



Wayne Poels
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Office of Best Practice Regulation
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Dear Mr Poels

REGULATORY IMPACT STATEMENT – FINAL ASSESSMENT SECOND PASS

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for a proposal to extend the Government's crowd-sourced equity funding (CSF) framework to proprietary companies.

I believe the RIS meets best practice requirements and is consistent with the ten principles for Australian Government policy makers.

In particular, the RIS addresses the seven RIS questions:

- *What is the problem?* – Obtaining affordable finance to fund development of innovative new products is difficult in some cases. CSF may improve the ability of small businesses to access equity finance while increasing the ability of retail investors to access early-stage investment opportunities. While the Government has legislated a framework for CSF, which will commence on 29 September 2017, this is restricted to public companies. Most small and early-stage companies operate as proprietary companies, and for many, it may not be worthwhile to convert to public company status to access the CSF regime.
- *Why is government action needed?* – The main barriers preventing proprietary companies from using CSF are regulatory in nature, as under the Corporations Act, they are prohibited from making equity offers requiring disclosure and must have fewer than 50 non-employee shareholders.
- *What policy options are you considering?* – Three options are considered – no change from the CSF framework for public companies, an extension of CSF to proprietary companies without additional protections, and an extension of CSF to proprietary companies with appropriate protections.
- *What is the likely net benefit of each option?* – The likely net regulatory cost of the extension with no protection is \$7.4 million per year, and of the extension with investor protection \$26.8 million per year. However, businesses stand to benefit significantly through access to a new funding source and retail investors through new investment opportunities.
- *Who have you consulted and how will you consult them?* – The Government has consulted extensively on this proposal, including through a consultation paper in 2015, industry roundtables in late 2016 and public consultation on exposure draft legislation, released in May 2017. There have also been targeted follow up consultations on key issues raised in submissions.

- *What is the best option from those you have considered?* – The Government has elected to implement the extension with investor protection, which has the greatest net benefit.
- *How will you implement and evaluate your chosen option* – The framework will be implemented through legislative amendments to the *Corporations Act 2001* and associated regulations. The Government and ASIC will continue to monitor the CSF regime, including through the collection of data on usage and other key metrics, to ensure the changes to the law are operating as intended.

I am satisfied that the RIS addresses the concerns raised in your letter of 21 August 2017. Specifically:

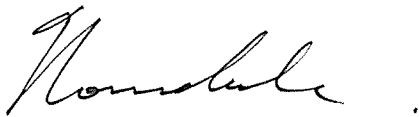
- a one-page executive summary of the RIS has been prepared and attached to the RIS; and
- costing assumptions have been included as an appendix to the RIS, including the rationales for the approaches used to estimate the expected size of the market and the average period for proprietary companies undertaking CSF to exceed the audit threshold.

I also note that the regulatory cost estimates have been updated to reflect revised costs agreed with your office.

Accordingly, I am satisfied that the RIS now meets best practice consistent with the Australian Government Guide to Regulation.

I submit the RIS to the Office of Best Practice Regulation for formal assessment.

Yours sincerely



John Lonsdale
Deputy Secretary
Markets Group