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Lauren Hogan
Financial System Division
The Treasury, Langton Crescent, Parkes ACT 2600
By email: absf@treasury.gov.au

Dear Ms Hogan

Submission on Australian Business Securitisation Fund proposed legislation

Pepper Group Limited ("**Pepper**") welcomes the opportunity to provide its feedback on the recently released exposure draft of legislation (the draft Australian Business Securitisation Fund Act 2018 ("**the Act**")) to establish and regulate the Australian Business Securitisation Fund ("**the Fund**"), along with the associated draft Investment Mandate (the Mandate), and Explanatory Materials ("**EM**").

Pepper has also participated in the preparation of submissions by the Australian Securitisation Forum ("**ASF**") and Australian Finance Industry Association ("**AFIA**") which have been prepared on behalf of respective membership groups and we endorse the feedback on the proposed legislation which has been given in those documents. Pepper is making its own submission to provide some background on our participation in this area of the market as well as providing some feedback on matters for Treasury and the AOFM to consider in the proposed legislation and investment mandate to achieve the objectives set out in same. We will not repeat the more technical, definitional comments made by the industry bodies rather focussing on broader aspects of the ED and associated documents.

We are supportive of the outcomes the proposed legislation seeks to achieve to enhance competition and other consequential benefits in the Small to Medium Enterprise ("**SME**") lending space albeit we believe achieving the objectives noted in the Exposure Draft Explanatory Materials will require a considered approach to both the Fund rules and the manner in which the funds are allocated under the mandate.

Who is Pepper?

Pepper Group has built a unique, diversified, global portfolio of financial services businesses which include Lending, Advisory and Asset Servicing across the residential and commercial property sectors - as well as in consumer, auto and equipment finance. As a people focused lender for the past 17 years we have developed flexible loan solutions based on individual credit assessment, which enables us to support many borrowers who fall outside the credit criteria of the major banks. We are a strong supporter of the self-employed and consequently SME sector. Our recently launched commercial lending program in Australia demonstrates further commitment towards this area of the market. Since 2001, we have helped over 200,000 Australians achieve their financial goals and we live our mission: to help people succeed. Our offices span Australia, Asia and Europe.

We're a global leader in alternative solutions with over [600,000] customers worldwide and [\$69 billion in assets under management as at 31 December 2018 – comprising \$14.8 billion in lending assets and a servicing portfolio of \$54.3 billion.

Pepper focuses on markets that the Banks do not, or no longer, service appropriately. Our underwriting standards are no less stringent, and in some cases more so in that we do not use automated loan approvals for our mortgage or commercial applications in contrast to many of the ADI's. Instead, a credit officer manually assesses each loan application on its merits based on a detailed and thorough review of all aspects of the customer's circumstances. This allows us to ensure we understand the credit circumstances and requirements of each borrower and therefore we are able to service a broader sector of the market.

Pepper's distribution through a broad and expansive 3rd party network positions us to be able to compete in sectors we lend in with all level of competitors, including the larger ADI's, in the market. Additionally, our experience in the debt capital markets and depth of relationships with investment banks and debt market investors across a breadth of products positions us to have the ability to fund originations of assets in the most efficient manner allowing us to be highly competitive in the pricing of our products.

Pepper's comments on the Act, the Mandate and the EM

We note each of the draft documents are high level and we assume, subject to the passing of the legislation and appropriation of budget, more detailed, operational documents will be created to provide clarification on the specifics of how the Fund will operate.

Pepper would be pleased to assist Treasury and the AOFM in their work in defining the rules and mandate so as to achieve the desired objectives.

Please see below our comments on each of the documents:

The Act

- Section 9
 - We believe the initial amount contemplated to be credited of \$250m should be increased which we will comment on further in Section 14.
- Section 14
 - Paragraph 1
 - We believe the amounts proposed to be credited to the account in the first 2 years should be larger than the contemplated \$250m to ensure there is sufficient capacity for those delegated to invest the funds to achieve the objectives of the legislation
 - We would propose allocating at least \$600m to each of the first 2 years with flexibility for the Minister or their Delegate to be able to allocate additional funds if the circumstances warrant
 - The ability for funds to be reinvested and our understanding that there is a desire to be able to demonstrate the objectives of the Fund are being met would benefit from the capacity for earlier deployment of funds

- Section 22
 - paragraph 4
 - We would be happy to assist the Treasury and AOFM in formulating the planned rules in order to achieve the desired outcomes for the proposed legislation

Exposure Draft Explanatory Memorandum

- As the EM is an explanation of the Act, we have no additional comments than those noted above.

The Australian Business Securitisation Fund Investment Mandate

Pepper believes that the industry would benefit from further clarification by the Treasury and AOFM on what they mean by the term “the underdeveloped sectors” of the SME Securitisation Market. Does this refer to the number of products available to customers or originators with the capacity to lend in these markets?

- Investment Considerations
 - We note that in order to provide competition in the market there needs to be both a viable warehouse and term market in operation for originators of relevant size and breadth of product to viably compete with large incumbent ADI lenders
 - We note that there is only currently a small SME securitisation market. Deepening the market for SME loans and encouraging greater private investor participation will most readily be achieved through having originators, particularly those with a solid investor following, offering product by bringing term securitisation transactions to market.
 - We believe the smaller originators will benefit from this as transactions from benchmark issuers will allow smaller issuers to leverage off in building their own programs both at the warehouse and, in time, in the term markets
 - We note that by investing more in term transactions will allow the Fund to exit over time either at the call date of the transaction or, if the market conditions are supportive, selling positions in the secondary market.

We reiterate our support for the initiatives of the Fund and would be delighted to discuss any queries you may have with our comments and are available to assist Treasury and the AOFM in providing any background information on the SME securitisation market. If you have any queries please do not hesitate to contact Andrew Twyford (atwyford@pepper.com.au) or me.

Kind Regards



Paul Byrne
Group Treasurer