31 July 2014

Neil Grummitt
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

AMP Bank Treasury comments on APRA's Discussion Paper "Simplifying the prudential approach to securitisation"

Dear Neil,

AMP Bank appreciates the opportunity to provide APRA with feedback on APRA's Discussion Paper "Simplifying the prudential approach to securitisation". This paper discusses the key issues and items that are important to AMP Bank.

1. Credit risk retention

AMP Bank supports the concept of risk retention but recommends that APRA conform its 'skin-in-the-game' requirements to the European Union risk retention requirements. Most RMBS sponsors already seek to comply with the European Union risk retention requirements in order to broaden their potential investor base.

Under APRA's proposal, an issuer will need to meet both requirements to maximise its potential investor participation and diversification, increasing the complexity of the securitisation. In AMP Bank's opinion, neither the European Union nor APRA's proposed risk retention is more conservative or onerous; they are merely different, and as such, could be aligned.

2. Funding only warehouse clean up

AMP Bank recognises APRA's concerns regarding warehouses where a warehouse is intended to obtain both funding and capital relief. However, for a funding only warehouse, where the sponsor retains the credit risk and receives no capital benefit, AMP Bank believes the sponsor should have more flexibility to manage the warehouse, including returning warehoused mortgages back to the ADI's balance sheet if the warehouse is no longer needed. In this scenario, there is no increase in credit risk to the sponsoring ADI as it is already holding full capital against the warehoused mortgages.

3. Securitisation for capital relief

AMP Bank prefers the ‘pro rata approach’ assuming that this applies to both situations where the sponsor retains a small first loss piece (horizontal slice) or a portion of the subordinated notes (vertical slice).

AMP Bank believes it is likely that at some point in the future, changes to rating agency methodology, investor demand or market conditions may make it difficult or impossible to reasonably sell the first loss portion of an RMBS.

For example, in an RMBS with 92% class A, 7% class B1 and 1% class B2, it might not be possible to reasonably sell the class B2, requiring the sponsor to retain these notes. Under the ‘pro-rata’ approach as assumed by AMP Bank, the sponsor would hold 100% capital against the retained class B2 exposure but receive a capital benefit for the class A and B1 exposures which have been sold to external investors.

4. Two class structure

AMP Bank does not see the market benefit of limiting securitisations to two classes. In most cases, additional classes are introduced to meet investor demand. Additional investor demand is ultimately beneficial to the entire securitisation market and Australia’s debt capital markets overall. So long as the investors are wholesale, they should have the sophistication to understand a multi-class structure.

Investor losses during the GFC were due primarily to the performance of the underlying collateral and lack of disclosure rather than to a securitisation’s particular structure.

5. Designation of ‘funding only’ or ‘capital relief’ securitisation

AMP Bank recommends that sponsors retain the flexibility to convert a funding only securitisation to a capital relief securitisation so long as the securitisation fully complies with APS 120 at the time capital relief is sought.

The added flexibility could benefit an ADI in a time of stress if it could obtain a capital benefit from existing funding only securitisations. Alternatively, difficult market conditions at the time of issuance could result in an ADI being unable to sell the subordinate tranches, but it might seek to sell them later once markets had recovered.

6. Master trusts

AMP Bank supports the recommendations of the Australian Securitisation Forum and Australian Bankers Association.

7. Synthetic Securitisations

AMP Bank believes that originators should be able to sponsor synthetic securitisations to obtain capital relief when funding is not required. So long as the investors are outside the Australian banking system, synthetic securitisations will allow credit risk to be more broadly distributed across a diversified investor base.

Capital relief from a synthetic securitisation, in function, is similar to obtaining mortgage insurance in that mortgage insurance provides a capital benefit without providing funding. Providing ADIs with alternative options to obtain capital relief outside mortgage insurance could reduce the risk concentration residing in Australia's mortgage insurers.

8. Date-based call

AMP Bank understands and agrees with APRA's position that for capital relief RMBS, a date-based call made with substantially more than 10% of the transaction remaining could result in an ADI providing implicit support.

For funding only securitisations where the sponsor remains fully on capital, AMP Bank believes the sponsor should have flexibility to have a date based call at any time in the transaction's life. As the sponsor is already fully on risk for the mortgages, the date based call would not result in additional credit risk.

Under most market conditions, an ADI would be expected to meet a date based call option. The date-based call would result in increased liquidity risk which AMP Bank believes should be treated under the LCR and NSFR identically to any other maturing obligation.

If APRA would like to discuss any item further, please don't hesitate to contact me (02) 9257 7520 or via email at kevin_stephenson@amp.com.au or David Rowe on (02) 9257 5762 or via email at david_rowe@amp.com.au.

Yours sincerely

Kevin Stephenson
AMP Bank Treasurer

cc. Steve Bisson