

The logo for the Australian Securitisation Journal, featuring the letters 'ASU' in a stylized, overlapping font. The 'A' is grey, the 'S' is light green, and the 'U' is red. A vertical red bar is positioned to the right of the 'U'.

AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian
Securitisation & Covered Bonds

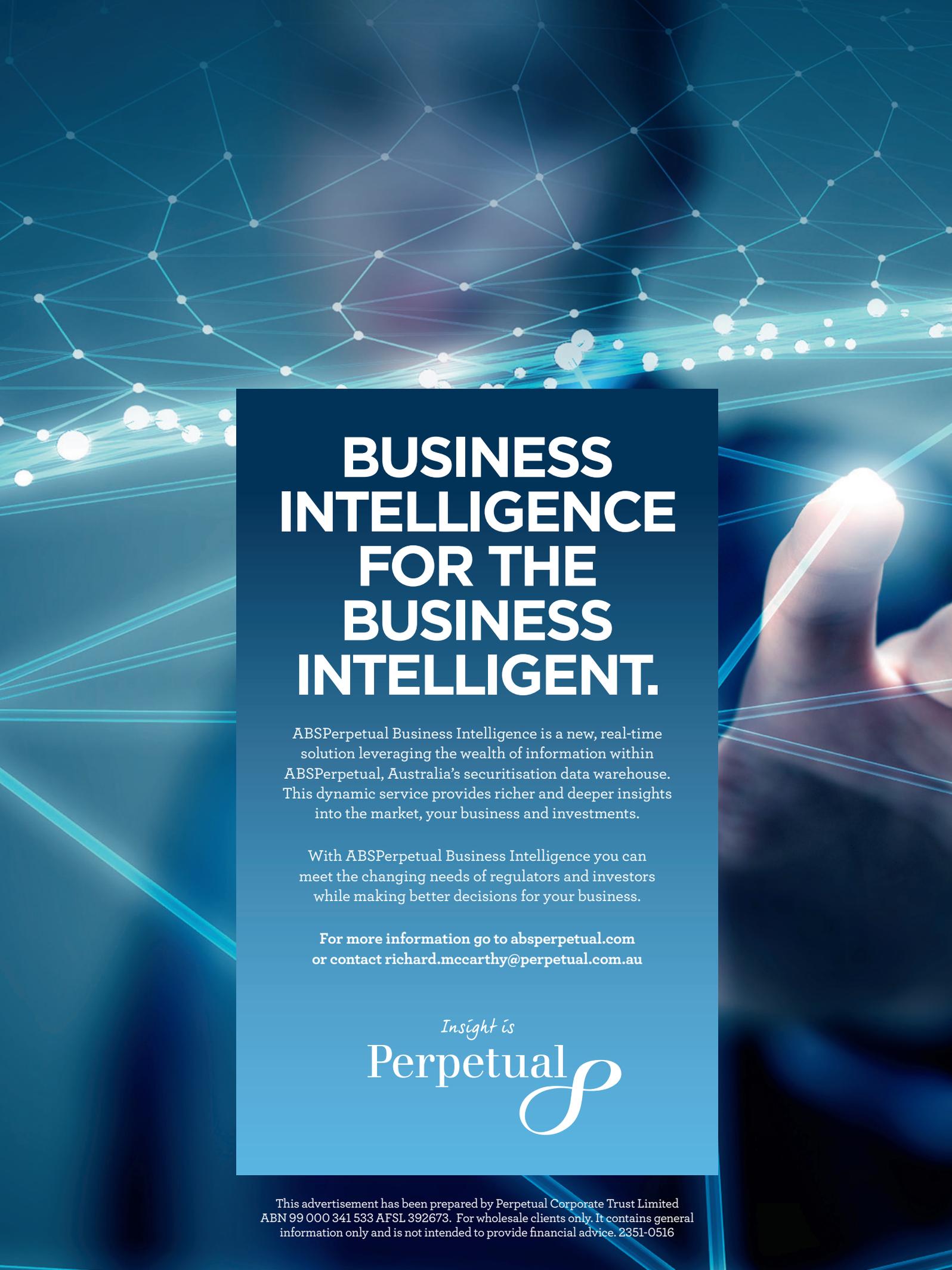
>> Issue 10 • 2016

A photograph of a modern, multi-story building with a dark facade and large glass windows. The building is covered in lush green plants, including trees and shrubs, growing from balconies and a vertical garden system. The sky is blue and clear.

Australia: greener than you think

The first Australian securitisation to contain a green tranche was an acorn, but there is a widespread capital-markets commitment to growing it into an oak





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Securitisation & Covered Bonds

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ASF MANAGEMENT COMMITTEE

Chairman

Chris Green

Deputy Chairs

Sarah Hofman

Mary Ploughman

Treasurer

Graham Mott

Chief Executive Officer

Chris Dalton

Associate

Lynsey Jackson

asf@securitisation.com.au

+61 2 8243 3900

www.securitisation.com.au

ASJ PUBLISHED BY

KangaNews

www.kanganews.com

+61 2 8256 5555

Chief Executive

Samantha Swiss

sswiss@kanganews.com

Managing Editor

Laurence Davison

ldavison@kanganews.com

Deputy Editor

Helen Craig

hcraig@kanganews.com

Trainee Staff Writer

Lucy Symonds

lsymonds@kanganews.com

Business Development Manager

Jeremy Masters

jmasters@kanganews.com

Production and Project Manager

Shame Ferraro

sferraro@kanganews.com

Design Consultants

Hobra Design

www.hobradesign.com

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2 ASF WELCOME Chris Dalton,
CEO, Australian Securitisation Forum

4 Q&A Chris Green, chairman of the Australian Securitisation Forum,
talks about the association's priorities and the state of play in the
industry as a whole.

6 ROUNDTABLE National Australia Bank hosted clients
and other stakeholders to discuss the nascent
Australian green securitisation asset class.

16 COPUBLISHED PROFILE Liberty Financial talks
market opportunities,
business diversity and
capital strength.

18 COPUBLISHED Q&A Resimac surveys the business
landscape and sees potential
for future growth.

30 FEATURE PART 1 Market participants review the
consequences of the latest draft
of Australia's future securitisation
regulatory regime.

34 FEATURE PART 2 Assessing the latest regulatory
outcome as it pertains to a potential
Australian master-trust regime.

37 WIS SUBCOMMITTEE Profiles of and views from the
10 leaders of the **women in
securitisation** subcommittee.

40 ASF MEMBERSHIP With the market at a key juncture,
there has never been a more
important time to be an **Australian
Securitisation Forum member**.

42 ASF SUBCOMMITTEES The structure of the
**Australian Securitisation
Forum's subcommittee
network**.

20 ISSUER PROFILES

20 AMP Bank
ANZ Banking Group
Australian Finance Group

21 Auswide Bank
Bank of Queensland
Bluestone Group

22 Commonwealth Bank of
Australia
Credit Union Australia
Firstmac

23 Fisher & Paykel Finance
FlexiGroup
Heritage Bank

24 IMB Bank

ING Bank (Australia)
La Trobe Financial

25 Liberty Financial
Macquarie Group

26 ME
MyState Bank

27 National Australia Bank
People's Choice Credit Union
Pepper

RedZed Lending Solutions

28 Resimac

Suncorp Group

29 Westpac Banking
Corporation

FROM THE CHIEF EXECUTIVE

Market conditions for Australian issuers of residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) have been challenging in the initial part of 2016 as securitisation markets around the globe have been adversely affected by the volatility in global financial markets during Q1. However, notwithstanding wider credit spreads and volatility, a number of RMBS and ABS transactions came to market at the start of Q2.

A positive sign for the market has been that deals have been successfully executed by major banks, smaller financial institutions and nonbanks, while new primary issues have included prime and nonconforming RMBS. Diversification of the securitisation market has been aided by a higher-than-usual issuance of ABS in the first part of the year, as well as healthy participation from international investors.

The finalisation by the Australian Prudential Regulation Authority (APRA) of the new prudential standard governing securitisation, APS 120, will be a significant event later in 2016. This standard will regulate the multiple roles played by Australia's financial institutions as issuers, investors and transaction counterparties in the securitisation market. In its submission to APRA in March, the Australian Securitisation Forum (ASF) advocated a regulatory approach that will facilitate more efficient transaction structures to allow issues of securities with term and currency characteristics that appeal to both local and international investors. The ASF submission also highlighted the need to have the new regulation seek appropriate regulatory-capital risk weights for securitisation exposures to ensure there is not a disadvantage to banks that seek to fund or invest in high-quality Australian securitisations.

In 2016 the ASF remains focused on its core and longstanding objectives. These are to provide Australia with a platform to discuss market and regulatory matters, advocate on behalf of members, provide a comprehensive suite of professional-development programmes, improve market standards and practices, and promote the market to global investors and policymakers.

The ASF's interest in promoting industry best practices has seen work continue to ensure that the market benefits from the new standardised loan-level information that is now available on RMBS portfolios. The decision by Australia's central bank to decentralise distribution of loan-level information to issuers and their agents has resulted in a longer-than-anticipated period for the new reporting regime to be uniformly adopted by market participants. However, the ASF expects the distribution of and access to loan-level information to be streamlined in the next few months.

As well as the ASF's APS 120 submission, the ASF's advocacy efforts in 2016 have concentrated on the reform of the OTC derivative markets and the potential impact and proposed changes to Australia's insolvency laws on securitisation vehicles.

The ASF has expanded its suite of professional-development courses by adding a new one-day securitisation trust management course which provides a comprehensive overview of the various facets of administering a private or public securitisation vehicle. This complements the ASF's three established courses: the fundamentals, professional, and applied-securitisation courses.

Another key initiative of the ASF in 2016 is to work with and support the recently established New Zealand market subcommittee.

I am happy to note that plans are well under way for the annual Australian Securitisation Conference to be held at the Sydney Hilton on November 21 and 22. This remains the premier event of the Australian securitisation market, covering topical market issues and providing excellent networking opportunities for sponsors and delegates. Please contact the ASF office or our partner, KangaNews, for further information.

I look forward to an active second half of 2016 for the Australian and global securitisation markets.



Chris Dalton

CHRIS DALTON
CEO, AUSTRALIAN SECURITISATION FORUM



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+61 403 584 600

VIEW FROM THE TOP

*Chris Green is group executive, corporate trust at Perpetual in Sydney – and he also took on the role of chairman of the **Australian Securitisation Forum** (ASF) in November last year. Green speaks to ASJ about his view on the ASF role, including the association’s objectives under his chairmanship, the growing breadth of the Australian industry and the state of play in the market as a whole.*

Six months into your time as ASF chairman, what do you expect to be your priorities over the coming years?

◆ The ASF divides

its priorities into three categories: representation, promotion and development. All three are important, and I think I will be pretty consistent with my predecessors in this regard.

On the representation front, clearly our engagement with regulators both domestic and offshore is a priority for the association. The importance of having the quality of our structures recognised is a particular priority.

We have had some success with the Australian Prudential Regulation Authority (APRA) on the APS 120 front but this work is not yet complete. It is really important that we get the right outcome in the sense that local regulation allows structures to be taken to market that will bring more of an offshore bid to us. To do this, we need to satisfy APRA around the quality of our issuance.

Just as important is having jurisdictions offshore recognise the quality of our paper, particularly when it comes to repo eligibility and risk retention. We have been engaging with regulators overseas and we continue to build relationships in our key markets. We won’t win every battle but it is important we engage to make sure we are given every chance to have our assets recognised as high-quality collateral.

The second priority is promotion. We tend to have campaigns that cluster around offshore events and we will be taking the opportunity to promote the industry in Barcelona in June. There will be a large contingent of Australians in attendance. It is an interesting dynamic when you get to places like Barcelona, because there is obviously some competition out there. But I would say the competition is outweighed by the shared goal of selling the quality of Australian securitisation.

The importance of promotion also applies to New Zealand. There will be a big contingent of Australians at the

KangaNews conference in Auckland in August and we will be doing a lot of work there on the education front.

The third priority is development. For us, this is a combination of education and attracting new people into our industry. We are lucky that we have a lot of people who have been in the industry for long periods of time. But the other side of that coin is that it’s nice to get new entrants, through initiatives like women in securitisation and others that bring in younger and newer market participants.

I am passionate about sponsorship and the promotion of talented young people who we can attract into the securitisation market. The labour markets are competitive, just like the issuance markets, and we want to get the best and brightest into securitisation rather than M&A and private equity.

There seems to be a degree of confidence that the Australian regulatory process has progressed from the re-establishment of a securitisation framework from scratch to what hopefully is somewhat closer to fine tuning. What is your view?

◆ Getting securitisation up the list of APRA’s priorities has been one of the ASF’s successes. Over the last 12-18 months I would categorise the engagement with APRA as the best we’ve ever had – in part as a consequence of work done in previous years.

On the ASF’s side, we believe passionately in the need for our submission to APRA to include the importance of APS 120 in bringing new investors into our market that have been precluded from doing so based on the structures we’ve had to this point. I’m not saying we are there, and political cycles can sometimes change the timing. But I would say that, given the relationship we’ve had with APRA and continuing dialogue, we’re well placed to get this done relatively quickly.

The slowing down of Australian bank liquidity-book accumulation of securitisation assets was widely

expected, but has clearly had an impact on aggregate demand in 2016. What are your thoughts on promoting engagement with local real-money investors to fill the gap?

◆ What we have to realise in the ASF is that we are competing with a range of other asset classes for investor money, and that relative value continues to be an issue.

I think the transparency initiatives that have come through the market in the last 12 months, including the Reserve Bank of Australia (RBA) reporting requirements, will in time be very helpful in the real-money sector. As will the companies that are providing a lot of the analytics and insights to investors, which will proliferate over the next 12-18 months off the back of the

from the SME and peer-to-peer spaces. They anticipate that, in time, securitisation will become an important element of their funding models.

I think there will continue to be diversification in the lender base as nonbank lenders plug some of the gaps left by large banks exiting certain segments of the market. Our market is very efficient, with established and emerging nonbank lenders that will very quickly and efficiently step into lending markets where they believe they can make money.

Wherever you have a quality income stream it starts to lend itself to securitisation. However, one thing about securitisation is that investors typically like a reasonable amount of historic data to track quality. It is a factor that is

with both APRA and the Australian Securities and Investments Commission.

I think I have the ability to engage with different constituencies within the ASF with credibility and without conflict of interest. Of course, everyone in an industry association brings some form of vested interest but I think I am in a lucky position as a trustee in the market in that I bring less of this to the table.

We shouldn't underestimate that we have issues as an industry association on which, on occasion, constituencies do not agree. We have been very good in the past at finding positions that those constituencies are comfortable with the association putting to regulators, investors, or whoever it might be. I should note that my predecessor, Tim Hughes, was also very good at doing this.

"We are already seeing new members joining the association, including a number that haven't yet securitised from the SME and peer-to-peer spaces. They anticipate that, in time, securitisation will become an important element of their funding models."



RBA reporting requirements. These will provide real-money investors with cost-effective ways to analyse transactions.

We may actually have underestimated the importance of the transparency initiatives and what will come from them in terms of allowing real-money investors to better interrogate what we have. We are certainly very comfortable with the results when they do investigate.

There seems to be fertile ground for growth in diversity on the lending side in Australia – for instance greater market share for established nonbanks and the rise of fintech lenders. Are you expecting to see a more engaged, wider membership base for the ASF?

◆ We are already seeing new members joining the association, including a number that haven't yet securitised

holding back SME securitisation growth globally, but this will change over time as the data set builds up. We hope the quality of those small business models comes through.

What benefits do you think your background and experience will bring to the role of ASF chairman?

◆ I have been in the industry for 20 years – half in Australia and half in Europe. I was in Europe from 1995 to 2005, which was a period of very strong growth and product development – and a lot of missteps. This experience is very helpful coming into this role.

The other thing I bring, given I'm at Perpetual, is that the base of constituencies I deal with has a lot of variety. My clients are major banks, regional banks and nonbank lenders. We interact with every law firm in the market and we have regular interactions

My plan is to continue making sure we do our best to bring all our constituencies together, particularly on issues like APS120.

How do you sum up the Australian industry as it stands at the moment? Do you feel like it is in a good place or are there still a lot of challenges that need to be dealt with?

◆ I think we're in a solid position. We have quality securitisation transactions coming to market regularly. A clutch of deals have come to market in the last month or so and we anticipate deal flow will continue.

We've had very good support from investors, but we still need to attract new investors to our market – especially given our reliance on global capital to function. It's important for us to continue to engage very well offshore in order to reach our full potential. ■

Green shoots for Australian securitisation

The Australian securitisation market saw its first green-certified tranche issued in April, as local consumer lender FlexiGroup included a A\$50 million (US\$38 million) note based on household solar assets in its latest asset-backed securities (ABS) transaction. While small in size, market participants say this deal joins earlier unsecured green-bond issuance as a key milestone in the emergence of an Australian green debt market. In May, National Australia Bank (NAB) hosted a roundtable discussion in Sydney to discuss the state of play and prospects with market users and ASJ.

PARTICIPANTS

- ◆ **Rob Fowler** Head of Certification CLIMATE BONDS INITIATIVE
- ◆ **Jacqui Fox** Head of Securitisation Origination NATIONAL AUSTRALIA BANK
- ◆ **David Jenkins** Director, Capital Financing Solutions NATIONAL AUSTRALIA BANK
- ◆ **Lionel Koe** Director, Securitisation NATIONAL AUSTRALIA BANK
- ◆ **Richard Lovell** Executive Director, Investments CLEAN ENERGY FINANCE CORPORATION
- ◆ **John Manning** Head of Asia-Pacific Credit Research ABERDEEN ASSET MANAGEMENT
- ◆ **June McFadyen** Group Treasurer FLEXIGROUP
- ◆ **Anne-Marie Neagle** Partner KING & WOOD MALLESONS
- ◆ **Mark Robinson** Manager, Sustainability Services DNV GL BUSINESS ASSURANCE
- ◆ **Connie Sokaris** General Manager, Investment-Grade Originations NATIONAL AUSTRALIA BANK
- ◆ **Eva Zileli** Head of Group Funding NATIONAL AUSTRALIA BANK

MODERATOR

- ◆ **Laurence Davison** Managing Editor KANGANEWS

ISSUER ENGAGEMENT

Davison *What convinced FlexiGroup to be the first mover as a green securitiser in Australia?*

◆ **MCFADYEN** It had been on our minds for some time, as we have been funding energy-efficient assets in our consumer and commercial businesses for a number of years. Actually, our original focus from a securitisation perspective was on the commercial rather than the consumer space, until

National Australia Bank (NAB) pitched the deal structure we ended up deploying.

One thing that gave us pause was that we initially thought we would have to put together an entirely green securitisation structure rather than including a green tranche within a larger deal. When we brought our most recent deal from the Certegy programme to market it was suggested that we could include a green tranche, which made sense to us.

We certainly have no shortage of assets to support such a tranche – in fact solar assets have made up a large proportion, if not the majority, of the pool for all of our Certegy ABS transactions. So we thought: ‘why not?’

Davison *NAB was Australia’s first issuer of green bonds, in late 2014. What were the benefits for the bank, and does green securitisation hold a similar appeal?*

◆ **ZILELI** The real benefit for NAB has been the ability to tap into a new investor base. Our understanding is that the environmental, social and governance (ESG) space is growing in the investor community, and we see accessing it as incremental to our existing investor base. Of course it was also good for NAB to be able to demonstrate its green credentials by supporting the growth of green funding.

We would certainly like to follow up with further transactions in this space. It seems like a while since our debut, though issuing was a very positive experience and one which undoubtedly validated our decision to enter the market.

Seeing the first green securitisation tranche issued in Australia is another very positive development. It would, however, prove to be a challenge for us to identify suitable assets for a NAB green securitisation. As a securitiser we predominantly issue residential mortgage-backed securities, whereas my sense is that to issue a green ABS deal we would have to look at the nonmortgage ABS sector – and we haven’t issued ABS for a number of years.

We are watching developments in green securitisation, but issuing isn’t a short-term plan for us at the moment.

Davison *To what extent has the emergence of green issuance created interest among other borrowers? How well progressed is the Australian market in terms of issuer diversity?*

◆ **JENKINS** It’s probably fair to say that the Australian market has progressed along a similar path to what has been seen offshore. The first issuers came from the supranational, sovereign and agency (SSA) sector, followed by banks and, more recently, corporate issuance. As well as the domestic deals we have seen there have been two transactions from Australian corporates into offshore markets – a euro deal and a US private placement – in green-bond format.

Since we started to see deals – and as a consequence of those deals – we have had discussions with a range of issuers

that see green bonds as a means of tapping into the growing investor base mentioned by Eva Zileli. There is certainly a push, following last year's Paris summit, to allocate funds to low-carbon investments. There is a growing pool on the investor side, so the journey now is to find opportunities that work for issuers. We believe securitisation is a great way to prove that there is a market for these assets, and we are talking to both corporates and banks about using it.

Davison *From the viewpoint of mid-2016, do you think the Australian green-bond market has developed more quickly or more slowly than anticipated – or in line with what might have been expected?*

♦ **MANNING** The challenge on the investor side at the moment is that there is not enough product to get the diversification we would like in this space. Mandates don't need to evolve – they are ready. Our clients are embracing ESG and socially responsible investment (SRI) initiatives, but they want to do so within the context of their overall investment objectives. In other words, they welcome the issuance initiatives we have seen but recognise that they are, so far, relatively few and far between.

♦ **JENKINS** I suspect we are about to see an acceleration in deal flow such that we will be able to say the progress has been very impressive if we look back from the end of this year. The next six months should see a solid pipeline of issuers looking to come to market.

♦ **NEAGLE** I would second David Jenkins' comments about the coming months looking good for a succession of new issuance. We have received a lot of enquiries since the NAB green-bond issue – and from a range of issuer types, including securitisers and corporates. There are a few issuers out there with irons in the fire at the moment, so I expect to see an uptick in issuance over the next few months.

♦ **ROBINSON** We are also seeing an increase in the number of genuine issuer enquiries and their degree of engagement. It almost feels like exponential growth at the moment – it is certainly picking up quickly.

♦ **FOWLER** The amount of interaction the Climate Bonds Initiative has had with issuers and investors globally has seen an enormous uptick, too. The growth in interest when it comes to getting product certified or verified has been very useful, I think – we are certainly very encouraged by it. There is also tremendous growth in diversity of structures, as well as issuer types and

“I SUSPECT WE ARE ABOUT TO SEE AN ACCELERATION IN DEAL FLOW SUCH THAT WE WILL BE ABLE TO SAY THE PROGRESS HAS BEEN VERY IMPRESSIVE IF WE LOOK BACK FROM THE END OF THIS YEAR.”

DAVID JENKINS NATIONAL AUSTRALIA BANK



geographic origin. The pipeline is very strong, and we expect it to pick up further as China comes online as an issuer.

Takeup has also been increasing in Australia. We hope to see some programmatic issuers come to the table very soon, including the possible inclusion of some public infrastructure among the use of proceeds. It's a very exciting time.

♦ **LOVELL** The Clean Energy Finance Corporation is seeing more enquiry coming to us about participating in or cornerstoning new transactions – and we have the potential to play a cornerstone role. We see some potential transactions quite early in the process and others quite late, but notwithstanding the variation we are certainly aware of quite a substantial increase in the number of market participants looking to build asset or financing portfolios that might in time lend themselves to capital-markets financing. Green bonds is an obvious channel to market for these, but not the only one.

Our mandate isn't to focus on any particular space – we are there to catalyse the market to help achieve a range of outcomes. To some extent this means we have to be somewhat reactive. There are some deals we can try to make happen that wouldn't otherwise and others we can try to accelerate. But we have to see a specific rationale to participate in a transaction – we are not here simply to accumulate a portfolio. The good news is that the state of the market at present means it is not that difficult to play the catalyst role.

Davison *Might Australian borrowers be looking at the green-bond space as a counter to negative perceptions of the country's willingness to engage with climate-change mitigation?*

♦ **FOWLER** The reasons for an issuer to seek green certification vary greatly. There is definitely some value in positive public perceptions, though. The New York Metropolitan

“WHEN WE SPLIT THE TRIPLE-A NOTES INTO TWO TRANCHES WE HOPED FOR A BENEFICIAL PRICING OUTCOME FOR THE GREEN BONDS. BUT IT CERTAINLY WASN'T THE MAIN MOTIVATION FOR THE DEAL.”

JUNE MCFADYEN FLEXIGROUP



Supply and demand step forward together

AT THE CURRENT EARLY STAGE OF MARKET DEVELOPMENT, IT IS NOT IMMEDIATELY OBVIOUS WHETHER AUSTRALIA HAS A SURPLUS OF POTENTIAL SUPPLY OR DEMAND FOR GREEN ASSETS. IN FACT, THE TWO APPEAR TO BE TAKING ALTERNATING STEPS FORWARD.

Davison *Is the absolute nature of National Australia Bank (NAB) clients' businesses changing in response to climate-change considerations?*

FOX The conversation is becoming heightened, I think it's fair to say – a lot of our customers are thinking much more about the issues involved. There will only be more thought applied as we see further 'proof points' in the economy, markets and media – and it is from this thought that action grows.

SOKARIS Capital-markets activity is a very strong branding exercise for companies that want to display the genuine climate-mitigation credentials many of them are developing – especially at board level.

Let's also not forget that green issuance is a very good way for borrowers to achieve another of their key objectives: investor diversification. To have access to and understanding of a new investor base – both in Australia and offshore – significantly reduces execution risk.

Davison *Do market participants think the lag in green issuance lies on the supply or demand side? In other words, is there sufficient latent demand to*

support a much larger market, or does demand need to pick up to encourage potential issuance to be green lighted?

JENKINS It seems to alternate. The nature of public transactions is that at some point there needs to be a leap of faith that the deal can be done. Once that has happened for the first time you tend to see additional investors emerging. This was certainly the case with the NAB green-bond transaction. I hope the same applies with the FlexiGroup securitisation.

MANNING One of the attractions of a green asset market to an Australian institutional investor is the diversity of other investors that could also be interested. We don't have deep secondary markets in the contemporary market environment, so if a bond I hold has a deeper potential investor base I also have a better chance of finding a buyer if I need to do so.

From my perspective, therefore, it's not a question of getting green mandates. There is a place for these assets within mainstream fixed-income portfolios.

Davison *For an issuer like NAB, how much incremental supply*

could or would the bank put into the green asset class if it believed demand was equal or greater than that for nongreen securities?

ZILELI The challenge is identifying reference assets – and in fact this is why it has been a while since NAB issued its first green bond and we are yet to issue another. If we had eligible assets we would happily issue to demand for as long as it is there and it offers pricing in line with our senior curve.

All the anecdotal evidence we are seeing, and all the market feedback we receive, is that the investor base is growing. We want to be able to tap into this, especially as the focus on market capacity heightens as we approach the introduction of the net stable-funding ratio. Green funding adds capacity, and we want to be part of it.

SOKARIS It's important to make sure that issuers are aligned with the product. Obviously asset selection is important to ensure issuance meets the green format, but it's about more than this. The funding structure needs to be aligned with the issuer's objectives and origination framework.

MANNING As the market continues to evolve it is vital that integrity around 'what is green' is preserved. There is a dearth of assets that can be put behind these programmes, but the assets have to be right – not just in terms of use of funds but also serviceability for the investor. I don't want to put money into a green bond and subsequently find I am being repaid by a nuclear waste dump.



“The challenge is identifying reference assets – and in fact this is why it has been a while since NAB issued its first green bond and we are yet to issue another. If we had eligible assets we would happily issue to demand.”

EVA ZILELI NATIONAL AUSTRALIA BANK

Transportation Authority, for instance, enjoyed great success in its move to issue green paper to both institutional and retail investors. It enjoyed a significant uplift to its public image as a result. So it is not surprising to see municipal and state

governments looking for these benefits – among the other good reasons to issue in green format.

My sense is that the international view of Australia is probably somewhat divided, between the political debate



around the carbon and climate-change issue and of the financial maturity of our markets. I think there is actually a great deal of appreciation of Australia's role in the international financial sector.

♦ **NEAGLE** A lot of the green-bond enquiries that we have seen have been leaning towards the certified and verified space rather than self-labelled. It appears that having some form of independence behind any green labelling is generally seen as a much better route to the potential reputation benefits of issuing in this format.

Davison *What is NAB's strategic commitment to the development of the green-bond asset class? Is the bank actively working with borrowers that are contemplating entering the sector?*

♦ **SOKARIS** NAB wouldn't have been able to be the first Australian mover in this space, and we wouldn't be able to provide useful feedback to our customers on it, unless our organisation was culturally ready to do so. NAB itself is committed to financing Australia's transition to a low-carbon economy, and this is a much wider view than just the bond space.

NAB's ESG agenda has recently been demonstrated by its commitment to fund A\$18 billion (US\$13.7 billion) of low-carbon and green loans in the next seven years. The bank is already Australia's largest lender to this sector.

It is not just about the bank's own balance sheet, though. We tend to find that when we are able to do something for our own organisation, like the green-bond debut, we gain expertise that enables us to help our customers as well. And we certainly want to be involved in expanding the capital-markets options for green issuance to support NAB's balance-sheet efforts.

Davison *Is NAB seeing the same enquiry pipeline mentioned by other participants, and if so is it coming across asset classes including green bonds, loans and securitisation?*

♦ **FOX** The short answer is 'yes'. A key part of our role is helping our customers and proactively taking ideas to them. When you're dealing with an emerging market – which green bonds certainly still is – there are times when you are able to leverage from experience and specialisation and apply it to another sector, in a way that might not

“SECURITISATION AS AN INDUSTRY HAS HAD ITS SHARE OF UPS AND DOWNS OVER TIME, SO IT IS PARTICULARLY EXCITING TO SEE THE BROADER APPLICATION OF SECURITISATION TECHNOLOGY IN THE GREEN ARENA.”

JACQUI FOX NATIONAL AUSTRALIA BANK



be immediately obvious. Part of our role is joining the dots between the needs of our investors and customers.

Securitisation as an industry has had its share of ups and downs over time, so it is particularly exciting to see the broader application of securitisation technology in the green arena. We are spending an increasing amount of time thinking about our customers' needs, developing a strategic relationship with them and understanding what they may become in future.

SECURITISATION SPECIFICS

Davison *When did NAB engage with FlexiGroup specifically on the concept of green securitisation, and what steps had to be taken to go from concept to execution?*

♦ **KOE** NAB had been exploring the prospect of a green ABS for a while, given the development of green bonds in Australia and the increasing supply of green ABS globally. FlexiGroup, in our view, was a logical fit for the green product given its combination of an established ABS programme, a significant solar lending book and a demonstrated track record of credit performance. Based on preliminary soundings, we were confident a triple-A rated green tranche would appeal to investors and add diversity to FlexiGroup's programme.

♦ **FOX** I'd like to emphasise the importance of FlexiGroup's long-term support of the solar product through its Certegy programme. We were very clear around constructing the offering for an established issuer that has been financing these assets for an extended period of time.

Davison *Australian green bonds have seen the participation of a number of nontraditional institutional investors – such as direct*

“INVESTORS WANT TO HAVE A LOT MORE OWNERSHIP OF THE ENVIRONMENTAL FACTORS AT PLAY WITHIN THEIR HOLDINGS, WHICH I THINK IS A GREAT DEVELOPMENT. I ALSO THINK IT'S ABOUT MORE THAN JUST GREEN BONDS.”

JOHN MANNING ABERDEEN ASSET MANAGEMENT



allocations by superannuation funds. This is presumably relatively straightforward when the asset being sold is a senior-unsecured bond issued by a name like World Bank or NAB, but are there considerations around dealing with investors that do not often get involved as direct buyers of structured transactions?

◆ **KOE** Absolutely. A great deal of focus was placed on ensuring the offering would be well received by investors. Key items of consideration during the structuring process comprised defining and limiting referable green assets to rooftop solar photovoltaic systems, tranche size, credit support and ensuring a generous level of buffer between the quantum of green notes and green assets. We also soft-sounded the structure with both SRI investors and traditional accounts to ensure the offering would be well received.

Davison *Green bonds issued in Australia to date have priced flat to the implied issuer curve. The FlexiGroup securitisation offered a price benefit to the issuer from ‘going green’ – the green tranche priced 5 basis points tighter than an otherwise identical but non-green-certified tranche. Was this a specific goal?*

◆ **MCFADYEN** As an issuer we always want to see the best pricing outcome possible, of course, and when we split the triple-A notes into two tranches we hoped for a beneficial pricing outcome for the green bonds. But it certainly wasn't the main motivation for the deal. We wanted to do something to demonstrate that we have been supporting the green lending space for a long time, and to make it a headline in our transaction. We were also keen to bring new investors into our deals. The pricing outcome was a 'nice to have', but it wasn't critical. At the end of the day, 5 basis points in a A\$50 million tranche isn't make or break for a transaction.

The fact that the green tranche priced tighter than the equivalent nongreen notes was really a function of supply and demand – though I note that there was a degree of scaling across the triple-A book. If this outcome sets a benchmark that's great, but it's not vital.

◆ **KOE** The two A2 notes had the same attributes in terms of repayment characteristics, credit support and weighted-average life, so it made sense initially to market them at

similar levels. Market dynamics – supply versus demand – drove the pricing outcome on FlexiGroup's green note. But we are hopeful that, over time and as the depth and issuance volume of green bonds including green ABS grows, there will be price delineation between green and nongreen tranches.

Davison *Does the price difference make it harder for investors to support the green tranche?*

◆ **MANNING** Yes it does. Ultimately, the A2 and the A2-G tranches ranked *pari passu*. If there aren't assets and cash flows ringfenced to service an investment in one of these tranches, it's more like a master-trust structure than a pure green tranche. Therefore, hypothetically if I was offered two identical risk profiles but with one paying 5 basis points more, I would have to take the better paying note for my clients.

June McFadyen is right, though – it's a matter of supply and demand. When you unlock a brand new investor base that has not previously been able to access an asset class, the buyers will need to pay up to get set. Other investors won't have the same motivations from a portfolio-construction perspective.

In other words, there may be great opportunities for green issuers right now – but once the market has matured investors can only look at the risk of a product and whether they are being appropriately rewarded for taking it on. So I don't think differential pricing will settle in the long term.

◆ **FOX** It wasn't done in the FlexiGroup transaction – largely because of scale – but it is possible to segregate assets within a securitisation structure. How pricing dynamics play out will to some extent be determined by how deal structures settle.

◆ **SOKARIS** The relative attractiveness of green versus nongreen assets will also play out in the secondary market. We actively monitor the performance of outstanding bonds, tracking performance of green bonds relative to the issuers' mainstream curves. So far, there does seem to be some outperformance of the green paper.

◆ **ZILELI** NAB's green bonds have performed strongly in relative terms, but I think our green bond is pretty tightly held and therefore lightly traded. The investors tend to take a buy-and-hold approach, so my sense is that any paper that does emerge in the secondary market tends to be very well bid. To be fair, there isn't a great deal of trading in the Australian secondary market for any paper – but even less so for green bonds.



“HAVING SOME FORM OF INDEPENDENCE BEHIND ANY GREEN LABELLING IS GENERALLY SEEN AS A MUCH BETTER ROUTE TO THE POTENTIAL REPUTATION BENEFITS OF ISSUING IN THIS FORMAT.”

ANNE-MARIE NEAGLE KING & WOOD MALLESONS

Davison *Were there any complexities involved in incorporating a green capability into an existing securitisation programme?*

◆ **NEAGLE** The changes weren't significant from a documentation perspective. There are some required disclosures for a certified issue, for

example in relation to the role of the Climate Bonds Initiative and the identity and role of the verifier. But these disclosures have now had some time to evolve and are becoming more standardised.

A key recent development in the Climate Bonds Standard has been the inclusion of explicit reporting requirements for greater alignment with the Green Bond Principles. But applying this requirement in a securitisation was a simple adaptation as reporting has been a traditional feature of ABS transactions throughout the history of the asset class. The structural changes a securitisation needs in order to include a green tranche are not substantial, and to some extent already work within the existing securitisation framework.

Even if the structure was taken further, to include segregation of the green and non-green pools, this could be achieved using existing securitisation technology. As Jacqui Fox mentioned, there are already accepted ways to include segregation of assets in a securitisation structure.

Davison *How does the issue of green assets – and a green tranche – in a mixed pool influence investor thinking about the deal?*

♦ **MANNING** Green ABS is significantly different from a green bond. In a green bond, as an investor we face and have total recourse to the issuer. That's not the case in an ABS – and if we don't have recourse to FlexiGroup, for instance, we have to focus very carefully on the assets. This is the case for any securitisation, of course, but we go through every asset on a line-item basis.

When the green ABS came to us, what we wanted to do was establish whether it had the same risk profile as the previous FlexiGroup ABS – which did not include a green tranche – and then make an informed investment decision based on our conclusion. We also compared the risk profile of the A2 and the A2-G notes.

Our sense is that this market is evolving well, but there is more that we'd like to see. We want to see more detail around the overcollateralisation element. We are comfortable that the use of proceeds is green, but we could still have more comfort that we will always be repaid by qualifying green assets – in other words, we believe the deal is green but we want to be sure that it is specifically green 'for us'.

♦ **LOVELL** We ran the FlexiGroup transaction through credit filters to model pay-down periods. But actually we quite liked the fact that the deal would be something of a live test run for how this would work in the capital markets more broadly. In other words, that it would force market participants actively to think about the credit performance

of solar receivables specifically as opposed to passively accepting the performance of a wider asset pool.

The real difference between this transaction and a bank green bond is that, as John Manning says, the green bond is credit intermediated. Ultimately, if the capital markets are to play the fullest role possible in funding climate objectives, investors will need to take risk direct on underlying assets through structures like securitisation.

Davison *How helpful were global precedents for the first Australian green certification?*

♦ **JENKINS** We looked to the US first, because it has a track record of securitising rooftop-solar assets. There are differences in the US, though, including tax-based incentives – these have a significant impact on the shape and, in particular, scale of the US market. We didn't feel, for instance, that we had sufficient scale in Australia to do a standalone green securitisation – we just didn't feel there was a pool that was of sufficient scale and diversity, and had a long enough default history, to take to a rating agency and have a simple outcome.

This is why we decided that tagging a group of qualifying receivables as part of a larger consumer asset pool would be the best way to start. We are now seeing further opportunities emerging in the wake of the FlexiGroup deal.

♦ **KOE** It certainly made sense to have a mixed pool in the case of an issuer like FlexiGroup, which has a diverse product offering. The US model is predominantly based on power-purchase agreements favoured by utility companies, which lends itself to standalone transactions.

♦ **FOWLER** There is a lot of excitement internationally about the prospects for securitisation to fund the type of small, distributed assets that play a big role in a low-carbon future. Solar energy and energy efficiency are high on this agenda.

In Paris last year, we launched the Climate Aggregation Platform – funded by the Global Environment Facility and put together in partnership with the United Nations Development Programme. Part of this will be bringing together working groups in different jurisdictions to develop roadmaps and detailed documentation around deal formats. We believe this will become a really popular route by which disaggregated projects – and not just smaller ones – come to the capital markets. We expect substantial progress by the end of the current year.

“WE ACTIVELY MONITOR THE PERFORMANCE OF OUTSTANDING BONDS, TRACKING PERFORMANCE OF GREEN BONDS RELATIVE TO THE ISSUERS' MAINSTREAM CURVES. SO FAR, THERE DOES SEEM TO BE SOME OUTPERFORMANCE OF THE GREEN PAPER.”

CONNIE SOKARIS NATIONAL AUSTRALIA BANK



Certification and verification situation

THE PROCESS OF HAVING A SECURITISATION STRUCTURE INDEPENDENTLY VERIFIED AS GREEN-QUALIFYING HAD SOME UNIQUE CHARACTERISTICS. BUT VERIFICATION WAS NOT AN IMPEDIMENT TO ISSUANCE – AND IN SOME WAYS ASSET-BACKED SECURITIES (ABS) LEND THEMSELVES TO THE PROCESS.

Davison *What impact does the requirement for asset-level analysis have on the verification process? How different is verification of a green securitisation as opposed to a green bond?*

ROBINSON It's very different. In a green bond there might be a pool of a dozen or so assets, which tend to be publicly verifiable – a wind farm, for instance, will be generating electricity and of course have a fairly obvious physical presence. It was quite a different undertaking to drill down into the documentation provided to us by FlexiGroup, to sort it and to understand how the procedures and systems behind it would provide sufficient information for ongoing coverage of the ABS pool.

We looked at the information at a grassroots level – from initial handwritten loan documentation of a large geographic sample of the loans all the way to an aggregate pool summary. We also looked beyond the core data when it came to verification

methods. This included looking at aerial photography to check that solar panels were in place where they were meant to be.

It was a very exciting process to be involved in. It was a challenge, but it was an interesting one – and I think it says a lot about how quickly the market is evolving.

MCFADYEN It was important to us that the issue be certified. We didn't just want to say 'we fund solar'. The certification process was new to us, but it was an absolute must – we wouldn't have done the deal without it.

Davison *Green-bond issuers tend to suggest that the verification process has some cost and resourcing implications but that these are not hugely onerous. Is it a different story for securitisation verification?*

MCFADYEN The first question we had about doing a green deal was 'is it going to worth it?' As I said, we wouldn't have issued without audit and certification, but FlexiGroup is a small

issuer with a small team so it also had to be relatively straightforward. We spent a lot of time working with the National Australia Bank (NAB) team ahead of time, especially on the question of how we would go about the process.

We looked at a number of ways of getting everything done, and none of it proved to be prohibitive – either in terms of time or financial cost. There were a number of processes we had to go through, but they were definitely worthwhile and wouldn't be an impediment to issuing again.

It is worth pointing this out because it's easy to see how the process could be perceived as potentially onerous. Mark Robinson mentions handwritten documents, for instance, and the reality is that the Certegy loan programme we are funding is a point-of-sale product.

But we already go through a verification process with our solar customers – these contracts are at the higher end of the value loaned through the programme so we have always followed up to make sure solar

GREEN STANDARDS

Davison *The FlexiGroup deal has what is effectively 'green overcollateralisation' – an excess of qualifying receivables relative to what should be necessary to pay down the green tranche. Is there an established precedent for how big this overcollateralisation has to be?*

♦ **KOE** While there isn't an established precedent we were conscious that this would be an important element for a number of SRI investors. As a result we were careful to ensure investors were comfortable with the approach and overcollateralisation buffer as the notes and assets amortised.

♦ **MCFADYEN** We started with a payment profile for the entire pool. It's worth mentioning here that the structure also had a short-tenor note – the A1 – to which all principal is paid for around six months. This meant we had to be careful about

the green assets. There was around A\$90 million of solar loans in the pool on day one, but we have to be sure that this pool won't be depleted as the short-tenor note is paid down.

As a result, we also modelled the solar assets separately. Our conclusion was that the surplus over a A\$50 million green tranche was one with which we could be comfortable. We could have gone larger in the green tranche, but we also felt the split of the A2 notes between the normal tranche and the A2-G was about right. It was really a case of taking everything into account and coming up with a number that felt right.

We were certainly helped by having a track record of six ABS deals from this programme, which have established a track record that demonstrates that the solar loans are the ones that pay down over the longest period. This mitigated any risk of the short-tenor tranche taking too great a proportion of the green receivables. Overall, I think we were very conservative in how we structured the green tranche.

panels have been installed and that customers are happy with the service. It's a detailed verification process – with solar customers and merchants – so I was comfortable that any testing done on a sample basis would produce a positive result.

ROBINSON The integrity of the certification process is critical for us. We need to have a really good grasp of how we will analyse the composition and coverage of the underlying asset pool, and of how reporting will provide quality information for verification on an ongoing basis.

JENKINS Standards have also evolved in the green asset class, and they now include a recommended requirement for reporting. But, as has been noted elsewhere, the beauty of an ABS transaction is that this already exists. It's really about taking an existing ABS reporting setup and adapting it to the climate-bond framework.

The framework had to be created when we did the first green bond for NAB. It wasn't complicated, but we had to get stakeholders to think about it. But this isn't a new development in securitisation.

KOE Something we think is important for other issuers

to be aware of is that the certification process didn't elongate the time to market for FlexiGroup. Cost is also quite manageable.

ONGOING REPORTING

Davison *What about the requirement for ongoing reporting after the deal has priced – how if at all is this process different for a securitisation?*

JENKINS It's a closed pool, so we know what's there in asset terms from day one and we also know how much has been raised for the green bond once the deal has priced. There is a procedure for registering the bond information with DNV GL and for signing off certification with the Climate Bonds Initiative, post-pricing. But this is really all that's needed given the information on assets already exists and has been verified.

ROBINSON We also conduct post-issuance verification covering all the salient points. The standard is set up to cover the *ex-ante*, *ex-post* events of a transaction like this. It's all very clearly set out in the Climate Bond Standards and is a fairly straightforward procedure.

JENKINS Investors also get an annual update, in the form of a snapshot of the outstanding note and pool.

MCFADYEN Again, though, this is something we already do in our monthly ABS reporting. We provide a note balance and a split of the residual underlying receivables – they're updated versions of the same tables included in an offering memorandum.

MANNING We certainly look at monthly disclosures to check the status of our holdings. Having an entity like DNV GL doing verification upfront is very important – and it has to be a provider with a lot of integrity and in which we are comfortable placing a lot of trust.

“We need to have a really good grasp of how we will analyse the composition and coverage of the underlying asset pool, and of how reporting will provide quality information for verification on an ongoing basis.”

MARK ROBINSON DNV GL BUSINESS ASSURANCE



Davison *Does the concept of appropriate labelling of green securities have a legal implication or is it managed in the certification process?*

◆ **NEAGLE** The idea of whether a bond includes a 'green default' is certainly a very important and sensitive one. Globally, we are trying to mobilise capital into these kinds of investments and therefore bring as many issuers as possible to market. I think that the idea of a green default is concerning from an issuer perspective.

Even being genuine in looking to attach green credentials to a bond, a potential for green default and the direct and indirect consequences that could flow from one could deter issuers from coming to market. Many issuers have a broad funding platform and the potential for cross default is also of fundamental concern – an issuer can't afford to make the whole platform subject to one small part of it. But the way the green market has evolved is such that there is not a default-

based outcome if there is an issue with green certification – it is a notification-based outcome.

◆ **FOWLER** The Climate Bond Standards contain an ongoing obligation to report on the status of assets in a green pool, and to notify us if they fall out of compliance. It's a dialogue, which is mapped out by the standards and which aims to provide for a solution to be found before reacting by removing certification. Though of course ultimately removal of certification is the tool available to us if a bond is no longer compliant with the standards. We don't expect this would be a quick or sudden move, but it is there.

◆ **MANNING** One of the first questions an investor will ask when looking at a green bond is 'what happens if the green goes brown?' We need to know what happens if a transaction loses its green credentials subsequent to issue. The answer is fairly easy when we're talking about a green bond. If an underlying asset is sold or lost, the funding comes back – it



“THERE IS A LOT OF EXCITEMENT INTERNATIONALLY ABOUT THE PROSPECTS FOR SECURITISATION TO FUND THE TYPE OF SMALL, DISTRIBUTED ASSETS THAT PLAY A BIG ROLE IN A LOW-CARBON FUTURE.”

ROB FOWLER CLIMATE BONDS INITIATIVE

would be about a standard bank green bond – where we have to keep a close eye on asset movement.

◆ **KOE** The level of overcollateralisation of green-qualifying assets certainly supports the robustness of the tranche. Investors are able to assess

may be put on deposit at the issuing bank or substituted with other certified assets.

It’s not so straightforward with a closed pool, because of course it is very hard to substitute assets. If the Climate Bonds Initiative takes away certification for any justifiable reason it’s critical that we know what the documentation includes in terms of investor protection. I believe all the Climate Bonds Initiative is obliged to do is notify investors that certified status has been lost.

Overall, at this stage in market and product development I believe the green-bond structure is more robust in this respect. It is probably something we can work on as part of the evolution of the securitisation sector. We know that, realistically, we are not going to get a make-whole provision, so we need to be sure there is something ongoing to protect us from what would be legitimate questions from our clients about why we continue to hold something that is no longer green.

◆ **LOVELL** I don’t disagree with what John Manning says, but it is also true that in some ways an ABS transaction with a closed pool is actually simpler for an investor to get to grips with on an ongoing basis than, say, a bank green bond. The green bond could have any underlying assets, and over time those assets may change to a point where they no longer meet the mandate of the investor – even if they still meet certification requirements. The reality is that the investor is dependent on the ongoing behaviour of the issuing entity.

With an ABS, while of course we monitor the monthly reporting it is also fundamentally impossible to substitute assets into the pool. From a green perspective our only exposure is the – likely remote – issue of an unexpected asset pay-down profile causing a breach of the green overcollateralisation. I am actually rather more relaxed about the ongoing green qualification of the FlexiGroup ABS than I

the performance on an ongoing basis.

◆ **LOVELL** If I saw in the ongoing reporting that the solar assets in the FlexiGroup ABS were paying off really fast – which I don’t remotely believe will be the case – I would certainly be in touch with the issuer to request information. But it would be a bit like getting run over by a glacier – there is plenty of opportunity to see how the pool behaves.

◆ **MCFADYEN** This is another reason why we thought the timing of our deal was right. We have a track record of six ABS deals with full performance history of all the receivables, and we have established that there is less prepayment risk on our solar assets than in the residential mortgage space. There is no financial benefit to the borrower to repay early, and Certegy contracts cannot be refinanced. We certainly hope to attract more investors to the product as we establish a green-issuance track record, too.

◆ **NEAGLE** I think this issue also takes us back to the earlier discussion about reporting and secondary-market liquidity. Investors can liquidate their investment if it no longer satisfies a mandate – in other words, an investor’s remedy for a loss of green status is to sell in the secondary market as opposed to asking for their money back from the issuer. This reinforces the need for reporting and notification requirements, but it also highlights the need to continue to develop secondary-market liquidity across the bond markets.

***Davison** Can we compare a green asset losing its green attributes to a corporate bond losing investment-grade status? If investors want to avoid any risk of forced selling they need to make sure they buy the most unimpeachably green securities – just as they might be wary of buying a triple-B-minus rated bond with a negative outlook.*

◆ **MANNING** It’s all relative. If an investor is running an unconstrained mandate and wants to buy triple-B-minus, negative-outlook stock from an issuer that wants to fund



“IF I SAW IN THE ONGOING REPORTING THAT THE SOLAR ASSETS IN THE FLEXIGROUP ABS WERE PAYING OFF REALLY FAST I WOULD CERTAINLY BE IN TOUCH WITH THE ISSUER. BUT IT WOULD BE A BIT LIKE GETTING RUN OVER BY A GLACIER – THERE IS PLENTY OF OPPORTUNITY TO SEE HOW THE POOL BEHAVES.”

RICHARD LOVELL CLEAN ENERGY FINANCE CORPORATION



its dividends, presumably it will need to be paying quite some margin! If an investor is looking at an ABS transaction featuring an A2 and an A2-G note which are *pari passu*, it will need to make an informed decision about the relative value.

What I would say is that these are not insurmountable issues. Indeed, if they can be tidied up I think it will open the door to even more money coming into the green ABS market.

♦ **SOKARIS** In our experience green issuance gets more interest from investors after pricing than mainstream assets. This largely relates to investors that didn't participate in the primary market, for timing- or mandate-related reasons, but are interested in follow-up transactions.

MARKET PROSPECTS

Davison *As an issuer, what are NAB's hopes for the future of green bonds?*

♦ **ZILELI** We have identified another pool of green assets, so we hope to bring a second transaction to market at some stage. We are committed to issuing in this format and we are very conscious of the need for integrity behind our deals – which is one of the reasons why we have elected to have everything verified. Any issuance we bring to market has to price in line with non-green assets. But it is a market we continue to look at and we hope to have more news in due course.

Davison *We have seen some global SSA names issuing in Australia, a couple of local bank deals and now a securitisation tranche. There have also been two offshore bond transactions issued by local corporate names. What will be the next source of domestic supply?*

♦ **JENKINS** There is a specific government entity that has been happy to acknowledge that it is actively looking at this asset class. There is also interest from others in the government sector, so I suspect there will be follow-on issuance after a debut.

A number of additional corporate borrowers are also looking at green issuance, and we are hopeful that some of this will come to fruition. There are also more potential bank issuers in the wings.

I suspect there might be a lag effect for securitisation – reflecting the need to locate the right assets and ensure that issuers have the requisite performance history to meet rating-agency requirements.

Having said this, Richard Lovell and NAB, among others, are looking at a number of underlying asset pools. Performance history is key in this respect, especially as some potential sources of supply – for instance smart meters and

energy-efficient vehicles – are taking a little while to scale up. They certainly lend themselves well to future securitisation opportunities, though.

Davison *It doesn't sound as if all-green ABS in Australia is likely in the near future.*

♦ **KOE** We agree, though we are of the opinion that this is largely attributable to the notion that green ABS is a relatively new funding tool. It has broad application to a number of existing and new issuer types that will need to ensure they have the requisite performance history to meet rating-agency requirements.

♦ **FOX** Even in traditional asset classes like residential mortgages, there is a lot of potential for the introduction of energy-efficient housing construction – and to isolate and separately fund these assets. If we can get our heads around how to make this work it could be where we find real scale for green securitisation.

Davison *What growth is expected for either ESG or SRI mandates in Australia?*

♦ **MANNING** ESG is increasingly prevalent. Mandates have already evolved, but we are now more frequently being asked about things like the coal footprint within a portfolio – especially by European clients. Investors want to have a lot more ownership of the environmental factors at play within their holdings, which I think is a great development. I also think it's about more than just green bonds – there is a great opportunity, for example, for investors to get involved in green loans. I am looking forward to seeing how the market evolves.

♦ **SOKARIS** The way markets usually evolve is that banks initially support development followed by institutional investors. This has already occurred in various sectors – institutional project-finance investors are now very comfortable supporting large green equity projects, for instance. The banks are still supporting the green-loan space, but I absolutely agree with John Manning that investors can be expected to move into loans from equity as they have in the nongreen arena.

♦ **LOVELL** There is a wide range of potential opportunities to use securitisation techniques in the green space – things like geared equity funds for renewable projects, for instance. The footprint is very broad, though scale is a challenge at present. ■

“FLEXIGROUP, IN OUR VIEW, WAS A LOGICAL FIT FOR THE GREEN PRODUCT GIVEN ITS COMBINATION OF AN ESTABLISHED ABS PROGRAMME, A SIGNIFICANT SOLAR LENDING BOOK AND A DEMONSTRATED TRACK RECORD OF CREDIT PERFORMANCE.”

LIONEL KOE NATIONAL AUSTRALIA BANK



LIBERTY'S HISTORY SETS THE PATH TO A BRIGHT FUTURE

The rise of technology and the new regulatory environment in the banking industry make for promising times in the Australian nonbank sector. Liberty Financial (Liberty) points to skills and structures developed over the company's 20-year history as reasons why it is uniquely placed to exploit an opportunity set that will not be there indefinitely.

There is a new-found mood of optimism among Australia's nonbank lenders. The most successful of these companies believe their risk-management expertise, diversity, portfolio performance and capital strength positions them well to take advantage of opportunities being spun out of the bank sector by heightened regulatory scrutiny and, in particular, increasing capital constraints.

"We are operating on a level playing field with the banks for the first time in seven or eight years at least," says James Boyle, Liberty's Melbourne-based chief operating officer. "Recent regulatory changes have made it slightly easier for those of us not directly supervised by the Australian Prudential Regulation Authority [APRA] to meet customers' needs. That's been very welcome, even if it has been a long time coming."

A prudent and robust approach to lending is critical to taking advantage of this opportunity, though. As Peter Riedel, chief financial officer at Liberty in Melbourne, explains: "We see ourselves principally as risk managers, with a focus on meeting our risk-adjusted return targets in every product and



"Capital is at the core of everything we do. We also contribute our own equity capital into each loan we originate, which provides a strong alignment of interest with our funding partners."

PETER RIEDEL

asset class in which we operate. The capital market enables our growth – it doesn't dictate our risk and credit standards."

Boyle adds that for a nonbank to maximise the opportunities that undeniably exist is not merely a case of being in the right sector at the right time. Liberty has spent 20 years developing the customer-focused core competencies it believes position it well to take advantage of a promising set of market circumstances.

Boyle highlights risk management, customer service, technology and exceptional culture as the four key pillars of Liberty's resilience during harder times as well as its growth agenda into the future. "Combining these four core competencies has enabled us consistently to price risk appropriately, diversify our offering, manage our receivables and grow our capital," he explains.

The first three of these core competencies in particular have worked hand in hand to allow Liberty to shape a unique business in the Australian nonbank sector. Its risk-management expertise – supported by a long-term track record of deploying technology to better calibrate and assess risk – has enabled the development of a diverse lending book that stretches well beyond the mortgage sector.

DIVERSE BUSINESS

The breadth of Liberty's business has come about gradually and organically, but is sufficiently significant to allow Riedel to point out that half the company's profit is derived from products and services other than Australian residential mortgages. Boyle adds: "If we weren't leveraging a skill set we already have, our chances of success in a new product would be low. We've continued to expand and diversify our business, year on year, because we've been able to rely on our existing skills in new areas."

Liberty first emerged as a home-loan lender but from inception the plan for the business was to become broader. It now offers auto and unsecured personal loans, SME and self-managed superannuation fund (SMSF) lending, and insurance and investment products, as well as the core home-loan business. These are all offered as part of what Boyle calls a "broad-based financial-services business".

The company was the first to offer a loan product for SMSF holders, and recently added a new personal-loan product that can put cash in a successful applicant's account within an hour of the customer submitting their loan application online.

This diversification all stems from risk-management expertise. Boyle explains that Liberty uses skills derived from home-loan lending in other lending segments. For instance, he comments: "In the SME space, being able to take customers' specific circumstances into account has radical application – because no two businesses are identical. We've been

able consistently to provide an opportunity to SME borrowers that often isn't available from mainstream lenders."

"MATURE FINTECH"

Liberty, like other established Australian nonbanks, finds itself in an interesting – and potentially challenging – position in 2016. While the opportunities are clear, the nonbanks are also in the middle of a competitive continuum featuring very large banks at one end and small, responsive and tech-focused startups at the other.

Liberty stands on its record as a technology developer and innovator. Boyle says the firm views itself as a "mature fintech" – with advantage of scale and experience balanced by a focus on innovation and speed. Boyle says, for instance, that having 20 years' worth of data to mine gives Liberty an inbuilt advantage over startups. "We have been using purpose-built, automated processing and approval technology since the middle of the last decade – which is what startups are trying to use third-party data to do now."

Liberty says it is unique among Australian nonbanks in that it relies solely on software it has developed in-house. But a real advantage only exists if Liberty continues to innovate. For example, the company has recently invested in the data realm in order to improve its decision making. Boyle says: "We have very consciously been expanding the data we capture for all customers – this is not a theoretical concept for our business. We're already using enhanced data sources, including social media, to put us in the best position to make fast, fuss-free decisions that give our customers choice quickly."

This is not a new concept for Liberty but something inherent to the business it has always operated. Boyle comments: "We knew right from the start that we would have to price differentiate if we wanted to offer nonconforming lending – and that price differentiation is sometimes cumbersome for customers. It's vital to make it as easy and stress-free as possible."

CAPITAL STRENGTH

Liberty believes the way it operates its business – specifically its focus on risk management and its drive to be active across the full spectrum of the financial-services landscape – sets the company apart among nonbanks. Riedel argues that a key benefit of operating in multiple facets of the financial-services industry is that Liberty can continue to grow and build a strong capital base, assisted by being active in countercyclical markets.

All of its core competencies, meanwhile, have helped Liberty to build a capital position it believes to be unique among nonbanks. This has paved the way for the company to achieve a public investment-grade rating of

BBB- with a positive outlook from Standard & Poor's Ratings Services and enter the senior-unsecured bond issuance market to complement its long-established securitisation programme.

Riedel says if the company's credit products fell under APRA's oversight, it would report a regulatory-capital ratio of around 16 per cent – which is comparable with Australia's better-capitalised banks and, Riedel insists, "is unique for a local nonbank lender".

This is not a coincidence. Riedel explains: "The assumption is often that nonbank lenders are not capital constrained. This may or may not be the case elsewhere, but it's certainly not how we think about or manage our business. Capital is at the core of everything we do, and our capitalisation allows us to execute a diversification strategy through establishing businesses from the ground up. We also contribute our own equity capital into each loan we originate, which provides a strong alignment of interest with our funding partners."

Consistency and balance-sheet conservatism have been core elements of the Liberty strategy since the company's inception. The three shareholders who established the business remain in place today, and Riedel reveals that none has ever taken a dividend. Instead, profits have been reinvested into the business to fund business growth and investment initiatives. The equity base of Liberty now approximates A\$400 million (US\$303.9 million).

A strong capital position and diverse funding options – including a A\$600 million asset-backed commercial-paper programme – are mutually beneficial for Liberty. Riedel explains that the senior-unsecured programme adds to Liberty's capacity to originate receivables which meet the company's risk-adjusted-return hurdles. "We had always planned to be able to bring senior-unsecured issuance to market. The sole purpose of doing so is to further diversify our funding sources, thereby achieving durability in our funding programme," he says.

Liberty has only publicly issued senior-unsecured notes once, for A\$100 million, but it hopes to tap this market every 18 months to two years. The company is also a frequent securitisation issuer in multiple formats, having placed 38 transactions for more than A\$14 billion.

Riedel states that Liberty's term securitisation performance is unblemished. It has never had any note charge-offs, any need to use credit or liquidity reserves, or any notes either downgraded or on negative ratings watch. ■

"We are operating on a level playing field with the banks for the first time in seven or eight years. Recent regulatory changes have made it slightly easier for those of us not directly supervised by APRA to meet customers' needs. That's been very welcome."

JAMES BOYLE



RESIMAC: POSITIONED FOR GROWTH

Resimac was founded 31 years ago. The organisation has changed from a government-owned entity established to provide private-market financing to the public housing sector to today's position as a prominent player in the nonbank sector. Warren McLeland, Resimac's executive chairman, and Mary Ploughman, the company's head of capital markets, discuss Resimac's current position and future strategy.

How has Resimac's strategy responded to the changing marketplace?
◆ MCLELAND We're far more confident in 2016 regarding the immediate and long-term outlook for the business after the emergence of a clear structural change to our sector and our competitive positioning. The increase in banking regulations over the last year has resulted in the major banks changing their lending activities and repricing components of their asset portfolios. This has opened up substantial opportunities for us, and our new business originations are markedly above forecasts.

Our prime mortgage production has more than doubled in volume and our nonconforming business is yielding pleasing results.

◆ PLOUGHMAN The nonconforming market-share growth is noteworthy given the benign economic conditions and the strong housing market that largely determine the overall size of the space. Resimac is now one of the largest originators in the sector.

Pleasingly, the growth in new business has been achieved without

having to sacrifice credit quality or price. We're principally in the business to grow organically. However, where opportunities present, we have no issues in augmenting growth with acquisitions aligned with enterprise strategy.

We have had some success in pursuing acquisitions by regulating our M&A activities in line with our risk appetite and funding capabilities. We have closed in excess of A\$2 billion (US\$1.5 billion) equivalent in asset and company acquisitions over the last three years in Australia, New Zealand and the UK, all of which have been comprehensively integrated into our servicing and funding platforms in a timely manner.

Investors have responded favourably as we have expanded our issuance programmes and given them more investment options. In the last 12 months, we were able to securitise acquired assets in Australia, New Zealand and the UK.

How have the structural changes in the mortgage market been reflected in Resimac's funding programme?

◆ PLOUGHMAN We made a significant decision some time ago that we needed

to diversify our funding base, starting with our warehouse lines. Over the last five years we have expanded the markets in which we issue and we now have a successful US 144A programme that makes a material contribution to our funding task. We've always ensured that we maintain excess capacity in our asset and liability platforms to take advantage of opportunities and accommodate business growth. Investment in our offshore funding programme supports enterprise decisions, such as our ability to meet calls and our risk appetite.

We were able to raise the equivalent of A\$935 million in our recent Premier 2016-1 trade in the Australian and 144A markets. This is clear recognition of our residential mortgage-backed securities (RMBS) programme.

How does Resimac align its enterprise objectives with those of RMBS investors?

◆ MCLELAND Most importantly, the performance of our asset collateral is outstanding. Australian mortgages have outperformed their issuance peers for a number of years now. To me, it would be one of the safest forms of collateral and, therefore, is a low-risk



"We believe the nonconforming market has a bright future for us and will provide incremental returns to the prime business. The directional thrust of the business will always be around converting financial receivables into bonds."

WARREN MCLELAND

investment. The attractiveness of the Australian product is augmented by its yield profile, particularly in the triple-A space. This doesn't mean to say investors won't be cautious – but this will play to our strengths, as I believe we understand investor needs better than our competitors.

Can you speak to what you believe to be the strengths of Resimac's issuance programme?

◆ **PLOUGHMAN** We are a consistent issuer with capital structures tailored for investor preferences. Our mortgage collateral outperforms peers, we have a perfect record of meeting call options and we have undertaken measures to maintain ratings where criteria have changed. We work closely with the buy side to understand its sensitivities and needs, and we have been able to build a strong foundation of real-money investors.

Our investor base runs from superannuation funds and global asset managers to boutique credit funds and family offices.

◆ **MCLELAND** A primary objective of our investor-relations activities is not only to attract new investors but also to foster the relationship – so they are comfortable with our name and can be long-term partners. From our perspective, the investor is the ultimate client that we wish to service, in conjunction with the mum-and-dad borrowers at the front end.

How does Resimac determine the frequency with which it issues?

◆ **PLOUGHMAN** Part of our overall funding strategy covers production volumes and refinancing called

collateral. We are aware that credit markets can be dysfunctional at times so the structure of our short-end funding reflects this, with excess capacity available at all times.

We want to be in the market on a regular basis and we can show that we have been able to issue in varying conditions. We have closed 22 public RMBS deals since the onset of the financial crisis and we have undertaken a number of capital-raising trades in line with our balance-sheet growth.

How has asset performance been over the last five years?

◆ **PLOUGHMAN** We have seen our book's performance improve significantly, reflecting tighter underwriting standards introduced during the early days of the crisis. There has also been significant consolidation in distribution channels aided by a national regulatory and licensing regime that has resulted in a higher standard of mortgage-industry participants.

We have also created a stronger model by vertically integrating our origination sources, giving Resimac greater control and enhanced asset quality. Resimac now has 50 per cent ownership of an aggregation platform with more than A\$15 billion in loans and full ownership of an online channel. This has translated into a better-performing, diversified book.

◆ **MCLELAND** It has also given Resimac greater control over its revenue as we no longer have to pay remuneration to third parties. Our ability to leverage our technology capabilities has also been a real enabler of establishing and building these proprietary channels.

How has Resimac's investment in technology and systems benefited its growth aspirations?

◆ **MCLELAND** Our proprietary asset-management platform is a core attribute. We have continued to make significant capital investment in the platform to ensure it meets the requirements of both the asset and liability sides of the organisation. Our primary objective with our systems is for them to be flexible and scalable to support growth aligned to strategy, while offering efficiency and productivity outcomes and comprehensive management information-system reporting.

◆ **PLOUGHMAN** Owning our own platform has enabled us to respond to market opportunities and in relation to product development with an element of control and governance one would not have using third-party providers.

How is Resimac positioning itself for the next five years?

◆ **MCLELAND** Our ambition is to increase our market share. To do this we will focus on our core prime and nonconforming businesses. We believe the nonconforming market has a bright future for us and will provide incremental returns to the prime business. The direction of the business will always be around converting financial receivables into bonds.

◆ **PLOUGHMAN** The board continues to direct the management team to pursue a mix of organic and inorganic growth within the prescribed risk-return parameters. We have strict protocols to assess acquisition opportunities that include the ability to integrate acquired assets into our existing servicing and funding platforms. ■

“We want to be in the market on a regular basis and we can show that we have been able to issue in varying conditions. We have closed 22 public RMBS deals since the onset of the financial crisis and we have undertaken a number of capital-raising trades in line with our balance-sheet growth.”

MARY PLOUGHMAN



AMP BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PROGRESS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	19%
NUMBER OF SECURITISATIONS ISSUED	18
TOTAL VOLUME ISSUED	A\$16BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	72% DOMESTIC 28% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.1BN

Formed in 1849, AMP Group is Australia and New Zealand's leading independent wealth-management company, with an expanding international investment-management business and a growing retail-banking business in Australia. It provides financial advice, products and services primarily distributed through self-employed financial advisers, and investment opportunities through AMP Capital.

Specifically, AMP Bank is an Australian retail bank offering residential mortgages, deposits, transaction banking and self-managed super fund products. It has around 100,000 customers and a portfolio of practice-finance loans. AMP Bank distributes through brokers, AMP advisers and direct to retail customers via phone and online.

◆ PLEASE CONTACT:

David Rowe
Group Treasurer
+61 2 9257 5762
david_rowe@amp.com.au

Gwenneth O'Shea
Head of Securitisation
+61 2 9257 5823
gwenneth_oshea@amp.com.au

www.amp.com.au/securitisation

ANZ BANKING GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	KINGFISHER

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	INTERNAL (FOR RBA REPO PURPOSES)
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	ZERO
NUMBER OF SECURITISATIONS ISSUED*	4
TOTAL VOLUME ISSUED*	A\$4.45BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE*	24% DOMESTIC 76% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES*	ZERO

* Excluding internal securitisation transactions. The last public RMBS issued by ANZ was in 2004.

ANZ Banking Group (ANZ) is one of the four major banking groups headquartered in Australia. ANZ provides a broad range of banking and financial products and services to retail, small-business, corporate and institutional clients in Australia, New Zealand and the Asia-Pacific region. The bank began its Australian operations in 1835 and its New Zealand operations in 1840. ANZ has been active in Asia since the 1960s.

ANZ is one of only a small number of banks globally which has maintained a double-A rating from all three main credit-rating agencies. It is a true global issuer with a wholesale funding portfolio which is well diversified by currency, product and tenor.

◆ PLEASE CONTACT:

Andrew Minton
Head of Debt Investor Relations
Group Treasury
+61 3 8655 9029
andrew.minton@anz.com

www.anz.com

AUSTRALIAN FINANCE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	AFG TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESAL FUNDING SOURCED VIA SECURITISATION	38%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$875M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$392M

Australian Finance Group (AFG) is one of Australia's leading companies when it comes to financial solutions. Founded in 1994, AFG has grown to become one of the largest mortgage-broking groups in Australia with a loan book of more than A\$114 billion.

Listed on the Australian Securities Exchange in 2015, AFG has in excess of 2,600 brokers across Australia distributing more than 1,450 mortgage products supplied by AFG's panel of more than 40 lenders.

AFG leverages its tier-one technology platform to proactively manage its relationship with lenders, brokers and customers. AFG commenced offering its own securitisable home loans in 2007. These home loans are funded by multiple warehouses and term transactions.

◆ PLEASE CONTACT:

David Bailey
Chief Operations Officer
+61 8 9420 7857
david.bailey@afgonline.com.au
www.afgonline.com.au

AUSWIDE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	WB TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	65%
NUMBER OF SECURITISATIONS ISSUED	12
TOTAL VOLUME ISSUED	A\$3.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$388M

Auswide Bank became Australia's 10th, and Queensland's third, Australian-owned bank, listed and trading on the Australian Securities Exchange, on April 1 2015. However, the company has operated as a building society since 1966.

Auswide Bank has Australian credit and financial-services licences issued by the Australian Securities and Investments Commission, and is an authorised deposit-taking institution supervised by the Australian Prudential Regulation Authority.

Auswide Bank offers Australians an extensive range of personal and business-banking products and services issued directly or in partnership with leading service providers via branches, strategic relationships and online and digital channels.

◆ PLEASE CONTACT:

Dale Hancock
Group Treasurer
+61 7 4150 4025
dhancock@auswidebank.com.au
www.auswidebank.com.au

BANK OF QUEENSLAND



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	REDS (RMBS), REDS EHP (ABS), IMPALA (ABS)

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
PROPORTION OF SECURITISATION TO TOTAL FUNDING	10%
NUMBER OF SECURITISATIONS ISSUED	38
TOTAL VOLUME ISSUED	APPROX. A\$22.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 91% DOMESTIC 9% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$4.1BN

Bank of Queensland (BOQ) is a public company incorporated with limited liability under the laws of Australia. BOQ is domiciled in Australia, is listed on the Australian Securities Exchange, is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution and has total assets under management of A\$49.8 billion.

◆ PLEASE CONTACT:

Tim Ledingham
Treasurer
+61 7 3212 3342
tim.ledingham@boq.com.au
James Shaw
Head of Funding
+61 7 3212 3835
james.shaw@boq.com.au
www.boq.com.au

BLUESTONE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	SAPPHIRE, EMERALD

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, REVERSE MORTGAGE
WHOLESALE FUNDING VOLUME	A\$774M
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	54%
NUMBER OF SECURITISATIONS ISSUED	20
TOTAL VOLUME ISSUED	A\$6.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	94% DOMESTIC 6% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$458M

Bluestone Group (Bluestone) is a dynamic financial-services business with more than 260 employees and operations in Asia Pacific, the UK and Europe. The business is backed by Macquarie Bank and LDC, the UK's largest mid-market private equity house.

In 2000, Bluestone began originating mortgages in the Australian market. In 2013, the company recommenced mortgage origination and has issued two Australian RMBS transactions since this time. With vast experience in the nonconforming mortgage space, Bluestone is excited to offer its mortgage products to the retail market and continue its issuance of RMBS.

◆ PLEASE CONTACT:

Campbell Smyth
Chief Executive, Asia Pacific
+61 2 8115 5167
campbell.smyth@bluestone.com.au
www.bluestone.com.au

COMMONWEALTH BANK OF AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	MEDALLION TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	5%
NUMBER OF SECURITISATIONS ISSUED	22
TOTAL VOLUME ISSUED	A\$56BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$14.6BN

Commonwealth Bank of Australia is Australia's leading provider of integrated financial services including retail, premium, business- and institutional-banking, funds-management, superannuation, insurance, investment and share-broking products and services.

The bank's approach to wholesale funding is to remain diversified across markets and to maintain a degree of flexibility in terms of transaction timing. Wholesale funding is complemented by securitisation issues through the Medallion programme.

CREDIT UNION AUSTRALIA



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	HARVEY TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	58%
NUMBER OF SECURITISATIONS ISSUED	11
TOTAL VOLUME ISSUED	A\$6.8BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.8BN

Credit Union Australia (CUA) has a long and proud history of providing banking and financial services to Australians. CUA is Australia's largest customer-owned financial institution with nationwide representation through branches in Queensland, New South Wales, Victoria and Western Australia.

CUA is an authorised deposit-taking institution and is regulated by the Australian Prudential Regulation Authority.

FIRSTMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FIRSTMAC MORTGAGE FUNDING TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	70%
NUMBER OF SECURITISATIONS ISSUED	33
TOTAL VOLUME ISSUED	A\$16.6BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	88% DOMESTIC 12% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$5.5BN

Firstmac is a leading nonbank originator of prime residential home loans. Loans are predominantly sourced through the company's own online retail business - www.loans.com.au - and through an Australia-wide network of third-party introducers. The company is headquartered in Brisbane and has offices in Sydney and Melbourne.

Firstmac has been a regular RMBS issuer in the Australian domestic and offshore markets since 2003.

◆ PLEASE CONTACT:

Simon Maidment

Deputy Group Treasurer
+61 2 9118 1339
simon.maidment@cba.com.au

Ed Freilikh

Executive Manager, Group Funding
+61 2 9118 1337
edward.freilikh@cba.com.au

www.commbank.com.au/groupfunding

◆ PLEASE CONTACT:

Len Stone

Treasurer
+61 7 3552 4662
leonard.stone@cua.com.au

www.cua.com.au

◆ PLEASE CONTACT:

James Austin

Chief Financial Officer
+61 7 3017 8883
james.austin@firstmac.com.au

Paul Eagar

Director, Securitisation
+61 2 8579 8403
paul.eagar@firstmac.com.au

www.firstmac.com.au

FISHER & PAYKEL FINANCE



TYPE OF COMPANY	NZ NONBANK DEPOSIT TAKER (NBDT)
SECURITISATION PROGRAMME NAMES	Q CARD TRUST, RFS TRUST 2006-1

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	>80%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	NZ\$500M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	80% DOMESTIC (NZ) 20% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	NZ\$500M

Fisher & Paykel Finance has provided financial products and services to New Zealanders for more than 40 years. The company funds a large portion of its credit-card receivables through two constantly revolving structures: Q Card Trust and RFS Trust 2006-1.

Q Card Trust (2014) combines aspects from US and UK master-trust deals with those from New Zealand-style ABCP programmes to permit ongoing issuance of term notes, backed by revolving assets. Q Card Trust is designed to continually purchase receivables.

RFS Trust 2016-1 is also a revolving structure, issuing ABCP to fund its Farmers Finance Card credit-card receivables.

Fisher & Paykel Finance was sold to FlexiGroup in March 2016.

◆ PLEASE CONTACT:

Paul Jamieson
Treasurer
+64 9 525 8593
Paul.Jamieson@fpf.co.nz
www.fpf.co.nz

FLEXIGROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	FLEXI ABS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	50%
NUMBER OF SECURITISATIONS ISSUED	9
TOTAL VOLUME ISSUED	A\$1.9BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	>90% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$580M

All data as at September 2015.

A n Australian Securities Exchange 200-listed Australian public company, FlexiGroup is a diversified financial services group providing point-of-sale interest-free, no-interest-ever, leasing and vendor programmes to consumers and businesses. FlexiGroup operates in Australia, New Zealand and Ireland.

◆ PLEASE CONTACT:

Ross Horsburgh
Chief Risk Officer
+61 2 8905 2057
ross.horsburgh@flexigroup.com.au

June McFadyen
Group Treasurer
+61 2 8905 2059
june.mcfadyen@flexigroup.com.au
www.flexigroup.com.au

HERITAGE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	HBS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	APPROX. 44%
NUMBER OF SECURITISATIONS ISSUED	11 PUBLIC DEALS, 3 AUD WAREHOUSE ARRANGEMENTS, 1 AUD INTERNAL SECURITISATION ARRANGEMENT, 1 AUD PRIVATE DEAL
TOTAL VOLUME ISSUED	APPROX. A\$6.1BN EQUIV.
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 59% DOMESTIC* 41% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$500M EQUIV.

* By original issuance. Only domestic issues remain.

H eritage Bank (Heritage) is Australia's largest mutual bank, with approximately A\$8.6 billion in total consolidated assets as at June 30 2015. It is a public company, limited by shares and guarantee, which operates as a mutual organisation. The mutual business structure is an integral component of Heritage's operating philosophy.

Heritage is an authorised deposit-taking institution, regulated by the Australian Prudential Regulation Authority.

◆ PLEASE CONTACT:

Rob Staskiewicz
Structured Finance and Capital Manager
staskiewicz.r@heritage.com.au

Stuart Murray
Term Debt and Liquidity Manager
murray.s@heritage.com.au

Heritage Treasury
+61 7 4694 9500
www.heritage.com.au

IMB BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	ILLAWARRA TRUST

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, CMBS (SMALL TICKET)
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	63%
NUMBER OF SECURITISATIONS ISSUED	6 RMBS, 3 CMBS
TOTAL VOLUME ISSUED	A\$3.3BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$609M

Established in 1880, IMB has been helping people achieve their financial goals for 135 years. IMB offers a full range of banking solutions including home and personal lending, savings and transaction accounts, term deposits, business banking, financial planning and a wide range of insurance and travel products.

IMB is regulated by the Australian Prudential Regulation Authority and the Australian Securities and Investment Commission. It is a member of the Customer-Owned Banking Association – an independent organisation representing mutual banks, building societies and credit unions.

IMB has around 180,000 members and total assets of more than A\$5.2 billion.

◆ PLEASE CONTACT:

Mark Workman
Treasurer
+61 2 4298 0172
mark.workman@imb.com.au

Ian Witheridge
Senior Manager, Finance
+61 2 4298 0256
ian.witheridge@imb.com.au

www.imb.com.au

ING BANK (AUSTRALIA)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	IDOL TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	24%
NUMBER OF SECURITISATIONS ISSUED	10
TOTAL VOLUME ISSUED	A\$9.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	98% DOMESTIC 2% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.1BN

ING DIRECT – the trading name of ING Bank (Australia) – is a branchless retail bank. It is part of the world's leading direct savings bank and is wholly owned by ING Group. It offers products in retail mortgages, transactional banking, retail savings, specialised commercial-property markets and retail superannuation.

With more than A\$33.5 billion in retail deposits, A\$39.8 billion in mortgages and 1.6 million customers, ING DIRECT is one of the largest home lenders in Australia.

◆ PLEASE CONTACT:

Peter Casey
Deputy Treasurer
+61 2 9018 5132
peter.casey@ingbank.com.au

Antony McNaughton
Treasury Manager
+61 2 9028 4137
antony.mcnaughton@ingbank.com.au

www.ingdirect.com.au

LA TROBE FINANCIAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	LA TROBE FINANCIAL CAPITAL MARKETS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	<15%
NUMBER OF SECURITISATIONS ISSUED	2
TOTAL VOLUME ISSUED	A\$350M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	85% DOMESTIC 15% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$226M

La Trobe Financial is a leading credit specialist focused on residential and commercial assets. It offers credit solutions for prime and alternate income-verification consumers who mainstream providers do not accommodate. Formed in 1952, La Trobe Financial has lent more than A\$10 billion in mortgage loans for institutional and retail clients.

La Trobe Financial successfully completed its second RMBS offering in May 2015, complementing its initial RMBS transaction priced in June 2014. It will remain active in this market and announced a mandate in May 2016.

◆ PLEASE CONTACT:

Rob Clough
Chief Financial Officer
+61 3 8610 2845
rclough@latrobefinancial.com.au

Ryan Harkness
Head of Debt Capital Markets
+61 3 8610 2856
rharkness@latrobefinancial.com.au

Martin Barry
Chief Wealth Management Officer
+61 2 8046 1502
mbarry@latrobefinancial.com.au

www.latrobefinancial.com.au

LIBERTY FINANCIAL



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	LIBERTY TRUST

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	ABS, CMBS, RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	53%
NUMBER OF SECURITISATIONS ISSUED	37
TOTAL VOLUME ISSUED	A\$14BN+
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	85% DOMESTIC 15% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	> A\$2.0.BN

Liberty Financial (Liberty) is a mainstream specialty-finance company. Its businesses include residential and commercial mortgages, motor-vehicle finance, and investments in Australia and New Zealand. Liberty has raised more than A\$14 billion in domestic and international capital markets. Since 1997, Liberty has helped more than 180,000 customers achieve their financial goals.

Liberty is one of the few lenders in Australia with an unblemished capital-markets record with no rating downgrades or charge-offs ever experienced by its originated securities or programmes.

* For more information about Liberty please see p16.

◆ PLEASE CONTACT:

Peter Riedel
Chief Financial Officer
+61 3 8635 8888
priedel@liberty.com.au
www.liberty.com.au

MACQUARIE GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	SMART, PUMA

Macquarie Securitisation (manager of the PUMA RMBS programme) and Macquarie Securities Management (manager of the SMART auto- and equipment-lease programme) are wholly owned subsidiaries of Macquarie Bank, which is a regulated authorised deposit-taking institution and part of the Macquarie Group.

Macquarie Group is a global financial-services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Founded in 1969, Macquarie Group now employs more than 14,300 people globally in 28 countries. As at March 31 2016, the group has total assets of A\$196.8 billion and total equity of A\$15.7 billion.

Macquarie Group is listed in Australia and is regulated by the Australian Prudential Regulation Authority as the owner of Macquarie Bank.

SMART PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
NUMBER OF SECURITISATIONS ISSUED	30
TOTAL VOLUME ISSUED	A\$23BN EQUIV.
CURRENCIES ON ISSUE	USD, AUD, EUR
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$6.4BN EQUIV.

PUMA PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	60
TOTAL VOLUME ISSUED	A\$54BN EQUIV.
CURRENCIES ON ISSUE	AUD
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$8.9BN EQUIV.

◆ PLEASE CONTACT:

David Ziegler
Division Director, Group Treasury
+61 2 8237 8069
david.ziegler@macquarie.com
www.macquarie.com

ME



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	MAXIS, SMHL

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED*	45
TOTAL VOLUME ISSUED	A\$43.5BN EQUIV.
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	A\$27BN US\$10.4BN €2.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.65BN

*Combined Members Equity Bank Limited and historical mortgage-origination business.

ME, which was rebranded from ME Bank in May 2015, was created 21 years ago to provide low-cost home loans and banking products to members of industry superannuation funds and unions.

ME is still 100 per cent owned by the 29 industry super funds which created the bank to help Australians get ahead. Recently, ME opened its product offering to the broader Australian population and is committed to providing products which are straightforward and easy to understand. ME, which prides itself on its provision of great customer service, has a philosophy of supporting, educating and empowering its customers to achieve their financial objectives.

ME's new brand represents a modern, strong, innovative and secure bank in the digital era.

◆ PLEASE CONTACT:

John Caelli
Treasurer
+61 3 9708 3825
john.caelli@mebank.com.au
www.mebank.com.au

MYSTATE BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	CONQUEST TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
WHOLESALE FUNDING VOLUME	A\$1.6BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	45%
NUMBER OF SECURITISATIONS ISSUED	4 EXTERNAL RMBS
TOTAL VOLUME ISSUED	A\$1.2BN*
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$442M

*Includes the joint securitisation undertaken by MyState and Queenslanders Credit Union in 2007.

MyState Bank is a wholly owned subsidiary of MyState Limited – a national diversified financial services group approved by the Australian Prudential Regulation Authority and listed on the Australian Securities Exchange.

MyState Bank predominately operates in Tasmania with 10 branches servicing 120,000 customers. The Rock – A division of MyState Bank – predominately operates in Central Queensland with seven branches servicing 40,000 customers. Both brands also provide lending and deposit-taking services via indirect channels.

◆ PLEASE CONTACT:

William McShane
Treasurer
+61 3 6215 9554
william.mcshane@mystate.com.au
Susan Castley
Structured Finance Analyst
+61 3 6215 9552
susan.castley@mystate.com.au
www.mystate.com.au
www.therock.com.au

NATIONAL
AUSTRALIA BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	NATIONAL RMBS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS, ABS
NUMBER OF SECURITISATIONS ISSUED	4 EXTERNAL RMBS
TOTAL VOLUME ISSUED	APPROX. A\$14BN (EXCLUDES RETAINED DEALS)
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.7BN

National Australia Bank (NAB) is a major financial-services organisation in Australia and New Zealand with more than 10 million customers and 35,000 employees, operating more than 1,000 retail branches and business-banking centres.

Following the demerger of Clydesdale Bank, NAB's operations will primarily be based in Australia and New Zealand but it will also continue to have a presence in Asia, the UK and the US, in each case predominantly for wholesale banking and institutional markets business and treasury activity. The London branch of NAB will also continue to operate for this purpose.

◆ PLEASE CONTACT:

Eva Zileli
Head of Group Funding
+61 3 8634 8219
eva.zileli@nab.com.au
Jacqueline Fox
Head of Securitisation Origination
+61 3 8641 2341
jacqueline.fox@nab.com.au
www.nab.com.au

PEOPLE'S CHOICE CREDIT UNION



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	LIGHT TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	41%
NUMBER OF SECURITISATIONS ISSUED	5
TOTAL VOLUME ISSUED	A\$2.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$773M

Australian Central Credit Union, trading as People's Choice Credit Union (People's Choice), is Australia's second-largest credit union, with approximately A\$9.7 billion of total assets under advice and management. People's Choice has 346,000 members serviced through branches in South Australia, the Northern Territory, Victoria, Western Australia and the Australian Capital Territory.

People's Choice is an authorised deposit-taking institution, is subject to prudential supervision under Australia's Banking Act and is regulated by the Australian Prudential Regulation Authority.

◆ PLEASE CONTACT:

Heather Gale
Treasurer
+61 8 8305 1829
hgale@peopleschoicecu.com.au
www.peopleschoicecu.com.au

PEPPER



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	PEPPER RESIDENTIAL SECURITIES (PRS), PEPPER PRIME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	16 PRS (7 OUTSTANDING, 9 CALLED) 4 PEPPER PRIME (4 OUTSTANDING)
TOTAL VOLUME ISSUED	A\$7.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	81% DOMESTIC 19% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.4BN, US\$530M

* Two issues in the Pepper Prime series and one issue in the PRS series have included a USD 2a7 tranche, with the balance of the notes in AUD.

Established in 2001, Pepper Group (Pepper) is a leading Australian-headquartered financial-services group, with businesses in Australia, Asia and Europe. The businesses encompass lending, asset servicing and corporate real-estate advisory. Pepper has expanded from being a nonconforming residential-mortgage lender to also offer prime residential mortgages, auto and equipment leasing, and personal loans.

Pepper is a third-party servicer and asset manager across a range of asset classes with a "strong" prime and nonconforming servicer rating from Standard & Poor's Ratings Services.

Pepper is listed on the Australian Securities Exchange and has more than A\$45.5 billion in assets under management as at December 31 2015.

◆ PLEASE CONTACT:

Todd Lawler
Group Treasurer
+61 2 8913 3009
tlawler@pepper.com.au
Matthew O'Hare
Deputy Group Treasurer
+61 2 9463 4624
mohare@pepper.com.au
www.pepper.com.au

REDZED LENDING SOLUTIONS



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	REDZED TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	45%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$480M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	80% DOMESTIC 20% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$250M

Founded in 2006, RedZed Lending Solutions (RedZed) is a provider of specialist residential and commercial lending products primarily focused on meeting the needs of the self employed. It works with a limited range of introducers selected for their expertise in the specialist-lending market.

RedZed has completed three RMBS transactions, the most recent of which took place in September 2015 for A\$250 million.

◆ PLEASE CONTACT:

Chris Wilson
Chief Financial Officer
+61 3 9605 3509
cwilson@redzed.com
www.redzed.com

SAVE
THE DATE



AUSTRALIAN SECURITISATION 2016

November 21 & 22 2016
HILTON SYDNEY



RESIMAC

RESIMAC

AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	RESIMAC PREMIER, RESIMAC BASTILLE, RESIMAC AVOCA, RESIMAC VERSAILLES, RESIMAC UK RMBS

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, NIM BOND
WHOLESALE FUNDING VOLUME FY15	A\$5.4BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	68%
NUMBER OF SECURITISATIONS ISSUED	36
TOTAL VOLUME ISSUED	A\$19.2BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	65% DOMESTIC 35% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.7BN

In 2016, Resimac celebrates its 31st anniversary as one of Australia's prominent nonbank lenders. The Australian-owned company has grown immensely in this time – offering a suite of both prime and specialist-lending products tailored to the residential markets in Australia and New Zealand.

Resimac's capital-markets activities are core to its enterprise strategy and it remains one of the most prolific Australian nonbank issuers. Resimac was the first Australian RMBS issuer, in 1988, and since this time it has issued more than A\$19 billion equivalent in 36 domestic and offshore issues.

* For more information about Resimac please see p18.

◆ PLEASE CONTACT:

Mary Ploughman
Executive Director
+61 2 9248 0308
mary.ploughman@resimac.com.au

Andrew Marsden
Director
+61 2 9248 6507
andrew.marsden@resimac.com.au

www.resimac.com.au

SUNCORP GROUP

SUNCORP BANK

AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	APOLLO

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	14.8%
NUMBER OF SECURITISATIONS ISSUED	20
TOTAL VOLUME ISSUED	A\$22.53BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	78% DOMESTIC 22% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.8BN

* Based on notes only.

Suncorp Group is a unique, diversified financial-services group with well-known businesses in general insurance, banking and life. Suncorp Group is a top-20 Australian Securities Exchange-listed company with assets of A\$94 billion. It has around 13,400 employees and relationships with approximately nine million customers. Suncorp Bank is Australia's fifth-largest bank and the country's largest regional bank.

◆ PLEASE CONTACT:

Simon Lewis
Executive Manager, Funding, IRRM and FX Sales
+61 7 3362 4037
simon.lewis@suncorp.com.au

Andrew Power
Team Leader,
Long-Term Wholesale Funding
+61 7 3362 4016
andrew.power@suncorp.com.au

Charlene Breytenbach
Securitisation Specialist
+61 7 3362 4032
charlene.breytenbach@suncorp.com.au

www.suncorpbank.com.au

WESTPAC BANKING CORPORATION



AUSTRALIAN ADI YES

Westpac Banking Corporation (Westpac) is Australia's second-largest banking organisation and one of the largest banking organisations in New Zealand. The bank provides a broad range of banking and financial services in these markets, including retail, business and institutional banking, and wealth-management services.

As at September 30 2015, Westpac had total assets of A\$812 billion. Westpac's ordinary shares and certain other securities are quoted on the Australian Securities Exchange and, as at September 30 2015, the bank's market capitalisation was A\$95 billion.

RMBS PROGRAMME

USE OF SECURITISATION

SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION TRUST (WST), CRUSADE RMBS
TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5%
NUMBER OF SECURITISATIONS ISSUED	42
TOTAL VOLUME ISSUED ²	APPROX. A\$78.6BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	79% DOMESTIC 21% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$10.4BN

1 Includes RMBS and ABS.

2 Approx. 50% Crusade RMBS, 50% WST RMBS.

3 Based on issues currently outstanding.

ABS PROGRAMME

USE OF SECURITISATION

SECURITISATION PROGRAMME NAME	CRUSADE ABS
TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5%
NUMBER OF SECURITISATIONS ISSUED	13
TOTAL VOLUME ISSUED ²	APPROX. A\$10.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$2.9BN

1. Includes RMBS and ABS.

2. Approx. 61% Crusade ABS, 39% Bella ABS.

3. Based on issues currently outstanding.

◆ PLEASE CONTACT:

Guy Volpicella

Head of Structured Funding and Capital

+61 2 8254 9261

gvolpicella@westpac.com.au

www.westpac.com.au

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AUSTRALIAN SECURITISATION 2016

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Jeremy Masters

jmasters@kanganews.com

+61 2 8256 5577



SURVEYING THE NEW LANDSCAPE

The Australian securitisation industry – and, in particular, the market’s ability to maximise its engagement with offshore investors – will be shaped by the long-awaited new regulatory standard for the asset class, APS 120. Market participants responded very positively when the latest draft of APS 120 was released in November last year. The mood lingers, but stakeholders have also now had time to assess the remaining challenges.

BY THE KANGANEWS EDITORIAL STAFF

The history of APS 120 is also the story of how the Australian Prudential Regulation Authority (APRA) views securitisation overall. When the regulator started re-examining securitisation in the wake of the financial crisis, its initial pronouncements focused on its desire to remove complexity from the product. APRA’s guiding principle seemed to be to avoid the possibility of global disasters ever infiltrating the Australian market – even if protecting against them came at the cost of market functionality.

Over the years, and as APS 120 has moved from purely conceptual form to something close to its final iteration, the regulator appears to have warmed to the value of securitisation as part of a stable financial system. APRA now seems to appreciate the ability of securitisation to fund a plurality of lenders – thus improving competition and reducing systemic risk in the mortgage market.



“A key theme for me has been the willingness on both sides to find the right balance. We have all worked very hard to get sensible and realistic solutions to the key concerns which APRA had along the way.”

GUY VOLPICELLA WESTPAC BANKING CORPORATION

The regulator has even softened its stance on capital relief through securitisation, apparently now accepting the ability of the asset class to achieve risk transfer without tacitly promoting the originate-to-securitise model that has never taken hold in Australia.

Market users continue to believe that APS 120’s key breakthrough – at least in terms of its ability to promote issuance volume – is the fact that it paves the way for an Australian master-trust regime. As with any brand-new asset class, Australian master trusts are going through a development period, which by mid-2016 seemed to be somewhere between the stage of establishing a broad conceptual framework and fine tuning.

APRA aims to publish a final version of APS 120 in the second half of 2016 and has full implementation slated for the start of 2018. The regulator says it hopes to facilitate the introduction of certain measures gradually and ahead of the final implementation date where desirable.

Issuers do not expect to see bank master-trust issuance out of Australia until 2017 at the earliest, though most market users continue to believe the local regulatory regime is broadly on the right track to facilitating the asset class. As the largest single issue in APS 120, master trusts are explored in detail in a separate article in this edition of *ASJ* (see p34).

INITIAL OPTIMISM

The latest draft version of APS 120 was released just days before last year’s Australian Securitisation Forum (ASF) annual conference in Sydney, and the document naturally formed the main talking point of the event. The mood in general was very positive, with most speakers saying that – at first view – APRA appeared to have responded to the needs of users.

Speaking at the ASF conference, Simon Lewis, Brisbane-based executive manager, interest-rate risk management and FX sales in Suncorp Bank (Suncorp)’s treasury, commented: “We all remember the darker days of the early post-crisis era when the viability of the industry was being questioned. It is now incumbent on all of us to take the opportunity that APRA has presented and to continue to make sure integrity is maintained. The consultation process is ongoing and it is important we continue to work with the regulator through this period.”

Guy Volpicella, head of structured funding and capital at Westpac Banking Corporation in Sydney, credited the

“I don’t think the positive mood has dissipated. Rather, I think participants realise this is a lengthy consultation process which is important from the perspective of getting the right outcome for ADIs and other market users.”

JENNY SCHLOSSER ASHURST



industry and the regulator for working towards a mutually acceptable solution. “A key theme for me has been the willingness on both sides to find the right balance,” Volpicella told the ASF conference. “We have all worked very hard to get sensible and realistic solutions to the key concerns which APRA had along the way.”

Even in the early days of the new APS 120 draft, however, market participants identified areas where they felt more concessions are needed to avoid difficulties when the new rules are applied to real-world markets. One of the key areas of interest at the time was warehousing – and, specifically, the capital deployed by warehouse providers.

APRA’s concern is that it is possible for warehoused assets to become essentially unaccounted for in risk terms. Assets become untethered if there is both a capital concession to loan originators when loans are warehoused and inadequate capital requirements for the risk of loans on warehouse providers’ balance sheets. APRA’s initial proposed solution was to limit to the time for which assets can be warehoused to one year. This limit fell by the wayside in the latest draft, though.

APRA’s preference is to have a method by which smaller authorised deposit-taking institutions (ADIs) can have improved access to term securitisation markets but which does not create undue prudential risk. APRA therefore confirmed at the ASF conference that it was seeking submissions on warehousing approaches that address both considerations.

CAPITAL CONCERNS

By May 2016, it is clear that securitisation market participants are concerned about exactly how the balance-sheet requirements of securitisation will be calibrated. This is not purely an issue relating to APS 120, though. The wider scope of bank regulation is creating pressure on how banks apply capital throughout their businesses. Market users’ concern appears to be that certain aspects of securitisation regulation

may make the market less appealing in the context of capital constraints across the board.

Irene Kleyman, Sydney-based vice president and senior analyst at Moody’s Investors Service, reveals: “The sense we get from talking to issuers in particular is that some other APRA announcements, especially around the net stable-funding ratio, may have dampened the positive mood around APS 120. We will have to see how the market now responds in terms of securitisation specifically.”

A key capital issue is the fact that, from July this year, the largest banks in Australia see the minimum risk weights they must apply to on-balance-sheet mortgages increased to 25 per cent. This will both reduce the cost-effectiveness of mortgage lending – and, potentially, of providing warehouse facilities to lenders with less balance-sheet capacity.

There are also securitisation-specific capital issues to be worked through in the ongoing regulatory process, however. In particular, the latest APS 120 draft removes the facility for larger banks to use the internal ratings-based (IRB) approach to risk-weighting securitised assets held on their own balance sheets. Market participants say the removal of the IRB approach has significant potential knock-on effects for ADI economics, including on the cost-effectiveness of providing warehouses to other lenders.

“The issue which is currently causing the greatest angst relates to the capital framework for securitisation exposures on ADIs’ balance sheets,” says Dom Di Gori, executive director, structured capital markets at ANZ in Sydney.

Jenny Schlosser, Sydney-based partner at Ashurst, explains: “Fundamental issues arise in respect of the revised regulatory-capital framework and the surprise removal of the IRB approach. The proposed changes could directly affect smaller ADIs and nonbank originators that look to major ADIs for funding – and this is anticipated to adversely affect the costs and availability of such funding.”

“I am concerned that the increased cost of capital for RMBS investors, as proposed in APS 120, would curtail major-bank appetite for RMBS. We need to resolve the risk-weighting methodologies that apply for RMBS holdings, as the major banks have been the key investors behind the domestic market.”

ROD ELLWOOD PERPETUAL



The higher capital impact of holding securitised assets on balance sheets applies to bank investments in public-market bonds as well as their provision of warehouse facilities. The first months of 2016 saw a notable drop in ADI participation in residential mortgage-backed securities (RMBS) deals, and some market participants say more punitive capital treatment of such assets on bank books could challenge demand further.

“We need the major banks to continue to participate as cornerstone investors in domestic RMBS trades,” insists Rod Ellwood, Sydney-based general manager, debt market services at Perpetual. “I am concerned that the increased cost of capital for RMBS investors, as proposed in APS 120, would curtail major-bank appetite for RMBS. We need to resolve the risk-weighting methodologies that apply for RMBS holdings, as the major banks have been the key investors behind the domestic market.”

The industry is responding strongly to APRA’s proposals on capital deployment. Several market participants point out that consultation is ongoing, and the message around what the sector believes is appropriate is being made clear.

Jacqui Fox, head of securitisation origination at National Australia Bank in Melbourne, says: “Philosophically we view the IRB change to be perplexing given the resources and analytics the IRB banks have invested in towards developing their advanced accreditation models. The advanced banks that provide warehouse-funding arrangements or invest in securitisation are also economically incentivised to ensure an accurate and robust risk framework.”

GLOBAL FIT

There is also a degree of concern about international integration. Kate Thomson, senior director at Standard & Poor’s Ratings Services in Melbourne, points out that the global regulatory situation is still in a state of flux. “There is uncertainty around a range of other global regulatory developments, in particular around how these might affect capital and liquidity requirements, and subsequently how they might have an impact on securitisation,” she explains.

There are already signs of variation between APRA’s proposed approach and what Australian market participants understand to be international norms as set down by the Basel Committee on Banking Supervision (Basel committee).

Justin Mineeff, Sydney-based executive director at Commonwealth Bank of Australia (CommBank), tells *ASJ*: “The

proposed regulatory-capital hierarchy and, in some cases, risk weights differ from those proposed by the Basel committee. The industry is seeking a reconsideration of this, given the numerous consequences a difference would have on ADIs.”

According to Di Gori, one example of APRA taking a different course from the Basel committee is the Australian regulator’s proposal to disallow advanced approaches to the assessments of securitisation on banks’ balance sheets.

“This results in punitive capital charges applying to some very credit-friendly securitisation instruments,” Di Gori adds. “Because APRA’s proposals have the potential to either increase the cost of securitisation or reduce the supply of securitisation funding, when industry participants got together to put in a joint submission into APRA this was the topic that received the greatest attention.”

In fact, for Di Gori, the problems around capital are sufficiently large to require second thoughts on any positive take on APS 120 as a whole. He tells *ASJ*: “While there are a number of issuer-related concepts within the standard that are quite positive, what may have been missed initially were the consequences of the capital charges that would apply to ADIs that are actually participating as investors in securitisation. I think once this was better understood some of the euphoria dissipated.”

TRUST-BACK EQUIVALENCY

A similar issue, and one also highlighted by market participants as requiring further discussion with APRA, is the regulator’s view on trust-back arrangements. These are contractual arrangement that allow ADIs to retain some exposures when assigning mortgages to a securitisation special-purpose vehicle without requiring end-borrowers to sign a formal second mortgage contract.

Paul Smith, Sydney-based partner at King & Wood Mallesons (KWM), explains that APRA remains of the view that the trust-back provisions often contained in securitisation documents may not always be sufficient to substitute for the requirement for a formal second mortgage arrangement. He continues: “This view is not shared by the industry, and the ASF has made submissions to APRA to reconsider the equivalency – at the very least – of the trust-back arrangements to a formal second mortgage.”

Some bankers also highlight trust-back equivalency as a key sticking point in APS 120 as currently construed. Haan



“What may have been missed initially were the consequences of the capital charges that would apply to ADIs that are actually participating as investors in securitisation. I think once this was better understood some of the euphoria dissipated.”

DOM DI GORI ANZ

Ti, director, structured finance at Westpac Institutional Bank in Sydney, argues that APRA has adopted a “reasonably punitive treatment” for assets that are subject to trust-back arrangements despite the fact that market participants believe these arrangements are equivalent to a formal second mortgage contract.

NOT FUNDAMENTAL ISSUES

When judging the overall mood of the industry, some market users suggest that a less bullish tone may be driven in part by challenging market conditions as opposed to any realisation of fundamental problems with the proposed regulatory framework. The reality is that price action has made securitisation a less appealing prospect in the first months of 2016, suppressing both volume and – in some cases – the prevailing sentiment.

Suncorp’s Lewis explains that competition in the mortgage market has driven down margins, and therefore made capital-relief securitisation much less cost effective. If capital-effective RMBS is marginal or unattainable, issuers will compare RMBS with senior-unsecured funding levels. These have been more attractive in 2016, resulting in less securitised issuance.

“Factoring in the time and cost of issuing RMBS makes senior-unsecured deals quite appealing, with some issuers being able to achieve five-year funding at roughly the same cost as three-year RMBS,” Lewis reveals. “The market continues to be enthusiastic around the opportunities APS 120 might bring, but the reality of the movement in spreads and the resetting of expectations since January has left the market reflecting on RMBS price versus value and utility questions.”

In the longer term, and despite the areas of concern, the consensus in the Australian securitisation market remains that the latest draft iteration of APS 120 is on balance a positive step forward for the domestic regulatory framework. When discussing the remaining challenges, stakeholders almost universally caveat their worries with hopes that they can be resolved through ongoing consultation and insistence that the regulatory picture is brighter than it has been for many years.

Natasha Vojvodic, senior director and head of Australian and New Zealand structured finance at Fitch Ratings in Sydney, credits APRA for its willingness to engage with the industry and take on board market users’ needs and preferences in setting a regulatory tone that is at least sympathetic to what will work in the wider world.

“The 2015 APRA draft release picked up a lot of the comments made by the industry on the previous draft,” Vojvodic suggests. “This means the discussion paper that emerged last year was closer to the mark in terms of what the market thought would work.”

On this basis, there are relatively high hopes that the lingering issues around the IRB approach in particular can be ironed out in the same way as concerns that arose in response to earlier drafts. “The market will be able to move forward with certainty once APRA’s final views on these matters becomes clearer following the final consultation,” KWM’s Smith says.

The counterargument to confidence around consultation is that the closer APS 120 gets to its final form, the less willing APRA is likely to be to make significant changes. Industry hopes potentially rest on convincing the regulator that the removal of IRB approach provision is a new issue and not one that could have been dealt with in earlier consultations.

Across the broad swathe of the securitisation landscape, most market participants say they continue to view APS 120 as a good outcome. “I wouldn’t say sentiment has changed drastically from when the most recent draft was released, nor that it has become particularly negative,” Ti insists. “Certainly there have been a lot of positives to come out of APS 120 and compared with previous iterations the latest draft has been well received by most issuers. Issues that may be problematic will likely be identified in working through the detail – but this is the purpose of the consultation process.”

Indeed, further engagement with the regulator has already been undertaken since the November 2015 update. Cullen Hughes, director, debt markets securitisation, at CommBank in Sydney, says he believes APS 120 contains many positive aspects to promote the growth and stability of the Australian securitisation sector. And he adds: “Significant work has been undertaken since the release of the draft standard to ensure a comprehensive and constructive response was provided to APRA.”

For now, the waiting game continues. “I don’t think the positive mood has dissipated. Rather, I think participants realise this is a lengthy consultation process which is important from the perspective of getting the right outcome for ADIs and other market users,” Schlosser tells ASJ. “Following submissions to APRA that had to be lodged by March 1 2016, everyone is now waiting for the latest revised APS 120.” ■

“There have been a lot of positives to come out of APS 120 and compared with previous iterations the latest draft has been well received by most issuers. Issues that may be problematic will likely be identified in working through the detail – but this is the purpose of the consultation process.”

HAAN TI WESTPAC INSTITUTIONAL BANK



MASTER TRUSTS' BIG STEP FORWARD

Most Australian securitisation market participants believe the latest iteration of the proposed new regulatory framework for the industry takes a significant step towards codifying a local master-trust regime. Potential issuers doubt there will be deal flow earlier than 2017, however, and there are also some remaining regulatory issues to work through.

BY LAURENCE DAVISON

The Australian Prudential Regulation Authority (APRA) had expressed an in-principle willingness to foster a local master-trust market at least a year before the November 2015 release of its latest draft version of APS 120, the standard governing the local securitisation market. But the updated draft made at least one critical breakthrough required to move master trusts from a regulatory possibility to a potential real-world issuance option.

Market participants described an earlier APS 120 draft, released by APRA in April 2014, as effectively a Pyrrhic victory on master trusts. This document set out a proposed master-trust regime, but also included a prohibition on the use of early-amortisation triggers and date-based calls, and a requirement that master-trust seller shares rank equally with the most senior notes issued by the trust. Taken together, these three provisions led Fitch Ratings – among others – to label the proposed regime “unworkable”.

However, even at this time market participants said they were hopeful that the issues could be resolved in consultation with the local regulator. The response to the November 2015 draft APS 120 update suggests that these hopes have come to fruition in the main. There are still details to be worked through, however, especially when it comes to nonmortgage master trusts.

PRODUCT VALUE

The potential value of master trusts to issuers with the scale to make them work economically is well established. The most obvious benefit derives from the ability of master trusts to issue bullet-maturity notes, which attract more cost-effective cross-currency swaps and therefore should pave the way for cheaper foreign-currency securitisation issuance from Australia. Many

market participants also believe bullet-maturity notes should be a better fit with domestic real-money investors' portfolios.

Jacqui Fox, head of securitisation origination at National Australia Bank (NAB) in Melbourne, comments: “APRA’s latest proposed changes may lessen the transactional costs of issuance in foreign currencies. We anticipate that these changes will enable a larger supply of product to different markets and in different currencies, which should be positive in terms of broadening the securitisation investor base.”

APRA’s removal of the prohibition on date-based calls was vital to opening the door to this type of issuance. “We were encouraged by the proposed reintroduction of the date-based call option,” says Peter Casey, Sydney-based deputy treasurer at ING Bank Australia (ING Australia). “This provides greater certainty both to investors and basis-swap counterparties, and we believe it should help us attract greater interest from investors both domestically and offshore.”

The issue of investor diversity has become even more relevant in 2016 as the bid for, in particular, prime residential mortgage-backed securities (RMBS) from the bank liquidity-book sector has clearly eased. For some time, banks preparing for liquidity-coverage rules to come into force had been going through a process of asset accumulation – and RMBS was one of the preferred products.

However, issuers and intermediaries confirm that this process had largely played out by the start of the new year, leading to smaller benchmark RMBS deal sizes. This demand profile is widely expected to linger for the foreseeable future.

Foreign-currency securitisation originating from Australia has never recovered from the evaporation of structured-investment vehicle and conduit demand during the financial crisis, meanwhile (see chart on p36). Overall issuance has slumped, and much of the deal flow that has come to market has been from nonbank issuers. Any issuance option – like, potentially, master trusts – that would reopen the door to bank issuance in foreign currencies could be a game changer for the Australian market.

Simply being able to issue in foreign currencies more cheaply is not the only potential advantage of master trusts for issuers, however. Haan Ti, director, structured finance at Westpac Institutional Bank in Sydney, explains: “Master trusts will also enable issuers to be more nimble compared with standalone RMBS, meaning that issuers will be able to take advantage of offshore markets when spreads and cross-currency basis swap levels are favourable.”

Specifically, the master-trust format enables programmatic issuers to print on a more bespoke basis, allowing the RMBS asset class to be used more like senior-unsecured programmes – for a range of issuance options from private placements all the way to jumbo benchmarks.

Speaking at a roundtable discussion hosted by KangaNews and RBC Capital Markets (RBCCM) in March this year, Eva Zileli, NAB’s Melbourne-based head of group funding, suggested:

“Master trusts should give us the ability to respond to reverse enquiry for RMBS. We receive sporadic demand for a A\$200-300 million [US\$152-227.9 million]

placement of RMBS, and while we wouldn't set up a standalone trust to meet this demand if we had access to a master trust we would be able to do so. Even if only some of the reverse-enquiry flow came through it would make quite a bit of difference to overall volume.”

DOMESTIC FRAMEWORK

The biggest question following the 2014 draft of APS 120 was whether APRA could be convinced to allow the requisite tools to allow for a functional Australian master-trust market. Most market users believe the 2015 update demonstrates that there is regulatory willingness to clear the path for master trusts. Indeed, many list master-trust-related items as the key breakthroughs in the latest proposed regulatory framework.

“The biggest positives were probably the introduction of date-based calls for funding-only securitisations, the proposed removal of the 20 per cent cap and revolving securitisations – including the much-discussed master-trust revolving structures,” Jenny Schlosser, Sydney-based partner at Ashurst, tells *ASJ*.

For some, the progress on master trusts represents more than just a major step forward on a specific asset class. Justin Mineeff, director, debt markets securitisation at Commonwealth Bank of Australia (CommBank) in Sydney, argues: “The key positive development from APS 120 is its strong recognition of the desire to foster a larger securitisation market. This is reflected in a prudential standard that should permit the development of master trust-style revolving structures, among other aspects.”

However, this does not mean that it will inevitably be plain sailing to the first master-trust issuance from Australia. Most local market participants give a big tick to APRA's new intent around master trusts and to the importance of breakthroughs on issues like date-based calls. But APS 120 as it was construed in November last year is, most say, not quite the finished article in terms of its ability to set the table for master trusts across asset classes.

“Progress has been made with respect to master trusts, but there are still some technical details that need to be ironed out before master trusts can become

“We were encouraged by the proposed reintroduction of the date-based call option. This provides greater certainty both to investors and basis-swap counterparties, and we believe should help us attract greater interest from investors both domestically and offshore.”

PETER CASEY ING BANK AUSTRALIA



a viable issuance option under APS 120,” suggests Stephen Magan, executive director, securitised products group at J.P. Morgan in Sydney. “We have been working with the Australian Securitisation Forum to ensure the industry's response to the latest APS 120 draft is appropriate, and we will continue work with the industry to ensure submissions address important areas such as master trusts.”

For Magan, one of the main challenges is his view that the proposed master-trust regime is only really suited to mortgage asset pools. He suggests that it fails to create a suitable framework for the other asset class market participants believe to be appropriate for the master-trust structure – credit cards.

The fact that credit cards are a revolving debt increases the complexity of incorporating them into a master trust. APRA does not want banks to be subordinated to securitisation pools. But there is an issue around where repayments of revolving debts allocated to master trusts should be allocated – whether to the debt the customer has added with the bank or to the trust.

According to Magan, there is some doubt around whether credit-card master trusts are a viable option under the current APS 120 draft, as the draft includes limitations on the ability to add further receivables under certain circumstances. “It is important for industry to receive clarification on some of the finer points of the draft before we can move forward,” he concludes.

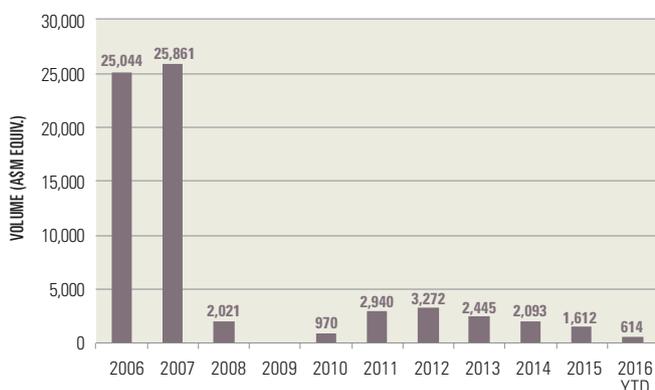
As was the case in 2014, though, market participants are hopeful that a robust consultation response from industry could persuade APRA to amend APS 120 in a helpful manner. Alex Bischoff, Westpac Banking Corporation (Westpac)'s Sydney-based head of global funding, told the KangaNews-RBCCM roundtable: “We are in a consultation period, so if there are any concerns about how credit cards would work with the master-trust framework they will come out during this time frame.”

“The key positive development from APS 120 is its strong recognition of the desire to foster a larger securitisation market. This is reflected in a prudential standard that should permit the development of master trust-style revolving structures.”

JUSTIN MINEEFF COMMONWEALTH BANK OF AUSTRALIA



AUSTRALIAN-ORIGIN FOREIGN-CURRENCY SECURITISATION ISSUANCE



SOURCE: KANGANEWS MAY 11 2016

ISSUER EXPECTATIONS

There is also some doubt as to whether any form of credit-card master-trust product would add a great deal of value to Australian issuers. This is based purely on the relatively limited scale of local banks' credit-card books.

According to Bischoff, for example, Westpac has around A\$10 billion of credit-card assets. He sees potential value in the incremental issuance capacity this could generate, including from new investors in the US, and acknowledges that the US credit-card product has shown a lot of pricing resilience. However, he concludes: "It would be a value-add for us – perhaps A\$500 million to A\$1 billion of annual issuance, out of a A\$25-30 billion overall funding task."

Whether volume in this range would justify establishing a master trust for an asset that has not traditionally been securitised in Australia is very much an open question as things stand in mid-2016.

Speaking at the KangaNews-RBCCM roundtable, Simon Maidment, Sydney-based deputy treasurer at CommBank, said: "The whole process of mortgage origination includes, from square one, an understanding that some mortgages will end up being part of the securitisation portfolio. None of this happens with credit cards – it would require quite significant retrospective system and process changes that may not be attractive given the relative size of the book."

The mood among Australia's big-four banks seems to be that they will incubate master trusts in time, assuming the regulatory outcome is conducive and the market value of the

product remains compelling. But there is certainly no sense of a headlong rush to market.

"We have to consider what is a realistic timeline for regulatory certainty around the master-trust product, and do so in the context of the other things APRA is dealing with at present," Bischoff told the KangaNews-RBCCM roundtable. "In my view, 12-24 months from the publication of the APS 120 draft last November is reasonable – given there are some big rocks for APRA to move at the same time."

NAB's Zileli, meanwhile, says her cautious initial optimism about the potential for master-trust issuance out of Australia in 2016 has been tempered by the realities of the regulatory process. Like Bischoff, she points to the queue of issues APRA is dealing with as well as the banks' own workloads.

"I did feel that, potentially, this year might be achievable for master-trust issuance," Zileli comments. "But I can't see it happening now – it'll be next year. I agree that APRA is receptive now, which is good. Submissions have all been made, so that's another stage of the process complete."

Outside the major-bank sector, the big question is whether there are issuers of sufficient scale to justify the resources required to establish a master-trust programme. Early signs are that some of the larger banks outside Australia's big four are seriously considering the product – or at least adopting elements of master-trust technology to enhance their existing securitisation issuance. Even the majors believe both master-trust and standalone securitisation will continue to exist in Australia, and some market participants believe hybrid deal structures may emerge in time.

"The emergence of bullet-type securities and date-based calls could potentially assist in managing swap costs associated with offshore issuance and, through this, assist the Australian securitisation market to re-engage with offshore, particularly European, investors," says Simon Lewis, executive manager, funding, interest-rate risk management and FX sales at Suncorp Bank in Brisbane.

Casey also points to date-based calls as the "quick-win item" in the latest APS 120. But the full-blown master trust could also be an option for ING Australia. "In terms of long-term outcomes, master trusts provide quite a different cash-flow profile from the pass-through structure," Casey tells ASJ. "We believe this could make a huge difference when it comes to attracting offshore and non-Australian dollar investors, as well as those looking for fixed-rate notes." ■



"We have to consider what is a realistic timeline for regulatory certainty around the master-trust product, and do so in the context of the other things APRA is dealing with at present. In my view, 12-24 months from the publication of the APS 120 draft last November is reasonable."

ALEX BISCHOFF WESTPAC BANKING CORPORATION

WOMEN IN SECURITISATION:

Visions, ambitions and motivations



The Australian Securitisation Forum’s Women in Securitisation (WIS) subcommittee seeks to provide a range of opportunities to assist the growth and success of the securitisation industry, particularly in relation to the contribution women can make. The subcommittee is proud to present a profile of each of its 10 members, including a comment from each about what the WIS vision means to them individually.

MARY PLOUGHMAN (CHAIR) EXECUTIVE DIRECTOR, RESIMAC

WIS’s illustrious chairperson and its passionate founder, Mary is a well-known and loved leader in the securitisation industry. She has not only driven change for women but is credited with supporting and improving the securitisation industry throughout her 13-year tenure at Resimac and, prior to this, during the 11 years she spent at Macquarie Bank.

From very early on in her career, Mary has worked tirelessly for a fair and level playing field for women. One of her many accomplishments is WIS, which she established in an effort to change the way people think about women in business and the way women think about themselves.

“The key goal is to empower women,” she tells ASJ. “I am keen to see more choices in service providers and a more level playing field across the board.”

ANNY CHEN SENIOR ASSOCIATE, KING & WOOD MALLESONS

Anny specialises in securitisation and structured finance at King & Wood Mallesons, where she has worked since 2007. She has a three-year old son and a new baby, and Anny says being a mother has been a key motivator behind her WIS subcommittee membership.

In addition to her strong belief that WIS should support flexibility for working mothers, Anny is keen to see the subcommittee help women to “be brave and take charge of their careers”. Anny believes change is needed

in the industry and insists WIS can bring this about. “We exist, and we cannot be ignored,” she tells ASJ.

As well as WIS, Anny is also a member of the ASF Communication subcommittee.

BELINDA SMITH

Belinda has worked in debt capital markets for the last 20 years, having diverse experience across treasury, trust management, debt issuance, credit analysis and investment management. Most recently Belinda was general manager of Perpetual’s management-services area, and she has also worked in the securitisation and structured-finance markets in the UK and Japan.

Belinda is extremely keen to create a community and environment where women can feel heard and encouraged, and believes that more women in senior positions are necessary for the securitisation industry in Australia to flourish. Three of her former bosses – Mary Ploughman, Chris Dalton and Fabienne Michaux – are Belinda’s career mentors. “They taught me how to be commercial, build strong networks and relationships, and constantly showed their confidence in me. Most importantly, they each have a strong moral compass, which I highly value.”

CARLY PRIOR VP, STATE STREET BANK AND TRUST

Members of the WIS subcommittee feel privileged to have Carly in their ranks. She is a credit analyst for State Street Bank and Trust (State Street)’s investment portfolio in the Asia-Pacific region. The firm’s A\$4 billion (US\$3 billion) Australian portfolio consists predominantly of asset-backed and residential mortgage-backed securities.

Carly talks passionately about her support for women in the workplace, and she believes significant change is needed. For women to have parental leave and work part-time is not as widely supported as Carly believes it ought to be. “I would also like to see more acceptability and expectation of men working this way in support of their families,” she tells ASJ.

Carly mentions Melissa Marzulli, State Street’s former managing director and treasurer, as a great source of professional support throughout her career. “Melissa is an inspiration to many women in the securitisation industry,” she says.



FIONA GAAL, DIRECTOR, STRUCTURED CAPITAL MARKETS, ANZ

Fiona has been with ANZ for 11 years, prior to which she worked at St. George Bank, Commonwealth Bank of Australia and Colonial State Bank. Her first job was with Ford Credit in Adelaide. Fiona says her parents were influential in her career, and she is passionate about her children and family.

Fiona is keen for the WIS subcommittee to support the further development of junior women in the securitisation industry and also for the subcommittee to influence change in a way that both men and women are comfortable with. "This should occur without either feeling intimidated or coerced but in a way that shows they genuinely want to effect change together," she adds.

**JUNE MCFADYEN
GROUP TREASURER, FLEXIGROUP**

As treasurer of FlexiGroup, June brings a wealth of experience and views specifically related to asset-backed securities (ABS). Recently, FlexiGroup became the first Australian issuer to issue a green ABS (see p6), and June says this is one of the most significant achievements in her career to date.

Before starting at FlexiGroup five years ago, June was treasurer at Bluestone Group. Prior to this, she headed Citibank's retail securitisation programme. She likes to work with people who are direct, transparent and straightforward, which she considers a recipe for success.

June thinks one of the subcommittee's key roles is to make people question why the committee is needed. "Being the proud mother of two teenagers I understand the importance of support networks for working parents," she comments.

**LOUISE MCCOACH
CONSULTANT, GILBERT + TOBIN**

Louise is a leading banking and finance lawyer with more than 25 years of in-house counsel and private-practice experience in the financial-services sector. After previously heading the debt capital markets and derivatives practices at a top-tier Australian law firm, Louise is now a consultant at Gilbert + Tobin.

Louise feels education is the key to getting all members to understand that strong women and diversity will positively affect the securitisation industry. She believes that WIS will be critical in imparting this education.

Louise brings a varied background to the subcommittee. She is from New Zealand and has a wealth of experience through her career, her family, sport and helping others. Highlights include growing up in a family of six children including having a twin brother, participating as a triathlete in the 1990 Commonwealth Games, and involvement in a crowdfunding venture for a women's refuge.

**LYNSEY JACKSON, ASSOCIATE,
AUSTRALIAN SECURITISATION FORUM**

Lynsey is the secretary of the WIS committee, and members say she performs a fantastic job coordinating events much of the operations work. Prior to working at the ASF, Lynsey worked in the public and private sectors in desktop publishing and administrative roles.

Lynsey has been pleased with the progress made by the WIS subcommittee over the last 12 months. She fields a number of calls each month from women interested in participating in WIS events and notes the extent to which momentum in the events is building.

Lynsey was born in Gunnedah and raised in Wagga Wagga. She has a passion for interior design.

**MARGOT KELLY, SENIOR MANAGER,
SECURED FUNDING, BANK OF QUEENSLAND**

Margot has more than 13 years' experience in the securitisation and structured-finance industry. She currently works at Bank of Queensland (BOQ), which issues through the REDS RMBS, REDS EHP and Impala ABS programmes.

Margot has recently joined WIS to the delight of the other subcommittee members. She is described as a "fantastic representative for Queensland women in securitisation". She is enthusiastic about her recent appointment and says change for women in securitisation is not just warranted but absolutely critical. "I am very hopeful we can drive this change," she tells ASJ. "Having a WIS panel at the ASF's annual conference will be a step in the right direction."

At the same time as juggling work at BOQ, Margot is raising twin three-year olds and she likes to keep fit. Margot admires all working mothers, and feels this is one of her biggest life achievements.

**SARAH SAMSON, DIRECTOR, SECURITISATION,
NATIONAL AUSTRALIA BANK**

Sarah has 10 years of banking and finance experience. Prior to joining National Australia Bank in 2010, she worked for Standard & Poor's Ratings Services in London and Melbourne. Sarah started out as a graduate on the Ford Credit graduate programme, but quickly developed her analytical skills and found a way into the world of securitisation.

Sarah says her father has been a consistent positive influence and motivator throughout her life, and has helped instil in her a desire to help and support other women – particularly those that have the skills and intelligence to succeed but struggle with confidence and direction.

Sarah is passionate about family, spending as much time as she can devote to her nieces and nephews. She holds a Bachelor of Business (Marketing), Bachelor of Business (Management), and a Masters in Applied Finance from Melbourne University.



The Australian Securitisation Forum is pleased to announce the return of the industry-wide Women in Securitisation lunch.

When: Tuesday 11 October

Where: The Establishment Ballroom, Level 2, 252 George Street, Sydney

Time: 12.30-2.30pm

More details will be available closer to the date

Subscribe to Women in Securitisation communications by emailing asf@securitisation.com.au



ABOUT ASF MEMBERSHIP

There's never been a better time to be an Australian Securitisation Forum (ASF) member. As the peak industry body we continue to focus on promoting, protecting and strengthening the Australian and New Zealand securitisation and covered-bond markets. We are continuing to build investor confidence and drive sustainable growth for the Australian and New Zealand markets.

The ASF is self-funded through annual membership fees and other revenue sources. Membership is corporate-based and open to participants in the securitisation and covered-bond markets.

The key benefits of membership are:

- ◆ Building industry consensus
- ◆ Advocacy
- ◆ Education
- ◆ Improving market standards and practices
- ◆ Networking

As an association we are the forum for the industry to form its collective opinion on policy issues of broad importance. Through our subcommittees and membership, relevant local and international issues with potential impact on the market are identified and discussed among the industry.

Membership of the ASF offers a unique opportunity to participate meaningfully in shaping the future of

securitisation. Staff of our member firms who have the required experience are eligible to join our subcommittees and working groups.

These groups work to deliver strategic direction to ASF policy-development activities. Members can share and develop their views on policy issues. Our policy positions are developed on the advice of these committees, with oversight by the national committee.

ADVOCACY

The ASF and its national committee work to influence government and regulatory policy to achieve outcomes that support a strong securitisation and covered-bond sector, and increase market activity. Maintaining an open and ongoing dialogue across the broad range of governments and regulatory authorities helps us influence policy outcomes that position Australia as a sophisticated and capable securitisation market.

Through engagement and collaboration with our members, we have a stronger collective voice when we communicate our policy positions through submissions and regular discussions.

EDUCATION

As part of the ASF strategy to strengthen the industry, we deliver a suite of professional-development programmes to improve the individual knowledge and expertise of market participants. These courses are highly regarded, competitively priced and tailored specifically to meet the demands of individuals and member firms. A key benefit to members is deeply discounted course fees, with a saving of 50 per cent on nonmember rates.

The ASF runs four courses on a permanent, rolling basis, plus specific courses covering key issues like APS120 and master trusts which are developed on a needs basis. The permanent courses are:

- ◆ Securitisation fundamentals
- ◆ Securitisation professionals
- ◆ Securitisation applied
- ◆ Securitisation trust management

STANDARDS AND PRACTICES

Under the stewardship of the member-based market standards and practices committee, the ASF actively champions the adoption of best practices in the Australian securitisation market to aid efficient, effective and transparent operation of the market.

A key outcome is to position the Australian market at a 'best-in-class' position to attract and maintain the confidence of a growing body of global investors in the primary and secondary markets.

NETWORKING

The ASF's evening series and member briefings are designed to keep members up to date on current issues and themes in the industry through topical, expert-led discussions. These events bring our members together regularly throughout the year to capitalise on the knowledge and networking capacity of the ASF. By hosting these events, members are offered a valuable opportunity to showcase their company brand and service, and lead an in-depth conversation on hot industry topics. Registration to these events is complimentary for members.

Our reach extends beyond Australian shores to showcase the Australian securitisation industry to overseas investors and the greater global securitisation market. Each year an ASF delegation travels to the US, UK, Asia and New Zealand to participate in global conferences and host focused investor seminars. Our network of members provides vital participants in these events. They participate on panels and have the opportunity to attract the attention and business of offshore investors.

The ASF office works actively to create a strong network within the securitisation community. Through membership, market participants are best placed to forge closer links within the financial markets and to foster new business opportunities.

The annual Australian Securitisation conference provides a platform for our members to connect, influence, learn and exchange knowledge with key industry leaders. The conference is one of the flagship events on the Australian financial-markets calendar, where we address the challenges,

trends and innovations facing the industry. ASF members enjoy discounted delegate rates and access to conference sponsorship, exhibition and speaking opportunities.

Each year, Sydney provides the perfect setting for the social programme of the Australian Securitisation conference. Highlights of the programme are the welcome cocktail reception, signature gala dinner and nearby after party. The agendas always feature plenty of informal catch-up opportunities to maximise opportunities for members to grow their businesses.

INVOLVEMENT IN ASJ

Since 2011, the ASF has published its official magazine, *ASJ*, on a biannual basis. The publication is distributed in print and online to ASF members and other parties interested in the Australian securitisation market, numbering around 1,000. A particular focus is building the offshore reach of the ASF, especially to investors and potential investors in Australian securitisation.

ASJ has three key goals. One is to serve as a forum for information sharing and thought leadership in the Australian market. The second is to give ASF members profile in the wider market. The third is to keep members and other readers up to date with the ASF's own activities.

ASF members are routinely offered the opportunity to contribute comment to articles in *ASJ*, providing thought leadership and profile. Members are also invited to take advantage of sponsored article and profile pieces in *ASJ*, allowing them to demonstrate their businesses' capabilities to the most focused audience possible.

BECOMING A MEMBER

The ASF membership year runs from 1 July to 30 June. All applications for membership are subject to review and approval by the ASF national committee. Download an application form from our website at www.securitisation.com.au/membership.

For membership enquiries, please contact us directly on +61 2 8243 3907. You will also find more information on membership in the consolidated rules of the ASF available online or by request. ■

ASF SUBCOMMITTEES:

who's who and what they do

The Australian Securitisation Forum (ASF)'s subcommittees play a vital role in the organisation's work. Focusing on specific themes within the securitisation industry, the subcommittees allow key market participants to come together under the ASF banner to focus on development and advocacy in the interests of the whole securitisation community.

The ASF is pleased to share the following flavour of its subcommittee structure including focus areas, current areas of interest and key coordinators.

SUBCOMMITTEE SETUP

A member of the organisation's national committee chairs each of the nine ASF standing subcommittees. Membership is reviewed and confirmed in December for the coming calendar year. Subcommittees can only be formed or disbanded by a decision of the national committee.

Agendas, action items and minutes, where applicable, are organised for each meeting by the relevant subcommittee's chair and in concert with the ASF.

The ASF website (www.securitisation.com.au) contains detailed information on the subcommittees, including their charters, full membership lists and more detail on the topics being addressed by each subcommittee.

WORKING GROUPS

As well as the subcommittees, many of which are longstanding, the ASF organises working groups to coordinate its efforts and wider information sharing on key contemporary market issues. Working groups fall under the auspices of specific relevant subcommittees.

The national committee or subcommittee chair establishes working groups on an as-needed basis. A member designated by the national committee or the chair of the sponsoring subcommittee chairs each working group.

Subject to topic specifics, working groups should be representative of the ASF membership. As such, participation in a working group is open to any member of the ASF that has a relevant interest in the topic and can make a meaningful contribution to the development of the industry position. The only exclusion is that no more than two individuals from the same organisation can join any single working group.

As with subcommittees, agendas, action items and minutes, where applicable, are organised for each meeting by the relevant working group's chair and in concert with the ASF. Working-group submissions should be endorsed by the sponsoring subcommittee and the ASF national committee.

The following pages provide detail on the full network of ASF subcommittees as at May 2016.

1. ACCOUNTING AND TAX SUBCOMMITTEE

Objective

To identify, consider and address as appropriate accounting and tax issues in relation to Australian securitisation and covered bonds, whether issued domestically or globally.

Responsibilities

Monitoring industry response to the Australian Accounting Standards Board and the International Accounting Standards Board on accounting standards in relation to consolidation and impairment.

Current work

The accounting and tax subcommittee is currently focused on impairment and consolidation issues.

Chair

Graham Mott, Deloitte

2. COMMUNICATIONS SUBCOMMITTEE

Objective

This subcommittee is charged with delivering strategic direction for the ASF's communications activities.

Responsibilities

The subcommittee has ultimate oversight for a diverse range of ASF output and industry engagement, including forming the editorial board of the ASJ, consulting on and approving the ASF conference agenda, oversight of the ASF website, newsletter and other communication tools, advising on the ASF's evening-series events, and being responsible for the association's investor engagement programme on- and offshore.

Current work

As well as ongoing oversight of the above, the subcommittee is reviewing the ASF's digital-marketing strategy with a view to augmenting and improving communication with various stakeholder groups.

Chair

Sarah Hofman, PwC

3. EDUCATION SUBCOMMITTEE

Objective

Development and delivery of the ASF's series of high-quality educational programmes.

Responsibilities

Oversees all aspects of the ASF's education programmes including content development and delivery. The goal is to provide professional-development opportunities to raise the calibre and competency of the domestic securitisation market.

The subcommittee also has responsibility for educating offshore stakeholders, especially investors, about Australian securitisation and the unique qualities of its collateral.

Current work

The ASF runs four courses on a permanent, rolling basis, plus specific courses covering key issues like APS120 and master trusts which are developed on a needs basis. The permanent courses are:

- ◆ Securitisation fundamentals
- ◆ Securitisation professionals
- ◆ Securitisation applied
- ◆ Securitisation trust management

Workshops on APS 120 and master trusts are in the pipeline for delivery in early 2017.

Chair

Sonia Goumenis, Clayton Utz

4. GOVERNMENT AND INDUSTRY LIAISON SUBCOMMITTEE

Objective

This key subcommittee leads the ASF's advocacy effort with Australia's policymakers, including parliamentarians and government departments, as well as overseas government bodies in relation to ensuring securitisation's role in the macroeconomic fabric of Australia remains understood and relevant.

The subcommittee performs awareness campaigns with key political and policy bodies, working closely with the ASF's technical subcommittees to ensure the intended responsibilities are communicated to relevant stakeholders in a timely and targeted manner.

Responsibilities

A key priority of the subcommittee is working with the industry to maintain open access to local and international markets. A further priority is to expand the domestic and global investor base for Australian securitisation.

The Commonwealth Treasury and Australian Office of Financial Management are key stakeholders for the activities of this subcommittee.

Current work

The government and industry liaison subcommittee is focused on seeking consistency across policy and regulatory reforms of securitisation markets, and capital markets more generally. The subcommittee is working with industry to promote RMBS and ABS as attractive and key asset classes for Australia's superannuation and retirement-income sectors.

Chair

Jacqui Fox, National Australia Bank

5. MARKET STANDARDS AND PRACTICES SUBCOMMITTEE

Objective

This subcommittee champions the development and adoption of global best practices in the Australian securitisation industry. These best practices are intended to enhance the confidence of global investors and other

market participants – including regulators – in primary and secondary Australian securitisation markets by promoting greater simplicity, standardisation and transparency of securitisation transactions.

Responsibilities

The subcommittee has ultimate responsibility for the ASF's market standards for residential mortgage-backed securities – including disclosure, reporting, arrears, representations and warranties, and due diligence.

The market standards and practices subcommittee also manages the ASF's liaison with the Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia (RBA) in relation to market-disclosure initiatives. It also has oversight of the ASF's input on the review and implementation of International Organization of Securities Commissions' reform recommendations.

Current work

Current tasks include a review of the implementation of the new RMBS loan-level reporting standards, with particular emphasis on streamlining investor access to this valuable information.

Co-chairs

Vernon Spencer, Stargate Corporation
David Ziegler, Macquarie Bank

6. NEW ZEALAND MARKET SUBCOMMITTEE

Objective

Formed in 2015, the New Zealand market subcommittee will represent the interests of all ASF members who participate in the New Zealand securitisation and covered-bonds markets, regardless of domicile.

The subcommittee aims to build productive relationships with New Zealand government ministers, members of parliament and government departments and agencies that have responsibility for, and influence policy in, New Zealand's securitisation and covered-bond markets. It intends to provide submissions and input into policy and regulatory direction and law reform affecting the securitisation and covered-bond markets, including identifying areas of New Zealand's regulatory environment that could be changed to allow for the more effective operation of securitisation and covered-bond issuance and investment.

The subcommittee will also play a role in maintaining a current understanding of Australian market practice to ensure consistency of approach in New Zealand and Australia so as to minimise costs for trans-Tasman securitisation and covered-bond market participants.

Finally, the subcommittee will develop and deliver education programmes either separately in New Zealand or through adaptation from existing ASF programmes and courses.

Current work

The subcommittee's key priorities are harmonising New Zealand and Australian securitisation transaction documentation, tailoring the ASF's education content to better suit the local market, and promoting securitisation to New Zealand policy makers.

Chair

Simon O'Connell, Westpac Institutional Bank

7. REGULATORY AND PRUDENTIAL SUBCOMMITTEE

Objective

This subcommittee ensures that the ASF identifies and responds swiftly to proposals emanating from regulators and government locally and offshore.

Often, due to its complexity, securitisation has many touch points that can be affected by a single piece of legislation or regulation. The ASF seeks to ensure that views from all quarters of opinion are canvassed, and this subcommittee plays a key role in this process.

Responsibilities

The subcommittee is primarily responsible for monitoring prudential and conduct-of-business issues that could affect securitisation, typically encompassing ASIC, the Australian Prudential Regulation Authority (APRA), the Australian Competition and Consumer Commission and the RBA. It also addresses bank-specific issues concerning securitisation and covered bonds, such as prudential standards APS 120 and APS 121, and Basel III.

As part of its work, the subcommittee maintains dialogue with and responds to consultation papers issued by regulators.

Current work

The subcommittee's main focus areas at present include APS 120 consultation with APRA, domestic and global credit-risk-retention standards, the development of an Australian master-trust regime, and the latest iteration of Basel securitisation reforms.

Co-chairs

Guy Volpicella, Westpac Banking Corporation
Sarah Hofman, PwC

8. WOMEN IN SECURITISATION (WIS) SUBCOMMITTEE

Objective

This subcommittee seeks to provide women in the securitisation industry with high-quality networking opportunities, raise awareness of issues that affect their professional advancement, and encourage engagement from different levels of seniority.

It also seeks to leverage off members' relationships with other organisations to provide market-leading mentoring opportunities for women in the securitisation industry.

Current work

Each year the women in securitisation subcommittee organises networking lunches in Sydney and Melbourne, and for the first time this year an event was held in Brisbane. These events provide a valuable opportunity to connect with like-minded colleagues across the industry. The inaugural industry-wide cocktail lunch at the Establishment in Sydney was hugely successful and will be held again in October this year.

The WIS subcommittee also plans to have a presence at the Australian Securitisation conference this year to continue its conversation on diversity and build awareness across the industry.

Chair

Mary Ploughman, Resimac



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