

OBLIGATIONS ON THE EXPIRY OF A WARRANT

The purpose of this Guidance Note	<ul style="list-style-type: none"> To assist warrant-issuers to understand their obligations when a warrant expires
The main points it covers	<ul style="list-style-type: none"> ASX's expectations where a stop loss or barrier warrant terminates due to a stop loss or barrier event Payments on expiry of cash settled warrants A warrant-issuer's obligations on the expiry of an exercised deliverable warrant The calculation of assessed value payments on expiry of unexercised deliverable warrants
Related materials you should read	<ul style="list-style-type: none"> ASX Operating Rules Guidance Note 12 <i>Warrant and Aqua Product Liquidity Requirements</i>

History: Guidance Note 11 amended 15/06/15. Previous versions of this Guidance Note were issued in 03/14, as Guidance Note 9 under the ASX Market Rules in 03/04 and 10/05, and as Guidance Note 4/99 under the ASX Business Rules in 09/99.

Important notice: ASX has published this Guidance Note to assist participants to understand and comply with their obligations under the ASX Operating Rules. It sets out ASX's interpretation of the ASX Operating Rules and how ASX is likely to enforce those rules. Nothing in this Guidance Note necessarily binds ASX in the application of the ASX Operating Rules in a particular case. In issuing this Guidance Note, ASX is not providing legal advice and participants should obtain their own advice from a qualified professional person in respect of their obligations. ASX may withdraw or replace this Guidance Note at any time without further notice to any person.

Table of Contents

1. Introduction	2
2. ASX's expectations for stop loss and barrier warrants	2
3. Expiry of cash settled warrants	2
4. Expiry of exercised deliverable warrants	3
5. Expiry of unexercised deliverable warrants	3

1. Introduction

This Guidance Note is published to assist warrant-issuers to understand their obligations when a warrant expires.

2. ASX's expectations for stop loss and barrier warrants

Some warrants (commonly referred to as "stop loss" or "barrier" warrants) are issued on terms that they expire early if the price of the underlying instrument reaches a particular level (referred to as a stop loss or barrier "event" respectively).

A warrant-issuer that has issued a stop loss or barrier warrant is expected to monitor trading in the underlying instrument closely to determine if a stop loss or barrier event is imminent.

Where there is a reasonable risk of a stop loss or barrier event occurring, a warrant-issuer should consider contacting the holders of the warrant and discuss with them whether they wish to sell their warrant and/or roll into an equivalent warrant with a different stop loss or barrier level.

If a stop loss or barrier event appears imminent, the warrant-issuer should ensure that it has at least one authorised trader available during normal trading hours who can liaise with ASX Limited (ASX) if the stop loss or barrier event occurs.

If and when a stop loss or barrier event occurs, a warrant-issuer should generally:

- immediately request ASX to suspend trading in the affected warrant;
- cease trading in the affected warrant; and
- immediately terminate any market-making activity in the affected warrant and remove any existing bids and offers from the market,

except as otherwise required to meet the warrant's terms of issue.¹

3. Expiry of cash settled warrants

At the expiry of a cash settled warrant, the warrant-issuer must pay to the warrant-holder an amount equivalent to the intrinsic value of the warrant holding at the expiry date.²

The intrinsic value must be calculated in accordance with the terms of issue of the warrant³ and paid within 10 business days of its calculation.⁴

¹ Some warrants, for example, require an issuer to continue trading for a given period following the occurrence of a stop loss or barrier event to allow warrant-holders the opportunity to sell the warrant back to the warrant-issuer.

² ASX Operating Rules Schedule 10.10.1. A stop loss or barrier warrant that terminates due to the occurrence of a stop loss or barrier event may have no intrinsic value and therefore not require a payment at termination (although this will depend on the warrant's terms of issue).

³ ASX Operating Rules Schedule 10.10.2.

⁴ ASX Operating Rules Schedule 10.10.4 and ASX Operating Rules Procedure 10.10.4.

If there is a dispute in relation to the calculation of intrinsic value, it should be referred to ASX for resolution, whose decision will be final.⁵

4. Expiry of exercised deliverable warrants

At the expiry of a deliverable warrant, if the warrant-holder gives notice of exercise within the time prescribed in the terms of issue, the warrant-issuer must deliver the underlying instrument to the warrant-holder in accordance with the terms of issue.

If the warrant-issuer fails to do so within 20 business days of the exercise date, the warrant-holder may, by giving written notice to the warrant-issuer, request the warrant-issuer to pay an amount by way of liquidated damages calculated in accordance with the following formula:

For call warrants: $L = 1.1 \times S$

For put warrants: $L = 1.1 \times E$

where:

L is the liquidated damages amount;

S is the arithmetic average of the daily volume weighted average prices of the underlying instrument on the 5 trading days following the expiry date (excluding special, late and overseas sales); and

E is the exercise price of the warrant.⁶

The liquidated damages must be paid within 10 business days of the receipt of the request from the warrant-holder.⁷

5. Expiry of unexercised deliverable warrants

At the expiry of a deliverable warrant, if the warrant-holder fails to give notice of exercise within the time prescribed in the terms of issue, the warrant must be settled by an assessed value payment.⁸

The assessed value payment must at least be equal to the intrinsic value of the warrant less reasonable costs.⁹ The intrinsic value¹⁰ and reasonable costs¹¹ must be calculated in accordance with the terms of issue of the warrant and paid within 10 business days of its calculation.¹²

If the assessed value payment is not prescribed in the terms of issue, then where:

- the warrant-holder fails to give notice of exercise within the time prescribed in the terms of issue;
- the warrant has an intrinsic value equal to or greater than 5% of the exercise price of the warrant; and
- the terms of issue refer to the ASX Operating Rules for the calculation of the assessed value payment,

the amount of any settlement by an assessed value payment must be calculated as follows:

⁵ ASX Operating Rules Schedule 10.10.3.

⁶ ASX Operating Rules Schedule 10.12.1. The fact that a warrant-holder does not make a request for liquidated damages in accordance with ASX Operating Rules Schedule 10.12.1 does not derogate from the warrant-holder's rights to pursue whatever other legal rights he or she may have (ASX Operating Rules Schedule 10.12.2).

⁷ ASX Operating Rules Schedule 10.12.1(b).

⁸ ASX Operating Rules Schedule 10.11.2. Again, a stop loss or barrier warrant that terminates due to the occurrence of a stop loss or barrier event may have no intrinsic value and therefore not require an assessed value payment at termination (although this will depend on the warrant's terms of issue).

⁹ ASX Operating Rules Schedule 10.11.4.

¹⁰ ASX Operating Rules Schedule 10.11.5.

¹¹ ASX Operating Rules Schedule 10.11.6.

¹² ASX Operating Rules Schedule 10.11.8 and ASX Operating Rules Procedure 10.11.8.

- intrinsic value must be calculated in accordance with the following formulae:

For call warrants: $I = S - E$

For put warrants: $I = E - S$

where:

I is the intrinsic value of the warrant;

S is the volume weighted average price (VWAP) of the underlying instrument during the last two hours of normal trading or such other period determined by ASX, excluding special sales and overseas sales on the expiry date; and

E is the exercise price of the warrant; and

- the assessed value payment must at least be equal to the amount calculated in accordance with the following formulae:

For call warrants: $P = 0.9 (V - E)$

For put warrants: $P = 0.9 (E - V)$

where:

P is the amount of the assessed value payment;

V is the arithmetic average of the daily volume weighted average prices of the underlying instrument on the 5 trading days following the expiry date excluding special, late and overseas sales; and

E is the exercise price of the warrant.¹³

Generally, ASX will not make a determination that VWAP for a different period (ie something other than the last two hours of normal trading on the expiry date¹⁴) should be used to calculate "S" in the formula above, provided the following guidelines are met:

- the home exchange of the issuer of the underlying instrument is ASX;
- the underlying instrument is quoted on ASX at the time of expiry of the warrant; and
- in the opinion of ASX, the underlying instrument is widely held and actively traded in the underlying market.¹⁵

However, ASX considers each warrant on a case-by-case basis and may prescribe that VWAP for a different period should be used to calculate "S" in the formula above even if the underlying instrument meets these guidelines.

If ASX does make a determination that VWAP for a different period should be used to calculate "S" in the formula above, in most cases, ASX will prescribe a longer period. In exceptional circumstances, however, ASX may prescribe a shorter period.

It should be noted that ASX may prescribe another period for the purposes of calculating "S" in the formula above at any time, both before and after the expiry of the warrant in question. Doing so before the expiry of the warrant

¹³ ASX Operating Rules Schedule 10.11.7 and ASX Operating Rules Procedures 10.11.7.

¹⁴ This may be appropriate, in particular, where the underlying instrument is in a trading halt or suspended from quotation during the last two hours of normal trading.

¹⁵ ASX will also take into account whether the underlying instrument has a market capitalisation of at least \$1 billion and liquidity relative to the market liquidity of 40% or more over the six months prior to the expiry or (if it has been listed for less than six months), since it was first listed.

may be appropriate in particular circumstances, for example, where the underlying instrument no longer meets the guidelines above.