Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
BUDGET ESTIMATES 2013-2014

Finance and Deregulation Portfolio

Department/Agency: Department of Finance and Deregulation
Outcome/Program: 1/1.1- Budget, Financial Management, Better Regulation and Procurement Framework
Topic: Clean Energy Finance Corporation

Senator: Cormann
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Question:
Mr Martine: As I was saying earlier, the test is not a commercial return in terms of whether the transaction is an equity investment. The test, as Mr Greenslade has said as well, the test is 'reasonable prospect of the government recovering its investment and earning a rate of return'. Whether it is 10 per cent or eight per cent, in terms of the tests that the ABS undertakes, it is not at that point in time determining whether the transactions are or are not commercial in terms of whether it is an equity investment.
Senator CORMANN: Except that Minister Wong in her press conference post budget in reply on 16 May said:
We made it very clear in the investment mandate that they would lend on a commercial basis, so there's not a budget impact.
What does lending on a commercial basis mean?
Senator Wong: It is set out in the investment mandate, from memory. I am happy to take it on notice to add further information. The investment mandate requires the CEFC investment portfolio to target a benchmark return equivalent to the five-year bond rate. However, the actual returns the CEFC seeks for any given investment will be a risk adjusted return reflecting various factors et cetera. I am happy to take it on notice, but that is the investment mandate.

Answer:
Lending on a commercial basis means that the Clean Energy Finance Corporation (CEFC) Board must make investments such that the Australian Government has a reasonable expectation that that its money will be returned.

The Investment Mandate states that the CEFC Board will use commercial rigor when making its investment decisions, and that it will balance risks across investments so as to support a portfolio return based on a weighted average of the five-year Australian Government bond rate.

In targeting the benchmark return and operating with a commercial approach, the Investment Mandate requires the CEFC to a develop a portfolio across the spectrum of clean energy technologies that in aggregate must have an acceptable but not excessive level of risk relative to the sector.

Further information on this matter should be sought from the Department of the Treasury as the Treasurer is the Nominated Minister under the *CEFC Act 2012*.