



6 July 2016

Office of the General Counsel  
ASX Limited  
20 Bridge St  
Sydney NSW 2000

Attention:  
Ms Diane Lewis  
Senior Manager, Regulatory & Public Policy

By e-mail: [regulatorypolicy@asx.com.au](mailto:regulatorypolicy@asx.com.au)

Dear Ms Lewis

### **Admission Requirements for Listed Entities**

This letter provides comments on the ASX Consultation Paper: *Updating ASX's admission requirements for listed entities*. The Australian Financial Markets Association (AFMA) supports the review and proposed updates by the ASX of its admission requirements

#### **Role of exchange in setting listing requirements**

Listings standards are critical to the integrity of equity exchange markets and the trust and confidence investors have in them. A key area of responsibility for exchanges is determining what instruments to admit to trading and the basis on which to admit them. The International Organization of Securities Commissions (IOSCO) *Objectives and principles of securities regulation* states that admission standards for issuers and participants are to be robust and administered in a fair and transparent way. Listing standards are the filter through which a market operator considers whether an applying entity is appropriately qualified to access capital through its public market. In making this decision, the market operator needs to take into consideration a range of matters about the entity, including its quality, size and the nature of its operations. ASX under the market operator provisions of the Corporation Act has a statutory obligation to robustly administer the qualification process for listing, and ensure listed entities meet their ongoing obligations to investors under the listing rules. This ASX's review of its listing rules and resulting proposed updates are consistent with meeting these regulatory objectives.

### ***Free float requirement***

AFMA agrees with the purpose of a minimum free float requirement which is intended to promote liquidity and encourage the formation of a secondary market trading. The 20% minimum for the free float is generally in keeping with Australian market practice in terms of origination activities and brings the Listing Rules in line with other markets in our region and is consistent with the UK Financial Conduct Authority (FCA) Listing Rules. The free float market practice has developed as a means to raise market liquidity so that a more accurate view on supply and demand can emerge. More accurate assessment of supply and demand and ensuing pricing is beneficial to the market.

### ***Financial thresholds for listing on ASX***

AFMA agrees that the proposed modest increases to the thresholds need to be made. The thresholds for balances sheets and profitability have not been reviewed for a very long period and are now well below what was considered as adequate minimums in inflation adjusted terms when they were set.

AFMA also recommends that ASX set in place a more regular review cycle for financial thresholds to ensure that they retain their adequacy in line with inflation.

### ***Investor spread test***

AFMA supports the proposed spread test as a complement to the minimum free float requirement. Accordingly, these two changes should be made in conjunction with each other. AFMA understands that the increased parcel size of \$5,000 is in line with commercially realistic practice for attracting sufficient investor interest.

### ***Working capital***

It is a modest requirement for all companies seeking listing to have working capital of at least \$ 1.5 million after the specified deductions. Companies need to state in a prospectus whether they have sufficient working capital to meet their stated objectives. The general specification of a minimum \$1.5 million working capital figure gives investors a simple initial benchmark for beginning their assessments. This change will provide additional information to give comfort to retail and institutional investors that the listed entity has sufficient resources to carry on its business for a reasonable period.

AFMA supports this requirement as an addition where companies are also relying on the asset test as it assists with assessing the sufficiency of a company's capital. The standardisation of working capital requirements for entities listing under the assets test on admission also reduces Listing Rule complexity and increases certainty.

### ***Audited accounts***

AFMA supports the general requirement for 3 years of audited accounts for entities seeking admission as a general principle for all listing applicants. This is a basic expectation for public companies. It is a practical suggestion for the ASX to have a discretion to waive this requirement in cases where companies have not been in existence long enough to have had 3 audits. In exercising such a discretion it would be expected that ASX would take account of ASIC's views in its *Improving disclosure of financial information in prospectuses: Update to RG 228 CP 257* and apply its discretion consistently with the ASIC approach to this and qualified or modified audit opinions.

If you have any queries with regard to these comments I can be contacted on 02 9776 7995 or [dlove@afma.com.au](mailto:dlove@afma.com.au).

Yours sincerely

A handwritten signature in blue ink that reads "David Love". The signature is written in a cursive, flowing style.

David Love

**General Counsel & International Adviser**

**Australian Financial Markets Association Limited**