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Manager, Policy Framework Unit
Treasury
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By email: FIRBStakeholders@treasury.gov.au

31 August 2020

Dear Sir/Madam

Submission – Reforms to the Foreign Investment Framework (July Tranche 1)

Thank you for the opportunity to make this submission with respect to the exposure draft of the *Foreign Investment Reform (Protecting Australia's National Security) Bill 2020* and the first part of the draft amendments to the *Foreign Acquisitions and Takeovers Regulation 2015*.

We wholeheartedly agree with the opening statements in the Explanatory Memorandum that foreign investment is important for Australia's long-term economic success, stability and prosperity, including by creating jobs and supporting the national economy. Similarly, we share the Government's concern with emerging risks and certain global developments. We therefore understand and welcome the Government's intention to strengthen its protection of Australia's national security through these reforms.

Introduction to IP Group Australia

IP Group Australia was formed in 2017 to create world-changing businesses from the research carried out at leading research universities in Australia and New Zealand. IP Group Australia is a wholly owned subsidiary of IP Group plc. IP Group plc is a FTSE 250 company listed on the Main Market of the London Stock Exchange with a net asset value of £1,025m (A\$1,870m). IP Group plc (together with its subsidiaries, **IP Group** or the **Group**), is one of the world's leading intellectual property commercialisation companies, creating and developing companies primarily based on fundamental scientific innovations from its research-intensive partner universities. As at 31 December 2019, the Group had created more than 300 companies, created more than 5,000 jobs and invested more than £850m (A\$1,500m) into portfolio companies that in turn have raised £4.4bn (A\$8.03bn).

Set up with a mission to evolve great ideas into world-changing businesses, the Group achieves this by systematically helping to create, build and support outstanding intellectual property-based companies. The Group pioneered the concept of the long-term partnership model with UK universities including Oxford, Cambridge and Imperial College London, and has spent many years honing a unique approach to building businesses and providing support from 'cradle to maturity'. It replicated this approach with a select group of US institutions including Princeton, Yale, Columbia and the University of Pennsylvania before expanding to Australia.

In Australia, IP Group signed long-term partnership agreements in 2017 with the Group of Eight Universities (**Go8**) in which IP Group committed to invest a minimum of A\$200m over ten years in companies based on Go8 research. Since then, IP Group has established a substantial team of 11 highly qualified staff in Australia with extensive experience locally and globally in developing early-stage companies. The team have now completed ten investments into Australian companies based on Go8 research, through IP Group's Australian investment vehicle IP2IPO Australia VCLP No 1 LP, in a range of industry sectors. In a given year we anticipate completing five to eight investments in new companies and up to ten follow-in investments. For example, in 2020 YTD we have completed investments in three new companies and two follow-on investments.

Innovative companies based on world-leading research from our partner universities will be a major driver of growth in the Australian economy. The local ecosystem is developing, but the reality is that it continues to require access to global capital, networks and expertise. There are significant gaps especially in early-stage funding, as



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companies get off the ground, and in the expertise needed to steer these companies from promising technology to world-beating products.

IP Group Submission - meaning of national security business and critical to Defence

A clear definition of national security business is essential to assess whether a proposed transaction requires notification, but it is difficult to assess whether a good, technology or service is *critical to Defence* (we will refer to Defence for ease of reference) in early stage technology-based companies.

In the absence of clarity, given the serious penalties for non-compliance, we would need to file a notification. The time and cost involved will ultimately have the impact of discouraging investment and new enterprise creation.

Recommendation: We would appreciate further assistance (ideally in the primary law or regulations, or if not, by FIRB guidance note) in determining whether a company is a national security business, including whether a technology is critical to Defence, particularly in the context of start-ups.

An established business supplying goods can more easily assess whether such goods are critical. Early stage companies focused on research and development will be exploring multiple use cases. One of these *may* involve supply to Defence, but there is no certainty given the early stage of development.

Recommendation: We suggest amendments to clarify that the time to assess whether something is critical is at the time of the proposed investment, and that technology not yet supplied to the market (excluding trials for testing purposes) cannot be *critical to Defence*. We also suggest amendments to clarify that the mere existence of a contract to supply technology to Defence does not necessarily mean such supply is critical.

Being able to quickly determine whether or not a notification is necessary will assist in the efficient investment in businesses that are not national security businesses, and avoid the fear-based over-filing which may otherwise occur given the size of penalties for getting this wrong.

Recommendation: We encourage the Government to consider implementing a form of expedited ruling as to whether a particular business is a national security business (or not), prior to an investor lodging a notification. This certainty will have a real impact on early stage companies who may otherwise need to consider winding up (and reducing Australia's technology capabilities) if unsure whether an investor is able to provide funding.

Conclusion

IP Group's purpose is to evolve great ideas into world-changing businesses that make a positive impact on the environment and society as well as an attractive financial return. The importance of this purpose has arguably never been more evident than during the current COVID-19 pandemic which has highlighted the need to advance technologies that will allow society to better manage situations like the one we face today, as well as those that will build a post-pandemic world with its new priorities, risks, and opportunities.

IP Group is committed to Australia and we believe that our global experience, expertise and networks can play an important role in driving growth through the creation of new technology companies from our world-leading university research.

We appreciate the Government's efforts throughout the ongoing pandemic, and its desire to strengthen national security. We look forward to the release of the September Tranche 2 exposure drafts. Please do not hesitate to contact me at Michael.Molinari@ipgroupplc.com if you would like to discuss any of these matters further.

Yours sincerely

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