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Dear Sirs

Response to Corporate Bond Market Discussion Paper – December 2011

I write to thank The Treasury for its' recent initiatives to make raising debt funding through Retail Corporate Bonds easier for issuers. The recent discussion paper is a step in the right direction.

Metcash Limited (Metcash) is Australia's leading wholesale distribution and marketing company specialising in grocery, fresh produce, liquor, other fast moving consumer goods, and hardware. Metcash is an ASX100 company which raises debt funding through its subsidiary Metcash Trading Limited.

Until this year Metcash raised all of its funding through the local bank markets. In October 2011 Metcash raised A\$700m of debt funding through a syndicate of local and international banks. This year however Metcash felt that it was appropriate to diversify its sources of funding for the first time. In September 2011 it raised A\$210m in the US Private Placement (USPP) market.

Metcash's experience is typical to many large Australian corporate borrowers. Australian and New Zealand issuers totalled approximately 17% of the US\$48bn raised in the USPP market in 2011. This was up from 7% in 2009 and 11% in 2010. Metcash chose to go to the USPP market because of its deep pool of available liquidity, the long tenors available in that market and accessibility by issuers who do not have a credit rating. One of the key attractions of this market is the relatively low level of execution risk. A corporate borrower with a good credit history can be reasonably certain before launching the deal that the market will be open and that the deal will price within a guidance range.

By comparison it has been a relatively good year in the Australian wholesale domestic bond market but still the market lacks scale and liquidity. Corporate issuers have raised approximately A\$6bn in funding in this market, however no issues took place in that market between early July and late October.

As a Corporate Treasurer for the last five years, with the last two years spent as Group Treasurer of Metcash, I have taken an active interest in both the wholesale and retail domestic bond markets however I have never chosen to issue debt into either market. The primary reason for this is the high level of execution risk a new issuer would face in these markets. I think that it is important to make improvements to the wholesale corporate bond market before the retail corporate bond market is addressed.

To raise funds in the wholesale corporate bond market requires at least one credit rating, the legal work to put a domestic MTN programme in place and a prospectus. To complete this work has a long lead time, perhaps 3 to 6 months, with no guarantee that the market will be open at the end of this process. Whilst a USPP requires similar time and higher expense on a roadshow, prospectus and legal documentation, it is reasonably probable that the market will be open once these are complete. Companies with lower debt requirements (say less than A\$2bn of debt in total) do not have the time and resources to cover as many debt markets as possible just in case an issuance opportunity comes available. For this reason Metcash preferred the USPP market over the wholesale domestic bond market.

There have been some good issues done this year into the retail domestic bond market however at the present time because the banks have been offering such good interest rates on term deposits it makes this a very expensive source of funding. The best issues in the retail domestic bond market this year have been subordinated issues.

Whilst I think that the recent discussion paper to make prospectus requirements less complex are a step in the right direction I would urge The Treasury to go beyond this in terms of reforms. For the wholesale market there does not appear to be sufficient liquidity in either the primary or secondary market to make investors want to deploy more funds there. In my recent conversations with Australian fixed income investors some indicated that they preferred investing in more liquid fixed income markets such as the US. Australia has the fourth largest superannuation industry in the world, yet relatively little is invested directly into fixed income debt; furthermore even less is invested into Australian domestic fixed income corporate debt.

To create the liquidity which is required to create a vibrant and liquid corporate bond market requires the Government to set guidance or policy in this area. Fixed income products display significantly less volatility than investments in equities and have in the long run produced good stable investment returns for investors. Government should require that superannuation funds invest a higher proportion of default funds into fixed income corporate debt. This would create demand for corporate bonds which would in turn persuade corporate issuers to increase supply. This would stimulate liquidity in both the primary and secondary corporate bond markets. If Government cannot do this through policy then it should create incentive by reducing the 15% tax rate paid on superannuation returns for fixed income products only.

A more liquid market means a market which both issuers and investors can rely on to be open. This then makes it worthwhile for corporate issuers to invest the time and the resources required into being able to access this market. As the Group Treasurer of an Australian company, I would be very happy to raise funds in the domestic bond market if I knew that I could always execute a deal at a reasonable price.

Another way to increase the number of issuers would be to simplify the documentation requirements to access the market. Many issuers have EMTN programmes but are required to invest further time and resource to create a domestic MTN programme. An EMTN programme is the more flexible form of documentation and issuers would be advantaged if they could use this programme in the domestic market.

With regard to a number of the issues raised in the discussion paper:

I would advocate that issuers should be able to issue subordinated debt. The retail domestic bond market has been an excellent source of this type of debt as very few wholesale investors have appetite for this risk. Retail investors are attracted by the high yield and may

not fully understand the risks. This could be addressed through ensuring that the risks are clearly and adequately explained to investors.

I would allow interest to be deferred however only if in the form of a zero-coupon bond. Zero-coupon bonds are an excellent source of funding for long term infrastructure projects which do not generate cashflows for a number of years. This opens up the possibility of more issuers entering the market which is a good thing.

I believe that if issuers want to use the proposed short form prospectus they should be credit rated if unsubordinated debt is raised. For subordinated debt the onus should be on informing the investor of the relative risks and having a different, lower rating for this type of debt will only serve to confuse the investor.

I would be happy to discuss any of the topics raised in greater detail at any point in the future.

Yours faithfully

Alistair McLean
Group Treasurer
Metcash Limited