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## Why the United Kingdom should adopt the Cape Town Convention Rail Protocol

The Protocol for railway rolling stock to the Cape Town Convention is a new global legal system for the recognition and prioritisation of security interests held by creditors lending on, or leasing, all types of railway equipment, from conventional passenger and freight locomotives and wagons to trams, light rail units and cable cars. This security will be registered in a new international registry which will be searchable by the public 24/7.

The Protocol entered into force in contracting states on 8th March 2024. It is currently ratified by five states: Spain, Sweden, Luxembourg, Paraguay, Gabon, plus the European Union in respect of its competences. South Africa is in the process of ratifying, and France, Germany, Italy, Mozambique and Switzerland have all signed but not yet ratified.

The United Kingdom has signed the Protocol but needs to move forward to ratification. Adoption of the Protocol will deliver benefits to all stakeholders in the British rail and financial services community.

### For Operators

1. The Protocol will increase the availability, and reduce the cost, of private finance for railway equipment, as lenders and lessors take into account lower capital costs, lower risk and lower transactional costs as well as help attract new sources of debt and equity for procurement programmes;
2. provide more legal protection when their rolling stock is located, temporarily or permanently, in other jurisdictions as long as the Protocol is also adopted there;
3. eliminate the competitive advantage currently enjoyed by the aviation sector where the equivalent aircraft protocol to the Cape Town Convention is already in operation; and
4. facilitate and protect public and private operators delegating parts of their operations and leasing out their rolling stock, where this will be more efficient, and open the way for independent finance for joint ventures.

The Rail Working Group is a not-for-profit association constituted under Swiss law  
representing a broad cross section of the global railway community.

For a complete list of our members and more about us, please visit our website at [www.railworkinggroup.org](http://www.railworkinggroup.org)

EU Transparency Register ID: 958065448312-61.



## **For Banks, Lessors and Institutional Funders**

5. By introducing the International Registry, the Protocol will for the first time allow registration of security interests in railway rolling stock in a public register that can be accessed on a global basis in turn underwriting the financier's collateral both where the financed assets remain in the United Kingdom or cross jurisdictional borders;
6. by making financed equipment easier to repossess on debtor default or insolvency, the Protocol will genuinely reduce creditor collateral risk, allowing a lower allocation, and cost, of capital for rolling stock financings for banks – particularly important as the Bank for International Settlements seeks to increase banks' capital allocations for riskier credits;
7. because the structuring of security will no longer require layers of national security interests, it will simplify financing and leasing transactions, in relation to documentation, legal opinions and structures, thereby reducing transaction costs; and
8. since the Protocol applies according to where the debtor has its principal place of business, creditors of UK based companies that are financing rolling stock world-wide will have the benefits of the Protocol on securitisations and other refinancings through the City of London capital and equity markets.

## **For Manufacturers**

9. The Protocol will stimulate domestic demand for new rolling stock as the financing costs come down and availability of capital increases; and
10. assist with exports of rolling stock as other countries move to ratify the Protocol, making customer procurement easier to finance and, by facilitating discounted export credit support through UK Export Finance, make exports more attractive.

## **For Government**

11. The Protocol will reduce the need for central and local government financing of rolling stock procurement as the private sector provides more resources for equipment procurement and takes over various obsolescence, maintenance and operating risks;
12. It will attract pension funds and other institutional investors into the rail market; and
13. will support the UK's place as a key global financial services centre, whereby local refinancing of British lessors and banks will have the benefit of the additional security, regardless of the location of the assets and the operator, at the same time encouraging foreign financiers to establish operations in the UK to take advantage of the Protocol.



## For all Stakeholders

14. The Protocol will underwrite operating leasing globally, thereby
  - a. opening up new markets for local manufacturers and lessors where customers will not have the resources to buy
  - b. giving operators more flexibility in how they utilise and finance rolling stock
  - c. allowing a genuine transfer of risk to the private sector financier; and
  - d. through the allocation of higher residual value assumptions and lower rents for standard rolling stock, creating an economic dynamic for standardisation and more efficient manufacturing of rail equipment;
15. it will create a common and easily understandable title security system operating across different jurisdictions; and
16. by introducing a new global unique numbering system for rolling stock, the Protocol will give increased security to lenders and lessors, as well as the ability for manufacturers, operators, insurers, maintainers and financiers to track the location and status of the equipment, wherever it is, thereby making the railways safer and maintenance more efficient.

The railways began in the UK and the first modern day leasing company in the world was founded 150 years ago in the UK to finance rolling stock. Today it has a dynamic rail industry with a revitalised and growing manufacturing capability. As such, it is an example for many other countries looking to move the financial burdens and operational risks to the private sector. The UK's adoption of the Protocol will motivate other states to do the same, thereby in turn leading to UK operators, lessors and financiers being protected where rolling stock crosses borders, as their international interests will be universally recognized. This will also assist British operators, manufacturers and financiers to compete more effectively in the rail sector across the world.

The costs of the new system will be minimal. The advantages and opportunities will be tremendous.

For more on the Luxembourg Rail Protocol, visit [www.railworkinggroup.org](http://www.railworkinggroup.org), or contact us at [info@railworkinggroup.org](mailto:info@railworkinggroup.org). Keep up to date with all the latest developments via the Rail Working Group's [LinkedIn group page](#).