



9 December 2019

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

CAPITAL TREATMENT OF INVESTMENTS IN THE AUSTRALIAN BUSINESS GROWTH FUND

APRA is adjusting its capital framework for authorised deposit-taking institutions (ADIs) to support the establishment of the Australian Business Growth Fund (ABGF). The ABGF is a joint initiative between the Australian Government and financial investors to provide longer term equity funding to small and medium-sized enterprises (SMEs). APRA supports the establishment of the fund as an initiative to enhance financing options for SMEs. Small business is a crucial contributor to the Australian economy and a strong small business sector benefits the stability of the financial system.

An ADI that invests in the ABGF will be able to apply a risk weight of 250 per cent to their investment. This compares to the current capital treatment of a full deduction from Common Equity Tier 1 (CET1) Capital for these investments. This revised treatment recognises the wider financial system benefits from increasing access to financing for SMEs. The inclusion of the Australian Government as a founding shareholder in the ABGF supports APRA providing a special treatment, subject to prudential safeguards, for this investment compared to other equity investments. This treatment will apply provided the purpose of the fund and its investment mandate remains substantially unchanged.

To ensure that risks to ADIs of investing in the ABGF are contained, an ADI will only be able to invest up to 2 per cent of its Level 1 CET1 Capital in the ABGF. Any additional equity investment beyond that amount will not be eligible for the 250 per cent risk weight and would be treated according to APRA's usual prudential requirement of deduction from CET1 Capital. Where an ADI investor in the ABGF has an undrawn contractual commitment to invest in the ABGF, it may assign a 20 per cent credit conversion factor to this commitment for capital adequacy purposes.

The capital treatment outlined in this letter is available to all ADIs that invest in the ABGF. An ADI must notify their Responsible Supervisor if it is participating in the ABGF.

Yours sincerely,

John Lonsdale
Deputy Chair