
ASX reviews Listing Rule 7.1A

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In brief

The Australian Securities Exchange (ASX) has recently issued a Consultation Paper seeking comment on ASX Listing Rule 7.1A which provides small to mid-cap listed companies the opportunity to issue up to 10% of their share capital every 12 months in addition to the 15% permitted under Listing Rule 7.1. The Consultation Paper is open for public submissions until 9 November 2015.

In detail

On 12 October 2015, ASX released a Consultation Paper which reviews the operation of ASX Listing Rule 7.1A since it was introduced three years ago. Listing Rule 7.1A allows eligible entities to issue up to 10% of their share capital in every 12 month period with approval by way of a special resolution of shareholders passed at an annual general meeting. The rule applies to entities that are not included in the S&P/ASX 300 index and have a market capitalisation equal to or less than \$300 million.

The ability to issue shares under Listing Rule 7.1A for small to mid-cap companies is in addition to Listing Rule 7.1 which allows companies to issue up to 15% of their share capital in any 12 month period without shareholder approval. This enables greater flexibility for smaller companies to raise capital if the 15% cap under Listing Rule 7.1 has already been exhausted and avoiding the need to call an extraordinary general meeting. Listing Rule 7.1A is subject to a number of conditions aimed at ensuring investor protection including:

- the requirement to obtain a special resolution of shareholders at the annual general meeting
- additional disclosure obligations which involves disclosure at three stages: at the time of mandate approval, at the time of issue and at the time of any subsequent approval
- a minimum issue price of the new shares must be no less than 75% of the trading price, that is a maximum 25% discount (based on the previous 15-day volume weighted average price)
- a time limitation of 12 months on the shareholder mandate, after which approval must be obtained again, and
- if the shares are being issued for non-cash consideration, an independent valuation must be obtained to confirm the issue price is not below the 75% floor price.

Listing Rule 7.1A has been well received by the market with over \$660 million being raised under the rule since it was introduced in 2012 as well as shareholder approval being obtained in 94% of cases where approval was sought during that time, according to the figures released by ASX.

ASX is inviting comment on a number of proposed amendments to Rule 7.1A to streamline and simplify some of the stricter requirements of the rule which should make compliance easier for issuers. The proposed changes include:

- Reducing the compliance burden on companies by allowing certain disclosures to be consolidated into a revised form of the Appendix 3B and avoid duplicative information.
- Removing or reducing the disclosure obligations that apply at any subsequent approval of a rule 7.1A mandate.
- Producing a new Guidance Note for rules 7.1 and 7.1A to assist entities with their understanding of, and compliance with, these rules.
- Allowing 10 days (instead of the existing 5 days) to enable issuers more time, after agreeing the placement, to issue the shares and fix the issue price based on the 15 day VWAP.

The Consultation Paper is open for submissions until Monday 9 November 2015.

The takeaway

Listing Rule 7.1A remains a useful mechanism for small to mid-cap listed companies to raise further capital from the market. The rule comes with some technical obligations and conditions which, without proper advice can be easy to fall foul of, and thus companies must take care to ensure compliance. With possible changes to Listing Rule 7.1A on the horizon, companies should keep abreast of any further changes and guidance which may be issued in the coming months.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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