



Markets Brief

Getting Ready to List in the DIFC

Introductory Markets Brief - May 2016

(Updated August 2020)

Introduction

This edition of Markets Brief is aimed at potential applicants for listing shares on an Authorised Market Institution (AMI), typically Nasdaq Dubai. It sets out key regulatory and commercial considerations and questions to take into account before launching the process of listing the shares. By considering the key issues of a listing process early on an applicant can plan accordingly and any potential major hurdles can be identified at the earliest opportunity. Please note it is by no means an exhaustive list.

Applicants generally begin their preparations for becoming public companies well before they launch the listing process. Getting ready to be a public company can operationally take a year of preparation. This timeframe is dependent on the size and complexity of the applicant. Advance planning and preparation is a key factor towards a successful listing.

This Markets Brief provides information for applicants generally. In April 2020, the DFSA enacted a listing regime specifically for Small or Medium-Sized Enterprises (SMEs) with certain tailored requirements. Detailed information can be found in the Markets Brief '[DFSA Listing regime for SMEs](#)'.

The DFSA publishes [Markets Briefs](#) on key issues relevant to applicants and listed companies. They should be read by the potential applicant and its advisors, prior to any submission to the DFSA as Market Briefs clarify key requirements.

For the purpose of this Markets Brief, 'applicant' means a person who applies for admission of its Securities to the Official List of Securities and includes the Issuer.

Guidance

Please note that the contents of this communication are not intended to be Guidance as defined by the Regulatory Law 2004 and the contents should neither be interpreted, nor relied upon, as Guidance. You should refer to the DFSA Rules for Guidance or contact the DFSA if you require individual guidance.

Technical explanations given in this Brief are for illustrative purposes and should not be considered or relied upon as legal advice.

Regulatory Framework

Listing of shares

The listing of shares could either be by way of an Initial Public Offering (IPO), an introduction to listing and trading of an existing security or as an exempt security.

An IPO is the first sale of a company's shares to the public and listing of the shares on an AMI. It allows a company to raise capital, typically to build its business from the proceeds of selling its shares.

An introduction of shares is the listing of shares already in issue but with no new proceeds being raised. The approval process for a new listing by introduction is broadly similar to that for an IPO. The listing of shares by way of an IPO or an introduction requires a Prospectus approval by the DFSA as a key application document.

Under the exempt security rules, an applicant can list shares which have previously been offered, either with or without a listing, without a Prospectus.

Listing and Admissions to Trading

A listing application is a two stage process:

1. The DFSA is responsible for the admission of the company's securities to the Official List of Securities, commonly known as the List.

Listing on the DFSA's Official List of Securities and admission to trading on an AMI are governed by the Markets Law (DIFC Law No. 1 of 2012) and by the Markets Rules (MKT) published by the DFSA. The Markets Law and Markets Rules can be found on the [DFSA website](#).

2. The AMI is responsible for admission to trading of the shares on its market. This admission is typically governed by the AMI's own criteria for admission to trading.

Process and documentation

A company preparing a listing application should start the dialogue with the DFSA and the AMI concurrently.

Chapter 9 of the Markets Rules sets out the DFSA's Rules on eligibility for listing. Generally, to be able to list, a company will have to fulfil all eligibility requirements. However, on a case by case basis, the DFSA may waive or grant modifications from the eligibility requirements. For example, we could allow a specific company to list even though it has a financial track record of less than three years, for example a start-up company. Further information can be found in the DFSA's Markets Brief '[Eligibility for Listing](#)'.

The key documents to be submitted to the DFSA are the Prospectus and the MKT 1 form. Detailed information about the process can be found in the Markets Brief '[The DIFC Listing Regime](#)' and the list of relevant documents can be found on the [DFSA website](#).

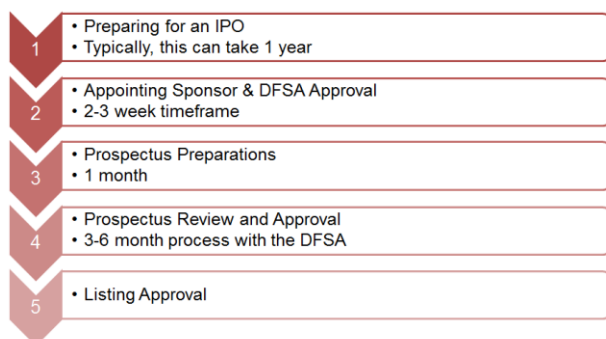
Appoint a sponsor firm

The DFSA will require an applicant to appoint a sponsor to help ensure a high standard of Prospectus. The role of the sponsor is to guide the applicant on the application of the Markets Law and Markets Rules as well as to streamline processes during the listing. A sponsor will oversee the due diligence process in production of the Prospectus and is expected to provide an effective challenge to statements made by the issuer. The role of the sponsor is further detailed in the Markets Brief on [The DFSA Sponsor Regime](#).

Timeline

The timeline below illustrates the four stage process for an IPO. Stage 2 and 4 of the process requires the applicant (or its sponsor firm) to submit relevant documentation to the DFSA for review and approval.

The timeframes listed below are typical; they will vary depending on the size and complexity of the applicant.



Applicants can positively influence the amount of time the DFSA requires for the review and approval stage by engaging knowledgeable and experienced advisors and submitting a high quality and substantially complete draft Prospectus for review.

Prospectus review and approval

An admission of securities to the List and to trading on an AMI requires the production of a Prospectus to be approved by the DFSA. A Prospectus sets out a company's background and relevant risk factors as well as the terms of offer of the shares to the public.

The review by the DFSA of the draft Prospectus involves an iterative process of reviewing and commenting on consecutive drafts of the Prospectus until the applicant satisfies the DFSA that all applicable DFSA regulations have been complied with.

Applicants seeking to use the exempt security Rules should contact the DFSA early in their deliberations.

Fees

Under DFSA Rules, a fee is payable before the DFSA commences its review of the draft Prospectus. The amount of the fee varies depending on the type of securities. There is also a fee payable for the application for admission to the List. Applicants can find details

on fees in the [Fees Module](#) of the DFSA Rulebook (FER).

Key considerations and questions

Investment strategy

During the listing process you will need to engage with the investment banking community and investors, unless you are listing without a capital raising, explaining how your company has a coherent strategy with well thought-out reasons for considering an offering. An early assessment of what aspects of your company's operations will be attractive to investors and of how an offering will benefit the business, will save time and expense later in the process.

The following questions are intended to guide potential applicants considering a listing. There are both regulatory and commercial considerations listed below and by no means represent an exhaustive list of issues a company should consider.

1. Are the reasons for pursuing an offering clear?
2. What are the proceeds of the offer to be used for?
3. Does your company need restructuring prior to the offering?
4. Are key relationships with customers likely to change as a result of a listing?
5. Are key relationships with suppliers likely to change as a result of a listing?
6. Are there interests and relationships with related parties which could affect an offering?
7. What are your company's acquisition or disposal plans?
8. Are your company's competitive advantages sustainable in the long-term? Do opportunities exist for your company to further exploit its

competitive advantages? Are there issues facing the industry and markets in which your company operates creating uncertainty in relation to future growth?

9. Is your company faced by claims or exposures resulting from operations?

Potential Investors

10. Can sufficient interest in your company's securities be generated by a full listing on an AMI in the DIFC only or should a secondary market elsewhere also be targeted? Will the issuance likely be fully subscribed? Can a liquid aftermarket be expected?

11. What options do you see to market the securities to international investors?

Audited financial track record

The DFSA requires three years of audited consolidated financial information on the applicant prepared in accordance with International Financial Reporting Standards (IFRS).

Potential investors will want this historical financial information to look at the track record of your company's business and to make an assessment of how the business might develop.

12. Have your company's financial statements during the last three years been audited and have the auditors reported without qualification?

13. Does your company have a record of sustained growth over a three year period? Is the growth forecast to continue?

14. Are the margins achieved by your company sustainable? Are these margins comparable with those of competitors?

15. How are the results affected by external business cycles?

16. What are the unusual items affecting the results in the last three years?

17. Has there been any adverse publicity during the track record period which might deter a potential purchaser of shares?

18. If your company has made any acquisitions during the last three years, have they been successful?

19. If your company has made any disposals during the last three years, were there good reasons for those disposals?

20. Will your company's balance sheet position after the offering be strong enough to support current plans?

21. Does your company depend on any significant assets or liabilities which are not recorded in the balance sheet?

Board of directors and management team

As well as looking at the financial record, the investment community will be interested in the reputation and experience of the Board of directors and senior management team. A certain level of continuity of management will be regarded as important by investors. In addition, the management team must be able to meet the demands of the offering process, at the same time not neglecting the running of the business.

22. Has the current management team been in place throughout the last three years? Does the team have a full range of and sufficient depth of experience?

23. Is your company dependent on particular members of the management team?

24. Are changes to the management team envisaged?

25. Does the management team have any conflicts as a result of their private interests?

26. Are there any interests which may conflict between the objectives of the management team and of the shareholders?

27. Could the time commitment of the management team to the offering process have a significant impact on your company's operations?

28. What are the current arrangements for remunerating management and are these likely to change after the offer?

29. How will investors view such management incentives?

30. Is the structure of the Board appropriate for a public company?

31. To what extent are non-executive directors already involved in your company?

32. What useful experience might new non-executive directors bring to your company?

Financial prospects

As well as being able to explain the history of your company, the present financial position of your company should be satisfactory and the ability to keep pace with future working capital requirements should be understood. Shortfalls in working capital after the offering are likely to cause operational problems, detriment to investors and reputational damage to the company. Careful review of the business requirements and consideration of the need for banking facilities before the offering can avoid any such future shortfalls.

33. Are there uncertainties over your company's ability to generate cash in the future?

34. Will your company's cash requirements be met by the proceeds of the offering and banking facilities?

35. Does your company have established procedures for producing budgets and forecasts?

36. What are the procedures for reporting and reviewing performance against budget?

37. Does your company have a good history of meeting its forecasts?

Systems and controls

Once your company is listed it will become a Reporting Entity. It is likely to be under greater public scrutiny than before with demands to produce more detailed information on a regular basis. These continuing obligations requirements are set out in detail in Chapter 4 of the Markets Rules. Your company's present reporting systems may need to be reviewed given the requirement for on-going market disclosure. Weaknesses in the business reporting systems could be a cause for concern as it could cause the company to be unable to comply with DFSA on-going reporting requirements.

38. Do the existing systems support regular management reporting?

39. Is there sufficient time to make any necessary changes to systems prior to the offering, and test these fully? For example should computer hardware and software be upgraded?

40. Will your company be able to meet regulatory requirements and investor expectations as to the speed of publication of information?

Accounting policies

Potential investors will review your company's accounting policies, contrasting them with other public companies in your company's industry sector. A public offering provides an ideal opportunity to review accounting policies, to compare them with industry 'best practice' and to change them where it is felt necessary.

41. Are your company's accounting policies appropriate for a public company, in accordance with MKT Rule 5 and MKT Rule 9.3.2?

42. Are your company's accounting policies in line with industry sector best practice?

43. What is the likely impact of potential accounting standard changes on your company's results and financial position?

Secondary market trading and Liquidity

The DFSA will require your company to distribute at least 25% of the company's total shares to the public. This requirement is aimed at ensuring sufficient liquidity within the secondary market through a widely distributed independent shareholder base. A free float of 25% in and of itself does not guarantee liquidity for your shares.

44. Will the shares be offered to a wide range of investors (that are independent of the company)?

A liquid secondary market can be a critical component in a successful IPO. For investors, a liquid market can reduce transaction costs and lower volatility in the immediate aftermarket. For your company, a liquid market can improve future access to the capital markets. Your firm is more likely to attract the attention of analysts.

45. Will your company take any actions to facilitate a liquid market post-IPO?

A liquid post-IPO market can be facilitated by the appointment by your firm of a liquidity provider and appointment of a market maker by the AMI.

Key parties in the listing process

The DFSA and the AMI are key parties in the listing process that you will be liaising with throughout.

In addition, in order to carry out a listing, an applicant will need to appoint a range of external advisors. The advisors perform different, but related, roles working interdependently alongside the applicant.

46. Has your company finalised the appointment

of its:

- Sponsor firm?
- Global / Lead co-ordinators?
- Brokers or underwriters?
- Legal adviser(s)?
- Auditors and reporting accountants?
- Industry experts?
- PR consultants?
- Any other advisors?

47. Do these advisers have sufficient knowledge and experience of similar businesses making public offerings?

Managing the timetable

Any listing process needs careful planning and will take up significant management time.

The timing of a listing can have an impact on the success of the listing itself so due consideration should be paid to the external economic and business environment. The following questions may be worth considering in the context of setting and managing a listing timeline.

48. What is the timetable for the listing? Is this achievable given the resources available and operational commitments?

49. Does the timetable allow enough time for due diligence review, its consequences and time spent liaising between different advisers and, if relevant, countries?

50. Is the timetable consistent with the DFSA and AMI's Rules and your company's financial period?

51. What are the external factors in the market that could affect the timetable?

Arabic edition


Every Markets Brief is produced in both English and Arabic and is available on the DFSA website.

Contact us

Visit the DFSA website www.dfsa.ae for:

- other editions of the Markets Brief;
- access to DFSA-administered legislation and the DFSA Rulebook, including a full text of the Markets Law and Markets Rules; and
- the [Code of Market Conduct](#).

For enquiries:

-  +971 4 362 1500
-  markets@dfsa.ae

Feedback

We appreciate your feedback and welcome any suggestions that you may have. Please email us at markets@dfsa.ae.