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Manager, Regulatory Policy  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

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

## **Consultation Paper: Strengthening Australia's Equity Capital Markets**

I refer to the ASX Consultation Paper entitled *Strengthening Australia's Equity Capital Markets*. The Stockbrokers Association of Australia acknowledges the ASX's ongoing commitment to improving the performance of capital markets, and appreciates the opportunity to comment on the Proposals set in the Paper.

Our comments in relation to the particular Proposals set out in the Paper are set out below.

### **1. Capital Raising Proposals for Small to Mid Cap Stocks**

#### *Consultation Questions*

- 1. Do you support an increase in the capital raising limit for mid to small caps?*
- 2. Do you agree that A\$300 million is an appropriate threshold for identifying mid to small caps?*
- 3. Do you think that an increase from 15% to 25% with the proposed investor protections is appropriate?*

4. Do you support the proposed investor protections:

- 12-month shareholder mandate
- Additional disclosure
- Maximum 25% discount to market price for the additional 10%

Stockbrokers Association members were broadly supportive of the proposal for mid to small caps to have the capacity to place an additional 10% of issued capital on the conditions outlined in the proposal, over and above the avenue for placing 15% presently available under existing Rules.

The concerns noted in some quarters as regards the implications for existing shareholders were noted by Association members. Members considered that existing shareholders were unlikely to vote the extra capacity without good reason. Members considered that the investor protections incorporated in the proposal were adequate protections to limit the potential for misuse.

The threshold of \$300 million issued capital for the availability of the additional capacity was considered appropriate.

## 2. Proposals for changes to Shareholder Spread requirements

- Adjust shareholder spread test to:
  - 400 holders with  $\geq$  A\$2000; or
  - 350 holders with  $\geq$  A\$2000 and minimum 25% held by unrelated parties, or
  - 300 holders with  $\geq$  A\$2000 and minimum 50% held by unrelated parties
- Increase minimum NTA on admission from A\$2 million to A\$4 million

There were differing views on aspects of this proposal.

Members generally did not support the increase the minimum NTA on admission from \$2 million to \$4 million. It was considered that this would be likely to impede the number of listed entities coming to market, and would run counter to the objective underlying the other proposals outlined. There was however a differing view expressed, supporting an increase in the minimum NTA on the grounds that it would ensure the listing of financially stronger entities, which would enhance the standing of our listed markets.

Likewise, there was support for greater flexibility in meeting the shareholder spread requirements as embodied in the proposal. Again, there was an opposing view that the existing spread test was working well and should be retained.

### **3. Trial additional intra-day auctions for mid to small caps**

Members did not consider there to be any need for additional intra-day auctions for mid to small caps stocks. There was concern from some members that additional intra-day auctions might have the effect of reducing liquidity in the open market and concentrating it in these auctions, which would be the opposite of the objective of increasing liquidity that is sought to be achieved.

Therefore, members did not support this proposal at this present time.

### **4. Display Broker IDs for mid to small caps**

The Stockbrokers Association is supportive of this proposal. Knowing which particular brokers are prominent in particular stocks in this sector should assist in finding liquidity and facilitating greater turnover in those stocks.

### **5. Extended trading hours**

There was no support for the extension of trading hours proposed. Members considered that any benefit that would flow from the market remaining open for longer would be minimal, whereas the cost involved in maintaining operations for the extended period of time would be considerable and would outweigh any benefit.

In relation to mid to small cap stocks, being less liquid, if anything a longer opening period may tend to disperse liquidity even further

## **6. Equity market makers for eligible mid to small caps**

*Introduce equity market makers for eligible mid to small caps (subject to ASIC Market Integrity Rules for market makers)*

In principle, the Association considers that there may be benefit in considering the introduction of equity market makers for mid to small cap stocks, although much depends on the features of the market making arrangements, including the obligations on the market makers and the spreads offered. Some members did not consider that market making would provide any significant benefits in this sector, and note that previous attempts have not been successful or financially profitable for market makers.

It was considered that the proposal regarding broker IDs in parag. 4 above would be more significant to promoting liquidity in this sector of the market.

## **7. Trial ASX Equity Research Scheme**

Stockbrokers Association members had some reservations about the proposed Equity Research Scheme. Some more detail would be needed to arrive at a more detailed view.

There was a general view questioning whether the production of research sat well with or was a core function of the provision of exchange market services, and whether a conflict was likely to arise in connection with published research.

It was noted by members that research as a product is costly, and there were reservations as to the volume and quality of the research that would be capable of being produced given the limited amount of funds referred to as being allocated (\$1 million). Whether or not the research produced under the scheme would establish a positive reputation would depend on a range of factors, not the least being the depth of the research or fact note, as the case may be.

Concerns were expressed as to the proposal to produce research on companies with a market capitalization of \$200 million to \$1 billion. Notwithstanding that the proposal envisages producing research only where there is no existing institutional research coverage, members considered that this sector of the market was in fact well covered, and that if there was demand for research from clients, it would likely be met by existing providers. Therefore, members did not see merit in the ASX seeking to produce research in this sector.

As a general rule, members did not believe that the ASX devote resources to competing with research providers, and that the scheme, if proceeded with, should ensure that that this did not occur.

Some members considered there was potential benefit to be gained from a fact note for small companies which did not benefit from any research coverage, subject again to the quality and depth of the fact note and whether the information was not already readily available to investors. If the latter is the case, then members questioned whether there was any point to the exercise, and whether the funds could not be put to better use, such as facilitating access to existing information through the ASX's website.

We appreciate the opportunity to provide comments in respect of this Consultation Paper. Should you require any additional information or wish to discuss further any of the matters raised in this Submission, please contact me or Peter Stepek, Policy Executive on [pstepek@stockbrokers.org.au](mailto:pstepek@stockbrokers.org.au).

Yours sincerely,

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

**David W Horsfield**  
**Managing Director/CEO**