13th January 2020

The Director,

Skills and innovation Policy Section,

Migration Planning and Visa Policy Branch,

Department of Home Affairs

CANBERRA, ACT

Dear Sir/Madam,

Submission on consultation process for Business Innovation and Investment Program: Getting a better deal for Australia

Atlas Advisors Australia (AAA) is a specialist funds manager dealing exclusively with investors under the 188C Significant Investor Visa category and we represent over 15% of the total approvals invested to date.

We have been a leading participant in the programme since its inception in 2012, including having provided pro bono advice around the initial investment policy settings to the then Department of Immigration and Citizenship. We have continued to work closely with the both the Department and Austrade over the development of the investment policy settings over the last seven years and we have act for around 350, 188C visa holders and an increasing number of 888 recipients, with over $1.7b in funds under management firm wide. In the process of building our business we partnered with China Construction Bank (CCB) in China and our team have dealt with thousands of potential SIV applicants across China both from CCB and other referral networks. More recently through the establishment of our business in Hong Kong, we have broadened our market presence beyond mainland China to greater China. This experience qualifies us well to comment on the questions you have raised in this process, particularly in relation to the largest market for applicants being greater China.

Given our exclusive focus on the 188C SIV programme we have restricted our submission to that visa type and the adjacent 188B IV.

Question 1 – How can the investment thresholds be increased to provide the best outcome for Australia?

We have addressed this question for both the SIV and IV separately.

SIV – The market for wealthy investor migrants is highly competitive with many countries competing for the same cohort in greater China. The closest in value to Australia is the UK Tier 1 Visa at UKL2m

Level 11, 95 Pitt Street, Sydney ● Level 6, 15-17 Queen Street, Melbourne
www.atlasadvisors.com.au ● admin@atlasadvisors.com.au ● ABN: 24164576569 AFSLNo.443264

(A$3.8m) with a lower eligibility period (3 years and 4 months), the EB5 Visa for the USA at US$900k and the Quebec Investor Visa at C$2m and many European countries offering from E1m to E250k.

In the previous review by the Department in 2015, we had proposed that the intended Premium Investor Visa should be set at $10m subject to the same Complying Investment Criteria but with a lower timeframe to 888 (2 years). We understand the decision to lift the threshold for the PIV to $15m despite lowering the eligibility for 888 to 12 months has failed to elicit significant applications.

With more than seven years experience in dealing with SIV applicants and coupled with the global competing investor visa thresholds, we do not see the opportunity to raise the SIV threshold, but we do see an opportunity to materially increase the economic benefit to Australia by amending the Significant Complying Investment Framework (SCI) to encourage more risk asset allocation investment into the most critical asset class, VCPE.

We have allocated over $40m to early stage venture capital investments from SIV investors since 2015 and including an important partnership with Uniseed (www.uniseed.com), the Australian university-owned seed stage venture capital fund and the oldest surviving venture capital fund in Australia. Their mandate is investing in commercialising research from their university partners. Our Uniseeed co-investment arrangement has seen over 20 new ventures from Australian university research projects receive critical funding in the past two years. However even with a significant share of the new SIV approvals (3 to 4 a month) we are unable to meet the growing demand for these and other seed stage ventures.

IV – we have commented later in our submission around the potential to streamline BIIP visa by eliminating this visa without materially affecting demand for the investor visa programme by shifting demand to the SIV. If the decision is made to retain the IV, we suggest that the threshold be lifted to at least $2.5m which is approaching where most of the States are requiring the minimum investible wealth is set at (NSW and QLD @ $2.25m and VIC at $2m).

<u>Question 2 - How could we achieve better outcomes for the Australian economy through the composition of designated investments for the Investor and Significant Investor Visas?</u>

SIV – Having worked now with the current SCI Framework for the past 4 years, we have a good understanding of the tolerance for risk asset exposure. Provided that further major changes to the SCI Framework are matched with balancing offsets, demand for the programme should be able to be held intact.

If the question is limited to assessing the 188C investment period, and discounting the significant economic impact these migrants will have in Australia over the longer term (which we have commented on at the conclusion of our submission), we would suggest:

- A mandatory extension of the 188C investment period from 4 year to 5 years, which would increase the economic benefits to Australia by a further 20% over the current period, without in our view materially reducing demand for the visa.
- Changing the SCI Framework mix from a skew to lower risk investments (Balancing Investments at 60%, Emerging Company 30% and VCPE 10%) to an equalisation of riskier assets at 50% of the SCI Framework.

- Allowing for up to 50% of the SCI Framework to be allocated VCPE at the expense of the allocation to the Emerging Companies component. The economic benefits of allocating to secondary public market equities are much less than allocating to VCPE. For example, the below recent article shows much higher patenting and employment of VC-backed firms over other firms. https://voxeu.org/article/impact-venture-capital-backed-firms-aggregate-economy.
- Where an investor elects to allocate 50% of the SCI Framework to VCPE there should be a reduction in the 188C visa period (to say 3 years) or a prioritisation of the 188C application for processing.
- As the VCPE component is typically a 10 year illiquid investment while emerging public companies equities are liquid, increasing the allocation to VCPE would materially add to the Australian economic benefits of the SCI Framework by increasing the committed term of each investment.
- Amending the definition of VCPE to limit it to AusIndustry registered Early Stage Venture Capital Limited Partnerships (ESVCLP) only and removing the Venture Capital Limited Partnerships (VCLP) category. The capital shortage and economic benefits of greater employment and patenting are mainly in the VC component of VCPE. While VCPE in Australia now receives over $1b in annual commitments, the vast bulk of this is from super funds and institutional offshore investors into larger VCLP private equity funds. The result for seed investments however has been a collective reduction in the volume of deals being funded. The 2020 StartupAus "Crossroads Report" https://crossroads.startupaus.org/analysis/capital/seed-capital notes that the volume of seed-stage investments had declined by more than 50% in less than two years, from 320 in 2017 to 138 in 2019. The recent Innovation Bay and KPMG "High Growth Ventures" report https://www.startupdaily.net/2019/09/the-state-of-vc-investment-in-australia-2019/ also noted a significant decrease in the number of seed investments between $250k and $2m and expansion in size and volume of investments between $2.5m and $20m. The Australian Financial Review https://www.afr.com/technology/angel-investors-on-the-wane-in-australia-20190924-p52ubf shows the volume of angel investments (the other main seed stage investors) in Australia is low compared to similar countries and also declining, also adding to the shortage of seed stage venture capital.

IV – on the basis that the Department determines to retain the visa, we suggest that the investment criteria be amended to risk based assets only, eliminating the choice of state government bonds given the immaterial impact this has on issuance. This removes the market perception that the IV is a cheap and less risky SIV visa. We suggest that the full IV investment amount be aligned to the risk based SCI Framework – Emerging Company and VCPE on the same allocation basis i.e. 67/33%. This increases the efficiency of the programme investment administration and affords the maximum economic benefit for Australia.

<u>Question 3 - How could a simplified BIIP framework make the program more efficient and effective in maximising benefit to Australia?</u>

As we have commented in the previous questions, we believe that removing the IV visa category while retaining the SIV visa would assist the Department to simplify the BIIP programme while aligning demand for the programme more closely to supply of visas. This is particularly relevant when you look at the nature of the majority of SIV applicants professional backgrounds – in respect of our own client base (400 investors) most are experienced entrepreneurs and business people in the 35-50 age group. It is clear from our engagement with SIV applicants over the past 7 years that the 188B is perceived as a cheap SIV option even with the points test requirement overlaid.

Question 4 – Not relevant to our submission

Question 5 – How can incentives be provided to encourage prospective migrants to operate a business in regional Australia?

A significant unintentional barrier to having SIV investors make non SCI Framework follow on investment into regional businesses is the restriction imposed by Austrade on any engagement with funds managers who operate in the 188C visa programme. This restriction was imposed post the 2015 SIV review as the Department viewed it as a conflict for Austrade to engage with the fund managers given its role in managing the SCI Framework. Prior to this decision managers like Atlas had established a strong working relationship with the various Austrade branches in China and Australia and we facilitated their access to our clients. It is a maxim in China that you get rich by following the government on where its wishes you to invest. It is therefore incongruous that we are unable to facilitate client engagement with the very body that is charged with encouraging trade, particularly in respect of regional investment. Removing this restriction would allow for a greater engagement between 188C investors and Austrade and increase the potential for regional investment into businesses outside of the SCI Framework.

Level 11, 95 Pitt Street, Sydney ● Level 6, 15-17 Queen Street, Melbourne
www.atlasadvisors.com.au ● admin@atlasadvisors.com.au ● ABN: 24164576569 AFSLNo.443264

Question 6 – What factors should be considered in introducing any changes, including phasing in changes over time?

We would strongly encourage the Department to provide a minimum of 12 months advance notice of any changes to the SCI Framework to allow key stakeholders, both in the migration and financial services industries to inform and educate the market and design appropriate investment solutions.

A key factor supporting the changes should be a better understanding of the long term economic impact that the SIV holders make on the Australian economy. So not only the impact in the 4 year SCI Framework period, but once they have obtained their 888 visa and beyond. We have ample evidence of the majority of our successful 888 holders making significant follow on investment and importantly, into riskier assets which provide greater economic benefits to Australia. There have been some attempts by State Governments to capture this information but there has not been any wider federal initiative to date. We would be very supportive of any initiative to establish a long term monitoring and review of follow on investments by the 888 cohort to ensure a robust future framework for policy changes.

Yours sincerely,

Guy Hedley

Executive Chairman

Level 11, 95 Pitt Street, Sydney ● Level 6, 15-17 Queen Street, Melbourne
www.atlasadvisors.com.au ● admin@atlasadvisors.com.au ● ABN: 24164576569 AFSLNo.443264