

Anderson, John

From: Kljakovic, Marian
Sent: Tuesday, 18 January 2011 1:56 PM
To: Anderson, John
Subject: FW: Presentation for this afternoon's video conference [~~SEC=IN CONFIDENCE~~]
Attachments: Securitisation (bullet securities) presentation 20101008.pptx

Security Classification:~~IN CONFIDENCE~~

From: Cullen Hughes [<mailto:Cullen.Hughes@asic.gov.au>]
Sent: Friday, 8 October 2010 1:43 PM
To: Dickson, Tom; Wylie, James; Kljakovic, Marian; "justin.douglas@treasury.gov.au"@asic.gov.au
Cc: Chris Van-Homrigh; Peter Chia; Kieran David
Subject: Presentation for this afternoon's video conference [~~SEC=IN CONFIDENCE~~]

Please find attached a presentation for this afternoon's call. We look forward to seeing you then.

Regards

Cullen Hughes | Senior Manager | Investment Banks | ASIC | ☎ +61 2 9911 5324 | 📠 +61 2 9911 2057 | ✉
Cullen.hughes@asic.gov.au

Please consider the environment before printing this document

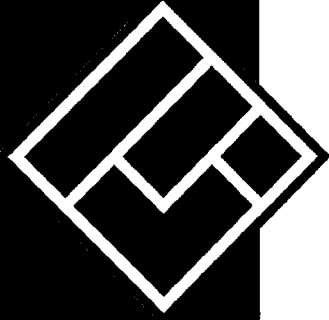
NOTICE

This e-mail and any attachments are intended for the addressee(s) only and may be confidential. They may contain legally privileged or copyright material. You should not read, copy, use or disclose them without authorisation. If you are not the intended recipient please contact the sender as soon as possible by return e-mail and then please delete both messages. This notice should not be removed.



Potential structures to reinvigorate the Australian RMBS market

Discussion paper



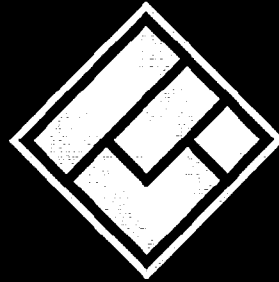
ASIC

Australian Securities &
Investments Commission

8 October 2010

Contents

- Introduction
- Bullet RMBS structure
- Refinancing risk
- Bullet implementation
 - Master trust
 - Multi-originator platform
 - Existing RMBS vehicles
- Impediments
- Proposal for Government support and facilitation
 - How support will overcome impediments
 - Comparison of proposed structures
- Exit strategy for AOFM
- Timeframe for implementation



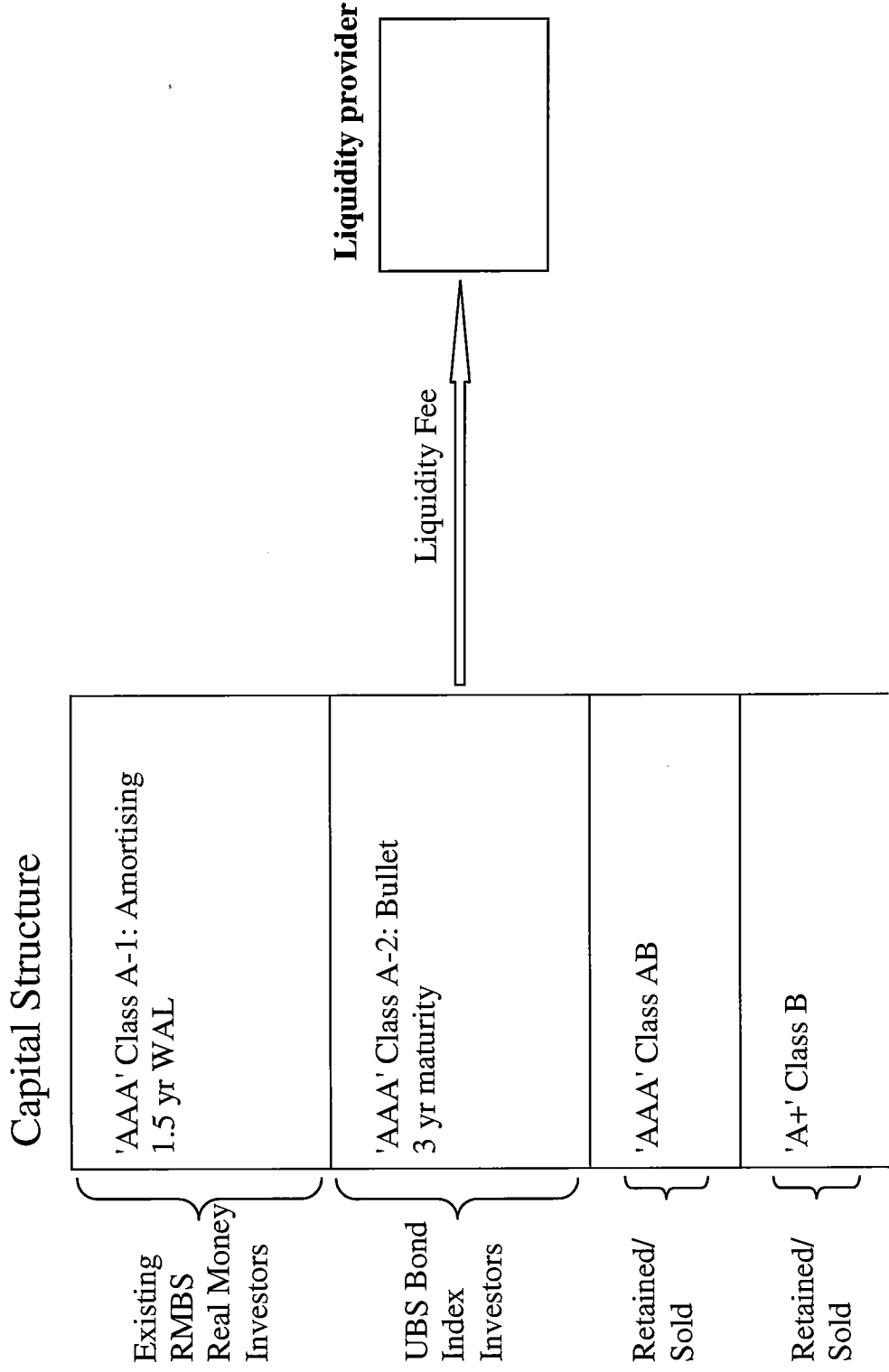
Introduction

- Policy considerations:
 - Competition
 - Access to wholesale funding
 - Capital relief
- Securitisation has the potential to contribute to addressing these issues
- Current securitisation market
 - Large proportion of pre-GFC investors no longer in the market
 - No liquid benchmark issues
 - Variations in structure across the market
 - Limited secondary trading

Introduction cont.

- What we want to achieve
 - Create a liquid, sustainable, and resilient RMBS market
 - Attract new investors
 - Develop liquid benchmark issues
 - Increase secondary trading
 - Introduce a more standardised product
- Bullet RMBS can assist in achieving these aims and thereby assist with the policy considerations

Bullet RMBS Structure



Refinancing Risk

- Risk that the bullet RMBS can't be refinanced at its scheduled maturity
- Banks or investors can take this risk
 - Banks – Provide a liquidity facility that can be drawn in the event that the bullet can't be refinanced
 - Investors – Bullet converts to an amortising security if it can't be refinanced

Bullet implementation

- 3 different structures to meet different requirements of originators regarding:
 - Type of originator – Highly rated ADI, lower or unrated ADI, non-ADI
 - Type of mortgage – Full doc, high LVR, Low doc, non-conforming
 - Capital relief
- Master trust
- Multi-originator platform
- Existing RMBS vehicles

Master trust

- Master trust with refinancing risk taken by the originator through a liquidity facility
- Only suitable for highly rated ADIs
- No capital relief available
- (Possible?) Substitute for covered bonds
- APRA considerations
 - Direct supervision under a prudential framework
 - Framework would include a template for acceptable structures including eligibility criteria for mortgages
 - Interaction with APS 120

Multi-originator platform

- Originators can contribute mortgages into a combined pool
- Platform would issue RMBS backed by the combined pool
- Suitable for Regional banks, CUBS and non-ADIs
- Liquidity provided by third parties
- Capital relief available provided sub notes sold and the originator does not provide liquidity support to its own mortgages
- APRA considerations
 - Direct supervision under a prudential framework
 - Framework would include a template for acceptable structures including eligibility criteria for mortgages and contributors
 - Interaction with APS 120

Existing RMBS vehicles

- Investors or third party banks take on the refinancing risk for any bullet RMBS
- Capital relief provided that APS 120 requirements are met and sub notes sold
- Suitable for mortgages that aren't eligible for the other structures
- Suitable for customised structures or the development of new structures

Impediments

- Lack of an existing bullet RMBS market makes assessment and pricing of the refinancing risk difficult
- Lack of volume, liquidity and pricing benchmarks in existing RMBS increases impact of market disruption events
- Ability for liquidity providers to provide funding in a market disruption event
- Possible issues with APS 120 that limit support to an originator's own mortgages
- Lack of familiarity of UBS Bond Index investors with bullet RMBS and the existing RMBS issuers
- Development of the market may not occur as desired

Proposal for Government support and facilitation

- Financial support
 - Seeding the multi-originator platform with RMBS currently held by the AOFM
 - Provision of liquidity support by the AOFM to the multi-originator platform for a transitional period
 - Funding of establishment costs of the multi-originator platform
- Non-financial facilitation
 - Adjustments to APS 120 to explicitly cover Master trust issuers and the multi-originator platform
 - Adjustments to the RBA repo window parameters
 - Development of a supervisory framework to cover the originator supported issuers and the multi-originator issuer

How support will overcome impediments

Support	Impediment to overcome
<p>Financial</p> <p>Seeding the multi-originator platform with RMBS currently held by the AOFM</p>	<p>Lack of an existing bullet RMBS market makes assessment and pricing of the refinancing risk difficult</p> <p>Lack of volume, liquidity and pricing benchmarks in existing RMBS</p> <p>Lack of familiarity of UBS Bond Index investors with bullet RMBS and the existing RMBS issuers</p>
<p>Provision of liquidity support by the AOFM to the multi-originator platform for a transitional period</p>	<p>Lack of an existing bullet RMBS market makes assessment and pricing of the refinancing risk difficult</p> <p>Lack of familiarity of UBS Bond Index investors with bullet RMBS and the existing RMBS issuers</p>
<p>Funding of establishment costs of the multi-originator platform</p>	<p>Development of the market may not occur as expected</p>
<p>Non-Financial</p> <p>Adjustments to APS 120 to explicitly cover Master trust issuers and the multi-originator issuer</p>	<p>[Possible issues with APS 120 that limit support to an originator's own mortgages]</p>
<p>Adjustments to the RBA repo window parameters</p>	<p>Ability for liquidity providers to provide funding in a market disruption event</p>
<p>Development of a supervisory framework to cover the originator supported issuers and the multi-originator issuer</p>	<p>Development of the market may not occur as desired</p>

Comparison of proposed structures

Structure	UBS Bond Index Eligible Securities	Capital relief for ADIs	Financial Government Support	Non-financial Government Support	Prudential Supervision
Master trust	Yes	No	No	APS 120 adjusted RBA repo parameters adjusted	Yes
Multi-originator platform	Yes	Yes provided subordinated RMBS sold, no liquidity support provided against ADIs	Yes – platform seeded with existing AOFM RMBS and AOFM provides liquidity support mortgages and APS 120 initially complied with	APS 120 adjusted RBA repo parameters adjusted	Yes
Existing RMBS vehicles	Yes	Yes provided subordinated RMBS sold and APS 120 complied with	No	No	Not directly, only through APS 120 for ADIs as currently

Exit strategy for AOFM

- The AOFM liquidity facility allows the multi-originator platform to develop a critical mass which provides
 - A working model of the structure for other liquidity providers to become familiar with and to base their risk assessments on
 - New investors with a period of time to become familiar with the bullet RMBS market before other liquidity providers enter
- The ability for AOFM to withdraw its support will be dependent on a liquid market developing where banks and investors can price and assess the refinancing risk
- To accelerate the development of the market to the point where AOFM liquidity can be withdrawn the supervisory framework will contain a number of requirements

Exit strategy for AOFM cont.

- Requirements
 - The multi-originator platform will be required to develop benchmark issues with large volumes of outstanding RMBS in limited maturities
 - Lead managers will be required to make a market in these benchmark issues and encourage secondary market liquidity
 - Eligibility criteria for both mortgages and originators in the platform and a template for bond terms and documentation will ensure relatively homogeneous issues
- These requirements should act to accelerate the development of a liquid market and allow the AOFM to withdraw its support (subject to grandfathering of existing support)

Timeframe for implementation

- Multi originator platform
 - Initial seeding with AOFM portfolio and issuance of benchmark issues – within 6 months of commencing work
 - Availability of platform for new mortgages using AOFM liquidity support – within 6 months
 - Development of supervisory framework and opening the platform to other liquidity providers – within 12 months
- Master trust – within 12 months
- Existing RMBS vehicles converted to allow bullet RMBS – within 3 months