



# SME market needs Nasdaq Dubai

**Sultan Sooud Al-Qassemi** on how Nasdaq Dubai could become a successful exchange by serving the needs of the local small and medium enterprise (SME) market.

**N**ow that news of the consolidation of the Dubai Financial Market (DFM) and Nasdaq Dubai has been announced, it is time to reflect on the missed opportunity that the latter represented and lobby for the future entity to become more relevant to the emirate, country and region.

First, it is important to differentiate between the two, as their missions were quite different. The DFM targeted local and regional firms wanting to list and raise capital, while the Dubai International Financial Exchange (DIFX), Nasdaq Dubai's predecessor, set its eyes on the global arena, hoping to replicate the success of the US stock exchange with the same name.

When the US Nasdaq was launched in 1971, it took a completely new strategy by appealing to the general public, rather than to just the Wall Street bankers. For instance, Nasdaq ran advertisements informing the public about the savings they could make by trading in Nasdaq-listed stocks. In fact, Nasdaq became unpopular with some brokers because it emphasised the thin spread it offered that cut out much of these brokers' commissions. Nasdaq was able to emerge in less than four decades from a complete upstart to one of the leading stock exchanges in the world.

On the other hand, consider the Nasdaq Dubai experience. It was launched to be an elite organisation, targeting mostly institutional investors, rather than the general public. Its working hours and days reflected the fact that the regional audience was not its priority. Most brokerage firms where investors had accounts weren't eligible to trade. The listing criteria were very stringent and did not take into consideration that

most businesses in the UAE are SMEs, which are precisely what the US Nasdaq attracted.

Nasdaq Dubai's only two listed stocks were mired in controversy even before they were listed. Their troubles only continued after the listing and are growing bigger by the day. DP World's listing caused Shuaa to be fined close to a million dollars by the Dubai Financial Services Authority for market manipulation in September 2008.<sup>1</sup> The only other major listed stock, Damas Jewellery, was seeking a standstill on up to AED4 billion in debt from 20 different banks.<sup>2</sup> It is worth noting that Damas encountered difficulties with the UAE federal ministry of economy, which was not satisfied with the valuations that the company had set for its assets<sup>3</sup>, prompting the jeweller to seek a DIFX listing after a private placement.

It would be wise for Nasdaq Dubai to use the flexibility it showed Damas to transform itself into an SME stock market. After all, Tanmia, the national human resource development and employment authority of the UAE, estimates that around 85-95 per cent of all businesses in the UAE are made up of SMEs.<sup>4</sup> Clearly, that market is worth serving. The transformation would also be in keeping with the original spirit of the Nasdaq institution.

There are over 30 free zones in the country, many of which host an array of medium-sized enterprises that do not want to part with a large portion of their business and want a respectable local stock market to list in.

Businesses like Axiom Telecom of Dubai, media firms and a number of successful home-grown retail and restaurant chains would all benefit from having a Dubai-

based stock market that specifically catered to the neglected SMEs in the UAE. Sadly, Nasdaq Dubai has been blind to that opportunity over the past few years, preferring instead to hold its breath for the likes of Emirates airline and Dubai Aluminium. The latter never came and Nasdaq Dubai is still the least active stock market in the region, despite its lavish name and title. It is time for Nasdaq Dubai to either evolve or be allowed to be swallowed wholesale by the DFM, an option that none of us want to see happen.

Because of the time-consuming bureaucracy of the UAE ministry of economy and the Emirates Securities and Commodities Authority, the regulatory body of the DFM and the Abu Dhabi Exchange, it is unlikely that the regulations governing stock market listings in either of the latter two will be addressed to make it more friendly for small and medium-sized businesses to list in the UAE.

Nasdaq Dubai could therefore transform itself into a stock market for at least medium-sized businesses and position itself as an avenue for them to raise cash rather than borrowing from banks. This would not only be a dignified end to a troubled journey, but also would allow Nasdaq Dubai to avail of an opportunity that has escaped the region's stock markets.

## Footnotes

- [1] <http://www.arabianbusiness.com/532188-shuaa-capital-in-share-sale-probe>
- [2] <http://www.thenational.ae/apps/pbcs.dll/article?AID=/20100116/BUSINESS/201169908/1041>
- [3] <https://www.zawya.com/story.cfm/sidZAWYA20050609045338>
- [4] [http://www.business24-7.ae/Articles/2009/12/Pages/22122009/12232009\\_0b28fc1784ce4cbab2aa5d1a8629d808.aspx](http://www.business24-7.ae/Articles/2009/12/Pages/22122009/12232009_0b28fc1784ce4cbab2aa5d1a8629d808.aspx)

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