

S&P/ASX Index Consultation:

New Zealand and PNG Secondary Listings on ASX and Index Eligibility

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JOINT S&P / ASX

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Background Information

This consultation paper assumes that readers are familiar with the S&P/ASX Index suite and the methodology relating to index eligibility. Background information on the S&P/ASX index suite can be obtained from the Standard and Poor's website at www.standardandpoors.com.

Proposal

To change the index treatment of New Zealand (NZ) and Papua New Guinea (PNG) domiciled companies such that for index eligibility purposes, NZ and PNG companies will be subject to the same domicile test as all other ASX companies.

The index methodology contains a test of domicile that, among other characteristics, has regard to the market upon which the majority of trading in a cross-listed company's securities takes place. Currently this test is not applied to NZ and PNG companies and they are automatically classified as "domestic" for index purposes. The importance of domicile status is that it determines the number of quoted securities taken into account for index ranking and liquidity purposes.

The alignment of NZ and PNG companies for index eligibility purposes will ensure a consistent approach in maintaining existing constituents and determining index eligibility for potential index constituents.

Background

Under the index methodology, a company is considered to be "domestic" if:

- The company is incorporated in Australia and traded on the ASX; or
- The company is incorporated overseas but has an exclusive listing on the ASX; or
- The company is incorporated overseas and is traded on other overseas markets, but most of the trading activity occurs on the ASX.

Generally "a foreign-domiciled" company is a company that is:

- Incorporated overseas; and/or
- Listed on one or more overseas markets; and
- Has the majority of its trading activity occurring on an overseas exchange.

However, all ASX listed New Zealand (NZ) and Papua New Guinea (PNG) domiciled companies are treated as "domestic" for index purposes.

While companies classified as foreign-domiciled are eligible for inclusion in the majority of S&P/ASX indices (with the exception of S&P/ASX All Australian 50 and the S&P/ASX All Australian 200) there is a key difference in their treatment vis-à-vis domestic companies in relation to the quoted securities taken into account for index ranking and liquidity purposes.

For domestic companies, the number of Quoted Shares is the total number of Quoted Shares on issue, while for foreign companies the number represents the Australian shareholding component of the company's issued shares (usually the number of CHESS Depository Interests (CDIs) on issue).

The number of Quoted Shares is relevant to both the calculation of market capitalisation (which determines index ranking) and the calculation of liquidity. For foreign companies, market capitalisation ranking is lower than it would be if total issued capital were used because only the Australian shareholding component of the company's issued shares is taken into account in the calculation. Similarly the measurement of liquidity is based on the relativity between turnover in the Australian market (rather than total global turnover) and the Australian market capitalisation (based on the Australian shareholding component of the company's issued shares).

Index Consultation

The automatic treatment of NZ and PNG domiciled companies as “domestic” produces the anomalous result that:

- Market capitalisation (and accordingly index ranking) can be overstated because the total issued share count rather than just the Australian component of the share count is used in the determination.
- Australian market liquidity can be understated because liquidity is measured on the basis of Australian market turnover relative to total market capitalisation (rather than Australian capitalisation only).

Implications of Change

Adoption of the proposed methodology change will result in a Market Capitalisation calculation that is based on the number of securities on the Australian register of NZ and PNG domiciled companies and Liquidity that will be measured on Australian market trading volume relative to the companies’ Australian market capitalisation.

The impact of the change will vary according to the companies’ circumstances. For NZ and PNG companies that have most of their trading activity occurring on ASX there is likely to be no change. For those that will be reclassified as foreign domiciled (because the majority of their trading activity occurs on their overseas market), and whose issued capital on the Australian register represents less than their total issued capital, it is likely that for the purpose of index inclusion eligibility a lower Market Capitalisation ranking determination will be made. On the other hand, it is possible that a higher Relative Liquidity determination will be the result.

ASX listed companies with NZ and PNG as their place of incorporation are as follows:

| ASX Code | Company Name | Place of Incorporation |
|-----------------|--|-------------------------------|
| AIZ | AIR NEW ZEALAND LIMITED | NZ |
| AIA | AUCKLAND INTERNATIONAL AIRPORT LIMITED | NZ |
| DSQ | DATASQUIRT LIMITED | NZ |
| FPA | FISHER & PAYKEL APPLIANCES HOLDINGS LIMITED | NZ |
| FPH | FISHER & PAYKEL HEALTHCARE CORPORATION LIMITED | NZ |
| FBU | FLETCHER BUILDING LIMITED | NZ |
| GEN | GENESIS RESEARCH AND DEVELOPMENT CORPORATION LIMITED | NZ |
| HTM | HERITAGE GOLD NZ LIMITED | NZ |
| IFZ | INFRATIL LIMITED | NZ |
| KMD | KATHMANDU HOLDINGS LIMITED | NZ |
| KSO | KING SOLOMON MINES LIMITED | NZ |
| LME | L&M ENERGY LIMITED | NZ |
| NEU | NEUREN PHARMACEUTICALS LIMITED | NZ |
| NZO | NEW ZEALAND OIL & GAS LIMITED | NZ |
| NOC | NORTHERN CREST INVESTMENTS LIMITED | NZ |
| NPX | NUPLEX INDUSTRIES LIMITED | NZ |
| PRC | PIKE RIVER COAL LIMITED | NZ |
| SKC | SKY CITY ENTERTAINMENT GROUP LIMITED | NZ |
| SKT | SKY NETWORK TELEVISION LIMITED | NZ |
| TEL | TELECOM CORPORATION OF NEW ZEALAND LIMITED | NZ |
| TWR | TOWER LIMITED | NZ |
| WHS | WAREHOUSE GROUP LIMITED (THE) | NZ |
| BOC | BOUGAINVILLE COPPER LIMITED | PNG |
| HIG | HIGHLANDS PACIFIC LIMITED | PNG |
| OSH | OIL SEARCH LIMITED | PNG |
| PRE | PACRIM ENERGY LIMITED | PNG |
| QIL | QUOIN (INT) LIMITED | PNG |
| SST | STEAMSHIPS TRADING COMPANY LIMITED | PNG |

Index Consultation

No suggestion is being made regarding the index eligibility of the companies listed above should the proposed methodology change take place. NZ and PNG companies will still be required to meet all the standard index inclusion criteria in the S&P Index methodology such as liquidity and capitalisation.

Next Steps

S&P and ASX invite submissions to this consultation paper from index stakeholders. Respondents are invited to comment on the feasibility of the proposal and specifically any issues not detailed in this document that may impair efficient index management.

Submissions should be lodged not later than 30 November 2010.

Submissions can be addressed to either Jesse Stewart or Brian Goodman at the contact details provided below. If you wish to arrange a face-to-face consultation, please contact either party.

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