

Private Equity – Labor Supplementary Report

Private equity has been an aspect of international and domestic markets for many years. Labor recognises the importance of private equity's role in the market and particularly the provision of venture capital to support emerging business opportunities. However, of some concern is the sector of the private equity market which makes highly leveraged acquisitions. Evidence to the Committee disclosed examples of gearing levels up to 200 per cent higher than the average company. The portion of the private equity market which related to leverage buyouts increased in 2006 compared to venture capital investment, although leveraged buyouts still only made up about 1 per cent of the Australian equity market.

Labor also notes that recent developments in global capital markets as a consequence of exposure to the non-conforming mortgage sector in the United States has resulted in a re-pricing of risk. Some market commentators have noted that this re-pricing of risk is likely to result in a downtrend in highly leveraged private equity buyout activity.

Although evidence to the committee indicates that investors in the private equity market, including leveraged buy outs, are largely sophisticated investors such as institutional investors, it is still essential that they are full informed of the risks involved in their investment.

There should also be clear guidelines to manage private equity proposals to deal with any conflict of interests issues. Labor welcomes the Takeovers Panel Guidance note 19: Insider Participation in Control Transactions provides a guide to setting up protocols to reduce the conflicts of interests for management involved in any takeover and seeks to address some issues relating to the protection of investors.

Labor agrees with the conclusion of the main committee's view that no further regulation is required for private equity activity at this time. In addition, Labor supports the main committee endorsement of an ongoing watching brief on this issue by the Treasury, the RBA, the ACCC, ASIC and the FIRB. The position that private equity holds in the market as well as any effects on the market should continue to be monitored and reviewed.

Labor members consider that monitoring by the relevant regulatory bodies should take into account:

- any increase of private equity leverage buyout activity in the Australian market as there was in 2006;
- the work of the Australian Taxation Office in terms of taxation implications and compliance as part of its large business program and compliance plan for 2007-08;
- any impact on revenue;

- any concentration of private equity leverage buyout activity in particular sectors and its effects, for example in the health and aged care sector; and
- any impact on employment as a result of private equity activity.

Senator Ursula Stephens
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