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FACILITATING CROWD-SOURCED EQUITY FUNDING AND REDUCING COMPLIANCE COSTS FOR SMALL BUSINESS

ASX is pleased to make a submission in response to the Government's discussion paper on extending the proposed framework for crowd-sourced equity funding (CSEF) by public companies to proprietary companies and other measures to reduce compliance costs for small businesses.

The Government's CSEF initiatives improve the capital raising options for small and innovative public companies. This can facilitate the emergence of new businesses and assist them to flourish by opening up new funding sources. It recognises the important role these companies play in underpinning economic growth and driving employment.

A practical framework to encourage the growth of CSEF is a positive step forward by reducing or removing barriers that apply under the existing capital raising framework of the Corporations Act.

The Government's proposed regulatory framework for CSEF for public companies has involved some useful refinements during the consultation process in early 2015. In particular, lifting the limits placed on the amount of capital investors are able to invest via equity crowd-funding to \$10,000 per investment and \$25,000 in total is a positive change.

It is important that the new requirements placed on issuers, in terms of disclosure documentation and ongoing reporting obligations, are material enough changes to the existing arrangements to make CSEF an attractive funding option. The current Government proposal appears to strike a reasonable balance between making it easier for companies to access new funding sources, within well-defined boundaries, while maintaining an appropriate level of investor protection. We look forward to seeing the draft legislation when it is released.

There is an opportunity to extend the potential opportunities offered by CSEF to small proprietary companies without the need for them to convert to public companies. However, for this to work in practice it requires reform of the existing regulatory framework governing proprietary companies, particularly an increase in the limit on the number of non-employee shareholders (currently 50).

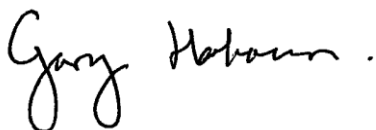
The closely held nature of proprietary companies has influenced a range of other policy settings that would need to be adjusted as a consequence of allowing proprietary companies to raise funds from a larger base of investors. Authorities should consider the appropriate obligations around fundraising documentation and transparency of financial accounts to support the CSEF framework while also ensuring suitable protections for investors.

Even if the Government does not extend the CSEF framework to proprietary companies' it would still be worth considering an increase in shareholder limits and changes to the operation of the small scale offer exemption to facilitate greater fund raising opportunities for proprietary companies. This could include broadening the definition of a 'sophisticated investor' and/or changes to the existing class order restricting advertising of small scale offerings.

The changing nature of the economy towards more service-based activity, and the emergence of a range of innovative industries driven by rapid technological change requires a regulatory approach that facilitates new forms of capital raising within Australia or we risk losing these businesses to our competitors.

ASX supports the Government's proposed establishment of a regulatory regime to encourage crowd-sourced equity finance for public companies and the prospect of extending these arrangements to proprietary companies.

Yours sincerely



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