

11 December 2020

Senator Andrew Bragg
Chair
Select Committee on Financial Technology and Regulatory Technology
PO Box 6100
Parliament House
Canberra ACT 2600

Email: fintech.sen@aph.gov.au

Dear Senator Bragg,

Senate Select Committee Inquiry into Financial Technology and Regulatory Technology

The Australian Investment Council welcomes the opportunity to provide further input to the Senate Select Committee's Inquiry on Financial Technology and Regulatory Technology on the longer-term issues for the FinTech and RegTech sectors and the solutions that will drive future employment and economic growth.

As the voice of private capital, the Australian Investment Council is supportive of policy initiatives and reforms that help ensure our economy is competitive, innovative and able to support Australia now and into the future. In particular, the Council encourages initiatives that help expand entrepreneurship, increase productivity and support investment – initiatives that drive the development of skills and talent, productive capacity and innovation through technology.

The private capital investment has played a central role in the growth and expansion of thousands of Australian businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity, venture capital and private credit funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers.

Australia's \$33 billion private capital investment industry employs close to 200,000 domestic workers and creates one in nine new jobs¹ across the economy. It is a critically important investment and efficiency driver for Australian industries and businesses. Fund managers invest capital from a wide variety of domestic and offshore institutional investors to support the growth of thousands of high-potential Australian businesses. In addition to providing equity capital, private capital fund managers provide those businesses with a mix of strategic support, mentoring and networking to help them unlock growth opportunities in domestic and international markets, which underpins the creation of new jobs across all sectors of the economy and boosts economic growth.

The recommendations below provide practical policy solutions that will help grow the pool of capital available to support investment into the FinTech and RegTech industries and to create employment and growth opportunities for the future. The policy solutions set out below are designed to:

1. Facilitate a **streamlined and more competitive taxation system** that will create jobs and economic growth.
2. Develop a **strong regulatory framework** to improve the competitiveness of Australia's investment regime.
3. Fill **skills and talent gaps** and build a pipeline of skills that will support Australia's fintech and Regtech industries into the future.
4. Support a strong **Research & Development** regime that will re-boot and contribute to economic growth.

If you have any questions about the recommendations or any specific points outlined in this letter, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research,

¹Deloitte Access Economics (2018) [Private equity: growth and innovation](#), April.



Yours sincerely,

Yasser El-Ansary
Chief Executive



Summary of Recommendations

Recommendation 1: *Streamline Australia's taxation system to eliminate inefficient taxes.*

The Australian Investment Council recommends governments work collaboratively to remove inefficiencies from Australia's taxation system through:

- Reducing reliance on corporate and personal tax revenue;
- Working with states to introduce greater harmonisation in regimes and to re-balance the tax mix between direct and indirect taxes; and
- Using the National Cabinet as an opportunity to unite behind the common purpose of improving the competitiveness of Australian businesses.

Recommendation 2: *Relaunch the Research & Development Tax Incentive*

The Australian Investment Council recommends government harnesses the opportunity to relaunch and promote the RDTI and its benefits prior to implementation of the new R&D Tax Law on 1 July 2021.

Recommendation 3: *Consolidate guidance material*

The Australian Investment Council recommends the RDTI Roundtable reviews the current guidance material with the view of developing one, useful and accurate repository of information for the RDTI.

Recommendation 4: *Introduce R&D incentives for FinTech and RegTech companies*

The Australian Investment Council recommends the government considers incentives, such as tax credits, for FinTech and RegTech companies to invest in R&D during the crisis period.

Recommendation 5: *Reintroduce Matching Grants for R&D*

The Australian Investment Council recommends government reintroduces matching grants for R&D for FinTech and RegTech companies to boost innovation and growth in these sectors.

Recommendation 6: *Fast-track implementation of a Limited Partnership Collective Investment regime*

The Australian Investment Council recommends steps be taken to fast-track the introduction of a new Limited Partnership CIV that aligns with international best practice. A target start date of 1 July 2021 should be set.

Recommendation 7: *Improve existing VCLP and ESVCLP vehicles*

The Australian Investment Council recommends that the technical amendments to modify the operation of Australia's ESVCLP and VCLP regimes are implemented as a priority to ensure fast-growth businesses are not penalised by the regimes.

Recommendation 8: *Play a leadership role in data security*

The Australian Investment Council recommends Australia adopts a leadership role in facilitating closer collaboration with Singapore in developing policy frameworks and initiatives to protect the FinTech and RegTech sectors from security breaches.

Recommendation 9: *Extend Talent Visa program*

The Australian Investment Council recommends Government extends the talent visa program to enable employers to sponsor more than the current level of five entrepreneurs in the start-up stream.



Recommendation 10: *Extend visas for foreign students*

The Australian Investment Council recommends Government extend visas for foreign students who graduate from Australian universities in disciplines where we have skills shortages, allowing them to stay and work in Australia to build a pipeline for our new, knowledge-based economy.

Recommendation 11: *Address future labour shortages*

The Australian Investment Council Recommends Government address current labour shortages by funding institutions that can develop and deliver courses for tertiary students aimed at fostering entrepreneurship and teaching digital STEM skills.

Recommendation 12: *Fast-track skills through career pathways*

The Australian Investment Council recommends Government works with industry and academic institutions to map career pathways that enable Australians to fast-track career changes through further education and on-the-job training

Recommendation 13: *Fast-track the establishment of 'STEM Schools'*

The Australian Investment Council recommends Government embed STEM skills into the Australian School curriculum from primary school years through to tertiary education and fast-track the establishment of 'STEM Schools' modelled on Sydney Science College in Epping to expand accessibility for all Australians.



Tax Issues

Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term. Australia's taxation system has been the subject of numerous reviews over the past decade, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review², led by former Treasury Secretary, Dr Ken Henry. Many of the recommendations from that review are yet to be progressed. Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. Some state jurisdictions within Australia have adopted elements of the blueprint in bringing about reform in their own regimes, but a coordinated national approach has not been agreed.

The success of the National Cabinet of heads of government could serve as the foundation on which consensus for reform could be built, and the unity around the common cause of building a stronger and more innovative Australian economy for the future could serve as the catalyst for change that has been absent in the past. Some of the key priority reforms set out in the AFTS Review, as well as other growth orientated analysis of our existing tax system, revolve around reducing the headline corporate income tax rate for all businesses to 25%, a step that would deliver incomes growth for all Australians, and at the same time, lift Australia's competitive standing in the global marketplace for capital and talent. A reduction in the corporate income tax rate forms an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future. A short-term measure that should be considered is capital gains tax relief. This could induce an increase in investments into high-growth businesses and help kick-start the recovery

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Research and Development

A supportive Research & Development (**R&D**) regime is increasingly important in a downturn or in times of heightened uncertainty, when markets and investors typically become increasingly risk adverse, and investment in innovation typically reduces.³ OECD research has found that during such times, "firms face difficulties in tapping into external sources of funding to support their investments in R&D" and that R&D investment is "reoriented towards short-term, low-risk innovations, while longer term, high risk innovation projects are... cut first".³

R&D is a critically important policy support mechanism which drives large parts of Australia's innovation ecosystem. The Australian Investment Council has been a long-term advocate of a robust R&D regime that maintains an investment momentum by companies at the front-line of research and development of new products and services.

More than ever, this is critical as Australia emerges from the COVID pandemic. In February, the Australian Investment Council led the call for changes to introduce a cap on refundable R&D credits to be abandoned, and was pleased to see that Government accepted that advice and abandoned the previously announced reforms in the Federal Budget. The

² [Australia's Future Taxation Review Final Report](#), 2 May 2010

³ Guellec, D. and S. Wunsch-Vincent (2009), [Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth](#), OECD Digital Economy Papers, No. 159, OECD



Council also welcomed the refreshed RDTI guidance that is now more user friendly for users of the guide and contains examples of eligibility for the regime

However, given the current economic conditions and challenges there is still work to be done to encourage Australian SMEs to expand their investment in R&D to assist Australia's future productivity and employment growth. We also note that other nations in our region have more supportive programs, such as New Zealand and Singapore.⁴ Rather than creating uncertainty or inhibiting innovation, the R&D regime should be leveraged to support Australian businesses and to position Australia as a stable and attractive destination for offshore investors in the period ahead.

To this extent there is scope to harness the new R&D Tax law applicable from 1 July 2021 to relaunch the program as Government's flagship mechanism to support R&D and innovation. This would serve to promote the benefits, access and useability of the RDTI ahead of the implementation of the new legislation and to alleviate concerns and provide clarity on areas such as the eligibility of software development and its applicability to Fintech and Regtech.

Recommendation 2: *Relaunch the Research & Development Tax Incentive*

The Australian Investment Council recommends government harnesses the opportunity to relaunch and promote the RDTI and its benefits prior to implementation of the new R&D Tax Law on 1 July 2021.

Getting software development R&D Tax Incentive claims right

The Council contributed to the consultation on the Refreshed Guide to Interpretation for the RDTI and welcomed the changes to the guide that was updated and released in November 2020. In alignment with the Council's submission, the refreshed guidance is now more relevant to users of the RDTI featuring plain English content, examples of eligible activities and information that is more aligned with recent Federal Court and Administrative Appeals Tribunal decisions.

Notable changes include more clarity around 'experiments' including a new definition of a hypothesis as 'an idea or proposed explanation for how you could achieve a particular result and why that result may or may not be achievable', along with more clarity on new knowledge which is defined as being a 'new or improved material, device, product, process or service and a new practical or theoretical understanding of a subject'.

While progress has been made, there is still work to be done to provide businesses with clear and consistent information to help them get their RDTI claims right. Additional material relevant to the RDTI can be found in the Guide to common errors and Software activities and the R&D Tax Incentive publications.

Consolidation of these documents into one, accurate repository of information would significantly assist in building confidence in the program amongst the FinTech and RegTech sectors. The RDTI Roundtable jointly administered by the Australian Taxation Office and AusIndustry Terms of Reference allows for the formation of working groups to address these issues.

Recommendation 3: *Consolidate guidance material*

The Australian Investment Council recommends the RDTI Roundtable reviews the current guidance material with the view of developing one, useful and accurate repository of information for the RDTI.

Introduce tax credits for Fintech and Regtech

In recognition that start-up businesses are essential for innovation, employment and productivity growth, the UK government is considering tax credits for venture capital companies. This recognises the importance of R&D investment in fuelling a recovery. Unless specific support is implemented in Australia, there is a risk our national recovery will be hampered unnecessarily by a reduction in R&D activity.

⁴ We are able to provide further information regarding offshore regimes if this would be useful to the Committee.



Recommendation 4: *Introduce R&D incentives for FinTech and RegTech companies*

The Australian Investment Council recommends the government considers incentives, such as tax credits, for FinTech and RegTech companies to invest in R&D during the crisis period.

Reintroduce Matching Grants for R&D

Australia's R&D investment is relatively low against similar western countries. The current level of competitive funding offered in the Accelerating Commercialisation grants program is also relatively low, although we note that the Department of Industry, Science, Energy and Resources is consulting with industry to asset grants under this regime.

To be competitive and encourage and attract investment in critical and emerging technologies such as Fintech and Regtech, Australia needs to increase its incentives for R&D. Encouraging emerging and innovative companies through sovereign investment is also important, so there are investments in technologies that are in Australia's national interest and secure our economic and social future.

For almost three decades from the early 1980s to 2008, the Federal Government provided competitive matching grants to organisations to help fund worthy R&D projects. These were shut down midway through the Cutler innovation review. A competitive grants element to fund R&D is a recurrent feature of many government ecosystems and they address different and complementary areas of the innovation landscape.

The contribution that strategic step change R&D projects can make has been more than borne out by the pandemic. It is a perfect time to act.

Recommendation 5: *Reintroduce Matching Grants for R&D*

The Australian Investment Council recommends government reintroduces matching grants for R&D for FinTech and RegTech companies to boost innovation and growth in these sectors.

Collective Investment Vehicles

One area where Australia's approach is inconsistent with international practice is its existing framework for collective investment vehicles (**CIV**). As Australia is a net importer of capital, a world-class competitive CIV regime is essential for building and expanding the pool of capital that can be committed to businesses and for attracting foreign investors who are currently deterred from investing into Australia in favour of investment structures they are more familiar with.

The Council welcomes the Committee's recommendation to implement CIV structures for Limited Partnerships which will encourage more investment into FinTech and RegTech businesses. The existing framework for CIVs is inconsistent with other jurisdictions which means Australia often misses out on significant volumes of capital due to a policy that is not as competitive and consistent with global practices as it should be. The merits of an improved CIV regime are long understood. However, work is yet to start on developing a new Limited Partnership CIV. Government must prioritise this work to catch up to international best practice.

Recommendation 6: *Fast-track implementation of a Limited Partnership Collective Investment regime*

The Australian Investment Council recommends steps be taken to fast-track the introduction of a new Limited Partnership CIV that aligns with international best practice. A target start date of 1 July 2021 should be set.

Early Stage Venture Capital Limited Partnerships

The Committee's recommendation to widen access to the Early Stage Venture Capital Limited Partnerships (**ESVCLP**) and Venture Capital Limited Partnerships (**VCLP**) investment vehicles was an important outcome of the report.

Because Australia does not yet have an internationally competitive Limited Partnership CIV, the ESVCLP and VCLP regimes play a critically important role in supporting high-growth Australian business via access to venture capital and growth capital investment. Broadening the framework for VCLPs and ESVCLPs and making them competitive with other jurisdictions will be attractive to early-stage investors considering medium and long-term investments into Australian



businesses across a range of new and emerging sectors of the economy and will enable fast-growth businesses to operate in a more stable and consistent policy framework.

Recommendation 7: *Improve existing VCLP and ESVCLP vehicles*

The Australian Investment Council recommends that the technical amendments to modify the operation of Australia's ESVCLP and VCLP regimes are implemented as a priority to ensure fast-growth businesses are not penalised by the regimes.

Data Security in FinTech RegTech

Data security and standards in the FinTech and RegTech sectors are relatively more sophisticated in their cyber security strength than other industry sectors. Operating in a heavily regulated industry that is critical to Australia's economy has driven more sophisticated cyber security practices and procedures within and across financial organisations. In this respect, FinTech needs to work in concert with the requirements and expectations of industry to continue to facilitate a more advanced approach to cyber security in these sectors.

Singapore is one of the leading global countries, with Australia, in their approach to financial regulation and regulator support for cyber security resilience and protection. Australia is playing a significant role and there are areas where Australia and Singapore can work more closely together, through the recently commenced Singapore Digital Economy Agreement designed as a digital bridge featuring modern, upgraded rules to free up data flows and increase compatibility for online trade.⁵

Key strategies that Singapore is advancing, that Australia is has also been focusing on and can learn more from cover areas such as:

- **Regulations and guidance** - technology risk management, and to keep pace with the evolving best practices in the industry
- **Industry collaboration and support** - working closely with the industry associations to undertake sector-wide cyber initiatives, such as conducting regular industry-wide business continuity and cyber risk exercises
- **Collaboration with national and international agencies** - coordinating cybersecurity efforts across sectors and being an active participant in a number of international standards setting bodies and working groups with peer regulators
- **Information sharing** - industry has several channels to gather and share information and regulators too have several avenues to do the same. Exchange cyber threat intelligence quickly and to multiple parties for the greater herd resilience, including working with international forums to facilitate multi-lateral information sharing. This enables authorities to share and distribute information on cyber threats, vulnerabilities, incidents and other intelligence that could impact the financial ecosystem
- **Consumer education** - promoting consumer awareness to observe good cyber hygiene and practices on their part, including alerting investors and the public of cyber risks through a national financial education program.

Recommendation 8: *Play a leadership role in data security*

The Australian Investment Council recommends Australia adopts a leadership role in facilitating closer collaboration with Singapore in developing policy frameworks and initiatives to protect the FinTech and RegTech sectors from security breaches.

⁵ Australian Prime Minister's [Virtual Speech, Singapore FinTech Festival](#), 8 December 2020



Skills and Talent

To compete against the world's best, Australia needs to attract and retain the world's best talent. This is particularly true for Australia as we are net importer of not only capital, but also highly skilled talent. Education reforms, particularly in 'Science, Technology, Engineering and Maths (**STEM**) disciplines, will help build the next generation of local talent, but in the short-term, immigration reforms will help facilitate the entry of much needed specialist skills not available locally.

Skilled migration has been a key feature of Australia's migration system, playing an important role in generating economic growth for a number of successive decades. Australia has had a long history of supportive policies to attract business entrepreneurs. However, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers. These entrepreneurs will help generate new and sustainable business opportunities within the Australian economy into the future and every effort must be taken to attract and retain that talent.

The global search for talent is compounded by ever-more-rapid changes brought about by technology and innovation. Australia has to stay competitive if we want to attract and retain the best and brightest. In this respect, the Council supports the government's Global Talent – Sponsored and Independent Programs. While it is still early days in the lifecycle of these policies, we believe that they both represent a step in the right direction for our future. We also note the recently announced, Department of Employment, Skills, Small and Family Business, consultation on skilled migration occupations lists, which will play an important supporting role in identifying those specific niche skills that our national economy should prioritise in order to build our future growth.

Recommendation 9: *Extend Talent Visa program*

The Australian Investment Council recommends Government extends the talent visa program to enable employers to sponsor more than the current level of five entrepreneurs in the start-up stream.

Australia has a strong record of attracting foreign students to our world-class tertiary education system. Many of these students arrive on visas that are valid for the duration of their studies, and then return to their home countries to develop their careers. This is a potential source of the skills needed to address labour shortages in the short to medium term.

Recommendation 10: *Extend visas for foreign students*

The Australian Investment Council recommends Government extend visas for foreign students who graduate from Australian universities in disciplines where we have skills shortages, allowing them to stay and work in Australia to build a pipeline for our new, knowledge-based economy.

As outlined in the Australia 2030 Prosperity Through Innovation report released by Innovation and Science Australia, growth in jobs and occupations requiring STEM skills are outstripping overall employment growth across the economy. While skilled migration will help to address skills shortages in the near future, building a workforce from within Australia with relevant STEM skills will contribute to employment and future economic growth. Cyber Security as it applies to the FinTech and RegTech sectors is one area where additional skills will be required.

In November 2020, AustCyber updated its estimates on the number of cyber security workers in Australia to 26,500, well-ahead of predicted growth for the sector.⁶ This confirms that education providers across the country are stepping up to deliver a pipeline of skilled cyber security professionals, with 50 per cent of industry more confident about the prospective talent pipeline. However, the plan has also highlighted that around 7,000 more cyber security professionals will be needed by 2024, if Australia is to adequately meet the increased risks arising from cyber attacks.

⁶ [Cyber Security Sector Competitiveness Plan](#), AustCyber, November 2020



Recommendation 11: *Address future labour shortages*

The Australian Investment Council Recommends Government address current labour shortages by funding institutions that can develop and deliver courses for tertiary students aimed at fostering entrepreneurship and teaching digital STEM skills.

While Australia is on a positive path in STEM skills development, need to remain vigilant and continue to encourage and engage student interest in STEM subjects to deliver a growing supply of talent. The pathway is through:

- Encouraging students to become motivated to pursue digital technology (including critical and emerging technologies that are underpinned by FinTech and RegTech) training and careers
- Increasing education offerings from both TAFE, Universities and through micro credentialling
- Creating opportunities for mid-career professionals to transition into digital technology careers through transition pathways, including through formal and on-the-job training.

Recommendation 12: *Fast-track skills through career pathways*

The Australian Investment Council recommends Government works with industry and academic institutions to map career pathways that enable Australians to fast-track career changes through further education and on-the-job training.

In the longer term, building a pipeline of future employees with STEM skills from the Australian school system would help to increase the job prospects for Australians in the future.

Recommendation 13: *Fast-track the establishment of 'STEM Schools'*

The Australian Investment Council recommends Government embed STEM skills into the Australian School curriculum from primary school years through to tertiary education and fast-track the establishment of 'STEM Schools' modelled on Sydney Science College in Epping to expand accessibility for all Australians.