

Lauren Hogan
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

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By email: ABSF@treasury.gov.au

Dear Ms Hogan

Feedback on Exposure Draft of the Australian Business Securitisation Fund Bill 2018 (the Bill), explanatory material and investment mandate

The Australian Finance Industry Association (AFIA) welcomes the opportunity to provide feedback on the Bill, explanatory material and investment mandate.

This submission is made following close consultation and collaboration between members of AFIA and the members of Australian Securitisation Forum (ASF). AFIA supports the content of the ASF submission and vice-versa albeit the areas where we seek clarification differ slightly.

While representing different market segments and components of the securitisation market, both organisations (the ASF and AFIA) have common ground in their support of fair, sustainable and competitive funding for small and medium-sized business owners and overcome the current lack of access to affordable finance. A policy position we understand is also held by the Government.

A key component of achieving this is increasing the availability and reducing the cost of credit provided to small and medium enterprises. This can be achieved through supporting market segments on the journey to securitisation, where the current lack of scale or loss history will be resolved in a 2-3 year period. Secondly, there are market segments that are not suitable for securitisation and there is an opportunity over time, for the Fund to develop a deeper understanding about underwriting and investing to small and medium sized business in lieu of the traditional securitisation rating methodologies and thereby attract investors to the segment.

AFIA Background

AFIA is the voice of a diverse Australian finance industry. AFIA supports our members to ensure a fair, equitable and competitive market place for customers through representation, insights and connectivity.

AFIA is uniquely placed to respond given our broad and diverse membership of over 100 financiers operating in the commercial (including small-medium business and agri-finance) and consumer markets.

AFIA members:

- include banks (major¹, regional and mutual/community-owned) and non-banks
- range from ASX-listed public companies through to small businesses providing finance
- operate via a range of distribution channels including bricks and mortar premises, intermediaries (finance brokers, dealerships, suppliers) through to online providers (commonly badged FinTechs)
- collectively operate across all states and territories in Australia in capital cities through to regional and remote: the majority operating across at least one border
- have customers from all demographics, all age groups (legally able to borrow) in support of Australia's diverse and multi-cultural community with:
 - commercial entities ranging from sole traders and partnerships through to the more complex corporates (eg trusts, major corporates) and government-entities some with no employees through to others with hundreds (if not thousands) of employees
 - consumers ranging from high-income through to low-income earners; some with substantial assets, others with minimal
- provide a broad range of finance products:
 - commercial: asset or equipment finance (finance/operating lease, secured loan or hire-purchase agreement or novated leases); working capital solutions (online unsecured loans; debtor and invoice finance; insurance premium funding; trade finance; overdrafts; commercial credit cards) together with more sophisticated finance solutions.
 - consumer: from personal unsecured loans, revolving products (including credit cards and interest free products coupled with lines of credit), loans secured by land or personal property; consumer leases of assets (including household/electrical/IT or cars)

¹ While AFIA's membership includes the major banks, we note the Australian Banking Association represents their views for components of their business (other than asset/equipment/receivables finance).

AFIA is supportive of the proposed legislation. Our feedback consists of two components: feedback on the draft Bill and feedback on the Investment Mandate. We note and support the proposed feedback on the Explanatory Materials from the ASF.

Feedback on the Draft Bill

- Clause 5 – definitions: Can you please clarify the impact using the consumer definition (as per the National Credit Code) of credit and debtor may have when lending to small and medium sized entities.

- Clause 12 – Investments of the Fund: Can you please:
 - Clarify whether \$10 million loan limit applies as a 'look through' to each individual business borrower
 - Confirm that it is \$10million in aggregate to one customer seeking funding from one or more funders
 - Clarify that the reference to an investment of the Fund maturing is to the legal final maturity date of that investment (and not the repayment of amounts, for example, on a pass-through basis prior to the legal final maturity date which may be redrawn during a revolving period).

- Clause 13 – Directions about investments of the fund. We note that these will be released in due course.

- Clause 14 – Credits to the Account. Our members believe that an initial amount of \$250m for the first and subsequent years seems too low and potentially at odds with the Government's desire to quickly open up alternative sources of capital.

Members suggest:

- A higher level of initial contributions may have a more meaningful impact (noting that as returns on Fund investments are credited to the Account, there will be momentum in available funds as the Fund approaches maturity so lower contributions to the Account in the later stages of the Fund would make sense on this basis)
- Contributions should be \$600 million in each of the first two years, with \$400 million in the remaining years
- The Eligible Delegate (as defined in subsection 19(2)) has capacity to increase these allocations if they determine an increase would have a beneficial impact on meeting the objects of the Fund. This would provide flexibility to increase the allocations under certain

circumstances but not put the Fund under pressure to invest a higher amount if the opportunities were not present.

Feedback on the Investment mandate

Under 'Investment Considerations', we suggest that this paragraph refer to section 3 of the Act as there is a concern that the reference to "underdeveloped sectors" may preclude funding in certain SME sectors, when all of the SME sectors should be supported by this legislation.

We note that under the Risk Profile section of the Mandate, there is reference to a policy being developed to guide Fund investment decisions. Can you please clarify whether this is a policy that will apply at a Fund level to all investments or whether such policy will be considered on an investment basis.

In addition, our members would welcome the opportunity to contribute to the development of any such policy, particularly given the range of asset classes in the SME space and the diversity of originators currently being funded, including in unrated warehouses with a range of lenders.

Next steps

Jointly with the ASF and / or separately, we would welcome the opportunity to discuss our feedback further, or to provide additional information.

Please contact me at helen@afia.asn.au or Karl Turner, Executive Director Policy & Risk Management at karl@afia.asn.au or both via 02 9231 5877.

Kind regards



Helen Gordon
Chief Executive Officer