Australia's evolving capital markets:

A discussion paper on the dynamics between public and private markets

DISCUSSION PAPER

FEBRUARY 2025

About this discussion paper

This discussion paper seeks engagement from participants in Australia's capital markets, their advisers and other interested persons on important issues and implications arising from evolving changes in Australia's capital markets.

It sets out our questions to continue building our understanding of evolving market dynamics and to gather actionable ideas on regulation that will enhance the operation of our capital markets. This will assist us in fulfilling our objectives of maintaining, facilitating and improving the performance of the financial system and the entities within it, and promoting confident and informed investor and consumer participation in the financial system.

To provide feedback on any or all of the discussion questions, send your submission to markets.consultation@asic.gov.au by 5pm on 28 April 2025.

You may choose to remain anonymous or use an alias. However, if you remain anonymous, we will not be able to contact you to discuss your feedback should we need to.

We will not treat your feedback or any information you provide (such as personal or financial information) as confidential unless you specifically request that we do so.

We have used publicly available data and third-party data sources to prepare this discussion paper. All data points related to APRA-regulated superannuation funds and the overall size of the superannuation system are based on publicly available data from APRA as at 30 September 2024. Other publicly available data sources include the ASX's Historical market statistics, the Australian Taxation Office's Self-Managed Superannuation Funds - Dataset, the World Federation of Exchange's Statistics Portal, and Organisation for Economic Co-operation and Development reports. Non-publicly available and paid data sources include Preqin, Morningstar DatAnalysis and Bloomberg.

Disclaimer

This discussion paper does not constitute legal advice. We encourage you to seek your own professional advice to find out how the *Corporations Act 2001* and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this discussion paper are purely for illustrative purposes; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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Foreword

Australia's capital markets are a fundamental part of the economy, playing a crucial role in supporting commercial activity, growth, investment and innovation.

Australia needs both private and public markets. And we need them to be strong and well-functioning.

As Australia's financial markets regulator, it is vital ASIC continues to develop its understanding of how investors are driving capital flows and what is motivating them. That has been the first priority of ASIC's preliminary consultation on evolving capital markets in 2024 and it is our priority with this discussion paper.

This paper poses questions designed to deepen and sharpen our understanding of how Australia's capital markets operate. The answers will help ASIC play its role in addressing the challenges we face.

For example, why have listed entity numbers been in decline, both in Australia and key international markets? Will the next financial crisis originate in private markets? What issues facing directors need to be further examined? Superannuation plays a crucial role in securing our financial wellbeing on retirement. How is the growing significance of superannuation in Australia's economy influencing our markets?

These questions are not for ASIC to answer alone. Many factors are outside ASIC's control or remit.

As ASIC Chair, I am particularly interested to know and understand market stakeholders' views, including whether existing regulatory settings are contributing to perceived problems. We will also be working closely with our Council of Financial Regulator (CFR) colleagues.

The role of regulation in Australia and internationally is receiving a lot of attention.

For my part, and since the release of ASIC's report on market cleanliness in July 2024, the focus is on whether existing regulatory settings need to be re-examined and debated.

Along with the work of the Simplification Consultative Group, which I announced at November's ASIC Forum and about which details will be published next month, the responses to this discussion paper will help guide ASIC's work in the next 12 months, including whether ASIC needs to consider any regulatory interventions.

In all of this, there are significant opportunities for Australia.

More than ever, capital is looking for investment opportunities across borders and so Australia's attractiveness as a place to invest continues to be of great importance.

This is central to our mandate of driving financial system performance and investor confidence. Ultimately, ASIC is asking how we balance dual goals: ensuring Australia's private and public capital markets are open, accessible, attractive and support economic growth, while protecting against risks.

I see Australia's strong regulatory and governance framework as attractive to investors. However, given the complexity of the dynamics driving the apparent shift from public to private markets, we need to understand whether regulatory considerations are having an undue impact on driving investors' and companies' decisions.

This discussion paper sets out the preliminary views and conclusions ASIC has reached from our research and consultations to date, including the following:

- Public and private markets support one another – each is critical to the economy.
- History tells us recent downturns in the volume of initial public offerings (IPOs) and listed entities in Australia are more likely cyclical, but we are worried about the future of public markets.
- ASIC does not see regulatory settings as the dominant factor driving listed equity activity in Australia, but there may be opportunities to adjust to improve the attractiveness of our markets.
- Opacity, conflicts, valuation uncertainty, illiquidity and leverage in private markets are the key risks I am concerned for ASIC to focus on. The critical point is understanding whether there is a need for intervention, whether it is for ASIC or another regulator to consider, or whether we leave the market and wholesale investors to their own devices.
- Superannuation is critically important to this story here in Australia and, as a driving force in markets, it is structural and here to stay.
- Data is essential. International peers are increasing access to reliable data on private markets. ASIC needs better recurrent data to more accurately assess risk.
- The private credit market does not appear to be systemically important in Australia, but failures are on the horizon, and at current volumes it is untested by prior crises – regulators need information to consider the risks and plan responses.

I encourage everyone to engage with ASIC and help us answer the questions we have posed.

I am looking for insights and actionable ideas.

I look forward to the coming discussion.

Joseph Longo
Chair
Australian Securities and Investments Commission

Executive summary

The Australian economy relies on well-functioning capital markets. The Australian Securities and Investments Commission (ASIC) supports strong public and private markets – both are vital to funding business growth, facilitating wealth creation, offering investment opportunity and meeting Australia's future economic opportunities and challenges.

The dynamics between public and private markets are undoubtedly shifting. There is widespread interest in and concern about the implications of this. Drawing on global trends and evidence about the Australian capital markets, this paper seeks to:

- **facilitate discussion** on the implications of changing market dynamics, to build understanding and consensus on issues that are important for the success of our capital markets and therefore our economy and of all Australians who participate in it
- **articulate ASIC's preliminary views** on key issues and risks, and to outline how our work has already shifted to account for these risks as markets have evolved, and
- **gather actionable ideas** for ASIC to consider to enhance the operation of our public and private markets, while ensuring continued market integrity and confident and informed participation in the financial system by investors and consumers.

In this paper, we invite you to engage with us on this important task.

The considerations in this paper are essential if we are to meet our legislative responsibility to improve the performance of the ever-changing financial system in the interests of development of the economy and to promote confident and informed participation of investors and consumers in it.

In conjunction with this paper, ASIC commissioned a thorough research report by Dr Carole Comerton-Forde on public equity markets, which has informed ASIC's approach in this paper. See REP 807 *Evaluating the state of the Australian public equity market: Evidence from data and academic literature* (Report 807).

We have also listened to a wide spectrum of perspectives through our panels, forums and structured engagements. We are amplifying that engagement by **seeking responses to this paper**, which will **inform our considered position on issues and guide our future work**.

We expect to release an update later in 2025 that will outline key feedback we have received and how we have used it to inform our priorities and work program.

Key questions forming the foundation of this paper

Are the changes in Australia's public and private markets due to structural or cyclical shifts (or both)?	What impacts will the continual growth of superannuation funds have on Australia's capital markets?	Do regulators have access to the right data to understand the impact of changes in our capital markets on the economy?	What data do we have to understand how private capital – both debt and equity – will respond in a system stress scenario?
What does market integrity look like in practice as more capital raising occurs outside public markets?	Is the shift to private markets creating issues for retail investors such as reduced access to investment opportunities and greater exposure to risk, with fewer protections?	Does there need to be greater harmonisation in the regulation of public and private companies?	How can Australia's capital markets remain attractive and meet future economic needs?

Shifts in Australia's public markets

At the heart of Australia's capital market system are public equity markets worth A$3 trillion. These widely accessible markets operate with high standards of governance, transparency and market integrity, resulting in them being among the cleanest in the world. In addition to enabling efficient capital formation and widely accessible investment opportunities, they provide an **important pricing and valuation benchmark of broad public benefit and act as a barometer of the economy's health**.

The number of public companies has been declining in many developed markets, in some cases over decades.

In Australia, initial public offerings (IPOs) are the lowest they have been in over a decade. The Australian market is concentrated, with most companies in the financials and mining sectors, and less represented in sectors that will drive growth in our increasingly digital future. Many companies are choosing to stay private where new funding and sell-downs are now more accessible, while others are choosing to list in the United States.

While history suggests Australia's recent declines in the number of public companies are likely cyclical and that our listing settings have been attractive, the dynamics are changing due to global trends, the growth in private markets and the scale of superannuation funds.

ASIC is concerned about the future of Australia's public equity markets. Deterioration in the quality, diversity and depth of our markets would have significant adverse effects on the economy and its liquidity and on Australians' financial participation in these accessible and transparent markets.

In addition, regulatory tools and settings have historically developed more to respond to the features of this market.

Australia cannot be complacent about the future of its public markets, and as global experience shows, nor should Australia be quick to assume that simple adjustments to the markets' regulation will secure their future.

The future of capital markets is tied to developments in private markets

The changing dynamics between public and private capital markets is evident worldwide. The move from public to private markets and the impact on the balance of risks means **ASIC must focus on understanding and adjusting for new or amplified private side risks**.

Private markets offer portfolio diversification to investors and opportunities for those raising capital, and are an essential complement to public markets. Over the past decade, global private capital assets under management (AUM) have tripled to an estimated US$14.6 trillion (as at June 2024). The significant growth means regulators need to be equipped with **robust data to identify and respond to risks**.

In Australia, private market growth is significant, albeit from a low base in some asset classes, such as private equity and private credit funds. The economic, financial and institutional drivers of their growth appear to be structural and they will be increasingly important to the success of capital markets.

We must be thoughtful about the conclusions we draw for Australia's capital markets based on global developments and recognise domestic differences. **The size of Australian superannuation funds influence our capital markets** and will likely drive the further growth of private markets, embedding them into the structure of our economy. With superannuation now one of the most important assets in a working Australian's life, it underpins Australians' wealth.

Private markets may be becoming more democratised and accessible to a wider range of investors. However, they also carry different risks, including those related to illiquidity, leverage, conflicts and valuation uncertainty. **The opacity of private markets poses a challenge** for informed investor decision-making, and raises questions regarding appropriate regulatory oversight of these risks.

The growth in private credit has been an area of particular interest globally. While it is not yet systemically important to the Australian economy, it is at historically high levels, often invested alongside private equity and leveraged loans and subject to less regulatory oversight. **This combination of risk factors is untested in historic stress scenarios** making it critical that regulators and participants understand the associated risks.

Like much financial activity, private markets operate across borders and private markets in Australia are subject to the transmission of risk from markets outside Australia.

There will be more failures in private credit investments, and Australian investors will lose money. **ASIC is increasing its focus on private credit**, not to constrain participation but with a view to being well informed and to test whether investment offers comply with existing laws.

Our work in public and private markets

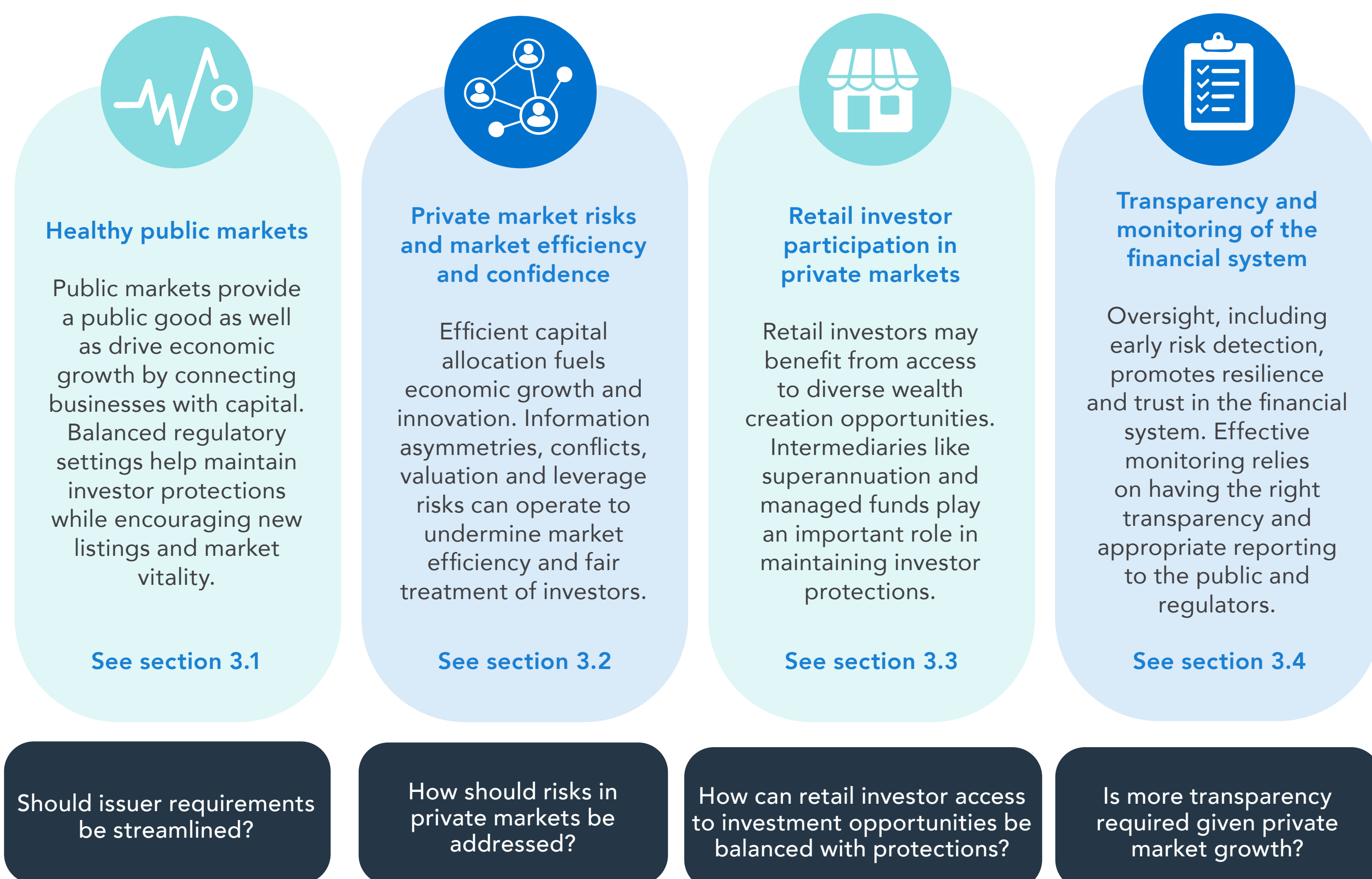
As part of ASIC's mandate to improve the financial system and promote confident participation in it, we will continue to fulfil our strategic priority of enhancing consistency and transparency across markets and products, including through:

- engagement on market developments and regulatory settings, to ensure our regulatory approach continues to be fit for purpose
- promoting market integrity, by expanding our periodic measurement of suspicious trading in public equity markets to include public debt markets and private market transactions, and
- testing compliance with financial services laws, with an increased focus on private equity and private credit conduct risks.

Our regulatory focus and this work plan will evolve over time – including in response to what we learn from this engagement. In this paper, after reflecting on international developments and potential lessons for Australia, we explore the following areas we identify as important (see Figure 1).

In Australia, our public markets are changing and private markets are growing. Now is the time to assess our regulatory approach and consider how we can adapt to these changes to ensure Australia's capital markets are well equipped to meet current and future economic needs.

Figure 1: Focus areas for the future of public and private markets



1. A snapshot of Australian public and private markets

What are public and private markets?

Listed entities and traded funds
Company shares, real estate investment trusts, listed investment trusts, exchange traded funds

Public debt market
Government bonds, corporate bonds

PUBLIC MARKETS

Private equity
Private companies, private equity funds

Private credit
Non-bank direct lending, private credit funds (private capital funds that provide credit)

Infrastructure
Infrastructure assets including via consortiums, private capital funds investing in unlisted infrastructure

Property
Property, private capital funds investing in unlisted property

PRIVATE MARKETS

Economic and geopolitical factors impacting global markets

Australia's capital markets are intrinsically linked to the broader economic environment. Over the past five years, a range of recent and longstanding economic and geopolitical factors have impacted global markets, influencing the accessibility and cost of capital, investment decisions and growth in private markets. In this paper we discuss in particular superannuation but we recognise there are a range of factors impacting our capital markets – such as demographic change, government debt trends and tax – which are not covered in detail.

The COVID-19 pandemic and responses

The pandemic caused widespread disruptions in global trade, supply chains and labour markets. Governments and central banks responded with large fiscal stimuli and monetary easing. While these measures helped mitigate the immediate effects of the pandemic, they also contributed to substantial inflationary pressures. The pandemic also accelerated the use of technology in businesses and promoted remote work, altering labour market dynamics.

Geopolitical tensions

Heightened geopolitical tensions have created economic and financial fragmentation. Further deterioration in the international security environment poses a risk to the global economy and financial system. These tensions have caused energy prices to surge and disrupted supply chains, igniting concerns about food and energy security. They have also increased the potential for cyber threats and cyber conflicts.

Inflation and central bank responses

Post-pandemic supply chain issues, energy prices, and conflicts in Ukraine and the Middle East fuelled inflation. This prompted major central banks around the globe to aggressively tighten monetary policies. Higher interest rates, liquidity constraints and increased volatility encouraged investors to be more cautious, particularly in public equity markets. There was a shift towards defensive and value-oriented stocks, as well as alternative assets such as private equity, private debt and real estate. With central banks tightening, bond yields rising and bank derisking efforts continuing, private debt markets have experienced significant growth, especially in the form of direct lending and private credit, which have offered high interest rates while appearing to exhibit low volatility relative to assets traded in public markets.

Shifts in global trade and decoupling

There has also been a significant trend towards economic decoupling, especially between the United States and China. Trade tensions, exacerbated by tariffs and technology restrictions, have led to a reorientation of trade flows, particularly in critical sectors like semiconductors and rare earth materials.

Energy transition and green economy

The growing focus on sustainability and the transition to green energy has created market opportunities and challenges. The shift away from fossil fuels and towards renewable energy has been influenced by both environmental concerns and geopolitical dynamics, especially with respect to energy dependence.

Size and nominal growth of Australian public markets, private capital funds and superannuation in the past decade

An important part of public markets – public equity markets:

- Widely accessible to issuers and investors
- Can raise capital from the general public
- Securities traded on liquid exchanges
- Trusted high standards of governance and transparency
- Price discovery – also supports valuation and pricing for the wider economy
- Australia's are among the cleanest in the world
- 38% of adult Australians hold a public market investment directly

An important part of private markets – private capital funds:

- Assets are privately owned and funded, often by a small number of wholesale investors
- Support early-stage, transforming and long-term capital needs, such as infrastructure, and digital and energy transition
- More limited regulatory requirements and transparency; greater dependence on agreements
- Limited liquidity, but illiquidity premium
- Private capital funds raise money from superannuation funds, insurers, high net-wealth individuals and family offices
- Retail participation typically intermediated

Superannuation funds:

- Australians hold 22.6 million accounts in funds regulated by the Australian Prudential Regulation Authority (APRA)
- APRA-regulated superannuation fund investments account for 23% of the ASX Limited (ASX) market capitalisation
- Self-managed superannuation fund (SMSF) investments account for 12% of the ASX market capitalisation

		2014	2024	↑↓ %
PUBLIC MARKETS	Value of listed entities (ASX)	$1.575t	$3.007t	↑ 91%
	Number of listed equity issuers (ASX)	2,073	1,989	↓ -4%
	Value of equity raised in IPOs	$22.9b	$4.2b	↓ -82%
	Value of debt markets	$1.055t	$2.259t	↑ 114%
	Government bonds	$0.573t	$1.499t	↑ 161%
	Corporate bonds	$0.482t	$0.760t	↑ 58%
PRIVATE MARKETS	Value of private capital funds AUM	$57.1b	$148.6b	↑ 161%
	Value of private equity funds AUM	$28.5b	$65.9b	↑ 131%
	Value of private credit funds AUM	$0.6b	$2.8b	↑ 240%
	Value of private real estate, infrastructure and resources AUM	$27.7b	$80.0b	↑ 189%
SUPERANNUATION	Value of the superannuation system	$1.872t	$4.083t	↑ 118%
	Value of APRA-regulated superannuation funds	$1.14t	$2.83t	↑ 148%
	Value of SMSFs	$0.555t	$1.024t	↑ 85%
	Value of exempt public sector schemes and other statutory funds	$0.176t	$0.229t	↑ 30%

Source: See Appendix 3, p 61 for source information

2. Developments in global capital markets and their significance for Australia

This section provides insights into global and Australian market developments. We also seek to elicit further insights into the key impacts of global developments on Australian capital markets.

When examining the evolution of Australian public and private markets, it is useful to reflect on observations and lessons from international developments. The increasingly interconnected nature of markets means that developments abroad can impact capital flows in and out of Australia. However, we recognise they may manifest differently due to our economic and investor characteristics. For example, we believe that one of the most important aspects of Australian capital markets to consider is the large amount of superannuation money to be invested.

In this section, we discuss the following topics:

- changes in public equity markets
- growth in private markets, and
- why these developments matter.

In doing this, we also highlight the role and impact of Australia's superannuation system and developments in private credit in Australia.

2.1 Changes in public equity markets

There has been significant attention worldwide on how effectively public markets are functioning across economies. Both public equity and public debt markets have been the subject of this attention although there are differences in the way each generally operates. The focus of our public market discussion is on public equity markets but we note that some of the dynamics impacting them are also relevant to public debt markets. We welcome responses to our discussion questions in relation to both debt and equity public markets.

2.1.1 Declining net listings on public equity markets

Over the past two decades, the number of public companies on major developed public equity markets around the world has decreased. In the United States, this decline started in the late 1990s, while in Europe and the United Kingdom, the global financial crisis in 2008 marked a key turning point. This trend is largely driven by fewer companies going public to replenish delistings. Report 807 highlights that the decline in IPOs is structural in several foreign markets.

Despite the decline, the United States markets remain attractive for many issuers and investors due to being the largest and most liquid public and private markets in the world – but there are challenges elsewhere.

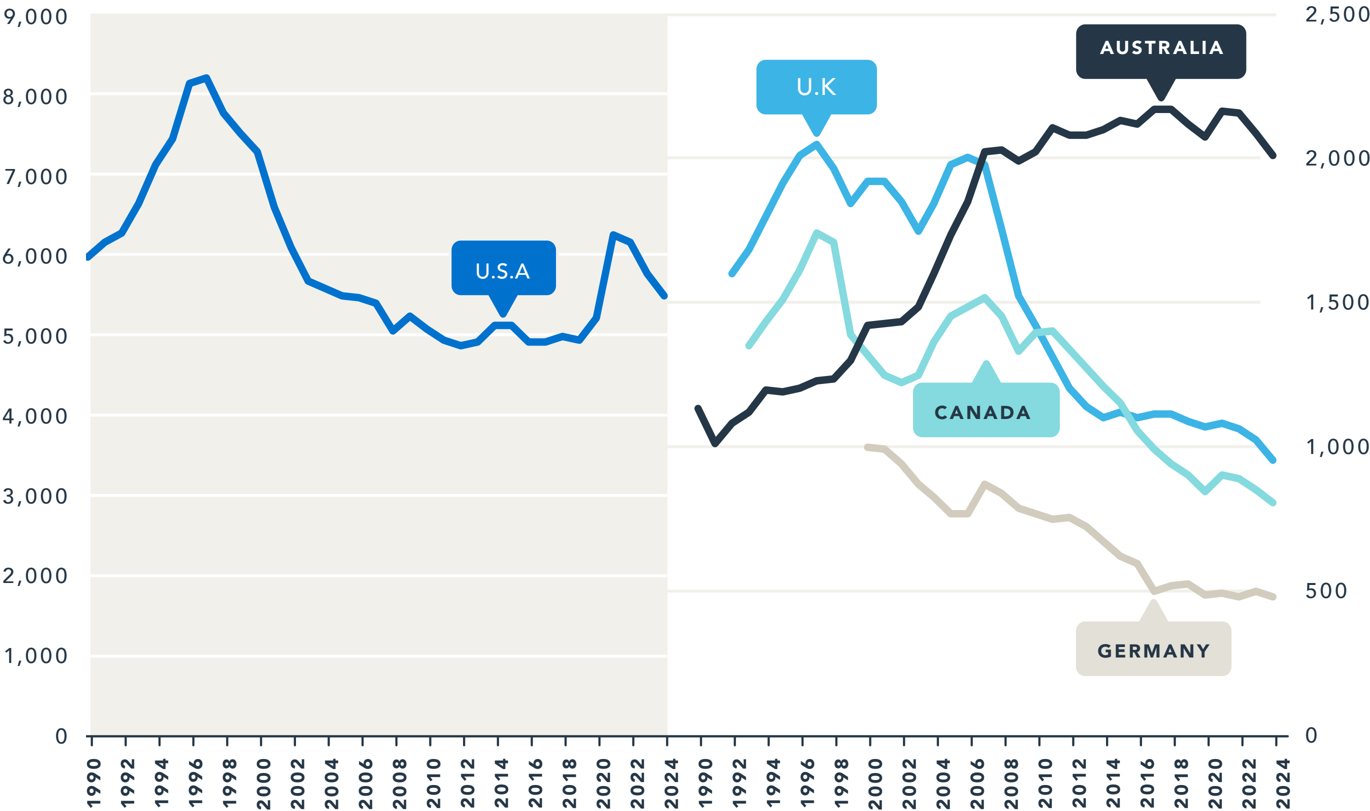
In the United Kingdom, for example, an overall decline in listings has dramatically impacted the number of net listings on its main market. Workplace defined contribution assets invested in listed domestic equities have declined to 6% (compared to investment in listed domestic equities accounting for 23% of investments by Australian APRA-regulated superannuation funds). The United Kingdom has simplified its listing rules to attract more listings and encourage pension funds to invest domestically.

Sources: London Stock Exchange, Reports - Issuer List Archive, 2025; Department for Work & Pensions, Pension fund investment and the UK economy, 27 November 2024; APRA, Quarterly Fund Level Statistics, as at 30 September 2024.

In the Asia-Pacific, New Zealand's public markets have attracted few new listings over many years, with several companies instead deciding to list on markets abroad (including in Australia). Weak domestic capital market activity has amplified the productivity and economic growth challenges in New Zealand.

Figure 2 compares the number of listed entities across global public equity markets over the past 34 years.

Figure 2: Number of listed entities on public equity markets globally (1990–2024)



Sources: World Federation of Exchanges, Statistics Portal for 1990 to 2024 – including ASX for Australia, Deutsche Borse for Germany, and New York Stock Exchange (NYSE) and NASDAQ for the United States; Bloomberg for United Kingdom (London Stock Exchange Main Market only), and Toronto Stock Exchange for Canada. All markets exclude exchange-traded funds (ETFs).

Delistings resulting from mergers and acquisitions contribute to the decline in the number of public companies. These may be public-to-public takeovers, where a public company listed on the same or another exchange acquires a public company, or 'take-private' transactions by private investors or private equity funds.

Among the largest transactions resulting in a delisting since 2022, NYSE-listed Exxon Mobil Corporation acquired Pioneer Natural Resources Co for A$106.1 billion in 2023, NASDAQ-listed Microsoft Corporation acquired Activision Blizzard Inc for A$94.6 billion in 2022, Twitter Inc was taken into private ownership for A$67.0 billion and delisted from the NYSE in 2022, and Atlantia SpA was acquired by private equity for A$60.7 billion and delisted from the Italian Stock Exchange in the same year (Bloomberg).

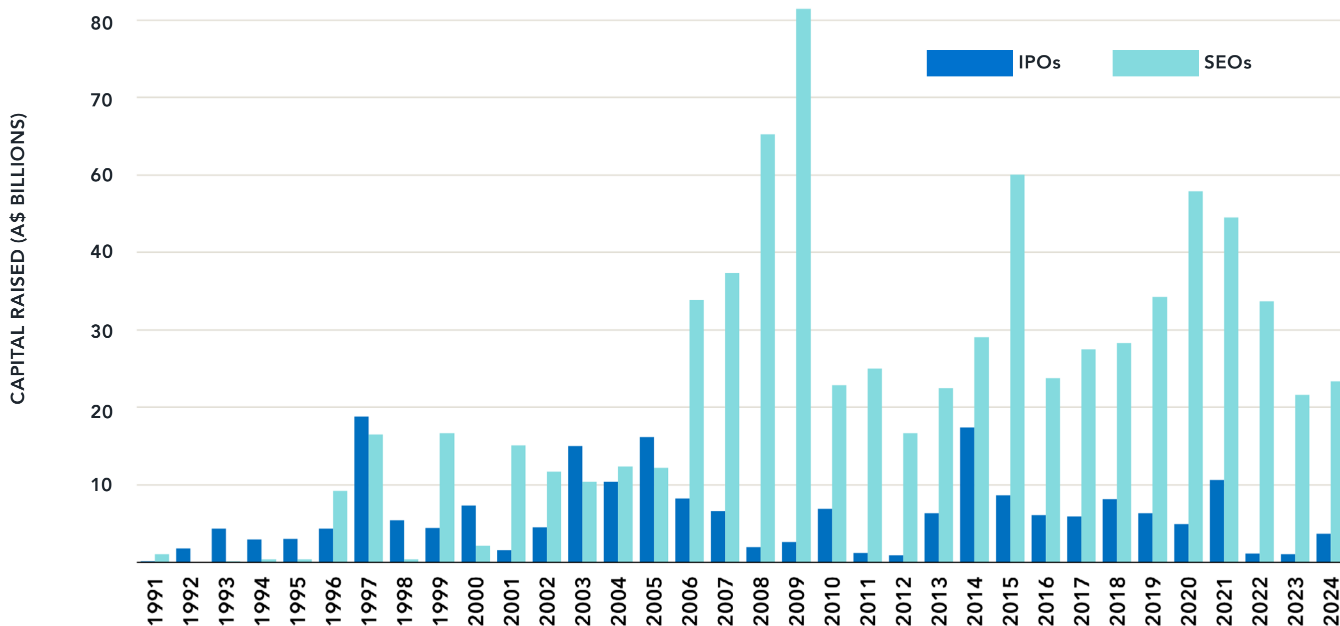
It is too soon to conclude that fewer net listings in Australia is a sustained trend, but we are concerned

The number of listed entities in Australia has fluctuated between 1,900 and 2,200 since 2007, based on the capital-raising cycle. This is relatively high for the size of our economy and compared to international markets. As at December 2024, there were 1,989 listed entities.

Source: ASX, Historical market statistics
Note: The information in this paper regarding the Australian public equity market data and rules relate to the ASX and entities listed on the ASX, reflecting the fact that other public equity markets in Australia (the National Stock Exchange of Australia and the Sydney Stock Exchange) are significantly smaller.

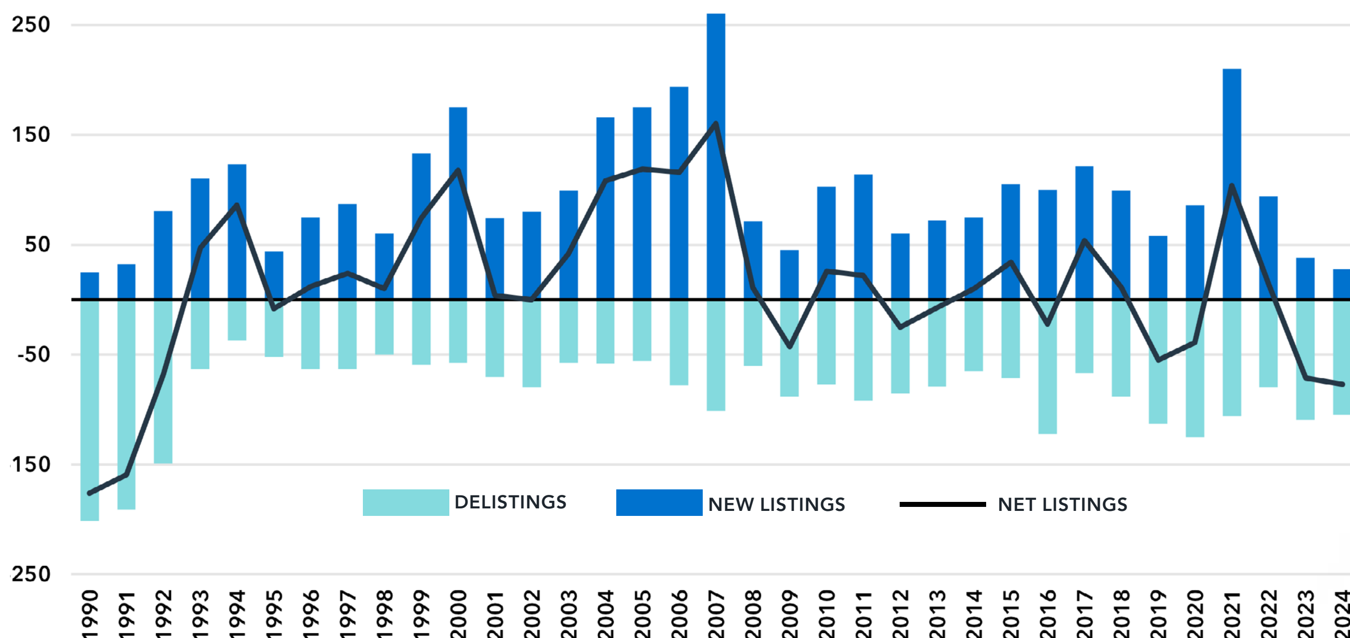
Since the pandemic, Australia has experienced a net decline in the number of listings and capital raised through IPOs, with IPOs at their lowest in over a decade (see Figure 3 and Figure 4).

Figure 3: Value of capital raised in IPOs and secondary equity offers (SEOs) in Australia (1991–2024)



Source: Bloomberg
Note: The IPO and SEO values do not contain listed investment trusts (LITs) and CHESS depositary interests (CDIs) traded on ASX and demergers with capital raisings. The IPO values include companies with offer status of trading in Bloomberg's data set.

Figure 4: Number of new public company listings, delistings and net listings on the ASX (1990–2024)



Sources: Morningstar DatAnalysis and REP 807
Note: These listing numbers do not include listed investment companies (LICs), LITs and real estate investment trusts (REITs) traded on the ASX.

In 2021, the market experienced a surge in new public company listings, with a total of 210 (excluding LICs) during that year of the pandemic. However, this momentum slowed in subsequent years, with only 94 new listings in 2022, followed by 38 in 2023 and 28 in 2024. Additionally, a significant number of companies exited the market, resulting in 400 delistings during this period (see Figure 4). It's important to note that in 2024, when there were relatively few IPOs, the market and potential valuations reached all-time highs.

Report 807 concludes that it is too early to call the current reduction in Australia a 'structural shift', suggesting it is more cyclical in nature. However, we should not be complacent about the continued health of Australia's public equity markets. Periods of negative net listings are becoming more common, occurring in eight of the 16 years since 2009, compared to only one year in the previous 16 years (see Figure 4).

Take-private activity has sparked public commentary about the future of our public equity markets.

'The battle between Brookfield and AusSuper has again raised questions whether we should be concerned that large, important Australian companies – in this case, arguably the best platform for the decades-long energy transition – are falling into private hands… [The chief investment officer of Australian Retirement Trust] *worries a diminished ability of public markets to price risk affects investors across asset classes.* ***"I do think there's something about the decay of public markets."***'

Australian Financial Review, *'Origin battle shows big super's angst over the shrinking of the ASX'*, 1 November 2023

'But we should not forget the bigger lessons here, concerning the ***growing power and influence of the superannuation sector*** *– which increases with every second that passes, and every dollar that rolls in.'*

Australian Financial Review, *'Every second, $634 flows to AusSuper. No wonder Origin deal looks dead'*, 22 November 2023

Several significant Australian public companies have been taken private in recent years without commensurate new listings to replenish the public market. The size of the five largest take-private and other private-to-private transactions has far exceeded that of new listings (see tables 1 to 3).

The top five IPOs in the three years from 2022 to 2024 raised between A$325 million and A$2 billion (A$3.4 billion in total) and, upon listing, had market capitalisation between A$479 million and A$2.7 billion (A$7.9 billion in total).

The largest of these was DigiCo Infrastructure REIT (real estate investment trust), which raised just under A$2 billion in December 2024, marking the largest listing since 2018 (see Table 1). As well as capital raising, IPOs may also provide a mechanism to enable a sell-down by investors.

Table 1: Top five IPOs in Australia between 1 January 2022 and 31 December 2024

Company name	Date listed	Capital raised (A$ millions)	Market capitalisation at offer price (A$ millions)
DigiCo Infrastructure REIT	Dec 2024	1,995	2,746
Redox Limited	Jul 2023	402	1,339
Cuscal Limited	Nov 2024	337	479
Guzman Y Gomez Limited	Jun 2024	335	2,230
Mac Copper Limited	Feb 2024	325	1,154
	Total	**3,394**	**7,948**

Source: Prospectus lodgements with ASIC

Table 2: Top five company take-private and private market deals in Australia in the three-year period from 1 January 2022 to 31 December 2024

Target	Acquirer	Completion date	Acquisition price (A$ billions)
AirTrunk Operating Pty Ltd	Blackstone Inc	Dec 2024	24.0
Sydney Airport Corporation Limited*	IFM consortium	Mar 2022	23.6
AusNet Services Limited*	Brookfield consortium	Feb 2022	10.1
Crown Resorts Limited*	Blackstone Inc	Jun 2022	8.9
CWP Renewables Pty Ltd	Tattarang Pty Ltd	Feb 2023	4.0
		Total	**70.6**

Source: Bloomberg
Note: The * represents take-private transactions.

Table 3: Top five public market takeover transactions in Australia between 1 January 2022 and 31 December 2024

Target	Acquirer	Announcement date	Acquisition price (A$ billions)
Newcrest Mining Limited	Newmont Corporation	Nov 2023	28.3
Allkem Limited	Arcadium Lithium Plc	Dec 2023	15.9
OZ Minerals Limited	BHP Group Limited	Dec 2022	9.5
Altium Limited	Renesas Electronics Corporation	Feb 2024	8.7
Boral Limited	SGH Limited	Feb 2024	6.7
		Total	**69.1**

Source: Bloomberg

In the same period, the five largest take-private and private-to-private transactions had an aggregate acquisition value of A$70.6 billion (see Table 2). Superannuation funds have been involved in several large take-private transactions. These include the acquisitions of Sydney Airport and AusNet Services. Large global private equity players have also contributed to delistings.

Public-to-public takeover activity also contributed to a reduction in net listings (see Table 3). These mergers and acquisitions activities have contributed to public equity market concentration.

ACADEMIC RESEARCH ON THE REASONS FOR THE DECLINING NUMBER OF PUBLIC COMPANIES

Report 807 outlines the extensive academic literature on the reasons for the decline in the number of public companies. This research mainly focuses on the US market and proposes three main hypotheses:

- the decline is attributed to an increase in the regulatory burden and the costs associated with being listed
- the nature of companies has changed, reducing the benefits of being listed, and
- the rapid growth of private markets has made it easier for private companies to access capital.

The literature indicates that the regulatory burden is only a small contributor to the decline. A more important factor is the changing nature of companies.

New economy businesses, such as technology companies, have become more important – they typically have lower capital needs and more intangible assets that are more difficult to value. Further, owners often prefer acquisition by large global companies over organic growth or listing – for example, Meta's acquisition of Instagram (2012) and WhatsApp (2014), and Alphabet's acquisition of YouTube (2006), DoubleClick (2007) and Nest Labs (2014). Private markets have expanded, enabling companies to access the capital they require without needing to list on public markets.

See **further insights from Australian stakeholders on the attractiveness of private markets** in section 2.2.3, which summarises our initial engagements with Australian company directors of public and private companies and the key reasons they cited for staying in or taking companies into private ownership.

Secondary capital raising remains strong

The slowing of listings in various jurisdictions does not imply a dearth of capital-raising activity in public markets. Secondary capital raising by public companies is not experiencing the same declines seen in IPO capital raising (see Figure 3).

For example, Report 807 shows that in Australia, secondary equity offers have exceeded capital raised via IPOs since 2006. Figure 3 also shows that the Australian public equity market continues to provide a strong avenue for public companies to raise secondary capital. This is partly due to accelerated secondary capital raising structures. In 2024, a total of A$23.3 billion was raised via secondary equity offers on the ASX.

2.1.2 Concentration and size of public equity markets

Public equity markets remain larger than private equity funds under management

Despite a decline in the number of public companies in developed markets, the global capitalisation of public equity markets remains more than eight times larger than that of private capital fund AUM. As at December 2024, global public equity markets reached US$121.2 trillion, compared to an estimated US$14.6 trillion in June 2024 in private capital fund AUM. This analysis does not take into account direct company investment, which is also relevant to private market size.

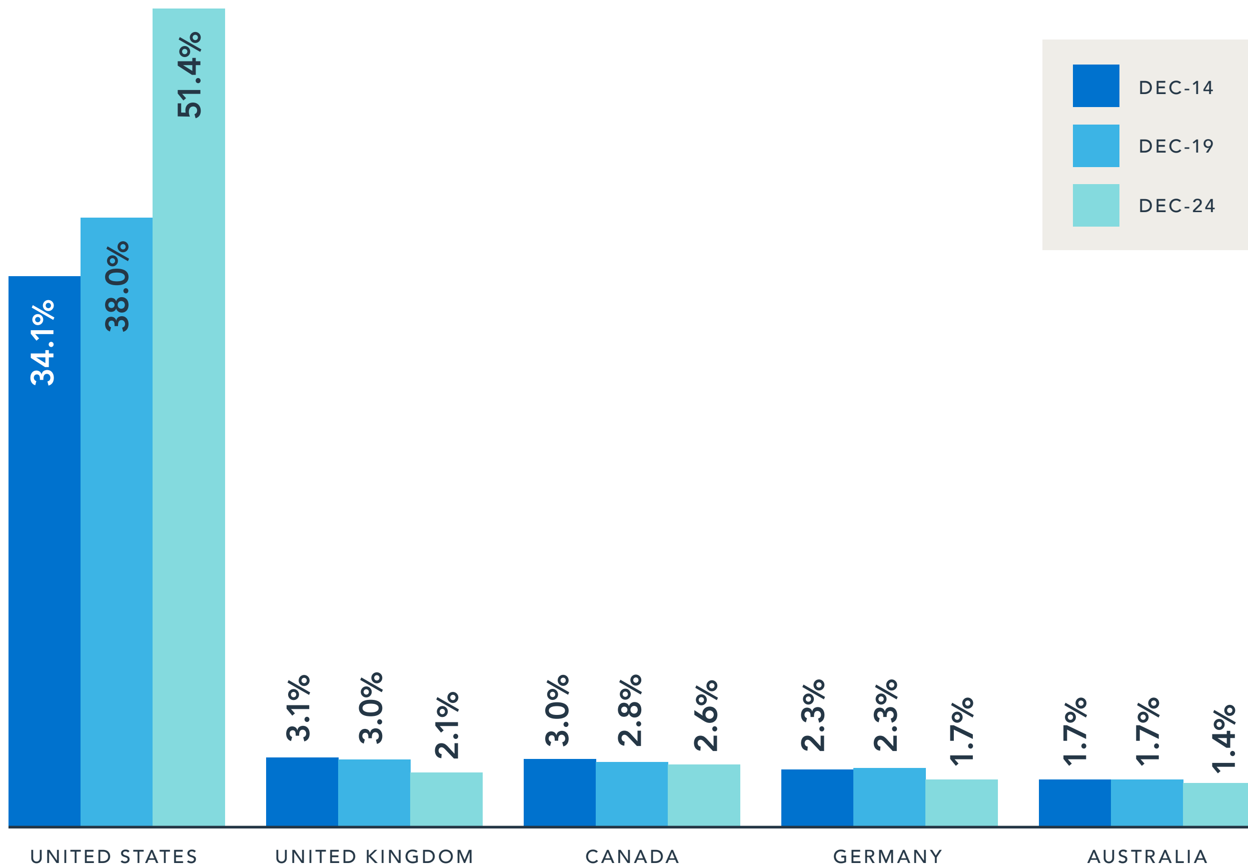
Note: Global public equity market at December 2024, the World Federation of Exchanges, Statistics Portal. Private capital fund AUM as at June 2024, Preqin.

The concentration of public equity markets is increasing in multiple dimensions

As discussed in Report 807, there is a growing concentration in public equity markets. This trend is occuring across countries, sectors and individual stocks.

The United States has long dominated capital markets, attracting companies from across the world to its deep pools of capital and the status associated with being listed there. This is particularly the case for technology and other future-focused companies. As shown in Figure 5, the market capitalisation of the NYSE and NASDAQ is much greater than other global public equity markets. At the end of 2014, the market capitalisation of NYSE and NASDAQ accounted for 34% of the value of global public companies. This figure rose to 38% at the end of 2019 and reached almost 52% at the end of 2024, driven significantly by the high valuations of public companies.

Figure 5: Share of global public equity market capitalisation by country



Source: World Federation of Exchanges, Statistics Portal annual data for 1990 to 2024 – including ASX for Australia, Deutsche Borse for Germany, and New York Stock Exchange (NYSE) and NASDAQ for the United States; Bloomberg for United Kingdom (London Stock Exchange Main Market only, does not include secondary listings of international companies, such as depositary interests), and Toronto Stock Exchange for Canada. All markets exclude ETFs.

THE UNITED STATES DOMINATES PUBLIC EQUITY MARKET CAPITALISATION

In December 2024, the combined market capitalisation of the NYSE and NASDAQ exchanges was US$62.2 trillion, well ahead of European public equity markets (excluding the United Kingdom) at US$11.7 trillion and mainland China exchanges at US$11.7 trillion (World Federation of Exchanges, Statistics Portal).

The NASDAQ and NYSE have been steadily attracting foreign issuers to list in the United States. In 2024, 55% of their IPOs were foreign issuers (including four from Australia), compared to 28% in 2020 (see EY, Global IPO Trends 2024, 17 December 2024). For example, ARM, a British chip designer, and Birkenstock, a German shoe company, chose to list in the United States instead of their home markets, with valuations of US$54.5 billion and US$9.3 billion, respectively, at the time of their IPOs (see ASX capital markets: 2023 year in review and 2024 outlook, 7 February 2024, and Sen, A and Wang, E Birkenstock prices US IPO at $46 per share, 11 October 2023).

Report 807 analyses the evolution of public equity markets in the United States. Notably, while the number of public companies decreased by 50% between 1996 and 2022, profits and market capitalisation outpaced the economy, and public company profits doubled during this period (MJ Roe and CCY Wang, 'Half the Firms, Double the Profits: Public Firms' Transformation, 1996-2022', European Corporate Governance Institute, Law Working Paper No. 771/2024, October 2024).

The Australian public equity markets represent a smaller part of global markets than they did a decade ago. The attractiveness and dominant performance of the NYSE and NASDAQ have seen the ASX's share of global market capitalisation decline. By the end of 2024, it stood at 1.4%, down from 1.7% in 2014, despite the value of the Australian public equity market being close to a record high on 31 December 2024, at just over A$3 trillion (World Federation of Exchanges, Statistics Portal).

This is broadly on par with Australia's gross domestic product (GDP). Looking back to 2014, we see a similar relationship between market capitalisation and GDP. While this shows that the Australian public equity market has grown in line with the Australian economy over the past decade, this proportion is significantly below its peak of 140% in 2006, before the global financial crisis, and recent GDP growth has been relatively weak, for instance rising only 0.8% in the year to September 2024.

Note: GDP as at September 2024, Australian Bureau of Statistics, Australian National Accounts: National Income, Expenditure and Product, September 2024.

Public equity markets are also highly concentrated at sector and stock levels. At the end of December 2024, the 10 largest public companies in the United States accounted for almost 40% of the S&P 500 market capitalisation and 70% of the generated economic profit. Concentration is especially acute in the technology sector, with the 'Magnificent 7' (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla) accounting for one-third of the S&P 500 market capitalisation as at December 2024, compared to 20% two years ago. The importance of these technology stocks to the market and the key market index means shocks in more than one of these stocks could cause widespread market disruption (Bloomberg).

The Australian public equity market is also concentrated. As at December 2024, the 10 largest companies accounted for approximately 40% of the total market capitalisation. This concentration has been relatively stable over the past decade; at December 2014, it was 45%. It is also concentrated by sector, albeit to a lesser extent than in the United States. As at December 2024, the largest sectors by market capitalisation in Australia were financials and resources, accounting for around half of the market. Of the 10 largest public companies, six were in financials, two in resources, one in health care and one in retail (Bloomberg).

Index investing, popular with retail investors across the world, has also grown in Australia with assets estimated at more than A$700 billion managed by index funds (see Vanguard Australia Personal Investor, The case for indexing is still compelling after 25 years). Most index fund portfolio holdings are weighted by market capitalisation, reinforcing the concentration of Australian public equity markets and impacting the operation of the market such as by reducing the free float. Another influence on the concentration of listed equity markets in Australia is APRA-regulated superannuation funds, which account for just shy of one-quarter of ASX market capitalisation (discussed next). Some stakeholders have identified the convergence of the concentration risks of index funds and superannuation funds as a potential risk that warrants deeper consideration.

Growth of the Australian superannuation system

As at September 2024, AUM in the superannuation system stood at A$4.1 trillion. This includes A$2.8 trillion in APRA-regulated funds and A$1.024 trillion in SMSFs. Australia has one of the world's five largest superannuation pools (following the United States, Japan, the United Kingdom and Canada), despite accounting for less than 1% of the world's population (OECD, Pensions at a Glance 2023, Table 3.3).

Australia's superannuation system is a significant force in our capital markets, as superannuation contributions play a pivotal role in domestic investment, which supports the real economy. For instance, superannuation funds (including SMSFs) account for over one-third of ASX by value and they make significant investments in private assets.

Superannuation is increasingly driving developments in public and private markets. In terms of scale, APRA-regulated superannuation funds' AUM was broadly equal to the market capitalisation of public companies on the ASX as at December 2024, totalling just over A$3 trillion. It is expected that the size of these assets will surpass the market capitalisation of the ASX in 2025.

With compulsory contributions set at 11.5%, and rising to 12% in July 2025, the pool of funds under management will keep growing. If the Australian public equity market capitalisation does not keep pace with the growth in superannuation fund assets, and super funds retain the same allocation to domestic equities, the superannuation share of the domestic public equity market will likely continue to grow. Superannuation's role in the broader economy and the extent to which it has systemic impacts is increasingly being examined.

Note: See Bell, D and Warren, G, Systemic impacts of 'big super', January 2025. Superannuation is included in APRA's 2025 system stress testing for contagion risks – see APRA Corporate Plan 2024-25.

In contrast to other jurisdictions where pension funds typically operate as defined benefit schemes, Australia predominantly has a defined contribution system. In a defined contribution scheme, the investment decisions of superannuation funds directly affect their members' retirement balances.

In Australia, APRA-regulated superannuation funds do not promise to deliver a balance or pension of a particular size, as is the case with defined benefit schemes. Instead, they promise to invest well to achieve long-term returns.

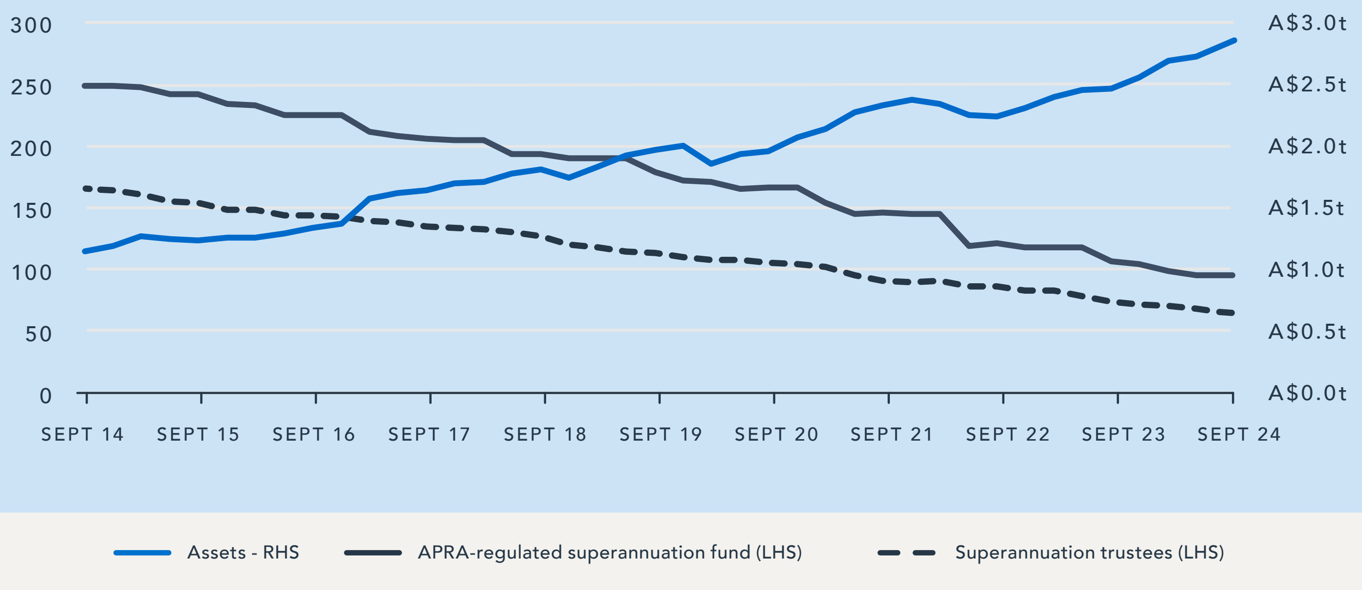
The discussion below focuses on APRA-regulated superannuation funds, which behave quite differently to SMSFs in terms of their investment allocations. To provide further context about the superannuation system's interaction with public and private markets more broadly, we note that, according to the most recent publicly available Australian Taxation Office (ATO) data, SMSFs hold 36.9% of their assets in either Australian listed shares or listed trusts, with a minimal allocation to international assets – less than 2% in international shares (ATO, Self Managed Superannuation Funds - Dataset).

APRA and ASIC have complementary and overlapping regulatory remits in relation to APRA-regulated superannuation funds. APRA supervises these funds to ensure they fulfil their promises to their members under all reasonable circumstances, which includes supervising investment governance. ASIC's regulation of superannuation funds focuses on conduct and disclosure obligations, including consumer protection and market integrity.

Increased scale

Superannuation funds are Australia's mega investors, and the superannuation sector has become increasingly concentrated. Over the decade to September 2024, the number of APRA-regulated superanuation funds decreased from 249 to 95, and the number of superannuation trustees dropped from 165 to 64. Meanwhile, the total value of AUM steadily increased from A$1.14 trillion to A$2.83 trillion (see Figure 6).

Figure 6: Increase in value of assets held by APRA-regulated superannuation funds (2014 to 2024)



Source: APRA, Quarterly superannuation statistics

At the same time, the market share of the 10 largest superannuation funds rose from 52% to 65%, and for the five largest superannuation funds, it increased from 32% to 44%.

Consolidation of superannuation funds has had clear benefits for the superannuation savings of Australians, with a number of poor-performing funds exiting and improvements in long-term sustainable outcomes for superannuation members.

The growth in superannuation fund sizes has several implications for market dynamics as well. For example, larger funds require bigger investment deal sizes to make a meaningful portfolio allocation. It may also be more cost-effective for them to manage these larger investments internally. The largest funds are increasingly adopting this approach.

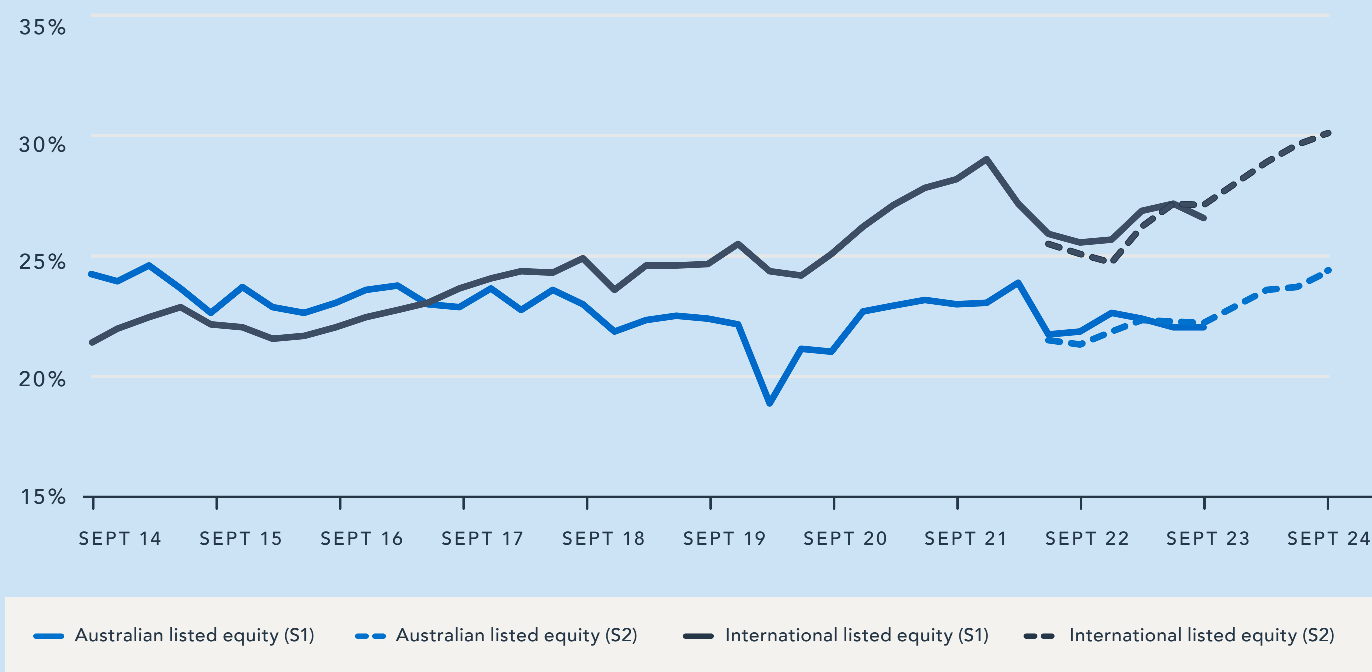
As ownership of significant public companies becomes more concentrated among superannuation and passive funds, the approach these funds take to their stewardship obligations is increasingly influential, as their voting power dominates the decisions put to shareholders. However, it is important to recognise that superannuation funds do not all have the same structures, which affects how they invest.

For example, some superannuation funds offer platform products that allow investors to select their investment from a menu of options, including individual shares, exchange-traded funds (ETFs) and managed investment schemes. As at September 2024, these investments totalled A$362.7 billion.

Increased allocation of superannuation assets to international markets

The size of superannuation funds' AUM relative to the size of the Australian public equity market, and their drive for diversity, have necessitated that they seek alternative investments. As a result, these funds are increasing their allocations to international public markets, and domestic and international private markets. Over the 10 years from September 2014 to September 2024, their allocation to domestic public equities (excluding listed infrastructure and REITs) remained steady as a proportion of total investments, at around 24% (although the value increased as the size of superannuation grew). In contrast, the funds increased their investment allocation to international public equities from 21% to 30% (see Figure 7).

Figure 7: Proportion of APRA-regulated superannuation fund assets invested in domestic and international public equities (September 2014 to September 2024)



Source: APRA, Quarterly Fund-Level Statistics and Quarterly superannuation statistics

Note: Two different time series are reported in this figure, labelled series 1 (S1) and series 2 (S2), because APRA's Superannuation Data Transformation process has changed the reporting framework for superannuation funds. For further details, see APRA's Superannuation Data Transformation, March 2024.

A significant proportion of superannuation in private assets

Investment in private assets is a well-established diversification strategy for superannuation funds. In addition, key features identified as attractive for superannuation funds in relation to private market assets include the investment time horizon, returns and enhanced control over the asset.

Superannuation funds make significant use of private assets; for example, allocations to private equity, infrastructure and other alternative assets. According to reports submitted to APRA, superannuation funds allocate between 0% and 38% of their total assets – comprising a mix of cash, public assets and private assets – to private assets.

Note: Based on APRA's quarterly fund-level superannuation statistics, we define the following asset classes as private assets when referring to superannuation investments: private debt, private equity, unlisted Australian domicile equity and unlisted international domicile equity (hedged and unhedged).

The two largest funds – AustralianSuper and Australian Retirement Trust – have invested approximately 22% of their AUM in private assets. Approximately half of these private assets are international exposures. Both funds are most exposed to infrastructure assets. Many large superannuation funds have publicly indicated their intention to increase their exposure to private market assets.

2.2 Growth in private markets

Private markets have become an increasingly important source of funding over the past decade and are expected to play an even larger role in the global financial system in the future. They encompass investments made in assets not traded on public markets, some of which are not suited to public market trading.

Private markets encompass private capital funds, non-bank financial lending and investments made by institutional investors directly into asset classes such as private companies, infrastructure and debt. Investments in different asset classes have very different time horizons and characteristics – compare, for instance, investment in a startup to a toll road operated as part of a public-private partnership arrangement. In addition, there are significant nuances between different private market activities that go beyond understanding of the broad asset class. Private equity may encompass everything from early-stage venture capital investment to a leveraged buyout of a long-established business. For further information about the range of activities encompassed by private credit, see **Focus on private credit in Australia**.

In the discussion below, we focus primarily on private capital funds, which may be used as a vehicle to invest in a broad range of asset classes.

2.2.1 Size and value of private markets

Global private markets

The estimated value of global private capital fund AUM in June 2024 was US$14.6 trillion. This marks a threefold increase compared to a decade ago, and some estimate private markets could reach US$21 trillion in AUM by 2030 (Preqin).

Global private capital fund fundraising activity (inflows) has more than quadrupled, from US$278 billion in 2009 to US$1.5 trillion in 2021– an increase of 440%. 'Dry powder' reserves – the amount of capital committed for private market funds but not deployed – increased to US$3.7 trillion in 2023 (McKinsey, Global Private Markets Review 2024, 28 March 2024).

The above data on private capital funds do not reflect direct investment in private assets by institutional investors. Given the weight of capital to be deployed, this investment in private assets is also important to take into account in relation to growth trends.

One of the drivers of growth in private markets is the perception that private market assets tend to outperform those in public markets. However, it can be challenging to make like-for-like comparisons due to the lack of public reporting by private capital funds. Performance is most reliably measured after funds have been returned to investors, which typically takes eight to 12 years. Higher returns are often expected from assets that are illiquid ('illiquidity premium') or leveraged.

Australian private markets

Direct investment in private market assets continues to be significant in Australia. The APRA superannuation data collection and superannuation fund portfolio holding disclosures provide insights into this, as well as externally managed private market asset investments (see **Growth of the Australian superannuation system**).

AUM in Australia-focused private capital funds (which may be domiciled in or outside of Australia) has nearly tripled over the past decade, increasing from A$57.1 billion in 2014 to A$148.6 billion in March 2024. These private capital fund assets include substantial dry powder awaiting investment, which amounted to A$43.8 billion in March 2024. Private equity and real estate accounted for the largest portions of Australia-focused private capital fund assets in March 2024, totalling A$65.9 billion and A$58.2 billion, respectively. Approximately half of all commitments to Australia-focused private equity funds between 2019 and 2023, and almost a quarter of real estate fund commitments were from offshore investors.

Note: Preqin data is sourced from voluntary submissions by funds, and users cannot determine which funds contributed: Preqin, Global Data Coverage, 2024.

Despite this impressive growth rate, Australia-focused private capital funds remain small compared to the market capitalisation of Australian public markets, and recent growth has slowed due to rising borrowing costs. As outlined in the Reserve Bank of Australia's (RBA's) 2024 Bulletin article on private equity, the Australian private equity market continues to focus on smaller companies, even while we have seen a rise in investment in Australian assets by foreign private equity funds and some sizeable deals in recent years, such as the sale of AirTrunk to Blackstone in 2024 for A$24 billion.

Private capital funds, as well as being a source of capital for Australian businesses, also represent an investment opportunity for Australians. We do not have data on the extent of Australian investors' exposure to global private market assets through investment in domestic international private capital funds. However, analysis of the data available about portfolios of the largest Australian superannuation funds suggests this exposure is likely substantial.

For example, Australia's largest fund, AustralianSuper, reported the following investments in its financial statements as at 30 June 2024:

- A$13.1 billion (3.6% of its portfolio) in international private equity, compared to A$2.9 billion (0.8% of its portfolio) in domestic private equity, and
- A$5.2 billion (1.4% of its portfolio) in international private credit, compared to just over A$1 billion in Australian private credit (about 0.3% of its portfolio) – a similar distribution in terms of international versus domestic holdings.

Source: AustralianSuper, 2024 *Annual Financial Report for the year ended 30 June 2024*, page 34, available for download from Governance and reporting

A FOCUS ON PRIVATE CREDIT IN AUSTRALIA

During 2024, private credit gained significant attention in Australia as a growing asset class.

Global private credit AUM quadrupled over the decade to 2023, to US$2.1 trillion (International Monetary Fund, Global Financial Stability Report, The Last Mile: Financial Vulnerabilities and Risks, April 2024). The RBA estimated the value of the private credit market in Australia to be approximately A$40 billion, but other estimates range from A$1.8 billion to as much as A$188 billion. Better-quality data is needed to provide more certainty about the size of the market.

In Australia, private credit funds provide a relatively small proportion of debt capital funding compared to banks, in contrast with other jurisdictions where banks play a much smaller role in lending across the economy. For instance, in the United States, non-bank mortgage companies originated 67% of all United States residential mortgages in 2023, up from a low of 39% in 2008 (Financial Stability Oversight Committee, Report on Nonbank Mortgage Servicing, 2024). This differs to Australia where it is estimated that less than 5% of housing credit is provided by non-bank financial intermediaries (RBA, Financial Stability Risks from Non-bank Financial Intermediation in Australia, April 2024).

Due to the small size of the private credit market in Australia, the RBA considers that direct risks to financial stability from this market appear low (RBA, Growth in Global Private Credit, October 2024). Nonetheless, there may be implications for market integrity, investor outcomes and confident, informed participation in the financial system even at levels of activity that do not pose risks to financial stability.

In Australia, retail investors are exposed to private credit investments through superannuation fund investment portfolios and direct investment in diversified or private credit-focused registered managed investment schemes. Accordingly, private credit investments encompass activity ranging from superannuation funds deploying millions of dollars in loans to businesses of a significant size alongside an originating bank, to retail investors investing money in a managed investment scheme that lends to a diverse portfolio of small and medium-sized enterprises.

We are currently undertaking work to examine private credit and risks for retail investors more closely. This includes a thematic surveillance of retail private credit-focused funds, reviewing governance and practices relating to disclosure, distribution, conflicts, valuation and credit risk management. Retail investors can face significant harm if persons operating businesses that on-lend retail investment monies fail to comply with the law, as evidenced by issues that have arisen in the past in relation to debentures and managed funds.

We are also focusing on private credit as an asset for superannuation fund portfolios through our review of superannuation fund financial reporting and audits, and consultation about whether portfolio holdings disclosure relief should be provided for private credit investments.

Another way we are undertaking work touching on private credit issues is our 2025 enforcement priority focusing on business models that are designed to avoid consumer credit protections.

For example, we commenced proceedings in October 2024 against Oak Capital Mortgage Fund Ltd and Oak Capital Wholesale Fund Pty Ltd for allegedly engaging in unconscionable conduct to avoid the National Credit Code.

In recent years, we have contributed to the International Organization of Securities Commission's (IOSCO's) work on non-bank financial institutions and leveraged loans within wholesale markets. This includes a focus on valuations and conflicts of interest, which will inform our surveillance of wholesale private credit funds falling within our broader private capital fund surveillance activities.

The growth in services

As private markets have grown, so have the services designed to support them, including the provision of data and resources to address challenges in accessing and exiting private markets. For example, investment platforms and markets are innovating to facilitate periodic trading windows for wholesale investors in private companies and funds. Examples include Forge Global and Nasdaq Private Market in the United States and the planned 2025 launch of the London Stock Exchange's Private Intermittent Securities and Capital Exchange System (PISCES), which aims to connect private and public markets, creating a pathway for listings. In Australia, examples include FCX, which was recently granted an Australian market licence and an Australian clearing and settlement facility licence, and PrimaryMarkets, which holds an Australian financial services licence.

Note: See Financial Conduct Authority (FCA), CP24/29 *Private Intermittent Securities and Capital Exchange System: sandbox arrangements on this new private stock market,* December 2024.

Continuation funds have become more common. These funds facilitate the rollover and transfer of private assets to a new fund and investors, instead of liquidating assets to return capital at the end of the intended investment term of the original private capital fund (for example, where there is more potential for growth and future returns, or to retain 'trophy' assets). They have also filled a gap while public IPO markets have been less attractive for investment exits. These continuation fund strategies, along with growth in other secondary private transactions, may contribute to downward pressure on public listings. Conduct risks relating to continuation funds are discussed in section 3.2.3.

2.2.2 Weight and concentration of capital for investment in private markets

The control of capital is concentrated in the hands of large investors with significant capital to invest. Global pension funds (US$55.7 trillion AUM, 2023), sovereign wealth funds (US$12.7 trillion, 2023) and insurers (US$42 trillion, 2023) have significant long-term capital they need to invest. Private market opportunities often have a long investment horizon and may provide diversification benefits by facilitating access to asset classes less served by public markets. With a large pool of assets and alternative sources of liquidity to meet their requirements, these types of investors may be well placed to invest significant amounts in assets that cannot be readily realised. Private market investments may face less public scrutiny, community expectations and regulatory pressures than investments in public companies.

Sources: Thinking Ahead Institute, Global Pension Assets Study – 2024; TheCityUK, Sovereign Wealth Funds: Global trends and the UK's role in the evolving landscape for Sovereign Investment Vehicles, November 2024; and IAIA - Global Insurance Market Report (GIMAR), December 2024

In Australia, APRA-regulated superannuation funds are significant contributors to private market growth (see **Growth of the Superannuation System**).

Sovereign wealth funds' AUM nearly doubled in a decade, from $6.7 trillion in 2014 to $12.7 trillion in 2023, with an average annual growth rate of 7%.

As at September 2024, Norway's Government Pension Fund, the world's largest sovereign wealth fund, held assets worth US$1.650 trillion, including approximately 2% of all global public companies. In Australia, the Future Fund had grown to A$229.7 billion as at September 2024.

Sources: TheCityUK, *Sovereign Wealth Funds: Global trends and the UK's role in the evolving landscape for Sovereign Investment Vehicles*, November 2024; Norges Bank Investment Management, All Investments; and Future Fund, Portfolio update as at 30 September 2024, 1 November 2024

Asset managers have grown to become the largest financial institutions in the world. As at September 2024, BlackRock managed US$11.5 trillion in public and private assets for investors, making it the largest asset manager globally. It is followed by Vanguard, which managed US$10.1 trillion, Fidelity with US$5.8 trillion and State Street with US$4.7 trillion. Many of these large asset managers traditionally invested heavily in public markets but are increasing their exposure to private markets.

Sources: BlackRock, Inc., Form 8-K filing with the US Securities and Exchange Commission (the SEC), 11 October 2024; State Street Corporation, Form 8-K filing with the SEC, 10 October 2024; Vanguard, About Vanguard; and Fidelity, Assets Management Divisions

Similarly, the global private capital fund sector is dominated by a few large players that invest on behalf of insurers, pension funds and sovereign wealth funds, among others. The United States accounts for 54% of all private capital fund AUM, and Europe and Asia each represent around 20%. The largest private capital fund manager, Blackstone, has AUM of US$1.1 trillion, followed by Brookfield with over US$1 trillion, Apollo with US$751 billion, KKR with US$638 billion and Carlyle with US$447 billion. Additionally, some large investors choose to invest directly in private markets or participate in a co-investment model alongside private capital funds.

Sources: Blackstone Reports Fourth Quarter and Full Year 2024 Results, 30 January 2025; Brookfield Corporation 2024, Q3 Interim Report; 14 November 2024; Apollo Global Management, Inc. Reports Fourth Quarter and Full Year 2024 Results, 4 February 2025; KKR & Co. Inc. Reports Fourth Quarter 2024 Financial Results, 4 February 2025; and Carlyle Reports Third Quarter 2024 Financial Results, 7 November 2024

2.2.3 Availability of private capital influences capital-raising decisions

Our preliminary industry consultations canvassed various drivers for Australian companies accessing private instead of public markets to raise capital or undertake a sell-down. Many stakeholders pointed to companies' ability to stay private for longer due to the increased availability of equity and debt capital through private channels, including international investment. The cost of an IPO in dollar terms and also time and effort can be substantial, and private capital may appear to provide an easier and better-priced route to raise capital or exit an investment.

With Australia's transition to lower carbon emissions, some stakeholders noted that, given the nature of these projects, much of the required funding will be through private markets. They will need large sums of 'patient capital' over an extended period, during which generating profits and achieving positive cash flow may take considerable time.

FURTHER INSIGHTS FROM AUSTRALIAN STAKEHOLDERS ON THE ATTRACTIVENESS OF PRIVATE MARKETS

In our initial engagements with directors of public and private companies, a common reason cited for staying or taking a company private was the flexibility to focus on the medium- to longer-term operation of the business and shareholder returns. Directors expressed concerns that public companies often face greater scrutiny, community expectations and regulatory pressures. They noted that these factors may lead to an increased focus on short-term goals or social factors over longer-term strategies and that shareholder influence may be exerted by a relatively small group across Australian markets. While some entities may not be in a position to access public markets and, therefore, rely on private capital (equity and debt) due to the size or nature of their operations, others have a choice to make.

In some cases, companies may find trade sales more attractive than IPOs as they offer a 100% exit for investors, unlike the typical escrow periods in public equity market IPOs.

Industry stakeholders also highlighted additional drivers for investors' preferences.

- Illiquidity premium: Investors may not need liquidity and instead seek an increased return over time, known as the 'illiquidity premium'.
- Diversification: High-net-wealth clients' investment portfolios are identified as under-allocated in private assets and are increasing their investment allocations.
- Valuation stability: The fact that valuations adjust more slowly than those of public companies and have less volatility is attractive.

Retail investors are increasingly offered private market assets

Private capital funds are increasingly raising funds for investment in private assets from retail investors, alongside institutional investors and the family offices of high-net-wealth clients.

Worldwide this is happening in four key ways:

- Private capital funds are becoming more available to retail investors – for instance, in Australia we have seen some private capital funds reducing the minimum buy-in to as little as A$2,000.
- Existing investment vehicles other than private capital funds are increasing their direct or indirect exposure to private assets – for instance, in Australia several LICs and LITs focused on private asset investments, including private credit, can be traded on the ASX.
- Innovation in investment vehicles is occurring – for instance, in the United States, Apollo Global Securities LLC and State Street Global Advisors are seeking approval for a private credit ETF that provides for an open-ended fund of illiquid assets, and in the United Kingdom, long term asset funds were introduced.
- Barriers to retail investors investing directly in private assets are decreasing – for instance, the rise of digital platforms that facilitate direct access to private companies by retail investors, which followed the Jumpstart Our Business Startups Act reforms in the United States.

Sources: US SEC, Form N-1A Registration Statement SSGA Active Trust, 2024; and State Street, State Street Global Advisors and Apollo Global Management Join Forces to Increase and Broaden Investor Access to Private Markets, 10 September 2024

These opportunities for retail investors are also accompanied by risks, which we discuss in further detail in section 3.3.

2.3 Why these developments matter

The strength of public and private markets is crucial for Australia's economy and overall prosperity.

In short, these developments are significant.

Australia cannot be complacent about the future of its public markets.

While history suggests the recent declines in listings in Australia are likely cyclical and our listing settings are attractive, the dynamics are changing with global trends and shifts in private markets and the impacts of superannuation investing.

Australia should seek to avoid deterioration in the quality, diversity and depth of public companies on its public equity markets.

Sustained deterioration of these qualities may diminish public equity market returns and impact access to diverse wealth creation opportunities. It could also undermine the high governance standards and transparency of public equity markets. Investors who value these aspects of public markets may increasingly seek international rather than Australian investments, leading to capital outflows and reduced liquidity.

Public markets provide important public goods with price discovery and liquidity, facilitating efficient valuation, pricing and capital allocation for public and private markets and the wider economy. A weakening of public markets would diminish this public good.

Private market features present different risks for investors and potentially the broader economy.

Retail investors face potentially heightened risks from private market investments, including limited access, liquidity challenges, complexity, information asymmetries and adverse selection risks. Their investment in private market assets generally also involves more intermediation, often with high fees.

Private markets pose particular challenges for market confidence. For instance, a lack of transparency can lead to mistrust about the valuations of private assets.

Valuations are mostly based on methodologies and judgements rather than publicly available trading prices, and may not always be independent. This affects both investor decision-making and the system as a whole. Relying on expertise and commercial data providers does not fully address this concern.

Due to limited transparency in private markets, a shift in the balance between public and private markets reduces our ability to assess the overall health of our capital markets from a system perspective. This understanding is important to ensure a successful and stable economy.

The challenges of achieving efficient capital markets that promote informed and confident investor participation in the financial system differ between public and private markets.

We want to make sure that we have a regulatory approach that is fit for purpose as private markets grow in significance. The responses we receive to this paper will help inform our regulatory approach.

Discussion questions

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.
2. Do you have any additional insights into the attraction of private markets as an issuer or an investor?
3. In what ways are public and private markets likely to converge?
4. What developments in public or private markets require regulatory focus in Australia in the future?

3. Regulatory responses to changing market dynamics

As Australia's financial markets regulator, our review of the changing dynamics between public and private markets and their implications for the Australian economy is driven by our objective of facilitating, maintaining and improving the performance of the financial system and entities within it – and supporting confident and informed investor and consumer participation. Our strategic priorities were updated for FY25 to include driving consistency and transparency across markets and products.

In this section, we discuss our current work plan, which has an increased focus on private markets given its increasing significance and outcomes that are relevant to our role as a regulator.

Looking to the future, we seek feedback on achieving the following outcomes:

- healthy public equity markets are sustained
- private market risks do not undermine efficient capital allocation and confidence in private markets
- retail participation in private markets strikes the right balance between access and protection, and
- transparency and monitoring of the financial system keep pace with market developments.

ASIC's increased focus on public and private markets shows our initial work plans, which are well underway. We are building an evidence base of market developments and conduct in private markets to inform our future work. We are doing this work to complement the well-established oversight role we play in relation to risks relevant to public market activity.

ASIC's increased focus on public and private markets

Assessing market developments and regulatory settings

We are facilitating discussions on market developments and regulatory settings affecting Australian capital markets, and considering options for improvement, including:

- engaging with stakeholders on developments in public and private markets, here and abroad
- evaluating regulatory options to enhance the operation of our capital markets for investors and those seeking to raise capital, including exploring options with the ASX to improve the listing pathway and ongoing listing rules, and
- consulting in the first half of 2025 on whether to continue limited portfolio holding disclosure relief for private credit investments of superannuation funds.

Monitoring and promoting market integrity

We are expanding our monitoring of market cleanliness to public debt markets and private markets. Leaks of confidential transaction information and suspicious trading ahead of announcements risks undermining trust and confidence in Australian capital markets. This work builds on our analysis in Report 786 *Equity market cleanliness snapshot report* (REP 786) and Report 787 *Review of Australian equity market cleanliness* (REP 787) and involves:

- for public debt markets – measuring market cleanliness for trading in government and semi-government bonds by reviewing trading around information events (for example, macroeconomic events, new issuances and requests for quotes), and
- for private markets – reviewing how parties involved in 'take-private' transactions protect confidential information and manage conflicts of interest, and using existing market surveillance techniques to identify suspicious trading ahead of 'take-private' transactions.

More broadly, we are promoting market integrity in public and private markets through the activities outlined in our open letter to market intermediaries: ASIC's priorities for the supervision of market intermediaries in 2024–25.

Reviewing compliance with financial services laws

We are increasing our surveillance of private market activity by focusing on the following:

- for corporate advisers – governance arrangements; the management of conflicts of interest, staff and insider trading; and the protection of confidential information
- for wholesale private equity and private credit funds – governance; valuation practices; the management of conflicts of interest, staff and insider trading; the protection of confidential information; and fair treatment of investors
- for retail private credit funds – governance, valuation practices, the management of conflicts of interest, disclosure, distribution of products, credit risk and liquidity management, and
- for superannuation funds – financial reporting and audits, encompassing valuation issues.

We intend to publicly communicate our findings from this work in 2025, which may include a need to take further regulatory action.

International regulatory agencies, market operators and standard-setting bodies have been monitoring the growth of private markets, as well as changes in the depth and quality of public equity markets, over a number of years. IOSCO conducted a thematic analysis of the emerging risks in private finance, identifying four risk themes – opacity, leverage, market integrity threats and the potential for risk transmission to public markets. We participated in this work. In its 2023 final report, IOSCO highlighted that while private markets offer economic benefits, they also present some vulnerabilities:

> *While the inherent opacity in private finance provides investors with some insulation from the transparency costs faced in public markets, it could also jeopardize availability of information that regulators and investors require to effectively assess risks. This includes risks that could arise due to the way in which private finance firms conduct their activities (e.g., valuations, conflicts of interest), from their interconnections with the wider financial system, and from how macro-financial developments could impact the sector, the portfolio companies that receive finance, and the real economy.*

See IOSCO, *Thematic Analysis: Emerging Risks in Private Finance*, September 2023 at page 1.

Private credit funds and other non-bank financial intermediation is gaining significant international attention. In December 2024, the Financial Stability Board consulted on recommendations aimed at addressing the financial stability risks associated with leverage in non-bank financial intermediation. Additionally, IOSCO released a report on the evolution of leveraged loan and collateralised loan obligation markets, which identifies vulnerabilities and outlines best practices to help guide market participants' decision-making.

Sources: IOSCO, Leveraged Loans and CLOs Good Practices for Consideration, June 2024; and Financial Stability Board, FSB consults on recommendations to address financial stability risks arising from leverage in non-bank financial intermediation, 18 December 2024.

Securities regulators around the world are undertaking supervisory work concerning the private market risks described by IOSCO. For instance:

- For more than 10 years, the US Securities and Exchange Commission (the SEC) has released its annual examination findings on private capital funds. It has consistently identified conduct demonstrating that conflicts of interest have been inadequately managed in the operation of private investments. For some firms, this has resulted in large profits at the expense of investors.
- In 2024, the FCA commenced a review of private market valuation practices, highlighting the harms that can occur due to inherent conflicts of interest adversely affecting valuation approaches. This includes the potential for inflated values to support borrowing, avoid covenant breaches and support fund performance metrics, thereby aiding further efforts to raise funds from investors.

Foreign regulators' and policymakers' experiences of monitoring and supervising the growth of private markets, alongside changes to capital markets in their jurisdictions, have prompted steps to:

- sustain the health of public equity markets by streamlining listing and regulatory requirements to attract and retain listings, recognising that public markets support public goods with significant economic benefits for economies
- promote efficient capital allocation and market confidence by strengthening oversight of conduct in private markets
- facilitate retail participation in private markets by considering retail access and investor protections, and
- improve financial system monitoring by enhancing the regulatory reporting and transparency requirements of private capital funds.

Appendix 2 sets out examples of this regulatory activity.

However, market behaviour is driven by many forces, not only regulation or regulators' efforts, as discussed in Section 2.

Drawing on international analysis and engagement with stakeholders, this paper identifies for feedback areas where adjustments to our regulatory approach may be necessary to achieve important outcomes for Australia's financial system.

The opacity of private markets means regulators need to take different approaches. Without the tools and information needed to target our regulatory activity, the likelihood of regulatory interventions effectively responding to market conduct problems is diminished. For this reason, we emphasise the need for greater transparency and monitoring of our capital markets to keep pace with market developments.

In Australia, the size of our private markets is less significant than in other jurisdictions, with public markets and banks dominating much of the funding provided domestically. At these levels, an increase in failures of private capital funds in Australia is unlikely to drive a crisis across the Australian economy. However, there may be linkages between private capital fund exposures and other sources of debt or equity funding, amplifying the impact of any failures. As well, there are interactions in exposures in other international markets which raises the possibility of transmission of risk from outside Australia.

These are watchpoints, given there has been a higher interest rate environment. Further, poor investor outcomes arising outside a crisis can undermine long-term confidence in capital markets and the Australian financial system generally.

For these reasons, we need to stay informed about the evolving dynamics between public and private markets, particularly given their interconnections. We also need to increase our focus on the vulnerabilities that may arise as private markets continue to grow in importance.

3.1 Healthy public equity markets

The health of both public and private markets is crucial for Australia's economy and overall prosperity. As discussed previously, public markets provide a public good to the economy beyond their role for issuers and investors. A decision to offer and list its securities on a public market exchange is generally, but not solely, tied to the entity's capital needs. The health of Australian public equity markets depends on how attractive they are compared to public equity markets in other jurisdictions and on the relative attractiveness of relying on private market capital.

Regulators worldwide are focused on promoting strong and healthy public equity markets and implementing initiatives such as streamlining listing requirements (see Appendix 2), to attract and retain listings. Recent international initiatives to strengthen domestic capital markets include the United Kingdom's various listings and capital market reforms, the European Union's reinvigoration of the Capital Markets Union by rebranding it as the Savings and Investment Union, Singapore's equities market review group and New Zealand's capital market reforms.

Australia's regulatory settings have been relatively attractive and conducive to raising equity capital in public markets over time. They have supported Australian companies of all sizes and from various sectors to access equity capital for growth, while also providing investors with diverse investment opportunities. This is reflected in the relatively higher number of public companies in Australia over time, especially when compared to other jurisdictions of similar economic size (see section 2.1.1). As global capital markets and regulatory frameworks evolve, it is timely to reflect on whether Australia's settings remain appropriate for the future.

Our focus is on the laws we administer that govern capital raising and the ongoing governance requirements for public companies, as well as overseeing the listing rules of Australian public equity markets.

Note: In this section we have focused on the listing of companies on public equity markets.

3.1.1 IPOs and the pathway to listing

The recent decline in IPOs has resulted in commentary about whether the IPO process in Australia should be streamlined to promote more listings. As outlined in section 2, we believe it is too early to classify this decline as a structural change, but we are concerned about the future of public markets. Nonetheless, having a robust pipeline of quality new listings is important for the sustained health of Australia's public equity markets and so, as we look to the future, reflecting on the listing pathway is worthwhile.

Chapter 6D of the *Corporations Act 2001* and the listing rules of the relevant market operator set out the regulatory requirements for companies raising capital via the public equity markets in Australia.

- The *Corporations Act* requires entities to issue a disclosure document to help retail investors assess the risks and returns associated with an offer of securities for issue or sale, enabling them to make informed investment decisions.
- The ASX market has specific financial thresholds and track-record requirements that companies must meet to demonstrate their readiness for public ownership. These requirements are less stringent compared to those in many other developed markets around the world, enabling smaller and early-stage companies to list in Australia. According to Report 807, in 2024, approximately 65% of public companies on the ASX had a market capitalisation of less than A$100 million, while only 14% had a market capitalisation exceeding A$1 billion. In other jurisdictions, smaller companies are more likely to seek funding from private markets or junior alternative markets, while the majority of companies listed on traditional public equity markets are much larger in size.

The IPO process in Australia takes approximately 20 weeks from the appointment of advisers. In contrast, estimates of the time for an IPO on the NYSE will generally take longer than five months (including an SEC review process that commonly takes between two-and-a-half and four months). In Australia, the first step is for a company to lodge the prospectus with us and the public market operator. While companies may discuss complex and unique issues with us before formal lodgement, we do not pre-vet prospectuses.

Once the prospectus is lodged with us, a seven-day exposure period begins. Based on risk, we selectively undertake detailed reviews of the content and presentation of prospectuses during the exposure period, which we may extend to 14 days if necessary.

The market may also ask the issuer questions during this time. Once the exposure period ends, the offer period begins. In Australia, mid-sized and large IPOs are typically priced using an institutional book-building process.

We are exploring opportunities with the ASX to refine the listing pathway and listing rules.

3.1.2 Secondary capital raisings on public equity markets

Aside from the ongoing governance requirements discussed in section 3.1.3, the regulatory settings for secondary capital raising have not been raised as a key concern for the health of Australia's public equity markets. Australia continues to have a strong secondary equity capital raising market, with the value of capital raised as a proportion of total market capitalisation ranking fifth among developed markets (ASX, ASX thrives with net new capital continuing to be added amid global IPO downturn, June 2024).

Secondary capital raising is supported by continuous disclosure obligations and listing rules, which enable public companies to conduct fast and efficient secondary capital raisings. Entities can raise up to 15% of their market capitalisation over 12 months without offering documents or gaining shareholder approval. Capital raisings can be completed quickly through institutional placements and accelerated entitlement offers. Accelerated offerings are typically paired with a retail offering, giving retail investors a pro-rata entitlement to purchase new shares on the same, or sometimes better, terms (that is, price and ratio) than institutional investors. These arrangements have been particularly valuable during times of stress, such as the global financial crisis and the pandemic, as they enable companies to raise equity capital quickly.

During the pandemic, the ASX and ASIC relaxed some capital-raising restrictions, such as increasing the limit for offerings without shareholder approval from 15% to 25%, to support capital raising. The high level of secondary equity capital raised in 2020 and 2021, compared to earlier years, indicates that the regulatory environment was conducive to public companies raising capital (see section 2.1 of Report 807). In 2024, A$23.3 billion was raised via secondary raisings on the ASX (Bloomberg).

Note: See ASX, Understanding capital raisings: ASX changes helping listed equities raise equity capital in volatile markets, 23 April 2020; ASIC, 20-075MR Facilitating capital raisings during COVID-19 period, 31 March 2020; and ASIC, 20-220MR ASIC extends COVID-19 relief for certain capital raisings and financial advice, 23 September 2020.

ASIC is working to prevent leaks that undermine market integrity and threaten the attractiveness of Australia's capital markets

Supervising the integrity of Australia's public equity markets is one of our most important functions. Though our public equity markets are among the cleanest in the world, we are constantly on the lookout for any misconduct. While we target leaks ahead of market announcements and insider trading, parties involved in public and private market transactions have a role to play in protecting their confidential information and reporting misconduct to us.

To avoid committing insider trading and breaching disclosure obligations, parties involved in transactions should consider whether their controls – policies, procedures, training and monitoring – are appropriate and meet legal and regulatory requirements. They should also carefully consider their handling of confidential information and conflicts to ensure they manage the risk of insider trading.

We continue to see media reporting ahead of fundraising, merger and takeover activities. Some securities have had trading halts after media articles divulged confidential information about deals. Announcements in the transaction space are often highly material and price sensitive.

Nevertheless, management of inside information does not only matter to public companies; it is also important for corporate and professional advisers, market intermediaries, fund managers and entities operating in private markets that handle information about public companies and their securities. These parties should also have the appropriate arrangements in place to identify and manage any confidential information they receive.

These types of leaks undermine market integrity and may negatively affect the value of securities, as well as the attractiveness of Australian markets as a place to raise capital and transact. This affects all Australians.

We actively target leaks and will take strong action to combat this poor practice. Companies, market intermediaries and fund managers should be part of the solution and hold their personnel and advisers accountable.

3.1.3 Disclosure and governance obligations of public companies

Private and public companies have different disclosure requirements and obligations. Some see this difference as a significant driver for raising capital in private markets or leaving the public market. In section 2, we touched on some of the concerns raised by stakeholders in this respect.

In Australia, fundamental governance obligations apply to all companies, regardless of whether they are public companies (as defined in the *Corporations Act*) or privately owned, such as directors' duties and obligations to keep books and records. Appropriate governance for a company is important regardless of whether it is public or private.

Particular types of companies, 'public companies' and 'large proprietary companies' must also lodge audited financial reports, which is a key transparency obligation that applies regardless of listing status. There are some accountability mechanisms that are triggered by widespread fundraising activity, rather than listing status (for example, unlisted disclosing entities have continuous disclosure obligations that can be met by providing information on their website). Similarly, there are governance obligations where the size or nature of the company, rather than its listing status, is determinative. For example, in 2024, legislation was passed requiring all companies exceeding a certain size to disclose information about climate-related risks, regardless of public or private company status.

The widespread ownership of public companies underpins the level of regulation regarding disclosure and governance to protect the interests of shareholders. This is important for building market confidence and introducing controls to mitigate the risk of the company running in the self-interest of the directors and executives who have day-to-day control.

Accordingly, for public companies, governance obligations are also embedded in the listing rules and set out in the ASX Corporate Governance principles (which apply on a 'if not, why not' basis to public companies on the ASX). The requirements that apply upon listing are generally consistently applied for Australian companies, although smaller ASX-listed companies are able to raise more equity capital without shareholder approval.

Discussion questions

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?
6. Do you agree that a sustained decline in the number, size or sectorial spread of listings would negatively impact the Australian economy? If so, can you suggest ways to mitigate any adverse effects that may arise from such changes?
7. To what extent are 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?

3.2 Private market risks and market efficiency and confidence

Regulation can help address features that may lead to market failures, such as information asymmetry coupled with conflicting interests between principals and agents. From a regulatory perspective, a fundamental issue concerning private markets is the extent to which regulation or investor negotiation should be relied on to promote the efficient operation of the market and investor interests. In other words, it raises the issue of the extent to which wholesale or institutional investors can protect their own interests and those of their underlying retail investors, such as members of superannuation funds.

Historically, in Australia access to private markets has been limited to wholesale investors, with some minor exceptions. As a consequence, these markets have been more lightly regulated, without the same investor protections as for retail investors. Our regulatory framework assumes that wholesale investors are in a better position to look after their own interests than retail investors. In Australia, a range of persons are classified as wholesale investors, from an individual who is identified by an Australian Financial Services (AFS) licensee as having sufficient investment experience to assess an investment offer, to a superannuation fund with an experienced professional investment team and billions of AUM.

Some of the key risks of investments in private capital funds include:

- opacity and unfair treatment of investors (for example, preferential redemption rights for some investors and misclassification of retail investors as wholesale investors)
- management of conflicts of interest (for example, misaligned incentives, related-party transactions and treatment of confidential information)
- valuation of illiquid assets (which impacts investment entry and exit prices, performance measurement and fees)
- vulnerabilities from leverage, and
- investment illiquidity (generally, private market investments cannot be realised quickly to meet an investor's liquidity needs).

Regulators also monitor risks to the broader financial system, including market integrity and financial stability.

Foreign regulators' examinations of conduct in private markets primarily focused on private capital funds have identified areas of concern that affect market confidence, particularly regarding market efficiency and the fair treatment of investors.

Private capital fund operators effectively act on behalf of underlying investors in realising value in the private market asset. However, they may have incentives that conflict with the interests of a fund's investors, or co-investors who are investing alongside them. The opacity of private markets can give fund managers significant informational advantages, to the potential detriment of investors.

In addition, the use of multi-layer structures and the reliance on advisers and service providers add complexity, making it difficult for investors to navigate risks associated with opacity, incentives and conflicts, and leverage. US regulators have been examining private capital funds for more than a decade and have a deep body of evidence that should be considered when evaluating potential risks in Australia.

UNITED STATES: THE SEC'S PRIVATE FUND EXAMINATION FINDINGS

Since 2012, the SEC has conducted examinations of the private fund industry. These examinations have led to findings and enforcement outcomes regarding practices and conduct that may pose significant risks and harm to investors.

The findings identify incentives and conflicts of interest associated with fees, performance measures, valuations, allocations and liquidity rights that are typically established in commercially agreed limited partnership agreements (LPAs). The SEC's published releases, which underpinned its 2023 Private Fund Advisor rules, that were overturned by a court of appeal in 2024 as beyond power, set out examination findings over previous years which can be summarised as follows (and are relevant to our consideration of private market risks):

Fees and expenses:

- LPAs inadequately disclosed fees and expenses to be borne by the fund, or fees and expenses were not charged consistently with the disclosures in the agreements, resulting in overcharging of the fund.
- Private fund managers continued to manage legacy funds beyond their expected lifespan to earn additional fees and expenses from them.
- Where LPAs disclosed certain valuation procedures or investment strategies, these procedures were not followed, resulting in inflated returns that incurred higher management and performance fees for the investor.
- The use of 'operating partners' who acted and looked like adviser employees and were paid by the operating companies or fund created an additional 'back door' fee to the fund that was not disclosed in the LPA.
- Poor governance and compliance arrangements were found where private capital funds had grown rapidly – particularly those operating with side-by-side co-investments – resulting in the inadequate allocation of expenses.

Performance, valuations and leverage:

- Inaccurate performance calculations in marketing documentation mislead new investors.
- Incentives in the private fund business model gave rise to conflicts of interest, such as private fund advisers not disclosing economic relationships with certain investors or third-party providers, or instructing the portfolio companies they controlled to hire the adviser, an affiliate or a preferred third party to provide certain services.
- LPAs inadequately disclosed valuation procedures, investment strategies and protocols for mitigating certain conflicts of interest, such as investment and co-investment allocations and preferential liquidity rights.

- The use of leverage in a portfolio was not accurately disclosed, which resulted in leverage levels exceeding the investment limitations to inflate returns.
- Conflicting valuation techniques were also found where comparable funds were cherry-picked to create a positive image of a fund, and valuation methodologies and calculations of earning before interest, tax, depreciation and amortisation were changed throughout the fund's life.

Other issues:

- The use of side letters favoured certain investors without considering impacts on other investors.
- Due diligence of underlying portfolio companies was not carried out in accordance with policies and procedures and/or there was a lack of policies and procedures for due diligence.

Note: See SEC, Spreading Sunshine in Private Equity, 6 May 2014; SEC, Observations From Examinations of Investment Advisers Managing Private Funds, 23 June 2020; SEC, Observations From Examinations of Private Fund Advisers, 27 January 2022; and SEC, Private Fund Adviser Reforms: Final Rules (undated fact sheet).

In Australia, persons who carry on a business of providing financial services are generally required to hold an AFS licence. This requirement applies to services relating to public and private market investments. Typically, operating a private capital fund, which is generally a managed investment scheme, involves providing a financial service under the *Corporations Act*.

Note: Exemptions from AFS licensing apply to certain foreign financial services providers that provide financial services to wholesale clients. See Part D of ***Doing financial services business in Australia*** (RG 121) for guidance on this and other exemptions from holding an AFS licence. Also, in some instances, wholesale fund managers may provide financial services as an authorised representatives of an AFS licensee – see AFS licensing requirement for trustees of unregistered managed investment schemes.

AFS licensees are required to provide financial services efficiently, honestly and fairly. They also need to comply with conflict management, competence and risk management obligations.

There are prohibitions and conduct obligations that are relevant to activities in private markets that may benefit investors regardless of whether an investor is retail or wholesale. These include conduct prohibitions in relation to financial products and services, as set out in Part 7.10 of the *Corporations Act*. Many of these prohibitions apply to all persons, whether or not they hold an AFS licence, and are not restricted to public market financial products and services.

We do not regulate the merits of transactions, as we understand that risk-taking is an important factor gaining investment returns. However, to fulfil our mandate, we recognise our responsibility to address conduct failures under existing regulatory tools where appropriate, including cases involving institutional investors.

Following are some risk areas where misaligned incentives and conflicts may have adverse outcomes for market efficiency and investor fairness in relation to private capital funds. The realisation of many of these risks can have significant financial impacts. Private capital fund managers and investors will have varying levels of risk maturity in relation to engaging with these risks. As private capital funds are generally illiquid and have long investment horizons, governance failures can have particularly serious consequences for investors. Like investment risks in all markets, an investor's capability in identifying, managing and mitigating the risks is important for investing success.

As mentioned above, private capital funds are not all the same and, in particular, the underlying asset class will influence their operation and the features attractive to investors. The focus of the discussion in this section is private equity and credit funds, though much of it is also applicable to private capital funds investing in infrastructure or property.

3.2.1 Fees and expenses risks

Private capital funds typically charge management fees of 1.5% to 2.5% of committed capital, and a 20% performance fee with a hurdle rate of 8%. It can be challenging for investors to monitor the extent to which private capital fund managers are extracting value from their role, which underscores the importance of appropriately managing conflicts of interest and fair treatment of investors.

Since fees are tied to performance, there are incentives for fund managers to provide misleading information about fund performance (see section 3.2.2). Additionally, there are risks associated with private capital fund managers focusing on activities that generate returns for the manager instead of prioritising investor enrichment, which can ultimately diminish investor returns. The SEC has identified issues with hidden fees in relation to private equity funds.

In addition to management and performance fees, it is also common for private equity fund managers to charge service fees to portfolio companies. These fees are typically opaque and the cost is ultimately borne by investors. Similar issues may arise in relation to the allocation of expenses to portfolio companies by private equity fund managers.

3.2.2 Performance information risks

The performance of private capital funds is more challenging to assess than that of managed funds that invest in public market assets, as it relies on information provided by fund managers.

This is significant for investors who rely on the fund manager's ability to make long-term decisions about private market investments. Fees are often largely based on performance, and institutional investors may have commercial and regulatory imperatives to report their own performance to their underlying investors, such as superannuation fund members.

A range of measures is commonly used to assess performance, including internal rate of return (IRR), public market equivalent (PME) and total value to paid-in capital. Each of these has its flaws. IRR, the most common performance measure, relies on assumptions about the reinvestment rate of the fund and can be influenced by strategies like subscription financing to introduce leverage. PME compares performance to a public market benchmark. This overcomes some of the limitations of IRR, but it is not always feasible to find a suitable benchmark. Furthermore, these measures are not adjusted for risk, which is important because private market assets tend to be less liquid and more leveraged, resulting in higher risk.

In June 2024, the CFA Institute's global membership survey identified the frequency, comparability and accuracy of performance measures as one of the three top concerns about the functioning of private markets.

Note: See CFA Institute, Private Markets: Governance Issues Rise to the Fore, June 2024. The other top concerns were the frequency and accuracy of valuation reporting, and the fairness and transparency of fees.

3.2.3 Valuation transparency and quality risks

Valuation-related risks are a concern in the context of private market growth. Investors face risks that may result from conflicts of interest and agency issues, poor governance and inadequate disclosure practices.

The lack of transparency in private market transactions poses valuation challenges for investors when making investment decisions, and challenges for others in the system, including regulators, when making judgments about system risks. Operators of private capital funds also sometimes charge fees based on unrealised valuations, particularly in infrastructure and property.

When a private asset changes hands, potential investors conduct detailed due diligence. However, it may be difficult for investors to validate information provided by private companies. Additionally, the bidding process is typically closed and opaque.

Note: Recently overturned SEC rules had sought to address conflicts of interest associated with private fund advisers providing information on a preferential basis to investors. For a summary of the coverage of these rules see further: 2023 SEC Private Fund Advisor Rules Chart.

It is important to have an accurate understanding of valuations throughout the period the private asset is held for ongoing portfolio and risk management within investor portfolios. For example, if a large investor bases their strategic decisions about portfolio allocations on inaccurate valuations, their investment strategy will be compromised, or if unit pricing is based on inaccurate valuations, managed fund investors may not be treated fairly.

Report 807 discusses a range of issues with valuations. The lack of a consistent and transparent price discovery process for private market assets means that, throughout the period the asset is held, reliance is placed on infrequent (usually monthly or quarterly) valuations based on expert opinion. Fundamentally, these valuations seek to estimate the trading price for the asset under current market conditions. Often, experts use a range of valuation approaches, including relying on public market multiples. For some private market assets, there will not be readily observable inputs, so there is complexity and subjectivity in ascribing a value. There is a risk that governance arrangements put in place to ensure the quality of valuations may not be sufficiently robust or that robust arrangements are promised but not followed. As discussed in Report 807, the complexity and opacity of some private market fund structures, especially those with multi-layered fund arrangements, can create substantial valuation risks for the end investors. Some market practitioners have expressed concerns about the quality of private asset valuations and whether they are sufficiently responsive to changes in market conditions evidenced by downward movements in the public market. Concerns have also been raised about the increased use of secondary and continuation funds and the asset valuations used to enter and exit private market investments.

Confidence in valuations is particularly acute when private assets experience distress. Robust valuation practices are important to ensure fair treatment of both private equity investors and private credit investors, as their interests may diverge significantly when decisions about debt for equity conversions arise. The harmful potential consequences of this scenario are exacerbated by concentration – for example, in a stress event that drives a concentrated group of holders of different assets in the same asset class to sell at the same point in time.

3.2.4 Leverage risks

Company directors have highlighted to us that private companies have a substantially bigger appetite for leverage than public companies. This can contribute to higher returns but also generate higher risk. Private capital funds can also embed leverage in an investment structure to generate higher returns, which further increases risk.

While not always highly leveraged themselves, private credit funds tend to engage with highly leveraged borrowers.

It is important for investors to understand the different risk profiles associated with private companies and investment structures when comparing the performance of public and private companies. With interest rates no longer at the historically low levels that previously fuelled the rapid growth of private markets, high leverage could negatively affect private market investments. This is due to the increased costs of existing borrowings and the potential for defaults on debt. Additionally, if high leverage leads to company failure, the consequences may extend beyond just the investors who provided equity and debt, impacting the larger community.

Further, if the leverage itself is provided by private credit there may be unanticipated correlations in the likelihood of distress and in the challenges in responding to it. With the AUM of private equity and private credit funds at historic high levels, there is also no reliable data or precedent for forecasting how these interwoven tiers of private investment and leverage would perform and respond in a large-scale industry stress or 'workout' situation.

ACADEMIC RESEARCH ON PRIVATE EQUITY FIRMS' USE OF LEVERAGE

Kaplan and Stromberg, in 'Leveraged Buyouts and Private Equity' (*Journal of Economic Perspectives, 2009*, 23 (1):121–46), identify three sets of changes that private equity funds make to their leveraged buyout portfolio companies: financial, governance and operational engineering. Increasing leverage is one of the key financial changes made to portfolio companies. Leverage imposes discipline on management and potentially increases firm value through the tax deductibility of interest. However, excess leverage can increase the likelihood of financial distress.

Axelson et al., in 'Borrow Cheap, Buy High? The Determinants of Leverage and Pricing in Buyouts' (*The Journal of the American Finance Association, 2013*, 68(6): 2223–2267), show that the level of debt used by private equity firms is unrelated to the cross-sectional factors that drive public firm leverage, such as industry, the tangibility of assets, and the volatility of cash flows. Instead, debt level is driven by market-wide economic conditions. They find evidence in favour of private equity firms using 'cheap' debt to take levered bets on firms, with leveraging peaking during 'hot' credit market conditions. This contributes to boom-and-bust cycles in private equity (Kaplan and Stromberg, 'Leveraged Buyouts and Private Equity', *Journal of Economic Perspectives, 2009,* 23 (1):121–46).

The authors also examine how the availability and cost of credit affect purchase prices. They find purchase prices are strongly, but negatively, related to current interest rates. This effect has two potential explanations:

- private equity funds are particularly proficient at arbitraging cheap debt against equity, or
- agency problems exist between private equity sponsors and their investors.

To clarify these possible explanations, the authors examined the association between leverage and fund performance. They found that the leverage of the deals in a particular fund is negatively related to the return of that fund (measured relative to returns on public stock markets). This result is consistent with an agency story where private equity funds overpay for deals when leverage is cheap.

3.2.5 Other risks associated with conflicts of interest and information asymmetries

The impacts of conflicts of interest and information asymmetries is a consistent theme in the above discussion. A particular issue to highlight is that complex investment structures may exacerbate these risks in ways that are difficult to identify.

This can manifest in preferential treatment of particular investors in ways that are not visible to other investors. For instance, the SEC identified instances of preferential treatment in allocations and redemptions.

Furthermore, to address information opacity, investors in private market assets often rely on advisers or service providers to assist them with their investment decisions. These third parties may have incentives that do not align with investors' interests, which could be exploited and result in investor detriment.

> Discussion questions
>
> 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?
> 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.
> 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?

3.3 Retail investor participation in private markets

When examining the evolution of capital markets, it is important to consider how changes affect opportunities for retail investors to create wealth. Many jurisdictions around the world are exploring ways to facilitate retail investors' access to private markets (see Appendix 2). They seek to balance increased access with investor protections to overcome information asymmetries and reduce the risk of harm in a market where smaller investors hold less bargaining power and terms are typically bilaterally negotiated.

In Australia, retail investors often gain access to private markets by:

- holding an interest in a managed investment scheme, or
- being a member of an APRA-regulated superannuation fund that maintains exposure to private assets.

Further access routes that are less widespread are also discussed in section 2.2.3.

For retail investors, the illiquidity of private market investments is a key risk. Even when an investment is designed to provide an ongoing return, such as private credit, investor expectations may not be met.

As described above, retail investors face risks relating to misaligned incentives and conflicts of interest on the part of managers of retail private capital funds and superannuation funds, or other parties involved in the investment process. They may be subject to inflated fees or expenses, or misleading information on performance or inappropriate valuations that benefit people other than investors or members. If managers of retail private capital funds and superannuation funds do not carefully manage these risks, investors and members may suffer significant harm.

While ASIC has regulatory responsibility for managed investment schemes, APRA and ASIC both have regulatory remits in relation to APRA-regulated superannuation funds, as discussed above.

3.3.1 Retail access to private markets via interests in managed investment schemes

Additional regulatory requirements apply when private capital funds are offered to retail investors. The following key statutory protections apply to retail investors who invest in private markets through a registered managed investment scheme (note that registration is generally required when retail clients are scheme members):

- protections under Ch 5C of the *Corporations Act* that apply to registered schemes, including the duty for the responsible entity of a registered scheme to act in the best interests of scheme members and to treat members of the same class equally or those from different classes fairly
- the design and distribution obligations in Pt 7.8A of the *Corporations Act*
- various obligations for AFS licensees (as responsible entities of registered schemes, responsible entities must hold an AFS licence), such as providing financial services efficiently, honestly and fairly; having adequate risk management systems and an internal dispute resolution system to deal with complaints; and being a member of the Australian Financial Complaints Authority, and
- entitlements to receive financial product and service information disclosures, such as product disclosure statements or financial services guides.

Misclassifying retail investors as wholesale clients would risk denying those fund investors the rights and protections required by law. Some of these address risks relevant to private market assets – for example, the obligation to ensure scheme property is valued at regular intervals appropriate to the nature of the property.

Accountability and governance requirements also apply, such as the requirement that audited financial reports of registered schemes be lodged each year and that compliance audits be undertaken. Our submission to the review of the regulatory framework for managed investment schemes sets out our views on its limitations.

Due to the limited reporting requirements for private capital funds – whether retail or wholesale – it is difficult to estimate the value and nature of retail investors' exposure to these funds.

Note: See *Review of the regulatory framework for managed investment schemes: Submission by Australian Securities and Investments Commission*, September 2023.

As private markets grow, we are seeing retail investors being increasingly provided access to private asset investments through private capital focused funds or indirectly through another fund, such as a diversified managed investment scheme or superannuation fund. This access is enabled through the following:

- Lowering investment thresholds: To enable direct retail access, as stated above, some private capital funds have reduced the minimum buy-in to as little as A$2,000.
- Investment platforms: Private capital funds may be distributed to retail investors through investment platforms, including those offered by superannuation funds.

Like superannuation funds, retail investors rely heavily on the competence of the fund manager.

For instance, in the case of private credit funds, the fund manager must make a credit assessment and price accordingly. They must also ensure that the underlying loan document has the appropriate covenants to protect the fund's position, and take steps to realise value when a borrower is unable to service the loan.

3.3.2 Indirect retail access to private markets via APRA-regulated superannuation funds

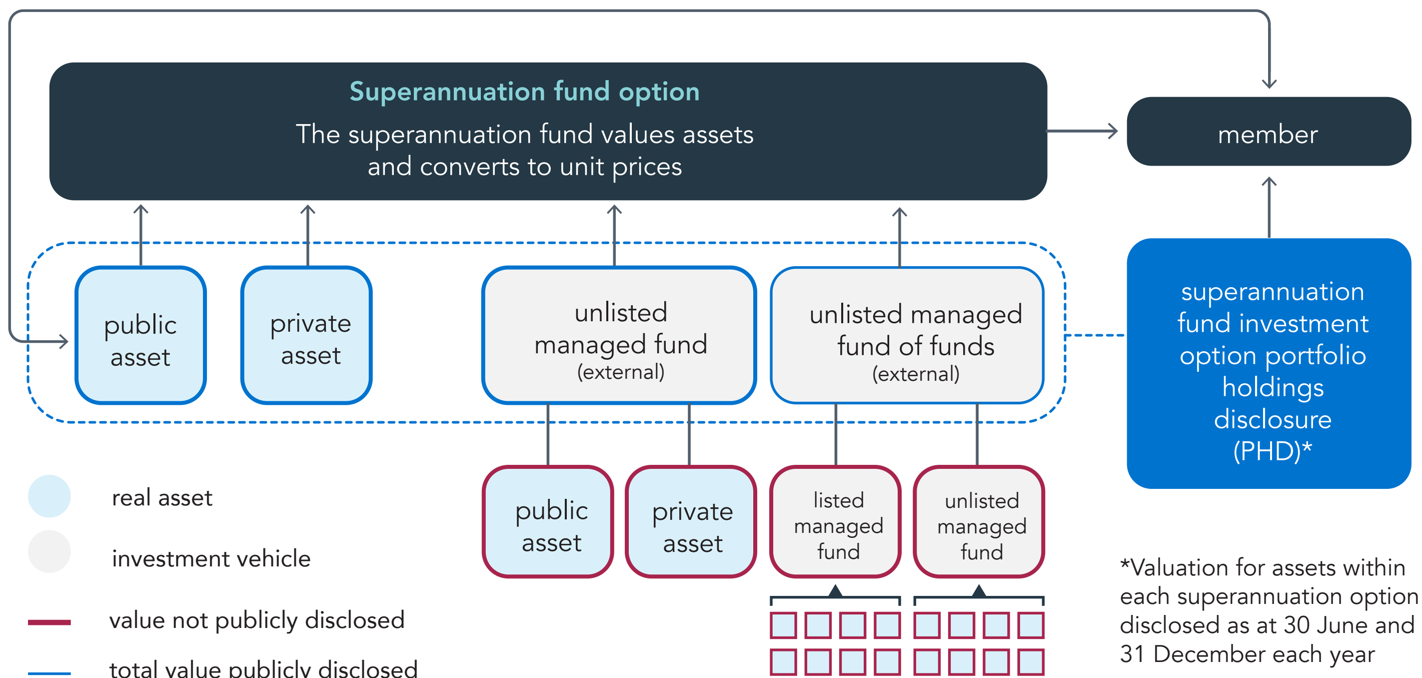
Millions of Australians hold private market assets indirectly through investments in their superannuation fund. This provides Australians with exposure to diversified long-term investment opportunities managed by professional investment teams that are not readily available to retail investors. The Australian superannuation system operates primarily as a defined contribution system. Therefore, it relies heavily on the investment expertise of superannuation trustees to deliver the right outcomes for members.

Section 52 of the *Superannuation Industry (Supervision) Act 1993* sets out the general requirements for trustees of superannuation funds to perform their duties and exercise their powers in the best financial interests of fund members.These obligations are supplemented by further obligations and APRA prudential standards concerning investment governance and risk management.

Retail investors' exposure to private assets in their superannuation funds varies considerably depending on their investment options. Private asset exposure is common for the MySuper (balanced) option. The MySuper option applies automatically when members do not select an option during the accumulation phase, and are structured with a balanced asset allocation that usually includes an allocation to private assets.

Superannuation funds can invest directly in private assets, or via an external fund manager. Risk and return and investment case for each investment will differ and in making decisions about investments superannuation funds will need to consider expertise and operational capability. For instance, in some instances, the end investment is intermediated via a number of funds, making it complex to understand the end investment's performance and value without appropriate arrangements in place with external parties (see Figure 8). APRA has had considerable focus on investment governance practices of superannuation funds over recent years.

Figure 8: Example of valuations of private assets backing superannuation options



Valuation and liquidity practices of APRA-regulated superannuation funds

APRA's recent work on unlisted asset valuation and liquidity management recognises that superannuation funds need to draw on timely and reliable information on asset values when making investment decisions, and calculating unit prices and returns on investment assets.

Note: See APRA, 'Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation', December 2024; and 'APRA review highlights the need for improved valuation and liquidity risk governance in superannuation', December 2024.

In undertaking valuations, superannuation funds' processes need to be appropriate, having regard to the asset that is valued and the need to treat members equitably. Valuations are important for ensuring fairness among investors in defined contribution superannuation funds. While superannuation funds have a long investment horizon, they generally allow for people to enter or exit the fund or adjust their investment options daily. Portability regulations require that requests to transfer to another fund be processed within three business days. Consequently, funds provide daily pricing for each investment option to enable members to enter or exit specific portfolios.

It is also necessary for funds to maintain sufficient liquidity to meet withdrawals from the fund. The valuation of public market assets held by a fund is more straightforward as they are able to be marked to market for daily pricing.

Private market assets are valued infrequently and may be sourced from layers of fund managers who may be influenced by misaligned incentives, potentially resulting in a mismatch between the price a member receives and the fair value of an asset at the time. This may lead to the inequitable treatment of members (as on any particular day where members are switching options, some will benefit from an inaccurate valuation and others will suffer) and have adverse impacts on their superannuation fund balances. Superannuation funds are expected to have arrangements to address these risks.

Superannuation funds provide retail investors with both exposure to private assets and liquidity. Strong liquidity risk management by superannuation funds, particularly in times of market stress, is important to meet portability obligations and pension payments.

Valuation and liquidity risk management practices continue to be a focus area for APRA in relation to superannuation funds.

In comparison, different problems present for investors who invest directly in illiquid private capital funds, as they are unable to exit a fund until assets are sold and funds are returned to investors.

Discussion questions

11. What is the size of current and likely future exposures of retail investors to private markets?
12. What additional benefits and risks arise from retail investor participation in private markets?
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)?

3.4 Transparency and monitoring of the financial system

Data transparency helps regulators supervise conduct to support market integrity and confidence. Data also helps regulators monitor the broader financial system to identify ways to improve efficiency and address potential systemic risks. Insufficient market visibility can have serious consequences – for instance, it is identified as having contributed to the global financial crisis.

CFR agencies work together to promote the stability of the Australian system and support effective and efficient regulation.

Regulatory agencies have good insights into public equity markets and bank lending which, among other things, assists us in promoting market integrity. There has been a focus on improving the transparency of superannuation funds, which has included APRA undertaking a multi-year project to upgrade the breadth, depth and quality of the superannuation data collection (Superannuation Data Transformation project) and the implementation of portfolio holding disclosure obligations.

In contrast, regulatory agencies have limited insights into private markets. Complete, better quality and more timely data on private markets is needed to support policy development and to supervise the sector. Data limitations mean that regulatory agencies do not have sufficient visibility across the private funds sector to effectively monitor developments and proactively target supervisory work.

Particular challenges arise as data may be widely dispersed across jurisdictions.

Much of private market activity in Australia is intermediated by private capital funds. Therefore, one way to gain insight into private markets is to obtain information about those funds. Some data on private funds is available from regulatory disclosures and third-party data providers, but these data sources have significant limitations, as described below.

- Information required to be provided to ASIC about registered managed investment schemes, such as audited financial reports, is not timely or granular, and periodic disclosures on fund websites are not standardised.
- Information about unregistered (wholesale) funds is very limited as these funds do not need to be registered with ASIC, or provide audited financial reports to ASIC. We do not receive information about the number of these funds or their AUM.
- Third-party sources do not provide a complete picture that industry or regulatory agencies can rely on. Our experience is that many sources rely on surveys and voluntary data from fund managers. This means that the data is prone to particular biases, as certain types of private fund managers are less likely to participate.
- The Australian Bureau of Statistics publishes some data on managed funds (in tables 9 and 23 of National Accounts: Finance and Wealth), but this is high-level data.

In our response to the Treasury's review of the regulatory framework for managed investment schemes, we recommended introducing a legislative framework for the recurrent collection of data on managed investment schemes. Data that could be collected, based on information fund managers already track for their day-to-day operations, include: the number of managed investment schemes, and the value of their AUM; investment flows, asset allocations, liquidity and cross-investments between managed investment schemes; distributions to investors, and the sources of those distributions (for example, income or capital); performance information, including data specific to asset classes (for example, arrears rates for private credit funds), and the use of leverage through borrowing and derivatives.

Note: See *Review of the regulatory framework for managed investment schemes:* Submission by Australian Securities and Investments Commission, September 2023.

Regulatory reporting obligations for private funds lags behind global regulatory best practices. For example, the United States, Europe, the United Kingdom and New Zealand all regularly collect data about their fund management sectors to better inform regulators.

These enhancements to our evidence base would support policymakers and regulators in improving the financial system's performance, supervising regulated entities and monitoring financial stability risks. Making this data publicly available would also improve consumer and industry outcomes and competition by providing clear, current and accurate information for making investment and commercial decisions.

This discussion paper touches on many factors that are beyond ASIC's control or remit. We are working with CFR agencies on them. For context, Figure 9 outlines some of the CFR agencies' projects that are relevant to private markets in 2024 and 2025. There is also ongoing cross-agency collaboration on developments such as growth in non-bank lending, investment in commercial real estate and the use of over-the-counter (OTC) derivatives.

Figure 9: CFR agency projects with a connection to private markets

What are other Australian regulators doing?

Australian Prudential Regulation Authority

2024: Supervisory review and findings about superannuation trustees' governance of unlisted asset valuation governance and liquidity risk management

2025: System stress testing for contagion risks

Reserve Bank of Australia

2024: Bulletin article on the growth of private equity

2024: Bulletin article on the growth of private credit

Treasury

2023: Review of the regulatory framework for management investment schemes

2024: Future made in Australia plan

CFR

Annual: Review of non-bank financial intermediation (included private credit in 2024)

Discussion questions

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?

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?

Providing feedback

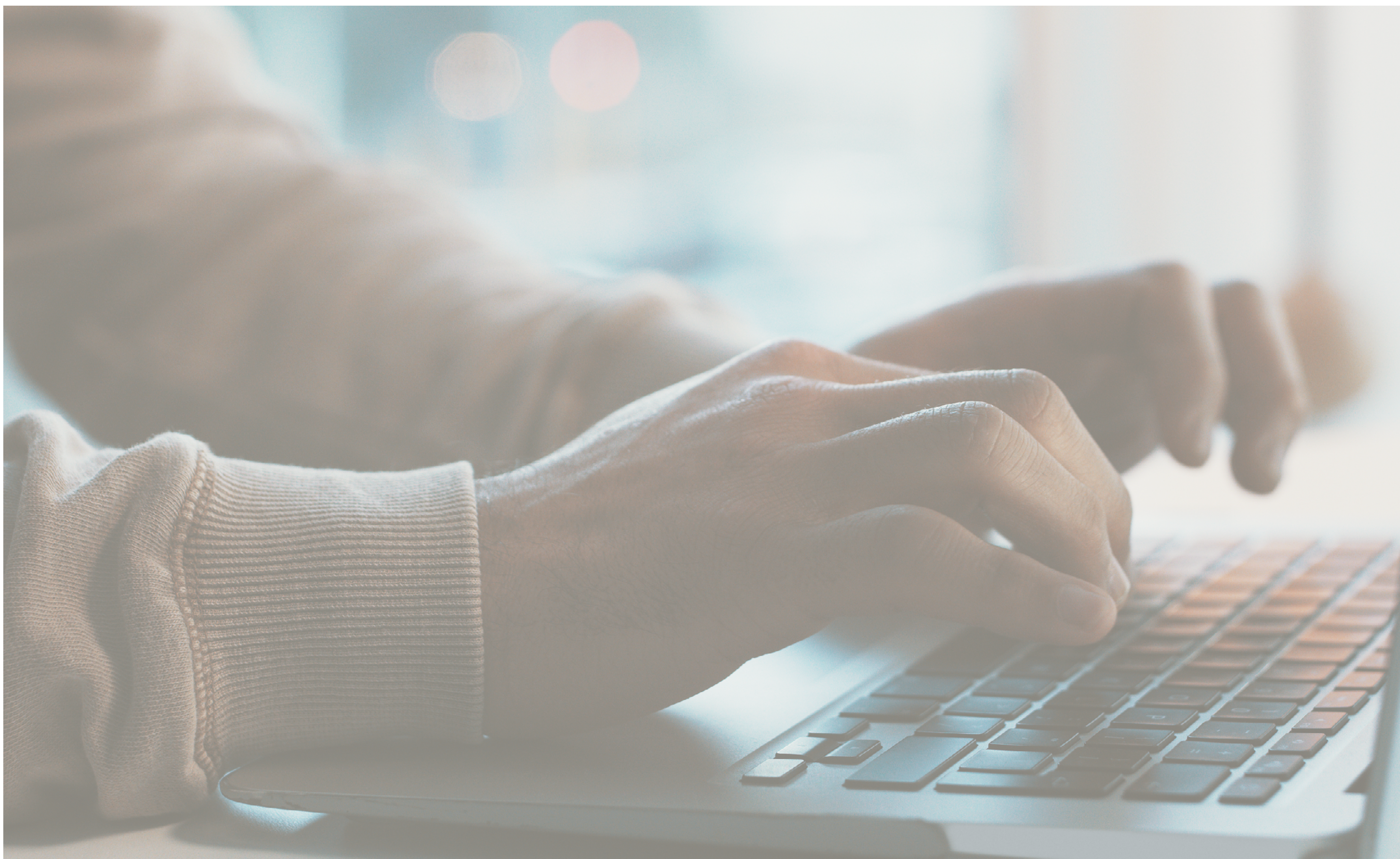
To provide feedback on any or all of the discussion questions, send your submission to markets.consultation@asic.gov.au by 5pm on 28 April 2025.

You may choose to remain anonymous or use an alias. However, if you remain anonymous, we will not be able to contact you to discuss your feedback should we need to.

We will not treat your feedback or any information you provide (such as personal or financial information) as confidential unless you specifically request that we do so.

Please see our privacy policy for more information on how we handle personal information, your right to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

We will use your feedback in our ongoing work, and we expect to communicate publicly about responses to the discussion questions in the second half of 2025. We will also engage in a series of roundtables ahead of this to promote productive discussion on issues.



Appendix 1: Discussion questions

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.
2. Do you have any additional insights into the attraction of private markets as an issuer or an investor?
3. In what ways are public and private markets likely to converge?
4. What developments in public or private markets require regulatory focus in Australia in the future?

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?
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?
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?

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?
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.
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?

Retail investor participation in private markets

11. What is the size of current and likely future exposures of retail investors to private markets?
12. What additional benefits and risks arise from retail investor participation in private markets?
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)?

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?
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?

Appendix 2: Key global regulatory responses to changing public and private markets

UNITED STATES

Facilitating access to private markets

In its December 2024 meeting, the SEC's Investment Advisory Committee included a panel discussion entitled 'Mainstreaming of Alternative Assets to Retail Investors'. The panel members discussed retail investors' access to private markets, including improving access.

Note: See SEC, Investor Advisory Committee Meeting Agenda, 10 December 2024.

The Nasdaq Private Market has allowed the trading of private company shares since 2013.

Note: See Nasdaq Private Market, Q&A with Nasdaq Private Market on Secondary Sales of Private Company Stock.

Promoting public markets

In December 2023, the SEC approved an amendment to an NYSE rule to allow listed companies to raise capital from existing security holders without shareholder approval. This facilitates capital raising by listed companies.

Note: See SEC, SEC Release No. 34-99238, 26 December 2023.

In a 2021 speech, SEC Commissioner Allison Herren Lee highlighted efforts to encourage companies to go public, generally by reducing reporting obligations. Examples included Final Rule, Rel. No. 33-10513, which made smaller reporting company status (with fewer disclosure requirements) available to more registrants.

Note: See SEC, Going Dark: The Growth of Private Markets and the Impact on Investors and the Economy, 12 October 2021.

In 2018, the SEC approved new listing rules relating to the Nasdaq Global Select Market and changes to the NYSE listing standards to facilitate the direct listing of a company's shares without conducting an IPO.

Note: See NYSE, NYSE Regulation: Rule Filings.

Increasing transparency and oversight of private markets

In 2023, the SEC introduced rules requiring private funds to disclose quarterly information on areas including fees, performance, earnings and separate agreements with large investors. However, these were overturned by the US Court of Appeals for the Fifth Circuit in 2024.

Note: See National Association of Private Fund Managers and Others v Securities and Exchange Commission, United States Court of Appeals for the Fifth Circuit, filed 5 June 2024.

UNITED KINGDOM: FINANCIAL CONDUCT AUTHORITY

Promoting public markets

In June 2024, the FCA published simplified listings rules. One of the aims was to remove disincentives for prospective issuers to choose UK listing, and to remove frictions to growth once listed. Changes include:

- removing historical financial information, revenue earning track record and clean working capital statement requirements, which were conditions for listing
- reducing the free float from 25% to 10% and enhancing voting rights, supporting founders and pre-IPO investors to preserve control and ownership of companies.

Note: See FCA, FCA overhauls listing rules to boost growth and innovation on UK stock markets, 11 July 2024; FCA Primary Markets Effectiveness Review: Feedback to CP23/31 and final UK Listing Rules, July 2024.

Increasing transparency and oversight of private markets

In 2023, the FCA announced the launch of a review of how investment funds value private assets, examining personal accountabilities for valuation practices in firms, governance of valuation committees, the information reported to Boards about valuations and Board oversight. These reviews commenced in 2024.

Note: See FCA, Portfolio Letter: Our Asset Management & Alternatives Supervisory Strategy – interim update, March 2024. See also the Chair of the FCA's speech The drive for data in Non-Bank Financial Intermediation (NBFI), 16 May 2023.

EUROPEAN UNION

Promoting public markets

In October 2024, the Council of the EU adopted the Listing Act to make the EU's public capital markets more attractive for EU companies and facilitate the listing of companies on European stock exchanges.

The act streamlines the rules for listing on EU public markets, simplifying the process by alleviating administrative requirements and costs, and balancing these against the need for transparency, investor protection and market integrity.

It also aims to counter the fragmentation of national laws that restrict the flexibility of companies to issue multiple-vote shares when going public.

Note: See European Council of the European Union, Listings on European stock exchanges: Council adopts the listing act, 8 October 2024.

In 2024, the European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, published its position paper 'Building more effective and attractive capital markets in the EU'.

Key relevant recommendations include:

- ensuring a balanced and conducive ecosystem for listed public companies (Recommendation 12), with a focus on helping to build a supportive ecosystem for listed companies and guiding companies navigating the listing process
- the European Commission continuing to evaluate the balance between regulatory obligations on public and private companies
- the European Commission, member states and national competent authorities avoiding disincentives that may discourage companies from listing, such as new disclosure or conduct requirements that cannot be justified from an investor protection point of view.

Facilitating access to private markets

Another recommendation ESMA made in its 2024 position paper was Recommendation 9: Stimulating equity funding to support innovation and growth. In addition to strengthening equity finance culture, this recommendation highlights the importance of supporting the growth of funding options beyond public markets, including crowdfunding, venture capital and private equity.

Note: See ESMA, Building More Effective and Attractive Capital Markets in the EU: Position Paper, 2024.

EUROPEAN UNION (CONTINUED)

In Europe, European Long-Term Investment Funds (ELTIFs) invest in private market investments in companies and projects that need long-term capital. An amended regulation concerning ELTIFs – ELTIF 2.0 – was published in 2023. ELTIF 2.0 eliminates previously high investment thresholds and liquidity restrictions, making private assets more accessible. Lower minimum investments may attract retail investors. ELTIF 2.0 also allows for the launch of evergreen funds, which have more liquidity windows. This enables investors to withdraw money or invest more frequently, and there are no waiting periods for capital calls.

Note: See Regulation (EU) 2023/606, Official Journal of the European Union, March 2023; and European Commission, Delegated Regulation C(2024)4991, 19 July 2024.

Increasing protections, transparency and oversight of private markets: Enhancements to monitoring the financial system

In February 2024, the Council of the EU adopted new rules to strengthen investor protections and capital markets, amending the alternative investment fund managers directive (governing private market funds, including private equity and private debt).

Key changes include:

- requirements for fund managers regarding liquidity management tools to respond to significant outflows and market turbulence
- an EU framework for loan-originating funds, with several requirements to alleviate risks to financial stability and protect investors
- measures to identify undue costs that could be charged to funds and therefore investors
- improved data sharing and cooperation between authorities. As emphasised by the European Parliament and the Council of the EU, this supports market monitoring by supervisory authorities.

Note: See European Council of the European Union, Capital markets union: Council adopts new rules on alternative investment fund managers and plain-vanilla EU investment funds, 26 February 2024.

In 2023, the European Commission adopted a Retail Investment Strategy to protect retail investors and provide better access to relevant, comparable and easily understandable information.

Note: See European Commission, Retail investment strategy, 24 May 2023.

CANADA

Promoting public markets

In 2024, the Toronto Stock Exchange announced a proposal to change listing requirements to improve transparency and reduce complexity. These requirements affect industrial, mining and energy companies.

Note: See Toronto Stock Exchange, Request for feedback regarding proposed amendments to original listing requirements, 24 June 2024.

Facilitating access to private markets

In October 2024, the Ontario Securities Commission released a consultation paper 'Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures'. The paper seeks feedback from stakeholders on a new category for an Ontario public investment fund that invests long-term illiquid assets.

Note: See Ontario Securities Commission, Opportunity to Improve Retail Investor Access to Long-Term Assets through Investment Fund Product Structures, Consultation Paper, October 2024.

NEW ZEALAND

In December 2024, New Zealand's Minister of Commerce and Consumer Affairs announced capital market reforms. Additional reforms are planned for the longer term.

Promoting public markets

One reform aims to reduce the costs and barriers faced by companies listed or listing on NZX, New Zealand's stock exchange. It will remove requirements for companies raising capital to provide prospective financial information (PFI), instead making this voluntary. PFI is forward-looking financial information for the following two financial years complying with accounting standards.

New Zealand currently requires issuers to include PFI in product disclosure statements to retail investors in an IPO.

Facilitating access to private markets

A second reform will make it easier for funds in KiwiSaver, a voluntary, work-based retirement savings scheme, to invest in private assets, such as infrastructure projects and New Zealand businesses.

Note: See Ministry of Business, Innovation and Employment, 2024-25 Capital Markets Reforms, and Ministry of Business, Innovation and Employment, Enabling KiwiSaver investment in private assets: Discussion document, December 2024.

HONG KONG

Promoting public markets

In recent years, the Securities and Futures Commission of Hong Kong and the Stock Exchange of Hong Kong Limited (the Exchange) have focused on enhancing the application process for new listings by improving guidance for applicants and providing more clarity and transparency on the application process. The Exchange consolidated all guidance materials into one Guide for New Listing Applicants.

In October 2024, it announced an enhanced timeframe for the new listing application process (the Enhanced Application Timeframe initiative) to increase Hong Kong's attractiveness for listing.

Note: See HKEX, Joint Statement on Enhanced Timeframe for New Listing Application Process, 18 October 2024.

SINGAPORE

Promoting public markets

In 2024, the Monetary Authority of Singapore (MAS) announced a review group had been established to recommend measures to strengthen equities market development. The review group has two workstreams:

- Enterprise and Markets: to address market challenges, foster an increase in listings and help revitalise markets
- Regulatory: enhancing Singapore's regulatory regime to facilitate market growth and boost investor confidence.

Singapore's government has also set up cornerstone funds to support IPOs of high-growth companies, and has introduced corporate structures and share classes to facilitate such listings.

Following the review, on 21 February 2025, MAS announced the first set of measures to strengthen the competitiveness of Singapore's equities market were published with a focus on increasing investor demand and improving attractiveness for quality listings (supply).

Note: See Monetary Authority of Singapore, MAS Sets Up Review Group to Strengthen Equities Market Development, 2 August 2024, and Monetary Authority of Singapore, A comprehensive set of measures to strengthen Singapore's equities market, 21 February 2025.

In 2021, the MAS announced the following initiatives:

- the introduction of a co-investment fund, Anchor Fund @ 65, to help high-growth enterprises raise capital through public listings
- the establishment of the Growth IPO Fund, to help late-stage private enterprises that are two or more funding rounds away from a public listing to grow and prepare for listing
- enhancements to the Grant for Equity Market Singapore scheme to support companies seeking to list in Singapore.

Note: See Monetary Authority of Singapore, Boosting Equity Financing for High-Growth Enterprises, 17 September 2021.

Facilitating access to private markets

In 2017, the MAS revised regulations and simplified its regime to facilitate venture capital fund managers in providing capital to start-ups.

At a keynote speech delivered in September 2024, the Deputy Prime Minister and Minister for Trade and Industry, and Chairman of the Monetary Authority of Singapore, Gan Kim Yong, reaffirmed the importance of, and Singapore's commitment to, private markets. He emphasised Singapore's continued commitment to:

- maintaining a conducive environment to attract companies and private equity managers
- offering fund structures and investment platforms to reduce costs and improve efficiency for investors and fund managers.

Note: See Monetary Authority of Singapore, How Private Markets Can Underwrite Asia's Growth Story - Keynote Speech by Mr Gan Kim Yong, Deputy Prime Minister and Minister for Trade and Industry, and Chairman of the Monetary Authority of Singapore, 25 September 2024, and Monetary Authority of Singapore, MAS simplifies rules for managers of venture capital funds to facilitate start-ups' access to capital, 20 October 2017.

Appendix 3: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying data for the figures in this discussion paper.

Figure 6: Increase in value of assets held by superannuation funds (2014 to 2024)

Date	APRA-regulated superannuation funds	Superannuation trustees	APRA-regulated superannuation fund assets
Sep-14	249	**165**	$1,141,200,000
Dec-14	249	**164**	$1,183,600,000
Mar-15	248	**161**	$1,262,800,000
Jun-15	242	**155**	$1,246,200,000
Sep-15	242	**154**	$1,233,400,000
Dec-15	234	**148**	$1,257,000,000
Mar-16	233	**148**	$1,249,600,000
Jun-16	225	**144**	$1,292,300,000
Sep-16	225	**144**	$1,330,400,000
Dec-16	225	**142**	$1,367,300,000
Mar-17	211	**139**	$1,570,200,000
Jun-17	208	**138**	$1,616,700,000
Sep-17	206	**134**	$1,637,200,000
Dec-17	205	**133**	$1,698,500,000
Mar-18	205	**132**	$1,701,800,000
Jun-18	193	**130**	$1,774,200,000
Sep-18	193	**127**	$1,807,900,000
Dec-18	190	**120**	$1,736,400,000
Mar-19	190	**117**	$1,836,100,000
Jun-19	190	**114**	$1,925,400,000
Sep-19	178	**113**	$1,970,000,000
Dec-19	172	**110**	$2,003,700,000
Mar-20	171	**107**	$1,852,200,000
Jun-20	165	**107**	$1,930,200,000
Sep-20	166	**105**	$1,953,700,000
Dec-20	166	**104**	$2,064,100,000
Mar-21	154	**102**	$2,131,900,000

Date	APRA-regulated superannuation funds	Superannuation trustees	APRA-regulated superannuation fund assets
Jun-21	145	**95**	$2,266,200,000
Sep-21	146	**90**	$2,324,200,000
Dec-21	145	**89**	$2,375,200,000
Mar-22	145	**90**	$ 2,337,200,000
Jun-22	119	**86**	$2,243,600,000
Sep-22	121	**86**	$2,239,600,000
Dec-22	117	**82**	$2,300,700,000
Mar-23	117	**82**	$2,392,600,000
Jun-23	117	**78**	$2,452,500,000
Sep-23	106	**73**	$2,459,200,000
Dec-23	104	**71**	$2,558,300,000
Mar-24	98	**70**	$2,692,100,000
Jun-24	95	**68**	$2,721,400,000
Sep-24	95	**64**	$2,829,700,000

Figure 7: Proportion of APRA-regulated superannuation fund assets invested in domestic and international public equities (September 2014 to September 2024)

Date	Australian listed equity (S1) (%)	International listed equity (S1) (%)	Australian listed equity (S2) (%)	International listed equity (S2) (%)
01/09/2014	24	21	N/A	N/A
01/12/2014	24	22	N/A	N/A
01/03/2015	24	22	N/A	N/A
01/06/2015	23	23	N/A	N/A
01/09/2015	22	22	N/A	N/A
01/12/2015	24	22	N/A	N/A
01/03/2016	23	21	N/A	N/A
01/06/2016	22	22	N/A	N/A
01/09/2016	23	22	N/A	N/A
01/12/2016	23	22	N/A	N/A
01/03/2017	24	23	N/A	N/A

Date	Australian listed equity (S1) (%)	International listed equity (S1) (%)	Australian listed equity (S2) (%)	International listed equity (S2) (%)
01/06/2017	23	23	N/A	N/A
01/09/2017	23	24	N/A	N/A
01/12/2017	23	24	N/A	N/A
01/03/2018	23	24	N/A	N/A
01/06/2018	23	24	N/A	N/A
01/09/2018	23	25	N/A	N/A
01/12/2018	22	23	N/A	N/A
01/03/2019	22	24	N/A	N/A
01/06/2019	22	24	N/A	N/A
01/09/2019	22	25	N/A	N/A
01/12/2019	22	25	N/A	N/A
01/03/2020	19	24	N/A	N/A
01/06/2020	21	24	N/A	N/A
01/09/2020	21	25	N/A	N/A
01/12/2020	23	26	N/A	N/A
01/03/2021	23	27	N/A	N/A
01/06/2021	23	28	N/A	N/A
01/09/2021	23	28	N/A	N/A
01/12/2021	23	29	N/A	N/A
01/03/2022	24	27	N/A	N/A
01/06/2022	22	26	21	25
01/09/2022	22	25	21	25
01/12/2022	22	26	22	25
01/03/2023	22	27	22	26
01/06/2023	22	27	22	27
01/09/2023	22	26	22	27
01/12/2024	N/A	N/A	23	27
01/03/2024	N/A	N/A	23	29
01/06/2024	N/A	N/A	24	29
01/09/2024	N/A	N/A	24	30

Key terms

Key term	Definition
AFS licence	Australian financial services licence
APRA	Australian Prudential Regulation Authority
ASX	ASX Limited or the exchange operated by the ASX Limited
AUM	assets under management
capital market	A market for the issuance and secondary trading of debt and equity capital on public or private markets
Corporations Act 2001	The primary law that regulates financial services and capital markets in Australia
ETF	exchange-traded fund
dry powder	Uninvested/undeployed capital that an entity, such as a private market fund, has available to deploy should suitable investment opportunities arise
FCA	Financial Conduct Authority of the United Kingdom
internal rate of return (IRR)	The projected compound annual rate of return on an investment
IPO	initial public offering
large proprietary company	A company, including its controlled entities, that satisfies two of the following three criteria: has consolidated annual revenue of A$50 million or more, consolidated gross assets valued at A$25 million or more, and 100 or more employees
LIC	listed investment company
listed entity	An entity admitted to the official list of a public equity market
LIT	listed investment trust
NYSE	New York Stock Exchange
over-the-counter (OTC) market	A market in which transactions in equity and debt securities are bilaterally negotiated and may be facilitated by a market platform or intermediary
private capital fund	A managed fund that raises and commingles money from investors (which may be supplemented with debt capital) to invest in private market assets that are not traded on public markets. May take the form of a private equity fund, a private credit fund, a private infrastructure fund or a private property fund
private company	A company that is not listed, and its securities are not available to trade on a public exchange
private credit	A source of bilaterally negotiated debt capital finance for businesses that is not traded on public debt markets and is typically arranged by non-banks as an alternative to bank lending and public debt market finance. Also known as private debt
private equity	Equity interest in a company or business that is not a public company
private market	A market that is not a public market

Key term	Definition
private market asset	An asset that is not able to be traded on a public market
public company	A company that is listed, and its securities are able to be trade on a public exchange
public debt market	A listed or over-the-counter market in which companies, trusts, financial institutions (including banks) and governments raise debt capital by issuing debt securities (for example, bonds, floating rate notes, term securitisation notes from convertible notes, and hybrid securities) or a market in which these securities are able to be traded
public equity market	A public market on which the equity securities of public companies are able to be traded
public market	A financial market in which companies, managed funds and trusts raise capital by issuing equity or debt securities, debt instruments or hybrid instruments that are listed or traded on a public exchange or public debt over-the-counter market. Includes public equity markets and public debt markets
RBA	Reserve Bank of Australia
REIT	real estate investment trust
SEC	United States Securities and Exchange Commission
SMSF	self-managed superannuation fund
superannuation fund	An APRA-regulated superannuation fund, save where the context in this paper requires otherwise
superannuation trustee	A a person who is licensed as a RSE licensee under the *Superannuation Industry (Supervision) Act 1993*
take private	When a public company is acquired by an entity such as a private equity firm, and the company is removed or delisted from the public equity market
wholesale investor	A person who is considered a wholesale investor or wholesale client for the purposes of tests set out in Chapter 6D and section 761G of the *Corporations Act*

Source information for 'Size and nominal growth of Australian public markets, private capital funds and superannuation in the last decade' (p13)

Sources: Value of entities admitted to the ASX's official list and number of listed equity issuers: ASX Historical market statistics as at 31 December 2024.

Value of IPOs: Morningstar DatAnalysis.

Value of debt markets: RBA, Statistical Tables as at 30 November 2024.

Australian adult population holdings in public market investments as at November 2022: ASX Australian Investor Study 2023.

Private Markets: Preqin as at 31 March 2024, Australia-focused private capital fund assets.

Value of the superannuation system: APRA as at 30 September 2024, 20241127 Quarterly superannuation performance statistics - September 2004 to September 2024.

Number of APRA-regulated accounts as at September 2024: Quarterly Superannuation Industry publication APRA - Quarterly Superannuation Industry Publication 12 December 2024.

Note: In this dataset the value of listed entities includes both domestic and foreign entities for 2024, but only domestic equities for 2014. Part of the increase in the value of ASX-listed entities from 2014 to 2024 reflects a change in methodology to include foreign entities. The number of listed equity issuers reported by the ASX is the total number of domestic and foreign equity issuers, including all entities comprising a stapled group. The value of IPOs includes all IPOs on the ASX (including those seeking a secondary listing on the ASX) and demergers with capital raising; however, it does not include reverse takeovers. The year 2014 included two large fundraisings – Medibank IPO ($5.5 billion) and Scentre Group demerger and listing ($3.5 billion).

ASIC has utilised Morningstar DatAnalysis in the Snapshot to include the value of capital raised by foreign entities in our domestic market and capital raised via demergers and re-listing (e.g. Scentre Group), which are excluded in Figure 3.

Bonds are typically traded OTC between institutional investors, and individual retail and sophisticated investor access is intermediated.

The APRA-regulated fund value of ASX market capitalisation is based on the aggregate asset allocations to Australian listed equities, property and infrastructure reported in APRA's Quarterly Fund Level Statistics as at 30 September 2024: Quarterly Fund-Level Statistics.

Related information

ASIC documents

REP 786 *Equity market cleanliness snapshot report*

REP 787 *Review of Australian equity market cleanliness: 1 November 2018 to 30 April 2024*

Review of the regulatory framework for managed investment schemes: Submission by ASIC, September 2023

24-184MR ASIC expands strategic priorities for coming 12 months

ASIC's priorities for the supervision of market intermediaries in 2024–25

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