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Securitisation  
What are the current issues and trends  
in  
Australia  
and  
New Zealand?

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# Securitisation - What are the Current Issues and Trends in Australia and New Zealand

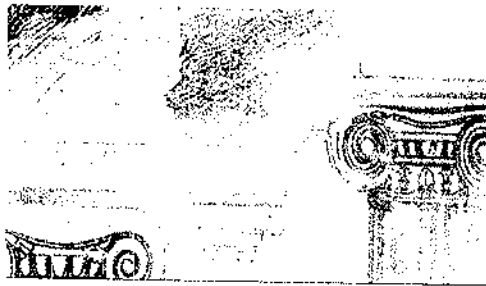
Peter Gibson,  
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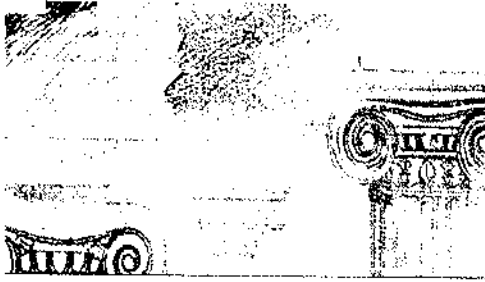
# Agenda

- Ratings generally
- Securitisation and ratings
- Issuance
- Issues
- Trends



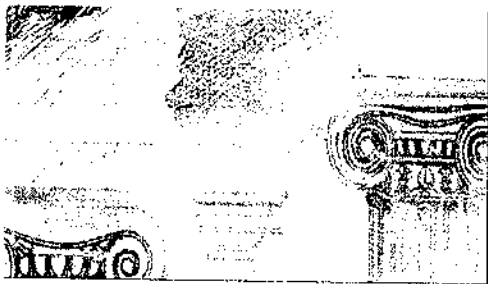
# Role and Utility of Standard & Poor's Ratings

- Promote free-flow of capital and facilitate financial market efficiency
- Enhance debt issuance and facilitate transparency
- Assist borrowers to demonstrate their credit standing and obtain best fund-raising terms available
- Meet market's need for reliable and objective risk information



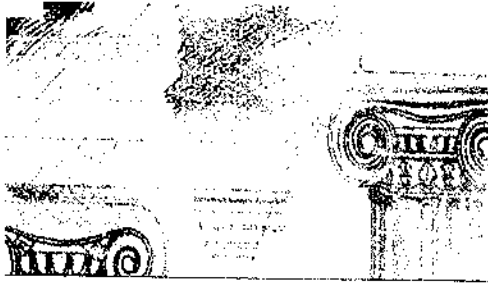
## Definition of Standard & Poor's Credit Rating

- Opinion of Creditworthiness — capacity and willingness to make timely repayment of financial obligations
- Assessment of Default Probability- the likelihood of default as opposed to expected loss or ultimate recovery
- Applied to companies and securities
- Current assessment of future
- Ups and downs of business cycles factored into the rating — ratings not a snapshot of present



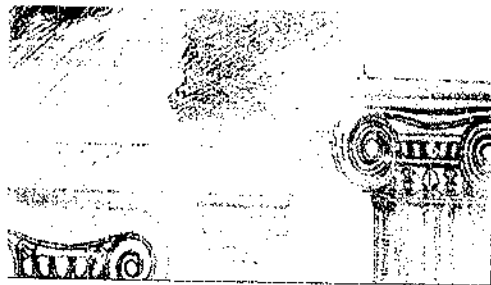
## What the Ratings do not Address

- Prepayment risk
- Total return, yield to maturity or other market risks
- Change in law risk
- Fraud or “mistake” risk



# S&P's Long-Term Rating Scale

- AAA – extremely strong
  - AA – very strong
  - A – strong
  - BBB – adequate
- 
- BB – less vulnerable
  - B – more vulnerable
  - CCC – currently vulnerable
  - CC – currently highly vulnerable
  - C – high risk of default
  - D – default



## Ratings Scale – Key Terms

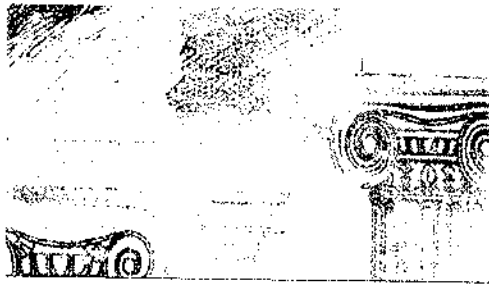
- Investment grade; BBB- and above
- Speculative grade; BB+ and below
- Ratings can be revised or withdrawn at anytime as environments change
- Outlooks and CreditWatch—additional tools
- Short-term scale 'A-1+', 'A-1', 'A-2'





# Standard & Poor's "Securitisation" Ratings

- Issue Rating vs Issuer Rating
- Residential Mortgage-Backed Securities (RMBS)
- Commercial Real Estate-Backed Securities (CMBS)
- Asset-Backed Commercial Paper (ABCP)
- Collateralised Debt Obligations (CDOs)
- Asset-Backed Securities (ABS)
  - Auto loans & leases, credit card receivables, commercial equipment loans & leases, trade receivables, unsecured consumer loans)



## Standard & Poor's "Securitisation" Ratings (cont.)

- Future Flows
  - Airline ticket receivables, credit card merchant vouchers, export receivables
- Hybrids and Whole of Business
  - Blend between corporate and structured finance
- Cash Flow versus Synthetic Structures
  - Asset transfer versus reference assets
  - Funded versus Unfunded Structures
  - Credit linked notes versus credit derivatives



# Benefits of Securitisation

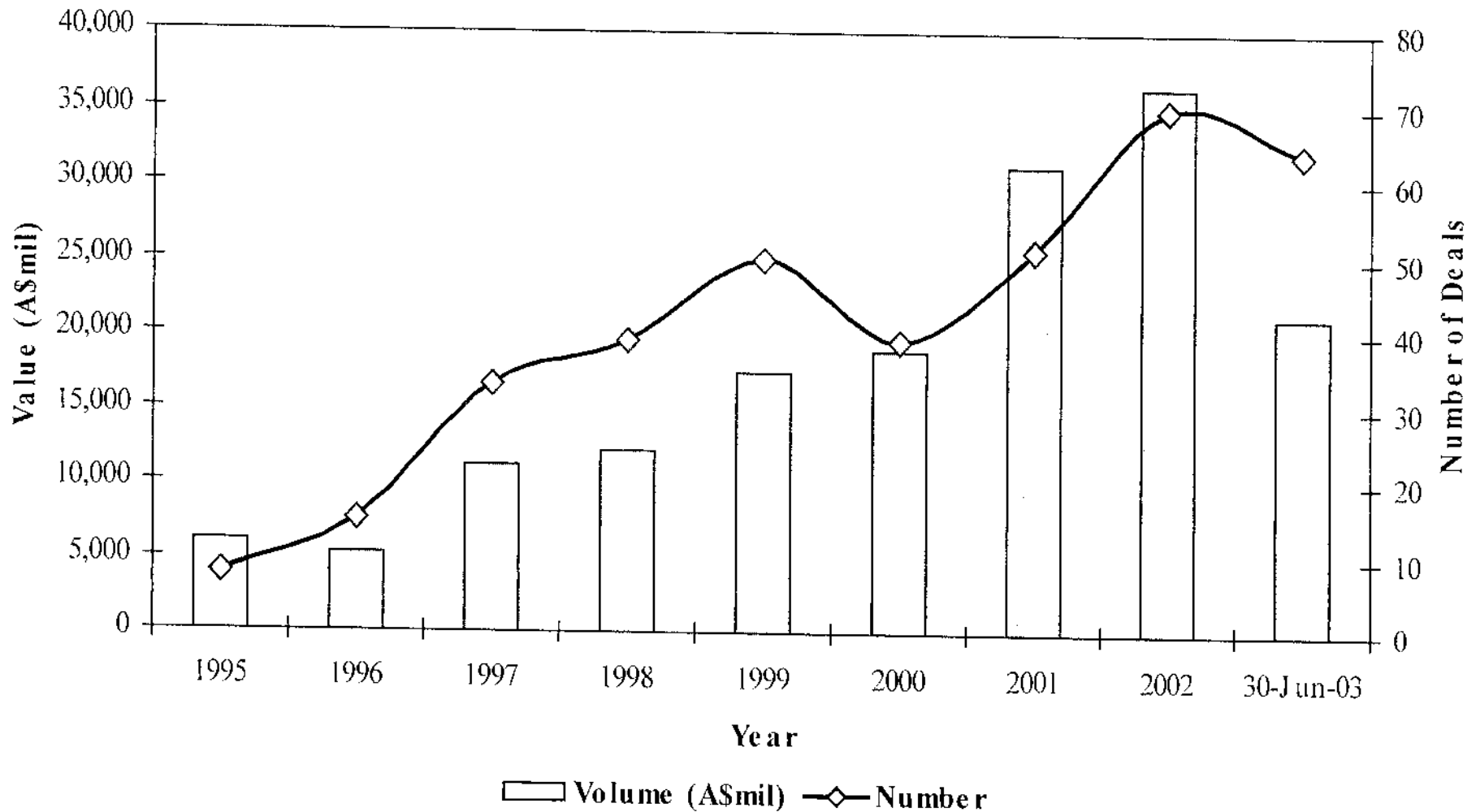
- Alternative funding source
- Diversification of investor base
- Off-balance sheet accounting treatment
- Regulatory capital relief
- Higher credit rating vs. straight bond issuance
- Lower weighted-average cost of capital



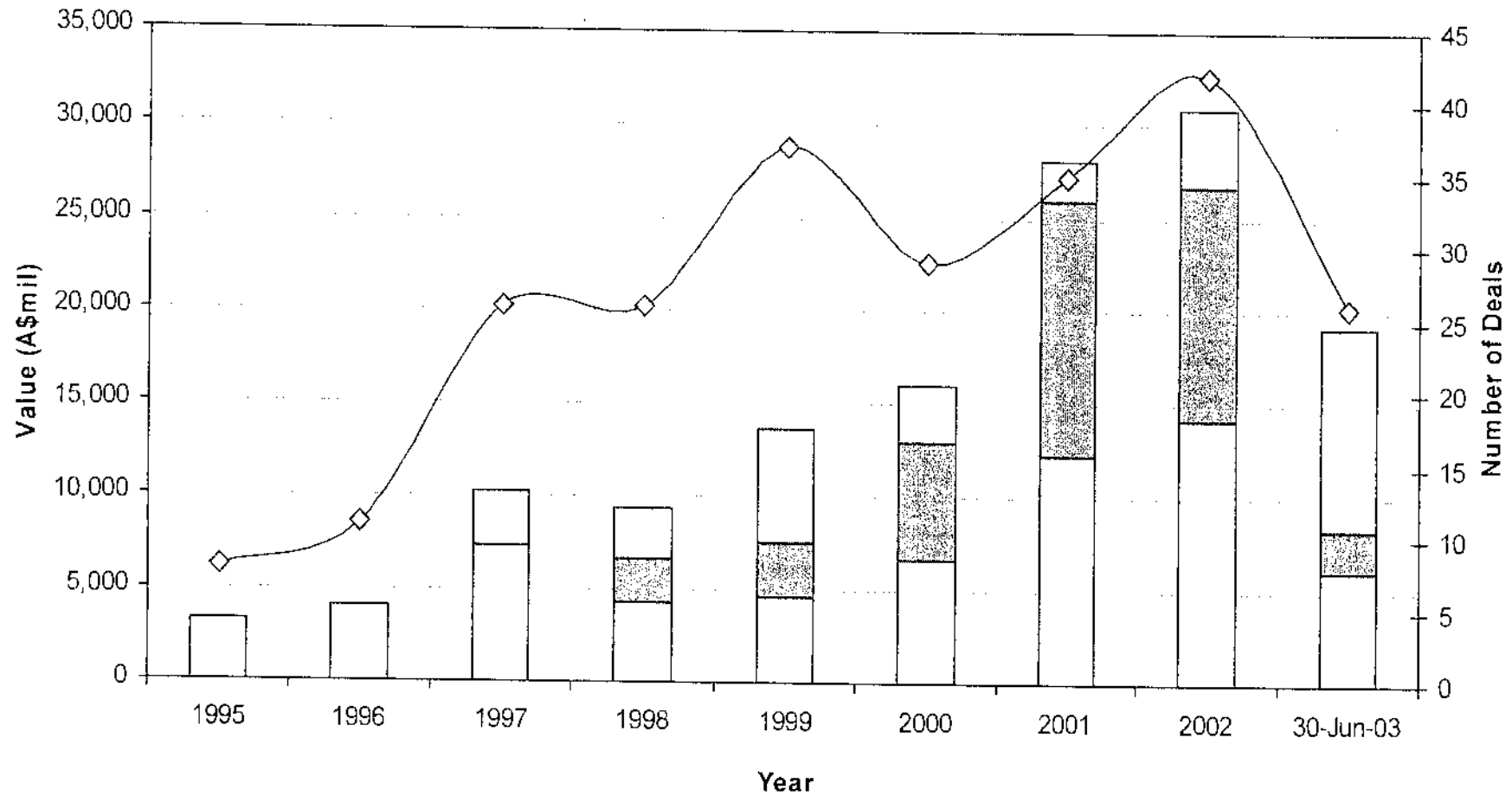
# The Ratings Process Boils Down to 5 Fundamental Issues

- **Asset / Credit Quality**
  - Can the assets withstand a “worst case” scenario and still pay investors full and timely interest and principal?
- **Legal and Regulatory Risks**
  - Will the securitisation structure hold up under the applicable legal and regulatory framework, notwithstanding a bankruptcy / insolvency of the asset originator/seller?
- **Payment Structure / Cash Flow Mechanics**
  - Will the mechanism for converting assets cash flows into securities payments deliver what’s promised to investors?
- **3rd Party Dependencies**
  - Are exposures to third parties either mitigated or otherwise accounted for by the ratings?
- **Operational / Administrative Risk**
  - Can the operational and administrative infrastructure support the securitisation program over the life of the transaction?

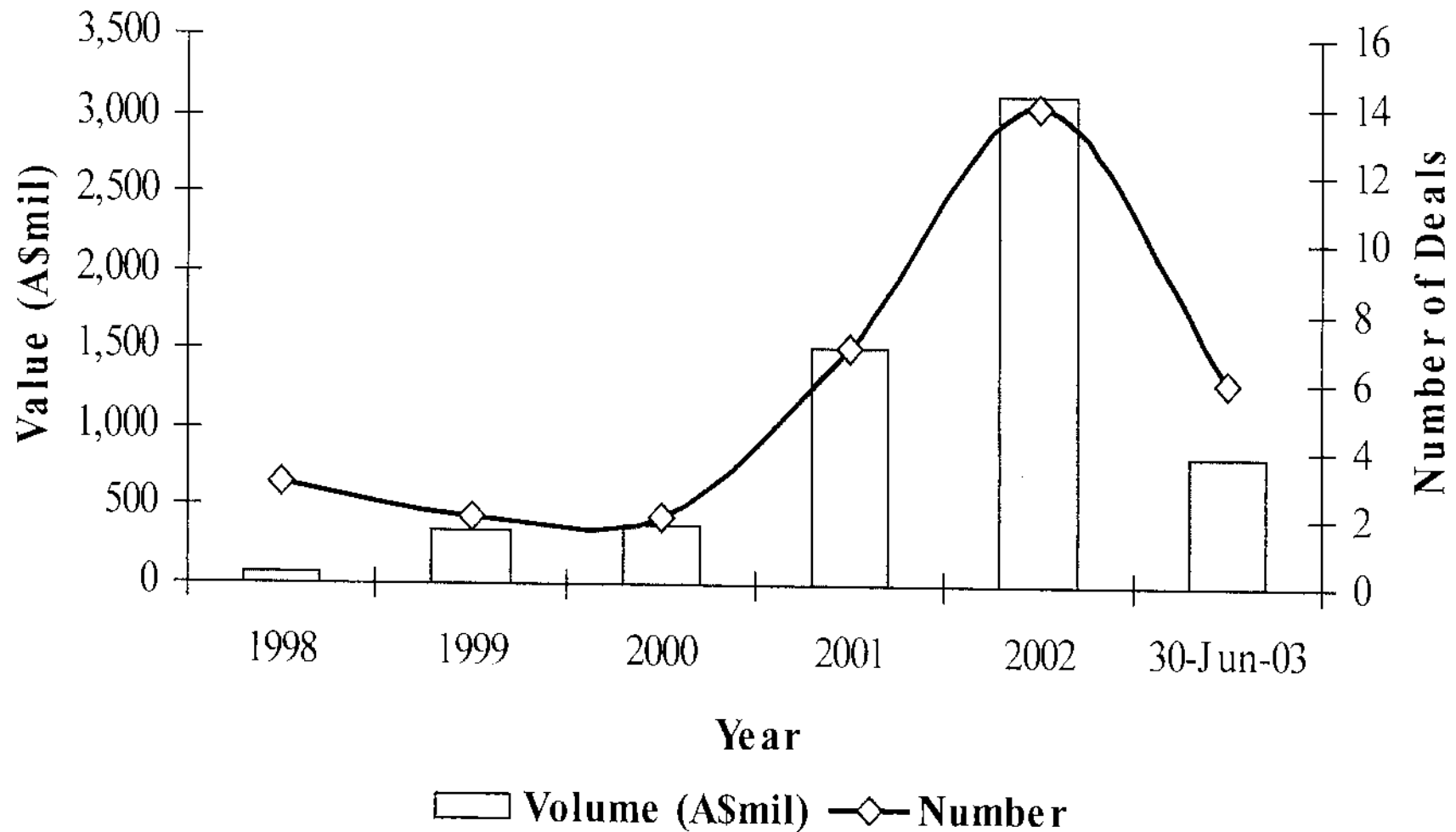
# Australasian Securitisation Issuance

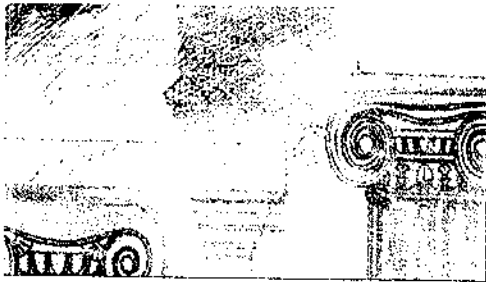


# Australasian RMBS Issuance

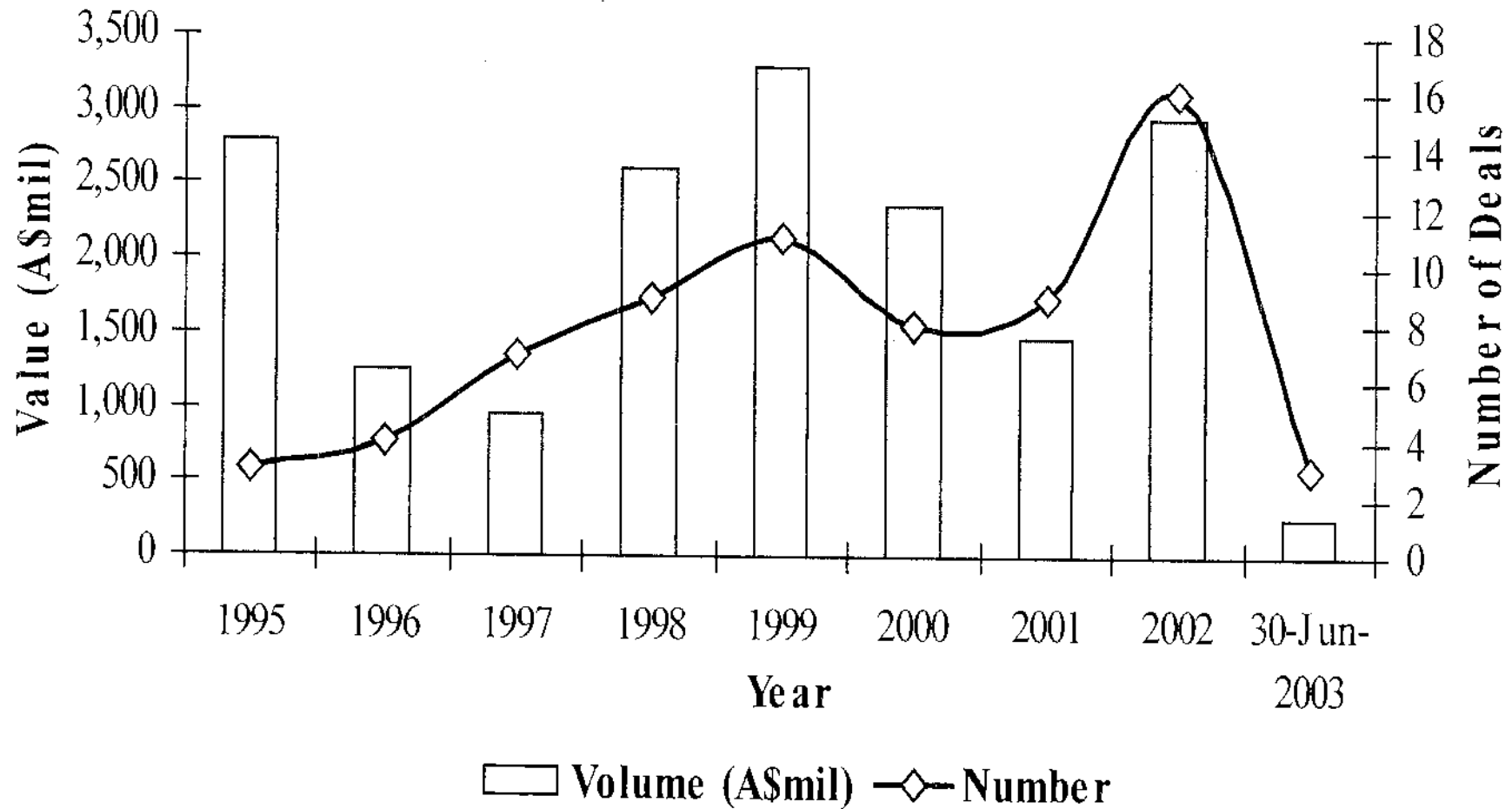


# Australasian CMBS Issuance



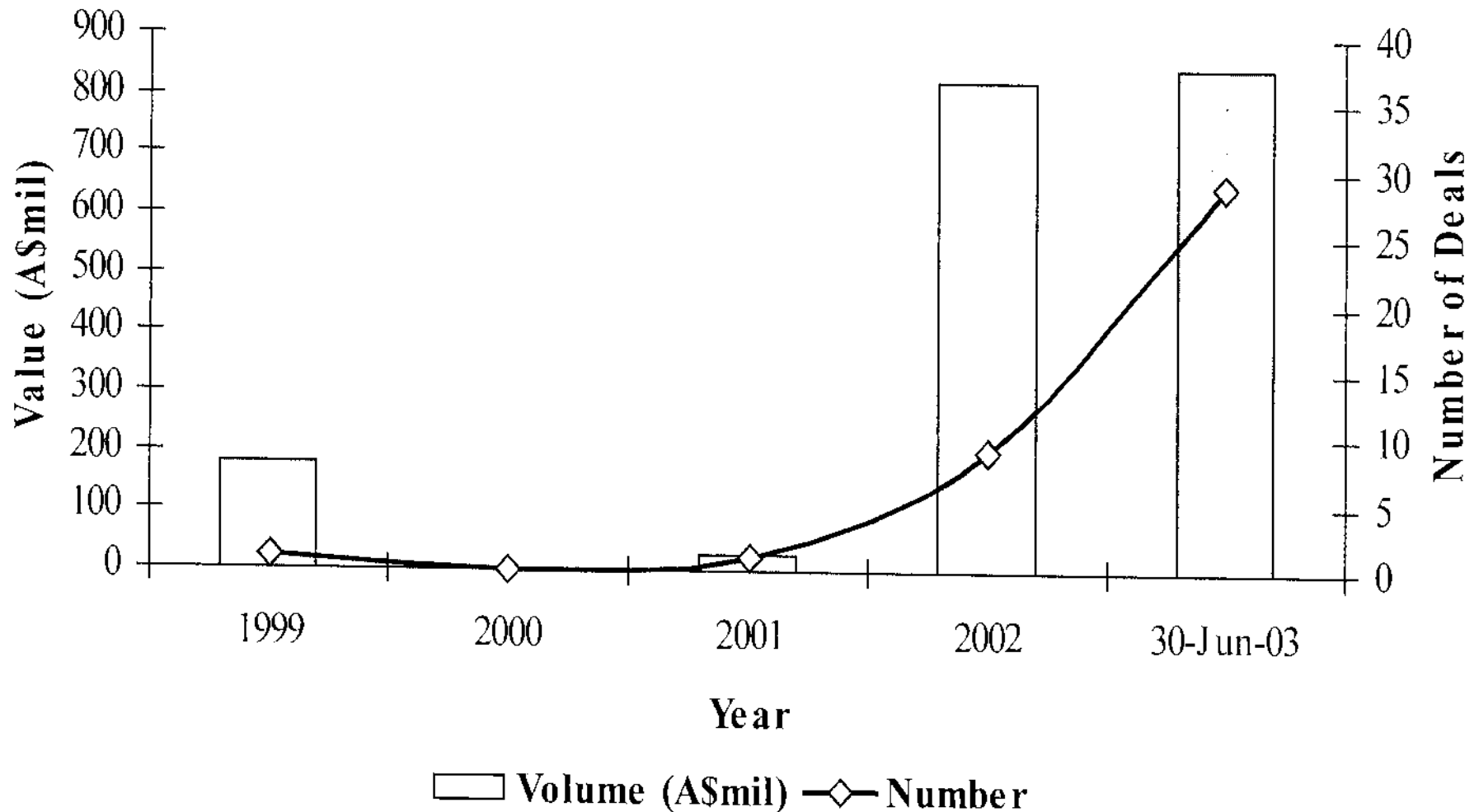


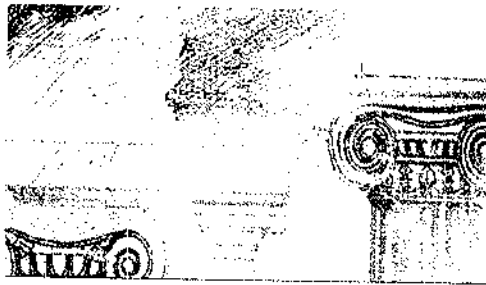
# Australasian ABS Issuance





# Australasian CDO/Synthetic Issuance





# Risk in the Global Spotlight

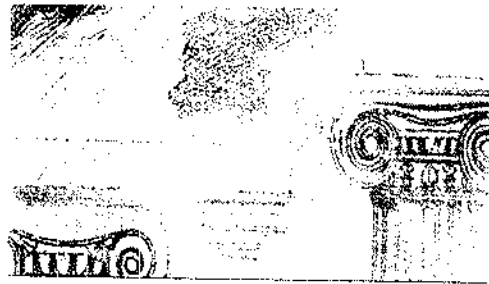
- Post September 11
- High profile corporate fallen angels
- Global economic uncertainty
- Increased regulatory scrutiny
- Changing accounting standards
- Basel II
- Financial services sector consolidation
- Risk benchmarking
- Risk transfer — synthetics and CDS



# Issues for Securitising Australia

## What can limit the growth?

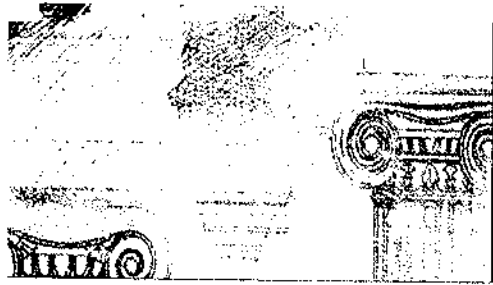
- Housing bubble – *is there one? will it burst?*
- Concentration in LMI sector – *a 2 party market*
- Tax law complexity – *thin cap, consolidation, stamp duty.....*
- Insolvency law reform – *do we want chapter 11?*
- FSR – *does the licensing regime enhance or hinder securitisation?*



# Issues for Securitising New Zealand

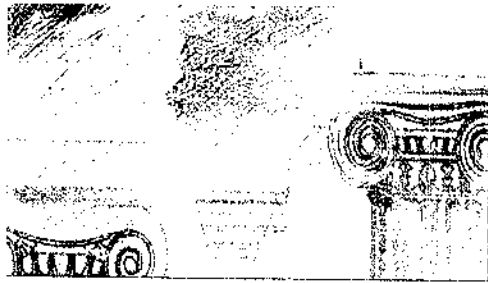
Will it / can it grow?

- Size matters – *achieving cost efficient pool sizes*
- Demand pull – *banks are competitive, less scope for non-bank originators*
- NRWT or AIL- *adds a cost to accessing offshore capital*
- Superannuation – *would add to the investor demand*



# Global Issues to Consider

- Adapting to new Accounting Standards
  - Consolidation of SPE's
  - Harder to achieve off balance sheet
- Legal challenges to Structures
  - Asset servicing
  - True Sale
  - Unconditional contracts
- Stress on counterparty credit quality
  - Japanese and European Banks
  - Insurance companies



## Trends – as Securitisation Evolves

- Risk Management
  - CDO
  - Synthetics
- Whole business
  - Securitisation to finance M&A?
  - Multi discipline analytical approach
- Retail distribution
  - Diversifying the investor base
  - Tailoring the products

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