

INNOVATION INVESTMENT FUND ROUND THREE (IIF3)

INFORMATION PAPER-

STRUCTURE AND GOVERNANCE

BACKGROUND TO THE GOVERNANCE FRAMEWORK

In the 2006 Federal Budget the Australian Government agreed to commit a further A\$200m over a five-year period to a new round of IIF.

The structure and governance of the new round is similar to previous rounds, however there will be some differences. There is still an expert panel, the Fund Management Committee, who administers the program and works closely with the Government to ensure a transparent and robust process in appointing Fund Managers and monitoring their performance. A summary of the roles for each of the governance bodies is in **Attachment A**.

Previously however, the Government established wholly owned investment vehicles that would invest money into the Fund Manager's investment vehicles on behalf of the Commonwealth. These were seen as minimising the liability and risk to the Government and also minimising the tax burden on investors. For round three there is discussion to have these abolished in order to reduce reporting requirements and red tape. This is in response to the Uhrig Review (2005) - a review of corporate governance polices and structures used by the Government.

Currently, there is a view to further reducing the regulatory burden on both the FMC and subsequently the Fund Managers in order to improve program efficiency. This comes at the risk of undermining the policy objectives. We need to ensure small early stage companies are receiving investments, while Fund Managers are free enough to make sound commercial decisions.

We are interested in how other countries have structured their own investment programs and how much freedom they give to the Fund Managers as opposed to controlling their investment decisions in similar co-investment programs.

DISCUSSION QUESTIONS

1. What are the governance structures used by other countries to administer and monitor the performance of co-investment programs?
2. To what extent do Governments in other jurisdictions use an expert panel to make commercial decisions? In Australia for example, the FMC can allow/disallow follow-on investments above the investment cap and must approve any changes made to key Fund Manager personnel.
3. How do other countries ensure compliance with the guidelines/criteria for investment?

IIF ROUND THREE GOVERNANCE STRUCTURE

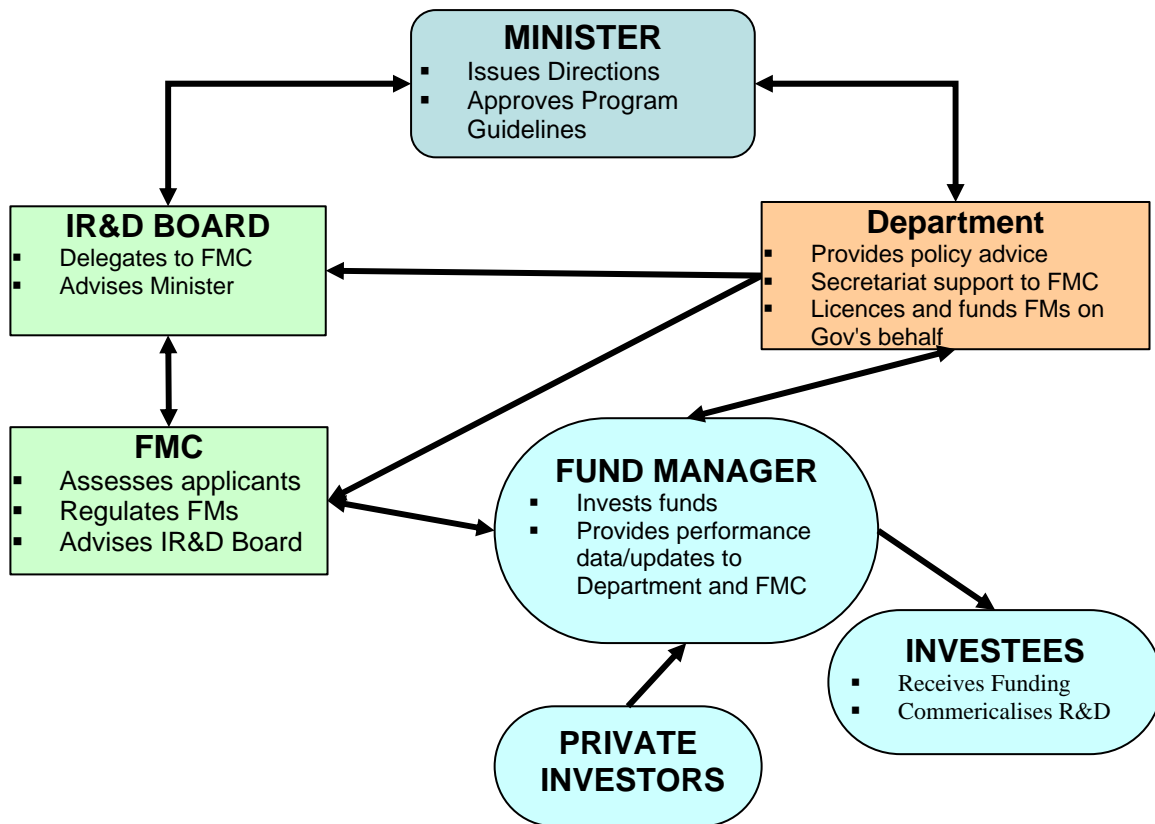


Figure 1 Demonstrates the complex relationships between the governing bodies involved in the IIF program

ROLES AND RESPONSIBILITIES

Minister

- Issues Ministerial Directions- a legal instrument, to the IR&DB outlining new functions and responsibilities regarding IIF3, this includes designing new guidelines for IIF3

Industry, Research and Development Board (IR&DB)

- An expert Board established under legislation

- They are responsible for:

- administering Government initiatives related to research and development
- providing advice to the Minister regarding IIF3 administration and performance
- technically assessing applications and providing the final merit ranking list to the Department of Industry, Tourism and Resources (DITR)
- delegating responsibilities to the FMC

Fund Management Committee (FMC)

- A sub-committee of the IR&DB comprising experienced industry representatives

- They are responsible for:

- administering the program on behalf of the IR&DB
- providing technical assessment of fund manager applications to IR&DB
- making determinations regarding: investee company eligibility, new investments beyond fifth anniversary, changes to the structure of funds, changes to key personnel, suspension of funding to a licensed fund.
- monitors performance of program and provides advice to the IR&DB on its performance
- ensuring fund managers are complying with the governing documents

Fund Managers (FMs)

- They are responsible for:

- entering into a licence agreement with the Commonwealth in exchange for funding
- investing the money on behalf of their investors
- providing performance and reporting information set out in the licence agreement. This includes information such as economic impact data and data relating to their key performance indicators
- updating the FMC on performance information

Department of Industry, Tourism and Resources (DITR)

- They are responsible for:

- providing secretariat support to both the FMC and IR&D Board
- providing customer service support for applicants and information regarding the program
- maintaining databases with the information from FMs
- monitoring the performance of the program and providing policy advice to the Minister regarding the program.
- providing policy input into the design, implementation and evaluation of the program
- entering into a licence agreement with the Fund Manager on behalf of the Commonwealth