Stockbrokers Association of Australia
Incorporating SDIA

22 February, 2010

Mr. Anthony Graham
Senior Specialist - Corporations
Australian Securities and Investments Commission
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By email: policy.submissions@asic.gov.au

Dear Mr. Graham

ASIC CONSULTATION PAPER CP 126 " FACILITATING DEBT RAISING" - SUBMISSION BY STOCKBROKERS ASSOCIATION OF AUSTRALIA LTD

Introduction

The Stockbrokers Association of Australia Limited ("the Stockbrokers Association"), formerly known as the Securities & Derivatives Industry Association, is the peak industry body representing institutional and retail stockbrokers and investment banks in Australia. The Stockbrokers Association is pleased to provide this submission to ASIC in relation to Consultation Paper CP 126 "Facilitating Debt Raising".

The Association's members have a strong commitment to maintaining the integrity and high standing of Australia's securities market. The Association also supports initiatives to foster Australia as a regional financial centre, including those identified recently by the Australian Financial Centre Forum.

ASIC is to be congratulated for proposing the relief set out in CP 126. The Association supports the proposed relief, and is broadly in agreement with the proposed terms and conditions attaching to the relief.

Set out below are a number of submissions relating to CP 126. We do not propose to address each of the detailed Questions in the Paper, but instead set out our submissions generally.

Benefits of Proposed Relief
The Stockbrokers Association agrees with the key considerations identified by ASIC in parag. [4] of CP 126, namely

(a) to maintain standards of consumer protection;

(b) to expand suitable investment opportunities for retail investors; and

(c) to develop the Australian quoted debt market.

The Association believes that the proposed relief will be welcomed by listed issuers and will facilitate corporate bond issuance.

The aftermath of the Global Financial Crisis has seen increasing importance being attached to capital raising by means of corporate bond issuance.

Many investors, including retail investors, are looking to move away from what in some cases may have been an over-reliance on equities as a form of investment, and are now looking for alternative forms of investment in order to diversify their portfolios. The risk/return profile of bonds as a form of investments have gained attractiveness since the events of the GFC.

In an era of consistent budget surpluses, the availability of government bonds has diminished over time, and those instruments in any case are not readily accessible to retail investors.

Added to this, the continuing flow of funds resulting from compulsory superannuation has generated a demand for all asset classes, including fixed income assets including corporate bonds. One particular trend is that, as the population ages, and an increasing proportion of investors reaches retirement age, those investors are increasingly looking in their retirement for a more certain and secure form of investment return by way of fixed income investments An increase in the supply of corporate bonds could satisfy the demand arising from all of the above factors for this class of asset.

Listed entities are at the same time looking for alternative means of raising capital. Corporate bonds have the potential of providing capital at a cheaper price than many sources of finance, and may also enable entities to avoid dilutive share issues at prices that may still be below historical levels.

ASIC's proposed relief is likely to facilitate corporate bond issuance and thereby satisfy the above objectives.

Importance of a Liquid Corporate Bond Market

The Stockbrokers Association stresses the importance of there being a liquid market in the debt instruments issued under the proposed relief in CP 126. The events related to the Global Financial crisis have indicated the problems that can arise for investors generally, but for retail investors in particular, when funds are frozen for lengthy periods. A liquid secondary market enables retail investors to exit the investment where needed.

Also, a liquid secondary market for corporate debt instruments will be a boost to furthering Australia as a regional financial centre. The Stockbrokers Association notes the recent final report of the Australian Financial Centre Forum entitled "Australia as a Financial Centre – Building on Our Strengths". We draw attention in particular to the finding at page 39:-

> "If Australia is to develop into a leading financial centre that provides liquid and efficient financial services across a broad range of products and asset classes, then a more diversified and liquid bond market should be part of that vision. As the Australian financial sector becomes more internationalised, and as the need for non-bank corporate debt financing within the region increases, Australia could potentially play a role in future years in facilitating that issuance and in managing Asia-Pacific corporate debt portfolios. There are also potential flow-on effects for the listing of derivative products on Australian exchanges. While such ambitions are long-term ones, there seems little doubt that the enormous growth potential in the Asia-Pacific region and the implications of this for the development of higher quality corporate bond issuance could provide opportunities for Australia."

The Stockbrokers Association agrees with the imposition of a minimum aggregated issue size in order to ensure sufficient liquidity in the secondary market for those instruments.

In our view, it is difficult to arrive at a precise figure for the proposed aggregate minimum issue size that is sufficiently large to ensure a sufficiently liquid secondary market, whilst at the same time not being so large as to be a barrier to listing. We believe that the figure of $100 million proposed in CP 126 is unlikely to be sufficient to ensure a liquid market, however we are in untested waters on this issue. We believe that the figure that is set, having regard to all submissions received on the issue, should be subject to a review period so that an assessment can be made as to whether the figure is set at the appropriate level.

Importance of Disclosure

It is important that retail investors not lose sight of the fact that, whilst corporate bonds may not carry the same level of risk as other investment classes such as equities, they are not regarded as risk free. Retail investors need to be aware of the particular risks attaching to corporate bonds, particularly credit risk. These are identified in CP 126 at parag. [29].

The Stockbrokers Association supports the disclosure requirements embodied in the relief set out in SP 126. These should be satisfactory to address this issue.

Limitation to Vanilla Bonds

The Association notes that only vanilla bonds as defined in B3 will qualify for the relief under ASIC CP 126. This is a sensible limitation, in order to minimize risk to retail investors. It may be too early to predict to what extent the relief will prove sufficiently attractive to issuers so as to generate an increase in issues of corporate bonds to retail investors. It will be prudent to monitor the extent to which the relief is used once CP 126 is issued, to ascertain whether some adjustments could be made to the type of bond that may be eligible for the relief in order to encourage the use of the relief, without unduly compromising risk to investors.

Convertible Bond Relief

The Stockbrokers Association supports the relief from the on-sale provisions proposed in CP 126. This issue has caused difficulties in relation to the resale of convertible bonds for some time, and the proposed relief (with the attached conditions) should adequately deal with the issue.

Some comparable markets in the Asia region have well developed secondary markets in corporate bonds, and this relief may assist Australia's convertible bond market and help promote the country as a regional financial centre.

We would be happy to discuss any issues relating to this matter at your convenience. Should you require any further information, please contact Peter Stepek, Policy Executive, on (02) 8080 3200 or email pstepek@stockbrokers.org.au .

Yours sincerely,

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