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Discussion paper: Development of the retail corporate bond market

Dear Sirs,

Thankyou for providing the opportunity to comment on the proposals canvassed in your discussion paper.

By way of introduction I have spent over thrity years in the equity and fixed interest markets as broker, fund manager and investor.

Whilst it is beyond the scope of the discussion paper for me to comment on the reasons for the poor development of the retail bond market in Australia it is my view that the only reason we are having this discussion is that corporate treasurers, having relied excessively on offshore debt markets without consideration of broader risk issues, are now looking locally at the savings pool to broaden their counterparty risk profile.

The point needs to be made that the retail market will not develop unless corporate treasurers and their advisors actually commit to the market long term. A significant portion of the retail paper issued to date has been quasi equity or heavily subordinated paper where the retail market has been used as a risk shock absorber for higher ranked non retail paper. If disclosures are to be streamlined in order to develop the retail market, then the price setting and allocation mechanisms currently in use should be modified so that the benefits will actually accrue to the retail market.

Information and allocation asymmetry issues need to be addressed.

Comments: (Your numbering)

23. Proposed Entry Requirements.

Unlisted entities with listed securities should not be allowed to use the shorter prospectus unless the securities issues are unsubordinated and solely secured against a specific asset or group of assets.

28. Other Requirements.

29. Minimum issue of $50m. This is a commercial decision by the issuer and should not be a requirement.

30. Subordination should be allowed however only to the extent that the securiries are genuine bonds and the term subordinated and **must** be included in the bond descriptor and the levels of securities (Term Deposits, Senior secured and Senior Debt) to which they are subordinated must be stated.

32. A maximum fixed term should not be mandated however perpetual terms should be prohibited.

33-35 Credit ratings.

I agree that there is an undesirable asymmetry of information which **must** be remedied. As we have seen with recent issues, companies and their advisors can not be forced to rate their retail debt issues. A strong development would be to make it mandatory for the issuer to have a current publically available credit rating and that this rating be declared. Whilst there is a generally accepted investment grade rating (BBB-), retricting issues to this rating or indeed mandating the definition of investment grade is not the domain of government legislation. Ratings change over time in line with the company rating. If companies will not rate retail paper now, through the only licenced rating agency in Australia and international rating agencies continue their strike in rating Australian retail paper, then it is unlikely that this issue can be forced. It is sufficient to have the company rated.

43. Investment overview.

> 43. An investment summary should be mandatory. All advisors are now provided with an internal investment summary from their own organisation which contains all the relevant and pertinant information for the purpose of selling securities through to the public. If this is the prime internal selling document then it should be mandatory that this be 1. Part of the public document, and 2. It should also be mandated that this document should be attached to any letter of commitment required from professional investors.
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> 43. Summary Contents.
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> **It is essential that the advisor and other fees are disclosed in the overview**. Advisor fees on new issue fixed interest issues are generally a very excessive 1%, more than double the standard equity brokerage fees. Clear disclosure of these fee structures should work to lower the fees over time.
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> **It is strongly recommended that the allocation principles are disclosed.** It is not clear from the discussion paper whether a book build will be permitted to determine, within a range, the final margin. The book build process is a major contributor to the information asymmetry between issuer, bookrunner, individual advisor and purchaser. This is a major issue**.** Revised arrangements should not be used to short cut the process in order to enhance institutional or insider allocations with supply/demand knowledge that is unavailable to the retail market.

It is strongly recommended that either bookbuilds for demand and final margin setting be prohibited under the streamlined disclosure arrangements or **if bookbuilds are used then the bookbuild profile be made public.**

If a bookbuild is used to determine volume and margin then it should **be mandated that the broad parameters of the bids, offers at levels be disclosed to the whole market.**

As these arrangements are being developed to facilitate the retail market then **minimum retail allocations should be mandated**. A simple statement to the effect that 'a minimum (x) percentage of the issue will be allocated to retail investors should there be demand at the final price level' is enough.

Unless the issue is underwritten by the lead managers as to volume and rate, **allocations to bookrunner, arranger principal trading business should be prohibited**. These entities should be classified as insiders and therefore ineligible unless they are legitimate underwriters.

79 Discussion Question: Director's Deemed Civil Liability.

'Should director's deemed civil liability for prospectus content be removed?

I agree that theliability as per above could be removed **except** where the director is a substantial shareholder and/or a lender to the company or a director of a company which is a substantial shareholder and/or is a lender to the company or is a debtor or creditor to the company either individually or as a director of a company in this position.

Regards

Philip Henty