



# NEWSLETTER

Australian Securitisation Forum Inc. | Representing the securitisation industry in Australia



Issue 13 | December 2004 | [www.securitisation.com.au](http://www.securitisation.com.au) | [info@securitisation.com.au](mailto:info@securitisation.com.au)

## Chairman's Welcome

This will be the last newsletter for 2004 and with Australian securitisation issuance volumes at record highs during 2004, we can look back over the year with considerable satisfaction in the achievements of our industry. Australian RMBS have been at record levels during the year and there was a very strong movement of our products into the European markets. We expect that this strong overseas support will continue into 2005, offering both large and medium issuers the opportunity to diversify their investor base.

We look into 2005 with the expectation that there will be an increasing level of non-mortgage assets being securitised, driven by issues of risk management and the implications of Basel 11. Given that well over 90% of our industry is mortgage backed, the asset diversity will be of welcome to our industry investor base.

In November we held the 3rd annual ASF securitisation conference and it was a remarkable success. Our thanks go to the ASF Marketing & Communications Committee under Paul Garvey and to INSTO for the planning and implementation of such a successful conference, including the social functions and networking opportunities. In 2005 the ASF and INSTO will once again be arranging the Australian securitisation conference, which will be held again at the Westin Hotel in Sydney, on the dates of November 16 – 17. Please put these dates into your diaries.

On behalf of the ASF, I wish all of you the very best for Christmas and for the New Year. I would also like to thank all the ASF sub committee chairpersons and their committees for the hard work carried out on behalf of the securitisation industry in 2004.

And in conclusion I thank all of the supporters of the ASF for your involvement in the activities of the ASF in 2004 and look forward to your continued support in 2005.

Roger Desmarchelier  
Chairman



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## Sub-Committee Updates

### Accounting Committee

As we enter the final few weeks before Christmas, I'd rather think of my holiday plans than the accounting that is in store for us in the New Year.

From 1 January 2005 we are officially in the world of international financial reporting standards (IFRS). Reporting entities will need to apply the Australian equivalents to IFRS for interim and annual reporting periods beginning 1 January 2005.

Most of you will be aware that this includes applying AASB 139 (the Australian equivalent of IAS 39). Many of you would be painfully aware that it is not always straightforward to apply the IAS 39 derecognition criteria. There are currently several provisions within IAS 39 that are ambiguous in meaning and intent. Because of this we wrote to IFRIC (the body responsible for interpreting IFRS) asking them to provide further guidance. The ESF Accounting Committee did likewise. Our submission (a copy of which is on the website) will be considered by the IFRIC agenda committee at their December meeting.

Some good news came from APRA in early November when they released a paper explaining their prudential approach to IFRS. In it they confirmed that for regulatory capital return purposes, ADIs should continue to apply the Australian accounting standards existing as at 31 December 2004. In subsequent meetings they have confirmed that this includes continuing (for regulatory capital purposes) the manner in which we have interpreted certain accounting pronouncements (and specifically UIG 28) as at 31 December 2004.

While the focus in recent times has been on derecognition and consolidation, the introduction of IFRS will have broader implications for the securitisation industry, and particularly the accounting within the issuing trusts. For example, the application of AASB 139 to issuing trusts would most likely require basis swaps to be fair valued, introducing unrealised gains and losses to the trusts for the first time. Given the possible adverse tax consequences of this and other potential new timing differences, the Accounting Committee and Tax Committee have been working together on possible solutions. One solution could involve preparing special purpose financial statements for the issuing trusts (assuming they could be deemed non-reporting entities) pursuant with accounting policies that are not entirely in accordance with Australian standards. This would also involve changing key definitions within trust deeds, such as distributable income. For more information, please refer to the Tax Committee report. More of this in the New Year.

I have previously mentioned a global project, endorsed by the IASB, to develop a revised

model for accounting for securitisation transactions. The project recently kicked-off proper, with me as one of the four co-chairs of the project along with two from the US and one from Europe. It will not be a short-term project so don't expect regular updates through this newsletter, although members of the Accounting Committee will be heavily involved.

Michael Codling, PricewaterhouseCoopers

### Prudential Committee

It has been a productive quarter for the Prudential Committee. The covered bond subcommittee finalised the submission to APRA and it was sent in November. A copy of the submission and attachments is available on the ASF website. No feedback has been received so far from APRA.

APRA has announced that both the standardised and advanced approaches for Basel II will apply from 1 January 2008. Previously the standardised approach was to commence on 1 January 2007. The conglomerate capital adequacy regime has also been postponed to 1 January 2008, although the new regime may apply in respect of any material new acquisition.

APRA released an overview paper on the capital implications of IFRS. APRA had previously said that it will not be making any IFRS-related changes before 1 July 2005 and it confirmed this timetable. However:

"Until further notice from APRA, regulated institutions should continue to report in terms of current requirements. For this purpose, APRA will make appropriate determinations to preserve the use of Australian accounting standards existing as at 31 December 2004, until any changes to the prudential and reporting standards are finalised." [Extract from release of 3 November 2004.]

This begs the question of what are the existing accounting standards, since there are still arguments over the application of SIC 12 / UIG 28 (now renamed UIG I112). A further extract is worth quoting in full:

"AASB 139 'Financial Instruments: Recognition and Measurement' will introduce more stringent requirements on removal from the balance sheet (i.e. 'derecognition') of financial assets sold to securitisation SPVs. This is likely to result in financial assets (such as mortgages) that have been securitised being brought onto the balance sheet. Transitional arrangements for IFRS provide that assets removed from the balance sheet prior to 1 January 2004 are not required to be brought back onto an entity's balance sheet where they fail the derecognition tests on adoption of AASB 139. On adoption of IFRS, existing securitisation structures are at risk of failing the clean sale and separation requirements of Prudential Standard APS 120 'Funds Management and Securitisation' and related Guidance Notes, which are



linked to the derecognition and consolidation tests in the accounting standards. This would have significant prudential implications for ADIs involved in securitisation activities in terms of future capital management as they may not be entitled to capital relief on loans securitised after 1 January 2004.” [Extract from release of 3 November 2004 and emphasis added.]

Discussions with an APRA representative at the ASF conference indicate that APRA expects that transactions that were previously treated as off-balance sheet would remain so for regulatory purposes. It is interesting to note from the italicised wording above that APRA is plainly of the view that assets derecognised prior to 1 January 2004 will not come back on balance sheet. This is contrary to most interpretations being floated at the moment, which include the interplay between SIC 12 and IAS 39.

Our latest information is that the Australian version of Basel II will be released early in 2005. APRA will give a relatively short consultation period and any deviations from the BIS framework will be focussing on issues that are peculiar to the Australian market. Parallel runs for Basel II begin 1 January 2006, so there is really only one year to put systems in place.

The Committee will decide whether to set up a working party when the release comes out early next year and make a submission to APRA on any changes we would like. If you would like to be on the Committee (or even just on the mailing list to be kept up to date), please contact me at [addisd@anz.com](mailto:addisd@anz.com).

David Addis, ANZ Investment Bank

## Marketing & Communications

### Annual Australian Securitisation Conference

The 3rd annual ASF industry conference ‘ABS 2004: Structuring for Success’ was held from the 17–18 November and was arguably the most successful conference that the Australian securitisation industry has held to date.

With in excess of 700 registered delegates in attendance, the conference has become the most important opportunity for Australian industry participants to network, exchange ideas and discuss industry developments.

As well as the informative topics that were presented throughout the conference, the two-day event also included the ASF annual industry Christmas Party, an annual industry dinner, and a sailing regatta that was held on Sydney Harbour (photo's of the sailing regatta are enclosed within the current edition of the newsletter). Prior to the commencement of the conference the ASF also held an Education Session on the 16 November 2004, which attracted more than 160 participants. The ASF wishes to thank all presenters and sponsors for their involvement in the conference this year.

Special thanks goes to the staff at INSTO for their work in organising this year's conference, along with the members of the Marketing and Communications Committee which includes:

- Tony Palmer, National;
- Sarah Hofman, Royal Bank of Scotland;
- Alexis Dodwell, Perpetual;
- Trevor Robinson, Clayton Utz; and
- Jane McCann, Perpetual (for her organisation of the Education Session)

### Other forthcoming industry events

American Securitization Forum 2005 Conference

23-26 January 2005

Scottsdale, Arizona

(for further information – [www.americansecuritization.com](http://www.americansecuritization.com))

Tenth Annual ABS West Conference

7-10 February 2005

Phoenix, Arizona

(for further information – [www.imn.org](http://www.imn.org))

Paul Garvey, Members Equity Pty Limited

## Regulatory Committee

“ASIC relief for securitisation vehicles and managers: ASIC has advised the ASF that it expects to release its final position in respect of the need for a securitisation vehicles, or its manager, to hold an Australian Financial Services Licence shortly before Christmas. There will be a transition period for the relevant entities to obtain a licence. ASIC is considering whether it needs to adjust the time period for that transition period (which was originally until the end of March 2005).

New asset backed rules for SEC registered issuers: The relevant members of the Regulatory Committee had a conference call with representatives of the SEC on 24 November. The purpose of the call was to obtain the SEC's feedback on our comment letter. Although it is not yet finalised, we expect that the following will apply:

- for non-bank programmes: the manager of the trust will continue to be the registrant and the 'issuer' for the purposes of liability under the Securities Act; and
- for bank programmes: the manager of the trust will



Sailing Regatta, November 2004



## Sub-Committee Updates *cont'*

continue to be the registrant and the 'issuer' for the purposes of liability under the Securities Act.

The main difference may be the manner in which this conclusion is reached. For example, for a non-bank programme, the SEC may consider the manager of the trust to be the 'depositor' for the purpose of allocating this liability to the manager. For a bank programme, the manager of the trust will be the 'depositor' and the bank itself may be the 'sponsor'. The SEC's view is that, under the new asset backed rules, the classification of the bank as the sponsor only requires the disclosure of certain information (most of which is already disclosed in most Australian programmes) and does not create any liability for the bank. The Regulatory Committee is working through the detail of this analysis.

Stuart Fuller, Mallesons Stephen Jaques

### Taxation Committee

The Tax Committee has had a number of constructive meetings with senior officials from both the ATO and Treasury over the past month.

On 15 November 2004 members of the Tax Committee met with a senior delegation from the ATO led by George Hitti, Assistant Commissioner (Financial Services Industry Group). The ASF canvassed a number of broad ranging issues including the potential impact of the new TOFA foreign exchange rules on the tax neutrality of securitisation vehicles, the ATO's view on subordinated debt in the debt/equity context and possible tax neutrality implications and the ATO's emerging views in relation to the structuring of securitisation vehicles in response to Tax Consolidation.

The ATO was represented by eight officials with expertise ranging from GST, Consolidations, CGT/Losses, and Financial Services. A future quarterly schedule of meetings between this core group and the ASF Tax Committee has been scheduled going forward. This liaison with the ATO has been initiated by the ASF Tax Committee to create trust and ongoing dialogue between the ATO and ASF so as to pre-empt unexpected (and possibly misconceived) action being taken by ATO officers against particular securitisation transactions.

On 18 November an ASF Tax Committee delegation also met with senior Treasury officials in Canberra to discuss the proposed policy intent behind the recent GST ruling (GSTR 2004/4). While there is no significant new information to report on this topic, the Tax Committee has been requested to provide further information to Treasury explaining the services provided by a Servicer. The committee will continue to update the ASF membership on this important issue as soon as more relevant information becomes available.

On 2 December 2004 a delegation of Tax Committee members attended the inaugural National Tax Liaison Group (NTLG) IFRS sub-committee meeting in Canberra. This committee has

been established by the ATO in consultation with both Treasury and various professional associations to provide a forum to raise and discuss issues associated with IFRS adoption from 1 January 2005.

During this initial meeting the ASF highlighted the potential for tax liabilities to arise within securitisation vehicles due to differential tax and accounting treatments created as a result of implementation of International Accounting Standards from 1 January 2005 (e.g. fair valuing of financial instruments under IAS 39). The ASF emphasised the pre-requisite for maintaining tax neutrality within securitisation vehicles and has suggested possible changes to the definitions of distributable income within underlying trust deeds as a means of overcoming potential unforeseen tax liabilities within SPEs. The ASF has agreed to prepare a paper for submission to the NTLF IFRS sub-committee outlining the basis for its concerns and related issues arising from the historical interpretation of trust law income and taxable income.

During the week commencing 6 December 2004, members of the Tax Committee will be meeting with Treasury officials to specifically discuss the impact that the TOFA rules might have on the desired cash, tax and accounting income position of securitisation vehicles. The immediate focus will be to seek resolution of the potential mismatches which may arise as a result of the TOFA foreign exchange rules. The ASF will also emphasise the importance of achieving certain and simple outcomes for the tax treatment of securitisation vehicles under TOFA (which outcomes may not necessarily follow from having a tax position that follows the position required under International Accounting Standards.)

Patrick Tuttle, Pepper Home Loans

### Investor Issues Committee

The Investor Issues Committee met for its final 2004 meeting in November, following the ASF conference. The Committee received some feedback from conference attendees on the Post Issuance Reporting Standards, and the Standards have been updated accordingly. They are now available on the ASF website and the Committee will welcome any further comments. The Committee has also written to Bloomberg on behalf of the ASF with issues of concern to the industry. This has been done in an effort to get the reporting of non-US RMBS issuers up to the same standard as US RMBS issuers and follows a meeting the previous month with Bloomberg to discuss these points.

In 2005 the Committee will be reviewing ABS and ABCP reporting and other issues of interest to investors in Australian securitised paper.

If you are interested in making a contribution to the Investor Issues Committee, please contact Melissa Marzulli on (02) 8249 1222.

Melissa Marzulli, State Street Capital Pty Limited

Number of New Australian Securitisation Transactions

|              | QTD<br>30/11/04 | % QTD<br>30/11/04 | 3Q04      | %<br>(3Q04)   | 2Q04      | %<br>(2Q04)   | YTD<br>2004 | % YTD<br>2004 | 2003       | % (2003)      | 2002      | % (2002)      |
|--------------|-----------------|-------------------|-----------|---------------|-----------|---------------|-------------|---------------|------------|---------------|-----------|---------------|
| ABS          | 4               | 25.00             | 6         | 22.22         | 3         | 10.34         | 16          | 15.84         | 12         | 8.82          | 11        | 14.10         |
| RMBS         | 8               | 50.00             | 13        | 48.15         | 16        | 55.17         | 57          | 56.44         | 59         | 43.38         | 43        | 55.13         |
| CMBS         | 1               | 6.25              | 1         | 3.70          | 5         | 17.24         | 8           | 7.92          | 8          | 5.88          | 15        | 19.23         |
| CDO/Repack   | 3               | 18.75             | 7         | 25.93         | 5         | 17.24         | 20          | 19.80         | 57         | 41.91         | 9         | 11.54         |
| <b>TOTAL</b> | <b>16</b>       | <b>100.00</b>     | <b>27</b> | <b>100.00</b> | <b>29</b> | <b>100.00</b> | <b>101</b>  | <b>100.00</b> | <b>136</b> | <b>100.00</b> | <b>78</b> | <b>100.00</b> |

Volume of Term Australian Securitisation Debt Issued (Bil. A\$)

|              | QTD<br>30/11/04 | % QTD<br>30/11/04 | 3Q04         | %<br>(3Q04)   | 2Q04         | %<br>(2Q04)   | YTD<br>2004  | % YTD<br>2004 | 2003      | % (2003)      | 2002      | % (2002)      |
|--------------|-----------------|-------------------|--------------|---------------|--------------|---------------|--------------|---------------|-----------|---------------|-----------|---------------|
| ABS          | 0.97            | 14.41             | 0.84         | 5.02          | 0.24         | 1.55          | 3.4          | 5.57          | 2         | 3.90          | 3         | 6.74          |
| RMBS         | 5.506           | 81.73             | 14.77        | 88.16         | 13.32        | 87.54         | 55.0         | 90.12         | 45        | 88.44         | 32        | 83.00         |
| CMBS         | 0.002           | 0.03              | 0.00         | 0.02          | 1.48         | 9.75          | 1.7          | 2.79          | 2         | 3.78          | 3         | 8.10          |
| CDO/Repack   | 0.258           | 3.83              | 1.14         | 6.80          | 0.18         | 1.16          | 0.93         | 1.52          | 2         | 3.88          | 1         | 2.16          |
| <b>TOTAL</b> | <b>6.736</b>    | <b>100.00</b>     | <b>16.75</b> | <b>100.00</b> | <b>15.21</b> | <b>100.00</b> | <b>61.03</b> | <b>100.00</b> | <b>50</b> | <b>100.00</b> | <b>38</b> | <b>100.00</b> |

New Public Ratings Assigned to Australian Securitisation Transactions in 3Q04 (to 30/11/04)

| Transaction Name                               | Originator                          | AUD Equivalent \$Mil |
|--|-------------------------------------|----------------------|
| <b>ABS</b>                                     |                                     |                      |
| Medfin Trust 2004-2                            | Medfin Australia Pty Ltd            | 151.50               |
| Interstar NIM Master Trust Series 2004-1       | Interstar Wholesale Finance Pty Ltd | 108.00               |
| CNH Capital Australia Receivables Trust No. 3  | CNH Capital Australia               | 500.00               |
| Freshwater Trust                               | Australand Holding Ltd              | 139.40               |
| <b>TOTAL ABS</b>                               |                                     | <b>970.90</b>        |
| <b>CDO/REPACK</b>                              |                                     |                      |
| Green Forest Securities Limited Series 2004-12 | Toronto Dominion                    | 54.20                |
| Obelisk Trust 2004-1                           | Societe Generale Australia Branch   | 200.00               |
| <b>TOTAL CDO/REPACK</b>                        |                                     | <b>254.20</b>        |
| <b>CMBS</b>                                    |                                     |                      |
| Quay 62 Pty Ltd 2003-1                         | AMP Wholesale Trust No. 1 and No. 2 | 20.00                |
| <b>TOTAL CMBS</b>                              |                                     | <b>20.00</b>         |
| <b>RMBS-DOMESTIC</b>                           |                                     |                      |
| PUMA Masterfund P-10 Series B                  | Macquarie Securitisation Ltd        | 750.00               |
| ARMS II Find XV                                | Australian Mortgage Securities      | 1000.00              |
| WB Trust 2004-1                                | Wide Bay Australia Ltd              | 300.00               |
| Interstar Millennium Series 2004-5             | Interstar Wholesale Finance Pty Ltd | 750.00               |
| <b>TOTAL DOMESTIC</b>                          |                                     | <b>2800.00</b>       |
| <b>RMBS-OFFSHORE</b>                           |                                     |                      |
| RESIMAC Premier Euro 2004-2E Trust             | RESIMAC Ltd                         | 1499.64              |
| <b>TOTAL OFFSHORE</b>                          |                                     | <b>1499.64</b>       |
| <b>TOTAL RMBS</b>                              |                                     | <b>4299.64</b>       |



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