

ASJ

AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian
Securitisation & Covered Bonds

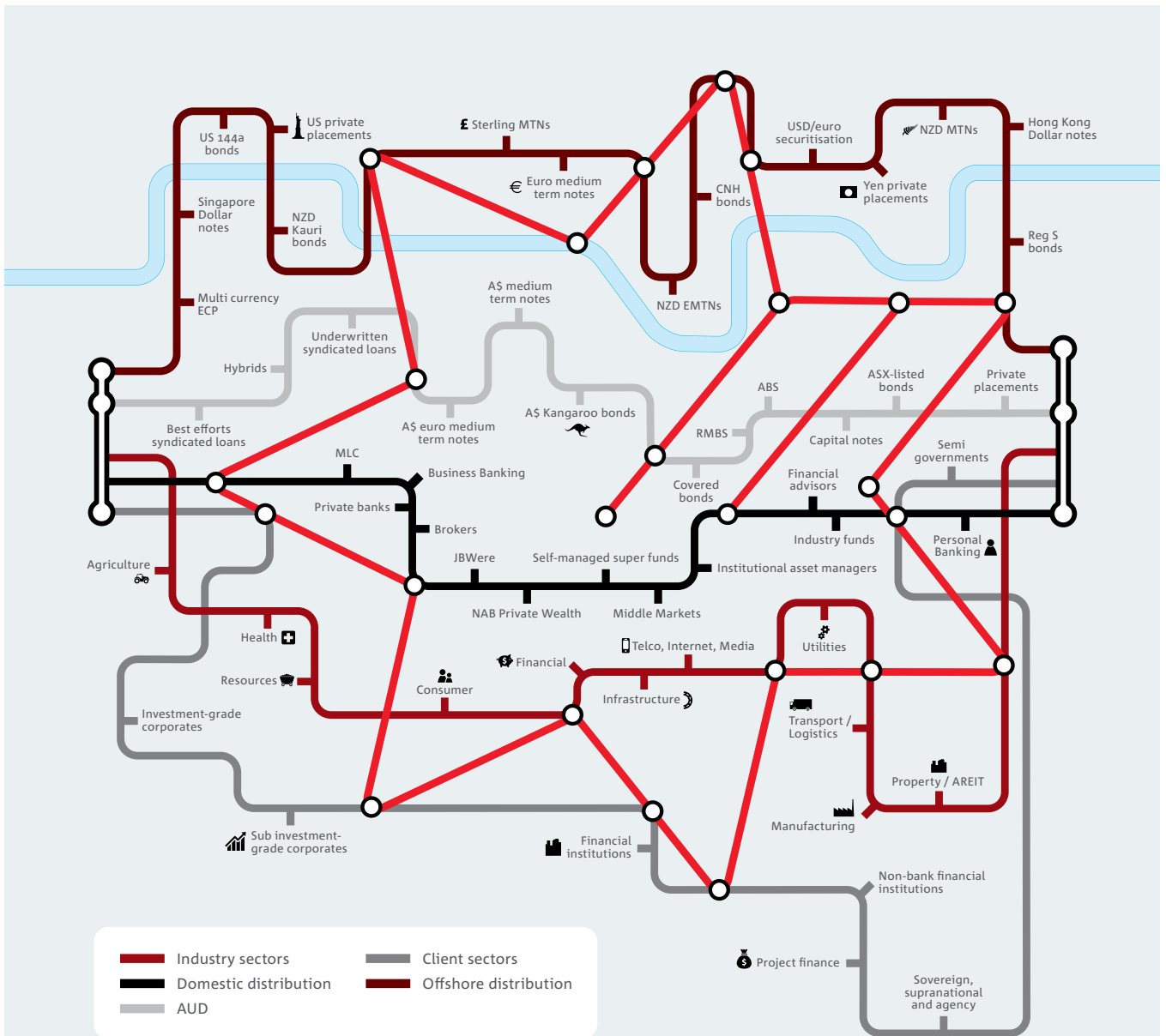
>> Issue 06 • 2014



Rethinking the rules

Australia's structured-finance industry is engaging with regulators and government as they reshape the market landscape.





Access our complete debt funding network.

Take your funding in any direction with NAB.

Successful debt funding creates networks that bring issuers and investors closer. Our global debt solutions, end-to-end capabilities and extensive local and international investor relationships provide new ways to connect.

To find out more talk to your NAB relationship manager or call Steve Lambert on +61 2 9237 1150.

nab.com.au/dcmnetwork



more give, less take



AUSTRALIAN SECURITISATION JOURNAL

Incorporating Australian
Securitisation & Covered Bonds

>> Issue 06 • 2014

ASF MANAGEMENT COMMITTEE

Chairman

Tim Hughes

Deputy Chairmen

Sarah Hofman

Patrick Tuttle

Treasurer

Chris Green

Chief Executive Officer

Chris Dalton

Chief Operating Officer

Alex Sell

asf@securitisation.com.au

+61 2 8243 3900

www.securitisation.com.au

ASJ PUBLISHED BY

KangaNews

www.kanganews.com

+61 2 8256 5555

Managing Editor

Laurence Davison

ldavison@kanganews.com

Senior Staff Writer

Helen Craig

hcraig@kanganews.com

Staff Writer

Samantha Hodge

shodge@kanganews.com

Chief Executive

Samantha Swiss

sswiss@kanganews.com

Business Development Manager

Brydie Wright

bwright@kanganews.com

Executive Assistant

Anne O'Connor

aconnor@kanganews.com

Design Consultants

Hobra Design

www.hobradesign.com

Depósito Legal: B-36961-2011

Printed in Spain by CEVAGRAF, SCCL

2 FOREWORD

The Hon. Joe Hockey MP
Treasurer of Australia

4 WELCOME

Chris Dalton
CEO, Australian Securitisation Forum

5 ASF NEWS

In a more positive environment for securitisation, the ASF is playing its part in lobbying Australia's financial system inquiry and the local regulator on behalf of the structured-finance industry.

9 APRA UPDATE

In April, the Australian regulator released its latest consultation paper on securitisation. The tone is positive, but market participants say there are still issues to be confronted.

14 FSI RESPONSE

The structured-finance industry took the opportunity to respond to a request for submissions to Australia's game-changing financial system inquiry.

16 CPT COVEREDS

National Australia Bank hosted a roundtable discussion to talk about a new option for covered-bond issuance which could work for smaller Australian banks.

28 BULLET FORMATS

Standard & Poor's looks closely at the numerous ways bullet structures can be constructed in structured-finance transactions.

30 NEW STANDARDS

The Reserve Bank of Australia discusses the rationale behind and format of its forthcoming transaction-level data requirements.

32 SECURITISATION ISSUER PROFILES

32 Australian Finance Group
AMP Bank

33 ANZ Banking Group
Bluestone Group
Bank of Queensland
Commonwealth Bank of Australia

34 Credit Union Australia
Firstmac
FlexiGroup

35 Heritage Bank
IMB

ING Bank (Australia)

36 LaTrobe Financial
Liberty Financial

37 Macquarie Group
ME Bank

38 MyState Financial
National Australia Bank
People's Choice Credit Union

39 Pepper
Resimac

Suncorp Group

40 Westpac Banking Corporation

FROM THE FEDERAL TREASURER

I am pleased to be able to provide the foreword to this issue of the *ASJ* in what is an exciting year for the financial-services industry in Australia.

My long-standing interest in the issues affecting the financial-services industry was deepened during my time as the minister for financial services and regulation during the Howard government.

Now, as treasurer in the Abbott government, I continue to look for ways to ensure that Australia's financial system remains strong, stable and internationally competitive.

With the issuance of residential mortgage-backed securities (RMBS) surpassing A\$25 billion (US\$23.2 billion) in 2013, the highest level it has been since 2007, I recognise the important role securitisation plays in providing a valuable funding source for financial institutions in Australia.

In particular, the RMBS market has allowed greater competition among many smaller and non-bank lenders, and provided greater choice for borrowers. Securitisation has also been beneficial to investors, providing a greater range of investment options to portfolio managers seeking to meet their risk and return requirements.

One of the main tasks the government has set for itself is to ensure that our financial system can meet our evolving needs and enable us to take advantage of the opportunities presented in the coming decades.

«The government is committed to fostering a financial system that is capable of supporting Australia's long-term economic growth and prosperity. Securitisation markets will be a key contributor to funding this growth.»

To this end, the government has embarked on an ambitious reform agenda. A key element of this agenda is the financial system inquiry, which I first announced in 2010 and for which I released terms of reference in December last year. It will be the first systemic review since the Wallis Report was completed in 1997. The

reforms following Wallis were critical in ensuring Australia's financial system remained strong during the financial crisis.

However, we must ensure that we are prepared to face the challenges that lie ahead. The inquiry will serve as a 'health check' on the sector to ensure that efficiency, competitiveness and flexibility are appropriately balanced with stability and fairness.

Looking to the future, the government is committed to fostering a financial system that is capable of supporting Australia's long-term economic growth and prosperity. Securitisation markets will be a key contributor to funding this growth.

The inquiry will deliver its interim report in the middle of this year. It will then, once again, seek critical feedback on a number of key areas including appropriate sector regulation, the impact of current system settings on the flow of funds, and the role of government.

I would like to take this opportunity to acknowledge the positive contribution the Australian Securitisation Forum (ASF) and its members have made to the inquiry. The ASF remains in a unique position to promote and develop the securitisation market by bringing together issuers, investors and service providers.

I hope you enjoy the articles in this issue of the *ASJ*.



THE HON. JOE HOCKEY MP
FEDERAL TREASURER, AUSTRALIA



SAVE THE DATE

AUSTRALIAN SECURITISATION FORUM'S ANNUAL CONFERENCE

10 & 11 November 2014, HILTON SYDNEY

For more information and registration details please go to
www.securitisation.com.au or email info@securitisation.com.au



WELCOME

The first half of 2014 has seen continued activity in the Australian securitisation market with a steady stream of new primary issues being successfully brought to market. Issuance of prime and nonconforming residential mortgage-backed securities (RMBS) continues to be the mainstay of the primary market. A notable feature continues to be the diversity of issuers, including those that have returned to the market after an absence.

Since the latter part of 2013 margins on new RMBS issues have contracted, adding further vibrancy to the sector. Most issuers have also witnessed strong demand for their higher-yielding mezzanine and junior tranches.

The first half of 2014 has seen two developments of significance to the future of the Australian securitisation market. The first is the commencement of the financial system inquiry (FSI), chaired by David Murray. This is the first review of the Australian financial system in 17 years. It will make recommendations to the government in November that will shape the future parameters of the financial markets.

The Australian Securitisation Forum (ASF) made a submission to the FSI which sought to highlight securitisation's role in funding the Australian economy and in providing a competitive element to the banking sector. We also argued that, under the right regulatory settings, securitisation could play a greater role in financing consumer assets other than mortgages – such as finance for the small business sector. We also submitted that the market would benefit from improved secondary liquidity and made a suggestion for fund managers and superannuation funds to have access to an optional mechanism to swap RMBS for government bonds in certain circumstances.

The second significant development was the release by the Australian Prudential Regulation Authority (APRA) of its discussion paper on APS 120, the prudential standard governing securitisation by authorised deposit-taking institutions (ADIs). The ASF will consult with industry before responding to APRA in July. Importantly, we note the comment of the chairman of APRA, John Laker, who said: "Securitisation has an important role to play in the Australian economy, and a simplified and streamlined prudential framework will better support this market, while strengthening risk management by ADIs involved in securitisation."

You can read more about both the FSI and the regulatory process, including the role the ASF is playing, elsewhere in this issue of the ASJ.

Demand for Australian RMBS and ABS has been evident over the last 18 months, with international investors opportunistically investing in AUD-denominated deals where they can hedge the currency risk while still generating attractive relative value. A further step forward for the market would be for issuers to be able to regularly issue through master-trust structures in currencies preferred by international investors.

The ASF notes the improved tone of European regulators and policy makers, recognising the need for European and global securitisation to play an increased role in funding global economies. The ASF believes a review of various jurisdictional regulations and reforms since the 2008 crisis should evaluate the collective impact on cross-border securitisation markets, and consider if the policy settings now in place are optimal for securitisation to play a valuable role in finding increased growth and job creation in developed economies.

Finally, I wish to note that following the annual general meeting the ASF welcomes two new members to its National Committee. Ian Edmonds-Wilson, a partner at King & Wood Mallesons, and Eva Zileli, senior manager, structured funding at National Australia Bank, have joined the 12-person governing body of the ASF. The addition of Ian's deep legal background in financial markets and Eva's extensive experience in the group treasury function of a major Australian bank will add valuable input to the ASF.



A handwritten signature in black ink that reads "Chris Dalton". The signature is written in a cursive, flowing style.

CHRIS DALTON
CEO, AUSTRALIAN SECURITISATION FORUM

AUSTRALIAN MARKET BACKDROP

The startling but, on reflection, unsurprising statistic that Australian private-label – ie not including government-sponsored enterprise – issuance constituted the largest volumes globally in 2013 meant Australia’s securitisation issuance volume of US\$30 billion equivalent was actually very respectable, and the highest since the financial crisis.

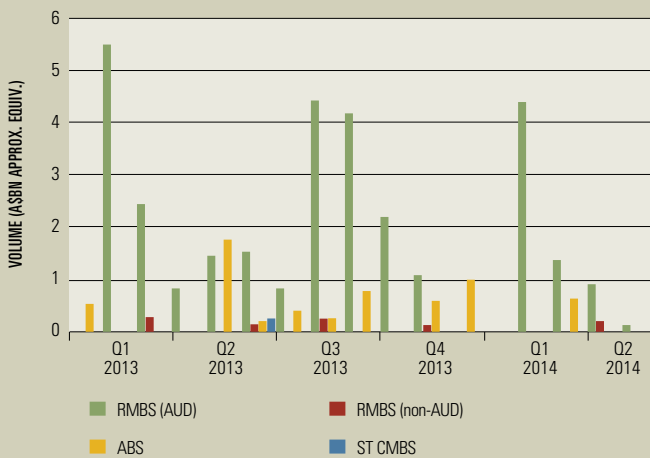
Securitisation investor confidence has returned in the US and Europe, but not to the same extent in Asia. We continue to see in Asia – through our members and our visits to the region – that it is a bifurcated fixed-income and credit market, with sovereign or high-yielding emerging-market corporate paper the focal points, respectively.

More recently, the six months to June 2014 were also busy for Australian issuers with a flurry of trades across the spectrum of tenor, tranching, collateral, and accounts – but not much by way of foreign currency (see chart on this page).

While outstanding levels of Australian asset-backed securities (ABS) and residential mortgage-backed securities (RMBS) stood at approximately A\$85 billion (US\$79.3 billion) by mid-May this year, it is noteworthy that our market’s pre-crisis maxima stood at around A\$175 billion equivalent. It is the offshore bid which remains saggy, while the – largely domestic – Australian dollar bid is back to pre-crisis levels (see chart on this page).

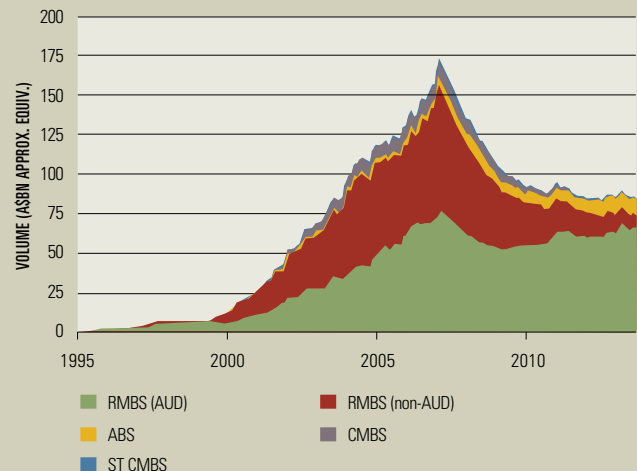
Observers could be forgiven for thinking that significant purchasing by non-Australian accounts of Australian dollar-denominated paper means non-Australian dollar issuance has been inconsequential. Upon closer inspection, though, the

AUSTRALIAN-ORIGIN SECURITISED ISSUANCE BY QUARTER



SOURCE: MACQUARIE DEBT MARKETS ANALYSIS MAY 2014

OUTSTANDING AUSTRALIAN-ORIGIN SECURITISED ISSUANCE



SOURCE: MACQUARIE DEBT MARKETS ANALYSIS MAY 2014

AUD bid has mostly been attributable to large foreign bank liquidity books. We understand that many of these do not augur programmatic, regular investment. In other words, we still crave sustainable, real-money interest in our product from offshore. There has been an improvement in foreign buyers getting Australian-dollar mandates approved but it has been glacial in pace.

Cross-currency basis-swap costs remain elevated and as such continue to obstruct non-Australian dollar issuance. Opportunistic trades have been seen however, particularly when the GBP-AUD pair is favourable. USD-AUD remains acceptable but only in short-tenor, 2a-7 money-market tranches. Meanwhile, EUR-AUD and JPY-AUD remain uneconomic.

Once more, this all leads to the conclusion from offshore investors – and by extension, onshore issuers – that what Australian issuers really need is a workable master-trust structure. The bullet-style issuance this facilitates would provide certainty on tenor and in turn make the cross-currency basis swap far more reasonable to price in.

ASF NEWS

As the industry body representing the interests of Australia's securitisation and covered-bond markets, the ASF has never before seen the amount of output, advocacy, collaboration and promotion it does today. Before turning to our customary look back and ahead at all our work, we highlight two significant reform matters. Both promise to characterise the next 12 months' work, too.

First is the necessity of reaching a consensus on the optimal prudential architecture for securitisation issuance and investment. Second is the government-initiated financial system inquiry (FSI).

PRUDENTIAL REGULATOR RELEASES BLUEPRINT

In late April the Australian Prudential Regulation Authority (APRA) released a discussion paper on its update of APS 120, the prudential standard governing securitisation by regulated financial institutions. The paper is the next step towards implementation of the new APS 120 in 2016.

The industry is pleased to see that APRA's paper proposes to recognise and treat appropriately securitisations completed for funding-only purposes, and those where financial institutions seek regulatory capital relief based on the fact that significant risk transfer has occurred.

Among many other areas covered, the discussion paper contemplates the issuance of RMBS and ABS through revolving or master-trust structures. The ASF applauds this development as it has been a longstanding desire by the Australian industry to achieve greater funding efficiency through the use of master trusts. Master trusts can also improve the prospects of attracting a sustainable global investor base to the Australian market.

However, the industry sees a need for certain aspects of the proposed framework to be clarified or amended to achieve a better balance of regulatory intent and market-relevant transaction structures. The areas the ASF expects to comment on in its response to APRA are around:

- ◆ *The use of date-based calls in revolving structures.*
- ◆ *The treatment of warehouse facilities.*
- ◆ *The 'skin-in-the-game' requirements.*
- ◆ *The two credit-class prudential treatment of securitisation structures.*
- ◆ *Other technical matters.*

"WE STILL CRAVE SUSTAINABLE, REAL-MONEY INTEREST IN OUR PRODUCT FROM OFFSHORE. THERE HAS BEEN AN IMPROVEMENT IN FOREIGN BUYERS GETTING AUSTRALIAN-DOLLAR MANDATES APPROVED BUT IT HAS BEEN GLACIAL IN PACE."

The industry – and indeed the broader economy – requires versatile methods of financing, capable of being responsive to changing global markets and real-economy funding needs. To achieve this, borrower (sponsor or issuer) and lender (investor) alike must be satisfied with structure and terms.

ONCE-IN-A-GENERATION FINANCIAL LANDSCAPE REVIEW

One of the new Australian federal government's promises was to instigate a review of the entire Australian financial system. Of relevance to our sector, the FSI's terms of reference required regard to be taken of competition, resilience and the optimal role for financial services in supporting the broader economy. The ASF working group charged with developing the securitisation industry's response acquitted itself well by explaining first and recommending second the role and potential of securitisation.

Judging from other submissions and the inquiry's own acknowledgements, the ASF hardly needed to remind stakeholders that securitisation is the 'great leveller' insofar as it permits those without high corporate credit ratings to harness their high-quality assets in order to get landed funding costs below their balance-sheet ratings. In turn, we argued, securitisation supports contestability within lending markets in the real economy.

EDUCATION UPDATE

Despite a weak end for 2013, the beginning of 2014 has been looking brighter in terms of enrolments and significant enhancements to the Securitisation Professionals course that the ASF delivered for the first time in May. The new Securitisation Professionals flagship training course has:

- ◆ *Removed asset-backed commercial paper content on the grounds that it is now a fringe product.*
- ◆ *Added a general credit section to complement the rating agency content in view of the trend away from reliance on ratings.*
- ◆ *Added the Reserve Bank of Australia (RBA) eligible collateral reporting requirements.*
- ◆ *Added covered bonds.*

Once revisions to APS 120 have been settled, we anticipate including master-trust content, the new Basel risk-weightings and other tax, accounting and operational updates relating to OTC, the Foreign Account Tax Compliance Act (FATCA), and impairment and consolidation.

Further afield, expressions of interest are emerging for the ASF to take its education offering to China and elsewhere in the region. This will form part of our overall Asian strategy, which includes taking a more strategic approach to the very good relationships our members have been fostering in Tokyo, Taipei, Hong Kong, Singapore and Seoul.

MARKET STANDARDS AND PRACTICES

It has been a quiet time for the full market standard and practices subcommittee but of course a very active time for the working groups operating under its auspices. In addition to consultation working groups addressing the RBA's eligible collateral proposals, we now have two implementation working groups that are focused on ABS and RMBS at a very specific technical level, particularly loan-level data.

Certainly, both the RBA and issuers themselves have benefited from taking a practical, common-sense approach because this means reporting efficiently for issuers and meaningfully for the RBA.

REGULATORY AND PRUDENTIAL

Substituted compliance is not a term we hear much of on Australian shores but cross-border mutual recognition is what we are pleased to say we have sought from the US Securities

and Exchange Commission (SEC) in relation to loan-level data privacy requirements. Together with our global industry colleagues, the Global Financial Markets Association, we have sought to have our privacy arrangements accepted instead of also having to adhere to SEC requirements.

As is so often the case, it is the unsung heroes of our industry who work tirelessly within their securitisation sub-speciality to deliver the right outcomes for our market. Often, this is not positive work but instead necessary work to fend off unintended consequences.

OTC derivative reporting and clearing has been one such example. With OTC derivatives, G20 reform has led to Australian implementation through Australian Securities and Investments Commission requirements for dealers, non-dealers, corporates, and others.

Absent success from the OTC working group securitisation trustees are facing a requirement to report special-purpose

vehicle (SPV) derivative positions. The difficulty of course is that these SPVs do not have the wherewithal to do so. Nor do they have the financial resources to do so without compromising their tax neutrality and ratings status given the potential for unquantified fines from the regulator.

If SPVs take their reporting data from their swap counterparty this defeats the motivation for dual-sided reporting because the data is from the same source. It also

generates liability arising from reliance issues. Clearing is even more concerning since securitisation swaps are unclearable. Instead they default to the requirement for margining and collateral to be posted. This is also impossible without upsetting the ratings analysis.

Clayton Utz's Louise McCoach, has done sterling work on chairing this working group. With her departure from the legal profession we welcome Minter Ellison's John Elias, who will capably devise and prosecute the industry's case.

ACCOUNTING AND TAX

It has also been a quiet year for full sub-committee but not the US FATCA working group under its auspices. FATCA has become another example of the kind of vital behind-the-scenes work that rarely gets noticed. Because of FATCA, the concept of extraterritoriality has reared its head again, much to the irritation of a securitisation industry already grappling with yet another year of heavy regulation.

FATCA targets tax noncompliance by US taxpayers with foreign accounts. Reporting by foreign financial institutions

"THE INDUSTRY IS PLEASED TO SEE THAT APRA'S PAPER PROPOSES TO RECOGNISE AND TREAT APPROPRIATELY SECURITISATIONS COMPLETED FOR FUNDING-ONLY PURPOSES, AND THOSE WHERE FINANCIAL INSTITUTIONS SEEK REGULATORY CAPITAL RELIEF BASED ON THE FACT THAT SIGNIFICANT RISK TRANSFER HAS OCCURRED."

about financial accounts held by US taxpayers or foreign entities in which US taxpayers hold a substantial ownership interest are intended to penalise those that do not report to the Inland Revenue Service with withholding of all income at source.

The difficulty for securitisation SPVs is that they do not know who are the underlying noteholders – they only know who is the registrar. The Australia-US intergovernmental agreement on FATCA will hopefully tease out how this thorny issue will be managed in practice.

ASF's thanks go to King & Wood Mallesons' Suzanne Gibson, in particular, for her work in this area.

GOVERNMENT AND INDUSTRY

ASF had a very fruitful national committee-led delegation to Canberra in March. Notwithstanding the abrupt resignation of a key minister, we made headway with other ministers

and shadow ministers. The deregulation agenda of the new government was front of mind. We were encouraged to learn how serious the government is to shifting the presumption away from regulation being a panacea or justifiable regardless of its cost to industry.

“THE ASF HARDLY NEEDED TO REMIND STAKEHOLDERS THAT SECURITISATION IS THE ‘GREAT LEVELLER’ INsofar AS IT PERMITS THOSE WITHOUT HIGH CORPORATE CREDIT RATINGS TO HARNESS THEIR HIGH-QUALITY ASSETS IN ORDER TO GET LANDED FUNDING COSTS BELOW THEIR BALANCE-SHEET RATINGS.”

COMMUNICATIONS

The communications subcommittee worked through an extensive RFP process in the first half of 2014 to appoint a conference organiser for the ASF's annual conference from this year to 2016. We are pleased to confirm that KangaNews has been appointed to this role. KangaNews is Australia's only specialist debt markets publishing and events company, and – as many in our industry will know – has also

worked with the ASF as publisher of *ASF* since its inception in 2011. KangaNews and the ASF are looking forward to engaging with our members on both the conference and the magazine in future. ■



ASF courses combine the best of both market and academic practice. They are designed to be interactive and to equip participants with practical skills they can use in their day-to-day jobs.

Courses are classroom based, however Australian Securitisation Fundamentals is available through two 45-minute self-paced e-learning modules.

Benefits of attending ASF courses include:

- ◆ Refinements made over 25 years of training delivery, driven by the needs of our members in the securitisation and covered-bond markets.
- ◆ Market-wide recognition and approval.
- ◆ Course tutors are leading experts in their fields.
- ◆ New specialist content added on a regular basis (for example RBA requirements and, soon, master trusts).
- ◆ In-house training can be tailored to each firm's individual needs.
- ◆ Highly discounted rates for ASF member firms.
- ◆ The opportunity to take real-world issues to the experts – the right balance between theory and practice.

http://www.securitisation.com.au/asf_course
+61 (0)2 8243 3900

UNANSWERED QUESTIONS IN APRA'S APS 120 PROCESS

On April 29 the Australian Prudential Regulation Authority (APRA) opened a consultation period on its latest proposals for a simplified Australian securitisation regime. While market participants welcome the regulator's tone, it is clear that there are a number of areas where they feel more work is needed to produce an optimal outcome.

BY LAURENCE DAVISON AND SAMANTHA HODGE

Hopes for progress are based on the fact that APRA also revealed that it plans to consult the market on the regime again in 2015 and is targeting implementation in 2016. While this appears to scupper any possibility of a rapid settling of regulatory issues in Australia, it also allows for negotiation by the industry.

The most positive market response to APRA's latest document surrounds the regulator's apparently positive view on securitisation. This is not entirely unexpected, as APRA's public pronouncements have for some time suggested it sees the value of securitisation as a means to bolster bank funding options and, indeed, to promote competition in the mortgage lending market in particular.

Speaking at the Australian Securitisation Forum (ASF)'s annual conference in November 2013, for instance, APRA's Sydney-based executive general manager, Charles Littrell, revealed that the regulator believes a "large and active" securitisation funding market "will materially assist Australia's banking sector to correct its current imbalance between long-term, retail domestic assets, and a funding side overly reliant upon the kindness of strangers".

"In the new structure AB notes become an orphan, with only an A and B class note existing in a funding-only transaction. Our expectation is that AB risk will either be 'rolled up' into the A class or 'rolled down' into the B class."

BEN MCCARTHY FITCH RATINGS

Analysts say they are pleased to see this mood carry through to APRA's latest consultation paper on the new version of the prudential standard, APS 120. David Goodman, executive director and head of strategy at Westpac Institutional Bank (Westpac) in Sydney, says: "APRA recognises that securitisation is good for competition and says it wants banks to use more funding securitisation. This is a very different position from five years ago, where the tone – not just from APRA and even more so from offshore – was all about 'securitisation is bad'."

APRA says it wants to create a "principles-based rather than rules-based" approach. The guiding principle is that the regime "needs, as much as possible, to be clear and simple for stakeholders to understand".

The desire for simplicity is reflected in a number of APRA proposals. These include explicit recognition of funding-only securitisation – "with a simple but robust prudential regime that also allows for revolving securitisations or master trusts" – a simple, two credit-class structure, simplified requirements for capital relief, and "better integration of securitisation with the ADI [authorised deposit-taking institution] liquidity regime".

FUNDING-ONLY TRADES

APRA sees a greater role for securitisation in bank funding. The regulator says the use of funding-only securitisation will provide an opportunity for ADIs to replace short-term debt. APRA also says it will discuss with banks the degree to which increased term securitisation will be able to replace shorter-term, unsecured wholesale liabilities.

Stephen Maher, Sydney-based division director at Macquarie Bank (Macquarie), believes this guidance from the regulator is especially significant. He points out that APRA refers to funding-only securitisations in the context of the requirement that ADIs take "all reasonable steps" to meet their regulatory liquidity requirements from their own balance-sheet management.

"I think the 'all reasonable steps' comment is very interesting," Maher tells ASJ. "My read is that APRA is telling banks that RMBS is an appropriate – and encouraged – substitute for short-term debt if it is sold into the market. If there is an incentive to do so, and the paper can be got into the hands of real-money investors, it will be a real positive for deal flow and liquidity in the sector."

A key plank of APRA's belief that the new APS 120 "will allow larger ADIs to increase their term wholesale funding



Master trusts: a false dawn?

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) CONFIRMED IN ITS APRIL CONSULTATION PAPER THAT IT EXPECTS TO ALLOW THE USE OF MASTER-TRUST STRUCTURES FOR SECURITISATION. BUT THERE ARE DOUBTS AS TO WHETHER THE RESTRICTIONS THE REGULATOR MAY APPLY WILL ALLOW FOR COST-EFFECTIVE ISSUANCE.

Fitch Ratings (Fitch) published a report on May 2 arguing that APRA's consultation document would not, in its current form, pave the way for a workable master-trust market. Fitch's managing director, structured finance, Ben McCarthy, claims in the report that a master trust structured to meet APRA's proposed standard "would increase risk to bond investors and could have such a significant impact on transaction ratings that the product may not be viable".

THREE PROBLEMS

Specifically, the rating agency highlights three proposed APRA requirements for an Australian master-

trust regime which differ from global norms, and which Fitch believes could make the product unworkable. These are a prohibition on the use of early-amortisation triggers, a prohibition on the use of date-based calls, and a requirement that master-trust seller shares rank equally with the most senior notes issued by the trust.

In his report, McCarthy claims it would be difficult to rate any master-trust transaction without early-amortisation triggers. He says: "Master-trust structures include revolving periods that allow the underlying asset portfolio to evolve over time. Triggers are typically

used to crystallise the portfolio turning the transaction from revolving to static and allowing some certainty for the assessment of risk. Without even the most basic of triggers, such as the insolvency of the originator, the master-trust vehicle will be required to continue to take on new exposures regardless of the prevailing environment."

As a consequence, McCarthy believes master trusts without early-amortisation triggers would "require significantly higher enhancement levels that would likely make such a structure unworkable".

McCarthy's objection to a ban on date-based calls is not ratings related. Rather, he says, not having the facility to include date-based calls "may reduce the efficiency of the structure". McCarthy explains: "It would be likely to lead to the issuance of soft- rather than hard-bullet securities, or the use of third-party put options to ensure refinancing of the notes on their due date."

The lack of date-based calls could be a deal-breaker for Australian master



"Banks need to put up a strong case in terms of why we need master-trust arrangements which allow Australian issuers to compete on a level playing field with issuers in other jurisdictions, like the UK."

KEN HANTON NATIONAL AUSTRALIA BANK

via securitisation" is the proposed removal of the ill-loved 20 per cent rule. This rule is designed to ensure that the volume of securities held in bank trading and liquidity books is not "disproportionate to the amount of securities outstanding issued by the SPV [special-purpose vehicle]".

APRA believes the removal of the 20 per cent rule will allow a bank to trade in its own class-A securitisation notes "provided this is incidental to its normal activities in financial markets, eg market making". However, the regulator will remain vigilant. It warns: "APRA proposes to place restrictions on an originating ADI if trading does not occur in the normal course of business or if the activity may provide implicit support to a securitisation."

The 20 per cent rule has never been popular with securitisation-industry exponents, especially Australia's major banks – the largest market makers in Australian dollar securitisation. Goldman says there is a strong chance its

abolition will facilitate secondary-market liquidity. "There are times when Westpac's credit trading team looks at market making for Westpac Banking Corporation- or St. George Bank-issued paper but it can't because of the 20 per cent rule. At the margin, it can have the potential to affect market making, given an intermediary might have a trading, treasury and an investment book. So getting rid of the 20 per cent rule is a positive move."

However, other market participants want to see more clarity around APRA's thinking on the 20 per cent rule. Dennis Craig, Sydney-based head of balance-sheet solutions at National Australia Bank, argues: "It appears the intention may simply be to remove the rule insofar as it currently constrains trading in a bank's own senior paper. But that's not really addressing the problems the rule causes, and the market was certainly hoping for its unconditional removal in the new standard. However, APRA may be concerned that simply dropping the

trusts. Stephen Maher, Macquarie Bank division director and head of debt markets research, argues: "Master trusts have effectively been put out to pasture. The market requirement that master trusts be able to issue hard-bullet securities sits at odds with the prudential approach regarding implied or actual support for an issue."

On the issue of seller-share ranking, McCarthy suggests that the problem is not so much what APRA suggests as what it does not address. The rating agency comments: "The requirement for the seller share to rank equally with the most senior notes and 'amortise at the same rate so both shares would reach zero at the same time' can be structured for, provided APRA allows the originator to provide the equity to the structure independently of the seller share. The [APRA] discussion paper is silent on this point."

CONSULTATION PROSPECTS

There is plenty of time for Fitch and other market participants to take views like this to APRA before implementation of the final new APS 120 standard covering securitisation. APRA revealed on April 29 that it expects to follow the current consultation period with another on a refined set of proposals in 2015, before

implementing the new APS 120 in 2016.

David Goodman, executive director and head of strategy at Westpac Institutional Bank, agrees that the issues highlighted by McCarthy provide challenges at the very least. "At first glance they certainly appear to make for a master trust which is less attractive and, specifically, less likely to work than the product does in key offshore markets like the UK."

However, Goodman insists that he has a degree of optimism that a workable compromise can be reached through the consultation period, provided APRA accepts that a workable structure meets its requirement of master trusts not becoming *de facto* covered bonds.

"The fact that APRA is talking about master trusts from a position of allowing the product gives me some confidence that the regulator is on the path to making something work. However, as the discussion paper currently stands, it looks like it will be a challenge," he explains.

Goodman's confidence is not universal, though. Maher points out that APRA's objection to date-based calls may be more important to the regulator than paving the way for a master trust in the precise format favoured by issuers.

"My view is that APRA is discouraging the use of date-based calls – whether they are in master trusts or traditional securitisations," Maher explains. "Having the same approach across both asset classes is consistent, so I am doubtful that date-based calls will be allowed in master trusts. If this means Australian banks are deterred from issuing hard-bullet master-trust securities that might be the end of the story."

And Ken Hanton, director, asset transformation at National Australia Bank in Sydney, believes the securitisation industry will have to make a convincing representation to APRA to change the regulator's mind. "Banks need to put up a strong case in terms of why we need master-trust arrangements which allow Australian issuers to compete on a level playing field with issuers in other jurisdictions, like the UK."

Achieving a change in view may not be easy. Hanton continues: "One of the potential barriers is that securitisation actually plays a relatively small part in funding the banking and financial system. That said, if master trusts grew in significance in bank-funding profiles offshore, allowing Australian banks to compete on a level playing field probably wouldn't be a bad idea, either."

rule will present too much structural flexibility in funding-only structures, for example replicating a date-based call using another method."

SIMPLIFIED DEAL FORMAT

The format of funding-only securitisations looks set to change under the new APS 120, as APRA has reaffirmed its preference for simple, two-tier structures. It proposes that "for prudential purpose...a securitisation consist of two credit classes".

Additional risk layers are unlikely to get the nod. "Risk may be transferred in a more certain manner from ADIs to investors in a structure with only two credit classes," APRA adds. "This is because the risk profile of a mezzanine class may unduly complicate a structure, and may lead to opaque risk transfer without any offsetting systemic benefits."

There will be the facility, however, for the A class of a securitisation to contain multiple tranches "provided they

rank *pari passu* for credit purposes". APRA adds: "This means, for example, that a structure could contain several fixed tranches with differing maturities, plus a pass-through tranche. Tranches with shorter maturities could rank before tranches with longer maturities for the purposes of repayment."

Market participants say it is too early to know how issuers will adapt to the new rules. But they agree that deals will look different under the new regime. "Structures will change off the back of APRA's paper," comments Ben McCarthy, managing director, structured finance, at Fitch Ratings in Sydney. "In the new structure AB notes become an orphan, with only an A and B class note existing in a funding-only transaction. Our expectation is that AB risk will either be 'rolled up' into the A class or 'rolled down' into the B class."

In practice, McCarthy says rolling up will mean risk which was previously independent of lenders' mortgage insurance

No bargain in the warehouse sale

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA) IS KEEN THAT WAREHOUSE FACILITIES NOT BECOME A REPOSITORY OF UNSOLD ASSETS WITHOUT APPROPRIATE CAPITAL CHARGES BEING LEVIED ON PROVIDERS. WHILE THE CONCEPT IS NOT QUESTIONED, SOME MARKET USERS BELIEVE THE REGULATOR NEEDS TO BE MORE FLEXIBLE IN ORDER TO RECOGNISE THE REAL PURPOSE AND VALUE OF WAREHOUSES.

APRA says the purpose of a warehouse is to allow banks “to aggregate residential mortgages until they are ready to issue into the market in a securitisation”. Warehouses are attracting regulatory scrutiny because APRA appears to believe that what ought to be a short-term facility can end up lingering, with mortgages resting in warehouses for extended periods without appropriate capital being applied.

“Although the contractual life of a warehouse special-purpose vehicle is shorter than a term securitisation, its actual duration may be less certain,” APRA explains in its consultation paper. “A number of small [banks] accumulate residential mortgage assets into warehouses and may have no control over when a term securitisation is possible in the market. As a result, warehouse funding providers are exposed to the risks of the warehouse arrangement.”

Therefore, the regulator is proposing to levy a capital charge on warehouse providers for any mortgages which remain in a facility for more than a year. The charge would be equivalent to that levied against a mortgage on the warehouse provider’s own balance sheet.

This could have a positive impact on residential mortgage-backed securities (RMBS) issuance. Stephen Maher, division director and head of debt markets research at Macquarie Bank, suggests: “APRA wants to see recycling of assets, and warehouses should be for recycling – not to park and hold assets. This could mean more frequent, smaller deals emerging into the RMBS market.”

Some analysts, though, believe that levying capital charges on warehouses would effectively be double counting. And, they believe,

APRA’s stance of being suspicious about the use of warehouses is not entirely well placed.

“Reliance on warehousing as a long-term funding proposition is not how issuers think,” argues Martin Jacques, associate director, ABS strategy at Westpac Institutional Bank (Westpac) in Sydney. “Forcing assets out of warehouses on a time-based regime will potentially encourage some smaller originators to look at their warehouse funding. This could send them into the capital markets, but equally it could cause them to change their funding regimes entirely.”

David Goodman, Westpac’s executive director and head of strategy, adds: “If a 12-month rule had been applied over the financial crisis period, more originators would have disappeared. At the time some survived on warehousing funding, because there was no option to get a takeout from the capital market.”

will become a different animal. But, he adds, the alternative of rolling down mezzanine risk to the B notes is also problematic because it means more risk – and therefore more capital – being held by the issuer. “The interplay will determine how issuers decide on a structure. How it plays out will be interesting,” McCarthy concludes.

Whatever form future deals take, the fact that APRA is retaining the ability of issuers to structure deals with multiple class A tranches opens the door to a funding-only master-trust regime in Australia. APRA points out that the Basel Committee believes securitisations with early amortisation provisions – such as the bullet notes generally issued out of master trusts – result in limited risk-transfer to investors at most. As a result, assets in these structures should be assessed as if they were fully on-balance-sheet for regulatory capital purposes.

“APRA considers this an appropriate approach,” the regulator says. “Accordingly, APRA proposes to accommodate master trusts within its revised framework as funding-only securitisations only.”

Again, though, the fact that APRA is striking a positive note does not necessarily mean a symphony of Australian master-trust issuance will follow. Some market participants believe the caveats APRA plans to place on all funding-only securitisations could mean the Australian master-trust product is, in the words of one rating agency, “unworkable” for local issuers (see box on p10).

CAPITAL RELIEF

Despite its desire to explicitly recognise funding-only securitisation transactions, APRA is not proposing to ban the use of the asset class for capital relief. In the latest consultation document the regulator reveals that it is considering two possible approaches for capital-relief regulation.

One is “significant risk transfer” – akin to the current system. Under this approach, ADIs are allowed to exclude securitised assets from their credit risk-weighted asset calculations if they judge there to have been significant transfer of credit risk to third parties via securitisation.

“For example, an originating ADI would need to consider the proportion and the risk position of any securities it holds from the securitisation as part of its self-assessment,” APRA explains.

The new technique also being considered is the “pro-rata approach”. This provides for capital relief to the extent that class-B securities are sold to third parties. Again, APRA adds: “As an example, if an originating ADI sells down the B-class securities to the proposed minimum ‘skin-in-the-game’ requirement of 20 per cent, it would achieve an 80 per cent reduction in credit risk-weighted assets under a pro-rata approach.”

APRA also confirms that, whichever approach it takes, the 20 per cent minimum holding of class B notes will be retained as its means of meeting international requirements for skin in the game. ADIs will also not be permitted to repurchase any class B notes once sold, and they will have to hold capital for any other exposures they may have to an SPV, such as liquidity, underwriting or funding facilities.

While APRA proposes that funding-only securitisations will only be permitted to multi-tranche in the A-note section, capital-relief securitisations will also be able to include multiple B-note tranching. There is likely to be a condition, however, as the regulator adds: “APRA proposes to allow ADIs to issue multiple sub-classes of subordinated securities, but with the originating ADI holding at least 20 per cent of each sub-class.” Capital relief will only be granted against the largest proportional holding in the B-note sub-classes.

“For example, experience suggests that an A class is likely to have a AAA rating and there could be three sub-classes of subordinated securities, B1, B2 and B3, which by definition need not be *pari passu* for credit purposes,” APRA continues. “If the ADI retains 20 per cent of B1, 50 per cent of B2 and 70 per cent of B3, the ADI would be eligible for a 30 per cent reduction in capital requirements associated with the underlying assets, that is, 100 per cent minus 70 per cent.”

APRA itself has yet to even hint at which of the two approaches it will select. Maher, though, believes that the new, pro-rata approach is a better fit with the tone of APRA’s message. “The significant risk-transfer approach requires the

“We are optimistic any problems can be worked out during consultation – it is a long period. APRA has said it wants more securitisation and for banks to consider how they use funding in securitisation to replace wholesale liabilities.”

DAVID GOODMAN WESTPAC INSTITUTIONAL BANK



judgement of the originating institution...so it is likely that the simpler route – the pro-rata approach – will be preferred.”

Capital-relief securitisation rules will be of particular interest to Australia’s smaller issuers – as will the eventual outcome of APRA’s new take on warehousing. The latter is another source of concern for some in the market, however (see box on facing page).

REGULATORY PROCESS

The implementation process for APS 120 has now been put back from both earlier APRA expectations and market hopes. A number of securitisation market sources had been hopeful of seeing a final APS 120 document this year with implementation to follow next. Neither now seems likely.

Instead, APRA is inviting responses to its consultation request by July 31 2014. It then intends to release a second consultation package in 2015, which “will include APRA’s response to submissions as well as a draft prudential standard”. This will all be completed “with a view to implementation in 2016”.

The second consultation package will also likely include proposed reporting requirements for covered bonds, APRA says.

The regulator also reveals that it does not intend to finalise reforms to APS 120 “until, at least, the completion of the financial system inquiry now under way”. A number of submissions to the inquiry cover structured finance (see story on p14), although its expected final report publication date – in November this year – should not interfere with the APS 120 timeline APRA is proposing.

This gives some grounds for hope that the issues can be ironed out. Goodman says: “We are optimistic any problems can be worked out during consultation – it is a long period. APRA has said it wants more securitisation and for banks to consider how they use funding in securitisation to replace wholesale liabilities.” ■

“My read is that APRA is telling banks that RMBS is an appropriate – and encouraged – substitute for short-term debt if it is sold into the market. If there is an incentive to do so, and the paper can be got into the hands of real-money investors, it will be a real positive for deal flow and liquidity in the sector.”

STEPHEN MAHER MACQUARIE BANK



STRUCTURED-FINANCE INDUSTRY MAKES ITS CASE

*The Australian Securitisation Forum (ASF) and a number of its members took the chance to make comments about the structured-finance market in submissions to Australia's **financial system inquiry (FSI)**. An interim report – slated for release in July this year – should give the first indication of how the inquiry will respond.*

BY LAURENCE DAVISON

A number of submissions to the FSI suggest the Australian government could play a role in the further development of the country's structured-finance market. They note the importance of securitisation in particular as a supporter of competition in the financial sector. Master trusts, the covered-bond issuance cap, Australia's limited range of regulatory high-quality liquid assets (HQLAs) and capital relief for securitisation also feature.

The starting point for most structured-finance content in FSI submissions is the role the market plays in funding Australian financial institutions (FIs) – and therefore its relevance to the banking-sector competition debate. The ASF argues: "Securitisation is an important funding tool for a wide range of financial institutions and helps to fund a wide range of asset classes, particularly lending to retail borrowers and SMEs."

It is not just the industry which appears to believe a healthy securitisation market supports FI diversity. Australia's federal Treasury says: "The cost of securitisation increased markedly during the financial crisis, leading to the exit of many non-bank lenders and the removal of an important source of competition."

MASTER TRUSTS

A feature of many submissions on securitisation is a desire to see the development of an Australian master-trust regime. Many market participants support the view that master trusts

would facilitate securitisation issuance of a scale and type which would unlock significantly greater demand for the product – especially in international markets.

Commonwealth Bank (CommBank), for instance, points out the potential advantage the master-trust structure would afford over traditional residential mortgage-backed securities (RMBS). "In Australia, each tranche of RMBS must be issued through an individual corporate structure," the bank explains. "The Australian banks could more efficiently issue RMBS by issuing multiple tranches through a single master trust."

Master trusts are being addressed in the Australian Prudential Regulation Authority (APRA)'s update to the APS 120 prudential standard covering securitisation (see story on p9). But market participants were keen to make the value of the asset class known to the FSI even before the release of APRA's latest consultation paper, in late April.

The ASF says: "Coordination to facilitate larger and more frequent issues that can compete with some of the larger programmes offshore should be encouraged. Allowing master-trust structures would assist this, while also addressing some specific investor concerns such as with the term of investment. To facilitate this, government should finalise regulatory settings for securitisation, including the use of master-trust structures, as quickly as possible."

While National Australia Bank notes in its FSI submission that APS 120 is in the pipeline with master trusts under consideration, it also raises the concern that an Australian master-trust regime might not be optimally efficient. Specifically, the bank mentions the possibility that some "critical structural features" relating to the use of seller shares and date-based calls could be excluded from APS 120.

COVERED-BOND CAP

Australian structured-finance market participants also tell the FSI of the potential to increase their access to global covered-bond investor pools. Specifically, a number of FSI submissions argue that the current 8 per cent cap on balance-sheet assets which can be used for covered-bond pools is too low.

CommBank points out that Australia's regulatory covered-bond issuance cap is lower than a number of peer nations and recommends "that the 8 per cent limit should be increased, particularly if the Australian banks are to issue covered bonds to contribute to the development of domestic debt markets".

By mid-2014, the big-four banks and Suncorp Bank (Suncorp) were the only Australian FIs to have issued covered bonds – with capacity being a significant issue for smaller institutions. Suncorp also tells the FSI that an 8 per cent cap severely curtails its own issuance of the product, especially given the buffers it applies to ensure headroom beneath the cap.

"The 8 per cent limit on assets funded from covered bonds does not provide sufficient headroom to fund growth,"

Suncorp asserts. “Due to internal risk and compliance buffers in place to ensure the 8 per cent cap is not exceeded (and penalties are avoided), covered bonds are providing only 4 per cent of Suncorp’s overall funding.”

The bank continues: “A change to allow banks to reach the 8 per cent – either through an increased overall cap, or flexibility to buffer the 8 per cent cap – would be welcomed. In Suncorp’s case, this would allow an increase of A\$2 billion (US\$1.9 billion) in covered-bond issuance which would materially enhance the bank’s ability to lift mortgage competition.”

Westpac Banking Corporation (Westpac) also addresses the covered-bond issuance cap, albeit in a more measured tone. It argues: “An increase to the cap on the covered bond pool from 8 per cent to 10-15 per cent would be a positive expansion to the funding available to banks. However, covered-bond issuance is more useful as a contingent funding tool (ie for use in difficult market conditions) than a primary funding source.”

GLOBAL REPO

Yet another option for opening up international demand is the possibility that Australian-origin structured-finance securities might be added to the lists of repo-eligible product at international central banks. This, some market participants tell the FSI, could substantially increase Australia’s investor base offshore by making product more appealing to bank liquidity book buyers in particular.

The ASF asks the FSI to recommend that the Australian government: “Press, through Australia’s G20 presidency, reciprocity among central banks’ repo frameworks. Specifically, to permit Australian securitisation notes and covered bonds denominated in the relevant local currency to be repo eligible at the US Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE). This would deepen international investor demand and reduce the liquidity premium presently charged by investors for Australian collateral not being repo eligible.”

Westpac makes the same request. It asks for “lobbying for reciprocal international central bank repo treatment, that is, Australian asset-backed securities (ABS) and covered bonds becoming repo eligible at the Fed, ECB and BoE which would increase international investor demand”.

HQLA POSITION

Liquidity-book buyers are also targets in the domestic arena. Local banks are already substantial buyers of Australian dollar covered bonds and RMBS. But the ASF points out that this bid could be developed further if structured-finance issuance was given enhanced treatment under APRA’s high-quality liquid-asset (HQLA) regime.

“In offshore jurisdictions, RMBS is eligible as HQLA,” the ASF tells the FSI. “This encourages banks to hold RMBS in

order to satisfy their Basel III liquidity requirements and is consistent with the fact that such RMBS is repo eligible for cash liquidity at the central banks.”

APRA cannot be told what to include in its HQLA list. But the ASF requests the FSI to “provide APRA with a cost-benefit framework that gives rise to a reinterpretation of Basel III liquidity standards such that it reverses its decision not to grant RMBS and ABS HQLA level-two status.”

CommBank points out the potential within the HQLA market. “If [structured-finance assets] were HQLA-eligible in Australia, the Australian banks would have an incentive to invest more in this asset class as part of their overall liquidity portfolio mix. The potential capacity within the major banks’ liquidity portfolios for additional HQLA is substantial given APRA’s estimate that there will be a market-wide Australian dollar level-one HQLA shortfall of A\$282 billion.”

Australia currently has no level-two HQLAs, so the inclusion of covered bonds or securitisation in this category would likely give the asset class an edge over all other non-government and semi-government issuance. However, with level-two securities likely to be treated less favourably than level-one assets in liquidity-coverage ratio calculations, Suncorp elects to aim high with its recommendation on HQLAs.

The bank says: “Suncorp believes all repo-eligible bank paper...should be treated as level-one HQLA by the Reserve Bank of Australia. Further, eligibility criteria could be adjusted to include all banks regardless of their rating (including unrated entities) and RMBS. Such changes could be introduced quickly and easily, and they would go some way to restoring competition by providing a funding boost to non-major banks.”

CAPITAL POSITION

On the other side of the balance sheet, some issuers tell the FSI they would like to see a more accommodative regulatory approach to the use of RMBS for capital relief. Most large banks do not seek capital relief in their RMBS transactions – instead retaining subordinated tranches while selling top-rated notes for funding purposes. CommBank is one institution that has gone on the record with its desire to see this situation change.

CommBank’s submission states: “Under APRA’s standards, the Australian banks are encouraged only to issue RMBS for funding reasons. Although the securities are dependent upon the underlying pool of residential mortgages and the risk of those mortgages is effectively transferred to investors, the Australian banks’ ability to obtain relief from holding regulatory capital for those assets is reduced by technical rules and caps. If the Australian banks were allowed full capital relief, there would be more ABS issuance. Therefore, CommBank recommends that there be a review of the need for the technical rules and caps.” ■

Covered-bond evolution: the next step

The world's first residential mortgage conditional pass-through (CPT) covered bond launched in the euro market in October last year and was followed up by another trade in April. Just after this second deal hit the screens, **National Australia Bank** and ASJ hosted a roundtable discussion on the asset class – focusing on its potential to open the door to covered-bond issuance for a wider range of Australian banks.



PARTICIPANTS

- ◆ **Peter Atkinson** Senior Portfolio Manager, Global Treasury
STATE STREET BANK AND TRUST
- ◆ **Neil Calder** Head of Credit Investments
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT
- ◆ **Peter Casey** Deputy Treasurer, Asset and Liability Management
ING BANK AUSTRALIA
- ◆ **Vera Chaplin** Managing Director, Structured Finance Ratings, Asia Pacific
STANDARD & POOR'S RATINGS SERVICES
- ◆ **Dennis Craig** Head of Balance-Sheet Solutions NATIONAL AUSTRALIA BANK
- ◆ **Tim Ledingham** Treasurer BANK OF QUEENSLAND
- ◆ **Lionel Koe** Director, Securitisation NATIONAL AUSTRALIA BANK
- ◆ **Arkady Lipka** Director, Frequent Issuer Coverage NATIONAL AUSTRALIA BANK
- ◆ **Jennifer Schlosser** Special Council KING & WOOD MALLESONS
- ◆ **James Shaw** Head of Funding BANK OF QUEENSLAND
- ◆ **Jennifer Wu** Vice President & Senior Credit Officer, Manager, Structured Finance Group MOODY'S INVESTORS SERVICE

MODERATOR

- ◆ **Laurence Davison** Managing Editor KANGANEWS

WHAT ARE CPT COVERED BONDS?

Davison *What is different in a CPT covered bond relative to the traditional hard- or soft-bullet structure for these products? What do these differences mean and what could they potentially achieve?*

◆ **LIPPA** National Australia Bank (NAB) views CPT covered bonds as the evolution of an existing asset class. These bonds have already been issued in Europe but we are also hoping to see issuance in Australia as well as in other markets.

The covered-bond market was inaugurated with just a hard-bullet maturity structure. From here we have seen the development of the soft-bullet product. In its simplest form, this means that if the issuer fails to redeem soft-bullet bonds on their scheduled maturity date, an extension period of up to 12 months allows the portfolio to be sold down to raise the funds required to redeem the bonds by the extended maturity date.

The conditional pass-through is a further development of this bullet-maturity structure such that the bond effectively extends until it repays in full, either via ongoing passing through of the principal or orderly sale of the cover pool.

The pass-through structure provides investors with a mechanism to be able to retrieve their principal over time by removing the fire-sale mechanism that exists within traditional hard- or soft-bullet covered bonds. This allows it to amortise over time should the proceeds of the asset sale be considered insufficient to repay the bondholders in full.

Davison *It would seem that the main purpose of this structure would be to remove the element of systemic risk – in the sense that if an issuer fails there is a good chance it would not be an optimal time to sell covered-bond assets. Is this a fair assessment?*

◆ **CRAIG** A key feature in the maturity structure of both hard- and soft-bullet covered bonds is the risk of a fire sale occurring following an issuer default. Australia has not experienced the type of stress that could lead to this trigger but, unless an issuer default was due to a purely idiosyncratic event, one can imagine that there would be a fair degree of systemic stress in the banking system at the time.

Realistic sell-down options are limited to whole-loan sales, securitisation or, more likely, a combination of the two. Australia does not have a deep whole-loan market and we saw the extent to which the term-securitisation and broader credit markets were dislocated through the financial crisis.

The advantage of the CPT structure is that it assists to mitigate systemic risk in the event of an issuer default. In the environment giving rise to an issuer default, it may be very difficult to sell or securitise a portfolio of loans at, or even close to, par. An asset fire sale in these circumstances could be very damaging from the perspective of systemic stability.



When the Banking Act was amended in 2011 to include the covered-bond framework, the Australian Prudential Regulation Authority (APRA) focused on the risk that there could be a residual amount owed to covered-bond holders after the sale of the portfolio and the implications for this if these creditors were to compete with unsecured creditors. CPT features certainly mitigate these risks.

♦ **KOE** Removing the uncertainty surrounding a fire sale of the cover pool allows rating agencies to adopt asset-performance analysis, in turn promoting collateral efficiency for issuers. Consequently, rating agencies require comparatively less overcollateralisation (OC) to achieve a triple-A rating on CPT structures when compared with traditional covered bonds.

This approach to addressing the inherent asset and liability mismatch in covered bonds is more akin to soft-bullet residential mortgage-backed securities (RMBS) than conventional soft-bullet covered bonds, which carry both an issuer default risk and the potential for a fire-sale situation.

Davison *Could the European investors give some colour around their participation in covered bonds versus RMBS?*

♦ **ATKINSON** We view covered bonds as complementary to our ABS and RMBS investments. European covered bonds have provided us with exposure to jurisdictions that we cannot achieve in the traditional space, such as the Nordic countries. It is possible to argue the merits of both types of instruments. From an Australian perspective, we have been actively buying Australian covered bonds and we view the Australian covered-bond framework as robust and well-formed.

♦ **CALDER** Our covered-bond investments over the last 3-4 years have been into issuers whose senior-unsecured paper would previously have been in our investment universe. In fact, if I look at the portfolio from three years ago, there has been a complete mirror reversal in the relative amount of senior-unsecured issuance to covered bonds.

Like State Street Bank and Trust (State Street), European Bank for Reconstruction and Development would invest in covered bonds and RMBS from the same issuer.

Davison *Can issuers explain how difficult, or indeed costly, it is to achieve the level of OC that is required to get their covered-bond issuance*

stepped up to achieve triple-A ratings under the structures that are in existence to date in Australia?

♦ **LEDINGHAM** Relative to securitisation, Bank of Queensland (BOQ) has had limited appetite for covered bonds in the past. This is particularly because of the differences in funding costs between securitised and covered-bond issuance. And because the bank was previously rated BBB+ or equivalent by three rating agencies.

Recent upgrades by both Standard & Poor's Ratings Services (S&P), to A-, and Moody's Investors Service (Moody's), to A3, increase the possibility that we could access traditional hard- or soft-bullet covered bonds.

Even so, given the linkage of issuer rating and a traditional covered-bond rating, the risk of a future downgrade at issuer level acts as a deterrent. Therefore, the traditional covered bond is not really that accessible to an issuer of our rating.

♦ **SHAW** Given BOQ currently raises 15 per cent of its funding from securitisation funding sources, we need to ensure we use our collateral efficiently. Potentially, the ability to be able to issue a CPT covered bond ticks the boxes around collateral efficiency. It also appears to provide some certainty around achieving the highest-possible rating due to the fact that bonds can be delinked from the issuer's senior rating under some rating agency criteria.

♦ **CASEY** ING Bank Australia faces the same concerns around downgrade risk. If we compare covered bonds with what we can achieve in the RMBS market – with a very certain outcome in terms of volume and price – we feel RMBS is a more suitable avenue of funding.

In addition to downgrade risk and efficiency of collateral, another important factor is the size of our funding programme. All Australia's authorised deposit-taking institutions (ADIs) face the 8 per cent cap on covered-bond issuance and this provides us with a smaller funding capability than a major. However, we would face similar fixed costs setting up a programme.

It has been difficult to issue under a pass-through structure up to this point. But we would certainly look very closely at a structure that would enable us to achieve a benefit in terms of the rating stability of the notes and a more efficient use of collateral.

"I THINK ANY CONCERNS THAT SOMEHOW A COVERED-BOND PORTFOLIO MIGHT PERFORM DIFFERENTLY IN A PASS-THROUGH SITUATION HAVE BEEN ALLAYED."

NEIL CALDER EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT



CPT: a pure-bred covered

THERE ARE SOME SIMILARITIES BETWEEN THE CONDITIONAL PASS-THROUGH (CPT) FEATURE IN COVERED BONDS AND THE TRADITIONAL RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS) STRUCTURE. MARKET PARTICIPANTS AGREE, THOUGH, THAT CPT IS A PURE COVERED BOND.

Davison *It seems that there is some discussion around whether CPT should be considered a hybrid of covered bonds and RMBS. What is the rating agency view?*

CHAPLIN There are definitely differences between analyses of CPTs and RMBS. There are many different ideas in the market on the creation of bullet structures – such as short-term debt in an RMBS. Some may also be backed by bank facilities.

In an RMBS it is possible to have a bullet tranche without a wrap, but this relies on trapping principal through time. In this case, we analyse the trapping mechanism and whether it creates negative carry risk.

However, in CPTs the bullet-payment obligation is from a financial institution (FI) and the pass-through feature is only triggered if the FI fails to meet the payment on the expected maturity date. So there is no principal accumulation for the repayment on expected maturity, as in RMBS, and the market-value risk has already been addressed through the pass-through feature.

On the other hand, the credit quality associated with a pool of mortgages is the same whether it is funded through traditional covered bonds, CPTs or RMBS, and the analytical approach for the credit quality is similar.

I would expect investors to compare an expected bullet maturity that relies on principal collections for repayment with one that relies on a legal obligation of a potentially highly rated FI, where the pass-through feature is triggered when the FI fails to pay. The dual-recourse feature of CPT is likely to provide greater certainty to investors than a reliance on the analysis of prepayment rate of the collateral, while both are exposed to extension risk.

The debut CPT covered bond, which was issued by NIBC Bank (NIBC), achieved a pricing outcome which was not significantly wider than a traditional covered bond – around 3-10 basis points. In fact, it was priced more closely to where a traditional covered bond would come to the market compared with an RMBS.

WU Issuer discretion – and therefore the credit quality of the issuer – is

also important here. Covered bonds are living instruments and the pool is constantly revolving. Good-quality, strong issuers are less likely to run their programmes with poor-quality mortgages.

The concept of ‘at issuer discretion’ is unique to covered bonds, unlike RMBS where there is a static pool and the issuer has no discretion to change the nature of the assets in the pool. CPT rating assessments carried out by Moody’s Investors Service would always be covered bond-like in nature.

LIPPA From our perspective, the CPT is a covered bond both structurally and legally – not a hybrid instrument.

CRAIG CPT is a secured bond issued by a bank in the same way as a conventional covered bond. Up to the scheduled maturity date there really is no difference between a hard-bullet, a soft-bullet and a CPT structure. It is only if the issuer fails to redeem the bond at its scheduled maturity that the CPT structure becomes a pass through. Traditional soft-bullet covered bonds also operate as pass-through instruments during their 12-month extension period.

KOE Importantly, the pass-through mechanism, which is arguably akin to RMBS, is only implemented following an issuer default providing an orderly asset sell down. Even in the conventional structure, rating agencies

Davison *What level of OC is required for a pass-through product?*

♦ **CHAPLIN** S&P has a strong focus on asset and liability mismatch risk. This exposure can place quite a significant dependence on the ability to refinance. When relying on refinancing options an issuer is relying on a secondary market and, if that market is not there, there is significant risk.

As part of its rating approach, S&P analyses asset and liability mismatch risk assuming the market is under similar stress as we observed through the recent financial crisis. If the asset and liability mismatch risk is high this forms a significant part of our OC calculation.

S&P has analysed several different types of structures. These vary depending on the collateral features and jurisdiction but, broadly, for residential-mortgage pools similar to the ones used in Australian covered bonds, about three-quarters of our OC requirements relate to the market-value risk and only one-quarter relates to credit risk. So the removal of the market-value risk would mean a significant relief from an OC perspective. Of course there are other risk elements that need to be mitigated in CPT structures but experience with RMBS means these factors are not unknown to market participants.

Additionally, removing a dependency on refinancing risk delinks the rating from the issuer. This creates rating stability

use a similar approach as for RMBS to assess credit risk associated with the collateral. It is just that the refinancing risk is removed. Indeed, there are elements of a conventional covered bond in an RMBS or even a master-trust RMBS.

SHAW Investors know that CPT is a mechanism by which they can exit the deal if an issuer defaults. In some ways this provides certainty for investors, post-default.

CHAPLIN From a rating perspective, the CPT feature is a strength and a point of difference in mitigating asset and liability mismatch risk that typically exists in a traditional mortgage-backed covered bond. While a key risk that differentiates a traditional covered bond from an RMBS is mitigated in a CPT structure, the CPT product is in the correct family with conventional covered bonds. It is viewed as a covered bond and it has different liquidity implications from RMBS.

SCHLOSSER Legally, the CPT covered bond fits squarely within the definition of a covered bond in division 3A of the Banking Act as it is the authorised deposit-taking institution that is issuing the bond, with the bond liabilities

secured by assets beneficially owned by a special-purpose vehicle. I agree with James Shaw's comment – I see a CPT covered bond merely as an extension of existing soft-bullet technology with some cash-flow differences.

The fact that the bank is the issuer, and that the bank itself is not granting the security over the assets and such assets are segregated in the cover pool, is critical.

Davison *What is the investor perspective on the characterisation of the CPT asset class?*

CALDER Because the NIBC transaction was issued under the Dutch covered bond legal framework, it is UCITS [undertakings for collective investment in transferable securities] and CRD-IV [capital requirements directive] compliant, and repo-eligible with the European Central Bank.

It looks like a covered bond, it smells like a covered bond and it is recognised as such by being included

in the commonly used covered-bond indices.

The Commerzbank SME structured covered-bond programme is the only other structure the market has seen that contained an element of pass through. This created great controversy among the traditional covered-bond investor base and the German Pfandbrief Association over whether or not it was a covered bond. Ultimately it was accepted as such, although structurally the deal resembles a SME securitisation more closely.

Coming from a structured-finance background, some of the elements of covered bonds are less certain – particularly in traditional hard- and soft-bullet structures – and this makes me favour RMBS.

In context, our portfolio had been invested predominantly in senior-unsecured financial assets. However, the development of the bail-in regime has meant that over the last three years we have transitioned from senior-unsecured into a senior-secured covered-bond portfolio.

“Covered bonds are living instruments and the pool is constantly revolving. Good-quality, strong issuers are less likely to run their programmes with poor-quality mortgages.”

JENNIFER WU MOODY'S INVESTORS SERVICE



in situations where an issuer's credit profile is under stress and it gives non-major ADIs the opportunity to enter the market.

The fast repayment feature of Australian mortgages worked in favour of Australian RMBS through the financial crisis despite a lower magnitude of stress than was experienced offshore. The growth in credit enhancement relative to the asset-quality deterioration has been strong, creating a buffer against downturns. The fast repayment of Australian mortgages during the amortisation phase of CPTs may also help create a buffer against downturns – if notes pay down at a faster rate than losses experienced, as previously demonstrated with well-managed Australian RMBS.

♦ **WU** It is important to bear in mind that there are two types of CPTs and that these are dependent on how structural features work in the programme. In the first instance the covered bonds are completely delinked from the issuer. In the second some linkage is involved. In a delinked pass-through structure, Moody's does not take into account or give any benefit for the issuer's rating, which is our anchor point for a traditional covered bond. This technique is similar to that used in traditional securitisation, where the OC or subordination requirement is focused on the asset quality itself.

In a linked pass-through structure the OC is not captured in this traditional securitisation way. There is linkage between



“THE ABILITY TO RETEST THE MARKET OFFERS BONDHOLDERS THE BEST OF BOTH WORLDS. THE BOND STARTS TO AMORTISE WHILE EVERY SIX MONTHS THE MARKET IS TESTED AGAIN.”

ARKADY LIPKA NATIONAL AUSTRALIA BANK

the issue and issuer rating, and refinancing risk is a major component in the OC requirement as well as the rating assigned.

In terms of capturing credit quality in the covered bond via OC, typically the refinancing risk outweighs the collateral-risk component, as Vera Chaplin has already alluded to. Therefore, in a CPT structure we take some issuer credit quality into consideration but not as much as in a conventional structure.

Our qualitative cap – which Moody’s calls the ‘timely payment indicator’ – primarily captures the qualitative aspects of refinancing risk. It assesses the likelihood of timely payment of the covered bonds – that is the likelihood of the covered bond being refinanced if an issuer defaults – regardless of how much OC it contains. Our timely payment indicator at “probable” says the Aaa rating of the covered bonds can only withstand an issuer rating down to A3, in a conventional structure.

While there may still be some linkage in a CPT structure, an issuer can achieve a more favourable timely payment indicator and therefore has more leeway to these kinds of rating caps. In addition, the OC level will almost certainly reduce because refinancing risk is lower.

STRUCTURE SPECIFICS

Davison *Exactly what happens in a CPT covered bond at the point where the pass-through mechanism kicks in, and how does the recourse work?*

♦ **SCHLOSSER** The CPT programme pass-through technology is an extension of existing soft-bullet technology in a traditional programme. In both a traditional programme and a CPT programme the decision to serve a notice to pay under the covered-bond guarantee, and the decision to serve an issuer-acceleration notice following a payment default by the issuer, is taken at a programme-wide level rather than by a single series.

A material difference between the traditional soft-bullet bond and the CPT bond is the time period for extension of repayment. A CPT bond that is not repaid on its scheduled maturity date will extend for a much longer period, for example 32 years. This reflects the tenor of the underlying assets, with such bonds becoming pass through. A traditional

programme will therefore more rapidly head into a default scenario if the cover pool cannot be realised at sufficient value by the soft-bullet-extended due-for-payment date, ie 12 months, or the maturity date in respect of hard-bullet bonds.

In a traditional structure, in certain circumstances loans may be sold at less than the value required to redeem the bonds. In the CPT structure, there is an initial attempt to sell certain loans at the scheduled maturity date in respect of a bond. If the value cannot be recovered there is an orderly retesting of the market on a regular basis, for instance every six months, during the long extension period. The sale of loans is also subject to satisfaction of an amortisation test in respect of all outstanding bonds, during this retesting process in the CPT structure.

♦ **CRAIG** The amortisation test continues to apply in a conventional structure. If the amortisation test is breached as a result of assets being sold below par, for the best price that is reasonably obtainable, a covered-bond guarantor event of default will occur and security over the whole pool will become enforceable. At that point, bondholders will need to decide whether they want to liquidate the portfolio at a discount and suffer a credit loss on their bonds or let the situation play out to maximise returns on the pool.

The trustee will rely on the instructions of the bondholders, who will obviously have different drivers depending on their views and investment strategies. But to my mind it seems rational that bondholders will sit on performing collateral rather than sell it immediately for 50 cents in the dollar. Trustees are also very risk-averse and will be uncomfortable selling performing assets at a haircut.

So in fact there is the possibility that the CPT structure is simply embedding what would be likely to happen if you had a covered-bond guarantor default on a conventional programme.

♦ **LIPPA** The ability to retest the market offers bondholders the best of both worlds. The bond starts to amortise while every six months the market is tested again.

Davison *Is this retest date mandatory and inflexible, or can bondholders take advantage of an offer that might be on the table other than at that the specified interval?*

♦ **CRAIG** This would depend entirely on the programme documentation. The obligation to keep retesting is there so



bondholders are comfortable that they will be paid down as quickly as possible. Much like in conventional covered-bond issuance, there will be an arrangement in the documentation such that an appropriately qualified adviser assists the trustee to sell down those lines, and they will do this when they can achieve the best price to do so.

Davison *Jennifer Schlosser, would you expect the documentation to allow for flexibility in this respect?*

♦ **SCHLOSSER** Absolutely. An issuer has flexibility in setting the terms of its programme, subject to APS 121 and the Banking Act. The beauty of the CPT structure is that it is very similar to the existing covered-bond structures documented in Australia. The asset-level covered-bond documents would be almost the same, with the main difference between the two structures being the cash flows. The terms of a CPT programme are straightforward from a documentation perspective.

♦ **CHAPLIN** This stress situation hasn't existed in Australia but, theoretically speaking, waiting for an asset sale is not the only way out. Investors can sell the bonds. Whether there will be a buyer is something we don't know – this has not yet been tested.

♦ **SHAW** As you start passing principal through to the holder of a defaulting bond, the OC builds and with it the probability of suffering a loss decreases over time. If investors are receiving principal from day one, they are receiving the face value of their bonds. Over a six-month period this could be a considerable amount of principal, depending on the size of the particular tranche that was issued.

Davison *Does the ratings strength of an issuer influence the value of the CPT option? And does it do so in terms of both the likelihood of issuer default and expectations of circumstances around a default?*

♦ **CHAPLIN** Systemic risk is one of the key considerations and this is why we stress the market-value risk at a much higher margin. If a double-A bank defaults, it is likely a potential meltdown situation where there is no or limited market. But even if you have a price, there can be very different views among investors.

The difference in the issuing bank's credit profile – in other words the trigger point for pass-through to kick in – could affect the value of the CPT option. However, the buy-and-hold option of CPTs might lock out some investors because of the extension risk. Having said this, CPT could be really quite appealing when the market is in meltdown.

♦ **WU** The pass-through structure is already trying to mitigate the sovereign risk affecting refinancing abilities. This is already being addressed in the very nature of these types of bonds.

If we were just looking at the collateral quality and the way it is assessed under an extreme stress scenario, we would say this has been captured by the collateral risk. However, in a systemic meltdown the sovereign rating will likely be downgraded. We cannot ignore a situation where there is a sovereign downgrade and therefore a country ceiling on the bonds.

This point is irrelevant if Australia continues to retain its triple-A rating but it is a factor that ought to be considered, just in case. This applies to the market in its entirety, though, not just covered bonds.

♦ **CHAPLIN** Apart from the credit risk and market-value risk highlighted so far, there are other risks inherent in any structured product, such as legal, operational, counterparty and sovereign risk. Most RMBS issuers are already very familiar with these and most have addressed them, at least structurally. Although, in a meltdown situation, any rating elevation above the sovereign would become more limited and counterparty substitutions may become challenging, too.

♦ **KOE** Given the cover pool will likely comprise prime RMBS with OC sized to ensure triple-A lenders' mortgage insurance-independent requirements, we would expect CPT bonds to have comparatively greater rating stability as the structure has less reliance on counterparty ratings.

THE EUROPEAN EXPERIENCE

Davison *How do European investors assess appropriate pricing on CPT covered bonds? Does the structure contain anything that inherently changes the pricing?*

♦ **CALDER** The evolution of structures in covered bonds within Europe is really quite interesting. Initially, investors take time

“FOR AN ISSUER THAT SITS ON THE RATINGS CUSP FOR A TRADITIONAL TRIPLE-A COVERED BOND, THE ADOPTION OF THE CPT STRUCTURE WOULD PROVIDE MORE CERTAINTY TO INVESTORS THAN THE TRADITIONAL COVERED-BOND STRUCTURE.”

TIM LEDINGHAM BANK OF QUEENSLAND



Debut Australian CPT checklist

BUY SIDE, SELL SIDE AND INTERMEDIARIES AGREE THAT LITTLE STANDS IN THE WAY OF THE AUSTRALIAN DEBUT OF CONDITIONAL PASS-THROUGH (CPT) COVERED BONDS.

Davison *What would investors need to do to achieve the same comfort around an Australian CPT deal that they have with a Dutch regulated covered bond?*

ATKINSON We would expect to have to carry out the same due diligence as is required for a conventional Australian covered-bond issue. Therefore I would not view an Australian-origin CPT any differently from a standard covered bond as long as it met covered-bond regulation in the relevant jurisdiction.

At the end of the day CPT is simply a covered bond that has used securitisation technology for fine tuning. It is still a covered bond.

Davison *What specifically would investors want to see from an Australian issuer using this structure in Europe?*

ATKINSON I'd really like to see a deal with an Australian flavour. What I'd like to see in the CPT space is something that is appropriate for Australia. Therefore, if what emerges is subtly different from its global peers, I would see this is a good thing.

CALDER I know that it was not an easy road for those involved in passing the Australian covered-bond legislation, yet from an offshore investor's point of view it is one of the strongest, most robust legislative structures there is. Therefore, if we ended up with a slight variation on this for a CPT issuance from, perhaps, a smaller institution, it is not going to present us with a problem.

ATKINSON Would State Street Bank and Trust be an investor in the first Australian CPT covered bond? We'd judge the structure and the transaction on its merits, and take it from there.

Davison *What regulatory moves are required to clear the path to Australian CPT issuance? If an issuer was very keen to bring this structure to market now, what challenges – if any – would there be in documenting a programme under existing regulation?*

LIPPA We see this structure as a covered bond and the people around the table appear to agree. It is consistent with the Banking Act and prudential standard APS 121 – governing covered bonds – definitions and provisions. We do not see any relevance of the securitisation

“What I'd like to see in the CPT space is something that is appropriate for Australia. Therefore, if what emerges is subtly different from its global peers, I would see this is a good thing.”

PETER ATKINSON STATE STREET BANK AND TRUST

prudential standard for this structure as this standard explicitly excludes covered bonds. We believe it would be as simple as setting up a programme that would fit within the current framework and guidelines provided by the Australian Prudential Regulation Authority.

SCHLOSSER I take the same view from a legal perspective. There is no barrier under the Banking Act or APS 121 to bring a CPT covered bond. The same considerations we had to factor into traditional covered-bond programmes under APS 121 would apply to CPT programmes – factors such as cover-pool monitor, the authorised deposit-taking institution's right of first refusal in the context of asset sales and the asset registers provided for under APS 121. However, to go ahead and set up a programme now would be fine.

CRAIG CPT mitigates refinancing risk and reduces the potential for the systemic stress associated with liquidating a large portfolio of residential mortgages into a market that is unable to absorb the assets except with a very significant haircut.

The structure also reduces the risk of there being a shortfall for covered-bond holders. As a result of this, there is less likelihood investors will end up claiming as senior-unsecured creditors in the event of a bank insolvency. Arguably, then, from a banking sector regulator's perspective, the CPT covered bond is superior to a conventional structure.

LEDINGHAM I agree that this is a superior structure. Practically, however, it is a new structure and one that isn't thoroughly understood. Therefore I would expect the regulator to keenly investigate the product and for this to take some time to do.

Davison *Is it helpful that this structure has been tested in another jurisdiction and that the European investors in this discussion have expressed clear confidence in the product?*

LIPPA There is a big benefit in seeing the CPT structure executed in Europe. NIBC Bank set up its programme in a major jurisdiction and CPT is fully accepted as a covered bond, from a regulatory perspective, by the European Covered Bond Council and other industry bodies.

to adjust to changes in the structures. This was first seen with the introduction of the soft-bullet structure – the traditional hard-bullet covered-bond investor from Germany and Denmark took some time to get comfortable with the new format.

From my perspective, a CPT structure simply formalises what is likely to happen in the case of an issuer default. It provides some certainty and structure around what is likely happen in this scenario.

The crucial point is the fact that the CPT structure has allowed weaker issuers to produce triple-A rated bonds. For the universe of investors in Europe that have migrated from senior unsecured to senior secured, it is still predicated in pricing terms on the relative strength of the issuer.

The relative tightening from the original issuance of CPT bonds – by NIBC Bank (NIBC), in October 2013 – at 50 basis points over mid-swaps, to 33 basis points at the end of March, is really more of a function of relative demand and associated spread tightening that we have seen in Europe.

The structure is not necessarily the main pricing determinant. It may allow some investors who are more familiar with securitisation from a structured-finance background to invest. There will always be some investors with a more traditional focus that will not be able buy this product.

Davison *Are you saying the difference that can be seen in primary-market pricing between the two NIBC CPT deals is not an increasing familiarity with structure – it is a general market move?*

♦ **CALDER** Exactly. The book size for NIBC's debut transaction in October last year was €1.3 billion (US\$1.8 billion) for a €500 million issue. Meanwhile, the order book on its follow-up transaction launched in April reached €1.5 billion for a same-sized transaction. This is a slight increase but not particularly significant.

Davison *Are investors looking at this product on a par with the other covered bonds they see?*

♦ **CALDER** In terms of structure, yes, but in terms of our investment strategy and guidelines, no. We are still giving a certain degree of weight to the relative strength of the issuer.

♦ **ATKINSON** I would echo Neil Calder's comments. If we look at the evolution of the market, post-crisis, in many ways the CPT structure simply formalises what might happen anyway. An element of certainty is a really positive advantage. We view the CPT structure as a covered bond with a degree of certainty around how stressed situations will be handled. I believe this would give the best outcome for investors in times of crisis.

In terms of pricing relative to other asset classes, we view this product as a covered bond with some optionality, and options should have a value – although they are often difficult to price. Theoretically, the new product is pricing a little wider than a conventional covered bond from the same issuer, but CPT issuers tend to be lower rated on a senior-unsecured basis and this is a much bigger factor in pricing.

♦ **CALDER** An explanation I have heard in defence of wider pricing is that, in the event of an issuer default, there are some investors who believe a covered bond structured as a CPT would be less likely to receive government support.

♦ **ATKINSON** It is about achieving a balance, and the structure has its distinct advantages. As an investor, I applaud the development of the structure and I think it is a very positive development for the market overall.

♦ **CALDER** In terms of actually seeing the pass through in action, the best example can be found in the European securitisation market. Granite Master Issuer (Granite)'s class A notes became *pari passu* after the failure of Northern Rock and will eventually be paid out in about seven or eight years.

Within the European space we have a proxy and I think any concerns that somehow a covered-bond portfolio might perform differently in a pass-through situation have been allayed, by the Granite experience.

The one argument that could potentially be made against a CPT trust is that in a very low CPR environment it is possible to lose out on a net-present-value (NPV) basis. For instance, is an investor better off accepting a 40 per cent haircut now rather than being repaid in full in 10 years? These are the kinds of factors that need to be weighed up.

♦ **ATKINSON** The investor wouldn't have been the only one performing this calculation. The point at which the NPV of the assets gives you the best possible outcome is the point at which the sale will happen. You won't be in that 25-year tail. It

“THE OVERCOLLATERALISATION FOR MARKET-VALUE RISK IS THE KEY DIFFERENCE BETWEEN TRADITIONAL AND CONDITIONAL PASS-THROUGH COVERED BONDS.”

VERA CHAPLIN STANDARD & POOR'S RATINGS SERVICES



is in everyone's best interests to resolve a situation like this as quickly as possible.

Davison *The limited extension risk in soft-bullet covered bonds was not universally liked when it was first introduced by Northern Rock under that issuer's structured covered-bond programme. However, it is now the dominant form of issuance by UK banks. Do investors expect that, over time, CPT will become the default structure?*

◆ **ATKINSON** I think CPT will certainly grow in popularity with issuers and investors alike. But whether it becomes the universal standard for higher-rated issuers is less likely.

◆ **CALDER** On the other hand – and this is certainly not something NIBC has done – CPT securities offer the potential for OC arbitrage. An investor would be more than a little concerned to see an issuer that had a straightforward hard- or soft-bullet programme suddenly switch to CPT in order to decrease the level of OC required.

The market-risk requirement appears to be two-thirds of the OC requirement as a general rule of thumb. If an issuer is then passing on the extension and liquidity risk to investors the requirement for OC has been reduced to more of a credit-specific element in the portfolio.

Davison *Is this something rating agencies would potentially flag?*

◆ **CHAPLIN** If investors are interested in disclosure, it is possible to disclose OC levels under both a traditional and a CPT covered-bond structure.

From a rating perspective, market risk is mitigated in CPT because, technically, investors will be paid from the underlying assets through to legal maturity. The OC for market-value risk will be the key difference between traditional and CPT covered bonds.

◆ **WU** In the first instance this would depend on the quality of the issuer. A higher-rated issuer can achieve a significant benefit using its issuer rating as a starting point. Potentially the asset quality should speak for itself. I wouldn't imagine there is much of a benefit for these kinds of issuers to use a CPT structure.

Moody's continually monitors existing programmes. If we see deterioration in the credit quality of the cover-pool assets this could also signal deterioration in the quality of the issuer.

◆ **CHAPLIN** There is a difference between S&P and Moody's in terms of how we assign ratings to covered bonds. When assessing market-value risk, S&P assumes the issuer would first default on its obligations regardless of whether it is double-A or triple-B rated. Over time, the deterioration of the issuer's credit profile will not change our assessment of market-value risk and the related OC.

There is probably the likelihood of a greater differential in S&P's rating approach in OC sizing between a traditional and a CPT covered bond.

◆ **WU** The Moody's starting point is the issuer itself. The higher the issuer rating the more efficiently it can use its collateral. Only as the rating deteriorates does the OC requirement increase, even if other components remain unchanged.

Davison *On the subject of issuer strength, there has been a suggestion in some quarters that CPT has the risk of being perceived by some investors as effectively the last-resort option for low-rated banks without consistent funding-market access. But if NIBC has successfully executed two deals that have been oversubscribed and performed, is it fair to assume there isn't a negative connotation to using this product?*

◆ **CALDER** The main focus of the bank I work for is in central and eastern Europe and northern Africa, and certainly the CPT structure has elicited a large amount of interest there. CPT delinkage allows these issuers to attract a far wider investor base. Certainly in these more transitional-type economies there is a role for CPT. Within their own regions, these banks are not viewed as 'weaker' issuers and an ability to breach the sovereign ceiling may be incredibly valuable to them.

NIBC itself has other options, such as the RMBS market, in which it has been very active over the years. It is not as if CPT is a last throw of the dice, but it is in recognition that NIBC is a triple-B minus rated issuer.

There is a role for this structure, probably on a more global basis rather than in the core covered-bond market.



“REMOVING THE UNCERTAINTY SURROUNDING A FIRE SALE OF THE COVER POOL ALLOWS RATING AGENCIES TO ADOPT ASSET-PERFORMANCE ANALYSIS, IN TURN PROMOTING COLLATERAL EFFICIENCY FOR ISSUERS.”

LIONEL KOE NATIONAL AUSTRALIA BANK



“WE SHOULD ALSO COMPARE COVERED BONDS WITH THE SENIOR MARKET – NOT JUST THE RMBS MARKET. SO, IN MORE DIFFICULT MARKET CONDITIONS THERE WOULD BE MORE OPPORTUNITY TO SUCCESSFULLY EXECUTE A COVERED BOND THAN A SENIOR BOND FOR A LOWER-RATED NAME.”

PETER CASEY ING BANK AUSTRALIA



◆ **ATKINSON** It is certainly not seen as anything of a last resort from our perspective. The structure has the rating it deserves and is consistent in terms of risk profile, too.

Once the structure is more widely used a broader acceptance will come. If an Australian issuer were to come to market this would be overwhelmingly positive and something that we would be eager to see.

AUSTRALIAN OPTIONS

Davison *Could CPT and traditional covered bonds be run off the same programme? If not, is it safe to assume that Australia’s first issue of CPT covered bonds will not come from one of the country’s major banks – which already issue under other structures – and would this matter?*

◆ **LIPPA** If this product can feasibly be launched into the domestic market and any potentially required new-issue premium reduces over time, it is a more efficient structure from every other perspective. Hence, I see no reason why existing covered-bond issuers would not consider moving to a new CPT programme.

However, there are a lot of ‘ifs’ here. Australia’s five existing covered-bond programmes are all fully operational and there is a considerable volume of issuance outstanding under these programmes. Issuers would therefore have to either issue out of both the CPT and the existing programme or run one down. In any case there would be an additional element of cost to consider.

I suspect the market would expect a bank outside of this five to be the first to sign a CPT programme. Certainly we think it is likely that one of the issuers in the single-A rating category

could establish a programme, enabling it to get to triple-A on a covered bond.

◆ **CRAIG** The 8 per cent covered-bond issuance cap is more of a constraint when you have a smaller balance sheet. But there is no doubt collateral usage is more efficient under the CPT structure than the conventional covered-bond structure. The lower the OC required to achieve the desired rating outcome, the greater the relative issuance capacity under the programme.

There is a push coming from some quarters for APRA to increase the 8 per cent cap but, given APRA started at 5 per cent, I think a further increase is quite unlikely. Therefore, it clearly makes more sense for slightly lower-rated entities, and entities with smaller balance sheets, to be able to make use of the more collateral-efficient CPT structure.

◆ **CHAPLIN** If I understand correctly, APRA wants as little encumbrance as possible for the banks. Having the market-value risk taken care of could be viewed positively in this light.

◆ **LEDINGHAM** For an issuer that sits on the ratings cusp for a traditional triple-A covered bond, the adoption of the CPT structure would provide more certainty to investors than the traditional covered-bond structure.

◆ **SCHLOSSER** It would be difficult to have hard-bullet, soft-bullet and CPT bonds in the same programme. For example, the consequences of failing the asset-coverage or the amortisation test can lead to issuer or covered-bond guarantor default events in a traditional programme but typically not in a CPT programme. Similarly, the extension allowable in the case of an issuer default is very different between the two structures. A covered-bond guarantor default would likely occur much sooner in a conventional programme – in which the maximum allowable extension is short, for instance

“THE ADVANTAGE OF THE CPT STRUCTURE IS THAT IT ASSISTS TO MITIGATE SYSTEMIC RISK IN THE EVENT OF AN ISSUER DEFAULT. IN THE ENVIRONMENT GIVING RISE TO AN ISSUER DEFAULT, IT MAY BE VERY DIFFICULT TO SELL OR SECURITISE A PORTFOLIO OF LOANS AT, OR EVEN CLOSE TO, PAR.”

DENNIS CRAIG NATIONAL AUSTRALIA BANK



Offshore accessibility

AUSTRALIAN STRUCTURED-FINANCE ISSUERS HAVE KNOWN FOR SOME YEARS THAT INTERNATIONAL INVESTOR DEMAND FOR THEIR PRODUCT IS NOT LACKING. THE CHALLENGE HAS BEEN GETTING PRODUCT TO BUYERS, IN FOREIGN CURRENCIES, IN A COST-EFFECTIVE MANNER.

Davison *One of the challenges for Australian residential mortgage-backed securities (RMBS) issuance into foreign-currency markets has been the elevated swap cost caused by extension risk. Does the conditional pass-through (CPT) structure push the covered bond into the same category?*

KOE The cost of a cross-currency swap on a CPT should largely reflect the pricing of a soft-bullet covered bond given the issuers of both are contractually responsible to redeem the notes at maturity. By contrast, a soft-bullet foreign-currency tranche issued from an RMBS structure is reliant on liquidity in the domestic market to refinance the maturing soft bullet. Consequently, the cross-currency swap pricing between a CPT covered bond and an RMBS soft-bullet note reflects the different redemption risks, namely corporate default in the case of the CPT versus market risk in RMBS.

Additionally, RMBS investors in soft-bullet, foreign-currency tranches also require a step-up margin should the notes extend. This serves a dual purpose. The step-up margin incentivises issuers to refinance the note at maturity and also compensates the investor for added duration. Consequently, a swap provider in the

RMBS market is required to consider and price extension risk, the additional step-up margin and the prevailing exchange rates upon extension.

LIPPA The market is using the same terminology – ‘soft-bullet’ – around RMBS and covered bonds but in fact the structures are very different. From a hedging perspective, the risk of extension of the swap is significantly lower in the covered bond, whether soft-bullet or CPT structure. The extension occurs only after issuer default and not as a result of a failed remarketing exercise – as is the case with RMBS.

SHAW Bank of Queensland (BoQ) has executed euro- and sterling-denominated asset-backed securities (ABS) and RMBS. An amortising notional amount is more difficult to price due to the optionality around prepayments and, therefore, extension risk. The vanilla currency swap is a fairly liquid market and so we do not foresee any issues with the currency swap as far as the CPT structure is concerned.

Davison *How important would the expectation that it could open the door to foreign-currency issuance be in issuers’ decisions about whether to establish a CPT covered-bond programme?*

LEDINGHAM We would definitely need a foreign-currency element. This is likely to be a longer-duration security and probably in fixed-rate format, and most of the demand that exists for this type of product is in Europe.

From BoQ’s perspective, while it would be nice to think this kind of product would be achievable in the Australian market, there are benefits for us in tapping overseas markets. This includes the spread at which a transaction can be executed compared with other senior funding sources and, to a lesser extent, RMBS and ABS.

We are not so concerned about how the swap would work because essentially it is booked as a vanilla cross-currency swap with a bullet maturity until you have a default, and I expect the swap-price makers would price it like this. There is a very low probability of risk that you would have an issuer default.

CASEY There are a few advantages to covered bonds in general for ING Bank Australia: price compared with senior and RMBS, tenor, and investor diversification. In a perfect world, access to foreign-currency covered-bond tranches would be desirable but on the programme size we are looking for it isn’t something we’d jump into at first. We would start with AUD, then look to extend to foreign currencies if it made sense.



“The vanilla currency swap is a fairly liquid market and so we do not foresee any issues with the currency swap as far as the CPT structure is concerned.”

JAMES SHAW BANK OF QUEENSLAND

“THE BEAUTY OF THE CPT STRUCTURE IS THAT IT IS VERY SIMILAR TO THE EXISTING COVERED-BOND STRUCTURES DOCUMENTED IN AUSTRALIA. FROM A DOCUMENTATION PERSPECTIVE, THE TERMS OF A CPT PROGRAMME ARE STRAIGHTFORWARD.”

JENNIFER SCHLOSSER KING & WOOD MALLESONS



one year – versus a much longer period – 32 years – in a CPT. This would present issues in terms of the enforcement of the covered-bond guarantee security.

If an issuer already had a conventional programme and wanted to put a CPT programme in place, it would need to ensure it is very clear in the disclosure around this in the documentation.

Davison *When new products have been issued in Australia in the past, the major banks have generally issued first. Would it affect investor appetite if a debut Australian CPT was not launched by one of the big four?*

♦ **CALDER** Frankly, this is what I expect to occur.

♦ **ATKINSON** I echo this, certainly in the sense that it is not possible to mix and match the technologies in the same programme and that the existing programmes are not CPT-friendly. If one of the majors were to launch a CPT programme we would probably buy it. Whether it makes sense for them to do this is a different question.

Like Neil Calder, my expectation is that the first Australian CPT covered bond will be from a regional bank. This would not be a hurdle for us at all.

Davison *Is there significant value to non-majors to innovate this product in Australia?*

♦ **CALDER** There is the element that all the second-tier Australian financial institutions have successfully used RMBS in the past. With the resurgence in this market, and also the opportunities for offshore investment as the AUD basis swap swings back into more favourable territory, what incremental advantage would there actually be for them to sign a CPT covered bond programme? And would they be tapping into a vastly greater investor base?

♦ **LEDINGHAM** We would potentially be able to tap into longer-dated funding than we attract through our RMBS programme, and potentially into a wider and more diverse investor base in Europe – although we would still hope to see familiar names in the book, too.

Davison *Also, we know the potential investor diversity is there for RMBS issuance by names like BOQ, but the basis swap makes it difficult?*

♦ **LEDINGHAM** Yes, that’s correct. We would expect to see a little more efficiency in the basis swap in CPT because the swap is priced as a bullet maturity at the current time.

♦ **SHAW** BOQ has a well-established ABS and RMBS programme under REDS EHP Trust. CPT is probably just another programme to add to our funding tool kit. As Tim Ledingham mentioned, it gives us longer duration.

Meanwhile, the covered-bond market was well and truly open during the global financial crisis, albeit at a price. This market has performed reasonably well and is seen as a contingent funding platform that potentially we could establish.

♦ **CASEY** We should also compare covered bonds with the senior market – not just the RMBS market. So, in more difficult market conditions, there would be more opportunity to successfully execute a covered bond than a senior bond for a lower-rated name.

In terms of tenor, I would also compare covered with senior markets in the sense that covered bonds tend to be able to achieve longer tenor in both good and difficult market backdrops.

♦ **LEDINGHAM** Even if an issuer has a CPT covered bond programme documented but not drawn upon, this offers a contingent source of funding. This is potentially positive from the perspective of the rating agencies and I believe the regulator would also welcome this.

♦ **CRAIG** In terms of the timeliness of issuance, it is much more akin to senior unsecured than RMBS. This is effectively a medium-term note platform and it is possible to execute a transaction very quickly and take advantage of small windows of opportunity to tap the market.

During this session we have frequently compared the CPT product with RMBS. But the fact is it resembles a senior-unsecured platform far more closely.

♦ **ATKINSON** This is an important point, in the sense that the windows to get issuance into euros in terms of the basis swap can be limited. The fact that issuers can execute a covered bond relatively quickly – in a matter of hours, depending on how the programme is geared – means that there are opportunities to tap at times when the basis swap works. There is very strong demand for exposure to Australia in euros and the CPT programme offers great flexibility to its issuers. It is also a positive benefit for investors. ■

FOR AUSTRALIAN RMBS ISSUERS, NEW BULLET-PAYMENT STRUCTURES MAY ENGAGE INVESTORS

Vera Chaplin, managing director and head of the Asia Pacific structured-finance team at Standard & Poor's Ratings Services, adds more detail to the themes around new techniques for creating bullet maturities in securitisation and covered bonds.

Recent exploration of a broader range of bullet-payment structures – specifically conditional pass-through (CPT) covered bonds and master-trust structures – by issuers of Australian residential mortgage-backed securities (RMBS) may pique the interest of investors.

This may be particularly so for offshore investors, who for a variety of reasons – including preferences for bullet features and higher prevailing cross-currency swap costs following the financial crisis – have been far less active participants in the sector since 2008. For issuers, these structures offer the potential to diversify their funding options, reduce swap and funding costs, and appeal to more investors.

Overall, conditions for issuance in the Australian RMBS sector have been steadily improving. The Australian government removed its support programme for RMBS over a year ago, which was put in place in late 2008. And RMBS issuance volumes have been cautiously solid in 2014 following strengthening investor and issuer participation in 2013.

Still, existing Australian RMBS issuance levels remain significantly lower than those before the financial crisis. In fact, securitised mortgages have declined to about 8 per cent of total mortgages outstanding in Australia, after a peak of just below 24 per cent in 2007.

Potentially, application of CPT covered bonds and master trusts may be able to increase structured-finance issuance as the structures may help to reduce transaction costs – including swap costs – and appeal to a broader range of investors.

This includes Australian benchmark investors, as some fixed-rate issues are included in the UBS Australia Composite Bond Index. Some examples of RMBS that have already incorporated bullet features include Series 2010-2 SWAN Trust issued by Commonwealth Bank of Australia subsidiary, Bankwest, ING Bank Australia's IDOL Trust Series 2011-2, Series 2012-1E REDS Trust from Bank of Queensland, Resimac's Premier Series 2013-1, and Pepper Residential Series Trust No. 12 Compass Master Trust.

However, the total volume of bullet-payment notes remains low. While Australian covered bonds have substantially increased the supply of bullet-payment bonds funding Australian residential mortgages, only the major banks and Suncorp Metway have tapped the market to date.

CPT and master trusts may offer opportunities for other lenders to further incorporate bullet features into their transaction structures.

Whether these additional bullet-payment options are successfully implemented may depend on final regulatory settings and ensuing operating rules and guidelines. In addition, investor interest in bullet-payment bonds to manage their funding maturity profiles and foreign-currency risk will also determine growth in these funding options.

BULLET TYPES

There are two types of bullet-payment bonds. The first is 'hard bullets', where the maturity of the bond has a fixed repayment date and failure to repay on that date results in an event of default. The second is 'soft bullets', where, subject to certain conditions, the maturity date of the bond can be extended thus either offering the issuer more time to refinance the debt or, alternatively, matching the ultimate repayment date of the bond to the pay-down profile of the assets. The latter option eliminates asset and liability mismatch risk altogether.

Australian RMBS transactions that have incorporated hard-bullet tranches are usually dependent on a bank for redemption, with the rating of the hard-bullet tranche usually capped at the rating of the redemption-facility provider.

Alternatively, some transactions rely on the accumulation of principal collections within the transaction structure to facilitate repayment on the hard-bullet tranche. However, this usually results in a hard-bullet tranche that is a relatively small percentage of the total mortgage pool size.

In covered bonds, rating elevation above the rating of the issuer can be achieved through provision of additional asset overcollateralisation (OC) to help manage market-value and refinancing risk if the bank fails to pay on the repayment date.

Notwithstanding the OC in these structures, if the issuer is unable for any reason to repay or refinance the bond at maturity, investors may be exposed to market-value risk

OVERVIEW OF AUSTRALIAN BULLET-PAYMENT OPTIONS AND FEATURES

STRUCTURE	MASTER-TRUST STRUCTURE TYPE ONE	MASTER-TRUST STRUCTURE TYPE TWO	CONDITIONAL PASS-THROUGH COVERED BONDS	COVERED BONDS	SHORT-DATED NOTES TYPE ONE	SHORT-DATED NOTES TYPE TWO	MEDIUM-TERM NOTES
Introduction in Australia	New	New	New	November 2011	2007	2007	Over time
Usage to date	Limited	None	None	Limited to major banks and Suncorp	Limited	Common in recent years	Used over a long period
Term	Varying maturities backed by revolving pools.	Varying maturities backed by revolving pools.	Varying maturities backed by issuing bank and reversion to pass through from a pool of collateral.	Varying maturities backed by issuing bank from a pool of collateral if the bank fails to meet payment.	1 year	1 year	3-5 years
Bullet feature	Hard or soft	Soft	Soft	Hard or soft	Hard	Hard	Soft
Extension tail	Short extension.	Legal maturity is beyond asset maturity.	Legal maturity is beyond asset maturity if bank fails to pay.	0-12 months	None	None	Legal maturity is beyond asset maturity.
Source of bullet payment	Refinance or accumulate principal.	Refinance or revert to pass through.	Refinance or issuing bank repays. Revert to pass through if bank fails to pay.	Refinance or issuing bank repays. Full asset liquidation or repackage if bank fails to pay.	Accumulate principal, typically small in tranche size.	Payment by redemption bank. Rating is capped by bank's rating.	Remarket the notes at a predefined pricing or lower or pass through.
Credit consideration	Negative carry risk during accumulation period. Change in cost of funding from new issuances. Dynamic credit profile and lengthened exposure period due to revolving period.	Negative carry risk during accumulation period. Change in cost of funding from new issuances. Dynamic credit profile and lengthened exposure period due to revolving period.	Change in cost of funding from new issuances. Dynamic credit profile and lengthened exposure period due to revolving period.	Market-value risk exposure if issuing bank fails to pay. Change in cost of funding from new issuances. Changing credit profile and exposure period during revolving period.	Prepayment rate slower than historical average. Negative carry risk during accumulation period.	Redemption facility provider's rating and term and conditions of the facility.	Negative carry risk during accumulation period. Change in cost of funding from remarketed notes.
Potential stress test	Slow and fast prepayment rates. Potential price increase. Ongoing credit and other cash-flow stresses.	Fast prepayment rates. Potential price increase. Ongoing credit and other cash-flow stresses.	Ongoing credit and other cash-flow stresses.	Market-value stress test assuming bank fails to pay.	Slow and fast prepayment rates.	Credit risk of the paying bank.	Fast prepayment rates. Potential price increase.

SOURCE: STANDARD & POOR'S RATINGS SERVICES MAY 2014

if the underlying assets need to be liquidated to facilitate repayment. This is particularly the case in very stressed market conditions where liquidity may be further limited.

In the past, some investors preferred the repayment timing 'certainty' offered by hard-bullet structures. But increasingly some investors consider that this certainty may be somewhat illusory if the issuer or the market is experiencing significant stress. Consequently, there appears to be growing favour towards soft-bullet structures such as CPTs and their ability to offer a preordained path to orderly dissolution, with the ability to preserve value.

This is despite the fact that these structures contain an element of extension risk in extreme circumstances.

There are a number of other credit-risk considerations when analysing bullet structures. These include negative carry risk during any principal-accumulation period, the impact of a change in the cost of funds associated with a refinancing or further note issuance, and the possibility of changes to the credit profile of the underlying asset portfolio and a lengthening of

“CPT and master trusts may be able to increase structured-finance issuance as the structures may help to reduce transaction costs – including swap costs – and appeal to a broader range of investors.”

investors' exposure to the peak-loss period of the underlying assets as a result of the incorporation of a revolving period. ■

SETTING THE STANDARD

The **Reserve Bank of Australia** (RBA) is preparing what it believes will be leading international reporting standards for securitisation transactions. The RBA's head of domestic markets, **Chris Aylmer**, and senior manager, market operations, **David Oliván**, give an update on the latest information released to industry as the testing phase edges ever closer.

What is the rationale behind the reporting requirements for repo-eligible asset-backed

securities (ABS)?

◆ **AYLMER** The enhanced information requirements for ABS are primarily motivated by the RBA's desire to better assess the risk of these assets, as they have the potential to appear on the reserve bank's balance sheet. We are also motivated by an interest in promoting transparency in the securitisation market.

Some of these assets are already on the RBA's balance sheet. It expanded by about A\$20 billion (US\$18.7 billion) in November last year when banks started holding much higher cash balances with the RBA to cover settlement exchanges that occur after the close of the cash market each day. The cash was raised by entering into open repo positions with the bank, secured primarily with ABS.

From January 1 2015 a further A\$300 billion could potentially appear on the RBA's balance sheet with the introduction of the bank's committed liquidity facility (CLF). ABS will likely form the largest share of securities used

by authorised deposit-taking institutions (ADIs) to access this facility.

Transparency initiatives are occurring in other jurisdictions. Our reporting templates are similar to those used by other central banks such as the European Central Bank and the Bank of England (BoE).

Will only securities that are reported according to the new standards be eligible for repo with the bank?

◆ **AYLMER** All residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and other ABS will have to meet the reporting standard for them to be eligible for repo with the RBA.

The RBA has put in place transitional arrangements. From December 31 2014, all RMBS on the RBA's repo-eligible security list will be subject to the new requirements, while the implementation date for CMBS and other ABS is June 30 2015.

A testing phase is set for September-November this year. Even though this phase is not compulsory, the RBA has strongly advised participation. Have many banks indicated their intention to do so?

◆ **AYLMER** Some ADIs have indicated that they want to be involved in the testing phase. This is positive and we believe that participation of individual issuers in the testing phase is in the best interests of the issuer and the industry more broadly. It also puts pressure on the RBA to be ready well ahead of January 1 2015!

Will any securities or issuers be exempt from the new reporting requirements?

◆ **OLIVAN** When the arrangements are implemented, if the total value of the triple-A rated tranches in an RMBS is less than A\$100 million these RMBS will not be subject to loan-level reporting. Securitisations that are prepared by smaller institutions, for instance some building societies and credit unions, will likely fall below the A\$100 million threshold.

The most data-intensive requirements relate to loan-level information. In some instances we have exempted some information from the scope of reporting. For example, in order to reduce data collection costs, we require borrower income only for loans originated after January 2010.

There is a lot of data to collect and there have been challenges for some ADIs in terms of revamping how it is stored. Are all the data required from day one?

◆ **OLIVAN** Considerable data are required across the four different reporting templates. Only material data fields will be required from January 1 2015. These data provide the RBA with the basic information it needs to calculate the price of securities when the bank purchases them under repurchase agreement with its counterparties, as well as the collateral haircuts that will apply.

Other data, such as "borrower income", will be submitted in phase two of the reporting standards. This more granular information will enable the RBA to calculate the price and haircuts on a transaction-by-transaction basis.

Issuers and information providers have indicated that it will take longer to retrieve this information and therefore these data will only be required from July 1 2015. This will, of course, delay the RBA's ability to implement more granular pricing.

Individual loans in a pool need to be reported under the new standards. What are the likely implications for the institutions involved? How much more onerous does the RBA expect this process to be?

◆ **AYLMER** There has until now been no standard for reporting loan-level information in Australia, either to investors or to regulators. For the RBA, full transparency is essential in order for us to more accurately price these securities. The templates have been designed with this in mind.

Australian securitisation issuers already supply loan-level information to investors. The only difference is that, rather than having to furnish the 90 or so data fields that we have prescribed, previously they only needed to supply 30-40 data fields.

How flexible is the data template in this respect? The BoE's approach is to allow issuers to use different definitions to their stated ones provided this is clearly detailed in their submissions. Would the RBA consider a similar approach?

◆ **OLIVAN** We are aware of differences in standards for certain data and initially prescribed a common approach. Issuers understood our need to be prescriptive but, given the lack of a common standard, they have reminded us of the need to be flexible.

◆ **AYLMER** In fact, we noted in our May 12 2014 industry release that information providers will be permitted to apply institution-specific methodologies to certain property, collateral and borrower information fields, provided the methodology is detailed in a glossary. This approach is similar to that taken in some other jurisdictions offshore.

◆ **OLIVAN** We are providing more flexibility by allowing issuers to report according to internal methodologies. This also applies to reporting loan arrears and defaults. The important information from the user's perspective is knowing how a particular metric has been derived.

What is the practical solution devised by the RBA in response to the industry's concerns around privacy, in the sense that making loan-level information more available might increase the risk of fraud and liability?

"There has until now been no standard for reporting loan-level information, either to investors or to regulators, in Australia. For the RBA, full transparency is essential in order for us to more accurately price these securities."

CHRIS AYLMER RESERVE BANK OF AUSTRALIA

◆ **OLIVAN** This is an important issue. The loan-level template does not require individual borrower names, street addresses and account numbers to be disclosed. This is to reduce the possibility of the data being matched with data from other sources to identify individuals or entities. This redaction will make it a lot harder to breach privacy, albeit at a cost of less access to relevant information for investors.

As an example, no property postcodes will be disclosed. Larger geographical areas will be available instead. Certain transaction dates, such as a settlement date for a property transaction, will appear in a calendar quarter rather than as an exact date. Users of the data will also need to meet a purpose test to access the data.

◆ **AYLMER** The RBA will also permit information providers to redact two fields relating to debt serviceability from the data set which is publicly available. These fields contain sensitive proprietary information and are not comparable across issuers.

In addition, for public reporting of pool-level data at postcode level, the methodology used will be detailed in a glossary and made available only to permitted users by information providers.

What has the RBA learned from other international jurisdictions that have adopted this process?

◆ **OLIVAN** Securitisations can be complex instruments, so setting a standard for the provision of information will not always be well received. It is very difficult to standardise data concepts and methodologies.

International jurisdictions have struggled with privacy issues, too. This was difficult in the UK and Europe, and also in the US – where the state-by-state privacy regime made the work of the Securities and Exchange Commission even more difficult.

Our ambition is for full public transparency, subject to being able to meet the necessary privacy hurdles. I might add that the industry itself is very serious about protecting the privacy of individual borrowers.

◆ **AYLMER** In many ways we have been fortunate in Australia that we have been able to learn from similar regimes in offshore jurisdictions. At the same time, we have been able to establish the system in a reasonably benign environment, as opposed to a crisis environment. Fortunately, we haven't had to push back the 'go live' dates. And while we appreciate that the timeline is fairly aggressive, our sense is that the information providers are doing their best to meet the deadline. These efforts are very much appreciated by the RBA. ■

AUSTRALIAN FINANCE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAME	AFG TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	80%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$875M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$789M

Australian Finance Group (AFG) is one of Australia's leading financial services companies. It is an independently owned, public, unlisted financial services company.

AFG is the largest independent provider of mortgage-broking services in the country. It processes more than A\$3 billion of mortgage finance every month, representing a loan book of more than A\$85 billion and over 870,000 customers. One in 10 home loans written in Australia is sourced through AFG's 1,900 strong broker network.

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 primarily funded by existing warehouses. ■

◆ PLEASE CONTACT:

Cameron Smith

General Manager
+61 8 9420 7063
cameron.smith@afghomeloans.com.au
www.afgonline.com.au

AMP BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	PROGRESS TRUST

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	PRIME RMBS
PROPORTION OF OUTSTANDING WHOLESale FUNDING SOURCED VIA SECURITISATION	25%
NUMBER OF SECURITISATIONS ISSUED	17
TOTAL VOLUME ISSUED	A\$15BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	69% DOMESTIC 31% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.9BN

AMP is the leading independent wealth-management company in Australia and New Zealand. It provides financial advice, superannuation services for individuals and businesses, self-managed super funds, investment products and income protection, disability and life insurance. AMP has Australasia's largest financial-advice network. AMP Bank is a wholly owned subsidiary of AMP. Its products and services primarily include mortgages and deposit products. AMP Bank's total loan book was A\$13.3 billion at the end of 2013. ■

◆ PLEASE CONTACT:

David Rowe

Group Treasurer and
Director, Mergers and Acquisitions
+61 2 9257 5762
david_rowe@amp.com.au

Kevin Stephenson

Bank Treasurer
+61 2 9257 7520
kevin_stephenson@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 WHOLESale 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, its New Zealand operations in 1840 and 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:

David Goode

Head of Debt Investor Relations,
Group Treasury
+61 3 8654 5357
david.goode@anz.com
www.anz.com

BLUESTONE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	SAPPHIRE, EMERALD

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, REVERSE MORTGAGE
WHOLESALE FUNDING VOLUME	A\$763.5M
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	77%
NUMBER OF SECURITISATIONS ISSUED	19
TOTAL VOLUME ISSUED	A\$5.89BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	94% DOMESTIC, 6% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$555.5M

Bluestone is a dynamic financial services business with 250 employees and operations in Australasia 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 Bluestone recommenced mortgage origination and also issued its first securitisation since 2007. With vast experience in the nonconforming mortgage space, Bluestone is excited to offer its mortgage products to the retail market and continue with its issuance of RMBS. ■

◆ PLEASE CONTACT:

Campbell Smyth
General Manager
+61 2 8115 5167
campbell.smyth@bluestone.com.au
www.bluestone.com.au

BANK OF QUEENSLAND



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

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS, ABS
PROPORTION OF TOTAL FUNDING SOURCED VIA SECURITISATION	15%
NUMBER OF SECURITISATIONS ISSUED	31
TOTAL VOLUME ISSUED	APPROX. A\$18.7BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 90% DOMESTIC, 10% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES MADE TO TERM MARKETS	APPROX A\$4.7BN

All data as at February 28 2014.
*RMBS and ABS in euro and sterling.

Bank of Queensland (BOQ) is a public company incorporated with limited liability under the laws of Australia. The bank is domiciled in Australia, 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\$35.1 billion as at February 28 2014.

BOQ's loans under management total A\$35.1 billion, including residential-property loans of A\$26.2 billion, SME and commercial loans of A\$5.3 billion, and leasing of A\$3.6 billion – reflecting the bank's focus on well-secured housing and SME lending. ■

◆ 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

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 RMBS OUTSTANDING	14
TOTAL VOLUME ISSUED	A\$46.7BN
OUTSTANDING VOLUME OF RMBS	A\$13.5BN

Commonwealth Bank of Australia (CBA) 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 timing of transactions. Wholesale funding is complemented by securitisation issues through the Medallion programme. ■

◆ PLEASE CONTACT:

Simon Maidment
Deputy 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

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	70%
NUMBER OF SECURITISATIONS ISSUED	9
TOTAL VOLUME ISSUED	A\$4.7BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.7BN

Credit Union Australia (CUA) has a long and proud history providing banking and financial services to Australians. CUA is Australia's largest customer-owned financial institution with nationwide representation through more than 70 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. ■

◆ PLEASE CONTACT:
Len Stone
 Treasurer
 +61 7 3360 5262
 leonard.stone@cua.com.au
www.cua.com.au

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	64%
NUMBER OF SECURITISATIONS ISSUED	26
TOTAL VOLUME ISSUED	A\$11.65BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	87% DOMESTIC, 13% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.7BN

Firstmac is a leading non-bank originator of prime residential home loans. Loans are sourced through the company's own online retail business and through an Australia-wide network of third-party brokers and mortgage managers. The company is headquartered in Brisbane, with offices in Sydney and Melbourne.

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

◆ 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

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	40%
NUMBER OF SECURITISATIONS ISSUED	5
TOTAL VOLUME ISSUED	A\$898M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	>90% DOMESTIC
OUTSTANDING VOLUME OF SECURITIES ISSUED	A\$329M

All data as at April 17 2014.

An ASX200-listed Australian public company, FlexiGroup is a leading provider of vendor and retail point-of-sale finance. FlexiGroup's diversified business streams offer a broad set of products and services that can adapt to the specific needs of vendor partners. These include leasing, interest-free cards, no-interest payment plans, cheque guarantee and lay-by. ■

◆ 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. 50%
NUMBER OF SECURITISATIONS ISSUED	11 PUBLIC DEALS, 3 AUD WAREHOUSE ARRANGEMENTS, 1 AUD INTERNAL SECURITISATION ARRANGEMENT, 1 AUD PRIVATE DEAL
TOTAL VOLUME ISSUED (PUBLIC)	APPROX. A\$6.1BN EQUIV.
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	APPROX. 59% DOMESTIC, 41% OFFSHORE
TOTAL OUTSTANDING VOLUME (PUBLIC)	APPROX. A\$900M EQUIV.

Heritage Bank (Heritage) is Australia's largest mutual bank, with approximately A\$8.4 billion in total consolidated assets. It is a public company, limited by shares and guarantee, that 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:

Paul Williams
Chief Treasury & Business Strategy Officer
williams.p@heritage.com.au

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

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

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

IMB



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	77%
NUMBER OF SECURITISATIONS ISSUED	6 RMBS, 3 CMBS
TOTAL VOLUME ISSUED	A\$3.3BN
CURRENT FUNDING TOTAL	A\$800M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC

IMB is one of Australia's largest building societies, with assets of more than A\$4.7 billion and approximately 178,000 members. Established in 1880, it is also the longest-standing building society in New South Wales.

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

◆ PLEASE CONTACT:

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

Ian Witheridge
Senior Manager, Accounting
+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	26%
NUMBER OF SECURITISATIONS ISSUED	7
TOTAL VOLUME ISSUED	A\$6.25BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	96% AUD, 4% USD
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.8BN

ING DIRECT – the trading name of ING Bank Australia – is a branchless retail bank. It offers products in retail mortgages, transactional banking, retail savings, specialised commercial-property markets and retail superannuation.

With more than A\$30 billion in deposits, A\$38 billion in mortgages and 1.4 million customers in Australia, ING DIRECT is the fifth-largest home lender in the country. ■

◆ PLEASE CONTACT:

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

www.ingdirect.com.au

ASJ

IS THIS YOUR COPY OF THE ASJ?

To register your interest in receiving a copy of the ASJ or to discuss sponsorship opportunities, please contact:

Brydie Wright

◆ bwright@kanganews.com

◆ +61 2 8256 5566



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	<10%
NUMBER OF SECURITISATIONS ISSUED	1
TOTAL VOLUME ISSUED	A\$102M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$98M

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

La Trobe Financial continues to grow. It expects 2014 to be the business's largest year with in excess of A\$2 billion in originations. ■

◆ PLEASE CONTACT:

Ryan Harkness

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

Paul Wells

Chief Investment Officer
+61 3 8610 2802
pwells@latrobefinancial.com.au

Rob Clough

Chief Financial Officer
+61 3 8610 2845
rclough@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	63%
NUMBER OF SECURITISATIONS ISSUED	32
TOTAL VOLUME ISSUED	APPROX. A\$12BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	83% DOMESTIC, 17% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$1.8BN

All data as at April 30 2014.

Liberty Financial (Liberty) is one of Australasia's leading speciality finance groups. Its businesses include residential and commercial mortgages, motor vehicle and equipment finance, investments, and insurance – all in Australia and New Zealand. It employs approximately 200 professionals and has issued approximately A\$12 billion in domestic and international capital markets.

Since 1997, Liberty has helped more than 150,000 customers achieve their financial goals. Liberty is one of the few lenders in Australasia with an unblemished capital-markets record with no rating downgrades or chargeoffs ever experienced by its originated securities or programmes. ■

◆ PLEASE CONTACT:

Peter Riedel

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

www.liberty.com.au

MACQUARIE GROUP (PUMA & SMART)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	SMART, PUMA, MEF

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 Macquarie Group.

Macquarie Group

Macquarie Group (Macquarie) is a global provider of banking, financial, advisory, investment and funds-management services. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world. Founded in 1969, Macquarie now employs more than 13,900 people in 28 countries. At September 30 2013, Macquarie had assets under management of US\$359 billion equivalent.

Macquarie Group Limited is listed in Australia (ASX:MQG; ADR:MQBK) and is regulated by the Australian Prudential Regulation Authority, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. ■

SMART PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
NUMBER OF SECURITISATIONS ISSUED	24
TOTAL VOLUME ISSUED	A\$16BN EQUIV.
CURRENCIES ON ISSUE	USD, AUD, GBP
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.7BN EQUIV.

PUMA PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED*	53
TOTAL VOLUME ISSUED*	A\$45BN EQUIV.
CURRENCIES ON ISSUE	AUD, USD, EUR
OUTSTANDING VOLUME OF SECURITISED ISSUES*	A\$6.1BN EQUIV.

*Excluding internal and warehouse securitisation transactions.

ME BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	MAXIS SMHL

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION (ME BANK PTY LIMITED)	29%
WHOLESALE FUNDING VOLUME ¹	A\$3.6BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	100%
NUMBER OF SECURITISATIONS ISSUED ²	42
TOTAL VOLUME ISSUED	A\$39BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	A\$20BN, US\$10.42BN, €2.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$6.4BN, US\$300M, €167M

1. Historical mortgage origination business.

2. Combined ME Bank Pty Limited and historical mortgage origination business.

ME Bank is owned by 32 industry superannuation funds. It provides low-cost home loans and banking products to its membership base. ME Bank was created in 1999, although its origins date back to 1994 when, as an initiative of the Australian Council of Trade Unions, National Mutual launched Super Member Home Loans.

ME Bank's goal is to give members better value banking and better service, with products that are simple, straightforward and offer value for money to working Australians. ■

◆ PLEASE CONTACT:

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

◆ PLEASE CONTACT:

John Caelli
General Manager, Markets
+61 3 9708 3825
john.caelli@mebank.com.au
www.mebank.com.au

MYSTATE FINANCIAL



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	CONQUEST TRUST, CONQUEST SECURITIES

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
WHOLESALE FUNDING VOLUME	A\$1BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	53.76%
NUMBER OF SECURITISATIONS ISSUED	4
TOTAL VOLUME ISSUED	A\$1.33BN*
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$568.9M

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

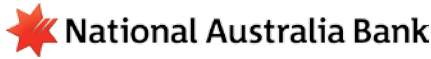
MyState Financial (MyState) along with The Rock Building Society (Rock) are wholly owned authorised deposit-taking institution subsidiaries of MyState Limited, which is a non-operating holding company approved by the Australian Prudential Regulation Authority and listed on the Australian Securities Exchange.

MyState operates predominantly in Tasmania (10 branches) and provides services to 117,000 customers state-wide. Rock operates in Central Queensland (seven branches) to 40,000 customers, as well as providing lending services throughout Australia via indirect channels. ■

◆ PLEASE CONTACT:

William McShane
Treasurer
+61 3 6215 9554
www.mystate.com.au
www.therock.com.au

NATIONAL AUSTRALIA BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	NATIONAL RMBS TRUST

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
OUTSTANDING SECURITISATIONS ISSUED	4 EXTERNAL RMBS, 1 EXTERNAL ABS
TOTAL VOLUME ISSUED	APPROX. A\$12BN (EXCLUDES RETAINED DEALS)
TOTAL DOMESTIC ISSUES	6
TOTAL CROSS-BORDER TRANCHES	7

National Australia Bank (NAB) is a public company incorporated in Australia with limited liability. NAB is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution and is listed on the Australian Securities Exchange.

The principal activities of the NAB Group are banking services, credit- and access-card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance, and custodian, trustee and nominee services. ■

◆ PLEASE CONTACT:

Eva Zileli
Senior Manager, Secured 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	48%
NUMBER OF SECURITISATIONS ISSUED	4
TOTAL VOLUME ISSUED	A\$1.59BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$658M

People's Choice Credit Union (People's Choice) is Australia's second-largest credit union by total assets, with A\$8 billion of total assets under advice and management. People's Choice has approximately 350,000 members serviced through 59 branches in South Australia, Northern Territory, Victoria, Western Australia, Australian Capital Territory and New South Wales.

Australian Central Credit Union Limited, trading as 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 Regulatory Authority. ■

◆ PLEASE CONTACT:

John Messent
Senior Manager, Treasury
+61 8 8305 1718
jmessent@peopleschoicecu.com.au
Heather Gale
Manager, Wholesale Treasury
+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	12 PRS (4 OUTSTANDING, 8 CALLED) 3 PEPPER PRIME (3 OUTSTANDING)
TOTAL VOLUME ISSUED	A\$5.2BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	87% AUD ¹ 13% USD
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.3BN ²

1. 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.

2. A further A\$1.5BN+ is outstanding across various warehouse trusts.

Established in 2001, Pepper is a leading Australian diversified financial-services group, with businesses in Australasia and Europe encompassing lending, asset servicing and management, and corporate real-estate advisory. Pepper has been a leading nonconforming residential mortgage lender for over a decade and has expanded its business to also include prime residential mortgages and equipment leasing.

Pepper is a highly rated third-party servicer and asset manager across a range of asset classes, including residential and commercial mortgages, auto loans, equipment leases and unsecured small-business loans. ■

◆ PLEASE CONTACT:

Patrick Tuttle
Co-Group Chief Executive Officer
+61 2 9463 4612
ptuttle@pepper.com.au

Todd Lawler
Group Treasurer
+61 2 8913 3009
tlawler@pepper.com.au

www.pepper.com.au

RESIMAC



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	RESIMAC PREMIER, RESIMAC BASTILLE, RESIMAC NIM

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, NIM BOND
WHOLESALE FUNDING VOLUME FY14	A\$5.1BN
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	65%
NUMBER OF SECURITISATIONS ISSUED	27
TOTAL VOLUME ISSUED	A\$16.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	49% DOMESTIC, 51% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$2.4BN US\$640M

Resimac was formed as a non-bank lender in 1985. It offers a suite of prime and specialist-lending products tailored to the residential market, sourced from a distribution network of online and direct B-2-C proprietary channels, aggregators, mortgage managers and retail sources. Resimac is Australian-owned with operations in New Zealand.

Resimac was the first Australian RMBS issuer, in 1988. Since then it has completed over A\$16 billion equivalent through 27 domestic and offshore issues. Resimac's capital-markets activities are core to its enterprise strategy and it remains one of the most prolific Australian non-bank issuers. ■

◆ PLEASE CONTACT:

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

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

www.resimac.com.au

SUNCORP GROUP



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	APOLLO

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	20%
NUMBER OF SECURITISATIONS ISSUED	19
TOTAL VOLUME ISSUED	A\$21.28BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	77% DOMESTIC, 23% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.124BN, €199.5M

* 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\$96 billion. It has around 15,000 employees and relationships with approximately nine million customers. Suncorp Bank is Australia's fifth-largest listed bank and Australia's largest regional bank. ■

◆ PLEASE CONTACT:

Simon Lewis
Head of Funding
+61 7 3362 4037
simon.lewis@suncorp.com.au

Andrew Power
Team Leader, Long-Term Wholesale Funding
+61 7 3362 4037
andrew.power@suncorp.com.au

Yvette Tse
Securitisation Specialist
+61 7 3362 4032
yvette.tse@suncorp.com.au

www.suncorpbank.com.au

WESTPAC BANKING CORPORATION



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION TRUST (WST), CRUSADE RMBS, CRUSADE ABS, BELLA TRUST

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 2013, Westpac had total assets of A\$696.6 billion. Westpac's ordinary shares and certain other securities are quoted on the Australian Securities Exchange and, as at April 23 2014, its market capitalisation was A\$110 billion. ■

RMBS PROGRAMME

SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION TRUST (WST), CRUSADE RMBS
--------------------------------	--

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5.1%
NUMBER OF SECURITISATIONS ISSUED	39
TOTAL VOLUME ISSUED ²	APPROX. A\$71.2BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	58% DOMESTIC, 42% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$10.9BN

1. Includes RMBS and ABS.
2. Approx. 56% Crusade RMBS, 44% WST RMBS.
3. Based on issues currently outstanding.

ABS PROGRAMME

SECURITISATION PROGRAMME NAMES	CRUSADE ABS, BELLA TRUST
--------------------------------	--------------------------

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5.1%
NUMBER OF SECURITISATIONS ISSUED	12
TOTAL VOLUME ISSUED ²	APPROX. A\$8.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	86% DOMESTIC, 14% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$2.6BN

1. Includes RMBS and ABS.
2. Approx. 50% Crusade ABS, 50% 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

ASF 2014 EDUCATION DATES

July

31

APPLIED: TRUSTEE ROLE,
RESPONSIBILITIES &
RELATIONSHIPS

Sydney

August

4

STRUCTURING, CASH FLOW
& WATERFALL MODELLING

Sydney

August

5

APPLIED SECURITISATION:
CREDIT ANALYSIS

Sydney

August

6

APPLIED: CONTEMPORARY
LEGAL & REGULATORY
DEVELOPMENTS

Sydney

August

7

APPLIED:
ACCOUNTING & TAX

Sydney

August

22

SECURITISATION
FUNDAMENTALS

Sydney

August

26&27

SECURITISATION
PROFESSIONALS

Sydney

October

21&22

SECURITISATION
PROFESSIONALS

Melbourne

October

23

SECURITISATION
FUNDAMENTALS

Melbourne



Detailed course information and registration is available on our website:
www.securitisation.com.au

Pepper's Growth has gone **Global**



In the last two years Pepper has diversified into new asset classes and expanded its business model into new geographies, becoming a truly global diversified financial services group. This has been achieved at a time when its core home loans business has experienced unprecedented growth.

To facilitate this growth, the Pepper Residential Securities ("PRS") programme has continued to evolve with diversification into prime and significant increases in the size and frequency of our issues.

PRS 10 (April 2013)
\$350M

PRS 11 (Oct 2013)
\$350M

PRS 12 (April 2014)
\$500M

Prime 2012-1 (Nov 2012)
\$500M

Prime 2013-1 (Aug 2013)
\$500M

PP 2014-1 (April 2014)
\$292.3M

To find out what's next for Pepper's securitisation programmes, contact:

Todd Lawler
Group Treasurer
+612 8913 3009
tlawler@pepper.com.au

Matthew O'Hare
Deputy Treasurer
+612 9463 4624
mohare@pepper.com.au

pepper