



WILSON
ASSET MANAGEMENT

28 June 2016

Ms Diane Lewis
Office of General Counsel
ASX Limited
20 Bridge Street
Sydney NSW 2000

Email copy: regulatorypolicy@asx.com.au

Dear Ms Lewis,

Submission regarding proposed changes to admission requirements for listed entities

Wilson Asset Management makes this submission in response to the Australian Securities Exchange (ASX) consultation paper, 'Updating ASX's admission requirements for listed entities' (Consultation Paper). As an investment management company, Wilson Asset Management is the investment manager of four listed investment companies (LICs) – WAM Capital Limited (ASX: WAM), WAM Research Limited (ASX: WAX), WAM Active Limited (ASX: WAA) and WAM Leaders Limited (ASX: WLE). Wilson Asset Management manages more than \$1.6 billion on behalf of more than 38,000 retail shareholders, the majority of whom are self-managed superannuation funds.

In summary, we make the following recommendations to the ASX in response to the Consultation Paper:

1. Retain the current 'spread test' minimum parcel of securities at \$2,000;
2. Implement proposed changes to the 'spread test' security holder threshold;
3. Retain the current minimum financial threshold requirement for the market capitalisation assets test; and
4. Implement proposed changes to establish a formal free float test.

We believe these recommendations serve the interests of all investors, including retail investors, and align with the ASX's objectives of ensuring it remains a market of quality and integrity, and continues to be internationally competitive.

Recommendation 1: Retain the current 'spread test' minimum parcel of securities at \$2,000

We believe the proposed increase to the 'spread test' minimum parcel value from \$2,000 to \$5,000 will diminish accessibility to the equities market for retail investors, particularly young and first time investors. In our view, investing in an Initial Public Offering (IPO) is often the entry point to the share market for new and young investors, providing the opportunity to experience investing in shares for the first time. In part, this may be driven by the fact that no brokerage is payable. For young and first time investors, increasing the minimum subscription amount from \$2,000 to \$5,000, an increase of 150%, will likely deter them from investing in IPOs and act as a barrier to entering the share market.*

Furthermore, for young and first time investors who did invest in IPOs, raising their minimum investment to \$5,000 may limit the opportunity to diversify their investment portfolios. This could lead to a higher than desirable concentration of risk in their investment portfolios.



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In our experience, retail investors seek to gain exposure to the equity market through small parcels of securities. In our flagship listed investment company, WAM Capital, 12.6% of shareholders hold less than \$4,999 of shares. Similarly, in our recent IPO for WAM Leaders, 10.3% of issued capital is held in parcels of securities with a value of \$4,999 and less.

Wilson Asset Management continues to be an advocate for the rights of all shareholders and we have consistently argued that retail investors should have the opportunity to have equal access to capital raisings, including IPOs, on an equal footing with wholesale investors. In our view, retail investors are unduly restricted from participating in capital raisings.

We refer to our initial and supplementary submissions to the 2014 Financial System Inquiry (FSI) (attached), which detail the exclusion of retail shareholders from the primary equity market via private placements. In our view, increasing the 'spread test' minimum parcel value from \$2,000 to \$5,000 would further diminish opportunities for retail investors to participate in the primary capital market.

**We acknowledge that while it is not compulsory for companies seeking to list to offer investors the opportunity to invest a minimum amount of \$2,000, this figure is usually used.*

Recommendation 2: Implement proposed changes to the 'spread test' security holder threshold

Wilson Asset Management supports the implementation of proposed changes to the minimum number of security holders required to satisfy the 'spread test'. We believe these proposed changes would enhance a company's ability to list via IPO thereby increasing the number of entities listed on the ASX. In turn, this would increase the number of investment opportunities for investors.

We would encourage companies going through the IPO process to dedicate a portion of their register to retail shareholders. In our experience, retail shareholders take a longer term investment approach, providing companies with a valuable source of patient capital.

Recommendation 3: Retain the current minimum financial threshold requirement for the market capitalisation assets test

In our view, increasing the minimum market capitalisation threshold required to meet the assets test from \$10 million to \$20 million would decrease investment opportunities available to investors and deny them the ability to assess for themselves the merits of entities that could not meet the proposed new market capitalisation threshold.

As an investment manager with four LICs investing largely in Australian equities, Wilson Asset Management is an active market participant with deep experience analysing and investing across all sectors represented in the market from small and mid-cap to large cap companies. We meet with more than 1,000 companies annually and currently hold positions in 121 ASX-listed entities in our four LICs. Wilson Asset Management, as an investment manager, has participated in 89 IPOs in the last two years, which represents approximately 50% of IPOs undertaken in the Australian equity market. Collectively, our investment personnel have more than 80 years' combined equity market experience, including experience analysing, assessing and investing in IPOs.

Based on our experience and the above data, we believe the current \$10 million market capitalisation threshold required to meet the assets test provides investors with opportunities to invest in a range of businesses and gain exposure to numerous industries and investment themes, while also ensuring the ASX remains a market of quality and integrity.



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In our view, efforts to maintain market quality and integrity, including investor confidence (particularly retail investors) should not only concentrate on admission requirements for listed entities, but also education and ensuring investment advisers responsible for promoting financial products are making appropriate investment recommendations based on their clients' risk profiles.

Recommendation 4: Implement proposed changes to establish a formal free float test

Wilson Asset Management welcomes the proposed introduction of a formal, rules-based minimum 20% free float requirement for entities seeking admission to the ASX's official list. We believe implementing a minimum free float requirement will assist in ensuring a liquid secondary market for an entity's securities. A major attraction and an important distinction of listed securities is their daily liquidity. A formal minimum free float requirement may underscore this benefit relative to other, less liquid, asset classes.

Conclusion and further information

We recognise and support the ASX and its activities in ensuring it remains a market of quality and integrity and continues to be internationally competitive. We believe our recommendations serve these objectives as well as the interests of market participants, particularly investors and listed entities.

Thank you for the opportunity to make this submission in response to the Consultation Paper. Should you or anyone else from the ASX require any further details, I would welcome the opportunity to meet with you to discuss our recommendations.

Yours sincerely,

Geoff Wilson
Chairman
Wilson Asset Management

Attached:

Wilson Asset Management Submission to the Financial System Inquiry, 28 March 2014

Wilson Asset Management Supplementary Submission to the Financial System Inquiry, 27 August 2014