

## **SUBMISSION TO PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES INQUIRY INTO THE WHOLESALE INVESTOR/CLIENT TESTS.**

This submission is made on behalf of the majority of Angel groups in Australia. Together we represent thousands of investors and over a thousand invested start-up companies that comprise more than \$250m in invested capital attracting more than \$1b in co-investment and supporting more than 7,000 new, high-skilled jobs.

There are a large but unknown number of private individuals outside the Angel groups who invest independently in start-ups. They too would be disadvantaged or deterred by the changes being proposed. We believe that our recommendations will benefit those investors and would be supported by them.

For decades, organised Angel investors have played a pivotal role in creating and leading the start-up ecosystem in Australia. This submission addresses proposed regulatory changes that will severely reduce the Angel investor community, leading to less capital and assistance for the start-ups in which those investors would otherwise be investing. Start-up companies are disproportionately represented beyond their numbers in contributing to the growth, competitiveness and sustainability of our economy.

We will propose an alternate model for wholesale investor exemption.

There are two primary areas of current concern. The first is the proposed change to the financial means test applied to the Sophisticated Investor eligibility to qualify for a wholesale investor exemption. The second relates to uncertainties in regulation and interpretation that could force Angel groups to adopt the expense of licensing or cease operation completely.

### **SUBMITTED WITH THE SUPPORT OF:**

Angel Loop Brisbane	Hunter Angels
Brisbane Angels	Logan Angels
Byron Bay Angels	Melbourne Angels
Darling Downs Angels	Perth Angels
Fraser Coast Angels	South West Angels
Geelong Angel investor Network	Sun Coast Angels
Gold Coast Angels	Sydney Angels
Harbour Angels	Western Sydney Angels

## SUMMARY OF RECOMMENDATIONS

Please, provide certainty, sustainability and opportunity to the citizen investors, the taxpayers, the voters, who volunteer, who grow new jobs because they think that is important, who offer cross generational knowledge transfer. These are the Angel investors and Angel groups driving the innovation economy at the grass roots, with expertise gained from the cream of our corporate, commercial, professional and academic sectors, and with networks garnered domestically and internationally through personal integrity. This combination of experience, expertise and networks through a culture of collaboration, inclusion and diversity delivers critical support and success to the start-ups driving the innovation economy in its critical role of reshaping Australia for the next 100 years of globally competitive success and safety.

The following summarises our recommendations:

1. Introduce a wholesale exemption for investors to invest in start-up ventures granted upon certification of satisfactory completion of a relevant training program and evidence of continuing membership in/affiliation with an approved organisation, e.g. an organised Angel group, providing continuing professional development.
2. Sophisticated Investor means test:
  - a. Income threshold:
    - For an individual - maintain income threshold at \$250,000 per year for prior two years with provisions that properly address volatility in income caused by parental leave, carer leave and fluctuating income (a common concern for many women and immigrants). Tested across the prior four years with the requirement of the threshold having been met in two years, one of which must be in the immediately prior two years.
    - For a legally recognised couple - income threshold at \$400,000 per year for prior two years with provisions that properly address volatility in income caused by parental leave and fluctuating income (a common concern for many women and immigrants) as described above for the individual test.
  - b. Net asset threshold:
    - For an individual - maintain net assets threshold at \$2.5m including the family home.
    - For a legally recognised couple – a net assets threshold at \$4m including the family home.
    - If not including the family home – include a net assets threshold at \$1.5m and \$3m for individuals and couples respectively.
  - c. No indexation. A periodic review process that compares thresholds with changes in incomes, wealth and cost of living on the basis of real economic values.
3. Grandfather existing arrangements to ensure current Sophisticated Investors are not disenfranchised from supporting current investments.
4. Provide certainty for Angel groups to operate under a self-organised, self-regulated regime that recognises they are not financial service providers and, as such, are exempt from licensing requirements.

5. Preserve the option for an AFSL holder to qualify an investor as a wholesale on the basis of experience. Provide safe harbour rules for the AFSL holder with regard to what constitutes satisfactory evidence of experience, such as described in recommendation 1, or a comprehensive questionnaire to assess the investor's experience.

## DISCUSSION

First, it is vital that there be a clear understanding of how the organised Angel investors, Angel groups, are different from other start-up investment mechanisms.

Then we propose an additional model for wholesale investor exemption, address the issue of the Sophisticated Investor Means Test for wholesale investor exemption, and then address the less specific but, potentially more concerning risks associated with forcing Angel groups into the AFSL regulatory regime.

### BACKGROUND – WHAT AND WHO ARE THE ANGEL INVESTORS:

Angel groups gave birth to the rise of Angel investing in Australia and continue to invest in a large number of companies, year-on-year (therefore new jobs). Angel groups rarely slow down during macroeconomic shocks, offering a resilient and consistent source of financial and intellectual capital investment in start-ups.

Today there are more than 20 Angel groups in Australia throughout our capital cities and regional centres. Angel group members are commonly the first external (non-family, friends and founders) investors to support a startup. The Angels are a catalyst for accelerating development, acquiring non-dilutive funding (grants) and attracting additional capital, if required.

The organised Angel investor community mainly comprises Angel groups. These are typically non-profit, member-led, volunteer collectives where the actual investors themselves source and evaluate opportunities, negotiate the investment terms, provide the investment capital and remain engaged in governance and advisory roles with the companies in which they invest. This last is a key differentiator of, and value-add by, Angel group members when compared to most other mechanisms for start-up investment.

Angel groups are:

- NOT funds
- NOT salaried investment managers
- NOT managed investment schemes
- NOT financial advisers
- NOT financial services providers
- NOT financial product providers
- NOT investment businesses

Angel investors are private individuals who invest their own money, making their own investment decisions. The appellation, 'Angel investor', is used when the investor has a clear intent to invest in a portfolio of early-stage start-up ventures and be a proactive shareholder, i.e. providing mentoring, advice and assistance to start-up founders. Investments in property, listed shares,

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late-stage companies and other assets by the same individual are not properly described as Angel investments.

Angel group members are private individuals and, for the most part, while financially secure, most often, as the result of their own entrepreneurial or professional careers, are not 'rich'. These days most Angel investors are still working and typically have total family net worth substantially less than \$5m. That level of net worth is falling as more young people, women and immigrants join the community of investors.

*Per member investments in an Angel group for each investment round in start-ups is typically \$10k - \$40k. This requires more than 10 investors to fund even modest rounds. With the cost of operating those start-ups increasing, there is the need to ensure the supply of capital. The individual investment amounts are modest so, while at high risk, are affordable. Angel investors are predominantly financially secure, intelligent, aspirational, and adding value but, not necessarily wealthy.*

We are all aware that in a world with more people than jobs, entrepreneurship and self-employment are on a steep rise. Start-up founders are one special category in that change. Young founders (average age of a start-up founder in Australia is over 40 years old) are increasingly looking to invest in other start-ups even while they get their own off the ground. This change in approach to wealth generation is an important trend in the investor landscape. Policy and regulations need to account for this distinctly different social and economic dynamic when compared with the 20<sup>th</sup> century, when current policy and regulation models were established.

Angel investors are driven by various altruistic motivations including 'paying it forward', supporting the community, driving jobs growth, increasing international competitiveness, more equitable creation and distribution of wealth. The investment return is the financial reward but, given the high rate of failure of start-ups and the long time to crystallising a return (typically 10+ years), it is the altruistic motivations and the collegiate experience of the Angel group that sustains the investment effort and grows the community.

Intellectual capital is a big differentiator between Angel investors and many in the broader community of passive, private investors, e.g. equity crowd funding, syndication platforms and investors in funds. For Angel investors to apply this added-value to a large number of start-ups demands a scale of people with a breadth and depth of skills, knowledge, expertise and networks.

Scale of investor numbers and investments made is driven by the high failure rate of start-up ventures. Angel investing requires that each investor build a substantial concurrent portfolio to ensure a reasonable chance of realising a worthwhile return on investment. That typically means at least 20+ companies (global research suggests it should be 50+) many of which will require more than one round of investment from the Angel investors. This means the individual investors must have the opportunity to deploy capital and time across a large number of investments. The collaborative, collective nature of Angel groups is key to addressing both the capital capacity, and the time resourcing required to satisfy these imperatives of the sector.

It is important to note that Angel investors often support their portfolio companies through many rounds of investment. That may be in collaboration with other Angel groups, with other private investors, or with institutional investors (funds). For some start-ups, Angel investment may be a precursor to later investment from VC funds. For other start-ups, the Angels may be their lead investors throughout the lifetime of the venture.

Angel groups form a broad, inclusive, accessible, benign source of capital for start-up founders. Leading Angel groups offer their members access to both formal training and to the ongoing

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professional development essential to staying properly informed in a space as dynamic and changeable as start-up investing.

Angel groups have been a long standing and valuable contributor to the start-up ecosystem. Angel groups provide a distinct investment value proposition for founders, who often need more than just money. Angel groups collaborate and co-invest with each other, and with other funding mechanisms in the ecosystem. In startup investing, collaboration and co-investing means more capital for the start-ups and reduced risk for both founders and investors. The organised professionalism of Angel groups, with their disciplined approach to due diligence and investment, is often the catalyst for others to invest. That leads to more investment into more startups, which is a good thing for founders, for investors and for the ecosystem.

### **ANGEL INVESTOR EXEMPTION PROPOSAL:**

Many parties submitting to this inquiry are proposing a wholesale investor exemption based upon completion of a nominal training course. We propose a stringent regime that delivers meaningful protections through a combination of both initial training and ongoing support.

Our focus is on direct investing in start-ups – early-stage risk capital – and we acknowledge that this is a different context to other forms of investment such as in funds, property, managed investment schemes and more. As such, our proposal is specifically focused on the strongly differentiated case of a private individual (or their direct investment vehicle, e.g. SMSF, or family trust, or family-owned company) investing directly into a start-up venture.

This model of training plus continuing professional development is a very familiar model. It is the same one we use across professions; from accountants to medical practitioners, legal practitioners, engineers and others. It is the model we use to credential company directors and that is, in many ways, a good proxy for Angel investors. In the case of both company directors and Angel investors, most people come to the role with some experience in business but, need to learn new skills and knowledge to prepare them for the new role. Skills and knowledge for which there is no formal education pathway through tertiary education.

The Australian Association of Angel Investors was the first organisation in Australia to offer this combination of education and continuing professional development for private citizen investors in start-ups, commencing in 2007 through to 2016. That program was tailored to the Australian context and continues to be delivered this day evolving, updating and delivering a pre-eminent Angel investor education program in this country.

*“Arguably the approach to defining “sophisticated investors” in sections s761GA and s708(10) is a more appropriate way to distinguish whether are able to deal with complex financial products than a simple wealth test. Although the subjective nature of the ‘sophisticated investor’ places the onus on the licensee, creates less certainty and makes it difficult to determine if a certificate was properly issued.”\** Treasury

Fitting the Australian context is critical and one should be wary of calls to mimic the USA. Australian laws, regulations, markets and social contract are all significantly different to the USA and represent the basis for our competitive strengths. Seeking to copy a foreign regulatory regime without all of the same policy, resource, market and contextual settings is more likely to do harm than good.

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\* Wholesale and Retail Clients Future of Financial Advice 2011

### Angel Investor Exemption

We propose an Angel Investor (or Experienced Investor, if you prefer) exemption. This is to be based on the individual completing a suitable course of education *taught by an experienced Angel investor*, as occurs in some Angel groups today. Upon successful completion, the individual will then enjoy the benefit of the exemption for so long as the individual remains a member of an organised Angel group that provides the continuing professional development benefit.

It is the essence of the Angel group model that, as a not-for-profit, volunteer, collaborative collective, the group is able to maintain currency in relevant knowledge and skills. That is what provides the high quality continuing professional development, often including some formal training as an ongoing activity within the group.

The focus of the Angel Investor exemption must be on the skills, knowledge and techniques particularly relevant to investing in start-ups and not commonly acquired through other experiences. There should be a defined core curriculum for such a course that covers the lifecycle of an Angel investment from core investment thesis through deal flow generation and due diligence to exit. Angel groups are well-placed to design, develop and deliver these training programs for their members and for others in the community, as they do today. Those groups that meet certain criteria related to experience, structure and capability could self-certify. If required, ASIC could establish a model for approving training providers, and for periodically reviewing those providers.

The best providers would be the experienced Angel groups, or suitably experienced and skilled Angel investors. For continuing professional development Angel groups are an excellent option due to their collegiate membership model, with people remaining members for years.

Note, this is not a financial literacy course, such as one might obtain from a tertiary education program. This course will cover ethics, values, governance, current market statistics, experienced insights and investment techniques that include risk management in a high-risk space, how to value a start-up, investment terms, how to conduct due diligence on start-ups, post investment management and the like.

### Recommendations

- Exemption to invest in start-up ventures granted upon certification of satisfactory completion of an approved training program and evidence of continuing membership in/affiliation with an organisation, e.g. an organised Angel group, providing continuing professional development.

### SOPHISTICATED INVESTOR EXEMPTION MEANS TEST:

The broadly understood purpose of the means test is to protect individual investors by ensuring they have access to advice suitable to ensure they are competent to make an informed investment decision. This model and the current means test limits were conceived and set last century. A time when start-up companies and Angel investors were not even on the radar of policy makers, legislators and regulators.

Originally related to disclosure regimes, the wholesale investor exemption model may well still serve the well-considered purpose and its means test. *That model and its purpose are in no way fit-for-purpose in determining an exemption for citizen investors choosing to invest in early-stage*

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*start-up ventures*. For that type of investing, one needs the right knowledge and skills, for which wealth is a wildly imperfect proxy.

The current exemption model assumes that if an individual has a certain amount of income or wealth then that individual is either already sufficiently experienced to navigate investment decisions, or that that individual has the financial means to purchase expert investment advice.

Perhaps that approach remains valid for investing in funds, managed investment schemes, property development and private equity investments since the risks of those investments are considered within the expected experience of a wealthy investor and there is plenty of relevant expert advice to buy.

Neither of those assumptions are valid in the case of an Angel investor considering an investment in an early-stage start-up. A start-up investment is distinctly, significantly and substantively different to an investment in a going concern business, or any other type of financial investment.

Possession of wealth has no direct correlation to the knowledge, skills or expertise required to evaluate, negotiate and succeed in a start-up investment. Further, while there may be some relevant expert advice available, when an investor is investing modest amounts, say \$10k-\$40k, in a deal that investor is unlikely to be spending equivalent amounts to seek expert investment advice. Thus, advisors cannot make a sustainable living in this niche and, as such, there is no ready supply of such advisors on a fee-for-service basis.

Much of the concern about investment risk has focused on the many abuses and scandals in which small investors have lost their investments, sometimes their life savings. It is worth noting that the vast majority of those events and those investors related to retail investors and investments. Increasing the exemption thresholds will simply increase the supply of retail investors, the ready supply of victims for the unscrupulous, while doing nothing to address the presence of the bad actors.

### **Policy and International**

Ultimately, the policy issues must balance the protections for individual investors against the availability of citizen-provided risk capital for companies. These must also consider the impact of these constraints on the international competitiveness of the Australian investment market.

To further curtail the risk capital available to Australian start-up ventures would be unwise and seriously detrimental to the country in many ways. It would also be in opposition to the policy behind the Industry Growth Program, the National Reconstruction Fund, the National Climate Resilience and Adaptation Strategy, the tax incentives for early-stage investors and many more.

The Sophisticated Investor test is similar to tests in other jurisdictions. When compared to New Zealand, the UK, Singapore and the USA the asset threshold in Australia is the highest by a margin of >10% and the income threshold is in the middle of the pack. This suggests that the current settings are close to right in terms of international competitiveness.

Our leading competitors in North America, Asia and Europe have already incorporated experience and skills-based assessments into their investor accreditation regimes, particularly for investors focused on early-stage start-ups. Australia needs this same flexibility to stay competitive, effective, attractive and equitable for investors and for start-up founders.

### **Income Threshold**

We fundamentally disagree with the presumption that wealth (measured by income, or assets) is a relevant test for sophistication when it comes to investing in start-ups.

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When considering the eligibility thresholds of the Sophisticated Investor exemption it is worth noting that they incorporate some unintended systemic discrimination against women, independent professionals, and immigrants. All of those may face volatility in their incomes which would preclude them from the two-year income threshold test. Similarly, any Australian may see volatility in income due to paternity leave, or long service leave, or carer leave, or other legitimate gaps in otherwise regular and certain income.

An alternative model, say meeting the threshold in two of the last four years, one of which must be in the immediately prior two years, could help ameliorate the systemic discriminatory impact.

Given the negligible increase in wages in real terms for most of the time since this threshold was set, it seems inappropriately aggressive to increase the threshold.

### **Asset Threshold**

The assets test is for net assets, which means the family home is only as valuable as allowed by the family mortgage. It seems disingenuous for the government to determine the relative weight of different assets when considering wealth as the simplistic measure for the test. Will the government choose to exclude other assets, e.g. crypto assets, for similarly judgemental reasons?

If the family home is excluded then we propose the threshold should be reduced to \$1.5m.

### **Couples**

It is worth noting that many assets are held jointly by couples, and other investment groupings so, the test must be clear as to how it will value jointly held assets.

By including a joint test for couples, albeit at a higher threshold, the system can be made more amenable to addressing the well-proven disadvantage imposed on women by the historical context. Due consideration to recognise this disadvantage is prudent and socially responsible.

### **Threshold Values**

It is common that investment decisions within a legally recognised couple are made jointly, or will make use of jointly held assets. For this reason, it seems prudent to allow for legally recognised couples to be treated and exempted as an equivalent investing entity to an individual. In that case both individuals, even when acting individually, would be recognised as exempt under the Sophisticated Investor means test.

### **Handling changes – Grandfathering**

Any changes to eligibility for exemption should not undermine the investment rationale of existing investment decisions, nor invalidate otherwise legitimate and compliant investment contracts already in place.

For an initial change, and for any future changes due to a periodic review, we recommend that there be a two-year period (matching the eligibility period) during which current exemptions continue to apply to any investment in negotiation at the time of the change. Further, where an investor is engaged in a long-term investment contract, e.g. a fund, a trust, or equity in a private company, that investor should be permitted to sustain their exemption status for the life of the investment, including subsequent investments under that same contract.

### **Recommendations**

- When the exemption is granted to a couple, each person will be recognised as a Sophisticated Investor even when investing individually.



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- Income threshold for individuals be maintained at \$250,000 for each of the prior two years.
- Income threshold for a legally recognised couple be set at \$400,000 for each of the prior two years.
- That income thresholds be tested across the prior four years with the requirement of the threshold having been met in two years, one of which must be in the immediately prior two years.
- Net Asset threshold for an individual remain at \$2.5m including the relevant portion of the family home.
- Net Asset threshold for a legally recognised couple be \$4m including the family home.
- Net Asset threshold if not including the family home – include a net assets threshold at \$1.5m and \$3m for an individual or couple respectively
- That all thresholds be re-examined every four years to test against relative, real-terms value in the context of changes in incomes, cost of living and.
- Grandfathering ensures an orderly and equitable transition for any initial change and any future change due to a periodic review.
- For other exemptions:
  - Product Value Exemption – maintain this at \$500,000
  - Experienced Investor Exemption – be maintained with added clarity for AFSL holders on the requirements to provide the exemption and about their liabilities.

#### **REGULATORY CHANGE – BUSINESS INTRODUCTION SERVICE & CROWD SOURCED EQUITY FUNDING:**

In 2002, just a year after our new Corporations Act, regulations and financial licensing all came into force, ASIC issued Class Order 02/273 *Business introduction or matching services*. Class orders are an excellent tool used by the regulator to provide interim relief where existing regulation is not working as expected. In this way, rather than knee-jerk regulation, the regulator gets to explore what is happening in the market place and formulate regulation to properly address the needs of the country. We think this is an excellent model.

However, that class order remained in effect for around 20 years and when it was retired in 2022 ASIC Corporations (Business Introduction Services) Instrument 2022/805 was created to extend a subset of the relief until April 2025. The original class order offered relevant relief from licensing provisions and was widely relied upon in the private company investment sector.

*Class Order [CO 02/273] provides an exemption from the fundraising provisions of the Corporations Act for persons involved in making or calling attention to offers of securities through a business introduction service.*

Angel groups routinely hold meetings (in-person, on-line & hybrid), typically private meetings by invitation, to enable Angel investors to meet the founders of start-up ventures that are prospective investments.

Angel Meetings held prior to 1<sup>st</sup> October 2022 were held under CO 02/273, which gave conditional relief from the fundraising, financial product disclosure, anti-hawking, and advertising

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requirements in the Corporations Act 2001. As part of this, it gave relief to the host of the Angel Meeting (Angel Group) from the anti-hawking provisions of the Corporations Act. Effective 1<sup>st</sup> April 2025, RG129 Business introduction or matching services comes into full effect with its much narrower interpretations and all business introductory or matching services must operate under a financial services licence unless exempt.

RG129 states:

*For the purposes of our relief, an introduction service is defined as a business that has as one of its objects the promotion or encouragement of investment in managed investment schemes.*

and

*... the relief for the offer of Ch 6D and 2L securities was allowed to expire ... because crowd-sourced funding provides an alternative low-cost regime for companies to raise funds.*

These measures increase uncertainty because most Angel groups are not “businesses”, do not engage with “managed investment schemes”, do not arrange Ch 6D securities, and cannot be replaced by ‘crowd-sourced funding’. Some groups offer their members access to special purpose trusts to pool investors into a single shareholder of the start-up to avoid pushing the share register over the private company limit of 50 non-employee shareholders.

ASIC appears to be taking the view that the Crowd Sourced Equity Funding Act now provides a comprehensive replacement for the relief offered by the prior instruments and that all possible investment models are now properly addressed by the Acts and Regulations. This is not true with regard to Angel groups, or Angel investors who are not members of a group.

Until now, Angel groups addressed their concerns by having members abide by a code of conduct (or similar), and any guests to the meeting signing consent forms that record their understanding of the code of conduct and their obligation to abide by the code of conduct in regard to all introductions made at that meeting. Further, most groups employ disclaimers and procedural practices to ensure that no personal offers are made at the meeting.

This practice would seem to be consistent with the advice provided by ASIC to Angel Loop\*, which supports a number of the Angels Australia community groups:

*“... it does not appear that Angel Loop needs to rely on the disclosure or hawking relief provided by the business introduction class order because investment offers are only made to sophisticated investors within the meaning of s708(8) or ‘experienced’ investors certified by an AFS Licensee under s708(10) – for brevity, I’ll refer to these as ‘exempt investors’. This is the case even if other persons are invited to meetings where entrepreneurial business ideas are to be discussed – provided it is prominently clear in the invitation and at the meeting that any investment opportunities will only be available to exempt investors.”<sup>†</sup>*

Without clarity and certainty, the activities of the Angel groups are at risk of being considered an unlicensed financial service. That would require Angel groups to secure Australian Financial

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\* a registered Innovation Charity (QLD)

<sup>†</sup> Email Fiona Laidlaw to Angel Loop ASIC 31 Mar 2022

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Services Licences, an expensive and unnecessary compliance burden for associations of volunteer members that operate on not-for-profit principles. There would be no practical benefit, other than survival.

While on the surface this might seem a reasonable, even beneficial outcome, that fails to recognise the nature of the Angel groups (as described above) and the very different character of the early-stage start-up investment sector from that of the more familiar small business and going-concern business context. In particular, this change will essentially wipe out the organised Angel investor community represented by Angel groups. According to the Tech Council of Australia, that would eliminate substantially more than 10% of all investments in early-stage start-ups, crippling the ecosystem, and drastically damaging Australian economic competitiveness.

Forcing Angel groups to take on the financial and compliance burdens of being licensed financial service providers, an apparently certain consequence of the regulatory uncertainty, will force the Angel groups to abandon their not-for-profit, volunteer operating model to adopt a fee-for-service business model. That, in turn, will demand much higher revenues for the groups (membership fees) which is most likely to drive away the majority of Angel investors. That would create a crisis in the supply of risk-capital for all new start-ups.

It would be easy to provide some certainty for these critical contributors and pioneers of the Australian innovation ecosystem. The community could self-organise and self-regulate according to a well-defined regime based on characteristics that typically define an organised Angel group. These could include the not-for-profit operating principle and the group having no financial interest in any investment decisions or outcomes (e.g. commissions, success fees). However, the regime should be flexible enough to accommodate Angel groups who contract with co-investors who are not Angel groups and, under such contracts, receive fees from the co-investors. Such arrangements can contribute to the sustainability of the Angel group and its ability to support its members and the founders in the ecosystem through training and other support services.

Together with the Angel Investor Exemption proposed above and modest enhancements to the tax incentive described below, this certainty will enable the Angel group community to mobilise a significantly increased number of citizen investors. In turn, they will contribute a substantially enhanced supply of early-stage risk capital, protected by an accredited program of training and continuing professional development, which will promote greater success for our national innovation economy, fund more high skilled jobs, enhance our national competitiveness and, ultimately, drive increased tax revenues.

## **Recommendations**

- Provide certainty for Angel groups to operate under a self-organised, self-regulated regime that recognises they are not financial service providers and, as such, are exempt from licensing requirements.

## **CONCLUSION**

We will appreciate the opportunity to discuss these urgent matters with you and your colleagues at the earliest opportunity. Changes to the wholesale investor test could significantly decrease the number of Angel investors and the capital available for start-ups. The survival and success of start-up firms are vital to the economic growth and prosperity of Australia as start-ups make a significant contribution to employment, innovation and the diversification of our economy.

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Our overarching goal is to increase the sustainable supply of qualified, early-stage, risk capital to enable a stronger, bigger, more diverse and more successful start-up venture ecosystem. This will enhance the commercialisation of Australian intellectual property, decrease the concentration of our economy, increase our international competitiveness and offer a more equitable generation and distribution of wealth than current market structures.

## RECOMMENDATIONS

The following summarise the recommendations discussed and described in more detail in the body of this submission.

1. Introduce a wholesale exemption for investors to invest in start-up ventures granted upon certification of satisfactory completion of a relevant training program and evidence of continuing membership in/affiliation with an approved organisation, e.g. an organised Angel group, providing continuing professional development.
2. Sophisticated Investor means test:
  - a. Income threshold:
    - For an individual - maintain income threshold at \$250,000 per year for prior two years with provisions that properly address volatility in income caused by parental leave, carer leave and fluctuating income (a common concern for many women and immigrants). Tested across the prior four years with the requirement of the threshold having been met in two years, one of which must be in the immediately prior two years.
    - For a legally recognised couple - income threshold at \$400,000 per year for prior two years with provisions that properly address volatility in income caused by parental leave and fluctuating income (a common concern for many women and immigrants) as described above for the individual test.
  - b. Net asset threshold:
    - For an individual - maintain net assets threshold at \$2.5m including the family home.
    - For a legally recognised couple – a net assets threshold at \$4m including the family home.
    - If not including the family home – include a net assets threshold at \$1.5m and \$3m for individuals and couples respectively.
  - c. No indexation. A periodic review process that compares thresholds with changes in incomes, wealth and cost of living on the basis of real economic values.
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constitutes satisfactory evidence of experience, such as described in recommendation 1, or a comprehensive questionnaire to assess the investor's experience.