GROUP OF 100

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Mr David Murray
Chairman
Finance System Inquiry

fsi@fsi.gov.au

Dear Mr Murray

Corporate Bond Market

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 welcomes the Interim Report and appreciates the extension of time for making its submission.

The G100 strongly supports initiatives to encourage the development of a deep and liquid corporate bond market in Australia and the participation of high quality issuers.

The G100 believes that the current arrangements, which include extensive legal documentation and adverse taxation treatment of income in relation to equity capital are significant impediments to the growth of the Corporate Bond Market. We believe that these factors and the general promotion of the markets for our equity funding result in a bias towards raising equity capital in preference to debt capital and must be addressed. As such reform of current arrangements is an important part of the process.

The G100 considers a strong domestic market for corporate bonds to be an important funding platform which would have significant positive impacts for Australian corporates and the broader economy by:

- providing a means to further diversify funding sources through enhanced access to long-term funding from the local market where Australian corporates can better leverage strong brand recognition;
- creating a resilient domestic market that reduces exposure to offshore market volatility and removes inefficiencies associated with raising funds offshore by enabling Australian corporates to raise long-term funds onshore in Australian Dollars;
- providing greater stability to the investment returns of Australian investors through the neutralisation of the current investment bias towards higher investment allocations to equities; and
- providing the ever-growing self-managed superannuation sector with a greater range of investment opportunities that enable them to participate in a wider range of fixed income alternatives.

The G100 believes that the following actions are necessary:

1. ***Remove the need for issuers to issue a prospectus for a corporate bond issue***: Allowing listed issuers who comply with the continuous disclosure regime to issue bonds through a simple offering document in conjunction with a statement that all material information has been disclosed to the market. We support proposals for a shelf document with a life of, say, 5 years followed by a term sheet and cleansing statement for subsequent raising. In addition, the current approach to the size and scale of vanilla bond offerings impedes the participation of larger borrowers. We acknowledge that some good work has been undertaken in this area in regards to Retail Corporate Bonds and would encourage the same outcomes in relation to liability and reduction in the documentation required be extended to Wholesale Corporate Bonds.

2. ***Allow retail investors to buy existing wholesale corporate and government bonds***: The corporate bond market would be enhanced by allowing retail and wholesale bond investors to participate in the same market. This would provide greater liquidity, pricing transparency and alternative investments.

3. ***Government business and infrastructure projects should contribute to issuance***: The Government has the opportunity to cornerstone the development of the listed retail bond market through issuance for government business and landmark infrastructure projects. The recent market listing and quotation of government bonds is an important step in providing benchmarks for this market.

4. ***Educate retail investors about investing in debt***: The growth in the superannuation sector is reflected in the growth of self-managed superannuation, where retail investors are investing for themselves. Retail investors should be educated about the benefits of diversified investing and investing in debt as opposed to the current reliance on equity investment and property investment to ensure that their portfolios provide them with sufficient financial security in their retirement. For example, Australian superannuation funds invest more heavily in equities than their international counterparts and accordingly their returns tend to be more volatile.

In developing a deep, liquid, listed corporate bond market the G100 suggests that the following principles be applied when considering the legislative and regulatory requirements:

1) It should be no more onerous and costly for corporate issuers to raise debt through the Australian listed market than it is for raising equity.

2) It should be no more onerous and costly for corporate issuers to raise debt through the Australian listed market than it is to raise debt in competitive markets such as the US Private Placement market.

3) Requirements need to be set so as to encourage high quality issuers into the market while discouraging ‘fringe’ players because corporate failure is inimical to its healthy development.

Yours sincerely
Group of 100 Inc

N Mitchell

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President

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