

Saudi Exchange Publishes Guidelines for Offering and Listing of Foreign Companies

The guidelines clarify potential avenues for non-Saudi companies to list securities in Saudi Arabia through cross-listings and dual-listings.

Key Points:

- The Saudi Capital Market Authority regulations permit both cross-listing and dual-listing of securities on the Saudi Exchange's Main Market, and the new guidelines now clarify the criteria and streamline the process for such listings.
- Neither the Saudi Capital Market Authority rules nor the new guidelines permit a primary listing of securities of non-Saudi companies on the Main Market, without such companies being previously listed on a recognized exchange (cross-listing) or as part of a concurrent offering and listing (dual-listing), or without such company reorganizing under a Saudi incorporated issuer.
- The guidelines introduce a preliminary assessment process to allow non-Saudi companies to obtain initial approval prior to preparing their listing applications.
- Non-Saudi companies must demonstrate their added value to the Saudi Exchange and the Saudi economy for them to list on the Main Market.

The Saudi Exchange published its guideline manual for foreign companies offering and/or listing on its Main Market. While current capital markets regulations and rules in Saudi Arabia permit such offerings, the lack of a clear criteria and process led to uncertainty among potential non-Saudi issuers, and may have deterred them from pursuing listings or required them to restructure their operations in order to incorporate in Saudi Arabia before listing. In fact, to date there have been no cross-listings on the Saudi Exchange and only one dual-listing, which was the concurrent and dual-listing of Americana Restaurants in Saudi Arabia and the United Arab Emirates in December 2022.

The Saudi Exchange is the largest stock exchange in the Middle East and North Africa (MENA) region, and one of the largest stock exchanges globally, with a total market capitalization of SAR 11.2 billion (approximately US\$3 billion) as at end of 2023 and an average daily traded value of SAR 5.3 billion (approximately US\$1.4 billion) during 2023.¹ By providing clear criteria and a streamlined process for non-Saudi company listings, the Saudi Exchange seeks to attract more foreign capital, further enhance market liquidity, and support efforts to establish Saudi Arabia as a key financial hub in the MENA region.

The guidelines aim to:

- clarify the criteria and requirements for offering and listing of non-Saudi companies shares on the Main Market to facilitate obtaining the necessary regulatory approvals; and
- outline a preliminary process for non-Saudi companies interested in listing on the Main Market to assess their readiness prior to submitting a formal application to the Saudi Capital Market Authority and Saudi Exchange.

Cross-Listing, Dual-Listing, or Reorganization

There are three avenues through which non-Saudi companies may list their shares in Saudi Arabia. The first two of these avenues are now further clarified under the guidelines:

- **Cross-Listing:** a non-Saudi company that is listed on a stock exchange in its country of incorporation may cross-list its shares on the Main Market;
- **Dual-Listing:** a non-Saudi company may concurrently offer and list its shares on the stock exchange of its country of incorporation and the Main Market (as was done for Americana Restaurants); or
- **Reorganization:** the shareholders of the non-Saudi company may incorporate a joint stock company in Saudi Arabia and reorganize the group's operations under such Saudi holding company, which can then be listed through an initial public offering.

There is no mechanism for cross-listing or dual-listing a non-Saudi company on the Saudi Exchange's Parallel Market (Nomu).

Eligibility Requirements

The guidelines set out several eligibility criteria for a non-Saudi company to cross-list or dual-list its shares on the Main Market.

Regulatory Supervision

A non-Saudi company must be subject to the supervision of a regulatory authority that is party to the Multilateral Memorandum of Understanding of the International Organization of Securities Commissions (the IOSCO MMoU), to which the Saudi Capital Market Authority is party. Currently, there are 130 signatories to the IOSCO MMoU, including several major market regulators and regional regulators. For example, signatories to the IOSCO MMoU include the Financial Services Regulatory Authority in Abu Dhabi, the Central Bank of Bahrain, the Dubai Financial Services Authority, the Capital Markets Authority of Kuwait, the Financial Services Authority of Oman, and the Qatar Financial Markets Authority.²

Company Type

The non-Saudi company must be a joint stock company or its equivalent in its country of incorporation. An equivalent of a joint stock company may be construed to include any other type of company that is eligible to list on the stock exchange of its country of incorporation. However, this would be subject to the discretion of the Saudi Capital Market Authority and the Saudi Exchange. Furthermore, the non-Saudi company must fulfill any regulatory requirements in its country of incorporation prior to offering and/or listing in Saudi Arabia (if applicable).

Minimum Market Capitalization

A non-Saudi company must have a minimum market capitalization of no less than SAR 4 billion (approximately US\$1.1 billion). For companies that are listed on another stock exchange and wish to

cross-list, such minimum market capitalization must be fulfilled for a period of six months preceding date of submission of the listing application.

Added Value to Saudi Arabia

A non-Saudi company that wishes to cross-list or dual-list on the Main Market must demonstrate the added value that it will bring to the Saudi Exchange and the Saudi economy as a whole. The guidelines do not provide clear criteria for establishing such added value. Therefore, non-Saudi companies must be able to establish to the regulators their ability to contribute to Saudi Arabia's strategic objectives, including the Saudi capital markets and broader economy, for them to be permitted to list. The Saudi Exchange has introduced a preliminary assessment process for such companies to present their case to the regulators and obtain an initial approval prior to proceeding with preparation of any listing application.

Directors Residency

A non-Saudi company must appoint at least two members of its board of directors who are continuously residing in Saudi Arabia regardless of their nationality. While the guidelines do not expressly state how the residency requirement would be assessed, we understand that regulators would look into residency status of the board members and the actual time physically spent in Saudi Arabia.

Preliminary Assessment Process

The guidelines introduce a preliminary assessment process whereby non-Saudi companies that are interested in a potential cross-listing or dual-listing in Saudi Arabia may complete an initial assessment exercise. Following such initial assessment, the Saudi Exchange would provide an initial approval or rejection as to eligibility for cross-listing or dual-listing. This step is introduced as an initial screening to mitigate non-Saudi companies having to incur high costs in preparing the listing application and eventually receiving a rejection. Upon obtaining the Saudi Exchange's initial approval, non-Saudi companies can then proceed with preparation of the cross-listing or dual-listing application.

Additional Requirements

The non-Saudi company must fulfill certain additional requirements for a cross-listing or dual-listing, including:

- **Financial Statements:** the non-Saudi company's financial statements must be prepared and audited in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.
 - Disclosure of the financial statements must be in Saudi riyal, in addition to the currency of the country of incorporation.
 - Disclosure of the financial statements must be in Arabic.
- **Auditor:** the non-Saudi company's auditor must be one of the following accounting firms: Deloitte, Ernst & Young, KPMG, or PricewaterhouseCoopers. Furthermore, the non-Saudi company and auditor must provide a commitment that they will enable the Saudi Capital Market Authority to obtain any information from the auditor and access all audit records, at its request.
- **Directors and Officers (D&O) Liability Insurance:** the non-Saudi company must obtain sufficient D&O insurance coverage from an insurance company in Saudi Arabia that aligns with the nature and size of the company's operations and must cover certain minimum requirements.

- **Lock-Up:** substantial shareholders who own 5% or more of the non-Saudi company's capital will be subject to a lock-up period of at least six months from the commencement of trading on the Main Market.
- **Compliance With Certain Regulations:** non-Saudi companies wishing to cross-list or dual-list on the Main Market will be subject to the regulations issued by the Saudi Capital Market Authority, including:
 - regulations governing capital increases, reverse takeover, and continuing obligations;
 - regulations governing book-building, allocation, and price stabilization in initial public offerings; and
 - regulations governing corporate governance, public mergers and acquisitions, listed joint stock companies, announcements, and disclosure requirements for accumulated losses.

If any of such regulations conflict with the laws of the non-Saudi company's country of incorporation, the non-Saudi company may apply for a waiver from such provisions to the Saudi Capital Market Authority, which will be subject to its discretion.

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Endnotes

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- ¹ Saudi Exchange Annual Statistical Report 2023.
 - ² Signatories to Appendix A and Appendix B List of the IOSCO MMoU *available at* www.iosco.org/v2/about/?subSection=mmou&subSection1=signatories.