



13 March 2008

To All Authorised Deposit-Taking Institutions (ADIs)

SECURITISATION OF ASSETS FOR CONTINGENT LIQUIDITY PURPOSES

APRA has recently been approached by ADIs seeking to securitise a portion of their loan portfolio specifically to create mortgage-backed securities that are eligible for repurchase agreement (repo) transactions with the Reserve Bank of Australia (RBA). APRA's understanding is that ADIs intend to hold all of the securities issued by the securitisation vehicle until needed in obtaining liquidity from the RBA.

Given the continuing disruption in global credit and funding markets, APRA supports initiatives to provide ADIs with alternative sources of liquidity. The proposed structures can be designed to meet APRA's prudential requirements, subject to the provisions outlined below. Of course, ADIs need to ensure they understand the RBA's repo eligibility rules for mortgage-backed securities, including information reporting and margin requirements and the conditions under which the RBA will accept these securities. It is the responsibility of each ADI to consult the RBA directly on these matters.

The following provisions apply to these contingent liquidity securitisation arrangements:

- No reduction in regulatory capital requirements will result from the securitisation. The ADI is expected to treat the entire pool of securitised loans as on-balance sheet assets for capital adequacy purposes.¹
- This capital treatment will continue until such time as the ADI can demonstrate that it fully meets APRA's requirements for obtaining capital relief for securitised assets. This includes, in particular, the requirement that the ADI not hold a disproportionate amount of the securities issued by a securitisation vehicle into which it has originated assets.²
- At this point, APRA does not consider the securities issued under such structures to constitute part of the ADI's liquid assets for purposes of scenario analysis modelling or high quality liquid assets under *APS 210 Liquidity*. APRA is considering this issue further as part of its policy review of APS 210, which is currently underway.

¹ The ADI is permitted to do this by making the election to treat a pool of securitised assets as on-balance sheet assets under APRA's Prudential Standard *APS 120 Securitisation*, Attachment B paragraph 23.

² See APS 120, Attachment F paragraph 8. Sales or exchanges not on market terms or other arrangements giving the ADI an economic interest in these securities would also be considered to count against this limit.

- On an ongoing basis, the ADI must report the total amount of the securitised assets to APRA on ARF 120.2 as, under line item 1.5.1, “assets that do not meet the operational requirements for regulatory capital relief, and are reported as on-balance sheet assets for prudential reporting purposes”.
- In the interests of market transparency, these securitisations must be included in the disclosures on securitisation activity required under *APS 330 Capital Adequacy: Public Disclosure of Prudential Information*.
- ADIs must notify APRA when they establish a contingent liquidity securitisation.

If you have any questions about this matter, please contact your APRA Responsible Supervisor.

Sincerely,

A handwritten signature in black ink that reads "Heidi Richards". The signature is written in a cursive, flowing style.

Heidi Richards
General Manager, Industry Technical Services
Supervisory Support Division