

Newsletter

Chairman's Welcome

Welcome to the latest newsletter from the Australian Securitisation Forum.

This is my first report as Chairman of the Australian Securitisation Forum and I will take this opportunity to recognise the efforts of the former chairman, Brian Salter, who retired from the position this year. Over the past 4 years, Brian has guided the activities of the ASF and was the driver of the incorporation of the ASF last year, which has placed it in strong position to meet the industry challenges ahead and to continue serving the interests of its members. The National Committee has received the resignations of Phil Richards of Macquarie Securitisation, who has moved to another area of Macquarie Bank and Sonya Jenkins of Westpac, who has left the bank and moved out of Sydney. Both have been major contributors to the activities of the ASF and we thank them for their work in the ASF and wish them all the best for

its various sub committees, whose detailed reports follow. The Regulatory Committee has been working on its submission to APRA on the Basel Capital Accord as well as working with other securitisation forums on a joint submission to the Basel Committee. Both these submissions are on the ASF website. The Tax Committee has been working on thin capitalization and consolidation proposals, while the Accounting Committee has been trying to come to grips with the implications to the securitisation industry on the changing international accounting standards.

The evening seminar in the past quarter was on Global Accounting Standards in Securitisation. The Sydney seminar in April, hosted by Clayton Utz, attracted over 170 attendees. This was followed up in July with a similar seminar in Melbourne. Our thanks go to Bruce Whittaker of Blake Dawson Waldron for opening and hosting the Melbourne seminar and for providing the

our first ASF National Committee in Melbourne. It is clear that Melbourne is an important part of the Australian securitisation industry and the decision was made at the National Committee meeting to set up a Melbourne Chapter of the ASF, which will be under the guidance of Fabienne Michaux, a National Committee member and Managing Director of Standard and Poors.

Planning is well underway for the Australian securitisation conference, a joint arrangement between the ASF and INSTO, to be held in Sydney on 17/18 November. This year we have attracted a number of key local and international speakers and it promises to be very informative and lively conference. More details will shortly be issued.

Going forward, we are looking at re structuring some of our sub committees to recognise the changing demands of our industry and the role of the ASF in meeting these changes. Once

ISSUE 8

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Inside this issue:

Sub-committee updates	2
Regulatory Issues: Impact of the FSR	3
Issuance Table	4
Accounting	4
Evening Series Invitation	4

Welcome to the eighth newsletter of the Australian Securitisation Forum Inc.

the future. The two casual vacancies on the National Committee resulting from these resignations have been filled by David Addis of ANZ Investment Bank and Paul Garvey of Members Equity. We welcome them both to the National Committee and look forward to working together with them on ASF activities.

Over the past few months, the ASF has been active in a number of areas through

venue and the refreshments afterwards. I would like to thank the panel presenters, David Addis, ANZ Investment Bank, Stephen Gustafson, Deloitte Touche Tohmatsu, Alison Gray, SG Australia, who spoke at both seminars and Trevor Robinson and Brian Salter, Clayton Utz, who participated in the Sydney and Melbourne seminars respectively.

The Melbourne seminar in July followed the holding of

finalised, members will be advised of these changes and be asked to consider participating in the activities of the ASF through one of these sub committees.

Roger Desmarchelier
St George Bank



ASF Twilight Series



Tax Gavin Buchanan Citigroup Global Markets

The Tax Committee has been busy in recent months with its continued focus on tax consolidation, thin capitalisation and, latterly, a submission on GST on the assignment of income streams.

Our work on tax consolidation and tax sharing agreements continues with us now focusing our efforts on consultation with the Australian Tax Office (ATO) in relation to the implications of tax consolidation on securitisation transactions. Our dialogue with other industry players like Standard & Poor's is also continuing in an effort to ensure a smooth transition to the new regime with minimal disruption to existing or future transactions.

As most people would know, the Tax Committee was successful during 2002 in negotiating an appropriate carve-out for securitisation vehicles in the proposed Thin Capitalisation legislation. Unfortunately, in the bill's first reading in Parliament, the Member for Kingston recommended the legislation be referred to a Senate Economics Committee to consider (among other things) the appropriateness of the reliance on the criteria of an internationally recognised rating agency in the determination as to what is a "securitisation vehicle". In response to this referral to the Senate Committee, Charles Armitage kindly offered to write a submission and offered to appear before the Senate Committee in an effort to shepherd the exemption through in the manner in which we had anticipated. So, on 29 July both Charles and myself flew to Canberra to give live evidence to the Senate Committee. Despite, at one point, a lively debate as to the appropriateness of the securitisation exemption at all, we both left feeling that the industry should not be concerned as to the passage of the exemption through both Houses of Parliament. It must be noted that both the Institute of Chartered Accountants and the Treasury also made submissions in favour of the use of the criteria of internationally recognised rating agencies. Once again, the Tax Com-

mittee's, and ultimately the securitisation industry's thanks must go to Charles Armitage for his continued support and effort in relation to the cause.

The ASF received in early July a request from the ATO to provide some input into the publication of a draft ruling in relation to GST on the assignment of income streams. The Tax Committee met to appoint a small group of members to work on a submission to be given to the ATO. Work on that submission is continuing with an expectation that the ATO will receive it by the end of August. The draft ruling is expected to be out in October and at that point the ASF will have a further opportunity to make a more detailed submission on behalf of its members.

Finally, the ACT has decided to adopt a mortgage backed securities exemption (similar to NSW) thereby removing the uncertainty of recent times in relation to stamp duty on the transfer of ACT land and mortgages in the context of securitisation transactions.

Membership Fabienne Michaux Standard & Poor's

The ASF National Committee ventured outside its usual stomping ground and headed to Melbourne for its July meeting, which was kindly hosted by Standard & Poor's (I'm allowed to say that so long as I declare my interest - for the avoidance of doubt that's my company!!). With the sudden rush to the brain that this excitement created, as well as Roger Desmachellier's desire to reposition the ASF to take it forward under his stewardship, it was decided to establish a new sub-committee, called the Membership committee. This committee will be charged with broadening the ASF membership base, establishing a Melbourne chapter of the ASF, and working with the other sub-committees to ensure that the ASF continues to represent and add value to the Australian securitisation industry and its constituents.

Following the National Committee meeting, committee members retired to the offices of Blake Dawson Waldron at the very generous invitation of Bruce Whittaker for an almost-repeat of the very successful Accounting Standards twilight session that was held in Sydney after the ASF AGM. With the IASB meeting in Europe sometime between our two twilight's, all of the presentations were necessarily changed to reflect the most up to date interpretations of what reality might look like after implementation. Like sands through the hourglass, so are the versions of IAS 39!! Eloquent as always, David Addis, ANZ, noted that while the changes may not result in improved outcomes for issuers, on the positive side of things, they may buy everyone another year because the changes will likely cause adoption of the standards to be delayed beyond the original expected time line. I always say it's important to focus on the positives - Well done to David for finding one!!

Proving there is life outside Sydney, the Melbourne twilight attracted more than 70 attendees who came out in force to support the ASF's inaugural Melbourne function, keen to see this as the first of many rather than as a once off event. Surprising to some Sydneyites who made the long journey southward, was the revelation that we are breathing down here in Melbourne and yes, restaurants are open after 9pm mid week!! Obviously some were unaware that Melbourne is actually the cultural centre of Australia, and that the linchpin of this revolves around good food. There, I've outed myself - I'm a Melbourne, and I'm proud!!

Over the coming weeks, I will be looking for volunteers to help out on the Membership sub-committee. The sub-committee will likely meet monthly in Melbourne while I am the convenor (but you don't need to live in Melbourne to contribute!). If you have an interest in joining the sub-committee, give me a call. As this is a newly formed committee, it's a good time to participate in

defining the sub-committee's mandate and focus.

The ASF welcomes the following new members in the past quarter;

- Bank One NA
- EDS
- Ernst & Young
- IMB Ltd
- Henry Davis York

We welcome these new names to the Forum and look forward to their contribution to the ASF's ongoing activities.

Education

Melissa Marzulli

State Street Capital Pty Limited

The Education Committee has three areas of focus for the balance of this year. They are:

1. To continue the relationship with the Securities Institute through collaboration on the Basic and Advanced Securitisation Workshops. These courses continue to have an important role in industry training. We had approximately 15 people attend the recently completed Basic course, and the Advanced course is currently underway. The Committee is undertaking a review of the Agenda and Notes for the Basic course to ensure the content is current.
2. Evening Series. The second ASF Evening Series for 2003 is scheduled. The topic will be **AAA: Tried and True**. The panel of experts will be Nancy Fox of Ambac, Nils Dahl of FSA and Richard Langberg of MBIA. Allens Arthur Robinson has kindly agreed to host.

Date: **Tuesday 23 September**

Time: 6:00-7:30 p.m. with drinks and snacks to follow the presentation

Venue: Allens Arthur Robinson Level 23, Chifley Tower 2 Chifley Square

Official notification will follow, but please mark your diaries and plan to join your colleagues for an informative session.

Regulatory Issues Phil Vernon Perpetual Trustees

Impact of the Financial Services Reform Act

A subcommittee of the Regulatory Issues Committee recently forwarded submissions to ASIC and Treasury regarding some of the potential problems that may arise for the securitisation industry under the Financial Services Reform Act. This submission was followed up with meetings with both ASIC and Treasury.

In essence, the ASF's position is that the application of the FSRA to the securitisation industry is inappropriate as the industry operates almost entirely in the wholesale market, transactions are predetermined with very strict parameters leaving little discretion once they have been established, and, in establishing transactions a myriad of parties are involved to ensure that the structure is robust from an investor's perspective namely rating agencies, lawyers and trustees. Provided that the notes are sold to wholesale investors through licensed dealers, the ASF believes that there should be exemptions available to other parties involved in transactions. If not, we face the costs and delays associated with applying for licenses for new vehicles and a duplication of licenses throughout a transaction.

Another potential problem looms in respect of an ambiguity concerning exemptions required for issuing information memoranda. There is an argument that information memoranda may be considered "advice" and a license required. Whilst we believe that there are sound arguments against this it is something we would prefer certainty on and are seeking clarity with the regulators. This issue has application in the broader capital markets and we are currently seeking the support of AFMA in our submissions.

The submission to ASIC and

Treasury can be viewed on the ASF website. Any enquiries in relation to the submission may be directed to Ninian Lewis of Clayton Utz or Scott Farrell of Mallesons.

Basel II

The ASF was recently a party to a comments letter to the Bank Of International Settlements signed by a coalition of Industry Organisations. The paper was in response to the most recent Consultative Paper (CP3) and set out continuing concerns of the securitisation industry with the Basel II Accord. In brief these concerns fall into six areas; i) the calibration of risk weights under the internal approach; ii) calibration of the supervisory floor under the Supervisory Formula Approach; iii) appropriate treatment for interest only strips; iv) capital requirements for revolving transactions; v) treatment of synthetic securitisations; and vi) treatment of Asset Backed CP conduit facilities.

In addition to the Australian Securitisation Forum, the submission was signed by the European Securitisation Forum, the American Securitization Forum, The US Bond Market Association, the International Association of Credit Portfolio Managers, the International Swaps and Derivatives Association and the Japanese Bankers Association. The initiative was part of a program of these international organisations working more closely together for change where our interests are aligned.

ACT Stamp Duty

Earlier this year the ACT tabled in parliament the Revenue Legislation Amendment Bill 2003 which, if passed in its original form would have caused disruption to the securitisation industry. There was no attempt to standardise the legislation with other jurisdictions. As a result of submissions made by John Loxton of Clayton on the ASF's behalf, the required amendments have been made and the explanatory draft of the Act is now largely consistent with other jurisdictions. ACT Parliament has since ceased plans to introduce the mortgage duty.

Australian Securitisation Issuance Since December 2002

The ASF thanks Fitch Ratings for this information

Transaction Name	Month	AUD Issuance (mIn)	USD Issuance (mIn)	Asset Class
Liberty Financial <i>Liberty Series 2003-1 Trust</i>	Apr-03	231.9	100.000	Non conforming Residential Mortgages
Investa Property Group <i>Investa Property Trust</i>	Apr-03	213.0		Commercial Mortgages
Heritage Building Society <i>HBS Trust 2003-1</i>	Apr-03	350.2		Residential Mortgages
Members Equity <i>SMHL Global No 4</i>	May-03	30.0	1,000.000	Residential Mortgages
Medfin Australia <i>Medfin Series 2003-1</i>	May-03	151.5		Asset-backed Securities
Interstar Securities <i>Interstar Millennium Series 2003-2</i>	May-03	550.0		Residential Mortgages
ING Industrial Finance <i>ING Industrial Fund (top up issue)</i>	May-03	37.2		Commercial Mortgages
Resimac <i>Resimac Premier Euro 2003-1 Trust</i>	May-03	46.0	386.000	Residential Mortgages
Bluestone <i>Sapphire III Series 2003-1 Trust</i>	May-03	300.0		Non conforming Residential Mortgages
AMP Henderson <i>Quay 62 Pty Ltd Series 2001-1 (top up issue)</i>	May-03	15.0		Commercial Mortgages
AMS <i>ARMS II Global Fund I</i>	Jun-03	50.5	1,000.000	Residential Mortgages
Members Equity <i>MEPM NIM Series 2003-1</i>	Jun-03	18.5		Asset-backed Securities
AMP Bank <i>Progress 2003-1</i>	Jun-03	485		Residential Mortgages
Suncorp-Metway <i>APOLLO Series 2003-1E Trust</i>	Jun-03	28.0	500.000	Residential Mortgages

Accounting—by Michael Codling, PricewaterhouseCoopers

The accounting debate in Australia continues to be dominated by developments overseas. In particular, impending changes to the international accounting standard IAS 39 are likely to significantly impact Australian balance sheets and securitisation structures going forward.

As previously foreshadowed, the IASB agreed not to proceed with the “continuing involvement” provisions contained in the original Exposure Draft. The latest proposals tabled at the June IASB meeting introduced an altogether new model for derecognition and pass-through arrangements. Under the new model the emphasis will change from an essentially control-based approach with a risks-and-rewards overlay, to an initial risks-and-rewards approach with subsidiary control tests.

The details of the new approach, including the complex criteria for qualifying as pass-through arrangements, have not yet been released to the public. However, the European Securitisation Forum (ESF) has been working with IASB staff to try and ensure the new tests will be practical. We are not expecting the IASB to re-expose the parts of IAS 39 that relate to derecognition of financial assets. Therefore we are likely to see these new rules in full for the first time when the revised Standard

is issued, in December at the earliest. In the meantime, the ASF Accounting Committee will continue to work with the ESF and monitor IASB meetings.

A couple of months ago the Accounting Committee finalised some Australian accounting guidance material for typical securitisation transactions. However, this may need to change to reflect the impending new international rules. The next ASF Accounting Committee meeting will also share how the US market has ‘coped’ with FIN46 “Consolidation of Variable Interest Entities”.

EVENING SERIES INVITATION

The next Evening Series: **“AAA: Tried and True”**

Speakers: Nancy Fox, Ambac; Nils Dahl, FSA; Graham Metcalf, MBIA

Date: Tuesday 23 September 2003

Time: 6.00pm with drinks and nibbles to follow

Venue: Allens Arthur Robinson, Level 23, Chifley Tower, 2 Chifley Square, Sydney

To register please RSVP to **Anna Tremevan** on (02) 9230 4439 or via email: anna.tremewan@aar.com.au