



Australian
Shareholders'
Association

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Mr Terence Kouts
Corporations
Australian Securities and Investments Commission
GPO Box 9827
Sydney NSW 2001

By email to policy.submissions@asic.gov.au

**ASA SUBMISSION – IMPROVING DISCLOSURE OF HISTORICAL FINANCIAL INFORMATION
IN PROSPECTUSES (CONSULTATION PAPER 257)**

Dear Mr Kouts

The Australian Shareholders' Association (ASA) represents its members to promote and safeguard their interests in the Australian equity capital markets. The ASA is an independent not-for-profit organisation funded by and operating in the interests of its members, primarily individual and retail investors, self-managed superannuation fund (SMSF) trustees and investors generally seeking ASA's representation and support. ASA also represents those investors and shareholders who are not members, but follow the ASA through various means, as our relevance extends to the broader investor community.

We refer to ASIC Consultation Paper 257 *Improving disclosure of historical financial information in prospectuses: Update to RG 228* dated May 2016. We applaud ASIC's efforts in improving the quality and integrity of financial disclosures in prospectuses and welcome the proposed changes. Our specific comments on the proposals are set out below.

Corporate form and historical reporting requirements (B1)

We agree that issuers should generally be required to disclose audited historical financial statements for two-and-a-half or three years for both the issuer and any business it acquires. The integrity of financial information is paramount and it is important that investors can have the highest level of assurance about the historical financial information presented. The proposal may result in increased costs and potentially a longer pre-IPO preparation phase if the issuer does not, or is acquiring a business that does not, prepare audited financial statements. However, we are of the view that the benefits accruing to investors of audited accounts greatly outweigh any time and cost concerns to issuers.



We do not believe it would be unreasonable or unduly onerous for an issuer to obtain audited financial information about an acquired business, especially as the prospectus is prepared for the purpose of raising capital from the public. We do acknowledge, however, that audit firms may not always be in a position to, or may be reluctant to, provide a clean audit opinion about an entity's financial information in past periods (for example, as contemplated in item B4).

Audited financial information (B2-B5)

We are supportive of the clarification regarding qualified audit opinions and limited assurance opinions. We strongly believe that risks disclosure is not an adequate substitute for disclosing financial information that is material to investors. This is particularly important as ASIC has observed that there is a link between poor financial disclosure in prospectuses and subsequent poor performance of issuers.

We accept that the inclusion of an emphasis of matter paragraph in an audit report should not mean that the financial information must be taken to be unaudited. However, we believe that the information contained in emphasis of matter paragraphs are of material significance to investors and should always be explained and drawn to the attention of the reader in the front section of the prospectus.

We have found that retail investors do not always understand the differences between an audit opinion, modified audit opinion and a limited assurance opinion. Prospectuses contain large amounts of information and often include several reports by the accounting firms and other experts. We believe any important information, concerns or qualifications in these reports should be highlighted in the front section of the prospectus and explained in a way that can be easily understood by the average investor.

We have no issues with the proposed clarification in item B5. However, the prospectus should include a clear statement of audit report quality. It is important, and as ASIC has recognised, that the overseas audit reports/standards substantially meet the Australian requirements.

Asset acquisitions and development of assets (B6-B7) and

We have no issues with these proposed clarifications.

Updating financial information (B8-B9)

We have no issues with these proposed clarifications.



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Inclusion of cash flow statements (B10)

Cash flow statements should always be included in a prospectus, as they exclude non-cash items and provide important information about the financial viability of the business. In particular, trends in historical cash flow will be of significant benefit for potential investors in understanding changes in the scale of the business model. ASIC should only allow a departure from the requirement to include a cash flow statement in very exceptional circumstances. We believe the proposed wording in the revised RG 228 should be tightened as it currently refers to the cash flow statement as an example of other material information. We are not aware of any circumstances where a cash flow statement could be viewed to be immaterial. It is also important that any cash flow statement that is included in the prospectus be audited in accordance with the relevant accounting standards.

Circumstances where historical financial information disclosure may not be necessary (B11-B13)

We agree it would be helpful to issuers to understand the circumstances where ASIC views that certain historical financial information disclosure would be either irrelevant or it would not be reasonable to require that information be included. We have no issues with the examples provided in Tables 1 and 2 of the Consultation Paper. As is contemplated by the draft RG 228, any entity which does not disclose audited financial information for the past two-and-a-half or three years should explain why it has decided not to do so in the prospectus.

Comments on worked examples

We are supportive of the views set out in the case studies and believe they broadly reflect the proposed guidance set out in the Consultation Paper.

Please do not hesitate to contact me if you have any queries.

Yours faithfully,

A handwritten signature in black ink that reads 'Diana D'Ambra'.

Diana D'Ambra
Chairman, Australian Shareholders' Association