

Submission on Facilitating crowd-sourced equity funding and reducing compliance costs for small businesses

Thank you for the opportunity to provide a submission on the crowd-sourced equity funding for small business Consultation Paper, released by the Treasury in August 2015.

1. ZenBus Advisory's business

1.1 ZenBus Advisory provides business analysis and advice by combining macroeconomic forecasts with insights from behavioural science. Consequently, we consider our advice to be an important component in the appropriate allocation of funding for early-stage businesses and we have an interest in ensuring that providers of that funding are able to assist businesses in an efficient way.

2. Response

2.1 The introduction of CSEF would represent a positive step to enhancing prospects for company growth, and would be supportive of early-stage innovation in the private sector. Changes in company structure and associated operational matters and reporting requirements would be impacted and we are supportive of some of the suggested amendments contained in the Consultation Paper.

In summary, ZenBus Advisory's key items within this submission are:

- Increase the cap on non-employee shareholders for small proprietary companies
- Provide amended reporting requirements for companies accessing CSEF which are commensurate with company-size rather than being time-based

3. Questions

3.1 Question 1. Increasing the permitted number of non-employee shareholders in a proprietary company would be appropriate. ZenBus Advisory suggests an increase from 50 to a minimum of 125 such shareholders. A sum of 125 non-employee shareholders investing at the CSEF cap amount of \$10,000 (per investor, per offer, per annum) would provide access to \$1.25m, equivalent to 10% of the maximum definitional asset base of a small proprietary company, that amount being \$1.25m.

In practice, it is reasonable to assume that a company requiring access to CSEF funding would not receive maximum permitted investment amounts from each investor. For this reason, the proposed number of 125 is suggested as a minimum. Questions of investor influence over company affairs are best left addressed by companies themselves when investigating potential equity release.

3.2 Question 2. We see no material difference in individual shareholder risk that would result from increasing the number of permitted non-employee shareholders.

3.3 Question 3. No Input

3.4 Question 4. No input

3.5 Question 5. ZenBus Advisory does not see a need to amend the investor limit/cap applying to small-scale offerings in the circumstance where access to funding for small proprietary companies is amended and presents an alternative funding path..

3.6 Question 6. No input

3.7 Question 7. No input

3.8 Question 8. Increasing shareholder limits would increase capital raising options. The question of to what level of sufficiency is very broad, however any increase would be beneficial.

3.9 Question 9. Enabling proprietary companies to access CSEF would be beneficial, and if conducted under a proposed framework of amendments to shareholder limits in the context of maintained corporate law requirements, for example disclosure requirements, the legal implications need not be adverse.

3.10 Question 10. ZenBus Advisory supports the proposal that if the shareholder limit is not changed for all proprietary companies, proprietary companies should be able to access CSEF. Such a situation would not be preferable, and we recommend that shareholder caps be increased for such companies accessing CSEF however if such caps are not increased CSEF access should still be permitted, sub-optimal though it may be.

ZenBus Advisory proposes an amended limit of 125 non-employee shareholders (refer 3.1).

3.11 Question 11. We propose that a time-limit on a proposed shareholder cap extension that prescribes conversion to public company status upon expiry would serve as a disincentive, as it introduces a substantial alteration to company structure not necessarily based on growth or performance.

3.12 Question 12. The proposed additional transparency obligations proposed for proprietary companies accessing CSEF are supported by ZenBus Advisory. These obligations should be remain in place subject to company revenue and shareholder numbers exceeding limits specific to CSEF access conditions, rather than being permanent or otherwise time-specific.

3.13. Question 13. An eligibility cap for proprietary companies accessing CSEF should be more closely aligned with the turnover/asset base limits that define small proprietary companies. We suggest a \$10m eligibility cap.

A case where a proprietary company has gross assets of \$10m and accesses CSEF based on optimal investment according to suggestions expressed previously in this submission (expansion of non-employee share register to 125 with full subscription of 125 new shareholders at maximum individual investment cap of \$10,000) would add \$1.25m in funds, keeping the company within the definitional limits for small proprietary companies. .

3.14 Question 14. No input.

3.15 Question 15 Current solvency resolution requirements should remain.

3.16 Question 16. No input.

3.17 Question 17. No input.

3.18 Question 18. No input.

3.19 Question 19. We do not deem the maintenance of a share register to be overly burdensome to small proprietary companies.

3.20 Question 20. No input.

3.21 Question 21. We do not propose the removal of share registry maintenance requirements for small proprietary companies with up to 20 shareholders..

3.22 Question 22. No input.

3.23 Question 23. No input.

3.24 Question 24. As we see no adverse impacts or inordinate burden affecting small proprietary companies through maintaining a share register, removing this would be more likely to increase risk exposure rather than deliver any outweighing benefits.

3.25 Question 25. No input.

3.26 Question 26. No input.

3.27 Question 27. No input.

3.28 Question 28. No input.

3.29 Question 29. No input.

3.30 Question 30. No input.

Please don't hesitate to contact Michael Hardiman for any clarification required on this submission from ZenBus Advisory.

Regards,

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