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Re: Submission re your public consultation around Crowd Funding

For over thirty years I have been an active and entrepreneurial angel investor. The exclusive focus my investment company has been to invest seed capital in dozens of start-ups and early stage research and IP-based technology companies, several of which have achieved public listings or been acquired by large multinational companies. Together, they have created substantial employment of highly skilled scientists and engineers and required substantial services from legal, accounting and IP professionals.

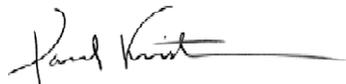
The Crowd funding model is extremely well suited to today's start-up funding requirements that are typically much smaller than used to be the case for the research intensive ventures I have been involved with. Young entrepreneurs need to be given easy access to this new type of web-based funding in order to get their ventures off the ground and keep Australia competitive.

My submission overleaf deliberately sets out the simplest possible approach to the subject of crowd funding regulation. A 'light touch' regulatory framework will give the best results.

A successful crowd funding platform ought to be open, transparent, easy to implement, simple to monitor and easy to enforce. However, investors and authorities should demand standard reporting and governance from those who accept funds from the public.

It is my conviction that an extremely simple framework for crowd funding, as outlined in my submission, has by far the greatest potential to spawn innovation, entrepreneurialism, new company formation and national economic growth.

Yours sincerely



Paul Kristensen
Founder and Chairman
Capital Technologies Pty Ltd

Crowd Funding in Australia –
a submission by Paul Kristensen

Capital Technologies Pty Ltd

The discussion paper prepared by CAMAC is of a very high standard and offers a wide ranging background on the subject.

The objectives of crowd funding are well understood and need no further commentary. However, in considering the many potential crowd funding regimes the views and opinions differ greatly, as should be expected.

In my opinion, there's most to be gained in taking as simple an approach as possible when attempting to open this type of high risk investment to all investors, including those on low incomes and with limited assets. I therefore believe it would be appropriate to consider the following points:

- Nothing inherently prevents crowd funding from being treated simply as another form of gambling or lottery, i.e. most likely to result in a total loss of the investment or stake, but occasionally yielding an exceptionally high return. My argument is that there are no current regulations that prevent any person, whether wealthy or poor, from spending whatever amount they themselves determine appropriate on lottery tickets, poker machines, sports betting etc. Crowd funding could therefore deliberately be classified as a variation of gambling, thereby avoiding the introduction of cumbersome, new legislation or regulation.
- It may be reasonable to set a fixed, upper investment limit per investor (probably somewhere between \$1,000 or \$5,000) to protect the most vulnerable. This also gives an issuer access to the broadest possible spread of investors when crowd funding a venture.
- As with other forms of gambling, there should be no restrictions requiring investors to be in possession of a minimum income or fortune.
- Regulation (perhaps through ASIC) must be imposed on the issuer to provide any crowd funding 'investor' or 'gambler' with proper answers to the standard list of questions that an investor ought to ask and receive answers to. This would require a simplified information document to be prepared by the issuer, containing a prescribed wording that warns of the high risk of start-up investments and that a total loss of the investment is more likely than not.
- The issuer (if a person) must declare if he has a criminal record or has been declared bankrupt in the past. If an entity, its directors must similarly disclose any adverse criminal and financial records.
- Once investment funds have been received by the issuer, reporting standards must be legally imposed on the issuer to the same level as are currently required of a public, unlisted company, regardless of the type of entity or vehicle chosen by the issuer. This should ensure that the investors gain sufficient insight into how the invested funds were spent and enables the detection, reporting, prosecution and punishment of any outright fraud by the issuer.

The investors are thus protected to a reasonable extent by the reporting requirements imposed on the issuer, as well as by the limited amount of funds an investor can commit to

a particular crowd funding investment. Crowd funding investors would arguably be better protected than is the case for ordinary gambling or betting.

The risk taking and the outcomes enjoyed or suffered will over time provide strong educational benefits to crowd funding investors so they become progressively better risk takers and investors.

Likewise, the issuers will benefit educationally from having to learn about and conform to the current corporate governance and reporting standards that apply to any entity seeking and accepting funds from the public. This would be a considerable but perfectly reasonable onus on the issuer that should prevent outright fraud, while of course not avoiding genuine mistakes or ordinary mismanagement whether through ignorance or lack of business skills.

I submit that a much simplified framework for crowd funding, such as outlined above, has by far the greatest potential to spawn innovation, entrepreneurialism, new company formation and national economic growth.