



Australian Market - Corporate Events

An Introduction to RAPID's

A new type of corporate event has been gaining favour with both Corporations and their Advisors to effect a capital raising – an accelerated right issue commonly referred to as a 'Rapid'. Although originally considered a passing trend of the advisors this type of event has now settled into the mainstream for larger raisings and has been adopted by the key Equity Capital Markets advisors in Australia. Presently this type of event has only been adopted in Australia but its popularity may result in the methodology being adopted overseas.

The Securities Lending and Borrowing sector has a simple principle in regards to corporate events occurring whilst a security is on loan – the beneficial owner retains all economic rights of ownership and is protected in the same manner as if the securities were in their safe-custody. The sector has a structured protection model in place between the borrowers and lenders to support this covering all types of events that may occur whilst a security is on loan however the unique structure of Rapids has created some practical issues for these standard processes to be applied, particularly for non-Australian based participants.

As a result of discussions by market participants the Australian Securities Lending Association has published this document to raise awareness of Rapids and their impact to any participants in the Securities Lending sector.

Australian Market - Corporate Events

What is a 'RAPID'?

A **R**enounceable **A**ccelerated **P**ro-rata **I**ssue with **D**ual-bookbuild. A RAPID is method of capital raising undertaken by Corporations. Although structurally similar to a rights issue a RAPID has three unique features:

1. Two-tranche shareholder offer - Institutional and Retail

The event is held in two tranches:

- Institutional - the first tranche is by invitation only to substantial shareholders with a one or two day window to elect. This covers the majority of issued shares.
- Retail - the second tranche is a retail offer which is open to all shareholders who were not invited to the first tranche; typically the smaller or retail shareholders.

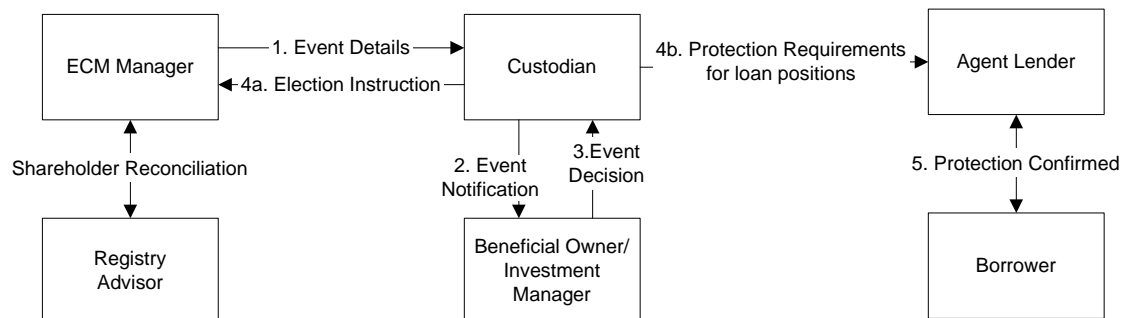
This is the first question when protecting entitlements for lent positions – who has been invited to the first or Institutional tranche?

2. Method of Communicating the offer via Fund Managers rather than Custodians

Corporate Events are typically processed by the Company/Registrar/Advisor directly with the shareholder, which for Institutional clients usually means their Custodian Bank. The Custodian then translates the event details into a standard format sending this to the beneficial owner or their Fund Manager for an election decision (a). This process allows the Custodian to provide their Securities Lending Desk with the details of the event and the subsequent election by the client to ensure protection. In a RAPID the Company/Advisor's aim for the first tranche is to contact the decision maker (not the shareholder) which is typically the Fund Manager, directly to ensure a quick election (b).

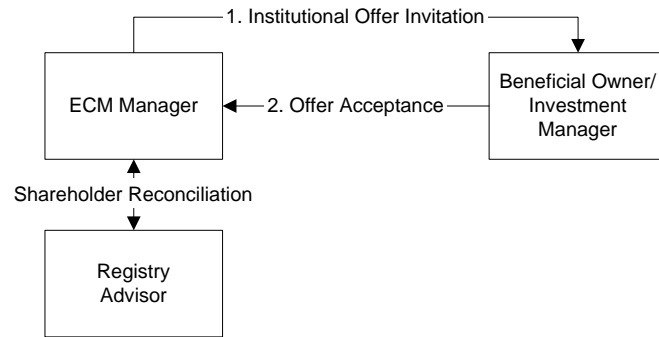
This event and election decision has now bypassed the Custodian which results in the second question when protecting entitlements for lent positions – who has accepted participation in the Institutional tranche?

a) Standard Corporate Event Communication Flow



Australian Market - Corporate Events

b) Rapid Communication Flow



3. Short time frame for election

The Institutional offer is usually announced and closed on the same business day or within 24 hours with a trading halt during this period. This means that due to the unusual communication method with the Fund Manager being contacted directly the Custodian and Lending Desk may only be made aware of the deal after the institutional deal has closed, resulting in delayed protection requirements being sent to borrowers.

Australian Market - Corporate Events

This paper is the culmination of discussion amongst the following participants:

Member firms of the Australian Securities Lending Association
Domestic and Internationally based Agent Lenders
Borrowing Brokers
Principal Lenders
Registry Advisors
Equity Capital Markets Teams
Australian Stock Exchange
Australian Custodial Services Association (ACSA)

Best Practise for the Lending and Borrowing Community

For Beneficial Owners or appointed Investment Managers:

- Be aware of the potential implications of a Rapid if you participate in a lending programme
- Upon receipt of an invitation to participate in the institutional tranche of a Rapid immediately contact your Custodian and ensure that your election decision is confirmed to your custodian
- *There is no need to mandate a recall of open loans to ensure protection when lending under a market standard agreement*

For Agent Lenders/Custodians:

- When a Rapid has been announced contact your lending clients/Investment Managers to confirm invitation/participation in the Institutional offer
- Contact all borrowers impacted to confirm if any returns prior to record date are expected
- Agree a deadline with your borrowers to confirm if protection is required in the Institutional offer:
- Contact the Registry Advisor to seek confirmation of acceptances or clarify any reconciliation issues

For Borrowers:

- Contact your Lender to confirm invitation/participation in the Institutional Offer
- Agree a deadline with your Lender for protection confirmation

Australian Market - Corporate Events

Some Commonly Asked Questions Regarding Rapids

As a beneficial owner, is my participation in a RAPID protected?

Yes, for loans executed under market standard agreements you are protected but need to advise your Custodian immediately if you or your Investment Manager have been invited to the Institutional tranche.

As an Institutional shareholder, will I always be invited to the Institutional offer?

No, the ECM Manager determines who will be invited to the Institutional offer based on election rights, as their objective is to confirm a decision by the majority of shareholders in the 1st Tranche.

As a beneficial owner, could I be excluded from the Institutional offer due to loan activity?

Our understanding is that when confirming who to invite to the Institutional offer the ECM Managers/Advisors review three sources:

- a. Registry – which will provide details of any direct shareholders but often reflect only Custodian or Broker Nominee Accounts
- b. Significant Shareholder disclosures – mandated by the Australian Stock Exchange to allow companies to track significant investments
- c. Profile Fund Managers – Corporates are aware of the Fund Managers most active in their sectors who are managing investments on behalf of third party clients.

As the Lender of shares retains economic ownership of the lent position the qualification to participate should be based on their full positions (e.g. custody + lent positions). However the ECM Managers/Advisors are not aware of the lent positions.

Ensuring participation is where a Registry Advisor's role can be crucial as the Registry Advisor will request a notification of position from all registered shareholders. It is essential for the Advisor to know what is in custody and what is on loan as this assists with the registration process. At present some custodians issue this notification with the recordkeeping position (custody + loan) whilst others advise of the custody position only. It is the recommendation of ASLA that custodians advise the Registry Advisors of their recordkeeping position, and we encourage each custodian to contact the registry advisors directly to discuss this process.

As a beneficial owner what should I be aware of?

If a Beneficial Owner has open loans in a security which is subject to a RAPID they will be protected for all economical ownership rights under the market standard lending agreements, and there is no need to confirm if protection will be provided as protection is assumed. Critically however you or your Investment Manager must advise your Custodian or Lender of your invitation and your decision to participate in the Institutional event as you would with any elective Corporate Action.

What is the impact of a rapid to the Borrower?

As with any rights issue event for a borrowed security there may be a financial impact to the borrower. As there is a trading halt in place whilst the Institutional offer is underway the borrower methods of protection can be limited, thus it is crucial for them to confirm which tranche they need to protect the lender for in an agreed timeframe.

Can the borrower refuse to protect me in the Institutional offer?

No, for any loan executed under a market standard agreement the lender must be protected, however the borrower must be advised of the details of the protection request (i.e. Institutional or Retail) within the agreed timeframe.