Bizzbuild would like to take the opportunity to thank CAMAC for providing an opportunity to comment upon its Crowd Sourced Equity Funding discussion paper.

Bizzbuild is writing this paper from the intermediary viewpoint. Based in Australia we are currently setting up a crowdfunding platform in the US. We are also in the process of obtaining a financial services license to operate as intermediary in the UK and ideally we would want a similar platform in Australia and therefore welcome the review.

The Australian Corporations Legislation should make provision for Crowd Sourced Equity Funding.

The primary duty of an entrepreneur is to raise capital for the business. Cash flow is the most important aspect to keep a business moving and growing and therefore an entrepreneur must keep cash flowing continuously into the business for it to survive. Unfortunately access to capital is one of the major business challenges any entrepreneur face. Sources of finance include family, friends, credit cards, mortgages and unsecured loans, to name a few.

Small businesses meet their funding needs using internal equity funding and existing debt facilities. Eighty per cent of small business loan applications are accepted while only a small fraction of businesses who seek venture capital funding are successful. Small businesses pay more, on average, for debt than both households and larger businesses. This is because smaller businesses are typically viewed as having more volatile revenue streams, make greater use of riskier forms of loan collateral, and make more use of unsecured debt products. The higher cost of small business debt facilities leads many smaller businesses to use household debt products to fund their business. Smaller businesses also make use of alternative sources of debt such as equipment and vehicle leasing. Other forms of finance for small businesses include debtor finance and debt funding from trade suppliers.

The traditional way of borrowing from a bank or other financial institution. Whether the business is in its startup stage or a small established business, borrowing in this way has numerous challenges including providing financial statements, forecasts etc. This is not only a costly process but could possibly not be enough to justify the amount of cash needed to establish their business. Banks also require security over an asset and very rarely lend to start up businesses. Many of the applications a bank receives will not be approved, simply because the risk the bank is required to carry is too high, or because it believes the applicant cannot support the risk either. Banks are regulated by the Australian Prudential Regulation

Authority (APRA) which requires banks to make prudentially responsible lending decisions – the more risk the bank takes, the more capital it has to hold against that lending. Banks also quantify risk according to their own lending portfolio. A bank may decline to loan to a viable business based on the fact they are overexposed in the sector the business is in.

The other way of raising funds is through offering securities to the general public. Currently in Australia to raise funds from the general public the business must be trading as a public company or private company and there are strenuous rules on these company structures and how they offer their securities to the general public.

Crowdfunding (alternately crowd financing, equity crowdfunding, crowd-sourced fundraising) is the collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations. This method of raising funds has been adopted by the US, UK and a few other countries. The rules implemented in the US encourage funding in small businesses as it relieves a lot of the strenuous regulations.

Because of the strict regulations on raising funds in Australia and the ease of raising funds in the US some small business owners are willing to relocate to the US. See Forge is only one example of this - SEE Forge is an award winning cloud based and mobile reporting platform for field workers to take their existing paperwork (safety, audits, maintenance, inspections, time sheets etc.) onto any mobile device. They make it remarkably easy for field workers to collect, report and manage operational and hazard information to increase productivity, lower costs and minimize risk. Their business has extremely great potential but the inability to successfully raise funds in Australia is forcing them to move abroad. We are of the opinion that the regulations in Australia discourage small businesses and therefore a lot of extraordinary business ideas will never come to life or be taken abroad which results in a valuable loss to the Australian economy.

Even the strongest supporters of crowdfunding acknowledge that it carries substantial risks. Small business investing is inherently risky and, the fact is, the majority of new business establishments fail. Moreover, small business investments tend to be highly illiquid, as most securities offerings may be too small for an active secondary trading market to develop. As a result, crowdfunding investors must be prepared to hold and bear the risk of their investments indefinitely. This risk is in no way other than the risk of investing on the stock market. To date there is no proof of fraudulent crowdfunding and thus the fraud risk should not be a determining factor not to allow and regulate crowdfunding in Australia.

Crowdfunding as an internet phenomenon is still a relatively new concept but it is believed to be the preferred method of funding in this tough economic climate. The benefit of crowdfunding is not only the ease of raising funds from multiple interested parties but it also has numerous other benefits such as avoiding interest and extra cost involved in a loan and it can, in itself, be a very powerful marketing tool to create awareness and public connection. Supporters of crowdfunding believe that it may offer a potential solution to the small business funding problem. Observers point to the success of existing crowdfunding services around the world, which raised almost $2.7 billion in 2012, an increase of more than 80% from the prior year.

Ideally a new Chapter should be added to the Australian Corporations Act to regulate Crowd funding in a similar way that the JOBS Act in the US regulate crowdfunding. The US regulate it as follow:

For Startups & Small Businesses

- They can generally solicit and advertise publicly.
- Only accredited investors can actually invest in generally solicited companies.
- File a form with the SEC before they begin soliciting, letting them know they will.
- Disclose details about their general solicitation to the SEC within 15 days from first solicitation.
- Strict verifications done by companies are required to confirm that each investor is accredited.
- The penalty for not adequately meeting and following general solicitation requirements with the SEC is being banned from fundraising for a full year.

For Investors

- Only accredited investors can invest in companies who generally solicit.
- Qualifying as accredited means having $1 million in net worth, or making over $200,000 a year for the past 3 years.
- Investors will need to prove accredited investors status, which can be done through written confirmation by a CPA, attorney, investment advisor, or Broker-Dealer, or income-related IRS forms.
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We suggest that Australia regulate crowfunding in a similar way to stay competitive internationally.

Regards,

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