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Australian Business Securitisation Fund Review consultation – Australian Securitisation Forum Response

On behalf of the Australian Securitisation Forum (ASF) and its members, we are writing in response to Treasury's legislative review of the Australian Business Securitisation Fund (ABSF) as outlined in a consultation paper publicly released by the Australian Treasurer on 21 December 2021. We note that information and feedback received in response to this consultation from the ASF and other market stakeholders will be considered by Treasury in formulating its report to be provided to government by 25 March 2022.

Australian Securitisation Forum

The ASF is the peak body representing the securitisation industry in Australia and New Zealand. The ASF's role is to promote the development of securitisation in Australia and New Zealand by facilitating the formation of industry positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. The ASF is comprised of a National Committee, specific subcommittees and a national membership of over 160 organisations.

General comments on ABSF

The ASF's responses to the ABSF review consultation questions is limited to information received from ASF members in relation to their experiences of successful (and in some cases unsuccessful) applications and how access to the ABSF has supported better outcomes for SME lenders who have accessed the fund. In general, stakeholders in the SME lending market endorse the ASF's view that the ABSF has been a positive policy initiative by government and there is support for it to continue to evolve and extend its reach.

The ASF is of the view that ABSF outcomes for the SME market can be improved in the following way:

1. A more simplified application process with greater predictability around evaluation parameters so that the criteria for determining ABSF participation are clear to new SME lenders/applicants. We acknowledge that the AOFM is focusing its efforts on this, most notably with the introduction of 'rolling applications'. This will also assist government to be better informed on the performance of the ABSF against its objectives.
2. A greater focus on under-developed SME market sectors such as unsecured lending (i.e., pure cash flow lending) and with an ability to apply the ABSF investment mandate in a flexible way.
3. A greater focus on term capital markets issuance rather than warehouse support, more akin to some aspects of the Structured Finance Support Fund (SFSF) involvement in supporting new issue markets.
4. The AOFM continuing to consult with market stakeholders, including the ASF and its members, to ensure continual improvement, delivery of the ABSF objectives and sector diversity.

ASF responses to ABSF Review consultation questions

Access and cost of SME finance

1. *How has the ability of lenders to provide SME finance improved and to what extent can this be attributed to the ABSF?*

The ABSF has provided a new source of funding for selected SME lenders. The ABSF initiative has brought focus to the funding of small businesses and indirectly improved the liquidity in the sector. The scale of the ABSF and its investments to date are modest but provide credibility to a transaction.

The government's willingness to invest in the sector through the provision of the ABSF has provided confidence to a number of wholesale financiers and institutional credit investors to participate in the funding of SME receivables originated by a number of newer lenders and originators in the market. Over time it may contribute to the expansion of the less traditional forms of SME lending, such as pure cash flow unsecured lending, and '*fill the gap*' on those parts of the credit curve that are under resourced and ultimately need access to the capital markets.

Going forward, it would be greatly beneficial if the ABSF could be focused on increasing capital markets efficiency, even encouraging capital market investment in the sector by actively taking positions where liquidity is needed in the capital stack (notably at the senior level) in a similar way to the AOFM's approach under the Structured Finance Support Fund (SFSF).

2. *To what degree has the ABSF influenced lending rates?*

It is difficult for the ASF to comment as ABSF investments to date have been in private warehouse transactions and accordingly the associated pricing is not in the public domain. Anecdotally, ABSF funding in warehouses has been at below market rates, which would decrease the cost of funding for the warehouse borrower. It is hard for the ASF to comment on whether this decrease in cost of funds has been transferred to the underlying SME borrowers. In more general terms, the ABSF funds have not been fully deployed since its inception largely due to the distraction of the intervening pandemic needs over the last 2 years. It would be valuable if there could be specific targets that the ABSF funds could be utilised for. This may require some form of formal investment policy or strategy. It is fundamental that the ABSF meets its broader policy objectives by enabling growth and competition in the SME lending sector through better access to financing and more specifically to the securitisation markets. As highlighted above, this may mean the ABSF providing funding where capital is most needed and also providing more innovative ways to fund newer entrants to SME lending.

Developing the securitisation market

3. *What effect has the ABSF had on the viability of securitisation funding for SME lenders in terms of cost and assets that can be funded in this way?*

Clearly, securitisation is intended to be the key source of funding by which the ABSF program is to meet its objectives. Although market participants acknowledge that the ABSF has played a positive part in creating confidence and credibility for co-funders to invest in less traditional forms of SME lending (such as unsecured pure cash flow lending), the unintended consequence of some ABSF investments is that it can create a 'crowding in' effect on tranches that otherwise could be covered by the market (i.e. mezzanine). This can then lead to a pricing dislocation and keep other market participants from investing. Conversely, the market and sector would be better served if ABSF investments were deployed in transactions (notably public capital markets ABS) across the credit spectrum where there is a lack of capital available.

4. *Has the ABSF had the effect of crowding in third-party investors to the SME securitisation market?*

There are early indications of third party investors committing time and funds to the SME space, partly to earn superior returns compared to traditional RMBS and ABS investments. There has been a funding gap particularly in the 'unsecured' or 'higher PD' SME space and it is hoped that ABSF investments will target those sectors in both private and public ABS transactions.

5. *What contribution will standardised data reporting make to the development of the SME securitisation market?*

This is seen as critical so that transparency and confidence in data capture and reporting will build confidence in SME receivables portfolios amongst institutional investors and credit rating agencies. The key object of delivering any level of standardised (or consistent) reporting (noting how diverse SME lending is in terms of assets) is to build data libraries, historical performance and

comparisons and eventually develop public indices. However, due to the complexity and diversity of SME assets, they are not as homogenous as residential mortgages and therefore not as easy to compare.

The [data reporting template](#) developed by the ASF in conjunction with SME lenders and investors is intended as a guide only (and will be subject to regular and ongoing market review) and is based on common market conventions but with a fair degree of optionality owing to the diverse types of SME funded assets. Reporting of itself may not necessarily drive the market but data consistency may provide certain efficiencies such as expediting the credit and rating processes. It is acknowledged that for some lenders the cost of implementing a new standardised template may outweigh the benefit. However, as a form of guidance, the ASF reporting template is intended to set out a broad reporting framework from which SME lenders may operate if they so wish.

Investment principles and process

6. *Are the investment principles and process established for the ABSF by the AOFM appropriate to meet the objectives of the ABSF Act and have these been abided by in ABSF investments to date?*

The ASF understands that for some applicants the process of engagement with the AOFM (particularly at the earlier stages of implementation of the ABSF) was not ideal. The ABSF selection criteria has not been entirely transparent and the rigidity associated with a specific time driven EOI process was considered to demonstrate a lack of commercial capacity. The more recent introduction of rolling applications is viewed as being more pragmatic and will go some way to resolving concerns. However, not all outcomes are necessarily meeting the guiding principles and objectives of the ABSF. Specifically, ABSF investments to date have been deployed to those lenders who, due to their size and scale, could arguable already source funding from the market but rather have benefitted from more favourable pricing from ABSF investment. Whether or not intended, this can create an uncompetitive and unsustainable landscape by excluding newer SME lending sectors that remain underserved or underdeveloped. It would be valuable for a funding strategy or plan to be developed that suggests or outlines ways in which the objectives of the ABSF Act can be satisfied.

Legislative settings


7. *Do the ABSF's legislative settings and mandate remain appropriate for the ABSF to achieve its objectives?*

The ASF understands that the first and second EOI application processes 'tripped over' some of the requirements of the ABSF investment mandate because there was a lack of transparency in the selection criteria and the decision making process appeared to be fairly discretionary. Through improved resourcing and the development of a more concrete suite of investment principles or a policy to help guide ABSF investment decisions, the ABSF is more likely to achieve its true purpose in facilitating investing in newer and underserved parts of the SME funding market.

The industry would certainly welcome a greater degree of interaction with the AOFM particularly to determine if other solutions for SME lenders can be sourced via the ABSF (subject to satisfactory risk parameters). This may result in some level of modification of the ABSF investment mandate, but it could address what the needs of this sector as it evolves particularly during the course of the ABSF's current 5 year term.

The ASF greatly appreciates your consideration of the matters raised in this letter and is more than happy to discuss them in further detail with Treasury and indeed any other matter relating to the Australian securitisation market that may assist Treasury with its report to government on the ABSF.

Yours sincerely,

A handwritten signature in black ink that reads "Chris Dalton". The signature is written in a cursive, flowing style.

Chris Dalton, Chief Executive – Australian Securitisation Forum