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Ms Kris Peach
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Dear Kris,

Application of the Australian Reporting Framework to Securitisation Entities

Thank you for your time recently to meet and speak with the Australian Securitisation Forum (ASF) to discuss the Australian Accounting Standards Board's (AASB) current consultation paper 'Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems', and its potential impact on Australian securitisation vehicles (SPVs). We greatly appreciate your time and interest in understanding more about our industry and how any proposed changes to the current reporting framework may impact market participants.

Background

The AASB's project is focused on ensuring that the accounting rules and framework in Australia are in compliance with International Financial Reporting Standards and promote comparability and clarity in reporting to markets and users of the financial statements. As an industry we are strongly supportive of this initiative.

As part of your industry consultations, you met with the ASF to further understand the Australian securitisation industry, the current reporting framework commonly applied by Australian securitisation SPVs, and to understand and assess the potential impact of the removal of Special Purpose Financial Reports on securitisation SPVs. During that meeting, it was determined that the focus of the AASB's interest was in particular, whether or not certain SPV's, being those with notes that are listed on the ASX, or other international exchanges, met the criteria for Public Accountability, as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* (AASB 1053; see Appendix A). As a result, this letter focuses only on ABS with listed notes. Following the discussion with the AASB, we offered to provide more information on certain aspects of the market which you felt may impact the assessment of whether such SPVs meet the

definition of Public Accountability, being publically issued asset backed securities 'ABS' (including residential mortgage backed securities 'RMBS'). As an industry, we are confident that such ABS are not publically accountable, and have set out our rationale in this letter, and do not believe that any obligation to Tier 1 reporting for such ABS would enhance the operation of the market, nor the information considered by investors when determining where to allocate resources. We have included additional information on the industry (see Appendix C) and excerpts from example legal documents in Appendix D to this letter which may assist your consideration of the matters contained herein. We are aware other banking sector bodies have in the past held diverging views and we welcome the opportunity to clarify the position for Australian ABS, or for additional guidance from the AASB if it disagrees with our position herein.

The ASF is confident that ABS trusts do not meet the definition of Disclosing Entities under the Corporations Act, nor are Reporting Entities, nor Publically Accountable entities, and are not therefore required to apply Tier 1 general purpose financial reporting. Currently most ABS trusts prepare special purpose financial reports on this basis. If these interpretations or requirements were to change, there would be considerable additional cost and effort incurred, particularly for those entities who are wholly reliant on securitisation funding.

Application of the Corporations Act, ASX Listing Rules and ASIC lodging requirements

The question of whether ABS with listed notes have any legal obligations under the Corporations Act 2001 (the Act) to produce financial statements has been considered by law firms who are members of the ASF. Their conclusion is that ABS do not meet the definition of a Disclosing Entity under the Act, nor is there any obligation under the ASX listing rules for financial reports to be lodged with the ASX for those ABS with listed, not quoted notes. No copies of financial statements are lodged with ASIC as these are not corporate entities, nor registered managed investment schemes, meaning that external agencies are unable to widely access these financial statements.

Application of the definition of Publically Accountable to ABS

For-profit entities that have *public accountability* are required under AASB 1053 to prepare Tier 1 reporting requirements general purpose financial statements. This requires the preparation of financial statements which comply with all the recognition and measurement requirements of Australian Accounting Standards, as well as all of the disclosure requirements.

The definition of publically accountable states that;

'A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);'
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Does the nature of issuance and/or trading of ABS result in public accountability?

A focus discussion area between the AASB and the ASF has been whether or not ABS with listed notes meet the definition of publically accountable entities. The ASF does not believe that listed notes in ABS result in the issuing vehicle being designated publically accountable, as notes issued

by ABS are not instruments that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

In considering the first aspect of the definition, it is important to understand the process for listing of ABS notes on the ASX (or other international markets) as well as the commercial rationale for listing and the process for any subsequent trading of listed notes. These areas are further explored below.

- Listed, not quoted Notes

Critical to the function of a healthy securitisation market is appetite for ABS notes from investors, both international and domestic. A number of securitisations notes are listed, either on the ASX, international exchanges or both. Not all notes for all deals are listed, as this depends on investor requirements. See Appendix D.1 for an extract from an information memorandum (the document prepared by the Issuer to market the transaction to potential investors) which demonstrates that it is individual notes issued by the ABS, rather than the ABS itself which is listed. For example, the most recent CBA Medallion 2017-2 transaction listed 2 tranches out of a total of 7 issued.

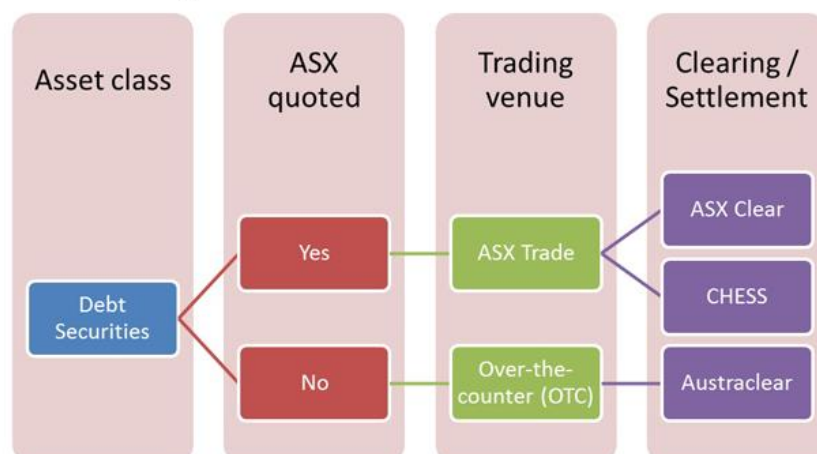
Under the ASX debt listing requirements, there are two types of debt listings – traded and wholesale (also referred to as “Listed Not Quoted”). Securitisation issuers in Australia adopt the wholesale approach. The ASX debt listing guide provides further information¹.

The below extract is taken from the ASX website.

Quoting debt securities on ASX

Companies seeking to raise debt finance take advantage of quoting debt securities on ASX for many of the same reasons that they quote shares. These include:

- access to capital for growth;
- diversifying funding sources from traditional bank lending;
- the strong public and investor profile of the ASX market; and
- access to a range of investors – both institutional and retail.



¹ https://www.asx.com.au/documents/products/debt_listing_guide.pdf.

The ASX identifies that in relation to being listed (but not quoted):

- *satisfies the 'public offer test' (see section 128F(3) of the Income tax Assessment Act 1936 (Cth) - domestically issued bonds are now marketable overseas, so long as certain conditions are met;*
- *typically satisfies overseas investors whose mandates require securities to be listed;*
and
- *is a timely and efficient process.*

The ASX website states that “these securities are typically issued on an excluded offer basis (i.e. without a prospectus) to sophisticated/professional investors, pursuant to section 708 of the Corporations Act and are not quoted on ASX. To satisfy regulatory compliance and investor requirements wholesale corporate debt issuers are often required to list their securities on an internationally recognised exchange²”

The above information supports our explanation to the AASB regarding the rationale for listing of notes (being a requirement of investor mandates). It is important to also note that investors are only wholesale sophisticated investors, **Retail investors are specifically prohibited from investing in ABS** (see Appendix C and Appendix D).

The question is then asked whether ABS notes are issued for trading in an over-the-counter market for the purposes of the definition of public accountability. The AASB has requested further information as to how the notes initially price and the process for subsequent trading of investment by investors in order to further understand the operations of the market.

- Price setting and trading of notes post issuance

The price setting process at issuance involves a “roadshow” and “bookbuild” to potential sophisticated investors. These roadshows are co-ordinated by the deal managers (banks), who market the offering directly to their investor client base. Investors receive the following: a term sheet (a summary of the transaction), ratings agency assessment, information memorandum and pool cut with stratifications (summary data about the assets to be securitised). No financial reports are provided. In making their investor decision at the time of issue and subsequent to issue, investors may also analyse the transaction using modelling platforms provided by service providers such as Intex and Bloomberg. Due to the fact that the notes are listed, but not quoted, it is not possible to refer to the ASX for a ‘price’ of a note, or to actively trade via the ASX

Initial settlement payments, subsequent disbursements on notes and any buying/selling of notes are cleared through Austraclear, which holds details of the investor bank accounts. The trustee (a third party) is responsible for maintaining the register of investors, though investment is often made via custodian entities, making the ultimate holder of notes difficult to identify. Austraclear is the primary settlement facility in Australia for debt instruments.

² <https://www.asx.com.au/listings/debt-listing/non-quoted-securities-wholesale.htm>

Sale of notes, which are infrequent, do not occur directly through the ASX or another exchange – rather they occur under individual contracts (OTC) and price details are not publicly disclosed. If an investor in a note wishes to enact a sale, any transaction of the notes is negotiated between investors who are registered participants in the Austraclear system. The buyer/seller will negotiate their price, the buyer submits a notification to Austraclear and it is matched to a similar notification Austraclear receives from the seller.

Given the fact that financial statements are produced once a year and the dynamic nature of the assets that would impact the value of a note, the financial statements are not a reference point as part of the negotiation process.

The Issuer is not informed of the price nor necessarily given access to an updated register, although they may be requested to provide access to the investor to the Issuer's reporting data room. This means that at any one point the Issuer does not necessarily know the holder of all of its notes.

As noted above, the ASX does not quote a price for the notes listed thereon. It is not possible to determine a 'market price' for ABS notes via the ASX as there is no traded market with observable prices. The lack of liquidity in the secondary market for these notes and the challenges inherent in pricing and trading them is well known and understood by market participants. Each information memoranda provided to investors includes a section on risk factors potentially impacting investors, and lack of liquidity or a quoted market for trading is noted as a key investor risk therein. See Appendix D.2 for extracts from representative information memoranda.

- International listings

Due to the limits in size and appetite of the Australian market for certain classes of notes, many issuers seek international investors to supplement their Australian investor base. In order to meet internal mandate requirements, some European investors require that the notes be "listed" (but not traded) on a stock exchange. As with Australian listings, the listing occurs on a note class by class basis (i.e. it is not the trust that is listed, but rather specific note classes issued by the individual trust), and similarly to ASX rules, listing on the exchanges which are regularly used by securitisation issuers (Ireland, UK, Luxembourg) do not require financial statements preparation and lodgement as a listing requirement.

The ASF therefore believes that the processes outlined above do not meet the definition of trading in an over-the-counter market when the Q&A 2011/03 in IFRS for SMEs is applied to the current situation (See Appendix A for full Q&A):

"the availability of a published price does not necessarily mean that an entity's debt or equity instruments are traded in a public market. **For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market³.**"

³ <http://archive.ifrs.org/nr/rdonlyres/dc73fe51-35ed-4128-bdf4-50256b66e62a/0/3ifrsdraftqainterpretationsoftradedinapublicmarketapril2011.pdf>

Given there is no published price, and no facility for market participants to trade via an exchange, whether in Australia or internationally, and applying the spirit of the above Q&A, we believe that listed, but not quoted ABS securitisation transactions do not meet the first part of the definition of public accountability, being an entity whose debt is traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets). We also note that the process for selling notes between investors does not vary between those ABS with publically listed notes and those without, so it would appear unusual if a different reporting framework existed for ABS where the only practical difference between the structures is that one has a note listed on an exchange due to an international investor mandate.

Does an ABS hold assets in a fiduciary capacity for a broad group of outsiders?

The second element of the public accountability definition considers holding assets in a fiduciary capacity for a broad group of outsiders. Whilst ABS arrangements do involve holding assets on behalf of investor, investors in an ABS arrangement are sophisticated wholesale investors and typically each arrangement would involve a limited number of investors. The ASF has canvassed a number of issuers and believes the maximum number of investors in the entire ABS structure (i.e. across all tranches of notes issued, not just those listed) that would be seen in an Australian ABS is circa 30.

The ASF therefore believes that a securitisation ABS is akin to an investment fund, closed to the general public and with only a few specifically selected participants (*IFRS for SMEs* Section 1: Entities that typically have public accountability).

Additionally, the ASF has considered the information used by potential investors into ABS transactions, and whether these could be considered a broad group of outsiders that would require the information contained in the financial statements in order to reach their investment decisions. We have confirmed with a number of investors in the ASF that the information they analyse, prior to any investing post issuance, is the information prepared by the Issuer/trust manager regarding cashflows, income levels, arrears and allocation of cash between parties to the transaction, as well as the excess spread. This information is all cash based, and prepared monthly and provided to potential investors on request. They do not generally ask for financial statements at a Trust level and financial reporting information is not a basis for the judgmental decision as to whether to invest.

As such, the assets held in an ABS are not held for a broad group of outsiders. Hence the second element of the public accountability definition is also not met.

The Accounting Framework as currently applied by Australian ABS

For the reasons listed above, industry participants have historically concluded that ABS are not publically accountable. We are aware there is diversity in practice of whether an entity is first assessed for Public Accountability or as a Reporting Entity, however do not believe that the order of assessment would change the positions reflected in this letter. The definition of a Reporting Entity is “an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources.”

The securitisation industry has historically concluded ABS do not meet the definition of Reporting Entities, as there are not users who rely on the entity's general purpose financial statement for information that will be useful to them for making and evaluating decisions about the allocation of resources. This is due to a limited number of entities being party to ABS transactions (typically the issuer (being the sponsoring entity), the trustee and the external investors); see Appendix B for a typical Australian securitisation structure, and more detailed analysis of the parties to transactions). These parties all have access to more up-to-date, and more relevant detailed cash flow, loan performance and loan data in the form of monthly investor reports than would be provided by a full disclosure set of general purpose financial reports (GPFR). This is supported by the fact that when investors enter into a transaction, no detailed financial reporting information is included in the Information Memoranda, nor are investors regularly seeking access to financial reports post initial issuance. Given the crucial relationship between Issuers and Investors, any additional information requested by Investors is prioritised by Issuers in practice. See Appendix C.

As a result, most Australian ABS currently apply the special purpose reporting framework to their financials, which requires the application of the recognition and measurements requirements of Australian Accounting Standards, but not all the disclosure requirements. In practice such financial statements are usually only made available on request by Investors and requests to obtain a copy of them rare. The requirement to produce financial statements is usually a compliance matter, as most ABS have an obligation to produce financial statements written into the underlying trust documents that govern the operation of the trusts. This is the only obligation to prepare financial statements for ABS.

To the extent that the AASB agrees with our assessment herein, and determine ABS are not publically accountable, and that ABS are not Reporting Entities, the ASF does not believe that subsequent to the removal of SPFR, the preparation of Tier 1 or RDR financial reports would significantly enhance comparability or information available to those in the securitisation industry. As a result, for new trust vehicles, the ASF has established an industry working group to ensure that any new ABS do not inadvertently include wording which could be construed to require preparation of full Tier 1 general purpose financial reports, and instead reference financial information in a format that is tailored to be appropriate for the users, being the trustee and investors in the specific transaction. Many ABS will wind down (call) over the transition period during which the AASB is planning on removing the ability to use special purpose financial reports, and the ASF will work with the industry to enable a practical transition for the remaining ABS given the cost prohibitive practicalities of amending trust deeds for all outstanding ABS.

Engagement with Industry

We hope that the information contained in this letter assists the AASB in its understanding of the Australian securitisation market and its participants and operations. The ASF strongly believes that the nature of the market and its sophisticated, wholesale investors, and in particular the lack of trading via an exchange, given the illiquid unobservable secondary market in the issued notes means that Australian ABS do not meet the definition of publically accountable entities.

In addition, we would struggle to understand how the needs of market participants, in particular investors who are the key parties exposed to ABS transactions, would be more informed through the provision of Tier 1 financial reports, given they currently receive plentiful, timely and relevant information which is more pertinent to their understanding of their investment. It would appear unusual to us that theoretically, two identical structures could be perceived as

having one be publically accountable, but not the other if the only difference between the two would be whether a tranche of notes was listed.

Finally, we believe the additional burden of producing Tier 1 general purpose financial reports would be significant, particularly for those market participants that are wholly funded by securitisation and which have a very different business model to traditional banks. These entities are focused on bringing competition and innovation to the Australian mortgage market. They would not have the ability to easily absorb the cost (see Appendix C for information on the challenges and costs associated with amending trust documentation).

If the AASB disagrees with our assessment of public accountability for ABS, as an industry we would request a transition period to cover the expected life of the majority of current outstanding ABS (average life 5 years depending on transaction) to allow for participants in that transaction to make the necessary amendments to Trust Deeds, for example to specifically allow investors to seek additional financial information on request, including fully AASB compliant financial reports if required, to enable the industry to manage the practical challenges and additional cost implications involved in changing trust documentation.

We have listened and are grateful for your feedback and suggestions regarding amending trust documents on a go-forward basis to ensure that any ongoing reporting obligations, outside those imposed by the ASX, the Corporations Act or Australian Accounting Standards are framed in an industry appropriate manner avoiding inadvertently requiring application of Tier 1 Accounting Standards.

Thank you for considering the information contained herein. Please do not hesitate to contact us if further information about the Australian securitisation market and transactions between its participants would be of assistance.

Yours sincerely



Chris Dalton
Chief Executive Officer



Heather Baister
Chair of ASF Accounting & Tax Subcommittee

APPENDIX A: KEY ACCOUNTING FRAMEWORK PRONOUNCEMENTS

Bold emphasis added throughout

- **AASB 1053 *Application of Tiers of Australian Accounting Standards***

Appendix A.

Public accountability means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.

A for-profit private sector entity has public accountability if:

- (a) its debt or equity instruments **are traded in a public market** or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or **an over-the-counter market**, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Appendix B - Public Accountability

B1 Public accountability is defined in Appendix A. The notion of public accountability is consistent with the notion adopted by the IASB in its International Financial Reporting Standard for Small and Medium sized Entities (IFRS for SMEs). It is different from the notion of public accountability in the general sense of the term that is often employed in relation to not-for-profit, including public sector, entities.

B2 The following for-profit entities are deemed to have public accountability:

- (a) disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
- (b) co-operatives that issue debentures;
- (c) registered managed investment schemes;
- (d) superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000; and
- (e) authorised deposit-taking institutions.

- **Statement of Accounting Concepts SAC 1 –*Definition of a Reporting Entity***

Reporting entity means an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information **that will be useful to them** for making and evaluating decisions about the allocation of resources. A reporting entity can be a single entity or a group comprising a parent and all of its subsidiaries.

- **IFRS for SME's Definition of Public Accountability**

An entity has public accountability (and, therefore, should use full IFRS) if: it has issued debt or equity securities in a public market, or it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank.

- **IFRS for SMEs Section 1 Q&A 2011/03 “*Interpretation of ‘traded in a public market’ in applying the IFRS for SMEs*”**

An entity has public accountability ‘if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market’ (paragraph 1.3). How broadly should ‘traded in a public market’ be interpreted in the definition of public accountability? For example, in Europe does it include only those markets that are defined as ‘regulated markets’ for the purpose of EU accounting regulations or does it also include other markets such as growth share markets and over-the-counter markets? **In addition, would a listing of convenience, i.e. a market in which a ‘net asset value’ price is published but no trading occurs in that market, make an entity publicly accountable?**

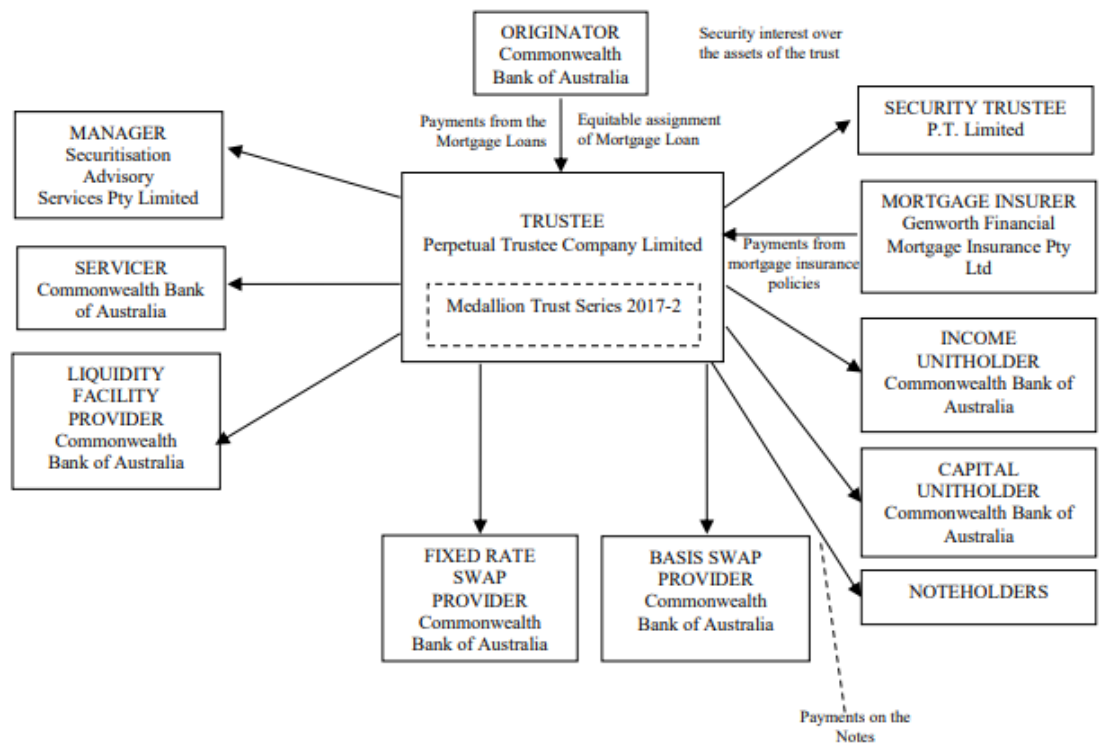
Q&A.4 Furthermore, the availability of a published price does not necessarily mean that an entity’s debt or equity instruments are traded in a public market. **For example, in some countries over-the-counter shares have a quoted price, but the market has no facility for trading and so buyers and sellers deal with each other directly. This would not constitute trading in a public market.** However, if trading occurs only occasionally in a public market, even only a few times a year, this would constitute trading.

APPENDIX B – A TYPICAL RMBS / ABS SECURITISATION STRUCTURE

The structure below is taken from the most recent CBA securitisation information memorandum, page 17

[https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526\(10\)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#](https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526(10)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#)

Structural Diagram



All roles other than Security Trustee and Mortgage Insurer are performed by CBA or its subsidiaries. Noteholders are external investors.

APPENDIX C: ADDITIONAL INFORMATION REQUESTED BY THE AASB

INFORMATION REQUESTED BY THE AASB

During the recent meeting between the AASB and the ASF, a range of other topics were discussed briefly with the AASB, details of which have been included herein to assist the AASB in understanding the operation of the Australian market, and the information currently available to those investors. These matters include:

- Current financial statement requirements for ABS
- Users of the financials
- Nature of investors,
- Treatment of ABS in Issuer financials.
- Information produced by Issuers,
- Processes for amendment of trust documentation, including cost

1. Current Financial Statement requirements for ABS

As trusts, the ABS are not subject to the requirements of the Corporations Act or ASIC requirements to produce financial statements. It is however common practice for the key legal documents which establish and determine the operation of each ABS (the Master Trust Deed and the Series Supplements) to require the preparation of a set of financial statements. The wording used in these documents varies but is often framed as 'in accordance with generally accepted accounting principles' or 'Australian accounting standards', with these usually not being defined in the Trust documents. Lawyers working with the ASF have informed us that they do not believe the intention of this phrasing was to require compliance with a specific accounting framework, otherwise these phrases would have been further defined and capitalised, rather to require the preparation of financials that would be considered relevant to the trust. Other wording that has been applied has been to prepare a financial report containing the net tax income of each trust. As trusts outside the Corporations Act, and ASIC requirements, it is this requirement in the trust documents that is the only factor requiring the preparation of financial statements. The financial reports produced and audited are available on request to investors, however it is our understanding that this is very rarely, if ever sought.

We are aware there is diversity in practice of whether an entity is first assessed for Public Accountability or as a Reporting Entity, however do not believe that the order of assessment would change the positions reflected in this letter. A Reporting Entity is defined as "an entity in respect of which it is reasonable to expect the existence of users who rely on the entity's general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources."

Most ABS have been determined not to be Reporting Entities as defined in Statement of Accounting Concepts SAC 1 "Definition of the Reporting Entity" (see Appendix A) as the only users have been determined to be the investors and trustees who have access to additional information via the monthly investor reporting which is more relevant, up to date and more

focused on their needs as investors. See Appendix B for a typical structure and the parties to an ABS transaction. As such, the majority of securitisation trusts in the Australian market produce special purpose financial reports and do not prepare detailed AASB 7 disclosures. Most sets of trust financial statements do however list the roles performed for the trust (Trustee, Trust Manager, Servicer etc.) which are the key related party transactions, as well as the fees paid to the related parties for these roles.

Section 4.7A of the ASX Listing Rules requires that where an ASX Debt Listing is required to comply with section 319 or 601CK of the Corporations Act, the accounts must be lodged with ASX. If there are no Corporations Act requirements, then the accounts lodged with any overseas regulators must be lodged with the ASX. Whilst the listing rules appear to be silent on an Australian trust, being the structure used for Australian ABS, some trustees and trust managers may assess that where a trust manager provides the trustee or investor financial statements (by virtue of a trust deed requirement), then these should be provided to the ASX. If, however no financial statements are prepared, there is no overarching requirement by the ASX (or any of the other key listing exchanges) for such financial statements to be made available.

- *Users of the Financial Statements and Information Available to Them.*

As noted previously, key roles in an ABS transaction are typically the issuer, the trustee and the external investors, all have access to more up-to-date data in the form of monthly investor reports than would be provided by a full disclosure set of general purpose financial reports (GPFR). These monthly investor reports focus on monthly cashflows, arrears and loss information and summary pool (underlying asset) information. As the underlying assets within a trust must be held for collection for the duration of the transaction term and cannot be sold, typical general purpose financial reporting disclosures (AASB 7) covering matters such as fair value of assets, liquidity etc. are of minimal interest to investors. Information such as credit risk management and market risk is already fully disclosed in more detail in the prospectus to external investors than is commonly provided in financial statements (see sections 7 and 11.3 of CBA's most recent information memorandum to demonstrate level of detail regarding approach to credit risk and default risk on these assets⁴). An example of monthly reporting provided to investors have already been provided to the AASB. Further examples for the CBA transaction can be seen at:

https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/investor-report/M0172_InvestorReport_25Jun2018.pdf#

https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/servicer-certificate/M0172_ServicerCertificate_25Jun2018.pdf#

As such, the ASF strongly believes that the provision of additional information in line with the disclosure requirements of Tier 1 general purpose financial reports, would not provide any additional information to parties to an ABS transaction, being the external investors, and

⁴ [https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526\(10\)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#](https://www.commbank.com.au/content/dam/commbank/about-us/securitisation/pdf/medallion-trust-reports/series-2017-2-medallion-trust/information-memorandum/34094526(10)_Information%20Memorandum%20-%20Medallion%202017-2.pdf#)

therefore would not aid the open and transparent operation of markets. As noted below, investors into the Issuers of ABS (as opposed to the ABS trusts themselves) will have access to more detailed, and disclosures via the issuers consolidated financial statements.

2. RBA repo-eligibility

Certain senior notes in ABS are registered by the Issuers with the Reserve Bank of Australia (RBA) as being repo-eligible if they meet certain requirements specified by the RBA. The RBA can therefore be considered to be an interested party to an ABS if the senior note is repo-eligible. As a condition of repo-eligibility, issues are required to be compliant with the Reserve Bank's reporting requirements for asset-backed securities. These requirements include monthly reporting to the RBA of over 100 data points on each loan within a securitisation, as well as the monthly cashflow waterfall (being the cash received by each ABS on the assets as well as payments made on the notes and to service providers). These data requirements are specified by the RBA and therefore clearly tailored to their needs. In addition, a redacted version of the RBA reporting is required to be made available to permitted users, including potential investors, which therefore provides detailed information to wholesale investors considering acquiring notes in a secondary market transaction. Further details on the availability of information to permitted users can be seen at:

<http://www.rba.gov.au/securitisations/reporting-guidelines/index.html>

3. Inclusion of financial information regarding ABS into Issuer financial statements

Most ABS trusts are consolidated into the financial reports of the Issuers. The application of AASB 10 *Consolidation* to a standard ABS structure (similar to that set out in Appendix B) results in a conclusion that the issuer has:

4. power over the trust (the investee) due to its role of Servicer responsible for collections on the underlying assets;
5. exposure or rights to variable returns from its involvement with the investee (due to its holding of residual income units which distribute margins earned, and absorb first losses in the structures); and
6. the ability to use its power over the trust to affect its returns.

This means that the securitisation vehicles are included in the consolidated financial statements and disclosures of the Issuer, to the extent that that Issuer meets the requirements for Tier 1 or Tier 2 reporting. For banks and listed entities, this would include Tier 1 disclosures. For non-bank lenders that are not listed, this will depend on their obligations under the Corporations Act and their determination of Reporting Entity under SAC 1.

- *Nature of Investors in ABS Structures*

Securitisation structures are not available for investment by retail investors. This is clearly stated in every Information Memorandum where it is expressly stated that the notes are not to be offered to retail investors, or subsequently transferred to retail investors. (see Appendix D.3). As such the only investors in such structures are sophisticated wholesale investors with the knowledge and understanding to interpret the information contained in the investor reporting and the information memorandum.

- *Cost and effort to prepare Tier 1 GPFR*

The preparation of Tier 1 GPFR by Issuers for each ABS would take considerable time and effort. We acknowledge that on a consolidated basis, the information is already available and disclosed in the Issuers' consolidated financial statements, however the split of this information into trust by trust level data is not usually readily available and would involve analysis of certain aspects of the trusts which are not disclosed in the consolidated financial statements as the junior notes, residual income units and inter-group fees which are usually on consolidation and which would take time to assess, audit and prepare.

Issuers have estimated the internal cost to prepare each set of Tier 1 financial reports would take approximately 2.5 days of manpower to prepare and review. Audit firms estimate the additional cost to audit each set of trust financial statements would be approximately \$35k.

This would disproportionately impact the non-bank lender members of the industry given their large number of trusts (some having up to 20 ABS) and the size of these issuers, which make up approximately 6% of the Australian mortgage market.

The ASF therefore believes that if it were determined by the AASB that general purpose financial reporting was appropriate for ABS, the cost and effort that would be incurred in preparing general purpose financial statements for ABS Issuers could be considerable for certain market participants, without adding additional information, clarity or value to the market and its participants, including investors.

- *Practicalities and obligations in amending Trust documents*

As noted above, the current driver of the preparation of financial reports for ABS has been requirements of the underlying transaction documents. For some SPV structures, which are not listed on any exchanges for external investors, and therefore outside the areas of the AASB's current focus (for example warehouse trusts and internal securitisations where there are minimal contracting parties to the transaction) the ability to clarify or amend financial reporting requirements within the transaction documents is relatively straightforward.

The amendment of transaction documents for ABS however is more complicated. See Appendix D.4. The securitisation market has historically taken a conservative approach to the amendment of Master Trust Deeds and their accompanying Series Notices which underpin the requirements of each trust. Whilst amendments are allowable under the legal documents, it has generally been interpreted that any change to the legal documents will impact the noteholders, and as such, require the consent of a majority, or specified percentage of Noteholders prior to effecting. As such, the ASF believes a Trustee would likely seek to obtain consent from Noteholders prior to effecting an amendment to the legal documents to either remove or rephrase the requirement to produce financial statements. The practicalities of this are challenging, time consuming and costly and with no guarantee of a successful outcome, especially for those Issuers with a large number of issuances, given that the Issuer does not necessarily know which investor holds which note (see section A on trading of notes via Austraclear).

APPENDIX C – EXTRACTS FROM INFORMATION MEMORANDA.

Extracts are taken from CBA's Series 2017-2 Medallion Transaction (CBA) and Pepper Group's Pepper Residential Securities Trust No. 20. (Pepper). These are provided as indicative of typical securitisation structures, and to show uniformity of approach between different issuers (Major Bank / non-bank lender; prime transaction / non-conforming).

C.1 Listings

Pepper: Section 3 'Risk Factors: Listing on the Australian Securities Exchange'

An application has been or will be made by the Trust Manager to list the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Australian Securities Exchange. There can be no assurance that any such listing will be obtained. The issuance and settlement of the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Closing Date is not conditioned on listing the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes or the Class B Notes on the Australian Securities Exchange.

C.2 Liquidity of Notes

Pepper Extract:

Section 1.3 "Selling Restrictions"

No person has taken or will take any action that would permit a public offer of the Offered Notes in any country or jurisdiction. The Offered Notes will be offered non-publicly pursuant to certain exemptions from the Securities Act. The Offered Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any form of application, advertisement or other offering material may be issued, distributed or published in any country or jurisdiction, unless permitted under all applicable laws and regulations. The distribution of this Offering Circular and the offer or sale of the Offered Notes may be restricted in some jurisdictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Offered Notes in the United Kingdom, the European Economic Area, Australia and in the U.S. You should inform yourself about and observe any of these restrictions. For a description of further restrictions on offers and sales of the Offered Notes, see Section* ("Notice to investors – transfer restrictions in respect of the Class A1-u1 Notes") and Section ("Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes").

Section 3 "Risk Factors" – You may not be able to resell your offered notes"

The Lead Managers and the Co-Managers are not required to assist the Offered Noteholders in reselling the Offered Notes. There is currently no secondary market for the Offered Notes. [Although an application has been or will be made to list the Class A1-S Notes, the Class A1-a Notes, the Class A2 Notes and the Class B Notes on the Australian Securities Exchange,] a secondary market for the Offered Notes may not develop. If a secondary market does develop, it might not continue or might not be sufficiently liquid to allow the Offered Noteholders to resell any of the Offered Notes readily or at the price the Offered Noteholders desire. The market value of the Offered Notes is likely to fluctuate, which could result in significant losses to the Offered Noteholders.

CBA Extract

Section 3.2 “Secondary Market Risk” –

The Dealers have undertaken to use reasonable endeavours, subject to market conditions, to assist Noteholders (other than Redraw Noteholders) so requesting to locate potential purchasers of the relevant Notes from time to time in order to facilitate liquidity in the relevant Notes. However, there is no assurance that any secondary market for the Notes will develop or, if one does develop, that it will provide liquidity of investment or will continue for the life of the Notes.

C.3 Non-retail Nature of Investors:

Pepper: Section 25.3 “Offering Restrictions”

“Accordingly, each Lead Manager and each Co-Manager represents and agrees that it:

- (d) the offer or invitation does not constitute an offer to a “retail client” as defined for the purposes of section 761G of the Corporations Act;”

“Each purchaser of Class A1-u Notes, by its acceptance thereof, will be deemed to have acknowledged, represented to, warranted and agreed with the Trustee, the Trust Manager, the Note Trustee and the Lead Managers and the Co-Managers as follows:

- 6) The purchaser is not a “retail client” for the purposes of Chapter 7 of the Corporations Act.”

Pepper Section 1.2 “Offeree Acknowledgements”

The Offered Notes are being offered pursuant to the exemptions from registration under the Securities Act described in the Section* (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”) and Section Investors – transfer restrictions in respect of the Offered A\$ Notes”) (as applicable) and have not been nor will they be registered under the U.S. Securities Act of 1933, as amended (“**Securities Act**”), or the securities laws of any other jurisdiction. The Offered Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as described under (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”) and Section* (“Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes”) (as applicable) and the applicable state securities laws pursuant to registration or exemption therefrom. There can be no assurance that a meaningful secondary market for the Offered Notes will develop. See Section (“Notice to investors – transfer restrictions in respect of the Class A1-u Notes”), Section * (“Notice to Investors – transfer restrictions in respect of the Offered A\$ Notes”) and (“Risk Factors”) under the heading “You may not be able to resell your Offered Notes

C.4 Amendments to Transaction Documents

CBA: Section 1.10 “Issue Not Requiring Disclosure to Investors under the Corporations Act “ This Information Memorandum is not a “Prospectus” for the purposes of Chapter 6D of the Corporations Act or a “Product Disclosure Statement” for the purposes of Chapter 7 of the Corporations Act and is not required to be lodged with the Australian Securities and

Investments Commission under the Corporations Act as each offer for the issue, any invitation to apply for the issue, and any offer for sale of, and any invitation for offers to purchase, the Notes to a person under this Information Memorandum:

(a) ..

(b) is made to a professional investor for the purposes of section 708 of the Corporations Act; or

(c) does not otherwise require disclosure to investors under Part 6D.2 of the Corporations Act and is not made to a Retail Client.

A person may not (directly or indirectly) offer for issue or sale, or make any invitation to apply for the issue or to purchase, the Notes nor distribute this Information Memorandum except if the offer or invitation:

(a) does not need disclosure to investors under Part 6D.2 of the Corporations

Act;

(b) is not made to a Retail Client; and

(c) complies with any other applicable laws in all jurisdictions in which the offer or invitation is made.

Extract from Information Memorandum pertaining to amendments to legal documents

CBA Extract

Section 10.2 Modifications of the Master Trust Deed and Series Supplement

The Trustee and the Manager, with respect to the Master Trust Deed, and the Trustee, the Manager, the Seller and the Servicer, with respect to the Series Supplement, may amend, add to or revoke any provision of the Master Trust Deed or the Series Supplement (as applicable), subject to the limitations described below, if the amendment, addition or revocation:

(a) in the opinion of the Trustee is necessary to correct a manifest error or is of a formal, technical or administrative nature only;

(b) in the opinion of the Trustee, or of a lawyer instructed by the Trustee, is necessary or expedient to comply with the provisions of any law or regulation or with the requirements of the government of any jurisdiction or any governmental agency;

(c) in the opinion of the Trustee is required by, a consequence of, consistent with or appropriate or expedient as a consequence of an amendment to any law or regulation or altered requirements of the government of any jurisdiction or any governmental agency, including, an amendment, addition or revocation which in the opinion of the Trustee is appropriate or expedient as a result of an amendment to Australia's tax laws or any ruling by the Australian Commissioner or Deputy Commissioner of Taxation or any governmental

announcement or statement, in any case which has or may have the effect of altering the manner or basis of taxation of trusts generally or of trusts similar to any of the Medallion Trust Programme trusts;

(d) in the case of the Master Trust Deed, relates only to a Medallion Trust Programme trust not yet constituted;

(e) in the opinion of the Trustee, will enable the provisions of the Master Trust Deed or the Series Supplement to be more conveniently, advantageously, profitably or economically administered; or

(f) in the opinion of the Trustee is otherwise desirable for any reason. Any amendment, addition or revocation referred to in the last two of the above paragraphs which in the opinion of the Trustee is likely to be prejudicial to the interests of:

(i) a Class of Unitholders, may only be effected if those Unitholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all such Unitholders sign a resolution approving the amendment, addition or revocation, subject to the following paragraph;

(ii) all Unitholders, may only be effected if the Unitholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all Unitholders sign a resolution approving the amendment, addition or revocation. A separate resolution will not be required in relation to any Class of Unitholders;

(iii) a Class of Noteholders, may only be effected if those Noteholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all such Noteholders sign a resolution approving the amendment, addition or revocation, subject to the following paragraph; or

(iv) all Noteholders, may only be effected if the Noteholders pass a resolution by a majority of not less than 75% of the votes at a meeting approving the amendment, addition or revocation or all Noteholders sign a resolution approving the amendment, addition or revocation. A separate resolution will not be required in relation to any Class of Noteholders.

The Manager must advise the Rating Agencies in respect of each Medallion Trust Programme trust affected by the amendment, addition or revocation no less than 10 Business Days prior to any amendment, addition or revocation of the Master Trust Deed or the Series Supplement and must provide the Trustee with a Rating Affirmation Notice in relation to the proposed amendment, addition or revocation. The Trustee may not amend, add to or revoke any provision of the Master Trust Deed or the Series Supplement if the consent of a party is required under a Transaction Document unless a Rating Affirmation Notice has been provided to the Trustee.