



New Zealand Market Subcommittee

Australian Securitisation Forum

Level 7, 14 Martin Place, Sydney NSW 2000

T +61 (0)2 9189 1840

E asf@securitisation.com.au

www.securitisation.com.au

19 May 2023

Walter Shea, Resilience Policy
Prudential Policy Department
Reserve Bank of New Zealand – Te Pūtea Matua
PO Box 2498
Wellington 6140

Liquidity Policy Review - Consultation paper #2 – Significant Policy Issues ("Consultation")

1. Thank you for allowing the Australian Securitisation Form ("**ASF**") to make a late submission on the Consultation.
2. The ASF is the peak body representing the securitisation industry in Australia and New Zealand and its New Zealand Market Subcommittee advocates specifically on behalf of participants in the New Zealand securitisation industry. The ASF's role is to promote the development of securitisation in Australia and New Zealand by facilitating the formation of industry views on policy and market matters to policymakers and regulators in Australia, New Zealand and globally. Our members include registered banks, wholesale-funded non-bank lenders, trustees and investors that participate in securitisation transactions domestically and internationally which total in excess of 180 such organisations.
3. ASF has reviewed the Consultation, in particular, Sections 4 and 5 and believes that the proposal to exclude RMBS and ABS from the list of eligible primary and secondary liquid assets ("**PSLA**")/ high quality liquid assets ("**HQLA**") on the basis that there is no private market for these securities is incorrect.

4. While we understand the rationale for wanting to tighten the eligibility criteria for PLSA/HQLA, we believe the proposal suggested is too conservative and misstates¹ the liquidity that currently exists and, during a stress period, could exist for New Zealand RBMS and ABS. Furthermore, the proposal to exclude RMBS from the proposed Category 2² takes an inconsistent approach to that taken by the BCBS which includes RMBS as Level 2B subject to various criteria (including those set out in the Consultation).
5. We have set out some information in this letter which highlights that there is a private market for these securities and believe that such securities could remain liquid in a stress period. On that basis, the ASF believes that RMBS and ASB (AAA rated) should be treated as Category 2 assets, albeit with higher haircuts (i.e. Level 2B consistent the approach taken by the BCBS).
6. We believe that RMBS and ABS are liquid albeit that liquidity is not always visible in the New Zealand market as most investors tend to buy and hold the securities to maturity. There is, however, a vibrant secondary market in Australia, with one bank facilitating monthly trading volumes of around A\$300m per month, with some months exceeding A\$1bn.
7. In addition, when Australian RMBS/ABS were offered for sale via “Bids Wanted In Competition” or “BWIC” in the second half of 2022, the asset classes proved resilient with the vast majority of securities trading at above \$98 - well above the BCBS LCR criteria for Level 2B HQLA.
8. The ASF submits that delinking liquidity assets from repo-eligibility could potentially make the relevant securities less liquid. We believe the investor base for all eligible securities (including RMBS, ABS and Kauri bonds) could be expanded if eligible securities were confirmed as being repo-eligible before the issue date of the relevant securities. Currently, investors who need certainty as to repo-eligibility, may not purchase the relevant security because repo-eligibility is not confirmed at the time the issuer comes to market. This means some investors choose not to participate in the primary offer. If repo-eligibility could be confirmed before the issuer comes to market, ASF believes more investors would participate in the relevant offers, which, in turn, should increase liquidity over the longer term.
9. Finally, we note that during a stress period, liquidity in all securities will generally decrease. However, unlike securities with a bullet payment on maturity, RMBS and ABS have pass-through payment structures. This means the holders of these AAA securities are getting liquidity via regular principal repayments while also benefiting

¹ Appendix 2 of the Consultation states that two-name RMBS and ABS have "no private market".

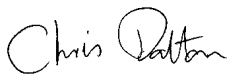
² See Table 2 of the Consultation, page 24.

from credit enhancement from the subordinated notes in the capital structure. This, together with the floating rate natures of RMBS and ABS should mean that these securities are still liquid during a stress period.

10. For the reasons set out above, we believe that two-name RMBS and ABS should be categorised as Category 2 securities.

11. The ASF greatly appreciates your consideration of the matters raised in this letter and is more than happy to discuss them in further detail (and indeed any other matter relating to the New Zealand securitisation market) with the RBNZ. In this regard, any enquiries or correspondence may be addressed to Chris Dalton at cdalton@securitisation.com.au and Simon O'Connell at simon.oconnell@westpac.co.nz

Yours sincerely



Chris Dalton
Chief Executive Officer
Australian Securitisation Forum



Simon O'Connell
Head of Structured Finance, Westpac
ASF New Zealand Market sub-committee chair