LISTING STANDARDS OF ARAB STOCK EXCHANGES

Select findings from the OECD Survey of MENA Stock Exchanges

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Background

- Large investors continue to see limited opportunities in individual MENA markets in terms of blue chip stocks and portfolio diversification opportunities
- Consolidation and regulatory harmonisation of Arab stock exchanges is an old story, but with limited results
- Some consolidation/harmonisation previewed in GCC markets and new initiatives (i.e. cross listing in Saudi) might foster this
- Integration of market infrastructure also discussed to facilitate trading across the region; cost of trading significantly higher than in other regions
- A first step to facilitate cross listing and regulatory harmonisation is a better understanding of the requirements and their comparability
- OECD survey findings to input into the on going revision of listing requirements (i.e. Bahrain, Kuwait, Morocco, Muscat, Tunis)

Ammendments to listing rules: some examples

- *Egypt*: Listing rules ammended regularly to include provisions of the voluntary corporate governance code
- *Qatar*: standards being lowered to encourage SMEs to list on secondary market
- *NASDAQ Dubai*: listing standards revised and listing authority transferred to DFSA
- *Tadawul*: new listing regime announced in 2012
- *Kuwait:* new listing rules issued by the CMA in 2011
- *Lebanon:* new listing rules to be issued as part of the capital markets reform
- Reform of listing rules address local weaknesses but some trends: e.g. increasingly differentiated requirements for large cap and small cap companies (Dubai, Qatar)
- Alternative models exist: Saudi Arabia's CMA introduces mandatory requirements every year without it being part of listing rules

The listing environment

- Lackluster performance except for few markets due to Gulf stock market crisis, global financial crisis and events of the Arab spring
- Slump in listings worldwide, Arab world not an outlier
- Competition developing as part of the broader ambitions to establish financial centers
- Over 30 large Arab companies listed in London, some through GDRs others through direct listing
- Very little evidence of regional integration in capital markets
- Exchanges not focused on attracting foreign listings except Casablanca, NASDAQ Dubai; this is not happening so far
- Privatisation momentum is down and family owned firms reluctant to list

OECD survey of listing requirements

- Integration is still relatively low, very few cross-listings except Egypt and Bahrain, Saudi initiative might change that
- All listings of equity and debt subject to prospectus requirements (except gov't bonds, etc.) and to be approved by the respective CMA
- Some markets have sponsorship requirements (Bahrain, Jordan, Saudi, Dubai), but no exchange requires market makers
- The level of due diligence requirements varies significantly
- For debt issues, large differences in approaches and requirements for listing
- Minimum number of shareholders between none (in Morocco) to 200 (Saudi) to 300 in Syria, generally no difference between tiers
- Free float requirement vary significantly 10% (i.e. Egypt) - 40% (Oman)

OECD survey results (continued)

- Several jurisdictions require additional approvals for banks or financial companies listing
- In rare cases, exemptions to listing requirements (i.e. UAE and Qatar)
- Foreign companies generally required to be listed domestically first and local office/representative usually required
- In some markets, no mechanisms for foreign companies to list
- There is a clear move to make company disclosures available in both Arabic and English to facilitate investor access
- Generally, no minimum turnover requirements for listed equities which may explain low overall velocity
- In some markets, requirement to have advisors for listing and for them to be accountable to the CMA

Corporate governance specific requirements

- Corporate governance codes in most jurisdictions, comply or explain basis in most advanced jurisdictions, for all tiers
- For instance, most countries have requirements on board and committee composition by virtue of the code, but requirements on frequency of board meetings less firmly set
- Disclosure of insiders is required in most but not in all markets
- Some variance in practices regarding disclosure of remuneration
- Almost all countries require disclosure of beneficial owners and changes in ownership changes exceeding 5%
- IFRS is the applicable standard except for Saudi and Tunisia
- Variable responses to requirements on legal risks and internal controls

Corporate governance codes complement listing rules

Country	General Corporate Governance Code	Date of issuance	Compliance required	Other Codes/Guidelines
Algeria	Yes	2009	No	Code for state owned enterprises considered
Bahrain	Yes	2010	No	Guidelines for banks
United Arab Emirates	Yes	2007	Yes	Code for banks
Egypt	Yes	2005	No	Code for state-owned enterprises Code for banks being drafted
Jordan	Yes	2008	Yes	Code for banks
Kuwait	Yes	2013	-	-
Lebanon	Yes	2008	No	Code for small and medium-size enterprises
Morocco	Yes	2008	No	Code for small and medium-size enterprises Code for state-owned enterprises Code for banks/credit institutions
Tunisia	Yes	2008	No	CG code for SOEs being considered
Saudi Arabia	Yes	2006	Yes	Guidelines for banks
Oman	Yes	2002	Yes	Guidelines for banking organisations
Qatar	Yes	2009	Yes	Corporate governance guidelines for banks
Syria	Yes	2008	No	Code of governance for financial intermediaries
Yemen	Yes	2010	No	Code for banks being drafted
Palestinian Authority	Yes	2009	No	Code for banks
Libya	No	-	-	-
Iraq	No	-	-	-

Preliminary suggestions

- Standards for issuance of debt less developed though debt has overtaken equity (especially in the Gulf, Egypt, Tunis)
- Bearer shares still exist in some markets (i.e. Egypt, Kuwait, Beirut, Saudi)
- Some issues need to be explicitly addressed either through the cg code or listing requirements (e.g. number of board meetings)
- Review of practical arrangements to facilitate cross-listings helpful
- Disclosure of beneficial ownership and related party transactions dealt with in principle but the “devil is in the details”
- Need to review rates of adoption of voluntary corporate governance codes
- Facilitating disclosure in English and Arabic necessary to attract foreign investor interest
- Better technical integration between market infrastructure providers to lower cost of trading
- If consolidation or integration is considered, further alignment is necessary