

**KINGDOM OF SAUDI ARABIA**

Capital Market Authority

**Instructions on the Price Stabilisation Mechanism in Initial Public Offerings**

English Translation of the official Arabic Text

Issued by the Board of the Capital Market Authority

Pursuant to Resolution Number 0-00-0000

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Based on the Capital Market Law

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## **Part 1: Preliminary:**

- a) The purpose of these instructions is to regulate the price Stabilisation activities on shares of companies newly listed in the Exchange, after the initial public offering.
- b) These instructions shall not prejudice the provisions of the Capital Market Law and its Implementing Regulations.

## **Part 2: Definitions:**

- a) Any reference to the “Capital Market Law” in these Instructions shall refer to 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 in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority, unless the contrary intention appears.
- 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:

**Price Stabilisation Mechanism:** Procedures that contribute to the price stabilization of the newly listed shares on the market, by means of over-allotment.

**Over-Allotment:** The process upon which a number of additional shares is allocated to the shares offered for subscription. Such shares are borrowed from the lending-shareholders and sold to the public during the initial public offering at the subscription price, in accordance with the over-allotment agreement.

**Purchase Option:** A contractual right whereby the price Stabilisation manager is granted the right to buy an amount of shares not exceeding the amount of the shares included in a short selling at the subscription price in the offer period, during the price Stabilisation period or after its end.

**Price Change Unit (tick size):** The minimum amount allowed for the increase and decrease of a share price, as applied in the Exchange.

**The Public:** Refers to any persons other than the following:

- a) Affiliates of the issuer;
- b) Substantial shareholders of the issuer;
- c) Directors and senior executives of the issuer;
- d) Directors and senior executives of the issuer's subsidiaries;
- e) Directors and senior executives of substantial shareholders of the issuer;
- f) Any relatives of the aforementioned in (a, b, c, d and e above);
- g) Any company controlled by the aforementioned in (a, b, c, d, e and f above) ;

- h) Persons acting in concert, with a collective shareholding of (5%) or more of the class of shares to be listed.

**Related Parties:**

- a) Lending-Shareholders.
- b) The Issuer.
- c) The Underwriter.
- d) Any other parties the Capital Market Authority deems they relate to the Price Stabilization Mechanism.

**Price Stabilisation period:** A period of time for the price Stabilisation process that is determined by the price Stabilisation manager after obtaining the Issuer's approval, provided that such period shall not exceed (30) calendar days from the first day of listing the shares in the Exchange.

**Conflict of interest:** means the conflict of interest between the price stabilization Stabilisation manager and the underwriter, or between the price Stabilisation manager and any related parties, including but not limited to, the following circumstances:-

- a) when a director of any of the related parties – except for the issuer – or a senior executive is a significant shareholder of the issuer or any of its affiliates.
- b) when any of the related parties – except for the Issuer and the lending-shareholders – is a shareholder in the issuer or any of its affiliates.
- c) when any persons referred to in paragraphs (a) and (b) is a director of the issuer or any of its affiliates.

**Part 3 : General Provisions:**

- a) The maximum amount allowed for an over-allotment shall not exceed 15% of the number of shares offered for subscription in the initial public offering.
- b) In case of executing a price stabilisation mechanism, the issuer shall disclose the following in the prospectus:
  - 1. Maximum number of additional shares to be over-allotted in accordance with the over-allotment agreement.
  - 2. The duration of exercising the price stabilization mechanism.
  - 3. Any other restrictions imposed by the issuer or the underwriter on the price stabilization manager.
  - 4. The price stabilization manager.
- c) In the event that the entire over-allotted shares were purchased, the price stabilization manager shall not exercise any price stabilization procedures on the shares.

#### **Part 4 : Requirements to Be Met in by the Stabilisation Manager**

- a) The price stabilisation manager must be an authorised person by the Authority in conducting dealing as principal and underwriting activities.
- b) The price stabilisation manager must be independent from the issuer. Cases in which the Price Stabilization manager is considered not independent from the issuer include, but are not limited to, the following:
  - 1. If the price stabilisation manager, or any of its subsidiaries or its senior executives was a significant shareholder with the issuer or any of its subsidiaries, or vice versa.
  - 2. If a director of the price stabilisation manager or any of its shareholders is a substantial shareholder in the Issuer or any of its subsidiaries, or vice versa.

#### **Part 5 : Obligations of the Stabilisation Manager**

- a) Upon completion of the book building process, the price stabilisation manager must announce in the Exchange, before the trading session of the next day, the following:
  - 1. The percentage of over-allotted shares of the total amount of shares offered, during the offer period.
  - 2. The number of the over-allotted shares.
- b) At the end of the price stabilisation period, the price stabilisation manager must announce in the Exchange, before the trading session of the next day, the following:
  - 1. Whether the purchase option has been exercised.
  - 2. The number of shares that the purchase option has been exercised upon.
  - 3. The start and the end of the price stabilisation period.
  - 4. The price range in which the purchase order were executed, in order to achieve the price stabilisation.
- c) The price stabilisation manager must have a center account, in which its operations are limited to the following:-
  - 1. Transferring the shares purchased in the process of exercising the price stabilization to the lending-shareholders without executing a transaction.
  - 2. Transferring the amounts generated from the over-allotment to the lending-shareholders after settling the over-allotment procedures with the issuer.
- d) During the price stabilisation period, any purchase transaction of any relevant shares must be announced to the public before the trading session subsequent to the execution of this transaction.
- e) The Price stabilisation manager during the price stabilization period shall not cancel the order entered by it in the last two minutes of the opening and closing auctions in the Exchange.
- f) The price stabilisation manager shall not execute any sale transactions on the shares purchased to execute the price stabilisation mechanism during the price stabilisation period.

- g) The total amount of purchase orders made by the price stabilization manager should not exceed 30% of the total shares traded on the same day.
- h) The price stabilisation mechanism shall be exercised at a price not exceeding the offer price or a one tick size higher than the best bid price, whichever is lower, provided that more than one purchase order may not be entered at the same time.
- i) The price stabilisation manager should act in the interest of the issuer when carrying out the price stabilisation activities, and in line with these Instructions.

**Part 6: Supporting Procedures to Implement the Price Stabilisation Mechanism** For the purpose of exercising the price stabilisation mechanism, the price stabilisation manager may, in relation to any procedure performed on any shares, perform all or any of the following actions:

- a) Borrow a number of shares from lending-shareholders prior to the initial public offering, in an amount not exceeding the number resulted from the maximum limit allowed for over-allotment.
- b) The short selling of shares during the Offer Period.
- c) The over-allotment of a larger number of shares, not exceeding the limit forest out in paragraph (a) of part 3.
- d) In accordance with a purchase option or any other right to purchase shares, purchase of shares in order to close any existing position under paragraph (a) above or the approval of that purchase.

### **Part 7: Exemptions**

- a) For the purposes of applying these instructions, the Price Stabilization manager is exempted, during the Price stabilisation period, from the following:
  - 1. The practices and actions contained in Article 49 of the Capital Market Law, Article 2 and subparagraph (5) of paragraph (b) of Article 3 of the Market Conduct Regulations. If that action taken by the Price stabilisation manager was in accordance with these Instructions, and does not create a false, misleading or inaccurate impression of the shares.
  - 2. Paragraphs (a) of Article 12 of the Market Conduct Regulation.
  - 3. The obligations contained in Article 86 of the Authorised Persons Regulations.
- b) For the purposes of applying these Instructions, the lending-shareholders are exempted from the following:
  - 1. The restrictions contained in Articles 23 and 24 of the Merger and Acquisition Regulations.
  - 2. The restrictions contained in paragraph (a) of Article 70 of the Rules on the Offer of Securities and Continuing Obligations.

## **Part 8: Records for the Price Stabilisation activities**

The price stabilisation manager shall establish and maintain an updated record of each transaction performed in accordance with these Instructions.

- a) The price stabilisation manager shall ensure that the record referred to in paragraph (a) above contains the following information:
  1. Quantity and price of shares per transaction in light of the execution of the price stabilisation mechanism.
  2. Date and time of transaction.
  3. Details of the counter party in the purchase transaction executed in light of the price stabilisation mechanism, or a statement explaining that the purchase has been executed through the Exchange.
- b) The record referred to in paragraph (a) above shall be maintained for a period not less than ten years after the end of the price stabilisation period.

## **Part 9: Publication and Entry Into Force.**

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