

Evaluation of the Effects of the G20 Financial Regulatory Reforms on Securitisation: Consultation report

Response to Consultation

Australian Securitisation Forum (ASF)

- 1. Preliminary findings: Does the report draw the appropriate inferences about the extent to which the securitisation reforms have achieved their objectives? Is there other evidence on the effects of the reforms to complement the preliminary findings of the report?**

The findings in the interim report evidence that both BCBS and IOSCO recommendations have been implemented in very different ways in G20 member states. However, it would be more meaningful if the report were to investigate the impact of the implementation of regulatory reform upon key metrics across each of the G20 member states. It would be interesting to understand how the differences in implementation by member states have had either a positive or negative influence on the state of the relevant securitisation market in those jurisdictions. With respect to the Australian securitisation market, the implementation of some of the reforms have been tailored to allow the Australian market to function in a measured and risk positive way and thereby achieve significant growth since the global financial crisis of 2008 (GFC).

Annual issuance placed with investors (not retained for central bank repo purposes) is an important indicator of success in preserving an open and integrated market. There would also be value in complementing the FSB findings with case studies to understand what impact banks and non-banks experience from the implementation of regulation across the G20 and its effect on issuance. Equally the FSB analysis should take into account the evolution of the securitisation investor base since the GFC and the diversity that securitisation creates across regions and specific investment groups such as banks, insurers, asset managers, superannuation and pension funds and central banks.

Australia has a well-developed prudential framework in place for securitisations. However, unlike Europe and the US, it has never considered it necessary to introduce non-prudential regulation of securitisations (such as risk retention or prescriptive investor due diligence requirements) but rather taking a measured approach to regulatory intervention.

This departure from a European style Securitisation Regulation has not resulted in systemic risks appearing in the Australian securitisation market. In fact, investment in Australian securitisations continues to grow with newer entrants accessing the market and more diverse assets being securitised. The investor base for Australian securitisations has also expanded significantly beyond the domestic market. This is a testament to the strength of

the practices employed by Australian issuers managing securitisation portfolios and the structural protections incorporated into Australian securitisation transactions.

In terms of governance, Australian market participants (banks, non-banks, intermediaries and investors) are regulated by the Australian financial services licensing body and conduct regulator, the Australian Securities and Investments Commission (ASIC) and are required to report their securitisation activities to the Australian prudential regulator, Australia Prudential Regulation Authority (APRA) and/or to the central bank, the Reserve Bank of Australia (RBA). As a proportionately well-regulated market, there are well developed and pragmatic protections in place for both issuers and investors.

Australian securitisations are also impacted by the extraterritorial effect of the EU Securitisation Regulation where Australian securitisations are sold to EU investors and these are most notably the European risk retention and data reporting requirements. Putting risk retention aside, the reporting obligations imposed on non-EU entities is an aspect of EU investor due diligence that causes unnecessary costs, complexities and regulatory compliance challenges. The report does not cover the topic of investor due diligence in any meaningful way even though it is impactful on the growth of securitisation markets across regions.

2. Analytical approach: Are the descriptive analyses used to evaluate the effects of the securitisation reforms appropriate? Are there other such analyses to consider? What types of empirical analysis based on available data could inform the evaluation?

See comments under Question 1 above.

3. Trends: Are the securitisation market trends presented in this report adequate given the scope of the evaluation? Are there other important trends that should be included and, if so, what additional data sources could be used for this purpose?

We would suggest that market trends such as the following should be reflected in the report:

- Annual issuance (for a period of at least 10 years) to accurately reflect the size of the market, rather than just outstandings
- Issuance by collateral type
- Diversification by issuer type and the competitive dynamic this brings to financial markets
- Defaults by tranche (based on original ratings)
- Ratings transition by asset class/jurisdiction
- Market liquidity

As a guide, we refer to a snapshot of the Australian structured credit market provided by Bloomberg and available on the ASF's website: <https://www.securitisation.com.au/market-statistics>

4. **Relevant reforms: Does the report appropriately describe the key aspects of the design and jurisdictional implementation of the BCBS and IOSCO reforms for analysing their impact on securitisation markets? Are there other important aspects of these reforms that should be considered for inclusion?**

See comments under Question 1 above. We reiterate the value of investigating the divergence in implementation across the G20 member states.

5. **Other reforms: Does the report accurately identify other G20 and domestic financial reforms that are most relevant for securitisation markets? Are there other reforms that should be considered in terms of their impact on market participants?**

As mentioned above under Question 1, Australia has not considered it necessary to introduce far reaching prescriptive securitisation regulatory reforms like in the EU and US. Other than specific prudential regulation (Australian Prudential Standard 120 – Securitisation (APS120)) applicable to authorised deposit taking institutions (ADIs), the Australian domestic securitisation market has managed to self-regulate on both the buy and sell sides. APS120 regulates ADI's only and is not an investor requirement.

There are market driven data reporting guidelines developed by the market to encourage a consistent approach to reporting with respect to commercial transactions. Although this is not strictly an investor requirement, its aim has been to provide a standard of reporting to which local and offshore investors are receptive. An example is the ASF's data reporting template for SME receivables which can be found on the ASF's website: https://www.securitisation.com.au/market_guidelines/sme-reporting-template

Separately, the Australian central bank, the RBA conducts regular open market liquidity operations to provide liquidity to financial institutions by entering into repo transactions with respect to its asset backed securities which are subject to certain eligibility criteria. A key eligibility criterion is the loan level reporting requirements (for which the RBA has prescribed a template). This is not a strict investor requirement but a guideline which only applies if a sponsor/originator is keen to ensure liquidity with the RBA.

6. **Conceptual framework: Does the report adequately explain the objectives, transmission channels and expected outcomes of the securitisation reforms? What other metrics to assess the impact of the reforms should be considered?**

The objective of the reforms is adequately explained. However, it is not clear what 'transmission channels' means in this context.

The expected outcomes from the BSBS and IOSCO standard have broadly addressed the shortcoming of securitisations pre GFC.

WHAT OTHER METRICS TO ASSESS THE IMPACT OF THE REFORMS SHOULD BE INCLUDED?

- Annual placed issuance volume would be an obvious metric to include and would be a critical indicator to evidence success in preserving an open, liquid and integrated structure.

- Evolution of investor base since pre GFC in the context of local implementation across banks, insurers, asset managers, superannuation and pension funds.
- Standardisation of implementation - which measures the extent of global standardisation in terms of coordinated implementation which is important when one thinks about the effect of divergent regulation across regions inhibiting global capital flows.

The comments in Section 3.3 of the interim report that capital charges should be commensurate with the risks is reasonable. However, it challenges the presumption that the Basel III reforms have delivered this outcome in a consistent manner across jurisdictions. Capital calibration derived from historical performance data is neither representative of non-US regions issuing into a pre GFC global market, nor representative of the product that is permitted under the current regulatory framework and is more than likely to be misaligned to expected performance of the product in many regions.

7. Resilience metrics for the CLO market: Does the report accurately describe the evolution of resilience indicators for the CLO market? To what extent can the evolution of these indicators be attributed to the reforms?

Australia does not have an active CLO market as economic efficient transactions are restricted by prudential regulation.

8. Risk retention in CLOs: Does the report accurately describe risk retention practices in the CLO market before and after the reforms? What additional analysis could be included to assess the effectiveness of risk retention in CLOs across FSB jurisdictions, including on how financing of risk retention deals by third party investors impacts effectiveness?

No comments.

9. Resilience metrics for the non-agency RMBS market: Does the report accurately describe the evolution of resilience indicators for the RMBS market? To what extent can the evolution of these indicators be attributed to the reforms?

No comments.

10. Risk retention in RMBS: Does the report accurately describe risk retention practices in the RMBS market before and after the reforms? What additional analyses could be included to assess the effectiveness of risk retention in RMBS across FSB jurisdictions?

Yes agreed.

11. Effectiveness of BCBS securitisation reforms: Does the report accurately describe the changes in bank behaviour following the implementation of the BCBS securitisation framework reforms? To what extent can the effects of these reforms be disentangled from the broader Basel III framework, other reforms and confounding factors?

No comments.

12. Simple, transparent and comparable (STC) securitisations: Does the report accurately describe the impact of the introduction of the STC framework on the securitisation market? To what extent has the reform met its objectives?

Australia has not introduced a STC framework to date and its securitisation market has been sustainable and able to grow in size and diversity without it. In fact, Europe is the only jurisdiction to have adopted a version of the STC framework (through the implementation of the STS (Simple, Transparent & Standardised)) and we understand that there is little evidence to suggest that there is less credit risk or lower spreads for transactions issued with an STS label. On the basis that the STS label has only been adopted in Europe and represents a small percentage of the European market, it is not considered to have been a success in meeting its objectives.

13. Effects on financing the economy: Does the report accurately describe the main effects of the reforms on financing the economy? Is there additional analysis that could be undertaken to estimate the benefits and costs of these reforms and to assess their impact on securitisation as a financing tool?

The report does acknowledge the challenges that various micro economic factors have on wholesale and retail lending. However, the FSB could consider undertaking a survey of bank and non-bank lenders to understand factors that have had a real impact on their ability to access the public securitisation markets.

14. Effects on financial system structure and resilience: Does the report accurately describe the extent to which there has been a redistribution of risk from the banking to the non-bank financial intermediation sector? What role did the reforms play in this process and what are the main benefits and risks from a system-wide perspective? How have the reforms impacted the demand and supply of liquidity in securitisation markets?

The report correctly describes the increase of securitisation among the non-bank sector, largely due to the fact that securitisation is the primary source of funding available to most non-banks who are unrated and unable to issue their own debt. However, the capital charges and liquidity rules applicable to banks has largely functioned as an inhibiting factor for many banks investing in securitisation. Across most regions, to varying degrees, securitisations face higher risk weights and risk floors and stricter reporting obligations than corporate and covered bonds. What is surprising about this is that corporate and covered bonds have lower risk weights than securitisations and, unlike securitisations, do not remove risk from the banking system.

15. Other issues: Are there any other issues or relevant factors that should be considered as part of the evaluation?

The ASF would be more than happy to answer any further questions that the FSB may have prior to finalising its report later this year.

The ASF is the peak body representing the securitisation and covered bond sectors in Australia and New Zealand. The ASF's role is to promote the development of securitisation and covered bonds in Australia and in New Zealand by facilitating the formation of industry

positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. The ASF is comprised of a National Committee, specific subcommittees and a national membership of c.200 institutions and market organisations. Further information on the ASF and its activities can be found at www.securitisation.com.au