



HD Moody's: Structured newsletter highlights **Chinese** and Australian regulations, Japanese ABS and REITs

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Moody's Investors Service's latest Structured Thinking: Asia Pacific newsletter looks at the impact of new securitization regulations in both Australia and **China**. The newsletter also includes articles on Japanese auto loan asset-backed securities (ABS) and real **estate** investment trusts (J-REITs).

In Australia, the Australian Prudential Regulation Authority recently proposed changes to the regulatory framework for securitizations. Moody's expects the proposed framework will have mixed credit implications for Australia's securitization market.

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For example, the proposed changes to Australian deposit taking institutions holding limits for their own securitizations are credit positive for securitizations when they drive an increase in or remove pro-rata triggers levels.

On the other hand, the proposal not to allow early amortization triggers will have negative credit implications for revolving structures, including master trusts.

In **China**, Moody's says that the **China** Bank Regulatory Commission's recently issued risk management requirements will help establish a better foundation for **China**'s securitization market.

The requirements apply to (1) trust companies providing trustee services to securitizations, and (2) financial leasing companies originating and servicing lease-receivables-backed securitizations.

The new rules are aimed at controlling risks at these institutions, and will help improve the operational strength of securitizations and the credit profile of the underlying assets.

In terms of the Japanese auto loan ABS market, Moody's notes that compared with Japanese non-captive finance companies, the default rates for Japanese captive finance companies are low, because they have a larger proportion of loans for new vehicles.

On the other hand, ABS deals backed by auto loans from non-captive finance companies -- which typically demonstrate greater proportions of used vehicle loans in their securitizations -- offset the higher default rates in their pools by charging borrowers higher interest rates.

Moody's 10 rated J-REITs have re-built substantial unrealized gains as a result of purchasing new, low-priced assets since the 2008-09 global financial crisis.

This development - according to Moody's - is credit positive, because an increase in unrealized gains lowers loan-to-value ratios, facilitating further portfolio expansion and refinement.

Specifically, the May 2014 edition of the monthly publication contains the following articles:

- Australia: Proposed Changes to Australian Securitization Regulation Would Have Mixed Credit Implications
- **China**: Additional Regulatory Requirements Will Strengthen the Credit Characteristics of Future Securitizations in **China**
- Japan: Japanese Auto Loan ABS: Default Rates Are Low for Captive Finance Companies, Non-Captives Charge Borrowers Higher Interest Rates

- Japan: Recently Active J-REITs Drive Sector's Unrealized Gains Growth
- Australia: Impact of Australian Budget on RMBS and ABS Is Restrained Despite Steep Cuts
- Australia: Equity in Australian RMBS

Subscribers can access the report at

http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF369441.

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