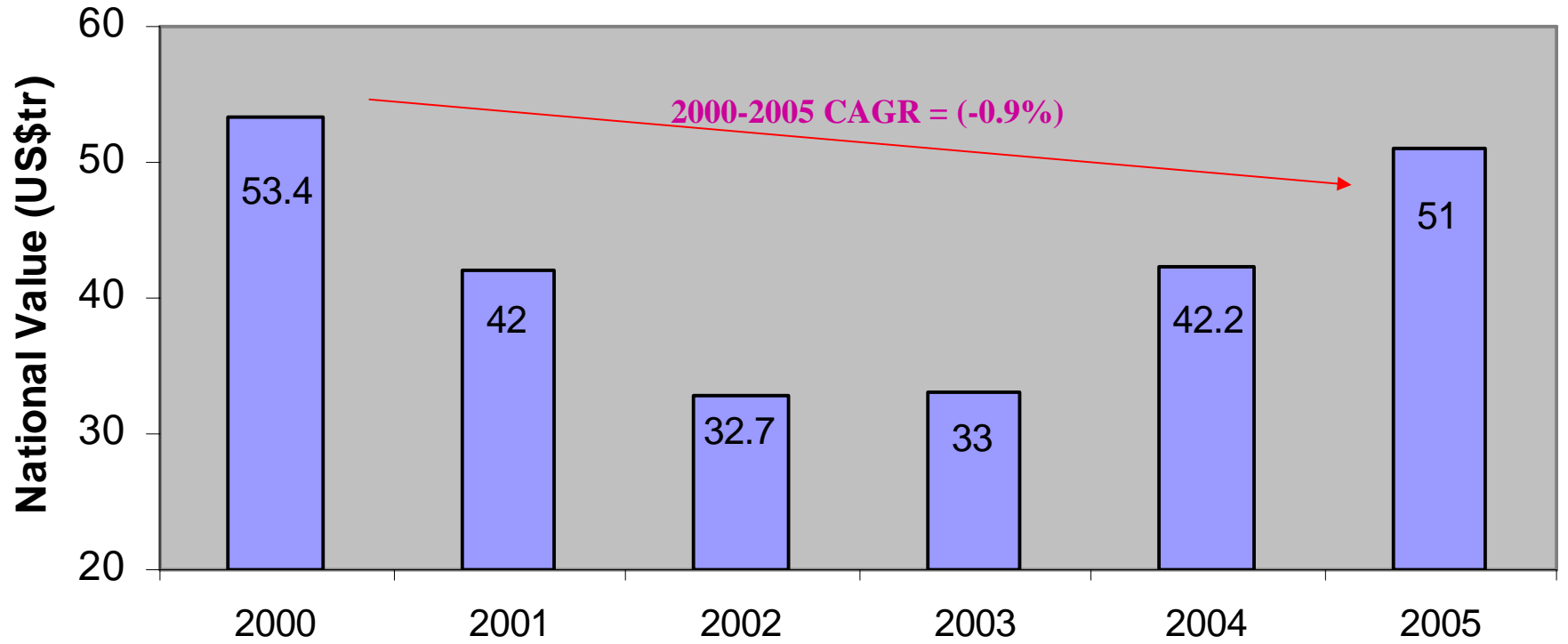


REGULATORY DEVELOPMENTS
IN SECURITIZATION
IN SRI LANKA

Channa de Silva

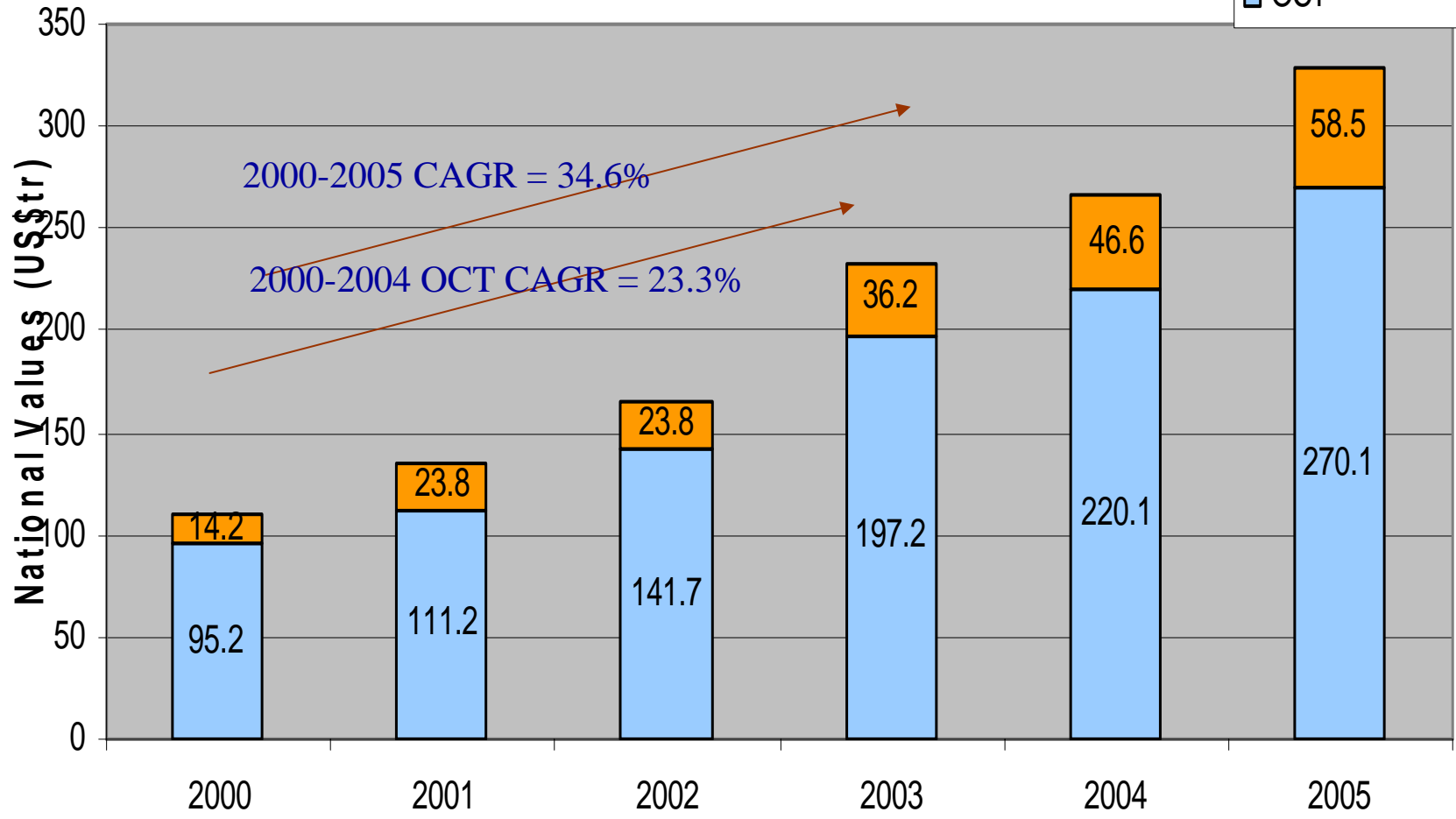
Director General, Securities and Exchange Commission of Sri Lanka

Global Equities Market



Global Derivatives Market

- Exchange Traded
- OCT



ROLE OF THE SEC IN DEVELOPING SECURITIZATION

- *Capital market development*
- *Regulation to preserve the credibility of the capital market*
- *The existence of some level of securitization which is largely unregulated*
 - *Finance Leasing Businesses*
come under the regulatory purview of the Central Bank –
[Finance Leasing (Amendment) Act No 24 of 2005]

BENEFITS OF SECURITIZATION

To the originator

- Assists in improving liquidity within entities
- Releases capital
- Lower cost of borrowing

To the investor

- Risk may be reduced
- Tradable and liquid
- Diversification of investments

CURRENT PRACTICES IN SRI LANKA

- Pool of assets is selected by the Originator
- The transaction is structured by an Arranger
- A mortgage over assets is granted to the Trustees
- The Trustees issue certificates to Investors
- The Trustees appoint the Originator as service provider to handle collections etc.
- The Trustee facilitates payments to Investors

REGULATORY GAPS

- No Regulation for Securitization
- Insufficient disclosures for investors to determine
 - extent of risk

PROPOSALS TO BRIDGE THE GAPS

- Regulation of
 - permitted issuers
 - custodians of assets
 - types of assets
 - arrangers

Mandatory Rating

Proposals – Cont'd...

- Recognition of special purpose vehicle
 - true sale
 - tax neutrality
 - recognition of ownership

Regulated industry

- with registration/licensing
- Supervision

FUTURE REGULATORY ENVIRONMENT

- *Adherence to Securities Law*
- *Enforcement of Fiduciary duties*
- *Enforcing reporting requirements*
- *Ensuring adherence to capital adequacy & solvency*
- *Governance*
- *Striving a balance whilst engaging in best practices*

PARATE RIGHTS

- Parate powers given to institutions subject to Public remedy & judicial review.
- Public law remedies such as writs of Certiorari, Mandamus and Prohibition and permanent injunctions
- SPV having Parate rights

TAXATION

- *Taxation in securitization should not be more cumbersome than parallel sources of funding*
- Taxes which apply to a transaction –
 - acceleration of profit Corporate tax
 - transfer from SPV Income tax
 - Service fee from SPV VAT
 - issue of Certificates Stamp duty
 - sales proceeds VAT

Fundamental tenants of securitization

Summary

- Marketability leading to reduction in cost of raising capital
- Effective regulations & governance
- Proper disclosures
- True sale & bankruptcy remoteness
- Minimum cost of regulation

THANK YOU