

Financial System Inquiry Final Report

ANU Submission

The Government's Financial System Inquiry recognises the importance of meeting Australia's evolving needs and supporting economic growth.ⁱ The Australian National University (ANU) welcomes the Inquiry and supports an innovative and progressive financial framework as essential for growth and sustainability of the Australian economy.

Context

The ANU is an internationally recognised research-led educational institution with a distinct national role to address and lead debate on the major issues facing humanity and the nation. We see this role as a crucial one in developing and supporting the national innovation eco-system. For the ANU, successfully translating publicly funded fundamental research into direct economic and social impact is key to building our international standing and attracting the best staff and students. Directly engaging with business, industry and government to address problems that restrict productivity and growth is an area that demonstrates relevance for the University. Innovation is both an unequivocal outcome of and an essential input into what we do.

ANU welcomes the opportunity to highlight critical elements of the report to effectively support and grow innovation for national and societal benefit. We support a number of recommendations.

Collaboration

Recommendation #14

Establish a permanent public–private sector collaborative committee, the 'Innovation Collaboration', to facilitate financial system innovation and enable timely and coordinated policy and regulatory responses.

The ANU supports the establishment of an Innovation Collaboration to identify and promulgate action on emerging financial measures to promote innovative enterprises. It is worth noting that innovation support frameworks must be responsive to industry priorities. To that end, including industry, government, academic and regulatory participants on the committee will enable a broad base of innovation impediments to be considered and will facilitate industry and government action. The ANU also supports the notion of a single point of entry for innovators, start-up companies and those with innovative products, as navigating the complexity of regulation and regulatory mandates is often challenging for such stakeholders.

Crowdfunding

Recommendation #18

Graduate fundraising regulation to facilitate crowdfunding for both debt and equity and, over time, other forms of financing.

As Crowdfunding emerges as a successful way of providing capital for start-up companies world-wide, ANU fully supports the reduction of barriers to Crowdfunding for new innovations. Around the world, more countries are adapting their legislation to provide regulatory guidance for internet based crowdfunding, and Australia is lagging behind in this respect. The ANU supports the statement that “a well-developed crowdfunding system can aid broader innovation and competition in the financial system.”ⁱⁱ

Unlocking Superannuation for Venture Capital investment

A progressive financial system should provide a framework to encourage investment in innovative, high-tech companies within Australia. Early stage equity funds are needed to expand growth of our country’s emerging start-up companies, however, raising a new early stage fund in Australia is difficult. In addition, successful innovative SMEs also suffer from a lack of available growth capital that is needed for them to take the next step to global markets. There is a need to support early stage funding mechanisms that open up capital markets to early and growth stage companies.

Whilst there is a significant pool of capital within the \$1.8Tr in Australian Superannuation Funds, little of this is finding its way into supporting start-up companies or innovative commercial outcomes for the nation. Policies that provide incentives for the use of Super Funds as investment in a risk mitigated fashion would have significant impact in stimulating growth.

Taxation

Clarity around the tax status of venture capital structure is essential for encouraging growth in this area. The ANU strongly supports the current R&D tax credit scheme which has been vital in supporting innovative SMEs. However, there is need for further tax concessions to encourage investment in start-up companies.

One successful model for tax concessions is the Enterprise Investment Scheme. The Enterprise Investment Scheme is a UK Government initiative to support high-risk trading companies to overcome barriers in access to funding. The initiative offers tax relief to investors purchasing new shares in these companies. A tax reduction of up to 30% of the cost of the shares can be claimed in any one year up to a total of £300,000. Shares must be held for at least 3 years, or any tax relief will be withdrawn. This scheme has seen significant investment and success in start-up companies initiated out of both Cambridge and Oxford Universities. There is a case for a similar model of taxation concessions in Australia.

ⁱ Australian Government (2014) Terms of Reference, p vii Financial System Inquiry Final Report

ⁱⁱ Financial System Inquiry Final Report p179