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LAWYERS

CAPITAL MARKETS INSIGHT

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The Treasurer releases discussion paper for proposals to develop an Australian corporate bond market

The Deputy Prime Minister and Treasurer, Wayne Swan has released last week a discussion paper on proposals to facilitate a liquid retail bond market. This is one of the natural progressions from the Treasurer's successful amendments to the Banking Act in October 2011 that permits Australian banks and other Authorised Deposit-taking Institutions (ADIs) to issue covered bonds and his proposal to list Commonwealth bonds.

The discussion paper follows one recommendation from the November 2009 Johnson Report on "Australia as a Financial Centre: Building on our Strengths" which identified the small Australian corporate bond market as an area of weakness in the Australian financing industry. The report notes sufficient depth in Australia's wholesale debt market but a small illiquid retail corporate bond market in comparison to other leading OECD countries.

The paper is seeking comment about reducing the disclosure and liability regime for simple Australian retail corporate bonds to facilitate an increase in supply and demand of those bonds.

While streamlining regulation is to be encouraged, the paper acknowledges the significant commercial impediments to a retail corporate bond market that exist in the near term irrespective of changes to the law.

Submissions

The paper invites submissions on the proposals by **Friday, 10 February 2012**.

Henry Davis York proposes to make a submission on the proposals.
Please contact a member of the Capital Markets team if you wish to discuss any issues for inclusion in our submission or any issues in relation to the proposals.

Who does this affect?

Listed companies considering raising funds.

Highlights

- The Deputy Prime Minister and Treasurer, Wayne Swan has released a discussion paper on proposals to facilitate a liquid retail bond market.
- The paper is seeking comment about reducing the disclosure and liability regime for simple Australian retail corporate bonds to facilitate an increase in supply and demand of those bonds.

More information on covered bonds

Covered bonds are secured debt instruments, usually issued by a credit institution either as part of a single issuance or as a program. They are a low risk interest-bearing product with a maturity of no less than one year and no more than 30 years. In the event of the issuer's payment default, bond holders have preferential recourse to specified collateral, known as the "cover pool", which is ring-fenced from the issuer's other assets and the claims of its general creditors. If the collateral in the cover pool is not sufficient to satisfy bond holders' claims, there is secondary recourse against the credit institution as an unsecured creditor. This multiple-recourse nature of covered bonds seeks to ensure that they can withstand any distress experienced by the issuer or caused to the underlying collateral. Indeed, compared with other debt securities, such as unsecured debt where there is an absence of secured collateral underlying the obligation of the issuer, covered bonds can be classified as "senior secured debt".

For more information on covered bonds, please click here.

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