GROUP OF 100

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The Manager
Financial Services Unit
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam

Development of a retail 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 strongly supports initiatives to encourage the development of a deep and liquid listed corporate bond market in Australia. While we welcome the proposals in the Discussion Paper *"Development of the retail corporate bond market: streamlining disclosure and liability requirements"*, we believe that they fail to address issues relating to providing incentives for companies and investors to participate in this market. In order to do so the G100 believes that the current arrangements, for example, the legal documentation, taxation treatment of income and the general promotion of the markets for our equity funding result in a bias towards raising equity capital in preference to debt capital must be addressed.

The Group of 100 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;
- by 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 in Australian Dollars;
- by 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
- by 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.

To achieve a strong listed corporate bond market, the playing field should be levelled between equity and debt capital markets. Access to the market is currently uneven in relation to the legal documentation standards, tax treatment of income and general promotion of the markets.

To address the current bias against debt investments and remove the barriers to entry that remain impediments for corporates accessing the market, we encourage the Government to consider the following recommendations:

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.

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. ***Increase the interest income concession***: The unintended tax bias against interest income in favour of dividend income and capital gains should be reduced. The aim of the 50% tax discount on interest income should be to encourage significant new money to be available for investment in the corporate bond market. This may require the tax discount to apply to more than $1,000 of interest income and to specifically apply to interest on ASX listed Australian corporate bonds.

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 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.

5. ***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.

OTHER COMMENTS:

In developing a deep, liquid, listed corporate bond market the G100 suggests that the Government take account of the following three principles when considering the legislative and regulatory requirements:

1) It should be no more onerous for corporate issuers to raise debt through the Australian listed market than it is for raising equity.
2) It should be no more onerous 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 ethical companies into the market while discouraging 'fringe' players because this market should not have a failure early in its development.

While the G100 is supportive of the proposals in the Discussion Paper we have concerns about the matters outlined below.

Director's liability: While the reduced disclosure regime is helpful the existing liability situation, where directors are personally liable, is a significant impediment. In view of the liability situation directors are likely to adopt the same due diligence and verification procedures whether they are issuing a short or long form prospectus. The G100 believes that removal of the requirement of all directors to consent to the lodgement of a prospectus and that directors be given the benefit of a 'safe harbour' or 'business judgment' defence would be a positive development.

Issue Costs: The costs of issuing bonds in the retail market, including ongoing administration costs, are a disincentive to companies entering this market.

Credit ratings: We believe that the credit rating of corporate bonds should not be a mandatory requirement.

Auditor's report: The G100 does not support this proposed requirement. Audit reports are modified in response to a wide range of circumstances and in many cases would not in any way impinge on the credit worthiness of the company. In the event of a modification the reasons are disclosed and explained and potential investors are able to make an informed judgment.

Terms: The G100 believes that retail investors in such bonds should know exactly what they are buying, just as they understand an 'ordinary share'. Qualifying criteria for the disclosure and liability regime proposed for this market should be clearly defined. Qualifying criteria should not be reduced to merely, say, an arbitrarily determined maximum term. The terms and other features of corporate bonds such as fixed or floating rate, deferral of interest etc. should be a matter for directors to determine in the light of the market environment, and, if these are unacceptable investors can choose not to subscribe.

Issuer as listed entity: The G100 believes that the issuer should be a listed entity or a wholly-owned subsidiary which acts as a financing vehicle for a company group and whose liabilities have been guaranteed by the listed parent company.

Frequency of reporting: The G100 does not support the proposal for quarterly reporting to bondholders in view of the current reporting regime for half-yearly and annual reporting supported by continuous disclosure requirements. Requiring quarterly reporting is inconsistent with the objectives of reducing disclosures and the costs relating to the issue of bonds.

CONCLUSION:
The development of a corporate bond market will provide additional flexibility to Australian companies while providing the Government with the opportunity to address the current bias in investment allocations towards equities by implementing policy initiatives which foster its development. Australian investors should benefit from the positive externalities associated with such change, including the added stability provided by diversification towards investments ranking higher in the capital structure of corporate issuers.

Sincerely
Group of 100 Inc

Terry Bowen
President

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