



ASIC

Australian Securities & Investments Commission

REPORT 83

Small and mid-cap miners study

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Executive Summary

This report details some recent work ASIC has undertaken analysing the disclosure patterns and share price performance of small and mid-cap entities in the mining industry listed on the Australian Stock Exchange (ASX).

In recent months, ASIC has continued to be active in ensuring investors are provided with timely and accurate information and has taken action in several instances where we considered the market has not been kept properly informed.

These issues have generally arisen from entities operating in speculative industries. In these sectors, the issue of timely and accurate disclosure is particularly relevant, as uncertainties are prevalent, and references to technical information or use of industry jargon is common.

Given the large number of entities in these industries, we have established a framework that enables us to:

- (i) develop a better understanding of the disclosure practices of large, but fairly similar, populations; and
- (ii) identify systematically entities within these large populations that display characteristics that may warrant further review.

This study focuses on the Small and Mid-Cap Miners. For these entities, we looked at various indicators, being the number and type of market announcements, as well as share price movements, during the 2006 financial year.

The objective was to detect entities that demonstrated a pattern of extremely frequent disclosure alongside significant share price increases – essentially outliers. As outliers, such cases may be worthy of closer scrutiny to determine whether there are any disclosure issues.

ASIC will review the market announcements by some of the outliers identified to assess whether further inquiries are warranted.

In future, we may expand the sectors reviewed, such as the energy and biotechnology industries. We may also look at different indicators and alternate possibilities (eg. large price movements but minimal announcements).

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About the study

Background

1. This report details some recent analysis of the disclosure patterns and share price performance of small¹ and mid-cap² entities in the GICS³ Metals & Mining industry listed on the Australian Stock Exchange ("Small Miners" and "Mid-Cap Miners" respectively).
2. In recent months, ASIC has continued to be active in ensuring investors are provided with timely and accurate information.
3. By accurate, we mean that entities should disclose information that is factually correct, is easily understandable, gives due prominence to both positive and negative information, and avoids unnecessary repetition of previously disclosed information.
4. By timely, we mean that entities should disclose information immediately when it becomes necessary to do so under the Corporations Act and the relevant market rules.
5. Since mid-2005, we have issued five continuous disclosure infringement notices. In addition, we have taken court action in two instances where we consider information released has been misleading or not disclosed in a timely manner and also obtained a civil penalty in a third matter. We have also intervened where we were concerned investors had out-of-date, and no longer accurate, information for a members' general meeting.
6. ASIC has already been active in the uranium sub-sector. We recently issued interim stop orders on two prospectuses by entities with uranium exposure, while a third consented to a final stop order. A common concern was that disclosure about regulatory policies on uranium mining – especially the associated risk and uncertainties – was inadequate. In addition, we have recently conducted nine surveillances on listed entities with uranium interests to ensure compliance with their continuous disclosure obligations.
7. These disclosure issues have generally arisen from entities operating in speculative industries. In these sectors, the issue of timely and accurate disclosure is particularly relevant, as uncertainties are prevalent, and references to technical information or use of industry jargon is common.

¹ Defined as those entities with market Capitalisation of less than \$50 million.

² Defined as those entities with market Capitalisation of between \$50 and \$500 million.

³ Global Industry Classification Standard

8. Given the large number of entities in these industries, we have established a framework that enables us to:
- (i) develop a better understanding of the disclosure practices of large, but fairly similar, populations; and
 - (ii) identify systematically entities within these large populations that display characteristics that may warrant further review.

Population

Note: All data was sourced from IRESS. Market capitalisations are as at 16 July 2006.

9. Our reviewed population was the Small and Mid-Cap Miners in the GICS Metals & Mining industry listed on the ASX. As at 16 July 2006, we identified 449 such entities that were trading.
10. We included Mid-Cap Miners in our population, as we also wanted to look at those entities that had grown substantially recently, and therefore would no longer be considered Small Miners.
11. Of the 449 companies, 305 had a market capitalisation of less than \$50 million (Small Miners population). Another 114 had a market capitalisation of between \$50 and \$500 million (Mid-Cap Miners population).

Table 1: Breakdown of GICS Metals & Mining industry

Size (market cap)	# entities	Total market cap (\$ billion)	% of industry market cap
\$500 mil or more	30	226.2	90%
\$50 mil to \$500 mil	114	19.8	8%
\$50 mil or less	305	5.1	2%
Total:	449	251.1	100%

Source: IRESS (as at 16 July 2006)

12. Table 1 shows that, in market capitalisation terms, the GICS Metals & Mining industry is dominated by the large-cap entities who represent only 7% of the industry by number, but 90% by value. In contrast, the Small and Mid-Cap Miners make up 93% (419 out of 449 entities) of the industry by number, but only contribute 10% to the industry market capitalisation.

Methodology

13. For the financial year ended 30 June 2006 (FY2006), we looked at the following indicators:
 - share price movements; and
 - number of:
 - entity announcements in total;
 - price sensitive (PS) releases (as flagged by ASX Company Announcement Platform); and
 - various types of announcements (such as progress reports, ASX price queries, asset acquisition and disposal, changes in director's interest).
14. The announcement types selected were those that potentially suggested either a degree of self-promotion by an entity (large amount of updates), or market operator queries, or that directors had traded that particular entity's shares – all elements that could warrant further scrutiny.
15. Our objective was to detect entities that demonstrated a pattern of extremely frequent disclosure alongside significant share price increases – essentially outliers. As outliers, such cases may be worthy of closer scrutiny to determine whether there are any disclosure issues. Our scoring system was tilted accordingly with higher scores indicative of entities that made frequent announcements and had seen its share price rise significantly.
16. The underlying hypothesis was that disclosure and trading patterns well outside the norm could indicate instances of self-promotion or poor disclosure practices, and that such habits could potentially result in investors being misled. Of course, there could be many valid reasons for some of the patterns noted. However, where these circumstances arise, closer examination may be warranted, generally commencing with a review of entity announcements.

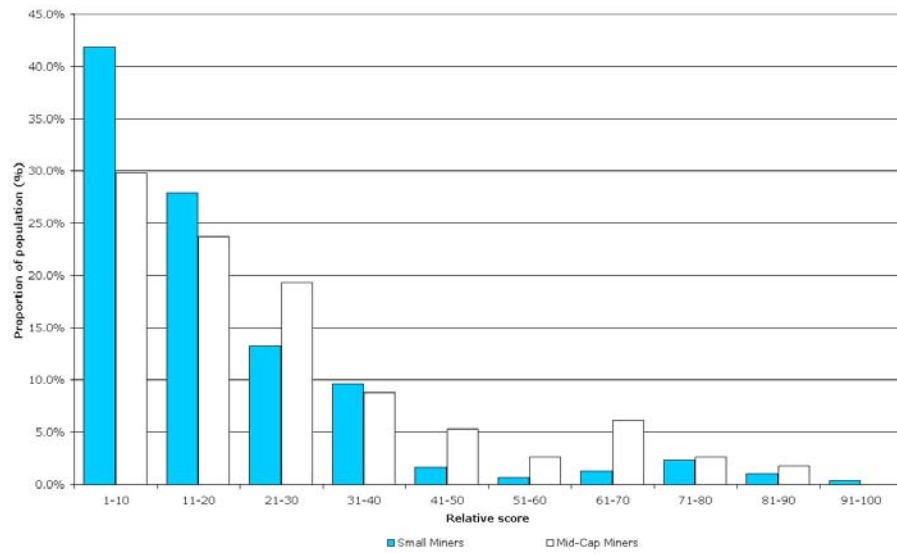
Results & Observations

17. For each entity in our population, we assigned scores for each indicator based on how the entity compared to its peers. For example, an above average number of "progress reports" would increase an entity's score.
18. A high score would indicate an entity had seen a large share price rise and also made more announcements than its peers on average. The

higher the score, the more indicators where an entity had made above average disclosures.

19. The scores were standardised so all entities were given relative scores of between 1 and 100. Figure 1 displays the percentage of entities in each scoring decile for both the Small and Mid-Cap Miners populations.

Figure 1: Small & Mid-Cap Miners – Percentage of entities in each decile



20. Given our scoring system and underlying hypothesis, our interest is in those entities that generated high scores. Figure 1 shows that approximately 4% (16 out of 419) of both the Small and Mid-Cap Miners generated relative scores of 71 or above.
21. Over the coming weeks, ASIC will be reviewing the market announcements by some of the entities identified to assess whether further inquiries are warranted.
22. The purpose of the analysis was to segment our large population to focus our efforts on areas of potential risk. The extent to which we refine our population will depend on how many entities we seek to review.
23. Conversely, our study has deemed that, under the parameters of this particular study, the vast majority of entities received low relative scores of between 1 and 30 – over 80% of Small Miners and over 70% of Mid-Cap Miners. However, should we test other hypotheses, some of these entities could be spotlighted.

Future reviews

24. In future, we may expand the scope of our review and there are several ways in which this process can be extended.
25. Having looked at the Small and Mid-Cap Miners, we could look at other sectors or populations, particularly those that have similar speculative characteristics such as the energy or biotechnology sectors. Biotechs, in particular, have been the subject of several ASIC actions in the past year relating to market disclosure. Two of the five infringement notices issued to date by ASIC were to biotechs, and a third biotech was the subject of a court-ordered civil penalty fine.
26. Another potential avenue is to look at refining or extending our process. One possibility is to look at different indicators, such as other types of announcements, or trading volumes and volatility around releases. We could also assess price movements leading up to and following price sensitive disclosures. This approach could also highlight particular releases that should be reviewed.
27. A further option is to test other combinations of indicators. Our current exercise focussed on cases where entities made an above-average number of announcements and experienced strong share price growth. An alternative test could be to look at instances of limited announcements but similarly big share price movements.