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Employee share schemes and startups

ASX welcomes and supports the government's consultation into employee share schemes for startups.

It is important that early-stage companies have the right framework and environment to help them develop and grow in Australia. Many of these companies are at a stage of development where they find it difficult to access bank financing and tap capital markets for debt and equity finance. While the venture capital sector (including angel investors) often fills this financing gap in other countries, this aspect of Australia's capital markets is less developed.

As such, startups such as those in the technology and life-sciences industries often have cash flow constraints and as a result can lack the financial resources to attract and retain highly skilled employees.

Employee share schemes are a way for cash-poor early-stage companies to attract and compensate talent in place of high salaries. They also provide a strong incentive for employees to commit to the future success of the business.

The current taxation arrangements in Australia regarding employee share schemes, where employees are taxed upfront before the employee has the cashflow to meet their tax obligations, is a significant barrier to the take-up of such arrangements. The ASX supports a change to the tax arrangements to provide a system that facilitates the establishment of employee share schemes.

Changes to employee share schemes rules, such as taxing the employee when a gain has been realised, will enable startups to attract high quality staff within their limited budgets. This will provide tangible benefits to assist early stage companies grow. It will bring Australia into line with best practice in other jurisdictions competing to attract these highly qualified employees.

Encouraging innovative industries offers the prospect of facilitating a range of emerging technologies that, if successful, may also eventually graduate to public markets as their need to raise more substantial sums of capital increases. This will help our capital markets to grow in addition to the positive direct economic impacts such companies can produce for Australia.

If you would like to discuss our submission or arrange a meeting please contact: Eddie Grieve, Senior Manager, Listings and Issuer Services (tel: 02 9227 0519; email: eddie.grieve@asx.com.au)

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Max Cunningham', written over a horizontal line.

Max Cunningham
General Manager, Listings & Issuer Services