

25 February 2016



Mr Pat Brennan  
General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001

Dear Mr. Brennan

**SUBMISSION TO THE DISCUSSION PAPER -  
Revisions to the Prudential Framework for Securitisation**

I write on behalf of P&N Bank's members in response to the abovementioned Discussion Paper dated 26 November 2015 and request that our feedback and recommendations below are given appropriate consideration.

P&N commends APRA for this paper and its recognition of securitisation as both a diversified funding avenue and giving certainty to the ability for securitisation to provide capital relief.

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

**1. Liquidity**

**APRA's proposal under the draft APS 120 for an originating ADI to exclude the liabilities of a securitization in the calculation of MLH ratio only for regulatory capital relief transactions.**

Provided credit risk is transferred and the ADI cannot re introduce that credit risk to its balance sheet, why should only those securitisations that meet regulatory capital relief be excluded from liabilities calculation for the MLH ratio?

Once P&N sells mortgages to the trust, it cannot not repurchase those mortgages. We therefore see no logical reason why P&N should be required to hold extra liquidity for an event that cannot occur.

**P&N asks APRA to consider the following recommendation:**

***For MLH ADI's, all securitisations, except for the credit retention portion, should be able to be excluded from the liability base in the calculation.***

Obviously our recommendation will not apply to self securitisation trusts.

**2. Two-tranche Funding Only Securitisations**

**APRA's requirement that there can only be a single junior tranche in Funding Only securitization.**

P&N acknowledges APRA's objective to achieve clarity and simplicity in a funding-only structure. However in P&N Bank's view, a three tier structure would still achieve this objective while providing an ADI with additional funding from the same pool of assets. Also from a practical perspective, it is our understanding that if an ADI designates their transaction as a Capital Relief trade (which contains multiple junior tranches each with different credit tranching), but ultimately fails to sell all the notes in the transaction, then APS 120 requires the ADI to consolidate these tranches and issue a single junior note (which is retained by the Originating ADI). In practice, the transaction could not proceed on this basis because the deal has already been preliminary rated and marketed to investors with a specific tranche structure.

**P&N asks APRA to consider the following recommendation:  
*Permitting a three tranche structure for Funding Only securitisations.***

**3. Advanced banks to be removed from assessing credit risk using the IRB approach**

The removal of IRB approach for advanced banks will affect P&N Bank (and other smaller ADIs) via additional costs for warehouse funding provided by an "Advanced Bank". Under the Supervisory Formula approach, P&N Bank has been advised by its warehouse provider that the capital required to be held against the Senior tranche will increase by 2-2.5 times, while acquiring a rating from a credit rating agency under the External Ratings Based approach would add significant surveillance costs. For Funding Only transactions, we believe that under the IRB approach, there is no leakage of capital in the banking system with the Originating ADI retaining the loans on its balance sheet and thus any punitive capital charges imposed on the warehouse provider appears excessive.

**P&N asks APRA to consider the following recommendation:  
*Retaining the IRB approach for "Advanced Banks" providing warehouse funding.***

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