15 August 2012

Ms Diane Lewis
Senior Policy Analyst
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By email: regulatorypolicy@asx.com.au

Dear Ms Lewis

Consultation – Modernising the timetable for rights issues

The Australian Financial Markets Association (AFMA) welcomes the opportunity to comment on the proposals put out for consultation in "*Modernising the timetable for rights issues*" by the ASX.

Overall, AFMA welcomes the proposals and encourages the ASX to move forward with implementation. The changes should bring positive outcomes for equity capital market participants in particular and the market in general, and is likely to lead to lower risk. Although it is noted with regard to a comment made in the paper, the relationship between underwriting fees and length of underwriting risk periods is not necessarily a linear one (as demonstrated by a comparison between average rights issue fees and average placement fees).

There is significant overlap between these proposals and the proposed timetable amendments for accelerated offers. It is our understanding from discussions with you and your colleagues that these are to be finalised concurrently. AFMA supports the changes being implemented concurrently.

Our comments raise some issues of detail where either clarification or additional work is warranted in finalising the changes. Where comments relate to a particular question, that question is recited.

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A. Proposal: reduce the period between announcement and ex date by 1 business day

Q1. With advancements in communications technology and operational systems, is it feasible to reduce the cum entitlement trading period to 1 business day and still provide the ability for foreign shareholders to trade in or out of the securities on a cum entitlement basis?

Comment

Based on member experience with accelerated rights issue timetables where there is no cum trading, there are no concerns with this reduction.

It would helpful if the ASX would clarify whether the reduction in the rights trading period and the shortening of the period between this and the subscription close date would be carried over to the PAITREO structure.

B. Proposal: reduce the period from ex date to record date by 2 business days

Q6. What is the impact on reducing the period between the ex date and the record date on the settlement systems and processes of market users?

Comment

The reduction in the period between the offer close date and issue date to 3 days may create some issues for the registry in terms of processing applications received on the last day of the offer period and having the cheque clear in time. It could also make it difficult to accept late applications in the absence of receiving cleared funds.

Overall, the change in the period between the ex date and the record date should help avoid the confusion as it relates to traditional timetable deals. As noted in relation to the first proposal it would also be helpful to clarify whether this change would extend to accelerated structures.

Q8. What are your views on the recommendation put forward by ACSA for the date for dividend reinvestment plan elections being mandated as 2 settlement days after the record date?

Comment

In paragraph 6.24, reference is made to custodians seeking dividend reinvestment plans election dates to be extended to 2 business days after the record date. This would have an impact on the terms of many dividend reinvestment plans that have pricing periods starting on the day following the record date and this would also have ramifications for the timetable on which dividend reinvestment plan neutralisations / underwritings could be executed on.

C. Proposal: reduce the period from day after record date to date that documents are sent to shareholders by 1 business day

Q9. What are your views on the feasibility of sending out offer documentation in more than one stage, based on more than one "cut" of the share register, on condition that only shareholders on the register on the record date would be entitled to participate in the rights issue?

Comment

This proposal has the potential to cause confusion and could result in a registry facing additional reconciliation issues. The feasibility of this proposal should be explored with the registries.

Q11. What are your views on whether the period between the record date and the date that documents must be sent out could be reduced from 4 business days to 2 or 3 business days?

Comment

No issues have been identified by members based on their experience. However, the feasibility of this proposal needs to be explored with the registries.

D. Proposal: reduce the minimum period from day after date that documents are sent to acceptances close date by 3 business days (business day 7 to business day 13)

Q12. What are your views on the trade-off struck between the benefits of reducing the timetable and costs of reducing the time available to investors to make their investment decision in the proposal to reduce the period between the date that documents must be sent to the acceptances close date?

Comment

Based on the experience of members with accelerated offers, most acceptances from investors who are genuine "mum and dad" retail holders are usually received early in the retail offer period. Nominee holders tend to respond later to enable them to assess the merits of acceptance in light of market movements. Accordingly, we do not see a significant issue for genuine retail holders if they were given a shorter period to make this decision as they generally already respond promptly.

However, we suggest that ASX may want to conduct its own assessment to find out what percentage of retail bids come from actual retail holders and what percentage come from nominees.

Q14. What are your views on whether the increasing use of low-documentation offers using a cleansing notice and of electronic methods of acceptance and payment support the case for reducing the disclosure period?

Comment

AFMA agrees with reducing the disclosure period, although members report that a material proportion of retail investors still currently pay for applications by cheque.

E. Proposal: reduce the period from day after acceptances close date to issue date by 3 business days

Q15. Given the general acceptance and use of electronic acceptance of offers and electronic methods of payments by shareholders, what are your views on whether a greater reduction in the number of business days in the period between the acceptances close date and the issue date than the 3 business day reduction canvassed in the proposal can be achieved (that is, whether 2 business days would be sufficient for this part of the timetable)?

Comment

In respect of renounceable rights issues, we note that this period needs to allow adequate time for the shortfall book build to be conducted. Consideration needs to be given as to whether the proposed timetable will permit this. Further discussion with the registries on this point should be conducted.

F. Additional changes for renounceable rights issues timetable – rights trading

Q17. What are your views on the reduction in the period of rights trading which would result from the implementation of the proposals to shorten the standard timetable discussed in this paper?

Comment

Shortening the period of rights trading might mean that participation will decrease. Feedback from members indicates that retail investors will generally wait to receive written confirmation of their entitlements before they commence trading of those entitlements. The proposal to shorten this period might result in a decrease in rights trading.

10. Longer term considerations

In relation to the longer term considerations posed in section 10 of the paper, AFMA supports discussion among stakeholders in the way suggested. The concept of a retrospective record date is similar to what currently exists under the accelerated timetable where no cum trading occurs.

The feasibility of completing a rights issue in less than a week faces practical challenges. For example, making the record date being the day before announcement (T minus 1) would mean that anyone that had bought on market on

T minus 2/3 would not be entitled to participate in the rights issue. Such persons may be seriously dissatisfied, particularly if it was a heavy deal at a deep discount.

AFMA stands ready to assist the ASX in its further consultations on rights issues. Please contact me at dlove@afma.com.au or (02) 9776 7995 if further clarification or elaboration is required.

Yours sincerely

David Love

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