

# THE INDEX TREATMENT OF FOREIGN DOMICILED ENTITIES

## MAY 2006

JOINT S&P / ASX

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## Background Reading

This consultation paper assumes that readers have a high degree of familiarity with many aspects of index construction and the S&P/ASX index suite.

Useful background reading for persons seeking more information about these topics is available from the Standard & Poor's Index Services Web site, as shown in the table below:

Topic	More information available at <a href="http://www2.standardandpoors.com/servlet/Satellite?pagename=sp/Page/HomePg&amp;r=7&amp;l=EN">http://www2.standardandpoors.com/servlet/Satellite?pagename=sp/Page/HomePg&amp;r=7&amp;l=EN</a>
S&P/ASX Index Suite	<ul style="list-style-type: none"> <li>▪ S&amp;P/ASX Indices Overview</li> <li>▪ S&amp;P Australian Indices FAQ</li> <li>▪ S&amp;P/ASX Map of the Market</li> </ul>
S&P Index Methodology	<ul style="list-style-type: none"> <li>▪ Understanding Indices Educational Booklet</li> <li>▪ S&amp;P/ASX Index Methodology (How Australian Indices Are Constructed And Maintained)</li> <li>▪ Free Float Q&amp;A</li> <li>▪ Free Float Methodology</li> </ul>

## Proposal

### **Refining S&P/ASX index methodology regarding foreign secondary listings**

Given the increased globalisation of the Australian Equity market, Standard & Poor's Index Services is seeking market feedback in relation to the index treatment of foreign-domiciled securities for the S&P/ASX index series.

For consideration is the possible refinement of S&P/ASX index methodology to include foreign-domiciled entities with a secondary listing on ASX on the basis of their securities held through the Australian market.

As a result of including foreign-domiciled entities in S&P/ASX indices, it would be necessary for the S&P/ASX Index Series to operate independently of S&P's global index suite. Such a change in policy will result in the S&P/ASX 50 index being removed from the Global 1200 index suite. Consequently, this consultation paper also introduces a "pure" S&P Australia & New Zealand 50 Index (SPANZ 50) for the Global 1200. (*Appendix 2*)

### **Summary of proposal to accommodate foreign secondary listings in S&P/ASX indices**

Foreign secondary listings will be considered for inclusion in the S&P/ASX indices where:

- The company is not a foreign-exempt listing;
- A company must have a broad spread of shareholdings through the Australian market-Australian Registered Shareholders (ARS) must be greater than 300 (by number), with no dominant shareholders, for example no greater than 33% of ARS.
- The company will be evaluated for index inclusion on the basis of its ARS, both for the purposes of assessing market capitalisation and measuring liquidity;
- Index capitalisation (and index weight) will be the lower of the free float capitalisation, or the minimum ARS capitalisation in the previous six months;
- The company will be allocated to S&P/ASX size indices on the basis of full equity capital (not adjusted market capitalisation) to capture the true risk/return profile of the company; and
- The index treatment of foreign secondary listings currently included in the S&P/ASX indices will be grandfathered.
- The All Ordinaries index will continue to be constructed, comprised of the S&P/ASX 300 plus an additional 200 domestic stocks based on market capitalisation.

**This proposed methodology is subject to change, pending the findings from the consultation process.**

## Introduction

Foreign-domiciled entities are currently eligible for inclusion in the S&P/ASX 300 index universe. The only geographic related criterion for inclusion in the indices is that an entity be listed on ASX.

However, foreign-domiciled companies are excluded from the S&P/ASX 300 index universe if:

- The entity would otherwise be included in the S&P/ASX 50 and is in another index that comprises part of the S&P Global 1200; or
- The entity is listed on ASX on a foreign-exempt basis. Foreign-exempt entities are not subject to the full range of listing rules.

In today's world of multinationals, fixing one set of rules for domicile is a difficult task. In assessing the place of primary listing, S&P will consider a number of criteria, including company headquarters, registration, listing of stock, place of operations, and residence of senior officers. Entities that meet one of the following criteria will be normally considered as Australian-domiciled for index purposes:

- The entity is incorporated or registered in Australia
- The entity is incorporated or registered overseas but has an exclusive listing on ASX
- The entity is incorporated or registered overseas but S&P determines that it has its primary listing on ASX

The domicile of stapled securities involving entities from multiple jurisdictions may be assessed on a case-by-case basis.

Currently, 14 foreign stocks (not including foreign components of Australian stapled securities) participate in the S&P/ASX and the All Ordinaries Index Series, although not all are classed as foreign secondary listings for index purposes.

Code	Name	Country Of Incorporation	Index Inclusion	Index Foreign Listing Status
IGD	Iamgold Corporation	CA	S&P/ASX	Secondary
HGI	Henderson Group PLC	GB	S&P/ASX	Secondary
TEL	Telecom Corporation of NZ	NZ	S&P/ASX	Secondary
TWR	Tower Limited	NZ	S&P/ASX	Secondary
BOC	Bougainville Copper	PG	All Ords	Primary
HIG	Highlands Pacific Limited	PG	S&P/ASX	Primary
LHG	Lihir Gold Limited	PG	S&P/ASX	Primary
OSH	Oil Search Limited	PG	S&P/ASX	Primary
SST	Steamships Trading Company	PG	All Ords	Primary
SGT	Singapore Telecommunications	SG	All Ords	Secondary
AQP	Aquarius Platinum Limited	Bermuda	S&P/ASX	Secondary
JHX	James Hardie Industries	Netherlands	S&P/ASX	Primary
RMD	ResMed Inc.	US	S&P/ASX	Secondary
AGG	Anglogold Limited	ZA	All Ords	Secondary

There is a desire for all foreign secondary listings to be treated consistently in the index portfolio. The proposal is to reposition the S&P/ASX Index Series to allow the inclusion of all qualifying foreign secondary listings to the index portfolio. This will apply to all qualifying secondary listings regardless of their listing/index status in other markets.

S&P attempts to make a distinction between Primary and Secondary listings. A Secondary listing occurs where the ASX listing is not the primary exchange and the stock has a listing on multiple markets. This includes foreign-domiciled entities that are incorporated or registered overseas and have their primary listing on an exchange other than ASX.

### **Current Difficulties In The Index Treatment Of Foreign-Domiciled Listings**

At present, difficulties can arise with respect to foreign-domiciled entities within the indices in a number of situations:

- An Australian entity included in the S&P/ASX 50 may re-domicile overseas and be included in another index component of the S&P Global 1200. In such cases, the entity may be removed from the S&P/ASX 300 index universe, even though it retains significant liquidity in Australia or, in some cases, the underlying productive assets remain in Australia.
- If a foreign-domiciled entity that is already included in the indices grows its Australian capitalisation and liquidity to a point that would warrant its inclusion in the S&P/ASX 50, it may be removed from the indices altogether if that company were also included in another index component of the S&P 1200 indices.
- Under current arrangements, differences in the way that the securities of foreign-domiciled companies are quoted on ASX can result in them being treated differently for index purposes.
- A number of foreign entities on the Australian equity market are not included in the S&P/ASX indices.

### **Foreign-Domiciled Listings on the ASX**

Foreign entities may apply to be listed on the ASX under two broad types of listings:

- Full “ASX listings” are subject to ASX’s usual ongoing listing rules, regardless of whether they are listed on another stock exchange.
- “Foreign-exempt” listings are exempt from a number of ASX listing rules. Entities with “foreign-exempt” listings are not eligible for index inclusion.

A foreign entity listed on ASX may have either its ordinary equity securities or CHESS Depository Interests (CDIs) over its ordinary equity securities trade on ASX, depending on the entity and the entity’s home jurisdiction. CDIs are used where the laws of the foreign entity’s home jurisdiction mean that CHESS cannot be used for holding legal title to securities. In these cases, CDIs act as a surrogate security to facilitate the settlement of the securities through CHESS. In practice, CDIs trade very much in the same manner as the underlying shares. Entities incorporated in Australia, New Zealand, Papua New Guinea, and Bermuda do not have to make use of CDIs, as these jurisdictions allow for legal title of securities to be held in CHESS.

Foreign listings are currently considered for inclusion in the S&P/ASX 300 index universe with respect to the number of securities quoted on ASX. However, anomalies can arise because of the differences in the way foreign entities, including those with a full “ASX” listing, have their securities quoted on ASX.

## Index Consultation

The quotation of securities for foreign secondary listings can take a number of forms:

- Quotation of the entity's full equity capital as represented by ordinary shares or CDIs over all ordinary shares.
- Quotation of part of the entity's equity capital. There are several foreign entities that, by virtue of their listing agreement or a waiver from ASX Listing Rule 1.1 Condition 6 or Listing Rule 2.4, do not have all of their full equity capital quoted on ASX. Rather, in some instances CDI's representing part of the entity's equity capital are quoted on ASX. The number of CDIs quoted may be thought of as representing the number of shares held through the Australian market by both Australian residents and non-residents.

A stock's index eligibility is typically determined by its capitalisation and liquidity. This measurement is based on the capital quoted on the ASX. The differences in the way foreign entities are quoted on ASX can therefore lead to anomalies in their index treatment. The practical consequence of this situation is that foreign entities with their full equity capital quoted on ASX will have higher levels of index capitalisation but lower levels of measured liquidity. Foreign entities that quote only part of the entity's equity capital will typically have lower levels of index capitalisation but higher levels of measured relative liquidity.

Therefore, the different bases of quotation can dramatically alter the ASX-reported "Shares on Issue" and ultimately affect the characteristics of a company's size and liquidity for index purposes. Additionally, if the nature of the quotation of a foreign secondary listing's securities changes, it can affect its index treatment and lead to disruptions and instability in the index portfolio. For this reason, S&P proposes levelling the playing field for all foreign secondary listings.

## **Proposal To Refine S&P/ASX Index Methodology To Accommodate Foreign Secondary Listings**

Standard & Poor's Index Services believes that it would be in the interest of all index stakeholders if a consistent framework were created around the index treatment of foreign secondary listings.

### **Foreign Secondary Listings And Estimates Of "Australian Registered Shareholdings"**

The S&P/ASX Index Committee proposes the introduction of "Australian Registered Shareholdings" (ARS). The ARS attempts to estimate the level of shareholdings in foreign secondary listings held through the Australian market (by residents and non-residents) to be used as the basis of calculating index capitalisation for foreign stocks. Foreign secondary listings may therefore be index-eligible on a reduced-market-capitalisation basis, taking into account an estimate of the company's "Australian Registered Shareholders".

The index currently uses ASX-published data on "shares on issue", which show the total number of securities of a class quoted on ASX. The proposal is to redefine index capitalisation for foreign secondary listings in determining index weight. S&P will estimate the ARS for the purposes of measuring liquidity and size for foreign secondary listings and determining index eligibility. Foreign secondary listings may therefore qualify for index inclusion at a reduced index weight.

Our estimates for ARS will be drawn from CHESS data and, ultimately, registry-sourced data. CHESS subregister data do not include issuer-sponsored holdings. ASX will implement systems to enable publication of the relevant data.

*Foreign secondary listings may be index-eligible on a reduced-market-capitalisation basis.*

### **Reporting And Transparency Of Australian Registered Shareholdings (ARS)**

In order to assist in the transparency of estimating the ARS, the ASX Web site will publish information on a monthly basis detailing:

- Foreign listings on ASX
- Type of listing (foreign or exempt)
- The number of ASX-quoted securities in the relevant class
- Information on nature of quotation of securities on ASX
- The number of securities recorded in CHESS\*

*\*CHESS data is subject to a number of constraints governing the use of the data.*

*ASX will publish relevant information for ASX-listed foreign companies monthly.*

## **Overcoming Variability In The Estimates For ARS**

Our analysis shows that using the ARS alone can be quite volatile, as changes in ARS can occur month-to-month. Such changes can be quite disruptive and costly for index managers who closely track each company's weight within the index. S&P proposes minimising this variability by taking a minimum of the end of month data for the previous six months as our estimate for ARS. This estimate may underestimate the actual ARS at any point in time; however, it is a more stable indicator for the practical application of an index.

*Take the minimum of the previous six months ARS for index calculation.*

*ARS will be estimated and reviewed at each quarterly rebalance.*

## **Free float Adjustments And ARS Estimates For Foreign Secondary Listings**

As a condition of admission, ASX usually requires foreign incorporated entities to report, to the extent that they are aware, any "substantial shareholding" as defined by section 671B of the Corporations Act, and additionally when a person ceases to have a "substantial holding", any changes to the number of equity securities in which a person with a substantial shareholding has a relevant interest. S&P may also make use of information released in foreign jurisdictions in determining free float.

Where S&P can reasonably estimate both the level of free float and ARS for a foreign entity, a foreign company's weight within the S&P/ASX indices will be limited to the lower of either free float adjusted market capitalisation or ARS market capitalisation.

A foreign company's weight within the S&P/ASX indices will be limited to the lower of either free float adjusted market capitalisation or ARS market capitalisation.

*ARS market capitalisation may also be adjusted for free float as information permits.*

## **Overcoming Large Capitalisation Bias In Small-/Mid-Cap Benchmarks**

It is widely recognised that large- and small-cap stocks have different risk/return profiles. The introduction of the ARS may become problematic for small- and mid-cap managers. Based simply on ARS market capitalisation, a situation may arise whereby a large-cap foreign secondary listing may qualify for an S&P/ASX small- or mid-cap index.

This situation is clearly not desirable, since the small- and mid-cap benchmarks will then carry large capitalisation biases, thus possibly changing the risk/return characteristics of the benchmark – relative to small-cap stocks, large-cap stocks on average have comparatively lower and less volatile growth rates, higher dividend yields and lower price-earnings ratios. We propose that foreign secondary listings be allocated to size indices according to a company's full market capitalisation; however its index weight will be based on the ARS reduced market capitalisation.

In considering the above point, foreign secondary listings may rank highly in terms of full market capitalisation, however the actual index weight may be relatively small given that the ARS is based on reduced market capitalisation. Therefore there is potential for the index weight of a stock to be relatively disproportionate when considering the actual rank within the index. This situation arises when a large foreign entity has a secondary listing in the Australian market that is significantly lower than the total market capitalisation.

*Foreign companies will be allocated to size indices according to their respective full market capitalisation; however their index weights will be based on ARS market capitalisation.*



## Index Consultation

While the focus of this document is foreign companies, it must be noted that our current methodology currently carries some level of bias in the selection of stocks for large- and small-cap benchmarks. This is because stocks are ranked for size indices against free float-adjusted capitalisation (not full-market capitalisation). While outside the scope of this discussion, to better represent the true risk/return profile of stocks in each size index (S&P/ASX 20, 50, Midcap 50, 100, 200, 300 and Small Ordinaries indices) it can be argued that all stocks should be allocated to size indices according to full, unadjusted market capitalisation.

### Estimating Australian Registered Shareholders

For illustrative purposes, we have estimated ARS from ASX CHESS data. The following list details *selected* entities that are classed as foreign secondary listings that:

- Have a full “ASX listing”
- Have a minimum number of recorded holders in CHESS > 300 shareholders, with no dominant shareholder, for example the CHESS holdings are < 33%
- Have capitalisation in CHESS of greater than A\$30 million.

The list excludes foreign-exempt listed entities. The list should in no way be taken as being indicative of the likely index treatment of the entity.

Entity	Country code	Security, ASX code	Securities of class quoted on ASX (million). End April	Aggregate number of securities in class held in CHESS (million) End-Month*						Min last 6 mths
				Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	
AUCKLAND INTERNATIONAL AIRPORT LIMITED	NZ	AIA	1,222	274	283	284	282	280	278	274
ANVIL MINING LIMITED	CA	AVM	529	96	96	96	96	96	89	89
EQUINOX MINERALS LIMITED	CA	EQN	348	36	69	67	66	61	59	36
FLETCHER BUILDING LIMITED	NZ	FBU	469	154	160	163	166	167	170	154
FISHER & PAYKEL APPLIANCES HOLDINGS	NZ	FPA	265	46	44	45	44	44	44	44
FISHER & PAYKEL HEALTHCARE	NZ	FPH	509	96	96	97	93	89	86	86
GUINNESS PEAT GROUP PLC.	GB	GPG	1,033	144	145	146	146	153	180	144
HENDERSON GROUP PLC	GB	HGI	645	611	610	603	586	567	550	550
IAMGOLD CORPORATION	CA	IGD	165	0	0	0	0	91	67	67
NEWS CORPORATION	US	NWS	1,302	204	197	197	196	188	185	185
NEWS CORPORATION	US	NWSLV	3,927	108	108	106	103	102	101	101
RESMED INC	US	RMD	707	117	122	131	141	146	144	117
SINGAPORE TELECOMMUNICATIONS	SG	SGT	468	504	460	453	447	426	425	425
SKY CITY ENTERTAINMENT	NZ	SKC	429	111	112	111	111	112	113	111
TELECOM CORPORATION OF NEW ZEALAND	NZ	TEL	1,961	454	451	455	452	518	518	451
TOWER LIMITED	NZ	TWR	360	119	117	117	114	114	115	114

Source: S&P, ASX. \*Not adjusted for corporate actions. Excludes options, derivatives, debt securities and securities other than for the specified ASX code.

**NOTE: This table is not an indication of potential future index inclusions. It is an objective illustration of the methodology required to calculate the shares on issue for foreign domiciled secondary securities.**

## Examples: Calculating Index Capitalisation For Foreign Secondary Listings

Index capitalisation for foreign secondary listings will take into account the following:

- *The minimum of the previous six months' ARS for index calculation*
- *In the case of ARS market capitalisation, possible adjustment for free float as information permits*
- *The limiting of a foreign company's weight within the S&P/ASX indices to the lower of either free float adjusted market capitalisation or ARS market capitalisation*

We highlight the differences in how foreign secondary listings may be treated and calculated under the proposed methodology. The formulas used for calculating free float capitalisation and ARS capitalisation are as follows:

Free float Adjusted Capitalisation = Price x Shares x Investable Weight Factor (IWF)

ARS Capitalisation = Price x Shares

### Example 1: Free float capitalisation is greater than ARS capitalisation

Company XYZ is a foreign secondary listing that has 200 million units listed on its home exchange. The price of XYZ on the ASX is A\$1.50, therefore its full market capitalisation (price x shares) is approximately A\$300 million. XYZ has 95,000,000 Australian Registered Shareholders and has an estimated IWF of 60% (free float estimate against full issued capital). XYZ's index treatment would be determined as follows:

Index calculation	Shares included	IWF	Adjusted capitalisation (A\$)
Free float calculation	200,000,000	60%	180,000,000
Australian Registered Shareholdings	95,000,000	NA	142,500,000

*The index capitalisation for company XYZ would be A\$142.5 million.*

### Example 2: Free float capitalisation is less than ARS capitalisation

Company XYZ is a foreign secondary listing that has 200 million units listed on its home exchange. The price of XYZ on the ASX is A\$1.50, therefore its full market capitalisation (price x shares) is approximately A\$300 million. XYZ has 95,000,000 Australian Registered Shareholders and has an estimated IWF of 40% (free float estimate against full equity capital). XYZ's index treatment would be determined as follows:

Index calculation	Shares included	IWF	Adjusted capitalisation (A\$)
Free float calculation	200,000,000	40%	120,000,000
Australian Registered Shareholdings	95,000,000	NA	142,500,000

*The index capitalisation for company XYZ would be A\$120 million.*

**Example 3: Foreign exempt**

Company XYZ is a foreign-exempt secondary listing that has 200 million units listed on its home exchange. The price of XYZ on the ASX is A\$1.50, therefore its full market capitalisation (price x shares) is approximately A\$300 million. XYZ has 95,000,000 Australian Registered Shareholders and has an estimated IWF of 100% (free float estimate against full issued capital). XYZ's index treatment would be determined as follows:

<b>Index calculation</b>	<b>Shares included</b>	<b>IWF</b>	<b>Adjusted capitalisation (A\$)</b>
Free float calculation	200,000,000	100%	300,000,000
Australian Registered Shareholdings	95,000,000	NA	142,500,000

*This company is a foreign-exempt listing and is ineligible for index inclusion.*

A summary of the S&P/ASX Index Series appears in Appendix 1.

## **Removing The S&P/ASX 50 Index From The Global 1200 Index Series**

As a result of the proposed changes to accommodate foreign secondary listings, the S&P/ASX 50 index will be removed from the Global 1200, and the S&P/ASX Index Series will operate independently of S&P's global indices. Other examples of S&P indices that do not form part of the S&P Global 1200 and operate independently include S&P/HKex, S&P/CITIC, S&P UK, S&P MIB. These indices are constructed to suit local market requirements and do not participate in any S&P Global Index Suites.

We propose introducing a new index--the S&P Australia & New Zealand 50 (SPANZ 50)--replacing the S&P/ASX 50 as one of seven headline indices that make up the S&P Global 1200. The SPANZ 50 will represent the 50 leading companies listed on both the Australian and New Zealand Stock Exchanges (ASX and NZX respectively).

The SPANZ 50 Index will be maintained by the Standard & Poor's Index Committee. The committee will consist of five members from Standard & Poor's, and draws on the significant index-management experience of its members at a local and global level. The committee will meet on a quarterly and as-needed basis.

Standard & Poor's global indices are real-time market capitalization-weighted indices that include the largest and the most liquid stocks from around the world. These indices cover seven distinct regions and 30 countries, capturing approximately 70% of the world market capitalization.

A summary of the SPANZ Index is provided in Appendix 2.

Background for the S&P Global 1200 Index is summarised in Appendix 3.

## Implications for Index Users

- The changes ensure that the S&P/ASX indices reflect activity on the ASX;
- The changes provide a broad and more diversified index universe;
- The changes provide an explicit framework for the treatment of foreign-domiciled entities that will provide certainty to index users;
- The changes provide a seamless index pyramid for the S&P/ASX index series;
- The changes ensure that the matter of foreign-domiciled entities being excluded from the S&P/ASX 300 index universe as a result of being eligible for the S&P/ASX 50 and another component of the S&P Global 1200 does not arise;
- Domestic companies that re-domicile may be retained in the S&P/ASX index series;
- Domestic companies may subsequently be replaced in the index by a foreign secondary listings;
- Foreign companies may be promoted into size indices on the basis of full equity capital, however only participate in those indices on a reduced market capitalisation basis;
- The S&P/ASX 50 will be removed from the S&P Global 1200. The S&PANZ 50 will be introduced to the S&P Global 1200, representing Australia and New Zealand.

## Index Consultation

The S&P/ASX Index Committee is seeking your views on the suitability of the planned changes to the treatment of foreign-domiciled entities within the S&P/ASX Index Series. The changes presented here are targeted to satisfy ASX and local-market participants' appetite for a benchmark index series that accommodates ASX-listed foreign entities. In addition to the proposed changes, S&P and ASX also request your feedback on the potential transitional arrangements for any such changes.

Following the consultation with index users, Standard & Poor's Index Services will make an announcement regarding the future treatment of foreign-domiciled entities.

Until the time of this announcement, there will be no changes to foreign-domiciled entities included in the indices nor localised entities that may be subject to removal under a revised methodology, other than through normal re-weightings and changes related to corporate actions. It is also envisaged that the current treatment of foreign domiciled entities already included in the indices will be grandfathered.

While the timetable for an announcement regarding the future index treatment of foreign-domiciled entities is not fixed, as there are many complex issues being addressed and investigated, it is expected that an announcement will be made by late June 2006.

**An Index Consultation Questionnaire is attached in Attachment A.** You may wish to complete this, or alternatively you may wish to provide further comment on this issue.

Submissions should be addressed to Jason Hill, Standard & Poor's Index Services, or David Moore, ASX, at the contact details provided below. If you wish to arrange a face-to-face consultation, please contact either party.

**Submissions should be lodged by Wednesday, June 14, 2006.**

### Standard & Poor's Index Services

Jason Hill  
Director, Head of Index Services Australia  
Level 26, 56 Pitt Street  
Sydney NSW 2000  
Telephone: (61) 2 9255 9872  
Facsimile: (61) 2 9255 9871  
**E-mail:** [index\\_aus@standardandpoors.com](mailto:index_aus@standardandpoors.com)

### Australian Stock Exchange Ltd.

David Moore  
Senior Economist  
Level 9, 20 Bridge Street  
Sydney NSW 2001  
Telephone: (61) 2 9227 0933  
Facsimile: (61) 2 9227 0470  
**E-mail:** [david.moore@asx.com.au](mailto:david.moore@asx.com.au)

## Appendix 1

# Proposed S&P/ASX Index Series Factsheet

### About the Index

The S&P/ASX Index Series was introduced in April 2000. At this time it replaced the All Ordinaries as the primary gauge for the Australian equity market. It addresses the needs of investment managers who require a portfolio benchmark characterised by sufficient size and liquidity.

The S&P/ASX Index Series is maintained by the Standard & Poor's Australian Index Committee. The committee consists of five members, including three members from Standard & Poor's and two from the ASX. The committee draws on the significant experience in index management of its members at a local and global level. The committee meets on a quarterly and as-needed basis.

The S&P/ASX 200 is considered Australia's leading institutional benchmark. With approximately 90% coverage of the Australian equities market, the S&P/ASX 200 is considered an ideal proxy for the total market. The S&P/ASX 200 index serves the purpose of both benchmark and investible vehicle. The index is designed to offer the representation of a broad benchmark index while maintaining the liquidity characteristics of narrower indices. This unique combination makes the S&P/ASX 200 ideal for portfolio management and index replication.

### Index Policy

The Standard & Poor's Australian Index Committee has published a set of guidelines for maintaining the S&P/ASX Index Series. These guidelines provide the transparency required and fairness needed to enable investors to replicate the index.

The Index Committee undertakes regular reviews of the indices to ensure appropriate representation and adequate market capitalisation and liquidity hurdles are met. Both market capitalisation and liquidity are assessed using the previous six months' worth of data. Rebalancing changes are announced on the first Friday of the relevant month (March, June, September, and December), and take effect after the close on the third Friday of each month.

The constituents for the S&P/ASX 20/50/100/200 and Midcap50 are reviewed on a quarterly basis in March, June, September, and December. The S&P/ASX 300 and Small Ordinaries is reviewed semi-annually in March and September. The All Ordinaries index is reviewed annually in March.

The weighting of constituents in the S&P/ASX Index Series is determined by the adjusted market capitalisation. Every index constituents' Investible Weight Factor is reviewed annually as part of the March quarterly review.

### Index Eligibility

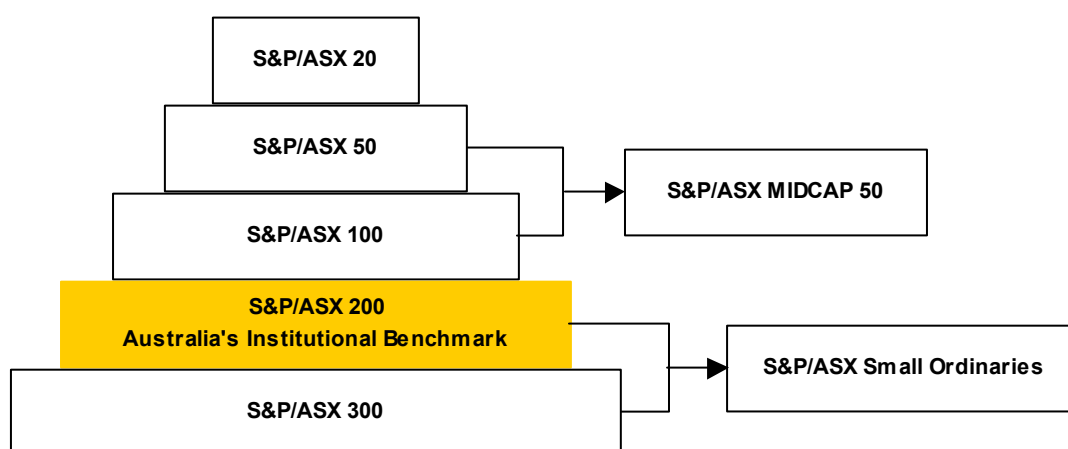
- **Listing.** Only stocks listed on the ASX will be considered for inclusion in the S&P/ASX indices. The index draws from the entire universe of ASX listed stocks, which includes both primary and secondary listings on the ASX. Foreign-exempt listings are ineligible.
- **Size.** Stocks will be allocated to size indices based the full average market capitalisation over the previous six-months.
- **Liquidity.** Only stocks that are actively and regularly traded are considered for inclusion in any S&P/ASX index. A stock's liquidity is measured relative to its size peers.
- **Minimum Free float.** A minimum free float threshold of 30% exists for a stock to warrant inclusion in the S&P/ASX indices. Free float adjustment is applied through the Investible Weight Factor (IWF).

**Foreign Secondary Listings**

Foreign secondary listings may be considered for S&P/ASX indices where:

- The company is not a foreign-exempt listing;
- A company must have a broad spread of shareholdings through the Australian market-Australian Registered Shareholders (ARS) must be greater than 300 (by number), with no dominant shareholders, for example no greater than 33% of ARS.
- The company will be evaluated for index inclusion on the basis of its ARS, both for the purposes of assessing market capitalisation and measuring liquidity;
- Index capitalisation (and index weight) will be the lower of the free float capitalisation, or the minimum ARS capitalisation in the previous six months; and
- The company will be allocated to S&P/ASX size indices on the basis of full equity capital (not adjusted market capitalisation) to capture the true risk/return profile of the company.

**S&P/ASX Index Series Pyramid**



Index Name	% Total Market
S&P/ASX 20	49%
S&P/ASX 50	67%
S&P/ASX 100	80%
S&P/ASX 200	88%
S&P/ASX 300	89%
S&P/ASX MIDCAP 50	13%
S&P/ASX SMALL ORDINARIES	10%
ALL ORDINARIES	95%

Source: S&P Index Services – Dec. 2005.



## **Appendix 2**

### **S&P Australia & New Zealand 50 Index (SPANZ 50) Factsheet**

#### **About The Index**

The SPANZ 50 index replaces the S&P/ASX 50 as one of seven headline indices that make up the S&P Global 1200. The S&P Australia & New Zealand 50 Index (SPANZ 50) represents the 50 leading companies listed on both the Australian and New Zealand Stock Exchanges (ASX and NZX respectively).

The SPANZ 50 Index is maintained by the Standard & Poor's Index Committee. The committee consists of five members from Standard & Poor's and draws on the significant experience in index management of its members at a local and global level. The committee meets on a quarterly and as-needed basis.

Standard & Poor's global indices are real-time market capitalization-weighted indices that include the largest and the most liquid stocks from around the world. These indices cover seven distinct regions and 30 countries, capturing approximately 70% of the world market capitalization.

#### **Index Policy**

The Standard & Poor's Index Committee has published a set of guidelines for maintaining the SPANZ 50 Index Series. These guidelines provide the transparency required and fairness needed to enable investors to replicate the index.

The committee reviews constituents quarterly to ensure adequate market capitalisation and liquidity. Both market capitalisation and liquidity are assessed using the previous six months' worth of data. Quarterly review changes are announced on the first Friday of March, June, September, and December, and take effect after the close on the third Friday of each respective quarter. The weighting of constituents in the SPANZ 50 Index is determined by the free float adjusted market capitalisation. Every index constituents' free float is reviewed annually as part of the March quarterly review.

#### **Criteria For Index Eligibility**

- **Listing.** Locally domiciled stocks with primary listings on either ASX or the NZSX will be considered for inclusion in the SPANZ 50 index. Secondary listings from each market are ineligible for this index.
- **Size.** Stocks are assessed based on the average of their previous six-month day-end free float adjusted market capitalisation.
- **Liquidity.** Only stocks that are actively and regularly traded are considered for inclusion in any SPANZ 50 index. A stock's liquidity is measured relative to its size peers.
- **Minimum Free Float.** A minimum free float threshold of 30% exists for a stock to warrant inclusion in the SPANZ 50 indices.

## **Appendix 3**

### **S&P Global 1200**

The S&P Global 1200 index was launched in 1999 as the world's first real-time global index, offering 70% market coverage across 29 markets and 13 different time zones, and assuring investors of real-time pricing, 22 hours a day. The S&P Global 1200 offers investors the representation, investibility, and liquidity they need for global exposure to the world economy. The index currently includes seven constituent indices: S&P 500, S&P Europe 350, S&P/TOPIX 150, S&P/TSX 60, S&P Asia 50, S&P/ASX 50, and S&P Latin America 40.

When the S&P Global 1200 index was launched in 1999, Australia was represented in the S&P Asia Pacific 100 index (now obsolete) by about 43 companies selected from the S&P/ASX index series. In June 2003, the S&P Global 1200 was restructured, seeing the S&P Asia Pacific 100 index replaced by the S&P/ASX 50 and S&P Asia 50 indexes.

The S&P Global 1200 endorses a purist model of defining the universe of stocks within indices by country of domicile. This policy is primarily in place to avoid double counting across the Global 1200 framework. Consequently, S&P's index policy typically excludes foreign securities from each component index of the Global 1200.

The Australian S&P/ASX 50 component of the S&P Global 1200 index is "impure" due to the inclusion of a number of foreign securities in the S&P/ASX 50 index. Consequently, the S&P/ASX 50 will be removed from the Global 1200 to be replaced with a "pure" S&P Australia and New Zealand 50 Index (SPANZ 50). Constituents for the SPANZ 50 index will be constructed from stocks domiciled in both Australia and New Zealand.

## Index Consultation: The Index Treatment Of Foreign Domiciled Entities

### Attachment A

Organisation: _____	Organisation Type: _____ <i>(Fund Manager/Broker/Investment Banker/Consultant/Listed Company)</i>
Name: _____	Position: _____
Phone: _____	Email: _____

Please return the completed questionnaire to either Standard & Poor's or ASX on the contact details below or alternatively contact either party to arrange a face-to-face consultation.

**Submissions should be lodged by Wednesday, June 14, 2006.**

<b>1. Accommodating Foreign Securities in S&amp;P/ASX Indices</b>	
a. What are your thoughts on the proposal to include foreign secondary listings in the S&P/ASX index series?	
b. What issues do you see in accommodating Foreign Secondary Listings in S&P/ASX indices?	
<b>2. Proposed Model/s</b>	
a. Do you see merit in the model/s proposed?	
b. What, if any, concerns do you have with the particular model structure proposed?	
c. Is there an alternative index model that you would prefer?	
d. <b>"Australian Registered Shareholdings"</b> - What are your thoughts on the proposal to include foreign secondary securities on the basis of ARS?	
e. <b>Large-cap bias in small- and mid-cap portfolios</b> - How should secondary listings be administered in small- and mid-cap indices? Do you agree with this proposed treatment?	
f. <b>Allocation of large-cap foreign securities</b> - Do you believe that the potential disparity between index rank and index weight is problematic? Is there a better approach to addressing this issue?	
<b>3. Transition and Timing</b>	
a. What are your views on the transition to the proposed new index arrangements?	

## Index Consultation: The Index Treatment Of Foreign Domiciled Entities

b. How much adjustment time would you require to adjust to the proposed index arrangements?	
<b>4. Other Comments</b>	
a. Are there any other comments or feedback that you would like to provide regarding the proposed treatment of foreign entities in the indices?	

Submissions should be addressed to Jason Hill, Standard & Poor's Index Services, or David Moore, ASX, at the contact details provided below. If you wish to arrange a face-to-face consultation, please contact either party.

**Submissions should be lodged by Wednesday, June 14, 2006.**

### Standard & Poor's Index Services

Jason Hill  
Director, Head of Index Services Australia  
Level 26, 56 Pitt Street  
Sydney NSW 2000  
Telephone: (61) 2 9255 9872  
Facsimile: (61) 2 9255 9871  
**E-mail:** [index\\_au@standardandpoors.com](mailto:index_au@standardandpoors.com)

### Australian Stock Exchange Ltd.

David Moore  
Senior Economist  
Level 9, 20 Bridge Street  
Sydney NSW 2001  
Telephone: (61) 2 9227 0933  
Facsimile: (61) 2 9227 0470  
**E-mail:** [david.moore@asx.com.au](mailto:david.moore@asx.com.au)