

The evolving role of finance post IPOs: Shaping the future of finance and the UAE capital markets



The United Arab Emirates (UAE) has continued to experience strong economic growth despite the recent global headwinds, as a result of continued economic diversification and government investment which further positions the country as a global economic powerhouse. With increased investment in sectors such as tourism, logistics, real estate, financial services, and technology, the country's commitment to innovation and entrepreneurship has positioned it as a regional leader for leading businesses – both private and public.

Given the dynamics of the economic landscape, the UAE has emerged as a prominent destination for initial public offerings (IPOs), which reflects the country's commitment to foster a robust capital market and attract global investment.

In recent years, there has been a notable increase in IPOs across various sectors. This surge has been attributed to various factors including the government's emphasis on economic diversification, political stability, financial regulatory reform, and the UAE's strategic location and position as a global business hub, as a result of which the number of entities listed on the two primary stock exchanges in the UAE, Dubai Financial Market (DFM) and Abu Dhabi Stock Exchange (ADX), has increased by approximately 10% over a period of 12 months.¹ These IPOs have attracted significant interest from both retail and institutional investors resulting in multifold oversubscription, and reflecting the region's growing investor appetite for emerging growth opportunities.

Key considerations for the finance function

In recent years, the role of the finance function of a listed company in IPOs has undergone significant changes, driven by evolving market dynamics, technological advancements, and shifting investor preferences, with increased importance on the role of finance from strategic financial planning to ESG considerations and communication. While organizations spend considerable time and resources identifying and addressing potential anticipated changes as part of their IPO readiness, many within the finance function have found their roles significantly change post listing.

Given the changing landscape, and having worked with a number of organizations pre and post IPO, here are five key considerations (non-exhaustive) that finance professionals and those charged with governance need to consider post an IPO:

1. Accelerated financial reporting timelines

Listed companies in the UAE must adhere to stringent reporting timelines outlined by the Securities and Commodities Authority (SCA). SCA requirements mandate that companies disclose their quarterly earnings within 45 days following the end of the reporting period, while audited financial statements must be issued within 90 days from the end of the financial year. There are also additional International Financial Reporting Standard (IFRS) disclosures required for entities with publicly traded securities. The finance functions of these

companies should consider the scheduled dates for audit committee and board approvals, allowing sufficient time to address any feedback or queries raised by these committees prior to reporting. Although some organizations may have existing internal reporting timeframes prior to listing, allowing for slight flexibility with a few days' delay which diminishes post-listing. Any delay in meeting the reporting deadlines can result in a suspension of share trading and damage to the company's reputation.

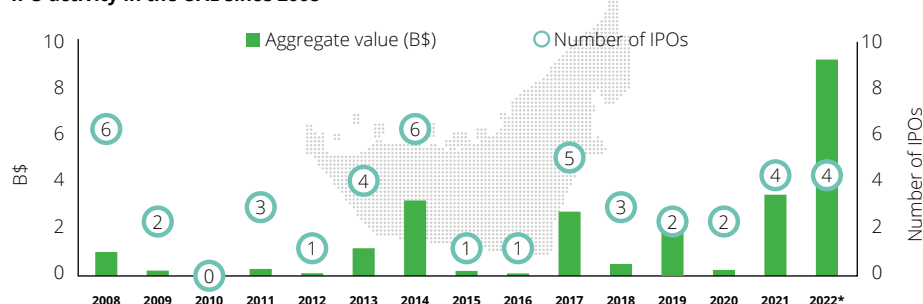
2. Enhanced investor communication and the role of finance

Effectively communicating results to investors and analysts is vital for a publicly traded company, with significant dates like quarterly earnings calls being essential for any listed company. While the finance team in a private company primarily focuses on internal reporting and analysis, this changes post listing. After going public, the finance team is required to collaborate closely with the investor relations team to deliver coherent financial narratives to the market. The ability to convey quarterly results and trends clearly and succinctly is critical for establishing investor confidence, attracting capital, and improving financial transparency. Furthermore, a capable finance team can anticipate potential inquiries, gather the necessary information, and effectively relay it to the investor relations team, enabling the CFO/CEO to address those inquiries.

3. A change in auditor rotation requirements

The UAE requires all listed companies to rotate their auditors in line with the SCA rotation rule, which mandates audit engagement partner rotation every three years and for the audit firm to be rotated every six years. These rules were enforced to bolster transparency and accountability, along with promoting independence and objectivity. Finance teams, who may lack prior experience with audit transitions, must swiftly adapt to a different audit approach. They must also establish relationships with the new audit firm and consider the additional time needed for

IPO activity in the UAE since 2008



Data compiled 16 June 2022. Analysis includes initial public offerings covered by S&P Global Market Intelligence completed since 2008. Terminated/withdrawn IPOs have been excluded from the sample. *Data as of 16 June 2022. Source: S&P Global Market Intelligence

the new auditor to familiarize themselves with previous complex and judgmental accounting matters.

4. Increased governance responsibilities

Those responsible for governance have the duty to oversee a company's financial reporting process. As a company transitions from being private to going public, the significance of robust corporate governance increases significantly to inspire confidence in investors and shareholders. One of the primary responsibilities of the audit committee in a listed company is to ensure adherence to the auditor independence rule, guaranteeing that any non-audit services provided by the auditor do not compromise their independence. Listed companies, classified as 'public interest entities,' are subject to stricter independence regulations, with recent amendments to the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) introducing additional safeguards that governance must be aware of. The mandated 6-year auditor rotation rule introduces further complexities, necessitating monitoring of non-audit services provided by other audit firms to ensure that preferred bidders during rotation remain eligible and free from conflicts of interest.

5. Internal controls over financial reporting

Finance teams will need to update their internal control systems to ensure compliance with additional regulatory requirements that follow a listing. As outlined in the article "Keeping up with internal controls" in the ME PoV Winter 2022 issue, the SCA issued a revised draft Governance Code for public consultation in the UAE in September 2022, which indicated that the auditor's responsibilities will be enhanced to include an opinion on the effectiveness of ICFR for all listed entities in the UAE. Companies that were not previously subject to an ICFR audit will need to assess their readiness for such an

audit and the finance team will play a key role in this process.

With the UAE positioned as the hub for innovation, the IPO market is poised for continued expansion. The increased momentum will continue to attract both local and global companies seeking to capitalize on the UAE's dynamic and investor friendly ecosystem, which will further support the government's ambition to fortify the country's reputation globally.

In response, finance teams are increasingly being asked to be more strategic, digital and investor focused, coupled with considering areas such as ESG. Talent acquisition and development within the finance function are vital components in supporting a successful IPO and in creating a robust finance framework post IPO to ensure financial reporting compliance. This requires skilled and experienced finance teams that can navigate the complexities of the process. Equipping current finance teams and developing their skills is essential to ensure that they have the necessary skills and knowledge required for post IPO success. ●

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Endnotes

1. S&P Global Market Intelligence – IPO activity in the UAE since 2008 - <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/competition-heats-up-as-banks-try-to-cash-in-on-uae-s-ipo-boom-70784270>.