Australian Securitisation Forum

# Securitisation - ten years on from the financial crisis

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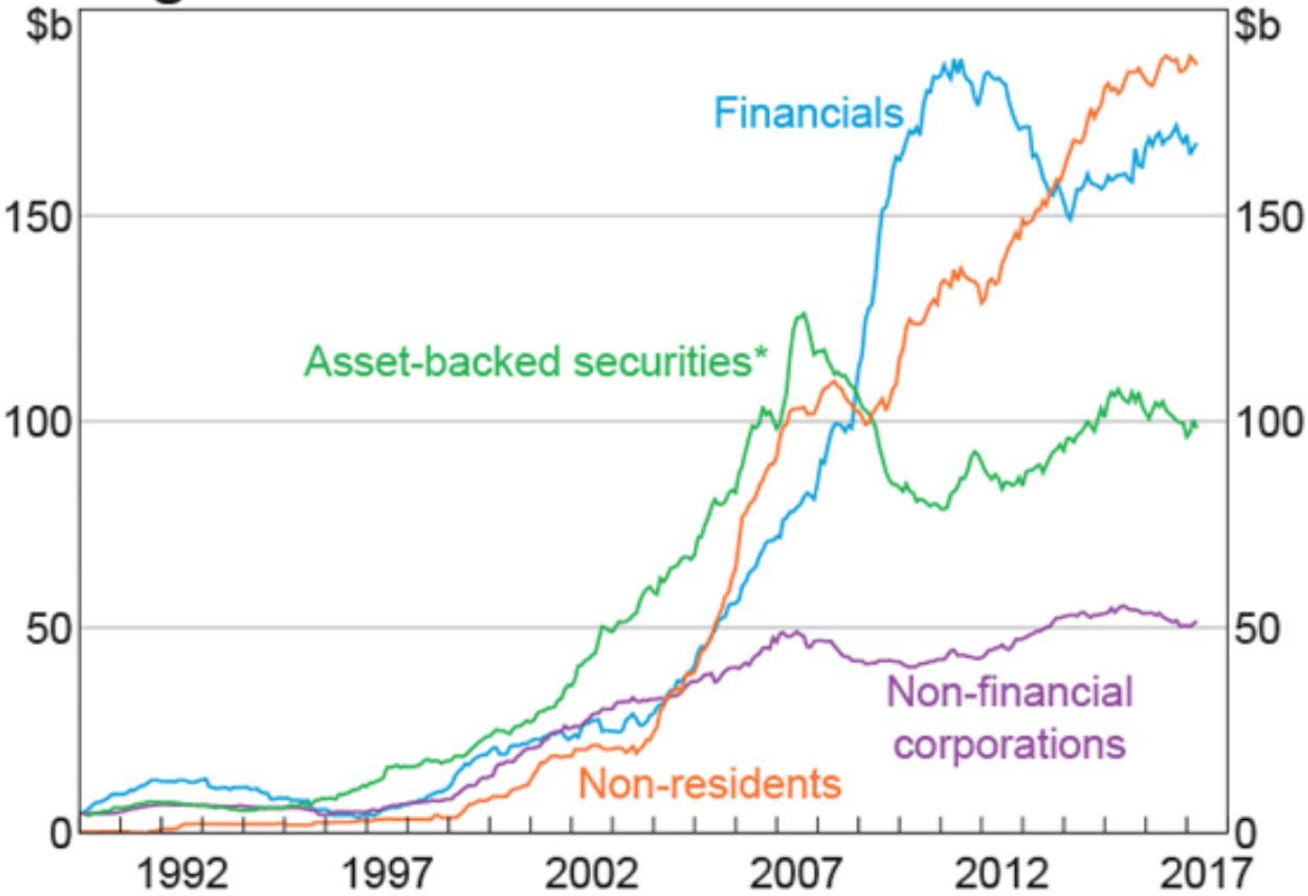
# Today's topics

- Current state of securitisation market
- Australia's regulatory reform
  - – New Securitisation Prudential Standard - APS 120
    - Capital relief securitisation
    - Funding only securitisation
    - Determination of regulatory capital
  - – OTC derivatives reform

# Funding by securitisation

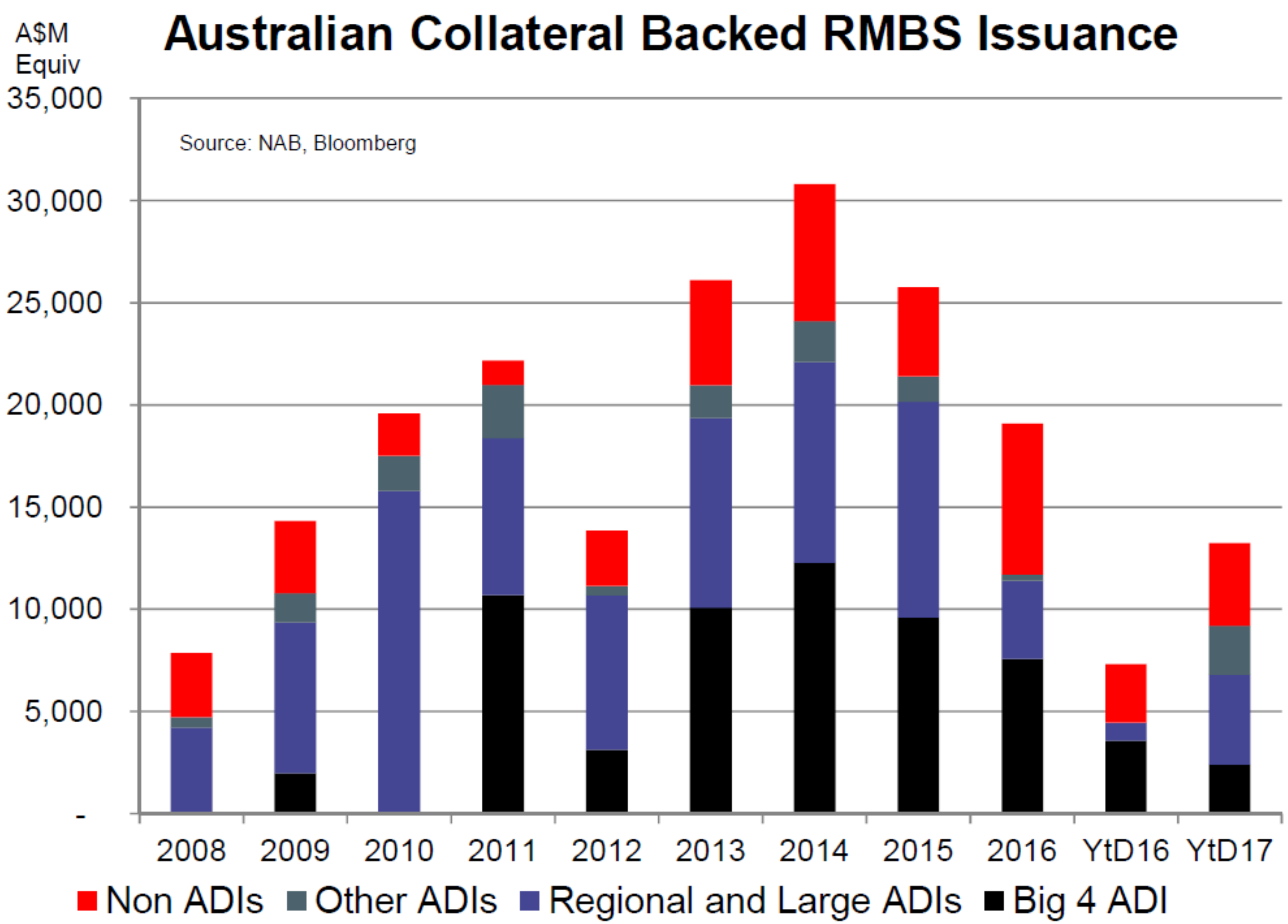
**Non-government Bonds on Issue in Australia**



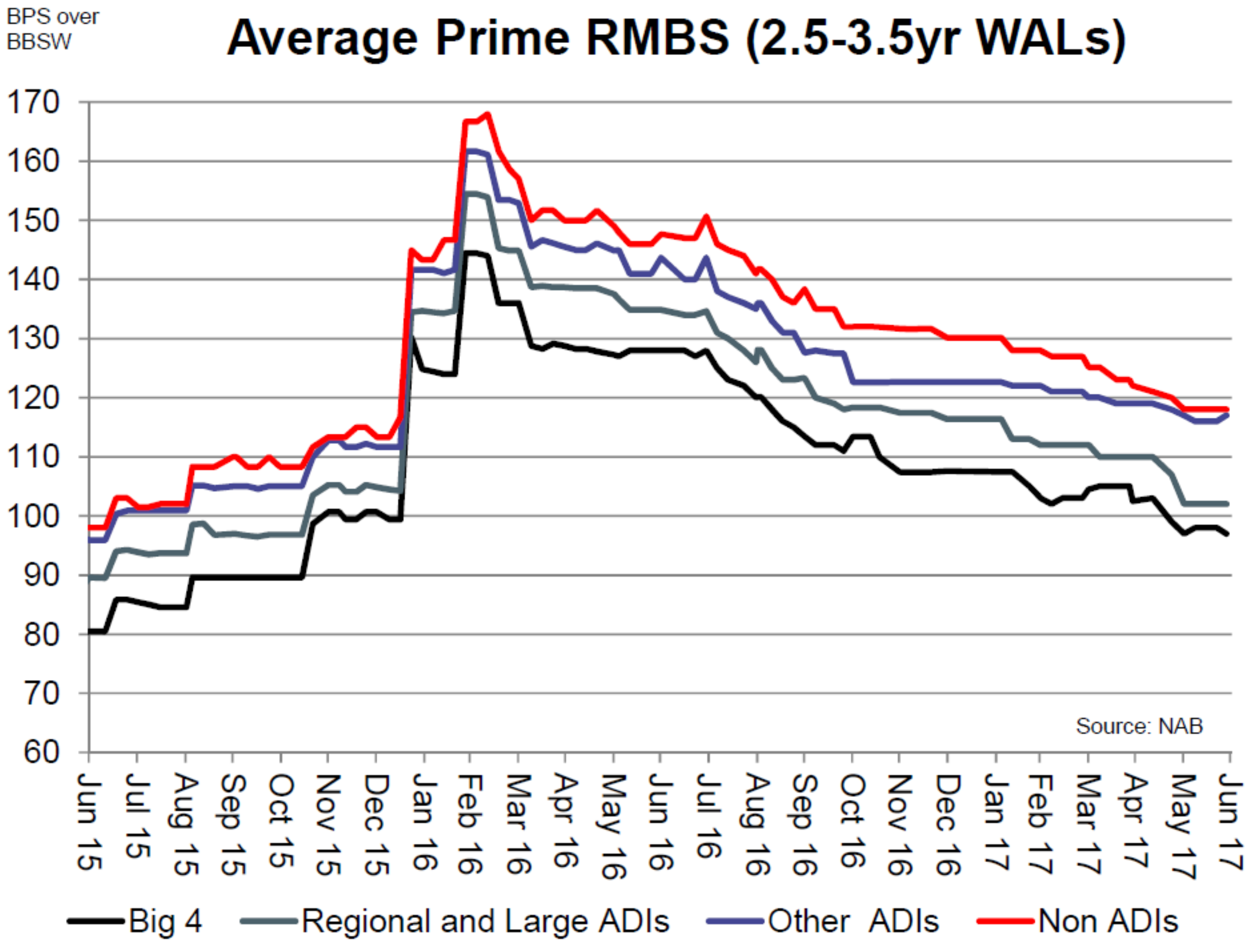

* Excludes ADIs' self-securitisations

Sources: ABS; RBA

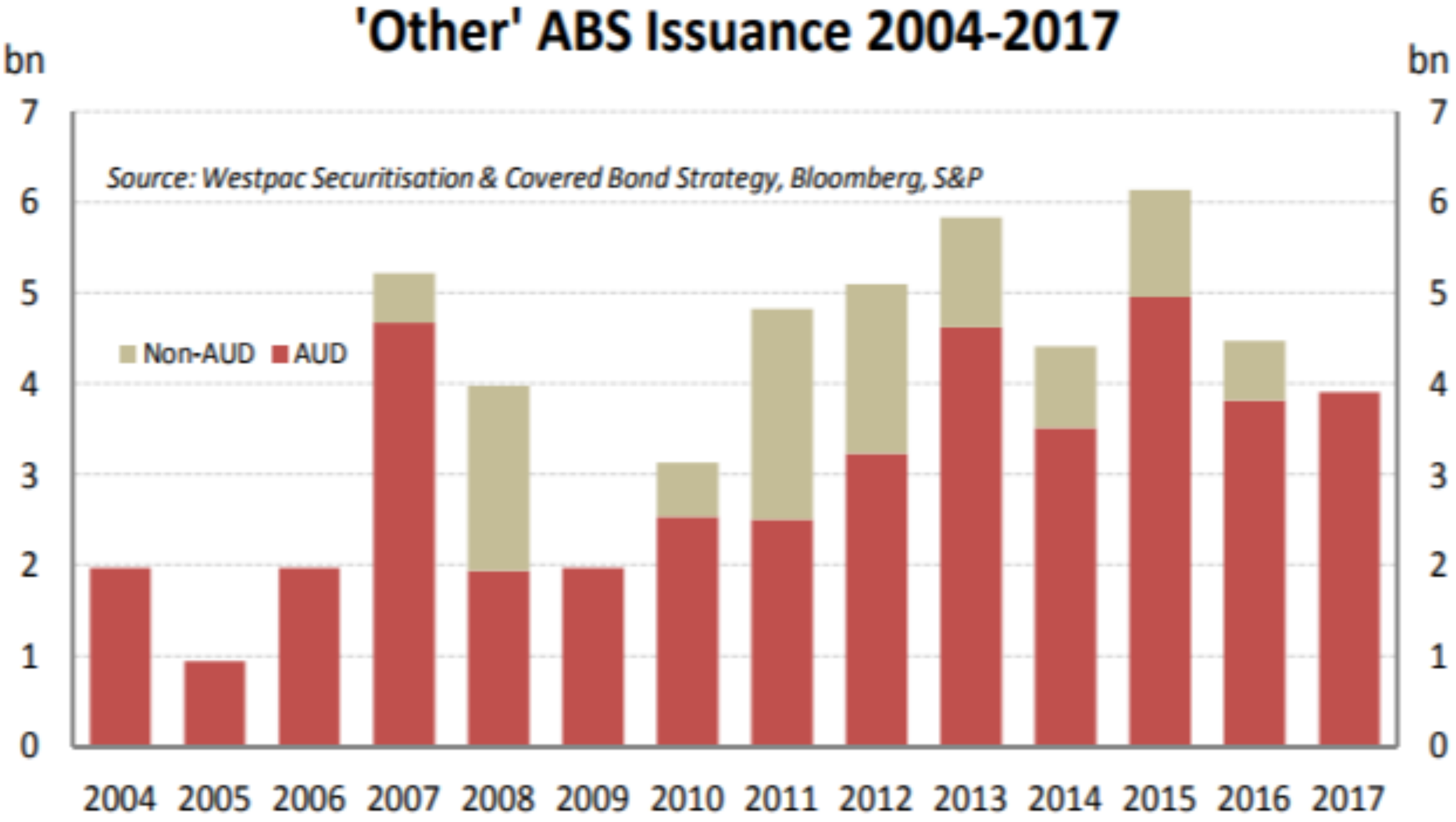
# RMBS by issuer type (2008 - 2017)



# RMBS margins (2015 - 2017)



# ABS issuance (2004 - 2017)



# Underlying philosophy new APS 120

- Covers an ADIs exposure as an issuer, investor or facility provider
- No implicit support from ADIs
- Separation of ADI and SPV
- Increased simplicity of structures
- No synthetic securitisation
- No simple, transparent and comparable (STC) framework
- APRA’s key focus is depositor protection and significant risk transfer is needed to reduce regulatory capital

# Capital relief securitisations

- Focus is on transfer of significant credit risk to third parties:
  - ADI can retain **no more than** 20% of non-senior securities issued (in aggregate, and of any tranche); and
  - **cannot** hold or fund the acquisition of non-senior securities **and** provide other loss positions or credit enhancements which represent more than 20% of the loss cover for senior securitisation exposures at any time
- Must **sell** non-senior securities to third parties: credit risk mitigation techniques or other hedges do not count as sales
- Cannot repurchase non-senior securities once sold other than to effect a 10% clean up call
- No date-based calls for capital relief deals

# Capital relief securitisations

- Funding must be in place for the life of the underlying pool
- ADI must model 10% clean up calls for liquidity purposes
  - measure, monitor and manage liquidity risk of call options
- Retained securities and other securitisation exposures (e.g. swaps) are risk weighted or deducted from CET1 capital (depending on rating)
- Cap on total capital requirement: no more than would have been held against assets had they not been securitised

# Bank of Queensland Series 2017-1 REDS Trust

| Class | Issue Size A$(m) | Expected Ratings S&P / Fitch | Initial Credit Support | Coupon | Expected[1] WAL |
|---|---|---|---|---|---|
| A1 | 920.00 | AAA(sf)/AAAsf | 8.00%[2] | 1m BBSW + 1.13% | 2.8 years |
| A2 | 37.50 | AAA(sf)/AAAsf | 4.25%[2] | 1m BBSW + 1.70% | 3.5 years |
| AB | 17.00 | AAA(sf)/NR | 2.55%[3] | 1m BBSW + 2.05% | 7.2 years |
| B | 15.00 | AA(sf)/NR | 1.05%[3] | 1m BBSW + 2.50% | 7.2 years |
| C | 9.40 | A(sf)/NR | 0.11%[3] | 1m BBSW + 3.45% | 7.2 years |
| D | 1.10 | NR/NR | - | 1m BBSW + 6.00% | 7.2 years |

# Funding-only securitisations

- New APS 120 explicitly acknowledges funding only transactions
- For regulatory capital purposes, securitised assets are treated as if the securitisation had never happened:
  - include securitised assets in calculating regulatory capital for credit risk (APS 112 or APS 113);
  - do not need to have regard to the interposed structure when assigning risk weights to securitised assets;
  - do not need to hold regulatory capital for facilities or exposures to the securitisation SPV where those relate to the securitised assets (e.g. interest rate swaps)
- All revolving credit facilities are funding-only

# Funding-only securitisations

- Funding-only securitisations can include date-based calls
  - date-based call relates to **senior securities only**
  - non-senior securities must share **pro rata** loss allocation and have the same maturity
  - can't change call date post-issuance
  - originating ADI must retain discretion to exercise call
  - cash flows must be able to meet any margin step-up
  - can't structure call to avoid allocating losses
- Can include securities with bullet maturities
  - 'hard bullet' cannot be funded by originating ADI
  - 'soft bullet' can be funded by originating ADI

# Funding-only master trusts

- A master trust allows multiple series of RMBS to be issued by an ADI that are backed by a common pool of assets
- Bullet maturity effected by a date –backed call (soft bullet)
- Seller holds pari passu senior notes along side investors
- Seller holds subordinated (loss absorbing) note
- APS 120 contemplates master trusts
  - Securitisation of revolving credit facilities
  - ‘Seller interest’ cannot be subordinated with respect to cash flows or losses to other senior securitisation exposures
  - Conditions for amortisation event (scheduled or early)

# Self-securitisations

- Allows ADIs to create on-balance sheet collateral to post for cash under a repo agreement with the RBA
- Broadly, same set of requirements as other securitisations, but…
  - can undertake to RBA to repurchase securities
  - can repurchase / replace securitised assets to meet RBA eligibility criteria
  - self-securitisations are excluded from the rules prohibiting changes to underlying pool
- Treated as funding-only securitisation, and must comply with APS 120 from the time it is for repo with the RBA

# Risk weighting hierarchy

- Two risk-weighting approaches
  - ratings-based approach (ERBA); or
  - supervisory formula approach (SFA)
- No internal assessment approach (IAA)

# External Ratings-Based Approach

Long term ratings only shown here

| Rating | Current | | NEW APS 120 (2018) | | | |
|---|---|---|---|---|---|---|
| | Senior current | Junior current | Senior 1 year | Senior 5 year | Junior 1 year | Junior 5 year |
| AAA | 7% | 12% | 15% | 20% | 15% | 70% |
| AA+ | 7% | 12% | 15% | 30% | 15% | 90% |
| AA | 8% | 15% | 25% | 40% | 30% | 120% |
| AA- | 8% | 15% | 30% | 45% | 40% | 140% |
| A+ | 10% | 18% | 40% | 50% | Tier 1 Deduction | Tier 1 Deduction |
| A | 12% | 20% | 50% | 65% | Tier 1 Deduction | Tier 1 Deduction |
| A- | 20% | 35% | 60% | 70% | Tier 1 Deduction | Tier 1 Deduction |
| BBB+ | 35% | 50% | 75% | 90% | Tier 1 Deduction | Tier 1 Deduction |
| BBB | 60% | 75% | 90% | 105% | Tier 1 Deduction | Tier 1 Deduction |
| BBB- | 100% | 100% | 120% | 140% | Tier 1 Deduction | Tier 1 Deduction |

Adjustment for thickness

# OTC derivative reform

- ASIC agreed to industry request to move away from two-sided report of non-centrally cleared securitisation swaps
- APRA agreed with industry to not impose margin requirements on non-centrally cleared securitisation swaps

# For more information

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