



Australian Government
The Treasury

TSY/AU

Key Elements of the Australian Business Securitisation Fund Investment Mandate

EXPOSURE DRAFT

Background

- The Australian Business Securitisation Fund (the Fund) will be used for investments in accordance with the Act to promote the long-term development of the securitisation market for loans to small and medium enterprises (SMEs). The objective is to improve the capacity of lenders to extend credit to SMEs on a competitive basis.

Eligibility

- The underlying loans should not predominately relate to businesses with a primary purpose of investing, such as superannuation funds.
- Investments where the underlying loans are made by the major banks (defined as banks subject to the *Major Bank Levy Act 2017*) and their subsidiaries are not eligible for the Fund.
 - The banks subject to the Major Bank Levy Act are the four major banks and Macquarie.

Investment Considerations

- In exercising the power to invest, the following matters must be considered where information is available to support an investment decision:
 - Prioritising investment in underdeveloped sectors of the SME securitisation market and investing in a manner which would assist in the development of the market over the long term;
 - Prioritising investments that are likely to promote competition in the SME lending market and encourage private-sector provision and investment;
 - The potential for effects on other current or prospective securitisation market participants, with the aim of deepening the securitisation market for SME loans and encouraging greater private investor participation in the market over time;
 - Whether an investment should reasonably require investing at a discount to the prevailing market rate at the time in order to support the objectives of the Fund;
 - An ability to exit the market without causing ongoing market dysfunction once its investment objectives have been met.

Governance Arrangements

- The delegate must administer the Fund in a transparent and accountable way, including by:
 - Making publicly available before the program commences, information on the process by which investment decisions will be assessed and made; and

- Publishing information relating to investments on a timely basis following settlement, subject to commercial confidentiality considerations.
- The delegate is to provide access to information it holds regarding the Fund's activities to assist Treasury in providing advice to government on the effectiveness of the Fund in meeting its policy objectives.
- The Secretary to the Treasury may specify further operational requirements for the delegate that are consistent with this mandate.

Financial Elements

- Authorised investments are defined as Australian dollar denominated debt securities as outlined in subsection 12(4) of the Australian Business Securitisation Fund Bill 2018, including in a rule made under paragraph 12(4)(d).

Performance of the Fund portfolio

While the primary objectives of the Fund are to be pursued with exposure to risk commensurate with the nature of the securities to be purchased, achieving a return on the funds invested over the life of the program will also be required.

Target rate of return

To account for variability in business and market conditions the financial return of the investment portfolio generated by the Fund over the medium term should at a minimum match the return on the Bloomberg Ausbond Treasury 0-1 year index.

Risk profile

- In order to achieve its policy objectives the Fund will be required to accept commensurate credit, default and other financial risks on its investments.
- The delegate is required to develop a policy to guide the assessment of what constitutes a commensurate risk level having regard to the objectives of the Fund and matters for consideration outlined in 'Investment Considerations' above and the Act.
- This risk policy must include a method for assessing the credit worthiness of investments where external credit ratings cannot be obtained.
- The Fund must not invest in first loss securities.