

Capital Market Authority

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

**Issued by the Board of the Capital Market Authority
Pursuant to its Resolution Number 0-00-2016 Dated 00/0/1437H
Corresponding to 00/0/2016G Based on the Capital Market Law
Issued by Royal Decree No M/30 dated 2/6/1424H**

Contents

Part 1: Preliminary.....	3
Part 2: Definitions.....	3
Part 3: General Provisions.....	5
Part 4: Book building and Price Range Requirements.....	6
Part 5: Participating Parties.....	7
Part 6: Subscription Price for Participating Entities in Book building	9
Part 7: Shares Allocation for Participating Entities After Completing The Book building Process.....	9
Part 8: Offering for Retail Subscribers	10
Part 9: Publication and Entry Into Force	10

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Part 1: Preliminary

- 1) These instructions aim to regulate the Book building process and the allocation method in initial public offering (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 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.

Government-owned Companies: Companies fully owned by the government.

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 (4) of part (3) of these instructions, which takes place after the Authority's approval of the IPO.

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 (3) of paragraph (B) of Part (4) 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

- 1) 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 their participating entities' willingness to participate in case of a public offering of the issuers shares.
- 2) 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.
- 3) The financial advisor of the issuer is permitted – post the Authority's approval of the IPO – to offer the shares to the participating entities only to determine the price range within a reasonable period prior to the commencement of the Book building.
- 4) The Book building period shall not exceed (14) fourteen calendar days.
- 5) 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.
- 6) The participating entities provide their bidding requests in the Book building by filling out the bid form.
- 7) The participating entities are allowed to bid on prices outside the price range but not less than the specified minimum price in the price range, and shall not exceed (20%) of the maximum price in the price range.
- 8) The participating entities shall comply with the Capital Market Law and its implementing regulations and any other investment conditions that regulate their business.

9) 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.”

10) Where a conflict of interest with the issuer exists, the conflicted participating entities are prohibited from participating in the Book building.

11) To offer the shares to retail subscribers, the following requirements must be satisfied:

a) The offer must be fully covered by the participating entities.

b) Investment funds must cover the specified percentage of the entire offer which varies depending on the outstanding net asset value (NAV) of Investment Funds. The percentage is calculated as follows:

$$\left[\frac{10\% \text{ of the outstanding NAV of Investment Funds as prescribed in part(5-1)}}{\text{Offer Size(calculated based on the upper limit of the price range)}} \right] * 70\%$$

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

Part 4: Book building and Price Range Requirements

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 (4) 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 investment fund's specified coverage percentage, as prescribed in sub-paragraph (B) of paragraph (11) of part (3) of these instructions, must be available to all participating parties in the official websites of the issuer and the financial advisor.
- b) The financial advisor may, after consulting with the underwriter and obtaining the issuer consent, adjust the price range only once, provided that the offered share was fully covered at the highest price in the price range or any incremental price above the price range not exceeding (20%) of the highest price in the price range, in addition to complying with the following:
- 1) The financial advisor must announce the adjusted price range to all participating parties.
 - 2) The underwriter must provide the Authority with an updated underwriting commitment letter reflecting the adjusted price range.
 - 3) The Book building extension period must not exceed (3) days from the financial advisor's announced period and must be in compliance with paragraph (4) of part (3) of these instructions.
 - 4) The participating entities have the right to change their bids by only increasing the price by filling the Appended bid form, and do not have the right to withdraw it.

Part 5: Participating Parties

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

- 1) Public investment funds that are incorporated in the Kingdom and 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, investment funds must comply with the following when submitting the bid form:
 - a) The bid amount submitted by an investment fund and all other investment fund with the same fund manager shall not exceed (10%) of the total offering by value.

- b) An investment fund shall not submit a bid with an amount in excess of (5%) of the issued securities of the issuer.
 - c) The investment fund exposure to the issuer shall not exceed (15%) of its net asset value.
 - d) An investment fund shall not submit a bid with an amount that exceeds (10%) of its net asset value in the offered shares.
 - e) Investment funds are exempted from paragraph (d) of this part, if the investment fund has the investment objective of primarily investing in shares issued by issuers traded on the Exchange (as disclosed in the terms and conditions), the following shall apply: a fund manager may submit a bid with an amount that exceeds (10%) of the investment fund's net assets value in shares issued by the issuer provided that such investment does not exceed the market capitalization of the issue expressed as a percentage of the total market capitalization. However, if the terms and conditions of a fund state an investment objective of investing in a specific investable universe that is a subcategory of the issuers traded on the Exchange, the fund manager may submit a bid with an amount more than (10%) of the investment fund's net assets value in shares issued by the issuer provided that such investment does not exceed the market capitalization of the investable universe. The terms and conditions of a fund that has stated such an investable universe must disclose the criteria for inclusion in the investable universe.
 - f) The bid amount in the Book building shall not exceed (1,000,000) Saudi Riyals multiplied by the number of unit holders in the investment fund.
 - g) The investment 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 investment fund as of the end of the previous day of submitting the bid form.
- 2) Authorized Persons who are licensed to deal as a principle, in accordance with the Prudential Rules.
 - 3) Listed companies through their investment portfolios that are managed by Authorized Persons, and listed companies in the banking and insurance sectors, in accordance with Capital Market Authority's board resolution

number (9-28-2014) dated 20/7/1435H corresponding to 19/5/2014, and circular number (6/05158) dated 11/8/1435H corresponding to 09/06/2014G.

- 4) Government entities and Government-owned Companies whether investing directly or through a portfolio manager.
- 5) Unlisted Saudi companies; the financial advisor shall conduct its due care to ensure the following conditions are satisfied:
 - a) Must not be a subsidiary of a listed company.
 - b) Shareholder's equity must not be less than (50,000,000) 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.
 - c) Must have an active portfolio, verified by the managing Authorized Person.

Part 6: Subscription Price for Participating Entities in Book building

The subscription price for each participating entity shall be the price submitted in the bid form or in the Appended bid form – as applicable – for each subscriber, provided that the offered price is in accordance with the tick size applied by the Saudi Stock Exchange (Tadawul).

Part 7: Shares Allocation for Participating Entities After Completing The Book building Process.

- 1) The allocation percentage for participating entities is specified in the prospectus.
- 2) The percentage of shares specified for investment funds shall be allocated sequentially starting by the highest bid until it reaches the specified allocation percentage for investment funds specified when the Authority approves the IPO, provided that shares are allocated on pro rata basis for investment funds with the same bid.

- 3) After fulfillment of the specified allocation percentage of investment 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.

Part 8: Offering for Retail Subscribers

The percentage of shares specified for 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 is in compliance with clause (11) of General Provisions.
- b) 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 become effective on 00/00/1437H corresponding to 00/00/2016.