BondAdviser

Bond Adviser Pty Ltd
Level 34 N
525 Collins Street
Melbourne VIC 3000
Ph: (03) 9670 8615

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To: markets.consultation@asic.gov.au

Subject: Comprehensive Feedback on ASIC Discussion Paper – Australia's Evolving Capital Markets

Dear ASIC Consultation Team,

Thank you for the opportunity to respond to ASIC's discussion paper titled "Australia's evolving capital markets", released on 26 February 2025.

As background, BondAdviser is a provider of investment research, advisory and technology services focused on global debt capital markets. In 2017 we launched the firm's Alternative and Private Debt offering to provide managed fund rating services and advisory to end-investors. This service was a result of reverse inquiry at the time. Given the historical void of non-financial corporate credit exposure to non-investment grade companies in the domestic debt capital market, we have been strong advocates of the development of the Australian private debt market. This is because we believe in the inherent benefit to risk-adjusted returns across client portfolios with the inclusion of private debt in portfolios.

While the discussion paper focuses on equity and debt markets, our responses to the discussion questions relate to the latter and in line with this thematic.

ASIC Discussion Questions	Response
What key impacts have global market developments had on Australian capital markets? What key impacts do you anticipate in the future?	Global regulatory developments such as the Basel reforms, MiFID and Dodd Frank Act have reduced the supply of credit from traditional sources, whilst the demand from more sophisticated borrowers has increased. This market development left a void of capital, which in turn has driven a structural shift away from traditional sources and towards private markets. This borrower demand is being complemented by investor benefits such as structural protections and countercyclical stability. We expect this dynamic to continue and for technology to bridge the gap in access and transparency.
Do you have additional insights into the attraction of private markets as an issuer or investor?	Private debt markets offer flexibility via tailored solutions, and potentially higher returns via illiquidity and complexity premiums. This is attractive to all investors including institutional investors, retail and superannuation funds. There are long term economic benefits of specialised investment fund structures like Europe's Long-Term Investment Funds (LTIF), the UKs (Long-Term Asset Funds), Singapore's Long Term Investment Fund (LIF) and the U.S. Business Development Companies (BDCs) to enhance market attractiveness. While these financial products are relatively new to Australian based investors

	they provide a differentiated source of risk. When regulated and monitored properly they can also mitigate financial instability.
In what ways are public and private markets likely to converge?	Public and private markets are converging through transactional elements like pricing, covenants, and refinancing practices. But technology is providing the primary means of convergence as access and transparency (albeit limited) are not necessarily controlled by centralised exchanges. We see greater data, transparency and disclosure as key in this context, allowing investors to make better informed decisions and understand the risk profiles of different investment options, whether they are public or private.
What developments in public or private markets require regulatory focus in Australia?	The focus of any domestic regulatory work for all debt capital markets, both public and private, should be around transparency, monitoring and reporting. By its nature private bilateral lending has always had limited information that can be shared. But extending standardised business reporting requirements (i.e. disclosure) will greatly improve investor confidence in this market. A lack of transparency is not limited to private markets, as even domestic public debt capital markets lack a public central information repository.
What would make public markets in Australia more attractive while maintaining investor protections?	Introducing simple and transparency reporting of OTC bond market trades (trade tape) similar to U.S. and Europe would encourage increased participation in public debt capital markets.
Are regulatory settings fit for efficient capital raising in private markets? What improvements are needed?	While we believe the current regulatory settings are fit for purpose in capital raising, we believe there is further scope to consider an increase in the centralsed data-reporting systems like the SEC's EDGAR database. A simple extension and sharing agreement of APRA’s reporting requirements for registered financial corporations would be a simple step towards greater transparency.
Have key investor risks from private markets been identified? Which risks should ASIC prioritize?	Key risks include leverage, liquidity, structural protections and valuation transparency. ASIC should prioritise enhanced transparency, risk reporting, robust stress testing, liquidity and liability management practices (lock-ups, redemption gates), and valuation governance. Many existing providers provide sound education practices but some of these topics can be complicated and require a high level of financial literacy. It would be reasonable to suggest that not all retail investors could assess all the risks on a standalone basis and would value specialised independent advice.
What role do incentives play in private market risks, and how are they managed? Are practices appropriate?	Incentives can increase risks to investors if the private debt manager earns large upfront fees or performance pay tied to paper valuations or loan-closing volume. Incentives can stretch covenants, add leverage, and postpone recognising problem loans. Evidence of this behavior could suggest shifting losses onto investors and, ultimately, the wider system. These risks can be reduced by hard-wiring alignment mechanisms such as managers keeping meaningful first-loss positions or co-investment, and require clear, quarterly disclosure of cash flows, covenant terms, and realised recoveries. It is our understanding that international regulators have adopted light touch alignment rules to enforce long term fund structures. These structures rely on governance, disclosure and leverage limits.

What is the current and likely future exposure of retail investors to private markets?	The shift to private debt markets for retail investors has been predominantly driven by reduced access to alternative income-like investment opportunities. This will likely now be amplified by progressive phase out of the $40bn ASX-listed bank hybrid market, with listed investment trusts (LITs) being one of the few options left for retail investors seeking income products. That said, target returns must be relatively high to ensure ongoing fees are economical to support the expensive listing and administrative costs for fund managers. As a result, income LIT products have largely been launched by private debt managers to date. While private debt LITs are undoubtedly higher risk than traditional bank hybrids, these products have been existence since 2017, and investors have experienced drawdowns (including discounts to net asset value) over this period. In our opinion, this means the inherent downside in LITs is now well known and should be somewhat understood by ASX-listed investors. Importantly, many ASX-listed income LITs generally have a corresponding unlisted retail investment as an alternative to this. While a greater investment opportunity set for retail investors would be ideal, the cost burden of launching products onto the ASX (including debt securities) has historically hindered any progress. This contrasts to the deeper listed securities market in New Zealand, suggesting it is possible if structural impediments are solved for. This suggests private debt will remain a core component of retail investor portfolios in the absence of an overhaul of ASX-listing rules.
What benefits and risks arise from retail investor participation in private markets?	Given the historical void of non-financial corporate credit exposure, we have been strong advocates of dynamic asset allocation to the Australian private debt market given the inherent benefit to risk-adjusted returns across fixed income portfolios. Our analysis is underpinned by proprietary data and systems. With a lack of alternative investment opportunities, this has allowed retail investors to access attractive income products with capital (NAV) stability – even during the COVID-19 pandemic. However, untested products are an inherent risk given the Fund in question is yet to season through challenging macroeconomic conditions. As a result, third-party research is crucial to give retail investors the proper due diligence required to assess potential investor opportunities; clearly and objectively. This herein lies the core risk in our opinion – the combination of a lack of necessary information together with a lack of investor education.
What additional transparency measures would support market integrity and investor/regulator awareness?	Market standardisation has historically been a key pillar for the successful evolution of an asset class in the context of transparency and integrity. Data collection and disclosure standards are currently unfit for purpose in our opinion, making it challenging for investors to make objective comparisons across products. This is a core foundation of the BondAdviser Alternative Investment Research Methodology of which our Fund Ratings service aims to bridge this gap.

	We argue more can be done to centralise and standardise data across the domestic private market landscape. The U.S. is leading this trend with business development companies (BDCs) having to file periodic reports to the U.S. Securities and Exchange Commission (SEC) whether the BDC is public or private. These reports are stored on the SEC's EDGAR database and contain information about the BDC's business and financial condition, financial statements, and information about certain material corporate events. As such, we recommend ASIC should leverage proportional transparency based on existing industry and international best practices rather than new mandatory disclosures.
In absence of transparency, what tools can support market integrity and fair investor treatment?	We believe the Monetary Authority of Singapore's recent consultation paper could be drawn upon to address tools that can support market integrity. Historically, the tools of both agencies strongly focus on protecting investors through clear oversight, ensuring suitable product distribution, transparent disclosure, and firm enforcement. Both regulators align closely with global best practices. However, the consultation paper extends this to include mandatory manager expertise, board independence, skin-in-the game, related-party restrictions and a minimum level of institutional/accredited investors. While there is no evidence to suggest this is necessary we believe there should be additional focus on governance, third-party oversight, mandatory conflict-of-interest disclosure, and clear fee transparency standards.

We commend ASIC's proactive approach and strongly recommend leveraging these detailed international and domestic insights to foster a more resilient, competitive, and transparent Australian capital market ecosystem.

We look forward to continued dialogue and collaboration.

Regards

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Managing Director
Bond Adviser Pty Ltd