

**AFRICA MIDDLE EAST REGIONAL COMMITTEE WORKING GROUP
ON LISTINGS¹: CHALLENGES IMPEDING LISTINGS IN THE AMERC
REGION**



**Survey report
2019**

¹ This Report has been compiled by the Research and Market Development Department of the Capital Markets Authority Uganda for the AMERC Working Group on listings.

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1.0 INTRODUCTION

1.1 About the Africa Middle East Regional Committee (AMERC)

The Africa Middle East Regional Committee (AMERC) is one of four regional committees constituted by IOSCO to focus on regional issues relating to securities regulation in the African and Middle-East region. AMERC brings together **25** members and **12** Associate Members to discuss matters of mutual interest with regard to best practice in securities regulation as well as development of capital markets. AMERC does provide a forum for exchange of ideas and sharing of experiences among members to better regulate and develop their markets.

1.2 AMERC Working Group on Listings

AMERC in February, 2017 a call was made for a working group on listings. This was as a result of a decision taken at the 37th AMERC meeting held on the sidelines of the IOSCO Annual General Meeting (AGM) in Lima, Peru in 2016. The decision was taken to address the challenges that continue to impede listings on the various exchanges in the AMERC region.

The AMERC Working Group on Listings (WG) was then put in place in March 2017 to:

- i. Survey the state of listings in the region to ascertain balance between listed and unlisted companies, and SMEs, with particular focus on companies with the required capacity but which remain unlisted;
- ii. Survey the commonality of listing requirements and their comparability relative to standards in other IOSCO regions;
- iii. Identify ways of streamlining the listing requirements across the AMERC region (possibility of common passport, dual listings);
- iv. Identify the challenges to an impressive state of listings of public companies in AMERC jurisdictions and articulate incentives to encourage increased listings on AMERC exchanges;
- v. Identify policy advocacy issues across the region to enhance listings;
- vi. Review and harmonize the post-listing requirements across the AMERC region;
- vii. Review the fiscal incentives in AMERC region in comparison with other IOSCO regions;

- viii. Review the impact of fiscal incentives towards encouraging listing in AMERC region;
- ix. Identify outreach programs targeting potential issuers for adoption by member jurisdictions; and
- x. Consider any other issue as may be critical to the success of the assignment.

1.3 Objectives of the Survey

The AMERC secretariat through the Working Group on Listings undertook a survey to address challenges that continue to impede listings on the various exchanges in the AMERC region. Specifically, the survey sought to:

- i. Establish the state of listings in the AMERC region;
- ii. Establish impediments to listing in the AMERC region;
- iii. Identify policy and fiscal incentives for listings across the AMERC region; and
- iv. Make recommendations to increase listings across the AMERC region.

1.4 Methodology

A questionnaire with a combination of both structured and unstructured questions was circulated via e-mail to all the 25 Members and 12 Associate Members of AMERC. This was done between 10th July and 31st July 2017. Questionnaires were analyzed by the Research and Market Development Department of the Capital Markets Authority Uganda and a final report prepared.

1.5 Report Layout

The first section of this report deals with the introduction while the second section presents the findings. The third section makes recommendations for the AMERC region going forward on ways of ramping up the listings.

2.0 CHAPTER TWO: FINDINGS OF THE SURVEY

2.1 Response Rate

A total of 37 e-mails were circulated with the survey questionnaire attached to 25 Members and 12 Associate Members. A total of 14 responses were obtained, translating to a response rate of 38 % (see table 1).

Table 1: Response Rate

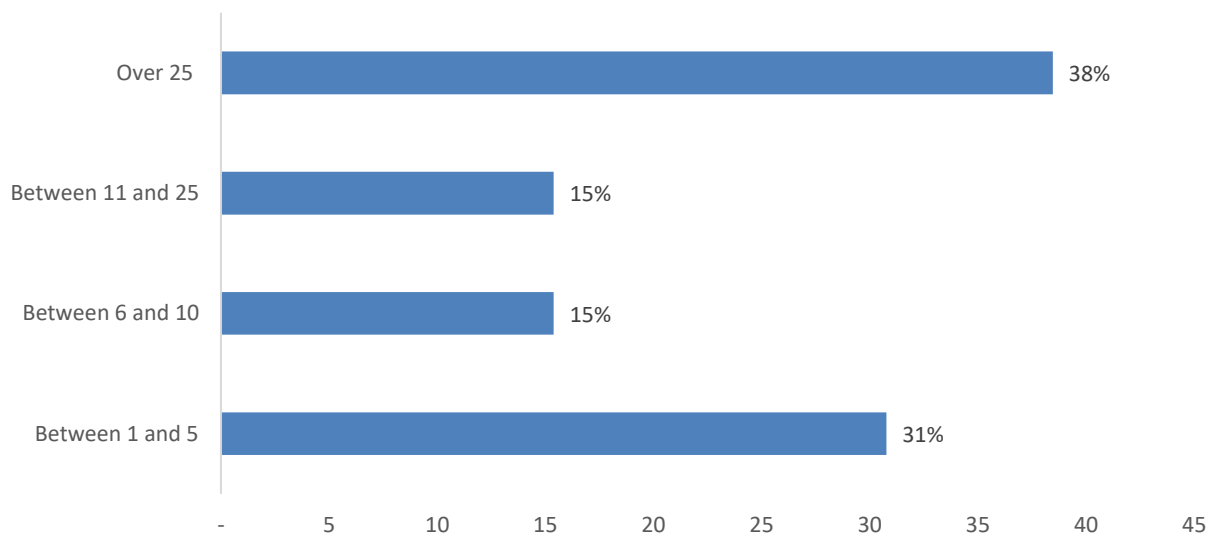
Category	Total	Total Respondents	Response rate
Members	25	11	44%
Associate Member	12	3	25%
Total	37	14	38%

Source: survey findings

2.2 Trends in Company Listings

A total of fifty three percent (53%) of the AMERC members and associate members surveyed had eleven or more listings during the last five years². Quite notably among AMERC members and associate members, Saudi Arabia, South Africa, Egypt, Mauritius and the UAE (Securities and Commodities Authority) reported having more than 25 listings over the last 5 years.

Figure 1: New Equity Listings in AMERC Region Jurisdictions During the Last Five years



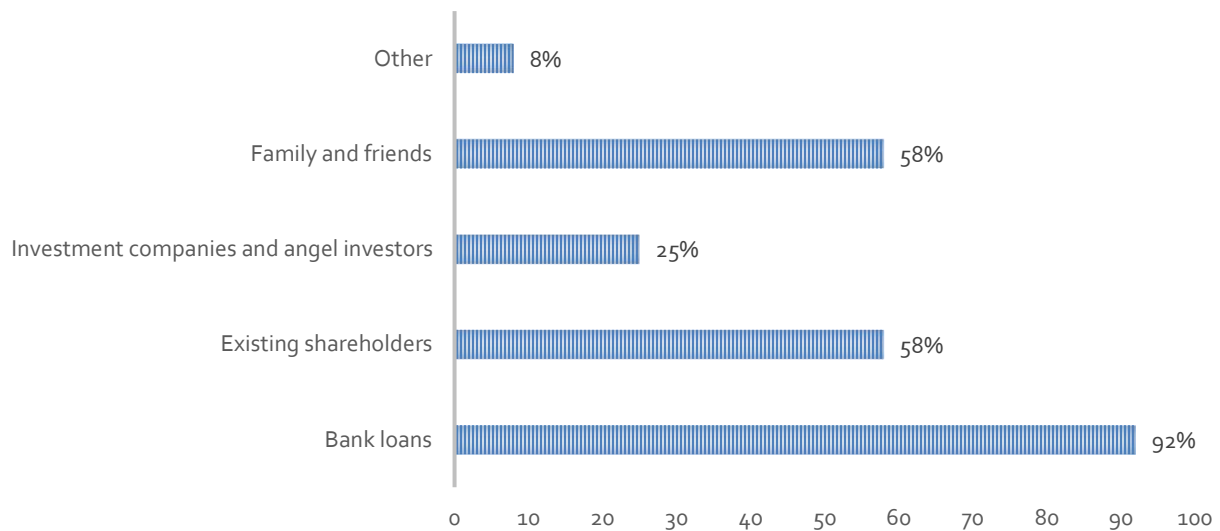
² Angola had no listing given that it does not yet have a functional stock exchange.

Source: Survey findings

2.3 Source of Funding for Small and Medium Enterprises

Bank loans are the dominant source (92%) of financing for most SME's within the AMERC jurisdictions. This could point to the ability of the banking sector to meet the funding needs of businesses, propelling it to the top as a source of funding. The "others" category included venture capital, trade credit, and crowdfunding.

Figure 2: Capital raising options for SMEs in AMERC jurisdictions



Source: Survey Findings

2.4 Listing Requirements and Post Listing Requirements

The survey sought to establish the listing requirements for issuers in jurisdictions of members and associate members of AMERC. Minimum paid up capital was among the commonest requirements ranging from a low of **US \$ 50,000** at the Lusaka Stock Exchange, **US \$ 3 million** at the Egyptian Exchange and a high of **US \$ 11.4 million** at the Dubai Financial Market. It is instructive to note that in spite of both of these exchanges having high minimum paid up capital requirements, they posted high listing activity over the past 5 years, indicating that the capital requirement might not be an inhibitor.

Minimum float requirements were also a common feature with **91%** of respondents indicating that they had this requirement. The minimum float requirements ranged from a low of **5% in Egypt and highs of 40% in Qatar**. Low minimum float can constrain liquidity but has most likely attracted issuers in Egypt, especially issuers having concerns about loss of control but seeking to benefit from being listed.

Audited financial statements were cited as a requirement by **91%** of respondents. Notably in Egypt, only two years of financial statements are required compared to a jurisdiction such as Uganda that require five years of financial statements. Profitability track record was also a common requirement, ranging from 3 years in countries such as Kenya and Uganda to 1 year of profitability in Egypt.

Over half of the respondents (**55%**) indicated that prospective companies wishing to list are required to provide evidence of past profitability and be registered as public companies.

Table 2: Main requirements for listing on stock exchanges within AMERC

	Requirement	Respondents (%)
1	Minimum fully paid up capital requirements	91
2	Minimum float requirements and number of shareholders post IPO	91
3	Audited financial statements for a few years prior to listing	91
4	Evidence of past profitability prior to listing	55
5	Must be registered as a public company limited by shares	64
6	Suitability of directors and management experience	45
7	The securities must be freely transferable	55
8	Listing fees	45
9	Lock up period for substantial shareholders	27
10	Minimum level of net assets	27
11	Minimum number of years of existence	27

Source: Survey findings

In addition to the above listing requirements, companies that get listed on stock exchanges within the AMERC region have post listing requirements which they have to comply with. Most respondents (82%) indicated that continuous disclosure of sensitive and non-sensitive company information was a post-listing requirement. Submission of half yearly and annual financial reports is also another key requirement for listed firms in the AMERC region, with majority of jurisdictions (73%) indicating that this was a requirement (see table 3).

Table 3: Post listing requirements on stock exchanges within AMERC region

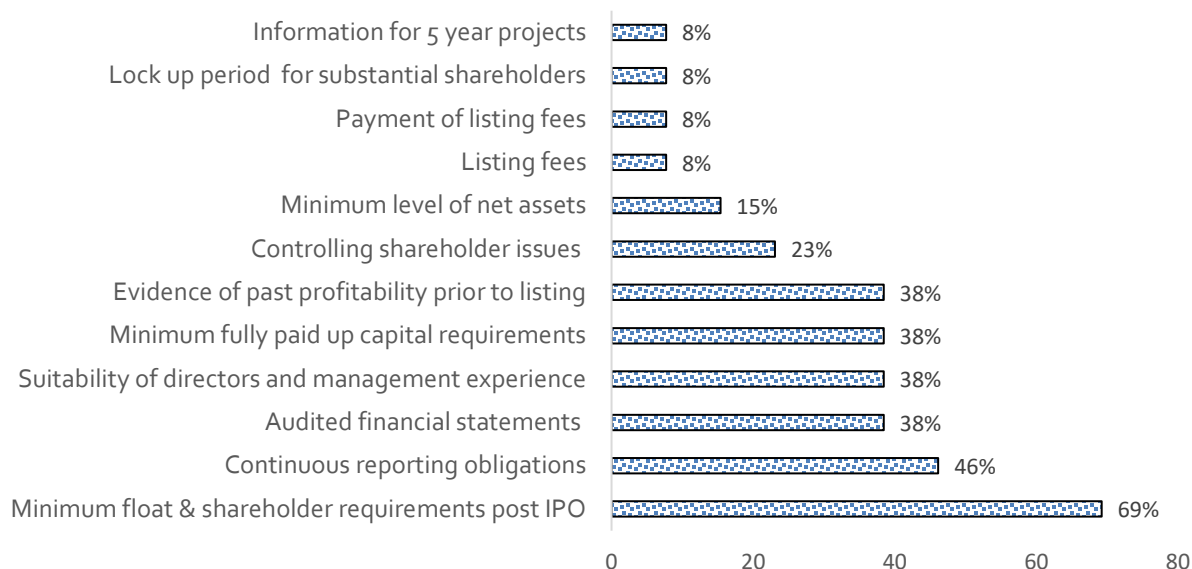
	Requirement	Respondents (%)
1	Disclosure of material information that may or may not affect the company's share price / cautionary statements	82
2	Continuous half yearly reporting - half yearly and annual financial reports	73
3	Announce declarations of dividends and compliance with dividend payment period	36
4	Payment of listing fees	18
5	Submission of annual report of listed company	27
6	Complying with corporate governance regulations	18
7	Maintaining the minimum number of shareholders, free float percentage, and number of shares listed	9
8	Net profit requirements	9
9	Hold AGM within six months of the end of financial year	9
10	Capital requirements	9

Source: Survey findings

The survey sought to establish the main requirements that present a bottleneck to potential issuers of equity within the AMERC region. The findings revealed that 69% of jurisdictions surveyed mentioned the requirement on minimum float and number of shareholders post IPO as a major difficulty that potential issuers face. Evidence of past profitability prior to listing, audited financial statements for a number of years prior to listing and minimum capital requirements were also cited as hurdles faced by potential issuers within the AMERC region.

Notably in Saudi Arabia, the requirement for the parallel market to allow only qualified investors to invest and trade was cited as a deterrent.

Figure 3: Listing requirements that deter potential issuers in AMERC region



Source: Survey findings

However, apart from the mandatory listing requirements depicted above, other factors were mentioned that hinder potential issuers from listing within the AMERC region. These are presented in table 4 below:

Table 4: Other factors that deter listings within the AMERC region

	Deterrent	Respondents (%)
1	Payment of advisory fees	33
2	Long approval time period	25
3	Prospectus preparation	25
4	Limited awareness	25
5	Increased disclosure	17
6	Dilution of shareholding	8
7	Payment of regulatory fees	8
8	Small pool of retail investors	8
9.	Governance and transparency requirements'	8

10.	Compliance costs	8
11.	Economic costs and low market valuations	8

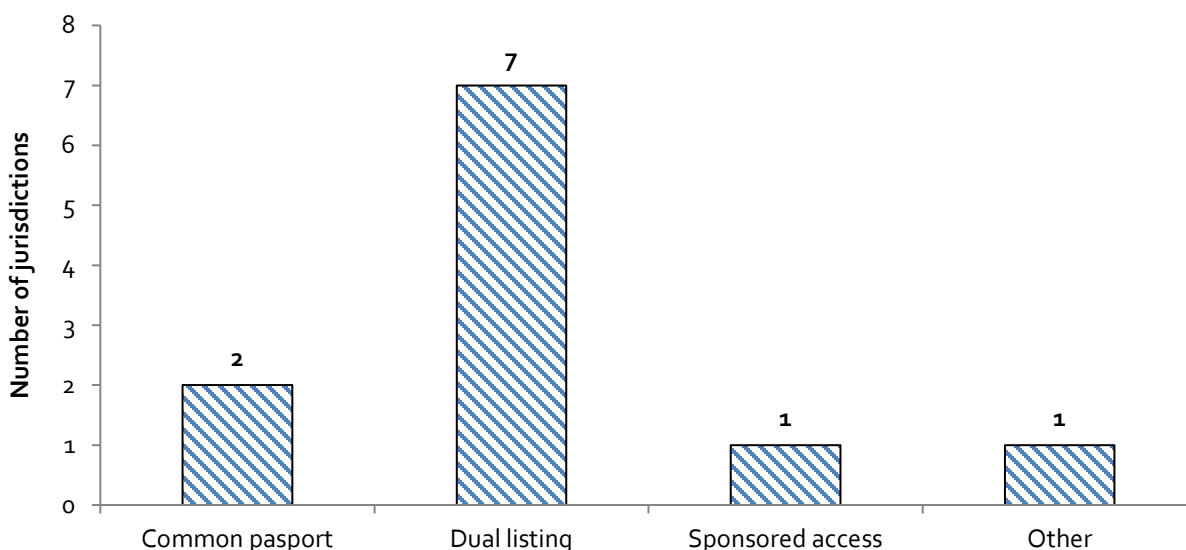
Source: Survey findings

A total of 33% of responding jurisdictions reported payment of advisory fees as a barrier to some firms getting listed within the AMERC region. Interestingly, 25% of responding jurisdictions reported that limited awareness about securities markets is a deterrent to stock exchange listings.

2.5 Recommendations for Cross Border Listing Across the AMERC Region

The survey also sought views from AMERC members and Associate Members on the most feasible strategy for increasing cross border listings. A total of 7 out of 13 respondents (54%) surveyed, recommended dual listings as an ideal strategy for increasing cross border listings across the AMERC region. This is due to the fact for dual listings, each regulator gives an approval based on the domestic regulatory framework.

Figure 4: Recommendations for cross border listing across the AMERC region



Source: Survey findings

The “others” category included depository receipts with the Capital Markets Authority Kenya and the Egyptian Financial Supervisory Authority mentioning Depository Receipts (EDRs).

2.6 Incentives for public companies to be listed on AMERC exchanges

The survey sought to establish incentives available for companies to list on exchanges. A total of 70% of respondents indicated that they had incentives in place for potential issuers. Members surveyed that indicated an absence of incentives in place included Capital Markets Authority Ugandan and the Capital Markets Authority in Kuwait. The major incentives in place to attract equity issuers to AMERC stock exchanges are presented hereafter.

Table 5: Incentives available for equity issuers within the AMERC region

Major incentives	Respondents (%)
Tax reductions and incentives (e.g. on CGT)	54
Reduction of issuance and listing costs (e.g. Listing Support Fund which offers refunds for payment of advisory fees in Ghana)	23
Issuers offered access to international markets	15
No foreign ownership restrictions	8
Regulatory sandbox	8

Source: Survey findings

Majority of respondents surveyed (**54%**) had tax incentives in place. For example, Egypt has incentives in place on capital gains tax whilst Zambia offers newly listed companies a 2% discount on corporate tax in the first year of listing. Another notable incentive is listing cost subsidies with **23%** of respondents indicating that they had them in place. Specifically, as an example Securities Exchange and Commission-Ghana indicated that a listing support fund had been created to support prospective issuers. In the United Arab Emirates, the DIFC provides access to international markets, has no foreign ownership restrictions, and is a tax free jurisdiction.

2.7 Fiscal Incentives available to Potential Companies

Respondents were asked to indicate the fiscal incentives available to prospective issuers of securities. Respondents indicated the presence of tax incentives for investors by exempting them from capital gains tax as well as preferential corporate tax treatment for listed companies as the major fiscal incentives to attract listings.

Table 6: Fiscal incentives available to potential issuers in AMERC jurisdictions

	Fiscal incentive	Number of Respondents
1	Tax incentives on investing in securities e.g. tax privilege concerning the exemption for capital gains for all types of listed securities which increases chances of companies raising funds successfully.	3
2	Preferential corporate tax treatment for listed companies e.g. discounts on tax rates for listed companies that have substantial holdings held by local investors.	2
3	Tax free jurisdictions e.g. DIFC and the larger Dubai/UAE.	1
4	Tax privilege concerning the exemption for listed bond yields (periodic coupon).	1
5	Waiver of fees for companies that list on the parallel market.	1

Source: Survey findings

2.8 Policy Advocacy for Potential Issuers

The survey also asked respondents to list the policy advocacy initiatives that they were undertaking in their jurisdictions specifically targeting prospective issuers of securities. A significant number of respondents (23%) indicated that they convened meetings and training targeting prospective issuers key persons such as major shareholders and Directors on Boards (see table 7).

Table 7: Policy advocacy recommendations

	Policy advocacy	Respondents (%)
1	Convening conferences and training courses for key personalities in companies.	23
2	Advocacy for tax amnesty for companies that get listed or preferential corporate tax treatment for listed companies	23
3	Advocacy for reduction in transaction and issuance/listing costs e.g. tax deductibility on issuance and listing costs	15
4	Scheduled reviewing of the listing rules and procedures	15

	Policy advocacy	Respondents (%)
5	Advocacy for tax incentives on investing in securities	8
6	Listing of public interest companies in sectors such as banking, insurance, mining and telecommunication.	8
7	Advocacy for sale of government shares in some SOEs	8
8	Advocacy for the government to procure goods and services from listed entities	8

Source: Survey findings

Chapter Three: Summary of Findings and Recommendations

3.1 Discussion of Findings

The AMERC region has over the last five years witnessed a draught of new listings among members and associate members. With the exception of The Egyptian Financial Supervisory Authority, the Securities Exchange Commission of Nigeria and the Securities and Commodities Authority in the United Arab Emirates, all other Members and Associate Members reported 10 or less listings over the last five years. This is an indication that businesses within their jurisdictions are still not turning to capital markets as an alternative source of funding. Banking remains the main source of funding, especially among SMEs in jurisdictions regulated by both members and associate members of AMERC.

There is a huge commonality when it comes to listing requirements across AMERC. Common listing requirements identified include: minimum capital requirements; minimum float requirements; audited financial statements; profitability track record; incorporation as a public company; and suitability of Directors. However, there are variations to the requirements. As an example, minimum capital ranges from lows of **US \$ 50,000** at the Lusaka Stock Exchange in Zambia to highs of **US \$ 11.4 million** at the Dubai Financial Market. Float requirement can vary from a low of 10% in Egypt to highs of 40% in Qatar.

Continuous listing obligations also display a lot of commonalities. Across the AMERC region, listed companies: provide half-yearly and annual reports; disclose material information; announce dividend declarations; pay listing fees; comply with corporate governance regulations; and hold Annual General Meetings.

Companies across the AMERC region wishing to list are deterred by quite a number of the listing requirements. Key deterrents include: *minimum float and minimum number of shareholders' post listing; evidence of profitability prior to listing; audited financial statements for several years; minimum paid up capital requirements; continuous listing obligations; and suitability requirements for directors*. Other factors identified as deterrents to listings include: *high advisory fees; long*

time to market; the complexity of preparing prospectuses; low levels of awareness among prospective companies; and increased disclosure of company information to the public competitors.

Across the AMERC region, key incentives in place to encourage issuance of securities include: tax reductions; subsidies for listing costs; issuer access to international markets; and unrestricted foreign ownership. Fiscal incentives available for issuers of securities across the region include: capital gains tax exemptions; preferential corporate tax for listed companies; and withholding tax exemptions for debt securities

To encourage more prospective issuers to list, policy advocacy steps taken include: holding meetings and trainings for key persons in prospective companies; tax amnesties; encouraging listing of public interest companies; advocacy for sale of stake in state owned enterprises; and advocacy for tax exemptions;

3.2 Recommendations

Based on the findings, it is recommended that:

- i. AMERC members and associate members review minimum float requirements and minimum shareholder requirements. These requirements should be guided by sufficient liquidity requirements and should capture a combination of percentage float and absolute monetary figures.
- ii. The profitability track record requirement should also be reviewed to facilitate listing by issuers that might not have a track record. Such offers should be made to professional investors.
- iii. AMERC members should also improve on the efficiency of their processes to minimize time to market for issuers. Service charters and streamlining of processes to eliminate bottlenecks will further this recommendation.
- iv. Market intermediaries should be required to undergo continuous training. This will build their knowledge base and better skill them to handle transactions and prepare offer documents such as prospectuses.
- v. AMERC members should also consider provision of more incentives for prospective issuers. This can include incentives such as subsidization of listing costs; and preferential tax treatment for listed companies; and

vi. AMERC members and associates should also engage in creating more awareness among prospective companies on the opportunities available in the capital markets for long term patient capital.