

# Selling a Rights Issue: Offering Flexibility to Shareholders and a Corporate Financing Tool in Qatar

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The selling and trading of a rights issue was explicitly permitted under the Qatar Financial Markets Authority (the “QFMA”) rules for the first time in March 2014 regulating the listing and trading of rights issue of Qatari public joint stock companies on the Qatar Exchange. Under the QFMA regulations, a rights issue is an invitation to existing shareholders to buy new shares in a listed company’s capital increase at a discounted price. According to the QFMA Selling Rights Issue Rules (“SRIR”), the invitation to existing shareholders is considered a ‘right’. Such right may be issued as ‘securities’ that may be listed and traded on the Qatar Exchange until the new shares are purchased. The shareholders may trade the rights on the Qatar Exchange in the same way they would trade ordinary shares.

A rights issue is subject to ownership limits determined in the listed company’s Articles of Association and the Foreign Investment Law (Law No. 13 of 2000). The existing limit on foreign shareholding in public joint stock companies is 49%. Therefore, rights may not be sold to foreign shareholders who may, by virtue of holding the right, own more than 49% in the capital of a listed company.

According to the QFMA, a company may file an application with the QFMA for the listing of the rights within 10 days from the company’s approval on the capital increase at an Extraordinary General Assembly. The QFMA will provide its consent on the listing within five days from receiving the listing application of the rights. Two days following the QFMA approval, the rights are listed on the Qatar Exchange in the names of the shareholders to which the rights are allocated. Upon the listing of the rights, they can be traded on the Qatar Exchange for up to 15 days prior to the subscription date in the capital increase shares. The listed rights are dematerialised and deposited with the Qatar Central Securities Depository following the listing. Setting the prices of the rights is determined by the Qatar Exchange and is subject to the QFMA’s approval.

The rights are offered for sale for 10 days. The rights cannot be resold within the original sale period, being 10 days from the offering of the rights for sale. The rights cannot be pledged or attached and cannot be purchased through margin financing. The listing of the right shall be cancelled at the end of the original sale period, which is considered the expiry date. After this date the rights lapse and have no value, unless they are used in the subscription of the company’s capital increase.

The SRIR aim to compensate the shareholders for the decrease in the value of the shares held by those shareholders. A shareholder may have the following options to deal with a rights issue:

- Allowing the right to expire without exercising it;
- Subscribing in the shares of the capital increase pursuant to the right; or
- Selling its rights to a third party investor.

It is important that investors exercise their rights by subscribing in the shares or by selling the rights to a third party investor before expiry of the right to avoid losing the value of the right.

There are two types of rights issue, renounceable rights and non-renounceable rights. A non-renounceable right is non-transferable. This means that if the shareholders do not exercise the right during the subscription period, they lose their opportunity to purchase the new shares. If a shareholder receives a renounceable right, the shareholder can either choose to buy the additional shares or sell its right on the Qatar Exchange.

Rights are generally a useful financial tool for a company that wishes to raise more funds by issuing additional securities. In addition, the QFMA regulations allow for attracting new investors to a company's capital increase. It is possible for investors to buy the rights on the market (through a broker licensed with the Qatar Exchange). The rights are a new type of security product available on the Qatari market, thus, numerating the sources of the corporate funds.

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