Junior Market Rules and Shelf Documents: Publication Drafts

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The Junior Market Rules: Publication Drafts

- Junior Market Rules and Shelf Documents have been approved by the Steering Committee appointed by Cabinet

- Publication drafts will be put on JSE's website for the public as soon as possible

- FSC will review and comment on publication drafts before the Junior Market Rules are put into effect

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5 High Level Principles that act as general standards for admission and life on the Junior Market

Detailed Requirements:

5 Junior Market Rules that expand on concepts set out in the High Level Principles

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Definitions

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High Level Principles

1. Eligibility for Initial Admission
2. Method of Initial Admission
3. Mentor Requirements
4. Board Level Requirements
5. Ongoing Requirements

Detailed Requirements: Eligibility for Admission

- Admission of eligible companies is in the JSE's absolute discretion
- An eligible company:
  - is incorporated in Jamaica or CARICOM
  - can't be 'associated' with a JSE or other Main Market company
  - has appointed a mentor to act as a compliance adviser
  - has to meet criteria for GoJ tax concessions
  - has subscribed equity share capital of J$50m - $500m after IPO
  - has at least 25 shareholders holding at least 20% of the equity share capital
- Completion of Shelf Documents to JSE's satisfaction
- Payment of JSE Fees (50% reduction)

Detailed Requirements: Method of Admission

- IPO of Participating Voting Shares: new issue or offer of existing shares seeking to raise at least J$50m
- Publication of Prospectus on JSE website: after registration with Registrar of Companies and FSC
- Companies Act allotment requirements must also be met

Detailed Requirements: Mentor Requirements

- The Mentor is a continuous presence
- The Mentor is responsible for advising the Board on adequate procedures, systems and controls - he is not a shadow director
- The Mentor must have relevant skills, knowledge, and expertise in compliance and corporate governance

Detailed Requirements: Board Level Requirements

- The Board must have an appropriate level of skill and experience as a collective
- The Board must act with due skill and care to:
  - promote the business
  - ensure compliance with Rules and laws
  - establish adequate procedures, systems and controls for
    (1) good corporate governance
    (2) fiscal discipline and financial reporting
    (3) timely disclosure of material information
    (4) compliance generally

Detailed Requirements: Ongoing Requirements (1)

The Junior Market Company must maintain:

- general compliance with the Rules
- eligibility under tax legislation
- Articles of Incorporation in required form
- a listing of at least 20% of its participating voting share capital at a level of J$50 - 500m
- a shareholder base of at least 25 persons in years 1 - 5 and 50 persons in years 5 - 10

Detailed Requirements: Ongoing Requirements (2)

- The Junior Market Company must:
  - ensure that the Mentor and Board continue to comply with the admission conditions
  - meet its quarterly and annual financial reporting obligations
  - meet its timely disclosure obligations
  - pay Junior Market Fees
- The Junior Market Company may: list further participating voting equity shares, or other securities, using a wide variety of methods

Shelf Documents

- Admission Agreement
- Declaration for Admission
- Mentor Agreement
- Board and Shareholders' Minutes for Approval of Admission
- Prospectus
- Specimen Participating Voting Share Certificate

Admission Application

- same form for initial admission and further issues

- sets out basic information about:
  - the company
  - its shares and other securities, including those that are to be admitted
  - the Board
  - the Mentor

Admission Agreement

- same form for initial admission and further issues
- confirms that the Company will apply to admit all further issues of shares of a class that is already admitted
- confirms the Company's obligation to notify the JSE of certain events:
  - the appointment, resignation or termination of a mentor at least 28 days before it is to take effect
  - any actual or potential breach of the Rules
  - underwriting, sales or pooling agreements
  - disposals of assets with a value more than 10%

Declaration for Admission

- same form for initial admission and further issues
- the Company provides the JSE with confirmations that:
  - it has appointed a Mentor and a Board that comply with the Rules
  - it has taken reasonable steps to ensure that Board and the Mentor understand their responsibilities under the Rules
  - it has established adequate procedures, systems and controls for corporate governance, financial reporting, and timely disclosure of material information
  - is of the reasonable opinion, having done appropriate checks, that it has complied with:
    - all Rules relevant to admission
    - all requirements of the Companies Act and Securities Act
  - it has disclosed all material information to the JSE

Mentor Agreement (1)

- Mentor Agreement will not be effective until JSE approves the Mentor
- sets out details of Mentor's remuneration - it can be flexible (salary / shares) but care must be taken to avoid conflicts of interest
- confirms Mentor's duties to the JSE: open dealings, notifications of actual and potential Rule breaches
- can be terminated by the Company / Mentor on 6 months' notice
- confidentiality and optional non-compete provisions

Mentor Agreement (2)

- The Mentor makes representations, warranties and covenants to the JSE about:
  - his skills relevant skills, knowledge and experience
  - his good character
  - his ability to manage any conflicts of interest
  - his duties to the Company:
    - acting in good faith, and with due skill and care
    - advising the Board on adequate procedures, systems and controls for:

      (1) corporate governance - Board meetings / Committees

      (2) fiscal discipline and financial reporting

      (3) timely disclosure of material information

Board and Shareholders' Approval Minutes

- Board Minutes approve:
  - Shelf Documents for admission, conditional on shareholders' approval of admission generally at EGM
  - the calling of shareholders' EGM
- Shareholders' EGM Minutes approve:
  - new Articles of Incorporation that comply with Rules (special resolution)
  - increase in share capital if required for IPO (ordinary resolution)
  - admission generally (ordinary resolution)

Prospectus (1)

- Contents must comply with the Third Schedule of the Companies Act 2004, and the Securities Act:
  - information about the Company: its business, management, share capital, shareholders
  - details of the public offer: new issue for subscription / sale of existing and fixed price
  - minimum amount to be allotted (J$50m+)
  - what the Company will use the IPO funds for
  - material contracts
  - directors' interests
  - auditors' report and audited financial statements (IFRS)

Prospectus (2)

- Directors must approve contents
- Civil and criminal liability for getting it wrong: directors and persons authorising its issue
- Review by JSE, Registrar of Companies, FSC
- Registration by Registrar of Companies and FSC before publication
- Publication on JSE website
- IPO then launches - at least 21 days under Rules, and no more than 40 days under Companies Act to raise at least $50m+

Illustrative Timeline

- Company is incorporated
- Company appoints advisers: auditor, mentor, broker, attorney
- Company confirms compliance with tax legislation and financial reporting requirements
- Company drafts prospectus (can be based on business plan) with advisers
- Company submits prospectus and other Shelf Documents to JSE for review at least 21 days before admission
- Company registers prospectus with Registry of Companies and FSC
- Company launches IPO
- Company raises $50m+ and begins its life on the Junior Market
- Company graduates to Main Exchange after 10 years and remains there for 5 years

End

<u>Thanks to:</u>

JSE

Scotia DBG

The audience