



Australian Government

**Department of Industry, Science,
Energy and Resources**

Submission to the Senate Select Committee Inquiry on Financial Technology and Regulatory Technology

Department of Industry, Science, Energy and Resources

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About the department

The Department of Industry, Science, Energy and Resources (the department) supports economic growth and job creation for all Australians. In 2020, energy, climate change and small and family business functions were brought into the portfolio, creating new opportunities for the department to support business competitiveness, export growth and job creation.

The department facilitates economic recovery and growth by supporting manufacturing, business capability, technology, science and innovation. It supports affordable, reliable and secure energy and Australia's transition to a lower emissions future, including by encouraging the commercialisation and uptake of clean technologies. It also backs Australia's strong resources sector, supporting the safe and sustainable development of Australia's mineral and energy resources for the benefit of the nation.

The department's vision is to support economic growth and job creation for all Australians. As Australia learns to manage the impacts of COVID-19, and rebuilds and recovers from the pandemic, we are helping to create a strong, modern, more resilient and productive economy that delivers long-term prosperity by:

- **Unlocking Australia's potential and creating jobs by building on our strengths.** This includes focusing on areas of comparative advantage and strategic interest; boosting the competitiveness, scale and resilience of Australian manufacturing; backing a strong resources sector through the safe and sustainable development of our world-class resources; investing in Australia's energy future to enable economic transition, boost energy productivity and support new industries; and capitalising on our national science, technology, engineering and mathematics expertise and boosting commercialisation and collaboration.
- **Growing our economy by supporting a competitive business environment.** This includes delivering energy that is reliable, affordable and secure through supporting investments in critical energy infrastructure, unlocking gas supplies and working with the states and territories on bilateral energy and emissions reduction agreements; supporting Australia to become a leading digital economy by 2030 by strategically investing in digital technologies, skills and infrastructure to accelerate the digital and cyber capability of Australian businesses and open up new markets; ensuring the right tax and regulatory settings are in place, including the Research and Development (R&D) Tax Incentive, and improving regulatory effectiveness while reducing compliance costs to support investment and employment growth; supporting small and family business to thrive; and enabling COVID-19 safe operations for business.
- **Creating a more resilience and outward looking economy that benefits all Australians.** This includes driving export growth, and strengthening and diversifying supply chains and markets; delivering on Australia's long-term emissions reduction targets; boosting fuel security by developing options to support storage, domestic refining capability and transitioning to future fuels; supporting growth and transformation in regions and communities, with a particular focus on northern Australia; and safeguarding the community and the environment, including by building sovereign capability.

As Australia rebuilds from the impact of the COVID-19 pandemic, the department continues to play a central role in the Australian Government's plan to strengthen the economy, create jobs and deliver opportunities for all Australians.

Introduction

Since the department's last submission to the Senate Select Committee on Financial Technology and Regulatory Technology (the committee) in December 2019, Australia has experienced unprecedented challenges as a result of the COVID-19 pandemic. Government and industry have worked quickly to adapt to new ways of working. Australian businesses and consumers have accelerated their adoption of digital technologies, enabling them to transform their operations and continue to trade through the crisis. The pandemic has also exposed challenges and risks for Australia, including gaps in our digital capabilities and cyber security. As we start to look past immediate challenges and responses to COVID-19, technology offers even more – a path to economic recovery.

The Australian Government recognises the immense economic gains offered by strategic investment in technology. To reach Australia's goal of becoming a leading digital economy by 2030 and to support our economic recovery from the pandemic, the 2020-21 Federal Budget includes significant investments in technology and the digital capabilities of Australian businesses. On 29 September 2020, the Prime Minister, the Hon Scott Morrison MP, announced an investment of almost \$800 million in the Digital Business Plan. Through an investment of \$50 million, the department is delivering seven measures from the Digital Business Plan that support Australian businesses' better use of digital tools to readjust their operations and processes in a post-COVID economy and directly and indirectly support financial technology (FinTech) and regulatory technology (RegTech). This includes \$11.4 million for new Regulatory Technology Innovation Challenges to help spur the development of Australia's RegTech sector and reduce compliance burdens on business, \$6.9 million for two pilot projects that demonstrate to industry how blockchain can reduce the costs of regulatory compliance, and \$5.9 million to boost Australia's leadership, influence and uptake of international standards on digital and critical technologies. These initiatives are complemented by measures that will support the growth of the technology sector, including improvements to the R&D Tax Incentive.

The department supports the ongoing work of the committee and welcomes the opportunity to provide further evidence. This submission provides updates on the department's work since December 2019, and further information in response to the areas of inquiry raised in the committee's second issues paper and request to the department for information. The key topics covered in this submission are:

- departmental programs and advice on supporting Australia's R&D activities, including the R&D Tax Incentive and the issue of international investment;
- departmental involvement and advice on regulatory matters, including the rollout of the Consumer Data Right, data standards and applications of blockchain, and regulations for data security;
- an overview of, and departmental programs and advice on, access to capital in the FinTech and RegTech industries, including the areas of venture capital, startups and entrepreneurship;
- a response to the committee's request to the department for further information on the issues raised by the inquiry to date concerning the Early Stage Venture Capital Limited Partnerships program;
- information on the department's initiatives to grow the FinTech and RegTech sectors through a focus on regulatory culture and skills, including the potential for the department's Regulatory Technology Innovation Challenges to spur the development of the RegTech sector and departmental initiatives to enhance the domestic technology skills pipeline; and
- information on the department's activities and approach to international engagement on digital economy issues.

1. Australia's research & development agenda for growth

As noted in the department's December 2019 submission to the inquiry, R&D is a key driver of innovation, which in turn contributes to economic and productivity growth. Reforms to the R&D Tax Incentive announced in the 2020-21 Federal Budget will provide enhanced support R&D activities, including in the technology sector.

Research and Development Tax Incentive

The R&D Tax Incentive is the Australian Government's principal measure to encourage industry to invest in higher risk R&D activities. This is achieved by addressing problems that may prevent companies from investing in R&D, including the risk that the outcome may not yield a benefit for the company or that the company may be unable to capture the benefit, which could spill over into the broader economy. The R&D Tax Incentive is a broad-based, market-driven program that is accessible to all industry sectors. It provides over \$2 billion in R&D support to over 11,000 companies.

The R&D Tax Incentive currently reduces the costs of undertaking eligible R&D activities by providing tax offsets of up to \$100 million for eligible R&D expenditure each financial year. Eligible companies forgo the normal tax deduction for business expenses at the company tax rate in favour of an R&D tax offset. The R&D Tax Incentive currently features:

- A 43.5 per cent refundable tax offset for eligible companies with an aggregated turnover of less than \$20 million per annum (SMEs); and
- A non-refundable 38.5 per cent tax offset for eligible companies with an aggregated turnover of \$20 million or more per annum (large companies).

The Australian Government announced reforms to the R&D Tax Incentive in the 2018-19 Budget to improve its integrity and its effectiveness in response to the 2016 Review, Industry Innovation and Science Australia's 2030 Plan and over two years of extensive stakeholder consultation. The proposed reforms were revisited in 2019 and again in the 2020-21 Budget.

The recent reforms to the R&D Tax Incentive announced in the 2020-21 Budget are aimed at better achieving the program's objective to encourage investment by Australian businesses in R&D activities while assisting in the economic recovery from COVID-19. The reforms are part of the *Treasury Laws Amendment (A Tax Plan for the COVID-19 Economic Recovery) Act 2020*. Some administrative reforms will commence from 1 January 2021, with the following key reforms to apply from 1 July 2021:

- a refundable tax offset set at 18.5 percentage points above the prevailing company tax rate for SMEs with an aggregated turnover of below \$20 million per annum;
- a non-refundable tax offset based on R&D intensity for larger companies with an aggregated turnover of \$20 million or more per annum:
 - a base rate of 8.5 percentage points above the prevailing company tax rate for eligible R&D expenditure up to 2 per cent R&D intensity;
 - an enhanced rate of 16.5 percentage points above the prevailing company tax rate for eligible R&D expenditure over 2 per cent R&D intensity;
- an increase in the R&D expenditure threshold from \$100 million to \$150 million per annum; and
- administrative changes aimed at improving the integrity and transparency of the program.

The 2020-21 Budget reforms to the R&D Tax Incentive, together with the Australian Government's other business R&D and innovation support measures, are expected to provide businesses, including those in the technology sector, with the confidence and certainty they need to invest in R&D and contribute to Australia's economic recovery from the pandemic, as well as long-term growth for businesses and the economy.

2. Regulation

This section discusses issues connected to regulation raised in the committee's issues paper, including the Consumer Data Right (CDR), blockchain data standards and regulatory applications, and data security. The department has led and contributed to a number of initiatives relating to regulation since its previous submission to the committee in December 2019. This includes supporting the rollout of the CDR into the energy sector, investments in blockchain and international standards through the Digital Business Plan, and ongoing work developing and harmonising technology standards for blockchain. While the FinTech and RegTech industries are relatively mature in regards to data security, economy-wide baseline cyber security standards and regulations are needed and work is being progressed on their establishment under the Cybersecurity Strategy 2020.

Consumer Data Right

On 26 November 2017, the Australian Government announced the introduction of a CDR in Australia. The CDR will give consumers greater access to and control over their data. It will improve consumers' ability to compare and switch between products and services, and will encourage competition between service providers, leading not only to better prices for customers but also more innovative products and services.

In June 2020, the Treasurer, the Hon Josh Frydenberg MP, designated energy as a sector covered under the CDR. The Australian Competition and Consumer Commission has commenced development of the CDR rules for the energy sector and released a rules framework paper in July 2020.

The Australian Government is working with the states and territories under the Energy National Cabinet Reform Committee to develop amendments to the National Electricity Law and Rules to facilitate the CDR in the energy sector. These changes will allow the Australian Energy Market Operator to operate and maintain the CDR Gateway, and remove potential inconsistencies between the CDR and energy frameworks.

Blockchain

Data standards and blockchain

The development and international harmonisation of technology standards underpins business competitiveness in global markets and plays a vital role in Australia's economic growth. Standards create trust and consistency, ensure the integrity of goods and services, foster innovation and drive economic growth. Australia, along with many other countries, has maintained an industry-led, consensus-driven standards development process.

Since 2016, Australia has been active in the international blockchain environment with Standards Australia chairing the International Organization for Standardization (ISO) Working Group responsible for the international development of blockchain standards.

As of August 2020, the Committee has published three standards:

- Vocabulary (ISO 22739:2020);
- Privacy and personally identification information protection (ISO/TR 23244:2020); and

- Smart contracts and DLT systems (ISO/TR 23455:2019).

There are a further eight standards under development. Australia's work on blockchain standards aims to establish market confidence to support the development and adoption of blockchain technology. The aim is to unlock a public-private dialogue on blockchain industry and standards development requirements and improve the understanding, awareness and business benefits of this emerging technology.

As the committee's second issues paper notes, a commitment of \$5.9 million was announced as part of the 2020-21 Federal Budget to boost Australia's leadership, influence and uptake of international standards on digital and critical technologies. Influencing international standards will ensure they help Australian businesses to capture new markets and maintain their competitiveness. This support is particularly important as we help businesses to recover from the economic impacts of COVID-19.

The initial focus of the measure is on boosting engagement on international standards work in key sectors, which include digital and critical technologies, and critical minerals. The measure will increase Australia's engagement and influence in setting international standards and protect the interests of Australian businesses. Funding will also be used to help the National Measurement Institute to build their capability to influence and apply international standards, and help businesses to use them.

Blockchain applications

Several measures announced as part of the Digital Business Plan in the 2020-21 Federal Budget are focused on blockchain technology and international data standards, and will be delivered by the department. As the committee's second issues paper notes, this includes an investment of \$6.9 million over two years from 2020-21 for two blockchain technology pilots directed at reducing regulatory compliance burden for businesses. In Australia, government regulations cost an estimated \$94 billion per year in administration and compliance. These pilots will show how blockchain technology can reduce regulatory compliance costs related to critical minerals and food provenance, which are areas of strategic importance to Australia.

As part of the Australian Government's Modern Manufacturing Strategy, Resources Technology and Critical Minerals Processing has been identified as a National Manufacturing Priority and work in this area will strongly align with Australia's Critical Minerals Strategy and deliver agreed outcomes under the Council of Australian Governments Energy Council's Critical Minerals Roadmap. Food and Beverage is also a sector identified as a National Manufacturing Priority, and the pilot will build on existing work such as CSRIO Data61's National Food Provenance Mission. Both pilots will operate in conjunction with a federal and/or state regulator, and will deliver a production-grade solution over 11 months.

Blockchain can streamline regulatory processes and reduce the cost of compliance procedures through increased speed and automation. Using blockchain technology can also potentially eliminate the need for both regulators and businesses to keep duplicated records, improving the speed and quality of regulatory review processes, since data is reconciled on the blockchain rather than on duplicated accounts, and reducing the costs for business. Since data is shared by design on the blockchain, regulators would not have to collect, store, reconcile and aggregate data themselves, allowing businesses to focus on getting on with business.

Further work on deployment of blockchain-based systems that assist people and businesses to deal with government more easily and efficiently is being carried out through the four Working Groups established to support the National Blockchain Roadmap Steering Committee. The Working Groups are in the areas of supply chains, cybersecurity, credentialing, and RegTech. They are exploring the current state of identified use cases and the economic opportunities they present, as well as identifying technical, regulatory or other barriers to adopting blockchain. The Working Groups are observed by various government agencies and by Standards Australia to ensure that cross-cutting issues are reported back to relevant forums.

Broader government initiatives focused on using blockchain as a solution include the Australian Border Force's (ABF) blockchain trial with Singapore. The trial was launched on 23 November 2020 and will test digital verification systems, with the first to be developed using blockchain technology. The aim is to make cross border trade simpler and paperless for Australian businesses. Singapore Customs and the Singapore Infocomm Media Development Authority (IMDA) are involved alongside the ABF, and the trial is in line with the bilateral Australia-Singapore Digital Economy Agreement. Digital verification systems will be tested across both the ABF-developed Intergovernmental Ledger (IGL) and IMDA's TradeTrust for electronic trade documents. Businesses and regulators will give feedback on their experience verifying Certificates of Origin with the two systems, with the aim of reducing administrative costs and increasing trade efficiency.

To date, Australia has succeeded at striking the right balance between mitigating harm to consumers and investors, while also allowing innovation to unfold, and has positioned itself as a global leader in blockchain development as it applies to FinTech, RegTech and other use cases. However, for Australia to maintain its position at the blockchain frontier, it is important that this regulatory balance is maintained going forward.

Data security

The financial services and RegTech sectors understand the financial impact of poor cyber security. Given they are accustomed to regulation, they are also more likely to implement cyber security measures. As such, they are among the most mature sectors across the Australian economy and were early adopters of cyber security measures for the protection of data. The financial services sector was also the fastest moving in response to the COVID-19 pandemic, which brought with it increased online engagement and a consequent increase in cyber-attacks. The relative cyber maturity of the financial services sector ensured businesses could continue operating and accessing financial services.

AustCyber, the cyber security Industry Growth Centre under the department's Industry Growth Centres Initiative, is working with RegTech Australia and FinTech Australia to showcase Australian firms in Singapore, which demonstrates how these sectors understand the need to work collaboratively on cyber security issues.

However, while these sectors are among the most mature, there is still work that needs to be undertaken. Without action, the FinTech and RegTech sectors will continue to bear the costs of malicious activity exploiting foreseeable and preventable vulnerabilities. Further requirements for baseline cyber security standards are being explored through the Best Practice Regulation Taskforce (the Taskforce).

Through extensive public consultation on the *Australian Cyber Security Strategy 2020* (the Strategy), the Australian Government has heard consistent calls for baseline cyber security standards or regulations across the Australian economy. Cyber risks unfairly borne by third parties were of primary concern to those consulted. The government heard that most consumers were viewed as vulnerable and unable to protect themselves; and that without baseline standards, third-party supplier cyber risk management controls are unknown to end consumers. The Strategy responded to this feedback, and states the government's intentions to 'set a minimum cyber security baseline across the economy [...] and examine ways to simplify and reduce the cost of meeting any future baseline'.¹ The Taskforce has been established between the Department of Home Affairs and the department to advance this work. This baseline will be applicable to RegTech and FinTech.

¹ Australian Government 2020. *Australia's Cyber Security Strategy 2020*, <https://www.homeaffairs.gov.au/cyber-security-subsite/files/cyber-security-strategy-2020.pdf>

Cross-jurisdictional collaboration

As part of the Meeting of Digital Economy and Technology Ministers, convened by the Hon Karen Andrews MP, Minister for Industry, Science and Technology, the department is also working collaboratively with state and territory jurisdictions on a project led by the New South Wales government to identify technology-led opportunities that can help reduce compliance burdens on business and support the growth of the RegTech industry. The project has worked with industry to explore immediate opportunities to grow the adoption of RegTech and facilitate enhanced cooperation across government and industry. The project working group will make recommendations to ministers on key actions to advance the RegTech adoption agenda in early 2021.

3. Access to capital

This section provides an overview of issues connected to access to capital and departmental initiatives in this area, including updates to material provided in the department's December 2019 submission. This section also addresses the committee's request to Deputy Secretary Elizabeth Kelly for further information on the Early Stage Venture Capital Limited Partnerships (ESVCLP) program, received by the department on 26 November 2020.

As mentioned in the December 2019 submission, the department recognises that capital availability, funding availability for research and innovation activities, and suitable tax settings for investment in R&D contribute to a favourable environment for sectors and firms. The department administers (solely or jointly with the Australian Tax Office) a number of programs that contribute to this favourable environment including:

- The ESVCLP program;
- Venture Capital Limited Partnerships (VCLP);
- R&D Tax Incentive;
- Cooperative Research Centres; and
- Accelerating Commercialisation element of the Entrepreneurs' Programme.

Investment in Australian FinTech

The Australian-based Techboard collects data on Australian startups and young technology-based companies. In their 2019-20 annual report, Techboard found that FinTech was the leading category for investment, representing 63 per cent of total funding to Australian startups.² The report noted that the COVID-19 pandemic had little impact on investment into Australian FinTech.

The findings from KPMG's Pulse of Fintech report are similar. In the first half of 2020, investment in Australia's FinTech sector had increased by more than 150 per cent from the same period in 2019. More than US\$376 million was invested compared to US\$149 million the year before.³

Venture capital programs administered by the department

The Australian venture capital (VC) sector is still relatively small by international standards. In 2019, VC investment as a percentage of Australia's GDP was 0.034 per cent compared to an OECD average of

² Techboard 2020, *Australian Startup and Young Technology Company Funding Report FY 2019-20*, <https://techboard.com.au/techboard-australian-startup-and-young-tech-company-annual-funding-report-fy20/>

³ KPMG 2020, *Pulse of Fintech H1 2020*, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/09/pulse-of-fintech-h1-2020.pdf>

0.086 per cent. The principal programs to encourage VC investment in FinTech businesses in Australia are the ESVCLP and VCLP programs.

The ESVCLP program provides tax exemptions to domestic and foreign investors on their share of the fund's income and capital gains. Investors also receive a 10 per cent non-refundable tax offset on capital invested during the year. ESVCLPs receive flow-through tax treatment. The partnership is not a taxing point and the income and gains flow through to investors.

The VCLP program is aimed at increasing foreign investment in the Australian VC sector. VCLPs also provide flow-through tax treatment. Eligible foreign investors receive a capital gains tax exemption for gains made on eligible investments.

Providing certainty for FinTech investors

The committee has asked the department to provide a response to feedback that the ESVCLP regulation is complex and still needs clarification as it related to FinTechs, and that the program is challenging for many existing and emerging FinTech business models. As outlined in the department's December 2019 submission, the government has amended legislation governing the ESVCLP and VCLP programs to make it clear that FinTech companies are eligible for investment. The ESVCLP and VCLP programs are intended to support investment in businesses developing technology related to FinTech. The changes address uncertainty around the eligibility of FinTech investments, as well as stakeholder concerns that rules preventing ESVCLPs and VCLPs from investing companies predominantly undertaking financial services activities might constrain investment in Australian FinTechs. The changes, which commenced on 1 January 2019 and apply to investments made on or after 1 July 2018, amended the *Income Tax Assessment Act 1997* to allow investment in companies that are:

- developing technology for use in relation to finance, insurance or making investments;
- undertaking an activity that is ancillary or incidental to developing technology for finance, insurance or making investments; or
- covered by a finding from Industry Innovation and Science Australia, in force at the time of investment, that allows for investment in a substantially novel application of technology.

The intention of the first two elements is to clarify that developing technology, or ancillary activities, are not ineligible. The activities of finance, insurance and making investments are generally subject to regulatory regimes. Developing technology is not subject to the same regulatory regimes and is generally outside the scope of those ineligible activities. The department is aware that some ESVCLPs and VCLPs are using these provisions to support businesses developing technology related to FinTech. Program data shows increasing investment by ESVCLPs and VCLPs in FinTech and RegTech. In 2019-20, these partnerships invested over \$155 million in 67 companies. This is the highest amount invested through the programs in FinTech. However, as companies grow and their activities change, businesses previously focused on technology development may become more akin to a financial service provider and may no longer fall under the FinTech exemption.

The third element allows investments in companies covered by a finding from Industry Innovation and Science Australia that are engaged in activities involving a substantially novel application of technology. This is intended to permit ESVCLPs and VCLPs to invest in entities that are engaged in substantially novel activities in relation to FinTech, even if these activities have moved from the development of technology to its application. The introduction of the power to findings was intended to provide certainty and clarity about prospective investments. To date, there have been no applications for such a finding.

Startups and entrepreneurs

The Australian Government is committed to creating the right environment for Australian startups to flourish and attract overseas investments. The department administers a range of policies and programs to support access to capital for startups and entrepreneurs, including grants for early stage businesses through the Boosting Female Founders Initiative and elements of the Entrepreneurs' Programme, specifically Accelerating Commercialisation and the Incubator Support Initiative.

Government support for early stage commercialisation has been demonstrated to assist in achieving greater productivity and economic growth. An evaluation of the department's Entrepreneurs' Programme found that early-stage businesses that received funding through the Accelerating Commercialisation element of the program attracted private investment, raised new capital, extended their networks and increased employment as a result of the program.

The Accelerating Commercialisation program provides expert guidance and connections to help businesses and researchers to commercialise their novel product, process or service. After receiving commercialisation advice, businesses can access matched grants of up to \$1 million to assist in the commercialisation process. Facilitators provide guidance and mentorship to help achieve project objectives, with an opportunity to access networks to help make important business connections, create opportunities, raise capital and enter new markets. Facilitators also introduce potential exposure to investors and multi-national corporations through domestic and international roadshows.

Accelerating Commercialisation has proven successful to help startups raise capital and can be scaled to make Australian startups more attractive to overseas investors. As at 30 September 2020, Accelerating Commercialisation has approved 494 projects with a total grant value of \$237.6 million. For every grant dollar, new capital raised is around \$3.70.

Also under the Entrepreneurs' Programme, the Incubator Support Initiative provides grant funding to incubators who support Australian startups with an international focus through two streams:

- Expert in Residence grants support incubators to access top quality research, technical and managerial expertise through secondments of national and international experts.
- New and Existing Incubator grants support incubators to deliver high-quality services for startups, improving their chances of commercial success in international markets. It also has provisions for incubators to partner with support organisations to assist first-generation migrant and refugee founders to establish their businesses both nationally and internationally, and assist startups with a regional focus to expand and scale their business.

The Boosting Female Founder Initiative, launched in 2020, provides co-funded grants to women-founded (majority owned and led) startups, assisting women entrepreneurs to access early stage capital and overcome barriers needed to scale their startup businesses into domestic and global markets. This Initiative will also provide a mentoring element to ensure women entrepreneurs have access to the knowledge they need to continue to succeed and grow.

Evidence indicates that women entrepreneurs are facing significant challenges accessing capital and supportive networks. These challenges also disproportionately impact women founders that are located in rural and regional areas, Indigenous businesses, first-generation migrants and refugees, and persons with a disability. The Boosting Female Founders Initiative provides additional support to disadvantaged women founders and helps to stimulate private sector investment into innovative startups owned and led by women.

4. Skills & Culture

As noted in the committee's second issues paper, the 2020-21 Federal Budget includes an investment of \$11.4 million in Regulatory Technology Innovation Challenges that will be implemented by the department through the Business Research and Innovation Initiative (BRII). This section provides further information about how this measure will help spur the development of the RegTech sector in Australia and provides information on the department's recent activities to strengthen talent acquisition and retention in the technology sector.

Regulatory Technology Innovation Challenges

RegTech can help business to navigate and comply with regulatory requirements and not get bogged down with time consuming paperwork. This makes it easier for businesses to invest, grow and create new jobs, which is critical as businesses recover from the economic impacts of the COVID-19 pandemic. The adoption of RegTech could significantly reduce businesses' compliance costs and make it easier for businesses to invest and grow, creating more jobs to support our economy. For example, government regulation costs an estimated \$27 billion per year to administer and \$67 billion per year to comply with. Businesses face a further \$155 billion per year due to self-imposed rules and regulation.

The Regulatory Technology Innovation Challenges are a significant opportunity to spur the development of the RegTech sector in Australia by helping businesses with RegTech solutions to develop and commercialise their ideas, leading to benefits for the Australian economy. The initiative is being delivered through a targeted BRII round. BRII is a successful government program that draws on innovative small businesses to develop solutions to government policy and service delivery challenges.

The initiative extends beyond a grant program. Successful applicants not only propose a solution to the initial challenge set by a government agency or regulator, but must also address broader market opportunities and the future commercial potential of their solution. From this perspective, the focus of the program is both on partnering with small businesses to develop innovative solutions to government challenges, as well as supporting these businesses to demonstrate their unique technology and capability to deliver market-ready solutions.

The challenge rounds occur in three stages, (1) Challenge Selection, (2) Feasibility Study and (3) Proof of Concept. Applicants work with the relevant agency throughout the Feasibility Study and Proof of Concept stages and are provided with advice and experience developing solutions for the government context. Applicants retain the intellectual property for their solution, enabling them to leverage their success through BRII to commercialise their solution and develop new market opportunities beyond their participation in the initiative.

This approach to developing RegTech solutions will provide critical early stage funding to innovative SMEs. This will enable them to test new ideas, find pathways to market and identify regulatory solutions that could benefit other businesses.

Talent acquisition and retention

To ensure Australia's finance sector remains globally competitive, it is necessary to develop the domestic tech-talent pipeline alongside attracting skilled migrants. This includes supporting directors and organisational leaders of Australian SMEs in the finance sector to develop the complementary digital skillsets required to drive transformation. The department works with colleagues in the Department of Education, Skills and Employment, as well as with colleagues in the Department of Home Affairs, the responsible

authorities for this subject, to examine the development of domestic skills pipelines and skilled migration policy.

The department is investing in the Digital Directors training package to help directors and leaders of Australian organisations improve their digital literacy and decision making. The department is also helping workers reskill and upskill for jobs in the sector, including through working with the technology industry to make training available via the Digital Skill Finder Platform, which has a focus on areas such as AI and machine learning. These complementary initiatives were both announced as part of the Digital Business Plan in the 2020-21 Federal Budget and are valued at \$3 million over four years from 2020-21.

5. Trade and International Policy

The department recognises the importance of trade-enabling rules and agreements that recognise the growing flow of digital goods and services across borders, particularly the cross-border flow of data. As new products and services become available in the FinTech and RegTech sectors it will be critical to ensure Australia has agreements, such as the Australia-Singapore Digital Economy Agreement, that allow adequate market access for Australian entrepreneurs to commercialise their products, and for Australian consumers to benefit from innovative new products. The Australia-Singapore Digital Economy Agreement exemplifies the benefits of international collaboration on digital economy issues. Under an aligned trial announced on 23 November 2020, the ABF is collaborating with Singapore to develop solutions to increase trade efficiency and reduce administration costs, including through the use of blockchain technology.

The department supports engagement on digital economy issues through our ongoing bilateral engagement with international partners, including the recent Frontier Technologies Dialogue with the United States, Digital Economy and Policy Dialogue with the European Commission and Data Innovation Dialogue with Singapore. Australia is also active in a range of discussions in multilateral fora, such as the Organisation for Economy Cooperation and Development and G20, where the opportunities and challenges presented by the increasing digitisation of our economy and trade are being discussed. Along with our partners across government, the department will continue to identify and harness opportunities to deepen our engagement on digital economy issues as these opportunities present themselves.