



QUEENSLAND
TOURISM INDUSTRY
COUNCIL

The Voice of Tourism

Submission to the
Australian Government
on the
Consultation Paper:
Facilitating crowd-
sourced equity funding
and reducing
compliance costs for
small business

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INTRODUCTION

The Queensland Tourism Industry Council (QTIC) welcomes the opportunity to provide a submission to the Australian Government on the consultation paper titled Facilitating crowd-sourced equity funding and reducing compliance costs for small businesses. This submission aims to support a crowd-sourced equity funding (CSEF) framework that will enable entrepreneurs to raise equity funds online and assist start-ups and Small and Medium Enterprises (SMEs).

The tourism industry in Queensland contributed \$23 billion to Queensland's Gross State Product (GSP), representing 7.9% of total GSP and generated \$5.9 billion in exports in 2013, making it the second largest export earner behind coal¹. Tourism is a key economic driver in many Queensland regions, supporting regional employment and community growth, employing over 241,000 people directly and indirectly, or 9.9% of all people employed in Queensland.² This is substantially more than the mining sector (79,000 direct jobs) or even agriculture, forestry and fishing combined (56,900 direct jobs)³. Of the 51,400 tourism related businesses in Queensland, 9 in 10 businesses are small businesses that employ less than 19 people.

QUEENSLAND TOURISM INDUSTRY COUNCIL

QTIC is the State peak body for tourism in Queensland and represents the interests of the tourism industry, including business operators, Regional Tourism Organisations (RTOs) and sector associations.

A private sector, membership-based tourism industry organisation, QTIC members include all of Queensland's 13 RTOs, 20 of the industry sector associations, and in excess of 3,000 regional members operating in all sectors of the tourism industry. QTIC works in partnership with government agencies and industry bodies at a local, state and national level (National Tourism Alliance), to strengthen the voice of tourism in all relevant policy forums.

QTIC provided a submission in January 2015 to the Treasury which provided tourism industry intelligence to create opportunities for government in addressing barriers to investment, particularly the regulatory and policy environment.

FEDERAL TOURISM INITIATIVES

In December 2011, the Federal Government announced its national strategy *Tourism 2020*, with a goal of doubling the value of tourism to \$140 billion by 2020. One of the key factors that will dictate the success or failure of Australia's tourism industry to meet its global potential is to meet the expected surge in demand with sufficient increases from the supply side of the tourism industry.

One of the six strategic areas of the *Tourism 2020* strategy is to encourage investment and implement the regulatory reform agenda. According to the strategy:

¹ Tourism Queensland, Tourism Economic Key Fact December 2010

² Tourism Research Australia, Tourism Key Economic Facts December 2013

³ *ibid*

“Tourism investment in Australia is lagging. From 2000-01 to 2009-10 investment in tourism grew at only half the pace of investment in the rest of the Australian economy. Tourism currently faces a disproportionate regulatory burden that impacts negatively on investment. Governments will work with industry to reduce the barriers to investment so that industry can invest in the products and infrastructure consumers are seeking.”

Facilitating CSEF will make great progress in closing the gap between the lagging tourism investments compared to the rest of the Australian economy.

STATE TOURISM INITIATIVES

The Queensland Government and the Queensland tourism industry share an ambition to restore Queensland’s leadership position as Australia’s premier tourism state. The former government supported a goal of doubling visitor expenditure, to \$30 billion by 2020. The Palaszczuk Government has committed to maintaining these goals and to continue working with industry leaders to develop a prosperous and sustainable tourism industry.

During 2013, the Queensland Government worked with tourism operators and industry representatives to develop a shared long-term vision for Queensland tourism.

The Commonwealth Scientific and Industrial Research Organisation (CSIRO) megatrends research conducted to inform industry engagement identified big changes ahead for the Queensland tourism industry. The 20 year plan was developed to ensure strategies are in place to optimise opportunities and address key challenges.

Under the theme of Grow investment and access, the vision is:

“To be competitive and successful over the next 20 years, we will grow investment and access:

- *Well-planned, timely public and private infrastructure will enable tourism growth and visitor access.*
- *The ability of the industry to invest and innovate will be encouraged through the continued reduction of unnecessary red tape.”*

Red tape in relation to CSEF is considered to be the existing investment framework which does not adequately cater for CSEF and other innovative approaches to financing start-ups and SMEs. State government priorities therefore align to initiatives of the Treasury to facilitate CSEF and reducing the compliance costs for small businesses.

KEY COMMENTS

CSEF presents an innovative solution to capital raising, typically through involving a large number of investors making small investments through an online crowdfunding platform. Traditional channels such as bank loans have become increasingly inflexible or difficult to obtain, making CSEF a suitable equity financing option for small businesses. Heralded as an approach to spark innovation, CSEF will have widespread results in areas such as productivity growth and job creation.

The following comments seek to support a robust CSEF framework in Australia particularly for start-ups and small businesses in the tourism industry and the wider business community.

INCREASING FLEXIBILITY IN CAPITAL RAISING ACTIVITY

Increasing the shareholder limit for proprietary companies and/or expanding the small scale offerings exception to the disclosure requirements is a step towards assisting small proprietary companies by way of additional flexibility to raise capital. Raising the shareholder limit would help enable proprietary companies to raise funds from a larger base.

QTIC would further support additional changes to increase flexibility, such as the types of investors that a proprietary company can raise funds from, which currently remain limited by the requirements to issue disclosure documents. Compliance with disclosure requirements have proven to be quite extensive and difficult for most Issuers to conduct independently.

In terms of the investment caps, the limit of \$10,000 (per offer per 12-month period for retail investors) is considered to be inhibiting given that industry statistics have shown that 50% of a start-ups capital is raised from friends and family. A further 25% is raised from people one connection away and the other 25% from third parties who are not connected. To enable the equity funding to be effectual, the cap must be raised to balance the higher number of smaller contributions made by family and friends. Furthermore, the \$10,000 limit does not allow for greater diversification by investors either, as the typical venture capital fund makes contributions to up to 20 portfolio companies.

The success of the CSEF will bear a greater responsibility on intermediaries who provide the crowd sourced equity funding platform for making offers. Ensuring that the intermediaries have the financial, compliance, IT and human resource capabilities to operate the platform is therefore vital in protecting investors and the entrepreneur.

Striking the right balance between risk mitigation and giving entrepreneurs greater flexibility is ultimately the key to a successful and sustainable framework. CrowdReady Pty Ltd believes that the proposed framework leans towards greater disclosure and risk mitigation as a whole than most jurisdictions (UK aside), with Investor caps and Issuer disclosure being potentially the major impediments to an efficient crowd sourced equity funding model in Australia.

EXTENDING CROWD-SOURCED EQUITY FUNDING TO PROPRIETARY COMPANIES

Proprietary companies should be able to access CSEF without the need to convert from a proprietary to public company structure. The transfer of business structure will likely continue to be a barrier to start-ups and small businesses wishing to use CSEF.

As mentioned in the report, proprietary companies may wish to retain their proprietary company status for reasons that include lower compliance costs and to maintain flexibility for future funding rounds (such as from angel or venture capital investors).

Enabling proprietary companies to access CSEF would require changes that increase flexibility in capital raising activity - such as increasing the shareholder limit as discussed in the section above. Again, intermediaries must be able to adequately protect the investors, in light of the reduced reporting obligations.

FURTHER ENQUIRIES

We welcome the opportunity for further discussion regarding the points raised in this submission. For all enquiries, please contact QTIC Policy Team on (07) 3236 1445 or email policy@qtic.com.au.