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Manager
Disclosure and International Unit
Retail Investor Division
The Treasury
Langton Crescent
PARKES ACT 2600
Sent via e-mail to: SimpleBonds@treasury.gov.au

Dear Sir/Madam,

CORPORATIONS AMENDMENT (SIMPLE CORPORATE BONDS AND OTHER MEASURES) BILL 2013

Thank you for the opportunity to provide comment in relation to *Corporations Amendment (Simple Corporate Bonds and Other Measures) Bill 2013 ("Bill").*

The Association of Superannuation Funds of Australia (ASFA) welcomes the Government facilitating the improved trading of retail corporate bonds in Australia by streamlining the regulatory requirements for issuing corporate bonds to retail investors.

The development of a deep and liquid corporate bond market is in the interests of all investors but there are significant challenges to achieve this objective. Whilst the Government's reforms are supported by ASFA, it is considered that the overall impact on the depth and liquidity of Australia's corporate bond market is likely to be marginal.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds (SMSFs) and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

General Comments

The Corporations Amendment (Simple Corporate Bonds and Other Measures) Bill 2013 (the Bill) amends the Corporations Act 2001 (the Corporations Act) to facilitate improved trading of retail corporate bonds in Australia.

ASFA anticipates that the reforms will streamline the corporate bond investments process and lead to a marginal impact on the depth of the liquidity pool of buyers in the corporate market.

The structure of the retail investment markets means that in order for Australian corporates to seek to issue corporate bonds to retail investors they will require mechanisms to communicate directly with retail investors. The time and resources required to communicate directly to retail investors may act as a disincentive for some corporates to utilise the reforms. It is also likely that retail investors will be attracted to invest in corporate bonds issued by corporates that have an established brand in the market place; in most instances, this will mean that the household brands and large corporates will have the capability to issue to retail investors.

Because corporate bonds will be quoted on a prescribed financial exchange, retail investors will need to be fully aware that these instruments will be marked-to-market and therefore the value will change daily as opposed to term deposit style pricing. ASFA recommends that the Government ensure that ASIC focuses on addressing the financial literacy of retail investors in respect to corporate bonds.

The attractiveness for a corporate to issue to retail investors will depend on the range of funding options that they have available to them. Corporates will seek to issue where the yield is more favourable to them; in the case of large corporates that are listed on the ASX, they already have the capacity to issue in international markets where yields are competitive.

It is considered that the additional issuance in the Australian market to retail investors will be marginal compared to the overall size of wholesale markets; in practical terms it is therefore not expected that the Government's reforms will significantly increase the depth and liquidity of the domestic corporate bond market.

APRA regulated superannuation funds principally operate in the wholesale institutional market. The most common structure for superannuation funds is that they operate through investment managers that have the capability to source investments on a global basis. Superannuation funds will continue to seek yield where the returns are most favourable and will continue to utilise wholesale markets as the principal means of meeting their fixed interest investment needs. As such superannuation funds will be largely unaffected by the Government's reforms.

ASFA has been consulting with stakeholders to understand the constraints in developing a deep and liquid corporate bond market in Australia. One of the constraints to the development of the market is that corporates are largely satisfied with access to international wholesale markets. There is no impediment to corporates issuing more into the domestic market. Superannuation funds can be expected to respond to increased issuance in the domestic market is attractive yields are offered.

ASFA expects that over the coming decade the demand for fixed interest investments by superannuation funds will continue to grow. Increased demand for fixed interest investments will be supported by two fundamentals. Firstly, continuing contributions into superannuation will result in continued allocation to fixed interest investments as part of the existing asset allocation of superannuation fund members. Secondly, the ageing of the Australian population will result in increased demand for fixed interest investments. In particular, many post retirement products will have higher allocations to fixed interest investments compared to investments in the accumulation stage.

A broad question that ASFA continues to explore is whether there are mechanisms that could facilitate the development of Australia's corporate bond market. ASFA has identified a number of challenges to the development of the corporate bond market including competition from alternate financial instruments. In particular, retail investor demand for fixed interest investments is currently being met by bank term deposits, which have a government guarantee. There has also recently been interest by retail investors in hybrid securities; investors may not fully understand the risks of such securities.

An area that ASFA is exploring is whether there is a need for market infrastructure such as centralised retail trading/pricing platforms that could lead to great transparency around fixed interest investments. ASFA is monitoring the development of the London Stock Exchange Order Book for Retail Bonds (ORB) as one international initiative that may have implications for the Australian domestic market.

At this stage, ASFA believes that Australia's corporate bond market will evolve organically. ASFA therefore does not believe that any further legislation is required.

Specific Comments

We have reviewed the draft regulations, and explanatory material and consider that they will achieve the desired policy outcomes.

Recommendations

ASFA recommends that the Government ensure that ASIC focuses on addressing the financial literacy of retail investors in respect to corporate bonds.

ASFA recommends that the Bill be legislated in its current form.

ASFA further recommends that Treasury continue to engage with ASFA with respect to the fixed interest market place and the broader vision for Australia's financial and economic framework.

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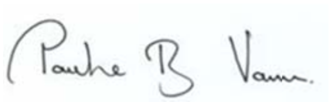
Should you have any further queries with respect to this, please do not hesitate to contact Gordon Noble on (03) 9225-4018 or 0411 109 998 or via gnoble@superannuation.asn.au.

Yours sincerely



Pauline Vamos
Chief Executive Officer