

Australian Bond Exchange

Product Quotation Admission Process and Criteria

Overview

Australian Bond Exchange's (**ABE**) Product Approval, Design and Distribution Policy and Product Governance Framework document ABE's policy and approach to admitting investment products to its trading platform and meeting its obligations under the Corporations Act when acting as an issuer of products, as a distributor of products, or both. This document provides a high-level overview of the process ABE has established under that Policy and Framework for assessing the eligibility of a debt security for admission to trading status and quotation on its trading platform and the criteria against which the issuer and product is assessed.

Before any product is admitted to quotation it must first meet ABE's strict admission criteria. Regardless of whether ABE is originating a new issue, acting as lead manager for the issue, or simply considering an existing product already in the market, the product must first be assessed and approved under its product quotation policy.

Importantly, the product quotation assessment process is separated from and managed independently of the debt capital markets business to ensure adequate independence and objectivity. This document is focused solely on the product quotation process.

The process typically commences following an initial discussion with the Issuer. This may include the submission of an in-principle advice request so that ABE can make a preliminary assessment of the Issuer and product to determine if it is likely to meet ABE's exacting requirements. If not, it is rejected before any further work is undertaken.

Otherwise, the Issuer prepares and submits the Product Quotation Application and Information Schedule and provides all the quantitative and qualitative information ABE needs to measure the Issuer and product against the admission criteria.

The credit team undertakes a detailed assessment of the Issuer and the product using the product documentation and any other relevant information about the Issuer. Moreover, ABE will consult with external subject matter experts as necessary. An independent internal committee will determine to admit or reject the product.

Admission process and criteria

The five stages of the admission process, along with the quantitative and qualitative factors assessed by ABE are detailed below.

A. Pre-Qualification

- 1) There must be a high degree of confidence that the following information concerning the Issuer and the product is and will continue to be available during the term of the proposed product:
 - a) For corporate bonds, key audited financial statements of the Issuer to enable credit analysis to be performed by investors or interested third parties;
 - b) Information Memorandum, Product Disclosure Statement or equivalent;
 - c) For credit fund and asset backed products, regular performance, and compliance updates; and
 - d) For structured products, adequate information to explain the asset(s) that underlie the product.
- 2) If this information is not available or its ongoing availability during the term of the product is uncertain, it may not be admitted to trading status. If the information is and will be available, a business case will be prepared.

B. Pre-Approval

- 1) The Credit Team undertakes the analysis of the Issuer and product concentrating on the following areas:
 - a) Issuer Assessment: adequacy and availability of future financial resources of the Issuer for fulfilling its commitments relative to the size and timing of those commitments.
 - i) This will be measured and assessed based on the Issuer's fundamentals, financial flexibility and liquidity which may include the following quantitative indicators (historic and forecast):
 - (1) Gross debt
 - (2) Net debt
 - (3) EBITDA
 - (4) Equity Ratio
 - (5) Debt coverage
 - (6) Interest coverage
 - (7) Debt / equity
 - (8) Cash ratio
 - (9) Debt / EBITDA
 - (10) Funds from operations / net debt

- (11) Liquidity
- (12) Debt ratio
- ii) Where relevant, the following factors are also examined:
 - (1) Qualitative factors that can impact the Issuers business including its market sector and industry positioning, competitive pressures, economic drivers, financial policies, management quality and operational weaknesses.
 - (2) Legal, environmental, social impact and regulatory considerations including the adequacy of product disclosure material and certification of the product's wholesale or retail classification.
 - (3) For credit fund and asset backed products:
 - (a) the lending criteria of the Issuer,
 - (b) the relationship between the Issuer, any SPV and security trusts, and the borrowers,
 - (c) experience of senior management of the Issuer, and
 - (d) independence of directors of the Issuer, SPVs and trusts.
 - (4) Unique or non-standard considerations for foreign Issuers.
 - (5) The perception of the Issuer and / or its brand, considering any past or present regulatory enforcement action.
 - (6) Any applicable limits or restrictions on the Issuer or the product.
- b) Product Assessment: analysis of the unique characteristics and terms of the product covering:
 - i) Use of funds raised.
 - ii) Related party transactions and in relation to credit fund products, the number and value of loans to related parties, their percentage of the total value of the portfolio and the assessment and approval process followed when those loans are advanced, varied or extended (as per ASIC RG69.60).
 - iii) Coupon rate, term, security (if any), redemption and rollover provisions, and if related to a credit fund, any concentration risk limits.
 - iv) Payment structures, cash flow and settlement mechanics describing how payments for coupons and maturities to securities holders are made and their source of funding.
 - v) Recourse available to investors in a product in the event the commitments of the Issuer (or third parties) are not fulfilled, including:

- (1) the status and priority of the product in relation to other obligations of the Issuer,
- (2) the nature and status of any security backing the product,
- (3) if applicable, hedge close-out arrangements, and
- (4) availability of external / parental support.

However, the lack of a guarantee or support does not necessarily mean the product will not be admitted to quotation status.

- c) Assessment of risks including:
 - i) concentration risk, particularly for credit fund and asset backed products.
 - ii) reputational and business risks and consideration of how they are to be mitigated, and
 - iii) operational and administrative risks impacting on the Issuer's ability or willingness to perform its duties during the life of the product.
- d) Assessment of potential outcomes (worst and best case) under various adverse scenarios to ensure that the return expectations and risk profile meet ABE's criteria, including:
 - i) trigger of default events affecting the Issuer and/or third parties that have obligations in the performance of the product, and
 - ii) breach of Issuer covenants, including financial / funding and operational conditions.
- e) Availability and timeliness of information from the Issuer that can be easily accessible by ABE and investors including:
 - i) Regular publication of information including:
 - (1) current financials,
 - (2) key financial ratios and indicators,
 - (3) in relation to credit fund products, regular disclosures relating to the loan portfolio as required in ASIC's RG69.50, and
 - (4) any event that provides an update on the performance of the Issuer and the product or that may be a trigger for product default events or covenant breaches.
 - ii) audited financial statements, prepared in accordance with home country accounting standards, and
 - iii) documents that the Issuer has prepared that may include one or more of the following:
 - (1) Information Memorandum, product Disclosure Statement or equivalent,

- (2) Fact Sheet,
- (3) Term Sheet,
- (4) product Report, and
- (5) Regular compliance and performance updates

2) The Credit Team will consult with independent experts as needed including:

- a) External subject matter experts,
- b) ABE Product Advisory Board,
- c) Brokers and financial planners,
- d) legal,
- e) investment research firms, and
- f) the Issuer.

3) An assessment of the target market for the product is undertaken and a Target Market Determination is prepared. The assessment includes an outline of the distribution strategy that is appropriate for the target market.

C. Approval

A business case is presented to the Product Committee for approval. The Committee must:

- a) Critically examine and challenge the proposal and any assumptions made in recommending the product be admitted,
- b) Determine if any exceptions to approved criteria are acceptable,
- c) Determine and advise any conditions or limitations on or in relation to the product or the Issuer, and
- d) Approve or reject the business case.

D. Post Approval, pre-Quotation

1) If approved,

- a) a Global Asset Identifier (GAI) is created and reserved for the product.
- b) If needed, further product information is created (in addition to Issuer provided documents) ensuring that the product disclosures are meaningful and helpful and that information on the risks and outcomes for investors under various scenarios is clear, concise and effective.
- c) product specific training is provided to ABE staff and others, as necessary, that will advise on or market the product.

2) product information and documents will be:

- a) uploaded to ABE's website and social media,
- b) emailed to ABE's existing client base (for those that have provided previous authorisation to do so) in a product promotion,
- c) referenced in any media release promoting the product,
- d) provided to (where possible):
 - i) product distribution platforms for upload onto trading engines / platforms,
 - ii) market information system vendors,
 - iii) Brokers that have acquired the ABE Transaction Service, and
 - iv) Financial planners.

E. Post Quotation

1) Ongoing surveillance

- a) ABE may suspend from trading status any product if:
 - i) critical business and financial Information are no longer available or difficult to obtain, or
 - ii) product default events are triggered or those associated with the Issuer's securities that have not been admitted to quotation by ABE, are triggered, or
 - iii) any other event leads ABE to determine that it is no longer appropriate for the product to be admitted to trading status.

2) ABE ensures all product updates, regular performance reviews and Notices from Issuers are uploaded to the ABE website or, where appropriate, provided to relevant clients.