

ASX Limited
PO Box H224
Australia Square NSW 1215
Attention: Mavis Tan

1 March 2019

By email: mavis.tan@asx.com.au

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

Dear Ms Tan

Ernst & Young welcomes the opportunity to offer its views on the consultation paper on simplifying, clarifying and enhancing the integrity and efficiency of the ASX listing rules issued by the ASX on 28 November 2018.

On the whole, we support the ASX's objective to simplify, clarify and enhance the integrity and efficiency of the ASX listing rules.

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

Item 2.1 Quarterly reporting

We generally agree that amendments to the quarterly disclosures for mining exploration entities and oil and gas exploration entities would provide useful information regarding actual expenditure and use of funds.

Similarly, we generally agree that amendments that would require relevant start-up entities to provide quarterly reporting like that required for mining exploration entities and oil and gas exploration entities would provide useful information.

In both instances, the amended requirements would require additional reporting which may require those entities, who often have limited resources, to incur additional costs. It may be relevant to consider additional relief for those entities, such as longer financial reporting lodgement deadlines for start-up entities (similar to those available to relevant mining exploration, and oil and gas exploration entities).

Item 2.3 Disclosure by listed investment entities of their NTA backing

Amending the definition of "net tangible asset backing"

We are generally supportive of proposed amendments where those amendments would result in improved consistency between the definitions of variables used to determine net tangible asset backing and current Australian Accounting Standards. However, there may be unintended consequences from the currently proposed amendments.

The current listing rules limit the requirement to calculate net market value to investments only. The proposed amendments would make changes such that the value of all assets and all liabilities would be calculated at “fair value” in accordance with Australian Accounting Standard AASB 13 *Fair Value Measurement*.

There may be a number of assets and liabilities that are not measured at fair value by the LIC/LIT in the relevant financial statements, such as receivables, prepayments, tax assets and liabilities, provisions and accruals. The proposed amendments could lead to an unnecessary increase in compliance effort and / or cost for LIC/LITs. The proposed amendments could also lead to greater inconsistency in measurement by LIC/LITs as valuation assumptions will be applied to assets and liabilities not otherwise measured in the financial statements at fair value under Australian Accounting Standards. This could then create the need for directors to consider providing a reconciliation to the amounts used in the financial statements. We recommend that the value of assets and liabilities for the purposes of the definition of net tangible asset backing should be calculated based on their measurement applied in the financial statements in accordance with Australian Accounting Standards.

We support the addition of a note supporting the definition of intangible assets to clarify the treatment of capitalised listing expenses as an intangible asset (where relevant). We recommend that further guidance could be provided in relation to the definition of intangible assets having regard to the presentation of items in the LIC/LIT’s balance sheet and the guidance contained in AASB 138 *Intangible Assets*.

In addition, or as an alternative to additional guidance in respect of the definition of intangible assets, we recommend that further examples be provided to assist in application of the amended listing rules. For example, additional examples for clarifying assets such as prepayments for goods and services, tax balances, and right-of-use assets following the adoption of AASB 16 *Leases* (to the extent applicable) would be beneficial.

In addition, we understand that other regulations, including those monitored by ASIC (such as financial obligations imposed on Australian Financial Services licensees), require determination of net tangible assets. Judgement is also required by Australian Financial Services licensees in applying the definition of intangible assets (e.g. whether right-of-use assets resulting from the application of AASB 16 *Leases* will be classified as tangible or intangible assets). We recommend that consistency in definitions and application be sought by the ASX between the requirements of the ASX listing rules and with other similar regulations that require determination of net tangible assets, to the extent applicable.

Amendments to require a LIC/LIT to make disclosures in its annual report

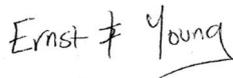
The proposed amendments that would require a LIC/LIT to disclose in its annual report to the values of its individual investments (including derivatives) are likely to represent a substantial new requirement that could lead to a significant increase in the effort and / or cost for LIC/LITs to comply with the amended requirement.

The additional disclosure is likely to provide more information in relation to an entity’s portfolio management and strategy which may represent a significant disadvantage to other investment structures (such as Managed Investment Trusts and Attribution Managed Investment Trust). Additionally, for portfolios of many individually insignificant investments this information could be extensive such that its disclosure obscures the risk profile of the securities held by the investors.

In our view, the ASX should consider whether limiting the disclosures required by the listing rules to a 'condensed schedule of investments' that is guided based on significance of size or risks could balance the potential commercial costs with improved quality of disclosure of material investment holdings.

We welcome the opportunity to contribute to the ASX's process to simplify, clarify and enhance the integrity and efficiency of the ASX listing rules. 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) or on (02) 8295 6882).

Yours sincerely



Ernst & Young



Glenn Carmody
Managing Partner Assurance Oceania