

Structuring and cashflow modeling

Securitisation

A Practical Guide

Taught by Vinod Kothari, renowned author and trainer
on securitization with years of experience



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Vinod Kothari Consultants Pvt. Ltd.

Securitisations- surging volumes point to exciting times to come

What was one of the most-talked-about financial products till 2006 went into a tail-spin due to regulatory issues, tax worries and partly, impact of the global financial crisis. Securitization is out of the woes now, with tax issues finally resolved in June 2016, and recently, foreign portfolio investors permitted to invest in securitization transactions.

Globally, there is a definitive revival in securitization transactions.

In India, securitization transactions have to be structured keeping in mind several parameters – the RBI guidelines of 2006 and 2012, the tax provisions of sec 115TCA of the Income-tax Act, the guidelines for foreign portfolio investors, and of course, the complicated provisions of relevant IndASes corresponding to IFRS 9, IFRS10 and IFRS 12.

In fact, Indian financial reporting by banking and non-banking financial entities will be converging with IFRS, with an effective transition date of 1st April 2017 (for comparatives as on 1st April 2018). Therefore, transaction structures now have to be at par with global structuring skills.

If structured finance is your existing or aspirational career, this is the right time for you to ramp up your skills to get an early mover advantage and make the most out of what seems to very strongly opportune financial product.

What you may expect from this workshop

The faculty has been teaching securitization world-over for almost 20 years now, and has both a 360-degree knowledge as also practical insights, having structured several real life transactions. You may expect to get a comprehensive introduction to the subject, with nuances of law, accounting, capital regulations, etc. Additionally, more than half of the course gets into cashflow modeling, where you may see numerical evidence of the securitization theory – the numbers start revealing the intrinsic ideas in structured finance, tranching of liabilities, working of credit and liquidity support, etc.

You may expect a thorough coverage of IFRS as relevant to securitization transactions, besides a complete coverage on RBI guidelines and the relevant provisions of the Income-tax Act.



Two-day Course outline

[Note: the flow of sessions may not be in the same order]

1. Introduction to securitization, products and markets

- a. Quick understanding of securitisation structure
- b. Key principles of structure finance
- c. The broad universe of securitisation and asset backed securities
- d. Motivations and demotivators to securitise
- e. Securitisation markets – the come-back of securitization
- f. Securitization asset classes – traditional and innovative
- g. Simple, transparent and comparable securitisations

2. Structure of securitisation transactions

- a. The key to securitization – understanding the volatility of the cashflows
- b. Credit enhancements
- c. Liquidity support
- d. Other risks and risk mitigations
- e. Legal basis of securitization – bankruptcy remoteness

3. RBI guidelines and the legal structure of securitisations

- a. Legal structure of a true sale; bankruptcy remoteness
- b. Provisions of the Insolvency and Bankruptcy Code and Financial Resolution and Deposit Insurance Bill, and securitization transactions
- c. RBI guidelines of 2006, 2012 – structures possible and prohibited
- d. Holding period, risk retention rules
- e. Rules for credit enhancement, liquidity support
- f. Capital implications as per prudential guidelines for banks, NBFCs

4. Tax issues on securitisation

- a. Provisions of sec 115TCA and the reference to listed securitized debt instruments
- b. Requirements of listed securitized instruments as per SEBI (SDI) Regulations
- c. Tax deduction at source by the borrowers
- d. Tax deduction at source by the SPV for different categories of borrowers – domestic and foreign entities

5. IFRS and securitization transactions

- a. Transitioning into IFRS – the transition schedule and the concept of transition date
- b. Provisions of IFRS 9/IndAS 109 on de-recognition
- c. Provisions of IndAS 110 on consolidation – does it apply to SPVs?
- d. Provisions of IndAS 112 on structured entities
- e. Will Indian securitization structures qualify for off-balance sheet treatment?

CASH FLOW MODELLING

6. Cashflow model of a retail ABS transaction

- a. Understanding the risks and risk mitigants
- b. Understanding the sequential and proportional payment structures
- c. Understanding liquidity and credit support

7. Probability distributions and stressing up of securitization transactions

- a. Basic understanding of probability distributions forming crux of structured finance transactions
- b. Understanding first loss risk and extreme loss risks
- c. Understanding the type of probability distributions to be used for different asset classes
- d. Use of lognormal distribution for retail pools

8. Introducing enhanced features in the cashflow model

- a. Using variable default rates
- b. Use of simulation in projecting cashflows
- c. Created correlated loan pools

9. Simulating future flows transactions

- a. Understanding the volatility and sources of risks in transactions
- b. Coding the volatility using controlled random nos
- c. Stress testing of a future flows transaction

Faculty



MR. VINOD KOTHARI

**CEO, Vinod Kothari Consultants P. Ltd.
Director, Indian Securitisation Foundation**

About Mr. Vinod Kothari

Mr. Vinod Kothari, both a Chartered Accountant and a Chartered Secretary, is an internationally recognised author, trainer and consultant on specialised financial subjects, viz., securitisation, credit derivatives, asset-backed financing, accounting for financial instruments, Basel III, etc. Mr. Kothari has been a member of the consulting team of the Asian Development Bank to advise the Govt of India on security interest laws in India. He has his share of notable contributions to the literature of securitization and other financial and non-financial resources which are very much accepted and followed by readers.

He has extensive consulting experience in securitisation – offering comprehensive securitization related consulting services to a variety of clients including originators, investors, IT companies, etc. apart from one-off services to several companies in different countries. The locations where he has lectured on these subjects include New York, Washington, London, Milan, Frankfurt, Singapore, Hong Kong, Sydney, Colombia (South America), South Africa, Malaysia, Jordan, Dubai, Kuwait, Egypt, Sri Lanka, Bangladesh, etc.

He is renowned for offering services to a number of listed companies which not only include advisory or consultancy related services or conduct of due diligences, but also litigation related services. He, along with his team has conducted various successful summits on securitisation and various advance financial topics which has garnered appreciable response from the industry.

Mr. Kothari also is sought as faculty in various reputed colleges and institutions. He also has a vast experience in working with the various regulators like SEBI, NHB and Government of India and multilateral organisations like IFC and ADB.

Besides, Mr. Kothari has had the opportunity to serve as the Chairman of the Institute of Company Secretaries of India Eastern India Regional Council, Calcutta. In 1987, a voluntary organisation of Calcutta chose him as the Outstanding Young Person of Calcutta in the field of Finance and Taxation.

Consulting Assignments:

- He is a part of a sub-committee created by SEBI for providing recommendations to the regulators on covered bonds in India.
- Director of Indian Securitisation Foundation, a representative body of the securitisation industry in India promoting capital market instruments in India.
- He carried out a study on covered bonds in India for the Asian Development Bank.
- He was an integral part in developing a toolkit for the IFC titled “India Toolkit for Low Income Housing Finance – A Practitioner’s Guide prepared in collaboration with Habitat for Humanity.
- He was sub-consultant to “Affordable Housing Finance Project” of IFC, awarded to IMAcS. He was retained by the National Housing Bank for assisting them in promoting Covered Bonds in India.
- He was a part of Working Committee formulated by National Housing Bank for promoting capital market instruments such as RMBS and Covered Bonds for the housing sector in India.
- He was been retained by Govt. of Jordan for suggesting and working on funding for a high-profile low-cost housing project.
- He was been retained by the Asian Development Bank, Manila for two important projects: to advise the Govt. of India on reforming secured lending law in India; and to develop securitisation-related legal framework in the Asian region.
- Claims extensive consulting experience in securitisation – offering comprehensive securitisation-related consulting services to a variety of clients including originators, investors, IT companies, etc, apart from one-off services to several companies in different countries.

Author of Books:

- Securitisation Asset Reconstruction and Enforcement of Security Interests
- Banking Law and Practice in India, 26th Edition
- Law Relating to Insolvency & Bankruptcy Code, 2016
- Guide to Structured Finance – Incorporating Securitisation, Credit-Derivatives, Leasing and REITs, 2014 Edition
- Introduction to Securitization (co-authored with Frank J. Fabozzi)

- Securitisation: The Financial Instrument of the Future, Fifth edition 2006.
- Taxation of Lease Transactions in India, co-authored by Sikha Bansal, 2013
- Lease Financing and Hire Purchase, Fourth Edition, 1996.
- Credit Derivatives and Structured Credit Trading, 2009 Edition
- Guide to Structured Finance, 2014 Edition
- Author of 3 Chapters in Handbook of Finance, (editor Frank Fabozzi), published by Wiley, USA.
- Corporate Boards, Committees and Policies under the Companies Act
- Understanding Companies Act 2013, 2014 Edition
- Guide to Independent Directors, 2014 Edition
- Led a team of 17 specialist editors for the latest edition of Guide to the Companies Act, A. Ramaiya, 18th Edition.
- Prepared the key highlights and reference tables for “Corporate Laws” second edition and “The Companies Act, 2013” published by Lexis Nexis Guide to Housing Finance – A comprehensive guide to mortgage lending, 2013 Edition

Lecturing:

- He is a visiting faculty at Indian Institute of Management, Joka, Calcutta for several years, teaching a full-fledged course for the final year students on Structured Finance and Taxation. Over 125 students sign up of the course every year.
- He is a guest faculty at the National University of Juridical Sciences- the subject taught here are insolvency and credit interest enforcement laws in India and other countries. The course included a comparative study of the insolvency and creditors' rights in USA, UK and Australia.

Articles:

- Vinod Kothari's articles on asset-based finance, securitisation etc. have appeared in several national and international journals including Duke Journal of Comparative International Law (USA), US Banker (USA), Export trader (Spain), Trade and Forfeiting Review (UK), Journal of International Banking Law and Regulation (UK), Equipment Finance Journal (USA), Monitor daily (USA), Analyst (India), etc.
- Vinod Kothari also contributed to Euro money's yearbooks on leasing and securitisation

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