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Go West? What the NYSE Has to Offer for Gulf IPOs

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Saudi Aramco's planned IPO has put the region's companies in sharp focus for global investors. As GCC nations continue to experience shifts in economic activity, including less government spending, more companies (both state and privately owned) are looking to IPOs to tap investment.

While many GCC companies will opt to list (at least in part) in their home countries, many will dual list, with London a popular venue given its emerging market investor base and longstanding ties to the market, but is there another option that provides companies with an even greater investor pool?

The most obvious choice, the New York Stock Exchange (NYSE), is often overlooked by GCC companies looking to list, despite being the largest exchange in the world by traded volume and total market capitalisation. The reason for this perhaps (in certain circumstances) comes down to intimidation or misinformation about listing requirements or regulations, or an unfamiliarity of just what the exchange can offer in terms of investor base, particularly when it comes to the energy sector. A closer look shows that there are many benefits to listing on the NYSE, which might even outweigh the perceived challenges.

Due to the NYSE's size and quality of listed companies, the exchange attracts investors and analysts from across the globe. Coverage by a broad array of sophisticated analysts, in conjunction with the United States' extensive disclosure regime, bolsters investor confidence, potentially enhancing valuations. Accordingly, listing on the NYSE provides companies with the opportunity to market their securities to a deeper pool of capital – estimated at US$ 19 trillion, compared to London's US$ 6.19 trillion, which makes the NYSE larger than the next top four global exchanges combined.

The branding and credibility of the NYSE are arguably unrivalled. The benefits of the acquisition currency in US dollars are numerous, and the listing would provide a ready platform for strategic business expansion into the US.

In addition to its size, the NYSE allows for observance of home-country corporate governance standards, providing foreign private issuers (FPIs) the flexibility to comply with shareholder voting requirements, quorum requirements for shareholders' meetings, structure and composition of the board of directors and related continued listing criteria that might be less stringent than U.S. domestic company standards. That said, a NYSE listed company's board of directors must maintain an independent audit committee regardless of home-country standards – but it does not require a majority-independent board, or a compensation or nominating committee. Additionally, the NYSE allows financial statements to be prepared in compliance with International Financial Reporting Standards, U.S. Generally Accepted Accounting Principles (GAAP) or home-country GAAP reconciled with U.S. GAAP. FPIs are required to file an annual report containing audited financial statements, but otherwise are only required to provide semi-annual, rather than quarterly, unaudited financial information, which need not be reconciled to U.S. GAAP. Additionally, they do not need to receive shareholder approval for equity compensation or other stock issuances.

In order to list on the NYSE, an FPI may elect to qualify for listing under either the NYSE's alternate listing standards for FPIs (where there is already a broad, liquid market for the issuer's shares in its country of origin) or the NYSE's domestic listing criteria. A GCC company looking to list on the NYSE in connection with its IPO would have to represent that it expects to have at least 400 round-lot shareholders, a minimum of 1.1 million shares held by the public, and a public float of at least US$40 million. Additionally, the GCC company would have to meet one of two financial tests, either: (1) pre-tax earnings of at least US$10 million in the aggregate for the previous three years, or (2) expected global market capitalization of at least US$200 million. Notably, the NYSE offers FPIs the opportunity to undertake a confidential review of listing eligibility at no cost.

Despite the many advantages of a NYSE listing, there are still some obvious challenges. GCC businesses are working hard to develop their corporate governance and disclosure practices, but there is still much work to be done. Understandably, there are concerns about 'running before you can walk', as any governance missteps as a publicly traded company would be more publicized in the U.S. Moreover, the amount of resources and time needed for shareholders is steadily increasing in the U.S., as are the costs relating to compliance with regulatory requirements.

For many GCC companies looking to list, the NYSE should certainly be actively considered.