

31 January 2024

Director
Investment Funds Unit
Retirement, Advice and Investment Division
The Treasury
Langton Cres
PARKEA ACT 2600
Sent via email: misreview@treasury.gov.au

Dear Director

Submission - Review of the regulatory framework for managed investment schemes

Introduction

Founded in 2016, Giant Leap was Australia's first venture capital fund 100% dedicated to investing in impact startups.

Giant Leap invests in founders solving our most pressing global problems at scale across climate, health and empowerment & education and has invested in over 30 companies to date.

Reduced scope

Although the Consultation Paper seeks feedback on a number of aspects of managed investment scheme (MIS) regulation, in this submission, we have chosen to focus on the Wholesale Client thresholds as these aspects are most relevant to us as a venture capital fund, our investors and the startup ecosystem.

In particular, we have sought to respond to the following question:

1.2 Should the financial thresholds for the net assets and/or gross income in the individual wealth test be increased? If so, increased to what value and why?

Response

1. Does the proposed policy achieve the policy objectives?

No, we do not believe that the financial thresholds for the net assets and/or gross income in the individual wealth test should be increased.

Our understanding of one of the key objectives of the Government in changing the Wholesale Client thresholds is to prevent the sale of sophisticated financial products to those without the appropriate knowledge to assess their suitability for their individual circumstances.

We are supportive of this objective; however, we do not believe that the current proposed changes to the individual wealth test will achieve this outcome.

The wealth thresholds do not reflect the ability nor expertise of investors to make considered investment decisions and are simply a determinant of wealth in isolation.

2. Unintended consequences

We believe that the proposed changes will likely have negative unintended consequences, including:

- **Negative impact on investment, in particular early stage investment** - Investment is essential for the growth and sustainability of businesses at all levels. The proposed blunt policy approach could particularly hinder investment at the early stages, which is a crucial phase for fostering innovation and driving productivity gains in Australia. By restricting access to a broader base of investors, there is a risk of stifling the innovative initiatives that often emerge in the early stages, in particular angel investors and venture capital fund managers. This is likely to have flow on effects to overall economic and business development of the country.
- **Disproportionate effect on women, minority groups, and regional communities** - this policy is inherently exclusionary but could be easily modified to protect Australians and ASIC while also being inclusive. For example, women currently make up only 27% of high-income (over \$180k) earners. A gender lens on the impacts of this policy would reveal the disproportionate effect on women, both as founders seeking capital and as investors who will now be excluded.
- **Widening of the wealth gap** - If the thresholds are increased, investors who do not qualify as wholesale may miss out on high quality offerings resulting in a widening of the wealth gap. This would be a significant reversal of the democratisation of investing that Australians have enjoyed over recent years.

3. Recommendations

We recommend an education pathway to Wholesale status.

Suggestions on how an education pathway to Wholesale status could work include:

- **A risk-based approach** - a focus on knowledge rather than wealth in isolation to mitigate the risk that investors do not understand the investment products that they are investing in. Responsibility would shift to the individual investor to gain the necessary knowledge in order to classify as a Wholesale Client.
- **ASIC to be the governing body to approve courses** - Any course provider should be able to submit a proposed course (including outline and content of the course) to ASIC for approval. ASIC would maintain a list of approved courses that can be accepted by AFSL

holders to classify the investor as a Wholesale Client if they have shown evidence of taking an approved course.

- **Asset class specific courses** - The courses would need to be asset class specific to ensure investors have the appropriate knowledge to invest in that specific asset class.
- **Accessible, affordable and inclusive** - Ensure women, minority groups and regional communities are not disproportionately affected by any proposed regulatory changes and the wealth gap does not continue to widen by ensuring that courses are accessible, affordable and inclusive. For example, facilitate approval of online and asynchronous courses to make them low cost.

Should you have any questions, please feel free to contact me.

Kind regards

A handwritten signature in black ink, appearing to read 'Will Richardson', with a long horizontal flourish extending to the right.

Will Richardson
CEO and Managing Partner
Giant Leap