

## Market reaction | ASIC prospectus reforms

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### **Anthony Macdonald and Brad Hatch**

*Financial Review DealBook speaks to a leading shareholder representative, equity capital markets specialist, five M&A partners, and two fund managers on their reactions to ASIC's consultation paper, released on Tuesday, seeking clearer and more concise prospectuses.*

#### **AUSTRALIAN SHAREHOLDERS ASSOCIATION CEO VAS KOLESNIKOFF**

"Existing prospectuses are very complicated documents, full of pictures and all sorts of things. But they're not informative and clear to people that really need to have things set out very clearly.

"Prospectuses are not so much for the institutional community who have the skills and analysts to go through the issues but for the retail shareholders that struggle understanding the complexities. Things have to be very clear.

"We want to see companies stand back and look from an individual investor's point of view for information most relevant about their company: key financial statistics, key business and risk statistics.

"The WAN prospectus seemed to double up, triple up, people were confused. It's a good thing that ASIC are trying to make it clearer.

"It seems to be taking a pragmatic approach to meeting retail shareholders' requirements. Current prospectuses are just a legal process to make sure people have enough information in there without really understanding who it's for and what they really need."

#### **MALLESONS STEPHEN JAUQUES PARTNER SHANNON FINCH**

"It's a good start but it would be helpful to have more insight into what distinctions you can draw when doing a secondary raising. That is when people have to make a choice as to when to [issue a prospectus] or [do] a low doc [raising]. And I think they would look at these guidelines and think 'I would do a low doc because this looks hard'.

"I also think it underestimates the challenges in identifying with a great deal of distinction what a retail investor needs to know compared to a sophisticated investor."

#### **COMMONWEALTH BANK OF AUSTRALIA HEAD OF EQUITY CAPITAL MARKETS JAY MCGREGOR**

"There's clearly an issue and it is recognised by ASIC. Anything that I think ASIC does to try and give better guidance to issuers, lawyers and bankers is a good thing.

"Speaking from a retail perspective, we are all for documents that are reflective of things that are required to make an investment decision and often the marketing attached to documents is not necessarily helpful in that regard. This is a step in the right direction.

"Every company's situation will be different so you can't have a one-size-fits-all approach. There will be a little bit of reordering. Some of the important information will get pushed closer to the front."

"The spectrum is from those who read every word in the document to those who don't even open the document. It's difficult to protect those investors who are willingly blind, but this guidance goes some way to protecting investors who tend not to go past six or seven pages."

"It is important that when an investor gets to page five that they are appropriately informed. Realistically you have to be able to tell the story very early on in the piece."

#### **OC FUNDS MANAGEMENT PORTFOLIO MANAGER ROB FROST**

[On ASIC's proposals for director criminal convictions to be included in prospectuses:] "It depends on what the charge was. If you got caught doing something silly when you were 20 it may not be so relevant. But if it says something about the integrity of the individual then they should have to disclose it. I think it's not a bad thing to have that sort of disclosure in there."

[On the need for more concise prospectuses:] "It wouldn't bother me if prospectuses were more concise. Most fund managers are fairly familiar with the industry overview, so that often adds very little value. Concise and to the point is good for us."

[On the need for earnings forecasts:] "When they do have a good hold on earnings guidance, ASIC lets them put the guidance in. But if they are going to float this company, I think they should be held accountable for putting some sort of forecasts into the market. Particularly for unsophisticated investors that cannot forecast

these things, it leaves them a little exposed as to how to value the company if they don't have forecasts."

#### **WILSON ASSET MANAGEMENT PRINCIPAL GEOFF WILSON**

"Any move to make prospectuses a more user friendly document is positive.

"The tough thing with a prospectus is people have to be aware it's a selling document. The investors have to be aware of that when they are reading it. Sometimes it's difficult to find the relevant information, even as a professional.

"I always read a prospectus from the back, including the small print. That's where you find out of the costs of the prospectus, which gives you an understanding of how frugal the management are. You also tend to find whether there are any related party transactions.

"It's very difficult for a retail investor trying to understand and work out what is good or bad and that's where organisations like the Australian Shareholders Association, or Australian Investors Association, come into play."

#### **FREEHILLS PARTNERS PHILIPPA STONE, TIM MCEWEN AND TONY SPARKS**

"In the absence of regulatory guidance in recent years it has been hard for issuers to know exactly what ASIC expects. Often you don't have a conversation with ASIC until the exposure period and by then there's little time to make the changes.

"It should result in slightly shorter, slightly better drafted prospectuses. There may be some initial uncertainty but in the long run it should make it easier for companies to know what they have to disclose.

"The next prospectus out may look a little different. Prospectuses reflect market practice and the tendency has been to add to the established format over time, leading to a degree of repetition. ASIC is seeking to cut some of this back.

"The vast bulk of capital raised recently has been in the secondary market in 'low doc' offers. This guidance has little to say about those raisings and there are varying approaches on low doc disclosure at the moment."

#### **CORRS CHAMBERS WESTGARTH PARTNER ANDREW LUMSDEN**

"Clear concise and effective sounds good in theory but in reality it's a difficult standard to meet in circumstances where there are very stringent liability requirements under the Corporations Act.

"Until such time as there is a really careful look at what a uniform disclosure standard ought to be, well intentioned attempts to address the content of disclosure documents are going to be just that."

The Australian Financial Review

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