



ASIC

Australian Securities & Investments Commission

REPORT 540

Investors in initial public offerings

August 2017

About this report

This report contains our analysis of the findings from:

- our inquiries with institutional investors about their approach to investing in an initial public offering (IPO), and with lead managers about the IPO process; and
- qualitative research on the factors and information that retail investors rely on when investing in an IPO. This market research was conducted by Whereto Research, whose full report is attached to this document.

This report explains how we will use the findings from this project to enhance our regulation of IPOs. It explains how companies, their advisers and other market participants can help investors in IPOs.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Acknowledgements

ASIC acknowledges Whereto Research's significant contribution to our understanding of retail IPO investors. We would like to thank the many individual retail investors who agreed to be screened for participation in the market research, and the 52 retail investors and the institutional investors who gave up their time for interviews.

We also thank the Australian Shareholders' Association and OnMarket Bookbuilds for promoting participation in the market research to retail investors.

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Executive summary

Key points

Institutional investors rely heavily on prospectuses when assessing an IPO. Market research showed that retail investors are influenced by a broader range of sources, including analysis provided by financial commentators.

The findings from this project will influence how ASIC regulates IPOs in the future.

- 1 Initial public offerings (IPOs) are an important part of Australia's capital markets. Investors need to be able to make informed decisions about IPOs to ensure that capital is invested efficiently. For companies to continue raising capital efficiently, it is important that investors have confidence in the regulation of IPOs. IPO disclosure also plays an important role in ensuring that informed secondary trading occurs once the company is listed.
- 2 ASIC aims to support confidence in our capital markets by closely regulating IPOs. We review a significant proportion of prospectuses and often obtain corrective disclosure if the prospectus appears to be deficient: see Section A. We also provide extensive guidance for companies and their advisers on how IPOs should be conducted.
- 3 We can improve our regulation of IPOs if we have an understanding of the current factors and types of information that investors rely on when investing in IPOs. The project discussed in this report looked at the information and factors that influence institutional investors and retail investors in IPOs.

How institutional investors make decisions about IPOs

- 4 In late 2016, we conducted several interviews with large institutional investors and other financial intermediaries that play a significant role in Australian IPOs. Institutional investors comprise the bulk of IPO investment and often help determine the pricing. Many retail investors have an indirect exposure to IPOs through institutional investors, including through their superannuation.
- 5 Our inquiries were intended to give us an overview of the IPO process from the perspective of institutional investors, and to gain insights into how they make their investment decisions.
- 6 Institutional investors said they valued the prospectus because it was the main source of information on an IPO, and it was a regulated document for which directors and others involved in the offer had liability. They felt this added weight to the credibility and reliability of the document. Institutional

investors involved in the preparation of prospectuses said ASIC's close regulation of prospectuses improved the quality of disclosure.

- 7 Access to the IPO issuer's management and the institution's own technical analysis of the offer were also very influential.
- 8 The results of our inquiries with institutional investors are explained in more detail in Section B.

How retail investors make decisions about IPOs

- 9 We also commissioned qualitative research on the information and factors that influence retail investors when assessing an IPO. This research complements our study in 2016 of the ways in which IPOs were marketed to investors: see [Report 494](#) *Marketing practices in initial public offerings of securities* (REP 494).
- 10 Where Research conducted qualitative research over a three-month period from late 2016 to early 2017. The market research involved interviews and group discussions with 52 retail investors located in Sydney, Melbourne, Brisbane and Perth who had recently considered or invested in an IPO.
- 11 Qualitative research of this type provides depth of understanding but, because of the limited sample size, the findings may not be representative of the total IPO population: see paragraph 131.

Note: See paragraphs 125–126 for an explanation of our classification of 'retail investor' for the purposes of the market research. See also the 'Key terms' for the meaning of 'retail investor', 'sophisticated investor', 'professional investor' and 'institutional investor' in this report.

- 12 Where Research examined the relative importance that retail investors said they placed on the prospectus, compared with the role of financial intermediaries (e.g. brokers) and other sources of investment information (e.g. social media). In general, retail investors valued information that they perceived to be independent and easy to understand, and that had been prepared by someone they perceived as having a high level of expertise.
- 13 The financial media, including mainstream media and subscription services, were influential in both alerting retail investors to potential IPOs and in influencing the decision-making process. The prospectus was seen as a key source of information, although many retail investors said the document was hard to read and could not be relied on to tell the whole truth about an IPO (given that it was perceived to be a marketing document).
- 14 The findings from the market research are discussed in more detail in Section C.

How behavioural factors affect retail investors' investment decisions

- 15 We conducted our own behavioural analysis of Where-to Research's qualitative market research findings.
- Note: In this report, we use the term 'market research' to refer to the third-party qualitative research conducted by Where-to Research.
- 16 Behavioural economics describes how and why people think and behave in certain ways. It draws from research across a number of social sciences, including economics, psychology, and decision science.
- 17 Our analysis shows that the market research identified a number of potential behavioural factors that may influence a retail investor's IPO investment decision. Section D details our behavioural analysis.

Impact of findings on ASIC's approach to IPOs

- 18 ASIC's main focus with regulating IPOs is to ensure that investors have sufficient information to make informed decisions. The legislation regulating IPO disclosure is predicated on retail investor participation. We also seek to ensure that the sector meets the needs of institutional investors because of the important role they play in IPOs.
- 19 Our perception of how institutional investors and retail investors assess an IPO is summarised in Table 1.

Table 1: Comparison of institutional and retail investors' approach to investing in IPOs

Institutional investors	Retail investors
<p>Institutional investors rely on the pathfinder prospectus and the lodged prospectus because:</p> <ul style="list-style-type: none"> • these are the main sources of information on an IPO offer; • directors and others have potential liability for the prospectus disclosure; and • there is regulatory oversight of the prospectus lodged with ASIC. <p>However, institutional investors also seek out other sources of information about the IPO.</p>	<p>Retail investors read the prospectus but find it challenging.</p> <p>There is a perception that the prospectus, at least in part, is a marketing document and therefore does not provide the whole picture.</p>
<p>Institutional investors said that questioning the issuer's management was an essential part of their investment process.</p>	<p>Management is considered important, and retail investors want more information about the issuing company's management.</p>
<p>The institution's own technical analysis is important to assess the value of the offer.</p>	<p>Retail investors value 'independent' analysis, but their access may be limited to informal sources such as the media or online investor forums.</p>
<p>Institutional investors are sceptical of information if there is a conflict of interest.</p>	<p>Some retail investors do not trust brokers because of perceived conflicts of interest.</p>

Note: The institutional investor findings are based on ASIC's informal meetings with institutional investors, while the retail investor findings are based on the third-party market research conducted by Where-to Research.

20 The findings from our discussions with institutional investors, and the market research, have improved our understanding of how investors participate in IPOs. Based on these findings, we believe that ASIC's regulation of IPOs is largely sound. We propose to enhance our approach only in relatively minor ways, as explained below and in Section E.

Prospectus

21 We consider that high-quality prospectuses are important for investors' decision making about IPOs. They also form the basis for a listed company's future continuous disclosure obligations.

22 Further, the Corporations Act contains a number of disclosure exemptions for post-IPO fundraising by listed companies. These exemptions operate on the premise that the company's initial disclosure in the prospectus, combined with continuous and periodic disclosure, provide sufficient information for investors. In this way, prospectuses have a central role in ensuring Australia's capital markets are fair and efficient.

23 This project confirmed that the prospectus is a key document for institutional investors, partly because of the role that ASIC plays in IPOs. We will continue to review a significant proportion of prospectuses to help ensure they are reliable documents. We will focus on the sections that are of most importance to institutional investors, such as the risk section and the financial information section.

24 It is likely that prospectuses will always be challenging documents for less experienced retail investors to read and understand. There are constraints on making prospectuses shorter documents because they need to cater to institutional investors. The issuer, its directors and any underwriter also have potential liability for the disclosure, including material omissions.

25 However, within these constraints, we consider that the market research shows that there is significant scope for improving the effectiveness of prospectuses for retail investors. In fact, the Corporations Act requires the prospectus to be 'clear, concise and effective' for retail investors: s715A.

Other sources of information

26 The market research found that retail investors use a variety of information to assess an IPO, and there are a number of factors other than the prospectus that influence their investment decision. We will therefore increase our monitoring of the wide variety of sources of information available to retail investors about IPOs. These include investment newsletters, magazines and subscription services dedicated to investing.

27 Table 2 provides a summary of our key messages for companies based on our interpretation of the market research findings. The market research

findings, and our inquiries with institutional investors, reinforced the relevance of our guidance in [Regulatory Guide 228 Prospectuses: Effective disclosure for retail investors](#) (RG 228).

Table 2: Summary of ASIC’s key messages for companies

Communication style	<p>The market research showed that retail investors were likely to dismiss the prospectus if it was too hard to read, and rely on other sources of information. A good investment overview is essential for helping retail investors.</p> <p>Sections B and C of RG 228 contain extensive guidance on how to make prospectuses more effective disclosure documents.</p>
Management	<p>A number of retail investors said they wanted more information on the issuing company’s management—its track record and what skills executives had to contribute (which may need to be explained).</p> <p>Retail investors said that, if they found out from other sources that an executive had been involved with a failed business, and this was not explained in the prospectus, this could be a powerful disincentive to invest.</p> <p>Section G of RG 228 contains guidance on disclosure about management.</p> <p>Issuers and their advisers should consider ways to improve retail investors’ access to information on the issuer’s management—for example, by making IPO roadshow sessions available online for retail investors after the prospectus is lodged.</p>
Risk disclosure	<p>Disclosure about risks must be specific to the issuing company. Retail investors are frustrated with risk disclosure that looks like it has been copied directly from another prospectus.</p> <p>Section E of RG 228—in particular, paragraphs 78–82—contains guidance on disclosing specific risks.</p>
Financial information	<p>The investment overview should include a plain English explanation of the key relevant financial data for less financially capable investors.</p> <p>Issuers should ensure the financial note disclosure in the financial information section contains sufficient information for more financially capable investors.</p> <p>Disclosure of assumptions underlying any forecasts is also important: Regulatory Guide 170 Prospective financial information (RG 170).</p>

A Commercial and legal context of IPOs

Key points

The Australian disclosure-based regime assists investors to assess the risks associated with IPOs and to make informed investment decisions.

The Corporations Act imposes strict limits on the advertising and publicity that can take place before and during an IPO, with the aim that investors make decisions based on disclosure in the prospectus.

ASIC has a broad role in the regulation and oversight of IPOs. We may:

- review prospectuses that are lodged with ASIC;
- monitor advertising and publicity about an IPO;
- conduct surveillances;
- request changes to prospectuses and advertising;
- impose a stop order if a prospectus or advertising contains misleading or deceptive information; and
- take enforcement action.

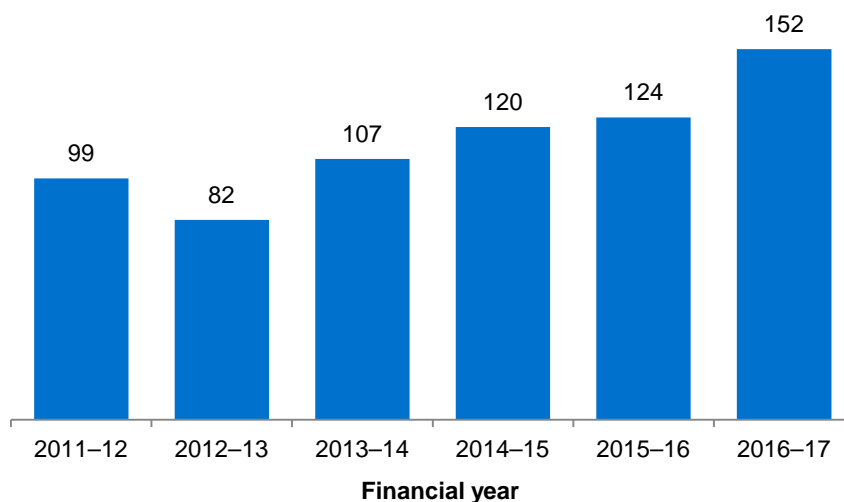
We have published extensive guidance to help companies conducting IPOs.

Australia's IPO market

- 28 Australia has an active IPO market. In 2016 (12 months), 571 disclosure documents were lodged with ASIC—112 of which were IPO prospectuses. Consistent with 2016, 210 disclosure documents have been lodged with ASIC in the first half of 2017 (six months)—60 of which were IPO prospectuses.

Note: We regularly publish corporate finance reports, which outline the level of activity in the public fundraising market: see [Report 539](#) *ASIC regulation of corporate finance: January to June 2017* (REP 539).

- 29 The number of new listings on ASX has also increased since the 2012–13 financial year: see Figure 1.

Figure 1: Number of new ASX listings

Note 1: This graph represents the number of new listings on ASX only. It does not include new listings on other securities exchanges.

Note 2: See Table 5 in the appendix for the data shown in this figure (accessible version).

Source: Graph compiled by ASIC using information from [ASX Limited, Annual report 2017](#).

30 Australia has a globally competitive IPO market, with 133 companies listing on ASX in the 2016 calendar year. This compares favourably with other jurisdictions where:

- (a) 115 companies listed on the Hong Kong Stock Exchange;
- (b) 98 companies listed on the Shanghai Stock Exchange;
- (c) 91 companies listed on Nasdaq; and
- (d) 66 companies listed on the London Stock Exchange.¹

31 While the larger number of listings may be because Australian IPOs tend to be smaller in size compared with other jurisdictions, Australia's IPO market is more active than the IPO market of similar economies on total capital raised, and is competitive even with very large economies on this measure. For example, IPOs on ASX raised \$6 billion in 2016, compared with \$1 billion raised on the Toronto Stock Exchange, \$4 billion raised on the London Stock Exchange, and \$13 billion on the New York Stock Exchange.²

Legal framework

32 Australia has a disclosure-based regime for offers of shares to retail investors, including IPOs. As explained in the next few paragraphs, this regime has rules about the information that should be given to retail investors, and restrictions on advertising and publicity.

¹ [ASX Limited, ASX Ltd full-year analyst presentation \(2017\)](#).

² [ASX Limited, ASX Ltd full-year analyst presentation \(2017\)](#).

- 33 A disclosure-based regime does not pre-judge the merits of an offer. It aims to give retail investors and their advisers sufficient information to make their own investment decisions: see RG 228.
- 34 Australia is not alone in adopting a disclosure-based regime. A similar approach is used in many jurisdictions. The US Securities and Exchange Commission (SEC) recently confirmed its commitment to disclosure:
- By arming investors with information, they can evaluate and make investment decisions that support more accurate valuations of securities and more efficient allocation of capital.³

Advertising and publicity restrictions

- 35 The Corporations Act imposes strict limits on the advertising that can take place before a prospectus is lodged with ASIC: see s734(2). Only ‘tombstone’ advertising, which contains very basic information about an upcoming IPO, is permitted before lodgement: s734(5). These provisions aim to ensure that retail investors are not significantly influenced by marketing before they have a chance to review the prospectus.

Note: Broader exceptions are available for pre-prospectus material provided to sophisticated and professional investors: see s734(9) and [ASIC Corporations \(Market Research and Roadshows\) Instrument 2016/79](#).

- 36 After the prospectus is lodged, any advertising or promotion of an IPO must still:
- (a) refer to the prospectus;
 - (b) explain how the prospectus can be obtained;
 - (c) recommend that investors consider the prospectus when deciding whether to acquire the securities; and
 - (d) state that anyone who wants to acquire the securities will need to complete the application form (in or accompanying the prospectus): s734(6).
- 37 The advertising prohibition in s734(2) does not restrict independent reports on IPOs, as long as they are not published at the instigation of the issuer or someone connected with the offer, and no payment is given for their publication: s734(7).
- 38 Therefore, in the lead-up to an IPO and during the offer period, retail investors may receive information about an IPO from various sources. This includes information from brokers, financial media, and research analyst reports.

³ [SEC, Remarks at the ‘SEC Speaks’ conference 2017: Remembering the forgotten investor](#), speech, 24 February 2017.

- 39 If the information comes from the issuer or someone connected with the offer, s734 should ensure that investors are alerted to the importance of the prospectus, and also the need to complete the application form attached to the prospectus.
- 40 For an explanation of how participants in the market research accessed information on IPOs, see Section C—in particular, paragraphs 137–139.
- 41 For detailed information about the IPO investment process from the perspective of institutional investors, see Section B.

Disclosure requirements

- 42 An IPO that involves an offer of securities to retail investors in Australia requires a prospectus to be prepared and lodged with ASIC.
- 43 The prospectus must contain all the information that investors and their professional advisers would reasonably require to make an informed decision about the IPO. This includes an assessment of:
- (a) the rights and liabilities attaching to the securities offered; and
 - (b) the assets and liabilities, financial position and performance, profits and losses, and prospects of the body that is to issue the securities: s710.
- Note: The prospectus must contain this information only to the extent to which it is reasonable for investors and their professional advisers to expect to find that information in the prospectus: s710(1)(a). The Corporations Act also requires other specific information to be included in the prospectus: s711 and 716.
- 44 Offers to institutional investors do not require a prospectus on the basis that they do not require the same level of regulatory protection as retail investors. However, IPOs of securities that will be quoted on ASX are made under a prospectus as a result of ASX listing requirements, and the fact that the Corporations Act would otherwise restrict public trading of the securities: see s707. Disclosure in the IPO prospectus is important for informed secondary trading, and forms the basis for a listed company’s future continuous disclosure obligations.

ASIC’s role in IPOs

Our guidance on IPOs

- 45 We have published extensive guidance to help companies and their advisers conducting IPOs. [Regulatory Guide 254](#) *Offering securities under a disclosure document* (RG 254) explains the procedural requirements for an IPO and how ASIC will exercise our specific powers under the Corporations Act. RG 228 explains how to prepare a prospectus that contains information

required by s710 of the Corporations Act and comply with the ‘clear, concise and effective’ requirement in s715A. Recently, we updated RG 228 to clarify the disclosure requirements for historical financial information.

46 We also communicate regularly with advisers on current fundraising issues at our Corporate Finance Liaison meetings and through publications such as our corporate finance reports.

Review of prospectuses after lodgement

47 In some overseas jurisdictions, regulators review all prospectuses, and often require that changes are made before the document can be registered. This can be a very lengthy process. This is not the case in Australia, where the requirement for ASIC to review and then register all prospectuses was removed many years ago, making the fundraising process more efficient for issuers.

48 While ASIC does not review prospectuses before they are available to retail investors, we do scrutinise a significant proportion of them after lodgement. In some instances, we conduct surveillances—including surveillances on whether proper procedures have been followed in preparing the prospectus (due diligence surveillance): see [Report 484 *Due diligence practices in initial public offerings* \(REP 484\)](#).

49 Section L of Regulatory Guide 254 contains information on the approach we take to reviewing prospectuses, and the powers we have under the Corporations Act to extend the exposure period, obtain corrective disclosure in the form of a replacement or supplementary prospectus, and impose stop orders.

50 We use these powers regularly. For example, in relation to prospectuses lodged with ASIC:

- (a) in 2016 (12 months), we:
 - (i) extended the exposure period 78 times;
 - (ii) obtained corrective disclosure (other than under a stop order) 134 times;
 - (iii) issued 56 interim stop orders; and
 - (iv) issued five final stop orders; and
- (b) in the first half of 2017 (six months), we:
 - (i) extended the exposure period 34 times;
 - (ii) obtained corrective disclosure (other than under a stop order) 63 times;
 - (iii) issued 14 interim stop orders; and
 - (iv) issued one final stop order.

Note: These figures include prospectuses that were lodged in relation to non-IPO offers.

- 51 We also recently took action against Sino Australia Oil and Gas Ltd (Sino Australia), including in relation to the IPO prospectus containing misleading and deceptive statements. On 8 December 2016, the Federal Court of Australia ordered that:
- (a) Sino Australia pay a penalty of \$800,000;
 - (b) former chairman Tianpeng Shao be disqualified from managing corporations for 20 years; and
 - (c) Mr Shao pay compensation to Sino Australia of \$5,539,758 (being the company's estimated liability to shareholders).

Note: For further details, see [Media Release \(16-431MR\)](#) *Court fines Sino Australia Oil and Gas Limited and disqualifies former chairman, Tianpeng Shao* (9 December 2016).

Marketing practices in IPOs

- 52 If we decide to review a prospectus, we also monitor advertising of the offer. Section J of RG 254 sets out the factors that we take into account when determining whether to take action in relation to advertising.
- 53 We have noticed a trend where issuers or their advisers fail to correct advertising to make it consistent with changes we have required to be made to their prospectus. For example, we may require an issuing company to remove a misleading forecast from the prospectus but references to the forecast remain in various forms of marketing.
- 54 In the first half of 2016, we monitored a small sample of IPO prospectuses, and requested advertising to be removed or corrected in over 20% of the offers. We also have a stop order power over advertising if necessary.

Study on marketing practices

- 55 In 2016, we conducted a study on the way that IPOs were marketed to investors over a six-week period, and published a report of our findings: see REP 494.
- 56 We found that brokers primarily used traditional marketing methods, such as telephone calls, emails and professional investor roadshows. 'Investor education' reports were also distributed within an issuer's adviser networks, and to sophisticated or professional investors. Only small-to-medium brokers tended to use more innovative methods, such as social media and online investor forums.
- 57 REP 494 concluded that most firms were using acceptable marketing practices. Our main recommendation for traditional marketing focused on better compliance oversight of telephone calls, such as the use of standardised telephone scripts. We also recommended that firms take more

measures to ensure that institutional roadshows were restricted to Australian financial services (AFS) licensees.

- 58 We had more concerns relating to innovative marketing methods. In particular, our review of media coverage indicated that some issuers and their advisers may be providing information to the media before the prospectus was lodged with ASIC.
- 59 We also noticed that some posts on investor forums appeared to have originated from someone involved in the IPO, and that the messages were not balanced. There were also failures to ensure that videos and other multimedia were accurate and consistent with the disclosure in the prospectus.

B Our inquiries—How institutional investors make decisions about IPOs

Key points

We conducted interviews with institutional investors to explore what influences them when they are deciding whether to invest in an IPO.

We found that, when assessing an IPO, institutional investors:

- considered the prospectus (or pathfinder prospectus), meetings with management, and internal analysis to be the most important sources of information; and
- placed less weight on investor education reports provided by research analysts.

Background to our interviews

60 Institutional investors are integral to the functioning of Australia’s IPO market. They comprise the bulk of IPO investment and often their views help determine the price of the offer—either through a formal bookbuild process or by more informally indicating whether they are prepared to invest at the suggested price during the roadshow.

Note: See the ‘Key terms’ for the meaning of ‘bookbuild’ and ‘roadshow’.

61 Many larger IPOs do not have a retail public offer and it is likely that many retail investors’ main exposure to IPOs is indirectly through their investments managed by financial institutions.

62 Given their involvement in the IPO investment process, we sought input from a range of institutional investors. In late 2016, we conducted interviews with a selection of institutional investors about how they assess IPOs. The interviews were conducted on a voluntary basis.

63 We sought to understand the institutions’ decision-making process, and gain insight into the relative importance of different information sources. We were also interested to understand the different approach taken to the decision-making process by institutional investors in comparison with retail investors: see Table 1.

Note: Our interviews with institutional investors were conducted by ASIC officers experienced in regulating IPOs. This differed from the market research that we commissioned on retail investors, which was conducted by a professional market researcher.

- 64 While we conducted a behavioural analysis of the market research findings (see Section D), we did not conduct a behavioural analysis of the feedback we received from institutional investors because this was acquired through informal interviews. This lack of formal analysis does not suggest that institutional investors' decisions were not affected by behavioural biases.
- 65 The institutional investors we selected were managers of retail and wholesale investment funds and listed investment companies. They included both large and smaller institutions, and each had one or more actively managed investment offerings focusing on Australian equities (as opposed to passive, index-tracking funds or mixed asset class funds). Some focused on a particular subset of Australian equities, such as issuers with smaller capitalisations, while others offered a range of Australian equities funds with different kinds of mandates.
- 66 We also spoke to a selection of financial intermediaries who act as lead managers on both large and small IPOs. Lead managers play an important role in IPOs because they usually have the primary responsibility for coordinating the IPO process on behalf of the issuer.
- 67 The lead manager's role normally includes advising on the structuring of the offer, including timing, price and size. They also advise on and conduct marketing of the offer, including the coordination of investor roadshows. Lead managers can, but do not always, act as the underwriter to the offer.
- 68 Our conversations with these institutional investors and lead managers confirmed our understanding of the IPO process from the perspective of an institutional investor, and allowed us to understand the various sources of information used by institutional investors when making their investment decision.
- 69 This section outlines the investment process for institutional investors, and the information they said they considered when deciding whether to invest in an IPO.

Assessment of IPO investment opportunities

- 70 The institutional investors we spoke to said they generally considered all IPO opportunities within their mandate even if they did not ultimately invest.
- 71 They told us that they generally avoided speculative IPOs, including mining exploration companies and technology start-up companies. They were also cautious about investing in emerging market issuers (where the reason for listing in Australia was unclear, or they operated in a risky jurisdiction) and private equity sell-downs (where the timing or rationale was unclear).

Sources of information

72 The institutional investors reported that they used a range of information sources when determining whether to invest in an IPO. The relative importance of these sources is discussed in paragraphs 106–122.

Non-deal roadshow

73 The first time an institutional investor meets with a company that is considering an IPO may be through a ‘non-deal’ roadshow. We received feedback that non-deal roadshows were more common for larger IPOs because institutional investor support was critical for the success of the offer.

74 Sometimes, when a company is considering whether to proceed to an IPO, a non-deal roadshow will be used to:

- (a) introduce the company’s management to potential institutional investors, and give those investors an understanding of the business and industry; and
- (b) give the company and its advisers an indication of the level of investor interest in the company, and help determine whether it is the right time to conduct an IPO.

75 No securities are offered for sale at this time. The non-deal roadshow is normally organised by the adviser firm who will often go on to play a role in managing the IPO if the company decides to proceed.

76 Documents provided to institutional investors at a non-deal roadshow usually contain only a high-level overview of the issuer’s business and the industry it operates in. Historical benchmarks and industry comparables may be provided. The issuer’s full historical financial statements and forecast financial information are not provided at this time.

77 We were told that sometimes a research analyst connected with the issuer’s adviser would be involved in a non-deal roadshow, but this involvement was limited to giving information about the industry and relevant benchmarks.

78 Sometimes institutional investors are not allowed to keep any materials handed out during a non-deal roadshow. We were told that this practice was designed to reduce investor reliance on roadshow materials, and instead focus attention on the prospectus when it was later released.

Initial analyst meetings—‘Investor education’

79 After it is decided that an IPO will proceed, and the lead manager’s firm has a research analyst who is covering the issuer’s shares, the firm managing the issue will invite some of its institutional clients to participate in ‘investor education’.

80 Investor education generally involves institutional investors meeting with the lead manager’s research analyst and being provided with a copy of the research analyst’s investor education report. This report generally contains information about the issuer’s business, industry, and relevant benchmarks and comparables.

81 At these meetings, which are held separately from the management roadshow, the research analyst will provide institutional investors with their views on the issuer’s business, risks and prospects.

82 We understand that investor education reports may include an overall company value or value range, but do not usually contain price targets or recommendations. This may be attributed to concerns that, if the research is released too soon after listing, it may attract prospectus liability.

83 As a result, a number of AFS licensees impose a blackout period after the prospectus is lodged before a research analyst connected to the issuer’s adviser can cover the stock. Following this period, the analyst will release their ‘initiation report’, which contains price targets and recommendations.

Note 1: International firms may adopt blackout periods for research analysts in the immediate period following lodgement of the prospectus in order to comply with requirements in other jurisdictions, such as the United States, rather than in compliance with a requirement under Australian law.

Note 2: [Report 486](#) *Sell-side research and corporate advisory: Confidential information and conflicts* (REP 486) contains further information about the potential conflicts of interest associated with investor education. See also our proposed guidance in [Consultation Paper 290](#) *Sell-side research* (CP 290).

84 In REP 486, we looked at investor education and found that this may provide potential institutional investors with an indication of a research analyst’s approach to valuation: see paragraphs 72–78 of REP 486. We also found, however, that there was some cynicism towards this information: see paragraphs 121–122 below.

85 CP 290 includes our proposed additional guidance on the investor education process. This is intended to supplement the guidance in [Regulatory Guide 79](#) *Research report providers: Improving the quality of investment research* (RG 79).

Pathfinder prospectus

86 A pathfinder prospectus is a draft, but near final, version of the prospectus which excludes the offer price. It is primarily used where the institutional bookbuild for the IPO is conducted at the front end of the offer—which is when most bookbuilds happen in Australia, apart from offers at the larger end of the market: see paragraphs 90–93.

87 The pathfinder prospectus is usually given to institutional investors at the start of the IPO roadshow period: see paragraph 88. Some institutional investors observed that sometimes the pathfinder prospectus is only given to them just before the IPO roadshow, which does not provide them with sufficient time to review the information.

IPO roadshow

88 The next step in the process is a roadshow where the issuing company's management gives a presentation to institutional investors about the issuer and the offer.

89 Roadshows are a key opportunity for the issuer to tell its story in person and can provide useful pricing feedback for lead managers and underwriters. For institutional investors, the roadshow presents an opportunity to evaluate the issuer's management—in particular, the executives' ability to respond to questions about their business.

Timing of IPO roadshows—Institutional bookbuild

90 The timing of the IPO roadshow can depend on the point at which the institutional bookbuild for the IPO takes place (if there is one). Many offers in Australia use a front-end bookbuild, which means that the price of the offer is set through the institutional bookbuild a short time (usually two to three days) before the prospectus is lodged with ASIC and the retail offer opens.

91 When a front-end bookbuild is used, the IPO roadshow will usually start two to four weeks before the prospectus is lodged with ASIC. Front-end bookbuilds are more common for offers that are smaller in size (under \$500 million market capitalisation) and are primarily aimed at domestic institutional investors.

92 In larger IPOs, the bookbuild sometimes takes place after the prospectus is formally lodged with ASIC (a 'back-end bookbuild'). In these cases, the price of the offer is not set at the time the prospectus is lodged with ASIC but an indicative price range will be identified.

93 In these types of IPOs, the roadshow may take place after the prospectus is lodged with ASIC. Once the price has been determined under the back-end bookbuild, a replacement prospectus will be lodged with ASIC.

Information provided at IPO roadshows

94 There are usually two types of information provided to institutional investors as part of an IPO roadshow:

- (a) management information—this is provided at group presentations and one-on-one meetings with institutional investors; and
- (b) investor education reports—these typically include financial information from the prospectus, including forecasts.

Management information

- 95 As part of the roadshow process, the senior management of the issuer will present to institutional investors. Slides of the presentation are usually distributed to these investors.
- 96 We were told that that the content of the presentation and associated slides provided a summary of key information from the pathfinder prospectus.
- 97 We were also told that issuers and their advisers were aware of the need to ensure that institutional investors were not provided with any material information about the offer that was not contained in the prospectus. We have previously commented on this risk in REP 486.
- 98 Sometimes a site visit to the issuer's business operations may be organised for institutional investors as part of the roadshow.
- 99 In certain circumstances, meetings between senior management and select individual investors will also occur. The lead manager usually advises the issuer about which investors should have access to these meetings. Often only the larger investors are granted this kind of access.
- 100 Feedback from institutional investors was that an important part of the roadshow is the ability for them to ask the issuer's management questions about the issuer and its prospects. An institutional investor will clearly have a greater opportunity and willingness to question management at one-on-one meetings than at larger group presentations. However, there is still some opportunity to ask questions at group presentations.

Internal analysis

- 101 All the institutional investors we spoke to conducted their own internal analysis. This can include:
- (a) industry research—this includes consideration of the issuer's position in that industry. The sources of information for industry analysis can vary depending, for example, on how familiar the research analyst is with the industry and how much information is publicly available. In some instances, the analyst will speak with competitors, suppliers and customers to help them form a view about the issuer;
 - (b) financial analysis—this includes scrutiny of historical financial information, as well as forecast financial information and the assumptions underlying that forecast; and
 - (c) rationale for the IPO—the institutional investors stated that it was important to understand why the issuer was pursuing an IPO at this time—for example, whether this was to access funding for the business, or was intended primarily as a liquidity event for existing shareholders.

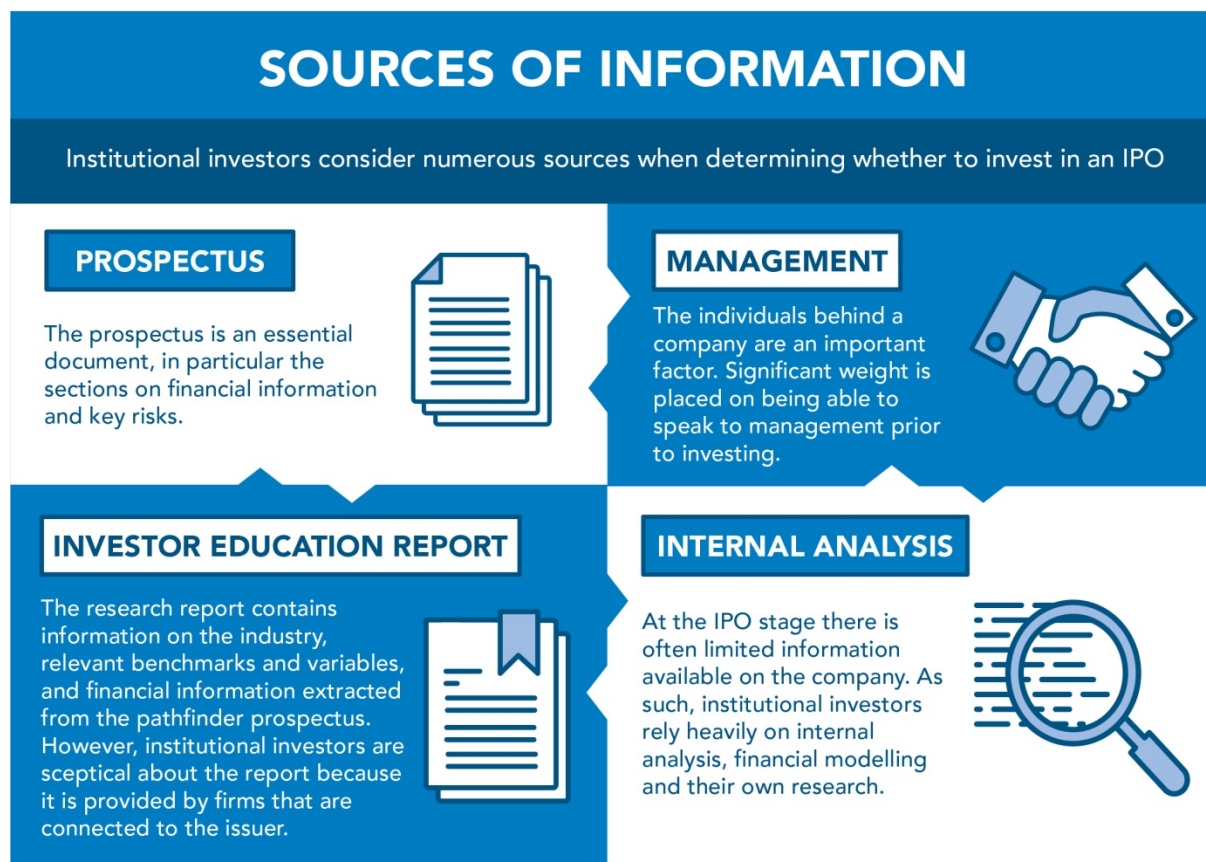
Prospectus and supplementary disclosure

- 102 In IPOs that have a front-end bookbuild, institutional investors are required to make their investment decision before the final prospectus is lodged with ASIC. Instead, they rely on the draft (pathfinder) prospectus.
- 103 In other types of IPOs, such as those using a back-end bookbuild, institutional investors may not receive a pathfinder prospectus and will instead rely on the lodged prospectus to make their investment decision.
- 104 The institutional investors told us they believed it was rare for material changes to be made from the pathfinder version of the prospectus to the lodged version. However, they did rely on the lead manager to inform them of any changes. The institutional investors were aware that these changes were often, but not always, prompted by ASIC's review of the original prospectus.
- 105 Many of these institutional investors said they paid particular attention to supplementary or replacement disclosure that related to changes to the financial information. In contrast, less attention was paid to supplementary or replacement disclosure that merely clarified information or made changes to the presentation—for example, the more prominent disclosure of key information. Institutional investors who read the prospectus in full considered these kinds of changes were more important for retail investors.

Information that is important to institutional investors

- 106 Institutional investors said that the prospectus and access to management were particularly important to their assessment of an IPO.
- 107 The Financial Conduct Authority (FCA) in the United Kingdom also found that the prospectus and access to management were central to institutional investors' assessment of an IPO. The FCA is exploring a range of proposals to enable investors to access the prospectus sufficiently early in the IPO process for the document to play its proper role in informing their investment decisions: see [FCA Consultation Paper 17/5 Reforming the availability of information in the UK equity IPO process](#) (March 2017).
- 108 The key sources of information that institutional investors consider when deciding whether to invest in an IPO are set out in Figure 2.

Figure 2: Sources of information institutional investors consider when deciding whether to invest in an IPO



Note: Paragraph 264 in the appendix sets out the information contained in this figure (accessible version).

Source: ASIC

Prospectus

- 109 Institutional investors said that the pathfinder prospectus (or the lodged prospectus if no pathfinder prospectus was used) was one of the most important sources of external information, and this was usually read thoroughly.
- 110 Institutional investors stated that the prospectus was the benchmark document from which all other information about the IPO was sourced, including information provided to retail investors by intermediaries such as brokers.
- 111 The directors' potential liability for the prospectus disclosure, and the consequent rigour around preparation of the prospectus, meant that the institutional investors considered it to be a reliable document. We did not receive any significant negative feedback about the quality of prospectuses from institutional investors during this project. However, some noted that a few issuers had recently failed to meet their prospectus forecasts, and

investors had therefore questioned the rigour of how these forecasts had been compiled.

Note: See paragraphs 149–154 for the feedback that retail investors gave on prospectuses during the market research. We comment in Section E on a few possible reasons why retail investors were more critical of prospectuses than institutional investors: see paragraphs 237–238.

Key sections of the prospectus for institutional investors

112 All of the institutional investors we spoke to identified the following sections of the prospectus as being very important:

- (a) the financial information, including management’s explanation of historical financial performance; and
- (b) the key risks.

113 Other sections that were also identified as being important, but were not nominated by all of the institutional investors, included:

- (a) board and management;
- (b) material contracts;
- (c) related party transactions; and
- (d) additional information.

ASIC’s review of prospectuses

114 Institutional investors involved with IPO offers told us that ASIC’s scrutiny of prospectuses had a positive influence on the preparation of the document. They considered that they could place more weight on the pathfinder prospectus, which includes similar information to the lodged prospectus, because the lodged prospectus may be subject to our review and possible regulatory action.

115 One of the implications of front-end bookbuilds is that institutional investors are required to make their investment decision, and participate in the offer, on the basis of a pathfinder prospectus which has not yet been subject to any regulatory oversight.

116 The institutional investors told us that this issue did not affect their reliance on the pathfinder prospectus. The fact that the lodged version of the prospectus may subsequently be reviewed by ASIC brings a rigour to the preparation of the document, which extends both to the pathfinder and final versions of the prospectus. Regulatory action by ASIC relating to the lodged prospectus can have significant consequences for the offer, even if it is largely pre-sold to institutional investors before the prospectus is lodged.

Access to management

- 117 Institutional investors place significant weight on meeting the issuer's management when assessing an offer, and meetings with the management were usually integral to institutions' assessment of an offer. All of the institutional investors we spoke with said they would not invest unless they had access to the management.
- 118 We were told that the roadshow gave institutional investors a valuable opportunity to get an impression about the issuer's management and its competence, which could sometimes be difficult to do through the prospectus alone.
- 119 During roadshows, the institutional investors can ask the issuer questions about their forecasts and the underlying assumptions. They can assess how readily the issuer's management is able to respond to questions, how well they know the business and industry, and how prepared they are for the future.
- 'Until we can meet with management, we're not willing to invest. We need evidence they know what they are doing and have a solid plan for the future.'

Internal analysis

- 120 All of the institutional investors we spoke to emphasised the importance of their in-house analysis of the offer. At the IPO stage, there is often limited information available on the issuer. Institutional investors therefore place heavy emphasis on their own internal analysis, financial modelling and research.
- 'We can't just rely on what the issuer says it's worth. Or what the lead manager says the issuer is worth. We need our own analysts to run the numbers and look at the sector more broadly.'

Investor education report

- 121 There was varied feedback from the institutional investors that we spoke to about the importance of investor education. Some institutional investors treated this information with scepticism because it was provided by the sell-side firm—however, others noted that background information on the industry could be useful.
- 122 CP 290 contains a number of proposed recommendations on how potential conflicts of interest that compromise investor education can be addressed: see Sections C and D of CP 290. The feedback provided by institutional investors on their concerns about the reliability of investor education may be an added incentive to improve practices in this area.

C Market research—How retail investors make decisions about IPOs

Key points

We commissioned third-party qualitative market research to explore the factors that influence retail investors in deciding whether to invest in IPOs.

The market research found that:

- most retail investors said they used the prospectus—however, the extent of that use varied considerably;
- most retail investors reported looking for information outside the prospectus for a number of reasons; and
- only a small number of retail investors said they used online investor forums or social media to help them assess IPO offers.

Background to the market research

Objective of the market research

123 As stated above, prospectuses are required by the Corporations Act for IPOs that involve an offer of securities to retail investors in Australia. A prospectus is intended to be the most important source of information on an IPO for retail investors and their advisers. However, retail investors are increasingly receiving information and advice about IPOs from a number of different sources.

124 To complement our work discussed in REP 494, we decided that our regulation of IPOs would benefit from a better understanding of how different types of information and other factors influence retail investors.

Scope of the market research

125 The market research involved retail investors who invest for their own personal account rather than on behalf of other investors or entities. There were 11 high net worth investors and 41 retail investors. Eight retail investors used a self-managed superannuation fund (SMSF).

126 We included a proportion of SMSF investors and high net worth investors (who would qualify as sophisticated investors) in the sample because:

- (a) we anticipated that SMSF investors or high net worth investors may make up a significant proportion of non-institutional IPO investors; and

- (b) we also thought that high net worth investors may have a similar approach to assessing IPOs as retail investors, given the relatively low financial tests for sophisticated investors under the Corporations Act.

Note: Professional and institutional investors were excluded from the market research. We separately examined the factors and information that influence institutional investors in IPOs in Section B.

Methodology of the market research

Qualitative research

- 127 We considered that qualitative research comprising in-depth interviews with retail investors was the most appropriate method for exploring their process of investing in IPOs.

Structure of the research

- 128 A third-party research firm, Whereto Research, conducted interviews and group discussions with a total of 52 participants located in Sydney, Melbourne, Brisbane and Perth.

Note: We have included as an attachment to this document the report *Factors that influence retail investors in IPOs*, issued in August 2017, based on the qualitative market research conducted by Whereto Research and commissioned by ASIC (Whereto Research report).

- 129 The participants had a broad range of investment experience but there were more experienced retail investors than inexperienced retail investors. This may be due to the perception that IPOs are difficult and relatively high-risk investments.

- 130 The market research was conducted in two stages in late 2016 and early 2017:

- (a) Stage 1 of the market research involved 17 interviews that were participant-led discussions focusing on the retail investors' recent IPO investments. Stage 1 also included two group discussions involving participants with similar investment profiles.
- (b) The information obtained in Stage 1 allowed Stage 2 of the market research to focus on particular issues, which were explored in 24 semi-structured interviews. These interviews were conducted over the telephone to increase geographic representation of the research.

Note: Further details of the market research methodology are contained in Section 3 of the Whereto Research report and the appendix to the report.

Features of the market research

- 131 The participants in the market research reflected a range of ages, gender and ethnicity—however, the limited sample size means that these retail investors,

and the findings, might not be representative of the total IPO investor population. In particular, only a small number of participants in the sample used a full-service broker, whereas full-service brokers tend to dominate retail access to larger IPOs: see paragraphs 155–156.

132 To maximise what investors would remember about their investment decision, we asked Whereto Research to select participants who had all either invested, or seriously considered investing, in an IPO in the previous 12 months. However, the findings still reflect retail investors' own recollection of their investments, with no verification of what they actually did at the time.

133 The findings from the market research could therefore be influenced by participants' memory of events, as well as factors such as:

- (a) hindsight bias—which can change how an event is remembered or affect the recall of different memories over time; and
- (b) social biases—which can affect how events are reported in a social context, such as in interviews and focus groups.

Note: In this report, for ease of reference, we generally discuss the market research findings as if they reflect what retail investors actually did. However, it should be noted that the findings are based only on what retail investors said they did.

134 The IPOs that participants had considered over the previous 12 months did not necessarily reflect the full spectrum of companies, which would tend to float over a longer period of time. However, the recent IPOs were from a diverse range of companies—from established 'blue chip' companies through to small start-up companies, and operating in a variety of industries. In addition, the majority of participants had invested in many IPOs over a long period of time, and this would tend to increase the type of IPOs they gave feedback about.

Note: For further details on the range of investors who participated in the market research, including a breakdown of their ages, ethnicity, gender and investment experience, see the appendix to the Whereto Research report.

Summary of the market research findings

Retail investors perceive IPOs to be complex

135 Retail investors who participated in the market research unanimously acknowledged that IPOs were complex investment decisions. They all wanted to make money on their IPO investment but recognised that IPOs were inherently risky.

136 Aside from just making money, some of the retail investors also derived intellectual satisfaction from the challenge of investing in IPOs, or said they were excited about being part of something new.

Diverse investment processes

137 Retail investors in the market research said that each IPO was different. They did not have set sources of information that they consulted in a linear fashion, and there was no single pathway to making their investment decision.

138 The retail investors' recall of formal advertising about IPOs was extremely low. However, Whereto Research noted that this could have been because promotional content in investment newsletters or online broker platforms was perceived to be information rather than advertising.

139 The process for deciding whether to invest in an IPO appeared to differ between individual investors based on a number of factors such as the individual's level of self-reported confidence, their experience and their appetite for risk. The process could also differ depending on the IPO.

140 Most of the retail investors said that they completed considerable research and considered the offer in detail before making their investment decision. The Whereto Research report noted that:

Most investors did not seriously consider IPOs that operated in industries they did not believe they understood. Where a participant was interested in an IPO of a company that operated in an industry they felt they did not understand well, they conducted quite considerable research to help them better understand the market. In the majority of cases, investors eventually decided against an IPO they had been considering if they felt after some research that they didn't have a reasonable level of understanding about the company, its market and its business.

141 In our view, many of the participants were able to articulate sound factors that they took into account before investing—including, for example:

- (a) how the issuer planned to make money;
- (b) the expertise of the issuer's management;
- (c) the competitors operating in the same market;
- (d) the issuer's financial position; and
- (e) the specific risks the issuer might encounter: see pages 59–64 of the Whereto Research report.

142 However, the market research also identified potential behavioural factors that may have affected investors' decision making. These are explained in Section D.

Awareness of ASIC's role

- 143 Nearly all of the retail investors were aware of ASIC as a regulator, but very few were aware of our role specifically in relation to IPOs.
- 144 In some cases, retail investors appeared to think that ASIC assessed whether companies met certain merit-based criteria before listing. In fact, we do not have the power to prevent an IPO merely because it appears to have little merit. Although Australian exchange markets require companies to meet certain listing criteria, these criteria are not based on the merits of the investment, apart from certain basic requirements such as size and spread.
- 145 There also appeared to be a perception among some retail investors that ASIC reviewed all prospectuses and checked the integrity of the information. A number of retail investors said they wanted to better understand ASIC's role in relation to IPOs.

Types and sources of information

Prospectus

- 146 Most retail investors who participated in the market research said the prospectus was a key source of information, mainly because it was a document required by law and was regulated by ASIC. However, as discussed in paragraphs 147–154, the use of the prospectus varied considerably.
- 147 Most retail investors felt comfortable ignoring large sections of the document and only focused on the parts they considered to be the most important or which they said they could understand. Some retail investors only mentioned the prospectus when prompted by the researcher, suggesting it may not have had a significant influence on their investment decision.
- 148 These findings are consistent with some of the results of the quantitative research by the New Zealand Stock Exchange and the New Zealand Financial Markets Authority in 2014. This research found that, of those investors who reviewed the offer document, 15% said they read all of it, 52% said they read most of it, and 33% said they read some of it. The report concluded:
- Most investors/potential investors surveyed say they at least looked at the documents before making their investment decision. However, few read the documents thoroughly—most dipped into them rather than read them cover to cover and it's probable that some merely opened them to satisfy registration process requirements.⁴

⁴ New Zealand Stock Exchange (NZX) and Financial Markets Authority (FMA) New Zealand, [NZX-FMA, *Investor experience of IPOs*](#), February 2014, p. 8.

Retail investor feedback on prospectuses

- 149 The retail investor feedback on prospectuses was varied. Many investors made insightful comments about prospectuses and pointed out deficiencies that we identify on a regular basis. There were also investors who did not appear to use the prospectus very much and others who assessed the document partly by factors such as the quality of the paper.
- 150 Table 3 discusses the key sections of the prospectus that the retail investors reported using, and the information they were searching for. The investors' comments and general concerns about prospectuses are set out in paragraphs 151–154. Section 4.8 of the Whereto Research report contains the comprehensive research findings on the role of the prospectus.

Table 3: Retail investors' use of the prospectus

Investment overview	<p>A good introduction helped some retail investors decide whether or not to investigate the IPO further.</p> <p>Some retail investors only read the investment overview: 'That's usually enough to tell you what it's all about.'</p> <p>Some retail investors did not think the prospectus had a good summary of key information and some also had difficulty navigating the document.</p>
Financial information	<p>This was important but retail investors appeared to have varying abilities to understand the information.</p> <p>Some retail investors did not think they had the skills to understand the financial information in the prospectus.</p> <p>The more experienced retail investors perceived the information to be a good starting point, but also conducted their own analysis—for example, to check whether forecasts appeared reasonable.</p>
Business/industry overview	<p>Most retail investors said they wanted information on the business and industry. Many retail investors said the prospectus provided a good starting point for this information.</p>
Risk factors	<p>A number of retail investors considered the risk disclosure was too generic and wanted information on specific risks to the issuer:</p> <p>'Sometimes the key risks can be quite broad, and quite vague ... A company might put in that a key risk is to satisfy ASIC. And you go, "well what are the specific risks to your company? Can you be more specific?"'</p> <p>'It looks like they've just cut and pasted the risks.'</p>
Board and management	<p>A large number of retail investors (especially the more experienced investors) said that information on the issuer's management was very important.</p> <p>While the prospectus was the primary source used to obtain this information, some conducted further searches to check whether any of the management team had a history of bad management. Where information about bad management emerged, retail investors were unlikely to consider the IPO any further.</p> <p>Some investors did not think they had the skills to assess the information on the past performance or expertise of the management.</p>

Length and complexity

151 A significant proportion of retail investors, particularly those who were less experienced, said that prospectuses were too long and that this contributed to difficulties in understanding the document or even attempting to read large parts of it. The behavioural biases associated with lengthy disclosure documents are discussed further in Section D at paragraphs 209–213.

152 Prospectuses are not only challenging because they are long. They are also difficult because they are repetitive and the language used is often archaic, technical or legalistic. The market research findings indicated that retail investors would be likely to find prospectuses more useful if the key information was explained in clear language. For example, one retail investor said:

‘[P]rospectuses are too hard to understand. They’re written by lawyers and people with vested interests. [They should] ... provide information that the average investor who doesn’t have the knowledge can understand ... I honestly believe it has to be spelt out clearly and align with the modern practices of explaining things that are critical in a simple way.’

153 Some retail investors gave feedback during the market research that they wanted a good investment overview to help them understand the key issues and navigate the document. One investor, referring to a third-party report on an IPO, said they appreciated:

‘... a really good summary, how the company runs, its regulatory requirements, the sort of headwinds it might encounter, all in plain language. But you don’t get that in a prospectus.’

Lack of candid information

154 Some retail investors also said that some prospectuses failed to contain important relevant information—such as the assumptions underlying the forecasts, disclosure on specific risks facing the issuer, and detailed information on management. There was also a perception that the prospectus was an unbalanced marketing document that did not tell the whole story.

‘The prospectus is useful but there is no way I’d make a decision based just on that. I know it has a positive slant, so I read it, and then I look for other information.’

‘There are some prospectuses that are very glossy, they have information about their projections, but they don’t explain their underlying assumptions. And if you don’t understand that, how can you understand if it’s a risk worth taking?’

Full-service brokers

- 155 Most of the retail investors who took part in the market research were ‘self-directed’ and did not use a full-service broker or other paid investment advice. This is in contrast with quantitative research on IPOs conducted in 2003, which found that 60% of respondents used a full-service broker.⁵
- 156 It is not always easy for ‘self-directed’ retail investors to obtain allocations in capital raisings (particularly for IPOs that are keenly sought after). Most large IPOs have a limited, if any, public offer component. For example, allocations of shares for 13 of the 15 largest IPOs during 2016 were limited to clients of the broker who was managing the offer (with only two of these also having a general public offer).
- 157 Even where a general public offer is included, and a broker is appointed by the issuing company to manage the offer, the broker still largely manages the allocation of shares in a capital raising, and these are generally allocated to clients of the broker.
- 158 However, the findings from the market research were consistent with other research that shows increasing numbers of retail investors are self-directed.⁶ As noted in the *ASX Australian investor study 2017*, this may have implications for the financial advice sector and how financial advisers engage with retail investors.
- 159 Although most of the participants in the market research said they preferred a ‘do-it-yourself’ approach to investing, the research findings showed that many of them were seeking some kind of informal assistance. This suggests that there is still a need or desire for investment advice in some form.

Why retail investors did not use a full-service broker for IPOs

- 160 The retail investors who participated in the market research gave a number of reasons for not using a full-service broker. Some of the more experienced retail investors said they used a full-service broker when they first started investing because there had been no other option, but they now used online brokerage services.
- 161 A few retail investors said they did not trust brokers to provide unbiased information. For example, one retail investor said:
- ‘If the broker is going to buy into the IPO, they are going to want to create some movement, to push up the price. So they need to create a demand, and they are obviously receiving a very large fee for managing the IPO.’

⁵ Ian Ramsay, *Use of prospectuses by investors and professional advisers* (PDF 481 KB), Centre for Corporate Law and Securities Regulation, The University of Melbourne, 2003, p. 14.

⁶ ASX Limited, *ASX Australian investor study 2017*, May 2017, p. 26.

162 Other reasons for not using a full-service broker included the perceived cost of using a broker, doubt that brokers added sufficient value, and the belief that brokers were only for high net worth investors.

Note: Some of the participants had never used a broker, so the perceptions about brokers may not have come from personal experience.

163 The *ASX Australian investor study 2017* commented that, currently, most retail investors in Australia are ‘self-directed’. Investors’ main reasons for not using advice were that they preferred to be in control and they were not convinced that advice added value.

Note: The ASX study noted that, although around 61% of investors used some form of financial advice when investing (i.e. a financial planner or full-service broker), only 45% of investors were estimated to use financial advice in general. Quite a large proportion of investors using advice did so for assistance with administrative and taxation requirements.⁷

How retail investors used full-service brokers for IPOs

164 Of the few retail investors who did use a full-service broker, there appeared to be a high-to-very-high degree of reliance on the broker’s analysis and recommendations. Some of these retail investors valued their broker’s analysis but also appeared to make their investment decision independently. For example, one retail investor said:

‘The broker does some analysis and lets you know of some of the things that can go wrong and helps you understand the risks a bit better.’

165 Other retail investors who used a broker appeared to effectively delegate the investment decision to their broker and followed the broker’s recommendation with very little, if any, of their own analysis.

‘If she [the broker] thinks it’s a good deal and she’s investing in it, then that’s enough for me.’

Financial media

166 Most of the retail investors had a general interest in finance and followed a variety of financial media, including mainstream media, investment magazines and various subscription services dedicated to investing. This was a common way that retail investors first heard about an IPO.

167 Many of the retail investors said that analysis by financial media was easy to understand and that they enjoyed reading such analysis. Financial journalists and commentators were viewed as independent and having expertise. Whereto Research concluded that a commentator’s supportive view of an

⁷ ASX Limited, [ASX Australian investor study 2017](#), May 2017, pp. 8–9 and p. 52.

IPO could have a powerful influence on interested retail investors' decision to purchase.

Note: Financial commentators, such as journalists, are not required by the Corporations Act to hold an AFS licence (see s911A(2)(ea)), and are therefore not required to have any expertise or to be independent.

168 This reliance on financial commentators may reflect the trend towards retail investors preferring 'self-directed' investing, combined with some lack of confidence in their own ability to make an IPO investment decision without assistance.

Broker reports

169 Although only a few retail investors in the sample used a broker, a considerable number said they looked at what they called 'broker reports' for analysis on an IPO. The retail investors said that, when they could obtain these reports, they found the analysis useful. Some said that these reports were more useful than the prospectus because they were written in plain English and had more relevant analysis.

170 As mentioned in paragraph 132, the market research did not verify what retail investors actually did, and so it is difficult to know what participants meant by 'broker reports'. Although retail investors (in some limited circumstances) may have access to investor education produced by a research analyst, they are more likely to have access to summaries on an IPO produced by online trading brokers.

171 Brokers involved with an IPO typically produce marketing material to alert their clients and market the offer to them. This information is distributed to clients in many different formats, including as a factsheet with key information drawn from the prospectus, a short summary note which contains an opinion, or in some instances, a research report. Although this information may be provided to clients of the broker, it is usually not available to other investors.

Online investor forums and social media

172 Many of the retail investors did not use online investor forums or social media because they were not aware of these as a potential source of information about an IPO.

173 Some retail investors said they did not place a lot of weight on online forums or social media when assessing an IPO because they dismissed the opinions as speculation.

174 Online forums were influential among the small number of retail investors who used them. These investors considered the advice from other members

was ‘genuine’ (i.e. independent) and they valued the opinion of members they perceived as knowledgeable about investments. Online forums were also valued for providing different perspectives and links to other information.

175 Social media was also influential for a small number of retail investors. A few retail investors were strongly influenced by members of Facebook groups set up by an investment advisory service to which they subscribed.

‘There are some people in the group who have a lot more investing experience than me. I rate their knowledge and expertise very highly. They’ve got very significant portfolios.’

176 A few retail investors also used social media such as Twitter to follow what was happening, or other social media sites to track sentiment about the issuer.

Family, friends and colleagues

177 For some of the retail investors, a recommendation from a friend, family or colleague was the key, or even sole, factor in a decision about whether to invest in an IPO.

‘My dad has been investing for 40 years, so I always see what he thinks ...’

178 However, most retail investors regarded discussions with friends, family or colleagues as just one of a number of forms of information gathering.

Company information

179 Some retail investors would go to the issuing company’s website after looking at the prospectus, to try and obtain more information. In most cases, retail investors were looking to get a feel for the issuer based on the website appearance and content, and to see if there was any other relevant information.

180 A few retail investors said they would contact the issuer directly to see if they could find out more information.

Internet searches

181 Most retail investors conducted searches on the internet at some stage of the investment decision-making process. The level of detail of these searches varied, with some going beyond a general internet search to find out specific details about the management team, competitors or the market.

D Our analysis—How behavioural factors can affect retail investors' decisions about IPOs

Key points

We conducted our own behavioural analysis of Whereto Research's qualitative research findings.

The market research identified a number of potential behavioural factors that may influence a retail investor's IPO investment journey.

A brief introduction to behavioural economics

- 182 Behavioural economics describes how and why people think and behave in certain ways: how people *actually* behave. It draws from research across a number of social sciences, including economics, psychology, and decision science. Through decades of empirical research and testing, behavioural economics has added to traditional economics models, which are often based on assumptions about how an average person *should* behave in theory.
- 183 Behavioural economics is increasingly being applied in a government policy-making context, as well as in private industries. It provides a number of tools for understanding behaviour and designing solutions to market and consumer problems.

Behavioural analysis in the market research

- 184 Whereto Research's qualitative research—where retail investors talked in their own words about their IPO investment experiences—allowed us to gather in-depth insights from a sample of recent investors.
- 185 These subjective accounts were analysed by Whereto Research using both established qualitative techniques, and also by applying a separate behavioural economics perspective to identify and explore the potential presence of emotional or behavioural factors that may have had an influence on investors during their investment journey.
- Note: While this analysis draws from the significant body of behavioural research to consider what types of biases or heuristics may play a part in these decision-making processes, further empirical testing would be needed to confirm the existence and extent of these behavioural biases in the IPO investment context.
- 186 Some of the behavioural factors identified have been raised in the Whereto Research report (attached to this report), and we build on this analysis in this section by focusing on certain behavioural factors that appear to have been present.

How behavioural biases affect investment decisions

- 187 Evidence from the behavioural sciences shows that there are numerous emotional, social and decision biases that play a part in many of the decisions we make on a daily basis: from simple to complex decisions.
- 188 When decisions are complex, time-bound, or particularly consequential for an individual, these behavioural biases can be even more influential. For example, people are often poor at processing and assessing uncertainty or risk, and can easily misjudge probabilities. People also tend to prioritise things that are easier to see or imagine, or draw on experiences that have occurred more recently.
- 189 All of these behavioural elements are particularly relevant to decisions about investments, given their inherent complexity, the presence of uncertainty, and because investors are often faced with large amounts of (sometimes confusing or competing) information and choices. This can significantly affect whether investors notice particular pieces of information, and how they interpret and subsequently rely on them when making decisions.
- 190 This does not mean investors always make ‘wrong’ or ‘incorrect’ decisions, but rather that people rely on a number of (often unconscious) strategies and biases to help us navigate and make sense of the vast and complex sets of choices and information presented to us at any given time.

Potential behavioural factors identified in the market research

- 191 In keeping with evidence in behavioural literature, and ASIC’s previous investor and consumer research, the market research conducted by WhereTo Research revealed the widespread presence of emotional and behavioural factors. Some of this was explicit (e.g. in the language used by the retail investors) and some of it was implicit (e.g. inferred through an analysis of the challenges they described).
- 192 Over the next few pages, we draw on the reported findings and quotes from the retail investors themselves to highlight where we think the most relevant behavioural factors may have been present in the research.

Intuition and familiarity

- 193 One of the themes to come out of people’s reporting about their initial attraction and eventual decision about an IPO, and their associated investment decisions, was the presence of intuition or a ‘gut feel’.
- ‘You have to go with your gut feel. Does it feel right? ... If I don’t understand the industry and I don’t feel comfortable with the explanations that are coming online, then I don’t invest.’
- ‘If they’ve got a good [financial] history to look at, that’s good ... but really, when I make a decision I’m going with my gut ...’

194 Although most of the retail investors said it was important to consider information about the IPO, and reported relying on a number of different sources and analyses, some spoke about enjoying the challenge involved in possibly ‘beating’ the market, a reliance on ‘gut instinct’ and a desire to *feel* a level of ‘comfort’ about investing.

‘It is the challenge as much as anything. Doing your research, working out your strategy, seeing if it pays off—the satisfaction is almost more of a motive than making money. There’s no relaxing into it—you’re never “safe”.’

195 Some of the retail investors described familiarity with a brand or issuing company, including specific features of the issuer’s service or product, as part of the reason for being attracted to a particular IPO.

‘I was given a voucher to purchase some wine, and I tried their wines and they were fantastic. But the main reason is that we were just in WA [Western Australia] for a holiday, and there were so many smaller wine growers who were fantastic.’

196 It is possible that some of the retail investors paid more attention to, or were more positively predisposed towards, an issuing company they felt they had some affinity or familiarity with. This tendency to develop a preference or positive predisposition towards things you are familiar with, or that are easier to imagine (more ‘salient’), is known as the availability bias.

The role of tunnel vision

197 The Whereto Research report noted ‘possible evidence of selective perception and confirmation bias as investors recalled accessing and assessing information to support their positive predisposition towards a particular IPO’.

‘One of the bits of information I picked up in my reading was the demise of the Australian dollar ... so I decided to invest in something more international.’

198 Whereto Research noted that, when first hearing about an IPO, most of the retail investors reported either dismissing it quickly or being drawn to it by one of a few types of positive predisposition (e.g. it was an area or sector of personal interest, or they heard about it from a trusted source). Some of the retail investors developed this initial sentiment and then seemed to continue looking for information that confirmed this initial predisposition, rather than starting out from a neutral position. This suggests that the investors’ behaviour may have been affected by anchoring and confirmation bias.

199 Anchoring on an initial piece of information or sentiment towards something can affect how subsequent judgements about it are made. If confirmation bias is also a factor, this can lead people to search for, notice and/or give more weight to information and signals that confirm this initial judgement.

Conversely, this can lead some people to discount, trivialise or ignore information that contradicts the initial predisposition.

200 Both anchoring and confirmation bias may cause people's focus to narrow—hence, the notion of 'tunnel vision'. This can help people reach decisions more efficiently but it may also mean that people miss important factors (including certain risks) that are relevant or important.

Social factors

201 People are social creatures. We tend to care about what others think of us, trust those who are close or similar to us, and avoid being out of step with our peers or community. These factors, along with a range of social biases, affect the type of people we seek advice from and the way we respond to those around us.

'There are some people in that group who have a lot more investing experience than me ... I rate their knowledge and expertise very highly. They've got very significant portfolios'

202 Social biases (also commonly referred to as 'attributional biases') refer to the cues and other signals people rely on when they attempt to explain their own or others' behaviour. These biases relate to how we perceive and interact with others, the extent to which we trust different people and how this can influence our decisions.

203 In the market research findings reported by Whereto Research, we found some examples where retail investors' behaviour might have been affected by social biases.

204 The Whereto Research report noted that many of the retail investors appeared to prefer information sources that they considered to be credible and trustworthy. Participants nominated features such as a perceived 'lack of agenda' and clarity of language as indicators of trustworthiness.

205 In addition, Whereto Research noted that 'trust was also sought by most through a more personal connection, whether that be people they knew or a commentator they felt comfortable with'.

206 For example, a few retail investors in the market research said they relied almost solely on a recommendation from friends or family they perceived as having significant investment experience or previous success. Others said they also relied on the analysis provided by financial commentators they trusted when making their decision.

'What I do now is look for financial advisers out there who I trust ... who speak in plain English ... if they have had red flags I walk away ... I trust some of the news commentators ... whenever I saw them talking about the up and coming one I took a note.'

- 207 Research on social preference theories has shown that a number of factors can underlie peoples' trust in others, and this can shift depending on experience, situation and environment. Some of these elements include the concepts of likeability, fairness, reciprocity, desire to conform to social norms, and 'in-group bias'.
- 208 It is possible that some retail investors attributed greater accuracy to, or placed more weight on, the opinions or analysis of those they considered to be experts or more experienced investors, or those with whom they had an existing or newly formed trust relationship. Given the complex information faced by retail investors when navigating their choices, some retail investors may have substituted the opinion of those they trusted for the more difficult task of sifting through information and carrying out their own analysis.

Dealing with long, complex information

- 209 Behavioural research has shown that, when navigating choices and decisions, people have a finite amount of 'cognitive bandwidth'. Having to comprehend too much information with varying levels of complexity can lead to information overload. This may prompt people to rely on other heuristics such as 'rules of thumb, to help simplify the decision-making process, and may even lead people to put off making a decision altogether (known as inertia).
- 'It is too long, absolutely. I'm sure it's relevant, and I know that some people will want all the information ... but a summary which points you in the right direction for more information if needed would suit me ... '
- 'I know (the prospectus) is something I should look at, but I wasn't clear on how to read and interpret it. A lot of the information I didn't understand the first time I looked through it.'
- 210 These limitations in the way we process choices, information and risk are particularly relevant in financial services and investments, where:
- (a) choices are often complicated, unfamiliar or intangible;
 - (b) outcomes may be uncertain or distant;
 - (c) poor decisions can materially affect a person's financial and emotional wellbeing; and
 - (d) as noted in the final report of the Financial System Inquiry:

'... in itself, mandated disclosure is not sufficient to allow consumers to make informed financial decisions ... disclosure can be ineffective for a number of reasons, including consumer disengagement, complexity of documents and products, behavioural biases, misaligned interests and low financial literacy.'⁸

⁸ [Financial System Inquiry, Final report](#), 7 December 2014, pp. 193 and 199.

211 While the market research did not test the extent to which the retail investors actually understood the prospectus, WhereTo Research did report that a number of retail investors felt that prospectuses were too long and admitted to only reading selected sections.

‘I don’t read much, there is something like 200 pages, I probably only read 30 pages ... I just wanted to know the history, the historical profits and revenue, and future forecasts for business and profits. Financials are the most important.’

‘Do I wade through and read every word? No ... usually ... [the prospectus] is 90% legal speak and really only 10% of what you want to know. I certainly read the Chairman’s summary, but not beyond that. A lot of it is just legal waffle ...’

212 Some of the retail investors in the market research also commented on the large volume of information that is available for most IPOs overall. WhereTo Research identified that a major concern for these investors was being able to judge which pieces of information they should rely on and which they should disregard.

‘As a retail investor, I find the information that is available is daunting ... looking at balance sheets and looking for the devil in the detail. I now look for report[s] that are written in plain English ... the report I read was written in such a way that I could see the negatives ... I think all the prospectuses ... are too hard to understand. They’re written by lawyers and people who have vested interests.’

213 Given the length and complexity of many prospectuses—and the number of alternative sources of information available for most IPOs—it is possible that retail investors may turn to people they are more comfortable with (e.g. where they have a personal connection or a sense of trust) or sources that they perceive are easier to understand (e.g. reports from research analysts or commentators), rather than attempting to read and understand the prospectus from start to finish.

Assessing risk

214 Research across a number of the behavioural sciences has shown that people tend to have shifting thresholds for dealing with uncertainty, and that it is very difficult for people to accurately identify, assess and account for risk in different contexts. This is often the result of a number of interacting biases—such as overconfidence, overoptimism, anchoring, availability bias, and negativity bias—which can make people more likely to miscalculate risk. This may also be affected by external factors such as how risk information is framed and communicated.

215 In the market research conducted by WhereTo Research, all of the retail investors acknowledged that IPO investments involved risk. A number of the participants spoke about the strategies they relied on to ‘reduce the level of risk’ associated with the decision. However, rather than directly reducing the

risks associated with the investment (where these were within the control of the investor), investors seemed to be relying on some of these strategies partly to reduce their level of uncertainty about the investment to a point that would leave them personally comfortable with their decision.

‘I thought—I’m reasonably comfortable with this ... a lot of it is instinct. You get to a point where you’re just comfortable.’

216 Many of the retail investors considered that information searches were part of the risk mitigation process (i.e. finding out more about the issuer and the industry it operated in). Some used ‘rules of thumb’ which they considered would help to reduce the risks associated with an IPO investment. These included:

- (a) finding out whether the issuer’s management were going to hold shares in the issuing company;
- (b) understanding whether there was strong market interest;
- (c) investing for only a short time or limiting the amount invested; and
- (d) avoiding IPOs backed by private equity firms.

E Impact of findings on ASIC's approach to IPOs

Key points

Based on the findings from this project, we believe that ASIC's regulation of IPOs is largely sound. We will continue to review a significant proportion of prospectuses, given their importance to investors and to maintaining the reputation of Australia's capital markets.

The market research showed prospectuses were challenging documents for retail investors. Feedback from the participants should help issuers and their advisers to produce more effective disclosure for retail investors.

There are some additional areas that we propose to focus on, including:

- engaging with stakeholders to encourage them to improve institutional and retail investors' access to information on the issuer's management;
- increasing our surveillance of online investor forums and social media; and
- providing additional information about the IPO process to retail investors.

217 This section of our report explains how the results from our inquiries with institutional investors and the market research on retail investors will affect our approach to IPOs. We also suggest how issuers and their advisers can improve their communication with retail investors about IPOs.

Summary of our key findings and proposed approach to IPOs

218 This project showed that prospectuses play an important role in the IPO process for institutional investors. Prospectuses also form the basis for other information about IPOs, such as advice to retail investors about the offer and the benchmark against which we assess various forms of IPO marketing.

219 We consider that our regulation of IPOs and guidance on prospectuses are largely sound. However, we will enhance our approach to IPOs by monitoring the broader sources of information that influence retail investors.

220 The project's key findings and our proposed approach are summarised in Table 4.

Table 4: Summary of the project's findings and ASIC's response

Key findings	Our response
<p>Institutional investors said that prospectuses were important as a source of verifiable information.</p> <p>Retail investors found prospectuses to be challenging documents, partly because of their length and the complexity of the language used.</p>	<p>We will continue to review a significant proportion of prospectuses and take regulatory action if disclosure is defective.</p> <p>We will also continue to undertake targeted surveillance to check whether prospectuses have been subject to rigorous due diligence procedures.</p> <p>We will continue to encourage issuers and their advisers to provide more effective disclosure, focusing on an investment overview that explains key issues in plain, succinct language.</p>
<p>Institutional investors said that speaking directly to the issuer's management was important.</p> <p>Similarly, retail investors said that they wanted more information on the issuer's management team.</p>	<p>We propose to explore how access to the issuer's management could be improved for both retail and institutional investors: see paragraphs 255–259. This may include recording roadshows and making them available online.</p> <p>We also intend to engage with companies on the need to provide retail investors with full and frank disclosure in the prospectus about the management team. This may include explaining each key executive's past performance and suitability for the role.</p>
<p>Retail investors valued analysis that was perceived to be independent, including commentary in the financial media.</p> <p>Institutional investors also placed less weight on information that may have come from a conflicted source.</p>	<p>We will review and, if necessary, update our guidance to help retail investors to assess independence.</p> <p>We will work towards ensuring any limitations to independence of research analysts are clearly disclosed: see also REP 486 and CP 290.</p>
<p>Retail investors tended to view promotional content on IPOs, provided by some investment circulars or newsletters, as 'information' rather than advertising.</p>	<p>We will increase our monitoring of promotional coverage of IPOs and review whether such coverage is clearly identified as paid advertising rather than independent, editorial-style content.</p>
<p>Findings from the market research suggested that online investor forums and social media would become a potentially important influence on retail investors in the future.</p>	<p>We will continue to proactively monitor the prevalence of IPO marketing on social media and online forums.</p>
<p>Retail investors had minimal understanding about how IPOs were regulated, and wanted to know more.</p>	<p>We will review how we can help retail investors to have a realistic understanding of IPO regulation. For example, it is important for retail investors to know that companies are only required to meet very broad criteria before listing and that the onus is on the investor to assess the merits of the investment.</p>

Note: The institutional investor findings are based on ASIC's informal meetings with institutional investors, while the retail investor findings are based on the third-party market research conducted by WhereTo Research.

Prospectuses

Our response to institutional investor feedback on prospectuses

- 221 Institutional investors said that the prospectus was a key document that they used to make investment decisions. We were told that the prospectus also formed the basis for information that financial intermediaries gave to retail investors about the offer.
- 222 We will continue to regulate prospectuses closely by:
- (a) conducting detailed reviews of a significant proportion of prospectuses, as described in Section L of RG 254;
 - (b) undertaking due diligence surveillances, particularly where we have concerns that the prospectus may contain misleading statements or material omissions;
 - (c) closely reviewing historical financial information, particularly in large IPOs, to ensure it complies with the updated guidance in RG 228, and reviewing forecasts to check they comply with RG 170; and
 - (d) imposing stop orders if we are satisfied that a prospectus is misleading or deceptive.
- 223 Institutional investors indicated that ASIC's oversight of prospectuses resulted in issuers and their advisers being more diligent with the preparation of the content of the prospectus, thereby improving the quality of disclosure. For this reason, we will seek to make our activity in the IPO sector as transparent as possible. For example, we will continue to highlight in our corporate finance reports the issues we are targeting for regulatory action.

Our response to retail investor feedback on prospectuses

- 224 Participants in the market research said the prospectus was a 'key' source of information for them. We consider the market research showed that many retail investors were prepared to put a lot of effort into their investment decision, and would read information if it was credible and clear.
- 225 However, the research also showed that there were limits on the effectiveness of the document for retail investors. Some had insufficient financial capability to fully assess an IPO, and some preferred to effectively delegate their decision to another person, or use 'rules of thumb', rather than try to understand the prospectus.
- 226 We provide extensive guidance in RG 228 on how to produce more effective disclosure for retail investors. We consider there is significant scope for helping retail investors to make confident and informed decisions on IPOs within the current disclosure regime. The feedback from retail investors during the market research should also help issuers and their advisers with this challenge.

227 We will continue to request changes to prospectuses if we consider these will significantly assist retail investors. We will engage with advisers on effective disclosure for retail investors through our twice-yearly Corporate Finance Liaison meetings.

228 We will also monitor international efforts to make disclosure more accessible to retail investors. For example, the SEC currently has an initiative on improving the readability and navigability of disclosure.⁹

Clear, concise and effective

229 Many retail investors complained about the length and complexity of prospectuses: see paragraphs 151–153.

230 Although prospectuses are often long documents for good reasons, they could be clearer and less repetitive. For example, in our review of prospectuses, we have found that key negative information could be more clearly explained, rather than obscured in complicated, technical terms. We consider that the use of clear language may help to reduce retail investors' perception that the prospectus is a marketing document that does not tell the full story.

Investment overview to help investors find key information

231 In RG 228, we provide guidance on how to draft an investment overview for the prospectus that explains key information for retail investors and helps them navigate the document. The market research indicated that retail investors found this type of disclosure useful: see Table 3 and paragraph 153.

232 In practice, investment overviews are often repetitive and give a long summary of all the information in the prospectus rather than a helpful analysis of key information. We will continue to encourage issuers and their advisers to comply with s715A by providing retail investors with an effective investment overview.

More information on specific risks and financial information

233 Feedback from the retail investors in the market research showed that they found generic risk disclosure frustrating, and they wanted more information on how specific risks were likely to affect the issuer: see Table 3.

234 In our view, the failure to provide full and frank risk disclosure may increase retail investors' perception that the prospectus is a marketing document. Practical risk disclosure has been an area that we have focused on for a number of years, and this continues to require improvement: see Section E of RG 228.

⁹ SEC Chairman, Jay Clayton, [SEC, Remarks at the Economic Club of New York](#), speech, 12 July 2017.

235 Some of the more financially capable retail investors wanted more financial information. We have also recently focused on this issue with our update of RG 228.

236 Other retail investors had difficulty understanding financial information. We will work with issuers and their advisers on whether there is more scope to explain key financial information in plain English (e.g. in the investment overview).

Contrast between feedback from institutional investors and retail investors on prospectuses

237 The institutional investors we spoke with did not give us any significant negative feedback about prospectuses, whereas retail investors made quite a few negative comments about them: see paragraphs 149–154. This may be partly because institutional investors are more experienced with reading and understanding long, complex documents, and have higher levels of financial capability.

238 Further, institutional investors generally only seriously consider IPOs from larger, more established companies that meet their mandate, whereas retail investors also consider IPOs by smaller companies and speculative start-ups. In our experience, IPOs by ‘smaller cap’ companies tend to have lower-quality prospectuses (and often lower-quality due diligence procedures: see REP 484).

‘Independent’ analysis

239 One of the key market research findings was that retail investors placed a significant premium on information that was independent, or at least perceived to be independent. This included various forms of financial and online media commentary: see paragraphs 167 and 174.

240 There is a risk that some of these sources of information are not as independent as they may appear, and assessing independence is not always as easy as it should be. We will review and, if necessary, update guidance provided on our MoneySmart website to help retail investors to assess independence. We will also review whether ‘independent’ analysis is in fact advertising: see paragraphs 246–248.

241 The market research also suggested that a considerable number of retail investors consulted what they called ‘broker reports’ when assessing an IPO: see paragraphs 169–171. Our inquiries confirmed that institutional investors placed less weight on sell-side research because of the research analyst’s potential conflicts of interests.

242 Research analyst reports should clearly disclose whether the author or firm has any conflict of interest: see RG 79.158. We have previously found that

the disclosure of conflicts of interest could be improved. For example, REP 486 notes that most research reports contained ‘boilerplate information and generic wording that staff may hold shares or the firm may seek corporate work from the issuer of the report’: see paragraphs 95–98 of REP 486.

243 In REP 486, we state that we expect each research report to include prominent, specific and meaningful information about a firm’s conflicts of interest. In CP 290, we propose to supplement the guidance in RG 79. The consultation paper includes our proposed additional guidance on the disclosure of conflicts of interest in research.

Financial media analysis

244 As discussed in paragraphs 166–168, many retail investors relied on analysis in the financial media, including mainstream media, investment magazines and various subscription services dedicated to investing.

245 We will continue to monitor mainstream financial media as part of our surveillance of IPOs. We will also broaden our monitoring to include investment magazines and online subscription services to ensure we are aware of the information that is likely to be influencing retail investors.

Advertising

246 The market research showed that some retail investors tend to be particularly influenced by the first piece of information they come across: see paragraphs 198–199. This reinforces the need for ASIC to closely monitor compliance with the advertising restrictions in various types of media.

247 Participants in the market research had extremely low recall of formal advertising of IPOs. It appears that this was partly because some investors confused promotional coverage of IPOs (e.g. in subscription services and newsletters) with factual information or unbiased editorial-style opinion. During our monitoring of this type of media, we will check whether promotions of IPOs are sufficiently identified as advertising and comply with the advertising restrictions in s734: see paragraphs 35–38.

248 We will also continue to monitor whether advertising is balanced and not misleading or deceptive: see paragraph 53. We will use our broad stop order powers over advertising if necessary.

249 We will also provide examples of poor conduct in our twice-yearly corporate finance report to clearly illustrate behaviour that ASIC will find unacceptable.

Online investor forums and social media

- 250 As discussed in paragraphs 174–176, social media and online investor forums were influential for a small number of retail investors, although most of the participants in the market research were unaware of these as a potential source of information about investing. REP 494 also found that social media was not commonly used by larger firms for marketing IPOs, but was more widely used by smaller firms.
- 251 It should be noted that many of the participants in the market research were over the age of 45, and that the average period they had been investing in the stock market was 15 to 20 years. These investors may have had a lower awareness, or use of, social media and online forums because they were from an older demographic. In addition, these forms of communication were not common, or had not emerged, when many of the participants first started investing (and therefore they may not have developed the practice of consulting these sources of information).
- 252 We consider there is potential for the influence of social media and online forums to increase over time—for example, as people who have grown up with social media and online content become more active investors or advisers in the IPO sector. The *ASX Australian investor study 2017* also predicts that the use of digital innovation could increase as ‘the current generation of young, technology-savvy investors age’.¹⁰
- 253 We plan to proactively monitor social media and online forums because their influence may increase, and we have previously found some evidence of problematic practices in this area: see paragraphs 115–122 of REP 494.
- 254 Newer technologies allow regulators to more easily monitor online sources of information. We will use these newer technologies to increase our surveillance capabilities—for example, to monitor whether posts comply with the advertising restrictions, and whether posts are independent (or conflicts of interest are clearly disclosed).

Management

- 255 This project found that both institutional and retail investors placed great importance on the issuer’s management. Institutional investors have much greater access to the issuer’s management than retail investors, who may be limited to conducting general internet searches on the issuing company’s directors.

¹⁰ ASX Limited, *ASX Australian investor study 2017*, page 17.

- 256 An emerging development in Australia is the introduction of IPO roadshows that are accessible online. An online roadshow may also be run in conjunction with the live roadshow, where a third-party website facilitates online access for institutional investors to the pathfinder prospectus, a video or audio of the management presentation, and a copy of the slides.
- 257 This may improve institutional investors' access to management where they are unable to attend the live roadshow. We believe that broad access to roadshows by a range of institutional investors is desirable for an efficient IPO market.
- 258 Companies could improve retail investors' access to information about management by making management presentations to institutional investors available online through a third party or on the entity's website after the prospectus is lodged. Similarly, companies could record question and answer sessions with institutional investors and make these available during the offer period. There may also be scope for answering retail investors' queries on the issuer's Facebook page.
- 259 The market research findings should also provide an incentive for companies to provide full and frank disclosure in the prospectus on the directors' background and why the directors are suitable for the role: see Table 3.

Information about the IPO process for retail investors

- 260 The market research indicated that some retail investors had minimal understanding about how ASIC regulated IPOs, and wanted to know more.
- 261 In RG 254.16–RG 254.24, we discuss ASIC's role in relation to prospectuses. However, this is aimed at issuers and their advisers. We plan to investigate options for providing information for retail investors on IPO regulation.
- 262 The market research showed that most of the retail investors were 'self-directed' for various reasons, and potentially had an interest in improving their investment skills. If this is correct, there may be scope for other industry participants to provide some form of information about the IPO process that appeals to retail investors, or some form of assistance that addresses their needs within a largely self-directed model.

Appendix: Accessible versions of figures

263 This appendix is for people with visual or other impairments. It provides the underlying information for any figures included in this report.

Table 5: Number of new ASX listings

Financial year	Number of listings
2011–12	99
2012–13	82
2013–14	107
2014–15	120
2015–16	124
2016–17	152

Note: This is the data contained in Figure 1.

Sources of information institutional investors consider when deciding whether to invest in an IPO

264 Institutional investors consider numerous sources when determining whether to invest in an IPO:

- (a) *Prospectus*—The prospectus is an essential document, in particular the sections on financial information and key risks.
- (b) *Management*—The individuals behind a company are an important factor. Significant weight is placed on being able to speak to management prior to investing.
- (c) *Investor education report*—The research report contains information on the industry, relevant benchmarks and variables, and financial information extracted from the pathfinder prospectus. However, institutional investors are sceptical about the report because it is provided by firms that are connected to the issuer.
- (d) *Internal analysis*—At the IPO stage, there is often limited information available on the company. As such, institutional investors rely heavily on internal analysis, financial modelling and their own research.

Note: This paragraph sets out the information contained in the infographic in Figure 2.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries on a financial services business to provide financial services Note: This is a definition contained in s761A.
AFS licensee	A person who holds an AFS licence under s913B of the Corporations Act Note: This is a definition contained in s761A.
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited or the exchange market operated by ASX Limited
bookbuild	A process of determining the price at which an IPO will be offered. The book is filled with the prices that institutional investors indicate they are willing to pay per share. When the book is closed, these values are analysed by an underwriter to determine the issue price
Corporate Finance Liaison meetings	ASIC's Corporate Finance Liaison meetings held twice a year nationally for companies, lawyers, corporate advisers and compliance professionals working in corporate finance
corporate finance report	A report on our regulation of corporate finance, published by ASIC twice a year, for companies, lawyers, corporate advisers and compliance professionals working in corporate finance
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
CP 290 (for example)	An ASIC consultation paper (in this example numbered 290)
full-service broker	A brokerage firm that provides investment advice and related services in addition to facilitating transactions for clients
high net worth investor	A sophisticated or professional investor who is not an institutional investor
institutional investor	An investor that is a traditional institution such as an investment bank, hedge fund, insurance company, sovereign wealth fund, AFS licensee or equivalent overseas licence holder
'investor education' reports (also known as 'sell-side research')	Reports prepared by an AFS licensee mandated to advise on a capital raising transaction (usually an IPO) and released before the lodgement of a prospectus with ASIC

Term	Meaning in this document
investor forum	An online discussion group that enables investors to connect with other investors and to discuss investments in companies, including IPOs
investor presentation	See 'roadshow'
IPO	Initial public offering
marketing	Any advertising and publicity relating to an IPO, including information that may affect an investment decision
market research	The third-party qualitative research commissioned by ASIC and conducted by WhereTo Research on the factors that influence retail investors in deciding whether to invest in IPOs
OnMarket BookBuilds	A platform used by issuers to obtain publicity and spread, and by retail investors to obtain information about IPOs and apply directly for securities in an IPO
pathfinder prospectus	Near-final draft of the prospectus, excluding the offer price if the offer is set under an institutional bookbuild
professional adviser	Professional advisers can include a lead manager or corporate adviser, investment banks, lawyers, accountants, and a range of other advisers, depending on the company undertaking the IPO. They may be involved in the preparation of the prospectus, and pricing of the IPO offer, assist with the marketing of the offer to investors, or provide general advice to the company throughout the IPO process
professional investor	Has the meaning given in s708(11) of the Corporations Act. In general terms, this is an investor who has, or controls, gross assets of at least \$10 million
prospectus	A prospectus that is lodged with ASIC under s718 of the Corporations Act
REP 494 (for example)	An ASIC report (in this example, numbered 494)
retail investor	An investor who does not qualify as a professional or institutional investor—that is, a person who invests for their own personal account rather than on behalf of other investors or entities. Retail investors in this report may include SMSF investors and high net worth investors (who would qualify as sophisticated investors)
RG 228 (for example)	An ASIC regulatory guide (in this example numbered 228)
roadshow	A series of presentations by the senior management of an issuer about an upcoming offer of securities—generally to potential institutional investors, financial advisers and research analysts
s734 (for example)	A section of the Corporations Act (in this example numbered 734)

Term	Meaning in this document
SEC	US Securities and Exchange Commission
sell-side research	See 'investor education' reports
SMSF	Self-managed superannuation fund
social media	Websites, applications and other means of online communication that enable users to share information and interact with each other. These include microblogs (e.g. Twitter), social and professional networks (e.g. Facebook, LinkedIn, Google+ and WeChat), and image and video sharing platforms (e.g. YouTube, Instagram and Pinterest)
sophisticated investor	<p>Has the meaning given in s708(8) and 708(10) of the Corporations Act. In general terms, this includes an investor:</p> <ul style="list-style-type: none"> • who has net assets of at least \$2.5 million, or gross income of at least \$250,000 for each of the past two financial years; or • about whom an AFS licensee is satisfied that the person has sufficient previous experience in investing in securities
Where to Research report	The report commissioned by ASIC and produced by Where to Research detailing the findings of Where to Research's market research

Related information

Headnotes

advertising, behavioural analysis, behavioural biases, bookbuild, brokers, financial media, initial public offering, institutional investor, investment decision, investor blogs, investor education, investor forums, IPO, issuers, management information, market research, marketing, pathfinder prospectus, prospectus, prospectus disclosure, publicity, retail investor, roadshows, social media

Instruments

[ASIC Corporations \(Market Research and Roadshows\) Instrument 2016/79](#)

Regulatory guides

[RG 79](#) *Research report providers: Improving the quality of investment research*

[RG 170](#) *Prospective financial information*

[RG 228](#) *Prospectuses: Effective disclosure for retail investors*

[RG 254](#) *Offering securities under a disclosure document*

Legislation

Corporations Act, s708, 710, 711, 716, 734, 769C and 1041H; Chs 6D and 7

Consultation papers and reports

[CP 290](#) *Sell-side research*

[REP 484](#) *Due diligence practices in initial public offerings*

[REP 486](#) *Sell-side research and corporate advisory: Confidential information and conflicts*

[REP 494](#) *Marketing practices in initial public offerings of securities*

[REP 539](#) *ASIC regulation of corporate finance: January to June 2017*

Media releases

[Media Release \(16-431MR\)](#) *Court fines Sino Australia Oil and Gas Limited and disqualifies former chairman, Tianpeng Shao, 9 December 2016*

Non-ASIC publications

[ASX Limited, *Annual report 2017*](#)

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[FCA Consultation Paper 17/5 *Reforming the availability of information in the UK equity IPO process*](#), March 2017

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