

## NSX MARKET INSIGHTS UPDATE 02/18 - JULY 2018

Welcome to the July 2018 issue of NSX Market Insights. In this issue we cover:

- an overview of surveillance **queries issued** and **enforcement action** taken;
- an overview of **listing applications declined** by NSX;
- new guidance issued on **suitability for listing**;
- advice for all issuers on the **treatment of off-market transfers**;
- **financial reporting requirements**;
- revised requirements for **NOMAD declarations**; and
- **new Automated Order Processing and Automated Client Order Processing functionality** and guidance issued.

Previous issues of Market Insights can be found here ([link](#)).

### 1. SURVEILLANCE ACTIVITIES

#### Companies de-listed

In the period from April 2018 to June 2018, one issuer was removed from the Official List of NSX as a result of enforcement action. This was for reasons relating to the issuer's governance, compliance with reporting obligations and level of engagement with NSX on continuous disclosure matters. The combination of these factors meant that the issuer was no longer suitable for listing.

#### Company queries

Throughout the period April 2018 to June 2018, 16 public queries were issued to listed entities as follows:

Price Query	Awareness Query	Continuous Disclosure Query	Periodic Disclosure Query	General Query	Total
4	1	2	8	1	16

Disclosure queries are raised when the Exchange identifies information in the public domain about an issuer which has not formally been announced to the market via the Exchange. The key themes observed across all company queries include:

- unexplained substantial change in price;
- new information found online which was not disclosed to the market;
- a significant change in financial reporting without explanation; and
- a significant change in business activities.

Issuers are reminded that in the event that an announcement cannot be lodged due to (exceptional) circumstances or time constraints, a trading halt must be requested to ensure that the market is appropriately informed.

### 2. ISSUER UPDATES

#### Suitability for listing

Issuers are reminded that the rules of the NSX require an entity to be suitable for listing both at the point of admission to the Official List of the Exchange **and** on an ongoing basis. The Exchange's guidance on suitability can be found [here](#). The Exchange hosted a webinar on this important criterion on 20 June 2018. If you were unable to join the session then you are encouraged to view the webinar [here](#). Issuers are reminded of the need to periodically check and satisfy themselves that they continue to meet the relevant criteria for ongoing listing.

#### Listing applications declined

NSX continues to closely scrutinise applicants for listing against the requirements of the Listing Rules and the framework set out in the Suitability Practice Note.

Throughout the period April – June 2018 two applications were declined for reasons including:

- The financial condition of the entity, including an emphasis of matter statement contained in the audited financial statements regarding a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.
- the absence of an existing and appropriate connection to Australia at the time of listing.
- The extent of related party loans contained in the audited financial statements of the entity.

## Off-market Transfers

NSX is concerned that some issuers shareholdings are characterised by a high level of off-market transfers (OMTs). OMTs make it difficult to achieve proper trading in securities, and the Exchange expects all issuers to remind shareholders of the need for and desirability of trading on-market. OMTs should be reserved for limited situations involving, for example, a transfer of shares between family members or following the death of a shareholder. NSX expects Issuers to apply the following best practice approach.

NSX expects:

- a. any sale of shares (as opposed to a transfer between family members) will be effected on-market via a stockbroker to ensure a transparent market for the sale of securities;
- b. Issuers to educate shareholders on the limited circumstances in which OMTs can be used and to periodically remind them of the need to transact in their shares on-market wherever possible;
- c. Issuers to require share registries to verify the identity of the transferor and transferee when registering OMTs;
- d. Issuers to require share registries to ask for and maintain a register of reasons for the OMT together with the transfer value;
- e. where some foreign shareholders experience difficulties in opening broker trading accounts due to the impact of foreign and domestic capital market regulations, Issuers are asked to –
  - alert shareholders to the existence of brokers who are NSX Participants that can open trading accounts for foreign shareholders;
  - consider putting in place a corporate solution (that is, a broker service which is facilitated by the Issuer) to assist these shareholders. Please get in touch with NSX if you need help identifying options for this service.
- f. Issuers to regularly and actively monitor OMTs and consider whether it needs to take further action to address high levels of OMTs. In particular, the board should have processes in place to monitor the volume and ratio of OMTs compared with broker-facilitated trades, observe share movements generally, and where appropriate take steps to understand the circumstances and validity of the trading.

OMTs are an area of focus for NSX and the Exchange recently wrote directly to those Issuers who have experienced high levels of OMTs.

## Financial reporting

The Australian Accounting Standards Board has published new and amended Accounting Standards. Issuers are expected to [read](#) and adopt these new standards in their financial reporting.

Accounting treatment and financial reporting standards continue to be a focus for both NSX and ASIC. Where an Issuer adopts a different accounting standard or treatment during a reporting period it is required to inform the market of this change without delay, in accordance with the listing rules of the Exchange. As part of its ongoing market surveillance NSX reviews the consistency of financial disclosures to ensure that information relating to a company which could materially impact its value is reported to the market.

Issuers are directed to the following ASIC resources:

- ASIC calls on preparers to focus on the quality of financial report information [link](#)
- ASIC review of 31 December 2017 financial reports [link](#)
- Directors and financial reporting-[link](#)
- Financial Reporting Quiz [link](#)

## 3. NOMINATED ADVISER (NOMAD) UPDATES

### Annual NOMAD statements

NOMADs will soon be receiving from the Exchange the request for an annual NOMAD statement. NOMADs are reminded of the [guidance](#) published earlier this year by NSX on how they are expected to undertake their responsibilities under the rules of the Exchange. NOMADs play a key role in ensuring that companies listed on the Exchange act in accordance with legal and regulatory requirements as well as the expectations of the Exchange. This year and going forward we will be asking all NOMADs to outline, as part of the annual statement, the steps they have taken to ensure that they perform their role professionally, competently and diligently. This means that NOMADs will be expected to make a statement on professional development undertaken throughout the year and compliance plans for the coming year.

## 4. PARTICIPANT UPDATES

### New AOP & ACOP functionality for NSX Participants

On 3 July 2018 NSX announced it had received regulatory clearance to provide NSX Participants with the ability to utilise Automated Order Processing (AOP) and Automated Client Order Processing (ACOP) functionality. [link](#). An overview of the changes to existing NSX Business Rules can be found [here](#). NSX has also published a [new practice note](#) on Automated Trading which outlines the requirements for Participants to enable AOP and provide ACOP to their clients. Please get in touch if you have any questions regarding the

guidance.

**ASIC consults on changes to capital market requirements**

ASIC has released a consultation paper proposing changes to capital requirements for market participants. These proposals prescribe the minimum amount of capital a participant must hold. The consultation can be found here ([link](#)) and closes on 15 August 2018.

**Order Entry - BrokerRef field**

DTR's are reminded when entering information into the BrokerRef field to not use special characters in this field of the order details as it may result in technical issues when generating end of day trade reports.