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Dear Financial System Assessment Unit Manager

Crowd-sourced Equity Funding

AusBiotech was interested to see the Government's announcement in the Industry Innovation & Competitiveness Agenda that it would consult on a potential regulatory framework for crowd-sourced equity funding (CSEF) in Australia – and the subsequent release of the Discussion Paper in December 2014.

I write on behalf of AusBiotech's 3,000 members who are working to develop biotechnologies, life science-based products, including therapeutics, medical technology (devices and diagnostics), food technology and agricultural, environmental and industrial biotechnology sectors.

Start-up biotechnology companies are rarely funded by sales revenue. They rely on angel investors, grants, the Research and Development (R&D) Tax incentive and later on venture capital or share issues to conduct clinical trials and prepare a product for registration and to earn revenue. They typically function in a 'cash pressed' state for many years and would welcome another form of access to capital to assist their R&D.

The nature and origin of crowdfunding is in small donations from many people within a social/community network, to help a cause or develop a product. Therefore the so-called 'donation' or 'reward' models are the most widely used. The equity model introduces a hybrid model, where a contribution is perceived somewhere in between a donation and an investment. It is important, therefore, to recognise that while risk ought to be duly explained, this form of investment can be more relaxed in its regulation than any other. The majority of CSEF investors will be motivated primarily by the desire to support the goals of the business to develop a product or service (in the case of biotech, a treatment, diagnostic or medical device) rather than the opportunity to make a profitable investment.

The discussion paper seeks stakeholder feedback on characteristics of two potential CSEF models. From AusBiotech's perspective the New Zealand model is preferred for Australia as it is less restrictive (For example, the investor cap on investment is voluntary and that an intermediary can invest) and with some modifications would suit Australian conditions.

Yours sincerely

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