



6 February 2015

Manager
Financial System Assessment Unit
Financial System and Services Division
The Treasury
Langton Crescent
The Treasury
Langton Crescent
PARKES ACT 2600

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
Australia
GPO Box 2820
Melbourne VIC 3001
Australia
Phone 1300 737 373
Outside Aust +613 9606 9677
Website cpaaustralia.com.au

By email: csef@treasury.gov.au

Dear Sir/Madam

SUBJECT: DISCUSSION PAPER ON CROWD-SOURCED EQUITY FUNDING

CPA Australia represents the diverse interests of more than 150,000 members in 120 countries, including more than 25,000 members working in senior leadership positions. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders.

Against this background we provide this submission in response to the discussion paper on crowd-sourced equity funding.

CPA Australia strongly supports legislative change to encourage greater access to crowd-sourced equity funding by a significantly wider range of Australian businesses. Such a regime must however strike an appropriate balance between the financing needs of business and investor protections.

We do not believe that in an internationally competitive environment where other jurisdictions are making it easier for innovative businesses to access finance through crowd-sourced equity funding and other funding models that maintaining the status quo is acceptable.

Of the two reform models discussed in the Paper, we favour the New Zealand model with some variations to align the model with the Australian financial services licensing regime and to reduce the risks of conflicts of interest. We believe the New Zealand model with the below adjustments strikes the best balance between the funding needs of innovative businesses and investor protection for what will be highly speculative investments.

Possible adjustments to the New Zealand model we suggest the Government consider include:

- adopting the Australian Financial Services Licence requirements for intermediaries as proposed in the CAMAC model
- prohibiting intermediaries from providing financial advice as per the CAMAC model
- placing restrictions on how intermediaries can be remunerated and prohibit intermediaries having an interest in an issuer using its website to reduce the risk of conflicts of interest as proposed in the CAMAC model. In stating this, intermediaries should be able to scale fees
- restrict issuers from lending to investors as proposed in the CAMAC model

While the CAMAC model focuses on reduced compliance costs, it seems to discount the value that certain compliance activities such as audited financial statements brings to business, other stakeholders and facilitating the establishment of a secondary market. Further, regardless of whether such disclosures are required under regulation, it is likely that intermediaries will require companies seeking equity funding through their web site to provide them audited financial statements as part of their 'limited due diligence' process as proposed under both models.

Other suggestions:

Post implementation review

Given that regulation of crowd-sourced funding is evolving quickly around the globe, it is important that the government commit to a post-implementation review of the framework it decides to implement and that such a review considers both the effectiveness of the reforms and international developments.

ASICs investor protection role

ASIC must play an active role in educating the public on crowd-sourced equity funding and the significant risks associated with such an investment, for example informing the public that such investments may be largely illiquid and therefore investors may have significant difficulty disposing of their investment.

Encouraging the development of a liquid secondary market

The ability of investors to realise their investment through a liquid secondary market is critical to the long-term success of this policy initiative. Therefore any regulatory regime that is developed should not have any unnecessary barriers to a secondary market developing. It is our opinion that audited financial statements of issuers are essential to the development of a secondary market.

If you have any questions regarding the above, please contact Gavan Ord, Manager, Business and Investment Policy on (03) 9606 9695 or via email at gavan.ord@cpaaustralia.com.au.

Yours faithfully



Paul Drum FCPA
Head of Policy

T: +61 3 9606 9701

E: paul.drum@cpaaustralia.com.au