



Chris Dalton, CEO
Australian Securitisation Forum
Suite 605
3 Spring Street
SYDNEY NSW 2000
(t) + 61 2 8243 3906
(f) + 61 2 8243 3939
cdalton@securitisation.com.au

13 November 2009

Mr Greg Tanzer
Secretary General
IOSCO
c/- Oquendo 12
28006 Madrid
SPAIN

stp-transparency@iosco.org

Dear Mr Tanzer

**Technical Committee of the International Organisation of Securities Commissions – Transparency
of Structured Finance Products - September 2009 (“the Paper”)**

1 Introduction

Thank you for your invitation for the Australian Securitisation Forum (“**ASF**”) to participate in this consultation process.

The ASF is the peak industry body representing the Australian securitisation market, the ASF performs a pivotal role in the advancing the benefits of securitisation in Australia to government, regulators, investors, the public and others who have an interest or potential interest in Australian securitisation.

The historical performance of Australian securitisation transactions has generally been strong, and within the expectations of the particular transaction and asset class. In particular, the Australian securitisation market, which is dominated by residential mortgage-backed securities (RMBS), has not suffered the credit-related problems that arose in other markets.

The ASF supports the directive emanating from the G20 meetings earlier this year for regulators to investigate ways in which to help restart securitisation markets. The ASF is encouraged to see that IOSCO is evaluating the merit of additional transparency in securitisation markets while acknowledging the differences between individual markets and the peculiar characteristics of structured finance products within various markets.

The ASF's submission has been developed through the consideration of the Paper by the ASF's regulatory subcommittee and from wider consultation with the members and other stakeholders of the ASF.

Executive Summary of ASF response to the Paper

- The ASF submits that any consideration of establishing a post trade reporting regime should be phased in for the Australian asset-backed securities (ABS) market to allow time to bed down important changes already underway that flow from the IOSCO TFUMP recommendations for securitisation markets.
- ASF believes it to be prudent to allow adequate time for the industry to identify how a system of post trade reporting could be implemented in a comprehensive, cost effective and appropriate manner to suit the Australian debt capital market including ABS.
- The issues associated with collecting and reporting pricing and volume data through multiple domestic and international clearing houses while protecting anonymity needs significant research and evaluation of the legal, logistical, relevancy and timeliness issues.
- Domestic regulators are best placed to understand their respective markets. Accordingly, the ASF believes that it would be appropriate for the Australian ABS market, in conjunction with ASIC, to establish a working group to evaluate and advise on the benefits and costs of post trade reporting at this point to aid a sustainable recovery of the Australian securitisation market.

- 1 The ASF supports the principle of greater transparency in the Australian securitisation market and the availability of relevant, timely and useful information for investors to make informed investment decisions. The ASF is finalising new guidelines for disclosure and reporting for asset-backed securities (ABS) that it believes, once implemented, will improve consistency and clarity in the Australian market.
- 2 In evaluating the merit of post trade transparency in the Australian ABS market the ASF believes it needs to be considered in the context of the G20 directive of earlier this year to identify changes that can help restart securitisation markets. Evaluation of post trade reporting of ABS prices and volumes needs to question who benefits and will such reporting improve liquidity in the secondary ABS market.
- 3 The ASF submits that the concept of liquidity needs to be defined in the context of the Australian ABS market. Even in market conditions that existed before the financial crisis, liquidity in the Australian ABS market did not match the levels of liquidity in other OTC markets such as the foreign exchange market. Past experience of the failure of the listed futures market in semi-government debt securities – even though there is a greater level of liquidity in that market compared to the ABS market – is noteworthy. The ASF submits that liquidity in the secondary ABS market is driven by excess capacity in terms of demand and supply amongst the buy and hold investor base for ABS.

- 4 Before the financial crisis the Australian securitisation market operated as a wholesale market with both domestic and global investors active. Prior to the financial crisis the growth of the ABS market was significantly underwritten by the liquidity provided by asset-backed commercial paper (ABCP) conduits and structured investment vehicles (SIVs). These investment vehicles have wound down their portfolios and are not expected to re-emerge in the near term. Over the last 12 months the investor base for Australian ABS has predominately been the domestic institutional investors. The ASF believes that the market for Australian ABS in the near term will be characterised by investors who are generally long term holders of ABS.
- 5 The Australian ABS market has included residential mortgage-backed securities (RMBS), term ABS, commercial-mortgage backed securities (CMBS) and ABCP. The dominant asset class is prime RMBS. However within each asset class there has not been a high degree of standardisation of transaction structures or security features, and pre- and post-issuance disclosure and reporting to investors. There have been differences between RMBS issued by regulated banks and non-bank financial institutions and transactions backed by prime and alternative mortgage loans. This has resulted in a low degree of standardisation in the Australian RMBS market and the broader securitisation market more generally.
- 6 Structured finance products such as RMBS, CMBS and ABS have generally been considered as illiquid securities in Australia with irregular trades completed on a bi-lateral basis between investors and brokers. Australian ABS is traded in the domestic market and also in global markets where the securities are not denominated in Australian dollars. Liquidity within the Australian debt capital market can be considered across a spectrum from liquid to illiquid. Commonwealth Government Securities (CGS) are considered the most liquid fixed income asset class, corporate bonds are seen to have a reasonable degree of liquidity but ABS are at the more illiquid part of the spectrum.
- 7 Outside of RMBS the amount of issuance of Australian ABS and CMBS has been modest and low relative to volumes of issuance in other international markets. Where trading has occurred it has been sporadic as most issues have been purchased on a buy and hold basis. In particular the run-off in outstanding amounts of CMBS is such that this asset class may be largely repaid as early as the end of 2010.
- 8 Price information is provided in Australia through data services and is used by investors and custodians to value holdings. In addition to such data services a number of investment banks and bond trading portals provide regular price sheets to provide information to the market on mid-point fair value prices. It has been difficult through the financial crisis for the market to accurately gauge where there was real buying interest and specific spot trades did not necessarily accurately reflect broader market levels.
- 9 The ASF believes that a secondary market benefits when there is an active primary market which aids price discovery through disclosure of margins embedded in new issues. Throughout the financial crisis secondary market trading in RMBS accelerated primarily due to the forced deleveraging of many European SIVs and hedge funds. Generally the attractiveness of Australian ABS is tied directly to market sentiment.
- 10 The ASF believes that if post trade reporting of prices and volumes of ABS were to be considered appropriate, it should be part of a wider and more comprehensive post trade reporting framework for all debt securities traded in the Australian debt capital market.

- 11 The ASF understands that price and volume data relating to purchase and sales of ABS denominated in Australian dollars is available through Austraclear which is the central clearing house for Australian fixed income securities. Austraclear is a subsidiary of ASX Limited. The ASF is unclear who has ownership of this data; whether it is owned by the individual member organisations of Austraclear, or Austraclear itself. The ASF submits that work needs to be done to ascertain the feasibility of Austraclear making this data available to facilitate post trade reporting. Further the commercial cost of obtaining this data is not known and needs to be clarified in considering the cost/benefit of post trade reporting in Australia.
- 12 The ASF supports further consideration of the value and benefit of constructing a synthetic price for benchmark RMBS tranches at various rating levels and weighted average life (WAL) bands. This benchmark could augment and validate data and information provided to the market through other pricing services and the actual reported post trade prices and volumes.
- 13 As many issuers of ABS undertook global issues of ABS prior to the financial crisis, the ASF submits that any proposal to introduce post trade reporting in Australia needs to be completed in conjunction with access to price and volume information from overseas clearing houses such as Euroclear and Clearstream. The ASF is unaware of the practicality and costs of obtaining this information and the issues involved in integrating the data with that potentially available through Austraclear.
- 14 One issue to consider in implementing post trade reporting is to understand how debt securities may be traded between funds within the same funds management group or how securities may be bought and sold between master and feeder funds. Are these arms length transactions to be included in post trade reporting or could they distort the picture, we wonder.
- 15 In considering the implementation of post trade reporting in the Australian debt capital market the ASF advocates that existing market infrastructure should be utilised to disseminate the information. One channel of distribution that would be beneficial to the market would be through vendors such as Bloomberg or even through the ASF's own website.
- 16 The ASF does not have a definitive view at this time as to the appropriate length of delay in reporting trade prices and volumes to the market. The ASF believes further work needs to be undertaken in the Australian market to develop a framework for information to be disclosed that is timely, protects the anonymity of the parties and is relevant and useful to market participants.
- 17 A concern expressed amongst the ASF membership is the potential volatility in valuation of ABS that could be introduced if trading activity of retail investors is combined with the trading activity by institutions. The debt Australian market outside of CGS is relatively shallow and institutional fixed income investors highlight the past difficulties encountered when income securities were issued to retail and institutional investors some years ago by listed financial services organisations such as National Australia Bank and AMP. Retail investors who did not understand the nature of the securities sold the securities regardless of price to convert their holding to cash to the detriment of the ensuring valuation of the income securities held in portfolios of long term institutional investors. The ASF submits that it cannot be assumed that a mixture of retail and institutional investors in a fixed income security in Australia is necessarily a positive outcome due to the infancy of the retail debt market in Australia.

- 18 The ASF submits that there are many aspects that influence price and value of ABS which may or may not be represented in the last traded price. The motivation of individual buyers and sellers drive traded prices as do expectations of credit performance of the asset pool, prepayment speeds, views on the servicer of the issue and macro issues such as the outlook for interest rates and unemployment. The ASF believes there needs to be process established to eliminate prices and trades that represent outliers in the market and to present post trade data in a meaningful and beneficial fashion.
- 19 Practical ways to ensure buyer and seller anonymity and determining the form in which aggregated data would be useful warrants further investigation before moving forward to implement a post trade reporting requirement in Australia.

Thank you for your consideration of our submissions. We would be happy to meet with you or discuss any aspect of this submission by telephone. Once again, we appreciate the willingness IOSCO is showing in ensuring the concerns of the industry generally are being heard in this process.

Yours sincerely
For and on behalf of the Australian Securitisation Forum

A handwritten signature in black ink that reads "Chris Dalton". The signature is written in a cursive, slightly slanted style.

Chris Dalton
Chief Executive Officer

Copy

Mr Greg Medcraft
Commissioner
ASIC
No. 1 Martin Place
Sydney NSW 2000
Australia