Australian Government

Australian Accounting Standards Board

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12 March 2019

Board of Directors
ASX Limited
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Dear Directors,

Public Consultation – Simplifying, clarifying and enhancing the integrity and efficiency of the ASX listing rules

The Australian Accounting Standards Board (AASB) staff appreciate the opportunity to comment on one proposal in item 2.3 'Disclosure by listed investment entities of their NTA backing' in the Consultation Paper (dated 28 November 2018).

In particular, the staff consider that the proposed clarification in item 2.3 of the meaning of intangible assets (variable I) in the definition of net tangible asset backing in rule 19.12 is inconsistent with the Australian Accounting Standards. We consider that it would be useful to discuss accounting standards-related issues with AASB staff when the ASX is developing proposals for public comment, so that we can address any perceived inconsistencies in advance.

The proposed clarification in item 2.3 would add a note to the definition of net tangible asset backing to state that capitalised listing expenses are to be treated as intangible assets.

Accounting Standard AASB 132 *Financial Instruments: Presentation*, paragraph 37, requires registration and other costs that are incurred in issuing equity instruments to be deducted from equity to the extent that they are incremental costs directly attributable to the equity transaction. The costs of an equity transaction that is abandoned are to be expensed.

This requirement is usually interpreted to mean that listing costs relating to a new issue of shares would be deducted from the issue proceeds in equity, and listing costs relating to a listing of existing shares would be expensed. The only circumstance in which listing costs might be recognised as an asset – temporarily – occurs when the costs are incurred in advance of the new shares being issued. Some people take the view that the costs should be recognised as an asset, rather than being deducted in equity, prior to the new shares being issued. However, even if recognised as an asset, the listing costs would be reclassified as a deduction from equity when the new shares are issued, or else expensed if the issue does not proceed.

In contrast, the proposed note to the definition of net tangible asset backing suggests that listing costs can be capitalised as an asset in any circumstance. Apart from the temporary case noted above, the AASB staff do not consider the implication of the proposed note to be consistent with AASB 132. Listing costs in their own right do not give rise to future economic benefits for the entity and so should not be recognised generally as assets.

The staff note that the net tangible asset backing is a monthly disclosure by listed investment entities to the ASX and is proposed in the consultation paper as an additional annual disclosure in the annual report. The disclosure would not be required in entities' financial statements. However, we consider that financial disclosures by listed entities should be consistent with the requirements of Australian Accounting Standards as far as possible. This is especially so for disclosures in an annual report that also contains financial statements.

Please contact Kala Kandiah, AASB Technical Director (kkandiah@aasb.gov.au) or me if you have any questions or would like to discuss our comments further.

Your sincerely,

Peter Loukas
AASB Practice Fellow