

2015 Budget - A big step in the right direction for crowd sourced equity funding

15 May 2015

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In a welcome move for startups and innovative businesses, the Government has committed \$7.8 million in the Budget to remove obstacles for crowd sourced equity funding in Australia.

Crowd funding is a world-wide phenomenon and has the potential to significantly boost the start-up and small-scale enterprise sector in Australia across all industries.

This article outlines the budget initiatives for crowd sourced equity funding and how this could open up new funding opportunities for your business.

Equity crowd funding enables entrepreneurs to raise funds online from a large number of retail investors. Unfortunately, Australia currently lags behind a number of other countries such as the US, Canada and New Zealand who already facilitate equity crowd funding. There remains a number of significant obstacles to undertaking crowd sourced equity funding in Australia (discussed in our previous article) and at present it is generally only open to 'sophisticated' or 'professional' investors.

Given the significant interest in rewards based crowd funding in Australia (which allows people to receive a product once developed in exchange for their monetary contribution), it is likely that equity based crowd funding (which would allow retail investors to subscribe for shares in the company) will also receive a lot of interest in Australia.

One of the recent success stories of rewards based crowd funding in Australia is of a father and son team from Northern New South Wales with an innovative beehive design, which sensationally raised its requested \$70,000 within minutes on the crowd funding platform, Indiegogo, and over US\$1.5 million in the first 8 hours of its campaign. The campaign finished up with US\$12.1 million, which goes to show the significant potential that crowd based equity funding has in Australia for all industries and start ups if the current regulatory burdens can be removed in a sensible and commercial way.

There are a number of well known platforms for rewards based crowd funding including Indiegogo, Kickstarter and Pozible, which are focused on consumer products and are also used for donation funding for a multitude of individual philanthropic causes. The platforms for equity crowd funding in Australia, including VentureCrowd, OurCrowd, CrowdfundUP and the Australian Small Scale Offerings Board, are not as well established and currently have a very limited audience due to the need for investors to be 'sophisticated' or 'professional'.

As announced in the Budget, the Government will provide \$7.8 million over the next four years to ASIC in order to establish a new regulatory framework to facilitate equity crowd funding and monitor that framework moving forward. Based on the recommendations of the Corporations and Markets Advisory Committee in June 2014 and the Discussion Paper released by Treasury in December 2014 (discussed in our previous Alert), it is expected that changes will be made to facilitate easier conversion to a public company as well as simplifying reporting and disclosure requirements, all of which will reduce compliance costs and support investment. However, the Government will still be keen to ensure that an appropriate level of investor protection is maintained. As always, the devil will be in the detail of the legislation and we will be watching this closely.

Given the significant funding initially budgeted and previous announcement by Small Business

Minister Bruce Billson regarding the aim to introduce legislation in the spring session, it is hoped that Australia will have in place the regulatory regime to facilitate equity crowd funding in Australia by the end of the 2015/2016 financial year.

For further details about how your business might be able to benefit from crowd sourced equity funding contact our [Corporate Advisory and Governance](#) team.

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