

SENATE ECONOMICS REFERENCES COMMITTEE

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Competition within the Australian banking sector Wednesday 15 December 2010

Topic: Communications with CBA.

Hansard Page: E103

Senator Brandis asked:

Senator BRANDIS—This is a fairly important matter. It involves potentially a very substantial amount of public money. I am just a little alarmed that it was being dealt with in such an offhand manner. Mr Bath, would you please have a search of your files and find out if there is any documentary record at all, whether a file note, an email, a letter or anything, which documents the advice which was given on this previous occasion?

Mr Bath—I will do that. I am prepared to say that I was of the view until the last Monday in November, in fact until the first Friday of December, that we were in a position to support the transaction. So that is not an issue from my perspective.

Senator BRANDIS—I understand that. I just want to try and define with a little more particularity what was said to the CBA on behalf of the Australian government.

Answer:

In March 2010, Commonwealth Bank (CBA) wrote to the AOFM on behalf of two issuers, Aussie Home Loans (AHL) and one other, seeking to discuss possible RMBS transactions.

Some telephone conversations occurred in March between CBA and AOFM's then RMBS Portfolio Manager, Mr David Ziegler, to discuss AHL's eligibility to submit a proposal. In particular, AHL and the other originator had not previously issued term RMBS and CBA was concerned about one of the program's eligibility criteria, namely that issuers needed to have issued RMBS in the past. After discussing this matter with his manager, the Director of Financial Risk (Mr Michael Bath), Mr Ziegler responded by email on 25 March that the AOFM considered the issuers eligible to submit proposals via a panel member such as CBA. The internal deliberations supporting this position were also documented by the AOFM.

While AOFM officials cannot be certain that AHL's ownership structure had been specifically raised as an issue in these discussions, what is clear is that CBA had made the AOFM aware of its stake in AHL in the material provided at this time.

Whether the ownership issue was explicitly discussed or not, the AOFM's feedback from the exchanges in March 2010 was that there were seemingly no impediments to CBA submitting a proposal on behalf of AHL.

The AOFM has no record of any further exchanges with CBA on this matter until 7 October, when CBA sent an email to the AOFM with an indicative capital structure and a statement that the transaction was scheduled to be launched in mid November 2010. Mr Bath responded by email the same day, providing feedback on the transaction to the effect that the capital structure was suitable "but we'll need to review the full proposal before agreeing to buy anything."

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The AOFM next received an email from the CBA on Monday 29 November that suggested a proposal would be forthcoming sometime that week. That email and two subsequent emails sent on 1 December also sought from the AOFM further clarification on the AOFM's processes, which was provided by Mr Bath via email on 1 December and 2 December.

These emails were focused on the proposal submission process and the AOFM's proposal assessment process, including the need to undertake a due diligence site visit of AHL.

By 5pm Friday 3 December, the proposal had not arrived. It is not clear why the transaction was delayed beyond a mid November launch and why a proposal had yet to arrive by 3 December, despite AOFM's repeated references to the need to see a formal proposal in its correspondence with CBA.