

## Proposed Index Changes Questions and Answers

### *How will the composition of the indices be affected as a result of the proposed changes?*

A number of foreign-domiciled companies that are currently not included will now be eligible for inclusion in the indices.

### *Does this mean that News Corporation will be readmitted to the indices?*

If the proposed changes are adopted, News Corporation may be readmitted to the indices if it meets the proposed inclusion thresholds. These same thresholds will be applied to all foreign-domiciled companies.

Below is a list of foreign-domiciled companies listed on ASX that currently meet inclusion thresholds (ie have more than 300 shareholders in CHESS, have capitalisation in CHESS of greater than \$30mn and are not listed on ASX as foreign exempt companies)

<b>Company</b>	<b>Place of Domicile</b>	<b>ASX Code</b>	<b>Australian Capitalisation (\$million)<sup>1</sup></b>
AUCKLAND INTERNATIONAL AIRPORT LIMITED	NZ	AIA	\$471
ANVIL MINING LIMITED	CA	AVM	\$86
EQUINOX MINERALS LIMITED	CA	EQN	\$123
FLETCHER BUILDING LIMITED	NZ	FBU	\$1,194
FISHER & PAYKEL APPLIANCES HOLDINGS	NZ	FPA	\$172
FISHER & PAYKEL HEALTHCARE	NZ	FPH	\$307
GUINNESS PEAT GROUP PLC.	GB	GPG	\$324
HENDERSON GROUP PLC	GB	HGI	\$1,122
IAMGOLD CORPORATION	CA	IGD	\$85
NEWS CORPORATION	US	NWS	\$4,470
NEWS CORPORATION	US	NWSLV	\$2,288
RESMED INC	US	RMD	\$684
SINGAPORE TELECOMMUNICATIONS	SG	SGT	\$973
SKY CITY ENTERTAINMENT	NZ	SKC	\$505
TELECOM CORPORATION OF NEW ZEALAND	NZ	TEL	\$2160
TOWER LIMITED	NZ	TWR	\$262

Source: ASX Excludes options, derivatives, debt securities and securities other than for the specified ASX code.

Some of these companies are already included in the S&P/ASX indices. For these companies, it is proposed that their status within the S&P/ASX indices will not change.

### *Why the change from the News Corporation decision taken 18 months ago?*

The market has changed a lot in the relatively short period since the News Corporation decision was announced. Increasing investor cash flows are driving investor need for an ever increasing supply of local investment product.

We see this as a clear response to the needs of the market today. We have received market feedback seeking the opportunity to consider an alternative index solution reflecting the capitalisation and liquidity of the Australian market.

<sup>1</sup> Approximate, as of 28 April, 2006

## *Why are changes being proposed to S&P/ASX Australian Index Methodology?*

There are three reasons for the change:

- 1. The current index rules can result in Australian companies that qualify for the S&P/ASX 50 index being removed from the S&P/ASX indices when they choose to re-domicile to another market.**

The proposed changes, if adopted, would mean companies who re-domicile would remain in the S&P/ASX indices provided their Australian market capitalisation exceeds the index inclusion threshold and they have sufficient liquidity in the Australian market.

While index inclusion and weighting will be based upon their Australian capitalisation & liquidity, their index ranking (ie whether they are included in the S&P/ASX 20, 50, 100, 200 or 300) will be based upon the total market capitalisation of the company, not just their Australian capitalisation. This ensures comparable-sized companies are grouped together. It also ensures large foreign companies are not inadvertently added to the mid-cap or small-cap indices as a result of their lower Australian market capitalisation.

- 2. The current index treatment of foreign-domiciled companies is inconsistent.**

The flexibility offered in the ASX Listing Rules can contribute to this inconsistency. While companies are normally listed on the basis of their issued capital, an overseas company can apply to have its ASX listing based only on its Australian registered securities, known as CHESS Depository Interests or CDIs.

A new basis for calculating the Australian capitalisation of the foreign-domiciled company, the Australian Registered Shareholdings, is proposed. The use of the Australian Registered Shareholdings for all foreign domiciled companies will enable the elimination of these inconsistencies. This is explained further in the section below titled “*What is the Australian Registered Shareholdings?*”.

- 3. Australian index investors have lost the opportunity to directly invest in some key Australian assets as a result of foreign companies acquiring Australian business through cash-based acquisitions.**

While a foreign-domiciled company’s decision to list on ASX is driven primarily by factors other than potential index treatment, index inclusion can increase the attractiveness of an ASX listing, which in turn, can increase the attractiveness of scrip-based offers.

### *Foreign-domiciled companies will be ranked according to their global capitalisation, but weighted according to their Australian capitalisation. What is the difference?*

The S&P/ASX indices include 300 companies ranked from 1 for the very largest, to 300 for the smallest. Ranking refers to where a company is positioned along this scale of 1 to 300. If the company is ranked between 1 and 20, it is normally included in the S&P/ASX 20 index. If it is ranked between 1 and 50, it is normally included in the S&P/ASX 50 index and so on. Under the proposal, a company’s ranking will be based upon its global capitalisation, not its Australian capitalisation.

However, a company will not have more shares included in the index than is available to Australian investors. In other words, a company’s index weighting will be based on the company’s Australian capitalisation. It is the index weighting that primarily drives the level of investment of fund managers and index investors.

The Australian Registered Shareholdings, further discussed below and in the consultation papers, will be used as the basis for measuring the Australian capitalisation.

### *How will the proposed changes affect Australian companies?*

Index inclusion rules for Australian companies remain unaltered. The competitive space for index inclusion will be intensified due to these proposals as more foreign companies qualify for index inclusion. In practice this will mean that some Australian companies will be replaced by foreign-domiciled companies with a larger capitalisation base.

*How many Australian companies will be removed from the indices because of the proposed changes?*

It is premature to say exactly how many companies may be affected, and the decision is ultimately the responsibility of the Australian Index Committee. However, a few companies will inevitably drop out, but given there are only a handful of foreign-domiciled companies at present (see table above) we would expect changes to existing index compositions, even after the transitional period, to be relatively modest. After that, time and the market will determine the effect.

The S&P/ASX indices are very broad by international standards, so even after the proposed changes Australian companies receive very good index exposure.

*Can you explain the changes to the S&P/ASX 50 and the proposed SPANZ 50 indices?*

There are two key changes to note:

1. Foreign-domiciled companies will now be eligible for inclusion in the S&P/ASX 50. As a result, the S&P/ASX 50 will be removed as a component of the S&P/ASX Global 1200 index, an index established by Standard & Poor's to provide a basis for global benchmarking.
2. A new real-time index, the SPANZ 50, will be created and provide Australian and New Zealand representation in the S&P Global 1200. This index will provide fund managers and the issuers of index derivatives a new option for performance benchmarking and product development. The composition of this index is still to be finalised.

*Is this the first time a major global index provider has proposed such a change?*

There are examples of indices in other markets that include foreign domiciled companies, though it is rare amongst the market indices managed by the major index providers. However, this does not mean that we should not implement the changes here (subject to the feedback we receive from the industry).

*Will the changes to the index arrangements make it easier for Australian companies to re-domicile overseas?*

The index changes alone will not result in Australian companies re-domiciling overseas. There are many factors much more important than index treatment that will determine where a company will domicile. However, if a major Australian company were to re-domicile, under the proposed changes, it could remain part of the Australian indices, helping Australian investors and fund managers retain an interest in the company.

*What is the Australian Registered Shareholdings?*

The Australian Registered Shareholdings is a measure of the shareholders registered in either a foreign company's Australian share register or in the ASX managed sub-register, CHESS. It therefore provides a basis for determining the Australian capitalisation of a foreign-domiciled company. For foreign-domiciled companies, with their ASX listing based on CHESS Depository Interests (CDIs), the Australian Registered Shareholdings will equal the number of CDIs on issue.

This data will be available on the ASX website.

*What impact will the proposed changes have on New Zealand companies traded on ASX?*

New Zealand companies traded on ASX will generally find it easier to gain inclusion in the S&P/ASX indices under the proposed arrangements. A company's inclusion will be based upon their Australian capitalisation and their Australian liquidity as opposed to their Australian liquidity referenced to their total capitalisation.

*Will the proposed changes impact the All Ordinaries Index?*

No. The proposed changes only affect the S&P/ASX index suite. The All Ordinaries index is based on a different index methodology that includes and ranks companies singularly on the basis of their Australian capitalisation. Liquidity and domicile are not considered.

*Are there other planned index changes we should be aware of?*

The current focus is only on the treatment of foreign-domiciled companies and the two new real-time resource indices (for Metals & Mining and Gold). In future we would be happy to discuss the development of new indices for the Australian market where a sufficiently large market segment has a desire for them.

*Has ASX played a role in formulating the proposed index changes?*

When ASX and S&P entered its partnership together in 2000 it was with the aim of working together to develop the Australian indices to help facilitate the development and growth of the Australian market. The recent growth of the core investible benchmark, the S&P/ASX 200, above the key 5000 level is testament to the success of these efforts. We also saw this in action with the development and inclusion of the property sector in the Global Index Classification System (GICS). We are seeing it again with the changes now proposed. This reflects well on our two organisations and on the overall strength of the relationship.