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Dear Sir or Madam

Birchal Financial Services is a licensed CSF intermediary.

We have reviewed Consultation Paper 357 (Remaking relief for business introduction services: ASIC Instrument 2017/186) (**CP 357**) and take this opportunity to support ASIC's proposal to allow the ASIC Corporations (Repeal and Transitional) Instrument 2017/186 (ASIC Instrument 2017/186) (the **Instrument**) to expire.

We also note the recent Senate Report on the Development of the Australian Corporate Bond Market dated October 2021 (**Senate Report**) which outlines the need for reform of the Australian corporate bond market, which is relevant to our feedback on CP 357 which follows below.

C1Q1 Do you agree with our proposal to allow the relief in relation to Ch 2L and Ch 6D to sunset? Why or why not?

Birchal agrees with ASIC's proposal to allow the relief in relation to Chapter 2L and 6D to sunset.

Birchal agrees with ASIC that the CSF regime appears to be operating efficiently and reliance on the CSF regime appears to be increasing.

Globally, equity crowdfunding is emerging as an increasingly effective way for small and medium businesses to raise capital. In the UK, which has perhaps the most mature equity crowdfunding industry, over £500m was raised in 2020 alone. And in the United States, platforms like StartEngine, WeFunder, Republic and SeedInvest are making use of recent expansion to America's own equity crowdfunding regime.

[redacted] which includes a summary of activity under the CSF regime for 2021.

Birchal considers the CSF regime should now be enhanced by adding to the securities that could be offered under the regime. Noting that this was within the contemplation of the Government at the time that the CSF legislation was passed, as stated in the relevant Explanatory Memorandum.

C1Q2 Have you previously relied on the relief for business introduction services relating to Ch 6D securities? If so, please provide details of any funds raised and when the fundraising occurred.

No, we have not relied on this relief.

C1Q3 Will our proposal significantly impede the ability of companies to raise funds? If so, please explain why the CSF regime is not an appropriate alternative for raising funds.

Without expansion of the CSF regime to include additional security types, it may not be an appropriate alternative to the Instrument.

As a CSF intermediary we have received many requests from companies to offer securities other than fully-paid ordinary shares.

For many businesses that need capital, issuing shares may not be right for them for a variety of reasons, including that such businesses:

- don’t want to involve shareholders in the business
- may find it difficult to establish an enterprise value for their business in order to set a share price

The Senate Report proposes regulatory reform to increase transparency and improve access to corporate bonds. One way to address this is by amending the current CSF regime to expand the securities that can be offered to include corporate bonds. The following amendments to the Corporations Act 2001 could allow this:

1. s283AA - exempt "CSF offer" from the requirement for a trust deed and trustee for an offer of debentures, by regulation;
2. s738G - specify "debentures" as a class of securities permitted to be offered under the CSF regime, by regulation;
3. s738J - specify modified content requirements for a CSF Offer Document for the issue of debentures to reflect the risk profile. For example, a debentures offer of less than $500k could be provided under a simple term sheet.
4. Utilising s741 to bring companies not using a Pty Ltd structure within the eligibility requirements under s738H.

With these amendments CSF intermediaries could host offers of unsecured notes (per s283BH) under the CSF regime.

CSF intermediaries would still conduct background checks on the issuer, its directors and senior managers as with other CSF offers, and otherwise run the offers in the same way as regular CSF offers (including risk disclosure, retail investor limits and cooling off rights, min/max targets and offer periods).

Recent experience in the United States
In the United States in Q2 2020, 61% of funds raised through the crowdfunding regime were for debt securities including simple agreements for future equity (SAFEs) (26.6%), debt (26.6%) and convertible notes (7.8%). Prior available data indicates that for the period between 16 May 2016 to 31 December 2019, only 30% of funds raised under Regulation Crowdfunding was through ordinary shares (or $84m of $282m overall).

C1Q9 Do you have any other comments about the proposal?
Although still in its infancy, the CSF regime has shown it can effectively deliver fast and efficient equity capital to small and medium businesses. We think it's time for the CSF regime to be expanded to facilitate other types of securities now too.

As an example, companies should be permitted to offer debentures under the CSF regime. This will introduce an enhanced pool of investors and unlock a valuable additional source of debt capital for small businesses who have historically been unable to access unsecured finance from lenders.

Our preliminary analysis suggests that the changes needed to expand the CSF regime to include debentures could be achieved quickly through regulation, without the need for additional legislation.

We are grateful for the opportunity to make this submission, and would be delighted to provide further information and comment should you require.

Kind regards

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