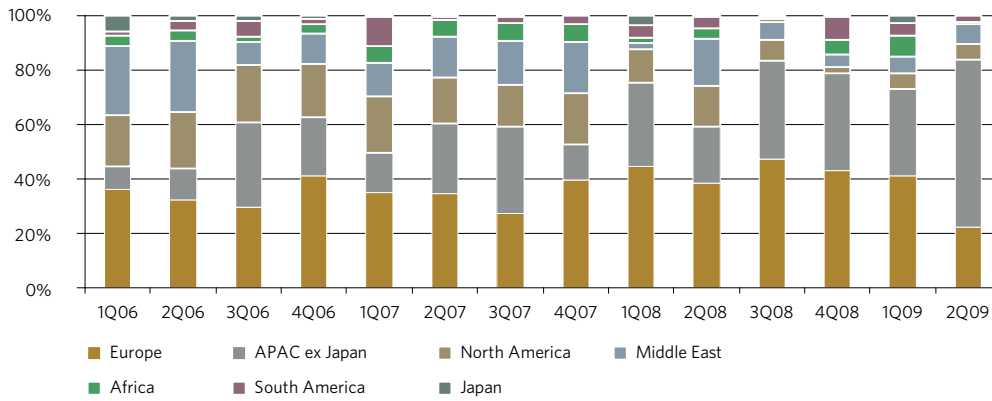
# Global Project Finance Activity

## Global Project Finance (Funding Activity)



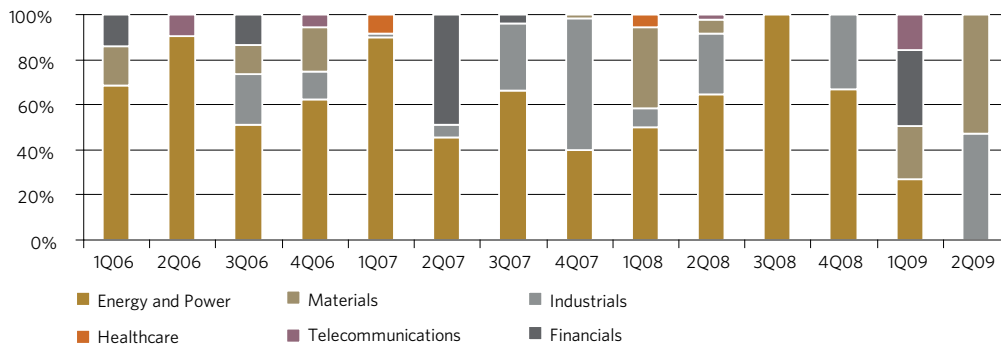
Loan transactions with proceeds directed to Project Finance initiatives as defined by ThomsonReuters.  
Source: ThomsonReuters

## Global Project Finance Loans (By Domicile Region)



Based on loan transactions volume in specified domicile regions with proceeds directed to Project Finance initiatives known to ThomsonReuters.  
Source: ThomsonReuters

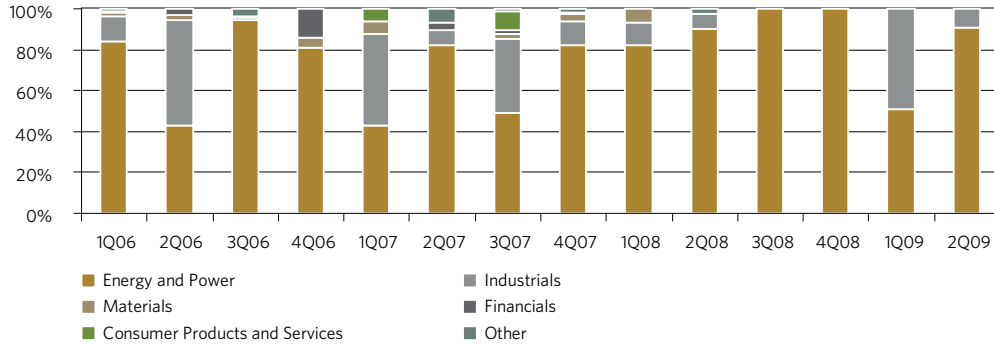
## South America Project Finance Loan Volume (By Project Industry)



Based on loan transactions volume in Central America, South America, and Caribbean domicile regions with proceeds directed to Project Finance initiatives known to ThomsonReuters.  
Source: ThomsonReuters

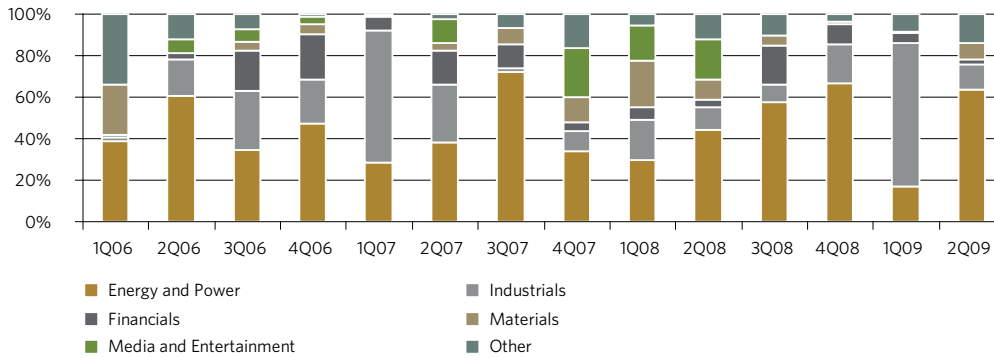
# Global Project Finance Activity (continued)

## North America Project Finance Loan Volume (By Project Industry)



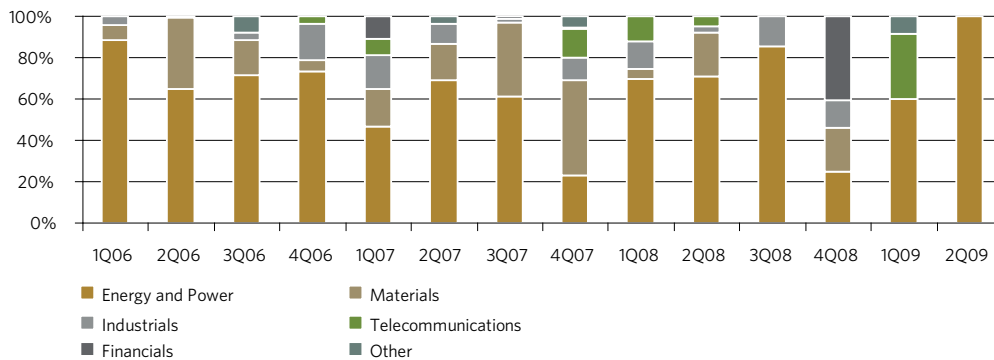
Based on loan transactions volume in North America and Canada domicile regions with proceeds directed to Project Finance initiatives known to ThomsonReuters.  
Source: ThomsonReuters

## APAC Project Finance Loan Volume (By Project Industry)



Based on loan transactions volume in Asia Pacific and Australasia domicile regions with proceeds directed to Project Finance initiatives as defined by ThomsonReuters known to ThomsonReuters.  
Source: ThomsonReuters

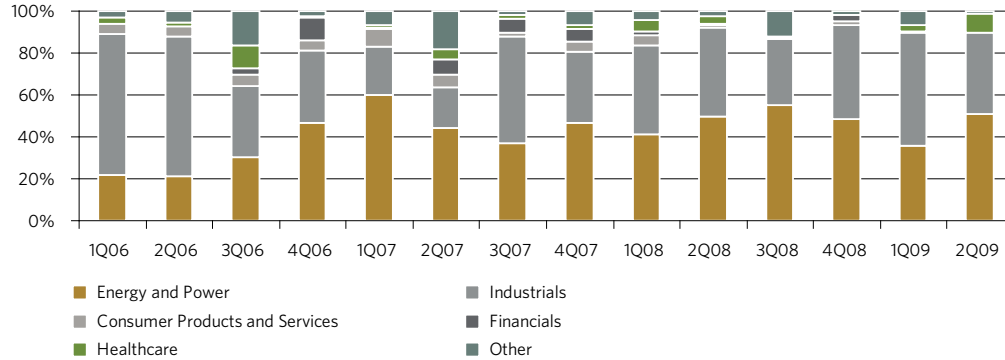
## Africa/Middle East Project Finance Loan Volume (By Project Industry)



Based on loan transactions volume in Africa and Middle East domicile regions with proceeds directed to Project Finance initiatives as defined by ThomsonReuters with financial close between 1/1/06 and 6/30/09 known to ThomsonReuters.  
Source: ThomsonReuters

# Global Project Finance Activity (continued)

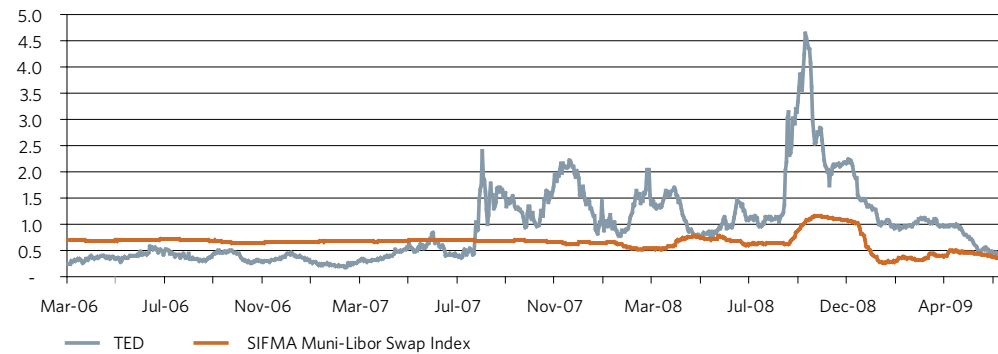
## European Project Finance Loan Volume (By Project Industry)



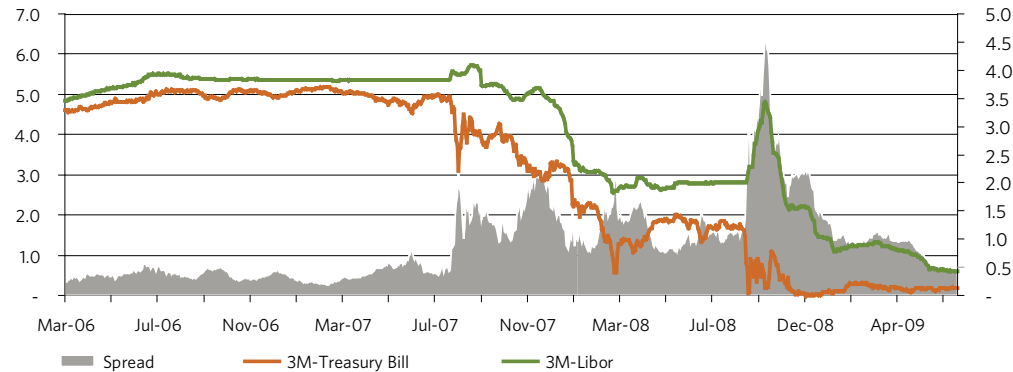
Based on loan transactions volume in Eastern, Central, and Western Europe domicile regions with proceeds directed to Project Finance initiatives as defined by ThomsonReuters with financial close between 1/1/06 and 6/30/09 known to ThomsonReuters.  
Source: ThomsonReuters

## Broad U.S. Market Indicators

### TED Spread & Libor-SIFMA Municipal Swap Index Rate Changes



### 3-Month T-Bill and Libor Historical Rates & Spread



Spread calculated as 3-month Libor - 3-month Treasury Bill, commonly referred to as the TED Spread

## A Leader with a Global Footprint, Financial Strength

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# Credit Ratings

As of July 2009

Listed below are the credit ratings for The Bank of New York Mellon Corporation and a principal banking subsidiary, The Bank of New York Mellon.

<b>The Bank of New York Mellon Corporation</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>DBRS</b>
Long-term Senior Debt	Aa2	AA-	AA-	AA (low)
Subordinated Debt	Aa3	A+	A+	A (high)
Trust Preferred Securities	Aa3	A	A+	A (high)
Short-term	P1	A-1+	F1+	R-1 (middle)
Outlook	Stable	Stable	Stable	Stable (long-term) Stable (short-term)

<b>The Bank of New York Mellon</b>	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>DBRS</b>
Long-term Deposits	Aaa	AA	AA	AA
Long-term Senior Debt	Aaa	AA	AA-	AA
Short-term Deposits	P1	A-1+	F1+	R-1 (high)
Outlook	Stable	Stable	Stable	Stable (long-term) Stable (short-term)

A security rating is not a recommendation to buy, sell, or hold securities. The rating may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of the other ratings.

# Market Leadership

BNY Mellon's quality of execution and service is recognized across the industry:

## **Trustee of the Year**

(Institutional Investors Total Securitization, U.S. Securitization Awards, 2008)

## **ISR Magazine Trustee of the Year Award**

(International Securitization Report, 2008)

## **Best Investor Services House**

(Euromoney Awards for Excellence 2009 -  
BNY Mellon: Global Corporate Trust and Asset Servicing)

## **Top Trustee in the U.S.**

(Thomson Reuters, 2008)

## **Top Municipal Debt Trustee in the U.S.**

(Thomson Reuters, 2008)

## **Top Trustee for Global CDOs**

(Asset Backed Alert, 2008)

# BNY Mellon Corporate Trust Worldwide Locations

---

## Europe and Middle East

### The Bank of New York Mellon

One Canada Square  
Canary Wharf  
London E14 5AL  
England

### The Bank of New York Mellon

South Quay Plaza 2, 7th Floor  
183 Marsh Wall South  
London E14 9 SH  
England

### The Bank of New York Mellon

Merck House, Seldown Land  
Poole, Dorset BH15 1PX  
England

### The Bank of New York Mellon

13-15 Boulevard de la Madeleine  
75001 Paris  
France

### The Bank of New York Mellon

Bockenheimer Landstrasse 24  
D-60323 Frankfurt am Main  
Germany

### BNY Financial Services

Hanover Building, Windmill Lane  
Dublin 2  
Ireland

### The Bank of New York Mellon (Luxembourg) S.A. - Italian Branch

Via Carducci 31  
20123 Milano  
Italy

### The Bank of New York Mellon (Luxembourg) S.A.

Aerogolf Centre, 1A Hoehenhof I-1736  
Senningerberg  
Luxembourg

### The Bank of New York Mellon

Jose Abascal 45, Planta 4  
28003 Madrid  
Spain

### The Bank of New York Mellon

Dubai International Financial Centre  
The Exchange Building 5 North, Level 6, Room 601  
P.O. Box 506723, Dubai  
United Arab Emirates

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## Latin America

### The Bank of New York Mellon

25 De Mayo 195, 6th Floor  
Buenos Aires  
Argentina

### The Bank of New York Mellon

Avenida Presidente Juscelino Kubitschek  
1455 - 6º andar  
04543 011 São Paulo - SP  
Brasil

### The Bank of New York Mellon

Torre Reforma 115 Building  
Paseo de la Reforma No. 115  
Col. Lomas de Chapultepec  
C.P. 11000  
Mexico

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## Canada

### BNY Trust Company of Canada

4 King Street, Suite 1101  
Toronto, Ontario M5H 1B6  
Canada

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## United States

### **The Bank of New York Mellon Trust Company, N.A.**

505 North 20th Street, Suite 950  
Birmingham, AL 35203

### **The Bank of New York Mellon Trust Company, N.A.**

1225 West Washington Street, Suite 126  
Tempe, AZ 85281

### **The Bank of New York Mellon Trust Company, N.A.\***

5730 Katella Avenue  
Cypress, CA 90630

### **The Bank of New York Mellon Trust Company, N.A.**

700 South Flower Street, Suite 500  
Los Angeles, CA 90017

### **The Bank of New York Mellon Trust Company, N.A.**

550 Kearny Street, Suite 600  
San Francisco, CA 94108

### **The Bank of New York Mellon Trust Company, N.A.**

1775 Sherman Street, Suite 2775  
Denver, CO 80203

### **The Bank of New York Mellon Trust Company, N.A.**

10161 Centurion Parkway, 2nd Floor  
Jacksonville, FL 32256

### **The Bank of New York Mellon Trust Company, N.A.**

900 Ashwood Parkway, Suite 425  
Atlanta, GA 30338

### **The Bank of New York Mellon Trust Company, N.A.**

2 North LaSalle Street, Suite 1020  
Chicago, IL 60602

### **The Bank of New York Mellon Trust Company, N.A.**

300 North Meridian Street, Suite 910  
Indianapolis, IN 46204

### **The Bank of New York Mellon Trust Company, N.A.**

614 West Main Street, Suite 2600  
Louisville, KY 40202

### **The Bank of New York Mellon Trust Company, N.A.**

301 Main Street, Suite 1510  
Baton Rouge, LA 70825

### **The Bank of New York Mellon Trust Company, N.A.**

601 Poydras Street, Suite 2225  
New Orleans, LA 70130

### **The Bank of New York Mellon Trust Company, N.A.**

222 Berkeley Street, 2nd Floor  
Boston, MA 02116

### **The Bank of New York Mellon Trust Company, N.A.**

719 Griswold Street, Suite 930  
Detroit, MI 48226

### **The Bank of New York Mellon Trust Company, N.A.**

911 Washington Avenue, Suite 300  
St. Louis, MO 63101

### **The Bank of New York Mellon**

385 Rifle Camp Road  
West Paterson, NJ 07424

### **The Bank of New York Mellon\***

2 Hanson Place  
Brooklyn, NY 11217

### **The Bank of New York Mellon**

101 Barclay Street, 21 West  
New York, NY 10286

### **The Bank of New York Mellon\***

111 Sanders Creek Parkway  
Syracuse, NY 13057

### **The Bank of New York Mellon\***

401 S. Salina Street  
Syracuse, NY 13022

### **The Bank of New York Mellon Trust Company, N.A.**

525 Vine Street, Suite 900  
Cincinnati, OH 45202

### **The Bank of New York Mellon Trust Company, N.A.**

Skylight Office Tower  
1660 West 2nd Street, Suite 830  
Cleveland, OH 44113

### **The Bank of New York Mellon Trust Company, N.A.**

6525 West Campus Oval, Suite 200  
New Albany, OH 43054

# BNY Mellon Corporate Trust Worldwide Locations (continued)

## **The Bank of New York Mellon Trust Company, N.A.**

Williams Center Tower I  
One West Third St., Suite 1005  
Tulsa, OK 74103

## **The Bank of New York Mellon Trust Company, N.A.**

1600 Market Street, Suite 1500  
Philadelphia, PA 19103

## **The Bank of New York Mellon Trust Company, N.A.**

525 William Penn Place, 7th Floor  
Pittsburgh, PA 15259

## **The Bank of New York Mellon Trust Company, N.A.**

One Financial Plaza, Suite 1435  
Providence, RI 02903

## **The Bank of New York Mellon Trust Company, N.A.**

919 Congress, 5th Floor  
Austin, TX 78701

## **The Bank of New York Mellon Trust Company, N.A.**

2001 Bryan Street, 8th Floor  
Dallas, TX 75201

## **The Bank of New York Mellon Trust Company, N.A.**

601 Travis, 16th Floor  
Houston, TX 77002

## **The Bank of New York Mellon Trust Company, N.A.\*\***

2220 Chemsearch Blvd., Suite 150  
Irving, TX 75062

## **The Bank of New York Mellon Trust Company, N.A.**

600 E. Las Cosinas Blvd., Suite 1300  
Irving, TX 75039

## **The Bank of New York Mellon Trust Company, N.A.**

919 East Main Street, Suite 1602  
Richmond, VA 23219

## **The Bank of New York Mellon Trust Company, N.A.**

Two Union Square  
601 Union Street, Suite 520  
Seattle, WA 98101

## **The Bank of New York Mellon Trust Company, N.A.**

330 E. Kilbourn Avenue, Suite 809  
Milwaukee, WI 53202

## **Australia**

### **BNY Mellon Australia Pty Ltd.\***

Unit 3, 5-15 Epsom Road  
Rosebery NSW 2018  
Australia

### **BNY Mellon Australia Pty Ltd.**

Level 2, 35 Clarence Street  
Sydney, NSW 2000  
Australia

## **Asia-Pacific**

### **The Bank of New York Mellon**

Level 12, Three Pacific Place  
1 Queen's Road East  
Hong Kong

### **BNY Mellon International Operations (India) Private Ltd.\***

Level 5, Tower VI, Cypercity  
Magarpatta City, Hadapsar  
Pune 411013  
India

### **The Bank of New York Mellon Trust (Japan), Ltd.**

Fukoku Seimei Building,  
2-2-2, Uchisaiwai-cho, Chiyoda-ku  
Tokyo 100-0011  
Japan

### **The Bank of New York Mellon**

Young-Poong Bldg., 23rd Floor, 33 Seolin-dong  
Chongro-ku. C.P.O. Box 4906  
Seoul 110-752  
Korea

### **The Bank of New York Mellon**

10th Floor Philamlife Tower  
8767 Paseo de Roxas  
Makati City 1200  
Metro Manila  
Philippines

### **The Bank of New York Mellon**

One Temasek Avenue  
No. 02-01 Millenia Tower  
Singapore 039192

# BNY Mellon Corporate Trust Regional Contacts

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## Europe, Middle East and Africa

**Michael Whelan**  
+44 207 964 8802

## Latin America

**Erin Courcey**  
+1 212 815 7138

## Canada

**Ross Neilson**  
+1 416 933 8506

## United States

Corporate Finance and Specialty Products  
**Andrew Zelter**  
+1 212 815 2142

Municipal Finance  
**Mark P. Brown**  
+1 770 698 5183

Structured Credit  
**Jean Wynn**  
+1 212 298 1945

## Asia-Pacific

**Gary Lew**  
+852 2840 6621

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**BNY MELLON**

**[www.bnymellon.com](http://www.bnymellon.com)**

BNY Mellon Corporate Trust administers nearly \$12 trillion in outstanding debt from 58 locations in 20 countries. Its clients include governments and their agencies, multinational corporations, financial institutions and other entities that access the global debt capital markets. The corporate trust business utilizes its global footprint and expertise to deliver a full range of issuer and related investor services and develop customized and market-driven solutions. Its range of core services includes debt trustee, paying agency, escrow and other fiduciary offerings.

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