

9 January 2017

Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Fitt,

Submission by the Australian Small Scale Offerings Board (ASSOB) to the Inquiry into Corporations Amendment (Crowd-sourced Funding) Bill 2016

1. Summary

- 1.1. The Australian Small Scale Offerings Board (ASSOB) is generally supportive of the Corporations Amendment (Crowd-sourced Funding) Bill 2016 (the **Bill**), as it was of the Corporations Amendment (Crowd-sourced Funding) Bill 2015 (the **2015 Bill**).
- 1.2. ASSOB understands that the purpose of this further submission is to provide the Inquiry with ASSOB's views on the following proposed amendments to the CSF framework:
 - 1.2.1. increasing the eligibility cap from \$5 million to \$25 million; and
 - 1.2.2. reducing the cooling off period from five working days to 48 hours.
- 1.3. With regard to increasing the eligibility cap from \$5 million to \$25 million, ASSOB considers this increase to be critical to the success of the legislation. ASSOB's views in relation to this are set out in further detail below.
- 1.4. With regard to reducing the cooling off period, ASSOB supports this amendment and in fact suggested it in its submission regarding the 2015 Bill.

2. About ASSOB

- 2.1. ASSOB is the world's first equity crowd funding platform. Since our inception in 2007, ASSOB has become Australia's largest and most successful equity-based direct offering platform, showcasing investment opportunities in start-up and early stage, unlisted public companies. ASSOB has to date raised in excess of AU\$145 million for its Issuers.

- 2.2. An example of ASSOB's position and respect globally can be found in the World Bank and infoDev (Information for Development Program is a World Bank Group program that supports entrepreneurs in developing economies) 2013 report titled "Crowdfunding's Potential for the Developing World" which included the following description of ASSOB's crowdfunding operations:

"The Australian Small Scale Offerings Board (ASSOB) was founded in 2007 and is now the largest investment crowdfunding platform in Australia and one of the largest in the world. It is an equity-crowdfunding platform that has successfully served both accredited and unaccredited investors, raising more than US\$130 million for issuers since its inception. Some 176 companies have been funded to date and not a single case of fraud has been reported. ASSOB operates within the current securities structure in Australia."

The report also commented on the relative success of companies funded via ASSOB's platform:

"After seven years of crowdfunding companies, the Australian Small Scale Offerings Board (ASSOB) shows that 86 percent of companies crowdfunded on its platform were still operating in 2012. This contrasts with a figure of 40 percent of noncrowdfunded (non-ASSOB) companies that fail after three years."

- 2.3. ASSOB's goal is to assist the Issuer in attaining the greatest chance of investment success by presenting quality promotional materials coupled with safeguarding the investor as much as possible from Issuer malfeasance. We publish material about individual Issuers (Profile Page) only after our team has completed due diligence on the company and its directors (approving the suitability of the company for promotion) and after having reviewed and approved the investment material for inclusion (approving the suitability of the language and content of the investment opportunity for promotion).
- 2.4. ASSOB is an online business introduction service at www.assob.com.au (the **ASSOB Platform**) which operates pursuant to the ASIC Class Order 02/273 "Business Introduction or Matching Services" (Class Order), using the exemptive relief of s708 of the Corporations Act (Cth) (the **Act**).
- 2.5. For those companies that successfully raise equity capital using the ASSOB Platform, we can report that the average investment is approximately \$25,000 per investor both retail and wholesale investors / sophisticated / non-sophisticated investors.

3. ASSOB's Submission on the Bill

- 3.1. ASSOB supports the amendment reducing the cooling off period from five working days to 48 hours and in fact suggested it in its submission regarding the 2015 Bill.

- 3.2. ASSOB also supports the amendment increasing the eligibility cap from \$5 million to \$25 million and considers this increase to be critical to the success of the legislation.
- 3.3. A significant proportion of Issuers that have raised on the ASSOB Platform to date (over 170 companies) already had intellectual property valuations alone in excess of \$5 million, even though many did not have any turnover. Typically, these companies have been seeking to raise between \$250,000 and \$3 million.
- 3.4. If it is the intention for this legislation to be used by innovative start-up and early stage companies to help develop new industries and jobs within Australia, the \$5 million cap will preclude many and continue the trend of these companies seeking funding and talent offshore.
- 3.5. Further, ASSOB remains concerned regarding assessment of the proposed assets and turnover caps.
- 3.6. ASSOB has previously submitted that the gross assets and turnover caps, which include related parties' assets and turnover, are going to be extremely difficult for intermediaries to accurately assess, particularly without audited accounts. From our experience as a crowdfunding platform which has raised funds for over 170 companies in seven years, very few (if any) companies in the start-up and earlier stage have audited accounts at the time of first applying to list on the ASSOB platform. ASSOB insists that companies convert to a limited entity before they list, however their accounts are unlikely to be audited for a period of up to 12 months after that.
- 3.7. If intermediaries are allowed to rely on unaudited financial accounts provided by the Issuers, and bear no responsibility as to the accuracy of those accounts in the assessment of the gross assets and turnover caps, then this will be acceptable. ASSOB conducts checks of publicly available information as part of its usual due diligence on each prospective Issuer (for example IP ownership, bankruptcy checks on directors, company registration and shareholder information), but if financial accounts are unaudited, there is no way for intermediaries to verify the information contained in them.
- 3.8. If intermediaries could be penalised for relying on prospective Issuer's unaudited financial accounts in assessing the gross asset and turnover caps, then ASSOB submits that:
 - 3.8.1. intermediaries will need to demand audited accounts from every prospective Issuer as part of the assessment process, which will add an approximate cost of between \$10,000-\$50,000 to each Issuer before they have even qualified to raise capital pursuant to this legislation. This will mean that it is highly unlikely that prospective Issuers will seek to raise funds under this legislation; and

The ASSOB logo is located in the top left corner of the blue header. It consists of the word "ASSOB" in a white, sans-serif font, positioned to the right of three white diagonal lines that form a stylized 'A' shape.

3.8.2. the burden placed on intermediaries will most likely make it difficult or impossible for the Directors of the intermediary to secure appropriate insurance cover and hence will mean the legislation is not used by intermediary platforms.

We would encourage and welcome further consultation with the industry on a face to face basis to discuss this Bill.

We thank you for taking the time to consider our submission.

Yours faithfully,

Will Leitch
Chief Executive Officer