

LEGAL ALERT

New Listing Rules for Cayman Islands Stock Exchange

Introduction

New listing rules published by the Cayman Islands Stock Exchange (the “**CSX**”) in April 2017 will enable an easier listing of pre-IPO and early stage growth companies as “**Specialist Companies**” pursuant to a new Chapter 14 of the CSX listing rules. The ownership and transfer of the securities issued by such companies will be restricted to qualified investors.

The CSX, which already attracts international issuers with an aggregate market capitalization in excess of USD 200 billion, could become even more successful with this new development, as early-stage investors are provided with an early exit and/or additional liquidity.

The New “Specialist Companies” Listing Regime

1. Start-Up Favourable. Section 14.2 of the CSX listing rules now provides for the possibility for companies without a two-year audited financial statements track record (the equivalent of a start-up company) to be listed if they:

- (i) satisfy the CSX that acceptance of a shorter period is in the interest of the company or of the investors and the investors have access to such financial and other information deemed necessary or appropriate in order to make an informed investment decision; or
- (ii) provide to the CSX a detailed business plan, information on capital expenditure and working capital requirements for a period of at least two years following the listing and a statement explaining how these requirements will be met (existing resources, revenue, proceeds of the offering at the time of listing, etc.).

For start-ups, Section 6.18 of the CSX listing rules specifically requires that the CSX be provided with a detailed business plan which must identify, as appropriate:

- (i) strategic objectives;
- (ii) key products, services and markets;
- (iii) development milestones;
- (iv) current and expected market competitors;
- (v) risks and assumptions upon which the plan is based; and
- (vi) details of reliance upon any key individuals;

Other conditions and requirements for start-ups include:

- (i) providing an explanation of capital expenditure plans and financial commitments together with the funding requirements of the business for a period of at least two years following the listing and a statement explaining how these requirements will be met (same condition as stated in Section 14.2 (c));
- (ii) at the discretion of the CSX, providing an independent expert report on the viability of the company's commercial objectives and business plan;
- (iii) providing a confirmation that the issuer's directors, senior managers and substantial shareholders will not dispose of the securities for at least twelve (12) months (the "**Lock-Up Period**") following admission to listing, without the prior approval from the CSX; and
- (iv) where the prospective issuer's activity relates to the development of innovative technology, demonstrating the company's ability to attract funds from qualified investors.

2. Restricted to Qualified Investors. The listing under the '*specialist companies*' regime requires that the ownership and transfer of the equity or debt securities be restricted to qualified investors only, namely those investors that:

- (i) are "qualified purchasers", as defined by the CSX listing rules (*i.e.* an individual who owns not less than US\$1,000,000 in investments or any entity which in the aggregate owns not less than US\$5,000,000 in investments); and
- (ii) represent in writing to the issuer that they are particularly knowledgeable in investment matters or they are a director or manager of the issuer and are particularly knowledgeable in investment.

Also, a declaration must be included on the cover page of the listing document, with the investors representing that:

- (i) they have the knowledge and experience in financial and business matters to enable them to evaluate the merits of a proposed transaction and investing in the issuer;
- (ii) they are aware of the risks inherent in investing in the securities; and
- (iii) they can afford the loss of their entire investment.

**This is not intended to be a substitute for specific legal advice or a legal opinion.
For specific advice, please contact:**



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