

6 March 2019

ASX Limited
PO Box H224
Australia Square NSW 1215

Attention: Mavis Tan (mavis.tan@asx.com.au)

Dear Ms Tan

ASX Consultation Paper: Simplifying, clarifying and enhancing the integrity and efficiency on the ASX listing rules

Deloitte submission

Deloitte is pleased to provide the Australian Securities Exchange (the ASX) with our comments on the ASX's Consultation Paper: *Simplifying, clarifying and enhancing the integrity and efficiency on the ASX listing rules* dated 28 November 2018 (the Consultation Paper).

As outlined in the Consultation Paper, the ASX is proposing a number of changes to the listing rules so that they remain contemporary, address emerging compliance issues, and continue serving the interests of users, investors and the wider market.

Deloitte is pleased to provide comments on the proposed changes in those areas where we have expertise from our role as professional advisor to entities who are seeking a listing on the ASX. In addition, drawing on our professional expertise, we have suggested some additional areas where we recommend that the ASX consider enhancing its current guidance.

Matters addressed in the Consultation Paper

Working capital

The ASX has proposed to update the working capital test in rule 1.3.3 and has included a proposed definition of working capital in rule 19.12.

Firstly, with regard to the Working Capital Test set out in *rule 1.3.3* requiring an entity to confirm that it has adequate working capital to achieve the stated business objectives, we are supportive of ASX's proposed requirement that the stated business objectives are explicitly set out so that the company can then confirm it has adequate working capital to achieve those objectives.

The proposed amendments also include removing the provisions permitting an entity to include in its working capital its budgeted revenue and budgeted administration costs for the first full financial year following listing. We appreciate that this requirement in the past has raised further questions (and can be a fairly complex and judgemental area in many respects) around how these figures should be confirmed, why other budgeted expenses apart from administration costs are not included, why revenue and administration costs in the lead up to the commencement of the first full financial year are not included, potential liability for forward looking statements etc. However, we do consider that a focus on the forward-

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looking working capital position and adequacy of forecast working capital is important from the point of view of investors. We note also that other jurisdictions and exchanges have more stringent regulatory and reporting requirements in respect of forecast cash flows and working capital designed to protect incoming shareholders and would welcome a discussion on this topic.

Secondly, with regard to the proposed definition of working capital in *rule 19.12* is “the difference between an entity’s current assets and its current liabilities”, whilst we agree that this is a much simpler approach, we believe that it will still require some debate on a case by case basis and is unlikely to remove the ambiguity altogether. For instance:

- A number of Technology and growth companies (such as SaaS businesses) have a significant deferred revenue balance which would strictly speaking form part of their working capital balance. What is the expectation around such items (would their inclusion result in such companies failing the Asset Test)?
- There are also other items, which are not working capital in nature, such as financial instruments are included in the calculation of working capital.
- There may also be instances where borrowings have been appropriately classified as current liabilities in the audited financial statements and the terms of those borrowings have been renegotiated post year-end. In these circumstances, will it be permissible to exclude these borrowings when determining whether the working capital requirements have been met?

Will the ASX permit issuers to make adjustments for items such as those described above, provided the issuers include sufficient explanation and detail of the adjustments in the disclosure document? Or does ASX propose to include further clarity in relation to such items?

Net Tangible Assets

We welcome the proposed enhancements to the definition of Net Tangible Asset (NTA). However, we believe that it would be beneficial if the definition also clarified the treatment of deferred tax assets (DTAs) when determining NTAs. DTAs do not meet the definition of an intangible asset in accordance with AASB 138 however; many people believe that they are more in the nature of an intangible asset than a tangible asset. Clarifying the treatment of them when determining NTAs would facilitate consistency.

Other matters not specifically addressed in the Consultation Paper

We believe that there is also opportunity for the ASX to clarify the following requirements.

Financial information requirements for “Roll Ups”

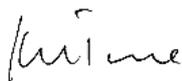
Given the frequency of listing of entities formed to facilitate a “roll up”, it would be beneficial if the ASX clarified the requirements in respect of audited/reviewed historical financial information for these structures and the format of that reporting. This would include your expectations as to the extent of compliance with the recognition, measurement and disclosure requirements of Australian Accounting Standards whilst acknowledging that financial statements as defined in AASB 101 *Presentation of Financial Statements* and AASB 10 *Consolidated Financial Statements* cannot be prepared as there is no basis for consolidation or principles of aggregation applicable to equity balances.

Entities applying for admission within 75 days of the half-year

Clarification of the financial information requirements (requirement to lodge financial statements as pre quotation disclosure in particular), including requirements for comparative information, for a half-year period when the application for admission is made within 75 days of the half-year reporting date.

Please do not hesitate to contact us if you would like to discuss any of our comments raised in this letter further.

Yours sincerely



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