AFIA

Australian Finance Industry Association Limited
ABN 13 000 493 907
L11, 130 Pitt Street Sydney NSW 2000
T: 02 9231 5877
www.afia.asn.au

4 March 2022

Ms Nghi Luu
Capital Markets, Payments, and Financial Innovation
Financial System Division
Treasury
1 Langton Crescent
CANBERRA ACT 2600
By email: ABSFReview@TREASURY.GOV.AU

Dear Ms Luu

AFIA COMMENTS ON THE REVIEW OF THE AUSTRALIAN BUSINESS SECURITISATION FUND

The Australian Finance Industry Association (AFIA) appreciated the opportunity to meet with Treasury to discuss our experiences and views with the Australian Business Securitisation Fund (ABSF). AFIA and some of our members provided feedback on the ABSF at an industry roundtable held on 2 February 2022. This letter captures the themes and high-level comments provided during this discussion.

Background

In addition to managing cash and debt portfolios for the Federal Government, AFIA believes that the AOFM's role in supporting securitisation markets and smaller lenders is critical to promoting access and choice, competition and innovation, and participation in finance.

The announcement made by the Treasurer to introduce the Structured Finance Support Fund (SFSF) and allocate initially $15 billion for smaller lenders in March 2020 at the start of the COVID-19 global pandemic and to coincide with the introduction of the RBA's Term Funding Facility (TFF) for ADIs was important and material. The announcement bought stability to capital markets and adopted a whole of financial system approach to funding and liquidity, in contrast to what occurred during the global financial crisis (GFC).

Having the AOFM established and ready to act was the envy of other countries, with some subsequently introducing similar measures to support their capital markets. During the early phases of the crisis, AFIA took many calls from CEOs of lenders with offshore funding arrangements and CEOs of offshore lenders seeking access to Australian markets who did not know where to go or who to talk to about liquidity support.

While the SFSF and the forbearance SPV may not have been tapped as significantly as initially envisaged, the careful investment decisions and signals from the AOFM played an important role in ensuring access to capital across markets and credit flows to businesses and households across our economy. Maintaining an investment mandate for the AOFM will be important.

ABSF

The announcement by the Treasurer in November 2018 to create a $2 billion fund to support the development of funding markets for SME lenders has been an important policy initiative. We strongly support the continuation of the ABSF and further deepening of engagement between the AOFM and smaller lenders.

AFIA members have a range of experiences with the AOFM, with some having investment proposals supported through to those that have not secured funding through the ABSF. With this experience in mind, we believe there are a number of improvements that could be made to maximise the specific and broader market benefits.

Providing more resources to the AOFM to assess investment proposals and applications
Members acknowledged that engagement with the AOFM ahead of making an application has been constructive and assisted target their proposal. We believe this engagement also provides insights for the AOFM regarding industry and market developments. Additional resources may also assist in managing or avoiding the potential conflicts of interest some members perceived existed with the use of market participants as expert advisers.

Simplifying the application process
Members recognised the AOFM has focused on making this process simple and efficient. However, new smaller lenders will be less familiar with the AOFM, and thus, we encourage ongoing attention to raising awareness about the ABSF and supporting applications by smaller lenders.

Increasing communication on the reasons why applications were not supported
Members acknowledged that over the past few years of operation feedback has improved and increased, potentially reflecting further experience with different assets and business models across the range of smaller lenders. Additional communications will help build broader understanding about the AOFM's activities as well as deeper capability in smaller lenders.

Continuing to provide commentaries and updates on investment activities, like we saw through the crisis with the SFSF, and greater clarify on investment principles
Some members feel that those smaller lenders successful in having their applications supported got a competitive advantage over others who missed out. That said, it is recognised that investment proposals must align with the risk parameters of the AOFM and opportunities consistent with the ABSF investment mandate. It is important for the AOFM not to crowd out markets. Therefore, it is likely that the ABSF investment mandate will need to be amended in the future to reflect the evolving needs of business lending, investment experience, and the rapidly changing market environment. It is also important for the AOFM to maintain a continual program of outreach. The AOFM and AFIA webinar held recently to promote greater awareness of investment activities and market developments is a good example of the proactive approach being taken by the AOFM to connect with market participants and industry representatives.

Building investment capabilities in specialised SME lending
We recognise that over the past few years of operation the AOFM's investment experience has evolved, which has been positive for AFIA members and for the portfolio expansion of the ABSF. We believe that specialised lending will play an increasingly important role in ensuring access to right-sized, best-priced credit for SMEs through our economic recovery, such as secured lending (e.g. trade, invoice, and supply chain finance) and unsecured lending (e.g. cashflow and working capital finance). Smaller lenders are equipped to be able to serve SME needs through new products, services, and technologies. We encourage the AOFM to support a wider range of investment, like those through the SFSF, particularly as SMEs seek alternative finance to match their business liabilities and operational needs through more volatile economic conditions.

Promoting standardised data reporting as necessary to create a common language for institutional investors and initially domestic rating agencies
We believe this will allow market participants to better understand currently unrated and underlying asset classes but, overtime, would also provide insights to global ratings agencies and international institutional investors interested in providing investments into this key part of our economy. We see this as a significant and broader market benefit of the AOFM's activities.

Proposals for the future

The ABSF has provided new and additional sources of funding for some smaller lenders, which has fostered access and choice, competition and innovation, and participation in finance. The AOFM, through the SFSF, has also provided important and material support to smaller lenders to continue to support their customers through the crisis. We believe the AOFM must maintain an ongoing role in supporting securitisation markets and smaller lenders as well as a role in ensuring financial stability through crisis.

Therefore, AFIA makes two proposals:

1. Amend enabling legislation, instruments, directions, and rules for the SFSF to accommodate greater flexibility in investment by the AOFM for smaller lenders during periods of significant market disruption, noting that the purpose of the fund is to maintain access to reasonably priced funding through market disruption caused by the COVID-19 global pandemic. We do not believe that it is appropriate to assume that the SFSF will no longer be needed during the current and following phases of this crisis, however, it is inevitable that future economic and financial crises will impact our markets and require similar interventions. It will be important for a mechanism to be available to be called upon by the Federal Government, and thus, for the AOFM to maintain a function in this area.

2. Explore additional opportunities, including targeting investment towards supporting specific government policies. For example, the AOFM could support economic recovery and economic transition through targeted investment in smaller lenders providing 'green finance' to businesses for 'green programs' and 'green assets'. This could include R&D and cleantech innovation, clean energy, EV, hybrid, and alternative-powered transportation and infrastructure, and net-zero initiatives in key sectors, such as agriculture, resources, waste, and property. This initiative would maximise the Federal Government's support, investment, and initiatives in reducing emissions and achieving net-zero targets, fast-track and support private investment, develop secondary markets, and support transition by businesses and households. We note the significant efforts of the Clean Energy Finance Corporation (CEFC) and believe that twin programs could be designed to maximise impact through direct investment and partnership initiatives through the AOFM and CEFC, respectively. This approach would not replace the CEFC with the AOFM, rather supplement and increase impact, particularly noting the existing connections established by the AOFM with small lenders.

Should you wish to discuss our feedback further, or require additional information, please contact [redacted].

Yours sincerely

Diane Tate
Chief Executive Officer