

## **SECURITISATION IN SRI LANKA**

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Abstract:

*This paper introduces the reader to Securitisation by discussing the basics of Securitisation and the jargon used in the industry. It then focuses on Securitisation in Sri Lanka and identifies and describes the recommendations made for a Securitisation Law in Sri Lanka. The paper does not aim to examine the impediments existing in Sri Lanka vis-à-vis Securitisations.*

### **What is Securitisation?**

Securitisation is “the issuance of marketable securities backed not by the expected capacity to repay of a private corporation or public sector entity, but by the expected cash flows from specific assets” [OECD (1995)]. In other words, Securitisation is a process by which a stream of receivables or future cash flows are assigned to a Special Purpose Vehicle (SPV), which issues securities representing interest in the cash-flows/receivables to investors. Assets, which have been securitized in this manner, include residential mortgages, leases, auto loans, credit card receivables and utility payments.

For example, a leasing company, which has issued a large number of vehicle leases wants to raise cash so it can issue more leases. One solution would be to sell off its existing leases, but since the secondary market for individual vehicle leases is illiquid this would not be advisable. Instead the leasing company pools a large number of its leases and sells interests in the pool to investors. This raises capital for the leasing company and gets the leases off its balance sheet so that it can issue new leases. For investors, it creates a liquid investment in a diversified pool of vehicle leases, which may be an attractive alternative to a corporate bond or other fixed income investment. The ultimate debtors, the lessors need not be informed of the transaction (depending on the legal requirements). They will continue making payments on their leases, but now those payments will flow to the new investors as opposed to the leasing company.

### **The Securitisation Process**

The concept of Securitisation is best understood by considering the steps in a typical transaction.

The glossary below provides definitions for those unfamiliar with the jargon used in a Securitisation transaction.

## Glossary of Securitisation Terms

**Obligor:** An obligor/debtor is a customer of the originator who is obliged to pay on a contractual basis for goods or services provided by the originator (e.g. a lessee or a home loan borrower).

**Originator/Securitor:** The seller of assets, called the originator/securitor, transfers ownership of the assets to the SPV and usually continues to service the assets as the Servicer / Servicing Agent in exchange for a management fee.

**Special Purpose Vehicle (SPV):** When receivables are securitised their ownership is transferred to an SPV. SPVs usually take the form of a bankruptcy remote trust or incorporated entity. In both cases, the appointed trustees or the board of directors have a fiduciary duty to protect the interests of investors.

**Issuer:** Since the SPV holds the assets on behalf of the investors and issues to the Investor its own securities, the SPV is also called an Issuer.

**Bankruptcy Remote:** If an SPV is bankruptcy remote it has legal protection against claims arising from the bankruptcy of the originator, limiting the credit risk faced by investors to the assets of the SPV.

**True Sale:** Where the sale of financial assets by the Originator is not treated as a financing transaction with the Originator divesting itself of continued association or credit support to the transferred assets; the sale is respected as a sale for legal or tax purposes.

**Investors:** Investors, usually institutions, purchase securities issued by the SPV. The securities are usually rated by external credit agencies and take the form of notes, commercial paper, bills, bonds or preferred stock.

**Servicer / Servicing Agent:** The entity that would continue to collect the receivables, service the Obligor, etc. in exchange for a management fee and is usually the Originator.

**Credit Enhancement:** Credit enhancement usually consists of third-party guarantees, subordinated debt, over-collateralisation, or cash deposit. The provision of credit enhancement by credit enhancement providers protects investors against the prospect of losses resulting from the securitised assets.

**Over-collateralisation:** The holding of assets of greater value than is needed to support contractual payments, so that the investor is protected in the event of a shortfall in expected payments.

**Liquidity Support:** Liquidity support is provided to a SPV (by the liquidity provider) to assist meeting payments to investors in the event of there being insufficient cash flow from the receivables. This service is usually provided by a financial institution, such as a bank, and is required by credit rating agencies and investors.

**Off Balance Sheet Sale Treatment:** Securitisation transactions may be structured such that the assets are removed from the originators' balance sheet for accounting and regulatory purposes.

**Securities:** which are issued by the SPV can be grouped as follows:

- Mortgage-backed securities (MBS), which are backed by mortgages
- Asset-backed securities (ABS), which are mostly backed by consumer debt. The most widely used collateral for ABS are credit card receivables, automobile loans, leases and trade receivables.
- Collateralised Debt Obligations (CDO), which are backed by corporate bonds or other corporate debt.

**Rated Securities:** A financial instrument, usually a debt security that has been assigned a rating of default risk by one or more credit rating agencies.

### *Steps in a Securitisation Transaction*

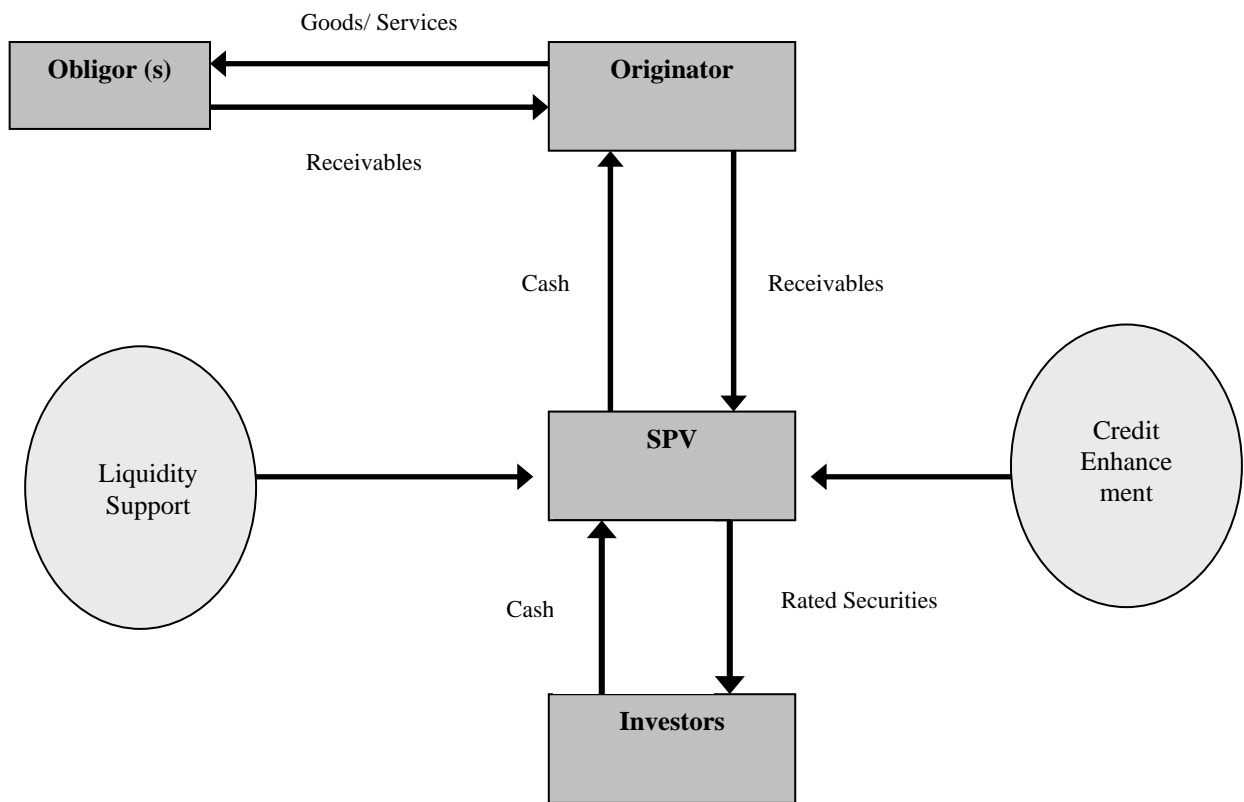
1. The **Originator** or **Securitor** or **Seller** either has or creates the underlying assets - e.g. leases, and the **Originator** selects the receivables to be assigned/secured.
2. A **Special Purpose Vehicle (SPV)** is formed / established to isolate the receivables and to perform other functions (e.g. restructuring of cash flows and provision of **Credit Enhancement** and **Liquidity Support**). Its activities are limited to only undertaking the Securitisation transaction. The **SPV** is usually structured as a **Bankruptcy-Remote** trust or an incorporated entity – it has no other creditors, employees or assets.
3. The **Originator** sells receivables to the **SPV** at their discounted value. The relationship between the **Originator** and the **SPV** is one of seller and buyer and not of borrower and lender.
4. The **SPV** finances the purchase of receivables by issuing securities (usually notes, commercial paper, bills, bonds, or preferred stock) to **Investors** or to the **Originator** who takes it to /places it in the market. These securities can be either (i) debt type securities<sup>1</sup> or (ii) beneficial interest certificates<sup>2</sup>. The securities may be publicly offered or privately placed.
5. Legal agreements delineate the rights and obligations of all parties to the transaction, including the appointment of an administrator to manage the receivables where necessary; i.e. a **Servicer** or **Servicing Agent**. The **Servicer** is generally the **Originator**.
6. One or more financial institutions are usually involved in structuring and marketing the securities issued by the **SPV**. To facilitate investor demand, credit rating agencies assess the likelihood of the **SPV** defaulting on its obligations and assign an appropriate credit rating accordingly.
7. **Credit Enhancement** and **Liquidity Support** are usually obtained by the **SPV** to ensure a high rating for the securities.
8. The **Obligors** may/ may not be notified depending on the legal requirements.
9. The **Servicer** collects the receivables (usually an escrow arrangement) and pays it to the **SPV**.
10. The **SPV** either passes the collections to the **Investors** (pass-through structure) or reinvests to pay off to **Investors** at stated intervals (pay through structure).
11. In case of default the **Servicer** takes action against the **Obligors** as the **SPV**'s agent.
12. When a small amount of outstanding receivables are left to be collected, the **Originator** usually buys back the outstanding receivables.
13. At the end of the transaction, the **Originator**'s profit if any (subject to any losses to the extent agreed by the originator) is paid to the **Originator**.

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<sup>1</sup> (which may be in the form of (a) *pass through certificates* which is a direct claim of the investors on all that the SPV collects from the receivables transferred to it or (b) *pay through certificates*- here, the SPV re-configures the cashflows through reinvestment so as to pay the investors on fixed dates which are different to the dates on which the transferred receivables are/will be collected by the SPV).

<sup>2</sup> (certificates of proportional beneficial interest in the assets held by the SPV).

The process can be schematically illustrated as shown below:



### **Securitisation in Sri Lanka**

Leasing companies have originated many of the Securitisation transactions in Sri Lanka. The first Securitisation in Sri Lanka undertaken by Lanka Orix Leasing Company (LOLC) was structured with the assistance of Julius & Creasy. The common feature of most of the Securitisation deals which have taken place in Sri Lanka to date is that the originator guarantees payment irrespective of his own collections, giving the deals a quasi-Securitisation nature, closer to a loan than Securitisation. These are not true Secritisations in the sense that the underlying assets are not transferred to SPV – they merely serve as collateral. Therefore Sri Lankan Secritisations are currently no more than borrowings drawing upon the general credit of the leasing company, although using the leasing receivables as collateral. They should be described as collateralised lending rather than Secritisation.

With true Secritisation, the credit (or risk) of the transaction is essentially the assets held by the SPV and not the credit of the originator. Once the assets are sold and the level of credit enhancement agreed upon, then any additional losses will be borne by the investors. Such a transfer of risk is essential if off balance sheet treatment is to be achieved. Once assets have been sold there is no additional recourse by the investors to the originator in the event the assets are insufficient to pay out the bonds and the originator is not under any obligation to repurchase the defaulting leases.

In Sri Lankan Secritisation transactions, instead of the assets being sold to the SPV, they are pledged to a trustee in order to secure the borrowings from investors. The investors are secured lenders to the leasing company. If there is a shortfall and the assets of the trust are insufficient to meet payment to the investors then investors can have recourse to the leasing company to make up the shortfall and/or repurchase the

defaulting leases. The assets remain on the leasing company's balance sheet because it still bears the risk and investors depend on the credit quality of the leasing company to repurchase defaulting leases.

One of the main reasons cited for the absence of true Securitisations in Sri Lanka is that the prevailing tax regime places Securitisations at a disadvantage vis-à-vis other financing transactions such as secured borrowings. It is not however within the scope of this paper to examine the impediments which exist in Sri Lanka pertaining to Securitisations transactions. We have instead focused on the key concepts and recommendations proposed in the drafting of a Securitisation Act for Sri Lanka to give young practitioners an insight into the provisions, which are proposed to be included in the Securitisation Act.

### **The Proposed Key Concepts and Recommendations to be followed in the drafting of a Securitisation Act for Sri Lanka**

The Securities and Exchange Commission of Sri Lanka (SECSL) is currently engaged in promoting the introduction of a Securitisation Law in Sri Lanka and the consultants have prepared detailed drafting instructions, which may be downloaded from the SEC website at [www.sec.gov.lk](http://www.sec.gov.lk).<sup>3</sup> **Please bear in mind that the drafting instructions have not been finalised and have been made public for discussion purposes only and as such, may be subject to amendment.**

We identify and describe below some key concepts and recommendations proposed to be adopted in the drafting of a Securitisation Act in Sri Lanka:

1. **The Securitisation Act is based on an “Opt In” Approach** – i.e. the existence of a Securitisation Act would not prevent transactions, which adopt Securitisation like structures such as the structures, which have been used in Sri Lanka to date (which are more akin to secured borrowings).
2. **The Securitisation Act is not intended to be a comprehensive code that seeks to regulate all aspects of Securitisation** – it is only an enabling framework focused on meeting minimum criteria, setting out a scheme for investor disclosure, requiring mandatory rating except for a minority of cases, etc. It is intended to make extensive use of Directions and Guidelines to permit flexibility. This will ensure that Securitisation can evolve with time without being restricted by the provisions of the Act.
3. **It is proposed that an omnibus or ambit approach is adopted** - to amend other legislation by amending a number of other Acts within the Securitisation Act itself, in order to remove ambiguities and impediments (other than taxation and other fiscal laws which will require separate amendment) and include appropriate provisions to specifically provide for the treatment of Securitisation, rather than amending a series of individual pieces of legislation.
4. **It is proposed that all Qualified Securitisation Transactions be entitled to the benefits of coming under the Securitisation Act**, including being assessed to taxation neutral treatment (that Securitisation as a funding mechanism is on par with secured loan transactions), stamp duty exemptions and clarity vis-à-vis issuance and enforcement requirements.
5. **Under the proposed Act, a “Qualifying Securitisation Transaction” is one:**

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<sup>3</sup> Please also note that the definitions proposed for the following terms are found on the SEC Website: Activation Notice; Alternate Servicer; Arranger; Asset Backed Securities; Assets; Authorised Arranger; Authorised Trustee; Other Securitisation Transaction; Qualified Investor; Qualified Securitisation Transaction; Qualified Securitisor; Qualified Servicer; Residual Interest; Securitisation Special Purpose Vehicle or Securitisation SPV; Securitised Assets; Securitisor; Security Trustee; Servicer; Traditional Securitisation Transaction; Trustee.

- a. for which an **Activation Notice** has been lodged with the Securitisation Regulator and notice, if any, is required to effect a transfer of the asset with the appropriate party, (e.g. registration under the Registration of Documents Ordinance);
  - b. involves the **transfer of assets to a Securitisation Special Purpose Vehicle (SPV)** or the origination of assets directly into the SPV with the “true sale” nature of the acquisition being supported by a legal opinion;
  - c. where the acquisition or origination of the assets by the SPV is funded principally through **the issue of Asset Backed Securities (ABS) to investors**;
  - d. which **complies with the other requirements of the Securitisation Act**, such as:
    - appointment of an Authorised Arranger and Authorised Trustee;
    - compliance with initial disclosure requirements and offering documentation requirements of the Act and Guidelines/Directions;
    - disclosure documentation contains requisite legal, audit and other opinions as required by the Guidelines and obtaining of all other approvals to the transfer of the assets and the issue (including, from the Central Bank, if any are required);
    - rating of issue, except a limited category of small Securitisations that are not made to the public;
    - inclusion in transaction documentation of obligations imposed upon the Servicer, the Trustee, the SPV (where a company) and the Securitisor to comply with the ongoing reporting and disclosure obligations of the Act and Guidelines/Directions;
    - where the SPV is a company, supporting the ABS issued by a debenture charge which is given by the SPV and secured over the assets of the SPV in favour of the Security Trustee.
6. **Under the proposed Act, the SPV may be structured as either a company (“Securitisation Company”) or a trust (“Securitisation Trust”).** It is not proposed that the Securitisation SPV will be licensed or approved by a regulator but it must meet minimum directions/guidelines issued by the Securitisation Regulator e.g. requirements in relation to the ownership, management, or constitution of a Securitisation Company or provisions to be included in trust deeds for a Securitisation Trust. These would be adapted from time to time and would largely reflect the requirements of the rating agencies directed at achieving insolvency remoteness.
  7. **The Securitisation Act will initially be directed at Traditional Securitisation Transactions**, involving financial assets that are originated in the SPV or have been transferred to the SPV (Asset Backed Securities). Provision will be made to include flexibility to expand the type of transactions that qualify over time to other Securitisation Transactions.
  8. **The Act will provide for the appointment of a Securitisation Regulator** (which will be the SECSL). The Securitisation Regulator’s role is focused on the issuance and trading of the ABS and the regulation of financial intermediaries involved in Securitisations.
  9. **Other regulators will retain their traditional roles**, for example, the Central Bank will play a role in relation to the Securitisation of assets by regulated financial institutions by issuing prudential guidelines dealing with, *inter alia*, which Securitisations will be recognised for the purposes of off balance sheet treatment and capital relief and reserving; the Insurance Board will be involved vis-à-vis authorised investments and reserving by insurance companies.
  10. **It is proposed that the Securitisation Act will differentiate between 3 classes of Securitisations in establishing a disclosure and regulatory regime.** The differences are based principally on who may be an investor and the liquidity of the ABS issued. Different disclosure requirements will apply.

The 3 classes which form a Qualified Securitisation Transaction are:

- (1) **Private Placements**, where ABS issues,
- are only issued to a restricted category of not more than 3 Qualified Investors;
  - are subject to restrictions on transfer and can only be transferred to an existing holder or to the Securitisor; or subsequently become a Qualified Private Placement or a General Public Placement;
  - need not be rated;
  - must use a Authorised Arranger,
  - must comply with minimum disclosure (initial and ongoing) requirements of the Securitisation Act;
  - need not have a trustee which is an Authorised Trustee approved by the Securitisation Regulator;
  - for which disclosure documentation including the offering memorandum does not have to be lodged until an Activation Notice is lodged, which for this type of Qualified Securitisation Transaction must only be within a period of 21 days after the issue of the ABS to investors;
  - have periodic reporting obligations only to investors, in lieu of wider obligation to report publicly;
  - must lodge an annual compliance and audit certificate; and
  - the amount raised under the issue when added to the amounts raised under all prior issues made by the same Securitisor in the immediately preceding 3 years must not exceed a specified limit.

After the specified threshold is reached then any further Securitisation under the Act must be undertaken via a Qualified Private Placement or a General Public Placement.

- (2) **Qualified Private Placements**, where ABS issues,
- can only be issued to Qualified Investors;
  - may be traded in the secondary market to other Qualified Investors;
  - must use an Authorised Arranger;
  - must have an Authorised Trustee;
  - must have a Qualified Servicer appointed and the terms of the ABS must nominate a Qualified Servicer as the Alternate Servicer;
  - have documentation complying with the requirements of the Act and any Guidelines must be lodged with the Securitisation Regulator prior to the issue of ABS to investors;
  - are rated, except where the amount of the issue or the amount of the issue when combined with all other Qualifying Securitisation Transactions issues made by the Securitisor in the past 3 years does not exceed a specified limit; and
  - in all other respects comply with all of the provisions applying to General Public Placements.
- (3) **General Public Placements**, where ABS issues,
- can be sold to the public at large and listed on a Stock Exchange subject to meeting listing requirements (existing listing requirements will need to be amended to reflect the characteristics of ABS);
  - comply with all the provisions of the Act;
  - must be rated;
  - must have an Alternate Servicer in place; and
  - must have offering documentation lodged with the Securitisation Regulator and be approved prior to an issue of ABS being made to investors. Approval will be based on compliance with the disclosure requirements of the Act and will not be merit based but Securitisation Regulator will be empowered in its absolute discretion to refuse to approve a transaction in certain circumstances.

11. **It is proposed that offers of ABS under a Qualified Securitisation Transaction will be excluded from the offer of debenture or securities provisions of the Companies Act and the Unit Trust Code and will be required to comply with the Securitisation Act.** Any Securitisation that is not a Qualified Securitisation Transaction will continue to be covered by the Companies Act and any other legislation. To ensure minimum disclosure it is proposed that a copy of the offering documentation will be required to be lodged with the Registrar of Companies in all transactions. All provisions of the Companies Act except to the extent expressly excluded would continue to apply to a Securitisation Company and to the corporate trustee of a Securitisation Trust.
12. **The Securitisation Act and the amendments to other legislation proposed will provide detailed provisions relating to Offers and Disclosure to investors and ongoing reporting.**

The Securitisation Act will include a disclosure regime appropriate for ABS. It is proposed that the disclosure requirements will be set out in Guidelines / Directions issued by the Securitisation Regulator, which would replace disclosure obligations under other legislation (e.g. Companies Act), and restrictions on offers to “the public”. Filing of offering documentation would be required for any transaction coming under the Securitisation Act.

It is also proposed that the Act will provide both initial disclosure and ongoing periodic disclosure of asset performance and compliance by the Servicer, SPV and Authorised Trustee. Audit certificates will be required to be lodged biannually for Qualified Private Placements and General Public Placements and annually in other cases.

All documents lodged by issuers under a Qualified Private Placement and a General Public Placement would be available for public inspection. Under a Private Placement the Offering Memorandum and audit certificates would be available. The Securitisation Act, via Guidelines / Directions, will impose disclosure obligations for each of the 3 types of placements. Minimum disclosure obligations will be included and will reflect current best practices in relation to disclosure standards. Securitisors, as sponsors and the party with the best knowledge of the assets and their likely performance, will be responsible for all aspects of disclosure. The Arranger and Trustees will also have disclosure responsibilities.

Obligations will extend to failure to include information in addition to misleading disclosures. The obligation would be one strict liability and the investor need not prove that it relied on the misstatement and was misled. Legal and accounting and audit opinions will also be required. A defence will be available where the party claiming can show that it has undertaken reasonable due diligence. Failure to disclose and the inclusion of false or misleading information will result in an offence, and in addition civil remedies will be provided to individual investors and to the Trustee, which shall be entitled to take action on behalf of investors. Failure by the Servicer or Trustee to comply will entitle the Investors to vote on a change of Servicer or Trustee. It is proposed that an additional economic sanction based on a civil standard be provided which would allow the Securitisation Regulator to preclude an Arranger, Trustee or Securitisor, from being involved in a Qualified Securitisation Transaction for 3 years in the event that it fails to comply with the disclosure provisions.

13. **Minimum criteria for a Qualified Securitisation Transaction in relation to Arrangers, Servicers, Trustees, rating and structuring of transactions would be included in the Act.**

In Securitisation transactions the SPV itself is not an operating entity. It relies on the actions of other parties such as the Securitisors (originators), Arrangers, Trustees, Servicers, etc. The capacity of these parties to perform their obligations is imperative if Securitisations are to be successful in Sri Lanka. It is proposed that the Securitisation Regulator would authorise parties who can act in certain key roles.



**(a) Authorised Trustees**

The Trustee plays a vital role in a Securitisation transaction, and its involvement is more than a mere custodian of static assets. For example, if the Servicer fails to comply with its servicing obligations or is insolvent, then ultimately it is the Trustee that will need to take over the functions of the Servicer at least as an interim measure. In addition the Trustee should be a corporation and a party of substance to be acceptable, and so that its covenants and fiduciary obligations will have practical meaning. An individual or partnership of individuals would not be appropriate as Authorised Trustee due to the need for perpetual succession.

**(b) Authorised Arrangers**

Arrangers fulfill a key role in structuring transactions particularly in relation to the development of the Securitisation structure, cash-flow models and the preparation of offering documentation. In many cases the Arranger will also be the Seller or Securitisor of the assets. It is proposed that the Guidelines issued by the Securitisation Regulator would set out criteria for an Authorised Arranger e.g. having the required experience and skills base or to be able to demonstrate that the party had access to an experienced advisor.

**(c) Qualified Servicers**

It is proposed that provision be made for the appointment of suitably Qualified Servicers and for the Securitisation Regulator to approve Qualified Servicers who may be appointed as Alternate Servicers in the event that a Servicer is removed. Provision will need to be made in transaction documentation for the appointment of an Alternate Servicer. In the absence of an appointment then an Authorised Trustee could fulfill the role.

- 14. It is proposed that a procedure for transfer of assets which will be recognised as effecting a valid transfer to achieve “true sale” should be included in the Act.**

The primary objective of a “true sale” Securitisation is to achieve the isolation of the assets securitised from claims being made against the assets by creditors or other stakeholders of the (Seller) Securitisor and from the Securitisor’s assets in the event of, for example, insolvency of the Securitisor. A second objective is to place the SPV in a position where it can enforce claims against the underlying debtor in its own name and without the need to take action via the Securitisor. A “true sale” Securitisation may be either on balance sheet or off balance sheet depending on the degree of risk transfer and compliance with Central Bank prudential guidelines and accounting standards. To qualify in law as a “true sale” a sale, assignment or transfer of ownership to the SPV of the asset being securitised is required and not the mere creation of a pledge, mortgage charge or security interest.

- 15. Clarification of enforcement rights (e.g. parate rights) where assets have been transferred and clarification or confirmation of interpretations of the law will also be addressed in the Act.** An important issue to be addressed in the Act is whether the originator which is a financial institution enjoying parate rights would be able to exercise its parate rights on behalf of the SPV or whether the originator’s parate rights could be extended to a Securitisation SPV for a Qualified Securitisation Transaction subject to certain safeguards being included in the legislation. It is proposed that a limitation should be included to provide that the Securitisation SPV will have such rights only if the Servicer, or any Alternate Servicer is itself a financial institution that would have enjoyed such rights, and the Authorised Trustee is also a financial institution that is entitled in its own right to such parate rights.
- 16. The Act will also provide for amendment of other legislation** to remove impediments and ambiguities, facilitate Securitisation by simplifying procedures and to achieve taxation and transaction cost neutrality so that Securitisation is not disadvantaged relative to other funding mechanisms (e.g. secured loans). It is imperative that the taxation issues impeding Securitisations are adequately addressed if true Securitisations are to take place in Sri Lanka.

Such amendments include the following:

- Secrecy provisions of Banking Act No.30 of 1988 (as amended); Credit Information Bureau of Sri Lanka Act No. 18 of 1990 (as amended) **(to facilitate the conduct of proper due diligence)**
- Employees' Provident Fund Act No 15 of 1958; Insurance Industry Act No 43 of 2000 **(to reduce barriers to investment)**
- Trust Receipts Ordinance Cap 95 (as amended); Inland Trust Receipts Act, No 14 of 1990 **(to expand the range of securitisable assets)**
- Finance Companies Act, No 78 of 1988 (as amended); Money Lending Ordinance Cap 90; Unit Trust Code; Draft Proposed Secured Transactions Act **(to remove ambiguities)**
- Bills of Exchange Ordinance Cap 82 (as amended); Consumer Credit Act No 29 1982 (as amended); Finance Leasing Act No 56 of 2000 (as amended) **(to assist in risk reduction and improvement of processes)**
- Mortgage Act, 1949, Cap 89 (as amended); Recovery of Loans by Banks (Special Provisions) Act No 4 of 1990; Recovery of Loans by Banks (Special Provisions) (Amendment) Act No 24 of 1995; Debt Recovery (Special Provisions) Act No 2, 1990; Debt Recovery (Special Provisions) (Amendment) Act no 9, 1994; Debt Conciliation Ordinance (Cap 91) (as amended); Motor Traffic Act No 14 of 1951 (as amended) **(to improve enforcement processes and remove doubts)**
- Relevant tax legislation to address issues such as taxation of the proceeds and deductions in the hands of the Originator/Securitor, continued access to capital allowances for the Originator/Securitor, Economic Service Charge, VAT, Debit Tax, Stamp Duty.

#### **17. The Act will also include enforcement provisions and economic sanctions.**

### **Conclusion**

Securitisation delivers benefits to the originator/securitor, to the investor and to the economy as a whole. The originator gains access to the capital markets at a lower cost without creating a claim on its equity base. The investor's risk is carefully controlled and is generally limited only to significant shifts in the behaviour of obligors. In terms of the economy, ABSs are creditworthy and is an ideal investment for savings and promotes the development of a debt capital market. Therefore efforts to introduce a law aimed at removing the impediments to securitisation and providing an enabling framework for true Securitisations to take place in Sri Lanka should be applauded. Sri Lanka can then embrace Securitisation and seek to promote home ownership, finance infrastructure growth and develop its domestic capital markets.

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