
From: CONNOLLY, Ellis
Sent: Wednesday, 28 November 2018 9:00 AM
To: Clark, Adam
Cc: HOOK, Lisa
Subject: Re: Australian Business Growth Fund - meeting of stakeholders [SEC=UNCLASSIFIED]

Hi Adam,

Thanks very much for this update. The draft agenda looks fine to us.

Best regards,
Ellis

Sent from my iPhone

On 24 Nov 2018, at 11:53 am, Clark, Adam

wrote:

Thanks Ellis.

This is great news. We are still working through the agenda but we are keen to ensure that the Governor has some input into it. The real objective is to get an understanding of next steps and the broad time frame that we would be aiming for in order for a deal to be done.

So at a high level and still subject to changes, we would be thinking something along the lines of:

1. Opening by Treasurer – 10m
2. Governor setting out his views 5m
3. APRA setting out their views on what they need to provide the relief – 5m
4. HSBC to talk about how they were able to start the process in the UK and Canada – 5m
4. Opening to financial institutions to ask any questions in relation to what has been discussed – 10m
5. Each of the financial institutions to explain their position in relation to the concept – 10m
6. Next step – 10m
7. Closing remarks by the Tsr – 5m.

Please let me if there is any feedback you would like to give on the above.

Adam

Adam Clark
Senior Advisor - Financial Services
Office of the Treasurer
The Hon. Josh Frydenberg MP
Parliament House, Canberra

From: CONNOLLY, Ellis
Sent: Wednesday, 21 November 2018 8:40 AM
To: Clark, Adam
Cc: Hook, Lisa (RBA - In Confidence); Sam Yue, Shirley (RBA - In Confidence)
Subject: Australian Business Growth Fund - meeting of stakeholders [SEC=UNCLASSIFIED]

Hi Adam,

Thank you for inviting the Governor to attend the Treasurer's meeting on the Australian Business Growth Fund on 6 December at 10.30am in Parliament House. I can confirm that the Governor is planning to attend the event.

Thank you also for offering to share with us a copy of the agenda. Please let me know if you need anything further from us at this stage.

Best regards,
Ellis

From: CONNOLLY, Ellis
Sent: Tuesday, 20 November 2018 8:58 AM
To:
Subject: Australian Business Growth Fund - meeting of stakeholders [SEC=UNCLASSIFIED]

Hi Adam,

Warren Tease suggested that I contact you about the meeting of stakeholders that the Government will be hosting in early December on the establishment of an Australian Business Growth Fund. Would it be possible for you to give me a call on _____ ?

Best regards,
Ellis

Ellis Connolly | Deputy Head | Domestic Markets Department
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BACKGROUND BRIEFING – SMALL BUSINESS FINANCE AND ABGF

On the day, can call Diane Brown (Deputy Secretary, Treasury)

Agenda for ABGF meeting

1. **Treasurer** – 10m
 - SMEs are important and financing conditions are strong, however there are gaps in the market
 - Equity finance and other alternatives may be more suitable
 - A private-sector led BGF is worth pursuing, following UK and Canadian models.
 - Looking for a clear way forward, with this Group drawing up a proposal.
2. **Governor**: update on small business lending conditions in the Australian economy – 5m
3. **APRA** providing update on capital treatment for equity investments – 5m (John Lonsdale)
4. **HSBC** (James Chew) to talk about how they started the process in the UK and Canada – 5m
5. Opening to financial institutions to ask any questions – 10m
6. Each of the financial institutions to explain their position – 10m
7. **Next steps** – 10m
 - A working group of the banks will be set up with Treasury providing secretariat services.
 - Regulators available to working group on request (RBA not expected to be taking a role).
 - Whole Group will meet again in mid-February when Parliament is sitting, and Governor would be asked to provide his views again at this meeting.
8. **Closing remarks** by the Treasurer – 5m.

Participant list

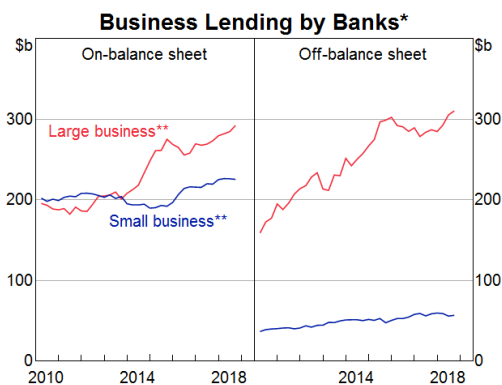
- Hon **Josh Frydenberg**
- Senator the Hon **Michaelia Cash**, Minister for Small & Family Business, Skills & Vocational Education
- **NAB**: Leigh O’Neill (EGM, Business Direct and Small Business); *attended RBA’s April roundtable*
- **Westpac**: David Lindberg (Chief Executive, Business Bank); *attended April roundtable*
- **CBA**: Adam Bennett (Group Executive, Business & Private Banking); *attended April roundtable*
- **HSBC plc**: James Chew (Group Head, Regulatory Policy); *has met with RBA on UK BGF*
- **HSBC Australia**: Noel McNamara (CRO)
- **Macquarie Bank**: Dean Firth (Head of Business Banking)
- **Australian Super**: Stuart Wilson
- **APRA**: John Lonsdale
- **Treasury**: Diane Brown (Deputy Secretary, Markets Group)
- **ACCC**: Scott Gregson (EGM Merger and Authorisation Review)
- **COSBOA**: Peter Strong; *attended April roundtable*
- **ABA**: Anna Bligh; *attended April roundtable*
- Australian Small Business and Family Enterprise Ombudsman (**ASBFEO**): Kate Carnell; *was invited but unable to attend April roundtable*

Banks' views on ABGF

- NAB and HSBC have been reported to be 'leading the charge', while ANZ is 'the most disinterested and not due to attend' (AFR).

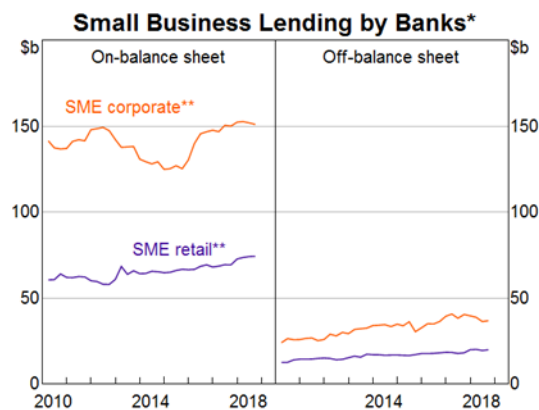
Recent developments in small business finance

- Major banks' exposures to large businesses (revenue > \$50 million) have grown over past year, while exposures to small businesses (revenue < \$50 million) have been relatively flat.
 - Major banks' SME corporate exposures (exposure > \$1 million) have declined, while SME retail exposures (exposure < \$1 million) have continued to grow moderately.
 - Trends by business size similar for on-balance sheet and off-balance sheet exposures (the latter include undrawn facilities and bank guarantees).



* Total exposures of banks allowed by APRA to use an internal ratings-based approach for credit risk management, break-adjusted
 ** Large business is the corporate category in APRA's capital framework; small business is the sum of the SME corporate and SME retail categories (the SME categories include businesses that have reported consolidated annual sales of less than \$50 million)

Sources: APRA, RBA

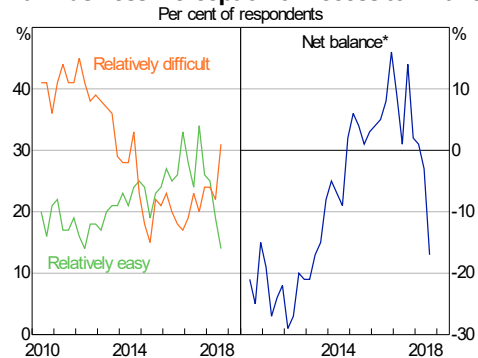


* Total exposures of banks allowed by APRA to use an internal ratings-based approach for credit risk management, break-adjusted
 ** The SME categories in APRA's capital framework include businesses that have reported consolidated annual sales of less than \$50 million

Sources: APRA, RBA

- Small businesses' report access to finance deteriorated, according to the Sensis Survey.

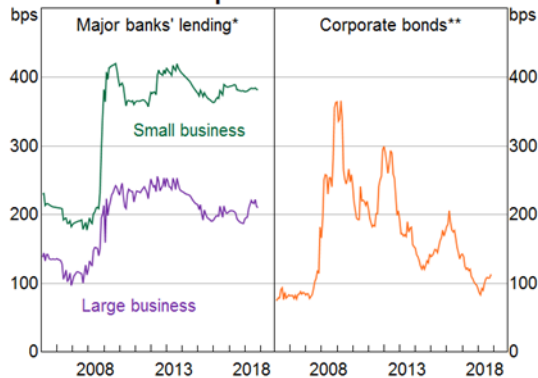
Small Business' Perception of Access to Finance



* Net balance is the difference between the percentage of firms indicating access is relatively easy and the percentage of firms indicating access is relatively difficult

Sources: RBA, Sensis

Interest Rate Spreads on Business Debt



* Rates on outstanding lending; spread to cash rate; small business loans are defined as those below \$2 million

** Five-year secondary market non-resource corporate bond spreads over AGS

Sources: APRA, Bloomberg, Financial Reports; RBA

- Spreads on small business loans remain almost 200bps above large business loans.

TALKING POINTS ON AUSTRALIAN BUSINESS GROWTH FUND

- I am pleased to be here at this meeting on establishing an Australian Business Growth Fund.

Access to finance for small businesses is important for our economy

- Small businesses account for nearly **half of private sector employment**
 - even larger share in industries such as agriculture and construction
- Small businesses also **drive innovation** and are an important **source of competition**
- **Finance is particularly crucial** for small businesses that are innovative and seeking to expand
- So access to finance is an **important issue for our economy**
 - Growth depends on firms with good ideas being able to expand

Small businesses are finding it challenging to access finance

- RBA regularly talks to small businesses and lenders
 - Annual **Small Business Finance Advisory Panel**— 26 years
 - This year, we held **two special Roundtables** on the challenges small businesses face in accessing finance and what innovations could help to improve this situation
- From **entrepreneurs** we hear that:
 - **Access to finance for start-ups is very limited** – equity finance would often be more appropriate than debt, but there are few avenues for such financing in Australia
 - **Banks are reluctant to extend finance without real estate as collateral** – so businesses find it hard to obtain additional finance once they have pledged all their property
 - **The process to obtain finance is lengthy and onerous**
- At the same time, we hear from the **banks** that they are **keen to lend** to small businesses
 - However, banks emphasise that this lending is **more risky**, particularly if unsecured
- Overall, our sense is that there is a **funding gap for established small businesses** that cannot obtain additional debt finance or attract the limited supply of venture capital finance
- **Obtaining finance appears to have become more difficult** for small businesses recently
 - We hear this in our **liaison** and see it in **business surveys**
 - Lending to businesses has been growing at a reasonable pace over the past year (~5%), this has been **driven by lending to large businesses** rather than small businesses
 - More **scrutiny of conduct** in financial sector appears to be **weighing on small business lending**
 - Line between business and personal finances of entrepreneurs is often blurred, and **banks** appear to be **erring on the side of caution** by applying responsible lending rules required for consumer lending.

Initiatives that can improve access to finance for small businesses

- There are many important initiatives underway:
 - **Comprehensive credit reporting** and **open banking** should provide lenders with better information about the capacity of borrowers to service their debts
 - ASIC and Australian Small Business & Family Enterprise Ombudsman (ASBFEO) are working on **improving the financial capability of businesses**, to better prepare them to apply for finance
 - And the government recently announced the **Australian Business Securitisation Fund**
- Another initiative that is worth exploring is an **Australian Business Growth Fund (ABGF)**, funded and operated by the private sector, drawing on the precedents in the UK and Canada
 - The **UK BGF**, which was established by the major banks 7 years ago, has invested over £1.5 billion in around 240 growing businesses
 - These businesses have had new opportunities, are employing additional staff and investing in new technologies
 - **Canada** has recently established a BGF funded by their banks and insurance companies
 - An **ABGF could help to address a key funding gap** that I referred to earlier, by offering equity finance and unsecured loans to innovative small businesses that are seeking to expand
- Ultimately, the **decision** on whether to establish an Australian business growth fund is **up to the private sector** and would need to be driven by you. I wish you all the best with this endeavour.