

**CROWD-SOURCED FUNDING PRESENTS OPPORTUNITIES TO  
CREATE “NEW INCOME STREAMS”**

**TO BE PRESENTED AT THE ATSA CONFERENCE ON  
MONDAY 16TH OCTOBER 2017 AT 4.10PM – STREAM 2**

## Contents

1. Wanted! Accounting Firms Committed to Crowd-Sourced Funding .....	2
2. Crowd-Sourced Funding is targeted at: .....	2
3. Servicing Traditional Clients.....	2
4. Steps to Create a “New Income Stream” .....	3
5. Analysis of Your Clients .....	3
6. Legal Tests.....	3
7. Subjective Comments .....	4
8. Capital Raising.....	4
9. Information Seminar.....	5
10. Checklist to Assist in Identification of a Potential Crowd-Sourced Funding Equity Raising Company.....	5
11. Creating a New Income Stream.....	5
12. Overview of CSEF Legislation .....	6
13. Main Features of the Legislation.....	6
14. Concessions Granted by Government.....	7
15. CSEF Offers Must be made Through a “CSF Intermediary” .....	7
16. Potential Investors in Crowd-Sourced Funding Companies.....	7
17. Opportunities for Accountants .....	7
18. Enable Funding.....	8
19. ESS BIZTOOLS .....	8
20. Accountants Need to “Claim this Space” .....	8
21. Our Commitment to You.....	8
22. Checklist for Identifying Clients for Crowd-Sourced Funding .....	10

## **CROWD-SOURCED FUNDING PRESENTS OPPORTUNITIES TO CREATE “NEW INCOME STREAMS”**

Presented by:

- Peter Towers, Managing Director, ESS BIZTOOLS Pty Ltd; and
- Marc Johnstone, Chief Operating Officer, Enable Funding

### **1. Wanted! Accounting Firms Committed to Crowd-Sourced Funding**

Crowd-Sourced Funding Equity Raising is in the final launch stage before being available to Australian small/medium enterprises that could benefit by being able to raise capital from the public. Now is the time for proactive accountants to identify clients who might be classified as a “Crowd-Sourced Funding Equity Raising Company”.

Crowd-Sourced Funding Equity Raising is brand-new in Australia; therefore, no accountancy business has an historical advantage in this market.

This paper will outline some of the new exciting services that accountants could provide to the large number of companies that are expected to take advantage of the Australian government’s latest legislation to assist small/medium enterprises to be able to raise capital from the public.

Crowd-Sourced Funding joins Early Stage Innovation Company Capital Raising as the two new capital raising initiatives that have been introduced in 2016 and 2017 to assist a range of small/medium enterprises to be able to develop their businesses by being able to raise capital from the public.

These companies are going to need assistance to understand the legislation and the processes that are involved.

This presents a great opportunity to accountancy businesses that commit to offering new services, thus emphasising those accountancy businesses’ differentiation from other advisers.

### **2. Crowd-Sourced Funding is targeted at:**

- Small/medium enterprises that wish to grow their business without having to continually borrow funds.
- Inventors who have developed new products, processes or services who, for various reasons, might not be eligible as an Early Stage Innovation Company; could be interested in attempting to raise capital as a Crowd-Sourced Funding Company.

### **3. Servicing Traditional Clients**

In the main, small/medium enterprises are the “traditional clients” of accountancy businesses situated all around Australia. The SME market is the “natural clients” for hundreds of accountancy businesses.

The challenge for accountants is offering services that the accountant’s “traditional clients” want to receive – and as a new market such as Crowd-Sourced Funding evolves, accountants need to make a decision as to whether you are going to commit time and resources to offering an expanded range of services that, in the main, will be targeted at your “traditional clients”.

If you do not offer these services to your “traditional clients” you are basically encouraging those clients to go elsewhere for the services they require to get themselves “investment ready” to be able to utilise Crowd-Sourced Funding Equity Raising opportunities.

Unfortunately, when clients go to another organisation to receive some of their services, there is a great risk that they will be encouraged to switch all their work to that other supplier, or an associate of that supplier, or the original accountant may be left with a very small component of the overall work being undertaken for a particular client, which will probably be in the highly competitive taxation return preparation market.

In our opinion, accountants need to react to this new market opportunity by gearing up to provide a great service, not only to your current traditional clients, but also to other small/medium enterprises in your marketplace that are seeking the services of a proactive accountant.

#### **4. Steps to Create a “New Income Stream”**

Obviously, the first thing you need to ascertain is how many of your current clients are potentially eligible to be Crowd-Sourced Funding Equity Raising Companies.

The current legislation requires a proprietary company to be converted to an unlisted public company to be able to utilise the Crowd-Sourced Funding Equity Raising Legislation.

(The Federal Treasurer has announced that in the near future, he will be tabling in Parliament draft legislation which will enable proprietary companies to be able to utilise the Crowd-Sourced Funding Legislation, without having to become an unlisted public company.

If the legislation, that has been foreshadowed by the Treasurer, is passed by Parliament we do not expect this legislation to be operational until approximately March/April 2018).

This paper concentrates on the legislation that exists in October 2017 – a requirement for a proprietary company to convert to an unlisted public company to be able to raise capital as a Crowd-Sourced Funding Company.

#### **5. Analysis of Your Clients**

The amendments to the Corporations Act contains a number of legal tests which must be satisfied by a company which wishes to utilise Crowd-Sourced Funding to raise capital. We refer to the legal tests as Phase 1 as obviously a company has to pass the legal tests, if it is going to qualify to raise capital as a Crowd-Sourced Funding Company.

We have prepared a number of subjective comments and subjective tests to assist you to determine which of your clients have “subjective reasons” for evaluating the benefits to their companies of seeking to raise capital as a Crowd-Sourced Funding Company.

### **PHASE 1**

#### **6. Legal Tests**

To be eligible as a Crowd-Sourced Funding Company, the following legal tests must be complied with:

- The group turnover/sales of the group of which the company is a member, must be under \$25 million per annum.

- The group asset value of the group of which the company is a member, must be under \$25 million.
- The company must not be listed on a Stock Exchange situated anywhere in the world.

If the company passes these tests, you could then move into the subjective comments.

## 7. **Subjective Comments**

- Under the Crowd-Sourced Funding Legislation, there is no specification as to the type of industry in which a company, that wishes to utilise Crowd-Sourced Funding Equity Raising, must operate.
- There is no age specification for a company which wishes to utilise Crowd-Sourced Funding Equity Raising.

### Phase 2 - Subjective Tests

#### A. Business Review:

- Is the company an “Early Stage High-Growth and Disruptive” (ESHGD) company?
- Are the directors wishing to expand the business?
- Are the directors interested in acquiring another business(s)?
- Have the directors and senior management developed a vision for the business which complements the classification that you have given to that company?

The important question is – “*Does the company require funding to implement these visions?*”

If so, there could be considerable benefits for the company, if it is able to qualify as a Crowd-Sourced Funding Company.

#### B. Succession Planning

Is the company contemplating strategies to reorganise the company’s finances because a key shareholder wishes to retire and requires funds for his/her retirement?

One way to assist in the succession planning could be for a new group of shareholders to be introduced to the company with the cash introduced being utilised to assist in the succession process.

#### C. Balance Sheet Review

Does the company have:

- loans – other than bank loan secured on first mortgage on the company’s own property e.g. other bank/finance company loans?
- loans from family/friends?
- high credit card debts?

There are situations where the directors are uncomfortable with some of these types of loans and debts. Would the directors of the companies that you are considering, be interested in obtaining funds from new shareholders which enabled the company to repay loans and credit card debts, thus saving interest and perhaps diffusing potential problems within family/friends’ groups?

## 8. **Capital Raising**

The Crowd-Sourced Funding Legislation enables an eligible company to raise up to \$5 million from the public every 12 months.

Will the companies that you are considering be interested in raising capital? If you've got to this stage in the consideration of individual companies you will have established that the company has valid reasons for contemplating raising capital. The directors and key shareholders will have to be satisfied on a number of key issues including:

- The concept that other people will become shareholders of the company.
- The realisation that the current shareholders will have a reduced percentage ownership in the company. Hopefully this will lead to an increase in the individual shareholders' wealth.
- Will the directors be comfortable with the strong possibility that one or more new directors will be appointed to the Board of Directors?
- Will the current shareholders be happy with the share price that is determined for the new shareholders to pay?

## **9. Information Seminar**

A good way to communicate to clients about something that is brand new is to host an information seminar. At the seminar on Crowd-Sourced Funding you could outline the key information relative to a company becoming a Crowd-Sourced Funding Equity Raising Company and indicate to the attendees that you will be contacting each of them individually in the next week to discuss whether they wish to have a further discussion relative to the concept that their company may try to raise capital as a Crowd-Sourced Funding Equity Raising Company.

Within the ESS BIZTOOLS' product package we have a full set of material that will assist you to be able to present a seminar on Crowd-Sourced Funding.

## **10. Checklist to Assist in Identification of a Potential Crowd-Sourced Funding Equity Raising Company**

ESS BASIP has developed a checklist which will assist you to identify the companies that your accountancy business represents that satisfy the legal requirements and score positively on the subjective tests.

The checklist will assist you to identify company directors to be invited to an information seminar.

## **11. Creating a New Income Stream**

There is no doubt that many accountancy businesses are subject to increased competition, falling margins, staff hiring difficulties and all the problems associated with "digital disruption".

Deloitte produced an excellent series of articles a few years ago identifying the problems that "digital disruption" was going to inflict on a range of industries including the accounting industry.

One of the suggestions that Deloitte offered was that professional practices, including accountancy businesses, should attempt to develop "new income streams" to counteract the problems digital disruption was going to cause.

Assisting clients to gain an understanding of the Crowd-Sourced Funding Legislation and then to guide a client through each of the steps to become an eligible Crowd-Sourced Funding Equity Raising Company would appear to be a great "win/win" situation for an accountancy business.

The directors of companies that are identified as being potentially eligible to be classified as a Crowd-Sourced Funding Company will be happy that you have exhibited "proactive assistance" to them and your accountancy business will be happy with the new type of work that has been introduced to the firm.

The following is a sample of some of the “new work” that will be required by most companies that seek to raise capital as a Crowd-Sourced Funding Equity Raising Company that proactive accounting businesses, offering a range of “non-compliance services” e.g. “business advisory services”, will be able to produce:

- Business Plan
- Budgets and Cashflow Forecasts
- Company Valuation
- Share Price Determination
- Information Memorandum

The professional fees for this work could be around \$20,000 - \$40,000.

Many of the companies which raise funding as Crowd-Sourced Funding Equity Raising Companies will also be interested in having discussions relative to your accounting business performing a virtual Chief Financial Officer service for their companies.

Many of these companies will be appointing experienced directors to their boards and it is expected that these directors will be insisting on the company’s management team supplying prompt, accurate financial reports on a regular basis throughout the year. Many of the companies will probably not have the manpower in-house to be able to prepare these types of reports – thus creating another segment of the “new income stream” for proactive accountants.

You should also advise your client on the duties and responsibilities of the Crowd-Sourced Funding Intermediary.

Most clients contemplating raising capital as a Crowd-Sourced Funding Equity Raising Company will require assistance in the appointment of a Crowd-Sourced Funding Intermediary. We expect that most of those clients will be seeking your advice on this very important appointment.

## **12. Overview of CSEF Legislation**

A Crowd-Sourced Funding Offer must be made via the “platform” of a Crowd-Sourced Funding Intermediary. The Intermediary must hold an Australian Financial Services Licence with a Crowd-Sourced Funding endorsement issued by ASIC.

- A Crowd-Sourced Funding Offer cannot be made until the CSF Intermediary has reviewed and approved the CSF Offer Document which has been prepared by/for the company and signed by the company’s directors.
- Offers on a CSF Intermediary’s platform can only be listed for three months. However, the offer can close at an earlier time if this is specified in the CSF Offer Document or the stated amount of capital specified in the CSF Offer Document has been raised.

## **13. Main Features of the Legislation**

The main features of the Crowd-Sourced Funding bill are:

- A retail investor may apply for a maximum investment of \$10,000 per company within a 12-month period.
- There is a “cooling off period” available to retail investors of up to 5 days after the investment was made.
- If a defect in a CSF Offer Document is identified, it is necessary that the directors immediately notify the CSF Intermediary who will suspend the listing of the company on the platform until the defect is corrected.

#### **14. Concessions Granted by Government**

- The government has granted some corporate governance and reporting concessions to eligible companies for a maximum of five years from registration as, or conversion to a public company that intends to utilise Crowd-Sourced Funding at the time that the registrations were made with ASIC.
- The concessions include:
  - exemptions from holding a “physical” annual general meeting
  - not required to produce written annual reports for shareholders
  - not required to appoint an auditor until the company has raised more than \$1 million

#### **15. CSEF Offers Must be made Through a “CSF Intermediary”**

The Crowd-Sourced Funding Legislation clearly specifies that all subscriptions for shares in a company raising capital, as a Crowd-Sourced Funding Company must be conducted on the Crowd-Sourced Funding Intermediary’s platform.

Entities which aspire to be a Crowd-Sourced Funding Intermediary must hold an Australian Financial Services Licence together with a Crowd-Sourced Funding Endorsement issued by ASIC.

The new laws set out the obligations and requirements for Crowd-Sourced Funding Intermediary’s including:

- gatekeeper obligations;
- maintaining open communication channels about the offer while the offer is open or suspended; and
- disclosure requirements as to the financial interest (including fees charged) the CSF Intermediary (or any associate of the CSF Intermediary) has or expects to acquire in the issue of shares in the company.

#### **16. Potential Investors in Crowd-Sourced Funding Companies**

Enable Funding has identified the following specific segments of investors that Enable Funding expect to participate in investments in Crowd-Sourced Funding Companies:

- Sophisticated Investor – earning more than \$250,000 per annum or have more than \$2.5 million net worth (excluding home, including superannuation)
- Proactive Enabler – 45 – 65 years, net assets = \$1 million
- Progressive Enabler – 35 – 55 years, net assets <\$1 million
- Budding Enabler – 25 – 40 years

#### **17. Opportunities for Accountants**

Observations by Enable Funding.

Opportunity to be involved in:

- a high value service for your clients
- a new revenue line that is high margin
- strategic work
- value add for clients increases loyalty

## **18. Enable Funding**

- Australia's first crowd-funding platform – founded 2007
- \$147 million raised for 176 companies
- world bank recognition
- a de-risked approach to the new asset class:
  - IMENCA
  - AIG
  - issuer optimisation services
- the need for crowd sourced funding in Australia has been strongly supported by Enable Funding.

## **19. ESS BIZTOOLS**

- A specialist provider of “business advisory services” product packages to the Australian accounting industry.
- Founded 1997
- Members in all States of Australia
- Produced by a team with significant accounting industry experience
- Committed to providing new product packages for each new significant potential activity for accountants
- Please visit our websites:  
[www.essbiztools.com.au](http://www.essbiztools.com.au)  
[www.essbasip.com.au](http://www.essbasip.com.au)  
[www.essbizgrants.com.au](http://www.essbizgrants.com.au)

## **20. Accountants Need to “Claim this Space”**

- Crowd-Sourced Funding is a great opportunity for some of your clients to go to the “next level”.
- Working with a client firstly to establish whether they are a Crowd-Sourced Funding eligible company and then guiding them through the process of preparing all the documentation that is going to be required for presentation to the CSF Intermediary will be exciting and your team members will enjoy the work process!
- Not only the clients, who are directly involved in this process will be impressed by your “proactive services for your clients,” but your other clients who hear or observe the assistance that you have given to some of their colleagues will also be impressed.
- We believe that your accountancy business should embrace a proactive approach to Crowd-Sourced Funding.

## **21. Our Commitment to You**

- The team at Enable Funding is available to assist you as a CSF Intermediary. If you have any questions on the role of an Intermediary or questions relating to the identification of potential investors to these types of companies, please do not hesitate to contact Enable Funding ([Click here](#)).
- The team at ESS BIZTOOLS is committed to assisting you and your clients in this process. ESS BIZTOOLS has developed a comprehensive Crowd-Sourced Funding Equity Raising Product Package that you are invited to review this by [clicking here](#).



ESS BIZTOOLS

[www.essbiztools.com.au](http://www.essbiztools.com.au)

Telephone: (07) 4724 1118

Email: [peter@essbiztools.com.au](mailto:peter@essbiztools.com.au)

Enable Funding

[www.enablefunding.com](http://www.enablefunding.com)

Telephone: 0426 890 735

Email: [marc@assob.com.au](mailto:marc@assob.com.au)

ESS BASIP

[www.essbasip.com.au](http://www.essbasip.com.au)

Telephone: (07) 4724 1118

Email: [peter@essbiztools.com.au](mailto:peter@essbiztools.com.au)

Attachment: Checklist for Identifying Clients for Crowd-Sourced Funding

**22. Checklist for Identifying Clients for Crowd-Sourced Funding**

Company Name: \_\_\_\_\_

**Phase 1****A. Legal Requirements**

1. Is the company a Proprietary Limited company? ☐ Yes (Go to 2) ☐ No  
↓
2. Is the company's group turnover/sales under \$25M per annum? ☐ Yes (Go to 3) ☐ No  
↓
3. Is the value of group assets under \$25M? ☐ Yes (Go to 4) ☐ No  
↓
4. Is the company listed on a Stock Exchange anywhere in the world? ☐ Yes ☐ No (Go to 5)  
↓

**Phase 2 – Identification of Clients Who May be Interested****B. Business Review**

5. Are the directors interested in expanding the business? ☐ Yes ☐ No
6. Are the directors interested in purchasing another business? ☐ Yes ☐ No

**C. Succession Planning**

7. Is there a succession strategy underway? ☐ Yes ☐ No
8. Would a new investor(s) assist in achieving the succession strategy? ☐ Yes ☐ No

**D. Balance Sheet Review**

9. Does the company have loans from banks or finance companies? ☐ Yes (Go to 10) ☐ No  
↓
10. Are any of these loans for other than first mortgage loans or real estate owned by the company? ☐ Yes (Go to 11) ☐ No  
↓
11. If so, what is the debt owing on these loans? \$
12. Does the company have loans from relatives, friends or associates? ☐ Yes (Go to 13) ☐ No  
↓
13. If so, now much is owed? \$

14. Does the company have debts owing on credit cards?

☐ Yes (Go to 15) ☐ No



15. If so, how much is owed?

\$

16. Do you think the directors would be interested in having a discussion in relation to the refinancing/business expansion opportunities that Crowd-Sourced Funding Equity Raising offers?

☐ Yes (Go to 17) ☐ No



### **Action Plan**

17. Invite directors to a Crowd-Sourced Funding Equity Raising Seminar?

☐ Yes ☐ No

### **Comments**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_