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Office of General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000
Attention: Diane Lewis
Senior Manager, Regulatory & Public Policy

Dear Diane,
We support the ASX proposals designed to safeguard the fine name and reputation of the ASX as Australia's primary securities market. By way of background, our company is establishing a platform that is aimed at being a stepping stone platform to ASX for SME's typically with Enterprise Value of up to $100 million. Using our platform companies will get better prepared for their ASX listing and will be more knowledgeable about investor engagement, profiling, governance, financial reporting and better understanding the ASX. We aim to launch officially in the next couple of months.
In the meantime we comment as follows:

Consultation questions and answers

1. Do you support the introduction of a 20% minimum free float requirement? If not, why not and would you support a different minimum free float requirement?

We support the rationale for having greater free float of shares given that the higher the free float, the more active the market in the stock and easier for people to trade in / out especially where there are large holdings coming out of escrow etc. LSE for example sets a 25% free float benchmark. Greater trading activity will also produce a more effective market and ideally avoid wide spreads and share price volatility.

However, the following points are relevant:

1.1 many initial listings are characterised by largish blocks of shares, some with restrictions and some where a Fund or institution may have large percentage holdings that will take time to enable sell downs etc

1.2 The amount of a company's free floating stock will typically go up over time. This occurs because companies may sell shares in a secondary offering to expand the business or make an acquisition, or periodically when employees exercise their options

1.3 If the ASX proposal re 200 security holders where the entity has a free float of less than A$50 million, or 100 security holders where the entity has a free float of A$50 million or more is activated, it could impact the smaller listed companies which often list on low spread with limited free float

We suggest the same end objective but with variations as follows:

a) Companies with a market cap < $100m and listed prior to 1 9 15 (i.e. 12 months or more from when the new Rules take effect) need to show a free float of at least 10% AND outline to ASX a strategy to increase the free float to 15% within the next 12 months and 20% twelve months thereafter

b) Companies with a market cap less than $100m and listed after 1 9 15 (i.e. 12 months from the new Rules taking effect) have 12 months to demonstrate a free float of at least 10% AND outline to ASX a strategy to increase the free float to 15% 12 months after that date and 20% twelve months thereafter

c) Companies with a market cap >$100m and not listed more than 12 months – 15% free float with 20% threshold being met 12 months thereafter

d) Companies with a market cap >$100m and listed more than 12 months – 20% free float

We believe this provides a company a more optimal transition of what would initially be a compact register then transitioning through natural market processes to a higher free float percent.

2. Do you have any comments on the proposed definitions of "free float" and "non-affiliated security holder" for the purpose of the proposed minimum free float requirement? Do you see any issues with excluding shares that are subject to voluntary escrow from the definition of "free float"?

We are generally satisfied with the proposed definitions for the purpose of calculating the minimum free float requirements. ASX will need to be vigilant though on companies having "voluntary escrow" parcels assigned for convenience to comply with the free float threshold.

Also voluntary escrow arrangements can involve unrelated third parties and by excluding such holders from the free float definition may cause an entity to fail the free float test. We believe ASX will need to consider non-affiliated holders of shares subject to voluntary escrow arrangements carefully so as not to disadvantage a company re its free float hurdle. ASX can exercise its discretion and should treat parties as affiliated or non-affiliated with the entity according to ASX's view re the relationships.

3. Do you support the proposed changes to the spread test? If not, what element or elements of the changes do you not support, and what are your reasons?

ASX proposal is to change the minimum spread requirement for ASX listings to require:

• 200 security holders if the entity has a free float of less than A$50 million, or 100 security holders if the entity has a free float of A$50 million or more; and

• each security holder counted towards spread must hold a parcel of securities with a value of at least A$5,000.

This proposed change has had a lot of media attention along the lines of ASX discouraging retail (mum and dad) investors from ASX listings and we are aware of a number of petitions to vary this proposal.

We appreciate ASX's conundrum here as we have seen many IPOs fall over the line on spread where retail investors have put $2,000 on their credit card just to make a quick profit on the listing and repay their credit card within the 30 to 55 day no interest period. Company spread should not be built on people punting $2000 and depending on a quick sale to make a profit and repay their short term debt. This activity also puts too much pressure on the newly listed company as the sell side pressure unfairly depresses the company's price and it is hard for a company to recover from sell side pressure just to meet investors' short term buying decisions for the wrong reason.

If the retail community want to make an informed decision to invest with an air of market reality, they should buy on market post the IPO / RTO, and have more certainty around the price. But this thinking probably circumvents the smaller investor wanting to buy shares on a float and we should not dislocate the many by trying to stop the small stag punter mentality.

We recommend a compromise that would change the minimum spread requirement for ASX listings to require:

For companies with a free float of less than A$50 million:

• 350 security holders holding a parcel of securities with a value of at least $3,000; or

• 200 security holders holding a parcel of securities with a value of at least $5,000

For companies with a free float of more than A$50 million:

• 200 security holders holding a parcel of securities with a value of at least $3,000; or

• 100 security holders holding a parcel of securities with a value of at least $5,000

We feel this will continue to ensure an active market and trading

We also believe that whilst ASX will not impose a rules-based residency requirement for spread, ASX will need to monitor this closely and we believe there should be a minimum residency holding percentage to avoid the ASX being used as a market wherein the shareholders have no understanding or appreciation of the governance and ethos of ASX in keeping a well informed market.

You cannot separate the head from the body re information in one jurisdiction and a trading platform operating in another jurisdiction that may be completely devoid of what is actually going on with that company.

4. Do you support the increase in the last year's profit element of the profit test? If not, please provide your reasons.

We agree with the ASX proposal to increase the consolidated profit requirement under the profit test for the 12 months prior to admission to at least $500,000 with the other requirements in the profit test remaining unchanged.

5. Do you support the increase in the net tangible assets and market capitalisation elements of the assets test? If not, please provide your reasons.

The ASX proposal is to increase the NTA threshold from $3 million to $5 million or a market capitalisation of at least $20 million (previously $10 million) (other than investment entities).

The assets test has always been an important pathway for an entity without a track record of profitability i.e. being able to apply for admission on the basis of its NTA or market capitalisation. This avenue is particularly useful for early stage companies with assets largely in intangible form. Part of the challenge though is that these companies often just trigger the minimum subscription to see the net cash tangible asset get them over the line meeting the $10m market cap threshold. In many cases the motivation is to meet the minimum requirement and not whether that funding will achieve the business objectives outlined in the Offer Document. Being new to ASX, such companies often find unbudgeted compliance costs and shareholder engagement costs taking funds away from the primary business area, resulting in the need to go back to the market within 12 to 18 months and often in a distressed manner with a soft share price. Such companies would be better off securing a pre-IPO round of funding and then listing from a stronger position and perhaps being able to meet a $20 million market cap hurdle. The Private Company Platform is designed to do just that – help companies pre-ASX via a round of funding and more education around what it means to be on ASX.

It is important for people investing into small cap companies with low NTA backing and a moderate cash burn, that the investee company has the best possible chance of achieving its business goals. Hence we are supportive of the increased NTA and market cap requirement. A possible concession could be the market cap requirements going from $10 million to $15 million with a review in 12 months to further adjust it to $20 million.

We believe there are increasing pathways for companies to tap pre-IPO and earlier stage funding than there was ten years ago so we do not believe it will adversely affect the emerging company funding opportunities.

6. Do you think it is appropriate to extend the minimum requirement for $1.5 million working capital after deducting the first year's budgeted administration costs and costs of acquiring any assets (to the extent that those costs will be met out of working capital) to all entities admitted under the assets test? If not, please provide your reasons.

YES – we are most agreeable with extending the requirement for at least $1.5 million in working capital to be available after deducting administration costs and the costs of acquiring any assets to all entities admitted under the assets test. It is vital that the listed entity has sufficient resources to carry on its business for a reasonable period. We are very pleased to see companies being required to include a statement in their prospectus or PDS that they have sufficient working capital to carry out their stated objectives, or else provide such a statement to ASX from an independent expert. Too many companies are listing on ASX without sufficient fuel in the tank to achieve their objectives and they underestimate the working capital requirements. Shareholders should not be exposed to such risk given often they are the ones that lose most from a company entering Administration or being reconstructed for a "re-birthing." Directors need to be more aligned with their responsibilities to shareholders to position the company with the best chance of success.

7. Do you think it is appropriate to maintain a fixed minimum $1.5 million working capital requirement in addition to a requirement for the entity admitted under the assets test to make a statement that it has sufficient working capital to meet its stated objectives? If you think the fixed working capital requirement should be a different amount, please tell us the amount and explain why.

YES – we believe $1.5 million provides an adequate benchmark for a company's working capital. The global economy is sailing through choppy seas and companies need at least $1.5 million as a prudent working capital reserve to provide comfort to shareholders that their focus is on the business and not being distracted by fund raisings or funding restraints that jeopardise the core business / value driver.

8. Do you support the proposed requirement for entities admitted under the assets test to provide 3 full financial years of audited accounts, unless ASX approves otherwise? If not, please provide your reasons and describe what, if any, alternative approach you consider should be taken by ASX in order to meet the objectives of the proposed change.

YES – companies need to put more effort in being properly prepared for an ASX listing and in that context three years audited accounts (with clear opinions) is a prudent pre-condition. We would recommend perhaps a phase in period of 12 months so as not to adversely affect companies on track now to list on ASX in the next 12 months under current Rules.

Such change is in line with the Australian Securities and Investments Commission (ASIC) in Consultation paper 257 issued last month: Improving disclosure of historical financial information in prospectuses — Update to RG 228.

There may cases where it is impossible to provide an unqualified report e.g. opening figures, inventory stock takes, offshore operations, or the entity may have only been established in the last couple of years. In these cases we believe there needs to be a thorough audit review of the historical statements and any reasons for a qualified opinion. Also in these cases there should be an audit review of the assumptions underlying the forecasts of the entity particularly cash flows as most observers are interested in the assumptions around the future performance rather than the past particularly for a start up or high cash burn company. There should also be scrutiny and elucidation in a report of the company's liability side of the balance sheet to ensure most of the proceeds on the listing go to achieving the forward looking business plan and not paying down accounts payable and other liabilities that have built up and need payment to avoid insolvency. Investors need to have greater visibility around such matters even where there are 3 years of audited accounts.

9. ASX has proposed that it will generally accept less than 3 years of audited accounts for an assets test entity (or an entity or business to be acquired by the entity) only in the circumstances where ASIC will accept less than 3 full years of accounts in a disclosure document, as explained in Part F of ASIC Regulatory Guide 228 (RG 228).

Simultaneously with the release of this consultation paper, ASIC has released a consultation paper seeking comments on proposed changes to RG 228 setting out these circumstances.

Are there additional circumstances where you consider ASX should be prepared to accept less than 3 years of audited accounts to those outlined in ASIC's consultation paper on RG 228?

NO – we feel RG 228 covers the area well – also see our comments above

10. ASX has also proposed that it will only accept the types of modified opinion, emphasis of matter or other matter paragraph in accounts lodged with a listing application that ASIC will accept in a disclosure document, as explained in Part F of RG 228. Are there additional types of modified opinion, emphasis of matter or other matter paragraph that you consider ASX should be prepared to accept to those outlined in ASIC's consultation paper on RG 228?

We agree with the ASX proposal to introduce a new requirement for entities seeking admission under the assets test to produce audited accounts for the last 3 full financial years. If the accounts for the last full financial year are more than 8 months old, we agree with the proposal for that entity to be required to produce audited or reviewed accounts for the last half year.

We also concur with the ASX proposing that an entity seeking admission under the assets test be required, unless ASX agrees otherwise, to produce 3 full financial years of audited accounts for any entity or business to be acquired by the entity at or ahead of listing. We concur with the proposed rules requiring that the audit reports or review must not contain a modified opinion, emphasis of matter or other matter paragraph that ASX considers unacceptable.

We believe ASX does need to evaluate special circumstances where an entity looking to list on ASX either has a qualified opinion or not. ASX is about creating a professional and informed market and there may be cases where investors and potential shareholders need something further than that envisaged by ASIC's RG228.
ASX needs to have discretion re additional audit review of past / forecast information it deems relevant to keeping a proper market in that company's shares or allowing a listing with a qualified report provided the reasons are explained in the Offer document, PDS etc. ASX can be more proactive in this area and help ASX-aspirant companies by identifying matters that the company needs to attend to before they can list on ASX – this is just good sense and helps the companies and ensure a well run market place.

11. Do you agree with the list of overseas home exchanges proposed in section 2.1 of Guidance Note 4 (i.e. the main boards of Deutsche Börse, EuroNext (Amsterdam), EuroNext (Brussels), EuroNext (Paris), HKSE, JSE, LSE, SGX, TSE (Tokyo), TSX (Toronto), NASDAQ, NYSE and NZX) as being ones generally acceptable for an ASX Foreign Exempt listing? Are there any of these exchanges you would delete from this list? Are there any other exchanges you would add to this list?
YES we agree
12. Do you agree with the introduction of a further window for admission for ASX Foreign Exempt listings allowing them to be admitted to ASX if their market capitalisation is at least $2,000 million? If not, what threshold (if any) do you think would be appropriate?
We agree that it is appropriate also to expand the assets test for ASX Foreign Exempt listings to provide a market capitalisation alternative. A market capitalisation threshold at $2,000 million, the same as the NTA threshold seems reasonable and hopefully will encourage, over time, more large overseas entities with a primary listing on an acceptable market to pursue a secondary listing on ASX.
13. Are there any specific issues or concerns that you can identify that would result from ASX removing the current requirements for foreign entities listed on ASX to maintain certificated registers in Australia?
NO
14. Do you believe the transition date of 1 September 2016 that ASX proposes for the introduction of the new admission rules is appropriate? If you think it should be sooner or later, please explain why?
We agree with the immediate change of policy re suspension of trading in an entity's securities from the moment it announces a backdoor listing transaction until it has re-complied with ASX's admission and quotation requirements under listing rule 11.1.3. We believe a start date for the rest of the proposals to be 1 January 2017 would enable companies time to adjust to the proposed requirements. The phase-in of thresholds noted above would also be advantageous.
15. Do you have any other comments on the issues discussed in this paper or the proposed listing rule and Guidance Note changes?
We welcome the ASX proposal to reinforce ASX's absolute discretion on admission and quotation decisions and to state that ASX will take into account the reputation, integrity, and efficiency of its market in exercising these discretions. It is critical that ASX protects its brand and reputation on the world stage. It is more than simply ticking the listing eligibility boxes, companies listing on the ASX and engaging with the public and capital markets must share the ethos and integrity of what the ASX represents. Listing on ASX and ongoing compliance costs are not insignificant and the reality is that many companies - particularly small / emerging companies – have listed on ASX for the wrong reason and without truly understanding their responsibility to market participants and external shareholders making investment decisions that affect their savings and superannuation funds to a large degree. Australians have a high direct shareholding percentage and integrity of the market is critical. Our Private Company Platform will provide an excellent stepping stone platform for ASX-aspirants and we look forward to working closely with ASX as we near our launch date.

We look forward to working with ASX and please contact the writer regarding any further input or comments,

Yours faithfully

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