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Abacus
Australian Mutuals

14 February 2012

Ms Michelle Calder
Manager, Financial Services Unit
Retail Investors Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

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Dear Ms Calder

Development of the retail corporate bond market: streamlining disclosure and liability requirements

Abacus - Australian Mutuals welcomes the opportunity to comment on the Treasury's discussion paper on the development of the retail corporate bond market.[1] Abacus is the industry body for credit unions, building societies, mutual banks and friendly societies. Our customer-owned banking institutions serve 4.6 million members and hold $83 billion in assets. Our sector's market-leading customer satisfaction ratings prove the effectiveness of the mutual business model. (See attached Fact Sheet for more information.)

Abacus supports the development of a high-quality and liquid retail corporate bond market in Australia. As noted recently by APRA, unlike many overseas jurisdictions Australia lacks a large stock of government paper, well-rated corporate bonds and other non-bank assets, from which institutions may build a liquid asset pool.[2] Our members welcome new opportunities to diversify their funding sources and investment options.

As customer-owned ADIs, our member institutions are interested in developments in this policy area, both as prospective issuers and buyers of debt securities, and as providers of financial information to their customers about investment opportunities.

Corporations Act 2001 s 708(19) should be retained in its current form

The Treasury has sought comments as to whether *Corporations Act 2001* s 708(19) should be amended. Abacus strongly supports retention of its current wording, which exempts Australian ADIs and entities registered under the *Life Insurance Act 1995* (including some friendly societies, which Abacus represents) from the disclosure requirements. As noted in the discussion paper, this is an important and long-standing exemption, and its basis will continue to be valid into the future.

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[1] Treasury, *Discussion Paper - Development of the Retail Corporate Bond Market: Streamlining Disclosure and Liability Requirements* (December 2011).

[2] APRA, *APRA's Basel III implementation rationale and impacts (Charles Littrell)* (November 2011), pp 4–5.

When combined with the prudential regulatory regime — with its capital, liquidity, risk management and governance standards — this exemption effectively provides a level playing field for prudentially-regulated entities and other issuers of corporate debt securities, as the other issuers are not required to comply with prudential standards. Removing the long-standing exemption available to prudentially-regulated entities will increase the regulatory burden in relation to issuing retail corporate bonds. This is contrary to the objective of developing a broadly-based retail corporate bond market.

A small number of Abacus's member institutions have ASX-listed securities on issue. Australian Unity Ltd — the parent company of Australian Unity Investment Bonds Ltd, which is a registered friendly society under the *Life Insurance Act 1995* — issued its floating rate notes in April 2011. Because the registered entity was not the issuer, the Corporations Act exemption was of no utility in that case.[3] Heritage Building Society Ltd (now known as Heritage Bank Ltd) issued listed corporate bonds in October 2009, but it did not seek to use the exemption,[4] electing to establish continuous disclosure status.

Irrespective of being able to use the exemption, for an entity's initial security listing (at least), investor and market expectations require a full prospectus. It is effectively only at the stage of issuing subsequent securities that — having established continuous disclosure status — an issuer may be able to access the abridged procedures, such as the Corporations Act exemption for registered ADIs, life insurance companies and friendly societies. There is also the possibility of seeking class order relief from ASIC — such as Primary Health Care Ltd's[5] use of [CO10/321],[6] for its floating rate note — but only after having established continuous disclosure status.

We note that Commonwealth Bank of Australia Ltd[7] and Bendigo and Adelaide Bank Ltd[8] have issued securities, for which they were permitted to issue abridged 'offer documents', through their invocation of the Corporations Act exemption for ADIs. It is likely that mutual ADIs considering the issuance of listed debt securities would also make use of the exemption, but the initial requirement to establish continuous disclosure will continue to pose a barrier to entry to the market. While this requirement may be appropriate, if the Corporations Act exemption were to be amended or repealed, their combination would most likely deter mutual entities from entering the market.

Crucially, any amendment of the current wording of s 708(19) would have implications for ADIs, life insurance companies and friendly societies that may seek to issue unlisted debt securities. This method of fundraising is likely to become more common among mutual ADIs, as many of them do not have the capacity or desire to pursue a listed arrangement, but they wish to diversify their funding and to make a new investment option available to their members.

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[3] Australian Unity Ltd, *Australian Unity Notes — Replacement Prospectus* (April 2011).

[4] Heritage Building Society Ltd, *Heritage Notes — Prospectus* (September 2009).

[5] Primary Health Care Ltd, *Primary Bonds — Base Prospectus* (August 2010).

[6] ASIC, *Class Order [CO10/321] — Offers of Vanilla Bonds* (May 2010).

[7] Commonwealth Bank of Australia Ltd, *CommBank Retail Bonds Series 1 Tranche A — Offer Document* (November 2010).

[8] Bendigo and Adelaide Bank Ltd, *Retail Bonds Series 1 — Offer Document* (February 2011).

It is important that legislative and regulatory changes being considered for the broader retail corporate bond market do not have unintended consequences for this segment.

Issuer entry requirements

Abacus supports the proposal for unlisted entities with listed securities on issue to use a short-form prospectus. At present, unlisted entities seeking to issue listed securities must establish the continuous disclosure processes, including the publication of a full prospectus, at least for the first security that they seek to issue (as described above).

It would be in the interests of the development of a truly liquid retail corporate bond market — while maintaining the highest standards of integrity — for new entrants to the market to be able to issue 'offer documents' of a length of approximately 40 pages, rather than requiring a full 120-page prospectus to be lodged for the initial listing of a debt security. This is particularly the case for prudentially-regulated entities.

As mutual institutions, none of Abacus's members are listed on the Australian Securities Exchange in their own right; but, as mentioned above, a small number of them (or their affiliated companies) currently have listed debt securities on issue. Onerous initial prospectus lodgment requirements would deter some of our members from participating in the prospective retail corporate bond market, particularly our smaller member ADIs.

While the full prospectus requirements may also deter corporations from many diverse industry sectors from participating in the market, there is the particular imperative for prudentially-regulated entities to be relieved of such a burden, given the significant scrutiny of the capital and liquidity positions that is already carried out.

The ideal arrangement would be that this higher standard of stability and scrutiny should be properly recognised, even for the initial listing of a debt security by an unlisted prudentially-regulated entity. The maximum requirement for the initial debt security listing by such an entity should be a short-form 'offer document', and the subsequent issuance of securities by the same entity should be permitted by way of an even simpler process; assuming no significant changes occur between the issue dates.

It has been broadly accepted in consultative discussions to date that retail investors tend not to consume the vast bulk of investment product literature that is produced. In the situations where an entity seeks to issue a type of 'vanilla' bond that is virtually identical to one previously issued by the same entity — the only differences being, for example, the dates of issue and maturity — it would be inefficient and unnecessary for lengthy prospectuses and other disclosure documents to be required to be published.

Bond entry requirements

We support the focus on 'vanilla' bonds, but too much prescription should be avoided in order to encourage a wide range of potential issuers.

In our view:

- the proposed minimum issue size of $50 million is too high;
- the framework should include subordinated debt;

- the proposed maximum term of 10 years is appropriate; and
- credit ratings should not be required for prudentially-regulated entities.

Content requirements

The proposed headings and content for the short-form prospectus are generally appropriate, with some potential improvements.

One suggestion is that the inclusion of section 10 is superfluous, and that the information within it should be including under relevant preceding headings, so as to minimise the disparate grouping of certain information as 'other' or 'miscellaneous' — either it is sufficiently important to disclose in a substantive section, or it may be omitted entirely.

For example, 'the rights and liabilities attaching to the bonds being offered' proposed for inclusion in section 10 could be moved to section 3, concerning 'how the bond works'. Further, 'the issuer's assets and liabilities, financial position and performance, profits and losses, and prospects which are material to a consideration of an investment in the bonds' proposed for inclusion in section 10 would partially or wholly repeat the information proposed for inclusion in section 6, regarding the issuer's financial position.

In addition to these suggestions, the proposed sections 4 and 5 could be combined, thereby providing a more concise description of the risks and benefits of investing in retail corporate bonds generally, and particularly in the security that is the subject of the short-form disclosure document at hand. Simplification measures such as these, as well as the proposed inclusion of information by reference (for example, to the ASIC *MoneySmart* website)[9] could assist retail investors and their financial advisers to more easily understand the implications of investing in such bonds.

Please contact me on 02 6232 6666 or Matt Stevens, Policy Adviser, on 02 8299 9032 to discuss any aspect of this submission.

Yours sincerely

LUKE LAWLER
Senior Manager, Public Affairs

[9] ASIC, MoneySmart, *Investments paying interest —Bonds* (February 2012).

Abacus Australian Mutuals

February 2012

Australian Mutuals

Credit Unions, Building Societies & Mutual Banks

Key Fact Sheet

Size

> **95 credit unions**
> **4 mutual banks**
> **7 mutual building societies**

Assets and Growth

> Collectively, our sector has $85 billion in assets.
> Credit unions' on-balance sheet assets* reached $58.0bn in September 2011, growing by 14.0% annually while mutual building societies' on-balance sheet assets† grew by 10.7% and amounted to $27.3bn in the same period.

Market Share

> Hold 8.8% of the new home loan market and 11.1% of household deposits as at November and December 2011 respectively.
> Collectively, credit unions, mutual banks and building societies are the fifth largest holder of household depos-

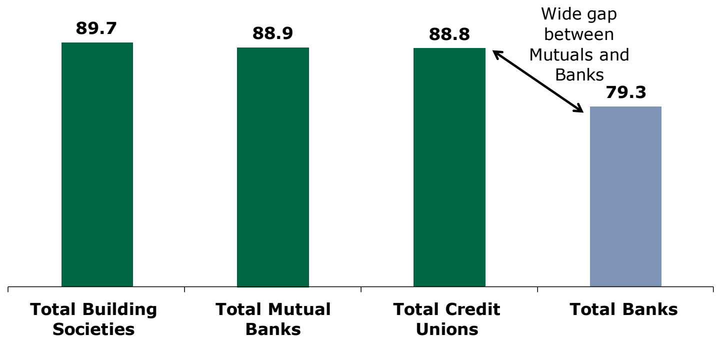
Population Penetration

> Australian mutuals serve over 4.6 million members - over 1 in 5 of the total population.
> Population penetration (members as a proportion of the total population) highest in SA (30%) and NSW (28%).

Strength

"Mutuals consistently outperform banks in customer satisfaction."

Customer Satisfaction - December 2011



Source: Roy Morgan Research Customer Satisfaction Survey, 6 months to December 2011, aged 14 and over
Note: 'Total Building Societies' excludes Heritage Bank
'Total Mutual Banks' includes bankmecu, QT Mutual Bank and Heritage Bank
'Total Credit Unions' excludes bankmecu and QT Mutual Bank
'Total Banks' excludes 'Mutual Banks'

Size & Strength

> $85 billion in assets
> Serving over 4.6 million members
> Fifth largest retail deposit holders collectively
> High customer satisfaction
> No conflict of interest between customers and shareholders
> Strong community focus
> Same prudential regulation as banks

Strong Regulation

> All credit unions, mutual banks and building societies are Authorised Deposit-Taking Institutions (ADIs), regulated under the Banking Act. We meet the same high standards of prudential regulation as banks with full regulatory oversight.
> The Government has guaranteed deposits at Australian mutuals and banks.

Competitive Advantage

> The mutual structure means no tension between servicing members and external shareholders—members are the owners of their ADI.
> Mutuals are better placed than most to satisfy key needs of consumers, that is:
– Member focus
– Sense of community / belonging
– Honesty and integrity
– Guidance
– Simplicity
– Competitive pricing
> Strong regional & rural focus

† includes securitised assets of $600m over Dec 10 & Mar'11
* includes securitised assets of $2.6bn over Dec 10 & Mar'11

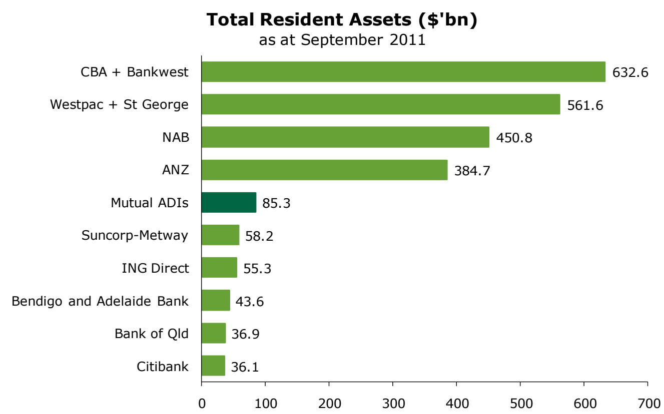
Mutual ADIs

Credit unions, mutual banks and building societies are customer-owned – entities, operating under the mutual principles of one member one vote, an equal share in the say of the organisation, and with the purpose of member and community benefit at the forefront of their operations.

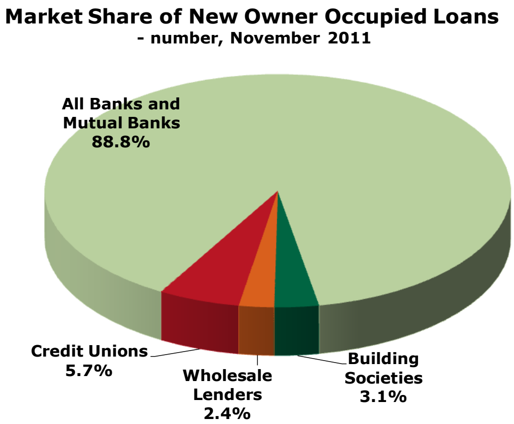
Mutuals have strong community and customer focus.

Market Share

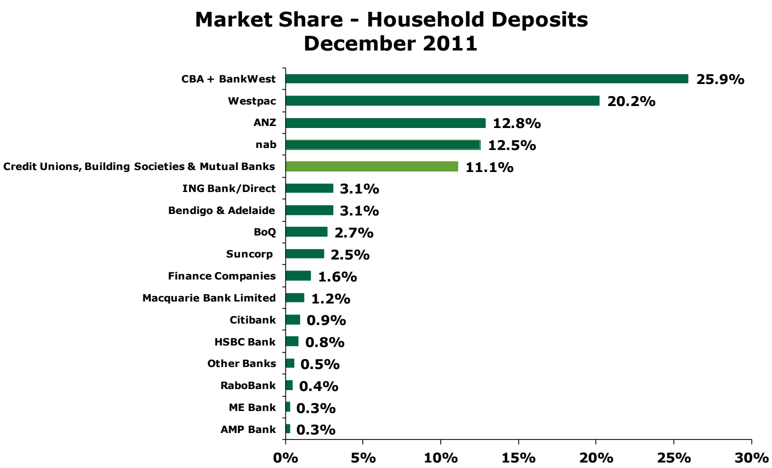
Collectively, credit unions, mutual banks and building societies sit behind the four major banks in terms of total on-balance sheet assets. Mutual ADIs hold 8.8% of the new home loan market.



Source: APRA & RBA



Source: ABS



Source: APRA, RBA and Abacus

As a group, credit unions, mutual banks and building societies are the fifth largest deposit gathering force after CBA, Westpac ANZ and NAB reaching 11.1% market share.

Products & Services

The majority of credit unions, mutual banks and building societies offer a full range of personal banking services. Mutuals typically charge less than the major banks in loan interest , while also offering attractive deposit rates on saving investment accounts and 90-day term deposits.

The latest Canstar Cannex comparative rates are shown in the tables at right.

1-Feb-2012

Standard Variable	Avg (%)	Min (%)
4 Major Banks	7.30	7.22
Credit Unions	6.83	6.30
Building Societies	6.83	6.49
Mutual Banks	6.87	6.48

1-Feb-2012

TD 10K 3-Month	Avg (%)	Max (%)
4 Major Banks	5.48	5.50
4 Foreign Banks	4.85	5.70
Credit Unions	5.00	5.80
Building Societies	5.49	5.75
Mutual Banks	5.12	5.60

Source: Canstar Cannex

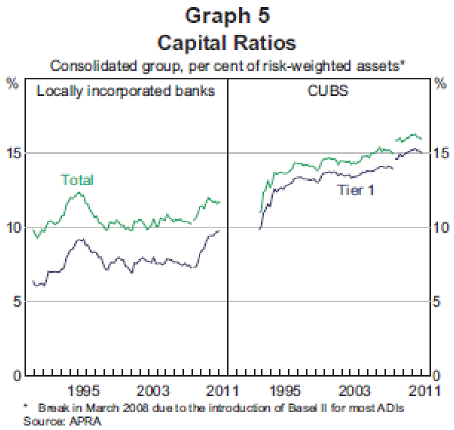
ATM Accessibility @ June 2011	Number of ATMs
CBA/BankWest	3,757
rediATM	3,400
Westpac/St George Bank	2,875
ANZ	2,714

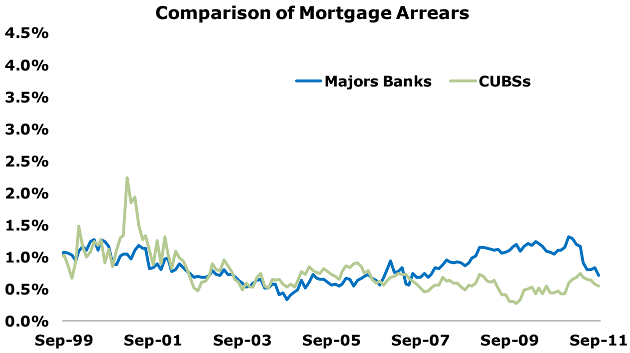
Source: APRA & Cuscal

The mutual sector has the second highest ATM accessibility across the country

The spread of ATM coverage is important to customers who want convenient service without incurring fees. The rediATM network used by many mutual organisations has the highest accessibility ahead of ANZ, Westpac and St George, widening the accessibility levels for our members.

Solid Fundamentals





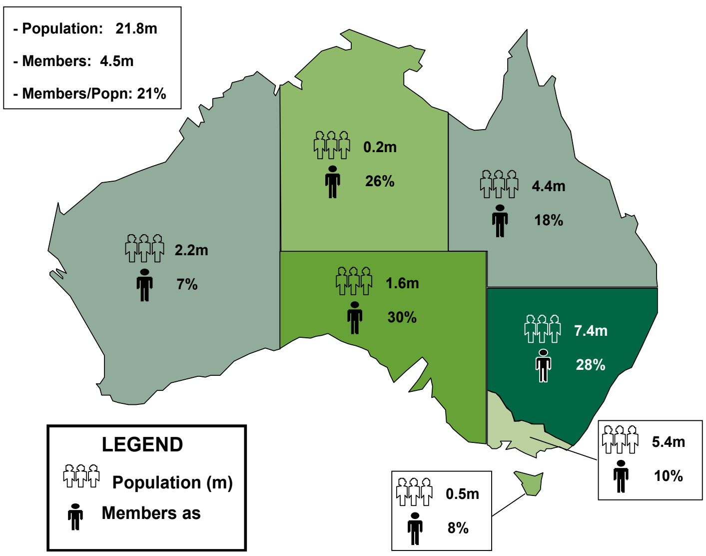
Source: Standard & Poor's

The credit union, mutual bank and building society sector is well capitalised, with aggregate total capital ratios of about 15%, as compared with around 12% for Australian banks, according to the RBA's June Qtr Bulletin.

The sector continues to demonstrate prudent lending practices with respect to mortgage arrears—currently lower than peers as shown in the Standard & Poor's Prime RMBS SPIN Index above.

The mutual sector is sound and secure

Strong Coverage Across Australia



There are approximately 4.6 million credit union, mutual bank and building society members in Australia as at August 2011.

This represents an overall population penetration of approximately 21%.

Population penetration (members as a proportion of the total population) highest in SA (30%) and NSW (28%).