

Office of General Counsel  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000  
Attention: Diane Lewis

24 June 2016

Email: [regulatorypolicy@asx.com.au](mailto:regulatorypolicy@asx.com.au)

Dear Ms Lewis

Submission on Consultation Paper: *Updating ASX's admission requirements for listed entities*

Ernst & Young welcomes the opportunity to offer its views on the consultation paper on *Updating ASX's admission requirements for listed entities* issued by the ASX on 12 May 2016.

On the whole, with the exception of our specific comments regarding the spread test and for the requirement of audited accounts from assets test entities and business acquisitions, we support the amendments that the ASX plans to adopt with effect from 1 September 2016.

Outlined below are our specific observations and recommendations on the key proposed changes:

*Increasing the financial thresholds for listing*

We are supportive of the proposed changes to the financial thresholds for both the profits and assets tests for listing.

*Introducing a minimum free float requirement*

We recognise the need for a minimum free float requirement in the Australian securities market and support the ASX's proposal for the introduction of a 20% minimum free float requirement.

*Changing the spread test*

We do not support the proposed changes to the spread test and we recommend that ASIC give due consideration to that the fact that peer exchanges tend to have more easily satisfied minimum spread requirements than the ASX based on our understanding that peer exchanges have a rules-based minimum free float requirement in the range of 12 - 25%.

*Applying the same working capital requirements to all assets test entities*

We are supportive of the ASX's proposal to extend the working capital requirement of \$1.5 million, which currently applies to mining and oil and gas exploration entities only, to all entities admitted under the assets test.

We believe that working capital is an appropriate and meaningful financial measure for potential investors and a standardised working capital requirement for entities planning to list will provide greater confidence for the market as a whole. We also believe that a fully supported 12 month working capital statement by the Directors should be made in all ASX listing disclosure documents, whether forecasts are included in the listing materials or otherwise.

### *Requiring audited accounts from assets test entities*

We do not support the ASX's proposal to introduce a new requirement for entities seeking admission under the assets test to produce audited accounts for the last three full financial years.

While we acknowledge that the ASX proposals aim to improve the quantity of the financial information disclosed, we believe that the existing listing rules already provide for an appropriate amount of disclosure of financial information for most entities. We believe that the new proposed requirements will act to inhibit certain issuers from listing on the ASX, such as early stage entities like start-ups, mining and oil and gas exploration entities, who may have limited historical financial information available but may have a viable prospective outlook.

We also believe that the market and potential investors should be given the opportunity to invest in these early stage entities, should they wish to do, given the existing ASX listing requirements already provide an adequate risk and financial disclosure framework for potential investors to make an informed investment decision.

In our view, the ASX has an important role to play in the development of vibrant small to medium-sized enterprises sector to support economic growth and to ensure it continues to facilitate access to capital by early stage entities. From a public policy perspective, we urge the ASX to reassess its proposals with respect to the requirement for entities seeking admission under the assets test to produce audited accounts for the last three full financial years.

### *Requiring audited accounts for business acquisitions*

ASX has proposed that an entity seeking admission under the assets test be required, unless ASX agrees otherwise, to produce three full financial years of audited accounts for any entity or business to be acquired by the entity ahead of listing.

Whilst we agree with the ASX that these proposals are appropriate in a backdoor listing scenario, recent transactions in the market would indicate that there may be substantial practical difficulties for prospective issuers in obtaining historical financial information and having these subject to audit with respect to all of the acquisitions it may have undertaken within the track record period. We are aware that in practice both the ASIC and ASX have exercised discretion for alternative approaches to be adopted.

Consequently, we are not supportive of this proposal in its current form. In our view, it does not take into account the following:

- The increased cost and timeliness of obtaining three full financial years of historical financial information and the associated costs of the audit of such financial information;
- The profile of the acquired businesses may significantly change after the acquisition and subsequent listing of the issuer which will result in limited relevance of the historical financial performance of business acquisitions to potential investors;
- The quantity and quality of historical financial information required is not mindful of the significance of the business acquisition to the potential issuer, including the fact that the volume of historical financial information which will be required to be attached to offering document is highly dependent on the number of business acquisitions the potential issuer has undertaken or will undertake during the track record period; and
- The proposed requirement appears to be in excess of what is expected of an existing listed entity with respect to its financial statement disclosure requirements of such transactions.

We believe it would be more appropriate for this requirement to be based on materiality of the entity or business acquired/ to be acquired by the potential issuer. We recommend that the ASX give due consideration as to whether this requirement may be more effective on the basis of a materiality framework so that an acquisition of the business or entity can be assessed against how material it is to the entity being listed and consequently, the relevance of its historical financial information to potential investors.

Furthermore, whilst we understand that the ASX may exercise discretion of the listing requirements in light of the specific circumstances of an issuer, we believe it should provide appropriate application guidance for the framework under which it expects to exercise such discretion to provide greater transparency and clarity to the market.

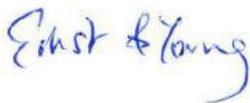
*Interaction with ASIC's Consultation Paper 257: Improving disclosure of historical financial information in prospectuses: Update to RG228 ("CP257")*

We would like to highlight that the above-mentioned proposals requiring three full financial years audited historical financial information appear to be inconsistent with ASIC's CP257 which proposes to require issuers to include at least two-and-a-half or three years of audited historical financial information, regardless of whether the profits or assets test is applied.

The ASX consultation paper does not outline the circumstances in which two-and-a-half years historical financial information would be appropriate and whether this would be acceptable to ASX given it does not satisfy ASX proposed admission requirement of three years. We recommend that ASX link CP257 to its admission requirement to provide greater clarity to the market on when less than three years historical financial information would be acceptable to the ASX prior to the proposed changes becoming effective.

We welcome the opportunity to contribute to the improvement of ASX's admission requirements for listed entities and believe that the proposed changes, subject to due consideration of our comments, will maintain and strengthen the reputation of ASX as a market of quality and integrity. We would be pleased to discuss our comments with the ASX and its staff. Should you wish to do so, please contact Kathy Parsons ([Kathy.Parsons@au.ey.com](mailto:Kathy.Parsons@au.ey.com)) or on (02) 8295 6882).

Yours sincerely



Ernst & Young



Mike Wright  
Oceania Assurance Managing Partner