
The Australian Financial Sector Some Prospective Developments

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Topics

Potential developments in the Australian financial system structure

How will these affect investment and financing opportunities?

What are the key risks for the Australian financial system?

Some Key Messages re Fixed Income Market

- Interaction of superannuation developments and banking regulation a key influence
 - Tax (imputation) and hybrid structuring imply a segment market with different products for domestic v international investors
 - Fintech is blurring wholesale / retail distinction and enables creation and distribution of competing products (to corporate bonds) to retail investors
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Potential Developments

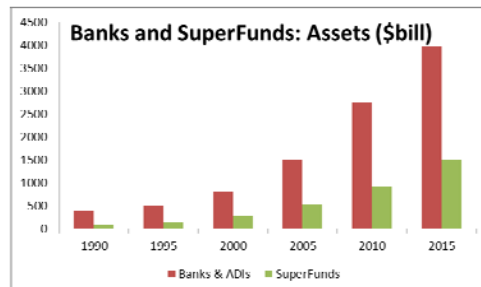
Political Background

Australian Financial System (Murray) Inquiry
Systematic tax review process abandoned
Possibility of Royal Commission into Banking (if Labor elected)
Federal Budget changes (May 3, 2016)

Some Key Issues

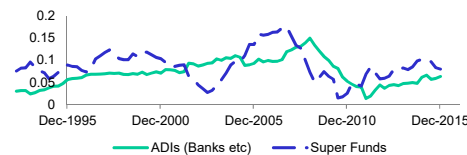
Superannuation: sector growth and products
Retirement Income Streams Review (Report, May 2016)
Bank regulation: loan and capital market implications
Basel IV, APRA, "Bail-In"
Corporate Bond Market Development
"Fintech" and Financial Intermediation
2016 Budget - new corporate and limited partnership CIVs

The Superannuation System



This excludes SMSF
Total super assets
=\$2 trillion

**Banks and Superfunds
annual growth rates - prior 3 years**



Super Outlook and Implications

Growth of SMSF (\$0.6 trillion) → “retail” investable funds

Stimulus to capital market growth

- Equities and franked dividends
- Hybrids (bank bail-in securities)
- Corporate Bonds ?

Fiscal cost and fairness of superannuation tax concessions

2016 Budget changes: retard likely growth

Retirement Income Products

Murray Inquiry – CIPRs

2016 Budget changes: stimulate deferred annuity market?
and demand by providers for fixed interest products

Concerns over competition and efficiency

Mysuper products and review of default allocation process

Bank Regulation and Capital Markets

Key Influences

Mortgage risk weights
Basel IV (& leverage ratio implications)
TLAC and bank hybrids
Simple Securitisation

Implications

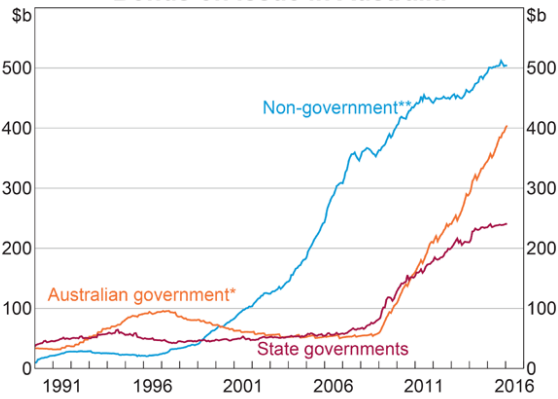
Bank loan portfolio incentives
 less on-balance sheet mortgage lending
Debt capital market funding incentives
Bank hybrid issuance

Bond Market Development

- Demand side (super) stimulus from portfolio asset allocation with ageing population and retirement income products
- “Supply” side stimulus from bank responses to regulation
- Suggest potential for significant overall growth
 - From large growth over last decade (other than Australian corporate issuers into domestic market)

Bond Market Development

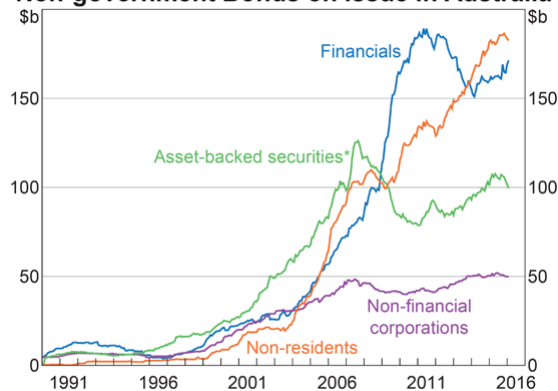
Bonds on Issue in Australia



* Excludes bonds purchased by the Australian Government
 ** Excludes ADIs' self-securitisations, includes government-guaranteed bonds
 Sources: ABS; AOFM; RBA; State Treasury Corporations

Bond Market Development

Non-government Bonds on Issue in Australia



* Excludes ADIs' self-securitisations
 Sources: ABS; RBA

Bond/Fixed Interest Market Development

Domestic Corporate Debt Market still “nascent” but prospective growth – both wholesale and retail

Positive factors

Legislative changes – “simple corporate bonds”
Bank capital requirements
Superannuation investment demands (including for deferred annuities)
Simple Securitisation

Negative factors

Imputation tax and debt/equity preferences (issuers & investors)
Public Sector Debt growth – sovereign rating, “crowding out”
Fintech (1) Market-based (P2P) lenders – wholesale & retail investors
Fintech (2) Retail offerings of simple securitisation upper tranches?
Bank “bail-in” securities & hybrids carrying tax credits

Financial Sector Resilience and Stability

Strengths

Large super system a benefit in absorbing asset price shocks
Banking Sector strengths
Capital levels, Liquidity management, Profitability

Possible Concerns

Exposures to housing/property
Restructuring of economy following resources boom
Four majors or four “clones”?
Government fiscal outlook

Conclusion

On balance: Australian Financial System robust and low risk

Introduction of new Collective Investment Vehicles should facilitate foreign portfolio investment

Gradual proposed decline in corporate tax rate of benefit to foreign equity investors and foreign owned companies (but of limited benefit to resident investors/companies due to imputation)

Corporate bond market – poised for development, but challenges remain
