

Assistant Treasurer, The Hon Stephen Jones MP
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 House of Representatives
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Dear Hon Stephen Jones MP,

The Australian Academy of Technological Sciences and Engineering (ATSE) is a Learned Academy of independent, non-political experts helping Australians understand and use technology to solve complex problems. Bringing together Australia's leading thinkers in applied science, technology and engineering, ATSE provides impartial, practical and evidence-based advice on achieving sustainable solutions and advancing prosperity.

We write to express ATSE's concerns and provide recommendations regarding the proposed changes to the sophisticated investor exemption under the Corporations Act 2001.

Australia's struggle to rise in Global Innovation ranks has been compounded by a drop in recent years in early-stage funding. Raising the sophisticated investor exemption would limit this funding further. As of 2022, 16% of Australians qualify as a sophisticated investor, the proposed alterations would narrow this qualification to the top 1%, limiting investment available for early-stage technology ventures¹. Investing in early-stage ventures is a high-risk asset class, and there is a need for better risk communication, or potentially limiting a certain percentage of an investor's liquid assets in such investments rather than raising the investment threshold and limiting the pool of sophisticated investors interested in supporting Australian innovation and progress.

ATSE is keen to support a thriving, diverse investment ecosystem that contributes to a culture of research and development and supports a complex, resilient Australian economy. ATSE acknowledges the Government's intention to protect investors. However, we would like to highlight that since the introduction of the test levels in 2002, rising household income and asset prices now enable significantly more Australians to potentially qualify as sophisticated investors, primarily based on the asset price of their primary residence. The scenario where individuals qualify as sophisticated investors based on the value of their non-liquid primary residences may not accurately reflect their financial sophistication or ability to engage in complex investment opportunities. If the value of the primary residence is excluded from the assets test, this would allow greater assurance of sophistication above the threshold, and support maintaining the number of sophisticated investors in the economy.

- **Recommendation:** Maintain the sophisticated investor threshold but exclude the value of the primary residence from the assets test.

Raising the sophisticated investor threshold is also a risk to disproportionately impacting diverse investors, including women, given the existing gender pay gap and underrepresentation in higher-paying jobs². The Government should consider establishing rules that extend beyond financial wealth. Criteria such as education (e.g., investment courses) or specialised knowledge (e.g., professional experience in the relevant technology sector) could be incorporated.

¹ Ben Phillips (2021) *Sophisticated investor projections*, ANU Centre for social research and methods, https://csrm.cass.anu.edu.au/sites/default/files/docs/2021/10/Research_Note_Sophisticated_Investor.pdf, accessed 29 January 2024.

² Cheryl Mack (2024) 'Why the federal government's plan to increase the sophisticated investor threshold is terrible news for Australia's startups', Startup Daily, Accessed 29 January 2024, <https://www.startupdaily.net/advice/investing/why-the-federal-governments-plan-to-increase-the-sophisticated-investor-threshold-is-terrible-news-for-australias-startups/>, accessed 29 January 2024.

If local investment conditions become less favourable, there is also a risk of a knowledge drain, with talented individuals and domestic start-ups seeking opportunities in more investor-friendly ecosystems abroad. While we acknowledge the need to shield investors from high-risk situations, there is a requirement to strike a balance that preserves investor protection without stifling innovation in the startup sector. The proposed changes would put Australia out of sync with international jurisdictions such as the US and UK. The US and the UK also require high income and net worth, with clear pathways for experienced investors. Having provisions that align with key international partners that hold a wealth of experienced investors who value Australia's robust regulatory framework would benefit the Australian startup ecosystem. Limiting early-stage technology investments may also direct funds towards real estate, resulting in high housing costs.

- **Recommendation:** Create a competitive sophisticated investor exemption scheme in comparison to international partners to attract experienced investors and benefit the Australian startup ecosystem.

These recommendations aim to strike a balance between addressing the concerns raised by the Government and ensuring that the sophisticated investor exemption remains accessible to a diverse and qualified pool of individuals. ATSE appreciates your dedication to this issue and looks forward to any updates on the proposed changes.

ATSE is committed to engaging with the Hon. Assistant Treasurer and actively contributing to solutions that would improve Australia's technology and innovation landscape through the sophisticated investor scheme.

For further information, please contact academypolicyteam@atse.org.au.

Yours Sincerely,

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