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Council of Financial Regulators
CFR Review into Small and Medium Banks
Financial System Division
Australian Treasury

By email: CFRReview@treasury.gov.au

Dear Council representatives

Review into Small and Medium-sized Banks Issues Paper by the Council of Financial Regulators (CFR) in consultation with the Australian Competition and Consumer Commission (Issues Paper) The Australian Securitisation Forum Submission

On behalf of The Australian Securitisation Forum (ASF) and its members, we are writing to address and respond to several of the issues and questions in the Issues Paper. The ASF's responses to those questions are set out in Annexure 1 to this letter. We also provide in the first part of this letter a succinct overview of the Australian securitisation market and a submission addressing related issues and themes in the Issues Paper, for consideration by the CFR.

1. Australian Securitisation Forum

The ASF is the peak industry association representing the securitisation and covered bond sectors in Australia and New Zealand. The ASF's role is to promote the development of securitisation and covered bonds in Australia and in New Zealand by facilitating the formation of industry positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. The ASF is comprised of a National Committee, specific subcommittees and a membership of over 200 financial institutions and market organisations. Further information on the ASF and its activities can be found at www.securitisation.com.au

2. Overview of the Australian securitisation market as a source of funding

Brief overview

2.1 Securitisation is an important part of Australia's financial system and is a flexible funding tool for regulated bank, non-bank and new emerging lenders seeking to fund their businesses through the debt capital markets. Securitisation benefits homeowners, consumers and small business through increased competition and product innovation and can also serve parts of the market that some regulated banks find less attractive.

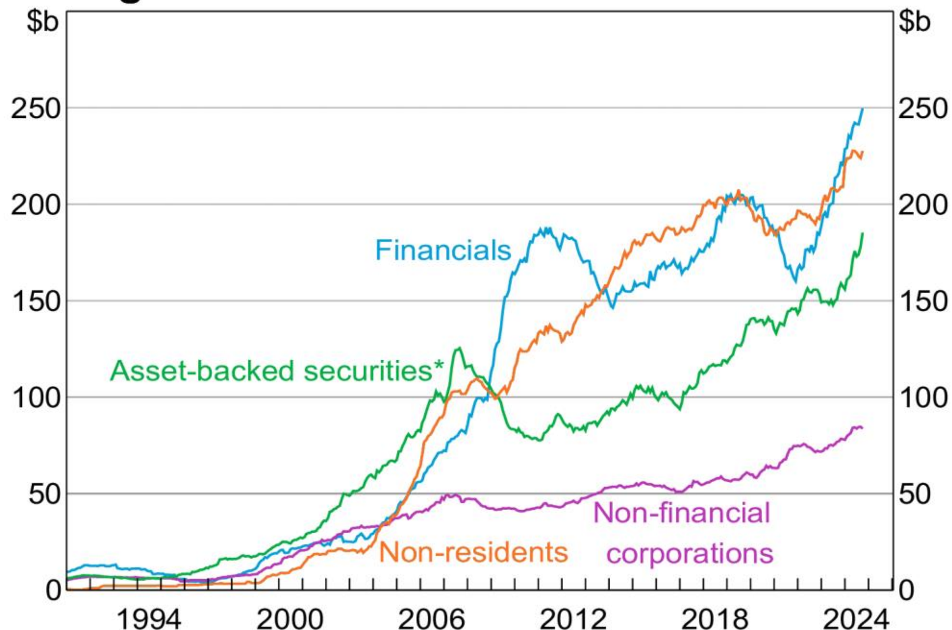
Securitisation is a form of secured funding backed by a pool of financial receivables. The process involves the creation of a bankruptcy remote special purpose vehicle which issues debt securities to purchase a pool of financial assets. The investors in those securities are insulated from the corporate insolvency risk of the lender or originator of the assets and are dependent on the cash flows of the assets for the repayment of principal and interest. This insulation allows the credit of the portfolio to be rated by credit rating agencies more highly than the credit of the lender or originator, which in turn allows borrowing to be made available at lower rates. Such cost savings frequently reduce the costs ultimately faced by borrowers.

Size of the Australian securitisation market

2,2 According to the latest release from the Australian Bureau of Statistics, as at 30 September 2024, total assets outstanding for Australian securitisers were A$189 billion.

Total public issuance over 2024 reached A$80 billion across 100 individual transactions and 57 organisations. This total eclipsed the 2023 post GFC record issuance volume of A$52.3 billion and the previous high-water mark of A$64 billion that was set back in 2006. A notable feature of 2024 was the continuing growth of the ABS sector with auto ABS issues being successfully placed with domestic and international investors. The auto and other ABS market also set its own record with more than A$16 billion being issued by the end of 2024.

According to the Reserve Bank of Australia (RBA), asset backed securities represent a significant proportion of non-government securities outstanding in the Australian bond market.



This demonstrates that securitisation represents an important part of the funding requirements of Australian financiers and lenders including both banks and non-banks. Annexure 2 to this letter sets out further key Australian securitisation market statistics, including data from Standard & Poor's, which reflects a highly performing residential mortgage-backed securities (RMBS) market with moderate level of arrears.

2.3 In addition to the traditional forms of RMBS securitisation, the securitisation market has diversified in terms of innovation and product offering to consumers with the asset backed securities market having grown significantly in the last three years to include personal loans, credit cards, autos, equipment and other SME lending activities. Non-resident and non-conforming mortgage lending (which largely includes loans to the self-employed) continue to be dominated by the non-bank sector and consequently form part of the RMBS securitisation market.

2.4 A number of first-time RMBS and ABS issuers were welcomed to the capital markets in 2024. These included Orde Financial, Household Capital, MoneyMe, ScotPac and BNK Banking Corporation. These new programs financed mortgages, autos, reverse mortgages and SME receivables evidencing the increasing diversity and variety of the securitisation market. There were also several small bank ABS issues in 2024 from MyState, P&N Bank, Defence Bank, IMB Bank and Auswide who rely on the capital relief nature of securitisation to assist them manage their capital which, in turn, provides them with the ability to be more competitive in providing lending products, laying the way for their future growth.

ASF perspective

The Australian securitisation market is a very successful and active financial market segment that serves a vital role in facilitating the supply of finance for homeowners, consumers and SME businesses. The Australian securitisation market is a growing and diversified public (non-government) market. It provides a competitive dynamic in Australia's concentrated banking market to exert downward pressure on margins for mortgages and other consumer and SME finance than otherwise would prevail in the absence of the public securitisation market.

3. Australian regulation of securitisation

Regulatory framework

3.1 Securitisation allows banks to efficiently manage their capital base. Regulatory and economic capital can be recycled as securitisation allows the funding and credit risk of a portfolio to be transferred to third parties, typically institutional investors. Securitisation allows a lender to continuing to originate new loans without the need to maintain the assets on its own balance sheet and avoids the consequential need to increase the capital base.

3.2 Australia has a well-developed prudential framework in place for securitisations. However, unlike Europe and the US, it has never considered it necessary to introduce non-prudential regulation of securitisations (such as risk retention or prescriptive investor due diligence requirements) but rather has taken a measured approached to regulatory intervention.

3.3 Other than specific prudential regulation such as Australian Prudential Standard 120 – Securitisation (APS120) and APS112/APS113 – Capital Adequacy) applicable to authorised deposit taking institutions (ADIs), the Australian domestic securitisation market has managed to self-regulate on both the buy and sell sides. The departure from a prescriptive European style securitisation regulation (governing all attributes of securitisation issuance and investment) has not resulted in systemic risks appearing in the Australian securitisation market.

In fact, investment in Australian securitisations continues to grow with newer entrants accessing the market and more diverse assets being securitised (refer to paragraph 2.4 above). The investor base for Australian securitisations has also expanded significantly beyond the domestic market to include the United Kingdom, Europe, Asia (particularly Japan) and to a degree the United States. This is a testament to the strength of the practices employed by Australian issuers managing securitisation portfolios and the structural protections incorporated into Australian securitisation transactions.

3.4 There are market driven data reporting guidelines for SME loan data developed by the market to encourage a consistent approach to reporting with respect to commercial transactions. Although this is not strictly an investor requirement, its aim has been to provide a standard of reporting to which local and offshore investors are receptive. An example is the ASF's data reporting template for SME receivables which can be found on the ASF's website: https://www.securitisation.com.au/market_guidelines/sme-reporting-template

Separately, the RBA conducts regular open market liquidity operations to provide liquidity to financial institutions by entering into repo transactions with respect to its asset backed securities which are subject to certain eligibility criteria. A key eligibility criterion is the loan level data (LLD) reporting requirements for residential mortgages (for which the RBA has prescribed its LLD template). Again, this is not a strict investor requirement but a guideline which only applies if a sponsor/originator is keen to ensure liquidity with the RBA.

Australian prudential treatment of securitisation

3.5 Prudential regulation has a primary focus on financial stability and depositor protection. Progressive reforms of prudential regulation affecting the lending for home ownership reflect the Government's direction to APRA to implement a policy to achieve "*an unquestionably strong*" profile for all regulated ADIs in Australia. However, the economic outcomes for newer and smaller bank entrants in terms of the cost of capital can be perverse.

The prudential framework for securitisation (i.e. APS120 and APS112/APS113) is specifically applicable to ADIs in their capacity as bank issuers and also to non-bank lenders who rely on bank warehouse facilities, provided by large and medium-sized banks, as a fundamental stage in their originations funding cycle.

3.6 The size of a small/medium bank can be a constraining factor in its ability to transfer and manage assets in a warehouse or public term securitisation. Some small banks are required by APRA to maintain a certain level of internal securitisation for liquidity management purposes. This can place some limitations on the capacity of the bank to use other assets either in a warehouse funding or term funding structure.

3.7 Another factor that can inhibit the ability of a small bank to use warehouse funding is the lack of scale, skills, experience, resourcing and reporting systems required to implement and manage the funding of assets through either a warehouse or public term transaction. To assist these smaller ADIs expand their funding opportunities, Treasury and APRA should consider permitting them to form strategic alliances with larger non-bank securitisation issuers who already have the systems, technical resources and experience to operate an asset backed securitisation program and access wholesale funding through the capital markets. The commercial alliance could be achieved by the larger non-bank taking a minority shareholding in the smaller ADI.

3.8 The current capital and liquidity requirements present challenges to newer and smaller bank entrants by limiting their capacity to undertake capital efficient residential mortgage lending thereby making them a less price competitive option for borrowers. This should be contrasted with the position in the United Kingdom where new bank entrants are afforded more favourable capital treatment until they reach a certain size and scale in their loan origination and business development journey.

APRA's proposed changes to its liquidity standard for ADIs subject to 'minimum liquidity holdings' (MLH) could, in fact, favour funding via issuance of RMBS rather than senior unsecured corporate debt. The ASF believes that ADIs who hold senior tranches of RMBS issued by other ADIs arguably take less risk against the issuer as the exposure is to a diversified pool of residential mortgages.

3.9 Given the homogenous nature of Australian residential mortgage loans and their strong ongoing performance, it would make economic sense for APRA to reduce risk weights on residential mortgages overall. The risk weighting for specific loans such as residential construction loans is even more severe and is having a negative impact on the availability and cost of these loans to the borrower. Construction loans attract risk weighting of 150% which means that originators must maintain at least 12% credit enhancement in the warehouse compared with only 8% for standard mortgage loans. Obviously, this means that originators pay to their bank warehouse providers a significantly higher margin for construction loans resulting in costly financing for a borrower to obtain a residential construction loan.

APS120 - Securitisation

3.10 The restrictive treatment of some standard securitisation features and structures under APS120 do represent a challenge for the Australian market and are at stark contrast with how they are treated in other jurisdictions such as Europe and the United Kingdom. For example, APRA conservatively considers basis swaps (an inherent structural feature of cash flow management of securitisation transactions) a form of implicit support and as a consequence are included as part of the capital cost of the transaction.

ASF perspective

The current prudential framework does not necessarily take into account proportionate treatment of specific lenders and product lending types. To give greater balance to prudential regulatory settings to prioritise home ownership and competition in home loan lending, the Government should reconsider if the regulatory capital treatment applicable to new bank entrants and risk weights for certain loans such as first home loans or residential construction loans are appropriate and reflect the financial strength of the borrowing cohort. It is also recommended that senior tranches of RMBS be treated as being eligible as Level 2 high quality liquid assets (HQLA) and minimum liquidity holding (MLH) assets.

4. Government intervention in the Australian securitisation market

Earlier intervention

4.1 In the 1980s a number of state governments established funding programs to provide home loans to borrowers that did not meet the lending criteria of the main banks. Examples of these programs included the Fanmac mortgage-backed bond program established by the New South Wales State Government and the National Mortgage Market Corporation mortgage-backed bonds established by the Victorian Government. These residential mortgage-backed securities were issued with a guarantee of the respective state governments (at the time rated 'AAA'). The programs enjoyed some success in terms of debt capital market acceptance but started to come under pressure when the recession of the early 1990s increased borrower defaults and property price declines were witnessed in a number of regions in Australia. Ultimately the cost to the state governments of increasing defaults, interest rate mismatches and property price declines eventuated in a wind up of the various programs at a significant cost to taxpayers.

Government guaranteed securitisation program

4.2 The case for a Federal Government guaranteed (and managed) funding program may be borne out of the best of intentions (for example, as a means to assist improve housing affordability). However, the cost of establishing and managing such a program to fund home loans would be considerable and would be ultimately borne by the taxpayer or have to be incorporated into the cost of lending and paid for by the borrower. Such a

program would also fundamentally alter the way in which the Australian securitisation market operates by ‘’crowding out’’ or possibly eliminating the domestic and global investor base that has taken the Australian securitisation industry several decades to develop.

ASF perspective

Historical long-term interventions in the home loan market to influence the affordability of housing and availability of finance have not had stellar outcomes for taxpayers who bore the cost of both the NSW and Victorian schemes. The ASF has concerns with any Federal Government backed and guaranteed securitisation program being introduced as an alternative to the current established and well-functioning securitisation market. As well as having the potential to ‘crowd out’ an established private securitisation market, there is no certainty that a government backed securitisation program can provide smaller and medium sized ADIs with cheaper funding than wholesale market funding,

Temporary government Intervention for market disruptions

4.3 The Federal Government, through the Australian Office of Financial Management (AOFM), first interceded in the public RMBS market at the time of the global financial crisis in 2008 to provide liquidity to a market that had been disrupted at a global level. The scheme was an enormous success, with all government investments eventually refinanced and rather than creating any losses, yielded a profit to the Australian taxpayer.

4.4 This successful form of government support led to the design and implementation of the Structured Finance Support Fund (SFSF) during the COVID period commencing in 2020, again to ensure that in an adverse domestic and global bond market with limited liquidity brought about by a global pandemic, non-bank originating lenders would still be able to raise funds from the public bond market and continue to provide home loans to Australian borrowers.

The SFSF allocated public funds for qualifying investments in both public securities and private warehousing. The SFSF complimented the RBA’s Term Funding Facility (TFF) by providing liquidity to qualifying ADIs. The corollary of these forms of sponsored intervention was that as soon as the private bond markets were fully functional, the investments would be refinanced over a period of time. This arrangement was to ensure that the SFSF (and even the TFF) would be made whole and despite the advantageous pricing of the schemes, there would be little risk of any losses to the Australian taxpayer. In fact, the TFF has been refinanced and all remaining SFSF commitments are being sold into the wholesale markets by a way of a BWIC process.

The Government was able to implement the SFSF in a relatively short timeframe because there was broad political support for a standalone sponsored support fund that would provide investments in securitisation transactions rather than guaranteeing the entire transaction. Legislation was introduced and passed in record time and the infrastructure for administering the SFSF was already in existence with the Government’s debt financing

arm, the AOFM, again fulfilling the role. This approach set Australia apart from other global jurisdictions by creating a level of confidence that saw real money investors continuing to support Australian securitisations throughout the pandemic.

ASF perspective

Given the success of the SFSF and the knowledge and skills developed by the Government through the establishment and administration of the SFSF, it would be beneficial for a SFSF style liquidity back stop facility to be maintained which could be easily activated at the discretion of and under the direction of the Treasurer or Minister of Finance in the event of a disruption in the banking and capital markets or to address other significant market distortions. It is highly recommended that securitisation market expertise be retained within the AOFM or elsewhere in the Treasury departments to manage future financial market disruption that will disproportionately impact small and medium banks and non-bank lenders.

A repurposed SFSF would help ensure that smaller banks (including mutual ADIs who rely on capital relief securitisations to manage APRA prescribed capital requirements) and non-banks, who rely solely or significantly on the securitisation market to fund their loans, would still be able to originate and write new loans and of course compete where necessary with the larger ADIs who are less reliant on securitisation as a wholesale funding source.

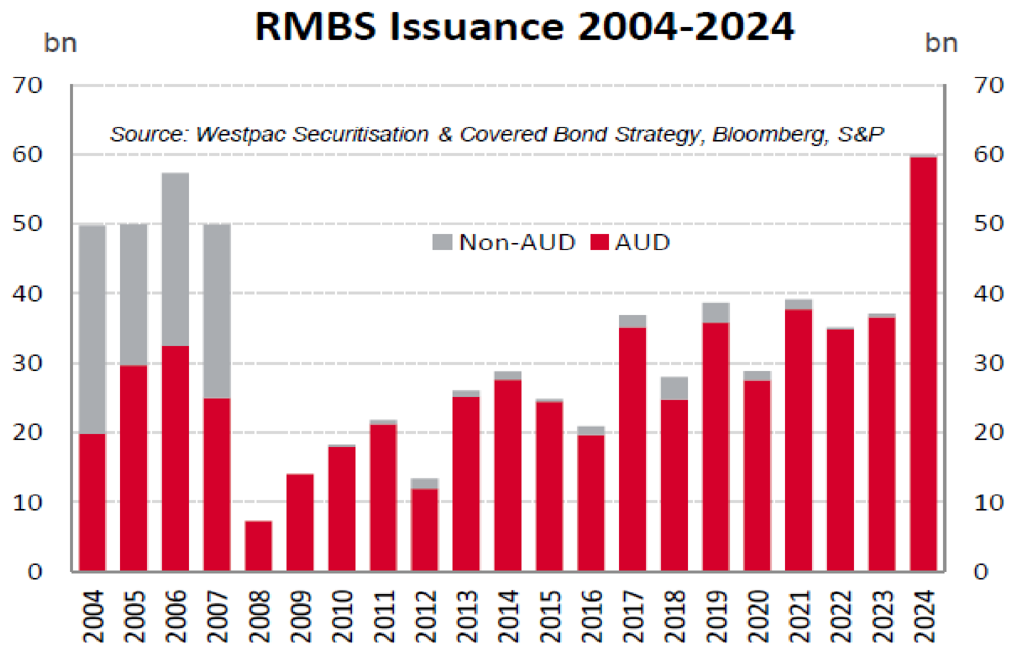
5. Australian covered bond market

5.1 The Australian covered bond market came into existence in 2011 when the Australian Government introduced legislation allowing covered bonds to be issued by ADIs. The regulatory framework allows ADIs to issue covered bonds up to 8% of an ADI's total assets in Australia. There are currently 9 Australian ADI covered bond issuers who comprise the 5 largest Australian ADIs, 3 mid-sized regional based ADIs and the Australian arm of a foreign bank. These issuers seldom reach their 8% asset encumbrance cap as we understand they are encouraged by APRA (as the supervisory authority) to stay well below the cap by treating their covered bond programs as an alternate or emergency funding source.

5.2 Given the opportunity, there would be greater reliance on these covered bond programs as local and particularly offshore investor demand is strong. In fact, there is consistent support among the medium-sized covered bond issuers to make greater use of their covered bond programs, as pricing is more favourable than senior secured paper, and accordingly would support an increase to the legislative cap from 8% to 12%-15%. In fact, by increasing the size of the Australian covered bond market, eventually it may be justifiable for covered bonds to be treated as being eligible as Level 2 high quality liquid assets (HQLA).

Covered bonds programs are unlikely to be attractive to smaller ADIs due to the cost of establishing and the operational complexity of such a program and the restrictions that APRA place on their use. Covered bond programs are more suited to ADIs with scale and internal systems and skills to manage their ongoing operation.

It is possible that any increase in the legislative cap on covered bond issuance may negatively impact the issuance of RMBS even temporarily. This pattern is seen in the graph below when issuance of RMBS fell as banks established their covered bond programs.



ASF perspective

The ASF advocates for an increase to the legislative cap under the Banking Act from 8% to 12% or 15% to provide greater diversity of funding particularly for medium-sized ADIs.

6. Multi seller structures

6.1 Over recent decades, there has been many discussions and a desire to create a capital markets funding structure to allow a number of small lenders to pool eligible financial receivables such as residential mortgages to create a portfolio of financial assets to issue a mortgage-backed security to capital market investors.

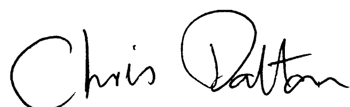
6.2 While such a multi-seller structure is possible, it has proven to be difficult to implement amongst a group of lenders such as small banks or mutual banks to date. A multi-seller structure cannot be effectively implemented unless the problems to be solved by that structure are clearly articulated, and the structure addresses those problems without creating additional or unanticipated issues. It would need to be confirmed, for example, whether the primary drivers for the structure were market access and issuance size issues and/or broader cost, bandwidth and operationalisation issues. In addition, ownership, cost and responsibility issues would need to be allocated in a fair, efficient and resilient manner.

6.3 The additional issues that can arise from a multi-seller structure that do not arise in single-seller structures can include those resulting from cross-collateralisation. Where a multi-seller structure includes cross collateralisation amongst assets contributed by participating banks, each participating bank may become exposed to the credit of the other participating banks and/or to the credit performance of assets they contribute to the portfolio. Resolving these issues in a manner that works for both participating banks and funders can be challenging.

6.4 Additionally, the regulatory capital treatment from APRA for the exposure of individual bank participants makes the economics of such structures difficult. Neu Capital, a debt advisory group, developed Project Bedrock which was a multi-seller securitisation structure for small banks. It is yet to find lenders willing to participate in such a funding program for many of the reasons outlined above. It can be expected that institutional investors will be wary of such structures as they prefer to assess the credit and operational risk of an individual seller when deciding whether or not to invest.

If you have any queries or would like to discuss any aspect of this letter, please do not hesitate to contact either Chris Dalton, Chief Executive Officer at cdalton@securitisation.com.au or Robert Gallimore, Policy Director at rgallimore@securitisation.com.au

Yours sincerely,



Chris Dalton, Chief Executive Officer – Australian Securitisation Forum

Annexure 1 – Responses to questions in Issues Paper

Proportionality in regulation

1. *Do the regulatory and supervisory frameworks strike an appropriate balance between safety, stability, and competition? Please provide examples.*

   The current regulatory and supervisory framework does not encourage or facilitate non-banks to seek a banking licence. An example reported is the various attempts by Firstmac to obtain a licence during the last decade. Furthermore, the additional capital and supervisory scrutiny of new banks by APRA impede the development and scale of new entrants.

2. *Are regulators' approaches to regulation and supervision (including tiering and implementation approaches) suitably proportionate, efficient and effective, having regard to the size, complexity and risks associated with different segments of the banking sector?*

   The impact of regulation and supervision on small and medium banks (and other smaller lenders) should be considered not only through the primary lens of the compliance costs and consequences of that regulation in operating that entity's business, but also through the flow on cost and impact that regulation can have in other areas such as funding. In particular, accessing asset-backed funding on a heavily regulated asset base can impose substantial further compliance costs on a smaller institution, such as those associated with providing third-party compliance comfort to funders on the regulated assets on the consequences to funders of non-compliance by the smaller institution. For example, the greater the number of regulations applicable to the underlying assets, the greater the level (and cost) of compliance diligence and third-party legal opinions that must be procured and delivered to execute that funding transaction.

   The ASF also understands from its members that APRA applies undocumented restrictions with regulatory frameworks that impose an additional element of conservatism to prudential regulation. An example is the discouragement of banks to issue covered bonds that approach the current legislative threshold of 8%.

3. *Are regulators' data collections and reporting requirements proportionate? If not, please provide specific examples of requirements that could be adjusted (e.g. frequency) or removed.*

   A consistent format and data field definitions should be agreed by the regulatory community and industry to minimise cost and time in providing multiple forms of reporting to regulatory and supervisory authorities such as APRA, RBA and ABS.

4. *Are current financial system protections for consumers appropriate? Are there any steps that could be taken to improve consumer outcomes?*

   ASIC should reconsider the value of product disclosure statements (PDS) as they are legalistically constructed and generally not read or absorbed by consumers.

5. *Are there changes that could be made to resolution tools (including the FCS) that would enhance the balance between safety, stability and competition in the overall regulatory framework?*

   The ASF has no comment.

Funding

6. *What are the key funding issues faced by the small and medium banks sector? What are the most important to you and why? Are there any further issues that you would like to raise?*

   Small banks are challenged by their scale, the cost of technology and skills sets of its staff. Small banks are mainly funded by customer deposits [up to 90+%]. The Government should consider lifting the Financial Claims Scheme threshold to $500,000 to aid greater retail funding of small and medium banks.

7. *What steps could industry or the government take to improve access to funding for small and medium banks to increase competition in, and the competitiveness of, the Australian banking sector? What are the costs and benefits of these, including for bank customers?*

   The securitisation market should be supported to provide a greater opportunity for small and medium banks (and other smaller lenders) to obtain matched term funding for assets they originate and provide an economic way to recycle their regulatory capital to facilitate growth and product competition.

   As suggested in paragraph 4.4 above the ASF suggests that the SFSF be repurposed to be a market liquidity backstop for non-major bank issues of RMBS and ABS. This will support access to 'AAA' rated term funding for small and medium banks.

8. *What changes could be made to existing regulations to contribute to a more competitive funding market? What are the risks and benefits of such changes? How would customers benefit from such changes?*

   As highlighted in paragraph 3.8 above, the current capital and liquidity requirements present challenges for newer and smaller bank entrants by limiting their capacity to undertake capital efficient mortgage lending thereby making them a less price competitive option for borrowers. This should be contrasted with the position in the United Kingdom where new bank entrants are afforded more favourable capital treatment until they reach a certain size and scale in their loan origination and business development journey.

   Given the well-developed and competitive nature of the residential mortgage market in Australia, it is arguable there is already adequate funding available for lenders in the Australian financial markets. However, only the larger of the medium-sized ADIs and notably the large ADIs have the distinct advantage of being able to fund their loans from a variety of funding sources (i.e. customer and business deposits, senior unsecured, covered bond and securitisation programs) which makes their funding capability more efficient than smaller ADIs.

   If smaller ADIs were to have the ability to access a broader range of funding sources by having access to more preferential regulatory capital treatment they would be able to offer more competitive pricing structures for their lending products.

Entry, scale and exit

9. *What is the role and impact of the small and medium banks in providing competition? How does this benefit consumers?*

   Banking has evolved to require scale to offer digital products and services to customers while having the financial resources to invest in technology and cyber protection. Small

and medium banks can have a role in providing specialised services or servicing specific market segments or geographic regions.

10. *How does the nature and extent of competition differ across different banking products and market segments (e.g. mortgages, credit cards, small business lending)? Please provide examples.*

    APRA's risk weightings has driven the banking market to target residential mortgages because they are low risk and regulatory capital efficient.

11. *How has consolidation in the banking sector impacted competition?*

    Whilst there is great concentration in the Australian banking system, competition is evident including in the home loan market. This was recently evident in 2020 to 2022 where banks offered very low fixed rate loans and cash back offers to the benefit of consumers. Other sectors of the market such as the small and medium enterprise (SME) segment tend to be underfunded. This was a conclusion of an ASF 2024 research project undertaken by UTS using government databases.

12. *What are the regulatory, consumer and market trends affecting small and medium banks' competitiveness?*

    Consumers are seeking digital platforms to support flexible assess to banking services and products. Timeliness is also an important factor for consumers. They have an increasing expectation that digital platforms will be safe and secure. This benefits banks with scale, technology expertise and market presence. These trends challenge smaller banks.

13. *What specific barriers and challenges have entities experienced when trying to increase their competitiveness?*

    The investment in compliance and technology are major fixed costs for small and medium banks to absorb. These are major impediments for small and to a degree medium banks to remain competitive.

14. *What would be the characteristics of high levels of competition in the banking sector?*

    Many Australian industries exhibit oligopolistic profiles such a telecommunications, airlines and supermarkets. A competitive banking industry would be characterised by a sizable number of competitive banks supplemented by an adjacent active securitisation market to provide funding for small and medium banks as well as non-bank competitors and financial innovators.

15. *What competitive pressures from sectors outside, or adjacent to, the banking sector are impacting the competitiveness of small and medium banks (e.g. mortgage brokers, non-bank financial institutions, payment providers, expansion of major tech companies and platforms in payment services and financial services)?*

    Australia's mortgage market is now a broker influenced market and potentially provides opportunities for all competitors to meet consumer preference for loan products. A key in a broker influenced market is ease of information submission, application processing and response turnaround time to the borrower.

Technology and AI will continue to change the banking market and require ongoing substantial expenditure in expertise and systems.

16. *Are there barriers to entry (including inefficiencies in licensing frameworks), expansion, and exit? If so, what are these barriers and how could they be removed?*

    As noted in paragraph 3.8 above, Australia's pathway to a banking licence is seen as protracted and lacks clarity compared to other jurisdictions such as the UK. It is suggested that small banks could benefit by allowing a significant minority shareholding of up to 49% to be acquired by major established non-banks who have experience, skills and systems in managing funding through securitisation.

17. *Are there private sector led initiatives that could address some of the issues being faced by the small and medium banking sector? Please provide examples.*

    The securitisation market has demonstrated interest and capacity in additional issues of RMBS and ABS.

18. *How can the risks and benefits of utilising third-party providers be appropriately balanced when being used to achieve scale?*

    The ASF has no comment.

19. *What regulatory or supervisory changes and/or initiatives could be made to assist small and medium banks in gaining benefits from scale?*

    Consideration should be given to allow new banks to enter the market without imposing additional regulatory capital charges that would otherwise be applied to allow them to establish and grow using their regulatory capital more efficiently.

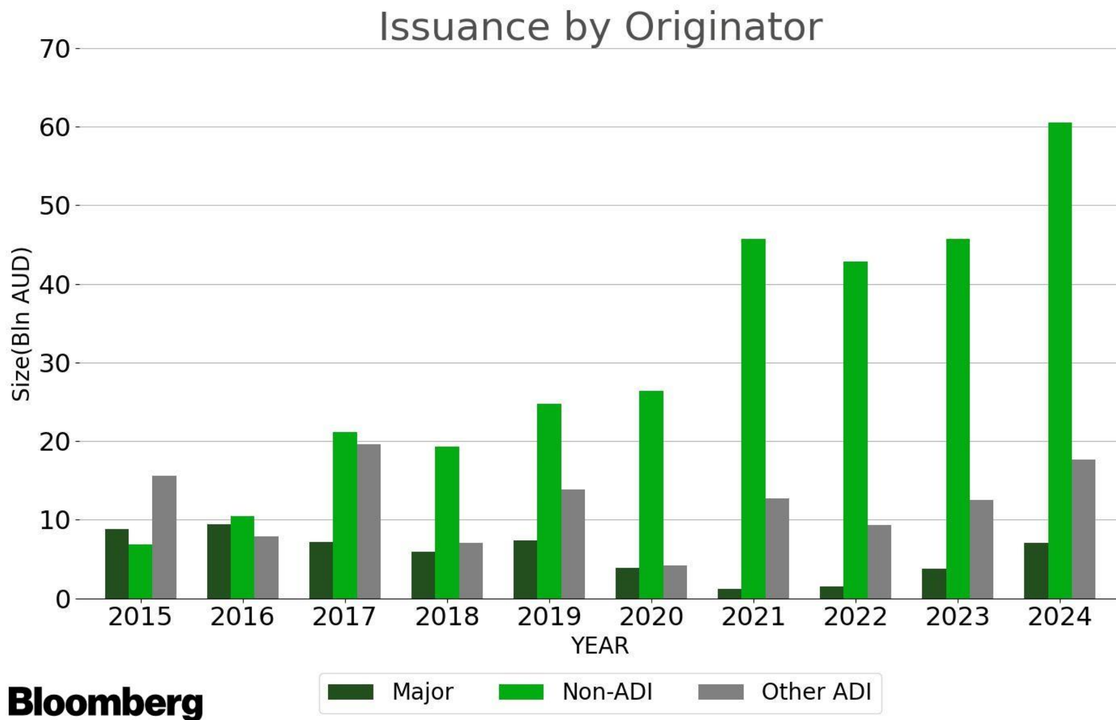
20. *How have customer trends relating to multi-banking changed over time? How does multi-banking affect the ability for banks to compete in the provision of different banking products?*

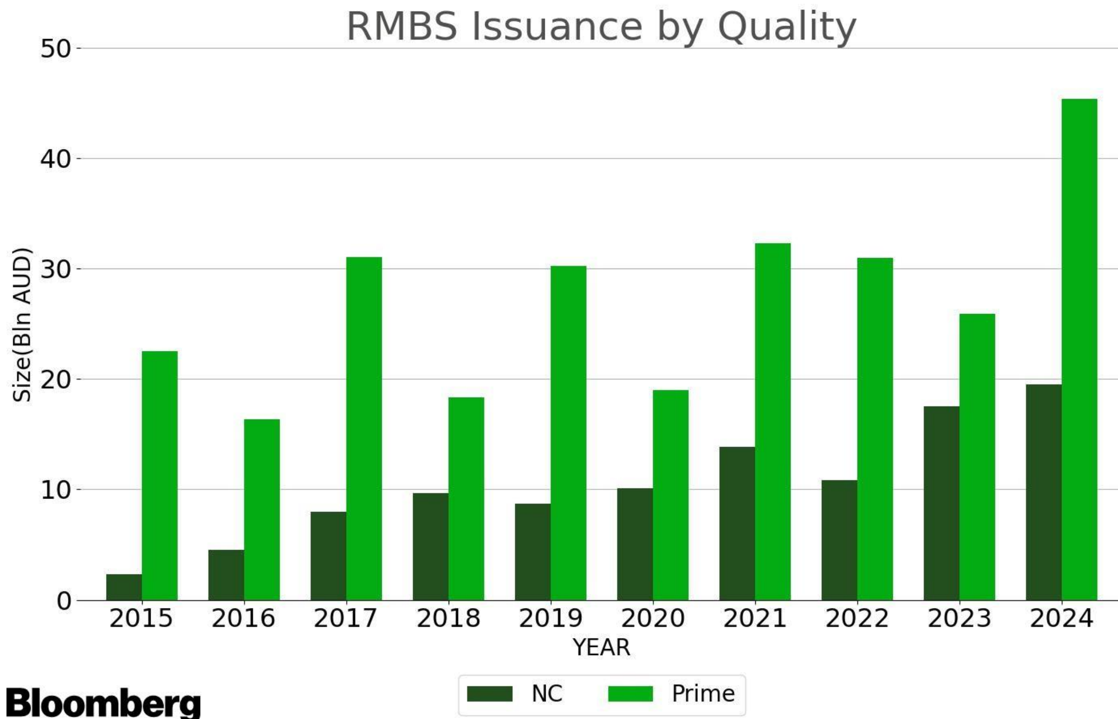
    The ASF has no comment.

21. *Is there a minimum scale of bank necessary to compete effectively whilst meeting customer expectations with respect to a safe, "always on", efficient digital environment (e.g. minimum downtime, effective scam mitigation, cyber risk mitigation, AML protections etc.)?*

    Current trends indicate an increasing degree of scale will be required to meet consumer expectations of always available banking services that are safe and timely.

Annexure 2 – Statistical overview of the Australian securitisation market




RMBS Issuance by Quality
50
40
30
20
10
0
Size(Bln AUD)
2015
2016
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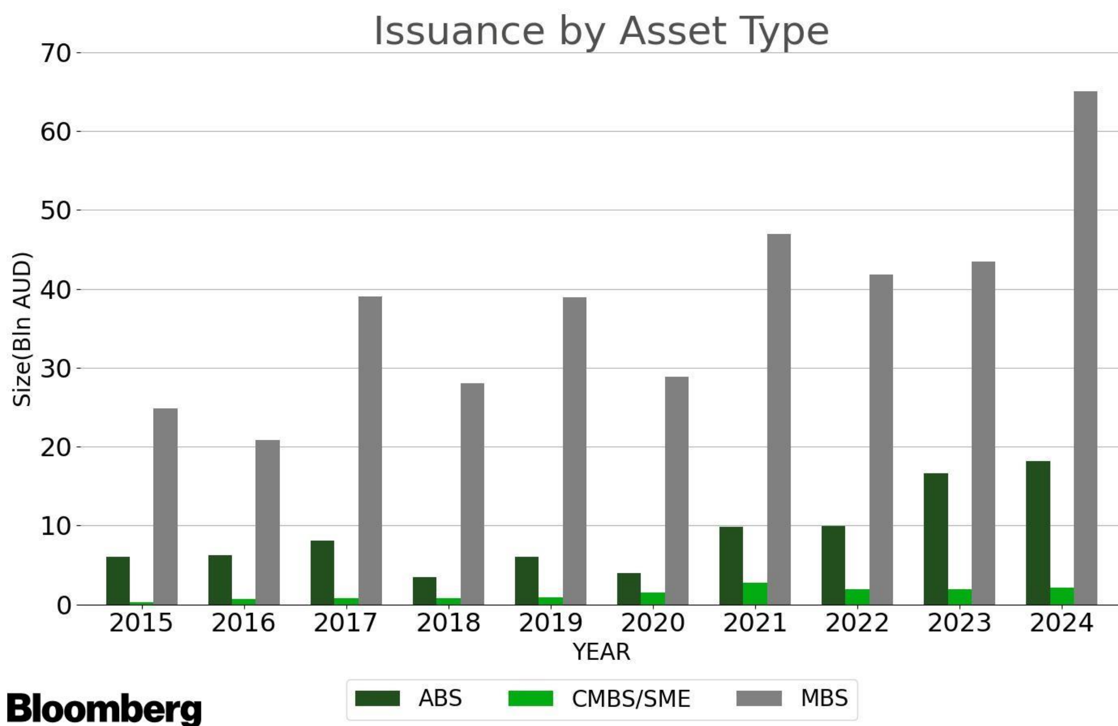
2023
2024
YEAR
Bloomberg
NC
Prime


Issuance by Asset Type
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60
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Size(Bln AUD)
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2018
2019
2020
2021
2022
2023
2024
YEAR
Bloomberg
ABS
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MBS

Standard & Poor's RMBS Performance Watch Australia – Prime RMBS Arrears (Excluding non-capital market issues) – 30 September 2024