



Guidance Note

Spread

January 2019



This guidance note has been prepared to provide guidance to issuers as to the spread requirements of the NZX Listing Rules that take effect from 1 January 2019 (“rules”) and in particular when NZX Regulation (“NZXR”) is likely to consider that an applicant for listing has an appropriate spread of security holders so as to ensure that a “sufficiently liquid market” will exist in relation to a class of securities.

This guidance note replaces the previous Guidance Note issued on December 2014, ‘Spread’.

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Issuers should note that this guidance note is not intended to be a definitive statement of the application of the rules in every situation and is only a guide to NZX’s policy and practice. This guidance note does not limit NZXR’s discretion under the rules. This guidance note reflects the rules and law as at 1 January 2019, which is subject to change. NZX takes no responsibility for any error contained in this guidance note. NZXR may replace guidance notes at any time and issuers should ensure that they have the most recent version of this guidance note by checking NZX’s website at www.nzx.com.



1. What is spread?

Spread refers to the manner in which ownership of securities is distributed, between people who hold securities in an issuer. Meeting the spread requirements at the time an issuer lists on an exchange demonstrates that there is support for that entity to list and liquidity (or the number of orders entered and trades undertaken) in the securities is generally expected to be higher (everything else being equal).

NZX will not generally quote classes of equity securities or fund securities that are not offered on a continuous basis unless certain spread requirements are met. The spread requirement is an eligibility requirement for listing, and is not an ongoing obligation.

Types of securities that must meet the spread requirement

For an applicant seeking listing as an Equity issuer, or as a Fund issuer that is not a Continuous Issuer (**Eligible Applicants**), NZX must be satisfied, upon Quotation, that:

- (A) at least 20% of the number of securities on issue are held by at least 100 Non-Affiliated Holders each holding or having a beneficial interest in at least a Minimum Holding, or
- (B) an applicant has an appropriate spread of Equity holders, or Fund Security ownership, to ensure a sufficiently liquid market in the relevant Class of Securities –

pursuant to Rules 1.1.1(b)(ii) and 1.4.1(b)(ii), respectively.

Types of securities that are not subject to the spread requirement

If an applicant is seeking listing as a Fund issuer that is a Continuous Issuer, or as a Debt issuer, there is no spread requirement. Debt securities are not typically subject to the same level of trading as equity securities, and NZX is satisfied that introducing minimum spread requirements at the time of listing is not necessary for this product type. Investors in Continuous Issuers receive protection as a result of the continued application of the safeguards that attach to primary issuance, and the ability for unitholders to have their securities redeemed. Introducing a spread requirement at listing would limit the ability of these funds to come to market at the appropriate point in their life cycle, and would fail to recognise the particular nature of these funds.

2. Non-Affiliated Holders and Minimum Holdings

Rules 1.1.1(b)(ii)(A) and 1.4.1(b)(ii) refer to Non-Affiliated Holders holding Minimum Holdings.

A **Non-Affiliated Holder** is defined in the Rules as any person other than:

- (a) A person who holds, or is one of a group of Associated Persons who together hold, 10% or more of a Class of Financial Products;
- (b) A person who has, or is one of a group of Associated Person who together have, the power (whether contingent or not) to appoint one or more Director of the Issuer; or
- (c) Any other person or group of persons whom NZX in its discretion declares not to be a Non-Affiliated Holder for the purposes of the Rules.

As at the date of this Guidance Note, NZX has not declared any persons or groups of persons to be Non-Affiliated Holders. Any subsequent declarations to this effect can be found at [link to reg section of website with guidance notes].

If an Eligible Applicant is seeking to rely on the first limb of the spread requirement, it will need to establish what proportion of its security holders will not fall into any of the categories above.

In order to count these security holders towards the overall spread calculation, they must be holding a **Minimum Holding**. A Minimum Holding is a holder of a Class of Financial Products having a value of at least \$1,000 calculated, prior to Quotation, at the issue or sale price of the Financial Products specified in any Offer Document (including Profiles in respect of compliance listings).

3. Appropriate spread and sufficiently liquid market

There are some circumstances where an Eligible Applicant cannot meet the strict test set out in Rules 1.1.1(b)(ii)(A) and 1.4.1(b)(ii). In those circumstances, an Eligible Applicant can instead seek to demonstrate that it will have an “appropriate spread” of security holders to ensure a “sufficiently liquid market” in the class of securities under Rules 1.1.1(b)(ii)(B) and 1.4.1(b)(iii).

NZXR considers that key features that are likely to result in a “sufficiently liquid market” would include a reasonable bid/offer spread with adequate market depth in the order book. These features are likely to allow investors to efficiently change their investment position.

Where an issuer does not meet the strict spread requirement and wishes to instead demonstrate an appropriate spread that will ensure a sufficiently liquid market, they should provide information about other factors that will contribute to that outcome. For example:

- Planned capital raisings that are intended to result in the issue of securities to persons who are not existing security holders;
- The timing of any sell downs by major security holders and how this is intended to be managed to promote an increase in spread; and
- Liquidity support facilities that will allow existing shareholders to trade regardless of demand or supply from other shareholders.

Appendix 1: Relevant Listing Rules

1.1 Eligibility for Listing as an Issuer of Equity Securities and Quotation of Equity Securities

1.1.1 For an applicant to be Listed on the Main Board, with NZX as its Home Exchange and its Equity Securities Quoted:

- (a) the applicant must have a Governing Document consistent with Rule 2.18 and Rule 2.20 and applicable legislation, and
- (b) a Class of Equity Securities will not generally be considered for initial Quotation unless:
 - (i) the anticipated market capitalisation of the applicant's Equity Securities to be Quoted is at least \$10 million, and
 - (ii) NZX is satisfied that:
 - (A) at least 20% of the Class of Equity Securities are held by at least 100 Non-Affiliated Holders (being the registered holder or, in the case of Equity Securities held through a custodian, the beneficial owners of the Equity Securities), each holding (or having a beneficial interest in) at least a Minimum Holding, or
 - (B) the applicant has an appropriate spread of Equity Security holders to ensure a sufficiently liquid market in the Class of Equity Securities.

Minimum Holding

means a holding of a Class of Financial Products having a value of at least \$1,000 calculated:

- (a) prior to Quotation, at the issue or sale price of such Financial Products specified in any Offer Document (and, if expressed as an indicative price range, the mid-point of that range), or
- (b) at any other time, at the Average Market Price.

Non-Affiliated Holder

means any person other than:

- (a) a person who holds, or is one of a group of Associated Persons who together hold, 10% or more of a Class of Financial Products, or
- (b) a person who has, or is one of a group of Associated Persons who together have, the power (whether contingent or not) to appoint one or more Directors of the Issuer, or

- (c) any other person or group of persons whom NZX in its discretion declares not to be a Non-Affiliated Holder for the purposes of the Rules.

