

# Derivative Warrants



Guide to Derivative Warrants on the  
Cayman Islands Stock Exchange

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# Introduction

The Cayman Islands is recognised as one of the world’s major international financial centres and, with its well established links to global markets, has long been a leading jurisdiction for structured finance, securitisations and capital markets transactions.

The Cayman Islands Stock Exchange (the “CSX”) has tailor-made rules for specialist products, including derivative warrants. Its listing facilities have attracted the attention of many of the world’s leading international financial institutions who have listed various types of specialist issues on the CSX.

Since introducing dedicated rules for listing derivative warrants the CSX has already attracted the attention of major players in the derivative warrants business, with listings of issues sponsored by several global banks.

The CSX operates in a remote environment with Deutsche Boerse’s Xetra® trading platform which it monitors centrally. All CSX listings and trading information can be accessed from the CSX’s dedicated pages on the Bloomberg network and the listings information is replicated on its website.

This guide deals with the requirements for listing derivative warrants. The requirements for listing other types of securities may be obtained separately from the CSX.

To find out more visit [www.csx.com.ky](http://www.csx.com.ky) or call us on +1 345 945 6060.



## The Cayman Islands Stock Exchange

A leading specialist stock exchange and a gateway to capital markets across the world.

# What CSX has to offer

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## International recognition

The HM Revenue and Customs, The United Kingdom Tax Authority, has granted the CSX status as a “recognised stock exchange” under Section 1005 of the Income Tax Act 2007. This recognition of the CSX placed the Exchange on the same footing with those in other financial centres, such as the Irish, London and Luxembourg stock exchanges. The recognition enhances Cayman’s position as a jurisdiction with the regulatory and legislative framework necessary for the conduct of international finance and securities transactions. The CSX is also an affiliate member of IOSCO and the World Federation of Exchanges.

- International recognition
- Disclosure requirements
- Trading

## Disclosure requirements

The CSX listing facility offers a significant advantage in that the disclosure requirements are significantly reduced where the CSX is satisfied that investors will be able to obtain the information necessary to form a reasonable opinion as to the value of the underlying assets to which the derivative warrants relate. Where the underlying assets are listed on a recognised exchange, only very limited information on the underlying assets need be disclosed in

the listing document as the CSX will rely on the obligations imposed by such exchange to make public any material information. For example, the CSX does not require the financial information relating to the underlying assets, share price information or details of dividend declarations to be disclosed, as it is assumed that a potential investor will be able to obtain such information as a result of the underlying assets being listed. There is also no requirement to include a capitalisation and indebtedness statement for the issuer in the listing document.

## Trading

In 2013 the CSX launched on Deutsche Boerse’s Xetra® trading platform which allows listed derivative warrants to trade on the CSX market with connectivity to up to 400 banks and brokers in the existing XETRA network around the world. Trades can be made ‘on-exchange’ or OTC, as users prefer.

## Timely Response

The CSX is aware of the time pressures under which issuers and their advisers operate and will make every effort to accommodate an issuer's timetable. The CSX will comment on the first draft of a listing document within five days of receipt and thereafter will comment on further drafts within three days.

- Timely Response
- No requirement for a listing agent
- Competitive costs
- Flexibility

## No requirement for a listing agent

There is no requirement in the listing rules for a listing agent to be appointed in connection with an application to list derivative warrants. This means that the lead manager or the issuer's legal advisers (whether or not registered as listing agents) may deal directly with the CSX's listing department. This helps to reduce costs and improve time efficiencies, particularly where the lead manager or legal adviser is familiar with the listing process.

## Competitive costs

The fees levied by the CSX for derivative warrants are competitive with other established exchanges.

## Flexibility

Unlike certain other exchanges, the CSX is not bound by European Union Listing Directives and as a result can be considerably more flexible in its approach. Issuers and other advisers are encouraged to consult the CSX at any time for advice on special situations or in relation to the development of new products.

# The listing process

## Step 1: Satisfy CSX conditions for listing

The issuer must satisfy all the conditions for listing. Applicants and their advisers are encouraged to discuss any issues with the CSX directly prior to making any application.

- Satisfy CSX conditions for listing
- Prepare draft listing documents
- Approval
- Listing
- Continuing obligations

## Step 2: Prepare draft listing documents

The issuer must prepare a listing document for review and comment by the CSX. The CSX rules will require specific disclosures to be included in the document, which must also demonstrate compliance with the CSX's conditions for listing. Listing documents can be based on commercial offering documents.

## Step 3: Approval

In the first instance, all applications for listing are dealt with by the CSX's Head of Listing and the staff of the listing department. Once the CSX staff are satisfied with an application, they will submit it to the listing committee of the CSX for approval. Once the document has been approved, supporting documentation must be

filed before the securities are admitted to listing. The timing of comments on documents by the CSX is guaranteed and the listing committee will meet as often as necessary to approve applications.

## Step 4: Listing

The securities will be admitted to listing once they have been issued. Details of the securities, including any pricing information, will be posted on the CSX's dedicated pages on the Bloomberg system. Similar details will also be added to the CSX's website.

## Step 5: Continuing obligations

Once listed, an issuer must continue to comply with its on-going obligations, as specified in the listing rules. It should be noted that, where the issue of derivative warrants is guaranteed, the information set out below must be provided with respect to the guarantor in substitution for the issuer.

# Conditions for listing

## Suitability of the issuer

- the issuer must be subject to regulation by a securities or futures regulator acceptable to the CSX or
- the warrants must be guaranteed by an entity which is so regulated or
- the underlying assets must be deposited with a trustee to be held for the benefit of the warrant holders or
- the issuer or guarantor must be of suitable financial standing, with sufficient experience and expertise to manage its potential obligations under the warrants

- Suitability

- Financial information

- Transferability

- Warrant agent

## Financial information

The issuer must produce the following financial information:

- audited financial statements for at least two financial years
- a comparative table showing two years' profit and loss accounts and balance sheets
- a statement of any material adverse change in the financial or trading position or prospects of the issuer.

## The securities

- must be freely transferable except to the extent that any restrictions are approved by the CSX
- must have an ISIN and be eligible for deposit in an acceptable electronic clearing and settlement system including Euroclear, The Depository Trust Company, Clearstream or a satisfactory system approved by the CSX although, where the derivative warrants are privately placed with a small number of institutions of qualified purchasers, the CSX may accept alternative arrangements.

## Warrant agent

- the issuer must appoint a warrant agent in a financial centre acceptable to the CSX.

## Types of derivative warrants suitable for listing

- Derivative warrants which are linked directly or indirectly to specified equity or debt securities, indices, currencies, interest rates, swap rates, exchange rates and certain commodities such as oil, gold and silver may be admitted to listing.
- Applications to list types of derivative warrants other than the above may also be permitted. Issuers are advised to consult the CSX at an early stage to establish whether the derivative warrants are suitable for listing and what other requirements will be imposed by the CSX.



### Underlying assets

- The CSX must be satisfied that investors will be able to obtain the information necessary to form a reasonable opinion as to the value of the underlying assets. Depending on the nature of the transaction and the assets, the CSX may require the underlying assets to be listed and / or traded on the CSX or another regulated, regularly operating open market.
- If an issue of derivative warrants relates to equity securities, the equity securities must represent minority interests in, and not confer legal or management control of the companies issuing the equity securities.



# Covered derivative warrants

Where the issuer of derivative warrants intends to market such warrants as “covered” warrants (on the basis that it owns or controls sufficient of the underlying assets to meet all its potential obligations under the derivative warrants), the CSX will require the issuer to satisfy the following additional conditions for listing:



- a trustee or other independent representative acceptable to the Exchange must be appointed to represent the interests of the warrant holders and that representative must have the right of access to appropriate information relating to the assets
  - a charge over such assets must be granted in favour of such representative
  - the underlying assets must be deposited with the representative, free from all claims, charges, encumbrances, liens, equity and third party rights whatsoever
- the representative must be authorized to deliver the underlying assets to the warrant holders upon valid exercise of the derivative warrants in the event that the issuer is unable to discharge its obligations under the derivative warrants

## Contents of the listing document

The general requirement is that an issuer of derivative warrants must include in its listing document all information necessary for an investor to make an informed investment decision. In particular the listing document must disclose details of the following:

- General information on the company, its directors and business
- Risk factors
- The securities for which application is being made
- Taxes payable on payments to warrant holders
- The company's financial position including audited financial statements where available and a capitalization and indebtedness statement as at the most recent practicable date

The company must make certain documents available for public inspection including its constitutional documents, warrant agreement, warrant instrument and any financial statements.



Flexible approach,  
allowing reduced  
disclosure where  
appropriate

## Information on the underlying assets

Where the derivative warrants relate to equity securities or debt securities:

- the name of the issuer of the equity securities or the borrower
- its registered office
- its country of incorporation
- a description of the securities
- the name of any stock exchange or other regulated, regularly operating open market on which the securities are listed and / or traded or a place where financial and other information on the issuer and the relevant securities is publicly available
- where the debt securities and/ or the issuer of the debt securities and / or the issuer's short term or long term credit has been rated by any of the major public rating agencies, the ratings and the name of the rating agency responsible for such rating

Where the derivative warrants relate to indices:

- a description of the index
- the name of the sponsor responsible for calculating and disseminating information with respect to the index
- a description of the method of calculation of the value of the index
- the frequency with which the index is calculated and published and the method of publication
- a summary of the provisions which apply in the event of the modification or discontinuance of the index

Where the derivative warrants are linked to a basket of securities or indices:

- a description of the composition of the basket
- for each security or index comprising ten per cent or more of the basket, the information required above, where applicable
- the method of calculation of the value of the basket
- the circumstances in which the composition of the basket may change, and details of the provisions relating to such an adjustment

## Derivative warrant programmes

The CSX has also made specific provision to accommodate issuers who wish to list a tranche of securities under a derivative warrant programme, where the programme has already been approved by another recognised exchange. In such circumstances the CSX will accept the listing document prepared in connection with the issuer's application to list the securities to be issued under the programme on such other exchange. In terms of documentation, all that need be prepared is the pricing supplement describing the final terms of the issue. The pricing supplement will normally comprise a supplemental programme memorandum and will contain information on the underlying assets, as required by the listing rules.

In the case of securities issued under a programme, issuers are expected to follow the normal application procedure, which involves the preparation of a listing document or programme memorandum. The application for listing will cover the maximum amount of securities which may be in issue and listed at any time under the programme. If the CSX approves the application, it will admit to listing all securities which may be issued under the programme within one year of the publication of the programme memorandum, subject to the CSX:

- being advised of the final terms of each issue
- receiving and approving for publication the pricing supplement and any supplementary listing document which may be appropriate
- receiving an application for admission to listing for the particular tranche or series
- receiving a letter from the issuer confirming which listing requirements do not apply to the issue
- receiving confirmation that the securities in question have been issued
- receiving the listing fees payable on admission to listing

For issues made more than one year after publication of the programme memorandum, the initial application and publication procedures, as set out above, must be followed.



Easy to follow, tailor-made listing rules for specialist products.

# Physical delivery of underlying assets

In the case of derivative warrants which contemplate the physical delivery of the underlying assets the listing document must additionally disclose details of the following:

- Information on the underlying assets, which will include the rights attached to such assets, details of arrangements for transfer of such assets and any restrictions on their free transferability and the name of the registrar and /or paying agent
- Conditions and procedures for delivery of the underlying assets and the circumstances in which they may be amended
- Information on the issuer of the underlying assets which will include its name, registered office, country of incorporation and nature of business
- Name of any stock exchange on which the relevant assets are listed
- Place where information on the issuer and the relevant assets is publicly available
- Any ratings by major rating agencies
- Any taxes on payment of interest and principal on the relevant assets at source



The Cayman Islands Stock Exchange is internationally known with a complete range of service providers.

# Derivative warrant programmes

The CSX has a duty to protect investors and to maintain a fair and orderly market in the securities. In order to fulfil this responsibility, the CSX requires listed issuers to undertake to comply with its continuing obligations. The principal obligations are as follows:

## New developments

An issuer must inform the CSX of any new developments in its sphere of activity which are not public knowledge and which might reasonably be expected to have a material effect on the financial position of the issuer or the market activity in, and price of, its securities.

- New developments
- Equality of treatment
- Rights, powers or privileges
- Changes in rights
- Financial statements
- Warrant agent
- Changes

## Equality of treatment

The issuer must ensure the fair and equal treatment of all holders of the same class of listed securities.

## Rights, powers or privileges

The necessary information and facilities must be made available to holders of securities to enable them to exercise their rights.

## Changes in rights

The CSX must be notified of any changes in the rights, powers or privileges of the listed securities.

## Financial statements

An issuer must publish audited financial statements within six months of the end of the financial period to which they relate (unless the CSX agrees to waive this requirement in certain specified circumstances).

## Warrant agent

The issuer must maintain a warrant agent in a financial centre acceptable to the CSX.

## Changes

The issuer must inform the CSX of any changes in the general character or nature of the business or in the issuer's constitution, or of the directors or auditor.

## Contact us

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To obtain more information or copies of other CSX publications, including the Listing Rules, please contact the CSX at:

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The listing rules and details on listed companies are also available on the CSX's website at [www.csx.ky](http://www.csx.ky)



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