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Association Registration Number: A37574
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The Hon Dr Jim Chalmers MP
Treasurer of Australia

Subject: Concerns Regarding the Proposed Changes to the Sophisticated Investor Threshold and Its Impact on Startup Investment

Dear Honourable Treasurer,

On behalf of the board of Southern Angels, Adelaide's only early-stage investment group comprising 41 sophisticated investors, I am writing to express our concerns regarding the proposed changes to the sophisticated investor threshold, as outlined in the recent consultation paper and various media reports. We appreciate the government's commitment to ensuring a robust financial ecosystem and the opportunity to provide input into this vital discussion.

Our primary concern is the potential unintended consequences these changes may have on the innovation ecosystem.

As you are aware, the current threshold for being classified as a sophisticated investor is \$2.5 million in assets or an income of more than \$250,000 for two consecutive years. Recent proposals suggest increasing these thresholds significantly.

We understand and support the need to protect investors, especially retirees, from complex and unsuitable investment schemes as described in the consultation paper. However, early-stage company investing, as a distinct asset class, is rarely the domain of retirees. The individuals who participate in angel investing are typically experienced professionals who provide not just funding, but also time and expertise to support the growth of the startups in which they invest. Angel investors are in many ways the lifeblood of a startup ecosystem.

In cities like Adelaide, which host fewer corporate head offices compared to Sydney and Melbourne, there are inherently fewer individuals who meet the sophisticated investor salary criteria. Data from platforms like Aussie Angels shows that a significant majority of these investors qualify based on income rather than assets. As a result, our potential pool of angel investors is already limited.

Since 2018, Southern Angels members have invested over \$6.6 million to support 24 startup companies, generating approximately 275 new jobs. This economic activity will be significantly stifled if the proposed changes are put into effect.



Based on our calculations, the proposed amendments are expected to result in an 87.5% reduction in the number of qualified sophisticated investors within Southern Angels. Consequently, where **we currently have a supportive base of 41 investors, this number would potentially diminish to just 5**, markedly impacting our capacity to support local startups.

We urge consideration of the broader impact on innovation and the development of new Australian companies. Startups are essential for economic growth, job creation, and technological advancement. Ensuring they have access to angel investment is crucial for their success and, by extension, the success of our economy.

If changes are required, we encourage you to consider a more targeted approach for early-stage company investing. Suggestions of an education-based approach focused on knowledge, skills and risk awareness, is an appealing alternative for those who do not meet the income/asset threshold. The current income-based evaluation unjustly limits the pool of potential investors, particularly affecting diverse groups and those in regional cities with fewer high-income opportunities. An education-based approach would ensure that investors are equipped with the necessary understanding and skills to make informed decisions in the context of their personal circumstances.

In conclusion, while we recognise the need for regulatory adjustments to reflect current economic realities, we respectfully suggest that any changes be made with a nuanced understanding of their likely impact on different regions and sectors, especially the regional startup ecosystems.

Thank you for your attention to this matter. We look forward to a regulatory environment that supports and nurtures the growth of innovative Australian companies.

Yours sincerely,

On behalf of the Board of Southern Angels

Dr David Saint
Chairperson
Southern Angels