



Dear Sirs,

Thank you for affording the industry with the opportunity to provide a submission on the legislative recommendations for crowd-sourced equity funding (CSEF) in Australia. We wish to congratulate you on your steadfast focus to drive this forward.

We are in principle, supportive of CSEF legislation, for retail investors in Australia. If such CSEF program is implemented in a measured and durable manner, which we address below, it provides an excellent structure for the Australian early-stage investment community to support innovation and entrepreneurialism.

In this submission letter we will provide our high level views and enhancements to the Australian Government Treasury Consultation Paper, "Facilitating crowd-sourced equity funding and reducing compliance costs for small businesses" released on 4 August 2015 (**Consultation Paper**).

### **Background**

By way of introduction, founded in 2012, OurCrowd is a global leader in CSEF ([www.ourcrowd.com](http://www.ourcrowd.com)). OurCrowd is a platform for Sophisticated Investors - in accordance with s708 of the Corporations Act (and equivalent regulations globally). OurCrowd identifies premium early-stage investment opportunities by undertaking a detailed due diligence process. In doing so, only about 1% of the 2500 deals annually presented to it end up being invested in. OurCrowd subsequently, deploys its own capital and invites its club of 10,000 investors and growing (in over 100 countries), to join alongside. OurCrowd supports its existing 80 portfolio companies by assigning industry experts as mentors and company directors. OurCrowd has successfully raised over \$200m on its platform for its portfolio companies over the past 2 years and has successfully exited three, including, a listing on NASDAQ (ReWalk – RWLK) and a trade-sale of Nextpeer, a mobile gaming network company which was recently acquired by Rakuten.

### **Suggested Approach for Consideration**

Given our understanding of global and local CSEF markets, we would like to make the following observations for consideration in the final position taken by the legislature on CSEF:

#### **1. A progressive scaling of permitted investment for the non-‘Sophisticated Investor’**

Perhaps a “one-size fits all” approach may not be best. The Consultation Paper suggests that individuals wishing to invest in CSEF can do so, as long as the maximum invested into any one opportunity does not exceed \$10,000 and in aggregate \$25,000 in any year (subject to signing a risk acknowledgement statement and certifying that they have not exceeded the investment caps).

Perhaps this could be adjusted to consider a sliding scale of permitted investment depending on income. By way of example, an individual earning \$60,000 annually pre tax (circa \$48,000 net) may be over-extending themselves by investing as much as \$25,000 a year in a high-growth investment product like venture capital. Traditional portfolio investment strategy (albeit old fashioned for some), will still suggest that only 5-10% of your overall investable funds should be allocated to alternatives investment such as venture capital. Accordingly, an individual earning



\$48,000 annually (post tax) should invest no more than \$4800 a year (and that is based on 10% of income, not even investable funds).

These recommendations accord with Regulation A+ within the JOBS Act in the USA which broadens the definition of “qualified investors” to include non-accredited investors. Non-accredited investors can invest a maximum 10% of their income/net worth per year, protecting these often less experienced investors by limiting their exposure to this high-risk sector.

## **2. A minimum 20% holding by Sophisticated Investors in all crowdfunding campaigns**

Perhaps all CSEF campaigns should be required to include a component of non-retail investors (Professional Investors or Sophisticated Investors).

Often even Sophisticated Investors with significant financial markets experience invest in unsuccessful opportunities. This holds the less experienced investors in an even more precarious position.

By enforcing a threshold on any Australian CSEF campaign, that at least 20% of the new funds raised pursuant to an offer must originate from Sophisticated Investors, Retail Investors may be protected from extremely poor quality deal-flow. This is based on a thesis that Sophisticated Investors may be more likely to pass on opportunities that on their face may seem ‘exciting’ but may not actually be ‘investment grade’.

As such, Sophisticated Investors will be, by de facto, providing some comfort to the ‘market place’. This is a model that has been reviewed by the Italian CSEF space.

## **3. All crowdfunding should have minimum due diligence requirements and education**

Detailed and thorough due diligence needs to be created by the deal originator – an appropriate standard and framework should be incorporated. The Regulator may also need to consider how this would be effectively monitored and policed.

Furthermore, what experienced investors understand, is that venture capital investing requires one to take a portfolio approach to spread risk across a number of opportunities. An education process for the retail market should be supported to help deliver this message together with the pitfalls of illiquid and high-return investments.

We are eager to provide support to retain the integrity and trust of the CSEF space and venture capital markets generally. We wait with interest to view the proposals.

Yours sincerely,

Dan Bennett

A handwritten signature in black ink, appearing to read "Dan Bennett", written over a horizontal line.

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