

# CALL WARRANTS

## GENERAL EXPLANATION

### 1. Warrants

A warrant is an option which gives the holder the right to subscribe for a given number of ordinary shares in the company at a predetermined exercise price within a specified time period. It does not, however, impose an obligation on the holder, ie., the holder does not have to exercise this right. A warrant was also known as a Transferable Subscription Right (TSR) prior to the amendment of Section 57 of the Companies 1965. With the amendment of the said section of the Companies Act, the term "TSR" is now obsolete.

In Malaysia, warrants are normally issued on a detachable basis and are often provided free of charge as a sweetener for the issue of debt securities by the company at a lower coupon rate.

The warrants can be exercised by the warrant holders for new shares in cash or by tendering the debt securities or a combination of both. The company will specify whether the warrants can be exercised at any time during the exercise period or only on fixed dates, and the method of subscription. A warrant has a limited life. In Malaysia, the maximum life span of a warrant is only 5 years.

### 2. Call Warrants

Call Warrants are warrants issued by the company's shareholder(s) or a third party.

Call Warrants can be collateralised or non-collateralised. In collateralised call warrants, the issuer, normally a shareholder of the underlying company, will deposit the underlying shares with a trustee or custodian for delivery of the shares to the investors when the warrants

are exercised. In non-collateralised call warrants, the issuer, normally a financial institution, will not have or will not partially have the underlying shares. In this case the issuer will have to hedge its position by using various hedging strategies.

## **DIFFERENCES BETWEEN WARRANTS AND CALL WARRANTS**

The following are major differences between warrants and call warrants:

### **(i) Issuer**

The issuer of warrants is the company that will issue the new shares. The issuer of call warrants, on the other hand, is a shareholder of the underlying company or other third party as may be approved by the Securities Commission.

### **(ii) Underlying Shares**

For warrants, the underlying shares to be issued are additional new shares of the company. For call warrants, the underlying shares are those that are already issued and listed on the stock exchange.

### **(iii) Impact on Earnings**

When new shares are issued pursuant to the exercise of the warrants, there would be a dilution in earnings per share for existing shareholders due to the enlargement of the issued and paid-up capital of the company. In the case of exercise of call warrants, there would not be any effect on earnings per share as the shares are existing shares of the company.

## **GUIDELINES ISSUED BY THE SECURITIES COMMISSION FOR THE ISSUE OF CALL WARRANTS**

### **a. Interpretation**

In these guidelines:

“American style” in respect of the right of a person under a call warrant, means the ability to exercise that right at any time prior to the expiry of that right.

“Call Warrant” means a contract or instrument under which a person has an actual, contingent or prospective;



- (i) right to buy, a specified number of shares at a specified price on or by a specified future date; or
- (ii) right to receive, an amount in the form of cash or other property, depending on a state of affairs that relates to fluctuations in the value or price of a share and the amount will be calculated in a particular manner by reference to that state of affairs in accordance with the contract or instrument.

“Class” in relation to shares of a corporation, means all shares issued in the capital of that corporation.

“Corporation” has the meaning given to that term in the Companies Act 1965.

“Fully-collateralised call warrants” means call warrants the issue or sale of which is or will be accompanied by a deposit of all the shares the subject of the warrants with a custodian or trustee for the entire term of the warrants.

“Non-collateralised call warrants” means call warrants other than fully-collateralised call warrants.

“Public float” in relation to a class of shares at a point in time, means shares of that class which, at that point in time, are not included in substantial shareholdings of that class.

“shares” means shares of a corporation quoted on the Kuala Lumpur Stock Exchange.

“Substantial shareholdings” in relation to a class of shares, means shares of that class which are recorded in the register of substantial shareholders of the corporation which has issued those shares.

“Underlying company” in relation to particular call warrants, means the corporation which has issued the shares the subject of those warrants.

“Underlying shares” in relation to particular call warrants, means the shares the subject of those warrants.

## **b. Application of Guideline**

These guidelines apply to the Securities Commission’s assessment of any proposal submitted to it with respect to the issue or sale of call warrants.

## **c. Criteria of Issue or Sale**

### **1. Issuer**

Any person may issue or sell fully-collateralised call warrants subject to:

- (i) the terms of the security arrangements in respect of the underlying shares being approved by the Securities Commission
- (ii) a custodian or trustee approved by the Securities Commission being appointed to hold the shares the subject of the warrants and act in the interests of the warrant holders; and
- (iii) the person complying with these guidelines and all other applicable laws relating to the issue, sale or offer of the warrants.

An issue or sale of non-collateralised call warrants may only be undertaken by:

- (i) a body corporate approved by the Securities Commission; or
- (ii) a financial institution approved by Bank Negara; or
- (iii) a body corporate guaranteed by an entity qualifying under paragraph (i) or (ii).

Issuers of non-collateralised call warrants are also required to submit an outline of their proposed hedging strategy and all relevant documents relating to the issue of the call warrants or the Issuer's obligations in respect of them for approval of the Securities Commission.

### **2. Terms of Issue or Offer**

In the case of each issue of fully-collateralised and non-collateralised call warrants, the terms of the call warrants and the information disclosed in relation to the call warrants, the applicable underlying shares, the applicable underlying company and the issuer and risk manager, if there is one, must be approved by the Securities Commission.

### **3. Underlying Shares**

The underlying shares must satisfy the following criteria:

- (i) Average daily market capitalisation of at least RM2 billion in the 3 months ending



on the last business day of the calendar month immediately preceding the date of issue;

- (ii) Average monthly turnover of at least 2 million shares for the 12 calendar months immediately preceding the date of issue;
- (iii) Total number of registered shareholders in the underlying company of at least 2,000 as at the last business day of the year immediately preceding the date of issue;
- (iv) Total number of shares, of the same class as the underlying shares, of at least 100 million in public float as at the last business day of the calendar month immediately preceding the date of issue; and
- (v) The underlying company having an uninterrupted after-tax profit record in the five financial years immediately preceding the date of issue.

#### **4. Call Warrants**

##### **(i) *Maturity Date***

The maturity date of call warrants must be no earlier than one year and no later than two years from the date of issue.

##### **(ii) *Minimum Capitalisation of Call Warrants***

Each issue of call warrants must be for a total face amount of at least RM20 million.

##### **(iii) *Maximum Size of Issue***

The number of underlying shares the subject of call warrants in each issue, when aggregated with all other unexpired and unexercised call warrants in respect of the same underlying shares at the time of the issue, must not exceed 10% in number of the total issued share capital of the applicable underlying company.

##### **(iv) *Registration of the Call Warrants***

Call warrants must be in registered form and the registrar must be approved by the Securities Commission.

## 5. Trading and Settlement of Call Warrants

### (i) *Call Warrant Contract Unit and Size*

Each call warrant must be in respect of one share. Trading of call warrants must be in the same board lots applicable to the trading of the underlying shares.

### (ii) *Spread Requirement*

On initial listing, the call warrants must be registered in the names of at least 100 holders.

### (iii) *Placement Requirement*

The issuer must make an initial placement of call warrants to at least 10 licensed dealers and/or institutional investors.

### (iv) *Exercise Style*

Rights of holders under call warrants must be exercisable American style.

### (v) *Settlement of the Call Warrants*

Settlement of the call warrants may be by way of delivery of the underlying shares or cash settlement at the option of the issuer. The mode of settlement must be stated clearly in the written terms of issue of the call warrants and the offering document relating to the call warrants.

### (vi) *Settlement Price of the Call Warrants*

In the case of a cash settlement, the value or price of the underlying shares to be taken for the purpose of calculating the settlement price must be at least the higher of:

- (a) the average of the closing prices of the underlying shares (derived from the Daily Diary of the Kuala Lumpur Stock Exchange, subject to any adjustment as may be necessary to such closing prices to reflect any capitalisation, rights issue, distribution or the like) during the 30 market days prior to and including the market day immediately before the relevant exercise date; and



- (b) the closing price of such shares on the market day immediately before the exercise date.

**(vii) *Anti-dilution Provisions***

The terms of each issue of call warrants must contain appropriate provisions dealing with the rights of warrant holders in the event of consolidation, bonus or rights issues or any other event having a similar effect on the rights of holders to the foregoing events.

**(viii) *Take-over, Liquidation, Dissolution and Winding-up***

The terms of each issue of call warrants must specify the rights of the warrant holders in the event of a take-over, merger, liquidation, dissolution or winding-up of the underlying company or a scheme of arrangement involving the shareholders of the underlying company or any other event having a similar effect on the rights of holders to the foregoing events.

**6. Approval Subject to Conditions**

Approval of the Securities Commission may be given subject to such conditions as the Commission sees fit.

**7. Variation of Guidelines**

These guidelines may be varied at any time by the Securities Commission. The Securities Commission may also vary the application of these guidelines with respect to particular proposals or issues of call warrants having regard to such circumstances and state of affairs as the Commission considers relevant.

**d. Submission of Proposals**

1. All proposals for the issue of call warrants as set out in the above guidelines must be submitted in three (3) copies and addressed to:

Chairman  
Securities Commission  
No. 3, Sri Semantan Satu  
Bukit Damansara  
50490 Kuala Lumpur

2. All proposals must be accompanied by relevant information and documents as follows:

- (i) Description of each of the issuer and risk manager, if applicable, including its history and business, its directors and management, its experience in the issuance and management of warrants and other equity derivatives and its financial statements for the last five (5) years.
- (ii) The hedging strategy to be employed by the issuer in the case of a non-collateralised issue. If a risk manager has been or is to be appointed to hedge the issuer's risk, the terms and conditions of the arrangement should also be specified;
- (iii) In the case of the issue of collateralised call warrants, the issuer is required to outline the proposed security arrangement and submit the name of a proposed trustee or custodian of the underlying shares for approval;
- (iv) The terms and conditions of the call warrants;
- (v) Detailed information relating to the underlying company and the underlying shares;
- (vi) The name of the registrar of the call warrants;
- (vii) The time-table for the implementation of the proposal;
- (viii) The names of all underwriters and placees and the amount proposed to be underwritten by each underwriter and placed to each placee;
- (ix) The prospectus;
- (x) All other documents relating to the issue or sale of the call warrants;
- (xi) Explanation on the use of the proceeds from the sale of call warrants.

The issuer has a duty to ensure that all the requirements pertaining to submission of proposals are met. Submissions that do not comply with any of the above requirements or are deemed unsatisfactory may be returned to the applicant. In addition, the Securities Commission may, at its full discretion request any further information or document other than those specified above.



3. The Securities Commission must be immediately informed:

- (i) of any material change in circumstances that would affect the consideration of the Securities Commission; and
- (ii) of any material change of development occurring subsequently to the approval of the Securities Commission.

In the event circumstances are known to the Securities Commission after it has considered the proposal, which circumstances, if known at the time of the proposal being considered, might have resulted in a different decision by the Securities Commission, the Securities Commission may review its decision.

## **PROCEDURES FOR LISTING APPLICATION OF CALL WARRANTS**

1. The following are the usual steps in the listing application of call warrants:

- (1) Issuer submits application to Securities Commission.
- (2) Issuer submits Trust Deed and specimen warrant certificates to the Exchange for approval.
- (3) Securities Commission approves listing.
- (4) Issuer submits listing application and supporting papers to the Exchange.
- (5) Exchange approves listing.
- (6) Issuer files final prospectus with Registrar of Companies.
- (7) Issuer advertises prospectus and files 250 copies of the printed prospectus to the Exchange for announcement.
- (8) Call warrants admitted to the Official List.
- (9) Call warrants traded on the Exchange 3 market days after certificates have been despatched.

2. Each listing application of call warrants consists of the following:

- (1) Proposal for the issue of call warrants as submitted to the Securities Commission.
- (2) Description of the issuer and risk manager, if applicable.

- (3) Listing Undertaking.
- (4) Listing fees.
- (5) One copy each of all letters of approval from the relevant government authorities.

## **GUIDELINES FOR THE ISSUE AND TRADING OF CALL WARRANTS**

### **1. Trading**

- (1) Any suspension in the underlying shares shall result in the automatic suspension in the trading of the warrants.
- (2) Trading of warrants to be suspended at least 10 market days prior to the maturity date.

### **2. Contents of Trust Deed**

The Trust Deed governing the issue of call warrants shall contain specific provisions for the following:

- (1) Upon exercise, to despatch certificates good for delivery to the warrant holder within 10 market days from the date of lodgement of the Form of Exercise together with the relevant warrant certificate, the duly executed transfer form, if necessary, and full payment of the exercise price.
- (2) The certificates of the underlying shares to be delivered in respect of any exercise need not be registered in the warrant holder's name.
- (3) Exercise shall be effected free of charge.
- (4) If books-closing date has been declared for an entitlement by the company of the underlying shares and that trading in the underlying shares is on a "Cum-Entitlement" basis, the shares to be delivered upon exercise shall be on an "Cum-Entitlement" basis also.
- (5) Cash alternative for settlement shall be at the option of the issuer.
- (6) In the case of cash alternative, the cash amount shall be equal to the difference of the exercise price and:-



- (a) the average of the closing price of the shares (as derived from the Daily Diary of the Exchange, subject to any adjustments as may be necessary to such closing prices to reflect any capitalisation, rights issue, distribution or the like) for the thirty (30) market days prior to and including the market day immediately before the relevant exercise date, or
- (b) the closing price of such shares on the market day immediately before the relevant exercise date,

whichever is the higher.

- (7) Cash payment must be made and the cheque posted within 10 market days from the date of lodgement of the Form of Exercise for cash settlement option.
- (8) Any suspension in the trading of the underlying shares shall not preclude the warrant holder from exercising his right.

### **3. Disclosure undertaking by the issuer**

- (1) Within three (3) months after the close of the half year and year end, or such period as may be approved by the Exchange, to announce its unaudited/audited financial statements covering the profit and loss position and the balance sheet position, and to state whether there is any abnormal circumstance that has/will affect the business and financial position of the Issuer.
- (2) To announce on a monthly basis the following:
  - (a) Number of warrants exercised during the month.
  - (b) Cumulative number of warrants exercised to date.
  - (c) Number of warrants outstanding.
- (3) To announce at least 18 market days prior to the maturity, the maturity date of the warrants and the treatment of any warrants unexercised.

### **4. Listing fees for call warrants**

The rates for listing fees and annual fees for call warrants shall be half of the rates for shares.

**UNDERTAKING  
BY THE ISSUER OF CALL WARRANTS IN SUPPORT  
OF THE APPLICATION FOR ADMISSION OF THE  
CALL WARRANTS TO THE OFFICIAL LIST OF  
KUALA LUMPUR STOCK EXCHANGE**

TO:

Kuala Lumpur Stock Exchange

.....  
(Name of Issuer)

in consideration of Kuala Lumpur Stock Exchange ("the Exchange") granting our application for admission of the call warrants to the Official List of the Exchange ("Official List") and for official quotation of the call warrants described in our Form of Application HEREBY ACKNOWLEDGE that the call warrants shall remain on the Official List and official quotation of any of the call warrants shall continue only during the pleasure of the Exchange and HEREBY UNDERTAKE AND AGREE to comply with the Listing Undertaking and be bound by the Rules of the Exchange which shall be in force from time to time insofar as the same shall apply to the call warrants.

The above Undertaking has been signed by us as:

(i) .....of.....  
.....pursuant  
(title) (Issuer)

to the authority granted me by resolution of the Board of Directors on  
.....

Date:

Signature .....

Name: .....



## INFORMATION FOR CONTRIBUTORS

1. Manuscripts covering any aspects of the financial sector, particularly the securities industry, will be considered for possible publication. Manuscripts are examined and refereed for publication on the understanding that they have not been published before and that they are not being simultaneously considered for publication elsewhere.
2. A small honorarium will be paid for each published article, apart from 20 off-prints of the paper. Articles published in the journal become the copyright of Kuala Lumpur Stock Exchange.
3. Manuscripts in duplicate copies should be sent to Ms. Qua Gek Kim, Research/Publication Department, Kuala Lumpur Stock Exchange, P.O. Box 11023, 507320 Kuala Lumpur, MALAYSIA.
4. The Manuscript should be typed on A4 size paper. The points given below should be taken into consideration in preparing the Manuscript.
5. *Title:* The Manuscript should include the title of the article, author's name, designation and institutional affiliation at the top of the first page of the written text.  
  
*Abstract:* An Abstract of not more than 150 words.
6. *Tables:* Tables should be given Arabic numbers, for example "Table 3", and should be numbered consecutively throughout the article. Each table should have a title inserted at the top of the table. Tables should be located at the relevant places where references to them are made in the main text.
7. *Figures:* Diagrams should be given Arabic numbers, for example "Figure 1", and should be numbered consecutively throughout the Manuscript. Each figure should carry a title inserted above the diagram. Figures should be located in the relevant places where they are referred to in the main text. Figures will be directly photographed for printing, and should therefore be carefully prepared and submitted in the final form of photographing.

8. *Footnotes*: Footnotes should be numbered consecutively throughout the article and not page by page. Use Arabic numbers and not asterisks or other symbols to identify the footnotes which should appear at the bottom of the page to which they relate. Footnotes should only be used to provide supplementary information, and should be kept to a minimum.
9. Manuscripts should be double spaced, with wide margins, and printed on one side of the paper only.
10. *Citations*: Citations regarding books should give the name of author, name of book, publisher and year of publication, while those regarding articles should give the name of author, title of article, name of journal, volume and number, and month and year of publication. Names of books and journals should be in italics.

#### Examples

- (a) Amling, F. (1978), *Investments: An Introduction to Analysis and Management*, Fourth Edition, Prentice-Hall
  - (b) Jaffe, Jeffrey F. (July 1974), "Special Information and Insider Trading," *The Journal of Business*, Vol. 47, No. 3, pp 410-428.
11. Authors should make it a point to keep tables and figures to a minimum. Manuscripts which are accepted for publication may be subject to minor editorial changes for reasons of style, format and expression.