

committee updates



ASF WELCOMES NEW MEMBERS

- GMAC-RFC Australia
- Pitcher Partners NSW
- AFG Securities
- Bank of Western Australia

These organisations have joined the ASF as members since our last newsletter. We appreciate their support and look forward to working with them in the near future.



*Michael Codling,
PricewaterhouseCoopers*

ACCOUNTING COMMITTEE

The standard setters around the world have been quiet this quarter. The International Accounting Standards Board (IASB) met in September and, among other things, considered some specific questions relating to the application of the derecognition criteria in IAS 39. For example, what types of transfers pass the paragraph 18(a) test? Does this include equitable assignments? What about 'conditional' transfers? What constitutes the 'original asset' in paragraph 19? Can it comprise the aggregation of loans together with other financial instruments, such as swaps or liquidity facilities? Can the pass-through tests be applied to those assets collectively?

We expect IFRIC to issue an interpretation on those matters. In mid-October, a working group of the European Securitisation Forum (ESF) Accounting Committee met with IASB staff to discuss their consolidation

(IAS27 – SIC12) project and specifically the consolidation of special purpose vehicles (SPVs). For securitisation SPVs, one approach being considered would result in proportional consolidation. That is, the various parties to the SPV would consolidate their interest in the SPV's assets and liabilities. The ESF working group is going to produce some examples of the application of this approach by the end of November, and then seek input from the Australian Securitisation Forum and the American Securitisation Forum. In the Australian market there's been some recent accounting-related activity and some interesting outcomes. Banks have undertaken restructuring to get securitisation vehicles off-balance sheet. Others have applied the partial derecognition rules for similar results. There will be plenty to talk about at the next Accounting Committee on Tuesday 28 November.



*Roger Desmarchelier,
St. George Bank*

ASF NATIONAL COMMITTEE

A partial election to the ASF National Committee was held at our recent AGM, with six of the current committee members standing down and all but one seeking re-election. Those five standing were re-elected for a further two-year term. They are:

- Michael Codling, PricewaterhouseCoopers;
- Stuart Fuller, Mallesons Stephen Jaques;
- Paul Garvey, Members Equity Bank;
- Leigh Powell, PMI Mortgage Insurance;
- Patrick Tuttle, Pepper Homeloans

Congratulations to these active members of the National Committee.

In addition, Vernon Spencer, Stargate Global Asset Management, was elected to fill the vacancy left by the resignation of Leanne Leong. I welcome Vernon to the National Committee and thank Leanne for her involvement in the ASF, both as an active member of the National Committee and as Treasurer.

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Phil Vernon,
Perpetual Trustees
Australia

EDUCATION COMMITTEE

The ASF Education Committee has had a busy and successful 2006. The *Introduction to Securitisation* courses have been well supported by the ASF membership throughout the year. A total of six courses have been run so far with a 150 attendees in total. The re-launch of the *Advanced Securitisation* course, presented by Bruce Arnold, has been well received, with three courses having been run since August. All of the Advanced courses have been very well attended. The Education Committee would like to thank all the workshop presenters for their contribution to the ongoing success of the educational training programs.

The Education Committee, with the endorsement of the National Committee, has decided to develop the *Introduction to Securitisation* course into a Diploma in Financial Services qualification.

The ASF is in the process of establishing an ASF Registered Training Organisation, which is necessary for the delivery of this nationally-recognised qualification within the Australian Qualification Training Framework. The Education Committee has established an Education Committee Working Group (ECWG) to address the detailed design issues that are entailed with this project. The ECWG is taking the opportunity to review the content of the current *Introduction to Securitisation* course and is making adjustments where deemed appropriate to maximise the learning experience for course candidates. The ASF is confident that the revised course as a diploma qualification will be available during the first quarter of 2007. Further details of the course will be made available in the near future.



Melissa Marzulli,
State Street Capital

INVESTOR ISSUES COMMITTEE

The Investor Issues Committee has been working on the following items:

- Establishing guidelines for investor reporting in different asset classes, specifically asset-backed commercial paper;
- Drafting a dictionary of Australian securitisation terminology for the benefit of international investors in Australian asset-backed securities;
- Considering a residential mortgage-backed securities (RMBS) index similar to the European iBoxx ABS-50.

Ultimately this may lead to the creation of a tradable index product, if there is interest among investors;

- Considering a seminar or evening series presentation on investor reporting.

Comments are welcome from any members on the above issues. In addition, we are keen to have additional investor representation on the Committee. If you are interested in participating, please contact me on (02) 8249 1222.

For a profile on the Investor Issues Committee, see p16.



Kevin Lee,
Macquarie Bank

PRUDENTIAL COMMITTEE

The Prudential Committee plans to meet with the Australian Prudential Regulation Authority (APRA) shortly to discuss its draft guidelines on the capital treatment of redraws and the capital treatment of redraw facilities provided to securitisation vehicles.

Following the meeting, the Sub-Committee will also compile a submission in response to the draft guidelines on behalf of the industry.

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PRUDENTIAL GUIDELINES PAPER

The draft guidelines cover the following issues:

- Capital treatment of redraws;
- Capital treatment of redraw facilities provided to securitisation vehicles;

- Funding of redraws;
- Documentation.

For more details on the guidelines, contact the Committee.



*Stuart Fuller,
Mallesons Stephen Jaques*

REGULATORY ISSUES COMMITTEE

Compared with previous years, 2006 has seen a slightly lesser degree of impact on the securitisation industry from new laws and regulations.

The previous year was dominated by the introduction of the financial services licensing regime, which for the first time meant that a securitisation vehicle, or its manager, had to be licensed and to meet initial and on-going business and training requirements. The effect of this regime has been felt to a different degree by the securitisation industry, which was as much a result of the Australian Securities and Investments Committee (ASIC) application of the licensing process as the background or skills of the relevant participant in the industry.

However, the impact in 2006 has been a result of the increasing globalisation of the financial markets and the need for the Australian industry to comply with legal and regulatory requirements that are not simply a result of Australian laws.

The start of the year saw the Regulatory Issues Committee making submissions to, and participating in a dialogue with, the Securities and Exchange Commission (SEC) in relation to Regulation AB and its impact on an Australian-based issuer of residential mortgage-backed securities into the market for registered securities. We were assisted by US counsel in making and arguing the case for the submissions but, like others, were not successful in having any specific amendments made to Regulation AB for an Australian issuer. However, the SEC has been open to accepting that the standard and nature of disclosure for an Australian issuer may be different to that for a US issuer and

will continue to administer this on a deal-by-deal basis. Whether any additional requirements that flow from Regulation AB (together with other US laws, such as Sarbanes-Oxley) will affect the level of issuance in the US registered market will be a matter of time.

The middle and end of 2006 saw the Regulatory Issues Committee grappling with the implications of the Anti-Money Laundering and Counter-Terrorism Financing Bill (AML Bill). The Australian government is committed to introducing the AML Bill so that it honours its international obligations in these areas. Again, a number of submissions were made to the Commonwealth government so that the effect on the securitisation industry, given the limited roles of a securitisation vehicle and its manager, was limited but also so that the purpose of the AML Bill was achieved.

As this newsletter goes to print, the Commonwealth government had just released its final draft of the AML Bill and revealed that it will be introduced into parliament in that form. It will now be a matter for the Regulatory Issues Committee to consider the final bill, and to do further work so that its impact on the securitisation industry is manageable.

At the same time, the committee has dealt with any number of regulatory, stamp duty and other legal and regulatory changes so that the growth and efficiency of the securitisation industry will not be impeded.

My thanks go to the members of the Regulatory Issues Committee for their continued involvement, participation and support in 2006.

committee updates



*Leigh Powell,
PMI Mortgage Insurance*

STRATEGY COMMITTEE

The Strategy Committee was set up this year to implement the action items arising from our strategic plan under our revised Mission Statement, which is: "To shape the future of the Australian securitisation industry for the ongoing benefit of our members."

The four key objectives to achieve this Mission Statement are:

- Develop the structure required for the next three to five years by reviewing the National Committee and Sub-Committee structure and the ASF funding model, and to investigate the need for staffing support;
- Have the ASF recognised as the key advocate for the industry by developing close and dependant relationships with

government and regulatory authorities;

- Develop a strong value proposition for investors through the promotion of Australian securitised products;
- Be recognised as the key industry provider of accredited education solutions that reflect members' changing needs, by arranging formal training in introductory and advanced topics and industry forums to facilitate networking and information exchange.

The committee is now in the process of prioritising and resourcing the implementation of our key initiatives, particularly in regard to new membership collateral, to support a targeted membership drive and the re-development of the ASF web site.



*Patrick Tuttle,
Pepper Homeloans*

TAXATION COMMITTEE

Following ongoing discussion with the Australian Taxation Office (ATO) about the GST treatment of servicer fees by securitisation entities expressed in GSTR 2004/4, the Taxation Committee circulated an ATO consultation document at the end of October.

Entitled "GST & Securitisation Arrangements", the consultation document explains how the ATO plans to interpret and implement the GST law with regard to certain transactions arising in the context of a typical Tier 1 securitisation arrangement.

In summary, the consultation document addresses the following:

- Preliminary ATO views on arrangements for the servicing of receivable contracts assigned to a special purpose vehicle (SPV) under a typical Tier 1 securitisation arrangement; and
- Proposals for the practical implementation of the preliminary

ATO view (on arrangements for the servicing of receivable contracts assigned to an SPV under a typical Tier 1 securitisation arrangement).

The ATO was seeking comments from the ASF and its members on the specific proposals outlined in the consultation document.

In addition, the ATO is aware that certain Tier 1 securitisation structures include the interposition of a warehouse trust entity between the originator and the issuer trust entities. To aid in any analysis, the ASF is requested to provide examples of transaction documents which support the operation of warehouse trust-type arrangements.

Final comments to the ATO were due by November 6, 2006. We will keep you posted on the ATO's response and further developments. ■

inprofile

ASF Investor Issues Sub-Committee

The Investor Issues Sub-Committee was established in April 2004 to help ASF's National Committee meet one of its four key objectives: to boost investors' allocation to Australian residential mortgage-backed securities (RMBS) and asset-backed securities.

The busy team, which meets approximately four to five times a year, has already racked up some key achievements. One was getting Bloomberg to model the cash flows for Australian issuers. "Many investors demand that issues be reported on Bloomberg. Because interest in Australia is calculated differently, Australia didn't fit neatly in the box. If Australians wanted their issues to be reported on Bloomberg, they had to do all the calculations manually," explains sub-committee chair Melissa Marzulli, who is also managing director of State Street Capital.

"Bloomberg now models our cash flows, allowing international investors to view Australian issues in the same format as they view issues from other parts of the world.

Another achievement was to get members to agree on a set of post-issuance reporting guidelines for prime RMBS issues. Nonetheless, the sub-committee still faces challenges in this area, especially in enforcing the guidelines. "We just don't have the teeth," notes Marzulli. She says some members don't comply because of the administration burden involved and because members may not wish to reveal additional information. "They may not believe that it's worth complying because they already have a good distribution for their issues."

Marzulli says the Sub-Committee plans to run an

AT A GLANCE Melissa Marzulli, whose day job involves running State Street's asset-backed commercial paper securitisation business in Australia, helped found the ASF's Investor Issues Sub-Committee in April 2004 and has been its chair ever since. Other Committee members include:

- Kirsty McPhail, St. George Bank
- Andrew Greenslade, GMAC-RFC Australia
- Ernest Biasi, Fitch Ratings
- Mary Ploughman, Resimac
- Belinda Smith, Standard & Poor's
- Steve Adamek, Alliance Capital
- Margarita Koklanis, ANZ Capital Markets
- Tom Bekiaris, Members Equity
- Cameron Smith, National Australia Bank
- Vernon Spencer, Stargate Financial

evening series next year focused on this area of reporting. She also believes the situation could change if investors ask issuers in general to standardise their reporting.

The Sub-Committee is also looking at reporting guidelines for other issues, such as asset-backed commercial paper. Marzulli would like to see issuers reporting arrears more uniformly, especially when it comes to RMBS.

Marzulli believes that rating agencies should be stricter in enforcing standardisation in this area. "They might say that some of the smaller players don't have the systems to do this. But there's also such excess demand for most issues. If there was more product and less demand for issues, issuers would comply. I am sure that this will change over time." ■



Melissa Marzulli
Chair of the Investor Issues
Sub-Committee

Q&A

What are investors' key concerns? Investors looking at the residential mortgage-backed securities (RMBS) market are noticing some arrears and a weakness in the housing market. But the market is still strong compared with other countries. Arrears are higher than they were in the past, but they are off historically low levels. They are coming up to where they were 10 years ago. In Australia, there's also a difference between regions. In New South Wales arrears are higher, but they are lower in Western Australia.

Investors are also concerned about low documentation loans. Some borrowers are not producing documentation that supports their income.

What transactions and innovations would investors like to see? They all want diversification. Currently RMBS is the dominant securitised asset class and most investor would like to see a wider variety of assets. Also, most investors in RMBS have significant exposure to the lender's mortgage insurers and would welcome transactions that use another form of credit enhancement. **Are there any concerns about the high degree of offshore participation in Australian dollar-denominated issues?** At times offshore investors provide issuers with a lower issuance cost. Offshore investors also tend to buy large pieces of deals. But when offshore investors look to sell their holdings on the secondary market, they can cause disruption to the market, which is still quite small.