MEDIA RELEASE

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FSC committed to maturing private credit industry practice

The Financial Services Council (FSC) welcomes ASIC's report on private credit, which recognises the leadership and progress mature parts of the funds management industry have shown, while pointing to areas where more work needs to be done by the sector at large to lift poor practice.

CEO of the FSC Blake Briggs said: "ASIC's report released today highlights risks in private credit, including distribution and marketing of retail private credit products, and shortcomings in target market determinations (TMDs), particularly risk ratings and portfolio allocation recommendations. While the report notes that mature parts of the investment community have taken steps to strengthen standards and practices, ASIC's findings show further opportunities to lift practices across the sector.

"To support fund managers demonstrating best practice, the FSC is reviewing its widely used Design and Distributions Obligations (DDO) TMD templates, taking into account ASIC's observations. The templates are available for use by fund managers, who are responsible for appropriately determining the right target market for their product. The FSC's review will consider whether more prescriptive private credit specific DDO guidance is needed in light of ASIC's findings on risk ratings, portfolio allocation recommendations, capital preservation objectives and liquidity timeframes. The FSC will look to identify opportunities for further industry practice uplift, building on the FSC's existing private credit Standard and Guidance."

The FSC's Standard, recognised in ASIC's report, is designed to strengthen industry practices and investor confidence in the private credit sector. The Standard sets expectations across several areas raised in the report such as, governance and accountability, valuations, liquidity and leverage, conflicts of interest, fee and income transparency, investor disclosure and credit risk management requirements.

The FSC Standard will be mandatory for the FSC's funds management and superannuation fund Full Member companies from 1 July 2027.

"The FSC will continue to work with its members and the regulator to strengthen industry practices, protect investors and support a well-governed private credit sector that provides Australians with greater investment choice," Mr Briggs said.

"Private credit plays an important role in financing Australian businesses and housing development, supporting economic growth and offering investors opportunities to diversify their portfolios. Strong governance, transparency and appropriate distribution is required to maintain investor confidence as the industry continues to grow."

The FSC agrees with ASIC that financial advisers are an important gatekeeper between issuers and retail investors in the private credit sector. The report reinforced the value of quality advice by underscoring that most financial advisers recommending client allocations to private credit helped investors access these investments as part of a well-diversified portfolio.

The FSC reiterates our support for the Government to devote resources to the improved use of existing ASIC licensing powers as well as introducing an enhanced risk-based regulatory supervision framework for advice licensees. The FSC will work constructively with ASIC on its consultation to expand *Regulatory Guide 45: Mortgage Schemes Improving Disclosure for retail investors* to all private credit funds next year.

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About the Financial Services Council

The Financial Services Council is a peak industry body which sets mandatory Standards for its Full Members and develops policy in one of Australia's largest industry sectors, financial services. Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, platforms and financial advice licensees. Supporters represent professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The Associate category provides access to industry tools. The financial services industry is responsible for investing more than $4.5 trillion on behalf of over 17.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is one of the largest pools of managed funds in the world.