



Prudential Standard APS 120

Securitisation

Objective and key requirements of this Prudential Standard

This Prudential Standard aims to ensure that authorised deposit-taking institutions adopt prudent practices in managing the risks associated with securitisation and that appropriate regulatory capital is held against those risks.

An authorised deposit-taking institution to which this Prudential Standard applies must comply with the requirements on a stand-alone (Level 1) basis and, where the authorised deposit-taking institution is a member of a consolidated banking group, on a consolidated banking group (Level 2) basis.

The key requirements of this Prudential Standard include that an authorised deposit-taking institution must:

- hold appropriate regulatory capital against securitisation exposures that it retains or acquires;
- not provide implicit support to a securitisation;
- stand clearly separate from a securitisation, with the extent of the institution's obligations to the securitisation set out in legal documentation; and
- ensure that there is clear disclosure that its involvement in a securitisation does not extend beyond any specific undertakings to which it has formally committed itself.

Authority

1. This Prudential Standard is made under paragraphs 11AF(1)(a) and 11AF(1AA)(a) of the *Banking Act 1959* (**Banking Act**).

Application

2. An authorised deposit-taking institution (**ADI**), other than a foreign ADI within the meaning of subsection 5(1) of the Banking Act, must comply with all of the provisions of this Prudential Standard. A foreign ADI must comply with the provisions in this Prudential Standard relating to disclosure and separation (including paragraphs 9 to 12 inclusive, and Attachment A), self assessment (paragraph 17) and Board and senior management responsibilities (paragraphs 18 and 19), in relation to its securitisation activity in Australia.
3. A reference to an ADI (or ADIs) in this Prudential Standard shall be taken as a reference to:
 - (a) an ADI (or ADIs) on a **Level 1** basis; and
 - (b) an ADI (or ADIs) on a **Level 2** basis.

Further details on how this Prudential Standard applies on a Level 1 and Level 2 basis are set out in *Prudential Standard APS 110 Capital Adequacy* (**APS 110**).

Definitions

4. The following terminology is used in this Prudential Standard:
 - (a) **asset-backed commercial paper (ABCP) securitisation** – a securitisation in relation to which the securities issued are predominantly commercial paper with an original maturity of one year or less;
 - (b) **basis swap** – a variable versus floating interest rate swap that is used in a securitisation to protect investors against decreases in the spread between the benchmark interest rate received on a pool consisting (wholly or partly) of variable interest rate exposures and the benchmark floating interest rate paid on the issued securities;
 - (c) **clean-up call** – in the case of a traditional securitisation, an option that permits the originating ADI to call the exposures in a pool before they have been fully repaid for the purpose of ending the securitisation. This is often accomplished by repurchasing the remaining exposures of a pool once the balance of the pool has fallen below a specified level. In the case of a synthetic securitisation, a clean-up call may take the form of a clause that extinguishes the credit protection;
 - (d) **credit enhancement** – an arrangement in which an ADI holds a securitisation exposure that is able to absorb losses in the pool and thereby provide credit protection to investors or other parties to the securitisation. A **first loss** credit enhancement is available to absorb

losses in the first instance. A first loss position is considered significant when it covers a multiple of historical losses or worst-case losses associated with the pool. A **second loss** credit enhancement is available to absorb losses after significant first loss credit enhancements have been exhausted;

- (e) **early amortisation clause** – a contractual clause that, when triggered, will result in security holders in a securitisation being paid out, in full or in part, prior to the originally stated maturity of the issued securities. Such clauses are generally included in the securitisation of revolving exposures;
- (f) **eligible facility** – has the meaning in Attachment E;
- (g) **eligible servicer cash advance** – has the meaning in Attachment E;
- (h) **facility** – a facility provided by an ADI to a securitisation, including but not limited to:
 - (i) a liquidity facility;
 - (ii) a funding facility;
 - (iii) an underwriting facility; and
 - (iv) a derivative transaction with an SPV;
- (i) **funding facility** – a facility provided by an ADI to an SPV for the purchase of exposures for a pool (not being funding provided through the ordinary purchase of securities issued by the SPV);
- (j) **gain-on-sale** – an increase in an ADI's equity capital or assets as a result of originating exposures into a securitisation, such as recognition of capitalised expected future margin or servicing income, a profit on the sale of exposures or purchase of a residual income unit;
- (k) **implicit support** – has the meaning in paragraph 12;
- (l) **indirect origination** – has the meaning in paragraph 5;
- (m) **liquidity facility** – a facility provided by an ADI to an SPV for the primary purpose of funding any timing mismatches between receipts of funds on underlying exposures and payments on securities issued by the SPV, or to cover the inability of the SPV to roll over securities due to market disruption;
- (n) **managing ADI** – an ADI that manages a securitisation. This may include undertaking responsibility for the day-to-day administration of the issuing SPV, allocation of collections, calculation of payments and preparation of investor reports. A managing ADI may also manage swaps, liquidity and other facilities and events such as the issuance, refinancing or calling of securities;

- (o) **originating ADI** – an ADI that:
 - (i) directly or indirectly originates underlying exposures included in a securitisation;
 - (ii) is a managing ADI; or
 - (iii) provides a facility (other than derivatives) to an ABCP securitisation;
- (p) **pool** – the underlying exposure or exposures that are securitised by way of assignment or the transfer of credit risk. The pool may consist of, but need not be limited to, loans, bonds or equities;
- (q) **revolving exposures** – exposures arising from revolving (that is, redrawable) facilities, other than exposures in the nature of redrawable home loans, where the amounts likely to be redrawn in any collection period are expected to be immaterial relative to the size of the pool;
- (r) **securitisation** – a structure where the cash flow from a pool is used to service obligations to at least two different tranches or classes of creditors (typically holders of debt securities), with each class or tranche reflecting a different degree of credit risk (i.e. one class of creditors is entitled to receive payments from the pool before another class of creditors). A warehouse SPV is a securitisation even if it does not have at least two different tranches of creditors or securities;
- (s) **securitisation exposures** – on- and off-balance sheet risk positions held by an ADI arising from a securitisation including, but not limited to:
 - (i) investments by the ADI in securities issued by an SPV including retention of a subordinated tranche of securities issued by an SPV;
 - (ii) other credit enhancements, such as guarantees provided by the ADI;
 - (iii) drawn and undrawn funding, underwriting, liquidity and other facilities provided by an ADI to a securitisation; and
 - (iv) exposures arising from swaps and other derivative transactions with an SPV;
- (t) **service provider** – an ADI that provides a service to an SPV, including as manager or servicing ADI, or by providing a trustee or security trustee. The provision of a facility to an ADI does not, of itself, constitute the provision of a service;
- (u) **servicing ADI** – a service provider that administers a pool for an SPV. This may include calculating account balances in relation to securitised loans as well as preparing borrowers' statements, collecting payments and determining write-offs in relation to such loans;

- (v) **special purpose vehicle** or **SPV** – a financing vehicle which typically purchases and holds the pool for the purposes of a securitisation. The SPV's payment for the pool is typically funded by debt, including through the issue of units or securities by the SPV;
- (w) **synthetic securitisation** - a securitisation whereby only the credit risk, or part of the credit risk, of a pool is transferred to a third party, which need not necessarily be an SPV;¹
- (x) **traditional securitisation** – a securitisation where the pool is transferred (or assigned) to, and held by, an SPV;
- (y) **underwriting facility** – a facility under which an ADI agrees to buy securities from the SPV to facilitate their distribution to the market; and
- (z) **warehouse SPV** – an SPV that accumulates exposures until a sufficiently large pool is available for issuance of securities to the market in a securitisation.

Scope

5. Except where otherwise provided, this Prudential Standard applies to all roles undertaken by, and investments of, an ADI in a securitisation. This includes, but is not limited to, where the ADI is an originating ADI or provides a facility in relation to a securitisation. This Prudential Standard also captures securitisations where the ADI, either itself or by using a third party, originates exposures directly into an SPV, without those exposures having appeared on the ADI's balance sheet (**indirect origination**).
6. An ADI must apply this Prudential Standard to securitisation exposures in its banking book. Securitisation exposures that are held in an ADI's trading book are subject to the requirements of *Prudential Standard APS 116 Capital Adequacy: Market Risk (APS 116)*² except that securitisation exposures that would be required to be deducted from the ADI's capital if they were held in an ADI's banking book must also be deducted from capital if they are held in the trading book. Where relevant, securitisation exposures that are held in an ADI's banking book are also subject to the requirements of *Prudential Standard APS 117 Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs) (APS 117)*.
7. This Prudential Standard applies to traditional securitisations, synthetic securitisations and securitisations that have features of both. APRA may determine in writing that this Prudential Standard is applicable to a particular transaction or structure as if it were a securitisation if it has similar features to a securitisation and gives rise to similar prudential risks.

¹ The transfer of credit risk can be undertaken through the use of funded (e.g. credit linked notes), or unfunded (e.g. credit default swaps) credit derivatives or guarantees.

² An ADI's securitisation exposures may be allocated to its banking or trading book according to the ADI's trading book policy statement (refer *Guidance Note AGN 116.1 The Trading Book and Trading Book Policy Statement (AGN 116.1)*).

8. The issuing of full recourse debt instruments that are secured by a “cover” pool (**covered bonds**) of high quality exposures held by an ADI and that provide, in the case of insolvency of an ADI, the holders of securities with a priority claim on that cover pool, is not considered to be a securitisation for the purposes of this Prudential Standard. Covered bonds are not considered to be consistent with depositor preference provisions set out in the *Banking Act 1959* and hence are prohibited.

Key principles

9. An ADI must deal with an SPV and its investors on an arm’s length basis and on market terms and conditions.
10. The nature and limitations of an ADI’s involvement in a securitisation must be clearly disclosed to investors (refer Attachment A).
11. The ADI’s involvement in securitisation must be set out in legal documentation and be limited as to time and amount.
12. An ADI must not provide, or knowingly allow the perception to arise that it will provide, support to a securitisation that is in excess of the ADI’s explicit contractual obligations. To do so will be to provide **implicit support**.
13. An originating ADI of a traditional securitisation may exclude the underlying exposures in the pool from exposures used in the calculation of its regulatory capital requirement under *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS 112)* and *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk (APS 113)* and, where applicable, expected losses, if the credit risk associated with that pool has been transferred to third parties and the transfer complies with the relevant requirements in Attachment B.
14. An originating ADI may recognise certain credit risk mitigation techniques in a synthetic securitisation if the synthetic securitisation complies with the relevant requirements in Attachment B.
15. An ADI must hold regulatory capital (as detailed in Attachments C, D and G of this Prudential Standard) against its securitisation exposures.
16. An ADI may provide facilities and services to a securitisation, provided this does not result in implicit support. An ADI must hold regulatory capital (as detailed in Attachments C and D) against a securitisation exposure arising from a facility, and the facility must comply with Attachment E.

Board and senior management responsibilities

17. It is the responsibility of the Board of Directors (**Board**) and senior management of an ADI³ to put in place policies and procedures relating to securitisation. These policies and procedures must, at a minimum, outline:
- (a) appropriate risk management systems to identify, measure, monitor and manage the risks arising from the ADI's involvement in securitisation; and
 - (b) how the ADI will monitor the effects of securitisation on its risk profile, including credit quality, and how it has aligned its risk management practices.
18. The Board and senior management must take reasonable precautions to ensure that the ADI is not providing implicit support for a securitisation.

Self-assessment

19. An ADI must undertake and provide to APRA upon request a written assessment of its compliance with the requirements of this Prudential Standard, including the applicable credit risk regulatory capital requirement for each securitisation transaction.

Capital requirements for implicit support

20. If an ADI provides implicit support to a securitisation, or otherwise does not comply with this Prudential Standard, APRA may, in writing, increase the ADI's minimum regulatory capital requirement in an amount specified by APRA. The amount will be commensurate with the risks arising from the provision of the implicit support, or other breach of this Prudential Standard. It will not exceed the amount of the regulatory capital requirement that the ADI would be required to hold under APS 112 or APS 113, as appropriate, against:
- (a) the relevant pool(s), if the exposures in the pool were reported as assets held by the ADI; or
 - (b) the full value of all securities issued by the relevant SPV(s), if the securities were reported as assets held by the ADI.
21. If an ADI is providing implicit support to a securitisation, APRA may, in writing, require the ADI to disclose the implicit support. Such disclosure must be in accordance with [the relevant pillar 3 disclosure instrument (to be released)] including details of any implicit support and its capital impact.

³ In relation to a foreign ADI, the responsibilities in paragraphs 18 and 19 are to be fulfilled by the senior officer outside Australia nominated by the ADI under paragraph 14 of *Prudential Standard APS 510: Governance (APS 510)*, and the senior manager in Australia referred to in paragraph 23 of APS 510.

Transitional provisions

22. This Prudential Standard applies from the day it comes into force (**commencement date**) to all acts and things done in relation to a securitisation, including a securitisation established before the commencement date (an **existing securitisation**).
23. If this would result in a significant increase in the amount of regulatory capital that an ADI must hold in relation to an exposure to an existing securitisation, APRA may, in writing, determine:
- (a) a lesser capital requirement for the ADI in respect of the exposure; or
 - (b) a transitional period during which:
 - (i) specified requirements of this Prudential Standard do not apply; and/or
 - (ii) specified requirements of [**the old APS 120**] do applyto the ADI, in relation to the exposure.

Such a determination may apply for [a period ending no later than two years after the commencement date].

Attachment A

Disclosure and separation requirements

Disclosure

1. An originating ADI must ensure that there is clear and prominent disclosure to investors of the nature and limitations of the ADI's obligations arising from its involvement in a securitisation. Documentation or marketing of a securitisation must not give the impression that recourse to the ADI would extend beyond any specific undertakings to which the ADI has formally committed itself.
2. It must be clearly disclosed that an investment in the securitisation does not represent a deposit with or other liability of the originating ADI.
3. Disclosures in documents inviting investment in a securitisation must be presented prominently at the beginning of the document.

Separation requirements between an ADI and SPV

4. An SPV must be clearly separate from any ADI involved in the securitisation and there must be clear limitations governing the extent of an ADI's involvement. Any undertakings given by an ADI to an SPV must be expressed clearly in the legal documentation relating to the securitisation and must be fixed as to time and amount.
5. Any undertakings given by an ADI to an SPV or investors must be subject to the ADI's normal approval and control processes.
6. An originating ADI must not:
 - (a) own, or hold a material direct, indirect or beneficial interest⁴ in any share capital, including ordinary shares or preference shares, of an SPV where the SPV is a corporation;
 - (b) own, or hold a material direct, indirect or beneficial interest in, any share capital in a trustee where the SPV is a trust;
 - (c) include, permit or acquiesce to the inclusion of the word "bank", "building society", "credit union", "authorised deposit-taking institution" or "ADI" in the name of an SPV;
 - (d) allow any of the ADI's directors, officers or employees to sit on the Board⁵ of an SPV unless the Board is made up of at least four members.

⁴ For purposes of paragraph 6, a share created for the purpose of securing a residual interest distribution, such as an entitlement arising from a spread account or similar surplus income arrangement that complies with the conditions in Attachment B or an investment in securities that complies with Attachment F, is not considered a beneficial interest.

⁵ An SPV may be a company or a trust with a corporate trustee. References to the directors and Board of an SPV in this Prudential Standard apply equally to the directors and Board of the corporate trustee of an SPV which is a trust.

The ADI, however, may be represented by one director on a Board of four to six directors and by no more than two directors in a Board of seven or more directors;

- (e) act, or allow any of its directors, officers or employees to act, in any circumstances as a trustee of an SPV, or in any similar role. The trustee must not be part of the group, as defined in Australian accounting standards, to which the ADI belongs; or
 - (f) be liable for the obligations and liabilities of the SPV⁶, in particular, in the event the SPV incurs losses.
7. APRA may, at its discretion, require an ADI to seek a legal opinion on any of the separation requirements from an independent legal counsel chosen by APRA, at the expense of the ADI.

Requirements for an SPV

8. In a securitisation, an SPV must satisfy the following criteria:
- (a) the SPV must be a corporation, trust or other entity organised for a specific purpose;
 - (b) the purpose of the SPV must be clearly defined and the activities of the SPV must be limited to those necessary to accomplish that purpose; and
 - (c) the SPV must be financially and operationally independent of the originating ADI.

⁶ This does not apply to the limited circumstances explicitly permitted by this Prudential Standard.

Attachment B**General capital adequacy requirements**

1. As securitisations may be structured in many different ways, an ADI's regulatory capital treatment of a securitisation exposure must be determined on the basis of the exposure's economic substance rather than its legal form.

Operational requirements for regulatory capital relief

2. An originating ADI may exclude a pool of a traditional securitisation from the calculation of its risk-weighted assets and, where applicable, expected loss, if, at both the time of risk transfer and afterwards:
 - (a) the transferred exposures in the pool are legally isolated from the ADI in such a way (e.g. through the sale of assets) that the exposures are put beyond the reach of the ADI and its creditors, including in bankruptcy, winding up and receivership. The originating ADI must not:
 - (i) be obliged to repurchase the underlying exposures out of the pool held by the SPV except in accordance with Attachment F;
 - (ii) be obliged to retain the credit risk of the transferred exposures; or
 - (iii) once the pool has been transferred, bear recurring costs from the securitisation;
 - (b) the issued securities are not obligations of the ADI and therefore investors who purchase the securities only have claim to the relevant pool and any credit enhancements;
 - (c) the transferee is an SPV and the holders of the securities in that SPV have the right to pledge or exchange them without restriction, other than restrictions necessary for compliance with legal requirements;
 - (d) significant credit risk associated with the securitised exposures has been transferred from the ADI to third parties;
 - (e) representations and warranties provided by the ADI comply with Attachments E and F, and clean-up calls comply with Attachment F;
 - (f) the ADI does not, and is not required to:
 - (i) systematically alter the underlying exposures such that a pool's weighted average credit quality is improved;
 - (ii) increase a retained first loss position or credit enhancement after the inception of the securitisation;

- (iii) increase the yield payable in response to a deterioration in the credit quality of a pool or the originator to parties such as investors and third-party providers of credit enhancements; or
 - (iv) increase the interest rate charged to borrowers, such as under a required rate or threshold rate agreement in response to:
 - (A) a deterioration in the credit quality of the pool, an originator or a facility or service provider;
 - (B) an increase in the margin payable by the SPV to investors (e.g. due to a step-up on notes issued);
 - (C) an increase in the cost of facilities or services provided to the SPV; or
 - (D) any other increase in costs to the SPV;
 - (g) where revolving exposures are transferred, and the ADI retains an interest in those exposures, the conditions in paragraph 1 of Attachment G are satisfied; and
 - (h) the document of transfer specifies that, if cash flows relating to an exposure in a pool are re-scheduled or re-negotiated, the SPV will be subject to the re-scheduled or re-negotiated terms.
3. An originating ADI may recognise the use of credit risk mitigation techniques (i.e. credit derivatives, guarantees or eligible collateral) in a synthetic securitisation for regulatory capital purposes if, at both the time of risk transfer and afterwards:
- (a) the transfer of credit risk through the use of credit risk mitigation techniques complies with the eligibility and other requirements of:
 - (i) for credit derivatives, [the relevant instrument for *Standardised Approach to Credit Risk: Treatment of Credit Derivatives in the Banking Book*];⁷
 - (ii) for guarantees, *Guidance Note AGN 112.3 Standardised Approach to Credit Risk: Simple Approach to Credit Risk Mitigation (AGN 112.3)*; ⁸ and
 - (iii) for eligible collateral, AGN 112.3 and *Guidance Note AGN 112.4 Standardised Approach to Credit Risk: Comprehensive Approach to Credit Risk Mitigation (AGN 112.4)*; ⁹

⁷ For this purpose, SPVs are not recognised as eligible credit protection providers.

⁸ For this purpose, SPVs are not recognised as eligible guarantors.

⁹ For this purpose, eligible collateral pledged by SPVs is recognised.

- (b) the instruments used to transfer credit risk do not contain terms or conditions that limit the amount of credit risk transferred, such as clauses that:
 - (i) materially limit the credit protection or credit risk transference (e.g. materiality thresholds below which credit protection is deemed not to be provided even if a credit event occurs or those that allow for the termination of the protection due to a deterioration in the credit quality of the pool);
 - (ii) require the ADI to alter the composition of a pool to improve the weighted average credit quality of that pool;
 - (iii) increase the ADI's cost of credit protection in response to a deterioration in the credit quality of a pool;
 - (iv) increase the yield payable to investors and third party providers of credit enhancements in response to a deterioration in the credit quality of a pool; or
 - (v) provide for an increase in a retained first loss position or credit enhancement provided by the ADI after the inception of the securitisation;
 - (c) significant credit risk associated with the securitised exposures has been transferred to third parties;
 - (d) representations and warranties provided by the ADI comply with Attachments E and F, and clean-up calls comply with Attachment F; and
 - (e) where revolving exposures are transferred, and the ADI retains an interest in those exposures, the conditions in paragraph 1 of Attachment G are satisfied.
4. An originating ADI must obtain written advice from legal counsel that:
- (a) in the case of a traditional securitisation, the transferred exposures in the pool are legally isolated from the ADI in such a way that the exposures are put beyond the reach of the ADI and its creditors, including in winding up and receivership; and
 - (b) all agreements, deeds and other legal documentation relating to the securitisation are enforceable in all relevant jurisdictions.
5. APRA may, at its discretion, require an ADI to seek a legal opinion on any other operational requirement for capital relief from an independent legal counsel chosen by APRA, at the expense of the ADI.

Maturity mismatches in synthetic securitisations

6. The effective maturity of the tranches of securities issued in a synthetic securitisation may differ from that of the pool, causing a maturity mismatch to occur. To determine if a maturity mismatch has occurred, the maturity of a pool must be compared with the maturity of the tranches of the securitisation. For this purpose, the exposure in a pool with the longest maturity must be taken as the maturity of that pool.
7. A maturity mismatch exists where the residual maturity of the securitisation is shorter than the residual maturity of the pool.¹⁰ In this case, full capital relief may not be recognised even if the synthetic securitisation otherwise complies with this Attachment. Instead, the capital requirement must be determined in accordance with:
 - (a) for credit derivatives, [the relevant instrument for *Standardised Approach to Credit Risk: Treatment of Credit Derivatives in the Banking Book*];
 - (b) for guarantees, Attachment C to AGN 112.3; and
 - (c) for eligible collateral, Attachment A to AGN 112.4.
8. Maturity mismatches may be ignored where deduction of the securitisation exposure is required for capital adequacy purposes in accordance with Attachments C or D.

Operational requirements for the use of external credit assessments

9. For the purposes of determining the regulatory capital requirement under this Prudential Standard (and, in particular, under Attachments C and D) for the securitisation exposures held, an ADI may only use an external credit assessment that takes into account all amounts, both principal and interest, owed to it.
10. An ADI may only use the external credit assessments of the eligible external credit assessment institutions (**ECAIs**) as detailed in Attachment C of *AGN 112.1: Standardised Approach to Credit Risk: Risk-weighted On-balance Sheet Credit Exposures (AGN 112.1)*.
11. An ADI may only use external credit assessments of eligible ECAIs that are published in a form that is accessible to the general public and are included in the eligible ECAI's transition matrix.¹¹

¹⁰ A maturity mismatch may also occur if a synthetic securitisation incorporates a call (other than a clean-up call) that effectively terminates the transaction and the purchased credit protection on a specific date.

¹¹ A transition matrix is a table of probabilities representing the likelihood, over a given time horizon, of a rating grade of a securitisation exposure migrating to other rating grades, remaining the same or experiencing default.

12. An ADI must apply the external credit assessments of an eligible ECAI consistently across a given type of securitisation exposure. Where eligible ECAs assess the credit risk of the same securitisation exposure differently, Attachment B of [AGN 112.1] will apply. An ADI must not use the external credit assessments issued by one eligible ECAI for some tranches and those of another eligible ECAI for other tranches within the same securitisation.

Calculation of risk-weighted assets and regulatory capital for securitisation exposures

13. As detailed in Attachments C and D, for an on-balance sheet securitisation exposure (including the drawn amount of a facility), the risk-weighted asset amount of that exposure must be calculated by multiplying the exposure value¹² by the relevant risk-weight.
14. To determine the risk-weighted asset amount for an off-balance sheet securitisation exposure (including the undrawn amount of a facility), an ADI must apply a **credit conversion factor (CCF)** to the securitisation exposure and risk-weight the resultant credit equivalent amount by the relevant risk-weight. Unless otherwise noted in this Prudential Standard, a CCF of 100 per cent must be used.
15. Unless otherwise stated in this Prudential Standard, deductions from an ADI's capital must be made 50 per cent from Tier 1 capital and 50 per cent from Tier 2 capital (refer *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital (APS 111)*). Deductions from capital may be calculated net of any specific provisions raised against the relevant securitisation exposure.
16. Overlapping securitisation exposures may occur where an ADI provides several types of facilities (e.g. a liquidity facility and a credit enhancement or a pool-specific and program-wide facilities). In some cases, the draw on one facility may preclude (in part) a draw on another facility. Where an ADI has two or more overlapping securitisation exposures in a securitisation, it may, to the extent that these positions overlap, include in its calculation of risk-weighted assets only that securitisation exposure, or portion of securitisation exposure, that produces the higher regulatory capital requirement.

Treatment of credit risk mitigation for securitisation exposures

17. Where credit risk mitigation is provided directly to an SPV by an eligible guarantor (as defined in AGN 112.3) other than the ADI, and this is reflected in the external credit assessment assigned to a securitisation exposure, the risk-weight associated with that external credit assessment may be used.

¹² The exposure value of a securitisation exposure is its on-balance sheet value (i.e. net of specific provisions). The exposure value of a securitisation exposure arising from a derivative instrument will be determined by using the credit equivalent amount of the derivative calculated using the current exposure method (mark-to-market) i.e. replacement cost plus potential future exposure (refer *AGN 112.2 Standardised Approach to Credit Risk: Risk-weighted Off-balance Sheet Credit Exposures (AGN 112.2)*).

18. Where the credit risk mitigation is provided directly to an SPV by a guarantor that is not recognised as an eligible guarantor (as defined in AGN 112.3), and the credit risk mitigation is reflected in the external credit assessment assigned to a securitisation exposure, the guaranteed exposure must be treated as unrated.
19. Where the credit risk mitigant is applied directly to a specific securitisation exposure (e.g. a specified residential mortgage backed securities tranche guaranteed by a highly rated third party) within a given structure, the ADI must treat the exposure as unrated and then use the credit risk mitigation treatment detailed in AGN 112.3 to recognise the credit risk mitigant.

Spread accounts and similar surplus income arrangements

20. Where an originating ADI transfers a pool to an SPV, it may be entitled to future surplus income generated by a securitisation. These arrangements may, among others, take the form of a deferred purchase price, excess servicing income, residual interest, excess spread¹³ or similar arrangements and may result in a gain-on-sale reported in the ADI's accounts. An ADI must not recognise such future income until irrevocably received.
21. An originating ADI must deduct from its Tier 1 capital (refer APS 111) any gain-on-sale, including expected future income from a securitisation exposure that it has reported as an on-balance sheet asset or profit. Where an originating ADI provides funds to establish a spread, reserve or similar account, those amounts must be deducted from its Tier 1 capital until the funds are irrevocably paid to the ADI.
22. Where an originating ADI transfers exposures to an SPV below their book value (e.g. pursuant to an over-collateralisation agreement or by sale at a discounted price), the difference between the book value and the amount received by the ADI must be deducted from its Tier 1 capital unless it is written off in the ADI's profit or loss (and capital) accounts.
23. Where an ADI contributes to the start-up costs of a securitisation, and these costs have been capitalised (rather than written off in the ADI's profit and loss account), they must be deducted from the ADI's Tier 1 capital (refer APS 111) as capitalised expenses. The ADI must also ensure that the amounts involved are in line with normal market expenses for similar securitisations.

Maximum capital amount

24. An originating ADI may elect to treat the pool as its on-balance sheet exposures under APS 112 or APS 113, as appropriate, rather than as a securitisation under this Prudential Standard. In this case, only the underlying exposures need to be reported as on-balance sheet exposures and additional capital is not required for other facilities or exposures to the SPV that relate to the pool. An ADI may not change this election over the life of a securitisation.

¹³ Excess spread is defined as finance charge collections and other fee income received by the SPV net of costs, interest and expenses.

Shared collateral

25. Where an ADI retains an interest in collateral assigned to an SPV as a result of additional exposures to that collateral, such as an interest relating to arrangements to provide further advances to customers, these exposures of the ADI will not be eligible for a risk weight of less than 100 per cent, pursuant to Attachment D of AGN 112.1, unless a formal second mortgage arrangement is in place which meets the requirements of that Attachment.
26. Where the SPV ultimately acquires the additional exposures from the ADI , the ADI will not be required to include any undrawn commitment to the customer in its risk-weighted assets provided the SPV has a facility in place to finance the acquisition of the additional exposures (e.g. a redraw funding facility).

Attachment C

Standardised approach

1. An ADI that uses the standardised approach to credit risk under APS 112 must use this Attachment for calculating its credit risk capital charge for securitisation exposures.

Risk-weights

2. As detailed in Attachment B, the risk-weighted asset amount of a securitisation exposure must be calculated by multiplying the exposure value or, in the case of an off-balance sheet exposure, the credit equivalent amount of the exposure by the risk-weight associated with the exposure's external rating grade (refer paragraphs 4 to 5 as appropriate).
3. An ADI must deduct any gain-on-sale from its Tier 1 capital.
4. The long-term external rating grades and corresponding risk-weights are:

External rating grade ¹⁴	1	2	3	4	5, 6 and unrated
Risk-weight	20%	50%	100%	350%	Deduction from capital

5. The short-term external rating grades and corresponding risk-weights are:

External rating grade	1	2	3	4 and unrated
Risk-weight	20%	50%	100%	Deduction from capital

Exceptions to the general treatment of unrated securitisation exposures

6. As detailed in paragraphs 4 and 5, the general treatment of unrated securitisation exposures is deduction from capital. Exceptions to this general treatment are as follows:
 - (a) the most senior exposure in a securitisation (refer paragraphs 7 to 9);
 - (b) for ABCP securitisations, an exposure that is in a second loss, or better, position (refer paragraphs 10 and 11);
 - (c) an eligible facility detailed in Attachment E; or
 - (d) an eligible servicer cash advance as detailed in Attachment E.

¹⁴ Refer Attachment C of AGN 112.1.

Treatment of most senior unrated securitisation exposures

7. If the most senior exposure in a securitisation (e.g. the most senior tranche of securities issued by the SPV, or an obligation under a facility that ranks ahead of the first tranche) is unrated, an ADI that holds such an exposure may determine the risk-weight to be applied against the exposure by using the **look-through** approach.
8. In the look-through approach, the average risk-weight of the pool may be used as the risk-weight for the most senior securitisation exposure if an ADI is able to ensure that it is:
 - (a) at all times, aware of the composition of the pool; and
 - (b) able to determine the relevant risk-weights (as determined by APS 112) that are applicable to the underlying exposures in the pool.
9. When using the look-through approach, an ADI is not required to consider interest rate swaps, currency swaps or eligible servicer cash advances as detailed in Attachment E in determining whether an exposure is the most senior in a securitisation.

Treatment of exposures in a second loss, or better, position in an asset-backed commercial paper securitisation

10. An ADI is not required to deduct an unrated second loss position securitisation exposure in an ABCP securitisation where:
 - (a) the exposure is economically in a second loss or better position and the first loss position provides significant¹⁵ credit enhancement to the second loss position;
 - (b) the second loss position will only be drawn upon when the first loss position has been completely exhausted;
 - (c) the associated credit risk is the equivalent of an external rating grade of 3 or better;¹⁶ and
 - (d) the ADI holding the unrated securitisation exposure does not retain, acquire or otherwise provide the first loss position.
11. A securitisation exposure to which paragraph 10 applies, may be risk-weighted at the greater of:
 - (a) 100 per cent; or

¹⁵ A first loss position is considered significant when it covers a multiple of historical losses or worst-case loss calculated by the use of models and simulation techniques.

¹⁶ Refer Attachment C of AGN 112.1.

- (b) the highest relevant risk-weight (as determined by APS 112) for any of the underlying individual exposures supported by the second loss facility.

Treatment of unrated eligible facilities

12. The credit equivalent amount of an undrawn eligible facility, other than an undrawn eligible servicer cash advance (refer paragraph 14), that meets the requirements of Attachment E must be determined by:
 - (a) applying a 20 per cent CCF to the notional amount of the eligible facility, if the eligible facility has an original maturity of one year or less; or
 - (b) applying a 50 per cent CCF to the notional amount of the eligible facility, if the eligible facility has an original maturity of more than one year.
13. The risk-weight to be applied to the credit equivalent or drawn amount is the highest relevant risk-weight (as determined by APS 112) for any of the underlying individual exposures covered by the eligible facility.

Treatment of eligible servicer cash advance

14. An ADI may apply a 0 per cent CCF to an undrawn eligible servicer cash advance that meets the requirements of Attachment E.

Treatment of credit risk mitigation for securitisation exposures

15. The risk-weight applied to a securitisation exposure that is subject to credit protection may be adjusted in accordance with:
 - (a) for credit derivatives, [the relevant instrument for *Standardised Approach to Credit Risk: Treatment of Credit Derivatives in the Banking Book*];
 - (b) for guarantees, Attachment C to AGN 112.3; and
 - (c) for eligible collateral, Attachment A to AGN 112.4.
16. Where an ADI provides protection to an unrated credit enhancement, it must hold regulatory capital as if it were directly holding the unrated credit enhancement.

Attachment D

Internal ratings-based approach

1. An ADI that has received approval from APRA to use the internal-ratings based (IRB) approach under APS 113 to determine the regulatory capital charge for credit risk for the type of exposures in the pool must use this Attachment to determine its regulatory capital charge for credit risk for securitisation exposures, except as otherwise determined by APRA in writing.

Hierarchy of IRB approaches

2. Under the IRB approach to securitisation, there is a hierarchy of approaches that an ADI must follow to determine the regulatory capital charge for securitisation exposures, as follows:
 - (a) where a securitisation exposure is externally rated, or where an external rating can be inferred, the ADI must use the ratings-based approach (**RBA**) as detailed in paragraphs 4 to 10;
 - (b) for facilities (such as liquidity facilities and credit enhancements) that the ADI extends to an ABCP securitisation where the RBA approach cannot be used, the ADI may, subject to APRA's approval, use the internal assessment approach (**IAA**). In that event, the IAA must be used for all exposures that qualify for its use. In addition, the ADI must ensure that all the conditions detailed in paragraphs 11 to 14 are satisfied;
 - (c) for facilities where the ADI cannot use the RBA or IAA and all other securitisation exposures where the RBA approach cannot be used, the supervisory formula (**SF**), as detailed in paragraphs 15 to 36, may be applied (unless the ADI cannot use the SF because the ADI is unable to reliably determine K_{IRB});
 - (d) for an eligible facility to which none of the approaches detailed in subparagraphs 2 (a) to (c) above can be applied, the ADI may apply, subject to written approval from APRA, the approach detailed in paragraph 38; and
 - (e) for a securitisation exposure to which none of the approaches detailed in subparagraphs 2 (a) to (d) can be applied, the exposure must be deducted from the ADI's regulatory capital.

Gain-on-sale

3. Irrespective of the approach applied under paragraph 2, an ADI must deduct any gain-on-sale from its Tier 1 capital.

Ratings-based approach

4. As detailed in Attachment B, the risk-weighted asset amount of a securitisation exposure must be calculated by multiplying the exposure value, or in the case of

an off-balance sheet exposure, the credit equivalent amount, by the relevant risk-weight.

5. The relevant risk-weight under the RBA depends upon:
 - (a) the external rating grade assigned to the securitisation exposure by an eligible ECAI, or an inferred rating (as detailed in paragraphs 9 to 10);
 - (b) whether the rating (external or inferred) represents a long-or short-term rating;
 - (c) the granularity of the pool (as detailed in paragraph 8); and
 - (d) the seniority of the securitisation exposure.

6. Subject to paragraph 5, an ADI must apply the risk-weights in the following table when:
 - (a) an external credit assessment exists in the form of a long-term rating;
 - (b) an inferred rating based on an external long-term rating is available; or
 - (c) an internal assessment has been mapped to an external long-term rating as detailed in paragraph 11.

External Rating Grade	External credit assessment			Risk-weights for the senior positions and eligible senior IAA exposures Column A	Base risk-weights Column B	Risk-weights for tranches backed by non-granular pools Column C
	Standard & Poor's Corporation	Moody's Investor Service	Fitch Ratings			
1	AAA AA+	Aaa Aa1	AAA AA+	7%	12%	20%
2	AA AA-	Aa2 Aa3	AA AA-	8%	15%	25%
3	A+	A1	A+	10%	18%	35%
4	A	A2	A	12%	20%	
5	A-	A3	A-	20%	35%	
6	BBB+	Baa1	BBB+	35%	50%	
7	BBB	Baa2	BBB	60%	75%	
8	BBB-	Baa3	BBB-	100%		
9	BB+	Ba1	BB+	250%		
10	BB	Ba2	BB	425%		
11	BB-	Ba3	BB-	650%		
12	Below BB- and unrated	Below Ba3 and unrated	Below BB- and unrated	Deduction from capital		

7. Subject to paragraph 5, an ADI must apply the risk-weights in the following table when:

- (a) an external credit assessment exists in the form of a short-term rating; or
- (b) an inferred rating based on an external short-term rating is available.

External rating grade ¹⁷	Risk-weights for senior positions Column A	Base risk-weights Column B	Risk-weights for tranches backed by non-granular pools Column C
1	7%	12%	20%
2	12%	20%	35%
3	60%	75%	75%
4/unrated	Deduction from capital	Deduction from capital	Deduction from capital

8. An ADI must apply the risk-weights in paragraphs 6 and 7 based on the effective number of underlying exposures (**N**, as defined in paragraphs 24 to 26) in a pool as follows:
- (a) if the effective number of underlying exposures is six or more and the position is a senior exposure¹⁸ in the securitisation, the ADI may apply the appropriate risk-weights detailed in column A;
 - (b) if the effective number of underlying exposures is less than six, the ADI must apply the appropriate risk-weights detailed in column C; and
 - (c) in all other cases, the ADI must apply the appropriate risk-weights in column B.

Inferred ratings

9. Where the operational requirements detailed in paragraph 10 are met, an ADI may attribute an inferred rating to an unrated securitisation exposure. When assigning an inferred rating, the unrated exposure must be senior in all respects to an externally rated securitisation exposure called **the reference securitisation exposure**.
10. The following operational requirements must be satisfied for an ADI to recognise an inferred rating under the RBA:
- (a) the reference securitisation exposure from which the rating will be inferred must be a securitisation exposure from the same securitisation and be subordinate in all respects to the unrated securitisation exposure. Credit enhancements, if any, must be taken into account when assessing

¹⁷ Refer Attachment C of AGN 112.1 for short-term external rating grades for rated counterparties and exposures.

¹⁸ A securitisation exposure is treated as a senior tranche if it is effectively secured by a first claim on the entire amount of the exposures in the pool. For this purpose, the ADI does not have to take into consideration amounts due under interest rate swaps, currency swaps or eligible servicer cash advances.

the relative subordination of the unrated securitisation exposure and the reference securitisation exposure;¹⁹

- (b) the maturity of the reference securitisation exposure must be equal to or longer than that of the unrated exposure;
- (c) an inferred rating must be continuously updated to reflect any changes in the external credit assessment of the reference securitisation exposure; and
- (d) the external credit assessment of the reference securitisation exposure must satisfy the operational requirements for such assessments as detailed in Attachment B.

Internal assessment approach

11. Subject to written approval from APRA, an ADI may map its internal assessment of the credit quality of liquidity facilities, credit enhancements or other facilities that it has extended to an ABCP securitisation, to equivalent external ratings of an eligible ECAI. The mapped ratings may then be used to determine the relevant risk-weight for the exposure as detailed in paragraphs 5 to 8.
12. Prior to using the IAA to determine the relevant risk-weight for a securitisation exposure, an ADI must ensure that:
 - (a) the ABCP securitisation is (or its securities are) externally rated by an eligible ECAI;
 - (b) the external credit assessment complies with the criteria detailed in Attachments B and C of AGN 112.1;
 - (c) the internal assessment of the credit quality of a securitisation exposure to an ABCP securitisation is based on the rating criteria of an eligible ECAI for the exposure type in the pool and is at least grade 8²⁰ or above when initially assigned to the exposure;
 - (d) if there are changes in the methodology of one of the eligible ECAIs that adversely affect the external credit assessment of the ABCP securitisation, the revised rating methodology must be considered when revising the internal assessments;
 - (e) the internal assessment is used in the ADI's internal risk management process, including management information and economic capital calculations, and meets all relevant requirements of APS 113;
 - (f) the internal assessment methodology used by the ADI is fully documented and reflects the publicly available methodologies of all eligible ECAIs

¹⁹ Where the reference securitisation exposure benefits from any third-party guarantees or other credit enhancements that are not available to the unrated exposure, the unrated exposure cannot be assigned an inferred rating based on that reference securitisation exposure.

²⁰ Refer paragraph 6.

that rate ABCP securitisations for the securitised exposure type. If publicly available, the stress factors for determining credit enhancement requirements must be at least as conservative as the rating criteria of those eligible ECAIs;

- (g) internal or external auditors, the eligible ECAI or the ADI's risk management area perform annual reviews of the internal assessment process and assess the validity of the internal assessments. The party performing the reviews of the internal assessment process must be independent from the ABCP business line and underlying customer relationships within the ADI; and
 - (h) the performance of internal assessments is monitored and reviewed on a regular basis to evaluate the performance of the assigned internal assessments. Adjustments to the assessment process must be made when the performance of the exposures diverges from the assigned internal assessments.
13. In order to use the IAA, an ADI must ensure that the ABCP securitisation:
- (a) has underwriting standards in the form of credit and investment guidelines and performs a comprehensive credit analysis of the exposure risk profile;
 - (b) has underwriting standards that establish minimum asset eligibility criteria that:
 - (i) exclude the purchase of exposures that are past due or defaulted;
 - (ii) limit excess concentration to an individual obligor or geographic area; and
 - (iii) limit the tenor of the exposures to be purchased;
 - (c) has collections policies and processes that take account of the operational capability and credit quality of the servicing ADI;
 - (d) when calculating the aggregate estimate of loss on the pool that the ABCP securitisation is considering purchasing, takes into account all sources of potential risk;
 - (e) incorporates structural features into the purchase of exposures in order to mitigate potential credit deterioration of the underlying portfolio; and
 - (f) performs a comprehensive credit analysis of the seller's risk profile.
14. Where an ADI's internal assessment process no longer satisfies the requirements of paragraphs 12 and 13, APRA may (in writing) prohibit the ADI from applying the IAA to its ABCP exposures, both existing and newly originated, for the purpose of determining the appropriate regulatory capital treatment. Where this occurs, the ADI may use the SF or, where the SF cannot be used, the method detailed in paragraph 38.

Supervisory formula

15. When using the SF, the regulatory capital charge for a securitisation exposure depends upon the following ADI-supplied inputs:
- (a) the IRB capital requirement had the pool not been securitised (K_{IRB});
 - (b) the credit enhancement level (L);
 - (c) the thickness (T);
 - (d) the effective number of exposures in the pool (N); and
 - (e) the pool's exposure-weighted average loss-given-default (LGD).

Definition of K_{IRB}

16. K_{IRB} is the ratio (in decimal form) of:
- (a) the IRB capital requirement (as determined by APS 113), including the expected loss portion, for the pool; to
 - (b) the exposure amount of the pool, i.e. the sum of drawn amounts plus the estimated exposure at default of undrawn commitments.
17. The amount in paragraph 16(a) above must be calculated in accordance with the applicable minimum IRB standards (as detailed in APS 113) as if the exposures in the pool were held directly by the ADI. This calculation may reflect the effects of any credit risk mitigant that is applied on the underlying exposures in the pool (either individually or to the entire pool).
18. For structures involving an SPV, all the assets of the SPV that are related to the securitisation must be treated as exposures in the pool for the purposes of paragraph 16, including assets in which the SPV may have invested a reserve account.

Definition of the credit enhancement level (L)

19. L is measured (in decimal form) as the ratio of:
- (a) the outstanding amount of all securitisation exposures subordinate to the securitisation exposure; to
 - (b) the sum of the exposure values of the exposures that have been securitised.
20. An ADI must determine L before considering the effects of any tranche-specific credit enhancements that benefit only a single tranche. Any gain-on-sale associated with the securitisation must not be included in the measurement of L . The size of interest rate or currency swaps that are more junior than the tranche may be measured at their current mark-to market-value (i.e. excluding the amount estimated for potential future exposure) when calculating L . If the

mark-to-market value cannot be measured, the derivative instrument must be ignored in the calculation of L.

21. Unfunded reserve accounts must not be included in the calculation of L if they are to be funded from future receipts from the underlying exposures. If there is any reserve account that has already been funded by accumulated cash flows from the underlying exposures that is more junior than the tranche in question, then it may be included in the calculation of L.

Definition of the thickness of exposure (T)

22. T is measured as the ratio (in decimal form) of:
 - (a) the nominal size of the securitisation exposure; to
 - (b) the sum of the exposure values of the exposures that have been securitised.
23. Where an exposure arises from an interest rate or currency swap, an ADI must incorporate the potential future exposure of the swap in the measurement of the nominal size of the securitisation exposure in paragraph 22(a). If the mark-to-market value of the derivative instrument is positive, the exposure size must be measured by the **current exposure method** as detailed in Attachment B to AGN 112.2. If the mark-to-market value of the derivative instrument is negative, the exposure must be measured by using the potential future exposure only.

Definition of the effective number of exposures (N)

24. N is calculated as:

$$N = \frac{(\sum_i EAD_i)^2}{\sum_i EAD_i^2}$$

where EAD_i represents the exposure at default associated with the i^{th} exposure in the pool.

25. Multiple exposures to the same obligor must be consolidated when calculating the effective number of exposures in paragraph 24.
26. In the case of securitisation of securitisation exposures (**re-securitisation**), the formula in paragraph 24 applies to the number of securitisation exposures in the pool and not the number of underlying exposures in the original pools. If the portfolio share associated with the largest exposure (C1) is available, an ADI may compute N as $1/C1$.

Definition of the exposure-weighted average loss given default

27. LGD is calculated as follows:

$$LGD = \frac{\sum_i LGD_i \cdot EAD_i}{\sum_i EAD_i}$$

where LGD_i represents the average LGD associated with all exposures to the i^{th} obligor.

28. In the case of re-securitisation, an LGD of 100 per cent must be assumed for the underlying securitised exposures. When default and dilution risks for purchased receivables are treated in an aggregate manner within a securitisation, the LGD input must be constructed as a weighted average of the LGD for default risk and 100 per cent LGD for dilution risk. The weights to be used in this calculation are the stand-alone IRB regulatory capital requirements for default risk and dilution risk, respectively (as determined by APS 113).

Capital charge under the supervisory formula

29. The capital charge under the SF is calculated as the securitisation exposure multiplied by the greater of:

- (a) $0.0056 \cdot T$; and
- (b) $(S [L+T] - S [L])$

where the function $S[\cdot]$ (the **supervisory formula**) is defined in paragraph 31.

30. When the ADI holds only a proportional interest in the securitisation exposure, that position's capital charge equals the pro rated share of the regulatory capital requirement of the entire securitisation exposure.

31. The supervisory formula is given by the following expression:

$$S[L] = \begin{cases} L & \text{when } L \leq K_{IRB} \\ K_{IRB} + K[L] - K[K_{IRB}] + (d \cdot K_{IRB} / \omega)(1 - e^{\omega(K_{IRB} - L) / K_{IRB}}) & \text{when } K_{IRB} < L \end{cases}$$

where:

$$\omega = 20$$

$$h = (1 - K_{IRB} / LGD)^N$$

$$c = K_{IRB} / (1 - h)$$

$$v = \frac{(LGD - K_{IRB})K_{IRB} + 0.25(1 - LGD)K_{IRB}}{N}$$

$$f = \left(\frac{v + K_{IRB}^2}{1 - h} - c^2 \right) + \frac{(1 - K_{IRB})K_{IRB} - v}{(1 - h)1000}$$

$$g = \frac{(1-c)c}{f} - 1$$

$$a = g.c$$

$$b = g.(1-c)$$

$$d = 1 - (1-h) \cdot (1 - \text{Beta}[K_{IRB}; a, b])$$

$$K[L] = (1-h) \cdot ((1 - \text{Beta}[L; a, b])L + \text{Beta}[L; a+1, b]c)$$

Beta [L; a, b] refers to the cumulative beta distribution with parameters a and b evaluated at L.

32. Risk-weighted asset amounts generated through the use of the SF are calculated by multiplying the regulatory capital requirement (as determined in paragraph 31) by 12.5. If the risk-weight resulting from the SF is 1250 per cent or greater, an ADI must deduct the securitisation exposure from its capital.
33. In the case where an ADI has set aside a specific provision or has a non-refundable purchase price discount on an exposure in the pool, K_{IRB} and L must be calculated using the gross amount of the exposure without taking into account the specific provision and/or non-refundable purchase price discount. In this case, the amount of the non-refundable purchase price discount on a defaulted asset or the specific provision can be used to reduce the amount of any deduction from capital associated with the securitisation exposure.

Simplified method for determining the effective number of exposures and the exposure-weighted average loss given default

34. Subject to written approval from APRA, an ADI that has a securitisation involving retail exposures (refer APS 113) may use a simplified method for calculating the effective number of exposures (N in the expression in paragraph 31) and the exposure-weighted average LGD (LGD in the expression in paragraph 31) whereby the SF may be implemented using the simplifications $h = 0$ and $v = 0$.
35. Under the simplified method, if the portfolio share associated with the largest exposure (C_1) is no more than 3 percent of the underlying pool, then for purposes of the SF, an ADI may set LGD equal to 50 per cent and N equal to the following amount:

$$N = \left(C_1 C_m + \left(\frac{C_m - C_1}{m-1} \right) \max\{1 - m C_1, 0\} \right)^{-1}$$

where C_m denotes the share of the securitised asset pool corresponding to the sum of the largest m exposures. The level of m is decided by the ADI.

36. Alternatively, if only C_1 is available and this amount is no more than 3 per cent, then the ADI may set LGD equal to 50 per cent and $N=1/ C_1$.

Eligible facilities

37. Eligible facilities (as detailed in Attachment E) receive a CCF of 100 per cent except as provided in paragraph 38.
38. Where an ADI is not able to reliably determine K_{irb} , and hence cannot use the SF to determine the regulatory capital charge for eligible facilities, the ADI may, subject to written approval from APRA (which may specify the period during which the approval applies), determine the regulatory capital charge for the undrawn amount of such facilities as follows:
 - (a) in calculating the credit equivalent amount, use a 50 per cent CCF for a facility with an original maturity of up to one year or a 100 per cent for a facility with an original maturity of more than one year; and
 - (b) risk-weight the credit equivalent amount using the highest risk-weight (as determined by APS 112) applicable to any individual exposure in the pool covered by the facility.

Eligible servicer cash advance

39. An ADI may apply a 0 per cent CCF to an undrawn eligible servicer cash advance that meets the requirements of Attachment E.

Treatment of credit risk mitigation for securitisation exposures

40. Under the RBA and when using the SF, an ADI may apply the credit risk mitigation techniques as detailed in the foundation IRB approach (refer *Guidance Note AGN 113.2 Internal Ratings-based Approach to Credit Risk: Corporate, Sovereign and Bank Asset Classes*). The ADI may proportionately reduce the regulatory capital charge for a securitisation exposure when the credit risk mitigation covers first losses or losses on a proportional basis. For all other cases, the ADI must assume that the credit risk mitigation covers the most senior portion of the securitisation exposure.

Attachment E

Facilities and services

1. A facility provided by an ADI to a securitisation must comply with the following requirements:
 - (a) the extent of the facility must be expressly stated in a written agreement. There must be no explicit or implied recourse to the ADI beyond the specified contractual obligations;
 - (b) the facility must be provided on an arm's length basis, be subject to the ADI's normal credit approval and review processes and be transacted on market terms and conditions;
 - (c) the facility must be limited to a specified amount and time period. A fixed termination date need not be specified, provided the facility extinguishes at the earliest of the scheduled maturity of the securitisation or the date on which the securitisation winds up and the ADI has the right, at its absolute discretion, to withdraw from the commitment at any time following a reasonable period of notice;
 - (d) subject to reasonable qualifications, the SPV and/or investors must have the express right to select an alternative party to provide the facility;
 - (e) the facility must be documented in a manner that clearly separates it from any other facility or service provided by the ADI. The ADI's obligations under each facility must be stand alone; and
 - (f) where drawings under a liquidity, underwriting or funding facility remain outstanding after 90 days (whether or not overdue), an ADI must inform APRA of the nature of the advances and the reasons for non-repayment.

Eligible facilities

2. For the purposes of this Prudential Standard, a liquidity, underwriting or funding facility will be an **eligible facility** where the relevant requirements of this Attachment are met and:
 - (a) the facility documentation clearly identifies and limits the circumstances under which it may be drawn;
 - (b) draw-downs under the facility are limited to the amount that is likely to be fully repaid from the liquidation of the underlying exposures and any credit enhancements provided by parties other than the originating ADI;
 - (c) the facility does not cover any losses incurred in a pool prior to a draw-down under the facility;
 - (d) in the case of a liquidity facility, it is not structured such that draw-down is certain (as indicated by regular or continuous draws);

- (e) the facility is subject to an asset quality test that precludes it from being drawn to cover credit risk exposures that are in default as defined in APS 112 and APS 113;
- (f) in the case of a liquidity facility, if the exposures that the facility is required to fund are externally rated securities, the facility can only be used to fund securities that are externally rated investment grade at the time of funding;
- (g) the facility cannot be drawn after all applicable (e.g. transaction-specific or program-wide) credit enhancements from which the facility would benefit have been exhausted; and
- (h) repayments of draws on the facility are not subordinated to the claims of investors other than to claims arising in respect of interest rate or currency derivative contracts, fees or other such payments, nor are they subject to waiver or deferral.

Underwriting facilities

3. In addition to the requirements detailed in paragraph 1, an originating ADI providing an underwriting facility to a securitisation must ensure that:
 - (a) the ADI's acquisition of securities pursuant to the underwriting facility is exercisable only when an issuer cannot issue securities into the market at a price equal to (or above) the predetermined benchmark detailed in the underwriting agreement;
 - (b) the ADI's commitment to take up securities cannot be triggered by the failure of the SPV to meet its obligations, other than where such failure results from an inability to sell or roll-over securities due to adverse market conditions; and
 - (c) the ADI has the ability to withhold payment and to terminate the facility, if necessary, upon the occurrence of specified events.
4. An originating ADI that provides an underwriting facility may acquire up to 100 per cent of the initial issue on commencement of the securitisation subject to a plan to reduce such holdings to no more than 20 per cent of the issue within three months.

Funding facilities

5. In addition to the requirements detailed in paragraph 1, an originating ADI that provides a funding facility to an SPV (other than temporary funding under paragraph 6) must ensure that:
 - (a) any draw-down of the funding facility incorporates a specified maturity date;
 - (b) the funding facility is not expected to fund a disproportionate amount of the pool of the SPV at any time during the life of the securitisation;

- (c) the funding facility is provided for:
 - (i) the purpose of acquiring additional (rather than the initial) exposures in the pool; or
 - (ii) the refinancing of an existing loan used to fund the acquisition of additional exposures by the SPV; or
 - (iii) redraws on existing exposures in the pool; and
 - (d) repayments of drawings under the facility rank senior or pari passu to the interests of investors.
6. An originating ADI may provide a temporary funding facility to an SPV during the establishment phase of a securitisation (such as a warehouse SPV) to facilitate the acquisition of exposures in a pool pending the issue of securities where in addition to meeting the requirements under paragraph 1:
- (a) the ADI is only committed to fund the initial acquisition of exposures of the pool;
 - (b) the ADI is fully secured against any funding provided; and
 - (c) drawings under the facility will be repaid as soon as the SPV receives the funds from the sale of the securities.

Derivative transactions

7. Derivative transactions conducted between an originating ADI and an SPV must meet the requirements detailed in paragraph 1, subject to paragraph 8.
8. An ADI may enter into a basis swap that does not meet all of the requirements of subparagraph 1(b) if the basis swap is constructed with sufficient margin such that the ADI is not expected to be a net payer over the life of the transaction, including in the event of contingencies that could affect the margin received or paid on the swap (e.g. step-up provisions or credit rating downgrades).
9. Where the ADI becomes, or expects to become, a net payer in a derivative transaction for an extended period, the ADI must report to APRA the fair value or expected net present value of the transaction at current market rates. APRA may require this amount to be deducted from the ADI's capital.

Eligible servicer cash advance facilities

10. An eligible servicer cash advance is a facility provided by a servicing ADI where:
- (a) the servicing ADI advances cash to ensure an uninterrupted flow of payments to investors and the ADI is entitled to full reimbursement;
 - (b) repayments of drawings under the cash advance rank senior to all other

claims on the cash flow from the pool; and

- (c) the facility is unconditionally cancellable without prior notice by the servicing ADI.

Lending to investors

- 11. An originating ADI that lends funds directly to investors for purposes of investing in securities issued by an SPV must ensure that the lending facility:
 - (a) is provided on an arm's length basis;
 - (b) is subject to the ADI's normal credit approval and review processes;
 - (c) is transacted on market terms and conditions;
 - (d) does not involve the ADI providing implicit support to the securitisation.

Services

- 12. An ADI may act as a service provider to a securitisation subject to paragraphs 13 to 16 below.
- 13. An ADI that provides services to a securitisation must ensure that its operational risk capital requirement, as determined by *Prudential Standard APS 114 Capital Adequacy: Standardised Approach to Operational Risk (APS 114)* or *Prudential Standard APS 115 Capital Adequacy: Advanced Measurement Approaches to Operational Risk (APS 115)*, as appropriate, adequately covers the operational risk of providing such services.
- 14. An ADI must ensure that:
 - (a) there is a formal written agreement in place which specifies the services to be provided and any required standards of performance. These standards must be reasonable and in accordance with normal market practice. There must be no recourse to the ADI beyond the fixed contractual obligations specified and the agreement must explicitly state that the ADI has no liability with regard to the performance of the pool;
 - (b) the agreement is undertaken on an arm's length basis, on market terms and conditions (including remuneration) and is subject to the ADI's normal approval and review processes;
 - (c) the agreement is limited as to a fixed time period (which must be no later than the earlier of the date on which all claims connected with the issue of securities are paid out and the ADI's replacement as party to the agreement). However, a fixed termination date need not be specified provided the ADI is able, at its absolute discretion, to withdraw from its commitments at any time following a reasonable period of notice;

- (d) subject to reasonable qualifying conditions, the SPV and/or investors have the express right during the lifetime of the securitisation to select an alternative party to provide the service;
 - (e) the servicing or management agreement is documented such that this function is clearly separated from any other service or facility provided by the ADI;
 - (f) the ADI's operational systems are adequate to meet its obligations as a servicing or managing ADI.
15. There must not be an obligation for a servicing or managing ADI to remit funds to an SPV or investors until the funds are received from the pool, except where this is otherwise provided for in a separate facility (e.g. a liquidity facility).
16. An originating ADI providing services to a securitisation must not subordinate, defer or waive the receipt of fees or other income for its role as a service provider.

Cash collateral facilities

17. Cash collateral facilities are sometimes required to collateralise liquidity and other facilities provided by ADIs to securitisations. For the purposes of calculating risk-weighted assets in Attachments C and D, cash collateral amounts together with the undrawn portion of the relevant facility may be treated as overlapping securitisation exposures under Attachment B paragraph 16 if:
- (a) the cash collateral funds are legally and operationally segregated from other funds and assets of the SPV;
 - (b) earnings from investment of the cash collateral accrue for the benefit of the ADI;
 - (c) the cash collateral can only be drawn down to meet the ADI's actual obligations to the SPV under an eligible facility;
 - (d) the cash collateral cannot be drawn to pre-fund a future obligation of the ADI; and
 - (e) the undrawn balance of the cash collateral will be repayable to the ADI immediately upon ceasing to be a facility provider.

Representations and warranties

18. An ADI that provides facilities and services or transfers exposures to an SPV may make representations and warranties to the SPV concerning those services or exposures, provided the representations and warranties do not constitute implicit support. In particular, they must be:

- (a) provided by way of a formal written agreement and accord with market practice;
- (b) refer to an existing state of facts that is capable of being verified by the ADI and is within control of the ADI at the time the services are contracted or the exposures are transferred; and
- (c) not open-ended and, in particular, do not relate to the future creditworthiness of the exposures, the performance of the SPV or the securities the SPV issues.

Attachment F**Acquisition of exposures out of a pool and acquisition of securities by originating ADIs**

1. The acquisition of exposures by the originating ADI has the potential to undermine the transfer of credit risk and result in implicit support being provided to a securitisation. As a result, acquisition of exposures held by an SPV by an originating ADI is allowed only as provided in this Standard..

Acquisition of exposures out of a pool held by an SPV by an originating ADI

2. An originating ADI may repurchase exposures from the SPV by exercising a clean-up call, subject to the requirements in paragraph 3 being met.
3. In the case of a traditional securitisation, if an originating ADI has the ability to make a clean-up call in relation to the pool:
 - (a) the exercise of the clean-up call must be at the full discretion of the ADI;
 - (b) the clean-up call must not be structured to avoid allocating losses to credit enhancements or positions held by investors; and
 - (c) the clean-up call cannot be exercised before 90 per cent or more of the value of the pool has been amortised.
4. In the case of a synthetic securitisation, an originating ADI cannot recognise, for regulatory capital purposes, the use of credit risk mitigation techniques if the securitisation includes a clean-up call that does not meet the criteria detailed in paragraph 3.
5. An originating ADI that is also acting as a servicing ADI may repurchase or replace exposures out of a pool held by an SPV if:
 - (a) the purchase or replacement is conducted at arm's length, on market terms and conditions and is subject to the ADI's normal credit approval and review processes;
 - (b) the purchase or replacement is completed within six months from the time when the ADI commits to it;
 - (c) the purchased or replaced exposures are not in default; and
 - (d) the exposures out of the pool held by the SPV are purchased or replaced to grant a further advance to the borrower or similar purpose.

Acquisition by an originating ADI of securities issued by the SPV

6. Except as otherwise permitted under this Prudential Standard, an originating ADI must not purchase securities issued by the SPV unless:
 - (a) the purchase is conducted at arm's length, on market terms and conditions and is subject to the ADI's normal credit approval and review processes;
 - (b) the ADI has no pre-existing obligation to undertake the purchase;
 - (c) the volume of purchases is not disproportionate to the amount of securities issued by the SPV (i.e. less than 20 per cent of the value of securities outstanding); and
 - (d) the ADI has adequate systems and controls in place to ensure that it does not accumulate disproportionate levels of aggregate exposure to securities issued by SPVs for which it is the originating ADI, relative to the ADI's total assets and regulatory capital.
7. Where an ADI is, as a result of a representation or warranty, required to purchase or replace an exposure, this must be:
 - (a) completed in all respects within 120 days of the transfer of exposures to the SPV; and
 - (b) conducted on the same terms and conditions as the original transfer.
8. After the expiry of the 120 day period, an ADI must notify APRA of any instance where it has agreed to pay damages arising out of representations and warranties or where it has agreed to reassume the credit risk of any exposures.

Attachment G

Revolving structures and early amortisation clauses

General

1. For the purposes of subparagraphs 2(g) and 3(e) of Attachment B, an originating ADI may obtain capital relief where it transfers exposures arising from revolving facilities to a third party and retains an interest in those exposures if:
 - (a) the ADI retains the right to cancel without notice any undrawn exposures on revolving facilities whose drawn exposures have been transferred;
 - (b) the payment of principal on the drawn exposures in the pool will be sufficient to ensure repayment of the ADI and investors over the amortisation period;
 - (c) where there is provision for early amortisation of exposures in the pool, it cannot be triggered by regulatory action affecting the transferor of the pool; and
 - (d) the ADI is not under an obligation to:
 - (i) alter the amortisation period except upon the occurrence of any specified early amortisation events; or
 - (ii) alter the principal allocation percentage that stipulates the share that investors bear in losses incurred in the pool.
2. In addition to the regulatory capital charges detailed in Attachments C and D, an ADI that transfers a pool of revolving exposures into a securitisation that contains an early amortisation provision must calculate a regulatory capital charge for all, or a portion of, the **investors' interest** in accordance with the method and conditions set out in this Attachment. For ADIs using the IRB approach to securitisation, **investors' interest** is defined as investors' drawn balances related to securitisation exposure and EAD associated with investors' undrawn lines related to securitisation exposures. For determining the EAD, the undrawn balances of securitised exposures would be allocated between the seller's and investors' interests on a pro rata basis, based on the proportions of the sellers' and investors' shares of the securitised drawn balances.
3. An ADI that has transferred a pool is not required to calculate a risk-weighted asset amount against the investors' interest for a securitisation with an early amortisation clause in the following situations:
 - (a) the replenishment structures, where the underlying exposures do not revolve, and the early amortisation ends the ability of the ADI to add new exposures to the pool;

- (b) the investors remain fully exposed to all future draws by borrowers even after an early amortisation event has occurred, i.e. the risk on the underlying facilities does not return to the originating ADI;
 - (c) the early amortisation clause is triggered solely by events not related to the performance of a pool.
4. For securitisations where a pool comprises revolving and non-revolving exposures, an originating ADI must apply the early amortisation treatment to that portion of the underlying pool containing revolving exposures.
5. APRA will not regard mortgages with redraw facilities as revolving exposures and therefore not subject to this Attachment provided:
- (a) revolving balances (e.g. redraws or further advances) are not expected to be material relation to the size of the pool; and
 - (b) there are formal arrangements in place for the SPV to acquire the additional exposures or for the ADI to repurchase the underlying exposure.

Calculation of risk-weighted asset amounts and regulatory capital

6. An ADI that has transferred a pool containing revolving exposures must calculate the risk-weighted asset amount for the investors' interest as the product of:
- (a) the investor interest;
 - (b) the relevant CCF; and
 - (c) the risk-weight relevant to the exposure type in the pool had the pool not been securitised.²¹
7. The CCF depends upon whether the early amortisation repays investors through a controlled or non-controlled mechanism (refer paragraphs 8 to 9). The CCF will also differ depending on whether the securitised exposures are uncommitted retail credit lines (e.g. credit card receivables) or other credit lines (e.g. revolving corporate facilities). A credit line is uncommitted if it is unconditionally cancellable by the ADI without prior notice.
8. For a provision to be considered a **controlled early amortisation provision**:
- (a) the originating ADI must have in place an appropriate capital/liquidity plan to ensure that it has sufficient capital and liquidity available in the event of an early amortisation;

²¹ This must be calculated in accordance with APS 112 for the standardised approach. For the IRB approach, K_{IRB} must be used.

- (b) throughout the duration of the securitisation, including the amortisation period, there must be a pro-rata sharing of interest, principal, expenses, losses and recoveries based on the ADI's and investors' relative shares of the receivables outstanding at the beginning of each month;
 - (c) the originating ADI must have set a period for amortisation that is expected to be sufficient for at least 90 per cent of the total amount outstanding at the beginning of the amortisation period to be repaid or recognised as in default; and
 - (d) the pace of repayment must not be any more rapid than what would occur under a straight-line amortisation over the period outlined in subparagraph 8(c).
9. An early amortisation provision that does not satisfy the conditions detailed in paragraph 8 for a controlled early amortisation provision must be treated as a **non-controlled early amortisation provision**.

Determination of credit conversion factors for controlled and non-controlled early amortisation features

10. To determine the relevant CCF for an uncommitted retail credit line in a securitisation containing controlled or non-controlled early amortisation features (refer paragraphs 8 to 9), the originating ADI must first divide the three-month average excess spread by the level at which the SPV (as outlined in the legal documentation of the securitisation) is required to trap excess spread in a spread or reserve account (i.e. **excess spread trapping point**), and express it as a percentage.
11. For the purposes of this Prudential Standard, where the securitisation does not require excess spread to be trapped, the trapping point is deemed to be 4.5 percentage points higher than the excess spread level at which the early amortisation is triggered.
12. For controlled early amortisation structures, the following CCFs apply:

Uncommitted	CCF %
Retail credit lines	
3 month average excess spread	
133.33% or more of trapping point	0
less than 133.33% to 100% of trapping point	1
less than 100% to 75% of trapping point	2
less than 75% to 50% of trapping point	10
less than 50% to 25% of trapping point	20
less than 25%	40
Non-retail credit lines	90
Committed	
Retail credit lines	90
Non-retail credit lines	90

13. For non-controlled early amortisation structures, the following CCFs apply:

Uncommitted	CCF %
Retail credit lines	
3 month average excess spread	
133.33% or more of trapping point	0
less than 133.33% to 100% of trapping point	5
less than 100% to 75% of trapping point	15
less than 75% to 50% of trapping point	50
less than 50% of trapping point	100
Non-retail credit lines	100
Committed	
Retail credit lines	100
Non-retail credit lines	100