Senate inquiry into private equity investment and its effect on capital markets and the Australian economy

ASIC Opening Statement

McDonalds Room
State Library of New South Wales

25 July 2007
1. Executive summary of ASIC view

(a) The regulatory regime ASIC administers (consumer protection, financial services licensing, scheme registration, product disclosure, market trading, takeovers and corporate behaviour) has coped adequately with current levels of private equity (PE) activity in Australia.

(b) The scale of PE in Australia is still relatively modest and so concerns about risk and possible harm to the financial system need to be put in proper perspective (see section 2).

(c) Overall, the arrival of PE in Australia has been a healthy development because:

i. it is a globally recognised alternative asset class that should be available to Australian investors, subject to the existing regulatory regime;

ii. Australian institutional investors have been forced to focus more closely on the value of their investments in listed entities;

iii. capital has been allowed to be allocated by market forces with corresponding increases in equity market liquidity and value added to underlying businesses.

(d) As things currently stand, there is no need for new regulation or increased powers for ASIC to deal with issues arising out of PE activity in Australia. However, it is a fast-moving landscape and this view is also subject to the outcome of our closer examination of the risks facing retail investors in Australia; one of the six regulatory priorities outlined to the Senate Standing Committee on Economics on 30 May 2007.

2. Private Equity landscape in Australia

PE funds principally target wholesale investors. Retail investors generally only get indirect exposure through their superannuation funds. Research suggests that Australian super funds are aiming to maintain a 4-5% exposure to PE and a number of funds would not have reached that target. Total PE funds under management in Australia stood at $22.4 billion at 30 June 2006.¹

Last financial year, new equity raisings on ASX were approximately $61.46 billion.² PE raisings were estimated at $4.1 billion in 2006.³ Overall, PE seems at this stage to be, a small component of Australia's equity markets. For example:

¹ Thomson Financial & AVCAL Survey fiscal year ended 30 June 2006
² Source: Australian Securities Exchange Limited website figures as at 31 December 2006
³ Thomson Financial & AVCAL Survey fiscal year ended 30 June 2006
(a) during 2006, the total value of all PE deals announced and endorsed by the target board in Australia was estimated at $25.67 billion\(^4\), while the total value of the listed domestic equities market was $1.39 trillion at 31 December 2006. Private equity transactions therefore represented approximately 1.75% of the total value of the listed equities market at that time; and

(b) KPMG says\(^5\) that about $6.5 billion was expected to have been raised by PE funds in the 2006-07 financial year. KPMG also estimates that $65 billion in new equity was raised on the ASX in that year. Based on those figures, private equity raisings amounted to 10% of ASX equity raisings in 2006-07.

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\(^4\) RBA Financial Stability Review, March 2007—*Private Equity in Australia*—pp 59 & 60 (attributing Thomson Financial and AVCAL, but this figure included $11 billion for the APA/Qantas transaction which did not ultimately proceed)

\(^5\) KPMG Australian Capital Market Survey released on 16 July 2007