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Australia

## Consultation of the regulatory framework for managed investment schemes

### TEN13 Submission

30 January 2024

Director  
Investment Funds Unit  
Retirement, Advice, Investment Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600  
Email: [misreview@treasury.gov.au](mailto:misreview@treasury.gov.au)

Re: Consultation of regulatory framework for managed investment schemes

Dear Sir/Madam,

[TEN13](#) is one of Australia's leading and most active venture capital firms with more than 700 sophisticated investors, who through TEN13, have collectively invested ~AU\$95 million into 45 technology companies. TEN13 wishes to express significant concerns regarding the proposed changes to the financial thresholds defining sophisticated or wholesale investors within the managed investment schemes (MIS) regulatory framework.

TEN13 is led by Stewart Glynn, Steve Baxter, and An Vo, who together have 25 years of cumulative experience investing in innovative Australian technology startups. Steve Baxter has also served as the former Chief Entrepreneur of Queensland where he advocated for positive changes to the Queensland technology industry. Our leadership team has a deep understanding of the potential impacts these changes could have on the startup ecosystem, innovation in Australia, and the broader economy.

We appreciate the opportunity to provide a submission to Treasury in relation to the regulatory framework for managed investment schemes.

### Concerns with Proposed Threshold Adjustments

TEN13 does not support the proposed changes to the financial thresholds for the net assets and/or gross income in the individual.



The current proposal for financial thresholds to be increased to net assets (\$4.5 million) and/or gross income (\$450,000) in the individual are disproportionate and misaligned with international comparables.

Abrupt regulatory shifts, implemented with limited industry consultation, can create market uncertainty, affecting investor confidence and disrupting long-term investment strategies and the wider Australian economy.

Should financial thresholds be raised for sophisticated investors, TEN13 advocates for an assessment system prioritising investor education and informed decision-making over merely higher financial thresholds alone.

### **Impact on the Startup Ecosystem and Economy**

A recent survey<sup>1</sup> among TEN13 investors indicated that **42.4% would no longer qualify as sophisticated investors** under the proposed new thresholds, with an additional **12.1% uncertain about their future eligibility**. This data highlights the risk of marginalising a sizeable portion of the investor community that is established and essential for providing early-stage startups with not only capital but also invaluable expertise, mentoring, and networks.

The diverse perspectives and experiences that investors bring to early-stage companies are crucial. Elevating the thresholds would narrow the current investor base (by close to half), impacting innovation and economic growth in important growth sectors that depend heavily on venture capital and angel investment.

The proposed changes to the financial thresholds for sophisticated investors may have several negative consequences, including:

- 1) deterring the formation of new innovative Australian companies;
- 2) making it more difficult for companies to raise capital given a lesser pool of eligible investors;
- 3) the development of less inclusive and diverse pools of capital being able to support early-stage technology companies, impacting what types of companies that ultimately get funded;
- 4) the loss or offshoring of critical jobs in the technology sector and an ensuing loss or degradation of critical skills; and
- 5) a corresponding reduction in corporate taxes, capital gains tax, GST, and payroll tax for Federal and State Governments.

We believe the proposed changes will have the effect of diminishing Australia's competitiveness in the international business arena.

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<sup>1</sup> TEN13 completed a survey to our entire investor base, about 15% of our investor base (100 participants) completed the survey.

## Global Competitiveness and Regulatory Consistency

Australia's current financial thresholds for sophisticated investors are comparable with global norms when compared against the UK, US, NZ, Canada, and the EU. Blunt increases to the thresholds as currently proposed would materially increase the bar for eligibility significantly above international standards making us less competitive vs. market peers.

These suggested changes risk undermining our competitive advantage and could deter both domestic and international investors.

## Opportunity and job losses

Based on our 10+ years of experience as active investors in Australian technology startup companies, we have seen how during periods of relative capital scarcity in Australia (particularly between 2010-2015), innovative companies within our portfolio were forced to turn to international, typically US based investors. An undesirable consequence of this is that those investors often required these Australian companies to redomicile and/or relocate their staff to the US, resulting in less wealth creation for Australian Governments and investors, the relocation and/or loss of jobs, and in some cases, the transfer of valuable intellectual property offshore, contrary to the collective interests of Australia and its citizens.

This forced relocation of talent offshore and loss of local jobs, and the ensuing "brain-drain", directly undermines other valuable initiatives implemented by the Federal Government, including the Global Talent Employer Sponsored [program](#) designed to attract highly skilled talent to Australia, which together with the Australian venture capital and "Angel Investor" community have helped make Australia an attractive country for doing business.

## Recommendations

We strongly advocate for the retention of the current financial thresholds for sophisticated investors given general alignment with international comparable thresholds and in order to maintain market and regulatory stability.

Should financial thresholds for sophisticated investors be raised, we propose including a more holistic approach that includes additional criteria, such as:

- **educational or knowledge-based thresholds** such as passing specific tests or completing certain courses related to finance or investment; or
- **experience-based qualifications** related to an individual's years of active investing, types of investments made, or experience in financial markets rather than purely monetary thresholds.

TEN13 recommends looking at comparable markets such as the United Kingdom and United States for alternative tests and treatments including thresholds to align with major global markets.



Adopting a more inclusive approach that evaluates an investor's education and understanding of financial risk would align with global trends towards recognising a broader range of qualifications for investor sophistication. This approach would better serve the market by enabling informed investors to participate, irrespective of meeting an exclusionary financial status or threshold.

## Conclusion

We urge a careful reconsideration of the proposed changes to the sophisticated investor thresholds. A balanced regulatory framework that protects investors while encouraging a dynamic and diverse investment environment is essential for the ongoing growth and stability of the early-stage investment sector and the Australian economy at large.

For any further discussion or clarification, please feel free to contact Stewart Glynn at [stew@ten13.vc](mailto:stew@ten13.vc).

Yours sincerely,

A handwritten signature in black ink, appearing to read "Stewart Glynn".

**Stewart Glynn**

Managing Partner

**TEN13**

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