

Bahrain Investment Market (BIM) Opens its Doors for Business

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March 2017 witnessed the inauguration of the eagerly awaited Bahrain Investment Market (BIM), an alternative equity market operated by the Bahrain Bourse which seeks to offer developing companies access to growth capital, without the requirements or level of regulatory burden associated with a listing on the main board market ("Main Board Market")

The Bahrain Bourse is an institution licensed by the Central Bank of Bahrain (being the public corporation empowered to regulate the financial sector in the Kingdom of Bahrain) ("CBB") as a self-regulatory organisation, entrusted with operating the stock exchanges in the Kingdom of Bahrain. The development and launch of BIM by the Bahrain Bourse is in accordance with its stated goals of furthering Bahrain's position as a regional financial hub, stimulating the capital markets sector in the Kingdom, and to fostering a market to help fast-growing companies in the Kingdom of Bahrain and beyond (admission to the BIM is not restricted to companies incorporated in Bahrain). There are no nationality restrictions on persons wishing to invest in and trade in shares of companies listed on the BIM.

The primary rules governing and regulating the BIM are the Bahrain Investment Market (BIM) Rules 2016 (the "BIM Rules"). Whilst the Rules have been approved by the CBB, the body enforced with interpreting, administering and enforcing the rules is the Bahrain Bourse. The BIM Rules provide details of the requirements to be satisfied by a legal entity seeking admission to and listing on the BIM together with the sale of its shares to the public, and the requirements that must thereafter be satisfied on an ongoing basis by entities listed on the BIM. As with other comparable listing rules, the BIM Rules are not deemed to be exhaustive, and the Bahrain Bourse are empowered to make admission subject to additional conditions, and/or impose additional requirements.

The process for admission to and listing on BIM

The streamlined process which a listing applicant will go through to offer its shares for sale to the public and to be admitted to and listed on the BIM can be summarised as follows:

- *Step 1: Discussion with the Bahrain Bourse.* Listing applicants are encouraged to approach the Bahrain Bourse to discuss the listing applicant's requirements and objectives, and to seek the advice and guidance of the Bahrain Bourse.
- *Step 2: Appoint a sponsor.* The listing applicant should select and appoint its sponsor (see further below)
- *Step 3: Prepare Documentation.* With the sponsor's help, the due diligence process is carried out, and the application form and Listing Document (see further below) are completed and submitted to the Bahrain Bourse.
- *Step 4: Approval.* Successful applicants will receive their approval from the Bahrain Bourse for the sale of its shares and admission to and listing on the BIM. The process of obtaining eligibility to list can be obtained as quickly as 30 days from the date of submission of all required documents to the Bahrain Bourse (by contrast the IPO process on the Main Board Market can take up to two years).
- *Step 5: Sale of shares.* The listing applicant invites applications to subscribe for purchase of its shares. The sale of shares must be kept open for at least 10 trading days. After the sale of shares

closes, the listing applicant announces the outcome of the sale of shares, and where appropriate, the level of subscription and the basis of allocation and allotment, and the subscription rate

- *Step 6: Admission and Listing.* After completing the process of the sale of shares, the sponsor submits to the Bahrain Bourse various documents and information required by the BIM Rules. Once finalised, the listing applicant is officially admitted to the BIM and trading of its shares on the BIM can commence.

Some key requirements for admission and listing

The key requirements to be satisfied by a listing applicant to be admitted to and listed on the BIM include the following:-

- *Corporate form.* The listing applicant should take the corporate form of a Closed Joint Stock Company (if incorporated in Bahrain) or its equivalent (if incorporated outside of Bahrain).
- *Paid up capital.* Listing applicants should have paid up capital of a minimum of 250,000 Bahraini Dinars or its equivalent in other currencies (by way of example, approximately US\$ 663,000). By way of comparative example, the Main Board Market listing rules (“Main Board Listing Rules”) impose paid up capital requirements of 3,770,000 Bahraini Dinars (equivalent to almost US\$ 10,000,000) for foreign companies.
- *Financial Track Record.* Unlike with a listing on the Main Board Market, listing applicants to the BIM are not required to show an established track record or revenue of profitability, or to provide audited financial statements. Rather, the application process enables listing applicants to apply based on the applicant’s financial projections. Listing applicants are also required to have sufficient working capital for present requirements and for at least the period of 12 months after the proposed listing date.
- *Sponsor.* Listing applicants are required to appoint a ‘sponsor’ to carry out on its behalf the sale of its shares for the purposes of its listing, and to provide cost effective guidance, support and assistance to the listing applicant to enable it to become and thereafter remain fully compliant with the requirements of the BIM Rules. The BIM Rules define a sponsor as an entity authorised by and registered with the Bahrain Bourse to act on behalf of an issuer with regards to the initial listing activities (i.e. the sale of the shares, the assessment of listing eligibility, etc.) as well as post-listing activities (e.g. advising the Issuer on compliance with the BIM requirements, announcements, etc.). Typically all communications between the Bahrain Bourse and the listing applicant will go through the sponsor. The cost of engaging a sponsor (both pre-listing and post-listing) is to be covered by Tamkeen through a dedicated program created solely for this purpose (Tamkeen is an independent Bahraini agency established by the Bahraini government to promote the development and productivity of Bahraini enterprises).
- *Listing Document/s.* Listing applicants are required to provide various documents to the Bahrain Bourse, including an application for and a listing document. The BIM Rules provide details of all of the information to be contained in the listing document, including the type and amount of the shares, the listing price, and the minimum and maximum subscription limits. The requirements applicable to the application form and listing documents are considerably less extensive than those applicable to the prospectus/offering document required by the Main Board Rules.
- *Senior Management.* The directors and senior management of the listing applicant are required to have appropriate experience and expertise to manage the listing applicant’s group.

Upon acceptance for admission to the BIM, the listing applicant may proceed with the sale of its shares as per its Listing Document/s.

Some other points to note

- *Fees.* A one-off fee of 1,000 Bahraini Dinars is payable to the Bahrain Bourse upon listing (by comparison, initial fees payable upon listing on the Main Board Market will be between 5,000 and 15,000 Bahraini Dinars). Thereafter an annual fee is payable, equivalent to 0.3% of the entity's paid-up capital (subject to a minimum fee of 1000 Bahraini Dinars and a maximum fee of 6,000 Bahraini Dinars).
- *Minimum public subscription.* The BIM Rules require that the proportion of post listing share capital to be held by the public should not be less than 10% of the listing applicant's paid up share capital.
- *Employee share schemes.* The listing applicant is entitled to reserve up to 25% of the offered ordinary shares for allocation and allotment to its employees, directors, customers, and suppliers.
- *Lock in periods.* The listing applicant's founder shareholders are prevented from selling any of their shares in the applicant company for a lock in period of two years from the date of listing (note – at the time of listing all founders in aggregate should hold at least 30% of the listing applicant's share capital).
- *Transfer to the Main Board Market.* The BIM Rules provide for any issuer listed on the BIM for at least 6 months to apply for the approval of the CBB to transfer to the Main Board Market. To do so, the issuer is required amongst other things to satisfy the requirements of the Main Board Rules.

Conclusion

The BIM provides an innovative platform for growing companies to quickly and efficiently raise the capital they require for their continued growth and development, without having to satisfy the extensive regulatory requirements applicable to a listing on the main GCC stock exchanges. At the same time, investors should take considerable re-assurance from the focussed nature of the BIM Rules, the exemplary track record of the Bahrain Bourse and the CBB. Bahrain enjoys a consistently high ranking in terms of the transparency and robustness of the general regulatory framework, and has a proven track record and reputation as a major financial hub for the region and beyond.