



## **Australian Business Securitisation Fund Consultation**

The draft investment mandate and explanatory materials prepared by Treasury and the AOFM regarding the establishment of the Australian Business Securitisation Fund (ABSF) shows that a substantial and broad consultation process has been conducted in the limited time since the first announcement. The proposed investment mandate establishes a framework that will (subject to proper implementation and management) fulfil the stated aim of providing more accessible and affordable debt capital funding for small businesses. As such, this submission is limited to making comments on the investment timing aspect detailed in section 1.33 of the explanatory memorandum and section 14 of the draft legislation.

### **Timing of Capital to Be Credited to the ABSF**

The explanatory memorandum and draft legislation provide a proposed timeline for the crediting of capital to the ABSF. Additional credits or redemptions can occur subject to ministerial instruction. This is a prudent approach to adopt given the uncertain timing of when ABSF capital will be deployed in suitable investments. It may turn out that capital can be suitably invested at a faster pace than indicated by the schedule of credits due to arrive from 1 July 2019. Having flexibility to adjust for this is sensible.

In order to provide some guidance on the pace of capital deployment, it is helpful to consider the average life of the loans that reside in existing small business lending securitisations. Unsecured loans and loans secured by vehicles or other non-property assets are typically made for 12 to 60 months. Where property security is obtained, loans are typically made for 5-30 years. When pooled and securitised, and after factoring in prepayments, this translates to a weighted average life of 18-30 months for the tranches the ABSF is most likely to purchase.

This pace of capital turnover indicates that 35-50% of capital deployed is likely to be repaid or rolled over by the ABSF each year. If the ABSF was to invest \$500 million in transactions each year at this pace of capital redeployment the peak invested amount would be approximately \$1-1.25 billion. This estimate should provide some comfort that the ABSF can look to deploy capital in transactions as appropriate opportunities arise, without being overly concerned that it may exhaust the \$2 billion allocation.

### **Conclusion**

Narrow Road Capital appreciates the opportunity to make a submission and would welcome the opportunity to assist further. Feedback is welcome and can be sent to [info@narrowroadcapital.com](mailto:info@narrowroadcapital.com)