Australian Securitisation Forum

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Dear Treasurer

ISSUE OF COVERED BONDS BY AN AUSTRALIAN ADI

Introduction

This submission is made by The Australian Securitisation Forum (“**ASF**”). The ASF was formed in 1989 to promote the development of securitisation in Australia. As the peak industry body representing the securitisation market, the ASF performs a pivotal role in the education of government, regulators, the public, investors and others who have an interest or potential interest both in Australia and overseas, regarding the benefits of securitisation in Australia and aspects of the Australian securitisation industry.

Purpose of this submission

The purpose of this submission is to propose that the Banking Act 1959 be amended to permit Australian Authorised Deposit Taking Institutions (“**ADIs**”) to issue debt securities known as “Covered Bonds” in accordance with a legislative regime, and in a manner, which has the appropriate degree of regulation and oversight by APRA.

Traditionally, the Australian securitisation market has been the only highly rated funding market available to ADIs. It has provided an efficient and cost effective means of access to the wholesale capital markets, with the benefits being passed on to Australian businesses and retail consumers in terms of access to a broader source of funding, greater competition, greater product diversity and innovation, each of which lead to the more efficient pricing of credit to borrowers. This occurred most significantly with respect to residential mortgage borrowers.

As a result of the global financial crisis ("**GFC**") and ensuing dislocations, investors have been reluctant to invest in term wholesale funding without a government guarantee or, more recently, without charging a premium. RMBS and securitisation in general have suffered with the market all but shut down. Even though Australian mortgages are amongst the best performing in the world with arrears and losses at continued low levels, investors remain indifferent. In addition term funding has, until recently only been accessible through the use of sovereign guarantees.

ADIs on average currently fund approximately 50%-60% of their assets through customer deposits, with the remainder sourced through the wholesale markets. It is important that ADIs diversify their access to the wholesale markets.

The ASF submits that Covered Bonds will provide diversity of funding at a lower cost with subsequent benefits to the Australian public.

Executive summary of this submission

This submission supports the introduction of a legislative framework for the issue of Covered Bonds by an ADI due to the following factors:

(a) the strength of the market for Covered Bonds, which will provide an ADI with:

  (i) enhanced stability and resilience of primary issuance;

  (ii) more efficient pricing and liquidity;

  (iii) greater tenor of issuance; and

  (iv) a more diversified investor base, which is incremental to those otherwise available to ADIs; and

(b) the benefits of enabling ADIs to access the market for Covered Bonds, which include:

  (i) aiding asset and liability management, and liquidity risk management;

  (ii) enabling Australian ADIs to compete for funds on an equal footing with their international counterparts; and

  (iii) providing a funding alternative (both in terms of depth of the market and the pricing of the debt securities) to government guaranteed issuance by ADIs.

The ASF notes that ADIs have not been permitted to issue Covered Bonds due to a policy concern regarding the depositor protection afforded by section 13A(3) of the Banking Act 1959. These concerns, along with the supporting information, are addressed in the Appendices to this submission.

Contents of this submission

This submission is in two parts:

(a) this letter, which sets out:

  (i) the factors supporting the issue of Covered Bonds by an ADI; and

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.

(ii) the ASF's proposal for a legislative framework for the issue of Covered Bonds; and

(b) the accompanying Appendices, comprising:

(i) Appendix 1 – supporting information on the market for Covered Bonds;

(ii) Appendix 2 – key factors in relation to depositholder protection;

(iii) Appendix 3 – an overview of the UK and Irish frameworks for the issue of Covered Bonds; and

(iv) Appendix 4 – the ASF's detailed proposal for the issue of Covered Bonds, including the legislative requirements, investor requirements and possible structures that could be used by an ADI for the issue of Covered Bonds.

Support for this submission

This submission, and the ASF's proposal for the issue of Covered Bonds by an ADI, has been prepared by, and has the support of, a working group of the ASF that includes Australian ADIs, as well as major Australian and international investment banks and major Australian law firms.

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.

Factors supporting the issue of Covered Bonds by an ADI

Australian ADIs have performed relatively well during the GFC, principally due to the strength of the Australian economy and the conservative nature of Australian ADIs' balance sheets when compared to many of their international counterparts. However, over the last 18 months, ADIs have been significantly affected by the rising costs of funds and reduced access to the global wholesale capital markets, while at the same time being required to provide a greater proportion of credit and liquidity to Australian households and businesses.

Australian ADIs have traditionally relied on senior unsecured funding and, to a lesser extent, securitisation, from international wholesale capital markets to fund their asset bases. Given the ongoing state of disruption in international credit markets, ADIs are looking for more sustainable ways to fund their future asset growth.

Enabling the issuance of Covered Bonds would provide access to a segment of the capital markets currently unavailable to Australian ADIs (without the benefit of a government guarantee) that has the following demonstrated strengths.

The Covered Bond Market Has Proven To Be Both Stable and Resilient

Covered Bonds are a more defensive form of funding than senior unsecured bonds. While the market for Covered Bonds was disrupted, like all credit markets, after the GFC, its resilience has been demonstrated by the fact that it was the first secured debt market to recover. This is in marked comparison to the senior unsecured market, as well as the market for RMBS and other asset-backed securities.

The basis for the stable and resilient nature of the market for Covered Bonds is the dual recourse to both the issuer and to the underlying assets contained within the Cover Pool to which the holders of the Covered Bonds have priority access. In particular, in relevant jurisdictions, the strength of the legislative framework for the issuance of Covered Bonds provides investors with significant comfort.

Consistent access to international wholesale funding is critical to ADIs given the fact that the domestic wholesale market is constrained in size. This access has been severely limited throughout the GFC without the benefit of a government guarantee.

While the market for Covered Bonds has not been immune to market disruption (e.g. the suspension of inter-bank Covered Bond market making in the last quarter of 2007), the market has generally exhibited a higher degree of resilience. Market making has continued during periods where no market has existed in either RMBS or senior unsecured products.

New issuers, as well as new Covered Bond structures, have been successfully launched in the last 18 months. This shows that Covered Bonds still remain relatively attractive to investors and that it would be possible for Australian ADIs to have access to this alternative debt market under stressed conditions were it permissible for Australian ADIs to issue Covered Bonds.

The ASF submits that, in this environment, a prudentially sound banking sector requires maximum access to all sources of international capital.

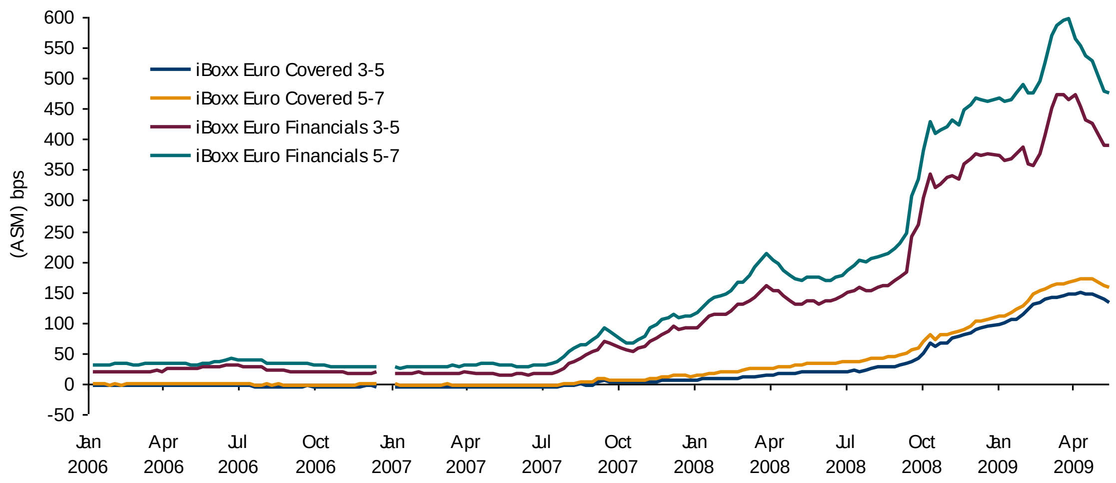
The information set out in Appendix 1 shows the relative consistency of the Covered Bond market as a source of funding in comparison to RMBS and senior unsecured issuance, as well as the resilience of that market during the GFC when compared with RMBS and senior unsecured issuance.

The Covered Bond Market Efficiently Prices Liquidity

The credit spreads on Covered Bonds have historically been lower and less volatile than those attributable to other debt securities of an equivalent issuer and maturity.

The following graph demonstrates the extent of the widening of spreads in the markets for Covered Bonds and for senior unsecured obligations of financials.

Secondary Trading Levels Since 2006



Source: iBoxx, Barclays Capital

The ASF submits that the issue of Covered Bonds will provide Australian ADIs with the opportunity to lower the cost of wholesale funding and, as a result:

(a) reduce the cost of funds of the ADI which, at the margin, will help maintain the affordability of residential mortgages and the pricing of credit to the overall economy; and

(b) as a result of pricing efficiency and investor diversification, strengthen the financial position of the Australian financial system and its ADIs (for the benefit of customers and shareholders).

The Covered Bond Market Allows Duration Extension

Covered Bonds are generally of a longer tenor than other sources of funding.

Covered Bonds usually have tenors of 5, 10 and 15 years with some issues out to 20 years. RMBS transactions have an average life of around 3 years. Unsecured bond issues in the Euro and US markets typically have a tenor of between 3 and 5 years.

The GFC has highlighted the importance of managing an ADI's asset and liability mismatches, particularly in the short-term. ADIs have been working to lengthen their maturity profiles and reduce reliance on short-term markets, which can be more volatile.

The ASF submits that the ability to issue Covered Bonds would enable ADIs to lengthen the duration of their funding books, and as a result reduce their annual refinancing task and better match the underlying duration of their assets to their sources of funding.

The Covered Bond Market Accesses A New Investor Base

Access to the market for Covered Bonds will enable Australian ADIs to further diversify and broaden their investor base and retain some existing investors that have participated in recent government guaranteed transactions. As demonstrated by the strong appetite for the sovereign guarantee, in times of market stress, risk appetite reduces significantly and liquidity moves into more conservative asset classes (i.e. out of AA senior unsecured securities into AAA covered bonds/sovereign securities).

As a general rule, investors in Covered Bonds are "rates" investors. By way of contrast, investors in RMBS and senior unsecured securities are "credit" investors. Unlike "credit" investors, these "rates" investors look to Covered Bonds as an yield enhanced alternative to securities issued by sovereigns, supra-nationals and agencies, and include investment funds, insurance companies, pension funds, corporate investors and central banks. It is also important to note that a substantial proportion of these "rates" investors are "real money" investors who have remained active in the market, rather than investors such as conduits, structured investment vehicles and hedge funds which have largely withdrawn from the credit markets following the GFC.

These "rates" investors are not presently accessible to ADIs (without a government guarantee) and are different from those that invested in RMBS due to the different features of each product (such as floating vs. fixed coupon, amortisation vs. bullet structure, and so on). "Credit" investors also buy Covered Bonds at different times in the credit cycle. Although this investor base generally buys higher yielding assets, in times of market stress, Covered Bonds are seen as being a defensive asset class.

The ASF submits that a greater diversity of funding sources will lead to a greater degree of funding stability for Australian ADIs.

The ASF further submits that each of the strengths of the Covered Bond market described above would provide the following benefits for Australian ADIs should they be given access to the markets for Covered Bonds.

(a) Liquidity Management

Given the underlying structure of the Australian market, Australian ADIs generally have more customer assets than deposits. The resulting funding gap has traditionally been met through a combination of wholesale funding, both secured (by way of securitisation) and unsecured, both on a short-term and long-term basis.

As a result of the GFC, there has been a shift amongst many ADIs to reduce reliance on wholesale funding. At the same time, investors have become more conservative, particularly towards securitisation and long-dated securities.

With the finite level of retail deposits available in Australia and the preference of investors for defensive securities, access to the Covered Bond market would assist Australian ADIs in supporting the growth of credit in the overall economy and to effectively manage their liquidity risks and margins.

Although access to Covered Bonds in and of itself is not sufficient to prevent a liquidity crisis within an ADI, the ability to issue Covered Bonds would provide an additional source of liquidity and could act as a counterweight to shorter dated funding as a liability source for an ADI.

The capacity to issue Covered Bonds reduces the overall fixed funding costs of an ADI and reduces the size of its annual refinancing task by allowing the ADI to spread its funding over a greater range of maturities.

(b) Enable Australian ADIs to compete for funds on an equal basis with international peers

Australia is one of very few developed countries whose banking system does not have access to Covered Bonds. All G-10 (except Belgium) and all OECD countries (except Australia and Belgium) permit the issuance of Covered Bonds. The inability of Australian ADIs to issue Covered Bonds places it at a competitive disadvantage with other international financial institutions who have access to the market for Covered Bonds.

In order to remain competitive, it is essential for Australian ADIs to be able to raise funding on equal terms to their international competitors.

The participation by Australian ADIs in Covered Bonds may also serve to sponsor the development of an Australian Covered Bonds market, both for Australian based ADIs as well as offshore based issuers of Covered Bonds into the Australian market. This would offer Australian investors an opportunity to diversify their investment classes and asset types and attract new investors into the Australian debt capital markets. This in turn would further enhance Australia's standing as a major global financial centre.

(c) The recovery of the capital markets

The ASF believes that the issue of Covered Bonds by an ADI is an important element for the recovery of the capital markets and the transition of those markets from the current "government guarantee" to a long term, viable and independent capital market.

The introduction of the government guarantee on an ADI's senior unsecured debt securities has permitted ADIs to issue of a new class of highly rated securities and to access new "rates" investor groups. The ability of Australian ADIs to issue Covered Bonds may provide ADIs with continued access to these "rates" investors and allow the Government, as well as ADIs, to reduce their reliance on, and ultimately withdraw from, the issue of government guaranteed debt securities. Importantly, the ability of Australian ADIs to issue Covered Bonds would also provide further flexibility to Australian ADIs by reducing reliance on the issue of RMBS (as that market recovers) and possibly leaving that market more available to other ADIs and non-bank lenders.

The ASF believes that this will occur, as investors transition from the requirement for a government guarantee to a more traditional form of capital market and credit analysis.

Each of these benefits described above, individually and in combination, would provide for stronger individual Australian ADIs and a more resilient Australian banking sector.

1 The ASF's proposal

Overview

Covered Bonds have historically been backed by enabling legislation where the legislative framework codifies certain aspects relating to the issuance and operation of Covered Bonds.

In the absence of enabling legislation, securitisation techniques and existing contractual laws have been used to 'structure' Covered Bonds. However, most of these jurisdictions (Canada, Netherlands, United Kingdom, United States) have either subsequently introduced Covered Bond legislation or are in the process of doing so.

Covered Bond legislation is an important factor in providing the necessary comfort to investors and to provide the greatest level of certainty to support each Covered Bond transaction. This is because the legislative framework embeds Covered Bonds into their own specialised laws which have the banking of an Act of Parliament, thus giving investors greater certainty as to their rights in respect of their investment in Covered Bonds.

The ASF's proposal is to establish a legislative framework for the issue of Covered Bonds by Australian ADIs. The intention is that the framework will meet the appropriate regulatory and prudential concerns, provide oversight by a party which is independent from the ADI and satisfy the requirements of domestic and international investors for Covered Bonds.

In submitting this proposal, the ASF has considered legislative frameworks under which offshore financial institutions issue Covered Bonds, the current criteria of the international credit rating agencies and specific feedback obtained from investors in relation to their requirements for the issue of Covered Bonds by an Australian ADI.

The legislative framework would consist of a Covered Bonds Act, which would address the factors set out below, together with a scheme of regulations (which would be administered by APRA) that would establish the parameters under which an Australian ADI could issue Covered Bonds.

A detailed description of the ASF's proposal, together with possible structures that could be used by an Australian ADI to issue Covered Bonds, is set out in Appendix 4.

Legislative framework

(a) Nature of legislation

The ASF's proposal is that specific legislative provisions for the issue of Covered Bonds be contained in a separate Act of Parliament, to be known as the "Covered Bonds Act".

Section 13A(3) of the Banking Act 1959, and paragraph 7 of APS 120 - Securitisation, would need to be amended to enable the issue of Covered Bonds in accordance with the Covered Bonds Act.

The ASF also believes that consideration should be given to whether section 13A(4) of the Banking Act requires amendment so that assets included in the

Cover Pool are not included when comparing an ADI's Australian assets to its deposit liabilities.

The Covered Bonds Act would contain the following provisions:

- the process for registration of an ADI as an issuer of Covered Bonds;
- the process for identification of the Cover Assets;
- the segregation of the Cover Assets from the other assets and liabilities of the ADI, and in particular upon the insolvency of the ADI;
- the treatment of the Covered Bonds, and the Cover Assets, on the insolvency of the ADI; and
- the supervisory requirements and regulation making power of APRA.

(b) Issuers of Covered Bonds

The Covered Bonds Act would allow any ADI authorised under the Banking Act 1959 to issue Covered Bonds.

(c) Parameters on the issue of Covered Bonds

As set out above, the issue of Covered Bonds by an ADI would be regulated by the Covered Bonds Act. The regulations to be made under it from time to time, and which would be administered by APRA, would impose certain restrictions on the assets that can be included in the Cover Pool or the issue of the Covered Bonds. By way of example, the regulations would contain the following provisions:

- the type of assets that can be used as Cover Assets, including the maximum loan-to-valuation ratios and limitations on the inclusion of substitute assets;
- the requirements in relation to the quality, value and term of the Cover Assets and the principal amount of the Covered Bonds
- the treatment of any defaulting asset within the Cover Pool; and
- any interest rate and currency hedging arrangements requirements for the issue of Covered Bonds.

(d) Regulatory or prudential oversight

The ASF's proposal includes necessary and appropriate provisions for the oversight of an issue of Covered Bonds by independent parties, including APRA. The ASF believes that the role of these provisions is crucial to support the regulatory and prudential framework for an ADI and to meet the requirements of investors and depositors.

The key features proposed by the ASF are as follows.

Additional powers given to APRA

The ASF believes that APRA is the appropriate statutory body to regulate the Covered Bonds Act. It would be given the function of regulating compliance and would have corresponding powers.

An ADI, and any Cover Pool Monitor (see below), will have reporting obligations to APRA which would allow APRA to monitor that ADI's compliance with the requirements of the Covered Bonds Act.

Licensing requirements

The Covered Bonds Act, which will be administered by APRA, will include requirements and criteria which must be met by an ADI before it can issue Covered Bonds, including that the ADI has been licensed by APRA to do so. While any ADI which is regulated by APRA will be able to apply to issue Covered Bonds – that is, there would be no bars to entry – the relevant ADI would need to meet the relevant requirements and criteria before it is able to do so.

Issue of Covered Bonds

Controls on the level of issuance of Covered Bonds will be regulated by APRA. This would address any concerns APRA might have about the ADI having insufficient assets or capital to meet its other obligations and leaving depositors vulnerable.

Creation of a statutory charge

The rights of the holders of the Covered Bonds to the Cover Pool will be created by, and regulated by, the Covered Bonds Act. Although assets would be able to be moved in and out of the Cover Pool to ensure compliance with the regulations and terms of issue, upon a default of the issuing ADI, the assets in the Cover Pool would be segregated for the benefit of the holders of the Covered Bonds.

Role of the Cover Pool Monitor

Each ADI that issues Covered Bonds will be required to appoint a Cover Pool Monitor. The ADI will be entitled to determine its own Cover Pool Monitor. However, if it failed to do so, there would be a statutory right for APRA to appoint the Cover Pool Monitor. APRA will be responsible for the licensing and regulation of Cover Pool Monitors.

To be eligible for appointment as a Cover Pool Monitor, a person would need to meet certain specific criteria. These would need to be specified by regulation.

The key roles of the Cover Pool Monitor are as follows:

(i) to ensure that, before any issue of Covered Bonds occurs, the ADI is in compliance with the requirements of the Covered Bonds Act;

(ii) to monitor compliance with the pool requirements for the Covered Bonds (including the value of the Cover Pool, the nature of the Cover Pool, compliance with replacement restrictions, etc); and

(iii) to monitor compliance with certain subsidiary obligations of the ADI under the Covered Bonds Act, including the obligation to maintain a register of the assets that are in the Cover Pool.

The Cover Pool Monitor would be given a statutory right to have access to the records and premises of the relevant ADI to allow it to perform these functions. The Cover Pool Monitor would also have an obligation to notify contraventions by the relevant ADI (or if it had reasonable suspicions that a contravention had occurred) to APRA.

Role of the Cover Pool Administrator

Each issue of Covered Bonds by an ADI will require the appointment of a Cover Pool Administrator. The Cover Pool Administrator will be appointed by the security trustee (as the representative of the holders of the Covered Bonds) or by APRA. APRA will be responsible for the licensing and regulation of Cover Pool Administrators.

To be eligible for appointment as a Cover Pool Administrator, a person would need to meet certain specific criteria. These would need to be specified by regulation.

The Covered Bonds Act will provide that, upon the insolvency of the ADI or upon the default in the payment of any interest, or the repayment of any principal, in respect of the Covered Bonds, the Cover Pool Administrator would be entitled to take action in relation to the Cover Pool in the same manner in which it would have been entitled had it had a charge over those assets. The assets in the Cover Pool will be able to be sold by the Cover Pool Administrator (or by a receiver appointed by it) and the proceeds first applied to repay the holders of the Covered Bonds. The remaining proceeds would be returned to the ADI.

Until the holders of the Covered Bonds had been paid in full, all returns from the Cover Pool would be paid to the Cover Pool Administrator for distribution to the holders of the Covered Bonds.

(e) Other Materials

The ASF's proposal for a legislative framework is consistent with the requirements of investors (which the ASF has consulted for the purposes of this submission) and is the preference of the majority of Australian ADIs for Australia. To assist Treasury and APRA in the consideration of this submission and the ASF's proposal, Appendix 3 contains an analysis of the key features of the regime for Covered Bonds in the United Kingdom and Ireland, as well as a brief overview of the proposed structure for Australia.

2 Conclusion

The ASF believes that, in the current global economic climate, it will be critical for the Federal Government to allow other funding mechanisms to be available to Australian ADIs to obtain access to funding sources in a manner which is no less restrictive than that available to their international counterparts. The ASF is strongly of the view that permitting Australian ADIs to issue Covered Bonds would be one such mechanism, and that its proposal for a legislative framework strikes the right balance between depositor protection and the overall benefits to Australian ADIs and to the Australian banking system and economy.

The ASF looks forward to discussing this submission with you in further detail.

Yours sincerely

Chris Dalton
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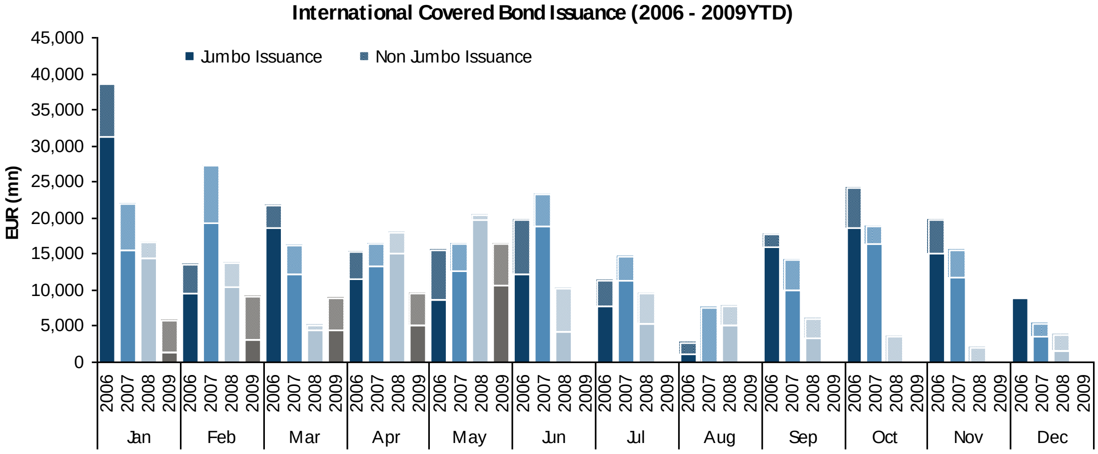
The Australian Securitisation Forum, Inc.

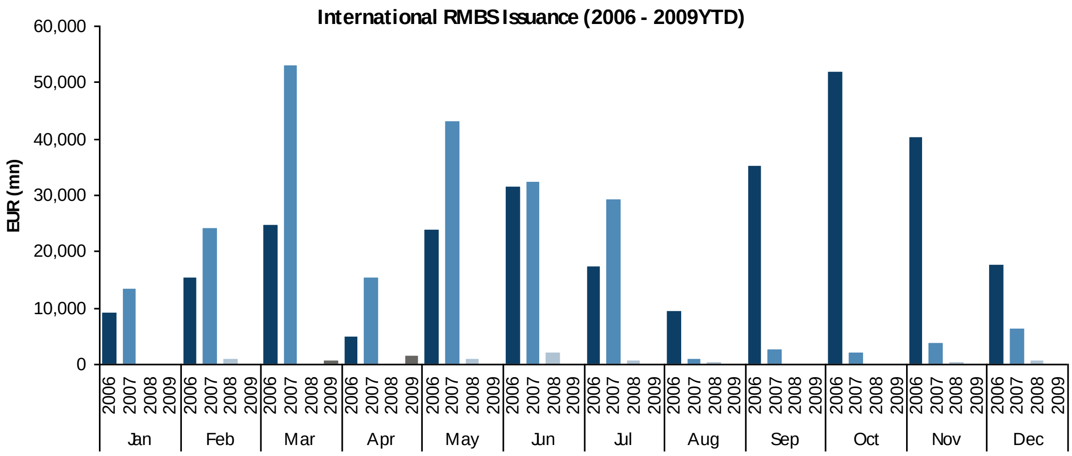
Appendix 1 – Issuance details



% Change (Year to Year)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
2007-2008	-57%	3%	-77%	18%	32%	-49%	-16%	198%	-66%	-85%	-90%	-56%	-38%
2007-2009	-85%	-32%	-59%	-38%	7%								-27%

Source: Dealogic, Barclays Capital Excludes: Maturity < 1yr, Size < EUR 200mn

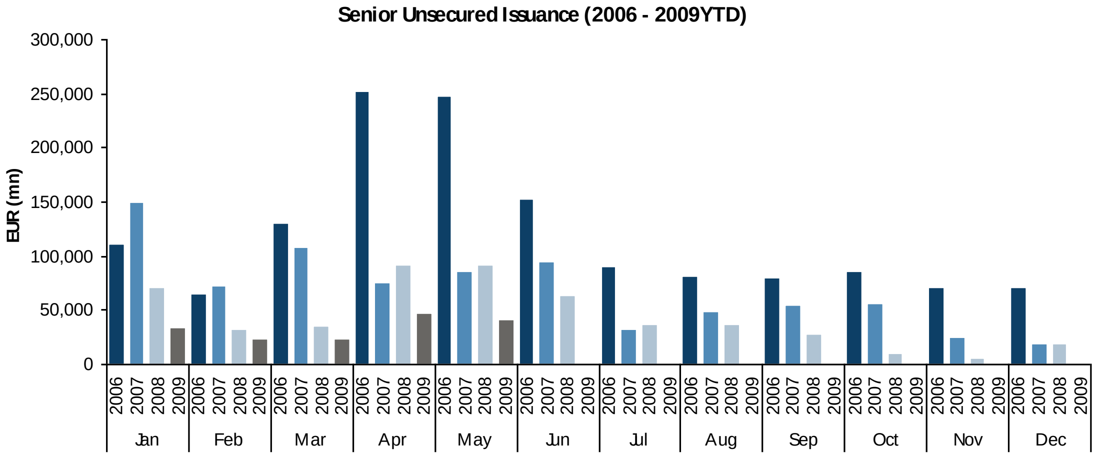


% Change (Year to Year)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
2007-2008	-100%	-96%	-100%	-98%	-97%	-93%	-97%	-52%	-91%	-100%	-84%	-89%	-97%
2007-2009	-100%	-100%	-97%	-66%									-93%

Source: Barclays Capital

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.



% Change (Year to Year)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Average
2007-2008	-37%	-50%	-72%	-63%	-63%	-58%	-59%	-54%	-65%	-88%	-91%	-74%	-60%
2007-2009	-70%	-64%	-82%	-81%	-83%								-75%

Source: Dealogic, Barclays Capital Excludes: Maturity < 1yr, Size < EUR 200mn

Appendix 2 – Addressing Concerns for Depositor Protections

The ASF has developed this proposal in light of APRA's concerns regarding the issue of Covered Bonds by an ADI and other financial institutions regulated by APRA, most notably in Section 13A(3) of the *Banking Act 1959* and in Paragraph 7 of Prudential Standard *APS 120 – Securitisation*.

The reasons for allowing covered bond issuance by ADIs

The ASF submits that the following factors alleviate and address APRA's concerns in relation to the issue of Covered Bonds.

(a) The effect of the Government's financial claims scheme

The Government's introduction of a financial claims scheme, under the *Financial System Legislation Amendment (Financial Claims Scheme and Other Measures) Act 2008 (Cwlth),* provides a strong argument in favour of allowing Covered Bonds to be issued by ADIs. The ASF believes that, with the introduction of the financial claims scheme, APRA's mandate expressed in Section 13A(3) of the *Banking Act 1959* is no longer an effective barrier to, or argument against, allowing Covered Bond issues by ADIs.

The financial claims scheme, in combination with depositholders continued preferential position in relation to unsecured creditors of an ADI and the proposed legislative framework for Covered Bonds and oversight by APRA, establishes a significant level of protection for Australian depositholders. These factors also ensure that the benefit to an ADI of being able to issue Covered Bonds is not outweighed by any detriment to any other party, including depositholders, of the ADI doing so.

(b) Covered bond issues will be backed by a legislative regime

The ASF's proposal is for a specific legislative regime for the issue of Covered Bonds**.** The ASF believes that a legislative regime allows for a number of controls and protections to be contained in that legislation for the protection of deposit holders and the appropriate degree of prudential and regulatory oversight and supervision by APRA.

The Covered Bonds Act will specifically regulate the rights of the holders of Covered Bonds. It will provide that the Cover Pool is available first to meet the claims of the holders of Covered Bonds, and is not available to meet any other claims against the ADI until the claims in respect of the Covered Bonds have been satisfied in full. Any surplus assets or cashflows of the Cover Pool will be available to meet any other claims against the ADI once the obligations in respect of the Covered Bonds have been satisfied in full. If the Cover Pool is insufficient to satisfy in full the obligations due under the Covered Bonds, the holders of the Covered Bonds will have a claim against the ADI which will rank equally with the claims of any other unsecured creditors of the ADI, and which will rank after the rights of APRA (in respect of guaranteed deposits) and non-guaranteed deposit holders in accordance with the Banking Act.

This can be described as follows:

	ADI's Australian assets (other than the Cover Assets)	Cover Assets
First claim on the asset	APRA (in respect of guaranteed deposits) and other non-guaranteed Australian depositholders (under section 13A of the Banking Act)	Covered Bonds
Second (subordinated) claim on the asset	Other creditors of the ADI, including the holders of senior unsecured debt obligations and Covered Bonds (on a pari passu basis)	Other creditors of the ADI, including: • APRA in respect of any guaranteed deposits and other non-guaranteed depositholders; • other creditors of the ADI, including senior unsecured debt obligations

(c) Over collateralisation of the banking sector

Australian banks, and the Australian banking system as a whole, operates with high levels of overcollateralisation in terms of deposits as a percentage of overall assets. Not only do depositholders have a senior claim on an ADIs Australian assets, but the assets cover the amount of the deposits by a substantial multiple.

This is demonstrated by the following table:

	Total residential assets	Depositholder Liabilities (excluding certificates of deposit)	Asset to Deposit Multiple
ANZ	343,177	145,109	2.36 x
CBA	544,774	251,084	2.17 x
nab	392,235	159,766	2.46 x
Westpac	486,709	219,006	2.22 x

Source: APRA Monthly Banking Statistics, April 2009

(d) Enhanced financial stability (and profitability) of the banking sector

The first line of protection for depositors is a financially stable and profitable banking sector. The importance of ensuring an effective and efficient financial system is recognised by section 8(2) of the Australian Prudential Regulation Authority Act 1988. It provides that in performing its functions APRA is required to balance, amongst other things, the objectives of financial safety, efficiency and competition. Access to Covered Bonds markets would strengthen the financial stability of Australian ADIs by giving them access to a new source of wholesale funding which does not require the benefit of a Commonwealth Government Guarantee. It would also place Australian ADIs on equal footing with their international peers with respect to access to reliable wholesale liquidity. Making Australian ADIs internationally competitive is key to their financial stability and success.

Appendix 3 – Proposed Australian Legislative Framework and Comparison to Other Legislative Frameworks

	Ireland	**UK**	**Proposed for Australia**
Name of debt instrument(s)	Mortgage, commercial mortgage and public Asset Covered Securities (ACS)	UK Covered Bonds	Australian Covered Bonds
Legislation	Asset Covered Securities Act from 18 December 2001 amended 9 April 2007.	UK Regulated Covered Bonds Regulations effective since 6 March 2008. In addition, investors are protected by a private legal structure based on UK common and contract law.	Covered Bonds Act, a specific act that will regulate the issue of Covered Bonds by an ADI.
Special banking principle	Yes; Designated Credit Institution (DCI) mortgage, commercial mortgage and/or public.	No; any credit institution authorised in the UK to carry out regulated activities.	No; any ADI which is regulated by the Banking Act can issue Covered Bonds in accordance with the Covered Bonds Act, including the authorisation by APRA of the ADI's ability to issue Covered Bonds
Restrictions on business activities	Mainly public sector, residential and commercial mortgage lending in OECD countries and some "secondary" activities.	Not applicable.	Not applicable.
Asset allocation	Eligible assets are transferred to the DCI. The DCI could acquire public sector, mortgage and commercial mortgage loans, but is obliged to maintain separate cover registers for each asset class.	Cover assets are segregated through the transfer to a separate entity. Under all current covered bond programmes, this is a limited liability partnership or LLP.	The assets in the Cover Pool remain on the balance sheet of the ADI but are identified in a separate register and monitored by the Cover Pool Monitor.

	Ireland	UK	Proposed for Australia
Inclusion of hedge positions	Hedge positions can be included in the asset pool and have to be documented in the "cover asset hedge contract register".	Hedge positions are part of the structural enhancements intended to protect bondholders.	Hedge positions are included in the Cover Pool.
Substitute collateral	Up to 15%.	Up to 10% in all existing covered bond programmes, except for the covered bond programme of Anglo Irish Bank Corporation plc, where it is up to 15%.	Up to 15%.
Restrictions on inclusion of commercial mortgage loans in the cover pool	Yes, with respect to Mortgage ACS, commercial mortgage loans should not exceed 10% of the total cover assets. Commercial Mortgage ACS may consist purely of commercial mortgage assets.	In all but two UK programmes the collateral consists of residential mortgages. There is one programme (HBOS) where the collateral consists of loans to housing associations and another programme (Anglo Irish Bank Corporation/UK branch) where the collateral consists of a portfolio of UK commercial mortgage loans.	Yes, with respect to Residential Mortgage Covered Bonds. Commercial mortgage loans should not exceed 10% of the total cover assets. Commercial Mortgage Covered Bonds may consist purely of commercial mortgage assets.
Geographical scope for public assets	Central governments and sub-sovereigns in EEA countries, the US, Australia, Canada, Japan, New Zealand and Switzerland are allowed. Loans to other OECD countries are permitted, but are not eligible for	Subject to contractual prescriptions.	Commonwealth government and highly rated semi-government authorities.

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.

	Ireland	UK	Proposed for Australia
	cover. The total amount of these public sector loans should not exceed 10% of total assets. In addition, exposures to highly-rated multilateral development banks and international organisations are allowed.		
Geographical scope for mortgage assets	Every EEA country, the US, Australia, Canada, Japan, New Zealand and Switzerland are allowed.	Subject to contractual prescriptions. The geographical scope for eligible property comprises exposures to EEA states as well as the US, Japan, Canada, Switzerland, Australia, New Zealand, the Channel Islands and the Isle of Man. Under current covered bond programmes, only UK mortgages are allowed.	Australia
LTV barrier residential	75%; loans above the legal LTV limit must be refinanced on an unsecured basis, and the average LTV for all mortgages should not exceed 80%.	Subject to regulatory and contractual prescriptions. In all existing programmes, it is below the 80% level for residential mortgages stipulated by the CRD and the RCBR.	80%
LTV barrier commercial	Maximum 60%; loans above the legal LTV limit are permitted to be refinanced on an unsecured basis, and the average LTV for all mortgages	Subject to regulatory and contractual prescriptions (Figure 187). In case of the Anglo Irish programme, the LTV cap is in line	Maximum 60%

	Ireland	UK	Proposed for Australia
	must not exceed 80%.	with 60% LTV barrier on commercial mortgages and well below 70% LTV cap for programmes with a minimum over-collateralisation of 10%.	
Basis for valuation = mortgage lending value	Yes; "prudent market value" (market value = upper limit).	No. Basis = market value.	No. Basis = market value.
Valuation check	The examination of property valuations is part of the specific surveillance.	Indexed to house price index. Price decreases are fully reflected in the revaluation, while in the case of price increases, a haircut (15% in all programmes) is applied. In case of the covered bond programme of Anglo Irish Bank Corporation plc, the values of the respective commercial properties have to be updated annually, and in case the originator is rated below triple-B-plus, on a semi-annual basis.	No
Special supervision	Yes; Central Bank and Financial Services Authority of Ireland and a special supervisor ('Cover asset monitor").	Yes; Financial Services Authority (FSA) and an independent trustee.	Yes; APRA to authorise the ability of an ADI to issue Covered Bonds. An independent trustee (or, failing its appointment, APRA) to act as Cover Pool Monitor to monitor the assets in the Cover Pool and their performance,

	Ireland	UK	Proposed for Australia
			and to provide reporting to the ADI and APRA in relation to them.
Protection against mismatching	Coverage by nominal value and by net present value required by law. The law also stipulates that the duration of public sector assets must be at least as high, but not in excess of three years, of the public sector ACS. Exchange rate risk is prohibited, and in addition, the total amount of interest receivable in any given 12-month period on the collateral assets must exceed the total amount of interest payable on such bonds in the same period.	Within all UK covered bond programmes, there are contractual provisions which stipulate that exposure to interest rate and currency risk has to be neutralised. In addition, downgrade triggers for swap counterparties, the pre-maturity test, maturity extension rules and the amortisation test all ensure cash flow adequacy. Furthermore, the FSA controls whether the respective programmes are appropriately designed to ensure sufficient coverage.	Requirement of legal provisions which stipulate that exposure to interest rate and currency risk must be neutralised. In addition, downgrade triggers for swap counterparties, the pre-maturity test, maturity extension rules and the amortisation test all ensure adequacy of cash flows. Further, APRA control as to whether an ADI's programme is appropriately designed to ensure sufficient coverage
Protection against credit risk	The issuer may replace non-performing loans.	Yes; defined by asset coverage test. Furthermore, the FSA controls whether the respective programmes are appropriately designed to ensure sufficient coverage.	The issuer may replace non-performing loans.
Protection against operative risk	No back-up service is stipulated. In the case of issuer insolvency, the National Treasury Management	Yes; stipulated through contractual rules. Furthermore, the FSA controls whether the respective	No back-up servicer is stipulated. In the case of AD insolvency, APRA's administration of the ADI (including

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.

	Ireland	UK	Proposed for Australia
	Agency (NTMA) can appoint a cover pool administrator or fulfil this role itself.	programmes are appropriately designed to ensure ongoing servicing of the covered bonds.	through the appointment of a statutory manager) will be implemented in conjunction with the role of the Cover Pool Administrator.
Mandatory overcollateralisation	103% for mortgage and public sector ACS; 110% for commercial Mortgage ACS. Any minimum overcollateralisation held on a contractual basis may exceed these levels and should be controlled by the cover asset monitor.	Yes; subject to the asset percentage applied in the asset coverage test (Figure 187). Furthermore, the FSA has the power to require issuers to top up the asset pool if it is not satisfied that the assets contained within the asset pool are sufficient to cover all claims attaching during the whole period of the validity of the bonds.	103% for mortgages 110% for commercial mortgage Covered Bonds. Any minimum overcollateralisation held on a contractual basis may exceed these levels and should be controlled by the Cover Pool Monitor.]
Voluntary over-collateralisation is protected.	Yes.	Yes.	Yes.
Bankruptcy remoteness of the issuer	No, but status of the issuer as a separate legal entity provides bankruptcy remoteness from the parent company.	No, but all assets are ring-fenced within a specially separated entity.	No, but the assets in the Cover Pool are segregated from the other assets of the ADI and must be applied first to meet the obligations under the Cover Bonds.
Outstanding covered bonds to regulatory	—	—	—

	Ireland	**UK**	**Proposed for Australia**
capital			
In the event of insolvency, first claim is on…	… all assets earmarked for the respective asset pools. In addition, investors may benefit from positive market values of derivatives.	… all the payments received from the special entity's assets. These payments are collected in a GIC account. Investors continue to receive scheduled payments, as if the issuer had not defaulted.	…all assets included in the Cover Pool, including any positive market values from derivatives.
External support mechanisms	No formal recourse to assets outside the DCI, but the regulator is expected to exert some pressure over the shareholder(s) to support the DCI.	In the event of insufficient pool assets proceeds to cover their claim, investors rank *pari passu* with senor debtholders. There is a simultaneous unsecured dual claim against the issuer and secured against the portfolio held by the specially separated entity.	In the event of insufficient proceeds from the assets on the Cover Pool, the holders of Covered Bonds have a claim against the ADI that rank *pari passu* with senior debt holders but after the claims of APRA (in respect of guaranteed deposits) and non-guaranteed deposit holders
UCITS Art. 22 par. 4 compliant?	Yes.	Yes.	No but will provide flexibility to achieve this
CRD Annex VI, Part 1, s65 compliant?	Yes.	Generally "yes"; CRD compliance will be subject to individual programme features.	No but will conform where possible

Appendix 4 – ASF's proposed structure for the issue of Covered Bonds

Overview of proposed legislative framework

As set out in this submission, the issue of Covered Bonds by an ADI would be regulated by the Covered Bonds Act. The regulations to be made under it from time to time, and which would be administered by APRA, would impose certain restrictions on the assets that can be included in the Cover Pool or the issue of the Covered Bonds.

The Covered Bonds Act would contain the following provisions:

- the process for registration of an ADI as an issuer of Covered Bonds;
- the process for identification of the Cover Assets;
- the segregation of the Cover Assets from the other assets and liabilities of the ADI, and in particular upon the insolvency of the ADI;
- treatment of the Covered Bonds, and the Cover Assets, on the insolvency of the ADI; and
- supervisory requirements and regulation making power of APRA.

The regulations would contain the following provisions:

- the type of assets that can be used as Cover Assets, including the maximum loan-to-valuation ratios and limitations on the inclusion of substitute;
- the requirements in relation to the quality, value and term of the Cover Assets and the principal amount of the Covered Bonds;
- the treatment of any defaulting asset within the Cover Pool; and
- the interest rate and currency hedging arrangements requirements for the issue of Covered Bonds.

More specifically, the regulations would provide APRA with the ability to regulate the issue of Covered Bonds by an ADI through the following representative parameters:

(a) the Cover Pool will consist of either first ranking prime residential mortgages located in an Australian State or Territory or first ranking commercial mortgages over commercial properties located in an Australian State or Territory (or such other asset classes that are approved by APRA);

(b) the maximum loan to value ratio for the Cover Pool will be 80% for residential mortgages and 60% for commercial mortgages;

(c) the term of the assets in the Cover Pool could not be less than the term of the Covered Bonds;

(d) the net present value of the assets in the Cover Pool at all times must not be less than 103% of the principal amount of residential mortgage backed Covered Bonds, and 110% of the principal amount of commercial mortgage backed Covered Bonds;

(e) the currency of the mortgages in the Cover Pool should be the same as the currency of the Covered Bonds, or appropriate hedging arrangements will need to be put in place;

(f) the interest payable on the mortgages in the Cover Pool in any 12 month period must be not less than the interest payable on the Covered Bonds during that period or appropriate hedging arrangements will need to be put in place;

(g) defaulting mortgages are not to be included in the Cover Pool, and if any mortgage in the Cover Pool subsequently became a defaulting mortgage, it would (prior to an event of default) need to be removed from the Cover Pool and replaced with an equivalent performing mortgage or eligible substitute assets;

(h) limits would apply on the substitute assets that may be included in the Cover Pool (other than mortgages) (eg liquid assets of a high credit quality) and a restriction of 15% imposed on the inclusion of such substitute assets; and

(i) requirements for hedging and restrictions on other hedging.

Investor input into the ASF's proposal

As part of its development of this submission, the ASF (through a number of its members) discussed with investors in Australia and offshore markets their preferred requirements for the issue of Covered Bonds by an ADI. The ASF's intention is to develop a structure that will have the maximum level of structural integrity and support from the investor's perspective, while meeting the proper regulatory and prudential concerns of Treasury and APRA.

The result of those discussions is set out below.

Regulatory Structure

- Legal Framework: preference for specific legislation to regulate the isolation of the Cover Pool of Assets and the consequences of insolvency of the ADI, rather than relying on purely structural features.
- Specific supervision by APRA of the issue of Covered Bonds and oversight of the process of enforcement against the Cover Pool.
- Cover Pool - residential mortgages are preferred, although there is some flexibility to include other asset classes and highly rated securities as collateral.
- UCITS 22 (4)/CRD: the Covered Bonds are preferably able to be the subject of a repo transaction with the relevant central banks.
- Limits on Outstanding Volume: not necessary but may be considered.

Cover Pool

- Cover Register: an independent entity should maintain a register of the Assets that are held in the Cover Pool and isolated for the benefit of the holders of the Covered Bonds.
- Segregated Asset Pool: the Cover Pool must be legally discrete from the other assets of the ADI, especially in the event of an insolvency of the ADI.
- First Ranking Residential Mortgages, although there is some flexibility to include other asset classes and highly rated securities as collateral in time.

- Loan-To-Value ratio - 60% for commercial property to 80% for residential mortgages, with possible adjustments within the range to accommodate some mortgage product features such as interest only loans, fixed rate loans, etc.
- Valuation Rules: Independent Valuation by a registered valuer of the property upon granting of the mortgage loan. Valuation of commercial properties to be updated every three years. APRA (or the Cover Pool Monitor) may stipulate additional guidelines for the valuation to only take account of the durable, non-speculative aspects of the property and the yield which any tenant can ensure permanently by good management.
- Cover Pool Monitor: a person should be appointed to monitor and report on the asset performance of the Cover Pool, and to take the specified steps upon an event of default or insolvency of the ADI.
- Substitute Collateral Rules: as the Cover Assets are repaid, the cashflows can be invested in other residential mortgage loans, although there is some flexibility to include other asset classes and highly rated securities as collateral in time.
- Limit on Substitute Assets: a maximum amount of 15% of other assets (including highly rated securities, and other residential mortgage assets) can be substituted into the Cover Pool during the life of the transaction.
- Derivatives in Cover Pool: any derivative contract that is entered into in connection with the issue of the Covered Bonds (to hedge any interest rate mismatch, or foreign currency mismatch) must be an asset of the Cover Pool and available in priority for the benefit of the holders of the Covered Bonds.
- Limits on Derivatives: not necessary, but may be considered on a case-by-case basis.

Assets and Structure

- Nominal Coverage: The value of the Cover Assets must at least equal the total nominal value of the outstanding Covered Bonds at all times.
- Net Present Value Test: the net present value of the ADI's obligations in respect of the Covered Bonds must be less than 103% of the principal amount of the Cover Pool Assets.
- Over collateralisation: the ADI will be required to isolate Cover Assets that have a value in excess of the principal amount of the Covered Bonds issued by the ADI, and maintain that level of over collateralisation during the life of the transaction. This is usually a minimum percentage of the principal amount of the Covered Bonds which will reflect the then-current criteria of the credit rating agencies. For example, for an Irish regulated institution, the minimum overcollateralisation is 3% for residential mortgage loans and 10% for commercial loans.

Legal Issues and Transaction Structure

- Continuity at Default (only so long as assets are sufficient)
- Priority Claim: the holders of the Covered Bonds must have a priority claim on all cash flows received in respect of the Cover Pool.
- Bankruptcy Remote: the Cover Pool must not form part of the ADI's assets upon its insolvency, except to the extent of any surplus that remains after all amounts of interest and principal in respect of the Covered Bonds have been paid in full.
- Overcollateralisation Protected: an insolvency practitioner in respect of the ADI must not be able to claim any interest in the Cover Pool that ranks ahead of the interest of the holder of the Covered Bonds.
- Cover Pool Administrator - to be appointed to [service] and realise the Cover Pool (or oversee the realisation) in the event of default.

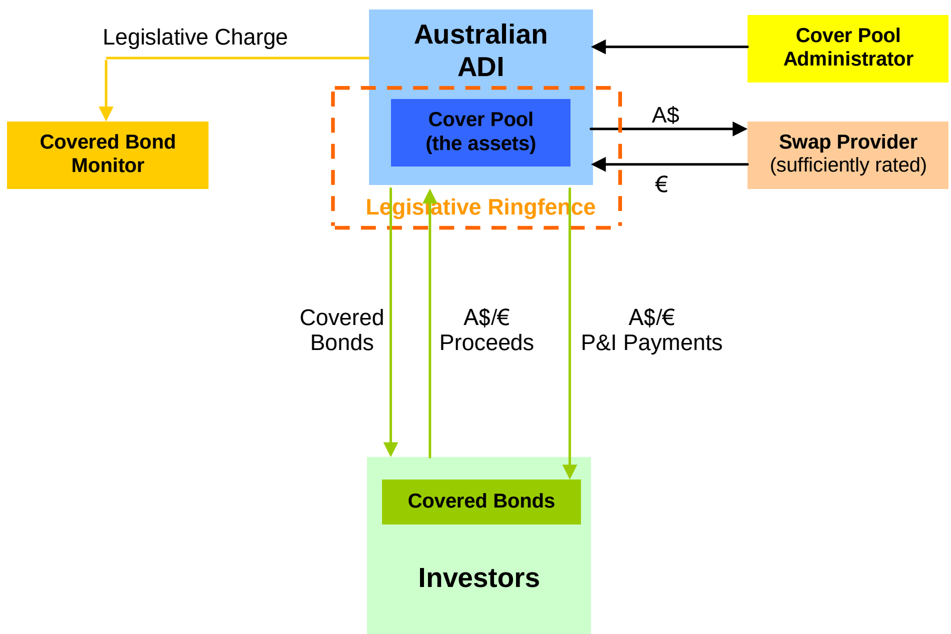
Other characteristics

- Type of bank: Highest rated ADIs to issue Covered Bonds at first instance. Other ADIs to follow.
- Type of instrument: (i) hard bullet, (ii) soft bullet/extendible (e.g. 12 months) and (iii) pass-through. Hard bullets preferred.
- Fixed or floating: Fixed typically, but not exclusively.
- Tenor: i.e. 5-10 years, ultimately extending longer.
- Liquidity: RBA repo eligibility of Covered Bonds and confirmation of RMBS as a long term eligible asset class critical.

Two possible structures for the issue of Covered Bonds by an ADI

The ASF's proposal will allow an ADI to issue Covered Bonds in accordance with the requirements of the legislative framework. That framework will not prescribe the structure that an ADI must use for its issue of Covered Bonds, but will require that any such structure meets the requirements of that legislative framework. This appendix contains two possible structures that could be used by an ADI for the issue of Covered Bonds and which are consistent with the ASF's proposed legislative framework.

Structure 1



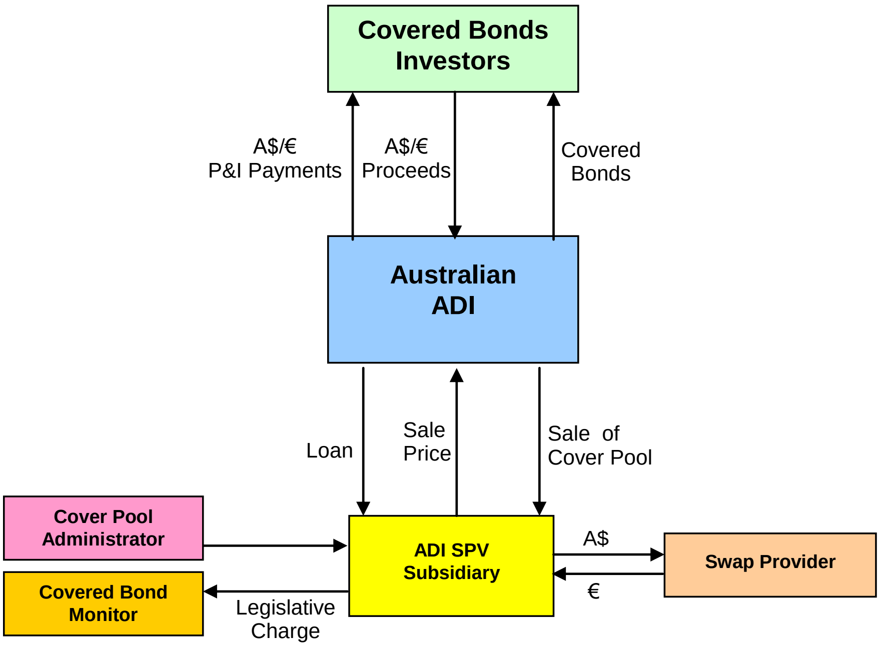
Under this proposed structure:

(a) The Australian ADI identifies a pool of prime residential mortgages or commercial mortgages approved under specific Australian Covered Bond legislation ("**Cover Pool**") to an independent register of Covered Bond assets (effectively creating a fixed and/or floating charge over the cover pool ("**Legislative Charge**") for the benefit of the Covered Bond holders).

(b) The Cover Pool remains on the Australian ADI's balance sheet.

(c) The Cover Pool replenishes (new mortgages/assets are added to the Cover Pool as existing mortgages/assets pay down) so that its aggregate outstanding balance remains consistent throughout the life of the transaction.

Structure 2



Under this proposed structure:

(a) the Australian ADI sells the Cover Pool to a special purpose vehicle which is a subsidiary of the Australian ADI ("**ADI SPV Subsidiary**");

(b) the ADI SPV Subsidiary grants a fixed and/or floating charge over its assets and also appoints a Cover Pool Monitor; and

(c) the Cover Pool replenishes (new mortgages/assets are added to the Cover Pool as existing mortgages/assets pay down) revolves so that its aggregate outstanding balance remains consistent throughout the life of the Covered Bond.

Common features of each structure

Under each alternative structure, the Australian ADI or ADI SPV Subsidiary issues a bond ("**Covered Bond**") to investors under specific Australian Covered Bond legislation. In particular:

(i) The Covered Bond is secured by a preferential claim over the Cover Pool through the Covered Bonds Act.

(ii) The Cover Pool Monitor is engaged as a party to the transaction.

(iii) The Australian ADI or ADI SPV Subsidiary (by outsourcing arrangements) services, manages and provides regular reporting to all designated parties.

Capitalised terms used, but not defined, in this submission have the meaning given to them in the Glossary in Appendix 5.

In the case of a foreign currency denominated transaction, the Australian ADI or ADI SPV Subsidiary enters into cross currency and/or interest rate swaps to match the payments on the Cover Pool cash flows to the Covered Bond cash flow obligations. Any such hedging instruments are also considered part of the Cover Pool and are to be recorded in the Cover Pool Register.

(d) Investors in the Covered Bonds are protected by the following:

(i) (A) Australian ADI unsecured rating strength as rated by the major credit rating agencies; or

(B) ADI SPV Subsidiary secured rating strength determined in accordance with the criteria of the credit rating agencies; and

(ii) the charge over the Cover Pool as a result of the Covered Bonds Act.

(e) The transaction documents will prescribe that certain actions must be taken by the Australian ADI and/or the Australian ADI Subsidiary, the Cover Pool Administrator and the Cover Pool Monitor. In particular:

(i) Prior to an Australian ADI or ADI SPV Subsidiary event of default:

(A) the Australian ADI or ADI SPV Subsidiary has an obligation to make scheduled interest and principal payments to all holders of Covered Bonds in a timely manner;

(B) the Australian ADI or ADI SPV Subsidiary is required to maintain active management and servicing of the Cover Pool, and can substitute full and partial repayments with eligible assets;

(C) the Australian ADI or ADI SPV Subsidiary must ensure that prescribed asset coverage tests are met;

(D) the ADI's general cashflows are used to service the obligation to pay interest, and repay principal, in respect of the Covered Bonds. If the ADI does not meet the payment of those amounts from its general cashflows, then the cashflows from the Cover Pool are applied for that purpose;

(E) the Australian ADI or ADI SPV Subsidiary has a regular reporting obligation to the Cover Pool Monitor on the performance of the Cover Pool and the Covered Bonds.

(ii) After an Australian ADI or ADI SPV Subsidiary event of default, the Cover Pool Administrator is obliged to take specific actions to ensure:

(A) the appointment of a servicer/manager or administrator so that its post event-of-default obligations to service payments due in respect of the Covered Bonds from Cover Pool cashflows are met;

(B) all cashflows from the Cover Pool and any hedge contracts are locked up and the Legislative Charge is effectively crystallised;

(C) liquidate, if necessary, certain assets in the Cover Pool to maintain liquidity of the Cover Pool for holders of Covered Bonds;

(D) liquidate the Cover Pool assets to repay holders of Covered Bonds and other prescribed creditors (such as hedge counterparties) in a timely manner.

Appendix 5 – Glossary

ADI	a deposit-taking institution as authorised under the Banking Act 1959
APRA	Australian Prudential Regulatory Authority
Cover Pool Assets	the assets that are identified by the ADI, and isolated from its balance sheet by way of entry in the register maintained by the Cover Pool Monitor or APRA
Cover Pool	the aggregation of the Cover Assets for an issue of Covered Bonds
Covered Bonds	A Covered Bond is a rated debt security issued by an ADI. The Covered Bond represents a corporate obligation of the ADI; the ADI is required, by its terms of issue, to meet all payments of interest on the Covered Bond and to repay its outstanding principal amount on its maturity date. In this regard, the Covered Bond should achieve the same credit rating as that assigned to the ADI. However, in connection with the issue of the Covered Bond, the ADI also identifies, and segregates from its other assets, a Cover Pool. The cash flows from the Cover Pool (which would represent the interest and principal payments received by the ADI from the pool of, say, residential mortgage loans) would be available in priority to satisfy the ADI's obligations to pay interest and principal in respect of the Covered Bonds, both before and after the occurrence of an event of default in respect of the Covered Bonds and upon the insolvency of the ADI. Accordingly, a Covered Bond reflects the hybrid recourse of the holder between the credit of the ADI itself and the credit of the Cover Pool.
Covered Bonds Act	the legislation (whether as an amendment to the Banking Act 1959, or as a separate statute) that regulates the issue of Covered Bonds by an ADI
GFC	Global Financial Crisis
RMBS	Residential mortgage backed securities