



AUSTRALIAN SECURITISATION JOURNAL

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>> Issue 07 • 2015

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Deal Size - **A\$200m**
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PRS 11

Deal Size - **\$A350m**
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PRS 12

Deal Size - **\$A500m**
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Deal Size - **A\$400m**
Date Issued - Oct 2014

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FROM THE CHIEF EXECUTIVE

Welcome to the ASF's 2014 Australian Securitisation Conference, and to the accompanying edition of *ASJ*. The 2014 conference has again been well supported by a large number of our members and is an opportunity for market participants to gather together to hear industry experts and discuss topical matters. I hope you find the agenda interesting and the opportunity to network with peers useful and valuable.

It is very pleasing to note that the Australian securitisation market has continued to build on its post-crisis recovery during 2014. Positive developments this year have included the regular pattern of issuance, by both large and small institutions, of residential mortgage- and asset-backed securities throughout the year. The increasing strength of the market was evident in the number of transactions which were upsized to meet investor demand.

It has also been noteworthy to witness the securitisation of New Zealand receivables, including charge-card receivables and residential mortgages – by Fisher & Paykel and Resimac respectively.

During the year, margins on residential mortgage-backed securities (RMBS) and other asset-backed securities (ABS) contracted – on the senior and subordinated tranches of both RMBS and ABS. This was a favourable trend for both issuers of new transactions and investors holding outstanding securities, who benefited from mark-to-market revaluations. The Australian market also benefited from ongoing participation by global investors in the Australian dollar tranches of, in particular, RMBS.

The next 12 months will be a pivotal period which will shape the future prospects of the Australian securitisation market.

The release of the final report of the financial-system inquiry will set the scene for how Australia's financial markets will evolve in the coming decade, and the role securitisation can play in funding the real economy. The prudential regulation of the securitisation market will also be recast in 2015 through the finalisation of the new prudential standard, APS 120. This standard will set the framework for a sustainable securitisation market allowing regulated financial institutions to use securitisation for both funding and capital-management purposes.

Meanwhile, the Reserve Bank of Australia's expanded repo-eligibility criteria for RMBS, ABS and commercial mortgage-backed securities will come into effect next year. This reporting initiative will provide the market with a more comprehensive and standardised data set which will facilitate ongoing monitoring of RMBS and ABS transactions by investors and others. This development will see Australia mirror similar improvements in disclosure practices in other jurisdictions.

The Australian industry looks forward to a more settled and certain international regulatory environment. It is expected that the final regulations governing risk retention for RMBS and ABS issued in the US capital market will be announced by year end. A change of heart towards the role of securitisation in funding economic growth by European policymakers could see a more vibrant and accommodating regulatory framework being adopted in the EU.

The focus of the ASF in 2015 will continue to be working with members to obtain optimal outcomes for the industry – including regulatory changes, promoting Australian securitisation to local and global investors and building the professional standards of the market and its participants.

In closing, I would like to thank the ASF national committee members and the members of its subcommittees for their valuable contribution in advancing the objectives of the ASF in 2014, and for their leadership in representing the industry.



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

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THE ASF PERSPECTIVE

*The Australian securitisation market is undergoing an almost constant process of reinvention. More than at any time since the financial crisis, though, the atmosphere around the changes taking place now feels positive. The **Australian Securitisation Forum** (ASF) is navigating towards sound and sustainable outcomes for the industry.*

BY **ALEX SELL**, CHIEF OPERATING OFFICER, ASF

The securitisation-market environment feels more positive than it has done for some time. After a two or three years of steady recovery from the post-crisis doldrums, market participants are starting to look to the future with optimism about growth in our sector. While bank-to-bank securitisation continues, we are also seeing yield-hungry investors, both domestic and global, returning with a vengeance – to the point where capital as well as funding trades have become viable.

It seems the persistent work the industry has done in terms of deepening engagement with the global market is starting to pay off. One only has to look at some of the jumbo transactions which have completed in 2014, and the level of offshore-investor participation, to see how valuable this engagement can be.

REGULATORY ENVIRONMENT

There is still much work to be done, however – including around the shape of our market and how key features of it can be retained as participants discover intended and unintended consequences of the new environment. The evolving regulatory environment continued in 2014 to attract much attention from market participants. In fact, it can be argued that there are more regulatory processes in play than ever – though several are finally getting closer to completion.

The revised regulatory framework being developed by the Australian Prudential Regulation Authority (APRA) remains under discussion, though more detail emerges periodically and the industry now has a much better idea of where it is heading.

Implementation of new reporting standards for repo-eligible collateral at the Reserve Bank of Australia (RBA) is set for 2015, following significant revisions affecting both RBA and industry preparedness. New regulation can be a worry for market users and the RBA standards involve a significant commitment of resources. But the additional transparency and consistency of product which should result is seen as a genuine boon for securitisation in Australia (see story on p26).

The local industry also continues to keep a close eye on global developments, aided by the involvement of local practitioners on a global level.

On the home front, by the time you read this the final report of Australia's financial-system inquiry (FSI) will either have been submitted to the federal treasurer or will be imminent. The banking system, mortgage lending and securitisation will all inevitably feature prominently in this keenly awaited document.

FSI SUBMISSION

The ASF seized the opportunity with the advent of the Australian government-commissioned FSI to rehearse the benefits – past and potential – of securitisation technology. In the ASF submission to the inquiry we went in to a number of specific areas to provide detailed recommendations.



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On the regulatory front, in our FSI submission we argued that regulation should avoid adding to the cost and uncertainty associated with holding and issuing securitisations, including warehouse use, and that regulation in general should be consistently and predictably applied.

Referring specifically to the market's prudential regulator, we urged APRA to take a number of steps to facilitate the securitisation market. It should permit the use of date-based calls and, relatedly, master trusts so that banks can issue bullet securities to investors. These securities in turn would permit sufficiently lower cross-currency swap costs to make foreign-currency securitisation cost effective, and therefore allow Australian issuers to tap offshore investors who are often precluded at present because of deal economics.

We also encouraged the abolition of the '20 per cent rule' which prohibits an issuer to hold more than one-fifth of any given securitisation, the allowance of capital relief proportionate to the amount of risk transferred – and added, if any – and for there to be no increase to risk weights for banks investing in securitisation notes.

With offshore investment being a key goal for many Australian securitisers, we encouraged the FSI to recommend lobbying to permit Australian securitisation notes and covered bonds, denominated in the relevant local currency, to be repo eligible at the US Federal Reserve, European Central Bank, and Bank of England. This should stimulate demand from the global bank sector.

In terms of the Australian investment landscape, we asked the FSI to recommend the removal of various distortions between fixed income and equity investments that can be addressed by government and regulators, such as taxation treatment and listing rules.

Finally, we suggested consideration be given to introducing a quasi-government-sponsored liquidity-backstop mechanism for market participants other than banks, to ensure reasonable, reliable, and affordable secondary-market liquidity. This is something that proponents of other asset classes, such as infrastructure, also saw as appealing to underpin investment in the real economy.

We were delighted to see so many other financial-system stakeholders note the positive role securitisation has played in the Australian economy. We have noted with interest and approval remarks from the FSI about needing to position Australia's financial system for the medium- and long-term funding needs of our economy.

APS 120

Largely reported on above under the FSI report, the amount of work contributed by industry participants in putting together the ASF's submission to APRA's APS 120 discussion paper, *Simplifying the Prudential Approach to Securitisation*, should not go unacknowledged.

In particular, we thank working group stream leads Sofie Sullivan, from J.P. Morgan, in relation to master trusts; Ed Freilikh, from Commonwealth Bank of Australia, in relation to date-based calls and other technical matters; ANZ's Dom Di Gori, in relation to warehouse facilities; and Ian Edmonds-Wilson of King & Wood Mallesons, in relation to significant risk transfer and credit-risk retention. There are scores

of people in addition, too numerous to list, but it was yet another demonstration of the industry working collaboratively.

APRA's new APS 120 is not expected until after the government has responded to the FSI's final recommendations. The Basel committee is also working through securitisation-related reform, which is expected to influence APRA's thinking.

“With offshore investment being a key goal for many Australian securitisers, we encouraged the FSI to recommend lobbying to permit Australian securitisation notes and covered bonds, denominated in the relevant local currency, to be repo eligible at the US Federal Reserve, European Central Bank, and Bank of England.”

RBA REPORTING

The process of getting issuers, information providers and Australia's central bank ready for the commencement of the RBA's securitisation eligible-collateral reporting framework is bearing fruit, albeit after a delay in the implementation date to June 30 from the original January 31 2015.

To the relief of many issuers, the RBA does not seem to be planning to take an excessively hard line initially in relation to those reporting fields that have been introduced late in the piece or which have been altered during the course of implementation working groups.

Privacy has been the biggest challenge for all concerned, with issuers and information providers being very concerned about their moral and legal duties to protect their customers' home-loan data. Through a number of accommodations, this seems to have been settled to the satisfaction of all concerned.

Again, we thank the RBA for its unstinting commitment to transparency and engagement with the industry on this enormous task. Not only will banks enjoy support in meeting their liquidity-coverage ratios but the broader market will also gain important insights through standardised, public reporting.

We also predict the RBA reporting data will improve primary- and secondary-market liquidity, through the absolute provision of cash liquidity against securitised collateral and

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because of the enhanced information set which will be made available to the wider market.

IOSCO-BASEL G20 PAPER ON SECURITISATION

Former ASF CEO, current Australian Securities and Investments Commission (ASIC) chairman, and lately International Organization of Securities Commissions (IOSCO) chairman, Greg Medcraft, has spearheaded a global initiative to get standard setters to agree on the characteristics of products that will underpin a sound and sustainable securitisation market.

This seems to be in a bid to address what many have observed are conflicting signals and policies emanating from different wings of the Financial Stability Board around global regulatory architecture.

The ASF supports IOSCO's global-standardisation initiative and has certainly observed securitisation to some extent 'stuck in a rut' between the expectations of central banks for securitisation to stimulate real economies and some international prudential regulators' ongoing ambivalence towards securitisation.

We are pleased that the ASF and a number of our members were approached by ASIC locally for input. We will maintain a very close watching brief on this, which augurs well for securitisation.

EDUCATION

Moving on from the regulatory environment, the ASF's professional-development offering has taken a number of interesting turns over the past year, in order to meet demand from our members and others. This has meant that the Securitisation Fundamentals and Securitisation Professionals courses will remain the mainstay of the ASF's education offering.

Meanwhile, the Applied programme will have its content adapted into a different format. In short, it will adopt a similar two-day format as Securitisation Professionals but go in to an advanced level of knowledge transfer. A real transaction will be taken from inception through to issue, applying all the considerations and content, including overall funding and capital considerations to determine whether securitisation is appropriate, credit analysis, structuring the trade, getting legal, regulatory, accounting and tax assessments and, finally, pricing.

Our *ad-hoc* programme of workshops continues to prove popular. The past 18 months have seen a number of RBA

reporting-related workshops. We now plan to produce and launch a one-day course that will be pitched at an intermediate level of prior knowledge. Both those that have previously completed Securitisation Professionals as well as those in the c-suite who wish to get up to speed in a digestible format will find this course very useful.

It will include updates on the general market – including pricing and investor profiles – tax, accounting, legal and regulatory updates such as those in relation to international financial-reporting standards, the US Foreign-Account Tax-Compliance Act, stamp duty, Australia's Personal-Property Securities Register, APS 120, risk retention and the RBA reporting regime.

Securitisation Fundamentals is the ASF's entry-level half-day workshop designed to introduce participants to the basic

purpose, features, operation, and market in which securitisation operates.

Securitisation Professionals is the ASF's flagship workshop, lasting two days, where participants will, with fellow practitioners, learn to understand in detail the whole securitisation value chain, including structuring, credit, pricing, legal, regulatory, accounting and tax.

Securitisation Refreshed is the ASF's newest one-

day workshop, intended for those that either work in or have oversight of securitisation activities. It assumes prior intermediate or advanced knowledge of securitisation and seeks to equip participants with an update on key market dynamics on- and offshore as well as regulatory, legal, accounting and tax developments, RBA reporting, government initiatives in a global and domestic context, and structural evolutions such as master trusts.

GLOBAL OUTREACH

Another key aspect of the ASF's work is its global-investor outreach. With regular trips to Europe, North America and Asia stretching back to 2009, the ASF is doing its bit to spread the word about the performance of the Australian economy and its asset-backed product.

In September, for the third time, the ASF held a seminar at the Australian embassy in Tokyo – which attracted registrations from more than 100 investors. The ASF also collaborated with the Asia Securities Industry and Financial Markets Association (ASIFMA) around its September structured-finance conference in Singapore. I was invited to give an introduction to securitisation and covered bonds at a workshop preceding the event.

“We were delighted to see so many other financial-system stakeholders note the positive role securitisation has played in the Australian economy. We have noted with interest and approval remarks from the FSI about needing to position Australia's financial system for medium- and long-term funding needs.”



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DEVELOPED-MARKET STRESS

It is worth mentioning that other speakers at the ASIFMA conference reminded us just how fortunate Australia has been. A gloomy picture was painted by Bank of America Merrill Lynch's head of international structured-finance research, Alexander Batchvarov, in relation to European securitisation. He claimed the bleak outlook was brought about by the influence of European Central Bank interventions over recent years and the terms of its latest package. Apart from upsetting the Eurozone's two largest members, Germany and France, this risks skewing credit to peripheral Europe.

Another headwind for Europe is the emerging relative value offered from a tightening monetary environment in the US, where forward rates are already pricing in the expected 'Yellen tightening'. Europe, as we know, is nowhere near ready to tighten. The low issuance costs of covered bonds is another counteracting force, although here the economics need to be assessed closely given the cost of overcollateralisation.

Also at the ASIFMA event, GE Capital's Robert Plehn noted growing interest in securitisation outside the bank space. Specifically, 'challenger brands' like GE Capital using securitisation to contest lending markets against a backdrop of cheaply funded banks, and others using securitisation to acquire other businesses, paints an interesting picture. The emergence of private-equity funds adopting securitisation technology to achieve their ends will be worth monitoring – especially in the context of the FSI's clear interest in the degree of competition existing in the Australian bank sector.

EMERGING MARKETS

Away from established markets, things do not look much easier, but mostly for different reasons. First of all, work is very much still needed to educate regulators and investors, and to build their comfort with structures and mechanics.

Second, and by extension, the certainty structured-finance stakeholders demand in terms of regulatory architecture is mostly not sufficiently in place. Third, economics are still unhelpful, in a region where a surfeit of retail deposits means wholesale funding generally is not compelling. Fourth, a lack

of supply discourages investors to put in place limits and perform due diligence. Chicken and egg, indeed.

Once these obstacles have been surmounted or diminished, at least, the product itself is going to have to be simple and contain considerable credit support to kick-start the market in much of Asia. That said, there was much talk at the ASIFMA conference about not getting fixated on producing triple-A securities, given investor interest is focused around the yield more commonly offered by double- or even single-A notes. The reason? Too much low-yielding triple-A paper is already available while some major investor sectors – including Japanese pension companies – are being urged to be braver in their asset allocations in order to produce the returns required to support an ageing population.

“We predict the RBA reporting data will improve primary- and secondary-market liquidity, through the absolute provision of cash liquidity against securitised collateral and because of the enhanced information set which will be made available to the wider market.”

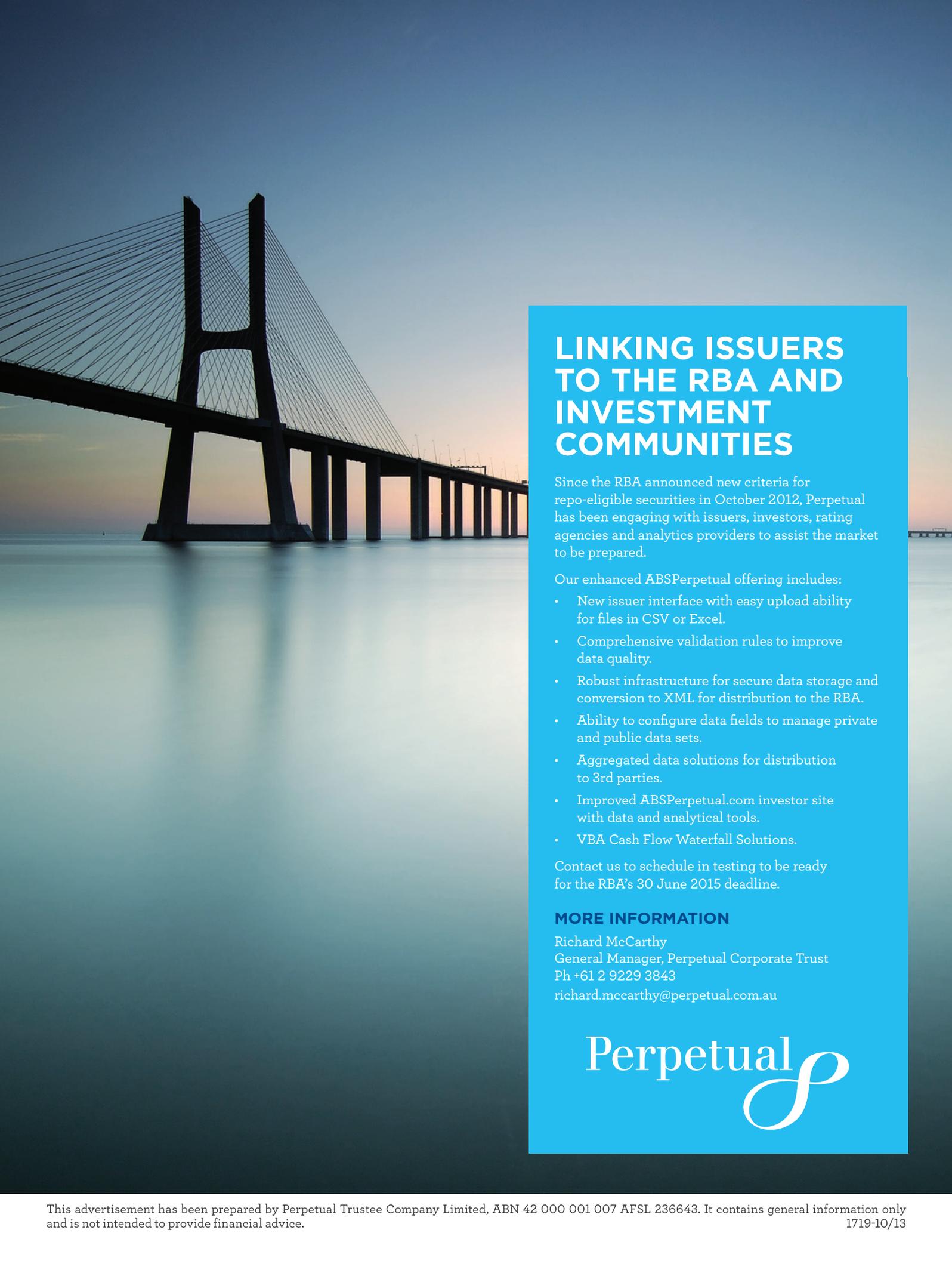
Some would suggest the ever-growing demand for yield in the Asian investor pool offers a great opportunity for a much wider range of collateral to get funded. Similarly, life companies are seeking tenors beyond the typical 3-5 years in order to get closer to their 10-20 year liability profiles. Longstanding orthodoxies are being challenged.

In terms of collateral, there seems to be no hesitancy about being eclectic. Beyond conventional auto-loan and dealership-floorplan receivables in China, we hear that shipping-container receivables and whole-loan securitisations are getting traction. This seems to be as much about credit and funding as it does about using securitisation structures for legal, regulatory and taxation purposes.

Hopes that Chinese securitisation can quickly surmount form-over-substance concerns will likely be disappointed, though. A lack of collateral segregation, weak security-perfection framework, poor secondary-trading opportunities, globally misaligned credit-rating methodologies and criteria, and unreliable valuation sources make the market a major work

“Some would suggest the ever-growing demand for yield in the Asian investor pool offers a great opportunity for a much wider range of collateral to get funded. Similarly, life companies are seeking tenors beyond the typical 3-5 years in order to get closer to their 10-20 year liability profiles.”

in progress. Even so, the RMB200 billion (US\$32.6 billion) RQFII – renminbi qualified foreign institutional investor – means non-Chinese investors can begin to gain exposure to Chinese structures via Hong Kong subsidiaries of mainland Chinese funds-management and securities firms.



LINKING ISSUERS TO THE RBA AND INVESTMENT COMMUNITIES

Since the RBA announced new criteria for repo-eligible securities in October 2012, Perpetual has been engaging with issuers, investors, rating agencies and analytics providers to assist the market to be prepared.

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- Improved ABSPerpetual.com investor site with data and analytical tools.
- VBA Cash Flow Waterfall Solutions.

Contact us to schedule in testing to be ready for the RBA's 30 June 2015 deadline.

MORE INFORMATION

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Cross-border securitisation more broadly faces foreign-currency controls coupled with cross-currency basis-swap costs which remain, in many cases, prohibitively expensive. But the door may be swinging ajar: the ASIFMA event discussed an example of a successful cross-border trade in the form of Brazilian receivables offered in securitised format to Turkish lira investors.

In some Asian jurisdictions, soundings on forthcoming covered-bond issuance are witnessing a lack of bank investor interest until Basel III bank-liquidity treatments are settled. Interestingly, there appears to be an expectation that covered bonds will need to have uncharacteristically short tenors in Asia due to funding limits being hit for three-year (for USD) and five-year (for EUR) lines. This will create some interesting tensions given treasurers in the region wish to print in benchmark-sized format.

RESEARCH AWARD

I would next like to pay tribute once again to the judges and, most importantly, winner of the ASF's annual research award.

Judges Glenn White, of Australian Executor Trustees' Corporate Trust, Natalie Edwards, of National Australia Bank, and Gary Sly, of ANZ, were drawn from the ASF Education Faculty. They each gave the highest scores to the paper that posited the following three questions:

1. Does the eligibility of triple-A rated RMBS tranches for repo with the RBA increase the liquidity of the entire RMBS market?
2. Would a similar liquidity-support mechanism through a repo facility for Australian fixed-income managers benefit demand for Australian dollar RMBS tranches?
3. How would such a repo facility work, considering the limitation on gearing for the managed-investment scheme sector?

Author Francis Moussally, of Realm Investment House, won on the basis of outstanding research which challenged the reader to consider the outcomes of the implementation of APRA's APS 210 and how it will affect the RMBS market, fixed-income funds managers and the funds-management industry in general.

The author used a number of graphs and charts selectively to back his points of view. The judges felt the paper was very relevant, addressed the liquidity of RMBS paper and the ability of non-bank financial institutions to access liquidity

in times of future market disruption, and considered the shortcomings of the current Australian regulatory liquidity standard in relation to market participants. It also provided prompts for the entire industry in terms of how it goes about arguing for a different prudential liquidity treatment for securitised paper.

"The ASF supports IOSCO's global-standardisation initiative and has certainly observed securitisation to some extent 'stuck in a rut' between the expectations of central banks for securitisation to stimulate real economies and some international prudential regulators' ongoing ambivalence towards securitisation."

Other applicants delivered the following papers, all of which received approving scores from the judges:

- Chris Jeffries, *The Dialectics of Liquidity Crisis: an Interpretation of the Causes of the Financial Crisis of 2007-08* (2nd place).
- Akash Deokar, *The Prime Meridian in Securitisation* (3rd place)
- Maria Belen Yanotti, *Mortgage Product Choice in Australia: The Impact of Market Stress* (4th place).

We will therefore be acknowledging their contributions with A\$1,000 prizes each while A\$7,000 will be awarded to the outright winner, Francis Moussally.

All four contributions will be available on the ASF website after the award ceremony, which will occur during the ASF 2014 Conference Gala Dinner on November 11.

ANNUAL CONFERENCE

Many, if not most, readers of this issue of *ASJ* will pick up their copy at the ASF's annual conference in Sydney on November 10-11. We are excited about this year's conference agenda, which we are confident will reinforce and advance the areas of focus discussed here – among many others.

Without wishing to single out particular contributors, I believe it is worth drawing attention to a few speakers at the event. Regarding the ASF's ongoing regulatory focus, we are pleased to welcome, once again, APRA's Charles Littrell. This year, Greg Medcraft will also describe some of the work IOSCO is doing. And a significant feature of the conference agenda will be market-participant insights into the advantages and potential pitfalls of the RBA reporting regime.

Meanwhile, as we endeavour to help the industry with its ongoing task of international engagement, the ASF is proud to be hosting a clutch of major global investors in Australian structured product, who will share their views in conference sessions (see story on p16).

I am also pleased to see so many of our members taking the opportunity to bring their own in-house experts from global markets to Australian shores for the conference. I wholeheartedly recommend the event to all readers, and hope you find our work valuable. ■

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NAB'S NEW OUTFIT MADE TO MEASURE FOR SECURITISATION

National Australia Bank (NAB) has recently introduced a new model for its debt capital markets business, switching its focus away from product specialism and towards a broader response to client capital and funding needs.

JACQUELINE FOX

Head of Securitisation Originations, Investment-Grade Originations
NATIONAL AUSTRALIA BANK

Jhe move comes at an opportune moment in the structured-finance market, as a growing range of issuers start to explore the opportunities of multi-asset-class funding – including names new to securitisation.

◆ **NAB's changed business model attempts to offer more holistic funding and capital solutions rather than the traditional product silos. Can you explain the rationale behind the change – and what you believe it has achieved to date?**

The primary driver behind the change was the recognition that product silos were not conducive to providing relevant and insightful funding and capital solutions to our clients, which must at all times be the overarching objective of an effective debt capital markets contribution to client engagement.

For us to be able to do this requires us to first know our clients, and their

evolving funding and capital needs, very well. We must be able to anticipate and deliver into those needs, and to do so we need our debt capital markets business to be product agnostic. This in turn requires strong alignment of interest, to avoid 'product pushing' and foster knowledge sharing and collaboration among teams.

In terms of the NAB approach, two distinct origination teams were established. The first is investment-grade originations, and the second is non-rated and structured originations – the names of which largely speak for themselves.

The rationale behind this was to recognise the key focus areas, markets and products typically available to clients of these groupings, so that we can designate the right resourcing and skill sets to deliver into clients' needs. As you would expect, the two teams interact regularly and share a common purpose: a satisfied client.

As with any change there is a period of transition, but from very early on the benefits of making the change were

evident. For example, investment-grade originations established a leadership group across product capabilities, from which many benefits are derived. It facilitates a portfolio view across the client base, providing a forum for knowledge sharing and connectivity both across and within teams. Operating cohesively leads to more complete funding solutions for our clients and a greater awareness within the team.

Consolidated prioritisation and pipeline reporting provides greater bandwidth for the broader team, which facilitates productive discussion for innovative ideas and funding solutions. The teams have jointly pitched and provided market updates to clients throughout the year, and we see this as business as usual moving forward.

◆ **The NAB debt capital markets business splits clients into rated and unrated groups. The universe of securitisation issuers obviously covers both – what does this mean for these clients of the bank?**

This is true. But the bulk of a securitised debt offering tends to be rated, irrespective of whether or not the originator of the assets – ie the client – is rated. Therefore, having regard to the markets in which funding is accessed, it makes sense for the securitisation originations team to sit within the investment-grade originations team.

◆ **What are the specific differences for clients that tend to rely on securitisation for their funding in terms of what they will see from the new NAB approach?**

I think clients are experiencing an increased level of meaningful coverage from NAB, as well as a better overall understanding of their funding needs and the timing considerations around them. This should be particularly so for issuers with multiple debt programmes looking to access various markets.

◆ **Regarding personnel, does the new NAB setup mean clients are now dealing with different individuals at the bank?**

It is probably important to flag here that the debt capital markets business does not consider itself the ‘owner’ of the client relationship, but rather a product partner to our relationship-banking teams.

There are some cases where a client may face an individual with an expanded product coverage. This would be more likely for an issuer with multiple debt funding programmes, whereby we took a decision that it made sense for some clients to have a central point of coverage.

Other clients may be covered by different individuals across the full range of funding products they use. The difference, post-change, is that the coverage from such individuals should collectively be better – for the reasons noted earlier.

◆ Are you seeing traditional ‘securitisation clients’ – for instance in the regional bank, mutual and non-bank mortgage originator sectors – engaging more with alternative funding and capital options? Is this a challenge or an opportunity for the market?

Yes, we are seeing more of this. I think this is an opportunity for the market and, importantly, it is good for such clients to the extent they can diversify their funding and capital options.

◆ Specifically on the capital side, there has been some progress in areas like issuance of tier-two capital securities by mutuals and non-listed financial institutions. How close is your team to these developments given your longstanding relationships with many of the potential issuers

through their securitisation programmes?

Given the way we now operate, under the broader investment-grade originations banner, my team is actively involved across the business in exploring the funding needs of our clients. This includes working closely with the specialist and relationship teams. In the case of tier-two and hybrid securities, the transactions themselves would be executed by our hybrids and structured-capital debt originations experts.

◆ By the same token, are you seeing more borrowers which might not previously have been relevant to the securitisation market, particularly in the corporate sector, looking at ways asset-backed issuance can assist with their funding needs? What might be the scale of deal flow?

We are seeing more clients exploring securitisation options. Our clients are focusing on it and, as a business, our investment-grade originations operating model complements this – coupled with the strategic focus of the team on asset-backed opportunities. In terms of scale, this is harder to quantify. Given the range of opportunities, however, it is fair to say that we expect a steady increase of deal flow in time.

◆ What factors – such as pricing and confidence around execution – do you think would make securitisation a more-frequently used funding option by a wider range of Australian borrowers?

Despite credit growth having been relatively slow, it is still fair to say that securitisation remains an important

funding tool that is used frequently in the authorised deposit-taking institution (ADI) and non-bank mortgage originator sector.

For the major banks to use it more frequently there would probably need to be further price compression, which would be aided by increased investor participation and liquidity.

For other borrowers – such as corporates – considerations such as price comparability, access to different investor pools, liquidity, complexity of programme establishment and transaction execution would all have relevance.

◆ With the exception of a handful of the largest financial institutions, most borrowers in Australia have tended historically to be securitisation issuers or issuers of other debt instruments – but rarely both. Do you believe we will over time see a greater number of borrowers taking a more holistic, multi-asset-class approach?

I think we will see this to some degree, but I also believe for many borrowers – particularly smaller borrowers or those with a lower retail deposit base – securitisation remains an effective funding tool providing for largely match funding of assets.

In the ADI sector I think there will be continued investment in retail deposits to maintain a strong funding base and also continued investment in senior-unsecured programmes. Access to a wider range of issuing markets and building associated curves could be expected. We will probably need to see credit growth pick up over time to see a broader multi-asset approach of material significance. ■

“We are seeing more clients exploring securitisation options. Our clients are focusing on it and as a business our investment-grade originations operating model compliments this – coupled with the strategic focus of the team on asset-backed opportunities.”

JACQUELINE FOX NATIONAL AUSTRALIA BANK



AUSTRALIAN SECURITISATION: LOCAL FOOTPRINT, GLOBAL REACH

International investors bring size to the Australian securitisation market and, in some cases, a willingness to invest in a wider range of transactions than might be assumed. The Australian proposition, on a global scale, is more relevant than ever and market developments could help its significance grow yet further.

BY HELEN CRAIG AND LAURENCE DAVISON

The consistent improvement in sentiment in Australian capital markets since the end of the financial crisis has been particularly strong in the asset-backed securities (ABS) market, notably in the residential mortgage-backed securities (RMBS) asset class. According to *KangaNews* data, the aggregate volume of securitised issuance from Australian companies in 2013 was the highest since 2007, at A\$32.5 billion (US\$28.8 billion) including foreign-currency tranches.

The relative proportion of foreign-currency issuance is a significant differentiator in pre- and post-crisis market characteristics. In the pre-crisis years 30-50 per cent of Australian-origin deal volume was issued in foreign currencies, while in 2013 only A\$2.4 billion equivalent – less than 10 per cent of the year’s total – was not denominated in Australian dollars (see chart on this page).

A large part of the reason for this change in issuance patterns is the disappearance of pre-crisis leveraged investors in the conduit and structured-investment vehicle sector. These funds were for a time substantial buyers of Australian securitisation across a range of currencies, and the wipeout of this investor base in the crisis shakeout left Australian securitisers seeking substitute pools of liquidity.

International investors undoubtedly play a significant role, despite the fact that the majority of Australian securitised issuance comes to market in the domestic currency. According to the Reserve Bank of Australia (RBA), even though the level of foreign-currency issuance in 2013 was low, foreign-investor demand for Australian RMBS was high. On average, the RBA says, 40 per cent of each deal was placed with foreign investors in 2013.

GLOBAL APPEAL

One of the main goals of many Australian securitisation-market participants – and one which the Australian Securitisation

AUSTRALIAN-ORIGIN SECURITISATION ISSUANCE VOLUME



SOURCE: KANGANEWS OCTOBER 6 2014

“The strong track record of the Australian product in terms of collateral performance, solid underwriting and the simplicity of the structures used was appealing. Standard Chartered also has some natural liquidity in Australian dollars and this makes onshore product a natural fit for the portfolio.”

MICHAEL ROSE STANDARD CHARTERED BANK



Forum (ASF) is committed to supporting – is to increase the level of engagement with and understanding of global buyers. This means both having the best-possible picture of what motivates active buyers and continuing to explore what could help bring new buyers into the asset class.

Against this backdrop, the ASF invited three international liquidity-book investors who are active in the Australian market to visit the country around the ASF’s annual conference in November 2014. All three talked to *ASJ* ahead of their visit.

The trio manage a range of structured-credit portfolios for their respective institutions, all of which have been engaged with the Australian market, for varying lengths of time. All these organisations have an ongoing interest – some new, others well established – in Australian securitisation (see box on p18) with a focus on senior tranches of ABS and RMBS deals.

These investors say the decision to invest in Australian securitised paper is founded on many factors, and that economics is not the only consideration. In fact, their common goal is a search for liquidity. After the financial crisis taught some harsh lessons, international-investor engagement with offshore jurisdictions grew. This period – around 2011 – also coincided with the first signs of rejuvenation in the securitisation space and the fallout from Europe’s economic and sovereign crisis, which led to the downgrade of many of Europe’s sovereign issuers.

As the realisation dawned that liquidity in portfolios may not have been sufficient to withstand a global market meltdown, portfolio managers’ compulsion to secure the robustness of liquid-asset books took them to previously uncharted territory in the search of high-quality liquid products. A number of investors, facing strict triple-A investment directives and a shortage of markets in which to invest, discovered Australia.

“The strong track record of the Australian product in terms of collateral performance, solid underwriting and the simplicity of the structures used is appealing,” Standard Chartered Bank (Standard Chartered)’s London-based director of ABS portfolio management, Michael Rose, reveals.

The decision to partly weight to Australian securitised product is made more straightforward by the fact that its securities tend to be easily comparable to other jurisdictions where ABS, including RMBS, is a core part of capital markets. According to Praveen Joseph, associate financial officer, treasury – liquid asset management at International Finance

Corporation (IFC) in Washington, Australian products have a lot in common with US and UK structured-finance products. They also add their own attractive investment nuances.

“Underwriting requirements, lenders’ mortgage insurance [LMI] enhancement in structures and overall macroeconomic factors in the Australian housing market determine the safety of the investments in Australian RMBS,” Joseph argues. “For instance, the level of underwriting in the Australian market tends to be more stringent in comparison to the US and UK. For IFC, this makes Australian securities compare favourably against their global peers from a risk perspective.”

LIQUIDITY PREMIUM

Where deal economics come into play is around the perception that favourable spreads on Australian product are to some extent necessary to compensate investors – especially those managing liquid-asset books – for secondary-market liquidity in the Australian market, which is widely acknowledged as lagging that of its larger, global peers. The differences between the most diverse and liquid bond markets and others are stark, investors say.

Despite this, the ‘Aussie premium’ continues to draw international investors into the market. “Australian assets are priced much more attractively on a global relative-value basis than equivalent assets in the UK and Europe,” Joseph says.

The European Bank for Reconstruction and Development (EBRD)’s interest in Australian product is also driven by its risk-return profile versus alternatives, as well as a desire for diversification away from other developed markets, notes EBRD treasury’s London-based head of investments – credit, Neil Calder.

For some, interest in Australian product is more driven by necessity – in other words, limited supply elsewhere. Rose admits: “The relative supply from Australia versus other global jurisdictions in recent years has been a factor in our participation, as has the relative value between Australia and Europe.”

The spread demanded by international investors for holding securitised assets is divided into layers. On top of the credit spread, investors seek a liquidity premium to compensate for the ability to buy and sell these bonds in primary and secondary markets. “We tend to evaluate all our investments against our US dollar funding benchmark, and the return I would look to get in terms of spread over Libor for

Investor spotlight

INTERNATIONAL INVESTORS CLAIM VARYING LENGTHS OF ENGAGEMENT WITH THE AUSTRALIAN SECURITISATION ARENA. UNIVERSALLY, HOWEVER, ALLOCATIONS HAVE THE POTENTIAL TO GROW EVEN FURTHER.

Of the three international investors visiting Australia as guests of the Australian Securitisation Forum in November 2014, the length of time active in the market varies from more than 20 years right down to engagement driven by a much more recent acknowledgement of the product's value proposition.

Neil Calder, head of investments – credit at European Bank for Reconstruction and Development (EBRD)'s treasury department, reveals that, as a portfolio manager and an institution, EBRD's engagement with

the Australian residential mortgage-backed securities (RMBS) market stretches back to the late 1990s.

Several of the bank's mid-2000s investments are redeeming, and it is putting some of the proceeds to work in Australia. "We have participated in several Australian dollar-denominated transactions across four different programmes, including one new issuer to us and three with whom we have had long-term relationships," Calder reveals. "In terms of covered-bond issuance, since the commencement of this market in Australia we have been

heavily involved with the four major-bank issuers across US dollars, euros and sterling."

The search for liquidity and diversification has also brought a new international bid into the fold. For instance, Michael Rose, director of ABS portfolio management at Standard Chartered Bank (Standard Chartered) says the bank has been actively investing in Australian structured finance for just over two years.

Meanwhile, Praveen Joseph, International Finance Corporation (IFC)'s associate financial officer, treasury – liquid asset management, indicates that the supranational's interest in Australian asset-backed issuance was piqued around three years ago.

Both IFC's and Standard Chartered's engagement with the Australian market is correlated with a significant change in liquidity

"A significant portion of IFC's liquidity portfolio is allocated to global RMBS and ABS securities. As our liquidity portfolio grew larger, our strategic investments in Australian ABS and RMBS securities have grown steadily since early 2012."

PRAVEEN JOSEPH INTERNATIONAL FINANCE CORPORATION

Australian securities is certainly higher due to the illiquidity premium priced into the bonds. This is important to attract offshore investors," Joseph says.

This is not to say that Joseph believes Australian structured products are fundamentally illiquid. Indeed, he comments: "The bank and dealer community in Australia has added an additional layer of comfort by providing excellent secondary-market liquidity. We are very confident that, if we wanted to sell our bonds, we could find a buyer in the market."

SIZE MATTERS

Even though these offshore investors have similar targets, in the sense that they each manage liquidity books for their respective organisations, they also display clear differences in terms of asset preferences.

The EBRD only buys a relatively narrow range of Australian product, though it has broadened its focus from big-four RMBS alone to increasingly also look at the next tier of issuers. "Our most recent focus has been on issuers just below the majors in size, but which still offer 100 per cent LMI. We are also very conscious of geographical diversification," Calder says. "For covered bonds, our investment is targeted at the major banks – in a desire to achieve liquidity."

By contrast, IFC appears less tied either to Australia's 'national champions' or to straightforward transaction structures. It is marginally more comfortable investing in bespoke sectors and products – such as ABS and nonconforming RMBS, and transactions from nonbank issuers.

Even so, Joseph suggests that the relatively small size of Australia's nonconforming sector is one of the things which gives IFC confidence around the state of lending in Australia – despite its willingness to look at selected nonconforming deals. "Nonconforming deals constitute less than 10 per cent of Australia's overall RMBS market, while almost a quarter of the US market used to be nonconforming. Working closely with the issuers and doing your credit due diligence in terms of debt servicing and underwriting standards is the key to success in the nonconfirming market," Joseph notes.

Regardless of their investment parameters, the relative scale at which the three organisations have been prepared to invest means they are clearly major players in the Australian super-senior space. And the bigger the deal, the more liquid these buyers expect it to be – and the more comfortable they tend to be investing. This may also explain why such buyers are less likely to purchase Australian commercial mortgage-backed securities (CMBS) than the mortgage-backed equivalent.

requirements. "As a triple-A rated institution, IFC maintains a large liquidity portfolio – a significant portion of which is allocated to global RMBS and ABS securities," Joseph explains. "As our liquidity portfolio grew larger, our strategic investments in Australian ABS and RMBS securities have grown steadily since early 2012."

PORTFOLIO MANAGEMENT

All three investors have the scale to support the Australian domestic market in size. The EBRD treasury's long-term portfolio is €6.5 billion (US\$8.4 billion), a level that roughly corresponds to the capital and reserves of the bank, Calder reveals. Just less than two-thirds of the portfolio is allocated to structured-finance securities including 40 per cent allocated to covered bonds and 25 per cent to asset-backed securities (ABS) and RMBS combined.

Given EBRD's status as a triple-A rated institution the mandate is a conservative one, Calder continues. "It has a weighted average portfolio rating of double-A and an investment focus on an optimised Libor-plus return

set against the requirement for capital preservation."

IFC's investment directives are equally rigorous. IFC treasury's investment mandate demands investments "protect the principal, minimise carrying cost of borrowed funds, earn a reasonable risk-adjusted return and invest only in risks which are transparent and measurable".

IFC's international structured-products portfolio comprises around one-sixth of the overall liquid-asset portfolio by size. To ensure the primary mandate of capital protection, all structured-product investments are made in triple-A securities. Credit concentration limits for asset classes and issuers are monitored closely, IFC says, and high liquidity levels are ensured by restricting minimum deal size to US\$250 million and enforcing maximum participation levels.

Rose's sphere of activity within Standard Chartered centres on the asset-backed portion of the bank's global liquidity portfolio. "We are focused on consumer ABS and RMBS, both in senior format," he explains.

Standard Chartered's goal for this portfolio is to invest in very high-quality, liquid, senior securities. According to the bank's 2013 annual report, 80 per cent of the overall portfolio is rated triple-A, while more than 95 per cent is rated A- or better. The portfolio is broadly diversified across asset classes and geographies, with an average credit grade of double-A flat.

Around one-fifth of the bank's securitised portfolio is currently devoted to Australian structured finance, Rose reveals. This allocation has some potential to grow further, he suggests, although the specific level will be limited by the growth of the securitised portfolio as a whole.

Calder says EBRD's structured-finance portfolio, including its overall exposure to Australia, is unlikely to shrink – the opposite, in fact. "We have significant exposure to the Australian structured-finance market accessed through primary and secondary channels," he comments. "We will look to maintain this but there may be room for a small amount of growth, particularly in Australian ABS."

"Our most recent focus has been on issuers just below the majors in size, but which still offer 100 per cent lenders' mortgage insurance. We are also very conscious of geographical diversification."

NEIL CALDER EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

However, while Australian CMBS deal sizes are much smaller than those issued offshore they are growing, and are beginning to reach the size at which they could potentially become attractive to IFC, Joseph reveals.

ECONOMICS AND PRODUCT POSITIVE

A willingness to invest is also likely to be helped by the fact that the overarching view on the Australian economic backdrop, and on Australian-origin product relative to other global sources of structured finance, is positive.

Calder says EBRD remains positive on Australia's long-term prospects, in particular because of the country's proximity to long-term growth markets for energy and mineral as well as agricultural commodities. "This naturally knocks on to the credit quality of the underlying, securitised assets," he says.

Joseph, meanwhile, says that while he is carefully watching the Australian macroeconomic landscape he is not excessively concerned about overall house-price risk in the Australian market or specific risk pockets within it. He tells ASJ: "Certain banks are regional and their pools tend to be regionally concentrated. However, although we have seen significant house-price increases in urban areas, like Sydney, underwriting requirements are still strict. This gives us comfort from a credit perspective."

This view hints at another key consideration for these buyers: they appear to be fully onside with the idea that Australian-origin product is generally first-rate in structure. For instance, Calder continues: "The role of LMI providers in the standardisation of credit underwriting, and the credit support they provide, is also important in our analysis."



“The bank and dealer community in Australia has added an additional layer of comfort by providing excellent secondary-market liquidity. We are very confident that, if we wanted to sell our bonds, we could find a buyer in the market.”

PRAVEEN JOSEPH INTERNATIONAL FINANCE CORPORATION

Standard Chartered also likes Australian product structure. Rose says the bank is satisfied with the quality of underwriting in the programmes in which it invests, and is equally comfortable that the structures in place for senior noteholders provide sufficient protection, even in worst-case scenarios. It keeps a close eye, however. “We continue to closely monitor any concerns we may have, for example around an increase in investment loans or spikes in regional house prices,” he reveals.

Of equal consideration as its view on Australia for IFC is issuer quality and a proven track record in debt servicing. “An important factor in IFC’s decision to invest in Australian ABS and RMBS is that issuers have been calling their deals on schedule. Many issuers, particularly nonbank ones, have been extremely good at doing this and, as a result, providing comfort to investors,” Joseph says.

AUSTRALIA ON THE MAP

Although these three investors are not new to the Australian market, it is clear from the growth in issuance volume and data on offshore distribution that the Australian structured-product proposition is no longer a hidden jewel that is accessed by only the most adventurous of international buyers. Those that came to the market ahead of the pack note considerable growth in the number of buy-side participants in the space in the last 6-12 months. This, they say, is demonstrated in two ways.

First, more seasoned buyers note a surge in oversubscription levels during this period. Where previously class-A note tranches might have been bid to size, they can now be up to four-times oversubscribed. This might also be evidenced by the fact that individual tranche sizes on senior notes are growing. For instance, Commonwealth Bank of Australia priced a A\$3.7 billion class A1 note – part of a A\$4.0 billion deal – in August this year.

Buy-side sources also observe a price tightening in Australian ABS and RMBS that outpaces equivalent product in

the rest of the world. “Investors have gone from being price setters to price takers,” Joseph comments. “We have seen 20-30 basis points of tightening in Australian structured products in the last six months alone. There has been tightening across markets but nowhere near the level of Australia.”

Unfortunately this spread tightening, along with a current cross-currency basis swap disadvantage for offshore investors in Australian dollar product that swap back to US dollars, leads IFC to suggest that Australia is beginning to lose some of the margin advantage it previously had over other jurisdictions, for instance the UK.

DEVELOPING BENEFITS

Even if the Australian premium continues to scale back, forthcoming developments both offshore and domestically could sustain buy-side interest. One such is the emergence of new data-reporting standards from the RBA, which investors say should add to transparency around Australian product (see box on facing page).

Elsewhere, international investors are undecided as to the effect the European Central Bank (ECB)’s asset-purchase programme could have on Australian securitisation – specifically, whether it will soak up alternative supply sufficiently to open issuance doors for Australians. However, they are convinced of the ECB programme’s potential to kick-start supply by encouraging those issuers into the fold that have been sitting on the sidelines.

Calder, noting an ongoing stunted supply pipeline in Europe on account of Basel III and Solvency II, expects the ECB’s quasi-QE programme to help to put pressure on capital regimes. He perceives this, and the tightening of covered-bond spreads already seen, to be the “catalyst to make securitisation more economically feasible, and encourage issuance, at least within the Eurozone”.

In all likelihood the immediate effect for investors will be reduced returns and allocations as they become crowded out

“Standard Chartered has some natural liquidity in Australian dollars and this makes onshore product a natural fit for the portfolio. Our preference is for Australian dollar-denominated issuance.”

MICHAEL ROSE STANDARD CHARTERED BANK

Data developments watched with interest

INTERNATIONAL INVESTORS ARE INTERESTED IN THE ARRIVAL OF NEW RESERVE BANK OF AUSTRALIA (RBA) DATA REPORTING REQUIREMENTS, WHICH THEY SAY BRING AUSTRALIA INTO LINE WITH ITS CLOSEST GLOBAL PEERS.

The view at Standard Chartered Bank is that, even ahead of formal implementation by the RBA, more granular, loan-level information is becoming more readily available in a number of issuer programmes. The bank's director of ABS portfolio management, Michael Rose, comments: "We are also pleased to see some third-party data providers starting to offer value-added services using the new data. This is a significant positive given that we do not necessarily have the resources internally to handle the amounts of data becoming available."

The European Bank for Reconstruction and Development (EBRD) is also cognisant of the RBA's new loan-level data requirements, and is keeping a close eye on how they develop. Neil Calder, head of investments – credit at EBRD, suggests its convenience for offshore

investors may be chiefly in the fact that it replicates an offshore model. "The role of loan-level data is one that we have been focused on since the opening of the European data warehouse, to which we subscribe," he says.

There is also a potential lesson from the European experience for the RBA and the wider Australian market. Calder continues: "What has become clear with the European experience is the necessity for data to be scrubbed before it can be used, and the need for a tool to help process the vast number of data fields so it can become part of the data set used to model and

undertake subsequent surveillance of a transaction."

Therefore, Calder argues, apart from the requirement to publish loan-level data playing an important role in 'keeping issuers honest', there are limits to the information's usefulness to an investor in triple-A rated senior product which undertakes its own prelaunch cash-flow modelling.

However, Rose still believes the introduction of the RBA regime will provide a boost to transparency. "It should enable investors to better differentiate between deals and more thoroughly analyse their ongoing performance," he says.

"What has become clear with the European experience is the necessity for data to be scrubbed before it can be used, and the need for a tool to help process the vast number of data fields."

NEIL CALDER EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT



by the ECB, Calder continues. However, he forecasts the end result may be as the ECB intends: a wider variety of issuance and a potentially deeper and more liquid ABS market in the long term.

As yet, investors say it is, in all likelihood, too early to tell whether the amount of demand that issuers of Australian RMBS found in the UK market following the implementation of the local Funding for Lending (FLS) scheme is likely to be repeated. This programme starved local investors of supply by purchasing UK-origin issuance at artificially low spreads. This, in turn, put Australian issuers in a prime position to fill the supply gap – even, at times, with Australian dollar-denominated securities.

CURRENCY PREFERENCE

This subset of international liquidity-book investors tell *ASJ* they are either currency-agnostic or broadly happy to buy in Australian dollars. Indeed, even if Australian securitisers were to more frequently issue in foreign currencies it would not necessarily affect their purchasing abilities.

"Standard Chartered has some natural liquidity in Australian dollars and this makes onshore product a natural fit for the portfolio. Our preference is for Australian dollar-denominated issuance and there has been sufficient onshore supply to meet our levels of demand," Rose says. "We would be unlikely to have a higher level of demand for Australian products even if we could buy them in alternate currencies."

Meanwhile, Joseph says IFC is already an active buyer of Australian securities in euros and sterling, on top of Australian dollars, and the way it decides between domestic or foreign-currency issuance is purely based on relative-value considerations.

Nor does he believe the ECB's asset-buying scheme will have the same high correlation as Europe's earlier covered-bond purchase arrangement, although he does suggest that there could be at least a small measure of overspill. "There is very clear anecdotal evidence that points to how the market may evolve," Joseph says. "The FLS is archetypal in terms of defining how a programme like this could affect funding for issuers around the world." ■

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TAPPING INTO GLOBAL DEMAND

Macquarie Bank is a market leader in taking Australian securitisation issuers to global markets, in both domestic- and foreign-currency format. In conversation with ASJ, key Macquarie Bank executives highlight the phenomenal scale of potential demand and the latent size of the Australian industry. They say transparency is key to unlocking this pool of liquidity.

PARTICIPANTS

- ◆ **David Castle** Division Director GLOBAL DEBT SYNDICATE
- ◆ **Kevin Lee** Division Director DEBT ORIGINATION & STRUCTURING
- ◆ **Stephen Maher** Division Director HEAD OF DEBT MARKETS ANALYSIS
- ◆ **Sarah Milne** Associate Director EUROPEAN DEBT SYNDICATE

How broad and deep is the international investor base which is able and willing to buy Australian dollar

structured-finance product?

◆ **MAHER** The offshore market for Australian dollar denominated product already has considerable depth, but the offshore investor base needs broadening.

It is important to note that Australia runs a current-account deficit and is in a sense exporting Australian dollars. This means there is a large pool of Australian

dollars located outside of Australia, held by investors who are looking for returns on this currency. The pool of currency underpins significant investment by non-resident investors in Australian dollar denominated assets.

As to 'able and willing', it is already clear that there are a number of key non-resident investors who have both the capability and the capacity to invest in Australian securitised assets. These investors already provide solid depth to the market.

This leaves the further development of the offshore investor market –

increasing breadth – as a key issue. The small number of big-ticket investors demonstrates this – but there are other very good reasons to increase it. Greater investor breadth helps to smooth adjustments in demand through time, facilitates price adjustment and supports liquidity.

Fortunately, we are already seeing encouraging signs of broader non-resident engagement, and this has been facilitated by education, disclosure and transparency. Given the volume of Australian dollars held by non-resident investors and the sizeable markets for Australian dollar assets offshore, we see significant scope for non-resident investment in Australian securitised assets to increase.

◆ **MILNE** The big constraint on growth is uncertainty associated with developing regulatory frameworks and relative-return concerns.

For example, differing skin-in-game requirements between jurisdictions can make it difficult to properly align issuer and investor interests across markets. For some foreign bank-treasury buyers, their home regulatory environment may not support holding Australian securitisations.

On relative value, movements in spreads and the cross-currency swap are key drivers. Over the last couple of years we have seen a trend which has been favourable for Australian dollar investment on a relative basis. However, recent movements may see that trend level off in the near term.

◆ **CASTLE** When we look at the residential mortgage-backed securities (RMBS) and asset-backed securities (ABS) deals we have led over the last couple of years, it is clear that offshore investor



“Before the financial crisis, investments in our market were far more dependent on leveraged investors: asset-backed conduits and structured investment vehicles. The current investments are backed by pools of real money.”

DAVID CASTLE

participation has at times been very strong (see chart on p25).

I think a positive development has been a shift in funding sources through the financial crisis. Before the financial crisis, investments in our market were far more dependent on leveraged investors: asset-backed conduits and structured investment vehicles. The current investments are backed by pools of real money. In principle, this suggests that non-resident investments are now much more sustainable as they support returns on natural asset positions and are not driven by leveraged targets.

How much bigger could the market for Australian-origin product be if it could be issued cost-effectively in foreign currencies?

◆ **MAHER** There is significant scope to increase the size of the Australian RMBS market. To put this into perspective, the current rated universe of public RMBS is around A\$75 billion (US\$66.5 billion). Data from the Reserve Bank of Australia (RBA) show the total size of the Australian residential mortgage to be around A\$1.3 trillion.

Right now, securitisation funds 6 per cent of the mortgage market. If this were to double or triple – and there are reasons why we believe this is plausible – we could be looking at a market that is somewhere in the range A\$150-225 billion. This would easily make it the third-largest bond market in Australia, after Commonwealth and state-government securities. The difficulty is ensuring that there are investors to absorb the stock.

◆ **CASTLE** Demand capacity is something about which issuers are naturally cautious. Certainly they try

to avoid flooding the market, and one way to manage this is to make greater use of offshore and non-Australian dollar markets for funding. This helps overcome local investor supply-demand constraints. But issuers are also all too aware of the premia attached to Australian structured finance when focusing on foreign-currency markets.

However, this view may be changing. It is worth observing that there appears to be a shift towards a more favourable treatment of securitised assets by offshore regulators, which should support ‘efficient’ issuance. Further, investors are much more engaged in the cross-currency hedging process and actively manage their own currency risks. Finally, structural innovations are reducing prepayment uncertainty over time for specific tranches, which also supports efficient currency hedging.

◆ **LEE** Against this backdrop, individual issuers will factor in a range of considerations for their funding activities. These include optimising their mix of funding sources and markets, comparing the relative all-in funding costs of different platforms, matching their volume of issuance to their funding requirements over time, and managing the duration of their funding portfolios. So they won’t necessarily fully use any single market that is available to them.

Bullet maturities have long been suggested as a means of easing swap costs for foreign-currency deals.

What are your views on bullets?

◆ **MAHER** Bullet securities are very easy to hedge and hence reduce the swapped cost of funds – this is already well understood by investors and issuers. The key issue is not so much whether issuing

RMBS and ABS bullet securities would be popular, but how to structure issues so that bullet securities can be issued without driving up costs elsewhere in the capital structure.

In principle, issuing a bullet security from an Australian residential-mortgage-backed trust implies that the balance of the funding base absorbs the prepayment risks that would normally be associated with the bullet. Given that the risk premia attached to Australian RMBS are in part a function of perceived future prepayment risk, anything that increases volatility will naturally have some effect on margins in the rest of the structure.

◆ **LEE** The challenge for issuers and arrangers has been finding ways to create cost-effective bullet securities within the existing regulatory environment. This is why the Australian securitisation industry continues to explore structures such as master trusts, hard and soft bullets and scheduled-amortisation notes.

Even if there is a theoretical solution, though, we need to consider whether it adds so much complexity that it makes marketing deals too challenging.

A big driver of interest in Australian paper a couple of years ago was the UK’s Funding for Lending scheme (FLS), which sucked up a lot of UK supply. With the EU now looking hard at an ABS-buying programme as its means of delivering a type of quantitative easing, do you think we could see the same effect again?

◆ **MILNE** To the extent that the purchase scheme dramatically brings down spread levels in Europe, there is likely to be a crowding out of some of the euro

“Right now, securitisation funds 6 per cent of the mortgage market. If this were to double or triple – and there are reasons why we believe this is plausible – we could be looking at a market that is somewhere in the range A\$150-225 billion.”

STEPHEN MAHER



investor base. These investors may look to Australia to spend their cash instead, as UK investors did when FLS took away much of the UK market supply. There are many things we still don't know about the EU scheme, but overall it should be positive for offshore engagement in Australian securitisations.

Do you think Australian issuers are better off targeting a subset of offshore investors in the hope of maximising engagement, or trying to meet as wide and diverse a group of potential buyers as possible?

◆ **LEE** I think issuers need to find the right balance in their marketing strategies. Obviously the broader and more diverse the investor base targeted, the bigger the potential support for a transaction. But it is important to target 'high-quality' prospective investors which have a reasonable likelihood of actually buying.

Do offshore investors only buy senior notes? If there is demand for lower-rated paper is it from the same investors who buy senior – and what is driving these buyers' interest?

◆ **CASTLE** Since re-engaging with the Australian securitisation market in 2012, offshore investors have typically focused on senior notes. However, as investors became more comfortable with the performance of this asset class and broader offshore-investor participation assisted in compressing spreads, a small group of offshore investors saw the opportunity to maintain their yield targets by combining a bid across both class-A and mezzanine notes.

As spreads have continued to rally, the weighting between these notes for

those specific investors has shifted in favour of mezzanine notes. At this stage, offshore buyers haven't focused on subordinated tranches, primarily due to liquidity and volume offered.

◆ **MILNE** There is a plethora of offshore investors in mezzanine and subordinated tranches, across a diverse range of asset classes, who support healthy European and US markets in these bonds. They mainly consist of asset managers' high-yield funds, special-opportunities funds and hedge funds. They are generally return sensitive, yet relatively currency and ratings agnostic – and are ideally placed to get involved in the Australian non-senior ABS market in Australian dollars.

In my view, their increased participation could be fostered by greater disclosure and transparency around the pricing levels of lower-rated or unrated tranches of Australian deals, as is more common in European and US markets.

Furthermore, deals which pre-place subordinated tranches limit the opportunities for offshore investors to look at this space. I appreciate that, from an issuer's perspective, pre-placement helps reduce execution risk. But hopefully as markets continue to strengthen we will see more issuers who are comfortable broadening out the marketing of their subordinated notes.

Over time, this could help the liquidity of the market, which in turn would encourage even more offshore interest in these bonds.

What do issuers have to do differently if they are offering product like nonconforming mortgages or auto securitisation?

◆ **CASTLE** In understanding ABS, offshore investors have had to analyse the market in greater detail to get credit approval. This is where issuers of non-vanilla product have been extremely proactive in marketing to offshore investors. As opposed to RMBS, these issuers have had to educate investors not only on the specific industry, but also on individual loan and lease products, underlying assets and structures.

◆ **MILNE** There is offshore demand for higher-yielding, 'off-the-run' product from Australia. But non-vanilla securitisations need to offer investors access to more background information and provide a longer public announcement and pricing window. This gives offshore investors a chance to get involved and undertake credit work on transactions remotely. The challenge for offshore investors is whether these non-vanilla transactions are large enough and offer sufficient yield to justify the additional due diligence involved.

What steps would you advise issuers to take in their investor-relations work to maximise the chances of getting a positive offshore response?

◆ **MAHER** Information. On both the issue and the underlying collateral, and also on the business that is originating the collateral.

Investors need to understand the issuer. This means everything from capital funding, corporate structure and ownership through to product development, marketing, distribution and servicing. And investors need to understand the collateral including contractual obligations, obligors and the physical and financial collateral.



“There has been significant progress made over the past year or so in terms of transparency on Australian deals. But the additional data fields in the RBA data templates and the formalisation of the process will help more offshore investors get involved.”

SARAH MILNE

For issuers, this means a series of introductory non-deal roadshows in order to establish a presence in the market. This should then be followed up with deal-by-deal roadshows and regular participation in industry forums and events. Ultimately, issuers need to establish and build a credible profile for investors.

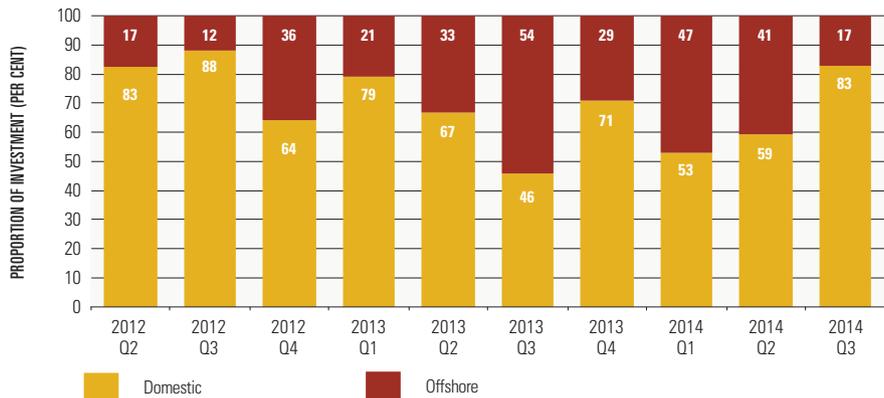
◆ **LEE** One of the keys to maximising offshore engagement is to understand the differences between the Australian securitisation market – including the underlying features of the assets being securitised – and the offshore equivalents, and to properly explain these differences to an offshore audience to help them get comfortable with investing.

For example, from time to time we see that some terminology used in the Australian market can have a different meaning internationally – an example being what we mean by a ‘lease’ product. It is only by working with foreign investors through their due-diligence processes that you get to clarify any potential misconceptions.

With regard to the issue of the credit analysis offshore investors conduct on Australian product, do you expect the data emanating from the forthcoming new RBA reporting regime will help offshore investors’ comfort level with Australian product?

◆ **MAHER** Yes. Inconsistencies in definitions and disclosure have been an aspect of the market that investors have struggled with for years. Even when issuers started providing line-by-line data on request, analysts still needed to contend with definitional issues.

DOMESTIC VS OFFSHORE INVESTMENT SPLITS: MACQUARIE BANK-ARRANGED RMBS AND ABS DEALS



SOURCE: MACQUARIE BANK SEPTEMBER 18 2014

The RBA data requirements push these issues to the sidelines and create a fully level playing field in terms of clarity and availability of data. This is something that non-resident investors have been clamouring for – and is data that has been readily available in other markets. This data will allow investors to meet their internal analytical requirements and, in being able to do so, they will naturally find a higher level of comfort in Australian assets.

◆ **MILNE** This will certainly help bring the transparency of the Australian market more into line with offshore markets and encourage more foreign investors. The RBA reporting requirements should help issuers focus on data distribution and, hopefully, on providing it readily to their investors.

There has been significant progress made over the past year or so in terms of the transparency of Australian deals, with many deal models now available across multiple service providers as a matter of course. But the additional data fields in the RBA data templates and the formalisation of the process will help

more offshore investors get easy access to this information.

What else can Australian issuers do to maximise offshore demand?

◆ **LEE** It is important that issuers are up to date with the latest requirements and preferences of offshore investors, which continue to evolve.

Offshore investors are particularly focused at present on timely reporting, access to deal models before pricing, and the like. We have seen that offshore investors appreciate genuine efforts by Australian issuers to satisfy as many of these requirements as they reasonably can, and will reward such programmes with their investment over time. ■

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“Obviously the broader and more diverse the investor base targeted, the bigger the potential support for a transaction. But it is important to target ‘high-quality’ prospective investors with a reasonable likelihood of actually buying.”

KEVIN LEE



SEEDS OF CHANGE

Change is afoot as the Reserve Bank of Australia (RBA) edges closer to standardising reporting requirements for local issuers of securitised product. The impact of the changes alone may be limited. But in combination with other factors on the landscape, liquidity and transparency in the securitisation market could be set for transformation.

BY HELEN CRAIG

Australia's structured-finance market has continued a steady return to form after the devastation of the financial crisis. In fact, the market is in its best shape since 2006, when issuance reached nearly A\$65 billion (US\$57.6 billion) of which residential-mortgage backed securities (RMBS) made up around 90 per cent (see chart on this page).

Comfort around securitisation has gradually returned. In 2013, annual issuance reached a post-crisis record and while there are reasons to think deal flow in the last few months of 2014 may slow – albeit temporarily (see box on facing page) – 2014 volume could still take a further step forward.

Outstanding issuance with a quarter remaining of the year is in excess of A\$28 billion and individual tranche sizes are growing, as evidenced by the placing of a A\$3.7 billion class A1 note – part of a A\$4 billion deal – by Commonwealth Bank of Australia in August this year.

PROVING DEMAND

The Australian Office of Financial Management (AOFM) was instrumental to the post-crisis rebirth in its earliest days, but has subsequently been able to exit what has become a much healthier market. Of the circa A\$65 billion of RMBS issuance in the four years from October 2008, the AOFM acquired A\$15.5 billion. Its participation dwindled as the third-party market started to pick up the slack, and in April 2013 the AOFM announced the end of new investments in RMBS.

Market participants concur that the AOFM's actions were beneficial for the regeneration of the market, not only in terms of the original investments but also subsequent sales. One of the main challenges the securitisation asset class faces as it seeks to replace now defunct pre-crisis buyers with real-money investors, both at home and offshore, is the relative complexity of price discovery in asset-backed paper relative to bonds.

The clear interest in the sales of securities from the AOFM's portfolio illustrates an oft-acknowledged hindrance to performance in the domestic securitisation market: investors have often been unable to find a reliable price for securities. This acts as an obstacle to deeper investment.

"If investors have the confidence that participants are buying and selling at 90 cents, they know that 90 cents is the price," Westpac Institutional Bank (Westpac)'s Sydney-based executive director and global head of GCM strategy, David Goodman, tells ASJ. "The AOFM provided a clear and transparent pricing point where usually the market is blind to where these tranches are valued."

In February and March of this year, the AOFM sold the bulk of its holdings of AB notes into the secondary market after a series of primary-market transactions saw these classes of notes hotly bid. Demand extended even beyond the aggregate A\$370 million in amortised face value of notes sold by the AOFM.

While the super-senior margins paid by non-major authorised deposit-taking institutions (ADIs) have compressed by 20-30 basis points since mid-2013, mezzanine spreads have contracted by at least 60 basis points in the same time span (see chart on p28). Even so, major-bank class-A RMBS spreads continue to price at around the same level as these issuers can achieve on five-year senior-unsecured issuance – despite the securitised product's higher rating and shorter expected tenor.

The AOFM's various tranches of AB notes, meanwhile, were resold at margins ranging from 120 basis points over bank bill swap rate (BBSW) for notes with a sub-one-year weighted average life (WAL) to 180 basis points over BBSW for paper with a WAL of 5.7 years. The market looked on keenly, recalls Rob Verlander, head of debt markets securitisation at Commonwealth Bank (CommBank) in Sydney, for validation of where decent volume of product would clear.

Verlander comments: "The levels were endorsed when the next set of primary deals came along and we saw pricing in junior tranches not inconsistent with the AOFM sales."

AUSTRALIAN-ORIGIN SECURITISATION ISSUANCE (ALL CURRENCIES)



SOURCE: KANGANEWS SEPTEMBER 19 2014

All recent deal-flow signs – including the AOFM’s sales and primary-market activity – point to substantial demand for securitisation. Just 8 per cent of RMBS product is made up of tranches below A-notes and market participants say around 10 buyers tend to compete for each deal. The much larger

proportion of senior debt is less hotly contested even though two or three times as many buyers are typically active.

At the height of the financial crisis there were only one or two mezzanine investors in the domestic securitisation market. The recent growth spurt has contributed to the fierce

S&P holds all the cards

ON AUGUST 19, STANDARD & POOR’S RATINGS SERVICES (S&P) ISSUED A REQUEST FOR COMMENT (RFC) ON A PROPOSAL TO REVISE THE METHODOLOGY FOR ASSESSING LENDERS’ MORTGAGE INSURANCE (LMI) AS A FORM OF CREDIT ENHANCEMENT IN GLOBAL RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS).

S&P requested responses by the end of September with an update mooted later in the year. The greatest rating impact is likely to be concentrated in Australia and could, market participants say, affect 20 per cent of the notes on issue.

According to S&P, housing-loan portfolios that back typical Australian RMBS tend to have LMI covering losses of up to 100 per cent of the principal balance for every loan. As such, LMI is a significant consideration in rating these notes. Therefore the justification for the proposal, the agency argues, is “to take into consideration the recent experience of mortgage insurance payout adjustments in certain markets under stressful economic conditions”.

Thomas Choi, portfolio manager and credit analyst at Perpetual, expects the investigation to result in any RMBS note whose rating is not LMI-independent being rerated by the agency. “S&P has indicated that it expects some 21 per cent of the notes in the Australian and New Zealand market to be downgraded, with the most junior notes as the most affected of the classes,” Choi comments.

FOLLOW-ON EFFECTS

The follow-on effects into the various channels of RMBS activity will be difficult to pinpoint precisely, say intermediaries and investors.

Gary Sly, executive director, structured capital markets at ANZ, says issuers and intermediaries are already working on the basis of structuring

upcoming transactions based on how the new criteria might look, and removing the rating downgrade risk for the future.

But he also cautions that there could be some forced selling by holders of existing paper in the coming months. “Some mandates require specified minimum ratings,” Sly says. “There are investors holding AB and junior tranches that face the uncertainty of downgrade and the possibility of needing to divest.”

Both Moody’s Investors Service and Fitch Ratings have already completed similar reviews, leading fund managers to be sceptical that their peers would have bought subordinated notes in recent months as if they were a true double-A-minus rated security. “I believe investors would have carried out detailed credit analysis and made investments based on their own findings, so I’m reluctant to think further downgrades will result in a flurry of selling,” Choi says.

The consequences for the primary market may be more immediately felt, with the possibility issuance might stall at not much more than the A\$26.6 billion (US\$23.6 billion) of RMBS issued in the year to September.

Market participants reveal that at least one deal has been shelved as a direct result of S&P’s RFC. The issuer had already commenced marketing the junior notes but elected to postpone the deal when one of the domestic market’s largest buyers of subordinated paper declared itself to be temporarily holding off from investing.

“Since the RFC began no capital-relief RMBS deals have come to market,” Choi remarks. However, he adds: “But I don’t get the sense these issuers are under pressure to execute transactions and therefore it won’t be too much of an issue for them to wait a few months.”

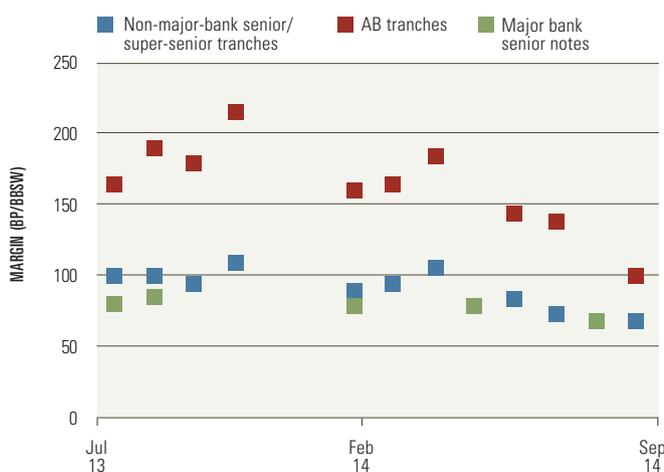
S&P itself expects the rating impact to be concentrated in Australia, where the current ratings on LMI are in the double-A category. Outside Australia the use of mortgage insurance is limited.

“We expect the rating impact to be mainly driven by the proposed changes to claims-adjustment assessment and to predominately affect the subordinated tranches in Australian RMBS, for which LMI is in many cases the only source of hard credit support,” the agency adds.

“Since the RFC began no capital-relief RMBS deals have come to market. But I don’t get the sense these issuers are under pressure to execute transactions and therefore it won’t be too much of an issue for them to wait a few months.”

THOMAS CHOI PERPETUAL

AUSTRALIAN DOLLAR PRIME RMBS NEW-ISSUE PRICE POINTS



SOURCE: KANGANEWS SEPTEMBER 19 2014

rates, makes agreeing secondary-market pricing points difficult. This, in turn, complicates price discovery. “There isn’t that much secondary-market trading,” Verlander acknowledges. “But there has been an abundance of deals in primary for intermediaries to be able to establish a price, particularly in the last 2-3 years.”

However, the biggest obstacle to investors being able to receive reliable and consistent pricing information is depth, argues Fox. She suggests that having an aggregated pricing engine for securitised debt would be helpful for secondary liquidity.

“Yieldbroker has obviously been a great development for the Australian vanilla-bond markets in terms of facilitating the delivery of greater liquidity and competitiveness coupled with straight-through-processing benefits,” Fox insists. “The structured nature of securitised product, including the influence of prepayment rates on the WAL, no doubt makes it

“The structured nature of the product, including the influence of prepayment rates on the WAL, no doubt makes it a more challenging product to incorporate into a Yieldbroker-style platform. But this could be envisioned thanks to the ongoing developments in information transparency and an increase in depth of active dealers.”

JACQUELINE FOX NATIONAL AUSTRALIA BANK

competition that currently exists for subordinated RMBS paper, and is illustrated by a concertina in primary-market issuance margins.

PRODUCT DIFFERENCES

However, the issue for securitisation in terms of attracting buyers from the vanilla bond universe goes beyond limited secondary-market activity. The asset class inevitably suffers next to vanilla bonds because of the lack of homogeneity between securities, specifically securitisation’s granular collateral and unpredictable amortisation structures.

“Transactions can differ in structure from issuer to issuer, deal by deal and depending on collateral composition,” Jacqueline Fox, head of securitisation origination at National Australia Bank in Melbourne, explains. “This, coupled with the assets having variability in prepayment speeds, requires additional analysis versus vanilla debt products.”

Verlander agrees, adding that he expects the securitisation market will always have an element of bespoke to it. “It is not as if you can instantly have homogeneity between issuance, if for no other reason than that the rate of repayment will vary on each deal according to the collateral on every instrument,” he says. “You’d be giving up on flexibility in making every bond look identical.”

The unique features of RMBS, for instance around call features and differing investor expectations of prepayment

are a more challenging product to incorporate into a Yieldbroker-style platform. But this could be envisioned thanks to the ongoing developments in information transparency and an increase in depth of active dealers.”

But ANZ’s Sydney-based senior manager, structured capital markets, Jordan Batchelor, argues that such platforms are only as good as the live market. “There are only three or four providers of RMBS ratesheets in the market and, given RMBS is a less actively traded product, the marks can become almost static at times. This can make them less reliable.”

In fact, real-money investors argue that price transparency is, at best, only reasonable in Australian securitisation. In part, they blame the large proportion of buy-and-hold investors in the market.

For instance, Thomas Choi, portfolio manager and credit analyst at Perpetual in Sydney comments: “In the RMBS market, the level of secondary-market activity and direct contact with other market participants will determine how transparent and liquid the product is.”

DRILLING INTO THE DATA

Some market participants hope the arrival of new RBA data-reporting requirements – set for implementation during 2015 – will be a game changer. For their securities to be eligible for repurchase with the reserve bank, issuers of RMBS, commercial mortgage-backed securities and other ABS must comply with

the new reporting requirements. The template being used by the RBA lines up with those used in the UK, the US and Europe, thus bringing the Australian market into step with its closest global peers.

The RBA will require the submission of an electronic file containing a comprehensive set of data which drill down not only into individual loans, but also into security-level, transactional-level and pool-level data, and cash-flow waterfall-model data.

Even though the core purpose of the upcoming data reporting is to satisfy the RBA's own desire to best understand the collateral it will accept for repo, there may also be wider benefits. Richard McCarthy, general manager, sales, product and marketing at Perpetual Corporate Trust in Sydney, believes the fact that data will be cleaner, more standardised, consistent and reliable will improve confidence in securitisation. This could in turn help to improve overall transparency and liquidity in the RMBS market (see box on this page).

Shifting the dial

THERE ARE TWO FUNDAMENTAL AREAS WHERE TRANSPARENCY IN THE AUSTRALIAN RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS) MARKET CAN BE EVEN MORE IMPROVED AS A RESULT OF THE RESERVE BANK OF AUSTRALIA (RBA)'S NEW LOAN-LEVEL REPORTING REQUIREMENTS.

So argues Perpetual Corporate Trust (Perpetual CT)'s general manager, sales, product and marketing, Richard McCarthy.

The RBA's reporting template requires line-by-line information on key characteristics of loans and borrower to be provided, in order for securities to be eligible for repurchase with the reserve bank. Mandatory RMBS pool reporting was originally scheduled to commence on December 31 but was recently pushed back to June 30 2015.

McCarthy explains that the decision to slow implementation was consultative with the Australian Securitisation Forum and the wider market, and demonstrates that the RBA has "an understanding of the scale and requirements of this project, in order for it to achieve a successful implementation in the market".

Even in advance of the adoption of the RBA's eligibility criteria, transparency in the local RMBS market is good, Perpetual CT says, crediting itself with a role in helping to achieve this. The trustee gathers data from all bank and non-bank issuers – even where it is not a trustee – and standardises this information before uploading it to its securitisation reporting service. This analytical platform is a common source of research for investors and other participants in the Australian securitisation industry, according to Perpetual CT.

"The APSPerpetual.com data warehouse platform has almost 100 per cent coverage of the RMBS market," McCarthy explains. "Our September data show we had 300 active logins and 19,000 file downloads during the period, and there are 267 active trusts on the platform."

STICK AND CARROT

Even so, McCarthy believes, the RBA's reporting requirements "shift the dial" in the local securitisation market so minimum data standards, definitions, consistency and standardisation are competitive on a global basis. "The RBA has a carrot and a stick," he says. "If issuers want their deals to be repo eligible they will have to conform to the new standards. And if there is standardisation, granularity and ease of analysing pools of data, it may mean more senior and mezzanine investors will participate."

One of the most crucial improvements, in McCarthy's view, will come from the fact that the RBA's securitisation system will apply validation rules to the data at the

time of its submission. Meanwhile, technology for associated analytical programmes will also be considerably enhanced. Going forward this will be a necessity given McCarthy estimates the level of data will increase "tenfold".

"This will continue to add global confidence to local securitisation product and could mark a return to the era before the financial crisis, when the Australian market saw significant volume of global multicurrency RMBS deals," McCarthy suggests.

Even so, he acknowledges that such a development comes at considerable cost to the industry. "There is no getting around the fact that there will be a huge expense as systems are put in place, but this will reduce post-launch."

McCarthy continues: "The market is embracing this, despite the price tag, to some extent because it will meet the RBA's requirements. But it is also in the belief that it will improve transparency and confidence, and enhance the global appeal of domestic securitised product."

"If issuers want their deals to be repo eligible they will have to conform to the new standards. And if there is standardisation, granularity and ease of analysing pools of data, it may mean more senior and mezzanine investors will participate."

RICHARD MCCARTHY PERPETUAL CORPORATE TRUST

Market participants broadly agree the availability of the RBA's data can only be a positive enhancement for Australian securitisation. But some question the degree to which it will be useful of itself, at least in the super-senior tranche where it is more the exception than the rule for a potential investor to seek data on a line-by-line basis. Conversely, it would be rare for a junior-note investor not to ask for and receive the requisite data to support their extensive analysis.

The range of data the RBA will require is generally already available in the market – but only in a raw, non-standardised, format. Investors and research teams have built models to sift through this information. For example, Westpac produces a 'White Pages' document containing information on around 200 RMBS lines which its clients and traders consult before putting a bid on any transaction.

Perpetual has constructed its own in-house proprietary analytics system, explains Vivek Prabhu, the fund manager's

“I can't recall lack of information being raised as a reason not to participate in Australian securities. Australian issuers are typically very responsive to specific investor requests, which are sometimes ad hoc.”

GARY SLY ANZ

Sydney-based deputy head of credit and fixed income. “This enables us to interrogate arrears, loan-to-value ratios and geographic concentrations, among other functions, and allows us to quickly analyse individual pool performance versus other pools by the same issuer and the wider market.”

Gary Sly, executive director, structured capital markets at ANZ in Sydney, adds: “It is not that we haven't already been providing investors with this data. It is just that there hasn't been a required standardised template or a central depository for it.”

Drawing on an offshore example as evidence of how this level of data reporting has influenced global markets, Batchelor is sceptical about how the RBA regime may change the shape of the market domestically. Despite the European data warehouse coming into existence in the middle of 2012, information surrounding how actively investors have been using this loan-level data has not been forthcoming. “In the triple-A space investors seem to examine the stratification tables in depth, but do not frequently request line-by-line data to do further loan-level analysis,” Batchelor says.

In fact, Verlander argues, complying with the RBA's requirements is effectively a ticket to ride for the sell side in the securitisation market – a necessity for attracting the widest investor attention if not the key to the door. “If an issuer can't satisfy the RBA's requirements this will mean a significant number of investors cannot invest in its paper. This would

almost certainly rule out ADI buyers – and ADIs are a very big chunk of the investor base,” says Verlander.

Unfortunately, any suggestion that the RBA's new data requirements could of themselves bring in new investors appear unfounded. “I can't recall lack of information being raised as a reason not to participate in Australian securities,” Sly insists. “Australian issuers are typically very responsive to specific investor requests, which are sometimes *ad hoc*,” he adds.

However, while Westpac's Goodman concurs in principle he adds that, at the margin, the new data might at least allay fears that previously prevented new investors from participating in RMBS. “Post-crisis, transparency in structured products is a box you have to tick,” he comments.

Meanwhile, offshore investors – even those already active in the Australian market – say standardised reporting could add to incremental investments. With many of the more active buyers coming from the liquid-assets book sector themselves, any further steps towards transparency and international homogeneity will inevitably be welcomed (see story on p16).

FSI LOOMS

Another looming event in Australia which could also have a significant influence on the securitisation market is the Financial System Inquiry (FSI), which is due to publish its final report in November. Several issues the

inquiry is looking at could influence securitisation, with some submissions to the process even requesting direct government intervention.

One such, from the Mortgage and Finance Association of Australia, suggests the Australian government could play a role in improving liquidity by encouraging participation in Australia's securitisation arena. The proposal advocates the adoption of a version of the Canadian model for providing a government guarantee on mortgage-bond issuance: an Australian equivalent of the Canada Mortgage and Housing Corporation. This was first mooted in Australia during the financial crisis but faded from market consciousness following the AOFM's direct investment in RMBS.

The concept gets short shrift from market participants, however. For ANZ's Sly, the debate around the concept has already been aired. “The question around Australia adopting the Canadian model has been asked and answered through a period of stress,” he states.

There may be more value in the adoption of the 'cornerstone' model adopted by the AOFM over Canada's 'buy-and-hold' option. Sly continues: “AOFM purchases enabled investors to continue to actively participate, which was certainly a valuable tool in times of stress. As the market transitioned to a more efficient environment, the temporary nature of the AOFM's mandate became relevant. This facilitated a seamless exit from the primary market.”

Westpac's Goodman argues that the shape of the market today bears little need for any kind of government backstop facility. "I don't really understand the motivation for this," he says. "Clearly the AOFM stepped in when there was a crisis but

I don't believe you can argue that there is currently a systemic market failure and, therefore, a reason for the government to act as a guarantor. It is no more relevant than the government acting to guarantee a corporate bond."

Chinese walls

IN THE LEAD UP TO THE INAUGURATION OF THE COMMITTED LIQUIDITY FACILITY (CLF), BANK BALANCE SHEETS HAVE BEEN PROLIFIC BUYERS OF CLF-ELIGIBLE ASSETS. BUT DESPITE THESE HOLDINGS, MARKET PARTICIPANTS DOUBT BANKS CAN RETURN TO A MORE TRADITIONAL MARKET-MAKING-INTERMEDIARY ROLE.

To meet guidelines set out under Basel III, the Australian Prudential Regulation Authority (APRA) requires authorised deposit-taking institutions (ADIs) to hold sufficient high-quality liquid assets (HQLAs) to withstand a 30-day period of severe liquidity stress. The liquidity coverage ratio (LCR) requirement, designed to help banks deal with Australia's shortage of qualifying assets, takes effect on January 1 2015.

Because of the limited amount of Australian HQLAs – the list is restricted to government and semi-government bonds and cash – APRA allows ADIs to place other high-quality assets in a CLF and, for a fee, use them as collateral for cash directly from the reserve bank.

The list of eligible securities for the CLF includes triple-A rated supranational, sovereign and agency bonds, ADI-issued senior-unsecured paper rated triple-B plus or above, and senior asset-backed securities. Hence, bank liquidity-book demand for these asset classes has soared in the prelude to the LCR and CLF. This subset of investors frequently absorbs up to two-thirds of what will be CLF-eligible paper at the point of issuance, market users say.

"Liquidity-book demand is in evidence, and this has been a big change for the market over the last five years," confirms David Goodman, executive director and global head of GCM strategy at Westpac Institutional Bank (Westpac). "It is fair to say that these buyers are now very comfortable with these assets."

SKIN IN THE GAME

The buy-and-hold nature of bank balance sheets gives some market participants cause to ponder whether there could be a return to a traditional market-making role on the part of banks – in other words, whether trading books will be able to support secondary-market liquidity by using liquidity-book stock as their own inventory.

"Liquidity books can take and hold while trading books can only hold for a specific period," comments Gary Sly, ANZ's executive director, structured capital markets. "They are entirely separate divisions within the organisation because of rules that are imposed by bank policies and procedures, which are influenced by regulators."

Specifically, Sly continues, APRA's strict requirements around structured-note purchases, including minimum due-diligence requirements, are as fixed as the set of rules to which liquidity books must adhere. He says: "In recent times, liquidity books have been buying RMBS due to its repo eligibility. This participation is quite separate from trading-book activity. Practical separation is governed but,

by policy, procedure, market protocols, practice and regulation, these buyers are removed from trading books."

Jacqueline Fox, head of securitisation origination at National Australia Bank (NAB), suggests that whether heightened demand and holdings as a result of increased balance-sheet participation supports other parts of the bank returning to a pre-crisis market-making role will be institution-dependent. "For NAB it is probably fairly neutral given the bank has, in general, supported the market in a secondary sense throughout the cycle," she says.

From Westpac's perspective, Goodman notes a regulatory component behind the inability of trading books to make markets in certain stock, drawing attention to the fact that APRA has changed the rules around the 20 per cent holding limit on instruments because of "unintended consequences".

"When one part of the bank is holding the skin in the game and the other actively trading paper you might suddenly find your liquidity and trading books overlap," Goodman says. "This is why APRA responded by changing the holding rules."

"When one part of the bank is holding the skin in the game and the other actively trading paper you might suddenly find your liquidity and trading books overlap. This is why APRA responded by changing the holding rules."

DAVID GOODMAN WESTPAC INSTITUTIONAL BANK



For Fox at NAB, the overarching issue is that direct government support may detract from the securitisation market achieving a crucial goal of being able to operate self-sufficiently on a standalone basis. Even so, she sees a potential benefit for the market depending on the operating mechanisms of such a facility.

Fox says a government facility “could provide a backstop for the secondary market, which would provide confidence to investors and potentially encourage greater participation – both domestic and offshore. This would improve overall liquidity”.

She believes that such a facility would require similar reporting requirements to those for the RBA’s committed-liquidity facility. The downside, she adds, is that it may discourage secondary-market support by dealers, which is what the industry should be striving towards (see box on p31).

Elsewhere, several FSI submissions ask the inquiry to address issues around competition in the banking sector, including risk weighting of mortgage lending. The FSI is set to review the current system, under which the largest ADIs – the big four plus Macquarie Bank – are able to use an internal ratings-based (IRB) approach to weight the risk of assets based on actual loss experiences. Smaller financial institutions, meanwhile, use standardised risk weights which almost inevitably end up requiring more capital to be held.



“The ECB’s buying programme could have a significant impact on the current pricing structure for comparable RMBS in Europe. The Australian market doesn’t always immediately follow its global peers but it doesn’t tend to deviate for long, either.”

ROB VERLANDER COMMONWEALTH BANK

“The IRB banks have lower risk weights for mortgage lending than standardised ADIs, although the advantage is less clear in relation to other asset classes,” the interim FSI report concludes. “This provides the IRB banks with a cost advantage for mortgage lending.”

Goodman also notes the level of interest in changing risk weights in the FSI submissions, despite the report making clear that the inquiry does not believe there is a major issue in bank competitiveness. “The theory that has been suggested to me is that risk weightings for the largest ADIs may be increased or a floor of risk weightings may be imposed in order to try and level the playing field – and, as a consequence, encourage more RMBS issuance.”

However, he is unconvinced by the logic. “These ADIs do not securitise for capital relief, so changes to risk weightings alone will not alter capital treatment. Therefore, this will not force ADIs to issue either more or less RMBS,” Goodman insists.

A EUROPEAN PROXY

The RBA’s own submission to the FSI notes that the Financial Stability Board (FSB) of the G20 highlights bail-in as an area where many FSB jurisdictions need to take further legislative measures. Some market participants believe such measures could pave the way for a more favourable investor take on secured product.

The RBA defines bail-in as a resolution strategy where the unsecured and uninsured liabilities of a failing financial institution are written down or converted into equity in order to recapitalise the firm. The main argument for bail-in is that it transfers the risk of loss from taxpayers to unsecured creditors. Bail-in can, in principle, be applied to any unsecured debt instrument. However, in practice, senior-unsecured bonds are expected to be considered by policymakers as the most suitable for bail-in.

The RBA’s FSI submission neither opposes nor supports the adoption of bail-in bonds in Australia. Even so, some market commentators suggest that if Australia were to adopt this approach, it could be a boon for both RMBS and covered bonds in the sense that bail-in might cause a switch in investor preference to securitised from unsecured product.

Some investors are concerned about potential consequences. “If senior bonds became ‘bail-inable’ there is a risk that bank balance sheets would aggressively buy RMBS to

the extent that they crowd out real-money investors,” Choi reveals.

In fact, intermediaries suggest that the most likely driver of increased demand from offshore buyers could come as a result of the European Central Bank (ECB)’s plan to buy around €400 billion (US\$514.2

billion) of asset-backed securities and covered bonds over the next 24 months. This could bring about a significant change, according to CommBank’s Verlander.

“The ECB’s buying programme could have a significant impact on the current pricing structure for comparable RMBS in Europe,” he says. “The Australian market doesn’t always immediately follow its global peers but it doesn’t tend to deviate for long, either. Even at current pricing levels some of the larger investment houses are beginning to see pricing as getting a little bit tight.”

Choi agrees that as spreads contract in Europe, Australia’s will likely follow the same path as the more scarce European assets, because additional global demand for offshore securities is likely to emanate from Europe. But, he adds, this is not just a function of spread – it is also a function of the basis swap. “A large number of investors will look to hedge the currency risk,” Choi explains. ■

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	70%
NUMBER OF SECURITISATIONS ISSUED	3
TOTAL VOLUME ISSUED	A\$875M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$692M

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\$4 billion of mortgage finance every month, representing a loan book of more than A\$91 billion and around 990,000 customers. One in 10 home loans written in Australia is sourced through AFG's 2,000 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 funded by multiple warehouses and term transactions. ■

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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	22%
NUMBER OF SECURITISATIONS ISSUED	17
TOTAL VOLUME ISSUED	A\$15BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	71% DOMESTIC 29% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$3.7BN

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\$13.4 billion as at June 30 2014. ■

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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. ■

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BANK OF QUEENSLAND



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

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS, ABS
PROPORTION OF TOTAL FUNDING SOURCED VIA SECURITISATION	14%
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\$5.4BN

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. ■

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BLUESTONE GROUP



AUSTRALIAN ADI	NO
SECURITISATION PROGRAMME NAMES	SAPPHIRE, EMERALD

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, REVERSE MORTGAGE
WHOLESALE FUNDING VOLUME	A\$733.5M
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	75%
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\$551M

Bluestone Group (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. ■

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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	15
TOTAL VOLUME ISSUED	A\$49.9BN
OUTSTANDING VOLUME OF RMBS	A\$16.3BN

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. ■

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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	73%
NUMBER OF SECURITISATIONS ISSUED	28
TOTAL VOLUME ISSUED	A\$13.1BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	86% DOMESTIC, 14% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.2BN

Firstmac is a leading non-bank originator of prime residential home loans. Loans are sourced through the company's own online retail business, which is called www.loans.com.au, 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. ■

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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	43%
NUMBER OF SECURITISATIONS ISSUED	6
TOTAL VOLUME ISSUED	A\$1.153BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	>90% DOMESTIC
OUTSTANDING VOLUME OF SECURITIES ISSUED	A\$462M

All data as at August 31 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. ■

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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\$840M EQUIV.

* By original issuance. Only domestic issues remain.

Heritage Bank (Heritage) is Australia's largest mutual bank, with approximately A\$8.5 billion in total consolidated assets as at June 30 2014. 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. ■

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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	72%
NUMBER OF SECURITISATIONS ISSUED	6 RMBS, 3 CMBS
TOTAL VOLUME ISSUED	A\$3.3BN
CURRENT FUNDING TOTAL	A\$701M
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC

IMB is one of Australia's largest building societies, with assets of more than A\$4.8 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, credit unions and mutual banks. ■

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ING BANK (AUSTRALIA)



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	IDOL TRUST

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION	30%
NUMBER OF SECURITISATIONS ISSUED	8
TOTAL VOLUME ISSUED	A\$7.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	96% DOMESTIC, 4% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$4.5BN

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. ■

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LA TROBE FINANCIAL



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

USE OF SECURITISATION

TYPES 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\$87M

La Trobe Financial is a leading credit specialist focused on residential and commercial assets. It offers credit solutions for prime and alternate income-verification consumers that mainstream providers do not accommodate. Formed in 1952, La Trobe Financial 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 undertook its initial RMBS offering in 2014 and subsequent issues are planned. ■

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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	54%
NUMBER OF SECURITISATIONS ISSUED	32
TOTAL VOLUME ISSUED	A\$12BN+
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	83% DOMESTIC, 17% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$1.5BN

All data as at August 31 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 more than 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 charge-offs ever experienced by its originated securities or programmes. ■

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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 the Macquarie Group.

Macquarie Group

Macquarie Group is a global financial-services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world. Founded in 1969, Macquarie Group employs more than 13,900 people in 28 countries. At March 31 2014, Macquarie Group had assets under management of A\$427 billion. Macquarie Group is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by the Australian Prudential Regulation Authority – the Australian banking regulator – as the owner of Macquarie Bank, an authorised deposit taker. ■

SMART PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
NUMBER OF SECURITISATIONS ISSUED	24
TOTAL VOLUME ISSUED	A\$17BN EQUIV.
CURRENCIES ON ISSUE	USD, AUD, GBP, EUR
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$5.6BN EQUIV.

PUMA PROGRAMME

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED	56
TOTAL VOLUME ISSUED	A\$49BN EQUIV.
CURRENCIES ON ISSUE	AUD, USD, EUR
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$9.3BN EQUIV.

NB Data exclude internal and warehouse transactions.

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ME BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAMES	MAXIS, SMHL

USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
NUMBER OF SECURITISATIONS ISSUED*	43
TOTAL VOLUME ISSUED	A\$40.5BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	A\$24.0BN, US\$10.4BN, €2.2BN
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$6.7BN, US\$241M, €90M

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

ME Bank is owned by 30 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. ■

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MYSTATE



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	45.35%
NUMBER OF SECURITISATIONS ISSUED	4
TOTAL VOLUME ISSUED	A\$1.33BN*
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$489.03M

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

MyState Bank (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. ■

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NATIONAL AUSTRALIA BANK



AUSTRALIAN ADI	YES
SECURITISATION PROGRAMME NAME	NATIONAL RMBS TRUST

USE OF SECURITISATION

TYPES OF SECURITISATION ISSUED	RMBS, ABS
OUTSTANDING SECURITISATIONS ISSUED	3 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 with limited liability in the Commonwealth of Australia.

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. ■

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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	42.5%
NUMBER OF SECURITISATIONS ISSUED	4
TOTAL VOLUME ISSUED	A\$1.59BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	100% DOMESTIC
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$576M

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 345,000 members serviced through 56 branches in South Australia, Northern Territory, Victoria, Western Australia, Australian Capital Territory and New South Wales.

Australian Central Credit Union, 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. ■

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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	13 PRS (5 OUTSTANDING, 8 CALLED) 3 PEPPER PRIME (3 OUTSTANDING)
TOTAL VOLUME ISSUED	A\$5.6BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	90% DOMESTIC, 10% OFFSHORE*
OUTSTANDING VOLUME OF SECURITISED ISSUES	A\$1.8BN, US\$560M

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

Established in 2001, Pepper 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 more than a decade and has expanded to also offer prime residential mortgages and auto 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, personal loans and unsecured small-business loans. ■

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RESIMAC



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

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	70%
NUMBER OF SECURITISATIONS ISSUED	28
TOTAL VOLUME ISSUED	A\$16.6BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE	64% DOMESTIC, 36% 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 issued more than A\$16 billion equivalent in 28 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. ■

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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\$3.55BN, €186.5M

* 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-15 Australian Securities Exchange-listed company with assets of A\$94 billion. It has around 14,500 employees and relationships with approximately nine million customers. Suncorp Bank is Australia's fifth-largest listed bank and Australia's largest regional bank. ■

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WESTPAC BANKING CORPORATION



AUSTRALIAN ADI	YES
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RMBS PROGRAMME

SECURITISATION PROGRAMME NAMES	WESTPAC SECURITISATION TRUST (WST), CRUSADE RMBS
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USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	RMBS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5%
NUMBER OF SECURITISATIONS ISSUED	40
TOTAL VOLUME ISSUED ²	APPROX. A\$73.7BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	60% DOMESTIC, 40% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$12.3BN

1. Includes RMBS and ABS.
2. Approx. 54% Crusade RMBS, 46% WST RMBS.
3. Based on issues currently outstanding.

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 March 31 2014, Westpac had total assets of A\$729.4 billion. Westpac's ordinary shares and certain other securities are quoted on the Australian Securities Exchange and, as at March 31 2014, its market capitalisation was A\$107 billion. ■

ABS PROGRAMME

SECURITISATION PROGRAMME NAMES	CRUSADE ABS, BELLA TRUST
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USE OF SECURITISATION

TYPE OF SECURITISATION ISSUED	ABS
PROPORTION OF OUTSTANDING WHOLESALE FUNDING SOURCED VIA SECURITISATION ¹	5%
NUMBER OF SECURITISATIONS ISSUED	12
TOTAL VOLUME ISSUED ²	APPROX. A\$8.4BN
TOTAL DOMESTIC VS OFFSHORE ISSUANCE ³	85% DOMESTIC, 15% OFFSHORE
OUTSTANDING VOLUME OF SECURITISED ISSUES	APPROX. A\$2.3BN

1. Includes RMBS and ABS.
2. Approx. 50% Crusade ABS, 50% Bella ABS.
3. Based on issues currently outstanding.

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ASF 2015 EDUCATION DATES

February 17&18 SECURITISATION PROFESSIONALS <i>Sydney</i>	February 19 SECURITISATION FUNDAMENTALS <i>Sydney</i>	March 24 SECURITISATION FUNDAMENTALS <i>Melbourne</i>
May 5&6 SECURITISATION PROFESSIONALS <i>Melbourne</i>	May 29 SECURITISATION FUNDAMENTALS <i>Sydney</i>	June 3&4 SECURITISATION PROFESSIONALS <i>Sydney</i>

- ◆ Securitisation Fundamentals is the ASF's entry-level, half-day workshop. It is designed to introduce participants to the purpose, features and operation of securitisation, and the market in which it exists.
- ◆ Securitisation Professionals is the ASF's flagship workshop, lasting two days. With fellow practitioners, participants will cover the whole securitisation value chain in detail, including structuring, credit and pricing as well as legal, regulatory, accounting and tax issues.



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

Only a global universal bank can span all businesses and borders

Passion to Perform

Secured Funding – RMBS



Bendigo and Adelaide Bank
TORRENS Series 2014-1 Trust
Prime RMBS
AUD 500 million
Sole Arranger
Joint Lead Manager
Joint Bookrunner
March 2014



AMP Bank
PROGRESS 2014-1 Trust
Prime RMBS
AUD 1.0 billion
Sole Arranger
Joint Lead Manager
Joint Bookrunner
March 2014



Liberty Funding
Liberty Series 2014-1
RMBS
AUD 300 million
Sole Arranger
Joint Lead Manager
Joint Bookrunner
April 2014



ME Bank
SMHL SERIES SF 2014-1
Prime RMBS
AUD 1.45 billion
Joint Lead Manager
Joint Bookrunner
August 2014

Secured Funding – Covered Bonds



Westpac Banking Corporation
Covered Bond
EUR 1.0 billion
Joint Bookrunner
March 2014

Secured Funding – CMBS



Think Tank
Think Tank Series 2014-1 Trust
Small ticket CMBS
AUD 114 million
Sole Arranger
Joint Lead Manager
Joint Bookrunner
July 2014

