Queensland Government Submission to the Corporations and Markets Advisory Committee Review of Crowd Sourced Equity Funding

The Queensland Government recognises that crowd sourced equity funding (CSEF) has the potential to improve access to risk capital, and to provide an alternative to friends and family as a source of finance for start-ups. High growth businesses who might be encouraged by this type of investment, can make a positive contribution to skilled employment and productivity growth. The introduction of CSEF could enable a more conducive environment for start-ups in Australia, given other jurisdictions (United States, Canada, United Kingdom, New Zealand and Europe) are introducing various forms of CSEF.

The Queensland Government is strongly committed to establishing and sustaining a robust economic environment in which to conduct business. This includes using science and innovation for economic success, encouraging entrepreneurship and innovation, fostering start-ups and facilitating the growth of small and high-growth potential businesses, cutting red tape, removing barriers and promoting the importance of small businesses to the community. The Queensland Small Business Strategy and Action Plan 2013-2015 and the Queensland Science and Innovation Action Plan outline these commitments.

In terms of issues raised in the discussion paper, there are a number of general matters that ought to be considered in the Australian context, should a regulatory option be pursued. For example consideration could be given to restricting the classes of issuer to ones similar to those allowed in the United Kingdom, that the types of securities permitted should be kept as simple as possible, excluding complex securities such as derivatives, and the maximum funds that an issuer may raise in any 12 month period should be set high enough to encourage a wide variety of projects, but recognise the potential for the dilution of investors' interests. Potential investors will need to have sufficient and accurate information to make an informed investment decision, and that CSEF should be limited to new issues, excluding the on-selling of existing securities.

Further, a company reporting regime in line with that currently required for proprietary limited companies, would balance regulation with the spirit of simplicity of CSEF, and minimise red tape. Additional information should be made available to the investor on request. An area of concern is the implication if the target investment level is not reached. Partial funding of a project may increase its risk of failure and investor losses. Consideration should be given to how offers that do not reach investment targets within the allotted timeframe are managed.

Queensland considers that in accordance with best practice regulation and with its commitment to lower regulation, the impacts of any proposal to regulate CSEF should be identified early on in the policy development process. Queensland suggests that the next step include robust cost benefit analyses on a number of alternative options, compared with the status quo. While CSEF is an innovative proposal, it is important to weigh up any potential, adverse impacts and risks against the expected outcomes of economic growth before committing to a particular course of action. Such an approach will facilitate sound decision-making and allow for an outcome that delivers a net benefit to the economy.

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