



28th February 2019

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Submission to the review on Simplifying, clarifying and enhancing the integrity and efficiency of the ASX Listing Rules

The Listed Investment Company and Trusts Association Ltd represents over 60 listed companies and trusts, comprising over 90% of the market capitalisation of the listed company and trust industry.

We are pleased to make the following submission to assist with the development of the listing rules.

Should there be queries on our submission or should our assistance be required in explaining or reviewing matters relevant to the industry please contact Ian Irvine, Chief Executive Officer (ian.irvine@signum.net.au) or Angus Gluskie, Director (agluskie@whitefunds.com.au).

Yours faithfully,

A handwritten signature in black ink, appearing to read "A. Gluskie".

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A.Gluskie (Director)

Item 2.3 Disclosure by listed investment entities of their NTA backing

Defining items included in NTA

- a) We would strongly recommend that ASX **do NOT attempt to provide overly explicit definitions** of the Asset and Liability components making up Net Tangible Asset backing.

Instead, we would suggest that the listing rule should state that Net Tangible Asset backing **should be determined on a basis that is consistent with accounting standards and the entity's financial statements.**

The reasons for our recommendation are:

- (i) There are numerous accounting standards which may determine factors such as "Liabilities" or "Assets". It would not be feasible, nor appropriate, for ASX to redefine such items.
 - (ii) Should ASX attempt to define such items, these definitions may not align with the requirements of accounting standards. (An example would be that the proposed definition that "L" be determined at Fair Value conflicts with accounting standards that in some circumstances value liabilities at Fair Value and in other instances require them to be valued at cost or amortised cost.)
- b) We are aware that there may be **differing interpretations of item "I" Intangibles**. To ensure consistency amongst listed investment entities it may be appropriate for the ASX listing rule to be more specific on this item. However this should be done in a manner which does not conflict with accounting standards.

A possibility would be for the listing rule to indicate a range of items which should be classified as Intangibles, while indicating that such list is not exhaustive.

Items which the ASX may need to consider as to whether or not they should be excluded as an intangible are:

- (i) Capitalised Listing Expenses
- (ii) Prepayments
- (iii) Future Tax Benefits
- (iv) Whether Future Tax Benefits should be considered tangible (not intangible) to the extent they can be offset against future tax liabilities

Item 2.3 Annual Report Disclosure of Individual Investments

Annual List of Investments

LICs remain **concerned that both the existing and proposed listing rules** (at LR 4.10.20) require the disclosure of all investments at year end. The reasons for this concern are:

- (i) That Managed Fund competitors do not have to disclose all their investment holdings, creating an uneven playing field between listed and unlisted funds;
- (ii) In some instances investment holdings may constitute confidential trade information and their public disclosure may not be in the best financial interest of shareholders. This could occur:
 - a. When a LIC is building a stake in a company and the publication of this holding results in a rise in the share price of the investment that makes it unattractive for the LIC to continue to build their stake; or
 - b. When the disclosure of short-sold positions or derivatives positions encourages third parties to seek to exploit the visible short-sold or derivative exposure.

Item 2.3 Timing of the Release of NTA Backing

We do **NOT consider the release of NTA backing “as soon as available” to be a realistic or necessarily desirable** proposal (unless this is appropriately qualified).

Listed Investment entities go through a process of cross-checking, verifying, investigating and authorising calculations such as NTA Backing prior to their release. The rationale behind this is to ensure the veracity and accuracy of information prior to its release.

Accordingly it may take some days from the time an NTA is first “available” until the point where all checks, investigations and authorisations have been satisfactorily conducted.

We do note that **it would be possible to qualify a requirement** to release the NTA “as soon as available” **by adding a phrase** such as “subject to the LIC having satisfactorily completed appropriate checks, investigations, verification and authorisation procedures” or by using the more generalised wording that is already used in Chapter 4 of the Listing Rules which requires periodic reports to be lodged “immediately they are ready to be given to ASX”.

In addition or as an alternative, we consider that **the ASX could consider shortening the release timeline** (for eg from 14 days to 10 days) as a means of resolving the issue.

Additional Item: Standard Format for NTA Backing Submissions

To ensure that NTA Backing submissions are consistent and to facilitate the subsequent use of that data by third parties (such as researchers and data providers), we consider it important that **a Standard NTA Backing Form be mandated** for use by all entities.

The use of a standard format document will enable the data to be efficiently scanned and extracted by automated systems.

To ensure that the data is consistent, and to facilitate the needs of end users **we would suggest that investment entities be required to submit two NTA Backing items** on this standard submission. The two NTA Backing items would be:

- (a) NTA Backing Before Deferred Tax
- (b) NTA Backing After Deferred Tax