



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

16 January 2019

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

**By email: [ABSF@treasury.gov.au](mailto:ABSF@treasury.gov.au)**

Dear Miss Hogan

### **AUSTRALIAN BUSINESS SECURITISATION FUND**

We support the establishment of the Australian Business Securitisation Fund (the Fund) as it is a significant step towards closing the \$80 billion funding gap<sup>1</sup> in the lending market for small and family businesses.

Currently, smaller lenders source funds from the major banks which has entrenched the market power of the four majors providing 80% of lending to small and family businesses. By directing competitively priced wholesale funds to smaller lenders this power imbalance can begin to be addressed.

#### **Investments of the Fund**

While we note that the Investment Mandate excludes the major banks from being eligible for the fund, the Bill is broader than this and appears to permit the major banks participating in the Fund.

We ask that Section 12 of the Act clarify that banks subject to the *Major Bank Levy Act 2017* and their subsidiaries are not eligible for the Fund. This will ensure that both the Bill and the Mandate are consistent.

#### **Fund Performance**

The explanatory materials indicate the return over a medium term, at a minimum, should match the Bloomberg Ausbond Treasury 0-1 year index. The index at 16 January 2019 is 5.77%<sup>2</sup>. With commercial considerations acknowledged, it is critical the expected return from the debt securities held by the Fund is at a level that it can achieve the objective of the Act - to reduce the cost of credit provided to small and medium enterprises (SMEs).

The Fund, as well as the Business Growth Fund, are welcome initiatives to begin to address the gap in affordable capital for small and family businesses. In order to optimise these initiatives, the Fund needs to have a suitable risk appetite and reasonable rate of return in line with its objectives.

<sup>1</sup> Judo Capital/East & Partners SME Banking Insights Annual Report 2018

<sup>2</sup> <https://www.bloomberg.com/quote/BATY0:IND>

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## Fund Review

The inclusion of annual reporting and a review of the operation of the Act is a welcome process. The Minister conducting a review after 2 years to evaluate the effectiveness of the fund is particularly important.

We recommend that the following measures are captured in the annual report:

- The trend in the cost of lending for SMEs over the year.

As the Fund provides capital to the wholesale market, by issuing tradeable debt securities over tranches of loans to small and medium enterprises (SMEs), the cost of capital for smaller and non-bank lenders should be reduced. The cost for this capital will impact the interest rate these lenders can offer on a loans to a small to medium enterprises (SMEs).

Monitoring the cost of credit to SMEs would provide an indicator of how investments by the Fund in the securitisation market flow through to the cost of credit for SMEs.

- The rate of return achieved on the debt securities held by the Fund.

It is important to attract other investors to SME loan backed securities to sustain supply of capital over the long term. In 2018 Perpetual released its report following a review of the securitisation market which found investors need quality information and greater transparency to inform investment decisions<sup>3</sup>.

Publishing the rate of return from each debt security issued, and the particular risk characteristics of the underlying assets, will be key to attracting other investors in the securitisation market to SME loan backed securities

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Jill Lawrence on 02 6121 5312 or at [jill.lawrence@asbfeo.gov.au](mailto:jill.lawrence@asbfeo.gov.au).

Yours sincerely



**Kate Carnell AO**

Australian Small Business and Family Enterprise Ombudsman

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<sup>3</sup> <https://www.perpetual.com.au/insights/the-australian-securitisation-investor-report-2018>