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10 February 2012

Dear Sir/Madam,

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

We appreciate the opportunity to respond to the 'Discussion paper: Development of the retail corporate bond market: streamlining disclosure and liability requirements' (Discussion Paper) issued by Treasury dated December 2011.

Overall, we are supportive of Treasury's initiative to encourage development of the corporate bond market in Australia. We believe that this will help facilitate the access of funds available to Australian corporate entities and will also provide retail investors with additional investment options.

However, we believe that in addition to assisting companies by making corporate bond issuances more cost-effective and the associated preparation process less time consuming, Treasury could also take a larger role in shaping the overall corporate retail bond market in Australia. The following are areas where we believe Treasury can assist in facilitating the development of the retail corporate bond market at a macro-level:

a) Education of retail investors

Australian retail investors need a better understanding of the risks and benefits associated with corporate bonds. More awareness and education of the different types of corporate bond products and the risks associated with the terms of each of these products would help retail investors make more informed investment decisions.

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b) ASIC 'vanilla bonds' class order relief (CO 10/321)

Companies need to be made more aware by of ASIC's 'vanilla bonds' prospectus relief. The eligibility criteria for this ASIC class order relief is not dissimilar to those proposed for issuers and corporate bond issuances as set out in the Discussion Paper. As noted in the Discussion Paper, only one issuer has used ASIC's class order relief as at the date of the Discussion Paper (December 2011).

This potentially demonstrates a lack of awareness of the availability of the ASIC Class Order relief which should be addressed by the Government and by the regulators. Furthermore, it may be worthwhile for regulators to consult with corporate entities to understand the types of bond instruments that companies would feel comfortable issuing and how these responses compare to the proposed eligibility criteria for the short-form prospectus and regulatory relief.

c) Encourage bond ratings to be prepared by well-established rating agencies

Investment analysis and ratings, provided by well-known rating agencies, on corporate bond products will assist retail investors with their due diligence of corporate bond instruments and will also help investors compare bond instruments issued by different corporate entities.

In considering reduced regulatory requirements for corporate bond instruments, it is also important to consider how this will affect retail investors and to ensure that adequate safeguards are in place to address any additional risks which may arise from reduced regulations.

Specific comments

Our specific comments to the queries raised in the Discussion Paper are set out below.

Discussion questions	Deloitte's Response
Section: Proposed entry requirements / eligibility – Conditions related to the issuer	
Is the requirement for an unmodified auditor's report appropriate, or is it: **a) Inconsistent with audit requirements in other contexts where unmodified reports are not necessary?** **b) Unnecessary, as some modifications may be positive?** **c) Unnecessary because, if the report is modified, investors will have access to the modified report in order to make an assessment of the relevant issues?**	We would like to clarify the intent of the definition of 'unmodified auditor's report' as referred to in the Discussion Paper. Prior to the introduction of the Clarity Auditing Standards (Clarity), a modified audit report was a report containing either a qualification or an emphasis of matter. Under Clarity, only qualified opinions, adverse opinions and disclaimer of opinions are classified as modified audit reports. Accordingly, under the proposed conditions as set out in the Discussion Paper, an entity with an emphasis of matter could potentially undertake a retail corporate bond issue, whilst an entity with a qualification on one asset, which whilst material, is not pervasive to the financial statements, could not. Equally, an entity which may have had an opening balance qualification in the prior year would also be prohibited from issuing retail corporate bonds as it has a carry forward impact. We encourage Treasury to clarify its intention and the requirements in relation to auditor's report.

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Section: Detailed Contents	
Is it appropriate to require the inclusion of information on the capacity of the issuer to meet its obligations under the bonds? Would this require the issuer to provide forecasts which would not be required for bond transactions?	We do not believe that a short form prospectus should be required to include forecast financial information as forecast financials may be predicated upon significant assumptions and limitations which would increase the level of complexity of a short-form prospectus. The audited financial information, financial ratios and other disclosures proposed by the Discussion Paper should be sufficient for retail investors to assess the issuer's capacity to meet its obligations for the bond transaction.
If ratios are to be included, should the formulae to calculate the ratios be prescribed and, if so, what formulae should be used?	We believe that the inclusion of relevant ratios of the issuer would be useful for retail investors and would assist them with comparing between different bond investment options and with other investment options. However, there needs to be flexibility in the calculation of ratios as the calculation of gearing ratio, interest cover ratio and working capital ratio may vary by industry. For example, in the retail industry, the calculation of working capital ratio will likely include cash float, whilst cash is not ordinarily included in the calculation of working capital.

We would be pleased to discuss our comments with you. If you wish to do so, please do not hesitate to contact me on 02 9322 7288.

Yours sincerely,

Caithlin M'Cabe

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