

16 February 2022

Ms Renée Roberts
Executive Director
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Australian Prudential Regulation Authority
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By email: superannuation.policy@apra.gov.au

Prudential Standard SPS 530 – Investment Governance in Superannuation

Dear Ms Roberts

As the industry association for private capital in Australia, the Australian Investment Council is pleased to present its submission to the APRA on *Prudential Standard SPS 530 – Investment Governance in Superannuation*.

Private capital investment has played a central role in the innovation, growth and expansion of thousands of 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 (PE), venture capital (VC) corporate venture capital (CVC) and private credit (PC) funds, alongside institutional investors, including superannuation funds, sovereign wealth funds and family offices, as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms, who in turn invest capital on behalf of millions of Australian families and attract capital from passive overseas investors.

Private capital fund managers invest billions of dollars into Australian companies every year. Australian-based PE and VC funds under management reached \$37 billion in 2020, which represents a growth in available capital to support investment into businesses across every industry sector of the economy. The industry now has a combined total of around \$14 billion in equity capital available to be invested in the short-term.¹

Investments made by private capital firms into Australian businesses directly result in the creation of new jobs and support growth in economic output across all sectors of the market. These investments represent 2.6 per cent of Australia's GDP output each year and are responsible for creating around 1 in 9 new Australian jobs according to independent analysis by Deloitte Access Economics.²

In comparison to the listed equities market which is structurally geared towards shorter-term performance, private capital investment provides patient capital that is focused on delivering superior returns over a longer-term horizon. This approach supports investments into, for example, large infrastructure and real estate projects and the growth and expansion of Australian businesses across every corner of the national economy. However, starting up and growing businesses, conducting medical research and commercialisation, or building infrastructure projects incur high upfront costs and may take years before returns materialise.

Our Submission

The Council is supportive of a superannuation system that delivers the best possible outcome for members through appropriately managing investment risks and returns. As with any investment, unforeseen circumstances such as market corrections or unexpected changes to Government policy in relation to the Superannuation system can occur from time to time that can impact the liquidity of the system and create challenges for asset valuations practices. To this extent, it is critical to have the appropriate risk and governance measures in place for investments according to risks presented by external market forces.

The Council's members include fund managers from the private capital industry – General Partners (GPs) who invest into growth and early-stage companies, as well as the superannuation funds – Limited Partners (LPs) who invest into the funds

¹ [Preqin & Australian Investment Council Yearbook 2021](#)

² [Private Equity: Growth & Innovation](#), Deloitte Access Economics, 2018

managed by the GPs. The COVID-19 pandemic has resulted in closer scrutiny by LPs and GPs of the value of their investment portfolios and the risks presented by heightened market volatility, border closures, lockdowns and early access to superannuation.

Valuations

The Council understands from GP and LP members that in some circumstances, valuations were assessed more frequently during their height of the pandemic to take into account external market forces and perceived investment risks. The implementation of performance benchmarks under the Your Future, Your Super reforms also heightened the focus on how unlisted assets are valued and the benchmark adopted for private capital in the final forms of the legislation and regulations was largely supported by the Council's members.

The Council supports APRA's proposal to include the requirement of a valuation governance framework in SPS 530. This will increase confidence amongst superannuation members of the valuation standards and methodologies applied by GPs and Superannuation trustees to private capital assets.

In general, the Council considers that the valuation guidelines produced by the International Private Equity and Venture Capital Valuation Guidelines (IPEV) represent the 'gold standard' for best practice, principles-based guidelines for private equity and venture capital practitioners.

The Australian Investment Council is a founding member of the IPEV Board which comprises senior and highly experienced professionals from the private capital industry from a range of jurisdictions around the world. The IPEV Board's primary objective is to develop and maintain a globally-consistent set of guidelines for a principles-based approach to the valuation of unlisted assets held by private capital investors. The guidelines are specific to private capital and are developed in close collaboration with international accounting standard setting bodies to ensure consistency with international frameworks for the preparation and presentation of financial information.

The Australian Investment Council has for many years encouraged all member firms to adopt the principles set out in the IPEV Guidelines to assist in the provision of transparent and consistent data with investors on a periodic basis.

Many of the Council's members have adopted the IPEV guidelines as standard practice for valuations. These guidelines are set out with the intent to represent international best practice on the valuation of private capital investments and aim to set out best practice where private capital investments are reported at "Fair Value" and to assist investors in Private Capital Funds make better economic decisions.

Recommendation

APRA is encouraged to consult with the Australian Investment Council in developing the revised prudential practice guide for SPS 530 in respect of developing more detailed guidance on valuation methodology.

For example, paragraph 22 of SPG 521 states: *"There are a number of valuation approaches that an RSE licensee may adopt depending on the type and nature of the investments or the underlying asset. APRA expects that an RSE licensee would also consider appropriate guidance issued by industry associations and/or international standard-setting organisations when developing its valuation methodology"*.

There may be an opportunity for APRA to provide more guidance on particular asset classes in respect of recommended industry guidelines.

In March 2020, the IPEV Board issued Special Valuation Guidance³ in the context of market corrections due to the Coronavirus pandemic. This guidance outlined clear principles for consideration when undertaking valuations for certain types of investments during a time of 'significant uncertainty'. In November 2021, IPEV announced a review process and expects to publish the final revised guidelines in Q2 2022, which are expected to formally incorporate the guidance provided during the COVID-19 pandemic, amongst other matters.

To this extent, the IPEV's principles-based guidance is complementary to APRA's SPS 530, *Investment Governance in Superannuation* in providing sound investment principles for mitigating risk and providing relevant investment returns.

³ [IPEV Board, Special Valuation Guidance](#), 31 March 2020

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of APRA's consultation process. If you have any questions about specific points made in our submission, please do not hesitate to contact me or our policy team at policy@aic.co.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Yasser El-Ansary', with a horizontal line underneath.

Yasser El-Ansary
Chief Executive