Bloomberg

Bloomberg discussion paper response: the dynamics between public and private markets

April 2025

Bloomberg is pleased to respond to this discussion paper from ASIC on the growth of private markets.

As a global provider of financial data, technology, and infrastructure, Bloomberg takes a deep interest in the evolution of global capital markets as we partner with our diverse and global client base to navigate this evolution. Our response draws on Bloomberg's global perspective, insights from our work with asset owners, asset managers, and regulators, and our role in developing tools and data solutions across both public and private markets.

Our response covers the following points:

- **Growth of private markets:** Access to private markets for Australian investors has historically been limited but is increasing through superannuation funds and other avenues. Private markets are growing, driven by perceptions of higher returns and different risk profiles, though transparency and standardized reporting are lacking.
- **Superannuation fund influence:** Australia's superannuation funds are becoming increasingly dominant and are significantly investing in private assets, driving further growth in these markets.
- **Public-private convergence:** Public and private markets are converging, with increased direct lending by non-banks and convergence in pricing (hence independent valuation is increasingly important). Secondary trading desks are emerging in private markets.
- **Regulatory focus:** Regulators such as ASIC should consider additional guidance and clarity, particularly regarding transparency, investment disclosures, valuations, liquidity risk management, and stress testing, as these relate to both institutional and retail investors.
- **Retail investor participation**: Retail investor exposure to private markets is increasing, bringing benefits like diversification but also risks due to lack of understanding and tools to manage these risks.
- **Transparency measures:** Increased frequency and depth of disclosure, more detail on valuation methodologies, and periodic stress testing are likely to support market integrity.

We hope this response contributes constructively to ASIC's ongoing work in ensuring Australia's capital markets remain resilient, efficient, and fair.

Developments in global capital markets and their significance for Australia

1. What key impacts have global market developments had on Australian capital markets? What key impacts do you anticipate in the future? Please provide examples from your experience.

Access for Australian investors to private markets has historically been limited to wholesale investors. Private markets are not subject to the same level or types of regulation as in the public equity markets. It has been widely observed that the growth of private markets has been driven partly by the perception that private market assets tend to outperform public markets, and may have a different risk profile, while some regulators view this as challenging to measure due to the lack of transparency and standardised reporting in private markets.

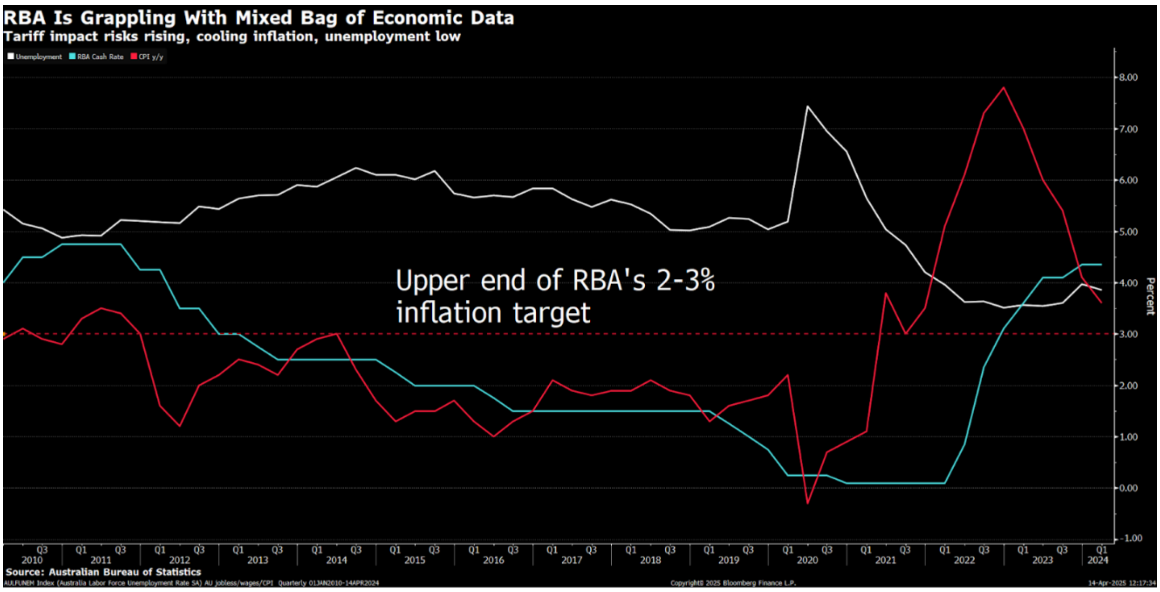
As private markets grow, retail investors are increasingly gaining access indirectly to private investments through superannuation funds. This growing access comes as investors diversify their portfolios away from individual investments, including through managed investment schemes as well as superannuation funds. Retail investors value the skills and experience of asset managers in obtaining enhanced returns. Additionally, superannuation funds are publicly benchmarked against each other, supporting retail investors in assessing relative performance.

During recent years, Australia's superannuation funds have become increasingly dominant and concentrated, and expected to exceed ASX market capitalisation during 2025. These funds make substantial use of private assets, with allocations up to approximately 40% (domestically and internationally), and funds have made public statements that this allocation will increase. The growing role of superannuation funds in Australia's economy may well further drive the growth of private markets, as these funds seek larger investment deal sizes and more control over assets.

At the same time, various investors outside of Australia are increasingly investing globally, including in Australian markets, particularly in the private space. Globally, we are also seeing indications that loan covenants are becoming less restrictive, as private investors are competing more aggressively with banks in asset creation (both in private credit and in private equity).

Valuations are a core interest of investors and regulators globally, who, along with ASIC have noted that valuations in the private markets often rely on methodologies and judgments rather than publicly available trading prices, which may not always be independent and may not be responsive to rapid changes in market conditions, particularly when private assets experience distress.

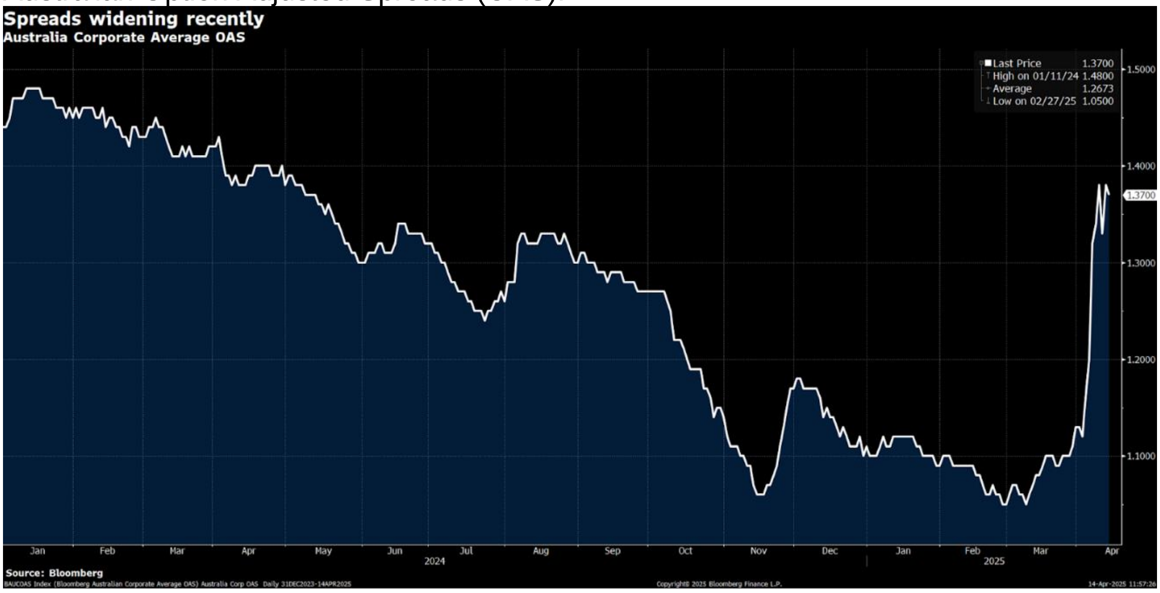
Currently, Australia faces a number of challenges, ranging from high inflation (which the Reserve Bank of Australia has countered with a higher cash rate, gradually cooling inflation, and as a result, may lead to a lower cash rate later this year):



And recent market volatility and concerns about credit deterioration have led to widening

Bloomberg

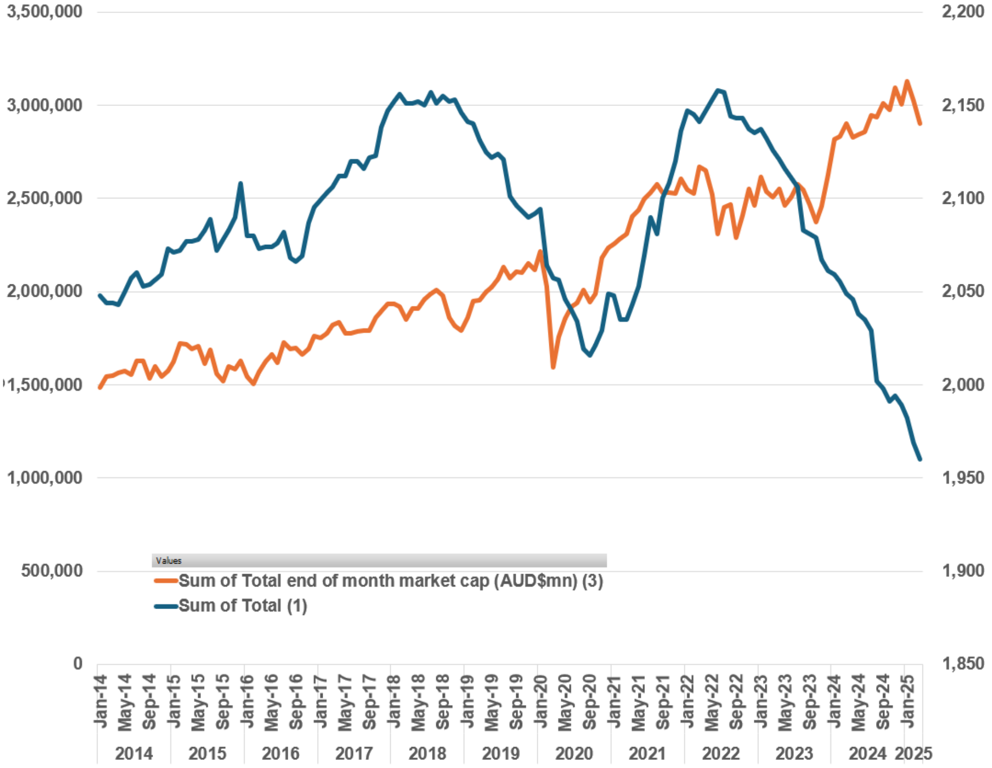
Australian Option Adjusted Spreads (OAS):



The increased availability of private capital has given Australian investors additional investment alternatives. As reported in the ASIC Discussion Paper, assets under management (AUM) in Australia-focused private capital funds has grown rapidly from A$5.7bn in 2014 to A$148.6bn as of March 2024 (with A$43.8bn of “dry powder” (commitments not yet deployed)) – with private equity (A$65.9bn) and real estate (A$58.2bn) being two of the main drivers. Assets under management in Australian-focused private equity funds represent only a portion of the total stock of private equity financing for Australian businesses. Almost half of all commitments to Australia-based private equity funds between 2019 and 2023 and a quarter of real estate fund commitments were from offshore investors. The value of private equity financing from other sources, such as friends, family offices, and angel investors, is often undisclosed.

As of December 31, 2024, the Australia Securities Exchange (ASX) reported 1,989 domestic and foreign equity issuers. While market capitalization was near an all-time high at that date, during the past two years, the number of listed companies fell by 145, driven by fewer new listings (66) and increased delisting’s (211). ASX market capitalization fell from 2.1% in 2013 to 1.6% in 2023, while during the same period, ASX market capitalization as a percentage of Australia GDP fell from a peak of 140% in 2006 to 103% in 2023. It is too early to assess whether these are cyclical or structural changes, but the changes are worth highlighting.

Australian Securities Exchange
Market Capitalization (L) and Issuers (R) from 2014 to 2025



Source: Australian Stock Exchange, https://www.asx.com.au/about/market-statistics

During the period September 2014 through September 2024, the number of ARPA-regulated superannuation funds decreased from 249 to 95 and the number of trustees decreased from 165 to 64, while superannuation fund AUM nearly doubled from A$1.14tn to A$2.83tn, reflecting increased concentration of AUM among these funds.

2. Do you have any additional insights into the attraction of private markets as an issuer or an investor?

The growth in private markets in recent years has a number of different and interconnected causes. The prolonged period of low interest rates following the 2008 global financial crisis drove investors to search for yield and return premium. Accordingly, private market investments have enabled investors via buy-side firms to gain exposure to private equity, venture capital, private credit, private equity, and real assets. Furthermore, the relative lack of historical correlation with public markets (perhaps driven by illiquidity and valuation practices) has offered portfolio diversification which can be particularly valuable during periods of public market volatility. This diversification has been especially sought after with returns on post-IPO companies having been relatively stagnant in recent years and well-funded companies choosing to stay private for longer.

On the banking side, capital constraints following the financial crisis (most recently, the Basel III endgame) have reduced the risk appetite for bank lending, which has served to enhance the appeal of private finance (with more generous terms) as an alternative financing source. Equally, investors such as pension funds and insurance companies that are funded by long-term liabilities are increasingly drawn to the less liquid, typically longer duration, and return premium associated with private assets. Taking all of these factors into account, investment in private markets is expected to grow as market participants continue to increase their allocations.

For example, in the US Business Development Company (closed-end fund) space, payment-in-kind (PIK) loans now comprise as much as 10% of AUM. In some cases, these private lenders may offer PIK as more generous terms to a borrower, meaning that the borrower may not pay cash coupon until maturity, as it is embedded as principal.

3. In what ways are public and private markets likely to converge?

Convergence between private and public markets is already underway, as noted.

The demand for direct lending continues to develop. While smaller private borrowers often have borrowed in private markets, yet transitioned to public credit markets as their borrowing needs became large enough to warrant public issuance. Given the competitive nature of lending, and increases in implied capital requirement for banks due to reassessing capital needs amid anticipated adoption of Basel III Endgame requirements, a growing number of borrowers are choosing between public and private markets and in some cases tapping both markets simultaneously or even within the same issuance, in order to take advantage of the available funding sources.

During the past year, a number of large global deals, documented as direct loan “club deals” - which share characteristics to syndications - were led by non-banks, including bank participation, e.g. Ardonagh Ltd. (Ares Capital, February 2024, 24 participants, USD3bn), and Smartsheet (Blue Owl, September 2024, 21 participants, USD3.2bn). Private credit funds have been willing to reduce margins and increase leverage to win business and stay competitive with liquid peers and syndicated markets, as deal flow remains muted. Banks are starting to push back, which may reduce credit constraints further. A number of private markets funds as well as banks have launched secondary trading desks, to discover pricing, and then to push private markets increasingly toward public markets.

Pricing, which historically varied significantly between public and private loans of the same type, seniority/security and country/industry, have begun to converge, given increasing competition between public and private lenders.

Several firms have launched secondary trading of investment grade private direct loans, which may help introduce transparency to previously opaque markets, and could be a precursor to developing secondary markets for these loans, similar to the historical development of the broadly syndicated loan secondary market. A couple of exchange-traded funds including private investments have recently been announced and launched in order to reach retail investors, which may promote transparency and retail investor participation further.

Disclosure practices and regulatory guidance are likely to continue to converge as the global regulatory community and investors request more information on the levels and quality and risks of their investments.

4. What developments in public or private markets require regulatory focus in Australia in the future?

ASIC may benefit investor transparency and safety by considering additional and evolving regulatory guidance in four areas, particularly as these relate to retail investors:

Investment Disclosures
It would be useful to market participants and investors to have a clearer, more frequent disclosure of investments held. ASIC, in its evaluation of current versus prospective disclosure guidance, could benefit from balancing investor interest in fuller disclosure of private credit investments of superannuation funds versus the burden on and value to these funds by the disclosure. Also, methods of disclosure (e.g. electronic, secure website, etc.) and potentially varying frequencies depending on the nature of the investments and the size of the fund, could be used to support continuous disclosure requirements. Disclosure could also extend to fees and expenses, as well as performance (period and cumulative), valuation (levels and methodologies) and leverage (e.g. net or gross and how calculated).

Valuations and Liquidity Risk Management
As noted in the Discussion Paper, valuation-related risks have become a concern in the context of private markets. For example, the lack of a consistent and transparent price discovery process for private market assets means that, throughout the time the investment is held, manager and investor reliance may be placed on less frequent (usually monthly or quarterly) valuations based on expert opinion, yet as can be seen in current markets, there is significant volatility which has impacted public instrument prices, while private market prices have appeared to be somewhat more stable.

While these valuations are an estimate of the trading price (and potential liquidity) for the asset under current market conditions, it can be challenging to see where an asset actually trades. Price discovery via development of secondary markets, and rigorous, back-tested and transparent valuation methodologies should be employed, suitable for the asset type(s) and its (their) characteristics. There are a range of valuation approaches currently applied in private markets, including for example, use of public market multiples or proxies. On the other hand, for certain private market assets (such as real estate and private equity), there may not be readily observable or comparable inputs, so there is likely to be additional uncertainty, complexity and subjectivity in coming to a valuation. These varying layers of complexity can result in significant valuation risks for investors, who may not be able to evaluate the investments independently. And third parties' incentives may not align with investors' interests.

Some private funds have found banks willingness to lend to them to be an aid to liquidating illiquid assets through liquidity or extension loans. The underlying assets may still be illiquid, but the private fund has the ability to make additional investments. This created liquidity is not the same as actual trading liquidity. Some investors may hold additional cash due to either the need to maintain adequate liquidity for redemptions or due to the scarcity of investable assets.

Stress Testing and Credit Risk Management
Extending the work done by APRA in 2022 on systemic stress testing for contagion risks, as well as that done by the UK regulatory authorities in their System-Wide Exploratory Scenario and others, evaluating investment reactions to changes in credit environment or credit shocks as seen during prior market challenges (e.g. COVID-19, Global Financial Crisis, etc.) could give investors and asset managers as well as regulators increased comfort over the stability of markets, funds and investments.

Recent market observations indicate signs of credit stress are growing across leveraged debt markets in an environment of increased market volatility and potentially elevated recession risks, which heightens the need for more active and independent valuation and risk management. Investors are reducing their exposure to high-yield and distressed corporate debt due to tariffs and other developments, with US leveraged loan funds recently recording their biggest-ever weekly outflow of USD6.5bn.

As an example, investors are selling out of exchange-traded funds focused on collateralized loan obligations (CLO), and spreads continue to widen on the highest rated (AAA) tranches of the underlying CLOs. As of 13 April, about $24 billion worth of CLOs across 104 deals saw their junior overcollateralization tests fail, and assets exceed the 7.5% threshold of CCC ratings as a share of total collateral value. This could have a critical impact on liquidity and valuation, especially for investors in lower-rated tranches where interest may be deferred and risk of principal loss may grow, especially if credit conditions continue to deteriorate. As reported, money managers are poised to dramatically slow new issuance of CLOs, making it harder for riskier firms to tap the USD1.4tn market for this debt.

In the week ending 13 Apr 2025, investors sold ~USD2bn of CLO ETFs (the largest outflow in nearly three years), while spreads on CLO AAA tranches widened from 117 to 158 basis points and Market Value Overcollateralization (MVOC) for BB-rated US CLOs fell sharply to 103.24 as of 31 March 2025 from 106.21, both since January 2025. Bloomberg's US Leverage Loan Index (I38932US Index) has also fallen by 1.5% April month-to-date (as of 11 April 2025), the largest decline since September 2022, versus a gain of 4.36% over the past year.

Retail Investor Access to Private Markets

Increasing investor access to private markets brings with it additional challenges for investors and market participants. The following three questions are worth considering when thinking about retail participation in private markets.

- How would an investor evaluate suitability of investing in a fund that is 15% or more invested in private credit, when asset liquidity could be questioned?
- How would the fund manager disclose or warrant liquidity or how often the investor could exit the fund?
- How could disclosures change between what investors receive now and what guidance would be established for funds with private asset components and how would these funds would be marked?

Healthy public equity markets

5. What would make public markets in Australia more attractive to entities seeking to raise capital or access liquidity for investors while maintaining appropriate investor protections?

No comment.

6. Do you agree that a sustained decline in the number, size or sectoral spread of listed entities would negatively impact the Australian economy? If so, can you suggest ways to mitigate any adverse effects that may arise from such changes?

No comment.

7. To what extent is any greater expectations of public companies, compared to private companies, the result of Australian regulatory settings or the product of public scrutiny and community expectations of these companies?

No comment.

Private market risks and market efficiency and confidence

8. Are Australian regulatory settings and oversight fit for purpose to support efficient capital raising and confidence in private markets? If not, what could be improved?

In light of market developments, it may be worth the Australian regulatory community considering factors expressed above in our response to Question 4.

9. Have we identified the key risks for investors from private markets? Which issues and risks should ASIC focus on as a priority? Please explain your views.

Please refer to our response to Question 4.

10. What role do incentives play in risks, how are these managed in practice by private market participants and are regulatory settings and current practices appropriate? Retail investor participation in private markets

No comment.

11. What is the size of current and likely future exposures of retail investors to private markets?

It is commonly observed that investment and pension funds have continued to increase exposures to private assets to earn higher returns to provide income to an aging population, and that some pension funds in the U.S. and elsewhere now see allocations up to 40% or more to private assets, including direct loans, asset-based finance, real estate and private equity. Asset managers are also allocating more to private markets given the increased growth of these markets and the availability of assets in which to invest. This may well be the experience of Australia, where the two largest superannuation funds have invested approximately 22% of their AUM in private assets.

The recent publication of the Loan Sales and Trading Association's "Private Corporate Credit Survey Report", Private Credit AUM is estimated at more than USD1.5tn and growing, and this is larger than each of the Broadly Syndicated Loan market (USD1.4tn) and the High Yield Market (USD $1.4tn), which are both growing more slowly. This an indication of the growing borrower demand for private investments (which may well be cross-border), as well as investor demand, and it may be anticipated that investors seeking additional yield may increasingly look to this space (e.g. increasing allocations to private markets to feed investor demand).

Given our responses to Questions 2 and 3, highlighting the secular rise in demand for private market investing and the ongoing convergence between public and private markets, it seems reasonable to assume increased retail investor involvement in private markets.

12. What additional benefits and risks arise from retail investor participation in private markets?

There may be several benefits realized through the development of private markets and retail investor participation in these markets. For example, diversification by region, sector, industry and asset characteristics may help investors to have additional investment choices, and to more readily tailor their investment to a desired risk profile.

However, given the risks noted in response to Question 4 above, investors may not necessarily have the understanding of or the tools to actively manage the risks associated with the current private markets. Regulatory authorities may want to consider the appropriate awareness and opportunities for education in this segment.

13. Do current financial services laws provide sufficient protections for retail investors investing in private assets (for example, general licensee obligations, design and distribution obligations, disclosure obligations, prohibitions against misleading or deceptive conduct, and superannuation trustee obligations)?

No comment.

Transparency and monitoring of the financial system

14. What additional transparency measures relating to any aspect of public or private markets would be desirable to support market integrity and better inform investors and/or regulators?

As investors and retail investors increase allocations to private markets, and along with the ongoing convergence of public and private markets, it may benefit the Australian regulatory and investment communities to consider several transparency measures across public and private markets, in order to support market integrity and improve information flows.

Increased frequency and depth of transparency
Regulatory authorities might want to consider increasing disclosure frequency for investment funds and private structures from quarterly to monthly to as often as daily, depending on the nature of the investment and the market, and supporting investor protection.

Another consideration is to increase depth of disclosure transparency to investment / instrument level, including valuation (and use independent valuation agents as available to supplement or even replace internal valuations).

Increase disclosures on methodologies
Regulators might consider guiding funds and other investment structures to provide more detail on valuation methodologies used, and how often these are re-assessed.

Inclusion of periodic stress testing
Many larger funds utilize a variety of scenarios and stress tests in ongoing risk management efforts, and to the extent possible, this should be extended to other funds, and would be helpful to have respondents provide an overview of the methodologies applied and how tested, especially in light of potential or historical market or credit systemic events.

More active periodic regulatory communication to industry and retail investors on observations, and community engagement
Informational and educational materials, webinars and other communications, such as the considerations raised in the current report ("Australia's evolving capital markets" February 2025) and in the "Evaluating the state of the Australian public equity market" February 2025), expressed in a retail-facing format, could be very helpful to retail investors seeking more information on public and private markets.

15. In the absence of greater transparency, what other tools are available to support market integrity and the fair treatment of investors in private markets?

No comment.