



Clean Energy Finance Corporation Investment Mandate Direction 2015 (No.2)

We, GREG HUNT, Minister for the Environment, and MATHIAS HUBERT PAUL CORMANN, Minister for Finance, give this direction under subsection 64(1) of the *Clean Energy Finance Corporation Act 2012*.

Dated 3 December 2015

GREG HUNT
Minister for the Environment

MATHIAS HUBERT PAUL CORMANN
Minister for Finance

Part 1 Preliminary

1. Name of Direction

This direction is the *Clean Energy Finance Corporation Investment Mandate Direction 2015 (No.2)*.

2. Commencement

This direction commences on the day after it is registered (on the Federal Register of Legislative Instruments).

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunseting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Revocation of Previous Direction

The *Clean Energy Finance Corporation Investment Mandate Direction 2015* issued on 17 February 2015 is revoked in full.

4. Definitions

In this direction:

Act means the *Clean Energy Finance Corporation Act 2012*.

Board, Corporation and *responsible Ministers* have the same meaning as in the Act.

5. Purpose of this direction

The purpose of this direction is to give guidance to the Board in relation to the performance of the Corporation's investment function. The Corporation is required under section 58 of the Act to invest in clean energy technologies subject to its other obligations under the Act and any directions given by the responsible Ministers under subsection 64(1) of the Act.

This direction is given under subsection 64(1) of the Act.

Part 2 Direction

6. Introduction

The Corporation is a mechanism to help mobilise investment in renewable energy, low-emissions and energy efficiency projects and technologies in Australia, as well as manufacturing businesses and services that produce the required inputs. The Corporation will invest at the demonstration, commercialisation and deployment stages of innovation. The Corporation has been established to finance Australia's clean energy sector using financial products and structures to address the barriers inhibiting investment.

The intention of the Corporation is to apply commercial rigour when making its investment decisions. The Corporation will have regard to its potential effect on other market participants when considering investment proposals. In line with its policy intent, the Corporation should have regard to positive externalities and public policy outcomes when making investment decisions and when determining the extent of any concessionality for an investment.

7. Portfolio Benchmark Return

The Board is to adopt an average return of at least the five-year Australian Government bond rate + 4 to + 5 per cent per annum as the benchmark return of the portfolio. Performance against this benchmark will be measured before operating expenses.

In targeting the benchmark return and operating with a commercial approach, the Corporation will seek to develop a portfolio, subject to clauses 13 and 14, across the spectrum of clean energy technologies that in aggregate must have an acceptable but not excessive level of risk relative to the sector.

8. Portfolio Risk

In targeting the Portfolio Benchmark Return, the Board must not increase the level of exposure to credit risk above a reasonable level having regard to the terms of the Act and the focus on emerging and innovative clean energy technologies reflected in this direction. Within six months of the date of this direction the Board should agree a suitable investment risk evaluation process to assess the risk and advise the responsible Ministers of the process chosen.

The Board is to periodically review its investment practices for the purposes of managing the risk of the portfolio over time and must advise the responsible Ministers of specific measures taken in this regard.

9. Limits on Concessionality

The Corporation must limit the amount of concessionality it provides in any one financial year to \$300 million.

Concessionality reflects the mark-to-market valuation of loans made that financial year and should be measured as the difference between the present value of each loan at market rates and the present value of each loan at the given concessional rate.

10. Limits on Guarantees

Guarantees pose a particular risk to the Commonwealth's balance sheet and, as such, restrictions on their use are appropriate and the Corporation should seek to avoid their use where possible. The Corporation must ensure that all guarantees are limited and quantifiable.

At no time may the total potential liability under outstanding guarantees exceed the amount of the uncommitted balance of the Clean Energy Finance Corporation Special Account. The Corporation must also ensure the total value of guarantees at any time does not exceed 5% of the total amount that has been credited to the Special Account under section 46 of the Act.

11. Application of Australian Industry Participation Plans

Australian Industry Participation (AIP) Plans must apply to projects that the Corporation invests in, in accordance with the Government's AIP Plan policy.

12. Corporation must consider impacts from its investment strategy

In undertaking its investment activities, the Corporation must consider the potential effect on other market participants and the efficient operation of the Australian financial and energy markets.

The Corporation must not act in a way that is likely to cause damage to the Australian Government's reputation.

13. Corporation's activities to focus on emerging and innovative clean energy technologies, energy efficiency, and the built environment

As part of its investment activities in clean energy technologies, the Corporation must include a focus on supporting emerging and innovative renewable technologies and energy efficiency, such as large scale solar, storage associated with large and small-scale solar, offshore wind technologies, and energy efficiency technologies for cities and the built environment. This will in turn increase the uptake of emerging technologies such as large scale solar and energy efficiency.

This direction does not require the Corporation to divest investments that were in place prior to the date of this direction.

14. Corporate Governance

In performing its investment function, the Corporation must have regard to Australian best practice in determining its approach to corporate governance principles.

The Corporation must develop policies with regard to environmental, social and governance issues.