

TREASURY EXECUTIVE MINUTE

Minute No.

22 December 2011

Deputy Prime Minister and Treasurer

STATUS UPDATE ON THE SECURITISATION MARKET

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- Depending on market conditions, AOFM may have sufficient funds to continue to support the market until around late 2012 or early 2013. Offshore turbulence and weaker domestic credit demand would naturally lead to slower growth in the domestic securitisation market.
- As the expiry of the program approaches, Treasury will provide further policy advice on the future of the securitisation and lending markets beyond the expiry of the program.

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Ext:

Future of the securitisation market

- The Australian securitisation market is unlikely to return to pre-GFC volumes. The market is now much smaller and almost exclusively domestic (see graph above).
 - Demand remains low for longer-term RMBS and lower-rated tranches of these securities, which generally carry higher degrees of risk.
 - Spreads in the securitisation market may remain heightened through the medium term as a consequence of dislocation stemming from the European sovereign debt crisis.
- There are also a number of outstanding regulatory issues that may impact the market in 2012:
 - While RMBS was confirmed by the RBA as an eligible asset for its Committed Liquidity Facility, self-securitisation is also eligible and may be a cheaper option for many ADIs. However, most market commentators believe the announcement is neutral or slightly positive for the RMBS market.
 - APRA have announced that they will be reviewing the operation of their prudential standard relating to securitisation in 2012, which may lead to changes in the prudential treatment of both holding and issuing securitisation by ADIs.
 - There remains uncertainty around new international regulatory requirements for the issuance of securitisation, particularly with regard to risk retention ('skin in the game').

Future of the securitisation program

- The AOFM program has played a key role in supporting smaller lenders through the global financial crisis.
 - It has helped smaller lenders exert additional competitive pressure in the retail lending market by providing access to funding that would have otherwise not been available.
 - It continues to assist lenders reliant on securitisation to transition towards other funding sources.
- There remains around \$5.4 billion within the AOFM program (including the \$4 billion announced in the Government's Competitive and Sustainable Banking Reforms). Depending on market circumstances, this is likely to be fully spent sometime in late 2012 or early 2013.
 - Before this time, the Government should formulate policy objectives to help finalise the transition towards a RMBS market that is independent of Government support.

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