

# Robust and evolving

**Australian Securitisation 2019** took place in Sydney on 18 and 19 November with market-leading commentary on the evolution of the securitisation market, including collateral, lending regulation and benchmark reforms. The Australian securitisation market is poised to enter the next decade in robust shape, reflected by a record registration for and attendance at the Australian Securitisation Forum's annual conference.



**SEAN HUGHES** AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

ASIC guidance is just and only that: guidance. It does not have the force of law. The fact that we are updating our guidelines does not change the law, which has been in place since 2010. However, what has been made abundantly clear to us in the course of our consultations is that the industry would welcome more assistance in interpreting how to meet responsible-lending obligations.



**DAVID BAILEY**  
AUSTRALIAN FINANCE GROUP

In the immediate post-crisis period, around 90 per cent of all mortgage flow went through the major banks. We are now close to 50-50 on mortgages issued by the major banks and nonmajor banks – there is a greater level of competition in the market, choice for consumers and liquidity for investors.







**SIMON LEWIS** SUNCORP GROUP

The industry has not done a good job in the past 12-18 months of bringing customers along for the journey in how it is now interpreting responsible-lending laws. Customers did not understand why the industry was asking more detailed questions about their spending habits, though that is now starting to turn around.

**ANDREW CHEPUL** COLUMBUS CAPITAL

Since the responsible-lending laws came into effect, we are finding a lot of pre-2014 loans are looking to refinance and are struggling to be approved despite strong performance history. This is because there has been a major change to the regulatory environment and requirements regarding living expenses.



**BOB BELAN** SYMPLE LOANS

Access to capital in scale and at low cost is the life blood of our business. Fintechs are all about keeping their cost base low and passing the value onto customers – whether through technology or through the capital stack.



**GUY VOLPICELLA** WESTPAC BANKING CORPORATION

The new TLAC requirement means we expect to issue about A\$3-5 billion more tier-two annually, depending on market conditions. To put this into perspective, it is around 10-15 per cent of our annual wholesale funding requirement. We are likely to reduce our senior-unsecured issuance but outside of this we expect to be largely unchanged going forward.



**JOHN ROHL** BRIGHT CAPITAL

We want to use technology in a way that minimises friction at the point of sale while still maintaining a high-quality portfolio. We have been able to do this with an average two-minute application process that only asks the things that are relevant to a credit decision.





**MICHAEL STARKEY** ATHENA HOME LOANS

We have taken the view that you cannot take people out of the credit-decision process for a home loan. We use technology extensively in the origination process, but we have an experienced credit officer making the final decision.



**RAJ BHAT** PROSPA

The challenge for us is that unsecured small business loans are not a common asset. It is a long process for a new asset class to access capital markets, as there are challenges around new methodology, application and data records.

**STEPHEN MARTIN** CHALLENGER INVESTMENT PARTNERS

The first thing we ask new entrants is: 'What is the difference between your business and incumbents in the marketplace?' A lot of these new entrants are described as innovative but we want to understand how they are innovating and form a view as to how sustainable a model they have.

**LIONEL KOE** NATIONAL AUSTRALIA BANK

Technology has been the unifying theme among new entrants to the securitisation market. The rate of change in technology has been huge and has cut across the whole value chain, including origination, borrower engagement, credit underwriting and servicing.



**STEPHEN MCCABE** NATIONAL AUSTRALIA BANK

Since 2018, we have seen a raft of new entrants into the public and private securitisation market. Partly this is being driven by the growth of the fintech sector, that looks to disrupt traditional funding paths or provide faster and more efficient credit to consumers, and challenge traditional lenders with their legacy IT and underwriting systems.



**ROBERT WAGSTAFF** BNY MELLON

Trust structures in Australia have been working well for decades and have done a very good job of separating assets and cash flows for the benefit of investors. New issuers want to come to market quickly, and as they are brought into scope for ASIC regulation that is where we step in – so they can run their businesses rather than managing trusts.

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**ILYA SEROV** MOODY'S INVESTORS SERVICE

It is important to understand that it is not only the receivables for an ABS transaction that rating agencies are considering – it is also the business model of the issuer.

**SALLY AULD** J.P. MORGAN

The transmission mechanism for monetary policy has been impaired and only some of the 25-basis-point cash-rate cut in October was passed on to end borrowers. We are at a point now where the costs and benefits of cutting the cash rate further are perhaps not as much tilted toward benefits as they have been.



**FELICITY EMMETT** ANZ

There are long-term imbalances and themes playing out revolving principally around secular stagnation. There is too much saving and not enough investment. A lot of the issues driving this – high debt, shrinking working-age population and inequality – are here to stay, and how policymakers address these will be important for generating better growth outcomes.

**SHANE OLIVER** AMP CAPITAL

Fiscal stimulus would be ideal, but I think this global slowdown is consistent with what we saw around 2012 and 2015-16 – and in both of those cases monetary easing was sufficient to bring back economic growth. We are seeing early signs that indicators are bottoming out around the world. So I am reasonably optimistic that we will return to higher growth in 2020.



**SHAUN ROACHE** S&P GLOBAL RATINGS

Some issues make us a bit more worried about how the economic slowdown is panning out. One is the gap between different parts of the economy. Investment, manufacturing and trade are weak while consumption and services have been very resilient. At some point the gaps will close, but the question is how and at what point they will meet.



**JENNIFER HELLERUD** RBC CAPITAL MARKETS

Fintechs are now growing beyond the equity phase of their lifecycle and are looking to establish sustainable funding models, initially through warehouse funding before exit via the term-capital markets.



**ANDREAS WILGEN** FITCH RATINGS

From a ratings perspective, the challenges for new asset classes and new issuers in the ABS space are lack of track record and data. Consumer-loan origination is much more dependent on what exactly the originator is doing, how it underwrites and how it attracts customers. These factors will ultimately drive asset performance.



**FIONA GAAL** ANZ

What is most pleasing is the emergence of new issuers and new asset classes within the ABS market – moving away from the traditional issuance of auto and equipment ABS and seeing development into credit cards, consumer loans and most recently the buy-now, pay-later sector.







**MARC LEVINE** MOODY'S ANALYTICS

Issuers have to provide loan-level data, static pool data and vintage data to the banks at the start of the issuance process. This is an inefficient process from the get-go because every issuer has different formats but banks have to standardise and analyse data before they can bring a deal to market. There is a lot of opportunity to streamline this process.

**CHRISTOPHER KENT** RESERVE BANK OF AUSTRALIA

BBSW has been reformed and will remain robust. It will continue to exist alongside Australia's RFR, which is AONIA. Australia is not alone in using this dual-rate approach – Canada and much of Asia also employ it, for example.

It will be important for BBSW contracts to have a robust fallback approach in place. In fact, we will insist that new contracts include ISDA-compliant fallback language if they are to qualify for repo operations with the RBA.



**NATHAN BOURNE** AUSTRALIAN SECURITIES  
AND INVESTMENTS COMMISSION

The derivatives market has made more progress than others on IBOR transition – especially compared with the debt market, which tends to be more bespoke and require more renegotiation. Only a couple of the firms we wrote to were engaged with the issue of conduct and litigation risk as a result of transition.



**SOPHIE GILDER** COMMONWEALTH BANK OF AUSTRALIA

The rate of technology adoption is a lot higher in other financial markets, such as equities. How debt-capital-market deals are originated then managed through their life has not changed much in the past 20 years.



**RICHARD MCCARTHY** PERPETUAL CORPORATE TRUST

For a data warehouse provider, the value of getting data into cloud technology before and after settlement will pay dividends in future by making standardised data available to be analysed and visualised by all parties. This will improve market efficiency and support the issuer, investor and intermediary experience.

**JAMES RUDDOCK** PEXA EXCHANGE

The most significant impact of the PEXA platform for participants in the property industry is that, for the first time ever, real-time, accurate information on property transactions has been unlocked. What was once only documented on paper and locked in warehouses is now digitally accessible, and suddenly a range of solutions over the deal life cycle is possible.



**MICHAEL BRIGHT**  
STRUCTURED FINANCE ASSOCIATION

It would make sense for Australian issuers to get in touch with policymakers in the US. There are similarities between what regulators in each jurisdiction are doing, particularly around consumer protection and certainty of payment for collateral.







**FABRICE GUESDE** NATIXIS

Australian dollar pockets of demand are shrinking in Japan but there are Japanese yen pockets that Australian issuers could access. There is demand, but the challenge is to get investors to engage with nonbanks. They are getting there for prime assets but are further away for nonconforming assets.



**TRICIA HAZELWOOD** MUFG SECURITIES

The Japanese ABS-CLO market now has significant potential to grow. It has been based around a limited number of large investors since the financial crisis but it is becoming more diverse. We are already beginning to see increasing demand for international securitisation from Japan, across a broader range of investors.



**STEPHEN MAGAN** J.P. MORGAN

The Japanese market is still very conservative, focusing primarily on prime triple-A RMBS rather than nonconforming or other asset classes. These investors are also very selective about issuers. But some are beginning to move into other asset classes and to look at more names across regional banks and nonbanks. They still tend to need a lot of incremental work to come into deals, though.





**JAMES AUSTIN** FIRSTMAC

When we visited Europe earlier in 2019, investors wanted to know about article 7 and compliance with transparency requirements. There is potentially confusion for non-EU issuers around whether compliance is something they can do if required or whether it is something they must do.



**DEBBIE LONG** RESIMAC

The low-rate environment is a growth opportunity for the nonbank sector. We are able to lower lending rates, maintain NIM and be competitive. With this comes an increased need for funding, but Australia is well placed for this given the yield compared with offshore markets and the performance of our assets.

**BOB BEHAL** VANGUARD

It is challenging to understand the differentiation points between terms like prime and nonconforming mortgages in different markets. To get investors across the globe comfortable there needs to be more standardisation of data to provide better definitions of products, so we can calculate risk profile.



**BEN MCCARTHY** FITCH RATINGS

We allow for the use of proxy data to establish a rating. The best proxy data is for homogenous products like mortgages. As an issuer moves away from this toward unsecured lending, every lender's underwriting is different, which makes it more difficult to assess what might happen in a downturn.



**DEEMPLE BUDHIA** RUSSELL MCVEAGH

If the RBNZ finalises the RMO standards in 2019, we expect banks to be establishing programmes in 2020 and, depending on the need for liquid assets at the time, looking at initial issuance as internal RMBS are incrementally derecognised.



**MATT LEVER** COMMONWEALTH BANK OF AUSTRALIA

The search for standardisation in benchmark reform could end up creating more complexity for investors looking at transactions in different jurisdictions, especially where different markets try to find solutions for fallback language and legacy transactions.



**ED FREILIKH** COMMONWEALTH BANK OF AUSTRALIA

The RBA has stated that the liquidity of one-month BBSW is lower following the introduction of liquidity standards and users of one-month BBSW should be preparing to use alternative benchmarks. We wanted to provide clarity that AONIA offers a natural hedge to CommBank's underlying mortgage book.

**GWENNETH O'SHEA** AMP BANK

AONIA-based RMBS offers us a product that provides potential capital relief with match funding and reduces basis risk. Underlying mortgages are much more aligned with the cash rate – as we have experienced times, for instance during the financial crisis, in which we ended up as a net payer during extremely volatile periods for BBSW.



**ALFREDO MARTINEZ** PWC

In the ASF consultation on benchmark reform, we got a strong sense from offshore investors that, given the rest of the world is moving to a risk-free rate, this would also transpire in Australia. Respondents overwhelmingly thought challenges could be overcome.



**VICKY HYDE-SMITH** AMP CAPITAL

In a low-yielding environment, we need to ask whether monetary policy is going to be effective as well as what unconventional monetary policy tools are available and whether they will be effective. There is a broader range of questions to consider before we think about how credit markets might be affected.



**JAMES KANARIS** WESTPAC  
INSTITUTIONAL BANK

There was robust demand for Australian ABS in 2019, with issuance near record levels since the financial crisis. It will be interesting to see how demand responds to challenges in 2020, such as the low-rate environment, renewed house-price growth, the potential for QE and benchmark reform.

