



19 February, 2020  
**File:**

Mr Mark Fitt  
Committee Secretary  
Senate Economics Legislation Committee

By Email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Mr Fitt

**Application of the policy of Competitive Neutrality to the Australian Business Growth Fund**

I refer to a letter dated 19 February by Ms Diane Brown in relation to the Inquiry into the Australian Business Growth Fund Bill 2019. Ms Brown noted that Treasury would provide further information on the application of the policy of Competitive Neutrality to the Australian Business Growth Fund (ABGF).

The Government's policy of Competitive Neutrality applies to the ABGF because of the Commonwealth's shareholding in the Fund and the commercial nature of its activities.

As noted to the Committee, the ABGF has been designed to minimise potential detrimental effects on competition in a manner consistent with achieving competitive neutrality as much as possible:

- All investments will be made on a commercial basis. No SMEs will receive subsidised funding and the Fund will compete for investment opportunities on similar terms to other SME funders;
- APRA is applying a risk weight of 250 per cent to an ADI's investment in the ABGF. This is below the current full deduction for Common Equity Tier 1 capital for equity investments. The effect of this treatment is to reduce the cost of capital for a participating ADI's investment in the Fund. The impact on competition and competitive neutrality is mitigated by the fact that:
  - The 250 per cent risk weight applied to ADIs' investments in the ABGF is still a relatively high capital requirement and is considerably higher than risk weights applied to ADIs' corporate loans or loans to SMEs;
  - Non-regulated investors in the SME market are not subject to APRA's capital requirements so do not face the same additional increment to their cost of capital as ADIs. Their funding costs are subject to market forces reflecting the risks and characteristics of their businesses;
  - APRA has constrained participating ADIs' investment in the ABGF to be below 2 per cent of their Common Equity Tier 1 capital;
  - APRA noted that the inclusion of the Australian Government as a founding shareholder in the ABGF supports this treatment, subject to prudential safeguards. The 250 per cent risk weight is therefore appropriate for an ADI's investment in the ABGF, not a subsidy for those investments;
  - Partly to ensure that other ADIs can receive the same risk treatment and access to patient equity investment opportunities as founding shareholders, the ABGF will remain open to ADI and other investors over time;

- APRA's approach to risk weighting for the ABGF is similar to that applied by regulators in the UK and Canada to the business growth funds in those countries.

More generally than the specific question of competitive neutrality, the ABGF is being created in response to a gap in the equity funding market for SMEs. In so doing, one of its aims is to boost the equity funding of SMEs and add competition to the market. To that end it has been supported by the small business community and their funders, including in most submissions to the Committee.

We are happy to provide further information to the Committee if needed.

Yours Sincerely



Warren Tease, Chief Advisor  
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