

THE CHANNEL ISLANDS SECURITIES EXCHANGE - UPDATE

by Danny Cole

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NEW STRATEGY

The Channel Islands Securities Exchange (**CISE**) is seeking to diversify and introduce new products for listing on the Exchange whilst introducing rule changes to strengthen its core business.

SPACS

New rules have been introduced which allow Special Purpose Acquisition Companies (**SPACs**) to be listed on the CISE.

A SPAC is a cash shell used to raise money for a very specific investment objective. The SPAC is usually initially formed by a management team with experience in private equity investments, who will comprise the executive directors and management team. A SPAC tends to be quicker and cheaper to establish than a fund and, whilst the SPAC does not have the same spread of risk, investors are willing to risk higher returns by backing management teams with a proven track record in specific asset classes.

It seems that the SPAC is growing in popularity as international markets recover from the global financial crisis, and so the CISE has reacted to this development by launching specific rules (through a new Chapter 10) to introduce SPACs as a new product for Listing.

These new rules were effective from 23 November 2015 and the CISE hopes that the low minimum market

capitalisation, a 36 month timeframe for an acquisition to be made and the Exchange's competitive and transparent fee regime will lead to a new stream of business.

CONVERTIBLE BONDS

The CISE has amended its Chapter 8 Listing Rules and has published a revised chapter entitled "Specialist Securities". Part of the rule changes include permitting convertible bonds or convertible debt securities to be listed on the CISE provided the equity into which the debt is convertible is listed on an exchange which is acceptable to the CISE.

Convertible bonds were prominent among the 203 newly listed securities on the CISE during the first half of 2015, and so the Exchange has been encouraged that this has developed into a new pipeline of business in convertible bonds.

TRADING COMPANIES

In the past, a trading company had to seek to list its debt under Chapter 6 of the CISE's listing rules, rather than the "light-touch" regime of Chapter 8. Now, a trading company can seek to list its debt under Chapter 8 provided that the debt is not convertible into equity and provided the debt will be issued to another group company or to sophisticated investors. This is a very positive move by the Exchange, as this option will be far less onerous for trading companies than the Chapter 6 regime.

CHAPTER 8 CHANGES

In addition to the changes which facilitated the above new products, the Exchange also amended its Chapter 8 Listing Rules together with Appendix IX, Part D of the Listing Rules which sets out the disclosure requirements to be included in the listing documents for all Chapter 8 listing applications. A guidance note (Chapter 8 Policy Guidance Note) has also been published to be read in conjunction with the new listing rules.

Main changes:

- **Sophisticated Investors** – importance has been placed on the fact that securities that are listed under Chapter 8 should be intended for "sophisticated investors" only (investors who are particularly knowledgeable in investment matters) and a new specific disclosure requirement to emphasise this must be included in the main listing document;
- **Minimum Subscription and Transfer** – the Exchange may require a minimum subscription and transfer amount of £100,000 (or currency equivalent) or higher for securities;
- **Accounts** – there have been some amendments relating to accounts as follows:

Consolidated Accounts

- Listing Rule 8.2.2.1(b) provides that, as part of an application for listing, the annual audited accounts of an issuer of debt securities must be consolidated in respect of the applicant and all of its subsidiaries. However, the Exchange may derogate from the requirements of Listing Rule 8.2.2.1(b) where the issuer is not required to produce consolidated accounts by the laws of the country or territory in which it is established, where consolidated accounts are produced by an appropriate member of the issuer's group and where those consolidated accounts are available for review by the investors and by bona fide potential investors.

Waiver of 3 Years of Audited Accounts Requirement

- Listing Rule 8.2.2.2(b) provides an exemption to the requirement of Listing Rule 8.2.2.1(a) which sets out that a new issuer of debt securities must have published audited accounts that cover at least three years. The exemption allows that the Exchange may waive, in whole or in part, the requirement for three years of audited accounts where the issuer has been in existence for more than 12 months but less than three years. In these cases, where a waiver is granted, the Exchange will normally ask for a statement to be included in the Listing Document that the issuer has not undertaken any trading or significant transactions during its lifespan other than those in connection with the issue of securities for which listing is sought. If any trading or significant transactions have occurred, the Exchange may request interim accounts to be submitted.

GUARANTORS

The Listing Rules provide that where the securities of an issuer are guaranteed, the guarantor must also provide copies of its latest independently audited accounts to the Exchange. This provision has now been amended to permit some flexibility regarding the need for a guarantor to submit independently audited accounts.

Many of the other changes to the Listing Rules may appear substantive; but are mostly correcting previous rules by bringing them into line with existing policies or practices that the Exchange and listing sponsors have adopted already (such as submitting listing applications in electronic form via email).

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