Submission to Treasury

This submission is provided in response to the Australian Government's Crowd Sourced Equity Funding Discussion Paper of 8 December 2014

Submission by **Fat Hen Ventures Ltd**

ACN 167 713 984, www.fathen.vc

"Crowd Sourced Equity Funding has the ability to create a more efficient capital market in the unlisted company sector."

Jeffrey Broun, CEO Fat Hen Ventures Ltd

Fat Hen

SUBMISSION

Objective: stakeholder feedback to the public consultation process is designed to assist the Government's consideration of a future regulatory framework for crowd-sourced equity funding (CSEF) in Australia.

This submission by Fat Hen Ventures Ltd is dated 31 January 2015 and was lodged on that date via email to csef@treasury.gov.au.

A hard copy of this submission was sent to:

Manager Financial System Assessment Unit
Financial System and Services Division
The Treasury
Langton Crescent PARKES ACT 2600

As a crowd backed investment company we are keen to see the best CSEF model deployed in Australia. We have spent a great deal of time evaluating all CSEF platforms around the world, considered the CAMAC paper, the Treasury paper and recommendation 18 from the Financial System Inquiry Final Report released 28th November 2014. We believe our key recommendations herein, if adopted, will enable easier access to the equity markets by SME's whilst providing sufficient investor protection and appropriate disclosure regimes, to enable investors to make an informed decision.

We trust this submission is useful in the Government's deliberations on CSEF in Australia.

We acknowledge the input to this submission from our strategic alliance partners, board, investment committee, retail investors and SME's we are assisting,

Signed on behalf of the board of Directors of Fat Hen Ventures Ltd as an authorised release,

Jeffrey Broun FCA
Director / CEO

Rajab Karume
Director / CMO

BACKGROUND

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Note: this paper is structured to highlight our key recommendations upfront thereby making it easier for the reader to focus on the key matters we believe are vital for a successful CSEF regime.

In Part Four we provide answers to the 24 questions raised in the Crowd Sourced Equity Funding Discussion Paper.

Our key recommendations need to be read in conjunction with the Notes supporting our Key Recommendations (Part Three) to better understand their context.

We have focused on the key issues and have not delved into other aspects comprehensively covered in the 253 page CAMAC report on crowd sourced equity funding (CSEF). We would be happy to provide further detailed information on any area.

Fat Hen Ventures Ltd is a public unlisted company sourcing wholesale and retail funds via ASIC lodged disclosure documents to invest into private Australian businesses / SME's covering early stage, business expansion capital and succession planning / MBO funding.

Fat Hen aims to operate a CSEF platform as an approved platform operator per legislation to be enacted hopefully this calendar year. We are essentially bringing the retail (crowd) sector to SME's via Fat Hen Ventures Ltd and whilst it is costly, and somewhat cumbersome administratively we are proud to be a full service crowd backed private equity funder investing between $250,000 and $5m into early stage and growth orientated organisations in Australia.

We look forward to playing an essential role in mobilising capital from a large audience of small investors into great ideas, and businesses, to derive economic gains for all stakeholders, provide broader economic stimulation, employment enhancement and enabling of technology in this country.

Further information on our company is available at www.fathen.vc.

PART ONE

Recommendation	Key Recommendations	Refer to note in Part Three of this report on page:
	Recommended variations to existing Companies Act 2001 ("CA").	
1	Amend s113 of the CA to enable Pty Ltd companies to have 100 non-employee shareholders.	Ten
2	Amend S708 of the CA to change the 20/12 "rule" to 50/12.	Ten
3	Amend s708 in tandem with the above from $2m to $3m ("Emerging Companies") and up to $5m for "Established" companies.	Ten
4	Amend s45A (3) of CA to also deem a Pty Ltd company to be a large Pty Ltd IF the company and the entities it controls (if any) have 50 shareholders, or any other number prescribed by the regulations for the purposes of paragraph 45(2)(c), or more whether employees or non-employees at the end of the financial year.	Eleven
5	Consequential changes to be made to Chapter 6D of CA to cater for above.	Eleven
	Recommendations specific to CSEF establishment (to be read in conjunction with Table 1 attached as an appendix)	
6	Eligible Issuers defined as two categories of Eligible Issuer: **Emerging companies** defined as revenue in preceding 12 month period being <$1m OR net profit bef. tax of < $250k. **Established companies** defined as revenue in preceding 12 month period being >$1m AND net profit bef. tax of > $250k.	Eleven
7	**Emerging companies** have certain relief from public company compliance / reporting / audit requirement (as per CAMAC) but once an emerging company becomes an "established company" then they need to adopt normal public company reporting protocols. **Established companies** need to comply with normal public company requirements including auditor appointment.	Twelve
8	Maximum funds an Issuer may raise - **Emerging companies** - cap of $3 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors to a max of $5m in total. **Established companies** - Cap of $5 million in any 12-month period, including funds raised under existing prospectus exemptions for wholesale investors.	Twelve
9	Disclosure requirements - Issuers to have Prescribed (but reduced) disclosure requirements, including a template disclosure document and an Approved Platform Operator (**APO**) prefacing Issuer's offer document with Key Information Page (**KIP**) with mandatory matters to be included in KIP by APO as prescribed by APO licensing authority / ASIC.	Twelve

10	Intermediaries to be defined as **Approved Platform Operator (APO)** and hold a new class of license issued by ASIC – Approved Platform Operator license and comply with licensing requirements, including membership of an external dispute resolution scheme, and KIP statement responsibility and post investment reporting channel for CSEF invested companies. An APO license similar to an AFSL i.e. demonstrating corporate finance expertise, business skills, capital market skills, investment skills, due diligence experience, technology advisory skills and corporations law skills, with an ASIC bond of $50k – can be via a bank guarantee and requires PI to be in place within 4 months of being granted an APO license.	Thirteen
11	APOs to undertake certain due diligence checks on the issuer to produce the KIP at front of any issue document. Refer Table 2 for matters needing to be in the KIP. APO must exercise due care and diligence in signing off a KIP.	Thirteen
12	APO's are not restricted re fee structures other than an APO cannot hold shares in the Issuer pre-CSEF raising and all fee arrangements must be disclosed.	Thirteen
13	APO's are permitted to answer general queries about an Issuer and related document (e.g. clarification of factual matter re a patent status specified in the Issuer document) but not to give investment advice. Facts only.	Fourteen
14	For companies classified as emerging companies then for a retail investor no more than $5,000 per Issuer in any 12 month period and $20,000 in total per 12 month period for emerging CSEF investments. For companies classified as established companies then for a retail investor no more than $20,000 per Issuer in any 12 month period and $50,000 in total per 12 month period for established CSEF investments. Wholesale / s708 / professional investors not covered by any cap – i.e. current s708 applies.	Fourteen
15	Reporting by Issuers to investors (shareholders) post fund raising Emerging companies and Established companies to provide investors / all shareholders with regular reports (minimum – quarterly) on status of company, material events (good and bad), new issues, quarterly cash flow report, annual report, change of directors etc. – similar to ASX listed companies – APO to use best endeavours to ensure the Issuer complies – any non-compliance, APO to inform ASIC or CSEF license authority.	Fifteen
16	ASIC oversight of CSEF via a distinct CSEF cell and APO ongoing licensing, APO reporting requirements monitored by CSEF cell.	Fifteen

Please refer to Part Three of this Report for more details on each recommendation.

PART TWO

Part Two - Equity Capital Markets in Australia with a focus on CSEF

Background

The senior equity markets, and, principally companies on the ASX platform, are generally considered to operate satisfactorily with good oversight by the ASIC, ASX and related participants (brokers, auditors, proxy groups, research houses, news services etc).

There is a formalised and structured market and approach to listing, raising capital, reporting, trading securities etc. Companies are audited, there is usually satisfactory board composition (consistent with the ASX Governance Principles) and investors have a level of confidence in the conduct of the market, ASIC's oversight, reasonable accuracy on market pricing and the level of liquidity generally in the market notwithstanding ASX is a relatively small market in global terms.

Nevertheless, of the 2,200 listed companies only the S&P/ASX 200 is recognized as the institutional investable benchmark in Australia. The index covers approximately 80% of Australian equity market capitalization leaving approx. 2,000 listed companies often struggling with liquidity, and further capital raising issues. Fundamentally if one meets the listing test broadly $3m NTA (Asset Test) or $1m net profit over past 3 years+ $400k net profit over past 12 months (Profit Test) and can attain spread of up to 400 investors @ $2k each then you can list on ASX.

Whilst some commentators would argue this leads to many micro-cap "cray pot" companies (easy to get into hard to get out) it has been seen as somewhat of a venture capital platform for such small (ASX listed) companies given the low entry hurdles. Other countries have junior exchanges / technology boards etc. specifically to separate and stratify such companies and ASX did try a Second Board Market in 1999 with the reason for its demise being mainly lack of liquidity.

By contrast, if one looks at the unlisted (private/SME) sector, it is a less capital efficient environment mainly due to:

a) Many startups or small businesses choose to operate in structures such as sole traders, partnerships, trusts (family / unit), Pty Ltd companies etc. and often rely on family and friends to establish and grow the business.

b) The above entities often source bank debt via personal security (mortgage on their personal residence), personal guarantees, invoice financing etc. and there is no real separation between the management of the business and the ownership – which is often because the owner/s and the management team are the same.

c) For a startup or early stage business, there may be people willing to back the venture by contributing small amounts of capital but the current Companies Act environment makes it difficult to facilitate / capturing this type of funding.

d) For an SME that needs expansion capital, or capital to sit alongside a bank finance approval or a matching requirement for an Entrepreneur Infrastructure Program grant of up to $1m, it is difficult to attract such funding given their structure may be Pty Ltd and Companies Act restrictions on sourcing equity from a wide audience is problematic.

e) Additionally, many startups and SME's do not have the experience in preparing a blueprint for their business, a business plan, detailed forecast, reporting regime to external investors, valuation expertise, documentation production, access to patent attorneys, lawyers, tax experts etc. to become investment ready.

   Whilst business advisers can assist often for a fee, it does not help the startup / SME in mobilising the equity capital and dealing with the new investors overlaid with a strong governance platform.

f) Investors are locked in – with no structured secondary market and lack of an Australian Market License (AML) custodian on board, investors are mostly locked into an entity often as a minority shareholder with little reporting requirements and no regular member meetings, meaning their only real exit is when the investee company is sold and shareholders' funds returned.

g) The majority of Venture Capital (VC) firms and Private Equity (PE) funds have a minimum investment threshold of $5m and often, for established profitable companies, this threshold takes them out of the equation for startup funding and business expansion capital for a large number of SME's. Many VC's and PE's are funded via superannuation funds, staffed by ex-bankers and are risk averse and hence don't cover the real need in Australia – i.e. backing junior companies requiring up to $5m for value adding to a technology or a growth orientated business solution.

h) Many accelerators / incubators are structured as ESVCLP's and rely on S708 Sophisticated Investors and cannot bring the retail (crowd) into projects.

i) Many current matching service operators per the prescriptive requirements of ASIC Class Order 02/273 (Business Introduction or Matching Services) are limited in their ability to mobilise capital for early stage businesses as they cannot give or loan companies business capital, take an equity share in companies, publicly market investment opportunities outside of the subscription service and cannot provide financial advice to anyone about companies profiled on the platform.

We believe a well-structured CSEF regime has the potential to leapfrog the Australian small scale personal offers exemption in s 708 of the Corporations Act rather than the two trying to co-exist with potential confusion around funding limits, i.e. duplication with differing licensing authorities.

"The CSEF regime has the ability to create an efficient capital market in the unlisted company sector."

Issuers should be broadly defined

The CAMAC report noted that "In essence, the concept of CSEF involves the sale of typically small capital interests ('equity') in companies ('issuers') through online websites ('intermediaries'), to potentially numerous individuals or entities ('investors'). CSEF is aimed principally at early stage capital-raising (sometimes referred to as 'seed capital') by startup companies. However, there are no commercial restrictions on established businesses using CSEF to raise additional funds."

We strongly support the concept of a broad definition of an approved issuer accessing CSEF – why?

We have worked with several private companies who are expanding their markets to overseas, have a new IP project that needs funding, have a large supporter base and lack hard assets to borrow from the bank or are unable to access the funding requirements from Sophisticated Investors or VC's. A true CSEF platform is their only viable path to secure funding, grow the business and create jobs.

CSEF should not be only for high risk startups.

We know many investors who may not qualify as S708 Sophisticated i.e. they don't meet the $250k pa income or the $2.5m net asset test but who may have an investment portfolio of $500,000 and would like to allocate say $100,000 to low to mid risk investments in private companies who may have profits, good management, and a sound plan for business expansion.

PART TWO (CONT.)

Australia needs to allow investors to take positions in promising private companies and NOT restrict the public in which company qualifies for CSEF and which ones do not. If you look at the ASX, there are companies listed with no profits or positive net cash flows but there is no restriction on any member of the public buying shares in such companies. Ditto with large profitable lower risk companies – with the ASX there are formal reporting structures, audits performed and oversight by the ASX & ASIC.

It would be perverse if the general public were unable to invest into healthy profitable private companies and were only offered higher risk start up entities in which to invest.

Refer to our recommendations 6 to 8 re the stratification of companies seeking to attract CSEF.

Building confidence in the CSEF market – an emerging asset class

Like the ASX, investors need confidence around:

a) The platform operator
b) Rules to ensure good disclosure and enforcement
c) Informed decision making
d) Trading

Our 16 key recommendations encompass several in relation to:

- Approved Platform Operators, licensed by ASIC and who are the gatekeepers ensuring the CSEF aspirants pass first stage DD filters and Issuers report to the members;
- Comprehensive offering document with a Key Information Page at the front of every offering document;
- A CSEF funded company must provide regular reporting to shareholders and the APO for public consumption; and
- Longer term approving AML's for secondary trading in what would become a junior board/s.

To us, CSEF is not all centred on the funding – far from it – once the funds are raised and invested, there should be rigour around the reporting channels by CSEF funded companies to their shareholders and to the market generally.

This in an environment needing close surveillance and oversight by ASIC and hopefully a dedicated CSEF market surveillance authority established by the federal government.

We believe by building such robustness around the unlisted sector, it will develop into an approved asset class for superannuation funds and other pools of capital that currently are unable to be deployed in this vital sector of the Australian capital markets.

PART THREE

Part Three - Notes supporting Our Key Recommendations

1	**Amend s113 of the CA to enable Pty Ltd companies to have 100 non-employee shareholders** In today's increasingly active market places with increased pace of business, online environments and geographically spread offices and branch offices (Australia and overseas) for SME's there needs to be recognition that the long standing 50 non-employee shareholder threshold should be lifted – we recommend up to 100 non-employee shareholders to keep up to date with contemporary corporate structures. Any Pty Ltd with over 50 shareholders would as a trade-off need to report similar to large Pty Ltd companies. Also they would need to maintain comprehensive members registers and ensure they had a complying constitution (or replaceable rules) to ensure shareholder rights reflected latest corporate practices and covered pre-emptive rights and possibly tag and drag provisions given there may (or may not be) shareholder agreements in place given the extra numbers. Any company with greater than 50 non-employee shareholders would be required to send out an annual report to all shareholders (or electronically) and convene a members meeting if requisitioned by greater than 10% of the number of shareholders or those holding greater than 10% of the shares. All shares would need to be of the one class – ordinary. We believe that companies with non-employee shareholders between 50 and 100 members should if looking to raise further capital do so by a rights issue to existing members before seeking any further equity or convertible hybrid equity instruments. We do not see this increased limit as unwieldy or exposing ordinary investors to any more risk than the present regime.
2	**Amend S708 of the CA to change the 20/12 "rule" to 50/12** Similar to the above, we recommend the 20/12 rule become 50/12 and this would dovetail into our recommendation #1. The 20/12 rule is restrictive in today's more hectic corporate life and it would greatly help private companies to access the capital within current Companies Act frameworks. Whether it is 20 / 40 or 50 the dynamics and responsibilities do not change - it simply makes it more capital efficient for growth orientated companies. Same provisions would apply as above for companies with 50 + shareholders on board.
3	**Amend s708 in tandem with the above from $2m to $3m and up to $5m for qualifying Pty Ltd companies** We recommend a slight relaxation of the small scale raising threshold from $2m to $3m in any 12 month period for "emerging companies" (refer recommendation #3 below) and to $5m for "established companies" (refer recommendation #3 below). Again in contemporary corporate environments such thresholds are a responsible increase to address the increasingly complex corporate and business operational environments faced by companies today.

PART THREE (CONT.)

4 5	**Amend s45A (3) of CA to also deem a Pty Ltd company to be a large Pty Ltd IF the company and the entities it controls (if any) have 50 shareholders, or any other number prescribed by the regulations for the purposes of paragraph 45(2)(c), or more whether employees or non-employees at the end of the financial year.** **Consequential changes to be made to Chapter 6D of CA to cater for above.** Recommendations 4 & 5 are simply consequential amendments and add a new test at S45A(3) to 50+ shareholders re becoming deemed to be a large Pty Ltd for reporting purposes.
6	**Eligible Issuers defined as two categories of Eligible Issuer:** **Emerging companies defined as revenue in preceding 12 month period being <$1m OR net profit bef. tax of < $250k; and** **Established companies defined as revenue in preceding 12 month period being >$1m AND net profit bef. tax of > $250k.** We believe CSEF must be relevant to investors wishing to assist private companies whether they are startup: early stage: business expansion capital: management buy-out of a baby boomer founder or other worthwhile cause. It would be a mistake in our opinion to restrict private companies (becoming exempt public) from CSEF simply because they are a good profitable company needing expansion capital. Today, many SME's are IP strong but hard asset (NTA) lacking – the clever technology companies or on line services business etc. do not have strong net tangible asset balance sheets and whilst a good profitable business, may not be able to attract bank finance for their expansion. Also some SME's have a good following from an expanded network of friends, customers and supporters but cannot reach out to them as a Pty Ltd company to mobilise the much needed funds. Also today with the growth of Accelerators / Incubators / grant funding for pre-revenue SME's via EIP etc. the startup sector is becoming more serviced by such funders. However the emerging businesses with genuine expansion needs that don't have the hard assets for bank finance are a section of the market that CSEF MUST cover in an effort to get small business Australia back on track again. To recognise risk ratings and reporting regimes between emerging and established companies, we strongly recommend a clear distinction be drawn for market and CSEF purposes and allow CSEF to do its job across emerging and established businesses. From such classification, other dynamics regarding funding and reporting can be deployed. It is relatively easy for a clear distinction to be drawn between emerging and established as noted above. Also it is easy for entities to transition from emerging to established, and vice-versa.

PART THREE (CONT.)

7	**Emerging companies have certain relief from public company compliance / reporting / audit requirement (as per CAMAC) but once an emerging company becomes an "established company" then they need to adopt normal public company reporting protocols.** **Established companies need to comply with normal public company requirements including auditor appointment.** As mentioned at Recommendation #6, emerging companies have different reporting regimes to established companies. We support such differing reporting and audit requirement as companies mature and generate threshold revenue and profits. Established companies with such added reporting requirement become more experienced in corporate governance, corporate frameworks etc. which assists them as they grow and transition to non-exempt public companies and possibly on to ASX. Such regime will encourage established companies to better transition to listed public companies or have the frameworks, policies and record keeping making it easier for a sale or M&S transaction to add value to all shareholders. Adding corporate maturity to Australia's corporate backbone is a good outcome from this recommendation.
8	**Maximum funds an Issuer may raise - Emerging companies - cap of $3 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors to a max of $5m in total.** **Established companies - Cap of $5 million in any 12-month period, including funds raised under existing prospectus exemptions for wholesale investors.** This accords with Recommendation #3 above and simply provides an increased ability over the long standing $2m cap. We realise CAMAC & the NZ recommendations were $2m / 12 months and worst case IF the $2m / 12 month cap was kept we would strongly advocate that for "established companies" a cap of up to $5m / 12 months including funds raised under existing prospectus exemptions for wholesale investors should be instituted.
9	**Disclosure requirements - Issuers to have Prescribed (but reduced) disclosure requirements, including a template disclosure document and an Approved Platform Operator (APO) prefacing Issuer's offer document with Key Information Page (KIP) with mandatory matters to be included in KIP by APO as prescribed by APO licensing authority / ASIC.** We believe it is imperative for investors to be able to make an informed decision by being presented with a Key Information Page /s vetted / prepared by the Approved Platform Operator (APO), being the licensed intermediary. In today's world of things being overhyped, over promised and under delivered, with offering documents that have increased focus on irrelevant glossy photos and scant detail on critical areas, the KIP is an essential part of any disclosure document. We set out at Table 2, a list of key information that would need to be at the front of the offer document. We also agree with CAMAC and Canada that an "approved template" should be issued as guidance in producing the offer document. The APO would need to ensure all the prescribed questions / boxes are completed (or n/a) as appropriate on the KIP. Too many times for instance you see "the company has a patent on the xyz." That sounds good BUT what patents, what countries, when do they expire, have there been any objections lodged, who holds the patent/s etc. These are critical things required by the reader to make a decision. Same for "we expect by FY18 to be making $10m EBIT" …. Yes but what they do not say is that to get that profit level we will need to raise a further $10m in equity! It is essential that the APO have a KIP at the front of any disclosure document. The KIP is a black and white no nonsense factual page/s setting out the facts without any hype or omission. We would advocate such KIP be at the front of ALL disclosure documents and even extend to prospectuses, OIS etc.

PART THREE (CONT.)

10	**Intermediaries to be defined as Approved Platform Operator (APO) and hold a new class of license issued by ASIC – Approved Platform Operator license and comply with licensing requirements, including membership of an external dispute resolution scheme, and KIP statement responsibility and post investment reporting channel for CSEF invested companies.** **An APO license similar to an AFSL i.e. demonstrating corporate finance expertise, business skills, capital market skills, investment skills, due diligence experience, technology advisory skills, corporations law skills etc with an ASIC bond of $50k – can be via a bank guarantee and requires PI to be in place within 4 months of being granted an APO license.** It is critical in our opinion that there is a separate and distinct licensing regime for the new class of APO license. An APO license similar to an AFSL i.e. demonstrating corporate finance expertise, business skills, capital market skills, investment skills, due diligence experience, technology advisory skills, corporations law skills etc with an ASIC bond of $50k – can be via a bank guarantee and requires PI to be in place within 4 months of being granted an APO. APO's are the gatekeepers and assist the public to provide confidence in the CSEF market place. APO's need to be alert to shams and scams – a CSEF must not be simply a listing platform like we have seen with ASIC Class Order 02/273 platform operators who don't vet applicants and receive a "listing fee" from the applicant and don't have a duty of care to investors directly and don't ensure ongoing reporting on their platform post investment. APO's must be proactive and participate in warning notifications to the APO license authority, be prepared to recommend stop orders if something comes to light and strive to mitigate loss of the public's money. That is why the KIP is vital and the ability to ensure the facts to the best of their knowledge per the KIP template approach is professionally performed. Fat Hen Ventures Ltd is well set up to be an APO with all draft precedent documents around the KIP and platform operation already drafted.
11	**APOs to undertake limited due diligence checks on the issuer to produce the KIP at front of any issue document. Refer Table 2 for matters needing to be in the KIP.** **APO must exercise due care and diligence in signing off a KIP.** This follows on from Recommendation #10 and emphasises the important role played by the APO. APO's business model should NOT be one of quantity of listings on the platform but fostering a cluster of fully compliant companies and help such CSEF aspirants if required in getting investor ready so they approach the market in a well-coordinated and complete manner. Here they are a little like a stock broker looking to list companies on ASX – they must know the rules, assist the company in the pre-listing stage, review the Issuer disclosure document properly and ensure the KIP is complete. Also the APO needs to post reports of the Issuer post funding on their platform / website if they are still acting for the company. Post issue, a CSEF funded entity must report to shareholders as noted in recommendation #15 either on their web site or an APO's platform. It is recommended that an Issuer always has an APO somewhat like a broker to ASX having a continuing relationship with a listed company re research reports etc.
12	**APO's are not restricted regarding fee structures other than an APO cannot hold shares in the Issuer pre-CSEF capital raising and all fee arrangements must be disclosed.** To avoid APO's having conflicts of interest pre the CSEF raising we recommend the APO does not have a shareholding in the Issuer pre-issue. The APO can charge an "investment readiness" fee to work with the client to help get the disclosure document in a suitable form and prepare the KIP. We are comfortable with the Issuer paying some or the entire platform fee to the APO in Issuer shares – this is not dissimilar to brokers now taking shares as part of the ASX listing. The APO license from ASIC should enable this fee to take place or a commission based fee.

PART THREE (CONT.)

13	**APO's are permitted to answer general queries about an Issuer and related document (e.g. clarification of factual matter re a patent status specified in the Issuer document) but not to give investment advice. Facts only.** There are circumstances that could arise where a potential investor may have a question on the KIP or the disclosure document and provided it is a straight forward factual response re a particular matter we are comfortable with the APO performing this clarification of fact role. The APO must not give investment advice nor "sell" the issue by giving subjective statements about future performance of the Issuer or future share issue pricing etc. APO's must have PI cover in place also.
14	**For companies classified as emerging companies then for a retail investor no more than $5,000 per Issuer in any 12 month period and $20,000 in total per 12 month period for emerging CSEF investments may be committed.** **For companies classified as established companies then for a retail investor no more than $20,000 per Issuer in any 12 month period and $50,000 in total per 12 month period for established CSEF investments may be committed. Wholesale / s708 / professional investors not covered by any cap. I.e. current s708 applies.** This subject is one of the most controversial areas given perceived restrictions on investors and the difficulty in policing such area. Whilst most CSEF countries have a threshold of approx. $2k to $5k per investment and a cap of $10k or 10% of one's net investable assets we have, after extensive consultation, formed our recommendation as above. We acknowledge that those companies classified as emerging have a higher risk profile and should have a modest investor cap in place. For established companies a higher investment regime applies and as currently applies; Wholesale / s708 / professional investors are not covered by any cap – i.e. current s708 applies. Of course non-sophisticated investors can circumvent caps by investing in their own name and their spouse and a nominee company but at least everyone knows the limits. APO's may also become aware of small investors acting outside the limits and in such case if they became aware by acting as the receipt point for the Issuer's disclosure document / offer / subscriptions they would not accept such application and advise the Issuer also. We believe this two stream approach (emerging and established) is very practical and workable – "freedom within boundaries" we call it and should be an excellent compromise between the regulators and the public. There is an argument that no cap should apply to established company offerings and we would be happy to discuss this further as it may be a suitable pathway to follow or raise the cap for such companies.

15	**Reporting by Issuers to investors (shareholders) post fundraising.** **Emerging companies and established companies to provide investors / all shareholders with regular reports (minimum – quarterly) on status of company, material events (good and bad), new issues, quarterly cash flow report, annual report, change of directors etc. – similar to ASX listed companies – APO to use best endeavours to ensure the Issuer complies – any non-compliance, APO to inform ASIC or CSEF license authority.** We were somewhat surprised to see an absence of discussion in the CAMAC and CSEF Papers about post investment reporting by the Issuer. From our experience, many companies after raising capital take their eyes off the "Plan" and either meander along a pathway without an "every dollar counts" philosophy or run into roadblocks and make material changes to the direction of the company hoping to land upon some new value adding rock in the choppy business seas without informing shareholders. We firmly believe that companies funded via CSEF MUST adopt a reporting regime similar to ASX where they are oblige to report to shareholders directly and via the APO, relevant and material information. It is no point investors finding out too late that the company was being prosecuted by a large multinational concerning its patent and that not being reported without fear nor favour as soon as that material adverse event arises. Preserving shareholders' funds is imperative and there must be an obligation on such companies to enable the shareholders in total to determine the best course of action for such a company making (or breaking) event. It is not appropriate for the directors to say that we hit a wall 6 months ago and started developing some other technology thinking that would offset an investment loss event. Early warning mechanisms must be built into the CSEF fabric otherwise investors could lose confidence in the oversight process and this could taint the whole CSEF regime. Part of the problem is that emerging companies generally lack the corporate experience of acting in the interest of all shareholders, and having a board that meets regularly and adopt good governance policies and procedures to mitigate such risks should be the aim. We also recommend all CSEF funded companies should have at least one independent director skilled in corporate / governance / financials / legal etc. so such material events are detected early and acted upon.
16	**ASIC oversight of CSEF via a distinct CSEF cell and APO ongoing licensing, APO reporting requirements monitored by CSEF cell.** Similar to ASX and AFSL and AML's we recommend ASIC supervision of CESF via a distinct CSEF cell within ASIC and close oversight of APO's and their licensing. APO's would need to report to the CSEF cell as required and at least yearly in terms of CSEF Issuers taken on, funds raised by such Issuers, any non-compliance, changes to the APO board or shareholders, renewal of PI and the general conduct of the APO's CSEF platform. We believe ultimately CSEF funded entities could be eligible to "list" on a junior board in this country with ASX or ASIC.

PART FOUR

Part Four - Q&A on the 24 specific questions asked in the Australian Government's Crowd Sourced Equity Funding Discussion Paper

Note: our answers represent not only our views but respondents to our survey work performed during January 2015.

QUESTIONS

1. Is the main barrier to the use of CSEF in Australia a lack of a CSEF regulatory structure, or are there other barriers, such as a lack of sustainable investor demand?

The main barrier is a lack of a CSEF regulatory structure – it is currently very difficult and expensive for SMEs to reach out to a large audience of small investors. Fat Hen is dealing with the issue as we are a public company able to invest into Pty Ltd companies on behalf of our retail and wholesale supporters.

However it does make our costs and compliance more expensive in relationship to the sums raised – particularly the $500,000 to $5m funding area. The overwhelming level of interest in Fat Hen as the link to SME's demonstrates the investor demand is certainly there.

The other restriction is the lack of a professional group getting the SME investor ready for an offer document to be issued. Also if someone wishes to invest say $3,000 into a private company, who does the due diligence, investment documentation and post investment monitoring to mitigate risks of the investment as much as possible? This is where we see the APO being more than a listing service but taking steps to tick the main disclosure boxes by the Issuer in the KIP we recommend in this response paper.

Also once invested in a private company it is extremely difficult to realise one's investment (e.g. for a daughter's wedding, overseas holiday etc.) – our hope is that a junior board comprising all CSEF funded companies may be established – somewhat like the ASX Second Board BUT with ASX brokers or defined operators who deal in trading for such Issuers. Having the exempt public company status will help to facilitate this. Hopefully the Second Board would be overseen by ASX & ASIC as other exchanges are moving in this direction such as the Singapore Exchange (SGX) who released its news bulletin on 26 January 2015 that it is partnering with Clearbridge Accelerator Pte Ltd (CBA) to develop a capital-raising platform for entrepreneurs and small and medium-sized enterprises (SMEs) in Asia.

SGX has signed a Memorandum of Understanding with CBA, one of Singapore's leading venture capital and incubation firms specialising in early-stage investments. Under the MOU, SGX and CBA propose to form a joint-venture (JV) company to develop the fund-raising platform, which aims to address financing gaps SMEs and entrepreneurs face by providing transparency and more efficient access among the investing community.

The proposed JV will identify and form a strategic equity partnership with an experienced platform operator and industry stakeholders such as financial institutions to operate the new capital-raising platform. It will also identify other partners and collaborators to create investor demand for the capital offerings on the platform. Enterprise development agency SPRING Singapore will play a supporting role in the formation of the JV, as part of its ongoing efforts to make the financing environment more conducive to SMEs and entrepreneurs.

Mohamed Nasser Ismail, Head of SME Development & Listings, said, "We are excited about this opportunity to work with Clearbridge Accelerator to help companies access capital more easily and become a pan-Asian platform to support equity crowdfunding. SGX has a long history of supporting entrepreneurs: its Catalist board is a much sought-after avenue for SMEs to raise funds. This new platform will not only expand our suite of fund-raising services but also enable us to support entrepreneurs and SMEs at every stage of their growth."

"This joint venture with SGX represents the next step in Clearbridge Accelerator's objective of supporting visionary entrepreneurs in Singapore to raise the necessary capital and grow their companies to a higher level. We look forward to providing expertise in early-stage investments, mentoring and accelerating new ventures, as well as our extensive local and regional networks within the start-up ecosystem, investor community and relevant government agencies. Clearbridge Accelerator will work closely with SGX to grow this into a premier capital-raising platform for entrepreneurs and SMEs in Singapore and the region," said Johnson Chen, Managing Partner, Clearbridge Accelerator.

PART FOUR (cont.)

2. Do the existing mechanisms of the managed investment scheme regime and the small scale personal offer exemption sufficiently facilitate online offers of equity in small companies?

No – respondents noted that small scale offer exemption actually exposes small investors to greater risk than the proposed CSEF structure as the small scale offer operators and restrictions in ASIC Class Order 02/273 makes the small scale operators unable to actively deal in or assist such Issuers with investor protection mechanisms.

Also under the CSEF regime, there could well be duplication and double up in investors and funding between CSEF & small scale offers in that funds raised under the small scale personal offers exemption may involve retail investors similar to crowd investors generally, given that there is already another exemption for sophisticated investors (including large offers) (s 708(8)). An issuer should not have the opportunity, in effect, to raise funds from the crowd, in excess of the issuer cap, through using both mechanisms.

CAMAC considers that funds raised under the small scale personal offers exemption should be taken into account for the purposes of the CSEF issuer cap. Our recommendation is to scrap the small scale offer exemption and have ONE regime i.e. the CSEF regime and ONE approved platform operator status / license NOT also having a small scale offer operator/s.

3. Other than the restrictions identified above in relation to limitations on proprietary companies, public company compliance requirements and disclosure, are there any other barriers to the use of CSEF in Australia?

No other than micro aspects such as Issuers having a compliant constitution, investors rights being paramount, transferability of shares, proper reporting regimes by Issuers, APO's and KIP and looking to an approved platform.

4. Should any CSEF regime focus on the financing needs of small businesses and start-ups only, or is there a broader fundraising role?

We strongly believe the CSEF regime should respond to all unlisted companies for early stage / development capital / exiting a founder i.e. backing the management and potentially to pre-IPO stage BUT only for Australian head quartered companies with place of central management in Australia.

This is partly why it is VITAL to distinguish "emerging companies" from "established companies as outlined in our recommendation # 6.

Must be ordinary share capital but not diminished or overshadowed by preference shares or convertible debt instruments that have the intent of massively diluting the CSEF Ord shareholders.

5. Do you consider that, compared to existing public company compliance costs, the exempt public company structure is necessary to facilitate CSEF in Australia?

Yes – whilst we are a public unlisted company, we see the logic in exempt public companies to facilitate the CSEF funding.

6. To what extent would the requirement for CSEF issuers to be a public company, including an exempt public company, and the associated compliance costs limit the attractiveness of CSEF for small businesses and start-ups?

Not at all, in fact it would add some rigour around governance, reporting, board composition, and maturing such companies as they transition themselves to successful entities. Also the transition to (say) an ASX listing or Second Board would be a lot easier.

7. Compared to the status quo, are there risks that companies will use the exempt public company structure for regulatory arbitrage, and do these risks outweigh the benefits of the structure in facilitating CSEF?

Not in our opinion – we believe the exempt public company is a very beneficial way to differentiate the crowd backing such entities than trying to deregulate Pty Ltd companies too much. Everyone we spoke with supported the exempt public company idea with a transition to non-exempt as they grow.

8. Do you consider that the proposed caps and thresholds related to issuers are set at an appropriate level? Should any of the caps be aligned to be consistent with each other, and if so, which ones and at what level?

The caps on Issuers should be as set out in our recommendation #8
i.e. Maximum funds an Issuer may raise:

Emerging companies - cap of $3 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors to a max of $5m in total; and

Established companies - Cap of $5 million in any 12-month period, including funds raised under existing prospectus exemptions for wholesale investors.

This accords with Recommendation #3 and simply provides an increased ability over the long standing $2m cap. We realise CAMAC & the NZ recommendations were $2m / 12 months and worst case IF the $2m / 12 month cap was kept we would strongly advocate that for “established companies” a cap of up to $5m / 12 months including funds raised under existing prospectus exemptions for wholesale investors should be instituted.

PART FOUR (cont.)

9. Do CAMAC's recommendations in relation to intermediary remuneration and investing in issuers present a significant barrier to intermediaries entering the CSEF market, or to companies seeking to raise relatively small amounts of funds using CSEF?

No. Subject to a slight "tweak", our recommendation #10 is for an Intermediary to be defined as an Approved Platform Operator (APO) and hold a new class of license issued by ASIC – Approved Platform Operator license and comply with licensing requirements, including membership of an external dispute resolution scheme, and KIP (Key Information Page) statement responsibility and post investment reporting channel for CSEF invested companies. An APO license similar to an AFSL i.e. demonstrating corporate finance expertise, business skills, capital market skills, investment skills, due diligence experience, technology advisory skills, corporations law skills etc. with an ASIC bond of $50k – can be via a bank guarantee and requires PI to be in place within 4 months of being granted an APO license.

No restrictions on fee structures, although the APO cannot be a shareholder in an Issuer pre-CSEF raising. All fee arrangements paid by an issuer to an APO must be disclosed.

To avoid APO's having conflicts of interest pre the CSEF raising we recommend the APO does not have a shareholding in the Issuer. The APO can charge an "investment readiness" fee to work with the client to help get the disclosure document in a suitable form and prepare the KIP.

We are comfortable with the Issuer paying some or the entire platform fee to the APO in Issuer shares – this is not dissimilar to brokers now taking shares as part of the ASX listing. The APO license from ASIC should enable this fee to take place or a commission based fee.

10. Do the proposed investor caps adequately balance protecting investors and limiting investor choice, including maintaining investor confidence in CSEF and therefore its sustainability as a fundraising model?

NOT in our opinion and the audience we canvassed.
As suggested in our recommendation #14, for companies classified as emerging companies then for a retail investor no more than $5,000 per Issuer in any 12 month period and $20,000 in total per 12 month period for emerging CSEF investments.

For companies classified as established companies then for a retail investor no more than $20,000 per Issuer in any 12 month period and $50,000 in total per 12 month period for established CSEF investments. Wholesale / s708 / professional investors not covered by any cap – i.e. current s708 applies.

This subject is one of the most controversial areas given perceived restrictions on investors and the difficulty in policing such area. Whilst most CSEF countries have a threshold of approx. $2k to $5k per investment and a cap of $10k or 10% of one's net investable assets we have, after extensive consultation, formed our recommendation as above.

We acknowledge that those companies classified as emerging have a higher risk profile and should have a more modest investor cap in place. For established companies a higher investment limit applies and of course as currently applies, wholesale / s708 / professional investors are not covered by any cap – i.e. current s708 applies.

Of course non-sophisticated investors can circumvent caps by investing in their own name and their spouse and a nominee company but at least everyone knows the limits.

APO's may also become aware of small investors acting outside the limits and in such case if they became aware by acting the receipt point for the Issuer's disclosure document / offer they would not accept such application and advise the Issuer also.

We believe this two stream approach (emerging and established) is very practical and workable – "freedom within boundaries" we call it and should be an excellent compromise between the regulators and the public. There is an argument that no cap should apply to established company offerings and we would be happy to discuss this further as it may be a suitable pathway to follow or raise the cap for such companies.

11. Are there any other elements of CAMAC's proposed model that result in an imbalance between facilitating the use of CSEF by issuers and maintaining an appropriate level of investor protection, or any other elements that should be included?

Our recommendations cover the areas of concern with CAMAC's proposed model and include:

- Intermediary (APO) have more responsibility re the KIP and mentoring Issuers re reporting requirement ("Lite" ASX) with notification to the APO licensing board of breaches – all designed to mitigate investor risks so far as possible.

- Non-circumvention of CSEF investors by overlaying preference shares, C-Notes etc. in priority to ordinary CSEF shareholders.

- Complaint constitutions.

- Exempt public company status to "groom" CSEF investees with good governance, boards, reporting requirements, etc.

12. Do you consider it is important that the Australian and New Zealand CSEF models are aligned? If so, is it necessary for this to be achieved through the implementation of similar CSEF frameworks, or would it be more appropriate for CSEF to be considered under the Trans-Tasman mutual recognition framework?

Yes. We believe it is useful for general alignment but where there may be some differences to cater for the different corporation's law regimes and economy framework parameters (certainly aspects such as auditors falling under a common service agreement etc.) Also a CESF in Australia can include CSEF investors from NZ and vice-versa would be good.

Indeed the regulatory structure proposed by CAMAC is, at a general level, consistent with the New Zealand provisions and the Canadian and US proposals, though there are some very significant differences between these jurisdictions, and with the CAMAC proposals, on various policy issues.

For instance, in three key respects, the CAMAC proposals differ from the approach taken in New Zealand:

- **issuers: *offer disclosure.*** New Zealand has adopted a partial ambulatory approach to the offer disclosure requirements of issuers, whereas CAMAC proposes a standard template disclosure structure, intended to benefit issuers as well as investors – we certainly support the CAMAC recommendations in this area with the added requirement of the APO authorising the issue of the KIP at the front of every Issuer offer document.

- **intermediaries: *conflict of interest.*** New Zealand permits an intermediary to invest in an offer conducted on its website, or otherwise have an interest in that offer, provided that the interest is disclosed, whereas CAMAC considers that any such interest may create conflicts of interest and should be prohibited – we support CAMAC that the APO should have no shareholding interest in the Issuer prior to the offer document being released.

- **investors: *investor caps.*** New Zealand has no investor cap, whereas CAMAC proposes caps on the funds a crowd investor can invest with each issuer, and issuers collectively, in a 12 month period. We have covered this two stream investment limit (emerging / established) in our recommendations above.

- **Oversight** – in NZ the Financial Markets Authority (FMA) oversee the issuance of equity crowd funding licences under the Financial Markets Conduct Act 2013. It is the FMA's role to license and monitor the compliance of the crowd-funding service provider. In Australia we recommend ASIC establish a CSEF Authority to do similar aspects and to license responsible operators as Approved Platform Operators (APO). We see the APO's having slight greater involvement especially in "emerging companies" and ensuring the Issuers report to shareholders relevant information regularly to instil confidence and reporting protocols.

We believe any linkages between NZ / Australia could be facilitated through the TTMRA. The TTMRA is built upon, and is a natural extension of, the MRA. It represents a deepening of the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA).

The impetus for the TTMRA came from government recognition that there were regulatory impediments to trade between New Zealand and Australia. These were often in the form of:

- different standards for goods;
- duplicative testing and certification requirements; and
- different regulatory requirements for those wishing to practise in registered occupations.

The TTMRA helps to support a seamless trans-Tasman market by allowing for the free movement of goods and of people in registered occupations across the Tasman.

13. Do you consider that voluntary investor caps and requiring increased disclosure where investors contribute larger amounts of funds appropriately balances investor protection against investor choice and flexibility for issuers?

We believe our recommendations on investment amounts and stratification between emerging companies and established companies is the best way to proceed coupled with our recommendation of ASX "lite" reporting for CSEF invested companies.

14. What level of direction should there be on the amount of disclosure required for different voluntary investor caps?

We believe our disclosure model is the best way to proceed. CSEF invested companies should fall into either emerging companies or established companies (a clear objectively determined rule) and the companies are responsible for uniform disclosure depending as to whether they are classified as emerging or established. It would be unwieldy for same class companies to have to report differently just because some investors were large and some small.

15. How likely is it that the obstacles to CSEF that exist under the status quo would drive potential issuers, intermediaries and investors to move to jurisdictions that have implemented CSEF regimes?

We believe there may be some movement to other jurisdictions (and most likely NZ) but Australia MUST move to embrace CSEF and have the rules in place to achieve the desired outcomes. NZ's rules fulfil approx. 80% of our thinking for Australia with the additional requirements per our recommendations above.

16. What are the costs and benefits of each of the three options discussed in this consultation paper?

Please refer to Table 1 in this report where we compare CAMAC / NZ / FAT HEN.

OPTION 1: REGULATORY FRAMEWORK BASED ON THE CAMAC MODEL

CAMAC's recommendations are a big improvement on the Status Quo and we do not see any major cost / benefit disparity – it streamlines the market, empowers intermediaries to act responsibly and with diligence and with proper warnings and KIP's attempts to mitigate investor risk.
We do not believe the exempt public company status is a large burden on Issuers.
Intermediaries will need to comply with bank guarantee and PI costs but their fees should adequately cover such costs plus operational costs

OPTION 2: REGULATORY FRAMEWORK BASED ON THE NEW ZEALAND MODEL

Similar to above

OPTION 3: STATUS QUO

Worst outcome – the Australian capital markets and SME's need to cater for CSEF – in the absence of any CSEF the current Pty Ltd limitations would need drastic overhaul.

PART FOUR (cont.)

17. Are the estimated compliance costs for the CAMAC and New Zealand models presented in the appendix accurate?

Materially correct – except for the Intermediary license ($100k) - under our APO regime cost would be considerably reduced. Offer statement preparation costs and DD by intermediaries probably understated.

18. How many issuers, intermediaries and investors would be the expected take up online equity fundraising in Australia under the status quo, the CAMAC model and the New Zealand model?

Our research indicates for the first three years (cumulative):

	CAMAC model	NZ model	Status quo
# Issuers	250	250	50 retail offers via coys having to go public
# Intermediaries	10	10	n/a
# CSEF investors	20,000	30,000	n/a

Of course on our recommendations the numbers would be 20% higher due to more rigour by APO's and greater reporting obligations re relevant changes in an Issuers affairs.

19. Are there particular elements of the New Zealand model that should be incorporated into the CAMAC model, or vice versa?

Nothing not covered by our model or CAMAC

20. Are there particular elements of models implemented in other jurisdictions that would be desirable to incorporate into any final CSEF framework?

The CAMAC paper and its comparisons to other jurisdictions was most comprehensive and we do not intend to repeat much of the CAMAC conclusions (which we concur mostly with) other than to add:

The Canadian model of the offer document comprising 5 items is similar to our recommended KIP and disclosure document template which should be incorporated into the Australian regime.
Also under the Canadian regime, eligible issuers must be incorporated or organized in Canada, with their head offices situated in Canada, and the majority of their directors must be Canadian residents. We concur with this.

In the US the SEC has proposed to exclude a company that has no specific business plan or has indicated that its business plan is simply to engage in a merger or acquisition with an unidentified entity or entities. An Issuer must have a clear, documented business plan fully costed and reviewed by the APO.

The JOBS Act applies to distributions by an issuer of its own securities. It is not available as a means for existing security holders to on-sell their securities in an issuer. We strongly agree CSEF funding should be for new issues of shares to the company for its business expansion and NOT for buy backs etc. to existing shareholders.

We agree with CAMAC's conclusion that an issuer should be permitted to offer to the crowd more than the number of shares previously referred to in its offer document, provided that it discloses the adjusted maximum number of shares on offer under CSEF (within the cap) and the use of the additional proceeds that would be raised per a business plan. Whilst this will give some flexibility to issuers to raise funds in excess of an initial target where there is a stronger than anticipated level of crowd interest in the offer it does mean Issuers MUST have a minimum subscription amount being the minimum to achieve their objectives stated in the offer document and failing to reach Minimum Subscription will mean the company needs to refund application monies – similar to prospectus / SX companies today.

21. Do the issues outlined in this consultation paper also apply to crowd-sourced debt funding? Is there value in extending a CSEF regime to debt products?

No not in our opinion – debt funding is more complicated given the myriad ways of such debt and convertible debt instruments operate and it would not only be confusing to most CSEF investors it would open up a new legislative complexity that would be at odds at "keeping it simple" to the broader market.

22. To what extent would the frameworks for equity proposed in this discussion paper be consistent with debt products?

Not at all – for small retail investors there must be a simple yet rigorous model operating- debt products can conflict with bank debt / security arrangements and it would be too complicated in our opinion to allow Issuers to offer debt products to CSEF subscribers.

23. Would any of the options discussed in this paper, or any other issues, impede the development of a secondary market for CSEF securities?

Not at all – we support a movement towards a formal Junior Market in this country – the "NASDAQ of Australia" and that should be an objective of the government as part of the CSEF regime.

Conclusion

In conclusion we trust this paper assists the government is assessing the best way forward for CSEF and we look forward to providing any further input as and when required.

Please refer o/page for the two Tables to be read in conjunction with this paper.

We would like to thank the board of Fat Hen and the many people who contributed their time and input to this paper.

Yours sincerely,

Jeffrey Broun
Director

Rajab Karume
Director

ANNEXURES

Table 1: CAMAC & NZ & Fat Hen comparisons

Table 1: CAMAC + NZ + Fat Hen comparison	CAMAC model	New Zealand model	Fat Hen model
Issuers			
Eligible issuers	Australian-incorporated issuers that must be either a public company or an exempt public company. Limited to certain small enterprises that have not raised funds under the existing public offer arrangements.	New Zealand-incorporated companies.	Two categories of Eligible Issuer: **Emerging companies** defined as revenue in preceding 12 month period being <$1m OR net profit bef tax of < $250k **Established companies** defined as revenue in preceding 12 month period being >$1m AND net profit bef tax of > $250k Must be public companies or exempt public companies - no other restriction re past offers.
Relief from public company compliance costs	Available to exempt public companies, with relief from a range of compliance requirements, including annual general meetings, and audit requirements (up to a certain threshold). Exempt status available for a period of up to three to five years, subject to turnover and capital thresholds.	No CSEF-specific exemptions.	**Emerging companies** as per CAMAC – once an emerging company becomes an "established company" then they need to adopt normal public company reporting protocols **Established companies** need to comply with normal public company requirements including auditor appointment
Maximum funds an issuer may raise	Cap of $2 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors.	Cap of $2 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors.	**Emerging companies** - cap of $3 million in any 12-month period, excluding funds raised under existing prospectus exemptions for wholesale investors to a max of $5m in total. **Established companies** - Cap of $5 million in any 12-month period, including funds raised under existing prospectus exemptions for wholesale investors.
Permitted securities	One class of fully paid ordinary shares.	One class of fully paid ordinary shares.	One class of fully paid ordinary shares.
Disclosure requirements	Reduced disclosure requirements, including a template disclosure document.	Minimum disclosure requirements, with issuers and intermediaries to have in place arrangements to provide greater disclosure where there are no or high voluntary investor caps or the issuer is seeking to raise significant funds.	Prescribed (but reduced) disclosure requirements, including a template disclosure document and Approved Platform Operator (APO) prefacing document with Key Information Page (KIP) with mandatory matters to be included in KIP by APO.
Reporting requirements to investors / shareholders	Not fully specified	Not fully specified	Emerging companies and established companies to provide investors / all shareholders with regular reports on status of company, material events (good and bad), new issues, quarterly cash flow report, annual report, change of directors etc – similar to ASX listed companies – APO to use best endeavours to ensure the Issuer complies – non-compliance, APO to inform ASIC or CSEF license authority.

Intermediaries			
Licensing	Hold an AFSL and comply with licensing requirements, including membership of an external dispute resolution scheme.	Be licensed and comply with licensing requirements, including membership of an external dispute resolution scheme.	Hold a new class of license issued by ASIC – Approved Platform Operator license and comply with licensing requirements, including membership of an external dispute resolution scheme, and KIP statements and post investment reporting channel for CSEF invested companies. An APO license similar to an AFSL i.e. demonstrating corporate finance expertise, business skills, capital market skills, investment skills, due diligence experience, technology advisory skills, corporations law skills etc. with an ASIC bond of $50k – can be via a bank guarantee and requires PI to be in place within 4 months of being granted an APO license
Due diligence	Undertake limited due diligence checks on the issuer.	Undertake limited due diligence checks on the issuer.	Undertake limited due diligence checks on the issuer to produce the KIP at front of any issue document.
Risk warnings	Provide generic risk warnings to investors.	Provide disclosure statements and generic risk warnings to investors.	Provide disclosure statement (KIP) and generic risk warnings to investors.
Fee structures	Prohibited from being renumerated according to the amount of funds raised by the issuer, or in the securities or other interest of the issuer.	No restrictions on fee structures, although fees paid by an issuer must be disclosed.	No restrictions on fee structures, although the APO cannot be a shareholder in an Issuer pre-CSEF raising. All fee arrangements paid by an issuer to an APO must be disclosed.
Interests in issuers	Prohibited from having a financial interest in an issuer using its website.	Permitted to invest in issuers using their platform, although details of any investments must be disclosed.	Prohibited from having a financial interest in an issuer using its website platform
Provision of investment advice to investors	Prohibited.	Not specified in legislation.	Able to answer general queries about an Issuer (e.g. clarification of a patent status specified in the Issuer document) but not to give investment advice
Lending to CSEF investors	Prohibited.	Not specified in legislation.	Prohibited.
Investors			
Investment caps	$2,500 per issuer per 12-month period and $10,000 in total CSEF investment per 12-month period.	Voluntary investor caps, with the level of disclosure dependent upon the level of any voluntary caps and the amount of funds the issuer is seeking to raise.	For companies classified as **emerging companies** then for a retail investor no more than $5,000 per Issuer in any 12 month period and $20,000 in total per 12 month period for emerging CSEF investments. For companies classified as **established companies** then for a retail investor no more than $20,000 per Issuer in any 12 month period and $50,000 in total per 12 month period for established CSEF investments. Wholesale / s708 / professional investors not covered by any cap – i.e. current s708 applies
Risk acknowledgement	Signature of risk acknowledgement statements prior to investment.	Signature of risk acknowledgement statements prior to investment.	Signature of risk acknowledgement statements prior to investment.
Receipt of Reports from Issuer			Refer Issuer comment – Investors must be furnished with reports form the Issuer similar to ASX reporting – non-compliance then APO to notify ASIC or the APO licensing authority.

TABLE 2

Table 2: Key Information Page (KIP)

Key checklist of items for the APO to authorise release as a preface to a CSEF offering document.

SAMPLE: Key Information Page (KIP) - refer Recommendation 9.

Disclosure requirements - Issuers to have Prescribed (but reduced) disclosure requirements, including a template disclosure document and an Approved Platform Operator (APO) prefacing Issuer's offer document with Key Information Page (KIP) with mandatory matters to be included in KIP by APO as prescribed by APO licensing authority / ASIC.

This also accords with the theme adopted by Canadian authorities to ensure the Issuers 'crowdfunding offering document' should contain material information relevant to the issuer's business and an investment in the securities offered.

An issuer must make this document available to an investor through the intermediary portal before the investor enters into an agreement to purchase the security. The issuer must also obtain a signed risk acknowledgement from the investor before entering into the agreement (The offer document must comprise 5 items, together with a certificate from the issuer that the offer document does not contain a misrepresentation and our recommendation is to have at the front of the offer document a Key Information Page ("KIP") that factually answers the following:

TABLE 2 (cont.)

Key Information Page authorised for release by the APO	*answers*	*Ref to Offer doc*
Date company incorporated		
Names of the directors		
Name of coy sec		
ABN		
Shares on hand now ord / pref / convertible		
Shares being issued now		
Amount per share		
Amount being raised – Minimum subscription required to meet objectives outlined in disclosure document		
Maximum amount to be raised		
Notes on the class of shares being issued – voting rights and any other restrictions etc.		
Nature of business		
Current level of profit / loss		
How much has been injected to the company thus far		
Latest NTA and post issue NTA per latest balance sheet		
Current balance sheet including liabilities – split between repayment date, bank debt, other debt secured , unsecured and interest rate set out in Section XX		
All material contracts have been noted in Section XX		
Notes on any related party agreements / arrangements		
Patent details – country / objections / expiry date		
If any forecasts in the Offer document – directors believe them to be achievable from the current round of funding or are they premised on further funding required		
Key risks to the investment being made in Section XX		
Reporting plan for shareholders – i.e. monthly report etc		
Where is copy of constitution available from		
All taxes and superannuation up to date		
Related party disclosures		
Rights of any resale of shares		
Details of secured loans		
All key employees under ESA's and paid commercial rates		
Owners or progenitors remuneration arrangements		
Revenue / expense profile		
Details of auditors / lawyers / tax advisers / IP advisers		
Banker details		
Names of independent directors		
Any other information relevant to Issuer subscribers		

Signed by APO _____ date


Fat Hen