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To whom this may concern

Consultation on extending crowd-sourced equity funding (CSEF) to proprietary companies

Thank you for the opportunity to provide a submission on the Australian Government's *Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017 (Exposure Draft)*.

The Australian Institute of Company Directors (**AICD**) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

The AICD supports the government's efforts to facilitate the growth of CSEF in Australia. CSEF has the potential to contribute to the growth of innovative and creative new businesses, and drive a culture of entrepreneurialism, which will be key to Australia's long-term economic growth.

On this basis, the AICD broadly supports the Exposure Draft and encourages its prompt passage. Given the introduction of a CSEF model for public companies earlier this year, the extension of the model to proprietary companies is the natural next step in the reform process. This would significantly expand the availability of CSEF in Australia, given that the vast majority of registered companies in Australia are small proprietary companies. It would also align Australia's CSEF regime with those of other countries, including the UK, Canada, the USA and New Zealand.

The AICD is therefore supportive of the proposed changes to the *Corporations Act 2001* (Cth) to enable this reform to succeed, including the requirement that there be at least two directors for the company, and the added ASIC notification requirements for proprietary companies with CSEF shareholders.

Against this broad support, the AICD has some specific comments in relation to investor protection mechanisms.

1. Audit requirements

The AICD is concerned about the proposed exemption from any audit or annual review requirement for proprietary companies until they raise more than \$1 million from CSEF offers. Investors in these companies would be left to rely on the financial reports and directors' reports. While these reports must be prepared in accordance with accounting standards, investors would be without independent assurance that the financial reports have been properly prepared. Given that CSEF will attract a wide range of investors, including relatively unsophisticated retail investors, the AICD believes it is important that adequate protections are in place to ensure that financial reporting is rigorous, and subject to appropriate independent scrutiny.

Accordingly, the AICD encourages the government to consider removing the proposed cap completely or at least reducing it to a much lower amount than the \$1 million threshold set out in the Exposure Draft, in order to subject a greater number of CSEF proprietary companies to an annual audit or review. This would ensure that CSEF achieves a high degree of public confidence and trust, ultimately securing its long-term success. An audit or review is an important safeguard for investors and the community, and may prevent or reveal deliberate or inadvertent practices which could otherwise mislead investors.

2. Three year review

Given that CSEF is a new area for Australian business and investors, the AICD recommends that the government include an obligation to review the legislation after three years of operation. This will provide an opportunity for the government to review the model and ensure it is operating effectively and fairly. The focus of the review should include a thorough examination of the investor protection mechanisms to ensure they are operating effectively and protecting the community.

3. Next steps

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Matt McGirr, Policy Adviser, on (02) 8248 2705 or at mmcgirr@aicd.com.au.



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