



CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND SUBMISSION

- ▶ *Corporations Amendment (Crowd-sourced Funding) Bill 2015*
Australian Government - The Treasury

January 2016

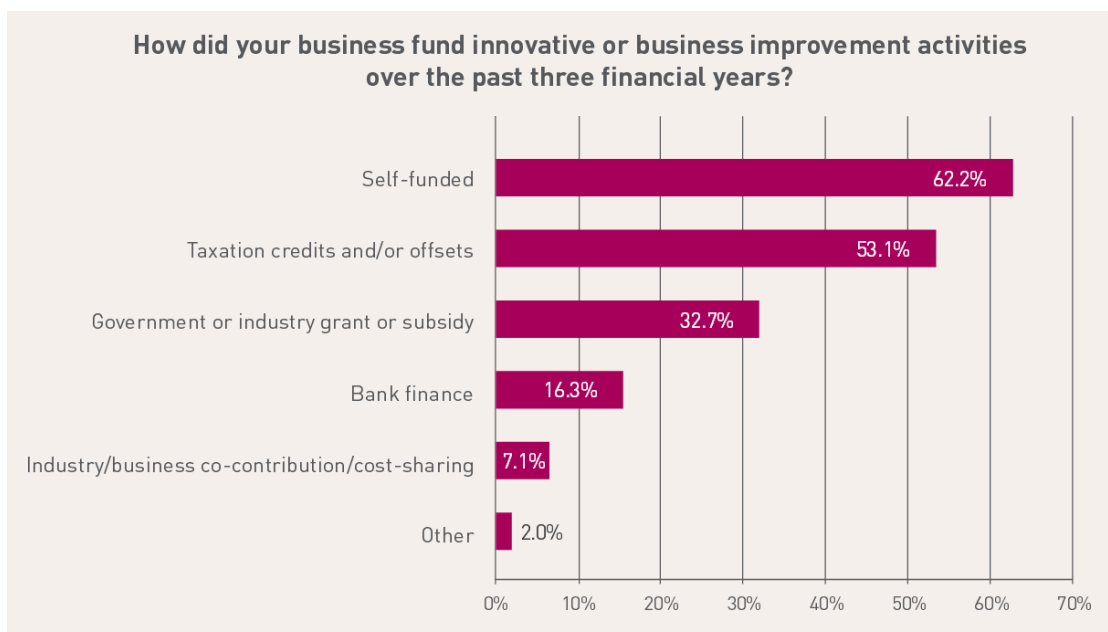
CCIQ Position

1. As Queensland's peak business body, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to provide a submission to Treasury regarding the *Corporations Amendment (Crowd-sourced Funding) Bill 2015* and all associated documents.
2. CCIQ is supportive of the government's plan to introduce a crowd-sourced funding (CSF) framework to make it easier for small businesses and start-ups to raise equity from the investors and the general public.
3. Business owners often struggle to find enough cash to fund their dream business or the next big project. Extensive research undertaken by CCIQ found that the lack of money and other financial pressures acted as the single biggest barrier to innovation and improvement for small businesses. If traditional sources of finance don't appeal or are proving difficult to obtain, crowdfunding is a promising option already successfully used around the world.



Source: CCIQ Innovation Survey 2013

4. Traditional bank loans and even small business loans have not typically suited small businesses or were unattainable in many instances, as the 'risk' associated with start-ups and certain innovative small businesses were perceived to be too high. As such, over 62 per cent of businesses self-fund their own innovation or business improvements activities which then stalled expansion and the employment of more staff.



Source: CCIQ Innovation Survey 2013

5. The CSF framework, alongside measures announced in early December 2015 by Prime Minister Malcolm Turnbull in his Innovation Statement such as 20% tax offset on investments in start-ups, are considered by the Queensland business community in large as positive steps towards improving the business operating environment, kick-starting innovation and realising the 'Ideas Boom' in Australia.
6. The implementation of the CSF framework requires a timely approach in order for Australian businesses to immediately access funding currently available to other businesses around the world. The estimated volume of funds raised by crowd funding platforms worldwide in 2013 was \$7.2bn, almost double the amount raised in 2012 (\$3.8bn)¹. This figure was projected to exponentially increase to \$48.8bn in 2015.

Eligibility requirements for a CSF offer

Section 2.11 – 2.17: Explanatory Memorandum

7. While the Federal Government is definitely steering in the right direction on CSF, the current proposal raises some concern over the increased administrative and compliance costs of having to become a small Australian unlisted public company.
8. The increase in red tape around the level of documentation required from being a public company will see businesses spend a lot of time ensuring that they remain compliant, as well as reduce confidence in taking risks in innovation. As shown in the first graph, regulation had and continues to have a profound impact on innovation in Queensland small and medium businesses.
9. Noting that under the proposed CSF framework that certain exemptions have already been offered, further measures could include allowing for CSF platforms or otherwise another

¹ Crowd Sourcing, 2013.

appropriate body to aggregate investments and essentially act as a unit trust that then invests in a start-up or business. This would reduce the compliance burden for the business from potentially over 50 individual offer documents and disclosure requirements to just one.

10. Indirectly, regulation creates a disincentive for businesses to grow and expand through innovation caused by reluctance to reach thresholds for tax and other regulatory schemes. Furthermore, the cost of regulatory compliance (including fees, licences, taxes, etc) reduces the available internal finances and time for significant technological and innovative investments.
11. Successful red tape reduction strategies around CSF will have the potential to enhance the innovation culture within Queensland businesses. Queensland business feedback consistently raises issues in accessing innovation funding provided by government, given the complexity in navigating eligibility criteria, the process and the time impost. These difficulties are likely to be similar in the case of using platforms such as crowdfunding under the current proposal.
12. There is currently an absence of a central reference point tailored from a 'business to government' perspective as opposed to the embedded 'government to business' historical approach. Even if a business is able to identify potential funding or potential opportunities through crowdfunding, the criteria and documentation deters time poor businesses owners from applying.
13. Furthermore business feedback suggests that most R&D or innovation funding programs are too high level and not focused on specific business needs. That is, current R&D programs focus on funding primary (embryonic) innovators, rather than the adoption and take-up of newly available technology. It is expected that crowdfunding will be seen as primarily for start-ups, rather than as a support for existing small businesses wanting to grow.
14. Queensland and Australia, while aiming to create our own innovations and entrepreneurs, should also focus on being early adopters of innovation and technology in order to be leaders in emerging markets. The ability of Australian organisations to access the benefits of innovations from overseas is an important aspect of encouraging innovation. This in itself must not be impeded by Government.
15. Queensland SMEs are not solely interested in research and trial based funding, seed funding or new product development funding, but instead need low level funding to install new and more efficient/productive machinery. This supports Queensland businesses to be early adopters and to compete with international businesses where the technology is being developed. CCIQ believes State Government policy should reflect this practicality through recognising the enormous potential that crowdfunding represents to existing small businesses.

Eligibility requirements for a CSF offer

Division 6: Corporations Amendment Bill 2015

16. The cap of \$10,000 per business on investors (retail clients) over a 12-month period will also reduce opportunities, both for the investor and the businesses that seek to grow. This

impediment further narrows the opportunities for businesses to fully access available funding, particularly with most government grants typically not reaching full subscription.

17. Understanding that adequate investor protection is critical, small businesses and start-ups are seeking alternative funding without the burden of having an extremely high number of individuals on their share registers, meaning focus on growing the businesses becomes divided and diverted to investor relations.
18. Tackling risk concerns have been addressed by proposing investors sign a risk acknowledgement statement before investing, as well as a five-day cooling-off period.
19. By increasing the cap, the amount of funding could significantly increase and potentially mean that businesses will have a lower number of shareholders if they desire. This will reduce the compliance costs for businesses and assist them in moving quicker towards raising the necessary amount of innovation funding.

Further enquiries

20. We thank Treasury for the opportunity to provide comment and welcome any feedback. Please contact Catherine Pham, Policy Advisor, at cpham@cciq.com.au for matters relating to this submission.