

29 January 2024

Australian Government
The Treasury

To whom this may concern

Review of the regulatory framework for managed investment schemes

This is a late submission to the review of the regulatory framework for managed investment schemes, particularly regarding the proposal to raise the Sophisticated Investor thresholds from \$250,000 income and \$2,500,000 assets to \$450,000 income and \$4,500,000 assets.

Negative consequences to startups, jobs and Australia's economy

As a startup adviser, ecosystem builder and occasional investor, I believe that the proposed changes will be devastating to Australia's startup ecosystem, and therefore to the future of Australia's economy, unless an alternative means of qualifying as a sophisticated investor is provided.

These proposed changes will reduce the percentage of people eligible to invest in startups through programs such as angel syndicates or VC funds from around 19% of Australians to around 1% of Australians. This will reduce the amount of funding available for startups, thus holding back startups from growing to their full potential. Startups growing into larger businesses were responsible for nearly all net new job creation in Australia from 2003-2014 (source: [research by the Department of Industry, published in AFR](#)). Holding back the growth of startups will thus negatively impact job creation across Australia in the decades to come.

Exacerbating wealth inequality

Limiting startup investment to only the 1% most wealthy Australians will also exacerbate wealth inequality by locking out 99% of Australians from the highest growth asset class. I am sure that exacerbating wealth inequality was not the intention of the Treasury with this proposal, and that Treasury was simply unaware of the negative side effects of the proposed changes.

The proposed changes are intended to prevent uninformed investors, such as retirees, from losing their savings to fraudulent investment schemes they do not understand. However, an asset test is no guarantee of actually understanding the investments you're making. In addition, people who do not meet the asset test may be genuinely qualified to invest, but excluded under the income or asset thresholds. For example, even with the current sophisticated investor thresholds of \$250,000 income and \$2,500,000 assets, we have situations where people who are professionally trained in startup

investment to the point where they work as investment managers in highly regarded funds are unable to invest in other VC funds themselves due to not meeting the income or asset thresholds. This is clearly an unintended consequence of even the current thresholds, which will be greatly exacerbated by increasing the thresholds further.

Request for alternative qualification via certification

I would like to support the proposal put forward by many Australian startup investors and startup community organisations to add an alternative way to qualify as a sophisticated investor, by completing an ASIC approved investor certification, rather than by passing an income or asset test.

Allowing a certification to be used as an alternative qualification method will address the core purpose behind this review of managed investment schemes (protecting consumers) while avoiding the negative impact on startups as well as avoiding exacerbating wealth inequality. People who are not already wealthy would still be able to invest in the highest growth asset class as long as they've completed a certification to show that they understand and can manage the risks.

This proposal is supported by the Regional Angel Investment Network, Aussie Angels, Startmate, Skalata and many others across the Australian startup ecosystem. The associated [petition](#) has now gathered over 1300 signatures as of 29 January 2024. This proposal would also align Australia's regulatory model with the US and UK, both of which have sophisticated investor qualification pathways through education, alongside asset and income tests.

Existing training courses

Highly regarded startup investor training courses already exist in Australia - for example Wade Institute's VC Catalyst, which was funded by the Victorian Government through LaunchVic with the goal of increasing the number of angel investors and VC funds operating throughout Australian and Victoria. The Victorian Government identified that a major barrier faced by Australian startups was lack of access to funding, so they considered it worthwhile to fund investor education in order to grow the pool of active startup investors locally.

However, many people who complete VC Catalyst are currently excluded from actually investing in startups due to not meeting the sophisticated investor thresholds. If these thresholds were raised without providing alternative qualification pathways via certification, this issue would be exacerbated further, leading to a situation where the Australian Government is passing policies that directly undermine the effectiveness of programs being funded by a state government.

Impact on disadvantaged founders

As the recipient of the Governor of Victoria's Startup Awards Regional Ecosystem Hero of the Year Award for 2023, I have a particular focus on supporting rural and regional startups. The reduction in startup

funding that would be caused by the changes being currently proposed would be particularly harmful to rural and regional founders, as they already face greater barriers to investment compared to urban founders. These changes would also disproportionately impact women founders, culturally and linguistically diverse founders, and other founders from under-represented backgrounds who face greater barriers to investment.

If this government is serious about supporting diversity and inclusion and reducing wealth inequality, I would urge the Treasury to reconsider these changes to the sophisticated investor threshold, and add an alternative qualification pathway through education and certification, as an alternative to the income and assets test.

For any follow up questions about this letter, please contact me via elena@gipps.tech.

Best regards,



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