

China Beijing International High-Tech Expo (CHITEC) – China Financial Summit 2018

## Capital Market Development, Insights on the Economic Context and Australia's Policy on Stock Market Listings

ALEX ERSKINE

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[ALEX@ERSKINOMICS.COM](mailto:ALEX@ERSKINOMICS.COM)

BEIJING PEOPLES REPUBLIC  
OF CHINA

China Beijing International High-Tech Expo (CHITEC) – China Financial Summit 2018

## Alex Erskine (alex@erskinomics.com)

**Former** Chief Economist, Australian Securities and  
Investments Commission – 2007-2013

### **Previously**

Citibank economist and strategic planner

- In Asia for the Asian Financial Crisis – 1995-1998
- In Australia for “the recession we had to have” – 1986-1994

Economist in Australian central govt and central bank – 1970s-  
1986

### **Now**

Consultant on financial integration and on illicit financial flows

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## The constant tension in finance

### In practice ...

Cycles & crises

Hyman Minsky

Warren Buffett

### ... but in theory ...

Smooth marginal  
moves

Efficient Markets  
Hypothesis

Rational expectations

Policy to justify stable outcomes and access to & supply of finance;  
prudential standards and market integrity to provide confidence

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## Market integrity / fairness the focus for securities regulation

1. No market abuse activities: insider trading, market manipulation or front running.
2. Market access for all who wish to participate.
3. Transparent and accurate information about the price of securities available to all at the same time.
4. Accurate information about issuers of securities available to all at the same time.

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# 1. Capital Market Development

- DEBT AND EQUITY VITAL TO ECONOMIC DEVELOPMENT
- WHICH LEADS OR LAGS DEPENDS ON COUNTRY CONTEXT
- BIG OPPORTUNITIES FOR INTERNATIONAL INTEGRATION

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## Opportunities for revitalising Asia-Pacific financial integration

### TRADE AND INVESTMENT

Trans Pacific Partnership (TPP) somewhat derailed

Regional Comprehensive Economic Partnership (RCEP) still under negotiation

Both need more ambition and determination to deliver

### FINANCIAL INTEGRATION

Many advanced-country banks have been withdrawing

“Home bias” still dominates portfolio investment

Attempts to create channels for funds management cross-border trade so far limited

ETFs may provide a way forward

More companies could list abroad

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## 2. Insights on the Economic Context

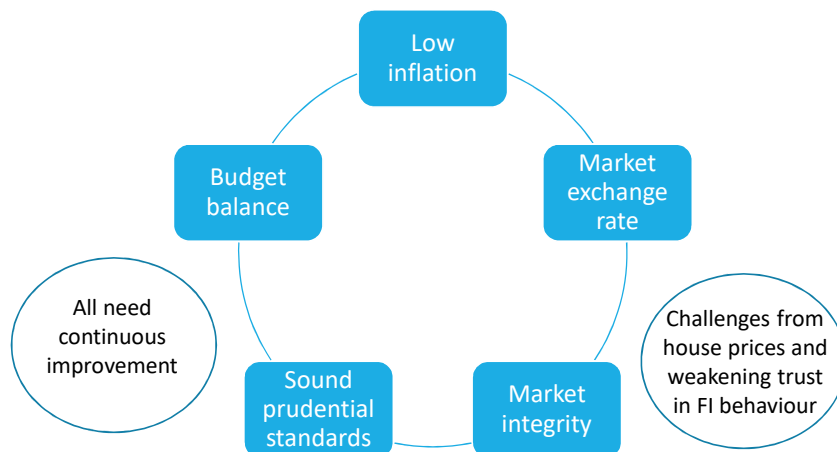
- RECOVERY FROM GFC “MINSKY MOMENT” NEAR ITS END
- TRADE WAR RISK/REALITY?
- CHALLENGES TO AUSTRALIA’S POLICY SUCCESS

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### Foundations of Australia’s successful policy framework: 25+ years of growth



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# 3. Australia's Policies on Stock Market Listing

REQUIREMENTS HAVE BEEN TIGHTENING FOR FOREIGN ISSUERS:

- AUSTRALIAN SECURITIES EXCHANGE (ASX)
- AUSTRALIAN SECURITIES & INVESTMENTS COMMISSION (ASIC)

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## Australia is attractive\*

1 A\$ = US\$0.75

Steady growth, low inflation and flexible exchange rate

Also NSX & SSX

ASX A\$1.9tr market capitalisation;  
2014 domestic & 137 foreign stocks;  
A\$1.5tr p.a. turnover, 45% foreign investors

Superannuation A\$2.5tr pool of investable funds

Market integrity & high prudential standards

\* Though, of course, "past performance is not a reliable indicator of future performance"

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## ASX's listing rules for foreign issuers

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Foreign Incorporated Companies listing under the profits or assets tests

<p><u>Profits test</u> Consolidated profit of A\$0.5mn+</p>	<p><u>Assets test</u> Net tangible assets of A\$4m+, <u>or</u> Market capitalisation of A\$15m+ Audited accounts for 2 or 2½ years+ Working capital of A\$1.5mn+</p>
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Minimum “free float”: 20%+ of shares, i.e. not restricted securities or subject to voluntary escrow arrangements or held by non-affiliated security holders

Spread test: at least 300 non-affiliated security holders who each hold securities worth AU\$2,000 (or more)

Foreign Exempt Listing if listed on acceptable foreign exchange and market capitalisation of A\$2bn+ or NTA of A\$2bn+

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## Once listed, many market integrity obligations ....

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<p><u>ASX</u></p> <p>ASX Listing Rules and Guidance Notes</p> <p>All interlocking</p> <p>Focus on continuous disclosure requirements</p> <p>Do get professional advice for your specific circumstances</p>	<p><u>ASIC</u></p> <p>REPORT 521 Further review of emerging market issuers April 2017</p> <p>Concerns: corporate governance, internal controls &amp; risk management systems, complex ownership &amp; contractual arrangements, reliance on key individuals outside Australia, ability of company or auditors to verify information, gatekeepers, etc.</p> <p>Strategy: focus on confident and informed investors and financial consumers &amp; fair and efficient financial markets</p>
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Thank you and best wishes

Happy to take questions

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