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BY EMAIL

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Dear Ms Calder

**Submission: Development of the retail corporate bond market:
streamlining disclosure and liability requirements**

ANZ is pleased to provide a submission in response to the Discussion Paper on Development of the retail corporate bond market: streamlining disclosure and liability requirements.

ANZ is supportive of the Government's initiative. Retail investors can drive benefits for the Australian corporate bond market. In particular, a deeper corporate bond market will provide access to a new source of funding for corporates and increase liquidity in the market. We believe up to \$40 billion is readily accessible from the retail market, allowing corporates to diversify and expand their funding base.

There are a number of enhancements to the proposals in the Discussion Paper which we believe will make the reforms more effective:

- **Eligibility Criteria:** ANZ recommends some minor changes to issuer and bond conditions
- **Documentation:** ANZ supports a new proposal involving a base or 'shelf' prospectus, followed by a term sheet and cleansing statement for subsequent tranches
- **Liability:** Removal of deemed personal civil liability for directors is a welcome step
- **Credit rating:** ANZ accepts the existing position and considers retail transactions can work under current framework
- **Issuance and execution:** ANZ recommends that all issuers have access to the benefits of ASX's proposed model for the listing of Commonwealth Government Securities

These are discussed in more detail below.

Eligibility criteria

Proposal Details	ANZ Comments
Issuer Conditions	
Issuer is listed entity with quoted securities	Issuer should extend to wholly-owned subsidiary where the business of the subsidiary is to act as a financing company for the group (but suggestion for bond to be guaranteed by the listed parent company or a group member)
Unmodified auditor's report on most recent annual or half yearly report	Unnecessary requirement as inconsistent with audit requirements in other contexts and not all modifications are negative
Bond Conditions	
Bond is for a fixed term with principal payable at maturity	Principal should be allowed to be amortised over a defined period of time Bonds with tenor longer than 10 years should be allowed (suggest 25 years)
Interest may be capitalised or paid periodically	Interest payments should also be allowed to be deferrable (per Woolworth Notes and Origin Notes) as long as sufficient disclosure is provided
Bonds to be issued to all investors at the same price with carve-out for underwriting and cornerstone fees	Important to allow some differential pricing to reflect retail distribution costs, consistent with overseas retail markets. Further, important to allow subsequent issues at different prices to facilitate tap issuance
Callable features	Recommend providing flexibility to adopt a broader range of permitted calls (e.g. AMP's lower Tier 2 notes)

Form of Documentation

The Discussion Paper provides three alternatives for documentation:

1. A single simplified prospectus;
2. A two-part prospectus; or
3. A base or shelf prospectus followed by a term sheet and cleansing statement.

ANZ strongly supports Option 3 which would allow issuers who have issued a first tranche of bonds using short-form prospectus to be able to issue further tranches by publication of a term sheet and cleansing statement. These documents should operate as follows.

1. 'Shelf' short-form prospectus
 - Acts as a shelf document based off the short-form prospectus regime
 - Includes basic information about the bonds, including the risks of investing in bonds
 - This document needs to have a sufficiently long "life" to be effective – suggest a life of 5 years
2. Term sheet and cleansing statement
 - Termsheet to outline the key terms of the new tranche (e.g. interest rate, term, offer size, application process and details of the effect of the offer on the issuer)

- Cleansing statement requires disclosure of any matters material to a consideration of an investment in bonds (not an equity investment) which has not already been the subject of continuous disclosure
- The fact that issuers will benefit from a regime similar to a rights issue is positive
- However, more clarity is need on the liability attached to the cleansing notice and potential defences available

Credit ratings

Disclosing credit ratings of issuers and instruments in retail prospectuses is not permitted as key credit rating agencies (S&P, Moody's and Fitch) do not have retail credit rating licenses. Generally issuers are prevented from referring to its credit rating as a key term for a retail debt offer. ANZ believes this will not adversely impact the issuance of retail bonds.

However, some institutions/middle market investors may be precluded from participating in retail deals as they are unable to buy unrated paper or paper rated by Australia Ratings (licensed by ASIC to issue credit ratings for use in the retail and wholesale markets).

We believe there are a number of options available to market participants:

1. Having the instrument rated but only making the rating available to institutional investors, with no reference to the rating in any retail marketing materials or press releases;
 - S&P have confirmed they are comfortable with this approach and would not require any additional warranties from the issuer; and
 - ANZ undertook this approach on its recent Subordinated Notes issue;
2. Relying on a credit rating from Australia Ratings (per Australian Unity Notes);
3. Expressly stating that credit rating on the issuer or the instrument will not be provided due the licensing restrictions on credit rating agencies (per CBA retail bond); or
4. Where a credit rating relates to the security structure as a key term (an equity credit instrument), substitute credit rating tests with financial metrics tests.

Issuance and execution

Current developments by the Commonwealth Treasury and the ASX to list Commonwealth Government Securities (CGS) is extremely positive and the proposed framework should be made available to all issuers.

Under this process, the AOFM will continue to issue bonds through its existing wholesale process. Retail investor demand will determine the required amounts of bonds to be transferred from Austraclear to CHESS. Retail investors will then buy and sell bonds in retail size parcels with investor holdings reported through CHESS to the external registry.

Once corporate issuers undertake documentation (as discussed in "Form of documentation" above) that makes the offer available to retail investors, we believe that that issue should have access to market framework established for CGS that allows the simultaneous ASX / OTC markets. This will appeal to traditional wholesale investors who seek OTC issuance as well as ASX savvy retail investors.

Market efficiency will be facilitated by market makers acting between the two markets to:

- Make bid/offer prices on ASX; and
- Transfer bonds from Austraclear to CHESS (and vice versa).

This allows for efficient pricing between the two markets, but also some flexibility given the differences in liquidity and transaction costs between the two markets.

ANZ would be pleased to provide further information about this submission. Please contact Adam Vise on (03) 9273 3880 or Adam.Vise@anz.com or Michael Johnston on (03) 8654 3459 or michael.johnston2@anz.com.

Yours sincerely

Handwritten signature of Adam Vise in black ink.

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