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## From the Editors

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SUSAN BLACK



## Recent developments in securitisation

The Australian securitisation market has become dislocated as part of the current credit market turmoil and investors' reappraisal of the risks associated with structured credit products. Prior to this, the securitisation market in Australia had grown rapidly, reflecting strong demand for housing finance, issuance by regional banks and the changing composition of lenders.

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WILSON SY F Fin



## Credit risk models: why they failed in the credit crisis

Credit risk models have played a key part in the global credit crisis. The main shortcomings of these models are examined and a new causal framework is proposed to build deductive credit default models that have predictive capabilities.

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WILLIAM WHITFORD



## Will the real AAA please stand up?

While recent market upheaval has affected Australia's government bond markets, moves to increase the issuance of CGS and abolish the interest withholding tax on all semi-government bonds should continue to support an efficient and liquid bond market and make a greater contribution to financial stability.

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JONATHAN A. BATTEN,  
WARREN P. HOGAN AND  
PETER G. SZILAGYI



## Kangaroo bond issuance in Australia

The issue of kangaroo bonds (foreign A\$-denominated bonds) has become a significant part of the Australian bond market. The Australian experience offers some lessons to other countries interested in developing their domestic bond markets.

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MICHAEL SABA  
AND DAVID FINLAY

## Australian hybrid securities: two decades of evolution

The Australian hybrid market is a great example of financial innovation to meet a changing issuance landscape, with the market increasing fourfold to \$20 billion this decade. This growth has been driven by regulatory changes, investor demand and issuers looking for funding alternatives.

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GEOFF WARREN F Fin



## An alternative for structuring fixed income investments

Investment in fixed income is often tied to indices which suffer from various shortcomings as a basis for structuring portfolios and evaluating performance. Here, a practical alternative is suggested, involving tailoring benchmarks around explicit exposure targets and risk premiums.

*This Special Issue of JASSA is devoted to papers from the 13th Melbourne Money and Finance Conference: 'Recent Developments in Australian Debt Markets'.*

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### **Fixed income managers: evolution or revolution**

Traditional approaches to managing fixed interest funds rely on benchmarks that may not represent optimal risk and return outcomes. New techniques based on separate alpha and beta management should improve portfolio performance.

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### **The real risk-free interest rate in thin debt markets**

It is standard practice to use the yield on inflation-indexed CGS as a direct observation of the real risk-free rate of return. However, it has been argued that excess demand for such securities artificially depressed their yields, causing this estimate to be understated, and forecasts of inflation to be overstated. This paper suggests an additional hypothesis, viz. that there has also been an excess demand for nominal corporate bonds.

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### **Recent developments in Australian household debt**

This paper assesses recent developments in household debt from macroeconomic and microeconomic perspectives, and provides a research agenda to cast further light on the causes of burgeoning household debt.

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### **The blow-out in Australian credit spreads: a markets perspective on the repricing of risk**

With the global repricing of risk in the wake of the US sub-prime mortgage crisis, the increase in Australia's corporate credit spreads and financial sector risk premiums have almost matched those in the United States. This appears to reflect Australia's heavy reliance on external funding, which has left us vulnerable to disruptions in global securitisation markets.

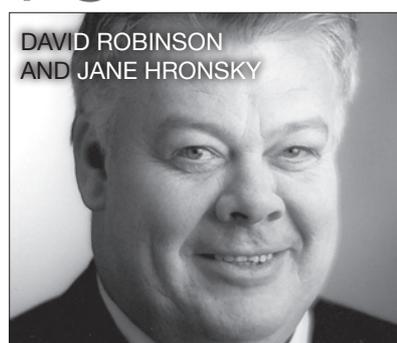
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### **The unlisted unrated debentures market**

Following the collapse of several issuers of unlisted unrated debentures in early 2007, ASIC established benchmarks for disclosure and advertising, and an 'if not why not' approach for issuers of these debentures to retail investors. These measures are intended to help retail investors make informed decisions while maintaining the essential framework of the market.

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### **Fair or not? Fair value measurement in the sub-prime crisis**

Fair value accounting has come under significant scrutiny in the wake of the global liquidity crisis. Commentators have questioned whether current market prices are consistent with the definition of fair value in Australian accounting standards, or whether current market prices are more indicative of distressed sales. We argue that these prices do indeed represent fair values and convey useful information for market participants.