BUILDING A STRONG LOCAL MARKET

QATAR
CAPITAL MARKET
REPORT 2020

مركز قطر للمال
Qatar Financial Centre

REFINITIV™
DATA IS JUST
THE BEGINNING

YOUR PLATFORM TO GROW IN QATAR AND BEYOND

100%

Up to 100% foreign ownership

100%

Repatriation of profits

Legal environment based on English common law

Compelling tax & business environment

World-class regulator

10%

Corporate tax on locally-sourced profits

Streamlined & transparent company registration & licensing process

Trade in any currency

For more information visit **www.qfc.qa**
and scan the QR code below

CONTENTS

FOREWORD

Qatar is strategically positioned to develop its capital markets, enabling them to facilitate commercial opportunities, reduce aggregate risk exposure and empower domestic financial institutions to expand. The country has thus far made great strides in capital market development, increasingly attracting international investors to its growing equity market and encouraging regular local bond and Sukuk issuances. Qatar Financial Centre (QFC) and its regulator have played an integral part in this journey, working together with the Qatar Central Bank (QCB) and Qatar Financial Markets Authority (QFMA) to ensure regulatory alignment and the effortless execution of national financial development priorities. In addition, we have endeavoured to attract and retain specialised financial players that both enable and complement the offerings of local banks. Together, Qatari institutions and their international partners have fortified the country's ability to play a substantial role in the financial industry and facilitate further deepening of capital markets as they continue to mature.

A peer analysis of domestic capital market development has illustrated the need for continued regulatory support as well as private sector interest and participation. These key enablers allow for the expansion of both equity and debt capital markets, ultimately bolstering the respective economies in which they are located. The ability to tap local capital markets is especially important in trying times, such as we are all now experiencing amid the COVID-19 pandemic.

In recent years, we have been hard at work improving our regulatory, legal and tax frameworks to attract relevant financial institutions and enable the issuance of debt instruments. We have also ensured that our constituents have access to a fully independent and transparent judicial process through the Qatar International Court and Dispute Resolution Centre (QICDRC), protecting the interests of Qatar's foreign investors.

QFC has prioritised rolling out rules that meet global best practices, particularly for asset managers and investment vehicles, and this has made cutting-edge investment activities accessible to the broader Qatari market. We have subsequently welcomed several niche asset managers to the QFC platform and witnessed the issuance of two private debt transactions. As part of its strategy, QFC has also set out to encourage the primary listing of QFC firms on the Qatar Exchange aiming to reach 5% of market capitalisation.

At QFC, we foresee a continued emphasis on the development of local capital markets, which will in turn expand opportunities for promising Qatari financial institutions. While the initial emphasis will be honed on the needs of local corporates and public sector entities, Qatari capital markets will soon be able to cater to international investors as well as our New Emerging Belt Initiative partners.

This in-depth report highlights major capital market advances in Qatar, identifies how comparator markets have forged ahead on their developmental journeys and how QFC and its regulatory partners can build further on its successes to become a regional world-class financial hub.

YOUSUF MOHAMED AL-JAIDA
Chief Executive Officer & Board Member
Qatar Financial Centre Authority

EXECUTIVE SUMMARY

Over the last couple of years, capital markets have witnessed substantial growth, particularly in global emerging markets. Amid global economic uncertainty and the staggered liftoff of interest rates in developed markets, investors flocked to emerging capital markets seeking higher returns and growth prospects. Qatar, supported by a solid AA- rating and strong economic fundamentals, has and will continue to attract international investors.

Qatar is on the path to developing deeper and more diversified capital markets, backed by the Qatar Financial Market Authority (QFMA) and the QFC Regulatory Authority (QFCRA), which have issued rules preparing for the governance and offerings of existing and new financial investments in the country. These regulations cover ETFs, REITs as well as investment funds and vehicles, among other market segments.

Bond and Sukuk issuance in Qatar reached US$28 billion in 2019, largely driven by government issuance. Over half of this figure was issued in international markets such as Taiwan, which saw the first Formosa Sukuk issued by Qatar Islamic Bank in 2020, raising US$800 million. Earlier in 2018, the Qatari government became the first sovereign to issue a Formosa bond, with repeat issuances in 2019 and 2020 for a total of US$17 billion outstanding. All three issuances were oversubscribed signalling high demand from Asian investors for Qatari debt, especially after its inclusion in the JP Morgan Emerging bond Index (EMBI).

Qatar is the region’s second-largest equity market with a market capitalisation of US$160 billion from 47 listed companies by the end of 2019. The government and Qatar Stock Exchange (QSE) have taken several measures, foremost among them increasing foreign ownership limits, to make the market even more attractive to foreign investors following its inclusion in the MSCI Emerging Market Index. Although IPOs have been few in recent years, they have included the listing of a family-owned company – Investment Holding Group – in 2017 as QSE has been keen on boosting listings from family-owned businesses, as well as SMEs on its parallel Venture Market.

The smallest of Qatar’s capital markets, investment funds, were worth US$19.6 billion in AuM in 2019. Nonetheless, it is brimming with potential as several new investment managers choose QFC as their regional base of operations. The introduction of exchange-traded funds (ETFs), including Qatar’s first Islamic ETF, in March 2018 was met with high international demand, with two more on the horizon as well as real estate investment trusts (REITs). QFC is also home to an emerging venture capital and angel investment sector, with key players keen on funding Fintech and technology startups in Qatar.

Qatari regulators are on track to potentially adopt a more comprehensive approach to capital market development, currently considering potential markets and new avenues for foreign investment. The US$31 trillion sustainable/ ESG investment market presents Qatar with an opportunity to establish a niche market in the region. Capitalising on mandatory ESG reporting for listed companies and the burgeoning Islamic fund market, Qatar stands ready to serve evolving investor preferences and their appetite for emerging market investments.

QATAR CAPITAL MARKET OVERVIEW

West Bay in Doha. NO8 / SHUTTERSTOCK.COM

DEBT CAPITAL MARKET

Conventional international bonds lead market as recovery continues

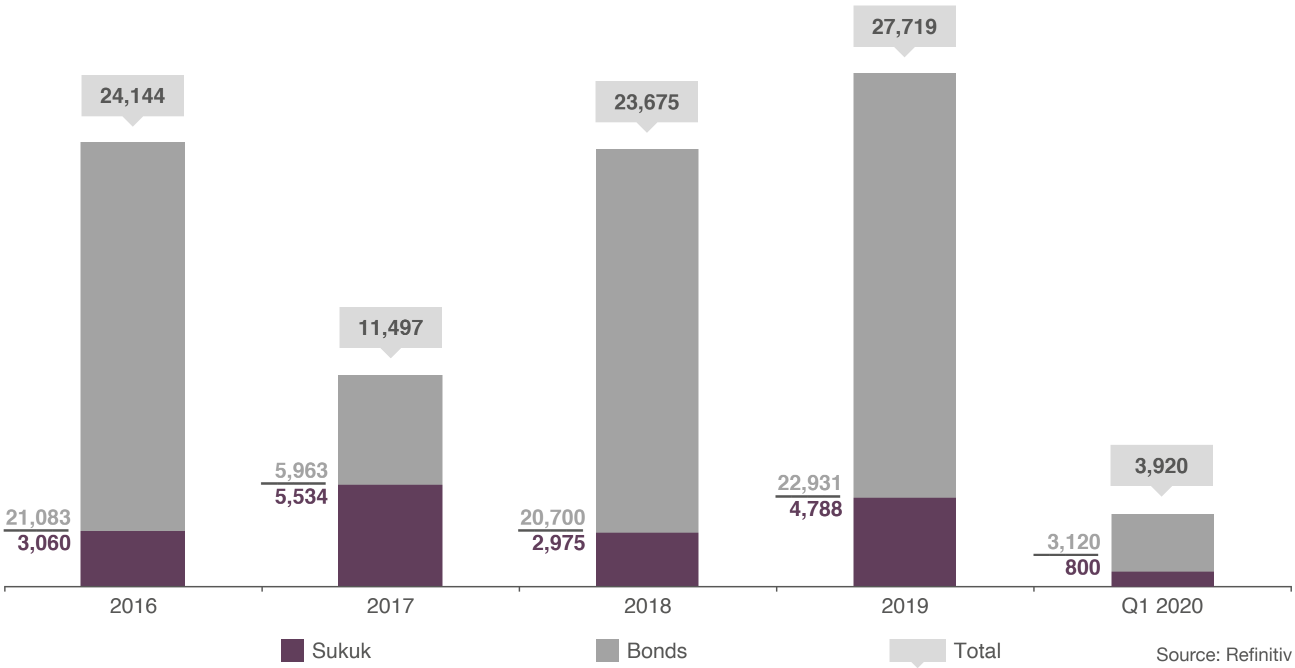
Bond and Sukuk issuance in Qatar totalled US$28 billion in 2019, representing a CAGR of 28% since 2015. Growth in 2019 was largely driven by conventional bonds, which made up 83% of total issuance, and particularly sovereign bonds, which included the successful issue of a US$12 billion international jumbo bond in March 2019. Sukuk issuance grew by a moderate CAGR of 6% from 2015, despite continued issuance from both government and corporates. Government issuance has been the main driver of Sukuk activity in Qatar, but sovereign Sukuk remain limited to the domestic market as the geopolitical landscape in the region hampered demand from GCC-based Islamic financial institutions – a huge source of global Sukuk demand. International issuance accounted for 60% of total bond and Sukuk issued by Qatar entities since 2015, the majority (57%) of which USD-denominated. Other international issuances during this period targeted Asian investors, including Chinese yuan and Japanese yen.

Sovereign issuances leading the market; corporate bonds limited to banks

Domestic – QAR-denominated – issuance, accounting for the remaining 40%, was predominantly government-issued. The Qatari government, responsible for 99% of domestic issuance, continues to issue sovereign bonds despite its limited budget financing needs so that it can maintain a benchmark yield curve to facilitate pricing for semi-sovereign and corporate issuances. One of the objectives of Qatar's first Strategic Plan for Financial Sector Regulation is to encourage local companies to raise funds from the domestic market and reduce their reliance on foreign funding. This would warrant a regulatory initiative to establish guidelines and policies to encourage corporate bond issuance by Qatari companies in their home market.

Emerging markets sold a total US$2 trillion of sovereign bonds in during 2019 – Q1 2020, the highest level since 2016, of which Qatari issuances accounted for 1.5%. Qatar enjoys an AA- rating by Fitch, notably higher compared to most emerging market sovereign, which is supported by a strong sovereign net foreign asset position and

QATAR BOND AND SUKUK ISSUANCE (2016–Q1 2020, US$ MILLION)



Source: Refinitiv

external surpluses, and one of the world's highest ratios of GDP per capita. Its bonds were included in the JP Morgan Emerging Market Bond Index (EMBI) in 2019. This gave the country access to a wider investment base and raised demand for Qatari debt, which offers higher risk-adjusted returns compared to other emerging markets.

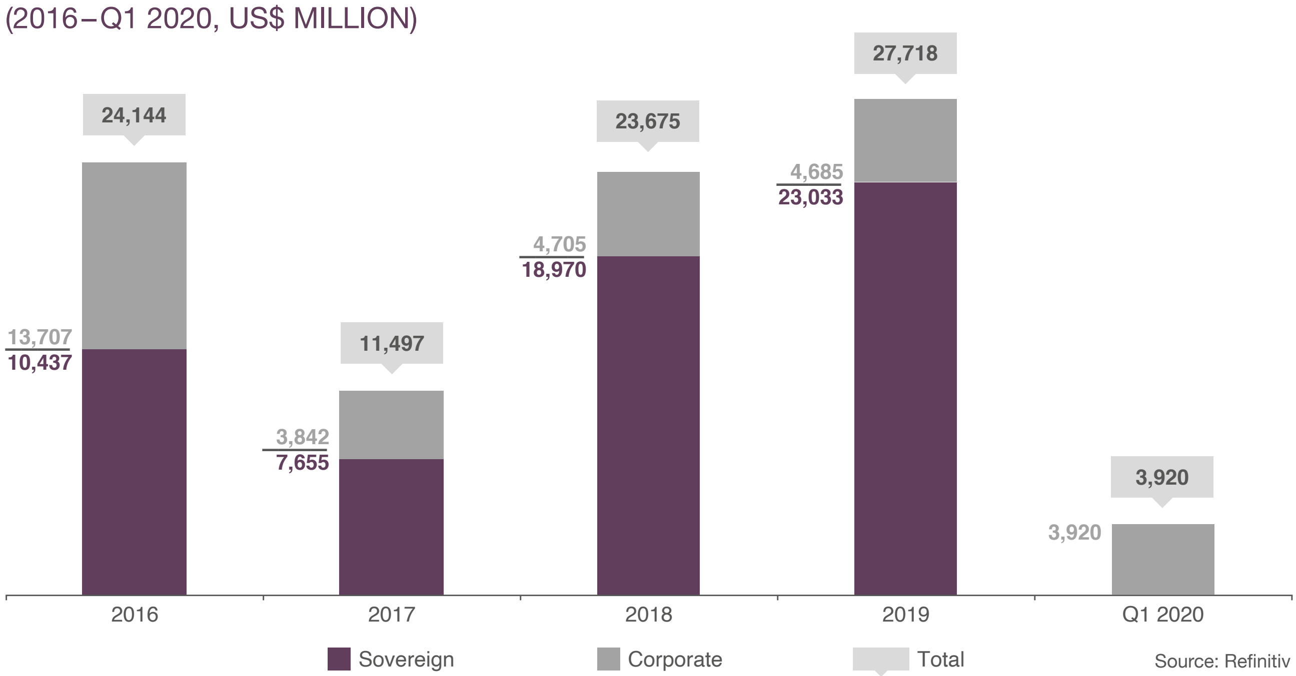
International bond issuance nearly came to halt with in February 2020 as panic ensued in global financial markets, brought on by the spread of the COVID-19 pandemic. The Qatari government issued a US$10 billion international bond in April 2020, the first GCC state to issue debt following a plunge in oil prices brought on by the pandemic, which raised borrowing costs for the governments of oil-producing countries. The triple tranche bond was 4.5 times oversubscribed, signalling strong investor demand despite uncertainty in global markets.

The government had previously made a successful comeback to international markets with two jumbo bond issuances in April 2018 and March 2019, each raising US$12 billion. Both bonds were heavily oversubscribed by international institutional investors, racking up order books that exceeded US$50 billion each. This demonstrates not just the ability of Qatar to overcome the impact of recent regional developments but also the strength of demand for emerging market sovereign debt as yields diminished in developed markets.

Corporate bonds and Sukuk issued by Qatar-based entities in 2019 were marginally lower than a year prior at US$4.7 billion, or 17% of total issuance, compared with 20% in 2018. Corporate activity across both the Qatari bond and Sukuk markets in the past five years has been almost entirely driven by commercial banks, except for Sukuk issued by Ezdan Holding Group in 2016 and 2017, and bonds issued by Ooredoo in 2016 and Qatar Reinsurance in 2017. These banks have been tapping European and Asian markets where institutional investors have shown interest in Qatari debt, since the diplomatic rift ensued in 2017.

Qatar's solid credit rating, strong investor demand and inclusion in benchmark emerging bond indices present sizeable opportunities for new corporate issuers other than financial institutions. Qatar-based corporates are yet to

QATAR BOND AND SUKUK ISSUANCE – SOVEREIGN VS. CORPORATE (2016–Q1 2020, US$ MILLION)



Source: Refinitiv

be persuaded to tap the local bond markets in favour of more accessible and cheaper bank financing. These corporates may be coaxed by relaxing capital issuance regulations and more targeted awareness efforts as to the benefits of issuing bonds compared to bank financing as a viable and attractive alternative.

Large corporates in the energy, transport and logistics sectors make ideal candidates for issuing bonds and Sukuk since they require substantial financing for working capital over a long-term horizon. Issuing debt instruments will help diversify the company's funding base, and it is also a less restrictive compared to bank financing as the debtors have no say over the running of the business – granting them significantly greater freedom of operations.

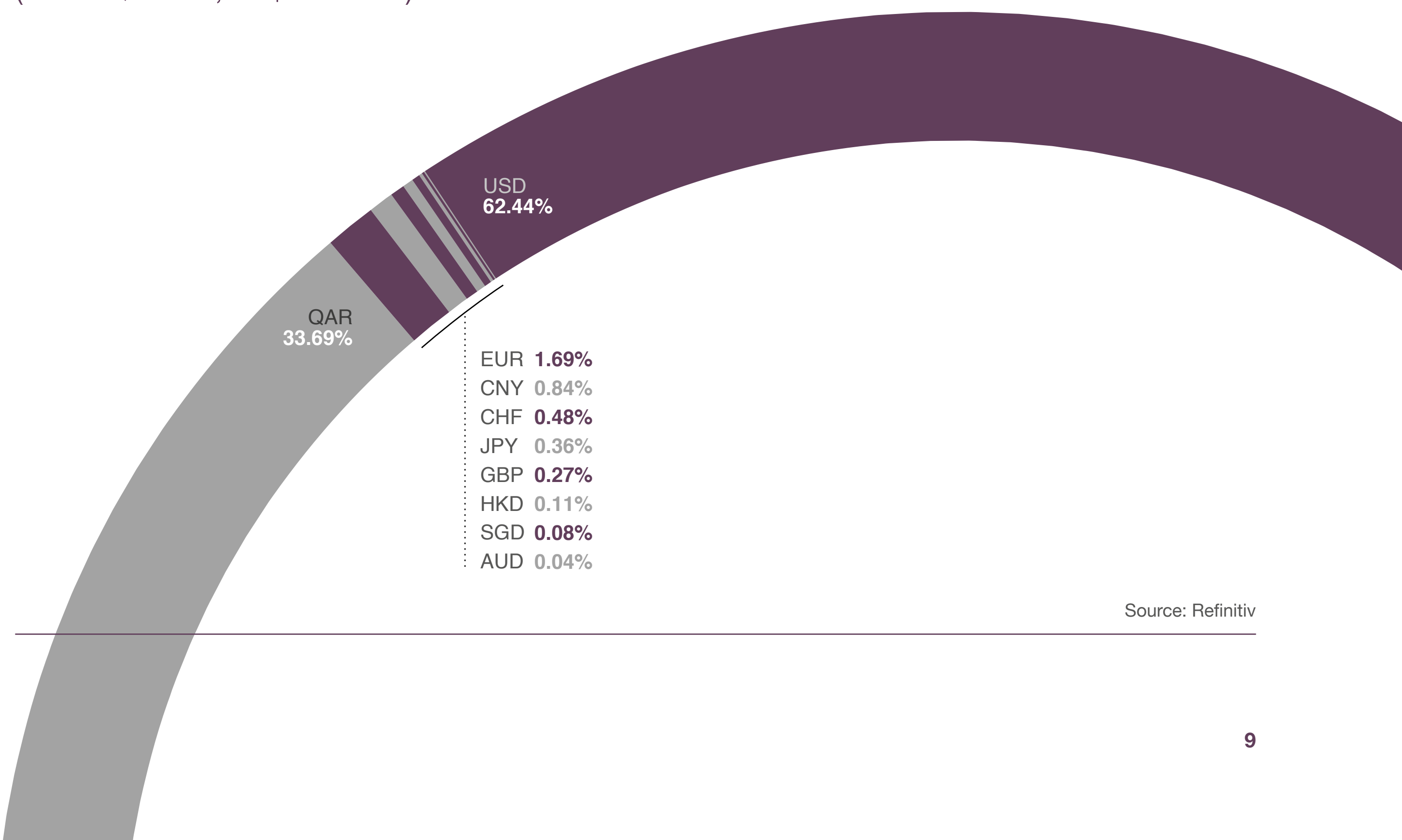
Qatari issuers target Asian markets to diversify funding sources

Qatari issuers turned to new markets as changes in the region's economic landscape emerged in 2017, mainly to East and Southeast Asia, to diversify their funding sources. Qatar National Bank has been a particularly active issuer, bringing to market Formosa bonds, which are issued in Taiwan but denominated in currencies other than the New Taiwan dollar, and renminbi-denominated Dim Sum bonds, in addition to bonds denominated in yen, Hong Kong dollars and Singapore dollars. The region's first renminbi clearing centre was established in the Qatar Financial Centre (QFC) in 2015 to facilitate trade, funding transactions and investments between China and the wider Middle East region under China's Belt & Road Initiative.

Taiwan is a particularly attractive destination for issuers because its banks' high degree of liquidity allows borrowers to sell debt at lower costs compared to other markets. The Qatari government has also listed parts of its last three international bond issuances on the Taipei Exchange, becoming the first sovereign to do so in 2018. The 30-year tranches of these issuances, worth US$17 billion combined, were issued as Formosa bonds. Taiwan's domestic insurance sector has been the largest investor in Formosa bonds due to its preference for long-maturity investments.

Despite their local listing in Taiwan, Formosa bonds are now classified as foreign investments on local insurers' books, capped at 62.5% of investable assets, following increased restrictions by Taiwan's Financial Supervisory

QATAR BOND AND SUKUK ISSUANCE – CURRENCY BREAKDOWN (2016–Q1 2020, US$ MILLION)



Source: Refinitiv

Commission (FSC). In June 2019, the FSC permitted the issuance of Formosa Sukuk capped at 10% of banks' net assets and 62.5% for insurers (within the limit on foreign bond investments). Immediately following the FSC decision, Qatar Islamic Bank debuted a US$800 million Formosa Sukuk issuance in February 2020. This issuance was upsized from an initially announced US$650 million level due to high investor demand.

Looking forward, the economic pressures COVID-19 has posed on some industries will likely force them into consolidation in coming years. The strong global investor demand for Qatari debt, coupled with near-zero interest rates, against a backdrop of accommodative bond markets present Qatari corporates with an opportunity to raise cheap dollar-denominated debt to fund M&A transactions as part of the anticipated consolidation wave across certain industries.

EQUITY CAPITAL MARKET

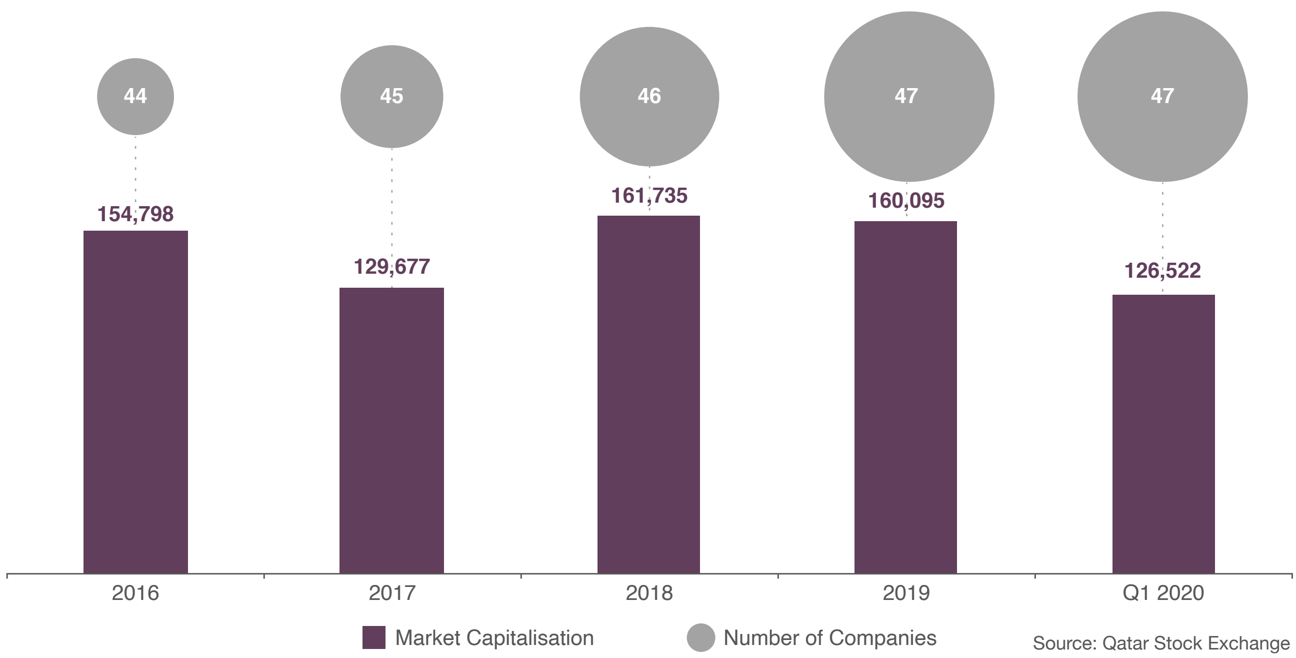
QSE seeking diversification through IPOs

The Qatar Stock Exchange (QSE) had a market capitalisation of US$160 billion in 2019, up from US$152 billion in 2015, making it the second-largest stock market in the GCC. As the recent oil price crash in the wake of the COVID-19 pandemic hampered the performance of regional and global stock markets, the exchange declined 21.3% during the first quarter of 2020. However, Qatar's robust economy, solid corporate fundamentals and a QAR 10 billion (US$2.75 billion) stock purchase program should provide a safety net for Qatari equities during the year.

Initial public offerings (IPOs) have been limited in the past three years amid a global slowdown in new listings, however slower than elsewhere in the world. There have been just four IPOs in Qatar in the past five years, the most recent of which was the Baladna IPO in December 2019, which raised US$395.6 million in capital. Baladna is a premium dairy and beverage company, with a leading share of the domestic market. Nonetheless, QSE has announced a robust pipeline of upcoming IPOs, comprising listing from various industries. At least two of these are expected during 2020, including industrial and retail companies.

QSE saw a new listing of a family-owned corporate, Investment Holding Group

QSE MARKET CAPITALISATION (2016–Q1 2020, US$ MILLION)



Source: Qatar Stock Exchange

Market liquidity has been boosted by increased trading activity from foreign investors. Non-Qatari institutional investors have become much more active in the past five years, with trading transactions having risen to 42.6% of total trading value in 2019.

(IHG) in 2017. There is a similar listing of a family-owned retail company on the horizon. The IHG IPO raised share capital worth US$228 million, which was open to Qatari nationals, wholly Qatari-owned institutions and QSE-listed companies.

Qatari businesses have been less inclined to pursue equity funding as they have enjoyed easy access to cheaper bank financing. Most corporates, especially family-owned businesses, also have concerns about the impact of listing on their ownership stake and control of their assets.

However, this is set to change in the wake of the Coronavirus pandemic that has wreaked havoc on the global economy and financial system, causing oil prices to plummet below US$30/bbl. This is expected to place significant pressure on banking liquidity and, although interest rates will remain low, banks will now be increasingly hesitant to extend new credit lines.

QSE has been active in raising awareness among small business owners and family-owned companies of the advantages of listing on its market. IPOs offer businesses an alternative funding channel that has several advantages, such as granting management more flexibility in running its operations. It offers long-term financing with no payout obligation, and investors can be called upon for further funding through rights issues. Also, the disclosure requirements by the stock exchange will ensure that companies have strong corporate governance.

Other than the QSE's main board, the exchange has backed the government's aims under the Qatar National Vision 2030 to support development of the SME sector by launching the QE Venture Market in 2015. This market serves as a dedicated stock exchange for SME listings, which despite possessing possibly shorter track records and higher risk profiles, allows them to access funding through the equity capital market.

Investments encouraged by stock split, raised foreign ownership limit, ESG reporting

To attract more individual investors, QSE implemented a 1:10 stock split in 2019 across all companies on the exchange reducing the nominal value of shares to QAR 1. The purpose of the stock split was to improve market liquidity through increased trading activity (generating more shares available for trading) and to make singular equity shares more affordable to the investors. Within the first month following the stock split, weekly trading volumes on the exchange more than doubled (154% increase) driven by foreign institutional investors in addition to increased trading activity from local individual investors.

Market liquidity has been boosted by increased trading activity from foreign investors. Non-Qatari institutional investors have become much more active in the past five years, with trading transactions having risen to 42.6% of total trading value in 2019 from 26.6% in 2015. The rise in activity followed an increase in foreign ownership limits for QSE listed companies to 49% in 2014 from 25%. This was done as part of Qatar's commitment to increase foreign ownership limits following the country's upgrade to 'emerging market' status on the MSCI Emerging Market Index in 2014., which subsequently attracted US$2.2 billion in foreign capital inflows by 2019. Qatar was similarly upgraded on the FTSE Russell Global Equity Index Series over 2016 and 2017, further enhancing the stock market's depth and liquidity and expanding its international investor base.

The inclusion of QSE in these indices has and could further attract massive investment inflows from asset managers and institutional investors who track these benchmarks. It also requires the QSE to improve its transparency and reporting, legal frameworks and overall investment environment, thereby making its constituent stocks still more attractive to foreign investors. Foreign investors currently own 11.5% of QE-listed shares, on aggregate, compared to 6.3% at the end of 2013 (before the ownership limit was raised).

Qatar-listed stocks also became a more attractive proposition for foreign investors following the introduction of responsible investment mandates, with environmental, social and governance (ESG) reporting soon becoming mandatory for all listings. However, the concept is not new, with ESG reporting having been carried out since 2016 on a purely voluntary basis. QSE-listed companies will now be required to report their ESG metrics through the QSE Sustainability and ESG platform, which was launched in 2018 to uphold the exchange's commitment to the Sustainable Exchanges initiative. Three listed Qatari corporates, Ooredoo, Doha Bank and Qatar National Bank, have already begun their ESG rating processes with others soon to follow. Concomitantly, Qatar was one of the earliest adopters of corporate governance best practices under the United Nations Principles for Responsible Investment.

ASSET MANAGEMENT

QFC epicenter of Qatar asset management

Qatar has a growing asset management sector, with assets under management (AuM) totalling US$19.6 billion at the end of 2019. With the increasing volatility in global markets driven by COVID-19, investment portfolios worldwide will be undergoing rebalancing and perhaps structural reformation in 2020. Investment managers will also begin to rethink their operating models, aiming for leaner and more efficient structures. This may occur to a lesser extent for Qatar-focused funds as substantial financial incentives offered to the private sectors and government support for listed Qatari corporates help maintain a relatively stable outlook for the domestic equity market. With domestic portfolios somewhat protected in the short term, still ongoing infrastructure and existing free zone developments in Qatar present both local and foreign investment managers with opportunities to introduce new, and potentially more lucrative, investment products touched upon later in this report.

QFC-based investment managers dominate Qatar's fund market handling over half the market's AuM. Outside of QFC, there are two smaller asset managers, which are fully Shariah-compliant. Some of the local banks have also been active in the funds space, including Qatar National Bank and Doha Bank.

QFC-based investment managers, such as Al Rayan Investment and

PHOTO: HASANZAIDI / SHUTTERSTOCK.COM

QInvest, dominate the Shariah-compliant funds space in Qatar with US$1.6 billion combined AuM by the end of 2019. Established in QFC in 2007, QInvest is the country's largest investment bank and one its most active fund managers, offering a range of Shariah-compliant funds. In addition to hosting the QInvest Managed Account Platform (QMAP) multimanager service, it has also successfully launch four flagship funds through its innovative Ijara platform. Al Rayan Investment, a subsidiary of Masraf Al Rayan, is another successful QFC-based Islamic fund manager and Qatar's largest Sukuk manager. Al Rayan manages the Al Rayan GCC Fund, the world's largest Qatar-based mutual fund and largest equity GCC fund. It has also launched Qatar's first Islamic ETF, making Al Rayan the manager of the world's largest Islamic equity ETF.

On the conventional side, Aventicum Capital Management Qatar –a joint venture between Credit Suisse and the Qatar Investment Authority – is another active player. Aventicum is now the new manager of the QE Index Exchange Traded Fund (QETF), Qatar's first ETF, after it purchased several funds and mandates from Amwal in a bid to strengthen its local presence.

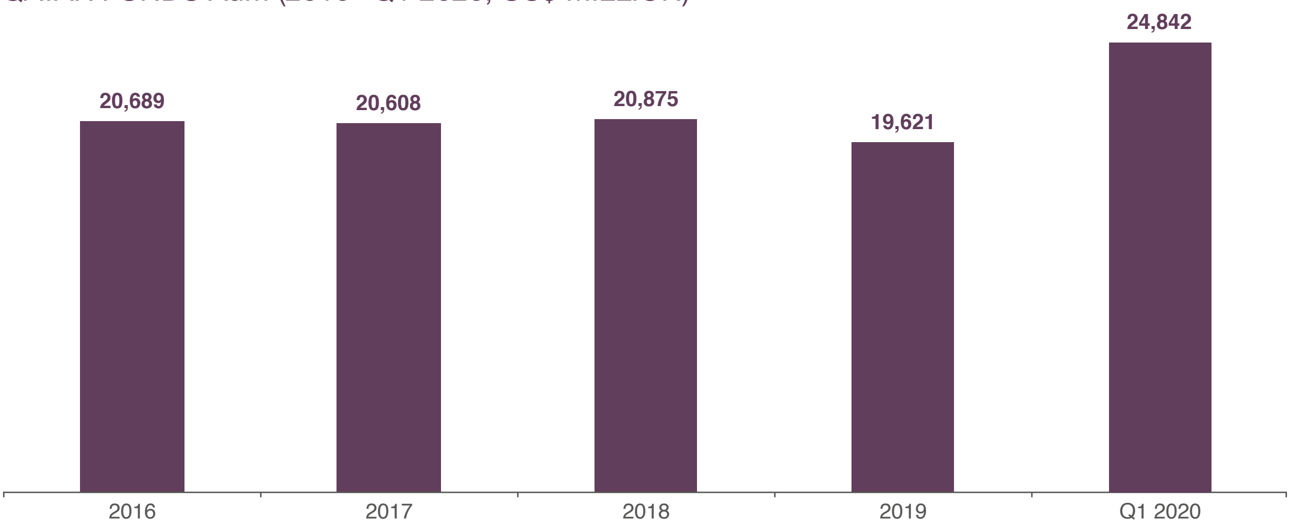
The sector has garnered much interest with several new investment managers establishing operations in QFC, which has afforded investment managers tax exemptions for setting up sizeable operations, subject to conditions. Recently joining QFC in 2019, Sanguine Investment Managers has received regulatory approval for the launch of its flagship Sanguine Protected Fund, with more funds held in the pipeline. The fund will be focused on developing sustainable infrastructure in emerging markets that will simultaneously benefit local communities, mainly in Southeast Asia and sub-Saharan Africa.

Earlier in 2018, Qatar Insurance Company has relocated its subsidiary multi-asset class manager – Epicure Investment Management – to Qatar, which was established at QFC. The asset manager is one of the largest in the region, managing assets worth US$5 billion, through an investment offering including UCITs and SICAV funds. Epicure will be offering investment business consultation service, aiming to develop and grow the domestic fund market.

New ETF launches transforming asset management landscape

The asset management landscape in Qatar largely centred on mutual funds in the past, but the introduction of exchange-traded funds (ETFs) over the past two years has transformed the composition of the market.

QATAR FUNDS AuM (2016–Q1 2020, US$ MILLION)*



*Based on disclosed data

Source: Qatar Stock Exchange

“Epicure was established to leverage the investment expertise of the QIC team and meet demand from institutional investors seeking regional and emerging market (EM) positions. With the planned launch of EM fixed income products and global private equity, coupled with our existing equity and real estate portfolios, Epicure aspires to be a globally recognised EM investment firm.

The asset management community is also supported by QFC’s accommodative structure and favourable tax regime. Looking forward, Qatar’s economic diversification strategy, which includes a focus on fintech, finance, logistics & manufacturing and Public Private Partnerships (PPPs) present unique opportunities for the investment community.”

Sh. Hamad Al Thani
Senior Vice President – Investment & Treasury
Qatar Insurance Company (QIC)
SEO, Epicure

“Al Rayan Investment (ARI) is proud to have been the first Islamic investment house established on QFC’s platform. QFC has played an active role in ARI’s journey to be a regionally respected brand as well as the largest Islamic asset manager in Qatar with over US$1 billion in assets under management. QFC’s supportive infrastructure has enabled ARI to assemble a world-class team of talent that now manages the world’s largest Islamic equity ETF and largest Islamic Gulf equity fund. As its ambitions and mandates grow, ARI aims to remain a key participant in the development of Qatar’s capital markets; and the QFC, which has grown to be a vibrant financial centre, will remain the base for all our operations.”

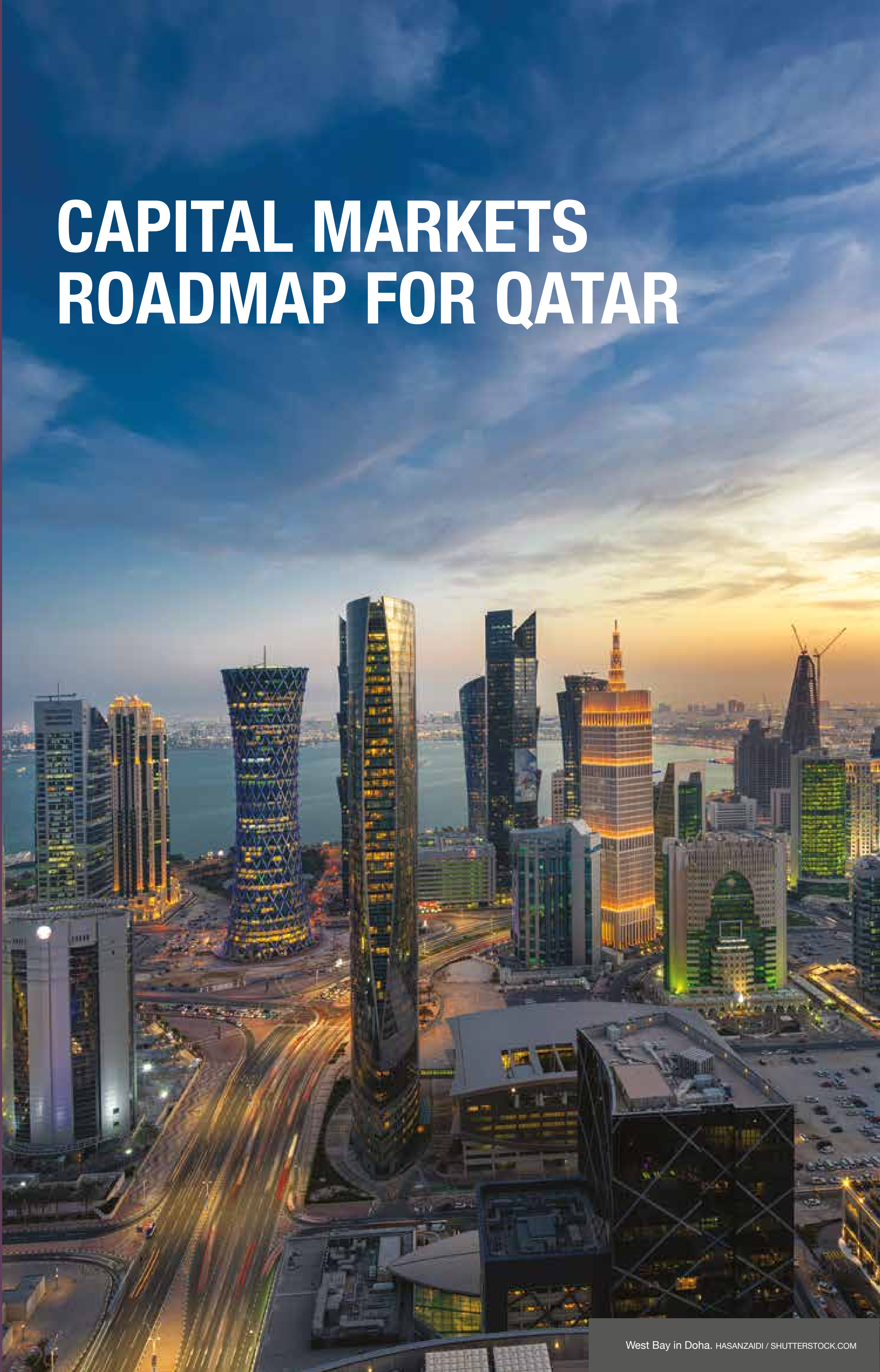
Akber Khan
Senior Director – Asset Management
Al Rayan Investment

In March 2018, QFC-based investment manager Amwal partnered with Doha Bank to launch Qatar’s first ETF on the QSE. The QE Index ETF tracks the Qatar Exchange Index of the top 20 listed companies by market capitalisation and liquidity. Qatar’s first Shariah-compliant ETF soon followed from Al Rayan Investment, making Qatar the second-largest of just nine jurisdictions to have rolled out Islamic ETFs. The Al Rayan Qatar ETF tracks the performance of the QE Al Rayan Islamic Index of Shariah-compliant stocks traded on the QSE. It is the world’s largest Islamic equity ETF and the largest ETF in the GCC. The ETF market is set to grow with the expected launches of two new ETFs.

Recent and planned launches of ETFs demonstrate the efforts being made by asset managers to mainly attract international and sophisticated Qatari investors. They also enable asset managers to tap into the retail market, as the structure of exchange-traded funds makes them more readily accessible to retail investors. The minimum investment in the ETF is the cost of one share, which is less than QAR 2.1 (US$0.58), whereas investing in mutual funds in Qatar requires a minimum initial investment of QAR 20,000 (US$5,500).

The next addition to the Qatari fund market is set be real estate investment trusts (REITs) after the Qatar Financial Centre Regulatory Authority (QFCRA) amended its rules to allow their introduction, while the QSE is looking into listing this type of fund.

CAPITAL MARKETS ROADMAP FOR QATAR



West Bay in Doha. HASANZAIDI / SHUTTERSTOCK.COM

In the following section, we look at potential directions towards establishing Qatar as a world-class investment hub, based on global practices implemented in a selection of leading and upcoming capital market jurisdictions.

SUMMARY — KEY RECOMMENDATIONS FOR QATAR'S CAPITAL MARKET DEVELOPMENT

- **ESTABLISH A JOINT COMPREHENSIVE MASTERPLAN** highlighting government commitment to capital market development
- **ENHANCE REGULATORY FRAMEWORKS** considering the changing market landscape, foreign investors and incentives for issuers
- **POSITION QATAR AS A REGIONAL DESTINATION** for sustainable investment hub capitalising on Islamic funds market
- **BOOST IPO ACTIVITY** through government privatisation and incentivising family business and SME listings
- **IMPROVE EFFICIENCY OF CORPORATE BOND ISSUANCE PROCESS** and introduce cost savings to encourage local corporates issuance
- **INTRODUCE NEW INFRASTRUCTURE AND COMMODITY FUNDS** offering exposure to mega government infrastructure projects
- **CREATE A DERIVATIVES MARKET**, initially offering single-stock futures contracts
- **SET UP PRIVATE PENSION SCHEMES** targeting expat workforce
- **PROVIDE GOVERNMENT SUPPORT AND INCENTIVES** to attract more VC and PE investment
- **INCORPORATE BLOCKCHAIN TECHNOLOGY** in trading infrastructure to enhance QSE capabilities
- **EXPLORE PARTNERSHIPS WITH FOREIGN REGULATORS**, exchanges and clearing houses

PILLAR 1: SUPPORTING THE WIDER ECOSYSTEM

Establishing capital markets as a government priority with sub-sector initiatives

The further development of Qatar's capital markets and their success depend upon strong government support and commitment. Some of the objectives of the Qatar National Vision (QNV) 2030 and both Strategic Plans for the Regulation of the Financial Sector have addressed some aspects of capital market development, mainly regulation. However, establishing a joint comprehensive masterplan dedicated to capital markets by financial sector regulators, would further underline the government's commitment to establishing Qatar as a world-class investment hub and financial centre.

Capital markets in Malaysia have significantly broadened and deepened with the implementation of Securities Commission Malaysia's (SC) Capital Market Masterplans, supported by Bank Negara Malaysia (BNM). During the implementation of the SC's first masterplan, which ran from 2001 to 2010, the size of Malaysia's capital markets tripled to more than RM 1 trillion (US$237 billion).

Today, Malaysia boasts robust and internationally recognised regulatory frameworks that have facilitated growth, liquidity and innovation in capital markets. The main themes of Malaysia's current (second) masterplan are growth and governance, setting out to improve capital market efficiency. The most recent plan included strategies to promote capital formation by increasing private sector participation in the VC and PE industries, supported by formalised regulation and a more effective tax regime. Another priority is widening access to capital markets by facilitating the growth of small- and mid-cap companies' public listings (IPOs), in addition to opening the bond market to new economic sectors. Other strategies include promoting SRI investments, establishing private retirement schemes, deepening secondary market liquidity and expanding the foreign investor base through strategic partnerships with other exchanges abroad.

The plan also outlined governance strategies that ensure a robust regulatory approach to govern a changing market landscape with a broader coverage of products and services, which is conducive to innovation in capital markets. The plan also aims to encourage active stakeholder participation through self-regulation and strengthened corporate governance, to enhance confidence in the integrity and soundness of Malaysia's capital markets. Qatar's plan could reflect very similar priorities, taking local context into account.

More recently, and in the Gulf region, Saudi Arabia had introduced plans for capital market development as a main pillar of its Financial Sector Development Plan (FSDP) in 2018. Although its launch was also intended in 2017, Saudi's Capital Market Authority (CMA) issued its Capital Market Strategic Plan in 2019, setting an ambitious roadmap to match leading capital markets such as London and New York.

"As one of the leading asset managers in the country and the region, QInvest is fully supportive of the initiatives promoting the growth of local capital markets across all asset classes. Qatar provides a strong platform for us and lets us work with an increasingly astute and discerning investor base who have shown a strong rotation towards domestically based managers in recent years. Moreover, the proactive approach taken by the regulators towards local harmonisation and global partnerships, gives us a great platform to work with a growing regional and global client base."

Dr. Ataf Ahmed
Head of Asset Management
QInvest

SC MALAYSIA CAPITAL MARKET MASTERPLAN 2001-2010 – KEY INITIATIVES

Issuers	Deepening and broadening the issuer base by improving access to capital markets, focusing on domestic corporate bond market development. ■ Centralised the regulatory authority to reform and streamlined the issuance process for corporate issuers ■ Developed frameworks that encouraged the development of new product categories, including Sukuk REITS, MBS and ABS. ■ Permitted and encourages foreign corporates to issue local currency bonds.
Investors	Enhancing corporate governance and shareholder protection and liberalising the investment management industry. ■ Issued recommendations and guidance to enhance corporate governance, disclosure and transparency based on international best practice ■ Expanded the range of products and services by allowing institutional investors to invest in unlisted VC and PE funds and exchange-traded derivatives and outsource fund management to third parties. ■ Liberalised the FX administration rules, which facilitate larger trade and FDI flows.
Market Institutions	Modernising equity and derivatives exchanges to improve the competitiveness and efficiency of market institutions and to enhance liquidity and efficiency in the secondary market. ■ Formed Bursa Malaysia from the merger of two equities exchanges, three derivatives exchanges, three clearinghouses, and one central depository. ■ Demutualised the exchanges to raise capital to fund their development, enhance corporate governance and incentivise exchange to serve interests of all stakeholders.
Market Intermediaries	Consolidating and reforming the brokerage industry to increase economies of scale and scope. ■ Issued policy outlining a strategy for fostering mergers and acquisitions of brokerage firms ■ Established incentives for the creation of a new class of full-service "universal brokers" (UBs) to offer a wider range of services ■ Deregulated the brokerage industry's fixed-fee structure, branching restrictions and foreign participation
Niche Market	Developing an Internationally Competitive Islamic Financial Center ■ Established a viable parallel market for Islamic financing and investment" ■ Developed world's first Islamic accounting standards ■ Issued new regulations on Sukuk and Islamic unit trusts ■ Provided tax incentives to further develop the Sukuk market ■ established the Malaysia International Islamic Financial Center (MIFC) ■ entered into mutual-recognition agreements (MRA) with the UAE and Hong Kong on the cross-border marketing and distribution of Islamic funds.

Source: Center for Financial Markets, Milken Institute

The Saudi government and the CMA have made great strides during its initial implementation of its Capital Market Plan. Since 2017, the government has been stimulating activity in the domestic debt market through its sovereign Sukuk program that has made it the second-largest sovereign Sukuk issuer globally. By reducing issuance costs, the CMA has encouraged more activity in the primary debt market, and it has facilitated more activity in the secondary market by lowering commissions and zakat (tax) exemptions for sovereign Sukuk investors.

The Saudi stock exchange, Tadawul, has successfully launched its parallel market, Nomu, although its listings do not yet include any small-cap businesses. Despite plans for several listing of government entities, only one government-related IPO was completed thus far. Relatedly, the Saudi REIT market has boomed since its first listing in 2016 that followed the release of a dedicated regulatory framework. Regulations were also issued for derivatives trading in advance of Riyadh's upcoming launch of a new derivatives market.

The Envisioned Plan for Qatar

A masterplan for Qatar's capital markets should identify specific initiatives to encourage more primary market issuances, facilitate liquidity in secondary markets, establish a wider investment pool, and promote foreign investment through the development of the appropriate regulatory frameworks, market infrastructure, capacity building

"Located in a country with highest per capita income, the Qatar Stock Exchange (QSE) is not only an unrivalled platform for business owners to raise capital, but it has rapidly emerged as an investment destination for long term foreign institutional investors looking for opportunities in emerging markets. Qatari stocks are well regarded as defensive plays providing stable long term returns in terms of both dividends and capital appreciation.

QSE is home to the world's largest Islamic equity ETF, offering access to resilience and robustness of Qatari economy. QSE also offers access to the blue-chip companies and crown jewels of Qatar in one single trade via QETF listed on the bourse. Both these ETFs have been offered in partnership with QFC based asset managers.

The QSE is now on a mission to transform itself as an investment destination of choice for ESG sensitive investors by encouraging voluntary disclosure of ESG relevant information by its listed companies. We are working with market participants to develop a sustainability and ESG benchmark index for QSE listed companies. Watch this space!"

Mohsin Mujtaba
Product and Market Development
Qatar Stock Exchange

and incentivisation programs. More importantly, the plan should emphasise the regulatory support required to encourage active participation in capital markets.

Qatari regulators have ensured that the necessary regulatory frameworks are issued and updated before a new investment product is introduced to the market. However, it is crucial to scrutinise the efficiency of application and approval processes and regulatory requirements, to ensure that procedural bottlenecks do not impede market development. Malaysia has set an example for overhauling procedures through updated regulation, which has helped establish one of the most active debt markets in Asia.

The long-term growth of Qatar's domestic debt capital market should be a top priority in the masterplan with a focus on driving corporate bond and Sukuk issuance. With a sovereign benchmark yield curve in place, regulators must focus on eliminating bottlenecks in the issuance and listing processes that face corporate issuers and consider the introduction of cost-saving incentives to attract corporate issuers.

To spur investor interest, the Qatari government and regulators should identify a niche segment of the market that would give the country a competitive advantage over its regional counterparts. Taking into consideration current trends in financial markets, sustainable investment points the way forward and it is recommended as the specialised area that could place Qatar ahead of the curve.

Enhancing regulatory frameworks

Regulation of Qatar's capital markets was significantly overhauled during the implementation of the First Strategic Plan for the Regulation of the Financial Sector 2012-2017. Under this plan, Qatar's three financial regulators — QCB, QFMA and QFCRA — began the process of regulatory harmonisation to close gaps and eliminate regulatory arbitrage, achieving more consistent and comprehensive regulation of the financial system.

After becoming an independent regulator, QFMA issued regulations for existing securities such as equities, bonds and Sukuk. It also issued rules preparing for the governance and future offerings

Doha Stock Exchange. PHOTO: A G BAXTER / SHUTTERSTOCK.COM

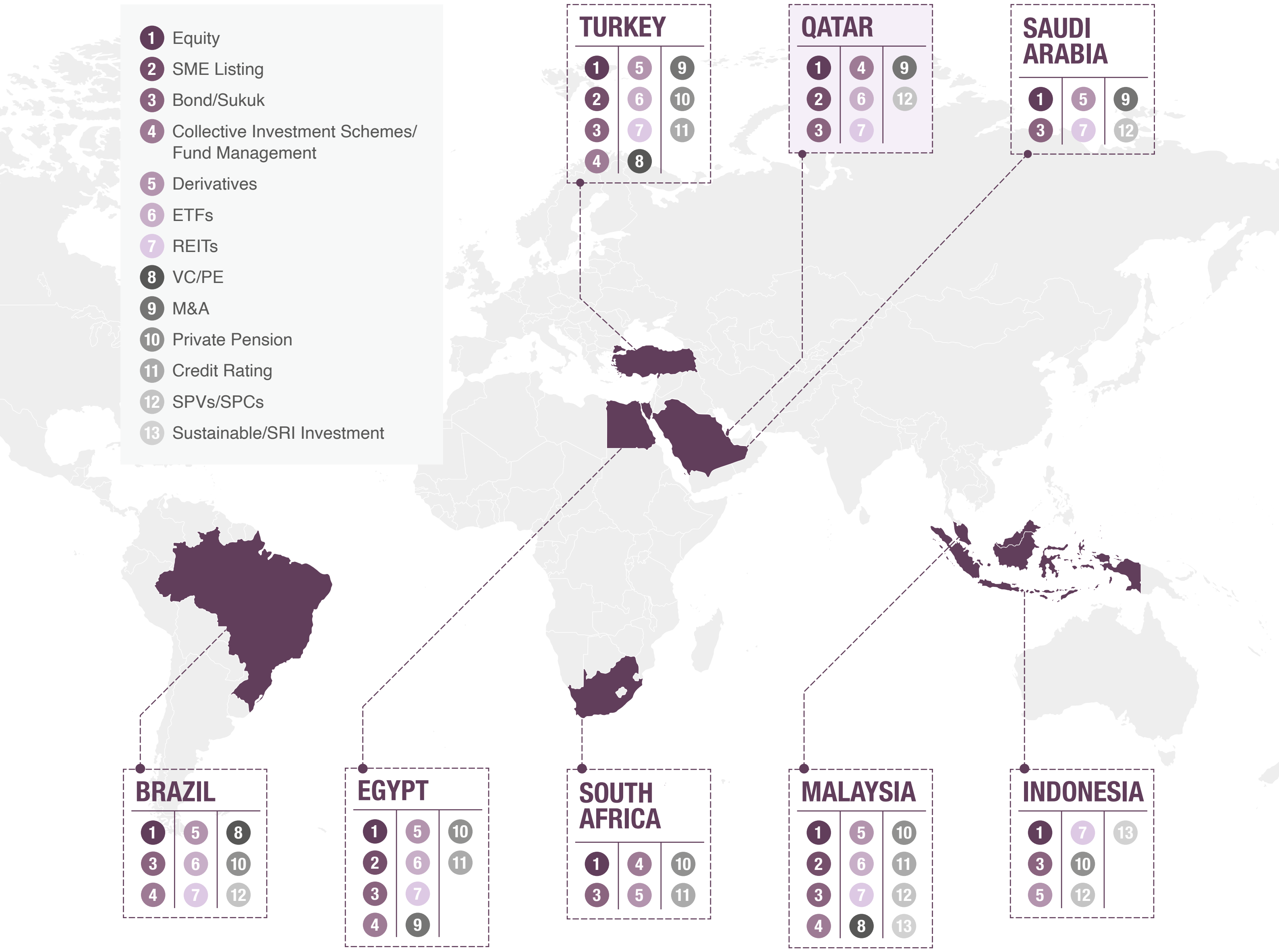
COUNTRY COMPARISON: CAPITAL MARKET DEVELOPMENT

		Emerging Markets			
		Malaysia	Brazil	South Africa	Indonesia
Ecosystem	Capital Markets Masterplan	Overall and Islamic Capital Markets			
	SME Market	LEAP Market	Bovespa Mais	AltX	Acceleration Board
	Derivatives Exchange	Bursa Malaysia Derivatives	Part of B3 main board	Part of JSE main board	Indonesia Commodity and Derivatives Exchange
Issuers	Incentives	Tax deduction for specific sukuk structures Financial guarantee scheme for bonds/ sukuk issuers			Income tax deduction for listed companies
	Cross-listing	Cross-listing abroad Secondary listing of foreign equities	Cross-listing abroad Secondary listings through Brazilian Depository Receipts	Cross-listing abroad Secondary listing of foreign equities	
Investors	Foreign Ownership Limit	Varies up to 70%	Varies up to 100%		Varies up to 100%
	Incentives	Tax benefits for VC funds and angel investors Government grant for PEs investing in local business	Tax reduction for long term angel investments Special tax treatment for foreign investors	Income tax deduction for investors in VC funds	
	Alternative investment Offering	■ Derivatives ■ ETFs ■ REITs ■ VC/PE ■ Private pension	■ Derivatives ■ ETFs ■ REITs ■ VC/PE ■ Private pension	■ Derivatives ■ ETFs ■ REITs ■ VC/PE ■ Private pension ■ Hedge Funds	■ Derivatives ■ ETFs ■ REITs ■ Private pension ■ Infrastructure funds

MENA		GCC	
Turkey	**Egypt**	**Saudi Arabia**	**Qatar**
		Capital Market Authority Strategic Plan	
Emerging Companies Market	Nile X	Nomu	Venture Market
VIOP Derivatives Market			
Relaxed regulatory and listing requirements for IPOs		For listed companies: ■ Increased loan limit ■ Fast-track government services ■ preference for government procurement ■ No IPO requirement for Nomu listings ■ Reduced fees for corporate sukuk issuers	Tax exemptions for investment managers
Cross-listing abroad Secondary listing of foreign equities	Cross-listing abroad Secondary listing of foreign equities	Secondary listing of foreign equities	
	49%	49%, no limit for foreign strategic investors	49%
Corporate income tax exemption on equity capital gains WHT exemption on equity and coupon income capital gains Tax emptions for VC and Angel investors in eligible ventures		Zakat exemption and lower commissions on domestic sovereign sukuk	Tax neutrality between sukuk and bonds
■ Derivatives ■ ETFs ■ REITs ■ VC/PE ■ Private pension ■ Hedge Funds	■ ETFs ■ REITs ■ VC/PE ■ Private pension	■ ETFs ■ REITs ■ VC/PE ■ Private pension ■ Hedge Funds	■ ETFs ■ VC

Source: Refinitiv Analysis

CAPITAL MARKET REGULATORY COVERAGE



and listings of ETFs, REITs and SMEs on the Venture Market, as well as mergers and acquisitions. Except for ETFs, activity is yet to commence in these new segments, indicating a requirement for enhancing regulations and incentive programs targeted at both issuers and investors.

In 2019, QFMA introduced a framework for investor relations practices (IR rules) based on industry best practices that were included in the QSE Rulebook as mandatory requirements for listed companies. Under these rules, companies must appoint an investor relations officer, launch a dedicated investor relations section on their websites, hold quarterly investor conference calls, and submit an annual report to QSE on their compliance with the IR rules and requirements. These updated rules are preparing all Qatar-listed entities to field concerns of international investors.

These efforts build on earlier endeavours to introduce simplicity in investor communications. In 2018, rules and procedures for omnibus orders changed, which allow custodians to group multiple investor accounts that are associated with one order into an omnibus account to facilitate placing direct (and efficient) orders. Omnibus accounts are typically used by futures managers to complete trades on behalf of the participating individual investors, which could signal preparations for establishing a derivates market in Qatar.

Areas requiring attention include regulations for offering and listing securities and funds by foreign institutions, financial intermediaries, and retail investor protection. As the primary regulator for these market activities, QFMA should also, jointly with QSE and QFCRA, consider introducing incentives for both issuers and investors in the form of fee waivers, relaxed regulatory requirements and tax exemptions where feasible. This has proven an effective catalyst for issuance and investment activity in both Malaysia and Saudi Arabia.

Qatar as Sustainable Investment Destination

Sustainable or ESG investment is burgeoning, with a market valued at US$30.7 trillion in 2018 and expected to surge in years ahead. The demand for sustainable investment opportunities is growing as investors' preferences are shifting towards more socially-responsible investment solutions. Sustainability is also becoming increasingly important as a criterion for government investment decisions and as regulatory concerns for financial markets and institutions. Moreover, global demand for sustainable funding for the implementation of programs related with the United Nations' Sustainable Development Goals (SDGs) presents the market with at least US$2-3 trillion in potential private-sector debt and fund issuances annually.

Despite this growth, sustainable investments remain a niche segment in the GCC and MENA regions, offering Qatar a prime opportunity to establish itself as a destination for sustainable investments, which would attract both issuers and investors to its capital markets. The mandatory ESG reporting requirement for listed companies in Qatar serves as a stepping stone towards this objective.

Countries such as Luxembourg, Malaysia and Singapore with mature capital markets have introduced roadmaps to establish their markets as sustainable investment hubs. In 2018, the Luxembourg government launched the Luxembourg Sustainable Finance Roadmap in partnership with the UN Environment Program Finance Initiative (UNEP FI). The roadmap establishes a comprehensive sustainable finance strategy, leveraging Luxembourg's standing as an international financial centre.

In 2016, the Luxembourg Stock Exchange launched the Luxembourg Green Exchange (LGX) — a dedicated platform for green, social and sustainable securities. The LGX serves as a sustainable finance platform, which restricts listings to issuers and asset managers that provide full disclosure and fulfil their reporting obligations to ensure maximum transparency. These additional disclosure requirements enhance issuers' sustainable profiles and leads to their higher visibility on the LGX platform. The platform ensures a high level of transparency for investors and facilitates better comparability between listed instruments. Listed securities must already be registered or listed on the main Luxembourg Stock Exchange to be displayed on LGX. By Q1 2020, there were 621 bonds worth over US$230 billion. Thanks to its dedicated green exchange and capital market development efforts, LGX now hosts 50% of green, social and sustainable bond listings worldwide.

Similarly, the Monetary Authority of Singapore (MAS) launched its Green Finance Action Plan in 2019, which outlines a long-term strategy to establish sustainable finance as Singapore's defining feature as an international financial center. The plan will be implemented through six key initiatives, including the development of environmental risk management guidelines for asset managers, establishing a US$2 billion Green Investments Program (GIP) and expanding the scope of external reviewers as well as rating agencies. So far, the GIP fund has been set up to invest in public market investment strategies that have a strong green focus. MAS will place the funds with asset managers that have demonstrated commitment to deepen their green investment capabilities across their main functions.

Meanwhile, SC Malaysia launched its Sustainable and Responsible Investment Roadmap (SRI Roadmap) in 2019. This launch follows the introduction of its SRI Sukuk Framework in 2014 and SRI Funds guidelines in 2017. The five-year roadmap sets out five overarching strategies: widening the range of SRI investment, broadening the SRI investor base, building a strong SRI issuer base, encouraging strong internal governance and designing information architecture for the SRI ecosystem. Since 2017, 10 green SRI Sukuk worth a total of US$1 billion have been issued in Malaysia, in addition to six SRI funds.

Established financial centres are trying to stay ahead of the curve by capitalising on their first-mover advantage in the sustainable investment space in their respective regions. For Qatar, however, capital markets still have ample potential for development in terms of both depth and breadth. Without the introduction of a separate dedicated strategy focusing on sustainable capital markets, sustainable investment can be incorporated as a niche market that would generate a competitive advantage in the region, as part of an overall capital markets masterplan. Regulators in Qatar should supplement the sustainable investment strategy with regulatory frameworks based on best practices, especially for sustainable/ ESG/ green bonds, Sukuks and funds. In that vein, SRI bonds and Sukuk could be introduced to the Qatari market as an alternative and socially-responsible funding option for sustainable and environmental public and commercial projects.

An overall concentration on socially-responsible investing would be less challenging to develop than may appear at first glance. Islamic investments have much in common with socially conscious investments, including those with an ESG mandate, which has allowed Islamic investment managers to tap a wider global investor base than conventional competitors. Practices inherent in Islamic finance provision have attracted socially-responsible investors outside Islamic jurisdictions seeking to diversify their geographical holdings. With strong Shariah-compliant players in Qatar's funds market, it would be less challenging for the market to shift towards a sustainable or ESG mandate for mutual funds and ETFs.

PILLAR 2: DEVELOPING A COMPREHENSIVE AND DIVERSE INVESTMENT POOL

Deepening capital markets

The deepening of capital markets is essential for ensuring sustainable growth that will ultimately contribute to economic growth in Qatar, which ought to be a key objective in the proposed capital markets development plan. This can be achieved by boosting primary market activity or, increasing IPOs and other new equity listings as well as fixed income issuances.

Boosting market capitalisation through government IPOs

Global IPO activity has slowed in recent years, and uptake from the private sector has generally been low due to easy access to lower-cost capital funding. To boost QSE's market capitalisation and IPO activity, it is recommended for the government to follow a double-pronged approach — launch IPOs or partial listings of companies under its ownership through a privatisation program and simultaneously encourage the listing of SMEs. This would be a catalyst for further trading activity and liquidity on QSE, making the market more attractive to investors. More partial privatisations could be on the horizon. In 2013, state-owned Qatar Petroleum (QP) announced IPO plans worth US$13.7 billion over a 10-year period. As of now, two QP subsidiaries are listed on QSE — Mesaieed Petrochemical in 2014 and QAMCO in 2018.

Malaysia's privatisation drive of state-owned enterprises during the 1980s and early 1990s helped to deepen its equity market. While this initiative itself preceded their first Capital Markets Masterplan, it could very well have been a central pillar of it had it not been already underway. Because of newly privatised listings, Malaysia's equity market grew substantially as market capitalisation increased fivefold from RM 132 billion in 1990 to RM 807 billion in 1996.

The deepening of capital markets is essential for ensuring sustainable growth that will ultimately contribute to economic growth in Qatar, which ought to be a key objective in the proposed capital markets development plan.

In Saudi Arabia's Financial Sector Development Plan, it sets a target for total market capitalisation of at least 85% of GDP by 2020. To that end, the government has outlined a similar approach to listing state-owned entities and SMEs. In March 2020, the Saudi government approved listing government assets planned for privatisation via direct and indirect IPOs on the stock market, despite the perceived failure of the recent Aramco IPO.

Encourage the listing of family-owned businesses and SMEs

The most challenging IPO candidates in the corporate sector are family-owned companies and SMEs. Family businesses tend to shy away from going public, wary of the dilution of their ownership interests. Nonetheless, the mandatory conversion to Public Joint Stock Company (PJSC) structure for QSE-listed companies has proven to be the most successful model across various international markets. The QSE's efforts to raise awareness of the benefits of public listing for family-owned companies should be supported with an incentive program to make listings more attractive, especially in terms of cost.

QFMA regulations for listing on QSE's Venture Market, a parallel exchange dedicated to SMEs, were introduced in 2014. This step aimed to support SME development and lift their economic contribution in line with the QNV 2030, by offering small businesses access to alternative fundraising channels to traditional bank financing. As regulatory requirements for publicly listed companies could pose a strain on SMEs' capabilities, the Venture Market imposes lighter listing requirements for the size of listed capital and their profitability track record, for example. To garner more listing interest, it is recommended to reduce the frequency of disclosure reports to annual reporting.

PARALLEL MARKET COMPARISON – UK, SAUDI ARABIA, QATAR

		FTSE AIM	Tadawul Nomu	QE Venture Market
Minimum Market Cap.		None	SR 10 million	QAR 2 million
Free Float		15%	20% or SAR 30 million, whichever is less.	10%
Advisory Requirements		Nominated advisers and broker always must be approved by the Exchange.	■ Financial advisor – mandatory ■ Legal advisor – optional ■ Nominated advisor 'Authorised Persons'	Listing Advisor approved by QFMA.
Operational Listing Requirements	**Years of operation**	None	Minimum one year	Minimum one year
	Company legal form	■ Like UK plc structure ■ If investment company, closed-ended fund, no restricted investor base	Joint stock company[1]	■ Joint-stock company ■ Not applicable for foreign issuer
	Financials	3 years of audited financial information (if available)	■ Annual audited financial statements ■ Semi-annual* reviewed financial statements	Audited financial statements for that year
	Profitability	Profit forecast, if appropriate	None	None
	Other	Sufficient working capital for min 12 months	None	Min 75% of capital invested in core business activities
Disclosure Requirements	**Quarterly**	On a voluntary basis	Within 45 business days	Within 30 days
	Semi-annually	Within 3 months	None	Within 45 days
	Annually	Within 6 months	Within 90 business days	Within 90 days
Ownership Listing Restrictions		Open to non-UK companies	■ Majority Saudi/ GCC owned ■ Min 50 shareholders	■ Non-Qatari companies are eligible to list ■ Min 20 shareholders

Source: London Stock Exchange, Tadawul, Qatar Stock Exchange, Refinitiv Analysis

1 An existing private joint stock company wishing to transform to a public joint-stock company has a two-year track record and 10% profitability requirement. Other types of companies have a three-year track record and 10% profitability requirements.

Since its launch in 1995, London Stock Exchange's Alternative Investment Market (AIM) has emerged as one of the most successful growth markets in the world. Over 3,000 businesses ranging from startups to established companies have joined AIM, raising more than £60 billion in new capital. Its success is built on a simplified regulatory environment which has been specifically designed for the needs of small and emerging companies. There are certain tax incentives available to individual and corporate investors, which further enhance the attractiveness of investing in AIM companies.

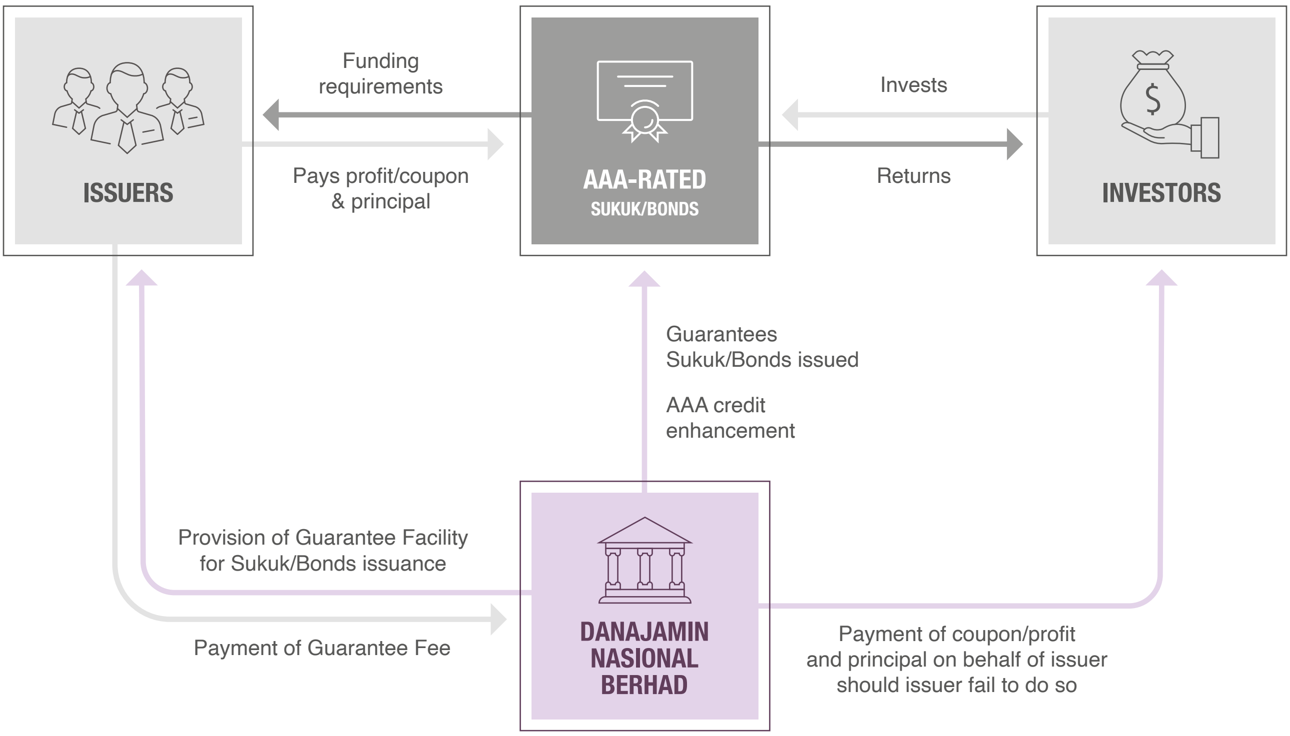
AIM has provided its international constituents access to capital, liquidity and the profile of London's capital markets. Currently, there are over 500 AIM companies with most of their operations outside the UK in over 100 countries. This strong international representation reflects the fact that AIM is a promising public market for growing and entrepreneurial international businesses seeking to expand and enhance their global profile. Qatar's Venture Market would do well to emulate AIM's inclusive and outward-focused model.

In 2017, Tadawul — the Saudi stock exchange — launched its parallel market Nomu. Although the exchange has successfully attracted listings through lighter requirements, none have been SMEs. As a result, Tadawul had moved to further reducing Nomu's listing requirements in 2019, making the IPO process optional for listing and thereby reducing the cost to companies. It also reduced the frequency of mandatory financial reporting from quarterly to semi-annually. It is expected that this decision will encourage SME listings on the exchange.

Private sector will determine debt market's long-term growth

The growth of Malaysia's bond market was initially driven by government issuances to establish the sovereign yield curve and investor base necessary for development of the corporate bond market. Subsequently, as has happened in other similar jurisdictions, an active

DANAJAMIN NASIONAL GUARANTEE SCHEME MODEL



Source: Danajamin Nasional Bhd

… corporates continue to tap external markets for debt funding. This warrants a closer examination of the issuance process's efficiency, […] to eliminate bottlenecks along the process allowing corporates ease of access in tapping the local market on attractive terms.

corporate bond market began to facilitate issues by the private sector to finance longer-term infrastructure and other public-private partnership projects.

In efforts to encourage corporates to raise debt financing through capital markets, the Malaysian government endeavoured to streamline the issuance process that extended up to 12 months. Such long delays had put off corporate issuers from capital markets. In 2000, the SC issued Guidelines on the Offering of Private Debt Securities, which reduced several requirements, including underwriting requirements, minimum credit requirements, and restrictions on the use of proceeds. It also shifted to a post-vetting approval system, under which "the issuer and the principal advisor needed only to file a declaration of compliance with the PDS Guidelines." This reduced the approval bottleneck, allowing the SC to reduce the time to market for bond issues to fourteen working days. Lastly, the SC also introduced a shelf-registration scheme, which gave certain approved issuers even more control over the timing of issuances.

Malaysia had taken a step further, establishing Danajamin Nasional Bhd in 2009, which provides a financial guarantee for bonds and Sukuk issued by less-established companies. The program facilitates access to the corporate bond market, allowing firms to establish a track record for credit-worthiness while a review is undertaken to assess the viability of establishing facilities to mitigate illiquidity risks of bond funds. Danajamin has total assets of RM2.7 billion and total shareholders' equity of RM1.8 billion as at 31 December 2018. It is backed by the Malaysian government, hence its 'AAA' rating by both RAM Rating Services Bhd (RAM) and Malaysia Rating Corporation (MARC).

Since 2017, the Saudi government has embarked on a domestic Sukuk program which has established a benchmark yield curve for domestic issuances, with Sukuk issued in maturities of up to 30 years. This has spurred significant activity from corporate issuers, several of which have come from new issuers in the market.

Driving these domestic issuances, both Malaysia and Saudi Arabia have introduced incentives that encouraged corporate Sukuk. The Malaysian government had offered a tax deduction on expenses incurred for issuing Sukuk based on structures other than Murabaha, which were more in demand by foreign investors. Tax breaks on Wakala and Ijara Sukuk were extended until 2018 to attract further foreign investment due to their popularity in GCC markets. Consequently, Wakala has become the second-most issued Sukuk structure in Malaysia

SAUDI ARABIA SUKUK ISSUANCE 2016 – Q1 2020

	Value Issued (US$ billion)				
	2016	**2017**	**2018**	**2019**	**Q1 2020**
Corporate	**0.80**	**4.42**	**1.46**	**3.12**	**1.90**
First-time Issuers					
Riyad Bank	-	-	-	-	1.50
Almarai	-	-	-	0.50	-
Arabian Centres	-	-	-	0.50	-
STC	-	-	-	1.25	-
Savola Group Company SJSC	-	-	-	0.27	-
Maaden Phosphate Co	-	-	0.93	-	-
Maalem Financing Company JSC	-	-	0.03	-	-
Arabian Aramco Total Services Company JSC	-	3.00	-	-	-
APICORP Sukuk Ltd	-	0.50	-	-	-
Bank Albilad SJSC	0.53	-	-	-	-
Dar Al-Arkan Sukuk Company Ltd	-	0.50	0.50	0.60	0.40
National Commercial Bank SJSC	-	0.35	-	-	-
Rvos Sukuk Ltd	0.00	-	-	-	-
Sahara International Petrochemical Company SJSC	0.27	-	-	-	-
Saudi Investment Bank SJSC	-	0.08	-	-	-
Quasi Sovereign	3.05	2.58	5.84	4.11	2.43
Sovereign	-	25.56	16.27	18.86	5.34
Grand Total	**3.85**	**32.57**	**23.58**	**26.09**	**9.67**

Source: Refinitiv

(16% of 2019 issuances), mainly driven by corporates. However, in the case of Qatar, where there is no tax on issuances, this would not be directly applicable.

In 2019, Saudi Arabia introduced fee reductions to stimulate the domestic corporate debt market. Annual listing fees for debut issuances were reduced to a minimum SAR 10,000, down from SAR 30,000, and capped at SAR 50,000s. For subsequent issuances, annual listing fees dropped to a minimum SAR 5,000 from SAR 30,000 and capped at SAR 25,000. Annual registry fees and Sukuk and bonds trading commissions were also reduced. Following this decision, the domestic Sukuk market witnessed five debut issuances from Saudi corporates.

The Qatari government remains the most active issuer in the domestic debt market, typically with maturities of 3, 5, 7 and 10 years, and it has announced its intention to maintain a benchmark yield curve that would facilitate better pricing of domestic

corporate issuances. However, as illustrated earlier in this report, corporates continue to tap external markets for debt funding. This warrants a closer examination of the issuance process's efficiency, following the example of Malaysia to eliminate bottlenecks along the process allowing corporates ease of access in tapping the local market on attractive terms. Incentives that result in cost savings have proven to be effective in stimulating market activity, so the introduction of lower fees, especially for first-time issuers, would help corporates seeking long-term funding.

"As we look forward to the expansion of gas production in Qatar by 2026, we anticipate this will herald a new era of growth for the local asset management industry focused on key sectors of the economy in infrastructure, transportation and technology. QFC- and Qatar-based asset managers will play a critical part of contributing to the continued economic success witnessed in Doha over the last 30 years."

Fahmi Alghussein
CEO
Aventicum Capital Mgmt

Broadening capital markets

The other side to developing well-diversified capital markets lies in introducing new and alternative investment products to the market, thereby catering to investors' varying objectives and risk appetites. As mentioned earlier in this roadmap, the QFMA has already introduced several regulatory frameworks for the offering and listing of products that have yet to be launched. This would significantly shorten the process of their introduction.

Creating an alternative investment market

The QSE began introducing alternative investment products in 2018 with the launch of Qatar's first two ETFs, and there are two more in the pipeline. REITs appear to be a strong contender for the next fund structure to be introduced on the QSE, backed by listing regulations issued in 2015. Also, recently, QFCRA passed amendments to its CIS rulebook to allow retail real estate funds, including REITs.

In Qatar, regulations are in place for offering and listing investment funds and ETFs, so exposure to real assets can be offered to investors seeking diversification of their portfolios and protection against inflation. Investors could potentially gain exposure to mega infrastructure projects in Qatar and other developing economies through infrastructure funds, which generate their returns based on the income from listed infrastructure assets. These assets may include airports, toll roads, oil and gas pipelines, and utilities facilities, offering governments an alternative source of project funding.

In addition to these infrastructure assets, Qatar's substantial real assets in the aviation and shipping sectors create an opportunity for asset managers to introduce domestic funds based on leasing such assets. QInvest manages four such funds, investing in Shariah-compliant leases or Ijara contracts for assets in developed markets. The high returns generated by these funds could be replicated domestically, attracting demand form both domestic and foreign investors.

In 2016, the Saudi capital markets regulator issued instructions for offering and listing REITs, which was soon followed by the launch of the country's first REIT (Riyad REIT). Today, there are 17 REITs listed on the Tadawul exchange, with a total market capitalisation of US$3.7 billion. In 2019, selected Saudi-based REITs were included in the FTSE EPRA/Nareit Emerging Market Index, a benchmark index for emerging market REITs, which will enhance the visibility of the Saudi REITs market to foreign investors, further broaden its investor base, and increase the level of disclosure.

Commodity funds are another type of fund that can be offered in Qatar, investing in physical commodities such

… there is an untapped market in the large expat workforce based in Qatar and neighboring countries that is not eligible for these public pensions. Private pension schemes present new growth opportunities for Qatar’s asset management industry.

as oil, natural gas and gold, as well as agricultural goods. Alternatively, these funds could invest in commodity indices or commodity futures contracts.

The pension fund industry in the region remains small as the countries are welfare states, operating government-backed public pension funds for the benefit of their citizens. Nonetheless, there is an untapped market in the large expat workforce based in Qatar and neighbouring countries that is not eligible for these public pensions. Private pension schemes present new growth opportunities for Qatar’s asset management industry. These funds would offer a new type of investment vehicle that is suitable for retail investors, particularly expats. It would also create a new source of institutional demand for domestic investment securities in addition to public pension and insurance funds, especially those with long maturities.

In 2012, the Malaysian government introduced the Private Retirement Scheme (PRS) to ensure a robust and sustainable multi-pillar pension system. PRS is a voluntary long-term savings and investment scheme that helps individuals supplement their state pensions and retirement savings. A robust PRS regulatory and supervisory framework was established under the Capital Markets and Services Act (CMSA) 2007 and enforced by SC Malaysia, to ensure an effective governance structure, sound risk management practices, and internal controls to safeguard the interests of contributors.

It is estimated that the PRS industry would reach RM30.9 billion AuM by 2020. Setting up regulatory and operational frameworks for private pension funds, currently under active consideration by QFCRA, would be imperative to the introduction of these funds to Qatar.

In February 2020, the Dubai International Financial Centre (DIFC) introduced its Employee Workplace Savings Plan (Dews), which aims to restructure the current defined benefit end of service gratuity scheme. The new fund is a defined contribution savings plan, funded by contributions on behalf of expat employees of DIFC companies. Employers will be required to make monthly contributions of 5.83% or 8.33% of an employee’s salary, per their length of service. Employees will also have the option to make voluntary contributions from their salaries, adding an attractive savings element to the pension plan that could exceed the level of mandatory contributions by a wide margin. The fund is centrally administered by an investment trust. Given the similarities between Qatar and Dubai in terms of workforce composition and the state pension framework, the Dews model could form the basis of closer study.

Establishing a derivatives market

Still a niche in the region, establishing a derivatives market in Qatar would add to the breadth of capital markets, offering investors risk management tools to hedge their investments and business exposure. It would also create a new source of business for local market makers and intermediaries. The QSE recently announced that it is looking into derivatives trading, indicating that it could be hosted on the exchange, supported by a listing framework and clearing and settlement through the Qatar Central Securities Depository. The offerings on this derivatives market would likely commence with index futures, based on the three QSE indices. It is also recommended for QSE to initially offer single-stock futures in the market, which can typically be easier to structure, manage and promote to domestic investors. Another product that warrants close consideration would be an LNG futures contract, building on Qatar's position as the world's largest LNG exporter. The careful execution of such a product, perhaps to be subsequently introduced, could attract considerable interest from international investors and establish this contract as a pricing benchmark for LNG — akin to the ICE's JKM LNG futures contracts.

The establishment of derivatives markets has been part of the capital market development plans in Malaysia and Saudi Arabia. Malaysia has been successful in the development of its derivatives market, which grew from RM 84 billion (US$11.4 billion) in 2000 to RM 512 billion (US$121.2 billion) in 2010 and is expected to reach RM 4.2 trillion (US$994.1 billion) in traded volume by 2020. Before the implementation of its first capital market masterplan, Malaysia's derivatives market was spread across three exchanges where mostly palm oil futures contracts were traded. These exchanges were later consolidated as Bursa Derivatives exchange under Bursa Malaysia. Bursa Derivatives positioned itself for rapid growth through a strategic partnership with the CME Group — the world's largest derivatives exchange — and migrating to CME's Globex trading platform in 2010.

This was followed by an initiative to broaden the derivatives product range to enable hedging and arbitraging activities across market segments. Simultaneously, the infrastructure for clearing, cross-margining and settlement was enhanced to improve operational efficiency. SC Malaysia also collaborated with futures brokers, to expand offerings and strengthen their capabilities and operating standards to ultimately expand customer reach.

Meanwhile, the Saudi capital markets regulator issued rules for derivatives exchange trading in preparation for the launch of a derivatives market for the first time in the Kingdom in January 2020. Tadawul will launch an index futures contract based on MSCI Tadawul 30 Index (MT30) over the course of the year, followed by the gradual launch of additional derivative products as part of its strategy to diversify its suite of products. This step followed amending its Capital Market Law (CML) and the Securities Central Counterparties Regulations aimed at regulating securities clearing activities in the country. At the same time, the CMA authorised Securities Clearing Center Company (Muqassa) to provide securities clearing services as a designated Qualified Central Counterparty (QCCP).

Establishing a Private equity and venture capital industry

Aside from offering businesses access to capital funding through traditional channels, capital markets in Qatar have begun to offer access to private sources of investment for both the public and private sectors through a private equity and venture capital market, including angel investments. However, given that Qatar is a nascent market for this industry, it is crucial to provide government support and incentives to grow such a market, in addition to developing frameworks that ensure various legal structures for investment pooling.

For reference, Malaysia currently has 105 registered VC companies, which invested a total of MYR613.3m (USD150.1m) over the course of 2019. The government has set a priority for

> *Qatar has an opportunity to open its capital markets to foreign issuers through regulatory partnerships to facilitate cross-border distribution of funds and equity and bond listings.*

2020 to increase the number of PE investments, with a government grant of RM 1 billion that offer a 1:5 matching guarantee for these funds' investments in local businesses. The government is also looking to encourage new alternative funding options for small businesses, including equity crowdfunding and P2P platforms, which collectively raised RM 430 million as of 2 June, 2019. Malay VC companies, including angel investors, will continue to receive tax benefits on their investments through 2023, aimed at boosting VC funding for businesses and attracting more foreign investors. The claimable tax deduction for each investor is capped at RM 20 million per year over a five-year period.

In the local market, Qatar Development Bank (QDB) will be launching its Fintech Accelerator in 2020, in collaboration with local and international partners, with the aim of providing financial back for Fintech companies in Qatar. These partners include eight funds: Romulus Fund, ERA Fund Accelerator, Alchemist Accelerator, Iris Next Capital Fund and SpeedInvest Fund through its direct investment program to help Qatari companies grow outside Qatar. The Fintech accelerator is expected to benefit from a US$100 million Fund-of-Funds, previously established by QDB to support companies, funds, and partner funds in developing Qatar's entrepreneurship ecosystem. Over US$60m from the fund of funds has been committed to more than 30 Qatari startups and seven VC firms since its inception in 2018.

Qatar has also encouraged angel investing through QFC, which hosts Doha Tech Angels (DTA) — Qatar's first private angel fund launched in 2018. It focuses on providing seed funding for early-stage technology startups in Qatar and the rest of the world. The fund comprises a private network of 15 investors that includes seasoned angel investors, strategy consultants, and C-level executives. DTA has invested in 10 companies, with 30% of the fund invested in Qatar, while the remainder is invested in foreign markets like the US, Singapore, Oman, and elsewhere.

PILLAR 3: ATTRACTING FOREIGN INVESTORS AND INSTITUTIONS

Enhance QSE capabilities through Fintech

The incorporation of blockchain, or distributed ledger technology, within Qatar's capital markets infrastructure would result in more streamlined, efficient and cost-effective trading, clearing and settlement processes on the QSE. However, to reap the full benefit of this technology, market participants would need to start investing in blockchain and work with the QFMA, QSE and other institutions to design blockchain solutions specific to different asset classes. In addition, various market stakeholders would need to adapt their internal systems to incorporate blockchain in their trading systems, as well as make necessary changes to their post-trade activities and processes.

The rapid development of Fintech in Qatar is promising to enable the QSE to facilitate retail investment in securities, in addition to the introduction of lower investment limits. Instimatch Global, a fintech startup that recently established operations in QFC, is planning to introduce a solution that breaks down bond tranches to sizes that can be traded by retail investors. Incorporating fintech solutions in the development of the QSE's trading infrastructure would improve investor access to the market, as well as enhancing the transparency and cost-efficiency of issuing and trading equity and debt securities.

Cross-border agreements, partnerships, passporting cross-listing

Qatar has an opportunity to open its capital markets to foreign issuers through regulatory partnerships to facilitate cross-border distribution of funds and equity and bond listings. This includes mutual recognition frameworks for cross-border offerings, listings, and professionals; the formation of exchange alliances; and the development of a conducive regulatory framework and infrastructure to facilitate cross-border transactions among international capital markets.

The QSE has recently explored cooperating with the US-based Nasdaq stock exchange for the dual listing of Qatari ETFs. Cross-listing equities and other securities offers foreign issuers exposure to a wider investor base, beyond the local market, and boosts a security's liquidity. Nevertheless, there remains a downside to multiple listings that could split rather than increase liquidity between markets, leaving issuers with double the listing costs. Furthermore, if the issuer selects a secondary market with tight regulations, they would run the risk of additional costs resulting from potential non-compliance.

Dubai's stock exchanges host cross-listings of several GCC-based companies, in addition to a recent cross-listing agreement with the Egyptian stock exchange. Several Bahrain- and Kuwait-listed companies have attested to a boost in trading activity on their stocks after their dual listing, which expanded their liquidity pool. Saudi Arabia's Tadawul has also issued rules to facilitate GCC cross-listings, partnering with regional exchanges such as the Abu Dhabi Securities Exchange.

Similarly, fund passporting will allow the marketing and distribution of foreign investment funds and vice versa. However, the implementation of a regional passporting regime has so far proven successful mainly in the European Economic Area. This warrants carefully selecting markets governed by similar regulatory frameworks and governance structures as Qatar's partners in any fund passporting agreements.

To support cross-listing and fund passporting arrangements, Qatar should also consider establishing a partnership between the Qatar Central Securities Depository and international clearing and settlement houses such as Euroclear, which is the largest in Europe. Using such partnerships to help adopt international central securities depository settlement models would significantly reduce operational inefficiencies and liquidity fragmentations that arise from listing securities and funds across multiple jurisdictions. The use of a single clearing and settlements model would streamline these processes as if conducted in one central location.

In 2019, Hong Kong Exchanges and Clearing (HKEX) partnered with Euroclear in an arrangement that would help in listing European ETFs in Hong Kong, as it sets it sights on an ETF hub in Asia and making the exchange more relevant to global investors. HKEX is the first exchange in Asia to adopt Euroclear's international central securities depository settlement model.

Cross-listing ETFs on Asian exchanges had been quite challenging when moving underlying European shares to Asia is required as it can take longer than typical settlement periods. Such inefficiencies had kept some firms from issuing ETFs in Hong Kong. The model allows trades to be settled in one central location rather than in various depositories in different markets — a significant move for ETFs, including shares listed on different stock exchanges.

NOTES

QUICK & EASY SET UP

Start your Setup

Create an account and complete the online application

Obtain approval for your license and settle the annual fee

Congratulations! your business is now registered and active

Are you ready to take your business to the next level?
Get in touch today.

+974 4496 7777

qfc.qa

contact@qfc.qa

@QFCAUTHORITY

#QFCMEANSBUSINESS

QATAR
CAPITAL MARKET
REPORT 2020

BUILDING A STRONG LOCAL MARKET

مركـــز قطـــر للمـــال
Qatar Financial Centre

REFINITIV™
DATA IS JUST
THE BEGINNING