

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

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APRA

25 June 2021

Mr Matthew Hyde
Australian Government Competitive Neutrality Complaints Office
Productivity Commission
By email: matthew.hyde@pc.gov.au

Dear Mr Hyde

Thank you for your email on 18 June 2021 regarding the Australian Business Growth Fund (ABGF). In your email you asked for further information to assist your office's investigation of the competitive neutrality complaint on the ABGF. The attachment to this letter sets out written responses to your questions.

In summary, APRA does not regulate or set capital requirements for the ABGF. APRA's involvement was limited to considering the appropriate prudential capital treatment for investments in the ABGF by authorised deposit-taking institutions (ADIs). The development of the capital treatment for ADI investments in the fund was not based on the Australian Government's ownership stake. In determining the capital treatment for ADI investments in the ABGF, APRA is of the view that it acted consistently with its mandate.

I hope this information is of assistance to your investigation. If you have any further questions, please feel free to contact me to discuss further

Yours sincerely,

Gideon Holland
General Manager
Policy and Advice

ATTACHMENT

APRA's response to the written questions is set out below.

1. Are there (or have there previously been) any other investment funds similar in design to the ABGF in Australia: that is, joint equity investment funds co owned by multiple ADIs — but without government involvement?

- If so, were the relevant ADIs able to access the 250% risk weighting on their investments? If not, what was the reason for that?

APRA is not aware of any joint equity investment funds co-owned by multiple ADIs with a similar design or purpose to the ABGF in Australia. That said, APRA has been approached in the past by stakeholders seeking to establish funds with a similar design and purpose to the ABGF, without government involvement.

The most notable example of this was in 2015 when an international bank approached APRA seeking to replicate similar structures in place internationally. One option preliminarily considered by APRA at that time was a similar capital treatment to that eventually determined for ADI investments in the ABGF. Ultimately, those proposals did not proceed beyond the discussion stage. To the best of APRA's knowledge, that proposal did not include a Government ownership stake.

In determining the prudential capital treatment for ADIs, APRA had regard to international approaches taken by peer jurisdictions with similar business growth funds, including in the UK and Canada. The capital treatment for ADI equity investment in the ABGF is broadly consistent with the capital treatment applied by those jurisdictions. APRA is not aware of government participation in the UK or Canadian Business Growth Funds.

2. Can APRA clarify whether any new funds similar in form and function to the ABGF would be eligible to receive the same capital treatment, or whether the capital treatment is limited *only* to investments in the ABGF?

- If the treatment is limited to the ABGF only, why is that the case?

The capital treatment announced on 9 December 2019 applied to the ABGF, providing clarity to ADIs and setting the limits for such investments. This capital treatment is available to all ADIs that invest in the ABGF. APRA would apply the same principles in determining the appropriate capital treatment in any similar funds, but the exact level of the capital treatment would depend on the specific structure and design.

The factors that APRA took into account in calibrating the capital requirements for ADI investments in the ABGF included international regulatory frameworks (established by the Basel Committee on Banking Supervision), international precedents and benchmarks, the structure and objectives of the fund, and the level of diversification.

3. Our interpretation of APRA's testimony to the Senate Economics Committee, in scrutinising the ABGF legislation, is that APRA would have provided the same treatment to a fund akin to the ABGF had the Australian Government not held an ownership stake. (The phrasing used was that Australian Government ownership 'certainly wasn't a requirement'.)

- Is our interpretation of this accurate?

That is correct. In determining the appropriate capital treatment, APRA did not take into account Government ownership. The capital treatment was developed internally prior to APRA

understanding that there would be a Government ownership stake. APRA did note that Government involvement was a factor that contributed to the uniqueness of the fund.

4. Our interpretation of Section 8(2) of your Act, alongside testimony before the Senate Economics Committee, is that APRA is not required to consider competitive neutrality in relation to the ABGF, because the ABGF itself is not regulated by APRA.

- Is our interpretation of this accurate?

That is correct. APRA does not regulate or set capital requirements for the Australian Business Growth Fund. APRA regulates and sets capital requirements for prudentially regulated entities such as ADIs. The determination of the structure and approach of the ABGF, including the Government's decision to invest in the fund, was outside of APRA's remit. Competitive neutrality, as well as other factors, was considered in relation to the capital treatment for ADI investments in the fund.