

Insight: Capital Markets

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Qatar Financial Markets Authority Adopts New Regulation for Offering and Listing Securities on the Second Market

In January 2012, the Qatari financial regulator, the Qatar Financial Markets Authority (the “**QFMA**”), adopted a new regulation (the “**New Regulation**”)¹ governing the offering and listing of securities on a second market of the Qatar Exchange (“**QE**”), which is now officially known as the QE Venture Market.² The QE Venture Market is intended for small and medium-sized enterprises (“**SMEs**”).

The New Regulation reiterates most of the articles comprising the initial regulation governing the offering and listing of securities on the Qatari market in general, which was adopted by the QFMA in November 2010 (the “**2010 Regulation**”). The main distinction between the 2010 Regulation and the New Regulation is that the latter provides a less stringent set of listing and disclosure requirements for issuers on the QE Venture Market.

QE Venture Market Offering, Listing and Disclosure Requirements

Offering and Listing Requirements to be met by the applicant

While the 2010 Regulation provided for a set number of requirements for an applicant for offering or listing on the main market, the New Regulation uses a non-exhaustive list, allowing the QFMA to add requirements or exempt an applicant from one or more of the requirements listed in the New Regulation:

- 1) The New Regulation only added one new listing requirement: the applicant must have invested at least 75% of its capital in its business.

However, other requirements for offering or listing on the QE Venture Market are less stringent than those under the 2010 Regulation, notably the following:

- 1) The applicant’s shareholder equity must not be less than 75% of the paid-up capital (the 2010 Regulation requires shareholder equity to be not less than the paid-up capital);
- 2) The applicant’s subscribed capital must not be less than Qatari Riyals 5,000,000 (the subscribed capital required for a main market offering or listing is Qatari Riyals 40,000,000);
- 3) The applicant’s business must have been in operation for at least one year, if applicable, and must have issued its audited financial statements for that year, if applicable (the 2010 Regulation requires three years of operations and audited financial statements for each year).



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¹ This Client Alert is based throughout on the official Arabic text of the regulations.

² The QE Venture Market has a new Arabic/English website, available at <http://www.qe.com.qa/qeventuremarket/Index.html>.

Requirements to be met by the securities to be offered or listed on the QE Venture Market

In addition to the requirements to be met by the issuer, the securities must meet certain conditions. These thresholds have been reduced to encourage SMEs to list on the QE Venture Market. These conditions are mainly the following:

- 1) The issuer may not issue less than 10% of its capital to the public under the New Regulation (the 2010 Regulation required that percentage to not be less than 40% or more than 80%);
- 2) The number of shareholders of the issuer, upon listing, must not be less than 20 (the 2010 Regulation required 30 shareholders);
- 3) In the case of a private joint share company converted into a public joint share company, the regulations prohibit trading 50% or more of the shares of the company within one year after commencement of trading; however, how this regulation will apply is unclear;
- 4) The bylaws of the issuer may not contain any restrictions concerning the trading of the issued securities.

Listing by Foreign Issuers

The New Regulation allows the QFMA to accept the listing on the QE Venture Market of securities issued by foreign issuers. The 2010 Regulation permits foreign issuer listing, but does not specifically mention the second market. Furthermore, the New Regulation, similar to the 2010 Regulation, provides that the QFMA may exempt a foreign issuer from submitting some of the documents required for the listing

application. Despite these similarities, the New Regulation imposes fewer requirements on foreign issuers, e.g., while the 2010 Regulation required that an application for listing be submitted to the QFMA in the Arabic language only, the New Regulation appears to allow that an application may be submitted either in Arabic or English, an indication of the QFMA's intent to facilitate the application process for foreign issuers.³ Moreover, the New Regulation dropped several requirements of the 2010 Regulation, most notably the requirement that an issuer that has securities listed on a foreign stock exchange inform the Qatari market of any information reported in accordance with the rules of the foreign stock exchange.

Disclosure Requirements

The New Regulation introduced minor amendments to the disclosure section of the 2010 Regulation by requiring the applicant to submit in the application to offer or list a declaration from the applicant and the applicant's financial advisor to provide all the required information and statements related to the listing on the QE Venture Market. Moreover, the New Regulation grants the QFMA the right to exempt the applicant from some of the requirements listed in the New Regulation.

Also, the New Regulation requires most applicants to provide an information memorandum as part of its application (the "**Information Memorandum**"). The information to be included in the Information Memorandum under the New Regulation is less extensive than the requirements for a prospectus under the 2010 Regulation. The New Regulation omits the requirement to disclose in the

Information Memorandum sections relating to employees, material changes in the financial or commercial status of the issuer, the main contracts of the issuer, issuance expenditure, and taxes. On the other hand, the New Regulation adds other items to be disclosed by the applicant in the Information Memorandum, notably the disclosure of any conflict of interest.

Conclusion

The QE Venture Market is designed with smaller companies in mind operating under a more flexible listing and disclosure regime. Its objectives are mainly to allow SMEs to raise capital more easily and cost efficiently than would be the case on the main market while retaining the trust of the investor base through a structured regulatory framework.

To that effect, the New Regulation aims to provide entrepreneurial SMEs with a customized route to market allowing them to tap the local Qatari financial market in what is intended to be a flexible regulatory setting more suited for that type of issuers. The number of applications in the months to come, the processing of these applications, and the subsequent regulatory oversight of the entities that become listed, will be the best indicators of the success of the QE Venture Market, a success that could ultimately position Qatar as a regional hub for SMEs.

This publication is prepared for the general information of our clients and other interested persons. It is not, and does not attempt to be, comprehensive in nature. Due to the general nature of its content, it should not be regarded as legal advice.

³ Practice will have to show if the application in English will be enough for foreign issuers, or if the QFMA will require an Arabic translation.