



Productivity Commission
Business Set-Up, Transfer and Closure in Australia
Productivity Commission
GPO Box 1428
Canberra ACT 2600

BY MAIL AND EMAIL

11 September 2015

Commissioners

PwC welcomes the opportunity to comment on the recommendations made by the Productivity Commission in its draft report on Business Set-Up, Transfer and Closure.

Through our annual 'Capital Markets Forum' PwC is committed to facilitating new connections and dialogue on issues that are important to Australia's capital market and which are critical to Australia's future prosperity. The Forum is an exploration of what the Australian capital market might look like in 5-10 years and how the broad membership of the capital markets community might best work together to respond to future challenges.

The most recent Forum was held in June 2015 and brought together 70 leaders from across the capital markets community – business leaders, entrepreneurs, non-executive directors, investors, venture capitalists, policy makers, regulators, academics and others, including Rosalyn Bell of the Productivity Commission.

Throughout the Forum participants discussed a number of issues that seemed to be aligned with the focus of the Productivity Commission's draft report into Business Set Up, Transfer and Closure. In this high level written response, we share our firm's views, and our understanding of the views of various industry participants who participated in our Forum, in respect of the draft recommendations.

We would welcome the opportunity to discuss our submission with you. Please feel welcome to contact either Chris Dodd or Kristin Stubbins

Best regards

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High level comments for consideration by the Productivity Commission

- PwC believes that facilitating crowd-sourced equity funding (CSEF) in Australia has the potential to unlock significant new pools of investor capital by enabling non-traditional venture capital investors to participate in venture capital investments in an efficient manner. Based on the dialogue we have had with members of the capital market community, there appears to be overwhelming support for urgent government action that facilitates CSEF in Australia. We encourage the Productivity Commission to reference our firm's submission to Treasury on CSEF (August 2015) for detail on how we believe the Government can take positive action to facilitate innovative funding arrangements and new and evolving business structures and set ups. One such approach is making specific amendments to the Corporations Act 2001 (Cth), but there are also other options worthy of exploration.
- PwC supports an increase in the CSEF small scale offerings thresholds to 150 investors and a \$5 million cap, with an annual increase in the financial cap based on CPI. The benefit of increasing these limits will be to facilitate more efficient raising of greater volumes of early stage capital for emerging Australian companies. It is not unusual for emerging technology companies in various sectors to require in excess of \$2 million during the early expansion stages of development. Where this capital cannot be efficiently raised in Australia, there is likely to continue to be an exodus to more buoyant early stage capital jurisdictions, most notably the UK, US, Singapore and HK.
- Many Capital Markets Forum participants don't believe the CSEF should be promoted or pigeonholed as a product that is only suited to unsophisticated investors. There is likely to be a large number of sophisticated investors who would invest in early stage securities if an efficient online option is available. In our experience there are many potential investors who do not fit within the current asset or income tests required to qualify as a 'sophisticated investor' but who would be perfectly capable of assessing the opportunity and risk associated with investing in small and medium-sized enterprises. These investors will most likely be early adopters of the opportunity to invest through CSEF intermediaries and would not necessarily be engaging in 'risky' investment behaviour that would have a significant impact on their overall financial position. Further information on this point is included in our firm's submission to Treasury on CSEF (August 2015).
- There appears to be a disconnect between the way that government views a successful business and the way that industry participants – such as venture capitalists and venture capital accelerators - view success. The government tends to view success through the prism of national benefit, whereas many venture capital accelerators, for instance, view it in terms of revenue, profitability, customer traction, investment received, and business model disruption. We suggest the Productivity Commission consider this broader view when finalising its recommendations.
- The draft report suggests that Government assistance to business set-ups should not be directed at particular business models, technologies, sectors or locations. While PwC and many market participants agree, it is worth noting the following extract taken from the policy submission prepared by Adrian Stone & Nathan Sampimon, Co-Founders of AngelCube, in respect of the Government's Enterprise Infrastructure Program (Adrian Stone was a participant at PwC's Capital Markets Forum).

“No nation has an inherent technological advantage and Australia has the ability to emulate the results of Israel, Singapore and the UK by providing policy around the support of innovative technology companies.”



PwC and other market participants we have engaged with believe there is a need for Government policy to focus specifically on new businesses that promote innovation and technological disruption, which often lead to the growth of new jobs and strengthening of existing industries. PwC believes that building Australia's digital economy will bring significant returns to our country in the short, medium and long term.

- Many Capital Markets Forum participants support the Productivity Commission's view that a wholesale change to the insolvency system, such as the adoption of the United States 'Chapter 11' framework, is not justified. Overall Australia's insolvency laws and regulations are robust in their design & execution in protecting stakeholders. While we agree that some specific reforms to Australia's corporate insolvency regime are warranted, particularly in respect of ensuring appropriate capital allocation in cases of market failure, we do not believe there is a need for wholesale change.
- The Productivity Commission might be interested to learn of the progress of one of the streams of work following PwC's Capital Markets Forum. It relates to the following 'key point' referenced in the Productivity Commission's draft report:

"Businesses are set-up for a variety of reasons and in any one year there is a churn of entries and exits in Australia that is comparable with other countries. Most businesses are small and a very low proportion are innovative, producing a product or service new to Australian or international markets. The propensity to be innovative is highest amongst larger businesses."

PwC and other Capital Markets Forum participants, in particular Jessica Roth, Founder & Director of Social Impact Hub (www.socialimpacthub.org), are looking to work together to develop an online, publicly available Innovation Network, with the goal of improving the collaboration of existing innovators within a supportive ecosystem of corporates, universities, government and start-ups. In our view there is a need for Australia to better connect government, corporates and academics to harness local talent and improve our nation's success rate when it comes to commercialising innovative, ground-breaking ideas. We are looking to explore avenues that would lift the proportion of new "innovative" business entrants in Australia.