

Focus: Stock exchanges

Listing rules

The Channel Islands Stock Exchange has launched an extractive industries listing initiative

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In a major initiative, the Channel Islands Stock Exchange (CISX) has revised and expanded its listing rules to enable companies engaged in the extractive industries to offer their equities on the Guernsey-based exchange.

These rules will fall within a Chapter IX of the CISX listing rules and follow an extended consultation period with various stakeholders. They are aimed at providing the framework for listing by firms in the energy and minerals sector, including oil and gas companies, as well as mineral exploration and production companies.

This expansion by the CISX should prove to be of considerable interest to a variety of companies involved in the natural resources industry. In the first instance, the new listing regime should appeal to unlisted firms that are in the initial stages of project development, as well as companies that are traded on an unregulated market or platform and see the benefit of achieving a primary listing on a recognised stock exchange within the European time zone.

The CISX is designated by Her Majesty Revenue and Customs (HMRC) as a 'recognised stock exchange' under the UK Income and Corporation Taxes Act. The CISX has also been formally recognised by several international authorities and organisations, including the US Securities and Exchange Commission (SEC), the International Organization of Securities Commissions (IOSCO), the International Capital Market Services Association and the World Federation of Exchanges, as well as various regulated exchange.

Commenting on the expansion plans, Georgina Sines, head of listings at the CISX, says: "In its 15th year, the Channel Islands Stock Exchange is well placed to extend the listings rules and after extensive consultation and due consideration we are pleased to be able to introduce appropriate and concise listing rules to facilitate the listing of shares issued by extractive industries."

Booming sector

The decision by the CISX to create a listing regime to accommodate companies engaged in the research and extraction of fuels and minerals is indicative of the role that the extractive industries plays on the world stage, representing the largest single sector in the world's cash economy.

World agriculture is somewhat comparable, but only after including the estimated value of food produced for personal consumption in subsistence farming and animal husbandry within less developed economies.

Currently, world oil production is in the realm of 4,000Mt/y, or approximately 85Mbbbl/d. That figure



Photo: Saskia Bosch van Rosenthal

Guernsey's coastline

includes crude oil from conventional reservoirs, oil shales and oil sands, as well as the natural gas liquids that condense from crude oil under atmospheric conditions.

Allowing for a nominal average wellhead price of US\$100/bbl, the market value of this raw material, each day, is around US\$8.5 billion, which amounts to more than US\$3 trillion/y.

To this figure may be added a further estimate for the wellhead value of natural gas sales. Worldwide, these volumes are approximately 3,200,000Mm³/d, excluding gas that is recycled to maintain underground reservoir pressures or gas that is flared. On a comparative heat content basis, this gas volume is approximately 3,000Mt of oil equivalent or 60Mbbbl/d.

Natural gas prices vary from place to place, but allowing for an average price comparable to that currently being paid in major gas-consuming regions, this would add nearly another US\$3 trillion/y to the total.

It is not surprising that the extractive industries are very active around the world. To take just one example, almost 200 countries are members of the United Nations and around 80 of these are producing various quantities of gold every year. Copper is mined in 50 of these countries and more than 100 produce crude oil.

Whether the goal of the company is to find gold, to locate an oil field or to open a marble quarry, the common feature of all these endeavours is to benefit from the discovery-value arising from successful efforts.

The exploration and development process can often take several years, and requires considerable sums of risk capital. Adequate exposure to capital markets is therefore essential.

It is also generally desirable that a relatively new company within the extractive industry operates in a financial environment that is both well-regulated in order to provide an adequate level of security to its investors and is flexible and cost-effective in order to ensure that the sometime limited capital and human resources available are employed in the most efficient, productive and sustainable way.

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The new Chapter IX of the listing rules is modelled on the existing Chapter VI applicable to the listing of equities and corporate debt securities by qualifying trading companies. Chapter IX also contains new or enhanced provisions, which specifically deal with certain sensitive aspects that affect extractive industries.

These include, among other things: anti-money laundering provisions – particularly in relation to the operating subsidiaries of the parent listed company; provisions relating to the financial and operational soundness of the listed company; an appropriate level of information disclosure to be produced or reviewed by industry experts; and, an effective approach to risk assessment in respect of the issuer of the listed securities.

A company wishing to list its shares or debt securities under the newly introduced listing regime will need to have a minimum three-year track record, either by itself or through one or more of its subsidiaries, with consolidated audited accounts and financial statements, as well as being established in a jurisdiction that is recognised by the CISX.

This includes Organisation for Economic Co-operation and Development (OECD) nations and other jurisdictions recognised by the CISX as meeting international standards in terms of anti-money laundering and countering the financing of terrorism. Where one or more operating subsidiaries of the company are not established in a jurisdiction recognised by the CISX, the listing rules require that, among other things, the share registers of such subsidiaries are held in a jurisdiction that the CISX recognises.

Under the listing regime, audited financial statements of a company whose equity or debt securities are listed on its Official List may be prepared in accordance with the company's national law and with UK or US Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS) or other accounting standards acceptable to the CISX.

The audited accounts and financial statements will need to contain such information as is necessary to allow an investor to make an informative assessment of the company and the securities listed, although the CISX may grant partial derogations from such requirement where disclosing certain information would be contrary to public interest or seriously detrimental to the company.

The company must also submit three years of reporting of proven and probable reserves as estimated by an independent qualified person. The company is also required to own title to land that indicates a reasonable likelihood of positive cash flows and confirm that the directors, senior managers and substantial shareholders will not dispose of the company's securities within 12 months after admission to listing. The exchange will need to be satisfied that the management have, collectively, sufficient experience and specific expertise.

As part of the conditions for listing, the company will be required to submit to the Market Authority

“The CISX wants to attract private companies that are considering whether to apply to a recognised stock exchange for a primary listing”

St Peter Port in Guernsey, which is home to the Channel Islands Stock Exchange



Photo: Man yvi

for preliminary review a competent person's report (CPR) and a recommended work programme providing a summary of all activities on all material and non-material land and property or liquid and gaseous hydrocarbons, as applicable.

The CPR should be prepared by a suitably qualified and experienced independent expert and set out the company's reserves and resources position, and exploration results or prospects in accordance with one of the internationally recognised mineral codes and standards set out in the listing rules.

The competent person must possess the required competency requirements as prescribed by the relevant codes set out in the listing rules, be professionally qualified and a member in good standing of an appropriate recognised professional association, institution or body.

They must have at least five years of relevant professional experience in the estimation, assessment and evaluation of the type of deposit that is being or will be extracted by the company, and be independent of the company, its directors, senior management and its other advisers.

Where a company applying for its securities to be listed has a controlling shareholder, the CISX may require the appointment of a sufficient number of independent, non-executive directors to ensure that the company is at all times capable of operating and making decisions independently of the controlling shareholder and that all transactions between the company and the controlling shareholder are conducted at arm's length and on a normal commercial basis.

The minimum market capitalisation of the company must be £500,000 (US\$810,000) and at least 25% of the class of securities to be listed must be in the hands of the public in proportions that satisfy the CISX that there will be an adequate market in the securities.

Open for business

The CISX wants to attract private companies that are considering whether to apply to a recognised stock exchange for a primary listing, and also invites companies whose securities are admitted to one or more trading platforms or unrecognised exchanges to weigh the merits of a cost-effective primary listing on the CISX. The scope of the new Chapter IX of the CISX Listing Rules is intended to appeal to firms at all levels of the extractive industries and at different stages in their corporate development.

In all instances, appropriate technical information, as set out in accordance with established international standards and guidelines, is mandatory for both oil and gas activities and for mineral exploration, mining and ore processing businesses.

Therefore a company wishing to list its shares or debt securities under the new rules for the extractive industries will need to appoint a competent person with relevant qualifications and competencies, as well as a suitable listing sponsor who is member of the CISX. However, the CISX does not require the appointment of a corporate adviser. ▼