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

Dear Sir,

Re Discussion Paper on Crowd Sourced Equity Funding

Thank you for permitting the Business Council of Co-operatives and Mutuals (BCCM) to make this submission after the published closing date.

The Business Council of Co-operatives and Mutuals (BCCM) represents the co-operative and mutual models of enterprise in Australia. It was formed in 2013 as a legacy of the United Nations International Year of Co-operatives to promote the role of co-operatives and mutuals in the economy and raise awareness of this business model as an important component of a robust and diverse economy.

Attached is a brief submission that outlines the impact of changes to fundraising regulation on the co-operative sector in Australia. The interaction of the *Corporations Act 2001* and State and Territory legislation for co-operatives creates a complex set of requirements for the co-operative sector.

This submission briefly sets out the impact federal fundraising regulation, including any proposed CSEF amendments and articulates the need to address the impact of dual regulatory imposts on the co-operative sector.

The BCCM is available to provide further information on these important issues and how they impact on the co-operative sector.

Yours Sincerely

A handwritten signature in blue ink, appearing to read "Melina Morrison".

Melina Morrison
Chief Executive Officer
Business Council of Co-operatives and Mutuals

Submission on Discussion Paper on Crowd Sourced Equity Funding

1. Reduction of regulatory burdens will enhance competitiveness

The Industry, Innovation and Competitiveness Agenda released in October 2014 proposed as its first Ambition that it would

... make it easier and cheaper to do business by:

- *reducing the burden of regulation;*
- *reducing the burden of taxation; and*
- *improving access to international markets and opening up the economy to greater domestic and international competition.*

Consistently with that ambition, the Discussion Paper notes that the CAMAC report on CSEF in June 2014 recognised that existing federal fundraising regulation created a barrier to CSEF in Australia. It is acknowledged in both the Discussion Paper and the CAMAC Report that innovative funding models that balanced funding demands and retail investor protections were important to enable small or start up enterprise to grow and participate in a competitive domestic and international market.

2. Co-operatives are a significant part of the competitive Australian economy

There are approximately 1200 registered co-operatives in Australia and they operate in a diverse range of industries and services. The co-operative is a long established and resilient business model in an increasingly competitive domestic and global market.

The top 100 co-operatives in Australia (excluding superannuation funds) turned over a combined \$25 billion in 2013.

Whilst the sector comprises large and established enterprises, the majority of co-operatives are small. These small enterprises operate in a diverse range of industries, including community housing, childcare, aged care, healthcare, food production and supply, agriculture, fishing, and community owned renewable energy.

3. The co-operative model of enterprise exhibits attractive features for CSEF

Co-operatives are an attractive choice for enterprises within rural and regional areas as a means of addressing imbalance in market power. The co-operative model

provides a vehicle for innovative and small businesses in these communities. The growth of rural and regional enterprises contributes to the development of resilient local economies.

Equally, they are a common choice for all communities seeking to establish new services and products with a social enterprise purpose.

The democratic model of governance and member economic participation inherent in co-operatives is a good fit for retail investors wishing to broaden their range of investments and to become involved in supporting products and services that interest them. The requirement for co-operatives to pursue clear objectives and activities provides investors with certainty that their investment will be locked in to achieve those objectives.

4. Fundraising for co-operatives is currently burdened by a dual regulatory system

Legislation for co-operatives, including disclosure requirements for fundraising, is a matter for States and Territories. The uptake of the Co-operatives National Law by all States and Territories will result in uniform regulation and administration.

However, as a result of the legislative carve up between States and the Commonwealth under the Corporations Agreement, co-operative securities (equity and debt) are also subject to the disclosure requirements under the Corporations Act 2001 when offered interstate. These requirements are in addition to the disclosure requirements under State law.

Shares in co-operatives have different characteristics to shares in companies. They have a fixed value and cannot be traded on a securities market. Co-operative shares are the money investment that a person makes as part of their membership of the co-operative. Co-operative shares are repayable in the event that membership ceases. Accordingly, investment risk in co-operative shares is low.

Disclosure requirements for the issue of co-operative shares are provided for in State legislation and these requirements adequately address the investment risk for these particular securities.

Amendments to the Corporations Act disclosure requirements for CSEF are likely to apply to co-operatives as a result of the application provisions under State laws. Whilst this may *appear* to be a reduction in regulatory burden for co-operatives, the impact on the sector would be to perpetuate dual disclosure requirements for co-operatives when their shares are offered interstate. This will increase the competitive disadvantage for co-operatives seeking to access crowd sourced equity.

Exposure to dual regulatory requirements creates a competitive disadvantage for co-operatives in Australia because it not only imposes two different disclosure requirements and attendant fees, but it inhibits co-operatives from utilizing emerging internet based platforms for equity funding because of the borderless nature of these platforms.

5. Competitive neutrality principles demand the removal of Federal regulation for the co-operative sector

The BCCM holds the view that co-operatives legislation provides a robust and adequate disclosure regime in respect of co-operative securities whether they are offered within a State or across State or Territory borders.

Accordingly, it is submitted that in order to achieve the ambitions for the reduction of regulatory burden and deliver a competitive domestic Australian market the Federal Government should immediately meet with State and Territory Ministers to discuss the removal of dual regulatory requirements for co-operative securities.

The BCCM is happy to provide information on crowd sourced equity funding by co-operatives in Australia along with material relating to regulatory regimes for community shares for co-operatives in the United Kingdom.

It is noted that the Discussion Paper would provide a basis for the Federal government to prepare appropriate draft amendments to facilitate CSEF under the Corporations Act. The BCCM looks forward to the opportunity to comment on any proposed draft legislation and how it would directly impact State and Territory co-operatives legislation.