



Swan's bonds push gathers pace

JAMES FROST
BONDS

A FUNCTIONING corporate bond market is a step closer to reality after the release of a paper coincided with a round-table discussion attended by the nation's top bureaucrats and executive talent.

But it could be a small step. As sources made all the right noises about the tenor of discussions and the progress being made, local players in the bond market, which exists for institutions and wholesale investors only, were not entirely convinced.

Among those who attended yesterday's meeting in Sydney were Wayne Swan, Australian Securities & Investments Commission chairman Greg Medcraft, Reserve Bank assistant governor Guy Debelle and IAG chief executive Mike Wilkins.

The involvement of Mr Wilkins will have provided the

assembled group of regulators with a deeper understanding of the hurdles faced by companies looking to raise capital.

Last month IAG chose to market a \$250 million bond issue to New Zealanders at a rate of no less than 7.5 per cent a year.

For many Australian investors, the return compares favourably with the RBA's cash rate of 4.25 per cent.

A spokesman for IAG said: "Naturally, we welcome the release of Treasury's discussion paper and efforts to streamline and improve arrangements for issuers and investors."

Bond market professionals remain more circumspect about the back and forth between regulators and industry.

Barry Sharkey, executive director of capital markets with UBS, said the paper was a step in

the right direction, although "it will come down to what investors want to buy and what issuers want to sell".

Jon Lechte, executive director of markets with fixed income specialists FIIG, agreed. He said: "Customers will say that they don't want any risk, they just want a safe security. And when you tell them a commonwealth government security is paying 3 per cent, they will say, 'OK, what else have you got?' As you go further up the curve you get subordinated debt and hybrid debt which are paying 8 per cent or 9 per cent and it's at that point that investors start thinking that things get a little more interesting, but these securities may not qualify under the proposal."

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Treasury's plan to get Australia's bond market off the ground is essentially a two-pronged approach.

First, provide investors with a benchmark in the form of risk-free government bonds.

Second, reduce the regulatory burden on Australian companies by allowing them to issue short form prospectuses.

A spokesperson for lawyers Mallesons Stephen Jacques welcomed the proposals.

The prospect of being soon able to facilitate the trade of government and corporate bonds was welcomed with a degree of

enthusiasm by the Australian Securities Exchange.

However, critics point out that merely listing on the ASX is no guarantee of liquidity.

The ASX's Interest Rate Securities update for November shows that there were fewer than 200 trades of day of its current selection of corporate bonds and floating rate notes.

Along with a selection of more obscure securities, it includes a \$750m bond issue released by the AA-rated Commonwealth Bank last year.

That's exactly the kind of highly rated but low-risk instrument that participants expect to thrive under the new regime.



Guy Debelle

KEY OBJECTIVES

- Reduce the regulatory burden facing potential issuers while maintaining appropriate investor protection.
- Ensure that investors are made aware of the key features and risks associated with buying a particular bond from a particular company while reducing the complexity of prospectuses and making them easier for investors to understand.
- Ensure that there is an appropriate liability regime in place which balances investor protection against ensuring that directors are not unduly burdened.



Mike Wilkins



DAN HIMBRECHTS

Future Fund chairman David Murray



DAN HIMBRECHTS

ASIC chairman Greg Medcraft



DAN HIMBRECHTS

Wayne Swan arrives for the meeting in Sydney yesterday