

Capital Market Authority

The Instructions of Book Building Process and Allocation Method in Initial Public Offerings (IPOs)

Issued by the Board of the Capital Market Authority
Pursuant to its Resolution Number 2-94-2016 Dated 15/10/1437H
Corresponding to 20/07/2016G Based on the Capital Market Law
Issued by Royal Decree No M/30 dated 2/6/1424H

[\[Amended by the Board of the Capital Market Authority
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Part 1: Preliminary

- 1) These instructions aim to regulate the Book building process and the allocation method in initial public offerings (IPOs).
- 2) These instructions shall be read in conjunction with and in addition to the Capital Market Law and its Implementing Regulations.

Part 2: Definitions

- a) Any reference to the “Capital Market Law” in these Instructions shall mean the Capital Market Law issued by the Royal Decree No. M/30 dated 2/6/1424H.
- b) Expressions and terms in these Instructions have the meaning which they bear in the Capital Market Law and the Glossary of defined terms used in the Regulations and Rules of the Capital Market Authority.
- c) For the purpose of implementing these Instructions, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

Government Entities: Refers to any of the following:

- a) ~~entities~~ Entities which the Custodian of The Two Holy Mosques or the Council of Ministers are the reference for its financial and administrative affairs, including Ministries, Departments, Authorities, General Agencies, Government Funds or Funds managed by government agencies.
- b) Legal persons affiliated to one of the GCC countries.

Government-owned Companies: Companies fully owned by the government or any government entity.

GCC companies: Companies that have the nationality of one of the GCC countries, and are incorporated according to the companies law of such country, and which the majority of its capital is owned by citizens of the GCC countries or their governments.

GCC Funds: The investment funds which have legal personality that are established in one of the GCC countries, and their units are publically offered to investors in these countries according to the regulations in these countries, and the majority of their capital is owned by citizens of GCC countries or their governments.

GCC citizens: Natural persons who have the nationality of one of the GCC countries, and legal persons that the majority of their capital is owned by citizens of GCC countries or governments and who has the nationality of one of the GCC countries.

Conflict of Interest: Refers to the conflict of interest between the issuer and any of the participating entities involved in the Book building process, including but not limited to the following circumstances:

- a) A director or an executive of any of the participating entities is a substantial shareholder in the issuer or any company controls the issuer or any of the issuer's subsidiaries or vice versa.
- b) A participating entity is a substantial shareholder in the issuer or any of the issuer's subsidiaries or vice versa.
- c) Any of the persons referred to in paragraph (a) and (b) above, is a director of the issuer or any of the issuer's subsidiaries.

Book building: The process by which a financial advisor registers bids from participating entities in order to determine the ~~appropriate~~ offering price ~~for retail subscribers~~.

Book building Period: A period of time determined by the financial advisor after the consent of the issuer without prejudice to paragraph (d) of Part (3) of these instructions, which start from the first day of the financial advisor offering the issuer's shares to the participating entities in accordance with paragraph (b) of Part (3) of these instructions.

Bid Form: A form prepared by the financial advisor of the issuer and filled by the participating entities in order to participate in the Book building process, and to be submitted to the financial advisor no later than the last day of the Book building period.

Appended Bid Form: A form prepared by the financial advisor of the issuer when the price range is changed, in accordance with paragraph (b) of Part (4) of these instructions, and it is filled by the participating parties in order to participate in the Book building or by the participating entities for the purpose of changing their requests concerning the price range and to be submitted to the financial advisor no later than the last day of the ~~extended~~ Book building period as set in ~~sub-paragraph (5) of paragraph (egf)~~ of Part (43) of these instructions.

Participating parties: Those whom are entitled to participate in the Book building process as specified in Part (5) of these instructions.

Participating entities: Entities involved in the Book building process from the specified parties in Part (5) of these instructions.

Tick Size: The minimum price increment and decrement allowed for share price as applied by the Saudi Stock Exchange (Tadawul).

Part 3: General Provisions

- a) The financial advisor of the issuer is permitted to – prior to obtaining Authority's approval of the IPO – present information about the issuer and its financial statements to a group of participating parties without mentioning issuer's name for the purpose of testing the participating entities' willingness to participate in case of a public offering of the issuers shares.
- ~~b) The issuer and its financial advisor are permitted to – post the Authority's approval of the IPO – present information about the issuer and its financial statements to a specified group of authorized persons licensed to practice advising activity for the purpose of issuing researches and financial reports about the issuer prior to the commencement of the Book building or during the Book building period.~~
- e)b) The financial advisor of the issuer is permitted – after obtaining post the Authority's approval of the IPO – to offer the shares to the participating entities only during the Book building period.

- c) The financial advisor, in coordination with the issuer, shall determine a percentage of the full offering to be allocated to institutional investors, subject to the Authority's approval of such percentage.
- d) The financial advisor, in coordination with the issuer, shall determine a percentage of the percentage allocated to institutional investors as per paragraph (c) of this Part, to be allocated to public funds, subject to the Authority's approval of such percentage.
- e) The issuer must sign an underwriting commitment agreement before the beginning of the subscription process.
- ~~d)f) The Book building period shall not exceed (14) fourteen calendar days.~~
- ~~e) Price range (the difference between the lowest price and the highest price) shall be a ratio that does not exceed (20%) of the minimum price.~~
- f)g) The participating entities provide their bidding requests in the Book building by filling out the bid form.
- ~~g) The participating entities are allowed to bid on prices outside the price range, but shall not exceed (20%) of the minimum or maximum price in the price range.~~
- h) The participating entities shall not submit a bid with an amount of (5%) or more of the issued securities of the issuer.
- i) The participating entities shall comply with the Capital Market Law and its implementing regulations and any other investment conditions that regulate their business.
- j) The bid form must contain the following declaration and an undertaking by participating entities:

“We, the undersigned hereby, declare that we have satisfied all the relevant conditions and terms regarding the Book building, shares allocation, and all other relevant requirements set forth in the Capital Market Law and its implementing regulations, and that all the submitted documents and information regarding the participation in the Book building process are true, complete, recent, and not misleading. Also, we hereby take full legal responsibility in case proven otherwise and the Authority and the relevant government entities have the right to take necessary actions in this regard.”
- k) Where a conflict of interest with the issuer exists, the conflicted participating entities are prohibited from participating in the Book building.
- ~~l) To offer the shares to retail subscribers, the following requirements must be satisfied:~~

- ~~1) The offer must be fully covered by the participating entities.~~
- ~~2) Public funds must cover the specified percentage of the entire offer which varies depending on the outstanding net asset value (NAV) of Public Funds. The percentage is calculated as follows:~~

$$\left[\frac{10\% \text{ of the NAV of Public Funds as prescribed in part (5-a)}}{\text{Offer Size (calculated based on the upper limit of the price range)}} * 70\% \right]$$

~~This percentage shall not exceed the allocation to public funds as specified when the Authority approves the Offering. The financial advisor shall calculate this percentage which will then be approved by the Authority when the Offering is approved.~~

Part 4: Book building Requirements and Changing the Price Range

- a) The following Book building requirements must be satisfied:
 - 1) The issuer's financial advisor must announce the Book building period without prejudice to paragraph (d) of Part (3) of these instructions.
 - 2) The issuer's financial advisor must announce the price range, and ensure its availability to all participating parties.
 - 3) The announcement made by the issuer's financial advisor regarding the Book building period, price range and the allocation percentage required to be covered by the participating public funds' specified coverage percentage, as prescribed in ~~sub-paragraph (2) of~~ paragraph (d) of Part (3) of these instructions, must be available to all participating parties on its website and the website of the issuer ~~in the official websites of the issuer and the financial advisor.~~
 - 4) The financial advisor shall announce the offer coverage percentage by all participating parties on its website and the website of the issuer.
- b) The financial advisor may, after obtaining the underwriter and the issuer consent, change the price range ~~only once, in~~, with respect to the following cases:
 - 4) ~~If the offered shares were fully covered at the highest price in the price range or any price above that price providing that the bids received from the Participating entities satisfy the requirement stated in paragraph (1) of Part (3) of these instructions.~~

- ~~5) If the offered shares were not fully covered.~~
- ~~b) When changing the price range, without prejudicing what is stated in paragraph (b) above, the following shall apply:~~
- ~~1) The changed price range must not exceed (20%) of the maximum price allowed to bid at as stated in paragraph (g) of Part (3) of these instructions.~~

~~The Participating entities are not allowed to bid outside the changed price range.~~

- 1) The financial advisor must announce the changed price range to all participating parties.
- 2) The underwriter must provide the Authority with an updated underwriting commitment letter reflecting the changed price range.
- ~~3) The Book building extension period must not exceed (5) days from the financial advisor's announced period and must be in compliance with paragraph (d) of Part (3) of these instructions.~~
- 4)3) The participating entities have the right to change their bids by filling the Appended bid form, [or cancelling these bids](#).

Part 5: Participating Parties

Those whom are entitled to participate in the Book building are:

- a) Public [and private](#) funds that invest in securities listed on the Saudi stock exchange as permitted by the fund's terms and conditions and in accordance with the Investment Funds Regulations. In addition, public funds must comply with the following when submitting the bid form:
 - 1) The bid amount submitted by a public fund and all other public funds with the same fund manager shall not exceed (25%) of the total offering by value.
 - 2) The public fund shall not submit a bid with an amount in excess of (10%) of the total offering by value.
 - 3) The public fund shall not submit a bid on securities of the issuer with an amount exceeding (20%) of its net asset value.
 - 4) The public fund shall not submit a bid with an amount that exceeds (10%) of its net asset value in the offered shares.
 - 5) Public funds are exempted from paragraph (4) of this part, if the public funds terms and conditions and information memorandum state an investment objective of investing in a specific investable

universe which is a sub-category of the issuers listed on the Exchange provided that such investment does not exceed the market capitalization of the issuer expressed as a percentage of the investable universe.

~~6) The bid amount in the Book building shall not exceed (1,000,000) Saudi Riyals multiplied by the number of unit holders in the public fund.~~

~~7)6) The public fund must disclose in the bid form, the number of unit holders in the investment fund, in addition to~~ the market capitalization of the investable universe of the public fund as of the end of the previous day of submitting the bid form.

b) Authorized Persons who are licensed to deal as a principle, in accordance with the Prudential Rules.

~~c) Listed companies and its subsidiaries which consolidate its financial statements with, and listed companies in the banking and insurance sectors, in accordance with the~~ Clients of a person authorized person by the Authority to conduct managing activities provided that:

1. The authorized person has been appointed on terms which enable it to make decisions concerning the acceptance of the participation in the offering and investing in the exchange on the client's behalf without reference to the client.

2. The participation in Book building shall be directed through the authorized person, and all related communication are made through the authorized person.

~~e)d) Any legal persons allowed to open an investment account in the Kingdom, and an account with the depositary center. Except for non-resident foreign investors –other than Qualified Foreign Investors as per the Rules for Qualified Foreign Financial Institutions Investment in Listed Securities- in accordance with~~ circular number (6/85150) dated 11/8/1435H corresponding to 09/06/2014G based on the Capital Market Authority's board resolution number (9-28-2014) dated 20/7/1435H corresponding to 19/5/2014.

~~e) The government of the Kingdom, any government entity, any supranational authority recognized by the Authority, the Exchange, or any other stock exchange recognized by the Authority, or the Depositary Center.~~

~~d)f) Government entities and~~ Government-owned Companies whether investing directly or through a portfolio manager.

e) ~~Unlisted Saudi companies, including the following:~~

- ~~1. Unlisted Saudi companies not a subsidiary of a listed company.~~
- ~~2. A subsidiary of a listed company but does not consolidate its financial statements with.~~
- ~~3. A subsidiary of a listed company in the banking and insurance sectors whether consolidates its financial statements with or not.~~

~~the financial advisor shall conduct its due care to ensure the following conditions are satisfied:~~

- ~~1) Shareholder's equity must not be less than (50) million Saudi Riyals according to its annual financial statements (most recent audited fiscal year). The most recent audited period must not have passed more than (18) months from the date of submitting the bid form.~~
- ~~2) Must have an active portfolio, verified by the managing Authorized Person.~~

g) GCC companies, and GCC funds if the terms and conditions of the fund permit that.

h) Qualified Foreign Investor.

Part 6: Subscription Price for Participating Entities in Book building

The financial advisor in coordination with the issuer determines the subscription price ~~for each participating entity shall be the~~according to the supply and demand, with consideration to the following:

- 1- The subscription price ~~submitted in~~must not exceed the ~~bid form or price specified in the Appended bid form as applicable for each subscriber,~~underwriting commitment agreement.
- 2- The subscription price must not exceed the highest price of coverage provided by the public funds as per the allocation percentage specified according to paragraph (d) of Part (3) of these instructions. Moreover, in case the public funds did cover the specified percentage in the prospectus, the subscription price shall not exceed the highest coverage by the public funds.
- 3- The subscription price must be in accordance with to the tick size applied by the Saudi Stock Exchange (Tadawul).

Part 7: Shares Allocation for Participating Entities after Completing the Book building

- 1) The allocation percentage for participating entities is specified in the prospectus.
- ~~2) The percentage of shares specified for public funds shall be allocated sequentially starting by the highest bid until it reaches the specified allocation percentage for public funds specified when the Authority approves the Offering, provided that shares are allocated on pro rata basis for public funds with the same bid price.~~
- 2) After fulfillment of the specified allocation percentage of public funds, the remaining shares will be allocated to the other participating entities sequentially starting by the highest bid until the offer is fully allocated, provided that shares are allocated on pro rata basis for the other participating entities with the same bid price. Without prejudice to paragraph (c) of Part (3) of these instructions, the allocation of the offered shares is made as the financial advisor deems appropriate in coordination with the issuer.

Part 8: Offering for Retail Subscribers

The percentage of shares allocated to retail subscribers is set forth in the prospectus. ~~The retail offer price shall comply with the following:~~

- ~~a) The offer price is agreed upon between the issuer and the financial advisor provided that the price does not exceed the highest price fully covered by the participating entities which is in compliance with paragraph (1) of Part (3) of these instructions.~~

~~The offering price must be in accordance with the tick size applied by the Saudi Stock Exchange (Tadawul).~~

Part 9: Publication and Entry into Force

These instructions shall be effective in accordance to its approval resolution.