

## DRAFT SECURITIZATION LAW BEFORE THE END OF THE YEAR

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Draft of the Croatian securitization law (securitization being transformation of claims or illiquid assets into tradable securities), should be finished by the end of this year, so it could enter the parliamentary procedure in the first quarter of 2007, Ministry of Finance announced. Besides being a rare example of preparation of regulation in cooperation between public and private sector, (since representatives of Ministry of Finance, Croatian supervisory agency HANFA, Croatian National Bank, Croatian Banking Association, as well as external consultants of World Bank, EBRD and German development bank KfW are currently included in its implementation), this law will be among the first for which a regulative impact assessment (RIA) will be made.

Among others, this assessment will consist of several scenarios of securitization effects on external debt, because there is a possibility that this type of security will be bought by foreign investors, with indirect effect of increasing the foreign debt.

Passing this law will allow companies to replace a part of its illiquid assets by liquid assets by issuing new securities.

In this way, for example, a bank will be able to sell its claims on credits to a special purpose vehicle, which will issue a new security on the capital markets and collect fresh capital. The same principle applies to all subjects that have certain future revenues, like companies for highway toll collection (HAC) or electricity services companies (HEP).

Although a major part of the law draft is already finished, the working group for drafting the Securitization law is still working on several issues regarding this currently unregulated area, for example, approval from the debtor for transferring the debt from the bank to the SPV, tax treatment of these transactions, choosing the type of securities, determining who and how can take part in securitization transactions, criteria for licensing SPVs and so on.

For now, it is certain that the regulatory body will be HANFA, which will be entrusted with licensing of SPVs; they could be entities like today's investment or pension funds, i.e. collections of assets without legal personality represented by fund management companies.

Although securitization as a financial instrument still does not exist in Croatia, it is a procedure similar to what has been applied in the 90's when bonds for settlement of frozen foreign exchange saving deposits were issued. (Hina)