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Smiles all round at Basel plan

SELLING debt in Australia just got easier. Yesterday, the Reserve Bank of Australia sketched out the details of a plan to help local lenders adhere to the upcoming Basel III liquidity standards, a sometimes mystifyingly complex series of banking rules aimed at keeping the 2008 credit crisis from happening again.

Banks here have pushed back against the global bank funding rules, noting that Australian government bonds are too scarce in number for all the banks to meet the Basel standards.

These banks complain that the Basel rules are just the latest in a string of issues hurting lenders, ranging from growing funding costs to declining credit growth.

The central bank saved the day yesterday, saying it would allow them to take securities on their books rated all the way down to BBB+ and charge banks just 15 basis points to magically turn these into Basel-compliant securities.

"It's certainly a positive for banks and they'll be very happy with that price," said Stephen Nash, head of strategy at FIIG Securities, a Sydney-based fixed-income broker.

Sellers of debt that Australian banks will now buy more of to

meet Basel regulations may be even happier.

Whether it's big issuers of supranational debt, such as the World Bank, or residential mortgage-backed securities issuers, the pool of potential buyers has just grown to include more small and mid-tier bank buyers, on top of the increased demand from larger banks.

JPMorgan notes that the current spread means that, in some cases, a bank is actually being paid to own these products.

"If the fee is only 15 (basis points) and I'm a bank, I pay the fee and hold RMBS and supras over government bonds," said Sally Auld, senior interest rate strategist at JPMorgan in Sydney.

That's because RMBS, or residential mortgage-backed securities, and supra bonds have higher yields than Australian government bonds, giving banks the chance to profit from the difference.

RMBS deals at the BBB+ credit rating, for example, regularly price 200 basis points over the bank bill swap rate.

The latest fixed-income product to premiere here, covered bonds, could also get a boost from the decision.