

While our principal business is providing capital raising, execution and advisory services in relation to exchange listed and traded securities we would like to make a submission in relation to the Wholesale Client Thresholds.

We would caution Treasury when considering changes to the Wholesale Client Thresholds in relation to Managed Investment Schemes in isolation, because these tests are prescribed by the Corporations Act and their application within the whole financial services industry is very far reaching, and a change to the Thresholds for Managed Investment Schemes would potentially have very significant unintended consequences.

At the outset, we answer Consultation Questions 1 to 4 as follows;

1. Should the financial threshold for the *product value test* be increased? If so, increased to what value and why?

The financial threshold for the *product value test* should not be increased

2. Should the financial thresholds for the net assets and/or gross income in the *individual wealth test* be increased? If so, increased to what value and why?

The financial thresholds for the net assets and/or gross income in the *individual wealth test* should not be increased, subject to them being accompanied by an appropriate Suitability Process, as detailed below, having regard to the very significant changes in the financial services Regulatory Landscape over the last two decades. Also, it is felt that the investor can be more effectively protected by placing the responsibility on the financial services licensee rather than utilise levels of individual wealth to alone determine access to the wholesale sector of the market in financial products.

3. Should certain assets be excluded when determining an individual's net assets for the purposes of the individual wealth test? If so, which assets and why?

It is not necessary to exclude any of an individual's net assets for the purpose of the wealth test, as the exclusion like the level of the individual's net assets or gross income itself is too imprecise to qualify for access to the wholesale market in financial products and is not an appropriate substitute for assessing Suitability in accordance with the assessment criteria contained in the Corporations Act.

4. If consent requirements were to be introduced:

(a) How could these be designed to ensure investors understand the consequences of being considered a wholesale Client?

Bell Potter Securities existing Suitability Process, which is outlined below, entails an initial Application by the Client to be classified as a Wholesale Client, an Explanation of the classification and the identification of Grounds for the Suitability of the classification. if the Application is accessed and accepted by Bell Potter Securities the Client is provided with written advice to this effect together with a copy of the aforementioned documentation.

(b) Should the same consent requirements be introduced for each wholesale client test (or revised in the case of the sophisticated investor test) in Chapter 7 of the Corporations Act? If not, why not?

Just the Sophisticated Investor test in Chapter 7

Bell Potter Securities' Suitability Process;

With regard to the Suitability Process for classifying a Client as a Wholesale Client on the basis of satisfying the Sophisticated Investor financial Thresholds for net assets and/or gross income in the individual wealth test, we attach Bell Potter Securities Application for Classification as a Wholesale Client on the basis of being a Sophisticated Investor. The following should be noted from the document;

1. at Bell Potter Securities it is an Application from the Client that initiates the process to classify a Client as a Wholesale Client,
2. the first document is a Letter to the Client introducing the Client to the classification process,
3. next, we provide an Explanatory Statement on the Classification of the Client as a Wholesale Client,
4. the Qualified Accountant's Certificate of Net Assets/Gross Income contain foot notes detailing the statutory basis for the Certificate and Bell Potter Securities Company Policy in relation to the provision of advice to Wholesale Clients.
5. Experience in Investing in Securities Certificate, which utilises the words of s.708 (10) of the Corporations Act, namely ".....*assess the merits of the offer, the value of the securities, the risks involved in accepting the offer, (the client's) information needs, and the adequacy of the information provided (to the client),*
6. Bell Potter Securities must be satisfied that the Client has the Experience to make the Assessments mentioned in the previous point.
7. In addition , the Client is asked to make a similar self-assessment,
8. The various details on which the aforementioned Assessments can be made are as follows;
 - i. an equities portfolio of significant value,
 - ii. a significant number of years operating an equities account with an ASX Participant or a Participant of another recognised exchange listed securities market, including any period operating an account with Bell Potter Securities.
 - iii. a significant number of equity transactions over the period of operating an equities account.
 - iv. subscription to a significant number of Initial Public Offerings.
 - v. holding a tertiary academic and/or professional financial qualification.
 - vi. employment in an executive managerial position with financial responsibility.
 - vii. other reasonable grounds for having experience in investing in Securities which enables assessment of the merits, value , risks involved, information needs and the adequacy of the information provided.(a successful application can meet some, and is not required to meet all, of the above grounds)
9. The Client is provided with a Warning that it will no longer benefit from the Corporations Act protections of Retail Clients
10. Finally, the Client signs the Application.
11. After consideration of all of the preceding steps Bell Potter Securities will make a decision, whether or not, to accept the Client's Application to be classified as a Wholesale Client.

Changes in the Financial Services Regulatory Landscape:

Over the last ten years there has been a very significant change in the regulatory landscape surrounding the provision of financial services in Australia. The statutory general obligations of financial services licensees have been revitalised by the attachment of very large maximum penalties for a breach of those obligations. Licensee breach reporting obligations have been lifted considerably. The “*efficiently, honestly and fairly*” general obligation is being given an increasingly broad interpretation and hence application. Also, AFCA determines investor complaints against financial service providers based on the level of the alleged financial loss and compensation claim and not the differentiation of the type of client making the claim. The increased obligations of both Licensee and their Advice Providers in relation to Retail Clients has rubbed off on the nature of the service provided to all private clients whether they be classified as retail or wholesale.

Responsibility of the Financial Services Licensee:

It is fairly obvious that the securities investor is better protected by relying on the statutory, regulatory and legal (common law) obligations of the financial services licensee who provides the financial service to the investor rather than classifying the investor’s suitability for a particular level/kind of investment based on a level of individual wealth because suitability for an investment and level of wealth do not correlate.

Lewis Bell
Director of Compliance

APPLICATION FOR CLASSIFICATION AS A WHOLESALE CLIENT

On the basis of being a Sophisticated Investor

**Bell Potter
Securities Limited**

Stockbrokers, Providers of Scaled
Exchange Traded Securities
Advisory, Execution, Clearing &
Settlement Services.

Australian Financial Services
Licence No. 243480
ABN 25 006 390 772

Market, Clearing and Settlement
Participant of the ASX and a
Trading Participant of Cboe, NSX
& IR Plus.

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EXPLANATION OF THE CLASSIFICATION OF A CLIENT AS A WHOLESALE CLIENT

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Equity Capital Raisings

The Stock Exchanges are the principal portals for the raising of public capital and Stockbrokers man those portals.

When Companies first list on a Stock Exchange they invariably conduct an equity capital raising by way of an Initial Public Offering (IPO).

Accordingly, the traditional capital raising practice is to conduct the initial capital raising pursuant to a Prospectus, or other disclosure document, which is lodged and reviewed by ASIC in conjunction with the Exchange listing of those securities.

In addition, Exchange listed Companies can raise equity capital by means of either an Entitlement Offer (also known as a Rights Issue), a Public Placement, with or without a Share Purchase Plan (SPP), or a Dividend Reinvestment Plan (DRP).

While in the past capital raisings by a new entity commenced with an Exchange Listing of the entities securities and an Initial Public Offering of those securities pursuant to a Prospectus, new entities with the intention of having their securities Exchange Listed in the near future can undertake pre-IPO capital raisings. This is, obviously, even more of a speculative investment opportunity than an IPO capital raising in conjunction with an Exchange Listing.

Public Placements

Public Placements are an increasingly common capital raising practice by Exchange Listed companies, which doesn't entail the issue of a disclosure document, and as a result are only available to Wholesale Investors. The Public Placement is one of the quickest and cheapest ways for an Exchange Listed company to raise further capital as the issuing company is not required to prepare and lodge a Prospectus with ASIC.

A Public Placement refers to an Exchange Listed Company issuing new shares to a group of public investors.

Public Placements require only limited documentation - only a Cleansing Statement, whereas an Entitlement Offer Booklet is required for an Entitlement Offer and a DRP Booklet is required for a Dividend Reinvestment Plan.

This limited documentation enables

Public Placements to be conducted in a very short time (often within 24 business hours) compared to the longer time frame required to execute an Entitlement Offer and the even longer time frame required to execute a Dividend Reinvestment Plan.

Exchange Listed companies can be attracted to the very short time to execute a Public Placement. Speed of execution of such a Placement is a significant advantage in volatile market conditions, particularly when the Placement is to fund an acquisition which has already been priced to the Exchange Listed company.

While there is no limit to the quantum of an Entitlement Offer, Placements are limited to 15% of the issued capital of the issuing company without shareholder approval, which was temporarily lifted to 25% on account of COVID.

The other limitation of Public Placements is, of course, that they can only be made to Wholesale Investors.

Pricing of Public Placements

The price at which Public Placements are made will usually be at a discount to the prevailing market price of the stock being placed. The purpose of the discount is to encourage a quick execution of the Public Placement for the reasons stated above. An Issuer would rate a Placement executed at a relatively modest discount as a good Placement. It would be extremely rare for a Placement to be executed at a premium to the prevailing market price, and if it were it would more likely be a Private Placement.

While Investors may seek discounted entry prices through participating in Public Placements, they need to recognise the risk of the previous market price not being maintained in the short term as it is possible the Placement might lead to a price decline as a result of an increase of the shares on issue without a commensurate increase in earnings per new share of the issuing company. The significance of the discount in the long term depends on how effectively the issuing company deploys the additional capital raised from the Public Placement.

Requirements of the Issuer Making a Placement

The requirements that have to be satisfied by the Issuer in making a Public Placement are limited to each subscribing investor qualifying as being a Wholesale Investor either on the basis of being a Sophisticated Investor or as a Professional Investor in accordance with the requirements of s.708 of the Corporations Act; compliance with the requirements of the ASX Listing Rules in particular, not issuing more than 15% of its capital in any 12 month period (or any temporary lift in such percentage); considering whether a trading halt is required whilst the issuing company is implementing the capital raising and complying with the Exchange's continuous disclosure obligations.

While there are limits on the percentage of a Company's capital that can be raised by way of Placement without shareholder approval (pre Covid it was 15% but was lifted to 25% in April 2020 as part of the emergency measures to facilitate capital raisings) and a particular capital raising by Placement can exceed these limits if they are undertaken in tranches, one without shareholder approval and one with shareholder approval.

Significance of Public Placements

Equity Capital Raisings are comprised of primary and secondary raisings. Primary raisings are Initial Public Offerings known as IPOs while Secondary Capital Raisings consist of Public Placements, Entitlement Offers and Other Capital Raisings, which include Calls, Dividend Re-investment Plans and Share Purchase Plans. Recent annual statistics for Secondary Capital Raisings are as follows:

	2017	2018	2019	2020	2021
Total A\$B	37.4	42.2	45.9	66.0	61.1
Placements	18.0	16.3	25.4	40.5	34.8
Entitlement offers	9.2	18.2	38.1	12.5	15.4
Other	10.2	7.7	12.4	13.0	11.0

Over the 3 years 2019-2021 Public Placements have accounted for between 51% and 61% of Total Secondary Capital Raisings.

EXPLANATION OF THE CLASSIFICATION OF A CLIENT AS A WHOLESALE CLIENT

BELL POTTER

Renewal Every 2 Years

The classification of Private Client as a Wholesale Client on the basis of the Client being a Sophisticated Investor Client needs to be renewed every 2 years by the production of both a fresh Qualified Accountants Certificate of Net Assets/Gross Income and an Experience in Investing in Securities Certificate, which Bell Potter Securities Ltd will remind Wholesale Clients of in advance of the expiry of their Wholesale Client classification.

On-selling the Placement Shares

On-sale of Placement Shares within 12 months would usually require the issue of a Prospectus. However there are exceptions in the Corporations Act to allow the on-sale by a Client of the shares taken up in the Placement provided the class of the offer shares was quoted continuously for 3 months before the issue of the offer shares; trading in the class of the offer shares was not suspended for more than 5 days during the shorter of (1) the period that the class of shares has been quoted; and (2) the last 12 months before the date of issue of the offer shares; the issuing company has given a Cleansing Notice to the ASX within 5 business days after the issue of the offer shares (and before the securities are able to be sold on the market) – the Cleansing Notice must state that the issuing company issued the shares without disclosure to investors, the notice is given under s.708A(5)(e) of the Corporations Act and as at the date of the notice the issuing company has complied with its financial reporting obligations under Chapter 2M and its continuous disclosure obligations under s.674 of the Corporations Act, The cleansing notice must also include any 'excluded information' that has not previously been disclosed to the Market because of the exceptions to the continuous disclosure obligations in the ASX Listing Rules.

Conclusion

In conclusion, Bell Potter Securities Ltd confirms that the classification of the Client's Account as a Wholesale Account has been effected at the informed election of the Client and will entail the Client foregoing the Corporations Act protections available to a Retail Client in relation to capital raisings by means

of the availability of a Prospectus, which has been lodged with ASIC, as well as the statutory protections available to Retail Clients in relation to advice provided pertaining to those capital raisings and generally in relation to advice provided in relation to the exchange listed securities markets and for the Wholesale Client to rely on the protections of the Common Law and Bell Potter Securities Company Policy.

Restoration of Retail Client Status

Importantly, all Bell Potter Securities Private Clients have the option to remain classified as a Retail Client, or after being classified as a Wholesale Client to revert to being classified as a Retail Client, providing prior written notice is provided to Bell Potter Securities, the receipt of which has been confirmed in writing by Bell Potter Securities.

EXPERIENCE IN INVESTING IN SECURITIES CERTIFICATE

BELL POTTER

TO BELL POTTER SECURITIES LIMITED, AUSTRALIAN FINANCIAL SERVICES LICENSEE NO 243480

PURSUANT TO CORPORATIONS ACT SECTIONS 708(8)(c) – OFFERS THAT DO NOT NEED DISCLOSURE AND 761G (7)(c) – MEANING OF RETAIL AND WHOLESALE CLIENT FOR THE PROVISION OF FINANCIAL PRODUCTS AND SERVICES.

Name of Individual or Company

Account No.

Name of Account (or accounts) if different from the name of the individual or company proprietor

Bell Potter Securities Limited must be satisfied on reasonable grounds that the Individual or Company who is the subject of this Certificate of Experience in Investing in Securities has the experience that allows the Individual or Company to assess the merits, value, risks involved, information needs and the adequacy of information provided in relation to offers or recommendations of securities made to the Individual or Company on behalf of Bell Potter Securities Limited.

I CERTIFY that the above Individual or Company has experience in investing in securities that allows the Individual/Company to assess the merits, value, risks involved, information needs and the adequacy of the information provided in relation to securities that may be offered or recommended to me/us by Bell Potter Securities Limited having regard to the following:

Tick as appropriate and provide details of reasonable grounds for having Experience in Investing in Securities.

An equities portfolio of significant value

Details (required)

A significant number of years operating an equities account with an ASX Participant or a participant of another recognised exchange listed securities market, including any period operating an account with Bell Potter Securities Limited

Details (required)

A significant number of equity transactions over the period of operating an equities account as aforesaid

Details (required)

Subscription to a significant number of Initial Public Offerings

Details (required)

Holding tertiary academic and/or professional financial qualifications

Details (required)

Employment in an executive managerial position with financial responsibility

Details (required)

Other reasonable grounds for having Experience in Investing in Securities which enable the person to assess the merits, value, risks involved, information needs and the adequacy of the information provided

Details (required)

WARNING:

Upon acceptance of the attached Qualified Accountants Certificate of Net Assets/Gross Income, and following an assessment of the Experience In Investing responses provided, should Bell Potter classify the above accounts as Wholesale, I acknowledge receipt of the warning that I will no longer benefit from the Corporations Act protections available to Retail Clients and I will have to rely on the Common Law and Bell Potter Securities Limited's own Company Policy in relation to any areas covered by the Corporations Act Retail Client protections.

Signature of Proprietor of the Account

Print Name

Date

To be applied to all accounts in the name of or controlled by, the individual or company named above.