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# CAPITAL BRIEF

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## IDEAS

# Dual-class shares won't fix Australia's IPO slump

Dual-class shares are a sugar-hit solution that risk diluting investor rights and diverting attention from genuine market reform.



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*Max is the managing director and CEO of the National Stock Exchange of Australia.*

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*Former ASX listings chief and now NSX boss Max Cunningham argues dual-class shares won't revive Australia's IPO market but will erode governance and investor trust. Shutterstock.*

Much has been made of the declining number of listed companies in Australia and the need for a policy reboot to kickstart the IPO market. The issue has both cyclical and structural elements that shouldn't be ignored.

ASIC's proposed framework for private markets is a positive step. So too is the debate about better rules for listings and disclosure, and the freshly reported consideration of simultaneously floating and listing software company **Rokt** in Australia and the US under a single prospectus.

It's important that any resulting ASIC reforms are available across all Australian listing markets. Moreover, we shouldn't confuse the serious challenge of persuading companies to go public rather than stay private with quick-fix sugar hits.

ASX's plan to introduce dual-class voting shares was one such 'sweetener'.

A rush to bundle a range of complex policy matters with the consideration of

controversies, greater disenfranchisement of minority investors and no measurable increase in listings.

Subsequent media reports and market reactions highlight the imperative of a thorough review of the listings framework to deliver the best outcome for Australia's capital markets, rather than a 'sugary treat' promising immediate convenience.

I'm yet to see evidence of any benefit from changing the rules to allow dual-class voting shares.

During the nine years I led the ASX listings business up to April 2022, overseeing more than 900 new listings, I did not encounter a single founder who raised dual-class voting shares as a factor in their decision to list locally or overseas.

The most prominent example of a local company that listed elsewhere during my tenure was **Atlassian**. It chose the Nasdaq primarily due to the deep liquidity of that market and the expertise of its investors and analysts in software-as-a-service (SaaS) businesses.

As the only person at ASX who dealt with Atlassian regarding its listing plans, I refute the claim that ASX's absence of dual-class shares was one of the reasons the company decided to list on Nasdaq. Indeed, Rokr's reported dual listing without dual-class shares reinforces this and highlights a sensible approach from ASIC.

Australia has no shortage of founder-led businesses that maintain control with or without large equity holdings. **Kerry Stokes** controls SGH Ltd with just over 50% of the shares, **Richard White** owns around 35% of **WiseTech**, and the late **Kerry Packer** controlled **Nine** and Australian Consolidated Press with 40%. The **Lowy** family controlled **Westfield** for the final years of its independent life with less than 5%.

Tampering with the existing principle of one share, one vote is likely to erode key governance standards without offering any real gains to investors.

list. This continues to be my experience as managing director and CEO of the **National Stock Exchange of Australia (NSX)**.

Let's not confuse dual-class with dual-listing. Many companies have a successful dual or secondary listing in Australia, including **Rio Tinto**, **ResMed**, **Block** and **Light & Wonder**. Equally, there's debate about the merits of such a structure in an integrated and cost-conscious world, as the ending of **BHP's** dual structure in 2022 shows.

What listed yesterday isn't guaranteed to list today. Precedent, regulatory creep, jurisdictional uncertainty and directives about how boards allocate capital make the process of coming to market long, costly and uncertain. This often leads to an 'it's too hard to get the deal done' outcome.

ASIC Chairman **Joe Longo's** National Press Club address last week made the point that matters ranging from prospectus size to stock exchange reporting requirements could "be tiered for company size". This is another welcome contribution to the policy debate by our corporate regulator.

The successful takeover of NSX by the **Canadian Securities Exchange (CSE)** offers opportunities for companies seeking capital, cross-border businesses wanting access to Australian markets, and investors seeking greater diversity. The CSE has created competition matched with accountability and effective governance, particularly in the smaller market-cap space.

There has never been a more urgent need for competition within the listings market. Any reforms, including those enabling a dual IPO and a listing under a single prospectus, should apply equally across all listing venues.

This is all the more important given the ongoing issues with the replacement of ASX's ageing CHES system, on which the entire market relies for clearing and settlement.

ASIC's decision to appoint three eminent Australians to review how ASX has been managed over the past decade is clearly significant. Serious consideration may be given to structural changes to the business, including the divestment or

At the very least, the ASIC inquiry must distract ASX's board and executive from their core business.

Whatever the merits of dual-class shares, now is an inappropriate time to undertake such a significant change to the rule framework — one likely to impact Australia's capital markets for decades to come.

No one wants Australia's public market to be broken or directionless. We all have a role to play in restoring its vibrancy and pre-eminence. Its health matters too much.

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