



31st July 2014

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

Dear Mr Grummit

SUBMISSION TO THE DISCUSSION PAPER - Simplifying the prudential approach to securitisation

I write on behalf of P&N Bank's 100,000 members in response to the abovementioned Discussion Paper dated 29 April 2014 and request that our feedback and recommendations below are given appropriate consideration.

Herewith are the major issues we believe need to be challenged from a mutual perspective.

The issue outlined in the first point is of the utmost importance for P&N Bank. Points Three, Four and Five are feedback rather than issues.

1. The requirement in Chapter 4 of the Discussion Paper to "term-out" assets in a warehouse securitisation within 12 months is not practical and unduly penalises smaller ADIs who will struggle to generate a marketable parcel of mortgages within a 12 month period. We understand that APRA is concerned that the current treatment of warehouse securitisation results "in lower capital being held in the banking system against the credit risk on residential mortgages."

We suggest that APRA should instead make it a requirement that all warehouse securitisations be funding-only transactions.

This would ensure there is no capital arbitrage while still providing originating ADIs incentive to "term-out" by potentially achieving up to 80% regulatory capital relief.

Without securitisation, diversification of funding is reduced and concentration in short term deposits and savings accounts will be increased.

2. The proposal that all non-senior classes of any securitisation issued by any type of issuer will attract a CET1 deduction is, we believe, unduly punitive and not in keeping with the proposed Basel III approach to securitisation risk weights. While we endorse the deduction approach for B class securities, there are other non-senior classes which are AAA rated and RBA repo eligible (AB class securities). ADI holdings of AB class securities do not in our view increase systemic risk, particularly if the proposed Basel III risk weights are adopted. Under the proposed Basel III risk weights for a standard AB class security, while attracting a higher risk weight of 80% due

to its non-senior nature, will not attract a deduction from CET1. **We suggest that APRA adopt the proposed Basel III risk weight approach to AB class securities.**

3. APRA has sought submissions on the merits of the two approaches to capital relief outlined in Chapter 4 of the Discussion Paper. The first option is the "significant credit risk transfer" approach currently operating under APS 120 and the second option is the "pro rata" approach. We believe the significant credit risk transfer approach to capital relief is preferable to the pro rata approach. The significant credit risk transfer is a risk sensitive measure and links the amount of capital relief to the credit risk transferred. We request clarification on how the 20 per cent holding of the Class B note required to be held by the originating ADI will be treated. We assume that in this scenario with the originating ADI holding 20% regulatory capital against the total assets securitised, the originating ADI will not be required to additionally risk weight or deduct capital for its 20 per cent Class B holding

We believe the first option "significant credit risk transfer" should be adopted in a new APS 120.

4. **We welcome the proposal to adopt date-based calls for funding-only securitisations as outlined in Chapter 3 of the Discussion Paper.**
5. For P&N the master trust issue is not relevant. P&N is not of sufficient size to sustain a master trust program.

We trust that APRA will give serious consideration and address these issues.

P&N Bank has also raised these concerns with COBA who we understand will also be making their own submission.

Yours sincerely



Andrew Hadley
Chief Executive Officer

cc COBA
CC APRA Perth