Technical Report:

REPORT ON PRINCIPLES AND STANDARDS FOR THE HARMONIZATION OF THE LISTING RULES OF SADC STOCK EXCHANGES

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# TABLE OF CONTENTS

LIST OF ACRONYMS AND ABBREVIATIONS ................................................................. 3  
EXECUTIVE SUMMARY ......................................................................................... 4  
   1. INTRODUCTION......................................................................................... 5  
   2. METHODOLOGY.................................................................................... 6  
      2.2. Analytical Approach ................................................................... 7  
      2.3. Sources of Principles .................................................................. 7  
Figure 1: The Flow of Principles and Standards ............................................. 8  
      2.3.1. IOSCO Principles .................................................................... 8  
Table 1: IOSCO Principles 14 – 16 Issuers ...................................................... 8  
      2.3.2. WFE Principles and Membership Criteria .................................. 9  
3. RECOMMENDED PRINCIPLES AND STANDARDS ...................................... 11  
   3.1. SPONSORS....................................................................................... 11  
   3.2. CONTINUING OBLIGATIONS ............................................................ 12  
      3.2.1. GENERAL OBLIGATION OF DISCLOSURE ............................... 12  
      3.2.2. PERIODIC FINANCIAL INFORMATION .................................... 15  
      3.2.3. RIGHTS BETWEEN SHAREHOLDERS ..................................... 16  
      3.2.4. SHAREHOLDER SPREAD .......................................................... 17  
      3.2.5. DIRECTORS/CORPORATE GOVERNANCE ............................... 17  
   3.3. CONDITIONS FOR LISTING .............................................................. 19  
   3.4. METHODS AND PROCEDURES FOR BRINGING SECURITIES TO  
        THE MARKET .................................................................................. 20  
   3.5. PRE-LISTING STATEMENT/PROSPECTUS ....................................... 22  
   3.6. LISTING PARTICULARS ..................................................................... 24  
   3.7. FINANCIAL INFORMATION .............................................................. 28  
   3.8. TRANSACTIONS .............................................................................. 31  
   3.9. RELATED PARTY TRANSACTIONS .................................................. 33  
   3.10. SECONDARY AND DUAL LISTINGS ............................................... 35  
4. SUMMARY AND CONCLUSION ..................................................................... 37  
ANNEX 1: IOSCO’S OBJECTIVES AND PRINCIPLES OF SECURITIES  
        REGULATION ....................................................................................... 38  
ANNEX 2: WFE MEMBERSHIP CRITERIA ......................................................... 42  
Annex 3: SELF-ASSESSMENT INSTRUMENT ...................................................... 53
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BVM</td>
<td>Bolsa de Valores de Maputo</td>
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<td>CCP</td>
<td>Central Counter Party</td>
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<td>CoSSE</td>
<td>Committee of SADC Stock Exchanges</td>
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<td>CPSS</td>
<td>Committee on Payment and Settlement Systems</td>
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<td>DSE</td>
<td>Dar es Salaam Stock Exchange</td>
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<td>FIP</td>
<td>Finance and Investment Protocol</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Principle</td>
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<td>IAASB</td>
<td>International Accounting and Assurance Standards Board</td>
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<td>IAS</td>
<td>International Accounting Standard</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<td>ISRE</td>
<td>International Standards on Review Engagements</td>
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<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
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<td>LA</td>
<td>Letter of Allocation</td>
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<td>LuSE</td>
<td>Lusaka Stock Exchange</td>
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<td>MSE</td>
<td>Malawi Stock Exchange</td>
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<td>NSX</td>
<td>Namibia Stock Exchange</td>
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<td>SADC</td>
<td>Southern Africa Development Community</td>
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<td>SEM</td>
<td>Stock Exchange of Mauritius</td>
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<td>SRO</td>
<td>Self-Regulatory Organization</td>
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<td>WFE</td>
<td>World Federation of Exchanges</td>
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EXECUTIVE SUMMARY

This report is a follow-up to a number of activities that have been initiated to support the harmonization of the listing rules of the stock exchanges in the SADC region. The initial work focused on the analysis of gaps in listing rules using the JSE listing rules as a benchmark. During the most recent consultation, members were offered two options:

- Option 1: Harmonize around a common set of standards and principles.
- Option 2: Dual Book Approach: Adopt two rule books with Rule Book 1 containing harmonized rules that apply to all exchanges and Rule Book 2 focusing on rules pertaining to individual markets.

The members of CoSSE have chosen Option 1 for the initial phase of harmonization. This report is designed to propose standards that can be adopted by all CoSSE members. To simplify the analysis, it has been found necessary to distinguish “principles” from “standards”. Principles refer to broad internationally accepted principles as espoused by the International Organization of Securities Commission (IOSCO) and the World Federation of Exchanges (WFE). Standards are rules for the application of the general principles and can vary significantly across stock exchanges. It is noted that there is general consensus already on principles; however, there are differences in standards depending on how far a stock exchange wishes to go in applying the general principles.

It is important to point out that a significant amount of consensus is required in adopting harmonized standards. Therefore, the recommended principles and standards in this report are tentative. Ultimately, CoSSE member will need to reach a consensus on the feasibility of adopting particular standards for voluntary or binding compliance by all members.

The recommended standards for harmonization are presented for the following themes:

1. Sponsors
2. Continuing obligations
3. Conditions for listing
4. Methods and procedures for bringing securities to listing
5. Pre-Listing Statements
6. Listing Particulars
7. Financial Information
8. Transactions
9. Related party transactions
10. Secondary and Dual Listings and Listings

A self-assessment instrument has been designed to enable individual stock exchanges to benchmark their listing rules against the proposed standards. It is expected that in addition to the harmonization objective, this benchmarking exercise will also assist CoSSE members to identify opportunities to raise their standards.
1. INTRODUCTION

The 2010 Report on the Harmonization Initiative for SADC Stock Exchanges identified two options for the harmonization of listing rules within SADC as follows:

- Option 1 - Focus on Core Standards and Principles:
- Option 2 - Develop SADC Harmonized Listing Rules based on a dual rule-book approach. This approach would require CoSSE members to agree on a common rule book which may be called Rule Book I, consisting of harmonized rules which may only be changed by consensus among all members. A second Rule Book II would then focus on rules pertaining to individual markets that could be changed by individual stock exchanges to the extent that they do not conflict with Rule Book I.

After due consideration, CoSSE decided to adopt the option of harmonization around a common set of principles (Option 1) in order to achieve the objective of ensuring a common minimum set of listing requirements across SADC exchanges.

The Scope of Work for this report (Annex 1) responds to the decision by CoSSE to harmonize around a common set of principles and standards. Specifically, the Consultant is required to:

1. Identify suitable standards and principles (based on international standards such as those of the WFE) that could be used by CoSSE as the basis for harmonization;
2. Prepare a draft set of core standards and principles that would then be circulated to CoSSE members for discussion;
3. Carry out visits to selected CoSSE exchanges in order to discuss the proposed standards and principles in more detailed and validate the draft;
4. Prepare a final set of standards and principles
5. Prepare a framework and self-assessment instrument that could be used by the CoSSE exchanges for a self-assessment of their own listing rules against the agreed standards and principles and the identification of the changes needed for compliance.
2. METHODOLOGY

2.1. Conceptual Challenges: Principles Versus Standards

At an early stage of the assignment, it became obvious that the term “principles” and “standards” needed to be clarified in order to establish a common understanding of what principles and standards are. According to one dictionary, “principles” are:

fundamental norms, rules, or values that represent what is desirable and positive for a person, group, organization, or community, and help it in determining the rightfulness or wrongfulness of its actions. Principles are more basic than policy and objectives, and are meant to govern both.\(^1\)

The same dictionary defines “standards” as:

written definition, limit, or rule, approved and monitored for compliance by an authoritative agency or professional or recognized body as a minimum acceptable benchmark. Standards may be classified as (1) government or statutory agency standards and specifications enforced by law, (2) proprietary standards developed by a firm or organization and placed in public domain to encourage their widespread use, and (3) voluntary standards established by consultation and consensus and available for use by any person, organization, or industry.\(^2\)

It is clear that principles are more basic than standards. It is also clear that the same principles might give rise to several standards. For example, the principle that holders of securities should be treated in a fair and equitable manner might in practice be implemented with several variations across countries, depending on local law and institutional arrangements.

Worldwide, there is broad agreement on the principles that should guide the listing rules of stock exchanges. These are captured from the principles and standards pronounced by the relevant international bodies, the key ones being the International Organization of Securities Commissions (IOSCO) and the World Federation of Exchanges (WFE). Differences in the listing rules of stock exchanges arise in the application of the principles rather than the principles themselves. These differences arise because stock exchanges have to make some hard choices on the degree to which they will apply particular principles. There are cost benefit considerations and tradeoffs have to be made.

In this report, we will assume that the appropriate principles that should be reflected in listing rules are already fully accepted. “Standards” will refer to requirements and processes that have been laid down by stock exchanges for companies wishing to list.

The harmonization of listing rules will require CoSSE members to reach a consensus on the tradeoffs between different levels of the application of the core principles. The choices are not always obvious and therefore cannot be imposed. The recommendations contained in this report are therefore a starting point. CoSSE members will ultimately have to review them and reach a consensus the feasible set of common standards.

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1 http://www.businessdictionary.com/definition/principles.html

2 http://www.businessdictionary.com/definition/standards.html
2.2. Analytical Approach

The assignment was undertaken in a number of phases. The first was a desk review of the principles and standards for listing rules as pronounced by the relevant international bodies, the key ones being the International Organization of Securities Commissions (IOSCO) and the World Federation of Exchanges (WFE). These principles are stated at a very high level of generality leaving stock exchanges a significant amount of latitude in their application. This also meant that in order to arrive at common SADC standards. It was necessary to look at the listing rules of the individual exchanges in order to identify standards that were relevant to a majority of the member stock exchanges and were feasible in a wide variety of settings. This analysis led to a draft report of recommended principles and standards.

In accordance with the Scope of Work, the draft report was circulated to a number of exchanges in the SADC region (Botswana, JSE and Zimbabwe) for comment. Field visits were undertaken to enable a detailed discussion of the contents of the report.

The final report reflects the inputs received during the field visits. A self-assessment instrument (Annex 4) has been designed to assist stock exchanges to assess the extent to which their current listing rules conform to the recommended standards.

2.3. Sources of Principles

Stock exchanges are generally seen as self-regulatory organizations under the formal supervision of a securities regulatory agency. Regulatory agencies in general aspire to the principles of securities regulation laid down by the International Organization of Securities Commissions (IOSCO). These principles have been coded as the “IOSCO Objectives and Principles of Securities Regulation” (attached as Annex 2). While these principles are generally intended for application by regulatory agencies, they are principles that must also be observed by stock exchanges since the regulator will demand observance of the principles from the stock exchanges under its jurisdiction.

A second set of principles that more directly govern the establishment and operation of stock exchanges has been clearly specified by the World Federation of Exchanges (WFE). The WFE is the trade association for regulated securities and derivative markets. It is an international organization comprised of the world’s leading exchanges, which are committed to the highest levels of business quality as written into the members’ own rules. Membership in the World Federation of Exchanges identifies each market as having prescribed business standards, recognized as such by members, owners, and users of exchanges, as well as by regulators and supervisory bodies.

The WFE has a membership of 52 exchanges around the world. Currently, only two members of COSSE are full members of WFE: Stock Exchange of Mauritius (SEM) and the Johannesburg Stock Exchange (JSE). The Namibian Stock Exchange (NSX) is an affiliate while the Lusaka Stock Exchange (LuSE) is a correspondent. ³ The application of WFE principles and standards to the harmonization of the listing rules on members of CoSSE will have the added advantage of moving the exchanges towards the highest international standards.

³ Exchanges may choose to become “Affiliate” members. Affiliates status does not automatically imply an adherence to the WFE membership criteria and unlike membership is not subject to peer review or vote by the general assembly. The exchanges participating as WFE Correspondents have access to all WFE information and meetings. Unlike membership, the Correspondent category is not subject to peer review or adherence to the WFE Membership Criteria.
Figure 1 shows how the IOSCO and WFE principles impact stock exchange listing rules and how standards derived from these principles are in turn applied to the clientele of stock exchanges such as issuers (listed companies), intermediaries (broker-dealers) and service providers.

**Figure 1: The Flow of Principles and Standards**

<table>
<thead>
<tr>
<th>IOSCO OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION</th>
<th>WORLD FEDERATION OF EXCHANGES PRINCIPLES</th>
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<tr>
<td>STOCK EXCHANGE LISTING RULES</td>
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<tr>
<td>STOCK EXCHANGE STANDARDS</td>
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<tr>
<td>Listed Companies</td>
<td>Intermediaries</td>
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<tr>
<td>Service Providers</td>
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</table>

### 2.3.1. IOSCO Principles

The IOSCO principles that are most relevant to the listing rules of stock exchanges are Principles 14-16 as is Table 1:

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
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<tbody>
<tr>
<td>Principle 14</td>
<td>There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions.</td>
</tr>
<tr>
<td>Principle 15</td>
<td>Holders of securities in a company should be treated in a fair and equitable manner.</td>
</tr>
<tr>
<td>Principle 16</td>
<td>Accounting and auditing standards should be of a high and internationally acceptable quality.</td>
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</table>
Principles 14-16 deal with disclosure, fair treatment of holders of securities and accounting and auditing standards.

2.3.2. WFE Principles and Membership Criteria

A second set of principles more directly governing the establishment and operation of stock exchanges has been clearly specified by the WFE Principles and Membership Criteria (Annex 3).

The WFE principles are as follows:

- Investor and issuer focus
- Safety of financial assets
- Clarity of offerings for channeling savings into investments
- Transparency of the market transaction chain
- Systems that maintain the integrity of the market for price discovery
- Fair treatment for each category of participants
- Enforcement of listing requirements and trading rules
- Fair processes for definitive and timely settlement of disputes

In addition to the WFE principles, members must meet the relevant criteria in the following areas:

- Building the infrastructure
  1. The Organization of WFE members
  2. Regulatory framework
  3. Equal opportunity for market access
- The Trading Environment
  4. Listing/Admission to trading
  5. Trading
- Post-trade operations
  6. Clearing of Trades
  7. Settlement of Trades: Payment of Funds and Transfer of Title
  8. Depository Services
- Assuring Service Quality and the Value of Members’ Brands
  9. Technical infrastructure
  10. Risk Assessment
  11. Supervision, Surveillance and Enforcement
  12. Resolution of Disputes and handling of complaints

Of particular relevance to the establishment of a common set of principles and standards for CoSSE members is WFE membership Criterion 4 which deals with listing/admission to trading. The listing rules of members should address the following:

- The listing authority, its role, responsibilities and powers
- The exchange’s corresponding role, responsibilities and powers
- The types of securities that can be listed or admitted to trading
- For options and futures, there are specific obligations required of exchanges in terms of instruments admitted to trading status, as for example, adequate margin requirements
- The minimum criteria to meet before securities can be listed or admitted to trading, such as details on the issuer, the size of the corporation, its historical profitability, its
free float and shareholder spread, and its debt arrangements. Depending on local law, exchange listing requirements may have a role to play in setting and/or in informing the markets on listed companies’ governance practices.

- The requirement that an issuer must make public, complete and timely initial and on-going disclosure to the market of all relevant company information, including financial affairs materially affecting its prospects, and of the risks inherent in the security. Information to be disclosed in extraordinary circumstances should also be stipulated, and may include changes as a consequence of corporate actions, new business developments, profit warnings, and similar events having a material effect on the value of these securities. Financial information is critical; its disclosure must be coordinated among various market actors, as set in the exchange’s contractual arrangements with the issuer.

- The manner in which issuers should present financial information, which would preferably be in accordance with IFRS.

- The procedures and timetable for listing. These should be sufficiently detailed and demanding so as to assure that the requirements of the exchange are met, but not so long as to impair capital raising.

- The procedures and timetable for halting trading, and even delisting, must be set and made known.

In addition, foreign issuers should to the greatest possible be subject to the same rules.

In contrast to principles, standards may differ from exchange to exchange while being consistent with the same principles. For example, two stock exchanges may choose different accounting standards which are equally of a high standard and still be in compliance with IOSCO Principle 16 which requires accounting standards to be of a high and internationally acceptable quality. It follows, that in choosing standards, CoSSE members have a high degree of latitude in their choices.

In this report, “principles” will generally refer to IOSCO Objectives and Principles of Securities Regulation and WFE principles and criteria for membership. “Standards” will refer to the rules reflected in the listing rules of the member exchanges.

For the purposes of establishing standards, this report highlights the following topics that are common to the listing rules of SADC stock exchanges:

11. Sponsors
12. Continuing obligations
13. Conditions for listing
14. Methods and procedures for bringing securities to listing
15. Pre-Listing Statements
16. Listing Particulars
17. Financial Information
18. Transactions
19. Related party transactions
20. Secondary and Dual Listings and Listings
3. RECOMMENDED PRINCIPLES AND STANDARDS

3.1. SPONSORS

**PRINCIPLES**

The sponsorship of listings is designed to ensure that the issuer has appropriate professional advice to reassure the stock exchange that the issuing company is of sufficient quality. The underlying principle is that the Sponsor has taken all necessary steps in order to submit the application and related documents to the exchange in good faith.

Across stock exchanges, sponsors are usually banks, brokers and other professionals such as lawyers and accountants. Sponsorship rules deal with the qualifications and responsibilities of sponsors who assist issuers of securities.

The use of sponsors satisfies the following WFE principles:

- Investor and issuer
- Clarity of offerings for channeling savings into investments
- Enforcement of listing requirements and trading rules

The key standards are follows:

- **Qualifications of sponsors**: The professionals admitted to sponsorship are normally banks, brokers and other professional advisors including accountants and lawyers. The exchange should have procedures for vetting and approving sponsors.
- **Independence**: An applicant issuer or a subsidiary or associate of the issuer cannot be the sponsor. In such cases, an independent joint sponsor should be required.
- **Sponsors Responsibilities**: Ensuring that the sponsor’s responsibilities are appropriately specified to ensure that the quality of the listing is maximized. Generally, this requires the sponsor to ensure that issuer has complied with the listing requirements.

**DISCUSSION**

Current requirements are as follows:

1. All CoSSE members require issuers to use sponsors
2. JSE and SEM admit a wide range of professionals as sponsors (corporate brokers, banks and professionals such as accountants and lawyers); other CoSSE members allow only dealing members of the exchange to be sponsors.
3. JSE and SEM require an issuer to have a sponsor on a continuing basis; other CoSSE members require sponsors only during the issue of securities.

It would appear that the exchanges that adopt rules requiring sponsors at all times want to ensure that issuers have access to appropriate expertise and advise not only during the issue of securities but also for meeting their continuing obligations. The major constraint to the requirement to have a sponsor at all times is the cost, which may be prohibitive in small markets with relatively small listed companies.
RECOMMENDATIONS

The prevalence of small exchanges in the SADC region means that most issuers may be unable to support the cost of having a sponsor at all times. It is therefore recommended that the critical standards be limited to the following:

1. Qualification of sponsors
2. Independence of sponsors
3. Sponsors responsibilities

3.2. CONTINUING OBLIGATIONS

Once a security is admitted to the official list, there are certain obligations which an issuer is required to observe. Observance of the continuing obligations is essential to the maintenance of an orderly market in securities and to ensure that all users of the market have simultaneous access to the same information.

The continuing obligations require all listed companies to ensure timely disclosure of relevant information and equal treatment of all shareholders. All listed companies must make regular returns and release relevant information within the timeframes in the Listing Rules.

The key provisions that govern continuing obligations are as follows:

- General obligation of disclosure
- Disclosure of periodic financial information
- Rights between holders of securities

3.2.1. GENERAL OBLIGATION OF DISCLOSURE

PRINCIPLES

The rules on the General Obligation of Disclosure are based on the principle that reliable, timely and readily accessible information is fundamental for investors. Information should be disclosed on a timely basis, whether in connection with an initial public offering or listing, continuously, currently or periodically, and in a form or manner prescribed by the listing rules.

Because most investors participate in the market through secondary trading rather than initial public offerings, providing high quality information to the markets on a periodic basis is crucial, even if a company only infrequently makes public offerings. In particular, most retail investors participate in the securities markets through the secondary trading that occurs in the markets, rather than through initial offerings of securities.

Material information should also be updated and provided on an ongoing basis to the public, so that retail investors who participate through secondary trading, and who are most in need of regulatory protection, can benefit from this same type of disclosure on an ongoing basis. In other words, the body of information available to an investor should contain both information disclosed at the IPO stage, as well as information disclosed on an ongoing basis. The fundamental principle of full and fair disclosure is that the listed entity should provide all information that would be material to an investor’s investment decision.
Listing rules are usually based on one of two basic approaches, as well as a combination of the two, in order to ensure appropriate disclosure of information by listed entities in view of the interest of investors. The “general obligation” approach is a general prescription for disclosure of price-sensitive information while the “prescription” approach describes in detail the types of information that must be disclosed. No one approach is necessarily better than any other, because individual market characteristics and regulatory regime are different.

The general obligation of disclosure is supported by IOSCO Principle 14:

**IOSCO Principle 14:**

*There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions.*

In addition, IOSCO has issued detailed principles of ongoing disclosure as follows:

1. **The key elements of an ongoing disclosure obligation**
2. **Timeliness**
3. **Simultaneous and Identical Disclosure**
4. **Dissemination of Information**
5. **Disclosure Criteria:**
6. **Equal Treatment of Disclosure:**
7. **Allocation of Accountability:**

**WFE Principles:**

- **Investor and issuer focus**
- **Safety of financial assets**
- **Transparency of the market transaction chain**
- **Systems that maintain the integrity of the market for price discovery**
- **Fair treatment for each category of participants**
- **Enforcement of listing requirements and trading rules**

In addition, WFE has the following criterion for membership:

- **The requirement that an issuer must make public, complete and timely initial and on-going disclosure to the market of all relevant company information, including financial affairs materially affecting its prospects, and of the risks inherent in the security. Information to be disclosed in extraordinary circumstances should also be stipulated, and may include changes as a consequence of corporate actions, new business developments, profit warnings, and similar events having a material effect on the value of these securities. Financial information is critical; its disclosure must be coordinated among various market actors, as set in the exchange’s contractual arrangements with the issuer.**

The fundamental principles for the continuing obligations are disclosure and transparency. There is disclosure of market data, particularly price sensitive information, disclosure of directors’ activities and interests, disclosure of information in relation to share capital, disclosure of financial information and performance factors embodied in annual reports and other communications with shareholders.

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4 Principles of Ongoing Disclosure and material Development Reporting by Listed Entities, Technical Committee of IOSCO, October 2002
DISCUSSION
In addition to the above principles, various jurisdictions may have specific items of disclosure. For example, the JSE requires an issuer to publish a trading statement whenever a reasonable degree of certainty exists that the financial results for the period to be reported on will differ by at least 20% from the most recent base information. These standards are specific to various jurisdictions and need not be standardized across CoSSE members.

RECOMMENDATIONS
Listing rules should reflect the following IOSCO’s prescriptions for an ongoing disclosure obligation:

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<tr>
<td><strong>1. The key elements of an ongoing disclosure obligation</strong></td>
<td>Listed entities should have an ongoing disclosure obligation requiring disclosure of all information that would be material to an investor’s investment decision.</td>
</tr>
<tr>
<td><strong>2. Timeliness</strong></td>
<td>1. The listed entity shall disclose ongoing information on a timely basis, which could require disclosure on an: a. immediate basis for disclosure of material developments, where such a term could be defined as “as soon as possible” or prescribed as a maximum of specified days and b. periodic basis, prescribed by law or listing rules, such as quarterly or annual reports.</td>
</tr>
<tr>
<td><strong>3. Simultaneous and Identical Disclosure</strong></td>
<td>If the entity is listed in more than one jurisdiction, the information released under the ongoing disclosure obligation of one jurisdiction where it is listed should be released on an identical basis and simultaneously in all the other jurisdictions where it is listed.</td>
</tr>
<tr>
<td><strong>4. Dissemination of Information</strong></td>
<td>Under the ongoing disclosure obligation listed entities should ensure that full information is promptly made available to the market by using efficient, effective and timely means of dissemination.</td>
</tr>
<tr>
<td><strong>5. Disclosure Criteria</strong></td>
<td>Ongoing disclosure of information should be fairly presented, not be misleading or</td>
</tr>
</tbody>
</table>
6. Equal Treatment of Disclosure

The information to be disclosed in compliance with the ongoing disclosure obligation should not be disclosed to selected investors or other interested parties before it is released to the public. Certain narrow exceptions may be permitted to this principle to allow communications with advisers and rating agencies or, in the ordinary course of business, communications with persons with whom the listed entity is negotiating, or intends to negotiate, a commercial, financial or investment transaction or representatives of its employees or trade unions acting on their behalf. In all these cases, the recipients have a duty to keep the information confidential.

7. Allocation of Accountability

The listed entity is responsible for compliance with the ongoing disclosure obligation. In some jurisdictions, specific persons have been identified as also being responsible for the disclosure of such information.

3.2.2. PERIODIC FINANCIAL INFORMATION

PRINCIPLES

Periodic financial information includes:

1. Interim and quarterly reports
2. Provisional reports
3. Annual financial Statements

DISCUSSION

Interim and Quarterly Reports

Most CoSSE stock exchanges require issuers to issue interim statements every six months within three months of the end of the six-month period. However, SEM requires interim reporting within 45 days of the end of a quarter. Because of a general trend towards quarterly reporting, it is recommended that all CoSSE members must adhere to a quarterly reporting standard.
Provisional/Preliminary Reports

A number of CoSSE members require that issuers issue provisional/preliminary reports if they have not been able to use audited accounts within three months of the year-end. Some members (SEM, BVM, DSE) do not require provisional reports.

Annual Financial Statements

The majority of SADC stock exchanges require annual financial statements to be published within 6 months after the end of each financial year. However LuSE requires annual financial statements to be published within 3 months after the end of the financial year. It is recommended that LuSE’s higher standard of reporting within 3 months after the end of the fiscal year be adopted as the CoSSE standard.

What should be the standard for accounting policies and review for interim and provisional statements? SADC stock exchanges do not require interim reports to be reviewed by auditors. However, the majority of exchanges require unaudited provisional/preliminary reports to be reviewed by the issuer’s auditor. While JSE requires such reviews to be based on the International Standard on Review Engagements (ISRE 2410), other SADC exchanges use local accounting standards.

RECOMMENDATIONS:

1. All CoSSE members should report according to a quarterly reporting standard.
2. Provisional Reports should be prepared in accordance with IFRS standards.
3. Given the IOSCO standard for accounting and auditing standards to be of a high and internationally acceptable quality, it is recommended that all SADC stock exchanges adopt ISRE 4210 for the review of provisional/preliminary statements.

3.2.3. RIGHTS BETWEEN SHAREHOLDERS

IOSCO Principle 15 states that holders of securities in a company should be treated in a fair and equitable manner. WFE maintains the principles of ‘fair treatment for each category of participants.

The provisions relating to rights between shareholders are generally specified in the company law of each country. In addition, these rights may be reinforced by stock exchanges in their listing rules.

Currently, all CoSSE members have rules that require equal treatment of all shareholders. However the issue of preemptive rights for shareholders is not standardized.

RECOMMENDATIONS

The key recommended standards are:

1. Affirmation of the right of equality of treatment including the prohibition of differences in voting rights attached to securities of the same class
2. Pre-emptive rights requiring an issuer proposing to issue shares for cash to first offer those securities by way of rights to their existing shareholders in proportion to their existing holdings (unless shareholders waive the right).
3.2.4. SHAREHOLDER SPREAD

The shareholder spread mandates an issuer to ensure that a certain minimum percentage of issues shares are held by the public. This ensures the availability of an adequate float for secondary trading. The JSE requirement is:

- 20% of each class of equity securities held by the public
- The number of public shareholders in respect of listed securities shall be:
  - 300 for equity securities
  - 50 for preference shares
  - 25 for debentures

For other CoSSE members, the required public floats ranges between 15% and 25%. With the exception of JSE, all CoSSE exchanges have provision that give the exchanges the discretion to waive the public float requirement. This is undoubtedly designed to enable small exchanges to attract listings. The waiver of the minimum public float may worsen the chronic illiquidity that plagues African stock exchanges.

RECOMMENDATION

It is recommended that adopt the following minimum float standard:

1. 20% of securities held by the public
2. Minimum float requirement not to be waived
3. Best practices⁵ dictate that the public does not include:
   - a director of the applicant or any subsidiaries
   - any person connected with that director
   - trustees of any employee share schemes of any pension funds established for the benefit of directors or employees of the applicant or subsidiaries
   - any person who by agreement may nominate the appointment of a director, and
   - any person or persons in the same group who are interested in 5 per cent or more of securities of the same class.

Because the minimum number of shareholders may be affected by the size of listed companies in each market, no standard is recommended for the minimum number of shareholders.

3.2.5. DIRECTORS/CORPORATE GOVERNANCE

PRINCIPLES

Listing rules normally set minimum standards of good practice for directors (and in some cases employees and connected persons) of listed companies so that they do not abuse – or put themselves under suspicion of abusing – price sensitive information. The most important thrust of the rules governing directors’ dealing in securities is that director who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals must refrain from dealing in the company’s securities as soon as they become

⁵ E.g. U.K. Listing Authority
aware of them or privy to them until proper disclosure of the information in accordance with the Listing Rules. These rules respond to the following principles:

**IOSCO Principle 15:** Holders of securities in a company should be treated in a fair and equitable manner

**WFE principles:**
- Investor and issuer focus
- Fair treatment for each category of participants

**DISCUSSION**

The majority of CoSSE members have specific rules on the reporting of dealings in securities by directors. The exchanges with the most detailed rules on dealings by directors are the JSE and SEM.

The majority of SADC exchanges do not have explicit requirement related to the corporate governance of issuers. The JSE requirements provide a guide on the minimum standards in accordance with the King Code. Because of the increasing importance of corporate governance to investors, it is recommended that a minimum standard of corporate governance be included in the listing rules of all SADC stock exchanges.

**RECOMMENDATIONS**

The following recommended standards represent rules that exist in the listing rules of most CoSSE members.

1. Details of all transactions in securities held beneficially by directors of the issuer
2. Obligation of directors to serve prior notice of their intent to deal in the issuer’s securities
3. Prohibition of dealings during a prohibited period where prohibited period is defined as:
   a. A closed period
   b. Any period when there exists any matter which constitutes unpublished price sensitive information in relation to the issuer’s securities
4. Disclosure of beneficial interests of directors and major shareholders in annual reports
5. Corporate Governance:
   a. A policy on procedures of appointment to the board of directors including nomination committee
   b. Separation of the role of chief executive and chairman of the board
   c. Appointment of an audit committee

---

6 A “closed period” usually refers to the period from the year-end leading up to the publication of preliminary/abridged/provisional report and the date from the expiration of an interim report period to the publication of interim reports.
3.3. CONDITIONS FOR LISTING

PRINCIPLES
In considering whether a company is suitable for a listing on the Official List there are certain pre-conditions which must be fulfilled. The Conditions for listing refer to minimum listing requirements for companies that want to be listed. Each CoSSE member has set various guidelines and forms that need to be adhered to and submitted by the companies. These rules cover the following key areas:

- Corporate status of issuer
- Directors
- Securities to be issued
- Financial information
- Main Boards Listing criteria

The relevant WFE principles are:

- Clarity of offerings for channeling savings into investments
- Enforcement of listing requirements and trading rules

DISCUSSION
There is a significant amount of convergence in the Conditions for Listing of CoSSE members. The few differences relate to the following:

1. The following JSE requirements are not required by other CoSSE members:
   a. Statement of directors’ experience
   b. Appointment of executive financial director
   c. Separation of the roles of chief executive officer and chairperson of the board
2. Main board listing criteria varies by country. For example, while some exchanges (JSE, BSE, MSE) require a three-year profit history, others require a three-year trading history (SEM, DSE). JSE also requires a company to have 50% +1 voting control over the majority of its business assets.

In general it is difficult to prescribe a common standard for main board listing criteria because of significant variations in the sizes and stage of market development for each country. It is recommended that individual exchanges should have the discretion to design their main and subsidiary boards to fit the local environment.

RECOMMENDATIONS
The following areas of standardization are recommended:

1. Company is duly incorporated
2. Directors and executives have the requisite experience and expertise
3. Maintain standard corporate governance requirement of separation of chairman and chief executive officer positions
4. Securities to be issued shall meet the following standards:
   a. Issued in conformity with the law of the applicant’s country of incorporation and the company’s articles of association
   b. Rank pari passu in respect of rights
3.4. METHODS AND PROCEDURES FOR BRINGING SECURITIES TO THE MARKET

PRINCIPLES

There are several ways in which new securities can be admitted to trading on an investment exchange. Such methods are not mutually exclusive and a listing application or admission may involve several methods.

WFE Principles

- Clarity of offerings for channeling savings into investments
- Transparency of the market transaction chain
- Enforcement of listing requirements and trading rules

WFE criteria for membership specify the following:

- The minimum criteria to meet before securities can be listed or admitted to trading, such as details on the issuer, the size of the corporation, its historical profitability, its free float and shareholder spread, and its debt arrangements. Depending on local law, exchange listing requirements may have a role to play in setting and/or in informing the markets on listed companies’ governance practices.

DISCUSSION

The methods of bringing securities to the market are standard methods for all CoSSE exchanges. The WFE rules and membership criteria indicate that these methods must be comprehensive. The methods are as follows:

New applicants may bring securities to listing by way of:

1. an introduction,
2. an offer for sale (including a placing);
3. an offer for subscription (including a placing);
4. an issue with participating or conversion rights;
5. a renounceable offer.
6. a rights offer;
7. a claw-back offer;
8. a capitalization issue;
9. an issue for cash;
10. an acquisition or merger issue (or vendor consideration placing);
11. a vendor consideration placing;
12. an exercise of options to subscribe for securities (including options in terms of executive and staff share schemes);
13. a conversion of securities of one class into securities of another class; and

It is important to note that there is a difference in the range of methods available for listing securities between a company whose equity shares are already listed as compared with a
company whose securities are not. In the latter case, applications are, in practice, generally limited to the following methods:

- offer for sale
- placing
- offer for subscription
- intermediaries’ offer, and
- introduction.

In all cases, CoSSE listing rules have identified the above as the methods for bringing securities to listing. However, the detailed procedures for each method differ among exchanges. It will be in the interest of CoSSE members to standardize these requirements as much as possible. This is because it is critical for the integration of the primary market that companies wishing to list on several markets at once will find it easier to work with documentation that is accepted across markets.

**RECOMMENDATIONS**

The following recommended standards and procedures are limited to the most common methods of bringing securities to the market and are therefore not exhaustive:

<table>
<thead>
<tr>
<th>METHOD</th>
<th>Requirements</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1. Share register</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Compliance with Conditions of Listing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. No pre-existing intentions by any holder other than public shareholders to dispose of a material number of their securities at or immediately after listing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. No public offer within 6 months prior to listing (SEM &amp; LuSE)</td>
<td></td>
</tr>
<tr>
<td>Placings</td>
<td>1. Compliance with Conditions of Listing</td>
<td></td>
</tr>
<tr>
<td>Offer for sale or Subscription</td>
<td>1. Offer is conditional on minimum subscriptions being received that will fulfill the purpose of the offer</td>
<td>Some exchanges require underwriting. However, it is recommended that underwriting should not be a CoSSE standard because of differences in financial capabilities of market intermediaries in each country</td>
</tr>
<tr>
<td></td>
<td>2. If underwritten the underwriter must confirm that it has the financial resources to meet its commitments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. In the event of oversubscription, the basis of allotment must be fair to all applicants</td>
<td></td>
</tr>
</tbody>
</table>
### Renounceable Offers

1. Must comply with Conditions of Listing
2. The enforcement of the right of securityholders of the listed company to subscribe for securities must be done by way of a renounceable offer to such security holders

### Rights Offers

1. If underwritten the underwriter must confirm that it has the financial resources to meet its commitments
2. If not underwritten it must be conditional on a minimum subscription being received
3. Pool of excess securities should be allocated equitably
4. Letters of Allocation have to be listed

### Capitalization Issues

1. Should not be in lieu of dividends unless security holders are entitled to elect to receive a cash dividend.

### Issue for Cash

1. Equity securities must be of a class already in issue
2. Disclose maximum number of equity securities to be issued
3. Fairness opinion required is the issue is at a discount to the average traded price of the security 30 days prior to the date of the sale agreement

### 3.5. pre-listing statement/prospectus

**PRINCIPLES**

The rules of stock exchanges set out the details which must be contained in all Prelisting statements and prospectuses and the procedure for their approval and publication. In general an application for listing shares on the Official List for the first time must be
accompanied by a prelisting statement or prospectus. Subsequent applications for listing shares on the Official List once the company’s shares are already admitted will also require a pre-listing statement/prospectus unless specified exemptions apply. Pre-Listing statements or prospectuses are for the purpose of providing information to the public with regard to an issuer.

The WFE principles are as follows:

- **Investor and issuer focus**
- **Clarity of offerings for channeling savings into investments**
- **Enforcement of listing requirements and trading rules**

In addition, the WFE membership criteria require that listing rules specify the following:

- **The minimum criteria to meet before securities can be listed or admitted to trading, such as details on the issuer, the size of the corporation, its historical profitability, its free float and shareholder spread, and its debt arrangements.** Depending on local law, exchange listing requirements may have a role to play in setting and/or in informing the markets on listed companies’ governance practices.

**DISCUSSION**

The CoSSE member rules for prelisting rules are generally consistent with each other. The key elements of a pre-listing statement are covered by most CoSSE members in a roughly uniform manner and are easily adopted as standards as indicated below:

**RECOMMENDATIONS**

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsibility</td>
<td>Directors collectively and individually accept responsibility for the accuracy of information given</td>
</tr>
<tr>
<td>Formal Approval</td>
<td>Pre-listing statements must be approved by the exchange before publication</td>
</tr>
<tr>
<td>Supplementary Pre-Listing Statements</td>
<td>The exchange must be advised and supplementary pre-listing statements published immediately if subsequent to the publication of pre-listing statement the applicant becomes aware of a material change affecting the contents in the pre-listing statement</td>
</tr>
</tbody>
</table>
| Issues not Requiring Prelisting Statements | 1. Securities issued for cash or as a result of the conversion of convertible securities  
                                          2. Securities exercised as a result of the exercise of rights under options  
                                          3. Securities issued in place of securities already listed |
4. Securities issued/allotted to employees, if securities of the same class are already listed
5. Securities issued relating to the extension of a business contemplated by and previously described in a pre-listing statement
6. Securities issued as a result of capitalization/bonus issue
7. Securities, including a rights issue that together with any securities of the same class issued in the previous 3 months would increase the securities issued by less than 25%

3.6. LISTING PARTICULARS

PRINCIPLES
Listing particulars are the details a company must publish about itself before it qualifies for listing on a public stock exchange. The information is usually contained in a prelisting document or a prospectus.

The WFE principles are as follows:

- Investor and issuer focus
- Clarity of offerings for channeling savings into investments
- Enforcement of listing requirements and trading rules

In addition, the WFE membership criteria require that listing rules specify the following:

- The minimum criteria to meet before securities can be listed or admitted to trading, such as details on the issuer, the size of the corporation, its historical profitability, its free float and shareholder spread, and its debt arrangements. Depending on local law, exchange listing requirements may have a role to play in setting and/or in informing the markets on listed companies’ governance practices.

DISCUSSION
There is considerable convergence in the listing particulars required by CoSSE members. For this reason the standard requirements for listing particulars are easily adopted as CoSSE standards.

RECOMMENDATIONS

<table>
<thead>
<tr>
<th></th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The applicant and its capital</td>
<td>• Name, address and incorporation</td>
</tr>
<tr>
<td>Section</td>
<td>Key Details</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Borrowings                               | • Borrowing powers of the applicant  
  • Details of material loans,  
  • Material commitments, lease  
  payments and contingent  
  liabilities                  |
| Loans Receivable                         | • Details of material loans made by applicant  
  • Details of loans made or  
  security furnished by the  
  applicant or by any of its  
  subsidiaries to or for the  
  benefit of any director or  
  manager or any associate of  
  any director or manager    |
| Options or preferential rights in respect | Options issues to any persons to subscribe to the issuer’s shares           |
| of securities                           |                                                                            |
| Controlling shareholders                 | • The names of controlling shareholders  
  • Details of any change in  
  controlling shareholders as  
  a result of the issue      |
| Major shareholders                       | The name of any shareholder other than a director that has a beneficial  
  interest of 5% or more of  
  any class of the applicant’s capital |
| Directors, Managers and Advisors         | • Relevant management expertise  
  • Whether executive or non-  
  executive  
  • Term of office of each director  
  • Directors’ emoluments  
  (aggregate and by director) |
| Secretary, Auditor, attorney             | • Names and addresses                                                     |
| Commissions paid in respect of underwriting | • Amount  
  • Details of recipient  
  • Particulars of amounts  
  underwritten or sub-  
  underwritten              |
| Issue Expenses | • Total amount of preliminary expenses incurred by the applicant within three years preceding the date of the pre-listing statement  
• Details of payments to each recipient  
• Total estimated amount of the expenses of the issue |
|--------------------|---------------------------------------------------------------|
| Securities for which application is being made | • Purpose of the issue  
• Particulars of the issue  
• Timing of the opening and closing of subscriptions  
• Issue price  
• Minimum subscription that in the opinion of the directors must be raised by the issue/offer in order to provide the amounts required  
• A statement of resolutions, authorizations and approvals by virtue of which the securities have been or will be created and issued |
| Capitalization issues and scrip dividends | • The reason for the capitalization issue or scrip dividend  
• The class of securities involved  
• If applicable, that the shareholder may elect to receive cash in substitution for the whole or part of his capitalization issue or scrip dividend entitlement and vice versa;  
• if applicable, the last day on which shareholders must make their election;  
• a statement pointing out any tax implications of the issue for all securities holders, both resident and non-resident;  
• in the case of a scrip dividend, a statement drawing shareholders’ attention to the type of election to be made (i.e. whether shareholders will receive either cash or scrip if |
they fail to make the election);
- the amount to be capitalized from the share premium or reserves of the applicant in order to be able to issue the capitalization securities as fully paid up;
- the ratio in which the capitalization securities will be issued and allotted to shareholders of the applicant;
- the important events and dates applicable to the issue; and
- whether or not the rights (if any) are renounceable.

**Rights Offer**
- purpose of the rights offer;
- the amount to be raised by means of the rights offer, and the number of securities that are proposed to be issued;
- the terms of the offer;
- if underwritten, details of the underwriter and underwriting commission;
- details regarding the proposed listing of the LAs, the subsequent listing of the new securities and the amount payable in respect of listing fees;
- details regarding the LAs such as: acceptance, renunciation and payment

**Group Activities**
- General history of the applicant and its subsidiaries
- A general description of the business of the applicant and its subsidiaries

**Financial Information**
- Accountant’s Report
- Report of historical financial information
- Statement as to working Capital (adequacy of working capital for the next 12 months)

**General Information**
- Material contracts entered into two years prior to the date of the pre-listing statement

**Corporate**
- Statement as to the application of best practices in Corporate

JSE requires a statement as to the application of
Governance
- Governance particularly:
  - Policy detailing the procedures for appointment to the board
  - Separation of the chairman and chief executive positions
  - Appointment of an audit committee

Documents available for inspection
- Memorandum or articles of association
- All material contracts
- Audited annual financial statements since the incorporation of the company or for the preceding three years, whichever is lesser

Vendor
- Vendors of material assets purchased or acquired by the applicant or by any of its subsidiaries during the three years preceding the publication of the pre-listing statement and amounts paid to the vendor.

Some CoSSE members require annual financial statements for the lesser of five years or since incorporation. This can be standardized to three years.

3.7. FINANCIAL INFORMATION

PRINCIPLES
This section deals with financial information to be included in a pre-listing statement or prospectus as well as continuing obligations of a financial nature.

The IOSCO Principles applicable to financial information are Principles 14 and 16.

| Principle 14 | There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions. |
| Principle 16 | Accounting and auditing standards should be of a high and internationally acceptable quality. |
WFE Principle:

- **Investor and issuer focus**

WFE membership criteria include the following:

- **The manner in which issuers should present financial information, which would preferably be in accordance with IFRS.**

**DISCUSSION**

The topics covered are:

1. Report of historical financial information
2. Pro forma financial information
3. Profit forecasts and estimates
4. Accountant’s Report
5. Minimum contents of Interim Reports, preliminary reports, provisional annual financial statements
6. Minimum content of annual financial statement

**1. Report of Historical Financial Information**

It will be useful for CoSSE to agree on a standard set of historical financial information. The following statements are common to the listing rules of CoSSE members and can be a basis for a common standard:

- Statement of comprehensive income
- Statements of financial position
- Statement of changes in equity
- Statements of Cash Flows
- Accounting policies
- Notes
- Segmental information

The historical financial information is to be presented in consolidated form in retrospect of at least three years up to and including the financial year immediately preceding the issue of the prospectus/pre-listing statement.

**2. Pro Forma Financial Information and Profit Forecasts**

1. Pro forma financial statements are usually prepared to show the impact of some assumed corporate action. The standards here are to ensure that proforma financial information is not misleading. The key standard here is that the pro forma should be presented in a manner that is consistent with both the format and accounting policies of the issuer in its report on historical financial information.
2. Profit Forecasts and estimates must be clear and unambiguous and be prepared in accordance with IFRS.

**3. Accountants Reports**

The key considerations regarding the Accountants Report are:

1. Circumstances when an accountant’s report is required
2. The relevant international standards
The circumstances requiring the issue of a reporting accountants report are:

- When a report of historical information is required
- Pro forma financial statements
- Profit forecasts and estimates

The standard for the accountant’s report varies across CoSSE exchanges. In some exchanges there is no specification of a standard. In line with IOSCO Principle 16, which requires Accounting and auditing standards should be of a high and internationally acceptable quality, it is recommended that CoSSE adopt the standards of the International Auditing and Assurance Standards Board (IAASB)

4. Minimum Contents of Interim Reports, Preliminary Reports, Provisional Annual Financial Statements

The standards for the minimum contents of interim reports, preliminary reports, provisional annual financial statements and abridged annual financial statements vary across CoSSE members. It would be desirable to move to a common international standard.

- IAS 34 defines the minimum content of an interim financial report.
- IFRS defines the accounting policies and must be consistent with those of previous annual financial statements

5. Minimum Content of Annual Financial Statements

The key international standards for Annual financial Statements are:

- IFRS
- International Standards on Auditing

However, exchanges require a number of additional disclosures that differ across CoSSE exchanges. For example, the JSE requires issuers to disclose the extent to which they have applied the principles of the King Code of Corporate Governance Principles. However, other CoSSE exchanges do not have such a requirement. However, it may be desirable for CoSSE to agree on a minimum set of disclosures in Annual financial statements. The suggested items of disclosure are:

1. Disclosure of directors interests
2. Shareholder Spread
3. Major shareholders
4. Share incentive schemes
5. Disclosure of director emoluments

RECOMMENDATIONS

1. The report of historical financial information shall include the following historical information:
   - Statement of comprehensive Income
   - Statement of financial position
   - Statement of changes in equity
   - Statements of Cash Flows
   - Accounting policies
   - Notes
   - Segmental information
2. Historical financial information shall be presented in consolidated form in retrospect of at least three years up to and including the financial year immediately preceding the issue of the prospectus/pre-listing statement.

3. A pro forma should be presented in a manner that is consistent with both the format and accounting policies of the issuer in its report on historical financial information.

4. Profit Forecasts and estimates must be clear and unambiguous and be prepared in accordance with IFRS.

5. Accountants Reports are required under the following circumstances:
   - When a report of historical information is required
   - Pro forma financial statements
   - Profit forecasts and estimates

6. Standards of the International Auditing and Assurance Standards Board (IAASB)

7. The key international standards for Annual financial Statements are:
   - IFRS
   - International Standards on Auditing

8. Additional disclosures should be made in Annual Financial Statements
   - Disclosure of directors interests
   - Shareholder Spread
   - Major shareholders
   - Share incentive schemes
   - Disclosure of director emoluments

3.8. TRANSACTIONS

**PRINCIPLES**

The Listing Rules for transactions by a company (in the main dealing with acquisitions and disposals) are designed to ensure that shareholders are kept informed of transactions that may have an impact on the company and in the case of large transactions give shareholders an opportunity to vote on the matter. The rules are usually tailored to the size category of the transaction.

**IOSCO Principle 14:**

*There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions*

WFE Principle

- **Investor and issuer focus**

WFE Membership Criteria

- **The requirement that an issuer must make public, complete and timely initial and on-going disclosure to the market of all relevant company information, including financial affairs materially affecting its prospects, and of the risks inherent in the security. Information to be disclosed in extraordinary circumstances should also be stipulated, and may include changes as a consequence of corporate actions, new business developments, profit warnings, and similar events having a material effect on the value of these securities. Financial information is critical; its disclosure must**
be coordinated among various market actors, as set in the exchange’s contractual arrangements with the issuer.

DISCUSSION
Listing rules usually specify requirements for the announcement of transactions. The majority of such transactions will be acquisitions and disposals. CoSSE member rules are centred on:

1. Definition of transactions
2. Categorization of transactions
3. Timeliness of reporting transactions

In reviewing the rules for reporting transactions, it is observed that transactions are typically categorized by size relative to the issuer with reporting requirements differing by size of transaction. The ratios that are used to classify transactions are:

- Consideration to market capitalization
- Dilution: the number of listed equities issued as consideration for an acquisition compared to those in issue
- Transactions to be settled partly in cash and partly in shares: cash to market capitalization plus the dilution percentage.

CoSSE stock exchanges use different thresholds to categorize transactions
Because the sizes of companies differ from country to country, the categorization of transactions by size does not lend itself to standardization. However, there are some common standards that could be applied across all exchanges.

RECOMMENDATIONS

<table>
<thead>
<tr>
<th>ITEM</th>
<th>EXPLANATION</th>
<th>COMMENTS</th>
</tr>
</thead>
</table>
| Definition of Transactions       | • Include a transaction by a subsidiary of the listed company  
• Grant or an acquisition of options to acquire or dispose of assets  
• Exclude an issue of securities or a transaction to raise finance that does not involve the acquisition or disposal of any asset of the listed company or of its subsidiaries  
• Exclude transactions that is less than a stated percentage of specified                                      |                                                                                               |
3.9. RELATED PARTY TRANSACTIONS

**PRINCIPLES**

A related party transaction is a business deal or arrangement between two parties who are joined by a special relationship prior to the deal. For example, a business transaction between a major shareholder and the company, such as a contract for the shareholder’s company to supply goods and services would be deemed a related-party transaction. The essence of the rules on related party transactions is to provide safeguards against
shareholders, directors or other persons related to an issuer taking advantage of their position.

In general, public companies are required to disclose all transactions with related parties. While the great majority of related-party transactions are perfectly normal, the special relationship inherent between the involved parties creates potential conflicts of interest which can result in actions which benefit the people involved as opposed to the shareholders.

IOSCO Principle 14:

- There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions.

WFE Principle:

- Fair treatment for each category of participants

**DISCUSSION**

There is a significant convergence in current CoSSE member rules for related party transactions. There are two main areas of divergence arising from the following JSE requirements:

- A fair and reasonable opinion from an independent professional expert that the terms of the transaction with a related party are fair and reasonable as far as the shareholders of the issuer are concerned.
- Limited requirements for transactions of between 0.25% and 5% of market capitalization and transactions below 0.25% of market capitalization.

The key standards in related party transactions relate to:

1. Definition of “related party”
2. Requirements for a related party transactions
3. Timing of disclosure

**RECOMMENDATIONS**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>EXPLANATION</th>
<th>COMMENTS</th>
</tr>
</thead>
</table>
| Definition of Related Party | • A material shareholder  
                            |   • A person who is a director or was director within the 12 months preceding the transaction  
                            |   • An advisor to the issuer  
                            |   • Principal executive officer of the issuer in the last 12 months.  |
### Requirements
- Make an announcement
- Obtain shareholder approval (not applicable to transactions below 5% of market capitalization)
- Obtain independent opinion on the fairness if the transaction
- Thresholds below which related party transactions below which only the publication and fairness opinion will be required

### Exemptions
- Issuer does not have equity securities listed
- Issuer is an external company with a secondary listing
- Transaction size is less than 0.25% of market capitalization.

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### 3.10. SECONDARY AND DUAL LISTINGS

**PRINCIPLES**

Secondary listing refers to a listing of securities on any market other than the primary exchange. Many companies are listed on multiple exchanges, but only one exchange is considered primary. Listing on other exchanges is usually done in order to develop presence in other country, or to raise more capital from new market when primary market is saturated. Dual listing is a process by which a company is has a primary listing and traded on the stock exchanges of two countries.

WFE Principles:
- *Investor and issuer focus*
- *Safety of financial assets*
- *Clarity of offerings for channeling savings into investments*
- *Fair treatment for each category of participants*
• Enforcement of listing requirements and trading rules

WFE Membership Criterion:

• When possible, foreign issuers should be subject to the same rules. WFE recognizes that it is often not possible to harmonize rules set by regulatory regimes across a variety of home country jurisdictions, and that some flexibility is required by the exchange to accommodate this. Ideally, all issuers would be held to the same standard.

• Foreign participants should be granted access when allowed by local law and when the local standards are met.

• When possible, foreign issuers should be subject to the same rules [as domestic issuers]. Ideally, all issuers would be held to the same standard.

DISCUSSION

There is no consistency among CoSSE members of the rules for secondary and dual listings. A number of CoSSE exchanges do not have separate rules for secondary and dual listings.

The key provisions for secondary listings are as follows:

1. An issuer must comply with the Listing requirements of the exchange where it has its primary listing.
2. Pre-Listing statements must comply with the relevant Listings Requirements
3. The JSE requires that for purposes of the pre-listing requirement, financial information prepared in accordance with the following accounting frameworks are acceptable:
   a. IFRS
   b. IFRS as adopted by the European Union
   c. United Kingdom GAAP
   d. United States GAAP
   e. Australian GAAP
   f. Canadian GAAP
4. Continuing obligations will normally be based on the requirements of the primary exchange subject to any additional requirements in the secondary listing exchange. These additional requirement usually refer to communication with shareholders (information releases, timetables for corporate actions)

The JSE has a further requirement that companies seeking a secondary listing should have a primary listing on an exchange that is:

• A member of the WFE, or
• An equivalent board/exchange

With respect to secondary listings, SEM uses a “mutual recognition” rule which allows SEM to accept the Listing Particulars approved by the issuer’s primary exchange also provides similar recognition top SEM.

To promote regional integration, it is recommended that each CoSSE member should on a reciprocal basis recognize primary listings on a CoSSE member exchange for the purposes of granting secondary listings.
DUAL LISTINGS

The requirements for dual listings usually include the following:

1. The companies in the dual-listing structure must demonstrate that they participate in the control; of the combined businesses
2. Common accounting policies should be used for the companies in the dual listing structure.
3. Aggregated annual financial statements must be published in accordance with the IFRS

RECOMMENDATIONS

1. For the purposes of pre-listing requirements, financial information shall be prepared in accordance with IFRS.
2. A secondary listing should be allowed if the issuer's primary listing is on another
   a. A member of the WFE
   b. An equivalent board/exchange
   c. A member of CoSSE
   d. A company with a secondary listing
3. A company with a secondary listing status will only be required to comply with the Listings Requirement of the exchange where it has its primary listing.
4. When an issuer wishes to release any information on another exchange, it must ensure that such information is released simultaneously (or on the next business day if the secondary exchange is closed) on the exchanges on which it has secondary and dual listings.

4. SUMMARY AND CONCLUSION

As required by the Scope of Work, this report has identified a suitable set of principles and standard that can provide a framework for the harmonization of the listing rules of member stock exchanges of COSSE. Input was sought from the Botswana Stock Exchange, the Zimbabwe Stock Exchange and the JSE on the initial draft.

The Report includes a self assessment instrument to assist CoSSE members to benchmark their listing rules against the recommended principles and standards. It is expected that in addition to the harmonization objective, this benchmarking exercise will also provide opportunities for CoSSE members to identify opportunities to raise their standards.
### ANNEX 1: IOSCO'S OBJECTIVES AND PRINCIPLES OF SECURITIES REGULATION

#### Principle 1-5 The Regulator

| Principle 1 | The responsibilities of the regulator should be clear and objectively stated |
| Principle 2 | The regulator should be operationally independent and accountable in the exercise of its powers and functions. |
| Principle 3 | The regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers. |
| Principle 4 | The regulator should adopt clear and consistent regulatory processes |
| Principle 5 | The staff of the regulator should observe the highest professional standards including appropriate standards of confidentiality |

#### Principle 6-7 Self-Regulation

| Principle 6 | The regulatory regime should make appropriate use of self-regulatory organisations (SROs) that exercise some direct oversight responsibility for their respective areas of competence and to the extent appropriate to the size and complexity of the markets. |
| Principle 7 | SROs should be subject to the oversight of the regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities. |

#### Principle 8-10 Enforcement

<p>| Principle 8 | The regulator should have comprehensive inspection, investigation and surveillance |</p>
<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 9</td>
<td>The regulator should have comprehensive enforcement powers</td>
</tr>
<tr>
<td>Principle 10</td>
<td>The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance programme.</td>
</tr>
</tbody>
</table>

**Principle 11-13 Cooperation**

| Principle 11 | The regulator should have the authority to share both public and non-public information with domestic and foreign counterparts. |
| Principle 12 | Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts. |
| Principle 13 | The regulatory system should allow for assistance to be provided to foreign regulators who need to make inquiries in the discharge of their functions and exercise of their powers. |

**Principle 14-16 Issuers**

| Principle 14 | There should be full, timely and accurate disclosure of financial results and other information that is material to investors’ decisions. |
| Principle 15 | Holders of securities in a company should be treated in a fair and equitable manner. |
| Principle 16 | Accounting and auditing standards should be of a high and internationally acceptable quality. |

**Principle 17-20 Collective Investment Schemes**

<p>| Principle 17 | The regulatory system should set standards for the eligibility and the regulation of those who wish to market or operate a collective investment scheme. |</p>
<table>
<thead>
<tr>
<th>Principle 18</th>
<th>The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 19</td>
<td>Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor’s interest in the scheme.</td>
</tr>
<tr>
<td>Principle 20</td>
<td>Regulation should ensure that there is a proper and disclosed the redemption of units in a collective investment scheme.</td>
</tr>
<tr>
<td><strong>Principle 21-24 Market Intermediaries</strong></td>
<td></td>
</tr>
<tr>
<td>Principle 21</td>
<td>Regulation should provide for minimum entry standards for market intermediaries.</td>
</tr>
<tr>
<td>Principle 22</td>
<td>There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.</td>
</tr>
<tr>
<td>Principle 23</td>
<td>Market intermediaries should be required to comply with standards for internal organisation and operational conduct that aim to protect the interests of clients, ensure proper management of risk, and under which management of the intermediary accepts primary responsibility for these matters.</td>
</tr>
<tr>
<td>Principle 24</td>
<td>There should be a procedure for dealing with the failure of a market intermediary in order to minimise damage and loss to investors and to contain systemic risk.</td>
</tr>
<tr>
<td><strong>Principle 25-29 Secondary Markets</strong></td>
<td></td>
</tr>
<tr>
<td>Principle 25</td>
<td>The establishment of trading systems including securities exchanges should be subject to regulatory authorisation and</td>
</tr>
<tr>
<td>Principle 26</td>
<td>There should be ongoing regulatory supervision of exchanges and trading systems, which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.</td>
</tr>
<tr>
<td>Principle 27</td>
<td>Regulation should promote transparency of trading.</td>
</tr>
<tr>
<td>Principle 28</td>
<td>Regulation should be designed to detect and deter manipulation and other unfair trading practices.</td>
</tr>
<tr>
<td>Principle 29</td>
<td>Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.</td>
</tr>
<tr>
<td><strong>Principle 30 Clearing and Settlement</strong></td>
<td></td>
</tr>
<tr>
<td>Principle 30</td>
<td>Systems for clearing and settlement of securities transactions should be subject to regulatory oversight, and designed to ensure that they are fair, effective and efficient and that they reduce systemic risk</td>
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</table>
ANNEX 2: WFE MEMBERSHIP CRITERIA

Preamble
This document establishes the initial and ongoing criteria for membership of the World Federation of Exchanges (WFE).

Members of WFE operate public capital markets, which are critical components of national economies. For the exchange industry to perform its macroeconomic role, it must meet the high standards set by the market’s commercial needs and adhere to the best practices and standards set by local and global authorities competent in the financial services industry.

The ways of meeting WFE membership criteria vary across jurisdictions. Local issues count. Often other companies or government authorities are the parties responsible for certain of the exchange value-chain activities outlined below. Some WFE members have extensive self-regulatory obligations as part of their business mandate, and others rather little; but membership runs a broad spectrum of self-regulatory organization (SRO) functions. The WFE member must be able to explain how the local mix of competent actors comes together in its jurisdiction to provide for a well-run marketplace.

Membership of WFE is open to regulated exchanges which have been vetted according to these criteria.

Principles
The members of the Federation work to provide orderly market operations that treat investors fairly, are transparent in their processes, and assure clear, pertinent and accessible information from issuers.

Members strive to improve their work on:

• Investor and issuer focus
• Safety of financial assets
• Clarity of offerings for channeling savings into investments
• Transparency of the market transaction chain
• Systems that maintain the integrity of the market for price discovery
• Fair treatment for each category of participants
• Enforcement of listing requirements and trading rules
• Fair processes for definitive and timely settlement of disputes

Criteria
The distinct roles played by WFE members in the capital markets establish a formal environment for the trading, clearing and settlement of securities and other investment products. Most often, exchanges are crucial private sector actors in the regulation or oversight of those activities.

WFE members meet the relevant criteria set out below at the time of their induction, and are subject to self-assessment reviews when requested by the Federation’s Board of Directors. The Board may formulate a policy for corrective action commensurate with the degree of non-compliance.
WFE generally considers that the criteria are being met when the business needs of market participants are satisfied, as this would indicate that a proper market is being operated.

BUILDING THE INFRASTRUCTURE

1. The organization of WFE members

The corporate purposes of WFE members are usually recognized in a specific national law.

The founding documents or rules of a WFE member or prospective member should also clearly:

- state the entity’s business purposes, powers, rights and obligations
- set out the corporate governance regime
- establish the primary rules and regulations for the conduct of business

The organizational structure should be formalized:

- the staff needs to be fit and properly qualified for the responsibilities held
- the governing body needs to establish performance standards and ensure that management fulfills its responsibilities to the member itself and to its stakeholders.

Whatever the member's legal structure (private company, mutual, state agency, public company ...) it must be of sound financial standing. In this regard, it:

- must have the resources available to meet ongoing costs, and have investments, contingency reserves or insurance policies to meet assessed risk obligations
- must have annual financial accounts which are audited by an external, independent and properly qualified chartered accountant, and be prepared in accordance with official, internationally accepted accounting standards, or by default local GAAP.

2. Regulatory Framework

The regulatory framework of the local capital market is the basis for establishing members' commercial operations. Exchanges have specific roles to play in their jurisdictions, and accordingly allocations of regulatory scrutiny and oversight responsibilities vary considerably for them from one country to another.

The members of this Federation have a publicly recognized status and accept the corresponding obligations. In accordance with these responsibilities, the rules and regulations applicable to the member and parties using its services must be enforceable and be seen to be enforced.

Public laws and regulations, and private rules and processes, must together address the topics of:

- Market access and participation
- Listing
- Timely, relevant and continuous disclosure of listed companies’ information
- Trading
- Order rules for entry, display, and execution which establish priority
- Transparency and supervision of market activities
• Regulatory oversight and enforcement
• Clearing of trades
• Settlement of payment and transfer of title
• Enforcement of rules
• Settlement of disputes
• Emergency and summary powers
• Business continuity planning

3. Equal opportunity for market access

Access refers to participation in the price discovery process by interacting directly with the market trading, clearing and settlement environments.

Access should be granted on the following basis:

• Participants must respect the trading environment’s integrity.
• The obligations and rights of participants must be disclosed to the public.
• Access must be fair and equally applied among classes of qualified participants. Examples of this distinction would include clearing participants, and those who choose to have other firms clear their trades. Another example is liquidity-providers, who make specific commitments to the market and in return have certain privileges. Differentiation of treatment across different classes of customers or participants is a normal business practice.
• Access must be open. All parties meeting the financial and operational qualifications, and committing to the rules and regulations of the WFE member should be admitted.
• Procedures should encourage participants’ adherence to the integrity, financial soundness and authority of the market mechanism.
• The WFE member’s rules and/or regulations should set the minimum professional qualifications, capital markets experience, business structure and financial adequacy of participants. They should also specify the rights and obligations of participants utilizing the services of a Federation member, and the manner in which a failure to do so will be investigated and subject to disciplinary procedures.
• Foreign participants should be granted access when allowed by local law, and when the local standards are met.

WFE members and/or the supervisory agency should be able to:

• Monitor the order flow of all participants on its systems.
• Monitor participants’ capital adequacy, position limits, collateral quantity and quality, internal compliance rules, books and records, internal risk management, business continuity plans, and market conduct, as well as the behavior of individuals acting on behalf of participants.

Participants must have measures and rules in place for the protection of their clients’ assets. These must be segregated from the financial intermediary’s own money. As a further measure of protection, investors trading on the exchange should receive independent transaction confirmations, as well as statements of account. Finally, in the event of the intermediary going bankrupt, client assets receive priority during the court-run liquidation for sums not held in trust.
It is general practice world-wide that individuals should only be allowed to access an intermediary/participant’s systems. The advantages for the public of limiting access to qualified persons and firms lie in reduced counterparty risk.

For the market participant/broker, professionals should only be allowed to access the central market environment at the end of a structured training process which addresses the rights and responsibilities inherent in accessing the WFE member’s systems, as well as such subjects as professional integrity, public responsibility, and business ethics.

THE TRADING ENVIRONMENT

4. Listing / Admission to trading

Listing may or may not be an exchange activity, depending on the jurisdiction. Admission to trading generally is a matter for the exchange, and refers to its assigning securities to the most appropriate market segment. To be listed or admitted to trading means that the authorities and/or the exchange have vetted the company’s prospectus and will monitor disclosure on an on-going basis. It confirms the registration of the issue for the investing public.

The relationship between an issuer and the exchange must be recorded in a written contract or any other equivalent documents.

National listing requirements are often set by public authorities. WFE members should strive to establish their own, higher criteria. This assists in maintaining a high standard for the markets they operate.

Listing requirements should address:

- The listing authority, its role, responsibilities and powers
- The exchange’s corresponding role, responsibilities and powers
- The types of securities that can be listed or admitted to trading
- For options and futures, there are specific obligations required of exchanges in terms of instruments admitted to trading status, as for example, adequate margin requirements
- The minimum criteria to meet before securities can be listed or admitted to trading, such as details on the issuer, the size of the corporation, its historical profitability, its free float and shareholder spread, and its debt arrangements. Depending on local law, exchange listing requirements may have a role to play in setting and/or in informing the markets on listed companies’ governance practices.
- The requirement that an issuer must make public, complete and timely initial and on-going disclosure to the market of all relevant company information, including financial affairs materially affecting its prospects, and of the risks inherent in the security. Information to be disclosed in extraordinary circumstances should also be stipulated, and may include changes as a consequence of corporate actions, new business developments, profit warnings, and similar events having a material effect on the value of these securities. Financial information is critical; its disclosure must be coordinated among various market actors, as set in the exchange’s contractual arrangements with the issuer.
• The manner in which issuers should present financial information, which would preferably be in accordance with IFRS.

• The procedures and timetable for listing. These should be sufficiently detailed and demanding so as to assure that the requirements of the exchange are met, but not so long as to impair capital raising.

• The procedures and timetable for halting trading, and even delisting, must be set and made known.

In encouraging capital formation across a broad spectrum of issuers, exchanges may make the commercial decision to open separate segments or markets with clearly differentiated qualifying criteria. Listing standards may be subject to revision over time, to ensure that they remain relevant to market conditions and needs.

Concerning disclosure and derivatives contracts, these instruments are issued by clearing corporations or the exchanges themselves, and normally there is no specific disclosure requirement. Where the underlying is a corporation, then the securities regulations will cover this disclosure obligation rather than the listing standards.

When possible, foreign issuers should be subject to the same rules. WFE recognizes that it is often not possible to harmonize rules set by regulatory regimes across a variety of home country jurisdictions, and that some flexibility is required by the exchange to accommodate this. Ideally, all issuers would be held to the same standard.

5. Trading

An exchange enables efficient price discovery to take place in a fair, transparent, orderly and rule-based environment. Investors and market participants benefit from true and comprehensible corporate and market information, made available to all parties simultaneously. This dissemination is often assured by the exchange itself, and is furthered by the work of information vendors.

In order to achieve a fairer and more transparent trading environment:

• The responsibilities of the exchange and participants must be documented and made known;

• The market model and trading rules must be documented and made publicly available. The model should be based on the principle of transparency and equality of treatment for participants and investors of the same class. As business evolves and trading rules are adapted, any redistribution of responsibilities needs to be clarified;

• The exchange must demonstrate that the processing, queuing, and display of quotations and prices is equitable for all classes of participants. Orders for trading must be recorded and follow a well defined and efficient path;

• Each market segment and type of instrument has a specific model for price discovery;

• Rules must be set for market openings and closings, as well as for block trades. Rules may also establish clear criteria for trading halts and interruptions of market activities in extreme conditions, when judged useful for the orderliness of the market. When necessary to attract more liquidity or create better price discovery in some segments, specific order handling rules may be established. This occurs frequently with call auctions;
• Broker-dealers have set responsibilities in trading, differing when they act as agents or principals. They must be honest and fair to all participants and investors, act with care and diligence in executing client instructions, know their clients, and provide them with complete and timely information on order execution. They must also comply with all applicable legislation and regulation;

• Surveillance of the market deters abuse, and may thereby help prevent it. Market integrity is critical, and it must be effectively monitored, with any problems detected subject to investigation. Unfair treatment and abuse may be a crime punishable by law. To further this work, the exchange should be able to produce and furnish non-public information to the capital market supervisory agency, to assure that enforcement of the rules takes place;

• Trades executed must be final, and a clear policy for trading errors and cancellations should be in place;

• Transaction prices must be disclosed promptly to the market, following established procedures known to the public;

• IT systems must provide for order and transaction audit trails, which if needed could be made available to investors contesting an operation, and to relevant regulators. This often goes via the broker-dealer.

• Pre- and post-trade order and transaction information must be provided on a timely basis, as it remains an underpinning of the central market. Off-exchange trading in listed securities should be reported to a licensed exchange or to another relevant entity, so that a complete picture of securities market activity can be obtained. With the change in concentration rules in many countries, this is hard to enforce.

The operation of central counterparty facilities is an intrinsic part of the trading function in many markets. When the market is organized this way, the CCP operator takes the risk of each trade, rather than participants directly with one another.

POST-TRADE OPERATIONS

Members providing for clearing and settlement strive to comply with CPSS (Committee on Payment and Settlement Systems) / IOSCO / G-30 (Group of Thirty) requirements. Where members use a third party, they should use these international benchmarks to evaluate the organizations they refer this business to. The quality of clearing and settlement is a determining factor in the service delivery to members’ markets.

6. Clearing of trades

Once an order is executed, it’s clearing and settlement may be provided by the exchange, a subsidiary company, or another entity altogether. These services must function reliably and consistently to assure the integrity and functioning of the market; they assure that the buyer is good for the funds required to complete the transaction, and that the owner actually has clear title to the instrument to be sold.

The clearing of trades involves identifying buyers and sellers promptly. Clearing should work as reliably for cross-border business as for domestic trades.

In order to achieve efficient clearing:
• The responsibilities of the clearer and its participants must be documented and known;
• The clearing model and rules must also be documented and known. As business evolves and clearing rules are adapted, the redistribution of responsibilities needs to be explained;
• The clearing house must demonstrate that its business model is equitable for all classes of participants;
• Before a trade can be cleared, it must be final;
• Title to the securities must be clear, which in legal terms is indefeasible and unencumbered;
• Rules must ensure that beyond normal transparency requirements, market information is confidential, so that participants and investors are not front run;
• Measures to prevent and to deal with mistakes must be set and publicly known;
• IT systems must provide for audit trails, which would be made available to investors who may be contesting an order, and relevant regulators as needed;
• Post-clearing information must be provided on a timely basis to participants and investors;
• The cash and securities belonging to the investor must at all times be properly segregated;
• Securities lending and borrowing facilities, which allow the seller and buyer to cover any time gaps in this processing, should be facilitated by the clearing house or other organizations if permitted by law.

7. Settlement of trades: payment of funds and transfer of title

After clearing, procedures are established for payment of funds and transfer of title to the assets. Normally, to avoid risk to either side in the transaction, this occurs simultaneously with delivery versus payment. As with clearing, the settlement of trades can take place within the exchange itself, a subsidiary company or an independent settlement house.

To achieve settlement:

• The responsibilities of the settlement house and its participants must be set and known;
• The settlement model and rules must be documented and publicly available. As business evolves and rules are adapted, changes in responsibilities need to be clarified;
• The provider of settlement services must demonstrate that the business model is equitable for all classes of participants;
• Title to securities to be settled must be clear. In most jurisdictions, securities are fully dematerialized, but it is not a WFE membership criterion that they must always be so;
• Information about individual transfers and holdings in the possession of the settlement house must remain confidential;
• Measures to prevent and deal with settlement mistakes must be set and publicly known;
• IT systems must enable the settlement house to recreate transaction audit trails, to be made available if needed to investors and relevant regulators;
• Post-settlement information must be provided on a timely basis to the relevant investors, and participants, and to issuers if the rules require;
• Only the beneficial owner of securities accounts, and parties to whom authorization has been given expressly, should have access to the accounts;
• Until a transaction occurs, nothing interferes with the owner’s exercise of rights to the securities held;
• Once settlement is effected, the buyer and seller should be notified promptly;
• At all times, the property of investors is clearly segregated in their own accounts or in their brokers’ subaccounts;
• The length of the settlement cycle should be set by the WFE member together with the local financial authorities, in response to the dictates of the market and in alignment with global best practices. To reduce risk, this is a question of several business days at most.

For smooth market operations, the exchange or the settlement house should provide some form of guarantee to market participants, although in practice these are rarely needed or used. This may take the form of stand-by bank lines of credit, insurance policies or compensation or guarantee funds held in reserve.

8. Depository services

Also within the exchange environment is the work of securities depositories, where title to securities and other financial instruments is recorded and kept for the benefit of owners. These firms are able to properly identify and transfer ownership, and can also be the providers of lending and borrowing arrangements. This is essential whenever the seller is short the market, because the securities must nonetheless be delivered to the new owner to close out the trading position.

In addition to completing trades, depositories often provide registry services to issuers. In this way, when corporate actions occur (dividends, stock splits, offerings, etc.), the owners of securities can be found and contacted on behalf of the issuer.

To achieve a proper depository environment:

• The responsibilities of the depository and its participants must be established and known;
• The depository’s rules must be documented and publicly available. As business evolves and the rules are changed, new responsibilities need to be explained;
• The provider of depository services must demonstrate that its rules are equitable for all classes of participants, and that they receive fair treatment;
• Rules must be in place to ensure that information in the possession of the depository is kept confidential;
• Measures to prevent and to handle mistakes in the depository’s records must follow well-established and publicly known rules and regulations;
• IT systems must enable the depository to recreate transaction audit trails, which if needed could be made available to investors, issuers, and relevant regulators;
• Information on title must be provided on a timely basis to the relevant investors, issuers and participants;
• Only the beneficial owner of securities accounts, and parties to whom authorization has been given expressly by such owners, should have access to the depository accounts;
• Until a market transaction is completed, nothing interferes with the owner’s exercise of rights to the securities held;
• Each investor's assets should be segregated from those of his agent and other investors, and should be accessed only in accordance with the rules of the depository;
• The depository should have the capacity to recognize a pledge of securities as collateral, if the local law allows.

ASSURING SERVICE QUALITY AND THE VALUE OF MEMBERS’ BRANDS

9. Technical infrastructure

Information technology systems provide the basis of daily operations of WFE members. These systems are distinguished by their exceptionally high security, capacity, robustness, reliability and redundancy. In this regard:

• The IT systems must have adequate capacity planning and implementation to meet the growing needs of participants, including in relation to orders, the messaging sent alongside orders, clearing and settlement instructions, corporate information, and the like;
• Back-up and disaster recovery systems and contingency procedures must be available;
• Before implementation and periodically afterwards, the market and system interfaces must be tested to identify vulnerabilities in design and development. These would include the risk of unauthorized access, internal failures, human errors, attacks and natural catastrophes;
• Interfaces and messaging standards must adopt accepted global protocols wherever possible;
• Rules for connectivity must be included in contractual agreements with participants. Participants should only be granted access for the activities for which they are authorized;
• The IT systems must preserve the privacy of information relating to any participant or investor, such that it is not disclosed to another investor or participant except with proper authorization or in accordance with the WFE member’s rules.
• Members’ should define their responsibilities in contractual form with users of their IT systems, including coverage of operations failures.

10. Risk assessment

WFE members’ daily operations must not be put at risk. Together with government officials and the relevant regulatory agencies, members of the Federation must constantly evaluate the risks to which they are exposed. These include risks arising from interaction with banking and payment systems, and foreign exchange and commodities markets, at home and abroad.

WFE members must have a management plan to evaluate risks regularly.
To ensure the integrity of services and the ability of participants to meet their obligations, risk management tools should be deployed. This may be done by the WFE member exchange, a subsidiary company, or an independent provider. Typically, these include position limits for participants by instrument and counterparty, minimum capital and solvency requirements, margin requirements for investors, mark-to-market systems for portfolios, default rules, reserve and guarantee funds, etc. Participants and others with access to the market environment must report on their compliance with the exchange’s rules and regulations, including these risk parameters, as frequently as management thinks useful for its business.

Risk mitigation is built into the industry structure. Risk is reduced, for example, through information and market data requirements and dissemination, limitations of access, compliance procedures, and the exchange environment actors’ ability to enforce rules and regulations.

11. Supervision, surveillance & enforcement

The supervision of participants and issuers, market surveillance, and the enforcement of business rules and regulations assure the business quality of WFE members.

WFE members have varying powers and involvement in these business areas; but they must assure that within their jurisdictions, adequate measures are taken and means provided for this work. When the member is the front-line authority for the supervision and surveillance of its areas of business, it must have staff, procedures, information and IT systems in place to ensure that it is able to discharge its supervisory and regulatory responsibilities adequately at all times.

Different jurisdictions have varying models of sharing of regulatory oversight between WFE members and their regulators. Whatever the model, the member needs to take the initiative to keep the regulatory authority informed when issues are identified that may have market-wide implications.

The public regulatory agency provides back-up to WFE members’ supervisory and surveillance responsibilities by having broad inspection and enforcement authority, and adequate oversight of actors in the market. Its enforcement of applicable regulations must be – and be seen to be – effective.

Divisions of regulatory responsibilities between a WFE member and its regulator, the roles and powers of each party, should be formalized, comprehensive, and communicated to the public. The same is true for the division of responsibilities between WFE members and external providers of after-trade services, if any.

When the banking supervisor is separate from the capital markets authority, all actors must have a clear understanding of their responsibilities, as banks are key participants in the capital markets. Regulatory co-ordination between the regulators must be fostered.

A WFE member must report to the public regulator when it becomes aware that reasonable grounds exist to suspect that a participant may have violated the jurisdiction’s laws. Similarly, a WFE member must report to the public regulator any finding that a participant has violated the member’s internal rules and regulations, where applicable. Likewise, the regulator is also to inform a WFE member the same where applicable.
To enable accurate investigations to take place, records of transaction messages, orders, and bargains dealt, financial statements, and data regarding indications of market interest, quotations, orders, and trades in the system itself, must all be preserved for a reasonable period of time. Today this means many years, and is usually done in both electronic and paper form. These records should be furnished promptly upon request by the regulatory authorities. Document preservation should be planned in writing.

12. Resolution of disputes and handling of complaints

WFE members must ensure that within their jurisdictions, procedures and mechanisms are in place to enable aggrieved parties to resolve their disputes and handle complaints. Whether at the WFE member or not, the dispute and complaint resolution facilities in place in this jurisdiction need to be accessible, expeditious, and offer prompt resolution. The dispute and complaint resolution procedures are based on due process and fairness. Compensation may be offered, depending on the jurisdiction and the origin of the dispute, and in many cases compensation funds are available to cover defaults.

Call centers and internet access facilities for receiving complaints are efficient, as is the availability of qualified staff. WFE members need to track and communicate on disputes and complaints received, their handling, and their resolution. They often offer ombudsman services to guide parties in difficulty through these processes, as well as arbitration councils made up of market professionals to hear complaints not otherwise resolved. Depending upon local law and the nature of the dispute, the WFE member may only be the first step in resolution of a dispute.

Through expeditious resolution of disputes, the market continues to function well. Measures for dealing with conflict amongst many actors complete the investor protection mechanisms built into the structure of WFE members, and are the final component of the business quality.
### COSSE MEMBER STOCK EXCHANGES LISTING RULES
#### SELF-ASSESSMENT INSTRUMENT

**Directions:** This self-assessment instrument can be used by Stock Exchanges to determine aspects of their listing rules that require a closer fit to the recommended standards. Please review each of the standards in Column 1. For each standard, using the scale in Column 2, indicate how relevant the standard is to your market. (1) indicates very relevant while (4) indicates little relevancy. Similarly, for each standard, using the Scale, assess in Column 3 the closeness of fit of your exchange’s current listing rules to the recommended standard. (1) indicates excellent fit and (4) indicates a need for improvement. Enter the appropriate number in the box in the upper right hand corner in Column 3. In Column 5, provide any additional comments and indications of your proposed plan of action if a revision of your rules is necessary.
<table>
<thead>
<tr>
<th>Listing Rule</th>
<th>Relevant To My Market</th>
<th>Closeness of Fit to Recommended Standard</th>
<th>Comments</th>
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<td>Relevant Not Relevant</td>
<td>Excellent Needs Improvement</td>
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**SPONSORS**

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<tr>
<th>Qualification of sponsors</th>
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<tbody>
<tr>
<td>Independence of sponsors</td>
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<tr>
<td>Sponsors responsibilities</td>
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**CONTINUING OBLIGATIONS**

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<tr>
<th>The key elements of an ongoing disclosure obligation</th>
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<tr>
<td>Timeliness</td>
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<td>Simultaneous and Identical Disclosure</td>
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<td>Dissemination of Information</td>
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<td>Disclosure Criteria</td>
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<td>Equal Treatment of Disclosure</td>
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<td>Allocation of Accountability</td>
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<td>PERIODIC FINANCIAL INFORMATION</td>
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<td>All CoSSE members should report according to a</td>
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<td>quarterly reporting standard.</td>
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<td>Provisional Reports should be prepared in</td>
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<td>accordance with IFRS standards</td>
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<td>adopt ISRE 4210 for the review of provision/</td>
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<tr>
<td>preliminary statements</td>
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## Listing Rule

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<tbody>
<tr>
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<tr>
<td>Rights Between Shareholders</td>
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<tr>
<td>Affirmation of the right of equality of treatment including the prohibition of differences in voting rights attached to securities of the same class</td>
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<tr>
<td>Pre-emptive rights requiring an issuer proposing to issue shares for cash to first offer those securities by way of rights to their existing shareholders in proportion to their existing holdings (unless shareholders waive the right)</td>
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<tr>
<td>Shareholder Spread</td>
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<tr>
<td>20% of securities held by the public</td>
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<tr>
<td>Minimum float requirement not to be waived</td>
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<tr>
<td>Definition of “public”</td>
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<tr>
<td>Directors/Corporate Governance</td>
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<td>Listing Rule</td>
<td>Relevant To My Market</td>
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<tr>
<td>Details of all transactions in securities held beneficially by directors of the issuer</td>
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<tr>
<td>Obligation of directors to serve prior notice of their intent to deal in the issuer’s securities</td>
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<tr>
<td>Prohibition of dealings during a prohibited period where prohibited period is defined as:</td>
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<tr>
<td>1. A closed period&lt;sup&gt;7&lt;/sup&gt;</td>
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<tr>
<td>2. Any period when there exists any matter which constitutes unpublished price sensitive information in relation to the issuer’s securities</td>
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<tr>
<td>Disclosure of beneficial interests of directors and major shareholders in annual reports</td>
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<tr>
<td>Corporate Governance:</td>
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<tr>
<td>1. A policy on procedures of appointment to the board of directors including nomination committee</td>
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<tr>
<td>2. Separation of the role of chief executive and chairman of the board</td>
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<tr>
<td>3. Appointment of an audit committee</td>
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<tr>
<td>CONDITIONS FOR LISTING</td>
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<tr>
<td>Company is duly incorporated</td>
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<tr>
<td>Directors and executives have the requisite experience</td>
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<sup>7</sup> A “closed period” usually refers to the period from the year-end leading up to the publication of preliminary/abridged/provisional report and the date from the expiration of an interim report period to the publication of interim reports
and expertise
<table>
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<tr>
<th>Listing Rule</th>
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<th>Closeness of Fit to Recommended Standard</th>
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<tbody>
<tr>
<td>Separation of chairman and chief executive officer positions</td>
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<tr>
<td>Securities to be issued shall meet the following standards:</td>
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<tr>
<td>1. Issued in conformity with the law of the applicant’s country of incorporation and the company’s articles of association</td>
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<tr>
<td>2. Rank <em>pari passu</em> in respect of rights Freely transferable</td>
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<tr>
<td>Financial statements must have been prepared in accordance with IFRS and been reported on by the auditor and reporting accountant without qualification</td>
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**METHODS AND PROCEDURES FOR BRINGING SECURITIES TO THE MARKET**

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<td>Offer for Sale or Subscription</td>
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<td>Renounceable Offers</td>
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<td>Issue for Cash</td>
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<td>The Applicant and its Capital</td>
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<td>Loans Receivable</td>
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<td>Options or preferential rights in respect of securities</td>
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<td>Controlling Shareholders</td>
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<td>Major Shareholders</td>
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<td>Directors, Managers, Advisors</td>
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<td>Commissions Paid in respect of underwriting</td>
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<td>Issue Expenses</td>
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<td>Capitalization issues and scrip dividends</td>
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<td><strong>FINANCIAL INFORMATION</strong></td>
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<td>The report of historical financial information shall include the following historical information:</td>
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<td>• Statement of comprehensive Income</td>
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<td>• Statement of financial position</td>
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<tr>
<td>• Statement of changes in equity</td>
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<td>• Statements of Cash Flows</td>
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<td>• Accounting policies</td>
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<td>• Notes</td>
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<td>• Segmental information</td>
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<tr>
<td>Historical financial information presented in consolidated form for at least three years up to and including the financial year immediately preceding the issue of the prospectus/pre-listing statement</td>
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<tr>
<td>A pro forma should be presented in a manner that is</td>
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consistent with both the format and accounting policies of the issuer in its report on historical financial information
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<th>Listing Rule</th>
<th>Relevant To My Market</th>
<th>Closeness of Fit to Recommended Standard</th>
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<td>Relevant</td>
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<tr>
<td>Profit Forecasts and estimates must be clear and unambiguous and be prepared in accordance with IFRS</td>
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<td>Accountants Reports are required under the following circumstances:</td>
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<tr>
<td>• When a report of historical information is required</td>
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<tr>
<td>• Pro forma financial statements</td>
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<td>• Profit forecasts and estimates</td>
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<td>Standards of the International Auditing and Assurance Standards Board (IAASB)</td>
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<td>IFRS</td>
<td>International Standards on Auditing</td>
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<td>Additional disclosures should be made in Annual Financial Statements</td>
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<tr>
<td>• Disclosure of directors interests</td>
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<tr>
<td>• Shareholder Spread</td>
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<tr>
<td>• Major shareholders</td>
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<tr>
<td>• Share incentive schemes</td>
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<tr>
<td>• Disclosure of director emoluments</td>
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<tr>
<td>TRANSACTIONS</td>
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<tr>
<td>Definition of Transactions</td>
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<td>Categorization</td>
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<td>Excellent Needs Improvement</td>
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<tr>
<td>Timing of announcements</td>
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<td>RELATED PARTY TRANSACTIONS</td>
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<td>Definition of Related Party</td>
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<td>Exemptions</td>
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<td>SECONDARY AND DUAL LISTINGS</td>
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<tr>
<td>For the purposes of pre-listing requirements, financial information shall be prepared in accordance with IFRS.</td>
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<td>A secondary listing should be allowed if the issuer’s primary listing is on another</td>
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<td>5. A member of the WFE</td>
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<td>6. An equivalent board/exchange</td>
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<td>7. A member of CoSSE</td>
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<tr>
<td>8. A company with a secondary listing</td>
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<tr>
<td>Listing Rule</td>
<td>Relevant To My Market</td>
<td>Closeness of Fit to Recommended Standard</td>
<td>Comments</td>
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<td>----------------------------------------------------------------------------</td>
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<tr>
<td>A company with a secondary listing status will only be required to comply</td>
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<td>with the Listings Requirement of the exchange where it has its primary listing.</td>
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<td>When an issuer wishes to release any information on another exchange, it</td>
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<td>must ensure that such information is released simultaneously (or on the</td>
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<td>next business day if the secondary exchange is closed) on the exchanges</td>
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<td>on which it has secondary and dual listings</td>
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</tbody>
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