

# QFMA Promotes Listing Of SMEs

by Mohamed Khodeir - m.khodeir@tamimi.com - Cairo

Kamal Hafez - k.hafez@tamimi.com -

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With the regional struggle to revive equity capital markets, Qatar is taking yet another positive step forward. The Qatar Financial Market Authority (the “QFMA”) has recently completed the final draft of the Offering and Listing Rule Book in relation to Securities of Small and Medium Enterprises (the “Draft Regulations”).

The QFMA has circulated the Draft Regulations for consultation, and the Draft Regulations are expected to be endorsed and to come into force soon.

The Draft Regulations reflect the awareness of the QFMA of the important and vital role that Small and Medium Enterprises (the “SMEs”) play in the national economy. The QFMA realises that giving the opportunity to SMEs to list their shares in the capital market will provide such SMEs with funding mechanisms to help them expand, and reach out, to new markets, and correspondingly support the national economy.

The Draft Regulations include a package of benefits for SMEs to motivate such SMEs to list their stock in the Second Market (the market designated for trading of SMEs shares in the Qatar Exchange). The Draft Regulations provide for offering and listing requirements which are more flexible compared to those of the Main Market in relation to minimum capital requirements, shareholders, number of shares required to be offered for public subscription, financial history of the company, in addition to less disclosure requirements which do not prejudice the security and integrity of the capital market.

We highlight below the most important provisions set out in the Draft Regulations:

## **1. Capital**

The Draft Regulations allow companies with capital not exceeding QR 40 million to offer and list their shares in the Second Market at Qatar Exchange. This will allow companies with capital as small as QR 10 million to be publicly traded in the stock market in Qatar, as the QFMA Regulations on Offering and Listing of securities issued in 2010 (the “QFMA Regulations”) does not allow companies to list their shares in the Qatar Exchange, unless they have a minimum capital of QR 40 million (the QFMA Regulations are only applicable to companies with capital exceeding QR 40 million).

## **2. Shareholders**

Currently, the QFMA Regulations does not allow companies to list their shares in the Qatar Exchange, unless they have a minimum of 100 shareholders. The Draft Regulations contain a provision which allow companies having not less than 15 shareholders to list their shares in the Qatar Exchange. This provision will allow SMEs with limited number of shareholders/founders to be publically traded companies.

## **3. Shares**

The Draft Regulations provide that at least 10% of the issuer’s capital must be offered for public subscription. However, the Draft Regulations are not clear if a company should offer 10% of its

existing shares or issue new shares amounting to 10% of its capital. These issues are expected to be clarified upon endorsement of the Draft Regulations.

The Draft Regulations appears to be significantly more flexible in relation to the minimum number of shares that shall be offered for public subscription compared to the QFMA Regulations, as the latter provides that a company may not offer less than 40% or more than 80% of its shares for the public.

#### **4. Financial History**

Pursuant to the QFMA Regulations, an issuer must provide the QFMA with audited financial statements in relation to the company's latest three financial years. The Draft Regulation includes a lesser restriction in this regard, as it requires the issuer to submit audited financial statements for the company's latest financial year.

#### **5. Disclosure Requirements**

The Draft Regulations provide for a diluted ongoing reporting requirement compared to listed companies regulated by the QFMA Regulations. The Draft Regulations provide that a listed company must file with the QFMA annual and semi-annual reports, while under the QFMA Regulations a listed company must file with the QFMA quarterly, semi-annual and annual reports.

Additionally, the QFMA Regulations provide that a listed company must file disclosures to the QFMA and QE, in addition to posting such disclosure reports on the issuer's website. Additionally, the annual report must be published in two daily newspapers, one of which in Arabic. The Draft Regulations do not require publication in newspapers, as it only requires filing the disclosure reports with the QFMA and QE, in addition to posting the same on the company's website.

#### **Conclusion**

The Draft Regulations are expected to facilitate the listing of shares of SMEs in the Qatar Exchange through flexible procedures which commensurate with the structures of SMEs, while maintaining a strong level of supervision and control to ensure transparency and protection of interests of SMEs' shareholders. We have seen a common feature in markets of the region, when leading shares fall they pull down the whole market and possibly surrounding markets given that the majority of the exchanges host mostly leading shares. With this proposed new dynamic, by adding SME's, the severity of cross market implications can be cautioned in our view and will allow positive movement on the equity markets in Qatar and possibly the region when the Draft Regulations is promulgated.