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# Cross border capital flows expected to surge in GCC

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*UAE and Qatar continue to work on various capital market reforms*

*Investors watching share price movements at the Dubai Financial Market. Private equity groups are expected to be the main beneficiaries of the UAE's market reforms. — KT photo by Rahul Gajjar*

In the first half of 2014, the GCC region witnessed 10 initial public offerings (IPOs), which was worth $2.26 billion. There were four IPOs in Saudi Arabia, three in the UAE, two in Oman and one in Qatar. There was a surge in IPOs in the first half of 2014 when compared to same period previous year, which shows a shift towards domestic listings from international listings. Improved liquidity and reasonable valuations will continue to drive the IPO activity in the GCC region. Qatar's Mesaieed Petrochemical Holding Company was the largest issue in the first half of 2014 raising $903 million in January. The GCC capital markets are witnessing various reforms recently. In July 2014, Saudi Arabia Cabinet's approved to open the stock market for direct foreign investments. The actual opening of the market is seen during the first half of 2015. Saudi equities are currently accessible only via synthetic products for foreign investors and are less than one per cent foreign ownership of the market versus regional peers, where direct investments are available, with foreign ownership for around eight per cent. A foreign issuer whose securities are listed in another regulated exchange may apply for its securities to be registered in Saudi Arabia and admitted to listing, subject to the restrictions. Saudi Arabia has a six months average daily trading volume (ADTV) of $2.5 billion and is the most liquid market in the GCC region, accounting for 65 per cent of the regional liquidity. There is potential for a marginal 11 per cent growth in Saudi Arabia's liquidity, with ADTV levels reaching $2.7 billion. Foreign institutional investors can expect trading fees to be cut if they can buy directly into Saudi Arabia's stock exchange instead of the current requirement of buying indirectly through swaps. Foreign investors will drive improvements in efficiency, better corporate governance and make the companies more global.

In July 2014, the UAE published new rules allowing firms in the country to use existing shares when listing on local exchanges or raise fresh equity capital. The framework is a marked improvement to the existing one which is restrictive, including the need to list a minimum of 55 per cent of capital a company and for only allowing the sale of new shares when going public. Earlier restrictive regulations had led many firms to seek listings outside the UAE in recent times. Private equity groups are expected to be among the main beneficiaries of the new law, as they can now use the capital markets to exit existing investments instead of relying on trade sales to other investors to offload holdings. It will also make local IPO more attractive than private placement or international IPO. After Arabtec development regulators in the UAE have promised to tighten supervision in areas such as heavy borrowing by investors to fund leveraged share purchases and erratic disclosure of information by listed companies.

In April 2014 the Qatar Financial Market Authority (QFMA) has issued legislations, relating to mergers and acquisitions, capital adequacy for financial services, regulating and licensing depositaries, amendments to the corporate governance code in the main market and introducing new corporate governance code in Venture Market, which is junior bourse for small and medium enterprises. Qatar exchange (QE) is working on two live ETF projects, first product based on government fixed income risk from an Asian borrower and the second product is likely to be an ETF based on a representative Qatar-country index. QE will introduce central counterparty (CCP) to eliminate bilateral counterparty risks. The CCP nets all the gross trades in a given security to generate a single net settlement instruction. Settlement occurs at a Qatar central securities depository (QCSD) through the DVP (Delivery-versus-Payment) process. QE is also planning to introduce margin trading and covered short selling in the near future and will involve with regulator to evolve rules and regulations to govern the above transactions. In May 2014 Kuwait has eased capital rules for joint-stock companies to list on the stock exchange.

Under the new rules for listing on the main market, joint-stock companies need annual profits of five per cent of their capital, instead of the previous 7.5 per cent. Shareholders' equity needs to be 110 per cent of the capital instead of 115 per cent. It will also give greater flexibility to companies that cut their capital and for companies to withdraw from the stock market. The new rules will encourage firms to raise funds and broaden their shareholder base. Both the UAE and Qatar continue to work on various capital market reforms after obtaining MSCI upgrade in June 2014 and other GCC capital markets also work on various initiatives. The liberalisation of the GCC capital markets which has begun on account of MSCI upgrade continues through various reforms. The cross border capital flows in the GCC from investors in global region and within the GCC region are expected to surge on account of market reforms.

*The writer is the group chief executive officer at Doha Bank. Views expressed by him are his own and do not reflect the newspaper's policy.*