NEW ZEALAND'S EXCHANGE
TE PAEHOKO O AOTEAROA

# Tiered Compliance

## Consultation Paper

July 2026

# Contents

This Consultation Paper has been prepared by NZX to seek comment on the proposals contained in the paper, with a view to ensuring that the proposals will enable NZX to operate its markets on a fair, orderly and transparent basis. The proposals set out in this paper do not reflect NZX's concluded views of the matters raised.Capitalised terms which are not defined in this Consultation Paper have the same meanings given to them in the NZX Listing Rules.

# Introduction

## Background

It is a common feature for developed markets to include a ‘growth’ market or segment within their broader listing framework to accommodate earlier-stage or smaller issuers with proportionate, and typically reduced, admission and ongoing compliance requirements.

NZX does not currently operate a ‘growth market’ for small and mid-sized issuers, as the NZAX Market and NXT Market were dissolved as part of the outcomes of the 2018 holistic Listing Rule review.

NZX is aware that a substantial number of Issuers listed on its market are smaller growth companies, who would benefit from settings that are appropriately calibrated to avoid a disproportionate compliance burden relative to their size, scale and shareholder base.

The creation of a tiered compliance framework supports proportionality, efficiency, inclusion and innovation. The OECD[1] recently recommended the further development of a growth equity market within New Zealand’s capital markets’ framework with lighter listing governance and disclosure requirements as one of the mechanisms by which to unlock New Zealand’s capital markets settings for growth.

This review builds on the work undertaken by NZX in 2025 to develop a bespoke Guidance Note for co-operative companies.

## Objectives of the review

The objectives of the review are to ensure that:

- SME Issuers are subject to regulatory settings that are proportionate to their size and scale, and provide sufficient flexibility to enable growth and innovation for New Zealand’s capital markets, and
- suitable governance and regulatory protections exist for investors and other stakeholders to have confidence that NZX’s markets operate in a fair, orderly and transparent manner, including because there is appropriate visibility of the differential obligations that apply to SME Issuers.

## Consultation Process

Attached to this paper are Exposure Drafts of :

- proposed amendments to the NZX Listing Rules (**Rules**).
- proposed amendments to the NZX Corporate Governance Code (**Code**).
- a new Guidance Note for SME Issuers.[2]

[1] OECD (2026), *OECD Economic Surveys: New Zealand 2026*, OECD Publishing, Paris, https://doi.org/10.1787/3ec5de98-en.

[2] NZX will update its existing Guidance Notes to alert users that its existing guidance is only relevant to SME Issuers to the extent that the relevant Rule applies on the same basis to an SME Issuer, and that bespoke SME Issuer guidance in relation to differential obligations is included in the new Guidance Note, as part of delivering the outcomes of this review. In addition bespoke Practice Notes for SME Issuers will be developed, as relevant.

We invite interested parties to provide their views on the proposals contained in this paper by emailing a written submission to policy@nzx.com. Alternatively, if you would prefer to provide a verbal submission, please email NZX Policy to arrange a time to speak with us.

The closing date for submissions is **Friday, 28 August 2026**.

NZX may publish the submissions it receives, so please clearly indicate if you do not wish for your submission to be published, or if part of your submission contains confidential information.

If you have any queries in relation to this review, please email policy@nzx.com or contact:

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# Executive Summary

NZX has reviewed its regulatory settings with a view to developing a tiered compliance framework for SME Issuers.

NZX considers that these changes will promote innovation and flexibility in NZX's markets, by encouraging confident and informed participation by investors and Participants. These changes will continue to enable NZX to operate its markets on a fair, orderly, and transparent basis, consistent with NZX's obligations under the Financial Markets Conduct Act 2013 (**FMC Act**).

The proposals and the rationale for the proposed changes are explained in more detail in this consultation paper.

## SME Issuer proposals

In summary NZX is proposing a framework with targeted settings in the following areas:

- **Governance**: SME Issuers would be required to have one resident and Independent Director (rather than two of each), and would not be required to have an Audit Committee,
- **Capital Raising**: SME Issuers would have a 25% rather than 15% placement capacity, and more permissive share purchase plan settings, and
- **Related Party Transactions**: SME Issuers would be able to utilise a 'pre-break' announcement regime in relation to Material Transactions with Related Parties.

## Additional consultation proposals

In addition, NZX is proposing to change the de-minimis threshold below which shareholder approval is not required for Related Party Transactions for all Issuers, by increasing the threshold from $250,000 to $500,000.

We are also consulting on whether the look through provisions in the Rules that require an Issuer to look through the NZ CSD's holdings to underlying holders should be expanded to require a look through of any custodian's holdings.[3] These requirements relate to annual report disclosures.

[3] Rule 3.7.1(c).

# Consultation Snapshot

We have set out in the table below a snapshot of the proposed changes to NZX's regulatory policy to create tiered compliance settings for SME Issuers. The table identifies where the proposal is discussed in this paper, and the Exposure Draft of the Guidance Note, Rules and Code that accompany this paper.

| Consultation Proposal | Consultation Paper | Guidance Note | Rules / Code |
|---|---|---|---|
| **1 Eligibility and Transparency** | | | |
| • SME Eligibility Criterion | 1.1 | 1.1 | Definitions |
| • Spread | 1.2 | | Rule 1.4.1(b), and Rule 1.5.4 |
| • Designation | 1.3 | 1.2 | Rule 1.24.2 |
| • Warning Statement | 1.4 | 1.2 | Rule 1.5.5 |
| **2 Transition** | | | |
| • Cessation of SME Eligibility | 2.1 | 1.3 | Rule 1.7.1 |
| • Transition Process | 2.2 | 1.3 | Rule 1.7.2 and Rule 1.7.3 |

| Consultation Proposal | Consultation Paper | Guidance Note | Rules / Code |
|---|---|---|---|
| **3 Governance** | | | |
| • Independent Directors<br>• Resident Directors<br>• Director with financial or accounting experience<br>• Audit Committee settings | 3.1<br>3.2<br>3.3<br>3.4 | 2.1<br>2.1<br>2.2<br>2.2 | Rule 1.4.1(d), Code recommendation 2.8<br>Rule 1.4.1(c)<br>Rule 1.5.1<br>Rule 1.3.1(a), Code recommendation 3.1 |
| **4 Disclosure** | | | |
| • Periodic reporting timeframes<br>• Annual Report Disclosures | 4.1<br>4.2 | 3.1<br>3.2 | Rule 1.4.1(e), Rule 1.4.1(f)<br>Rule 1.3.1(b) and Rule 1.6 |
| **5 Capital Raising** | | | |
| • Placement capacity<br>• SPP thresholds | 5.1<br>5.2 | 4.1<br>4.2 | Rule 1.4.1(g)<br>Rule 1.4.1(a) and SPP Definition |
| **6 Related Party Transactions** | | | |
| • Transaction Announcement regime<br>• Shareholder meeting requisition | 6.1<br>6.1 | 5.1<br>5.2 | Rule 1.4.1(h), Rule 1.4.1(i), Rule 1.5.2, Rule 1.5.3<br>Rule 1.5.2 |

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# 1 Eligibility and Transparency

## 1.1 SME Eligibility Criteria

NZX is proposing that an Issuer, or an applicant seeking a Listing, is eligible to become an SME Issuer where its Average Market Capitalisation is $125 million or less, assessed as at the balance date of each of its two most recent accounting periods (**SME Eligibility Criterion**).

Qualifying entities will be eligible to apply to be designated as an SME Issuer, on a voluntary basis. The consequence of this designation is that differential obligations will apply under the NZX Listing Rules.

### Market capitalisation

An entity must assess its eligibility based on whether it has an Average Market Capitalisation that is $125 million or less, as at the balance date of each of the entity's two most recent accounting periods. This assessment period approach aligns with the methodology used to determine whether an entity is a 'large listed issuer' under the climate-related disclosure framework contained in the Financial Markets Conduct Act 2013 (**FMC Act**). As the definition of Average Market Price means the lesser of the volume weighted average price over 20 Business Days before Day A (the balance date) or 5 Business Days before Day A (the balance date), this test already incorporates a representative pricing period for deriving valuation, rather than relying on a single point-in-time snapshot at balance date.

NZX considers that the $125 million dollar maximum size threshold is appropriate, as this reflects the size that an issuer may grow to before being required to move from the Catalist market[4] to an alternative market (adjusted for CPI). As at 31 March 2026, NZX understands that approximately 46 Issuers would qualify as eligible for SME Issuer status.

### Additional or alternative criteria

NZX is interested in views of submitters as to whether any alternative or additional criteria should be used to determine an entities eligibility. In particular whether it would be appropriate to use the size of an entity's shareholder base or index status (for example: where an entity has fewer than 1000 shareholders[5] or has been excluded from the S&P/NZX 50 Index for six months or more of its most recent fully year accounting period).

NZX is also be interested in views from submitters as to whether, if additional eligibility criteria were imposed, it would be appropriate to also include a ceiling on an Issuer's Average Market Capitalisation, above which an Issuer would cease to be eligible (for example: where an Issuer has been excluded from the S&P/NZX 50 Index but has an Average Market Capitalisation above

[4] Rule 3.2 of the Catalist public market Issuer Rules, January 2025.

[5] NZX considers that this should be assessed on a 'look through' basis where a custodial entity holds legal title, see section 7.1 of this Consultation Paper.

$250 million it would lose eligibility status).

### 1.2 Spread

NZX is proposing to reduce the spread requirement for a candidate for listing who wishes to be accredited as an SME Issuer, so that it is able to satisfy spread when it has at least 10% of its Equity Securities for which Quotation is sought held by 100 or more Non-Affiliated holders, rather than the standard 20% requirement.

This proposal is intended to acknowledge that entities who qualify as SME Issuers typically have a smaller and more concentrated shareholder base.

In order to ensure appropriate transparency for investors, NZX is proposing that where the entity falls below the standard 20% threshold, that it include a prescribed warning statement[6] in its Offer Document or Profile noting that the consequences of it having a lower free float than a standard Issuer.

### 1.3 Designation

As noted in the Introduction, one of the objectives of the review is to ensure that there is appropriate transparency for investors where an Issuer is an SME Issuer.

NZX is therefore proposing that an SME Issuer and its Quoted Equity Securities would be designated as 'SME'. The SME Issuer would be required to ensure that its designation is prominently displayed in its annual report, Offer Documents and Profile. In addition the SME Issuer would be required to provide a templated warning statement in its announcements as explained below.

### 1.4 Warning Statement

NZX is proposing that an SME Issuer must include the following statement in all announcements that it provides through the market announcement platform, and in its annual report:

> *The Issuer is an SME Issuer. Investors should be aware that differential NZX Listing Rule requirements apply, including in relation to governance, capital raising and related party transactions.*

NZX considers that this statement, coupled with the SME Issuer's designation, provides appropriate visibility to investors as to the differential obligations that apply to the SME Issuer.

**Consultation Questions: Section 1**

1. Is the SME Eligibility Criterion appropriate?
2. Should alternative or additional SME Eligibility Criteria apply?
3. If so, do you consider that it would be appropriate for NZX to also impose a 'ceiling' to prevent larger Issuers who may fall within one of the SME Eligibility Criteria from becoming SME Issuers? If so, what do you consider the nature of the ceiling should be?

[6] Refer to Rule 1.5.4.

4. Do you consider that the SME Designation and proposed warning statement will ensure that investors and other stakeholders are appropriately informed of the differential treatment of an SME Issuer under the Rules?

# 2 Transition

## 2.1 Cessation of SME Eligibility

NZX is proposing that where an SME Issuer ceases to meet the SME Eligibility Criterion, that it must transition to standard Issuer status.

NZX considers this to be appropriate because the SME Issuer regime is designed to provide relief for SME Issuers, with the differential transactional settings acknowledging that smaller entities may have more limited financial and human resources than larger listed entities. The differential governance settings recognise that SME Issuers will typically have a smaller and more proximate shareholder base.

It is inappropriate for entities to retain the ability to rely on these more permissive requirements as their resources and shareholder base evolve.

As noted in the Guidance Note, NZX expects an SME Issuer to implement monitoring arrangements in relation to its Average Market Price to enable it to determine whether it complies with the SME Eligibility Criteria on an ongoing basis.

NZX is also proposing a requirement for an SME Issuer to include disclosure in its annual report to confirm that it continues to meet the eligibility requirements.

## 2.2 Transition process

### Transition Period

An SME Issuer will be required to transition to standard Issuer status within 6 months of ceasing to meet the SME Eligibility Criterion.

This transition period is designed to enable an SME Issuer to implement arrangements to ensure that it is able to meet the standard Rule requirements. In particular an SME Issuer may need to make changes to its board composition to ensure that it has two Independent Directors and two New Zealand resident Directors (in accordance with Rule 2.1) and has convened an Audit Committee which meets the composition requirements of the Rules.

NZX considers that a six-month grace period is appropriate to support an orderly transition. The SME Eligibility Criterion is assessed over extended eligibility periods, which provides further lead-time for SME Issuers to anticipate and manage a transition out of the regime.

### Transition Announcement

NZX is proposing that where an SME Issuer becomes aware that it ceases to meet the SME Eligibility Criteria that it must announce:

- its intended transition date,

- the date by which it is required to transition, and
- the consequences of its transition for its shareholders (such as any intended changes to its governance arrangements).

NZX considers that this will assist with ensuring an orderly transition process, and provide shareholders with timely and appropriate visibility of the implications of the transition.

**Consultation Questions: Section 2**

5. Do you consider the six month transition period to allow an appropriate amount of time for an SME Issuer to ensure that it is able to meet the requirements of the Rules (particularly in relation to the standard governance and board composition requirements)?
6. Do you consider that any additional information should be included in the transition announcement?

# 3 Governance

NZX considers that it is appropriate to apply differential governance requirements to SME Issuers, in particular because they are likely to have a smaller and more proximate shareholder base, reducing the potential conflict between shareholders and management (agency risk).

This aligns with the recommendations of the OECD that lighter, proportionate governance requirements would be appropriate for a growth equity market in New Zealand.

## 3.1 Independent Directors

NZX is proposing that an SME Issuer be required to have one Independent Director, rather than two Independent Directors.

The purpose of the Independent Director requirements is to ensure that an Issuer's board has a sufficient number of Directors who do not have a disqualifying interest or relationship that negatively affects their capacity (rather than ability) to act in the best interests of the Issuer, represent the interests of the Issuer's Financial Product holders generally, and bring an independent view to decisions in relation to the Issuer. Both Independent and non-Independent Directors are subject to the same legal duties to act in this manner.

Smaller issuers are likely to have a closer relationship with their shareholder base, which reduces the potential for a conflict of interest between shareholders and management, and reduces the need for Independent Directors.

The proposal to reduce the requirement from two Independent Directors to one, is also consistent with the settings of the Catalist stepping stone market, and ASX which does not require an issuer (including large issuers) to have any independent directors.

This proposal also acknowledges the difficulty smaller issuers face in attracting Independent Directors, and that this is commonly cited as a significant barrier to an entity undertaking a public listing.

NZX is proposing to retain Code recommendation 2.8 which would recommend that an SME Issuer has a majority of Independent Directors. It is proposed that this would be reported against on an 'apply and disclose' basis as explained in section 4.2 of this Consultation Paper.

## 3.2 Resident Directors

NZX is proposing that an SME Issuer be required to have one New Zealand resident Director, rather than two resident Directors.

The primary purpose of the Director residency requirements is to ensure that there are a sufficient number of Directors who are familiar with the New Zealand environment, and so that NZX can contact an Issuer's Director when necessary.

NZX considers that it is appropriate to reduce the Director residency requirements for SME Issuers, to provide additional flexibility, noting the difficulty that smaller entities can face in attracting Director candidates. Internationally it is reasonably common for issuers to be required to only have one locally resident director, with these requirements frequently being derived from legislation.

## 3.3 Director with financial or accounting experience

NZX is proposing to remove the requirement for an SME Issuer to have an Audit Committee, which is explained in further detail in section 3.4 of this Consultation Paper.

As a result, where an SME Issuer elects not to convene an Audit Committee the functions of the committee will be conducted by the SME Issuer's board. As such NZX proposes that an SME Issuer must ensure that its board includes one Director who has financial or accounting expertise.

## 3.4 Audit Committee meetings

NZX is proposing to remove the requirement contained in Rule 2.13 that an SME Issuer is required to have an Audit Committee that is comprised of one Independent Director and one Director with a financial or accounting background.

Recent NZMDT proceedings indicate that smaller issuers find this obligation difficult, and NZX considers it appropriate to alleviate this governance setting. This is also consistent with the governance settings imposed by ASX which only requires issuers in the S&P All Ordinaries Index to convene an Audit Committee. In addition ASX only imposes composition requirements in relation to the committee where the issuer is also included in the S&P/ASX 300 Index.[7]

NZX intends that Code recommendation 3.1 would apply so as to recommend that an SME Issuer convene an Audit Committee, and that the committee be comprised of one member who is an

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[7] Refer to footnote 45 in the ASX Corporate Governance Council Corporate Governance Principles and Recommendations 4th Edition.

Independent Director with a financial and accounting background, and a Chair who is an Independent Director.

NZX is interested in submitters' views as to whether Code recommendation 3.1 should be reduced for SME Issuers such that the Code recommends that the SME Issuer's Audit Committee meet the composition standards of Rule 2.13 (which requires the committee to include one Independent Director and one Director with financial or accounting expertise).

**Consultation Questions: Section 3**

7. Do you consider the director independence settings to be appropriate? Should Code recommendation 2.8 continue to apply to SME Issuers?

8. Do you consider the remaining proposed board composition settings for SME Issuers to be appropriate?

9. Should Code recommendation 3.1 continue apply to SME Issuers (such that it is recommended that one member of its Audit Committee has an Independent Director who has a financial and accounting background, and an Independent Director as Chair), or should this be modified to recommend that the Audit Committee comprises one Independent Director and one Director with a financial or accounting background (consistent with current Rule 2.13)?

# 4. Disclosure

## 4.1 Periodic reporting timeframes

NZX is proposing to extend the timeframes for periodic reporting so that Results Announcements must be released 75 days (rather than 60 days) after the end of each financial year or half year. In addition it is proposed that the annual reporting timeframe be extended to four months (rather than three months) after the end of the financial year.

These amendments are designed to reflect that SME Issuers have less financial and human resources than standard Issuers, which can cause resource constraints including in relation to obtaining external advice, and that it is therefore appropriate to provide more flexibility to the reporting timeframe requirements.

## 4.2 Annual Report disclosures

NZX is proposing a number of modified annual reporting settings for SME Issuers, as described in more detail below.

### Governance reporting: NZX Corporate Governance Code disclosures

NZX is proposing a fundamental change to the requirements for SME Issuers in relation to the reporting against the Code. Instead of reporting on a 'comply or explain' basis, SME Issuers would report on an 'apply and disclose' basis. This means that an SME Issuer would not be required to explain the reasons for adopting alternative corporate governance practices where it has not adopted a Code recommendation. An SME Issuer would simply be required to state whether or not it had adopted a Code recommendation.

NZX considers that this would significantly simplify an SME Issuer's reporting obligations, and that users of corporate governance disclosures would be able to infer that departures from the Code are likely to reflect proportionality, resource constraints and stage of development considerations as a result of the SME status of the Issuer.

As part of the development of the consultation proposals, NZX considered retaining the 'comply or explain' disclosures for some recommendations, by differentiating between the respective Code Principles. However, noting the changes that are proposed to the Board and Audit Committee composition Rule requirements, and the complexity that this would introduce, we determined not to progress with this proposal.

### SME Eligibility and Warning Statement

NZX is also proposing that SME Issuers include a prescribed warning statement in the annual report that investors should be aware that differential Rule requirements apply to the SME Issuer, including in relation to governance, capital raising and related party transactions.

The SME Issuer would also be required to confirm that it remains eligible for SME Issuer status in its annual report.

These proposals are designed to ensure that investors and other users of the annual report are able to easily identify the consequences of an Issuer holding an SME designation, and create a control to ensure that the SME Issuer continues to assess its eligibility on an ongoing basis.

**Consultation Questions: Section 4**

10. Do you consider that the 'apply and disclose' regime will create greater flexibility for SME Issuers in relation to their reporting practices by simplifying the information that is required to be reported?

11. Do you agree that the lack of an explanation where an SME Issuer has not adopted a Code recommendation is appropriate, because users of the disclosures can naturally infer that this will be due to the SME characteristics of the SME Issuer?

12. Do you agree that the 'apply and disclose' regime appropriately balances compliance burden concerns with the need for users to receive meaningful disclosures in relation to corporate governance practices?

13. Are there any specific Code recommendations that you consider an SME Issuer should report against on a 'comply or explain' basis, if so please identify these recommendations and explain why 'comply or explain' basis reporting would be appropriate.

# 5 Capital Raising

## 5.1 Placement thresholds

NZX is proposing to increase the placement capacity for non pro-rata issuances that may be undertaken without shareholder approval to 25% (rather than 15%) within any rolling 12 month period.

NZX considers this increase to be appropriate because SME Issuers may have more limited access to a broad institutional investor base from which to source capital, and the costs and execution risks associated with pro-rata offers or seeking shareholder approval can be proportionately higher for smaller issuers.

An alternative to the increase in the placement capacity would be to require an SME Issuer's shareholders to provide up-front approval of the increased capacity, similar to the approach taken under ASX Listing Rule 7.1A.[8] However this approach would provide less certainty and flexibility for SME Issuers. It is also relevant to note that the NZAX market provided for a 25% placement capacity, and that the NXT market allowed for a 20% placement capacity.

## 5.2 Share Purchase Plan thresholds

NZX is also proposing more permissive Share Purchase Plan (**SPP**) settings, by raising the number of Equity Securities that can be issued through an SPP from 10% to 30%. This better enables an SME Issuer to prevent existing holders from being diluted when undertaking a capital raising, particularly because it is common for Issuers to undertake a placement in conjunction with a SPP.

In order to mitigate concerns that larger holders are sometimes diluted under a SPP structure because smaller shareholders can participate at levels above their pro-rata entitlement, NZX is proposing to reduce the per holder participation limit from $50,000 to $20,000.

It is relevant to note that both the NZAX and NXT markets allowed SPPs to be conducted up to a 30% thresholder subject to a per holder limit of $15,000 (which was consistent with the standard per holder limit at that time).

**Consultation Questions: Section 5**

14. Do you consider that it is appropriate to provide more certainty and flexibility for SME Issuers by increasing the placement capacity from 15% to 25%, or would it be more appropriate for shareholders to endorse a headroom uplift by ordinary or special resolution?

15. Do you support the changes to the SPP settings? Is the reduction in the per shareholder participation amount appropriate?

[8] ASX Listing Rule 7.1A allows shareholders to approve an additional 10% placement capacity by special resolution for issuers outside of the S&P/ASX 300 Index where the issuer's market capitalisation is less than $300 million.

# 6 Related Party Transactions

## 6.1 Transaction Announcement regime

NZX is proposing to provide more flexibility for SME Issuers undertaking a Material Transaction with a Related Party by allowing for such transactions to be undertaken through a 'pre-break' regime. This would enable an SME Issuer to issue a Transaction Announcement, and proceed with the Material Transaction so long as no meeting to consider the transaction has been requested by 5% of shareholders, within 10 Business Days of the announcement. Shareholders who are prohibited from voting on a resolution to approve the transaction by virtue of the voting restrictions that are contained in Rule 6.3 would not be eligible to be counted within the 5%.

NZX is proposing guidance within the Guidance Note as to the information that would be expected in a Transaction Announcement. This broadly replicates the information to be included in a notice of meeting to consider the transaction, with the notable exception that an Appraisal Report would not be required to accompany the Transaction Announcement.

Instead, Rule 1.5.3(b) will require that the Transaction Announcement must include a certificate from the non-interested Directors that confirms whether they consider the transaction to be in the interests of each of (i) the SME Issuer, (ii) all of the SME Issuer's shareholders, and (iii) the SME Issuer's shareholders who are not prevented from voting on the transaction under Rule 6.3 (i.e. those shareholders who are not associated with the Related Parties to the transaction). The grounds for each of these certifications must also be included in the Transaction Announcement.

NZX considers that these settings provide more flexibility for SME Issuers who may be more likely to fall within the Related Party Transaction regime given the close proximity to their shareholder base with whom they may look to transact, and given the growth stage of the entity.

In the event that shareholders requisition a meeting to consider the transaction the SME Issuer would be required to obtain shareholder approval in line with the standard settings that apply under Rule 5.2.1, which include that an Appraisal Report would be required to be included within the meeting materials.

**Consultation questions: Section 6**

16. Do you consider it appropriate for SME Issuers to be able to enter into a Material Transaction with a Related Party in reliance on a pre-break regime?

17. Do you consider it appropriate that the Transaction Announcement would not be required to be accompanied by an Appraisal Report, noting the requirement for a Directors' certificate to confirm the fairness of the transaction, considering the reduced compliance and resource burden effects on the SME Issuer against the impacts on investors?

# 7 Additional Proposals

NZX is also proposing two changes that will affect all Issuers equally. These are explained below.

## 7.1 Related Party Transaction de minimis threshold

The Rules currently provide an exception from the need for an Issuer to obtain shareholder approval under Rule 5.2.1 for a Material Transaction with a Related Party, where the total value of the transaction or cost to the Issuer in relation to a contract for personal services is $250,000 or less.[9]

This threshold has not been revised in 20 years, and NZX considers it appropriate to lift this threshold to $500,000 to broadly align with CPI increases. NZX notes that Rule 3.4 will continue to require Issuer to make disclosure of any transaction with a Related Party that exceeds 5% of the Issuer's Average Market Capitalisation, which will provide appropriate visibility to investors and other stakeholders of significant Related Party Transactions.

## 7.2 Custodial holdings

As part of considering the design of the SME Eligibility Criterion, NZX has reviewed how custodial holdings are treated in the Rules for the purposes of identifying shareholder numbers and holdings.

This is included in Rule 3.7.1(c) which requires an Issuer to look through the holdings held by New Zealand Central Securities Depository Limited when calculating the 20 largest holdings of Quoted Financial Products for the purposes of annual report disclosures.

As market practice has now evolved so that shareholdings are now more frequently held in custody (for example by Sharesies), NZX is interested in submitters views as to whether Rule 3.7.1(c) is broadened to require an Issuer to look through all custodial holdings for reporting purposes.

**Consultation questions: Section 7**

18. Do you agree that the de minimis Related Party Transaction approval threshold should be lifted from $250,000 to $500,000?

19. Do you agree that issuers should look through all custodial holdings (not just those of NZ CSD) when determining their largest shareholders, and number of shareholders for reporting purposes?

20. What practical difficulties may arise if Issuers were required to look through custodial holdings to identify the underlying shareholders for the purposes of the Rules?

[9] Rule 5.2.2(i).