

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 Resolution
Number 4-4-2018 Dated 23/4/1439H Corresponding to
10/1/2018G**

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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 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 or privately 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 offering price.

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 (a) 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 Book building period as set in paragraph (d) of Part (3) 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 – after obtaining the Authority's approval of the IPO – to offer the shares to the participating entities only during the Book building period.
- b) 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.
- c) The issuer must sign an underwriting agreement before the beginning of the subscription process.
- d) The Book building period shall not exceed (14) fourteen calendar days.
- e) The participating entities provide their bidding requests in the Book building by filling out the bid form.
- f) The participating entities shall not submit a bid with an amount of (5%) or more of the issued securities of the issuer.
- g) The participating entities shall comply with the Capital Market Law and its implementing regulations and any other investment conditions that regulate their business.
- h) 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.”

- i) Where a conflict of interest with the issuer exists, the conflicted participating entities are prohibited from participating in the Book building.
- j) The participating parties may change or cancel their bids, at any time during the book building period, provided that the change must be made by submitting an amended application form or an appended bid form (as applicable).
- k) The Authority may waive any person subject to these Instructions from applying any of its provisions in whole or in part, upon his/her request or on its own initiative.

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 and price range must be available to 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, with respect to the following:
 - 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 change in participating entities' bids shall be by filling the appended bid form.
- c) At the end of the book building period, the financial advisor shall announce the offer coverage percentage by all participating parties on its website and the website of the issuer.

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 public fund must disclose in the bid form, 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) Clients of a person authorized 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.
- 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 (6/05158) 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) Government entities, any supranational authority recognized by the Authority, the Exchange, or any other stock exchange recognized by the Authority, or the Depositary Center.
 - f) Government-owned Companies whether investing directly or through a portfolio manager.
 - g) GCC companies, and GCC funds if the terms and conditions of the fund permit that.
 - h) Qualified Foreign Investor.
 - i) Ultimate beneficiary of legal personality in a swap agreement with an Authorized Person under the terms and conditions of the swap agreements.

Part 6: Subscription Price

The financial advisor in coordination with the issuer determines the subscription price according to the supply and demand, with consideration to the following:

- 1- The subscription price must not exceed the price specified in underwriting agreement.
- 2- 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) Without prejudice to paragraph (b) 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.

Part 9: Publication and Entry into Force

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