Prospectus for a Resource Venture: Commentary

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INTRODUCTION

Peter Hopkins is to be congratulated on producing an excellent and comprehensive paper. It is invidious for a non-lawyer to comment upon legal aspects. Accordingly, this commentary focuses on some of the issues and provisions from a financial adviser's perspective.

The topic is a broad one and one which can be discussed and debated for hours if not days. Unfortunately I do not have that luxury in the short space of a commentary. I do, however, have the luxury of being able to be selective and focus on a few key issues. My commentary has two purposes—the first is to complement the excellent paper produced by Peter Hopkins and the second is to raise some issues as *thoughtstarters* for further consideration.

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FUNDAMENTAL INVESTMENT CONSIDERATIONS

Before we go into details as to what a prospectus may or may not contain, or should or should not contain, I think it is essential that we stand back and try to distinguish the wood from the trees.

The first fundamental question that a potential investor wishes to answer in reading a prospectus is "Should I invest or should I not?". The secondary questions then arise: Is the issue priced fairly? How much do I invest? etc.

In addressing these fundamental issues, we should recall that there is a risk-return trade-off in investments. Stated simplistically:

- if an investor is given a choice of two investments, both with equal risk, the investor will choose the one with the higher return, and
- if an investor is given a choice of two investments, both with equal return, the investor will choose the one with the lower risk.

Stated like that it sounds obvious; however, unless potential investors are given the information by which to judge both the returns and the risks, one must seriously question whether or not investors have been provided with the information which they reasonably require.

NATURE OF EQUITY

The expected returns for an investment depend in part upon the nature of that investment. In this respect, it is important to understand and appreciate some of the fundamental differences between debt and equity. This is particularly important where, as Peter Hopkins remarks in his paper, "it [is] difficult for resource companies to raise debt finance, particularly at the early stages, and so they are typically more reliant on equity funding than non-resource companies".[1]

A discussion of some of the characteristics of equity was made in the paper "Recent Developments in Equity Finance for Resource Projects"[2] by R. M. Willcocks. Mr Willcocks defines equity initially as "funds which do not have to be repaid", and expands upon that later in his paper by contrasting debt and equity. Debt is the provision of finance which is accompanied by certain fixed obligations, whereas equity finance is non-repayable and has no fixed obligations for servicing. (Leaving aside the question of hybrid instruments.)

Equity holders, whilst they are last in the queue to receive returns from a company for providing funds to that company (ranking as they do behind the debt providers), have an entitlement to all that which is left over—viz.: the equity profits. This highlights the importance of the degree of financial leverage. This affects both the size of the returns

1. See P. Hopkins, "Prospectus for a Resource Venture", above, p. 159.
2. [1987] *AMPLA Yearbook*.

available to equity holders and the degree of risk borne by equity holders.

Debt is typically a lower cost capital than that of equity—however the higher the amount of debt in a capital structure, the higher the financial risk to the equity holders. Capital market theory suggests that there is an optimal debt equity ratio for established companies. Recently, market experience would suggest that that changes over time as investor perceptions change. Thus the determination of the debt equity profile and the pricing thereof must be related to current market conditions.

This brings in a further characteristic in looking at the fundamental investment questions—one needs to look not only at the risk and return of a particular investment but the relative risk and return of that investment to what else might be available in the marketplace.

The question which that poses for us is what and how are the investors to be provided with that information which they would reasonably require in order to make their investment decision.

SORTING FLOATS FROM GOATS

"Sorting Floats From Goats" was the title of an article written by Paul Loudon in his column, Underground, in September 1984. I have chosen an old article as an example for highlighting some of the key investor issues. That article was written when the stock and financial market fundamentals had dropped significantly at the same time that a number of mining floats were seeking public subscription. Mr Loudon remarked "Rather cynically, such an occurrence is interesting because it forces investors, and indeed the underwriters of floats, to sit down and examine what is being offered".[3] Some eight years later we are still debating these issues and I suspect in another eight years' time the debate will not have been finished.

The article also makes interesting reading for its subsequent comments: "This thinking has been reflected in the latest round of offerings, which has been marked by an overall higher quality of preparation and a somewhat lower level of risk—if risks involved with mining can ever be scaled quantitatively".[4] There was then an improvement in the information which was being provided and that improvement has continued. The question which I would now raise is whether or not we are at a turning point.

Is the current level of information being provided an appropriate balance? Can risks of mining ventures be "scaled quantitatively"? What is more important to an investor—minute details about the geological aspects of the venture, or some quantification (broad and approximate as it may be) of the potential financial parameters which may apply?

3. P. Loudon, "Sorting Floats From Goats" (1984) *Underground*.
4. Ibid.

Whilst these may be relatively easy questions to pose, the answers are far harder to give with any degree of certainty. I will focus on the smaller investor for two reasons. First, the prospectuses' provisions themselves, through the "gold card" provisions (and so ably described by Peter Hopkins), segregate the market, and secondly, a less sophisticated or less qualified investor needs more assistance and advice.

One can be sympathetic to those involved with prospectuses adopting an abundance of caution because of the liability provisions. However, if the prospectus is to serve the purposes of informing and attracting investors, then we must not kill investor interest by treading too warily and failing to give adequate information.

INVESTMENTS DECISIONS

In evaluating an investment, the key information the typical investor will consider, either consciously or subconsciously, will include:

- the expected income return (and its timing)
- the expected capital growth (and its timing)
- the risks involved.

With an established company, issues such as dividends, dividend yields, earnings per share and price earnings ratios are of fundamental importance.

No worthwhile review of an established company would ignore such fundamental investment indicators. To take a stance of saying, as some of the prospectuses have, "Because there may be liability attached to making a profit or other forecast, we decline to make one", is, in my view, tantamount to saying either:

- "trust me, I'll do the right thing with your money", or
- "the returns will be so fabulous it is not worth projecting them".

As an investor, I am naturally curious as to why people would take such a stance and, unless I thought there were sufficiently high rewards to be obtained, would not invest in such an unknown project. The corollary of high levels of caution, quite apart from any legal issues as to liability, are that the equity raising will inherently be priced at a higher cost to the company than might otherwise be the case if further information was disclosed.

The absence of information which would be helpful to an investor making a decision will, in the eyes of the investor, increase the risk of that investment and thus, for the same amount of money invested, that investor will require a higher return. In such circumstances, are the directors and those involved in the prospectus serving their shareholders correctly if they are imposing an additional cost upon their company?

Such comments as the ones I have just made will not be popular in some quarters; however, some of the more recent prospectuses could be described as somewhat of a pyrrhic victory. They may be technically correct, but I am not sure they do very much for the investing community.

This debate about investor information and the efficiency of capital markets is an important one. The Prospectus Law Reform Subcommittee of the Companies and Securities Advisory Committee ("Lonergan Committee"), noted that:

> "The advantages of a general disclosure requirement such as that in s. 1022 over a prescriptive disclosure requirement can be summarised as follows:
>
> (a) Capital market efficiency
> As a result of improved disclosure, securities will be more efficiently priced with substantial consequential benefits to investors and the capital markets generally."[5]

A recent article in the *Australian Financial Review*, in discussing the valuation of life companies, stated:

> "A lack of understanding about the insurance sector within broking circles could leave small investors in the dark when it comes to appraising the merits of up-coming insurance floats, such as the GIO and FAI Life.
>
> But for small private investors, such as those being targeted by the N.S.W. government for the float of the GIO, it could come down to making a choice between relying on the names of the directors on the boards of floated companies, or putting the investments in the 'too hard' basket."[6]

It is important that attention is given to these issues, otherwise the cost of equity, particularly for smaller companies, will rise.

RISKS

Peter Hopkins remarks in his paper that "the market is characterised by a small number of major established companies and a large number of small operators with limited available capital and highly speculative prospects."[7] He goes on to identify three distinct stages—grass roots, development and mature—in the life of a typical resources company. Those stages are important because the risk profile varies at each stage. If the risk profile varies, then the expected returns should vary.

Questions of risk have been dealt with in previous AMPLA papers, for example, "Current Legal Problems in Project Financing".[8] A subsequent paper and commentary on "Off-Balance Sheet Financing for a Resource Project"[9] conveniently listed risks as follows:

5. Companies and Securities Advisory Committee, Prospectus Law Reform Sub-Committee Report (1992).
6. *Financial Review*, 15 June 1992.
7. Hopkins, above, p. 162.
8. (1981) 3 *AMPLJ* 139.
9. [1984] *AMPLA Yearbook*.

"• Construction and development phase
  — operator and contractor performance risk
  — technological risk
  — labour/procurement risk
  — capital cost overruns
  — political risk
  — completion risk.
• Production and operation phase
  — reserve risk
  — deliverability risk
  — contract/supply risk
  — market risk
  — foreign exchange risk
  — political risk
  — abandonment risk
  — force majeure risk."

Unless these risks are dealt with, where they occur, I would argue strongly that investors are not being provided with sufficient information. Risk is a part of the investment equation.

MARKET LIQUIDITY

A risk which is not often addressed is that of market liquidity.

In investing in one of the top fifty companies, there is a relatively high degree of market liquidity. As one comes down into the smaller companies, that market liquidity drops quite significantly. This issue is important as it is one thing to be able to buy a security at an advantageous, or even, "correct", price but a profit is not made until such time as a sale takes place. Thus, one of the risks that an investor incurs is that of a market liquidity risk, particularly for an investment in a smaller company.

The "flight to quality" after the stockmarket crash has meant that smaller companies have found it more difficult to raise capital. If this liquidity issue is addressed, some investors may be more prepared to invest. Having said that, I would ask you to reflect upon how many prospectuses you have seen which have addressed the issue of ensuring that there is a liquid market for the securities being offered.

One could consider that the share buy-back provisions could be helpful in addressing, in part, this issue—particularly where the directors perceive the company's securities trading at well below their "value". However, the share buy-back provisions do indeed have their complexities and attaching liabilities and they have not been used to any great degree.

An argument could be that, typically, market liquidity is not an issue that has been addressed in prospectuses and thus you would not normally expect to find such an issue addressed in a prospectus. This can become a circular argument. If, however, one is concerned about the cost of capital and reducing the risk to investors, then maybe there is an opportunity to improve market efficiency and thus lower the cost of capital.

PROSPECTS

I commend Peter Hopkins for his discussion on prospects in his paper.[10] In reading some of the more recent prospectuses, one wonders whether the trend to "over-conservatism" has led to a certain amount of "pussyfooting" in dealing with some key issues.

Investors invest to make money. That money is either going to come from revenue (dividends) or capital growth. If information is not provided about the prospects, why should investors invest?

Peter Hopkins refers to the survey conducted by Price Waterhouse in mid 1991—over 90 per cent of respondents considered that prospectuses for both initial public offerings and rights issues should include quantitative profit forecasts.

Extensive arguments can be held about the dangers of forecasting the future. Indeed, one thing you do know about a forecast is that it is wrong. The problem is you do not know by how much or in which direction. To use that argument as a reason why a forecast should not be provided is tantamount to saying one should not plan because one cannot be certain that one's plans will turn out as hoped.

I do not believe it is appropriate to avoid the issue of making forecasts purely because they may be wrong. Those forecasts can be sensitised and a range given of what may happen under alternative circumstances. This is really not a new issue. What has happened is that, in my view, the provisions have been reinterpreted (or over-interpreted) by many so that people are stunned into not taking action or not making projections.

It would be a travesty if, as a result of an over-reaction to the corporate excesses of the 1980s, the pendulum swings too far permanently so that the cost of raising money—in terms of the administrative and issuing costs and in terms of the rate of return required by investors—becomes so high that worthwhile projects are not undertaken through lack of funds.

I commend the practice of having an independent person review forecast information and methodologies so that it can be stated clearly that whilst no responsibility is taken for the assumptions, those assumptions have been put together correctly in calculating potential results and outcomes. The key assumptions should be clearly stated.

As the National Companies and Securities Commission made clear in its Policy Statement 102, "the expert should justify his choice of valuation method and give a sufficient account of the method he adopts to enable another expert to replicate the procedure and assess the

10. Hopkins, above, pp. 182-187.

valuation."[11] This enables another person to replicate the calculations and valuations so that if a different set of assumptions is used then they are able to calculate the alternative answer.

Different companies, for example, do have different costs of capital, as different investors have different requirements. It is therefore important that the underlying assumptions are provided so that investors can make their own informed decisions. In this regard, reference should be made to the Australian Securities Commission Practice Note 19.

The Lonergan Committee stated that:

> "29. . . . the inclusion of forecasts in prospectuses is desirable and should be encouraged. However, consistent with its support for the philosophy of s. 1022, the Subcommittee believes that the inclusion of forecasts should not be made mandatory."[12]

That Committee also stated:

> "118. Whilst forecasting, by its very nature, is prone to error, it is the belief of the Subcommittee that it is better to disclose forecasts with appropriate caveats and with details of the underlying assumptions than to disclose no forecast information."[13]

The Subcommittee report then went on to say:

> "119. Any statement about future performance is inherently uncertain. Parties responsible are therefore quite reasonably reluctant to assume responsibility for forecasts because of the legal liabilities that may arise if the actual results differ from those forecast. A practical difficulty then arises because the disincentive to disclose forecast information must be balanced with the competing requirement that a prospectus contain no material omissions."[14]

Furthermore, the Subcommittee stated "It is doubtful whether prospectuses can truly satisfy investor needs without including some form of forecast (particularly in the case of Initial Public Offerings)".[15]

SECTION 294(4)

Section 294(4) of the Corporations Law is an area of increasing importance. If in the past one has been able to avoid forecasts of the future in establishing values of non-current assets, directors and their advisers will need to consider whether they can adopt such a view in the future. Section 294(4) needs to be read in conjunction with the accounting standards AASB 1010 and in conjunction with the Australian Securities Commission Practice Note 19.

11. NCSC Policy Statement 102, "Expert Reports—Companies (Acquisition of Shares) Act and Codes ss 23 and 43", issued 24 January 1990.
12. Loudon, op. cit.
13. Ibid.
14. Ibid.
15. Ibid., p. 9.

The full text of subs. 294(4) of the Corporations Law is given below.

> "**294.** (4) [Non-current assets] The directors shall take reasonable steps:
>
> (a) to find out whether the value of any non-current asset is shown in the company's accounting records at an amount that, having regard to the asset's value to the company as a going concern, exceeds the amount that it would have been reasonable for the company to spend to acquire the asset as at the end of the financial year; and
>
> (b) unless adequate provision for writing down the value of that asset is made—to cause to be included in the accounts such information and explanations as will prevent the accounts from being misleading because of the overstatement of the value of that asset."[16]

What is interesting to note is that subs. 294(4) refers to what "it would have been reasonable for the company to spend". In that instance, it is undeniable that it would be unreasonable to spend the same to acquire an asset with a cashflow five years hence as it would be to acquire an asset with the same cashflow one year hence. To that extent I believe there are strong regulatory reasons why net present value should be used in the revaluation of non-current assets. In addition, and perhaps just as, if not more, importantly there are sound business, financial and commonsense reasons why net present values should be used.

The Australian Securities Commission Practice Note 19 (effective 18 May 1992) deals with s. 294(4). Its full text is important reading for company directors. It states that in determining the amount that it would have been reasonable to spend to acquire each non-current asset:

> "the directors must take into account the age and condition of each asset and the availability of the same or a similar asset in the market place together with the asset's current market value. In most cases, the notional replacement cost of an asset can be determined by reference to its current market value.
>
> The notional replacement cost may fluctuate significantly from year to year. For example, the cost of acquiring land and buildings in a depressed property market will normally fall over time, and the cost of acquiring imported plant and machinery may fall substantially if the government reduced or abolished import tariffs. It may also be reasonable for one company to spend more to acquire a non-current asset than another similar company depending on each company's circumstances, such as their internal rates of return, and their management strategies and philosophies. In any event, directors should consider all relevant factors in making their determination at the end of each financial year."

The action required of directors is summarised in a table setting out a number of scenarios:

16. Corporations Law, s. 294(4).

Australian Securities Commission Practice Note 19

Scenario 1		Scenario 2		Scenario 3	Action
BV	<	NRC	<	RA	No action
BV	<	RA	<	NRC	No action
RA	<	BV	<	NRC	Write down
RA	<	NRC	<	BV	Write down
NRC	<	BV	<	RA	Provision or explanation
NRC	<	RA	<	BV	Write down & provision or explanation

Legend:		
	BV:	book value
	NRC:	notional replacement cost
	RA:	recoverable amount
	Write down:	per AAS 1010
	<:	less than
	Provision or explanation:	per s. 294(4)(b)

In order to comply with the Australian Securities Commission Practice Note 19, one needs to be able to put a number for non-current assets on their book value, their notional replacement cost and their recoverable amount.

Recoverable amount is defined in AASB 1010 as follows:

> " 'Recoverable amount' means, in relation to an asset, the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal."[17]

It is difficult to see how, in many instances, directors can avoid having some view of the future in order to comply with these requirements. Accordingly, if that information is available to them, I would argue strongly that that information should be disclosed to investors as it is material information to them.

It may well be that in some instances a tenement, for example, has a notional replacement cost in excess of its book value, because of the likelihood of the discovery of a resource or the ability to successfully prove up resources which have been identified. If this is so, then presumably the directors would have a basis for holding such a view. Can they afford not to disclose this information to potential investors?

One may argue that there could be a number of commercial reasons why certain information should not be disclosed. If this is the case then consideration could be given to proceeding with an independent expert. As an example of this, I draw your attention to the National Foods float valuation of brand names at $72.1 million. This valuation was a four-page letter report by Business Brands International Pty Ltd. Within the report

17. Accounting Standard AASB 1010, "Accounting for the Revaluation of Non-Current Assets", reissued September 1991.

the comment was made, "Detailed rationales of the methodology selected are included in the separate reports for brands in each operating division."[18] The individual reports were not provided as part of the prospectus. This was an example of an independent expert having valued an asset by referring to confidential information and then providing a summary and a valuation in the prospectus. That letter report also stated "In view of the confidential and detailed nature of the information provided, which was the basis from which the valuation was formed, no such information is included in this report."[19]

In my view more information would have been of use to potential investors; however it was better to have the information which was provided than to not have anything at all on this important issue.

There is a move for balance sheets to become statements of value. "True and Fair View—An Accounting Anachronism" was the title of an article written by Warren McGregor in the February 1992 issue of the *Australian Accountant.*

The direction is clear, balance sheets will cease to be sheets of balances and become more and more statements of values of assets, notwithstanding all the difficulties that can be encountered in assessing values. This will impact significantly upon how financial information is presented.

DUE DILIGENCE

I do not wish to venture in detail into the area of due diligence as that subject is being addressed by others. However, it is appropriate to relate this issue to some of the points discussed in this commentary and by Peter Hopkins in his paper.[20]

Investors have a right to expect fairness in presentation and for the issuers of the prospectus to have taken due care and to have been diligent in the preparation of the document.

Investors cannot expect, and should not expect, a due diligence investigation to have been so exhaustive that there are no risks left in an investment. That is an inappropriate view of due diligence. Alternatively, to take that to extremes in another way, investors cannot expect potential exploration areas to have been subjected to so much review and analysis that the potential results are known with a high degree of certainty—to go to that extent you would end up, almost, undertaking the exploration itself.

Investors do have a right to expect that what they are told is the truth; similarly, investors should expect to be told that some things are not capable of being measured with precision and that that is a risk to which they will be subjected. Investments in resource companies are inherently of a risky nature and due diligence investigations will not eliminate all of the risks.

18. Business Brands International Pty Ltd report.
19. Ibid.
20. Hopkins, above, pp. 231-239.

PRUDENT INVESTOR

Peter Hopkins has made reference to the prudent investor test in his paper[21] and it is a point well worth pursuing.

Prudent investors would either obtain information themselves or have that information provided to them which they would require if they were to become prudent purchasers of the company.

The use of experts and advisers is well established and they have a valid and important role in undertaking investigations on behalf of a number of potential investors. This is efficient and cost-effective. However, for the system to work properly and efficiently, those advisers must be prepared to accept responsibility and liability for the work which they have undertaken. This may mean that specialist expertise will be developed and used specifically for issuing prospectuses.

At a recent conference which I attended, the suggestion was made, albeit somewhat tongue-in-cheek, of establishing a company and directors network whose objective and reason for being would be to take part in prospectuses and bear the potential liability thereof for a reasonable (maybe not inconsiderable) fee. This network would provide the directors for a company during the life of a prospectus. It would be unfortunate if the current concerns about liabilities which can be incurred in connection with prospectuses were to see the emergence of such concepts. To arrive at such a position would mean the system has failed to serve its customers—the investors.

EXPERTS' REPORTS

Current requirements for experts' reports are referred to by Peter Hopkins[22] and Leigh Brown in his commentary is referring to the requirements of the Australian Stock Exchange Ltd.

The issue which I would like to raise for your consideration is whether there is an additional role for an expert's report, over and above that which currently exists.

I arrive at this proposition from two different viewpoints. The first viewpoint is that one is required under the takeover provisions to provide an independent expert's report in certain circumstances to advise shareholders whether or not it is fair and reasonable to accept a takeover bid.

If advice is required on a potential exit from an investment, would it not be reasonable to be given similar advice on a potential entry to an investment. (This is in addition to the requirements for an expert's opinion where there is an acquisition from parties associated with the directors.)

21. Hopkins, above, p. 232.
22. Hopkins, above, pp. 187-190.

The second viewpoint is to adopt the stance of asking what is the information which an investor would reasonably require to decide whether or not it is fair to invest in the issue at the price given. A distinction must be made between the price of the securities and whether or not it is fair and reasonable to acquire the assets at the prices stated using the proceeds of the issue.

As in an expert's report in takeover situations, other factors come into play. These factors can affect the price of securities as opposed to the value of the underlying assets within the company.

As a prospectus is directed towards an investor subscribing for securities, as opposed to the purchase of assets, would an investor be well served if an expert opinion was appended to a prospectus which stated that, in the opinion of the independent expert, the offer was fair and reasonable? This leaves aside the question of whether or not some companies would be able to find independent experts to act for them to give such an opinion; however, a move for the use of an independent expert in such circumstances could reduce a number of the concerns and debates concerning confidentiality of data, ability to forecast profits, etc. I would ask you to consider such a proposition of the use of an independent expert when reviewing the comments made by Peter Hopkins[23] on the interpretation of s. 1022.

Peter Hopkins refers to the "but for" test. This indeed is a useful criterion and that leads into questions of price and whether the price is unreasonable.

"SUCH INFORMATION"—SECTION 1022

Peter Hopkins has produced an excellent expose of s. 1022. It would be counterproductive for me to restate all of that in this commentary. Perhaps what might be useful is if I can paraphrase some of the financial requirements.

Both the Australian Securities Commission and the Lonergan Committee have given support to the general disclosure obligation of s. 1022. The Australian Securities Commission has stated in its Policy Statement 18 that:

> "It would be inconsistent with this provision to allow short-form prospectuses which contain only a summary of the information required by investors (although the ASC will permit incorporation by reference in certain circumstances) . . .
>
> It would also be inconsistent with the Corporations Law to grant relief from the prospectus requirements on the basis that alternative sources of information are available to investors."[24]

23. Hopkins, above, p. 187.
24. Australian Securities Commission Policy Statement, "The Prospectus Provisions of the Corporations Law", para. 5(c), issued 16 March 1992.

The *Prospectus Procedures Handbook* of the Australian Securities Commission sets out items which "should be consulted as indicating the matters which may need to be disclosed in registered share prospectuses pursuant to the general disclosure obligation under s. 1022".[25]

Peter Hopkins has provided a copy of that as Annexure 1 to his paper and thus it would be superfluous to repeat that information here. I would also draw your attention to the information which should be considered in respect of debentures and which is set out in that *Prospectus Procedures Handbook.*

The contents of an investigating accountant's report are well documented so I will not repeat that here in detail. The financial information which investors and their professional advisers would reasonably require and reasonably expect to find in a prospectus can be summarised as follows:

- **Historical information:** a tabulation of past results stated on a consistent basis.
- **Prospective information:** projected results in a format consistent with the historical information.

The historical information should cover assets and liabilities and profits and losses—preferably this should be from audited financial statements.

Where there has been a change in accounting bases, then the historical financial information should be adjusted so that the financial data presented is prepared according to a set of principles consistently applied from one period to the next.

Where available, the last five years' audited financial statements should be provided. Where the latest audited financial statement predates the prospectus by more than six months, then the latest unaudited interim financial statement (prepared on a consistent basis with the audited financial statements) should also be given.

Where adjustments have been made between the original published financial statements and the data presented in a comparative format, then explanations should be given for the changes.

Where major changes have occurred in any of the factors which affect the operations of the company, then details of those changes should be given—they could include, for example, commodity prices, exchange rates, pricing agreements, etc.

The prospective information should include a pro forma balance sheet after the issue of the securities in question. This pro forma balance sheet should disclose the net asset backing and the net tangible asset backing per share on both a diluted and undiluted basis post-issue.

The projections of profitability and returns for shareholders should include estimates of any interest commitments and expected taxation impact. These should then be able to be translated into earnings per share and dividends per share and be tied into the proposed dividend policy which will be adopted.

25. Australian Securities Commission *Prospectus Procedures Handbook*, Issue 1, para. 5.1.0.

Key assumptions (for example, commodity prices and exchange rates) should be given and where there are expected to be significant variations in those, a sensitivity table should be annexed to highlight the impact of changes.

All material items should be identified—"material" in this sense being an item which might affect the investment decision of the investor. If the volume of, for example, production tonnages can fluctuate significantly, then the potential variations of those will be a material factor.

Where limited life projects are being undertaken, as is commonly the case with resource projects, estimates of life and timeframes should be given.

Where any of the above information cannot be given, then a statement should be included giving the reasons why the information is not available in the prospectus.

SUMMARY

An investor should reasonably require details about the current and expected operations of a company and factors which can affect the returns and risks of an investment in that company. Information can be provided to the investor either in detail or in summary form via an independent expert.

Companies at different stages of their development will have different levels of risk and it is appropriate to emphasise different areas for different companies.

Overlaying these issues is the question of determining whether the price to be paid for an issue of securities is fair and reasonable. Investors should be provided with information which enables that decision to be made.

CONCLUSION

> "A cynic is a person who knows the price of everything and the value of nothing."—Oscar Wilde.

Those of you who have been involved in setting the price of an issue will appreciate the fine line and dichotomy that can exist between producing a document which can be used with "great marketing gusto" and one which retains truth and fairness.

We must find that right balance between detail, fairness, understanding and promotion. I question whether, all things considered, we serve our clients and their investors (customers) well, if we produce a thick, detailed, technically correct but incomprehensible document.

I question whether prospectuses which contain 20 pages of technical and geological data, 20 pages of historical financial data and two pages about prospects/outlook for the future present a correct balance. In my view they do not.

Can we serve our audience better? For example, would it be useful if we also produce a relatively simple document that includes an opinion from an independent expert stating that the terms of the prospectus are fair and reasonable?