CFA Society Australia

Consultation response: Australia's evolving capital markets

CFA Society Australia and CFA Institute welcome ASIC's discussion paper and consultation on public and private markets. As part of a global network of investment professionals, we see this consultation as a timely opportunity to consider how Australia's capital markets can continue to serve the needs of issuers and investors effectively. The growth and complexity of private markets worldwide make it increasingly important to ensure regulatory settings keep pace. We support ASIC's focus on promoting market transparency and integrity, as well as a regulatory environment that fosters investor confidence and a well-functioning system for raising capital.

We are pleased to share information on current and planned research relevant to this topic, including the published papers listed below:

1. Private markets governance issues (2024)
2. Capital formation: the evolving role of public and private markets (2018)
3. Capital formation: investing pension contributions in private markets (2020)

Our responses to the discussion questions follow.

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.*

Global trends continue to shape Australian capital markets. While Australia has led in areas like REITs and superannuation, it often adopts innovations developed overseas. IPO activity is now at a 20-year low, as more companies turn to private capital for its speed and flexibility. At the same time, interest is growing in digital assets, including cryptocurrencies and decentralised finance. These technologies may be taken up quickly but not always with full consideration of long-term risks. How crypto is deployed in Australia could have real consequences for market integrity and investor protection. These shifts point to the need for regulation that can adapt quickly without compromising trust.

The massive liquidity injections following the 2008 global financial crisis led to an influx of capital seeking investment opportunities and motivated investors to turn to private markets, which were perceived to offer superior returns and risk diversification. However, it remains uncertain whether the favourable conditions of the past decade or two will persist. Since interest rates began rising in 2022 amid inflationary pressures, private equity has entered a bear market, marked by declines in both volume and value of deals and exits. Despite these challenges, private markets may still offer value due to their ability to adapt and capitalise on new opportunities, especially those with strong operational strategies or diversified portfolios. With geopolitical tensions and trade protectionism on the rise, new risks are emerging and the factors that drove the growth of private market assets may change.

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

Private markets can provide access to long-duration, real asset-heavy investments, for example, infrastructure and real estate. These alternative asset classes do not always receive strong representation in listed markets. They tend to generate relatively steady income and align well with long-term investment strategies. Valuations are not marked to market daily, which can reduce reported volatility at the portfolio level. Another factor is how private companies operate: management teams are typically not under the same pressure to meet short-term earnings expectations, allowing for a more deliberate, long-term focus. Taken together, these features give investors a different set of tools for building a diversified portfolio compared to using public market investments alone. There is also no question that the lower regulatory hurdles associated with unlisted markets coupled with the larger level of assets that can be accessed through these markets have made them relatively more attractive than public markets to raise capital.

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

In Australia, the line between public and private markets is becoming less clear. Superannuation funds now commonly hold both listed equities and unlisted assets. For example, AustralianSuper and Australian Retirement Trust, allocate approximately 22% to private markets (as of February 2025). Using both private and public assets can improve diversification and offer access to different risk and return profiles. It also introduces a range of liquidity and exit options, which can help manage long-term obligations. For retail investors, newer fund structures now include private assets that were previously unavailable to them. While this provides opportunities, it adds complexity, especially around pricing, disclosure, and liquidity. As these products become more popular, it is important that investor protections and reporting standards keep pace with the speed of change.

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

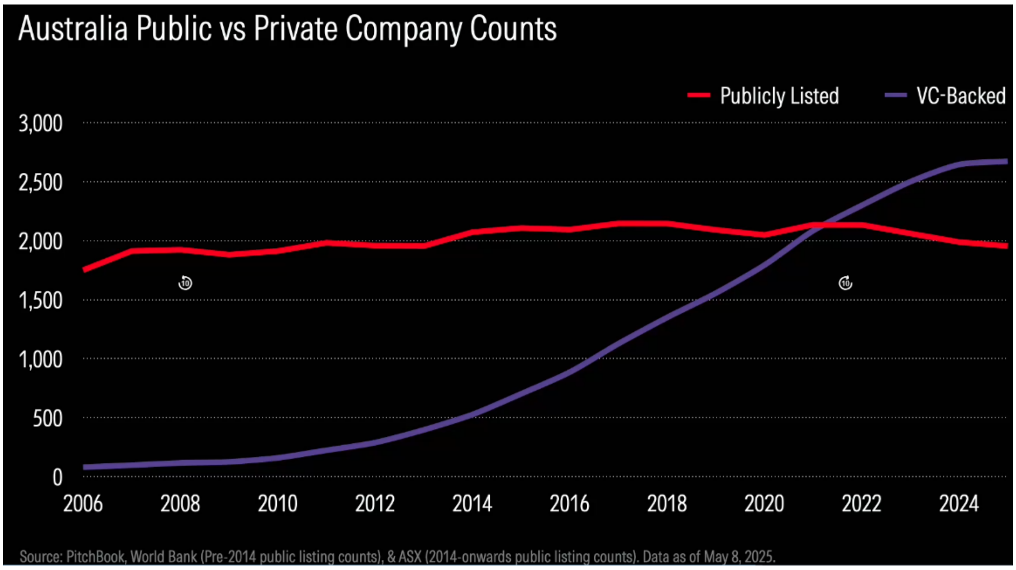
A suggested key area for regulatory focus is how investors exit private market investments, especially under pressure. Private markets are less liquid, and when conditions turn, orderly exits can be difficult to achieve. Larger investors with more resources and better information may hold an advantage over retail investors. This puts fairness and transparency at risk. In Australia, where superfunds have large private market holdings, these risks could have greater impacts than in overseas markets. It will be important to consider how fund structures, disclosures, and governance settings can help protect all investors when markets come under stress.

Another area of potential concern is valuation. Without transparent, market-based pricing, private assets can be misvalued, especially during volatile periods. This affects performance reporting, fee calculations, and redemption decisions. Strong oversight of valuation methodologies and clearer disclosure standards could therefore help improve confidence in private market structures

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?*

Public markets in Australia (and beyond) are finding it harder to attract new listings. Compared to private capital, IPOs are often more expensive, slower, and places significant demands on compliance and disclosure. For many early-stage companies, private markets offer greater flexibility and fewer obligations. This makes listing less appealing, especially in a market already concentrated in financials and resources. This slide (source: Morningstar) illustrates the trend.



To make public markets more attractive, it may be time to change the cost and complexity of listing and maintenance obligations. Ideas include simpler disclosure requirements, phased compliance for new or smaller companies, better use of technology to cut costs, and more competition among underwriters. These steps could help support market growth while maintaining strong 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*

The sustained decline is being fuelled by merger activity, available capital outside of the public market and take private activity. The take private activity is being fuelled by the wall of money being funnelled into private equity. This money is in part being used to take companies private. The narrowing of the market as a result further reduces the attractiveness of listed markets as the breadth of opportunities and broad exposure to the Australian economy reduces. In the long term if this trend continues the share of a diversified portfolio invested in the ASX will be further reduced and compound the capacity of the market to function.

It is possible this will negatively affect the Australian Economy if it retards the ability of the economy to move out of recessionary phases, if equity capital is slower to be deployed in the economy as there is a limited market clearing mechanism.

There are two other areas worth further investigation; the wealth effect of listed markets; and effective governance of corporate Australia. There is no question that listed markets have made it easier for Australians to access the corporate success of Australian companies either directly or through superannuation and the increased wealth this has created does impact consumer spending and other parts of the economy. This question also relates to the cost of accessing public markets versus private. Public companies are open to greater scrutiny and action from shareholders. Whether this results in better allocation of capital or improved social decisions there is a benefit for the broader economy.

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?*

Public companies are subject to a more stringent regulatory framework that is intended to protect shareholders, uphold market integrity and ensure fair trading. Areas of additional requirements include, for example, transparency and disclosures, where a public company needs to publish annual reports and audited financial statements, as well as material information such as related party transactions and executive compensation. Public companies also need to adhere to stricter corporate governance standards.

Beyond formal regulations, the reputation of a public company is often tied to its image and market performance. This makes it more susceptible to public criticism and greater pressure to meet stakeholder expectations around ethics, sustainability, social responsibility, and diversity. Failure to address these expectations can lead to reputational damage, shareholder activism and declining stock prices. In contrast, even though reputation is also important to private companies, they do not face the same level of external scrutiny, and many of their decisions and arrangements (including ones relating to governance) can remain private.

While there are costs and expectations associated with being a public company, there is one significant benefit: access to capital markets – being public means potentially increasing a company's visibility, credibility, and attractiveness to investors. In many markets the cost-benefit analysis has swung in the favour of private markets, however, as capital becomes more scarce, and depending on the regulatory approach to private markets, the cost-benefit analysis may look different going forward.

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?*

Valuation is a key challenge in private markets. Without regular trading, prices often depend on models or judgments by fund managers or external parties. These methods are not always consistent and timing can vary. That creates risks, especially when valuations affect reported performance, fee calculations, and entry/exit decisions by investors. At the moment, there is reliance on institutional investors to manage these risks. But as retail exposure increases, that approach may not be enough.

ASIC could look at three areas for improvement. First, clearer disclosure around how valuations are done and how often they're updated. Second, more consistent use of independent valuers for certain asset types or fund structures. Third, backing industry efforts to set stronger valuation standards in sectors where practices vary. For example, in private credit or venture capital, where asset-level data is often limited and valuation methods can differ across managers. These steps would help reduce uncertainty and build trust, without adding unnecessary cost or complexity.

We note in the discussion paper that ASIC does not have sufficient data on managed investment schemes, and recommend introducing a legislative framework for the recurrent collection of data on such schemes. We agree that consideration should be given to obtaining this data, to ensure that any policy or regulations are not premature, without such data.

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

The CFA Institute report "Private markets: Governance issues rise to the fore" identifies several key issues and risks that ASIC may wish to consider prioritising to enhance investor protection and financial stability:

1. Conflicts of interest: Private markets often involve complex relationships between General Partners (GPs) and Limited Partners (LPs), leading to potential conflict of interest. For example, GPs may have incentives that are not fully aligned with LPs, such as the ability to charge fees that are not transparent or justified. Addressing these conflicts is crucial to ensure fair treatment of investors and maintain trust in the market.

2. Opacity and information asymmetry: The lack of transparency in private markets makes it challenging for investors to access accurate and timely information. This can lead to misinformed investment decisions and undermine market integrity. ASIC may wish to focus on enhancing disclosure requirements to bridge the information gap between GPs and LPs.

3. Valuation practices: Valuation of assets in private markets is often subjective and inconsistent. Inaccurate valuations can affect performance measurement and investor confidence. Disclosure of valuation methodologies and assumptions, and requiring independent audits and help mitigate these risks and ensure more reliable asset pricing.

4. Fees and expenses: The structure and disclosure of fees in private market investments can be complex and opaque. Investors may not be aware of the full extent of fees and expenses which can erode returns. Mandating clear and comprehensive disclosures of fees and expenses is key to transparency and investor protection.

5. Regulatory balance: We acknowledge the importance to strike a balance that promotes choice and innovation on the one hand and investor protection on the other. It is our view that a disclosure-based approach, focusing on transparency and accountability would allow this balance to be achieved.

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?*

Incentives matter in private markets. When managers are rewarded based on short-term valuations or deal activity, decisions may not always align with what's best for end investors. This can lead to unnecessary risk or favouring some investors over others.

Right now, oversight of incentives is limited. It largely relies on investors being experienced enough to spot problems. As retail access increases, that may not be enough. One solution is clearer disclosure, managers should explain how their incentives apply and how they align with long-term outcomes in the clients' best interests, not just fees.

Retail investor participation in private markets

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

Future expansion may hinge on fund structure innovation. The trend towards being able to invest or trade in increments in a wider range of assets, beyond listed shares, may reduce the delineation between public and private markets over time, and increase retail investor participation.

This may also be expected to increase the risks for the retail investor, who may not be as well equipped as they may believe. This is a critical risk.

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

Potential additional benefits may include a longer-term investment horizon noting this may also create / worsen liquidity events, especially if housed in a commingled vehicle. Other benefits include greater return potential and diversification, where there is low correlation with public markets.

Risks for retail investors include poor access to information, adverse selection, illiquidity and redemption challenges, and lack of indirect protections of more transparent governance (such as activist oversight, market pricing).

Illiquidity magnifies the importance of investor trust and governance issues.

A further issue is relatively high fees – especially when fees are dependent on valuations that lack transparency and cannot be easily performed or checked against market.

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)?

Current laws do not offer enough protection when private market funds become illiquid. Unlike public markets, which are designed with liquidity and transparency in mind, private structures can leave investors exposed, especially during stress events. While full protection may be difficult to achieve in private markets, improvements could include stronger liquidity risk management rules, clearer disclosures, and more robust governance expectations for fund managers. For example, RG 259 is principle-based and could be expanded to include additional requirements. Also, existing disclosure laws focus on pre-sale information. This could be expanded to include, for example, how risks like valuation uncertainty are communicated after product issuance and in times of crises.

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?*

Improved transparency in private markets is essential. Disclosures around remuneration and valuation practices should be clearer and more consistent across managers and products. In addition, funds should provide better reporting on liquidity risks, such as redemption terms and the proportion of illiquid assets so that investors understand what they're exposed to. A third area is performance reporting. Standardising how returns, fees, and benchmarks are presented would help investors compare products more effectively and make more informed decisions. However, if the private market were to ape the public market then has the market lost a valuable asset distinction? There is a balance to strike. For example, greater transparency and stronger governance do not need to replicate all public disclosures. Targeted improvements are key.

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?*

Education of those involved in private markets investing, including ethical considerations, is an essential support for the growth and development of private markets.

CFA Institute now offers a private markets pathway in Level III of the CFA Program (one of three pathways alongside the traditional portfolio management pathway, and a private wealth pathway).

In addition, CFA Institute also offers a Private Markets and Alternative Investments Certificate, a Private Equity Certificate, and will launch in August 2025 an Advanced Private Equity Certificate, designed for market participants.

About CFA Institute

As the global association of investment professionals, CFA Institute sets the standard for professional excellence and credentials. We champion ethical behaviour in investment markets and serve as the leading source of learning and research for the investment industry. We believe in fostering an environment where investors' interests come first, markets function at their best, and economies grow. With more than 200,000 charterholders worldwide across 160 markets, CFA Institute has 10 offices and 160 local societies.

About CFA Society Australia

CFA Society Australia is part of the worldwide network of CFA Institute member societies that lead the investment profession globally by promoting the highest standards of ethics, education and professional excellence for the ultimate benefit of society. CFA Society Australia represents over 3500 investment professionals, and provides advocacy, education, events, and professional development.