Chanticleer

For crowing there was not his equal in all the land...

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Nanny state suffocates Perth

Just when the green shoots were starting to show through in Perth's broking market the securities regulator and the ASX have moved to squash them.

The Australian Securities and Investments Commission (ASIC) and the ASX are pushing forward with an agenda that can be summed up with the phrase "bigger is better".

The two instruments for this campaign against small businesses and promoters of speculative mining stocks are: ASX's tougher listing requirements and ASIC's crackdown on forward-looking statements relating to production targets and forecast financial information.

In a nutshell, ASX wants to lift the net tangible assets of a new listed company from $3 million to $5 million and make the minimum market capitalisation $20 million instead of $10 million.

The toughening of the listing rules is aimed squarely at the backdoor listing market whereby shells of suspended companies are revitalised with new businesses.

The latest wave of reverse takeovers involves tech companies using the shells of old mining companies. This activity has been predominantly occurring in Perth.

What is strange about the ASX deciding to toughen the listing rules is that it is occurring at the same as ASIC is being pedantic and uncompromising about many proposed new listings.

A new listing used to take about six months to get from start to finish. It is not uncommon for this process to now take at least nine months.

ASIC's is nit-picking in ways that beg explanation.

Chanticleer heard of one company being forced to change all published figures relating to historic performance numbers into bar charts. That sort of exercise is actually reducing the information flow to investors.

There are many other anecdotes doing the rounds which support the argument that ASIC is living in an ivory tower. It has, on several occasions, forced promoters of companies to give all the money back to protect investors.

Also, it has questioned the business models that have been presented by tech entrepreneurs.

The risk disclosure section in prospectuses has become a happy hunting ground for ASIC as it seeks to protect investors from themselves.

Backdoor listings have a rich history in Perth. While there have been companies that ripped off investors there have also been legendary successes such as Andrew Forrest, who backdoor listed Fortescue Metals.

In the mining space, the new rules on forward looking statements for mining and resources companies will make it harder for companies to raise capital.

As a result of the changes there will be less information available to investors. Forecasts can be published only if the companies have the funding to proceed with the project that is the subject of the forecasts.

ASX is already enforcing the new rules. This has led to the bizarre situation of several companies that were not aware of the rules being forced to seek trading halts while they corrected the record. Companies caught in this situation included Gascoyne Resources and Volt Resources.

There have apparently been a number of other companies that have sought to include information relating to production forecasts that was previously allowed to be disclosed, but have had to delete it before lodging their announcements.

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It would seem that ASIC and the ASX are trying to protect the man or woman in the street from taking risks that are allegedly beyond their capacity to assess for themselves.

They are making moves that will force entrepreneurs seeking capital into a veritable dead zone.

One budding technology entrepreneur told Chanticleer that the existing ASX listing rules allowed a fast-growing company to obtain capital in the knowledge that early success would allow it to return to market at a higher valuation for the second round of capital.

By raising the bar for new listings, the ASX will force companies into the venture capital market that, historically, has shown little interest in small companies.

At a time when the Prime Minister, Malcolm Turnbull, is pushing the idea of innovation and start-ups, the two regulatory bodies setting the rules for our capital markets are going in the opposite direction.

In Perth, the green shoots can be seen in the resurgent gold price, a flood of backdoor listings by budding technology entrepreneurs and a buzz of excitement in the lithium sector.

Monday's merger between Galaxy Resources and General Mining will create a diversified global lithium producer but the new entity could well be captured by the crackdown on forward-looking statements.

ASX's general manager listings, issuer services and investment products is headed for Perth this week to explain the thinking behind the tougher ASX listing rules, which come into force in September this year.

He will be walking into the lion's den judging from the recent commentary from leading stockbrokers in Perth.

Influential business people in Perth say they will ensure Perth local and finance minister Mathias Cormann is apprised of what ASIC and ASX are doing in relation to smaller, entrepreneurial companies in technology and mining.

Private markets

One possible consequence of the move by ASIC and ASX against the smaller end of the market is encouragement for increased trading of unlisted securities and the raising of capital on internet trading platforms.

In Australia, the newest entrant in this field is PrimaryMarkets, which was founded by Gavin Solomon. It allows trading of unlisted securities by registered, sophisticated investors.

Solomon believes the ASX is in danger of losing its well-regarded worldwide reputation for enhancing capital raising efforts for start-ups and smaller market capitalisation companies.

"The smaller entities have been an attractive investment opportunity for smaller investors who are happy to invest in early-stage entities provided they have a simultaneous opportunity for liquidity for their individual investment," he said in a blog.

"The new ASX proposals change the risk/reward profile for such investors and thus potentially dry up a source of funding for such early-stage entities."

He says the ASX rule changes will push more companies with ambitions to list on the ASX into waiting until they are on a commercially larger footing. This will deny them an established source of funding that has in the past let the ASX lead the world in raising early-stage funding.

"This traditional large pool of investor funds will be shut off to early-stage companies, with best intentions and positive future outlooks, forcing them to look elsewhere," he said.

"To us, this conflicts with the federal government and its national innovation and science agenda which is aimed at innovation and more funding by early-stage investors."

Solomon says that ASX shareholders might want to ask the ASX board why the company wants to limit new listings.

"Won't this reduce ASX income and market share? Won't the new proposals make other marketplaces such as PrimaryMarkets or Chi-X now look more attractive? What is the business case for the ASX shrinking its pool of new entrants?

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A little bit of SBS, ABC juggling music, please

Three days before **Malcolm Turnbull** had **Sir Peter Cosgrove** dissolve the federal Parliament, Communications Minister **Mitch Fifield** announced the reappointment of **Daryl Karp** to the board of the SBS for a second five-year term. Her first term expires on June 30, two days before the election.

Unremarkable? Hardly, given the first term of fellow director **Jacqueline Hey** (also on the board of Qantas, AGL and Cricket Australia) expires on the same day, the second term of **Patricia Azarias** (a former New South Wales bureaucrat) expires two weeks earlier, and there is still no replacement for former chairman **Nihal Gupta**. Oh, and just for good measure, the first terms of ABC directors **Fiona Stanley** and **Jane Bennett** both expire the day before.

Then, quietly, 10 days into caretaker, Fifield's department issued a tender request for executive recruitment support services to be provided to the public broadcasters' independent Nominations Panel in recommending candidates to Fifield for five positions across the ABC and SBS boards. The contract is to run for six months from mid-June.

The Panel is appointed by, and reports to, the Prime Minister's Department head **Martin Parkinson**, and has experienced rapid turnover in the past six months. Former diplomat and Commonwealth public servant **Ric Smith** was replaced as its chairman by former Westpac chairman and Treasury secretary **Ted Evans**, ANZ chair **David Gonski** has been replaced by Star Entertainment and Super Retail director **Sally Pitkin**, and former broadcaster **Anne Fulwood** has replaced former ABC director **Janet Albrechtsen** (whose resignation last month we're sure Turnbull was crestfallen to accept).

Given the tender remit and Karp's fuss-free, 11th-hour extension, one could safely deduce that Hey, Stanley (Perth's decorated epidemiologist) and Bennett (the Tasmanian chief executive of listed agribusiness TasFoods) aren't being offered a second lap. Azarias has served the maximum 10 years.

So the Panel and its successful recruitment contractor will now scour the land for their replacements. Not that Fifield (or, in reality, Turnbull) will necessarily take their advice (assuming the Coalition is returned). The PM rejected the Panel's last recommendation, Blackmores CEO and Ten Network director **Christine Holgate**, instead opting for Adelaide local **Donny Walford**, the founder and managing director of DW Behind Closed Doors Pty Ltd®.

Welcome to conservative politics, where Liberal MPs from outlying states demand spots for their local supporters on plum boards, and, if you don't watch *Lateline*

Continued p39