

Primary tests new ASIC bond rules

Capital markets

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Debt capital market bankers were quick to point out that Primary Health Care was not their first choice when it came to a pilot for the corporate regulator's new prospectus requirements for retail bonds.

But most conceded the healthcare provider would be a reasonable gauge of the Australian Securities and Investments Commission's measures to reduce compliance hurdles and increase interest among retail investors for bonds without credit ratings.

Several senior debt capital market bankers, who did not want to be named, had hoped the first company to test ASIC's simplified disclosure requirements would stem from the top 50 ASX-listed companies.

Given these companies have a myriad of lending avenues, the likelihood of BHP Billiton or Woolworths heading down the retail route was more of a pipe dream.

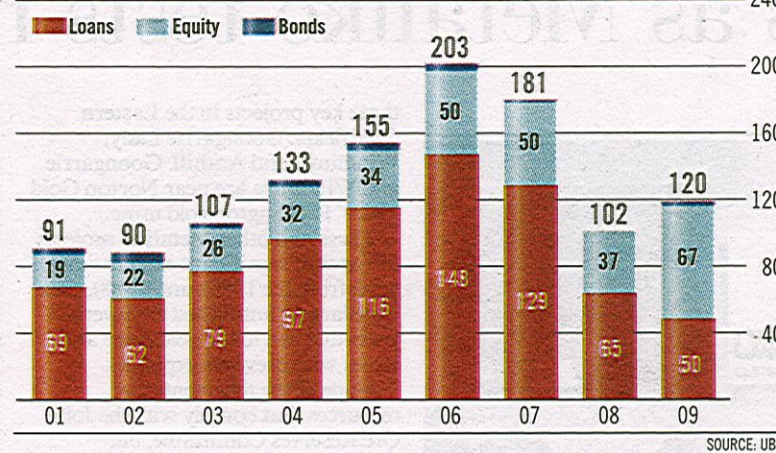
Despite Primary's size, its brand, equity markets presence and defensive healthcare sector heritage should create a base level of demand among retail investors.

Primary yesterday told the ASX that it was considering a "draft proposal for the issue of retail bonds" in the order of \$100 million, as revealed by *The Australian Financial Review*.

The director of fixed-income broker FIIG Securities, Brad Newcombe, said he was hopeful the Primary issue would "spark a revival of the retail bond market", which stalled last year.

Where the money comes from

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Arnhem Investment Management head of equities George Clapham said, provided the Primary issue could bring down average funding costs and lengthen the term of funding, he couldn't see why it would be negative for equity holders.

The one sticking point that some investors, aware of the terms of the deal, flagged was the structure.

They said that while the bonds were senior debt, in compliance with ASIC's class order relief, they sat below bank debt in the corporate structure, making them structurally subordinated.

Primary declined to comment. There are concerns issuers may use the exodus of the rating agencies to their advantage by offering weaker structures to retail investors that may be difficult for them to grasp.

In April, ALE Property Group did a \$125 million bond issue, which was

critiqued within the fixed-income community for its perceived opacity.

In the retail corporate bond market, bonds cannot be rated because the major rating agencies had a stoush with ASIC and chose not to apply for a required license.

While the pricing gap between investment grade and sub investment grade debt issues is sizeable in the institutional market, this gap is not necessarily captured in the retail bond market.

One factor to offset this so called ratings arbitrage is that institutions, who possess the skills to evaluate pricing and structures, often take cornerstone positions in retail bond issues. This reduces the likelihood that the deal will be overpriced.

What's more, as the institutional investment grade corporate bond market grows, there will be more pricing points for investors to compare deals with.

As ASIC moves to condense the information provided to retail investors in retail bond issues, it will want to balance less disclosure with potential manipulation of retail investors.

There are some concerns that slimmer prospectuses will turn into weaker prospectuses, as companies omit unfavourable information under the pretence of simplification.

Debt bankers maintain that ASIC is "hypersensitive" about protecting retail investors, pointing to the corporate regulator's decision to maintain prospectus liability on its class order relief.

"It might look like a short, 30-page document, but the work done behind the scenes to make sure the document is watertight is just the same as if it were 100 pages long," one banker said.

Indeed, some bankers are calling for the removal of prospectus liability to mitigate the cost of the due diligence process, which gives companies a defence against liability, to further assist the retail bond market.

Those that have viewed ASIC's model prospectus are hopeful it will give chief financial officers some understanding of ASIC's expectations and a template to discuss with their lawyers.

After a year in the making, it's encouraging to see that ASIC and Treasury's efforts to enliven the retail bond market are bearing fruit.

What remains to be seen is whether the Primary issue underscores the success of ASIC's measures or the need for further reform to narrow the divide between equities and debt.

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