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Joseph Longo, Chair
Australian Securities and Investments Commission
Level 5, 100 Market Street,
Sydney NSW 2000

Email: markets.consultation@asic.gov.au

Dear Mr Longo

Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets (Discussion Paper) - Australian Securitisation Forum submission

On behalf of The Australian Securitisation Forum (ASF) and its members, we are writing to comment on the Discussion Paper.

1. Distinguishing the Australian securitisation market

1.1 The ASF wishes to emphasise the importance of distinguishing the Australian securitisation market from broader segments of what is often collectively referred to as *private credit markets*. The terms *private credit* and *private debt* are frequently used interchangeably, yet they encompass a wide and diverse spectrum of financial activity. It is essential to draw clear distinctions that acknowledge the differing characteristics within these sub-markets rather than treat these different sub-markets as a single group.

1.2 The ASF also wishes to distinguish between participants in these markets, and the roles that these participants play in securitisation. Just as *private credit markets* are not a single collective, nor are the participants in those markets. Terms such as *non-bank lender*, *non-bank financial institution*, *non-bank financial intermediary* and *private credit lender* or *private credit investor* are also often used interchangeably, but participants given these labels are by no means a single category. Indeed – and particularly in Australia – subsets of these participants have distinct and different features, and these distinctions should be recognised and reflected in regulatory approaches.

1.3 A key objective of this response is to provide ASIC with a clear and concise overview of the Australian securitisation market and its interaction with both public and private capital markets. This includes the nature of investments within the securitisation space and the role this market plays as a competitive and vital component of Australia's broader financial system particularly in funding real economic activity and growth. Furthermore, this response outlines the interplay and reliance between warehouse facilities and public term securitisations, as distinct from other markets where private credit acts as an alternative source of funding.

1.4 The Australian securitisation market facilitates capital market funding for portfolios comprising a large number of homogeneous financial receivables. These include home loans, auto loans and leases, personal loans, credit card receivables, and both secured and unsecured SME receivables. It is the view of the ASF and its members that the Australian securitisation market is appropriately regulated with adequate checks and balances applied by regulators, the Reserve Bank of Australia (RBA) and various market participants such as trustees, credit rating agencies and other stakeholders who receive detailed portfolio and performance data.

1.5 In summary, we do not believe it would be appropriate to characterise either public term securitisations or private securitisations as *private credit markets* for the purposes of the Discussion Paper and given the level of reporting and regulatory oversight of this market already in existence, neither is it necessary to do so to afford greater protection to investors or generate greater transparency in these markets.

2. Australian Securitisation Forum

The ASF is the peak industry association representing the securitisation and covered bond sectors in Australia and New Zealand. The ASF's role is to promote the development of securitisation and covered bonds in Australia and in New Zealand by facilitating the formation of industry positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. The ASF is comprised of a governing National Committee, standing subcommittees and a national membership of over 210 financial institutions and market organisations. Further information on the ASF and its activities can be found at www.securitisation.com.au

3. Overview of the Australian securitisation market

Brief description

3.1 Securitisation is an important part of Australia's financial system and is a flexible funding tool for regulated banks, non-banks and new emerging lenders seeking to fund their businesses through the debt capital markets. The Australian securitisation market is a very successful and active financial market segment that serves a vital role in facilitating the supply of finance for homeowners, consumers and SME businesses and, in fact, enables lenders to serve parts of the market that some regulated banks find less attractive due to regulatory risk weights applied to certain asset classes. It also provides a competitive dynamic in Australia's concentrated banking market to exert downward pressure on margins for mortgages and other consumer and SME finance than otherwise would prevail in the absence of the public securitisation market.

How is securitisation created?

3.2 Securitisation is a form of secured funding backed by a portfolio of financial receivables. The process involves the creation of a bankruptcy remote special purpose vehicle (SPV) which issues debt securities to purchase a pool of financial assets. Investors in those securities are insulated from the corporate insolvency risk of the lender or originator of the assets and are dependent on the cash flows of the assets for the repayment of principal and interest on the debt securities. This insulation allows the credit of the portfolio to be rated by credit rating agencies more highly than the credit of the lender or originator, which in turn allows borrowing to be made available at lower rates.

A portfolio of financial receivables can typically comprise of assets such as mortgage loans, auto loans and SME receivables. The bank or non-bank originator of such assets provides the lending service to the consumer or the SME.

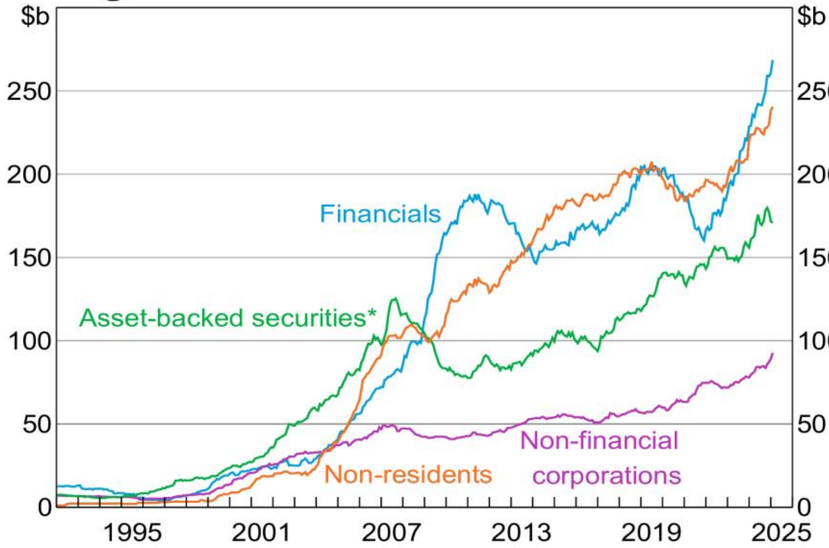
Securitisation can be structured in either warehouse or term bond format. A securitisation warehouse is generally a shorter term (typically 1-3 years) finance facility provided by a combination of bank and non-bank investors, lending against a revolving pool of secured or unsecured assets. These facilities support the functioning of the term securitisation market, providing interim finance for assets prior to execution of a term securitisation transaction, with warehoused assets being aggregated at scale and transferred as security for those transactions. These forms of asset financing are not synonymous with '*private credit*' as referenced in the Discussion Paper.

Size of the Australian securitisation market

3.3 Total public issuance over 2024 reached A$80 billion across 100 individual transactions and 57 organisations. This total eclipsed the 2023 post GFC record issuance volume of A$52.3 billion and the previous high-water mark of A$64 billion that was set back in 2006. The auto and other ABS market also set its own record with more than A$16 billion being issued by the end of 2024. The first quarter of 2025 saw A$15.55 billion issued across 17 transactions. While this volume is less than the previous quarter, the volume of the first quarter this year is the busiest first quarter of issuance since 2007. The overwhelming majority of issuance was from the non-bank sector, accounting for 90% of the volume placed.

According to the Reserve Bank of Australia (RBA), asset backed securities represent a significant proportion of non-government securities outstanding in the Australian bond market.

Non-government Bonds on Issue in Australia



* Excludes ADIs' self-securitisations.
Sources: ABS; Bloomberg; KangaNews; Private Placement Monitor; RBA.

This demonstrates that securitisation represents an important part of the funding requirements of Australian lenders including both banks and non-banks. Annexure 1 to this letter sets out further key Australian securitisation market statistics.

Government support for the securitisation markets

3.4 The Federal Government, through the Australian Office of Financial Management (AOFM), first became involved in the public RMBS market at the time of the global financial crisis in 2008 to provide liquidity to a market that had been disrupted at a global level. The scheme was an enormous success, with all government investments eventually refinanced and rather than creating any losses, yielding a profit to the Australian taxpayer.

3.5 This successful form of government support led to the design and implementation of the Structured Finance Support Fund (SFSF) during the COVID period commencing in 2020, again to ensure that in an adverse domestic and global bond market with limited liquidity brought about by a global pandemic, non-bank originating lenders would still be able to raise funds from the public bond market and continue to provide home loans and other credit products to Australian borrowers.

The SFSF allocated public funds for qualifying investments in both public securities and private warehousing. The SFSF complimented the RBA's Term Funding Facility (TFF) by providing liquidity to qualifying ADIs. The corollary of these forms of sponsored intervention in the form of Government investments was that as soon as the private bond markets were fully functional, the investments would be refinanced over a period of time. This arrangement was to ensure that the SFSF (and even the TFF) would be made whole and despite the advantageous pricing of the schemes, there would be little risk of any losses to the Australian taxpayer. In fact, the TFF has been refinanced and all remaining SFSF commitments were successfully sold into the wholesale capital markets in January this year by a way of a BWIC process.

3.6 The Federal Government also identified securitisation as a tool to overcome barriers that SMEs have faced when accessing finance by establishing the Australian Business Securitisation Fund (ABSF). The ABSF is a AUD2 billion government fund established in 2019 and aimed at boosting competition/liquidity in the SME lending market. The intention of the ABSF has been to increase the availability and/or reduce the cost of credit provided to small business owners. Like the SFSF, the ABSF is administered by the AOFM and targets investments in securitisations of loans made by SME eligible lenders, via warehouse facilities and/or public term transactions. The ABSF also seeks to invest in parts of securitisation structures where other investors are rare or cannot be found.

The 2022 Government review of the ABSF confirmed that it has made progress towards meeting its objectives (despite being impacted by COVID-19 and the rollout of related economic support measures such as the SFSF) and that it has broad industry support to continue operating. The review noted that industry participants are supportive of the ABSF moving into segments of the market that have less funding support from banks and other investors. The review also noted that, securitisation market outcomes, such as the emergence of a public term market with frequent issuance and the achievement of triple-A credit ratings for SME lenders, should be the ultimate aim of the ABSF over the medium to longer term.

4. Difference between 'private credit' and non-bank financial institutions/lenders in Australia

Australian non-bank lenders contrasted to private credit

4.1 The primary purpose of the non-bank lending sector in Australia is to provide a competitive landscape for consumers and SMEs to access various loan products. This sector is quite distinct from the commonly understood global 'private credit' sector, even though that sector is also often referred to as non-bank lending. 'Private credit', in its more wide-ranging form, does provide non-bank loans and is active in Australia, but should be distinguished from Australian consumer and SME non-bank lenders. Entities operating in the consumer and SME lending markets (together with their lending practices) are already regulated in some considerable detail in Australia.

More specifically, the regulatory framework for both banks and non-bank lenders is well established in Australia through ASIC and APRA and has been designed to ensure financial stability in these sectors. APRA is responsible for prudential supervision of ADIs under the Banking Act 1959 (Cth) (Banking Act), and has a wide range of supervisory, monitoring and directions powers over banks under the Banking Act and its prudential standards. In addition, APRA also has powers under the Banking Act to give certain directions to non-ADI lenders if it considers that the provision of finance by one or more non-ADI lenders materially contributes to risks of instability in the Australian financial system.

Further, the process of consumer and SME lending in Australia is, in many cases, subject to ASIC's responsible lending rules and may also be subject to industry codes of conduct such as the Banking Code of Practice, the Customer Owned Banking Code of Practice, the Online Small Business Lenders Code of Practice, the Buy Now Pay Later Code of Conduct and the Insurance Premium Funding Lenders Code. Lenders must also hold (and comply with the conditions of) a number of licences and authorities relevant to their activities, which may include (if an ADI) an authority to carry on banking business and (whether an ADI or a non-bank lender) an Australian Credit Licence (ACL) and/or an Australian Financial Services Licence (AFSL).

Non-bank sector's relationship with securitisation

4.2 In the absence of a balance sheet and without the ability to access deposit funding, many non-bank lenders have been instrumental in developing and utilising 'securitisation' as a primary source of debt funding enabling them to reduce the cost of borrowing for mortgagees and other consumers and SMEs. Securitisation allows investors to be quarantined to the risks in the pool of financial receivables (rather than the broader corporate risks of the originator) and for their recourse to be limited to the credit in that pool (rather than the credit of the originator more generally), thereby enabling the creation of efficient funding. However, the originator remains incentivised to maintain the performance of the pool through its roles and the returns it earns for those roles, typically including as servicer (and primary customer interface) and as the party entitled to excess income on the portfolio after servicing debt and structural costs.

Public and private securitisations

4.3 Securitisation funding in Australia is dominated by funding residential mortgages followed by other consumer loans such as auto, personal and SME loans. Funds are typically raised in the public wholesale debt capital markets by issuing residential mortgage-backed securities (RMBS) or asset backed securities (i.e. for auto, consumer and SME loans) (ABS). The securitisation market also includes private asset backed structures which represent a significant part of the funding cycle for Australian bank and non-bank lenders and in which wholesale investors actively participate. These mostly take the form of warehouse facilities but may also include private placements for specific investors. Although private asset backed structures (private securitisations) function in a similar way to public asset backed issues, investments are essentially private agreements and the contractual terms, including pricing information, are not publicly available (as they are for public issues) because it is considered to be commercially sensitive in nature. However, private securitisations are not speculative and have similar credit profiles to public securitisations. In addition, public securitisation markets, particularly for non-bank lenders, cannot operate or function efficiently without private securitisations. This is demonstrated by warehouse facilities which are a key step in the securitisation funding cycle.

4.4 Warehouse financing facilities in Australia are essentially private securitisations and are arranged as either a pre-cursor to public (term) RMBS or ABS issues, or as a revolving private securitisation with mechanisms to allow the asset cashflows to repay the facilities at some point in the future. For many decades they have enabled banks and non-bank lenders to originate and fund homogenous consumer loans or receivables until the loan portfolio has reached significant size and the loans are eligible to be refinanced through a public term RMBS or ABS transaction. They can allow more tailored flexibility for newer originators to build a new portfolio of assets and for existing originators to move into new lending products. Whilst in the 'warehouse', the pool can grow to a size that can support a public transaction and generate the data history that is necessary to support a ratings analysis, and the detailed upfront disclosure required for a public transaction. It can also enable the originator to develop the systems necessary to support the level of data capture and reporting needed for a public securitisation. That is, private securitisations do not exist in isolation of public securitisations but rather co-exist with them and are a necessary part of the funding cycle that supports public securitisation markets. Lastly, warehouses can provide financing for asset classes that might lack scale to efficiently term out. While these may never result in a public securitisation, without these warehouses the Australian consumer and SME finance market would not be able to provide credit to niche market sectors. These warehouses operate on the same basis as warehouses that are specifically designed to be a bridge to public securitisations.

Investors in securitisations

4.5 Both private and public securitisation markets operate in the wholesale markets. Investors in private and public securitisations include local and foreign banks and also real money institutional investors such as licenced credit investment managers, insurance companies, superannuation funds, 'private credit' investors in the broader sense described above and overseas investors who may invest (directly or through investment managers) in private and public securitisation.

Warehouse facilities by their nature generally incorporate senior financing from a bank, whether domestic or offshore, with mezzanine financing typically provided by other investors. To that end, warehouse facilities are generally not an alternative to bank lending but rather a part of it.

To the extent that investments in securitisations are made by superannuation funds or by investment managers on behalf of funds or other structures that include retail participation, that retail participation is wholly separate from the securitisation markets and should be considered in the context of regulation governing retail participation in superannuation, investment management and/or fund structures more generally, and not in the context of securitisation markets.

5. <u>Fairness and integrity between securitisation market participants</u>

The principles of market fairness and integrity are well established within the securitisation markets. Market practices have developed around transparency particularly the level of granularity and rigour applied to disclosure and the standards of reporting available to investors. This is relevant for both public term transactions and warehouse facilities.

Reporting

5.1 With regard to reporting to enable ongoing monitoring of a securitisation transaction, for many years it has been a common market practice in Australian securitisations to provide post-closing investor reporting including, for example, data on the performance of the underlying exposures and, if relevant, excess spread detail and information on financial and other triggers.

Investors will also be entitled to receive regular reporting via platforms such as Bloomberg, issuers' websites or by other means such as through trustees. Bilateral private financing arrangements including warehouse facilities will naturally have reporting obligations.

5.2 The Reserve Bank of Australia (RBA) conducts regular open market liquidity operations to provide liquidity to financial institutions by entering into repo transactions with respect to asset backed securities. The RBA has developed its own set of requirements on transparency and reporting for repo eligible RMBS, CMBS and other ABS. This is not a strict investor requirement but a guideline which applies if an originator or issuer wishes to ensure liquidity for its securitised funding with the RBA.

5.3 The ASF has itself developed an industry driven standard for reporting on Australian SME ABS aimed at driving consistency of reporting with respect to commercial transactions. The reporting template was developed in consultation with issuers, local and offshore investors, credit rating agencies, trustee and other key market stakeholders and it focuses on information that is common to business borrowers, it caters for certain variations, such as diversity of collateral types, and it also makes provision for additional optional information. Again, this is not strictly an investor requirement, but its aim has been to provide a standard of reporting to which local and offshore investors are receptive.

5.4 The desire by the market to create uniform standards for reporting RMBS and ABS demonstrates the importance placed by issuers and investors on disclosure within Australian securitisations. The market has also, through the ASF, been instrumental in creating environmental, social and governance (ESG) disclosure guidance to provide originators, issuers, investors and other intermediaries with a reference point for developing ESG practices in securitisation transactions which in turn enhances transparency and comparability in the Australian market.

5.5 The market has also established protocols to ensure that fair and reasonable practices are being used during the marketing bid process when allocating RMBS and ABS to investors. These practices are a testament to the desire of the securitisation market to foster fairness and confidence in the securitisation market.

Service providers

5.6 There are many functions critical to public and some private securitisations. Key functions include loan asset servicing, SPV cashflow management, SPV trustee obligations, third party auditing and credit rating agencies. A high level of transparency comes with all these roles due to their public disclosure obligations either required by contract or law or both. Many entities within this value chain are subject to separate regulatory overlays in their own right. The well-developed capabilities associated with these functions enhances the integrity and confidence the broader market has in the sector.

Current regulatory framework

5.7 In our view, current regulation and market practices within the securitisation sector adequately underpin market integrity without the need for additional forms of regulation. The prudential framework in Australia for securitisation is contained in APRA's Australian prudential standards (APS120 – Securitisation and APS112/113 – Capital Adequacy) which are specifically applicable to authorised deposit taking institutions (ADIs) in their capacity as ADI issuers and as ADI investors in securitisations, including in securitisations originated by non-bank lenders who rely on bank funded warehouse facilities as a fundamental stage in their originations funding cycle. In addition, the provision of financial services activities within a securitisation structure is regulated by Australian financial services licensing requirements, and the offer and sale of securities issued by a securitisation vehicle are governed by existing Corporations Act 2001 (Cth) and ASIC Act disclosure and conduct requirements.

Beyond these legal requirements, the Australian domestic market has also developed strong customs and practices which assist to self-regulate on both the buy and sell sides within the securitisation market, and the ASF assists to facilitate the development of these practices through its subcommittees and working groups on legal, prudential, industry and market issues.

The functions of market stakeholders within the securitisation sector coupled with the strength of the credit profile of both public and private securitisations demonstrates a market that is exposed to a relative low residual risk. The Australian securitisation market prides itself on high levels of transparency when compared to credit which is invested in products or ventures that are perhaps less homogenous and transparent than public and private securitisations.

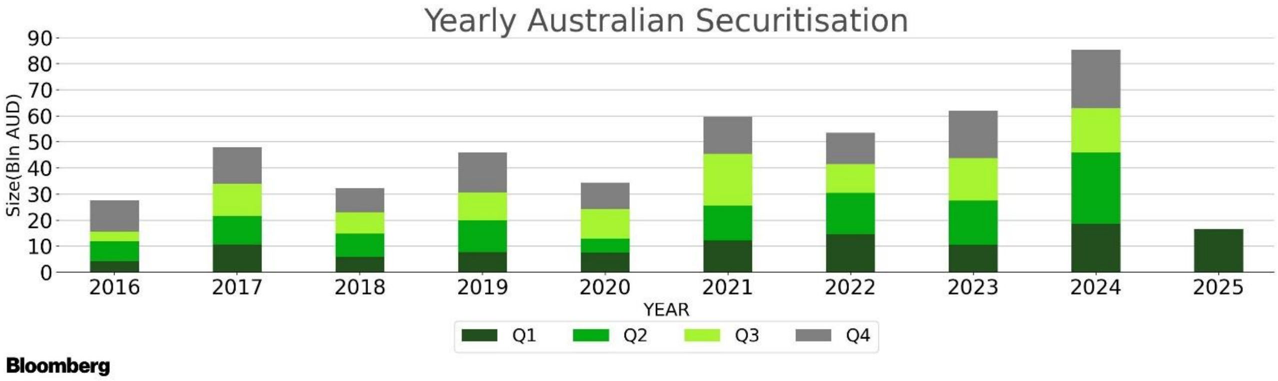
If you have any queries or would like to discuss any aspect of this letter, please do not hesitate to contact either [redacted], Chief Executive Officer at [redacted]@securitisation.com.au or [redacted], Policy Director at [redacted]@securitisation.com.au

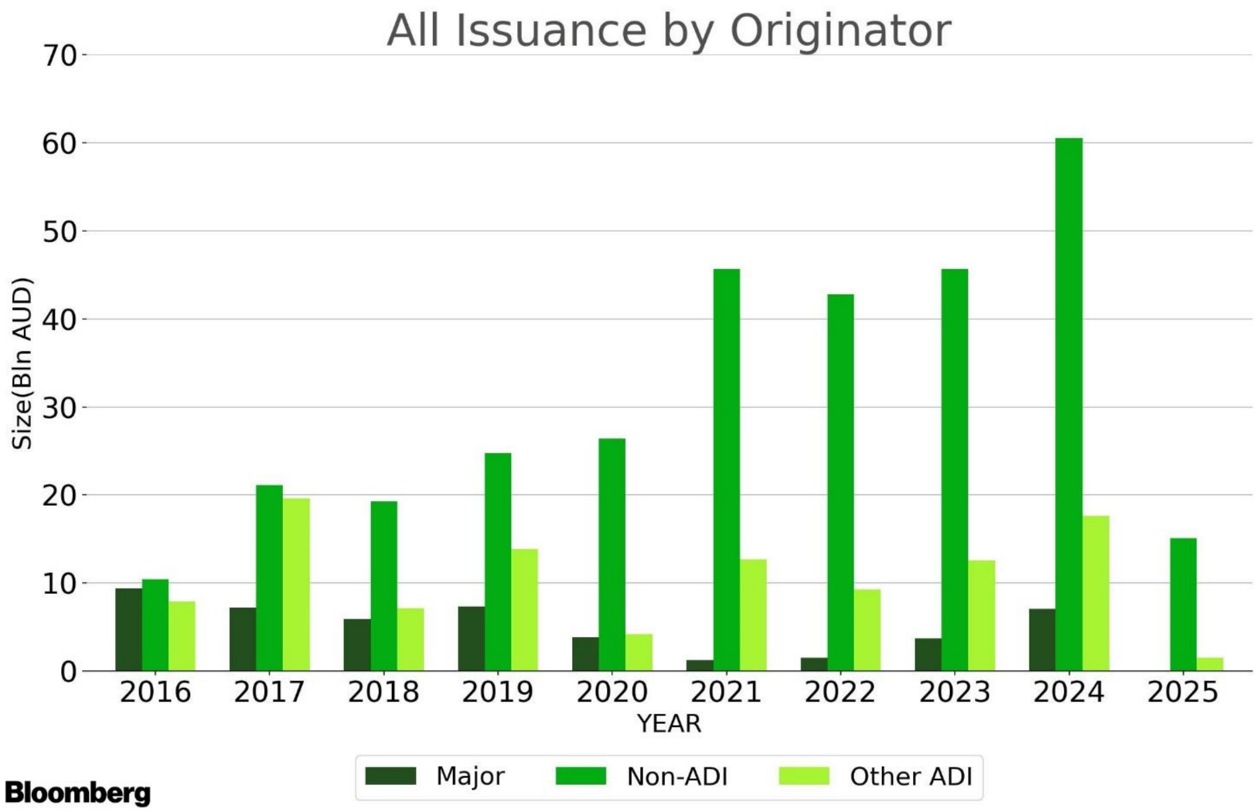
Yours sincerely,

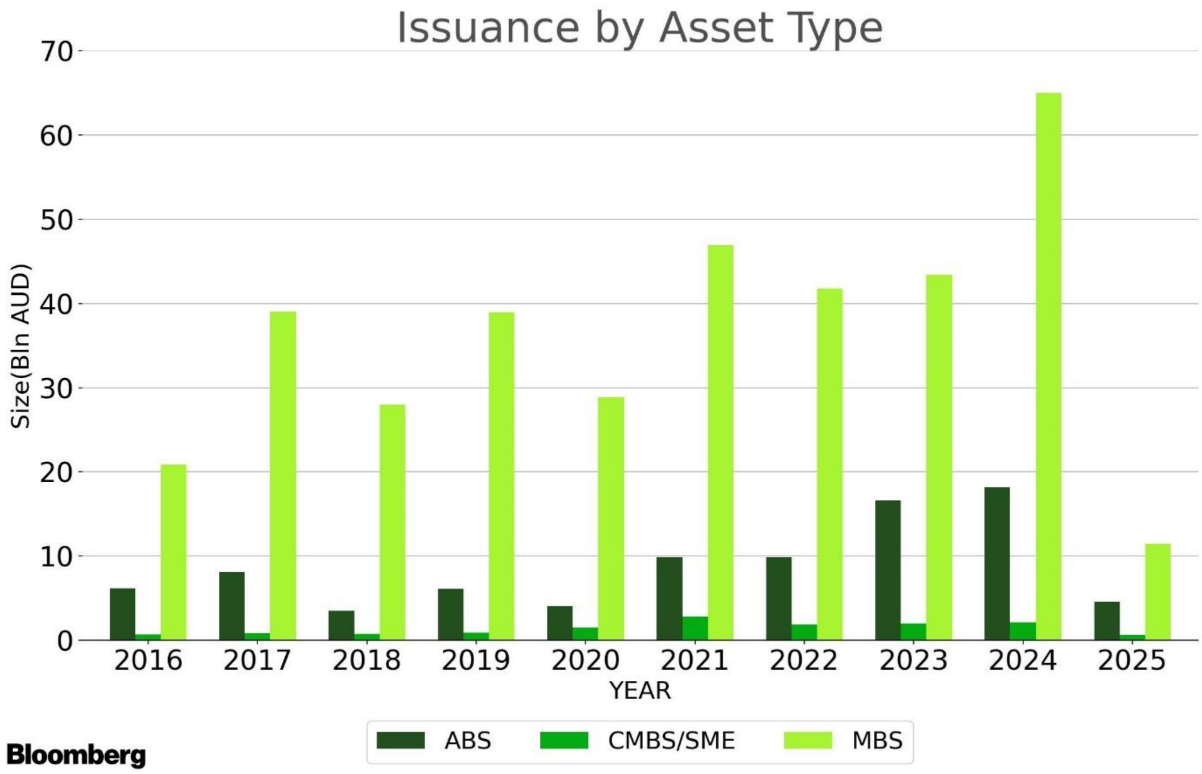
[redacted]

[redacted], Chief Executive Officer – Australian Securitisation Forum

Annexure 1 – Statistical overview of the Australian securitisation market







Issuance by Asset Type
Size(Bln AUD)
70
60
50
40
30
20
10
0
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
YEAR
ABS
CMBS/SME
MBS
Bloomberg