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Disclaimer

This Guidance Note has been issued to promote commercial certainty and assist market participants. It provides guidance to Issuers and their advisors on NZX's interpretation of the NZX Listing Rules. This Guidance Note sets out NZX's general approach to the subject, but is not to be regarded as a definitive statement of the application of the Rules in every situation. Guidance Notes do not constitute legal advice and are only a guide to NZX's policy & practice. NZX recommends that Issuers take advice from qualified professionals.

GUIDANCE NOTE –SPREAD**INTRODUCTION**

This Guidance Note has been prepared to provide guidance to Issuers as to when NZX is likely to be satisfied that a “sufficiently liquid market” exists in a class of Securities for the purposes of Listing Rule 5.2.3.

LISTING RULE 5.2.3

Listing Rule 5.2.3 requires a class of quoted securities to have at least 25% of the securities on issue to be held by at least 500 Members of the Public or NZX to be otherwise satisfied that the Issuer will maintain a spread of Security holders that is sufficient to ensure that there is a sufficiently liquid market in the Class of Securities. The policy behind this rule is to ensure that security holders have a ready market to purchase or sell securities, thereby enabling entry and exit strategies to be effected. In addition the policy of the rule is to encourage efficient pricing.

BACKGROUND TO LISTING RULE 5.2.3

The purpose of this Rule is to set a benchmark for Issuers in terms of the spread of its security holders. The smaller the difference between the bid and the offer price and market depth in the order book (how many bids and offers there are) taken together are key considerations in determining whether a “sufficiently liquid market” exists. These features are likely to allow investors to purchase or sell the quoted securities at prices closer to the last market price. A larger number of Security holders with sizable holdings is more likely to result in tighter differences between the bid and the offer price and market depth than where a Class of Securities has very few holders. NZX acknowledges that there are differences in liquidity between securities.

Listing Rule 5.2.3 states that NZX may approve the spread of a Class of Securities where it is satisfied that there will be a sufficiently liquid market in that Class of Securities. This guidance note sets out two instances where NZX would provide such approval – (a) where there is sufficient free float; and (b) where there is a designated Market Maker in that Class of Securities.

APPROVAL BY NZX UNDER LISTING RULE 5.2.3

(a) *Free Float Methodology*

Free float is commonly used in index calculations to determine the market capitalisation applicable to an index weighting by only calculating the number of securities readily available in the market. This method excludes locked-in securities - a government holding is an example of locked-in securities. Often, larger holdings which are considered to be strategic stakes are considered locked-in securities.

The objective behind free float methodology is similar to the objective of requirements around shareholder spread and where a large number of securities are held by Members of the Public, NZX would be satisfied that there is a sufficient number of securities readily available to ensure a readily available market in that class of securities, regardless of the overall percentage held by those Members of the Public.

Accordingly, NZX would grant approval under Listing Rule 5.2.3 where the aggregate market capitalisation of securities held by at least 500 Members of the Public is at least \$50 million, as NZX considers that there is a spread of Security holders which is sufficient to ensure that there is a sufficiently liquid market in that Class of Securities.

(b) *Market Makers*

Market Makers commit to provide a market in a given Security by maintaining bid and offer prices on the order book for that security. Section 12 of the NZX Participant Rules sets out the requirements to be designated a Market Maker in a specified Security.

As a Market Maker will maintain continuous bids and offers at reasonable spreads (a requirement of being designated a Market Maker), NZX would grant approval under Listing Rule 5.2.3 where there is a Market Maker in that Class of Securities and an ongoing commitment on the part of that Market Maker to make markets in that security.

OTHER CLASSES OF SECURITIES

Listing Rule 5.2.3 applies to each Class of Security. Accordingly, where an Issuer has two or more Classes of Quoted Securities, each Class must individually comply with Listing Rule 5.2.3.

FAILURE TO COMPLY WITH LISTING RULE 5.2.3

Issuers should note that the minimum prescribed percentage of securities must remain in public hands at all times. If the percentage falls below the minimum, NZX reserves the right to suspend trading until appropriate steps have been taken to restore the minimum percentage of securities in public hands. NZX may provide an Issuer with a reasonable time to comply with the rule if it were to fall below spread requirements subsequent to listing, provided that the Issuer has not been in breach of the rule for greater than one month prior to NZX becoming aware that the Issuer does not meet spread. To this end Issuer's are encouraged to raise issues of compliance with this rule to NZX at the earliest possible opportunity.

BACK DOOR LISTINGS

It has been common in the past to provide waivers to Issuers that have undergone a back door listing. Waivers have usually been granted on the basis that the new owners would sell down their holding over time. However, in many cases where waivers have been granted the intended sell down has not eventuated

because liquidity has been poor, with the result that the shareholder with the commitment to sell down would not achieve optimum pricing. As a result, the Issuer does not meet the spread requirements at the end of the period because no sell down has taken place. NZX will not grant ongoing waivers from spread requirements for backdoor listings beyond any original relief granted (which in any event will not extend beyond 12 months), unless exceptional circumstances exist. An issuer listed on the NZSX failing to meet spread at the end of any period for which a waiver has been granted would be required to transition to the NZAX market.