Productivity Commission Inquiry into Reducing barriers to business dynamism - Retail Corporate Bond Market Development

The Corporate Bond Reform Working Group (the Group) is pleased to provide this submission to the Productivity Commission inquiry into Reducing barriers to business dynamism. The Group aims to foster the development of a robust, retail-accessible corporate bond market in Australia to provide capital to help grow Australian businesses and investment opportunities for Australian individuals to create wealth.

Our members represent a diverse range of stakeholders from across Australia's financial markets, including retail investors, stockbrokers, financial advisers, corporate borrowers, and industry service providers. A full list of members is provided in Annexure A (see Slide 8).

A retail corporate bond market is a market for corporate bonds that are publicly offered, traded on an exchange and designed to be accessible to the widest possible range of investors, including retail investors, institutional investors, and others in the most transparent way.

This submission is focused on the development of a vibrant retail corporate bond market in Australia and recommends legislative change to remove issuance barriers and facilitate access for retail investors.

Against the backdrop of 'broadly flat productivity growth'[1] and a highly uncertain economic outlook[2] it is critical to have policy settings that support productivity and economic growth. Furthermore, faced with an ageing population[3], Australians need access to a diverse range of investment opportunities which can be tailored to suit their specific needs.

A well-functioning retail corporate bond market can:

- Support Australia's economic growth by reallocating private savings to productive investments;
- Enable improved retirement outcomes for Australian individuals by providing access to an investment class that offers stable income with minimal volatility; and
- Strengthen the crisis resilience of Australia's financial system, by broadening the availability of funding for companies beyond traditional bank lending and offshore wholesale debt markets.

Because of inhibitory policy settings, Australia has an underdeveloped retail corporate bond market. With the right regulatory settings, the issuer barriers can be streamlined to unlock the potential of Australia's retail corporate bond market.

Why develop Australia's corporate bond market?

In recognition of the economic benefits provided by the availability of diverse forms of capital/credit, there has been a concerted effort across many jurisdictions to facilitate the growth of corporate bond markets[4].

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[1] The state of the nation: Key challenges for Australia's economy - UNSW BusinessThink

[2] Statement by the Reserve Bank Board: Monetary Policy Decision - August 2024 | Media Releases | RBA

[3] 2023 Intergenerational Report, Australian Treasury

[4] Including: Asia (Corporate Bond Markets in Asia, OECD 2024 Report, which commented on the reforms introduced in many Asian jurisdictions to develop corporate bond markets in recognition of the importance of well-functioning capital markets); Europe (Europe's growing league of small corporate bond issuers: new players, different game dynamics); United Kingdom (Broader Access To The UK Bond Market Under The Microscope); Emerging Economies (There has been significant growth in bond issuance in emerging economies since the GFC largely attributable to accommodate monetary policies. See page 2 (2020) Growth of Global Corporate Debt main facts and Policy Challenges, World Bank Group, also available here); and Australia (See Securitisation: A government perspective Speech by Jim Murphy, Executive Director Markets Group the

A well-developed retail corporate bond market offers significant benefits for the economy and its participants:

- **For corporate borrowers:** A vibrant retail bond market would provide a source of capital in addition to equity, bank debt and wholesale bonds, enabling diversification of funding sources and more flexibility in responding to changing market conditions[5]. The broadening of funding avenues can lead to more competitive terms and lower capital costs, driving increased business investment and job creation. Additionally, a strong domestic bond market reduces reliance on offshore funding, thereby mitigating currency risks and funding instability, particularly during global market shocks. This is particularly pertinent given Australia's current heavy reliance on offshore debt markets, which currently underpin ~60% of Australia's corporate bond issuance[6].
- **For retail investors:** Corporate bonds represent a key asset class that offers more price and yield stability than equities, higher and longer-dated returns than bank deposits, and greater liquidity than real property. These characteristics can support a well-diversified investment portfolio and are often highly desired by retail investors, particularly those at or nearing retirement. This asset class is important as the hybrid market winds-down over the next 6 years.
- **For both borrowers and investors:** By combining demand from multiple buying groups, including retail and institutional investors, issuers can access funding in challenging economic times (as we've seen through listed bonds in the past[7]) and investors can access liquidity under stress from a diverse range of buyers.

Status of Australia's corporate bond market

Despite the clear benefits, Australia's corporate bond market remains underdeveloped compared to global peers. Issuance is concentrated among a small number of large corporations (predominantly banks[8]), and the investor base is largely wholesale (commonly institutional) investors, with very limited retail participation.

Currently, there are only four corporate bonds in Australia that are directly accessible to retail investors via a licensed exchange. These bonds have an aggregate market capitalisation of less than $600 million and are held by less than 3,000 individual investors[9]. This contrasts with Australia's deep and liquid listed:

- Equity market, which is accessible to both wholesale and retail investors, has approximately 2,000 securities on issue with an aggregate market capitalisation of over $3 trillion[10] and is held by over 3 million individual investors[11]; and

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Treasury (2011) outlining that the lesson from the GFC was that access to diversified funding sources was important and why the securitisation industry has received Government support. See also 'Australia as a Financial Services Centre', Statement by the Minister for Financial Services, Superannuation and Corporate Law, 2010)

[5] Attila Becsi & Gergely Bognar & Mate Loga, 2021. "The Growing Importance of the Economic Role of the Corporate Bond Market," Financial and Economic Review, Magyar Nemzeti Bank (Central Bank of Hungary), vol. 20(4), pages 5-37

[6] ABS 5232.0, Australian National Accounts: Finance and Wealth (March 2024)

[7] Such as Tabcorp's 2009 retail debt capital raising which was issued at the height of the global financial crisis when debt markets were difficult and expensive to access

[8] The RBA Bulletin - March 2022 – Australian Securities Markets through the Covid-19 Pandemic noted that banks accounted for 60% of all Australian non-government corporate bonds that were issued in Australia or international markets over the past five years

[9] ASX internal analysis, May 2026

[10] ASX end-of-month report May 2026

[11] ASX internal analysis, May 2026

- Hybrid market, which is currently accessible to both wholesale and retail investors, has approximately 50 securities on issue with an aggregate market capitalisation of $41 billion[12] and is held by ~100,000 individual investors[13]. Albeit, this market is in a wind-down mode following APRA's 2024 decision to phase out use of hybrid bonds by banks (AT 1 capital instruments) by 2032. Retail investors who have used bank hybrids for potential yield enhancement and franking credit benefits may need to consider other income securities, such as corporate bonds, between now and 2032 as the bank hybrid markets gradually winds down.[14]

There are widely acknowledged benefits associated with listed markets that would be advantageous for Australia's corporate bond market, including fair and open access to all investor groups, transparent price discovery and valuations, and strong governance requirements and oversight.

Australia's corporate bond market also lags many regional peers. Submissions to the 2020 Inquiry into the Development of the Australian Corporate Bond Market by the Standing Committee on Tax and Revenue noted that Singapore had three times more, and Hong Kong double, corporate bond issuances than Australia[15]. Following regulatory reform, New Zealand's issuance of corporate bonds is also larger (relative to the listed equities market) and more liquid than Australia's, notwithstanding that its capital markets and savings pool are substantially smaller than Australia's[16]. New Zealand boasts over 100 retail-accessible corporate bonds with an aggregate market capitalisation ~NZ$50 billion[17].

Additional data on the status of the Australian corporate bond market is provided in Annexure A (see Slides 3-5).

Proposed Reforms to Develop the Retail Corporate Bond Market

Despite the concerted effort by previous Governments[18] to amend the regulatory regime and allow for the development of a deeper and more active corporate bond market, policy changes to date have been insufficient to address barriers.

The most recent reforms occurred in 2014 when the Corporations Act was amended to introduce a new simple corporate bonds regime which provided limited disclosure relief for issuers of simple corporate bonds. The regime was introduced in an effort to strike an appropriate balance between streamlining disclosure for issuers and protecting the interests of retail investors. The fact that very few companies have issued under the simple corporate bond regime suggests that the right balance has not yet been struck and more is required to improve the attractiveness of the corporate bond market for both investors and issuers.

The following reforms are recommended (which are set out in order of priority) to foster the development of a more dynamic and retail-accessible corporate bond market:

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12 ASX Hybrids: Monthly Update - May 2026
13 ASX internal analysis, May 2026
14 ASX, What the phasing out of the bank hybrid market means (6 June 2025)
15 Dr Shumi Akhtar, Submission 17, p. 5
16 The Development of the Australian Corporate Bond Market: A Way Forward (2021), page iii and page 38
17 NZX Limited – Monthly Shareholder Metrics, May 2026
18 Including the Gillard Government which facilitated the trading of Commonwealth Government Securities on exchange "as part of its broad agenda to foster a deep and liquid corporate bond market" to diversify and strengthen funding of Australia's financial system (see Develop a deep and liquid corporate bond market (2011)), as well as a commitment by the Morrison Government for further reform in Recommendation 33 of the Government response to the Financial System Inquiry (available here)

1. **Streamline Disclosure Requirements:** The current prospectus level disclosure requirement for retail corporate bonds is costly and duplicative for listed entities that are already subject to continuous disclosure requirements. This contrasts with the streamlined non-prospectus disclosure process for equity capital raises, despite the lower risk profile of bonds as an asset class compared to equity. The effect is that retail issuance of standard bonds is prohibitively expensive and time-consuming in comparison with the obligations that apply to equity markets and wholesale and offshore bond markets.

   Recommendation: Allow publicly listed companies to rely on a "cleansing notice" regime for retail bond offerings, supplemented by transaction-specific term sheet disclosure[19].

2. **Enable Early Redemption of Simple Corporate Bonds:** Current regulations do not allow issuers of simple corporate bonds to facilitate early redemptions or extend bond maturity dates, exposing them to unacceptable refinancing risk. Issuers often need flexibility to refinance bonds in advance of maturity and this lack of flexibility is one of the reasons they are reluctant to issue under the simple corporate bonds legislation.

   Recommendation: Allow early redemption of simple corporate bonds, in line with practices in the wholesale bond market. Early redemption rights would be fully disclosed, and investor protection is achieved through disclosure rather than prescriptive legislative restrictions.

3. **Provide Flexibility in Reporting Financial Ratios that are disclosed for Simple Corporate Bonds:** The current prescribed financial ratio disclosures for simple corporate bonds do not adequately account for the diversity of business models and funding structures across issuers and sectors and may not be informative or helpful to investors due to their irrelevancy as a measure of the issuer's ability to service and repay the debt.

   Recommendation: Remove the requirement for prescribed financial ratios for simple corporate bonds and instead require issuers to disclose key ratios relevant to their capacity to service and repay bonds.

4. **Review Trustee Regulatory Obligations:** The retail bond market faces limited trustee availability due to the onerous regulatory obligations imposed on them. Trustees are hesitant to assume the additional costs, risks, and liabilities associated with retail bond issuance.

   Recommendation: Review trustee obligations with a view of increasing the availability of trustees for the retail bond market.

5. **Review Regulatory Obligations for Credit Rating Agencies (CRAs):** For debt investors, default is often the most important risk to assess. Established credit ratings are commonly the most effective way to communicate issuer or security risk – and yet the regulatory settings for credit rating agencies in Australia inhibit retail investors from accessing recognised, high-quality credit ratings. Only one of the six CRAs operating in Australia is licensed to serve retail clients due to stringent regulatory requirements, which many CRAs are not willing to assume. This creates information asymmetry between wholesale and

[19] A Cleansing Notice "cleanses" the market, either by disclosing market sensitive information that previously had not been disclosed or by confirming that no such information exists. An existing cleansing notice regime exists for equity rights issues pursuant to section 708AA of the Corporations Act. This section could be adapted to allow for the offering of bonds by way of a cleansing notice. The regime should also incorporate some elements of section 713 (which provides for the 'transaction-specific' prospectus regime for issuers of continuously quoted securities) and ASIC Corporations (Regulatory Capital Securities) Instrument 2016/71.

retail investors, reduces information available to retail investors, and hinders the development of the retail bond market.

Recommendation: Review the Australian Financial Services License (AFSL) licensing regime for CRAs to reduce access barriers for retail investors.

Further details on the proposed reforms are outlined in Annexure A (see Slides 11-18), including our proposed draft legislative changes to effect the reform.

Implementing the above reforms presents Australia with the opportunity to experience similar success to that of New Zealand, which, following the introduction of similar reforms in 2013[20], has developed a large and liquid retail bond market. The New Zealand system allows for simple, flexible, and accessible documentation, including the use of cleansing notices. Investor protections are provided by the initial disclosures and continuous disclosure obligations. As a result of these reforms, New Zealand now has a thriving retail corporate bond market, which has grown to represent approximately 30% the size of its listed equity market[21].

Conclusion

The Corporate Bond Reform Working Group strongly believes that the targeted reforms outlined in this submission will facilitate the development of a vibrant, retail-accessible corporate bond market in Australia.

There are no parties that would be aggrieved by a more robust retail corporate bond market and there are benefits for many. Corporates will benefit from deeper and more diverse sources of capital, individuals will benefit from increased investment opportunities, particularly retirees that may value the defensive characteristics of corporate bonds, and Australia will benefit from productivity and economic growth contributors.

We welcome the opportunity to discuss these reforms and are available to provide further details.

Yours faithfully,

The Corporate Bond Reform Working Group
Annexure A: Unleashing the power of Australia's corporate bond market presentation

[20] Pages 38-39 (2020) The Development of the Australian Corporate Bond Market: A Way Forward, House of Representatives Standing Committee on Tax and Revenue
[21] NZX Limited – Monthly Shareholder Metrics, May 2026