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Mr Jason Lange  
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Office of Best Practice Regulation  
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Dear Mr Lange

**REGULATION IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS – AUSTRALIAN BUSINESS SECURITISATION FUND**

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for the Australian Business Securitisation Fund.

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers.

In particular, the RIS addresses the seven RIS questions:

*What is the problem?*

There are concerns about the availability and price of finance for small and medium enterprises (SMEs), particularly unsecured loans. SMEs perceive that the relative ease of accessing finance has recently declined. There is a lack of competition in the market- as the four major banks hold 80 per cent of the SME lending market. Small SME lenders (bank and non-bank) are growing quickly to compete against the major banks and are more likely, particularly the non-banks, to offer unsecured finance. However, small lenders face impediments to raising capital at rates which enable them to compete more effectively against the major banks and grow to levels that unlock economies of scale. Unlocking the securitisation market for SME loans would allow these smaller lenders to better compete against the four major banks and extend more credit to SMEs.

*Why is government action needed?*

Government action could address the problem of a self-perpetuating lack of scale in the SME securitisation market, where sporadic deals and low issuance volumes mean that potential investors are reluctant to invest the resources needed to enter the market, while the issuance pipeline is constrained by the limited participation of potential investors.

*What policy options are you considering?*

Three options are considered: retaining the status quo; the Government addressing market infrastructure gaps; and establishing an Australian Business Securitisation Fund.

*What is the likely net benefit of each option?*

Under the status quo, the problem of an underdeveloped SME securitisation market would not be addressed and smaller lenders would continue to face limitations in their competitiveness and ability to extend credit to SMEs. The benefit of this option is that SME lenders would not face any additional obligations, and current investors would face no change.

Under the option to address market infrastructure gaps, constraints in the development of the SME securitisation market would be partially addressed by providing foundations on which the market could grow without direct Commonwealth financial support. However, the infrastructure measures alone would not address the scale constraints that hinder market development, suggesting it will generate relatively lower benefits. There would be practical difficulties and risks in implementing market infrastructure improvements and market participants would face higher regulatory costs.

Under the option to establish the Australian Business Securitisation Fund, the problem of an underdeveloped SME securitisation market would be addressed through Commonwealth financial support, which may improve investor perception of the market, potentially broaden the investor pool and over time facilitate a more developed market. The Government can also provide funding at less than the prevailing market rate, where necessary, to help sufficient scale be achieved. Drawbacks include risks to the Commonwealth balance sheet and crowding out existing investors if the Fund is not implemented carefully. Strategies to mitigate these risks have been included in the policy design of the fund, including its investment mandate.

*Who will you consult and how will you consult them?*

The Government undertook targeted consultation, including bilateral meetings and roundtables, in late 2018 with a range of SME lending and securitisation market participants to inform the detailed design of the Fund. Draft legislation and key elements of an investment mandate were released for consultation between 21 December 2018 and 16 January 2019. Ongoing consultation with market participants will be undertaken throughout the life of the Fund as it is key to monitoring the performance and effectiveness of the program.

*What is the best option from those you have considered?*

Establishment of an Australian Business Securitisation Fund is the preferred option as it would deliver the greatest improvement in the functioning of the SME securitisation market, with flow-through benefits to SME borrowers. The design of the Fund incorporates strategies to reduce costs to the Commonwealth and market participants where possible, and mitigate risk.

*How will you implement and evaluate your chosen option?*

The Australian Business Securitisation Fund will be implemented through new primary legislation accompanied by an investment mandate and rules. The legislation establishing the Fund requires that its operation be reviewed two and five years after its establishment.

I am satisfied that the RIS addresses the concerns raised in your letter of 24 January 2019. Specifically, the risks associated with the options are more fully outlined, as are the steps that would be taken to mitigate them. The RIS also includes a more detailed conclusion outlining why the Australian Business Securitisation Fund is preferred.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely

A handwritten signature in blue ink that reads "Diane Brown". The signature is written in a cursive style with a blue ink color.

Diane Brown  
Acting Deputy Secretary  
Markets Group