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6th June 2017

Manager
Financial Innovation and Payments Unit
Financial System
The Treasury
Langton Crescent
PARKES ACT 2600

Email: csef@treasury.gov.au

Dear Sir/Madam,

Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017

Thank you for the opportunity to put forward a submission in relation to the draft legislation that outlines the proposed extension of crowd-sourced equity funding (CSEF) to proprietary companies, being the Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Bill 2017 (**Draft Legislation**).

Background

Capital Labs Pty Ltd (**Capital Labs**) is proposing to act as a CSF intermediary as defined in the *Corporations Amendment (Crowd-sourced Funding) Act 2017 (Cth)*.

Capital Labs is dedicated solely to the life sciences industry and was founded to help support early stage life science companies in accessing critical seed stage funding from the broader investor community, and conversely offer the investor community access to an exciting investment thematic.

Capital Labs is a member entity of the IQ Group Global, an organisation comprised of multiple, exchange listed companies, providing services to the biopharmaceutical industry across corporate finance advisory, IP asset management, capital investment and pharmaceutical sales.

Overview

We consider that the Draft Legislation generally strikes a fair balance between serving the commercial interests of proprietary companies seeking to raise capital, and offering CSF shareholders adequate protection and the provision of information to assist investment decision making.

We submit however one particular area of the Draft Legislation could be improved to better accommodate companies at the smaller end of the scale.

Submission

The Draft Legislation proposes an amendment to Chapter 2M of the *Corporations Act 2001* (Cth), which if enacted, would require proprietary companies with CSF shareholders to prepare annual financial and directors' reports in accordance with accounting standards, and every financial year in which the company still has a CSF shareholder.

Whilst this requirement is reasonable for larger, better resourced companies, it is our submission that it is a burdensome requirement and not an optimal use of capital for smaller companies, typically with limited financial capacity.

For instance, consider the added ongoing financial burden of producing an annual financial report (prepared in accordance with all the accounting standards) for a small proprietary company engaged in research and development and with no material revenue anticipated for a few years. It is our submission that, such a requirement could prove contrary to the very essence of a crowd funding regime, and places an unnecessary financial burden on hopeful founders seeking quasi- start-up capital.

We submit that a more practical approach for companies participating within the proposed regime should be explored, one that continues to uphold the purpose of providing CSF shareholders with access to reliable and relevant information for decision making.

We submit that an alternative approach may be to offer 'small proprietary companies' the option of choosing between producing:

- A. an annual financial report in accordance with the accounting standards, the current proposed obligation, or
- B. a general purpose financial report (inclusive of the directors' report and declaration) in accordance with the accounting standards, but without the requirement to fully meet all the disclosure requirements of the accounting standards (Australian Accounting Standards – Reduced Disclosure Requirement).

In determining whether a company qualifies as a 'small proprietary company', a test could be applied, whereby a proprietary company with a CSF shareholder can qualify for Option B (above) should its consolidated gross tangible assets be less than \$300,000, or some other dollar amount.

The above suggested approach would enable small proprietary companies with limited start-up capital, and likely with embryonic operations, to maintain an adequate standard of financial and operational disclosure and accountability to CSF shareholders, but within a more feasible and practical framework than currently proposed under the Draft Legislation.

We would be happy to participate further in any consultative process Treasury may propose in relation to the Draft Legislation.

Yours Sincerely,

Anthony Panoyan
Capital Labs