



Ms Diane Lewis
ASX Limited
20 Bridge Street
Sydney
NSW 2000

5 July 2016

Dear Ms Lewis,

ASX Consultation Paper: Updating ASX's admission requirements for listed entities ("CP on admission requirements" or the "CP")

PwC welcomes the opportunity to comment on the ASX CP on admission requirements. We agree with the ASX's aim to ensure that the ASX market continues to be a market of quality and integrity that remains internationally competitive.

We agree that proposals in respect to admission to the ASX such as increasing the thresholds for the profits and assets test, changing the spread test and standardising working capital requirements will potentially help to attract entities with a greater surety of being able to carry on their businesses post IPO and which have greater investor support in the market. The quality and integrity of the market will benefit from this. The ASX is clearly aware of the need to attract early stage and start up enterprises. This will be important as the Australian economy transitions and any increase in the thresholds and working capital requirements may deter some potential issuers at the margin. We note, however that only relatively modest increases in the asset and profit test thresholds are proposed.

We note that this CP coincides with the release of a consultation paper from ASIC, Consultation Paper 257 "Improving disclosure of historical financial information in prospectuses: Update to RG 228" ("CP257"). Further alignment between ASX and ASIC in their expectations of entities proposing to issue a prospectus and list on the ASX will be beneficial to the efficient functioning of the market and we encourage continued co-operation between the two bodies in this regard.

Having noted the above we do have comments to make regarding the interaction between the two sets of proposals and the existing ASX listing rules on admission.

ASX proposes that they will generally only accept less than three years audited financial statements in circumstances where ASIC will accept less than three years and that this requirement extends to any entity or business to be acquired by the entity at or ahead of listing. This requirement will be extended to apply for the first time to those applying under the asset test as well as under the profits test

These proposals will impose a time and cost burden on those entities seeking a listing which have historically had no statutory requirement to produce audited financial statements. Smaller entities in

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emerging markets or utilising new technologies are likely to fall in this category and have historically applied for listing under the assets test. The cost burden may delay innovative companies from accessing the local equity market at a time when they need funding for commercialisation and are unable to access debt finance. Alternatively it may persuade these entities to look to markets overseas either in the region (for example Singapore or Hong Kong) or further afield if those markets appear to be more amenable to entities of this type such as AIM in the United Kingdom. Neither of these potential outcomes would be beneficial to the Australian economy. It may also inhibit the transition to an innovation led domestic economy which many, including PricewaterhouseCoopers believe is important if Australia is to diversify from being resources dependent.

We further note that the greatest cost and time impost of the ASIC proposals will be on any “roll up” IPOs involving the acquisition of multiple entities on IPO. The management time and third party costs involved in auditing three years of financial information for say between ten and twenty entities could easily exceed 6 months of time and over \$1million in audit fees. These represent “sunk costs” and until such time as the entity explores the market for its offering on the “roadshow” immediately prior to lodgement of the prospectus there is no guarantee that the IPO will proceed and hence the third party audit costs may never be recovered from the proceeds of the Offer. This could prove a considerable disincentive for any entities contemplating a “roll up” IPO, whether they are family owned businesses or Private Equity owned businesses seeking an “exit” via an IPO.

ASIC’s CP257 is proposing timeframes for the “currency” of the accounts to be prepared by issuers. These are however, inconsistent with those used by the ASX which could lead to confusion in the market. The ASX has an “eight month rule” in respect to the need to produce half year financial statements as part of its listing application rules. ASIC is proposing that 75 days could elapse from the half year prior to a requirement to produce half year financial statements – in essence an “eight and a half month rule”. Therefore for an entity with a June year end which lodged its prospectus in March of the following year but before 75 days from 31 December had elapsed ASIC would not require December accounts whilst ASX would require them. We would urge ASX and ASIC to co-operate to remove this inconsistency

Approaching ASIC to make the requirements of both bodies in terms of accounts align could also solve a further inconsistency. Using the example of the June year end issuer set out above, for a prospectus lodged after 75 days from 31 December both the ASX and ASIC would require reviewed December half year accounts but ASIC would be satisfied with the 2 prior years audited accounts whereas ASX would require 3 years of audited accounts. Eliminating such inconsistencies would improve market efficiency.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Haberlin', written in a cursive style.

Mark Haberlin
Partner

A handwritten signature in black ink, appearing to read 'Troy Porter', written in a cursive style.

Troy Porter
Partner