



**SOUTH PACIFIC STOCK EXCHANGE**

**ALTERNATIVE INVESTMENT MARKET BOARD FOR SMALL TO  
MEDIUM-SIZED ENTERPRISES**

**CONSULTATION PAPER**

September 1, 2009

## TABLE OF CONTENTS

Introduction .....	2
Purpose.....	3
Definition.....	4
Aims and Objectives.....	5
Suitability.....	6
Listing Requirements.....	7
Continuing Listing Requirements.....	9
Compliance and Enforcement.....	10
Fees.....	11
Fines.....	12
Contact Details.....	13

## INTRODUCTION

With the various means of increasing investment opportunities within the local capital markets such as broadening the range of financial instruments that might be offered, we tend to overlook the potential that lies in the Small to Medium-sized Enterprises (SMEs). SMEs play a vital role in the development process of any economy and constitute a significant portion of any economy. However, they are often locked out of the capital market because of the stringent conditions and high costs of making public offerings or enlisting itself on the stock exchange.

Stock exchanges are, or should be, an integral element in a country's capital market. The capital market is intended not only to provide investment opportunities, but more importantly to provide for domestic economic growth. Stock exchanges should provide incentives and assistance to the capital growth of domestic enterprises.

The South Pacific Stock Exchange (SPSE or the Exchange) currently has only one trading board which is the Official Market. This is reserved to companies that meet the criteria described in the SPSE Listing Rules regarding the financial requirements, shareholders spread, and financial reporting. The current listing rules are not flexible enough for the SMEs and as mentioned above the costs can become burdensome for smaller issuers and SMEs fail to gain access to the public equity markets.

## PURPOSE

The SPSE is now in the process of developing an alternative investment market for SMEs in collaboration with Capital Market Development Authority (CMDA) and the National Centre for Small & Micro-Enterprises Development (NCSMED).

In doing so, the Exchange is now seeking comments from the various stakeholders in the market. In order to assist readers, we have posed various specific questions in the different sections. Please feel free to make comments outside the framework of the questions wherever you think it appropriate. The Exchange considers this document an opportunity for all participants in the market to join in the creation of a new market.

Please submit written comments by 30<sup>th</sup> September 2009 using either of the following methods:

By mail or hand delivery to:

Chief Executive Officer  
South Pacific Stock Exchange  
Level 2 Provident Plaza 1  
33 Ellery Street, Suva

By fax to: (679) 330 4145

By email to: [krishika@spse.com.fj](mailto:krishika@spse.com.fj)

Privacy

If you choose to supply any personal data to us such as name, address and email address, the SPSE will not disclose any personal data to any party without your consent unless it is permitted or required by law.

## DEFINITION

The AIM working group defines SME's in terms of market captalization. For the listing of shares, the SME must be a public company with a market captalization of FJD100,000 to FJD1,000,000.

1. Do you agree with the definition proposed by the AIM working group keeping into mind that we are encouraging smaller businesses to list on the AIM board but at the same time we do not want to attract such businesses which will be regarded as too small to survive on the AIM Board?
2. What would be your definition of AIM and how should it differ from the main Listing Rules?
3. Given that most of the SMEs are sole proprietor businesses, how can we assess these companies in terms of market captalization? Who should be responsible for assessing the market captalization of these companies and what factors should be taken into account?
4. In your opinion, which type of businesses should be allowed on the AIM Board:
  - All
  - Industries
  - Specific Industries?

## AIMS AND OBJECTIVES

The main objective of AIM is to provide funding to those companies which have the potential to grow but lack the financial capacity to do so. The aim is to divert these potential companies from increasing debt and to divulge these companies into equity raising.

The AIM group is proposing the use of the capital markets for the funding needs of SMEs. The AIM group will ensure that the company discloses all necessary information for an investor to make a reasonably informed decision. As such, there is a higher chance of finding potential investors to increase funding when compared to seeking loans from lending institutions which vet and approve loan applications based on the limited information they receive.

Consequently, we see the short term goal of AIM as an opportunity for SMEs to find the money for their expansions, which will be based on the credibility of their businesses, and judged by investing public.

As for the long term goal of AIM, we are looking at grooming the SMEs to a stage where they can move onto the main board after reaching a particular size in terms of market capitalization.

5. Given the aims and objectives of AIM, do you think it is a good idea to introduce AIM?
6. Do you think the AIM working group is heading into the right direction with the current aims and objectives?
7. In your view, what should be the short term and long term goal for AIM?

## SUITABILITY

AIM is a market SMEs that are in growth phase. Applicants that meet the criteria for listing on the Main Board will not ordinarily be granted a listing on AIM and the SPSE reserves the right to request such applicants to route their applications to the Main Board.

When companies with a listing on AIM reach the stage that they comply with the criteria specified for the Main Board, they will be required to transfer their listing to the Main Board.

8. What do you think is the appropriate size of a company in terms of market capitalization in order for it to move onto the Main Board?
9. Should market capitalization be the only factor that should be taken into account before moving these companies onto the main board?
10. Given that the AIM rules will be less stringent and relaxed, what incentives should be given to these companies so that they work towards moving onto the main board?
11. Would you have in mind, particular companies that should be approached to consider this as an avenue for capital raising?

## LISTING REQUIREMENTS

Currently, there are a number of requirements that a company has to fulfil in order to list on the SPSE main board. In order to list on the AIM board, the AIM working group feels that the following variations should apply from the main board listing requirements:

- a. Sponser - all SME's may be sponsored by an investment advisor licensed by the Fiji Capital Markets Development Authority. However, for companies going public via NCSMED shall submit their proposal to NCSMED for intial vetting before it is passed onto CMDA for final approval.
- b. Public Shareholding - the company shall have at least 10% of the total issued shares owned by at least 30 members of the public (the main board rules requires 20% by at least 50 members).
- c. Operating History - at the time of listing the applicant must have had an operating history of at least 1 year (there is a 3 year requirement for the Main Board).
- d. Warning Statements - The front cover of all documents (including announcements, circulars and annual reports) issued or published by the company must contain an appropriate warning in bold relating to the risks of investing in the company. This warning must include a statement that the SPSE does not guarantee the viability or success of the company.
- e. Share certificates shall be endorsed to the effect that securities are listed on AIM.

One of the main challenges faced by the AIM working group is what requirements should be imposed on SMEs so that a balance can be achieved between imposing less stringent rules than the main board listing requirements and at the same time to avoid making the AIM rules so relaxed that any company can list on the secondary market portraying a false market.



12. Do you feel that the above variations from the main listing requirements are sufficient?
13. In so far as the listing requirements are concerned for the AIM board, how much should it differ from the Main board?
14. Why do you think the rules for entry should be less stringent for companies listing on AIM board when compared to the Main board?
15. Which rules for entry on the AIM board should be less stringent? Please state reasons.

## CONTINUING LISTING REQUIREMENTS

The AIM working group feels that the continuing listing requirements for the AIM board will be less stringent for companies when compared to the SPSE main board. As such, we propose the following changes:

- a. SME's will only be required to submit the Half Yearly Financial Statements which can be audited or unaudited and the Annual Report
- b. SME's will not be required to submit the Quarterly Financial Statements
- c. SME's will not be required to submit the Annual Financial Statements
- d. SME's will not be required to make any Statutory and Shareholder Disclosures
- e. SME's will not be required to submit draft documents to SPSE.

16. In your view, are the above exceptions reasonable?

17. Do you feel that there should be more exceptions for companies listed on the AIM board?

18. Do you feel that any of the exceptions stated above should not apply to companies listed on the AIM board? Please state reasons.

## COMPLIANCE AND ENFORCEMENT

Currently, under the SPSE main board compliance and enforcement rules, SPSE has the power to inspect, investigate, suspend and delist any listed company that is in serious contravention of the SPSE listing rules. The AIM working group is proposing the same for companies listed on the AIM board.

19. In your opinion, should the compliance and enforcement rules be the same for companies listed on the AIM board?
20. Do you think the rules should be less stringent? If so, how much should it differ from the rules of the SPSE main board?
21. Do you think the rules should be more stringent than the rules of the SPSE main board in light of the fact that companies listed on the AIM board need more guidance in order to protect the interests of shareholders? In your opinion, which rules should be more stringent?

## FEES

The AIM group is suggesting the following fees structure for companies listed on the AIM board:

Application for listing	\$2,000
Delisting	\$1,000
Listing of additional securities	\$500

Market capitalisation of listed securities	Annual Fees
Up to \$200,000	\$2,500
\$200,001 to \$500,000	\$3,000
Over \$500,000 to \$1m	\$3,500

22. In your view, should there be any changes to the above fees structure?

## FINES

The AIM working group feels that fines should act as a deterrent for non-compliance of the AIM rules. As such, fines will be applicable to companies listed on the AIM board; however, the amounts of the fines imposed will be less when compared to the fines for non-compliance of the SPSE main board rules. Consequently, the AIM working group suggests the following structure:

Failure to submit material information	\$250 per day: Maximum of \$2,500
Failure to submit half yearly and annual report	\$250 per day: Maximum of \$2,500
Failure to comply with any other continuing listing requirements	\$100 per day: Maximum of \$1,000

23. In your view, should there be any changes to the above structure?

## YOUR CONTACT DETAILS – OPTIONAL

Name: \_\_\_\_\_

Organisation Name: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Email Address: \_\_\_\_\_

Do you consent to being contacted by the SPSE for clarification on any of your responses above?

Yes

No