

ON PARALLEL

A new market has been launched in Saudi Arabia to help make it easier for smaller companies to list. **Nabil Issa, Hamed Afzal, James Stull and Rizwan Kanji** of King & Spalding in Dubai and Riyadh examine the new Parallel Market's rules.

WHAT'S HAPPENED?

On 21 December 2016, Saudi Arabia's Capital Market Authority (CMA) approved the Parallel Market Listing Rules establishing the Parallel Market.

This will be an alternative market to the Main Market on the Saudi Stock Exchange (Tadawul) and is dedicated to small and medium-sized businesses," explains Nabil Issa.

"There was further progress in February when the CMA also announced it had approved the listing of two companies on this Parallel Market," Essa continues.

"The first business, Roya Real Estate Investment Company will offer 20% of its shares which is equivalent to 8.6 million shares and the second Thob Al-Aseel Company will offer the same, which is equivalent to one million shares."

"Both offers will be confined to Qualified Investors who are stipulated in the Parallel Market listing rules. The Tadawul has also recently advised us there are now seven listed entities on the Parallel Market, all of whom were oversubscribed."

"There are also a whole host of rules regulating this new Parallel Market, ranging from those covering investors who are eligible to trade on the market to the eligibility requirements for listing," Issa adds.



Nabil Issa

Partner

King & Spalding



Hamed Afzal

Senior Associate

King & Spalding

WHY WAS THE MARKET LAUNCHED?

"This new market was launched to allow a wider remit of issues to obtain listing on the Stock Exchange in Saudi Arabia," Hamed Afzal explains.

"The purpose is to provide an alternative to obtaining a Main Market listing. This is particularly relevant for small to medium sized enterprises who might benefit from a listing, but are not yet in a position to comply with the more stringent eligibility for listing requirements of the Main Saudi Market," Afzal continues.

"The introduction of the Parallel Market also completes another step in the implementation of the Saudi Vision 2030, which included the promotion of the Stock Exchange's role in providing additional

funding sources and greater opportunities for growth to a broader range of businesses. This change also follows other recent significant legal developments for the CMA including a change which has allowed Qualified Foreign Financial Institutions investment in Listed Securities, which happened in 2015, the Real Estate Investment Traded Funds Instructions which came into effect on 24 October 2016 and the issuing of the Instructions on the Book Building Process and Allocation Method in Initial Public Offerings which came into effect

INES

at the start of this year.”

WHO CAN LIST ON THE PARALLEL MARKET?

“Under the Rules, it is not just Saudi joint stock companies who are eligible to list on the Parallel Market,” says Rizwan Kanji. “The option is also open to joint stock companies who are majority owned by nationals of other GCC countries. For example, a UAE incorporated limited liability company which is 51% owned by its founding shareholders may, following its conversion to a public joint stock company, apply for its shares to be listed on the Parallel Market.”

“The Tadawul have said they want the Parallel Market to become a regional leader in terms of the listing of mid-sized companies and they are actively encouraging qualified regional companies to list on the new market,” says Rizwan Kanji.

WHO CAN INVEST?

“Under the Rules, only ‘Qualified Investors’ can invest in shares listed on the Parallel Market,” explains James Stull. “This term is defined to include the usual categories of sophisticated investors and also, significantly, ‘qualified foreign investors’ (registered in line with the QFI Rules) and companies and funds which are established in any GCC member state. However, any shareholder who owns shares in a company before it is listed can continue to hold shares.”

APPOINTED FINANCIAL ADVISERS

“The Parallel Market and its Rules have a number of similarities to the London Stock Exchange’s Alternative Investment Market (AIM),” says Hamed Afzal. “AIM is also regarded as an alternative listing route for smaller

RELATED LEGISLATION

Article 4 of the Rules Regulating the Investment of Qualified Foreign Financial Institutions

Any person subject to these Rules may appeal to the Committee in respect of any decision or action which the Authority takes under these Rules.

(Source: Lexis Middle East Law)

or growing companies, and as a stepping stone to an LSE Main Market listing. As is the case with AIM, which requires a nominated adviser (called the ‘Nomad’) to be appointed by the issuer to guide it through the listing process and provide certain confirmations to the LSE, the Parallel Market’s Rules require a financial adviser be appointed by an issuer requesting an admission to listing on this market.”

“As is the case with a Main Market listing, the financial adviser must, among other things, act as a point of contact with the CMA and be satisfied, having conducted appropriate due diligence, all relevant listing conditions have been met. They must also confirm this to the CMA in writing,” says Afzal. “This means CMA approved financial advisers who are proposing to act on listings will need to become sufficiently familiar with the new Rules, to discharge their responsibilities to the issuer and the Authority.”

LISTING REQUIREMENTS

“One of the most significant provisions of the Rules are the eligibility for listing requirements,” explains Issa. “These are less stringent than those which apply to the Main Market. For example to be listed on the Parallel Market, the applicant must have been carrying on a main activity for at least one financial year, must provide

SOCPA audited financial statements for the preceding financial year only, have a capital value of at least 10 million Riyals, offer at least 20% of their shares to the public and have at least 50 shareholders if the total market value of all shares which are to be listed is more than 40 million Riyals and at least 35 shareholders if the total market value of all the shares to be listed is less than 40 million Riyals."

"However, what is interesting is most of the successful listings to date, have been for entities with a capital value closer to 80 million Riyals," Issa notes.

"The Authority is trying to balance encouraging and allowing market access to SMEs by relaxing the Main Market eligibility requirements, with ensuring there is sufficient liquidity, and an orderly aftermarket, in the shares of any Parallel Market listed entity on and following admission," Afzal explains. "As a result, the minimum free float and minimum number of the public shareholders requirements have been retained or lowered (rather than being dispensed with altogether in the new market)."

"This is an interesting contrast to other alternative markets, like AIM, which does not, for example, have a formal minimum free float requirement."

THE PROSPECTUS

"There is also still a requirement for the issuer to produce a prospectus (in the case of a new listing) or a shareholder circular (in the case of a capital increase)," James Stull states. "However, the disclosure requirements which apply to prospectuses and shareholder circulars for a Parallel Market listing are substantially less onerous than those on the Main Market. For example, there is no requirement for a working capital statement or management's discussions and analysis, both of which are required for a Main Market listing.

The Rules also provide for a 30-day CMA review period for any draft prospectus or shareholder circular submitted to it. This may also be extended 'as may be reasonably necessary' if the CMA needs to carry out 'further study or examination' on the listing application. The final approved prospectus must be published and made available to investors at least seven days before the start of the offering," Stull continues.

CAPITAL INCREASES

"Under the Rules an issuer whose shares are listed on the Parallel Market must obtain CMA approval before calling an extraordinary general meeting to approve a capital

increase, whether this is by a rights issue, capitalisation issue or otherwise," Afzal notes.

"In addition, where a particular issuer is looking to execute a rights issue, some further specific conditions will apply. For example, details of the use of proceeds of previous rights issues must be provided to the CMA (and compared to what was disclosed in the relevant shareholder circular) and the issuer can not use more than 25% of the rights issue proceeds for general investment purposes."



James Stull
Partner
King & Spalding



Rizwan Kanji
Partner
King & Spalding

MARKETING

"The CMA's Offers of Securities Regulation which regulates securities offerings in Saudi Arabia, also applies to any Parallel Market listing," Stull explains. "However, to further relax the burden on prospective applicants, the Authority has confirmed the recently introduced Book Building Instructions do not apply to a Parallel Market Listing."

"In addition, while a prospectus or shareholder circular must not be published and made available to the public until it is approved by the CMA, the Rules do provide scope for limited pre-marketing or pre-sounding. They also allow the issuer's financial adviser to present information on

the issuer and its financial statements to a group of 'Qualified Investors' without mentioning the issuer's name, to enable the financial adviser to determine the interest level in the prospective offering."

CORPORATE GOVERNANCE

"It is worth noting the Corporate Governance Regulation provisions are 'deemed indicative' only, rather than binding on any prospective issuers," Rizwan Kanji states. "However, it remains to be seen whether the market or investors will expect corporate governance standards which are substantially in line with Main Market requirements, as a matter of best practice for parallel market entities."

WHAT'S NEXT?

"As part of the CMA's latest efforts to deepen the capital markets in Saudi Arabia, the launch of the Parallel Market should be welcomed," says Issa, "We are also seeing various fund managers creating funds to focus on opportunities to invest in companies which want to list on this Market."

"It is likely the less stringent regulatory framework for, and consequently the reduced time and costs associated with these listings will attract SMEs (including those established elsewhere in the GCC) to undertake an initial public offering on the new Parallel Market. The CMA and Tadawul have recently demonstrated their ability to accelerate the listing of REITs and it appears the CMA and Tadawul are also working closely together to ensure the success of the new Parallel Market, which is good."

RELATED STORY

Saudi Arabia: Regulatory Rules and Procedures Amended

LNB News 26/01/2017 86
Saudi Arabia's Capital Markets Authority has issued a Decision amending the Regulatory Rules and Procedures issued under the Companies Law regarding Listed Joint Stock Companies issued under Saudi Arabia Capital Market Authority Decision No. 8/127/2016.