

13 August 2026

Dear Sir/Madam,

Submission on the Draft Report: Review of Electronic Lodgment Network Operator Service Fees

Tom Young, Portfolio Manager

We write in response to IPART's Draft Report on Electronic Lodgment Network Operator (ELNO) service fees, published 3 July 2026, and further to our comments at the public hearing held on 21 July 2026. Renaissance Smaller Companies ultimately manages superannuation savings on behalf of ordinary Australian investors and is a long-term shareholder in PEXA. As this review will set a precedent for how Australia values and regulates critical software platforms more broadly, we believe it deserves the closest scrutiny before it is finalised.

This submission makes two central points. First, IPART's methodology for valuing PEXA's Initial Asset Base is inconsistent with standard practice for measuring software assets and materially understates the true cost of PEXA's assets. Second, the financial impact of the proposed framework is significant, potentially causing PEXA's post-tax free cash flow to fall 85% by FY32, and puts at risk the resilience and reliability of critical national infrastructure at a time of rising cybersecurity risk. Given the stakes involved, we believe a recommendation of this magnitude warrants rigorous benchmarking against real-world evidence to ensure it is appropriate. This submission sets out where we think the Draft Report currently falls short of that standard.

Part 1 — Undervaluing PEXA's Software Assets

There is, in our view, limited real-world evidence to support IPART's finding that PEXA is making unreasonable or excessive returns. PEXA may be a near-monopoly in electronic conveyancing, but it cannot have used pricing to generate excessive returns because PEXA has never been able to freely set its own prices. Transaction fees were set in 2014 by agreement between the major banks and state governments, at a discount to prevailing paper conveyancing prices, and have not changed in real terms since.

IPART's Draft Report suggests that in a genuinely competitive market, the significant growth in transaction volumes since 2019 might have been expected to drive prices lower. While this might be true at the margins, there is no real-world evidence to suggest a competitive market would have resulted in anything close to the 20% revenue reduction proposed by IPART. Sympli's pricing for a title transfer is only 6.2% below PEXA's¹. PEXA's UK pricing, in a market where PEXA is incentivised to price aggressively to drive adoption, is approximately 4% lower than Australia for a property transaction but 83% *higher* for a refinance transaction². Under IPART's draft pricing, the price for a property transfer in Australia would be 32% below Sympli's price and 26% below the price for an equivalent transaction in the UK.

¹As at 1 July 2026. Single Title Transfer in NSW: PEXA \$146.30, Sympli \$137.27.

²PEXA published UK pricing in November 2025: <https://www.pexa.co.uk/about/pricing/>. Typical transfer with mortgage (excl VAT) in the UK would be billed in three legs = £45 + £100 + £25 = £170 (~A\$327). The equivalent transaction for a single title in NSW (excluding GST) would be \$133 + \$133 + \$49.90 + \$23.90 = \$339.80. A vanilla remortgage in the UK (ex VAT) would be £45 + £25 = £70 (~A\$135) compared to the NSW price, excluding GST, at \$23.90 + \$49.90 = \$73.80.

PEXA's fees are modest, not excessive, when measured against the rest of the property transaction value chain. An average home seller pays \$20,000 or more in real estate agency commission, \$2,000 or more in REA and Domain advertising and roughly \$2,000 in conveyancing fees. The purchaser separately pays tens of thousands of dollars in stamp duty³. The author of this submission even had to pay \$54.36 for a simple identity verification check in a recent transaction. Against this backdrop, PEXA's \$146.30 transaction fee is one of the smallest costs in the entire chain, so small that the annual *increase* in REA and Domain advertising fees alone exceeds PEXA's entire fee to a seller.

None of this is consistent with a business extracting monopoly rents. To an average consumer, PEXA's fee would barely register, let alone be described as unreasonable.

Yet despite this real-world evidence that PEXA's prices are reasonable, IPART's Draft Report concludes that PEXA is earning revenue well above the level required to recover its costs and earn a reasonable return on capital. Central to that conclusion is the Initial Asset Base (IAB) which IPART has set at \$367.6 million, comprising \$231.2 million of rolled-forward capital expenditure and a further \$136.3 million uplift for non-capitalised establishment costs.

Using just capitalised software development costs (i.e. capital expenditure) to measure the cost of a software asset is highly unconventional. It is widely accepted that accounting measures of software assets understate their true economic cost, because a substantial share of the cost of creating that software is expensed rather than capitalised under accounting standards. So unconventional is IPART's approach that it may well be the first application of a building block model to regulate a digital platform, without reference to other comparators, anywhere in the world⁴.

Listed company Gentrack (GTK AU), a provider of enterprise billing and customer management software to the utility sector, illustrates the problem with IPART's approach. Gentrack expenses 100% of its R&D, so its capitalised software assets are just NZ\$8.2 million⁵, smaller than its typical annual profit⁶. Applied to IPART's methodology, Gentrack would appear to be one of the most profitable companies in the world, earning returns exceeding 100% per annum. In reality, it is a mid-tier participant in a competitive global market. If IPART's methodology cannot sensibly explain Gentrack's returns, or those of any number of similar software businesses we could provide as an example, there is little reason to expect it can explain PEXA's.

If, as IPART's approach implies, fair returns in a competitive market are correlated with the accounting value of a company's software assets, we would expect at least some software businesses to trade at or near their capitalised software balance, much as infrastructure businesses would typically trade close to their regulated asset base, property assets close to net asset value or banks close to net tangible assets. This is not the case for software. Not a single software company on the ASX 300 or S&P 500 trades below eight times the value of its non-goodwill intangible assets with the majority trading materially higher. This gap is noteworthy in both its consistency and scale, no exceptions, no outliers, nothing trading anywhere near book. This is the market repeatedly telling us the same thing: capitalised software costs do not reflect the true cost of building a software asset and have little correlation with efficient returns.

³See PEXA submission dated 3 October 2025 for full sourcing of these figures.

⁴Public hearing transcript. Russell Cohen (PEXA CEO).

⁵ GTK FY25 Annual Report. As at 30th September 2025

⁶ Annual NPAT in FY23/24/25 was NZ\$10.0m, NZ\$9.5m and NZ\$20.9m respectively



Part 2 — Undermining PEXA's Resilience

IPART's own Tribunal members opened the public hearing by describing PEXA as a single potential point of failure in Australia's property market and noted its classification as critical infrastructure under the Security of Critical Infrastructure Act. We agree with that characterisation. It is precisely why the financial consequences of the Draft Report, and not just its methodology, deserve close scrutiny before the report is finalised.

On our estimate, PEXA Australia's after-tax free cash flow would fall by roughly 50% in the first year of the new pricing regime, worsening to a cumulative reduction of around 85% after the next review in 2031 once the additional uplift for unrecovered establishment costs is fully amortised⁹. A reduction of this sheer magnitude will almost certainly have an impact on the resilience, reliability and service levels of the platform.

In dollar terms, by FY31 the proposed framework would leave PEXA with a capital expenditure envelope of \$39.1 million a year and post-tax return-on-capital of \$18.2 million a year to fund resilience against an escalating cyber threat environment¹⁰. This is materially below what comparable critical infrastructure operators are spending. ASX Limited had technology capex of \$179.6 million in FY26 and has guided to \$180–200 million in FY27, Commonwealth Bank (CBA) has invested more than \$1 billion in FY26 alone to protect customers from fraud, scams, cyber threats and financial crime¹¹. We are not suggesting PEXA needs to spend at CBA's scale but long-term sustainable post-tax return on capital of just \$18m per annum provides very little flexibility to adapt to a changing cyber threat environment, especially when PEXA's existing capex envelope is already a fraction of similarly critical platforms.

This lack of flexibility also impacts PEXA's ability to withstand the inevitable gyrations of the property cycle. PEXA has no control over transaction volumes and, as IPART acknowledges, costs are largely fixed and unrelated to those transaction volumes. This creates significant operating leverage. On our analysis, a 5% change in transaction volumes would move PEXA's post-tax return on capital by 33% in either direction¹². Since 2004, annual property transfers have fallen by more than 10% in four separate years — 2005, 2011, 2019 and 2023 — and current mortgage application data suggest 2027 may be a fifth¹³. In each of those four years, PEXA would, based on that sensitivity, have faced a minimum 66% drop in post-tax return on capital under the proposed framework, with no ability to adjust prices until the next four-year regulatory review. In at least some of those years, PEXA would likely have been loss-making¹⁴.

⁹Draft Report Table 4.1. Assuming a \$30m p.a. recovery of the uplift for non-capitalised establishment costs this component of the IAB will be fully utilised by 2032. As such, for the next review period, the depreciation component on table 4.1 would drop to approximately allowable capex (~\$39m) and PEXA's after-tax free cash flow would fall to their allowable return on capital in table 4.1 (\$18.2m in FY31). This is approximately 85% below our estimate of PEXA's FY26 Australian division's post-tax free cash flow.

¹⁰ Table 4.1 and Table 6.1 in the Draft Report.

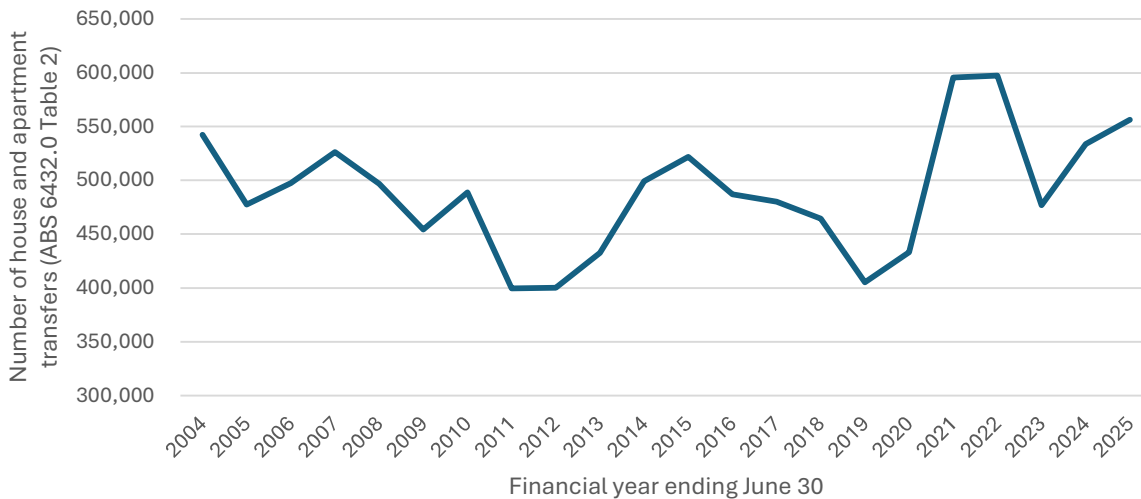
¹¹<https://www.commbank.com.au/content/dam/commbank-assets/investors/2026/CBA-2026-Full-Year-Results-ASX-Announcement.pdf>

¹² Table 4.1, 6.3 and 6.5 in the Draft Report. 2027-28: Target revenue of \$275.5m, external costs of \$48.3m, other operating expense of \$116.0m and allowable capex of \$35.9. Assuming both revenue and external costs fall by 5%, but other operating expenses and capex remain fixed a 5% reduction in volumes would result in a revenue fall of \$13.8m and a post-tax drop in cash flow (at a 30% tax rate) of \$8.0m. \$8.0m is 33% of the \$24.3m return on capital in 2027-28 as per Table 4.1.

¹³Between the May 12 Budget and August 2026, CBA reported home loan applications down 15%, WBC reported a 20% fall, ANZ reported a 12% fall and NAB reported applications down 15% in the June quarter.

¹⁴ 2011 saw an 18.3% drop in property transactions. 2023 saw a 20.2% drop in property transactions. Based on the established sensitivity that would be a >100% reduction in post-tax return on capital assuming total e-conveyancing volumes moved in-line with property transfers.

Figure 2 – Annual Property Transfers, Australia



Given this sensitivity to changes in property turnover we recommend IPART conduct a backtest on its forecasting methodology and publish the results so stakeholders can better understand its impact on PEXA. We have conducted a limited backtest of this framework (see Figure 3), assuming a four-year review cycle beginning in 2006, with forecast property transfers equivalent to the last observable year¹⁵. For example, the forecast annual transfers for 2006 to 2009 would be equivalent to 2005 levels. Assuming total e-conveyancing transactions move in-line with property transfers¹⁶, PEXA would have earned a negligible (<2.5%) or negative return on capital in four of the last seven years, and seven of the last twenty.

In other words, the \$18.2 million per year post-tax return on capital set out above is not a floor, it is a rarely seen average. Based on this backtest, PEXA would potentially spend one in three years with negligible or negative returns, with no capacity to fund resilience at all, and no mechanism to respond until years later at the next review.

IPART proposes, in part, to address this expected volatility via the Demand Volatility Adjustment Mechanism (DVAM). This is a good idea but is not fit for that purpose as currently proposed. The Draft Report sketches it out in little more than a page: a 5% threshold measured on a net present value basis, trued up only at the next regulatory review in four years' time. As demonstrated above this would potentially ask PEXA to fund years of losses in a downturn with only the vague promise of a true-up at the end. Given the DVAM is not yet defined, is not binding, and IPART's own approach to determining pricing has shifted materially between reviews, investors and lenders can have little faith that such a true-up would actually occur.

To address these concerns, the DVAM needs to operate as an annual true-up, not once every four years. Fees already reset annually for CPI, so extending that process to true-up for demand forecast variance would not create a new administrative burden. The slight increase in year-to-year pricing volatility would be a small cost

¹⁵ This is a simplifying assumption. Based on IPART's proposed forecasting methodology we believe forecast volumes are likely to be strongly anchored to the most recently observed period.

¹⁶ This is a material assumption with significant limitations. We do not have consistent refinance volume data prior to 2020 and so have not included refinance volumes in this analysis. We note that home loan turnover has materially increased over the last decade and thus refinance activity may have served to mitigate part of the impact in downturn years, albeit that structural tailwind may not repeat in future years. IPART would likely have access to data we do not and as such we strongly recommend it conduct its own backtest and publish the results.

for preserving the resilience of a nationally critical platform, especially if absolute pricing is lower than today. This approach would also greatly reduce reliance on IPART's forecast model. In our view IPART should focus on creating a system that can handle economic volatility rather than trying to forecast the impossible.

Figure 3 – Hypothetical Backtest of PEXA Return on Capital Under a Four-Year Forecasting Regime¹⁷

Year	Property transfers (actual)	Property transfers (forecast)	Forecast error %	Estimated post-tax return on capital (target = 6.5%)
2005	477,374			
2006	497,685	477,374	4.3%	8.3%
2007	526,481	477,374	10.3%	10.9%
2008	497,108	477,374	4.1%	8.3%
2009	454,284	477,374	-4.8%	4.4%
2010	488,826	454,284	7.6%	9.8%
2011	399,548	454,284	-12.0%	1.3%
2012	400,368	454,284	-11.9%	1.4%
2013	432,746	454,284	-4.7%	4.5%
2014	499,132	432,746	15.3%	13.1%
2015	521,914	432,746	20.6%	15.3%
2016	487,070	432,746	12.6%	11.9%
2017	480,320	432,746	11.0%	11.2%
2018	464,626	480,320	-3.3%	5.1%
2019	405,240	480,320	-15.6%	-0.2%
2020	433,301	480,320	-9.8%	2.3%
2021	595,794	480,320	24.0%	16.8%
2022	597,237	595,794	0.2%	6.6%
2023	476,876	595,794	-20.0%	-2.1%
2024	533,518	595,794	-10.5%	2.0%
2025	556,243	595,794	-6.6%	3.7%

Even if the DVAM is fixed, the proposed revenue reduction still matters because of how PEXA will likely respond to its changed incentives. If PEXA earns no return on 78% of its cash outlays, it has limited incentive to invest beyond minimum compliance requirements, and every incentive to defer discretionary resilience spending in the volatile years described above. PEXA would also have little incentive to continue to invest in digitising additional paper-based transaction types or jurisdictions in Australia when pricing, and incremental returns, in the UK are materially higher.

A post-tax real WACC of 6.5%, built on an equity beta of 1.02, drawn from a sample that excludes pure technology comparators, does not adequately compensate investors for cash flows this volatile. The allowable gearing of 15% is also too high and does not factor in the balance sheet buffer a nationally critical infrastructure business would need given such volatile cash flow. Without an allowable return that reflects the risk and buffers required, the rational response to a downturn year is not to protect resilience spending, it is to cut it.

¹⁷Property transfers from ABS 6432 Table 2. Estimated post tax return on capital calculated using the target 6.5% and applying the previously established sensitivity that a 5% change in volumes = 33% change in post-tax return on capital.

We do not view this as a hypothetical risk. Australia has just watched a closely comparable case play out. ASIC's 2026 Inquiry into the ASX Group found a pattern of ageing, under-invested technology across multiple critical systems, including the CHESS platform, contributing to a series of operational incidents. In direct response, ASX was forced to lift total expense growth by 21% in FY2026 and increase technology capex guidance to \$180–200 million in FY2027: a scale of remediation now required precisely because a critical piece of national market infrastructure was, for a period, under-resourced relative to its risk profile. PEXA has not failed in this way. But the Draft Report's pricing framework, on its own numbers, sets PEXA on a materially tighter financial trajectory than ASX was on before its own resilience gaps became public and costly to fix¹⁸.

PEXA settles approximately 20,000 property transactions a week in a threat environment evolving faster than any four-year regulatory period can track. Last month, OpenAI disclosed a model broke out of a controlled test and hacked a company; Anthropic disclosed three more compromised by its models. A \$39 million capex envelope, with a buffer of \$18m post-tax return on capital, provides PEXA with limited flexibility to adapt to a rapidly changing environment. If PEXA's platform was to go down for even a day the impact would be significant. Unfortunately, by adopting a framework that would ultimately reduce PEXA's post-tax free cash flow by 85% we believe that IPART are increasing the likelihood of such an event occurring.

Recommendations

We respectfully ask IPART to address the following before finalising its report:

1. Reconcile the Draft Report's conclusion that PEXA's prices are excessive against the evidence set out in Part 1, including PEXA's fees relative to Sympli, UK, and the broader property transaction value chain.
2. Explain why IPART believes PEXA should only earn a return on capitalised software spend, when capitalisation rates are arbitrary, vary between companies, and do not reflect true asset value.
3. Add a market-transaction cross-check to the initial asset base methodology, using PEXA's 2019 sale price as an independent reference point, and explicitly reconcile any material gap against the recovered capital and historical cost roll-forward methods.
4. Adjust the equity beta and gearing assumptions underpinning the 6.5% WACC to better reflect the expected volatility of PEXA's cash flows, as evidenced in Part 2.
5. Adjust the Demand Volatility Adjustment Mechanism to an annual true-up, rather than one applied only at the next four-year regulatory review.
6. Backtest IPART's proposed demand forecasting model against PEXA's actual historical transaction volumes and publish the results, so that stakeholders can assess its reliability.

We thank the Tribunal for the opportunity to contribute to this review, both in writing and at the public hearing, and would welcome the opportunity to discuss any of the points raised above in further detail.

Yours faithfully,

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¹⁸ The ASX made underlying NPAT of \$510.0m in FY25 and \$536.4m in FY26. PEXA's allowable post-tax return-on-capital would be just \$18m under IPART's proposed methodology.