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Dear [redacted]

Australia's evolving capital markets: A discussion paper on the dynamics between public and private markets

The Stockbrokers and Investment Advisers Association (SIAA) is the professional body for the stockbroking and investment advice industry. Our members are Market Participants and wealth management firms that provide securities and investment advice, execution services and equity capital-raising for Australian investors, both retail and wholesale, and for businesses. Practitioner Members are suitably qualified professionals who are employed in the securities and derivatives industry.

SIAA members represent the full range of advice providers from full-service and online brokers to execution-only participants and they provide wealth advice and portfolio management services. Our members provide a vital link to their clients investing in both public markets and private markets.

The history of the stockbroking profession in Australia can be found here.

Thank you for the opportunity to provide feedback on the discussion paper on the dynamics between public and private markets (Discussion Paper). Our members also appreciated the opportunity to meet with you and your team earlier this month to engage on the issues raised in the discussion paper in greater detail.

Executive summary

- The institutional investor landscape has significantly changed in Australia as a result of the emergence of large superannuation funds. Typically, large superannuation funds do not invest in small companies that are seeking capital. This has impacted a whole level of capital raising in the Australian market.
- It is important that the investing environment remains attractive. Our members do not consider that the expansion of investment into private markets is to the detriment of public

listed markets. The expansion of private credit and equity is attractive to Australian investors and is a reflection of investor demand for exposure to different asset classes.

- Our members have observed an increase in the sophistication of investors in Australia. Whereas 20 years ago investors may not have had the interest or sophistication to invest outside of Australian listed securities, now larger numbers of them are wanting exposure to more diversified assets and different asset classes than previously. High-net-worth investors expect exposure to different asset classes to build a diversified asset portfolio.
- Both private and public markets must be able to co-exist to grow wealth.
- The regulatory burden on public markets must be reduced to make them more attractive. The governance burden on public companies and the regulations that make it difficult to list are areas requiring change.
- While the move to private markets is structural, the reduction in the number of IPOs is cyclical. We support improvements in IPO efficiency.
- A lack of investor education impacts investor confidence and makes it difficult for public capital to compete with private capital. Regulatory Guide 264 does not strike the correct balance and has resulted in a lack of research coverage.
- Ther is currently a concentration of capital in industry superfunds. They will increasingly dictate how businesses will grow. If this concentration of ownership continues, there is a need to consider how to ensure the next generation of companies has access to capital and an avenue to listing.
- We agree with ASIC that private markets should not be regulated in the same way as public markets.
- We support additional supervision of private markets by the regulator particularly in areas such as misleading and deceptive conduct, valuation of assets and disclosure.

Developments in global capital markets and their significance for Australia

1. What key impacts have global market developments had on Australian capital markets? What key impacts do you anticipate in the future? Please provide examples from your experience.

There have been a number of changes to the Australian capital markets. Some of these are the result of developments in global capital markets but many are not.

While the number of listed entities has declined globally, Australia has not experienced the levels of decline that have occurred in the UK, Canada and Germany, principally due to the number of capital raisings from the resources sector in Australia. Importantly, the UK and German markets do not have as many retail investors as Australia.

At the same time there has been a growth in the number of unlisted businesses both in Australia and globally. Companies that traditionally would have sought a public listing now have a broader range of funding options and remain privately owned.

There has been a democratisation of investing globally. Retail investors have more investment options open to them, including ETFs and private assets.

There has been an acceleration in technological change globally. This has aided retail access to markets across the world.

The institutional investor landscape has significantly changed in Australia as a result of the emergence of large superannuation funds. Typically, large superannuation funds do not invest in small companies that are seeking capital. This has impacted a whole level of capital raising in the Australian market.

It is important that the investing environment remain**s** attractive. Our members do not consider that the expansion of investment into private markets is to the detriment of public listed markets. The expansion of private credit and equity is attractive to Australian investors and is a reflection of investor demand for exposure to different asset classes.

2. Do you have any additional insights into the attraction of private markets as an issuer or an investor?

Our members have observed an increase in the sophistication of investors in Australia. Whereas 20 years ago investors may not have had the interest or sophistication to invest outside of Australian listed securities, now larger numbers of them are wanting exposure to more diversified assets and different asset classes than previously. High-net-worth investors expect exposure to different asset classes to build a diversified asset portfolio.

Our members do not consider that this is detrimental or necessarily increases investment risks.

Our members point to the increase in the number of high-net-worth families in Australia — now second and third generation — and the resulting increase in family offices. Europe has had a strong family office environment for generations underwriting private offerings and this is now more common in Australia.

Recently, private market investments have performed strongly and have been attractive to investors for reason of access to more diversified assets and different asset classes. This has been in spite of their opacity due to a lack of mark-to-market valuations. If there is a market downturn or a reduction in liquidity, the valuations and returns of private market assets will be tested and the growth in private market investments may slow.

3. In what ways are public and private markets likely to converge?

It is important to have both private and public markets. Both need to work hand-in-hand.

Public markets drive valuations and provide an exit strategy for those invested in private companies. The movement of entities from public to private and vice versa is a sign of a healthy market. Increasing levels of wealth within the population has driven the search for a diversity of investments. Both private and public markets must be able to co-exist to grow wealth.

Public and private markets converge when investors seek to exit their private investment. The dynamics of this convergence change when there is a sharp reduction in the availability of credit.

4. What developments in public or private markets require regulatory focus in Australia in the future?

Our members consider that the regulatory burden on public markets must be reduced to make them more attractive and point to the governance burden on public companies and the regulations that make it difficult to list as areas requiring change. We provide further detail on how to improve the IPO process below.

The key issue with private markets is their opacity. Our members do not support over-regulating private markets but consider that their transparency needs to be improved, particularly regarding the valuation of assets.

Healthy public equity markets

5. What would make public markets in Australia more attractive to entities seeking to raise capital or access liquidity for investors while maintaining appropriate investor protections?

While we consider that the move to private markets is structural, the reduction in the number of IPOs is cyclical.

Reducing the governance burden on public companies and making it easier for entities to list is key to increasing the attractiveness of public markets to those entities seeking to raise capital or accessing liquidity.

Our members support improvements in IPO efficiency. We note that stakeholders have previously proposed shortening listing timetables by confidentially pre-vetting prospectuses and deal structures and changing rules surrounding forecasts. We support reforms in these areas and are pleased to hear that ASIC is talking to industry about developing these proposals. Technology has evolved significantly since the IPO rules were implemented. The speed of information has increased but the IPO process has remained unchanged. Advances in technology make a reduction in the IPO timetable possible and beneficial.

Our members consider that *Regulatory Guide 264: Sell-side research* needs to be reviewed as it currently severely curtails the ability of research analysts to have a fully informed view of the company that is proposing to list. While there is a large amount of information in the mainstream media about large companies, smaller companies struggle to attract media attention. IPOs are for new companies and specialist knowledge is required to review these opportunities. There is a lack of research on smaller companies and a need for more brokers to provide more research. The industry has lost a lot of market knowledge because of the restrictions imposed by *Regulatory Guide 264*.

A lack of investor education impacts investor confidence and makes it difficult for public capital to compete with private capital. The current regulatory guide does not strike the correct balance and has resulted in a lack of research coverage. We note that last year's DigiCo IPO occurred in the context of no pre-deal investor education being available. Our members consider that a lack of pre-deal investor education is a step backwards for public markets.

A key issue for our members that impacts on making public and private markets more attractive and accessible to investors is the number of Financial Advisers in Australia. The decline in the number of Financial Advisers has been precipitous – falling from 27, 959 in 2019 to **15,611 as of 24 April 2025**. Financial Advisers are a vital part of the distribution network and a healthy financial services ecosystem, linking investors with both public and private market investments. The fall in adviser numbers has been primarily caused by a failed approach by government to the education pathway into the profession of Financial Adviser. The government has pledged to address this failure by creating a more flexible pathway for new entrants to the profession that will hopefully significantly increase adviser numbers. We are hopeful that once this reform has been implemented the number of financial advisers will grow substantially. However, this process will take some time as well as legislative change. In the meantime, a lack of adviser numbers will continue to impact investor participation in both public and private markets.

6. Do you agree that a sustained decline in the number, size or sectoral spread of listed entities would negatively impact the Australian economy? If so, can you suggest ways to mitigate any adverse effects that may arise from such changes?

Public markets are central to the growth of the Australian economy. Confidence in public markets is not just about the number, size or sectoral spread of listed entities. It impacts decision making, such as whether banks are prepared to lend and boards to invest. This market confidence then supports a vibrant and healthy economy. Historically public markets have been an efficient way to raise capital. The transparency that public markets provide creates confidence in the broader economy. Confidence in public markets is therefore key.

Currently there is a concentration of capital in industry superfunds. They will increasingly dictate how businesses will grow. These funds are also internalising investment making decisions. As large superfunds do not typically invest in small companies, this restricts the avenues available for these companies to list. These small to mid-size companies are important to the economy, providing most of the employment growth. However, not every company starts out as an ASX 300 company. If this concentration of ownership continues, there is a need to consider how to ensure the next generation of companies has access to capital and an avenue to listing. Our earlier comments about supporting improvements in IPO efficiency are relevant to creating an environment conducive to access to capital by smaller companies.

7. To what extent is any greater expectations of public companies, compared to private companies, the result of Australian regulatory settings or the product of public scrutiny and community expectations of these companies?

SIAA has been a member of the ASX Corporate Governance Council since its inception and supports the *Corporate Governance Principles and Recommendations*. Under Listing Rule 4.10.3, ASX listed entities are required to benchmark their corporate governance practices against the Council's recommendations and, where they do not conform, to disclose that fact and the reasons why. However, SIAA has been concerned for some time that the Recommendations tend to be viewed as mandatory by a range of parties, including at times by investors, rather than as guidance about good practice. The growth of a governance industry has resulted in a lack of recognition that the 'if not, why not' approach is intended to provide boards and companies the capacity to explain to shareholders why their governance practices are appropriate, even if they differ from the recommendations.

We have pointed out a trend that we have observed in the annual reports of some listed entities to provide additional pages to their governance reports at cost to the pages allocated to the report on their business. For investors, transparency about the business is key and we consider that disclosure of practice against the Recommendations should not come at the cost to quality of disclosure about the entity's business.

The ASX Corporate Governance Council was unable to reach consensus on a fifth edition of its Principles and Recommendations and we consider that concerns about increasing expectations arising from the Recommendations was key to the decision to keep the fourth edition unchanged.

In addition to increased public expectations often driven by increased media scrutiny, the risk/return for public company directors has changed significantly from a regulatory perspective. Director responsibilities and liabilities have expanded significantly. Outside the ASX 200, the remuneration received does not align with the increased liability. It can be challenging to attract quality directors to join a public company board for that reason.

Private market risks and market efficiency and confidence

8. Are Australian regulatory settings and oversight fit for purpose to support efficient capital raising and confidence in private markets? If not, what could be improved?

It is important to get the balance of regulation right. We agree with ASIC that private markets should not be regulated in the same way as public markets. For this reason, we do not support increased regulation of private markets. We do however support additional supervision of private markets particularly in areas such as misleading and deceptive conduct, valuation of assets and disclosure. There could be a positive obligation to meet certain standards, for example, advertising, and a positive obligation on how to report.

9. Have we identified the key risks for investors from private markets? Which issues and risks should ASIC focus on as a priority? Please explain your views.

The key challenges to efficient capital raising in private markets that increase risks to investors and undermine confidence include:

- the gap in transparency compared to public markets. The greater the gap in transparency, the higher the risks.
- valuation of assets. We note that valuation of technology companies is particularly challenging.
- control mechanisms and founder restrictions imposed by major shareholders that can leave minority shareholders with limited recourse.
- the lack of a cleansing statement that means that investors are not sure if all relevant information about the company has been disclosed before they invest.
- the risks of insider information disenfranchising investors.
- the variation in quality and depth of reporting compared to public markets.

We understand that ASIC cannot supervise the private market in the same way as it does the public market. The issues and risks it should focus on as a priority are the ones that lead to a lack of confidence in the market and include:

- How transparent are the company’s disclosures taking into account that they are taking investors’ money?
- How does the company value its assets?

- How can investors exit the investment in the event of a liquidity crunch and how does the company assist them to do that?

10. What role do incentives play in risks, how are these managed in practice by private market participants and are regulatory settings and current practices appropriate?

We have no comment on this item.

Retail investor participation in private markets

11. What is the size of current and likely future exposures of retail investors to private markets?

The size of current and likely future exposures of retail investors to private markets is growing through investments in assets such as ETFs, LICs, LITs and managed funds.

The significant increase in exposure to credit markets will continue as the AT1 market is phased out. This exposure is large and growing.

Assets such as ETFs can create a mismatch in liquidity for investors. The biggest risk for retail clients is not being able to exit the investment vehicle and having their investment frozen.

12. What additional benefits and risks arise from retail investor participation in private markets?

Many private market investments aimed at high-net-worth investors require a smaller minimum investment amount than was previously sought. Some have reduced their minimum investment size to $50,000. This is beneficial for retail investor participation in private markets as it reduces the concentration risk that occurs if private market investments require large minimum investment amounts. It also assists these investors to diversify their portfolios.

Some private market investments have a minimum investment amount of $2,000. This attracts larger numbers of retail participation and can increase risks if those investors do not have an understanding of the underlying asset.

13. Do current financial services laws provide sufficient protections for retail investors investing in private assets (for example, general licensee obligations, design and distribution obligations, disclosure obligations, prohibitions against misleading or deceptive conduct, and superannuation trustee obligations)?

Retail investors are subject to a significant array of protections under current financial services laws that provides them with sufficient protection when investing in private assets.

Transparency and monitoring of the financial system

14. What additional transparency measures relating to any aspect of public or private markets would be desirable to support market integrity and better inform investors and/or regulators?

We don’t consider that additional transparency measures are needed relating to public markets.

As stated previously we support additional supervision of private markets by the regulator particularly in areas such as misleading and deceptive conduct, valuation of assets and disclosure.

15. In the absence of greater transparency, what other tools are available to support market integrity and the fair treatment of investors in private markets?

Interestingly, tools are being developed by third parties to support improved transparency in private markets. Index provider MSCI has recently launched two indices to measure the performance of private markets at the company level and has announced a collaboration with Moody's to provide risk assessment for private credit funds.

Conclusion

If you require additional information or wish to discuss this submission in greater detail please do not hesitate to contact SIAA's policy manager, [redacted], using the contact details in the covering email.

As discussed in our meeting with you earlier in the month, our members would value the opportunity to further discuss the issues raised in the Discussion Paper with you in another meeting.

Yours sincerely

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Chief Executive Officer