

1. Egyptian Financial Supervisory Authority issues new decree on bonds (April 2016)

Source: Decree No. 22 of 2016 issued by the Egyptian Financial Supervisory Authority in the Egyptian Gazette Issue No. 22 dated 5 April 2016

- The EFSA issued a new decree regulating covered bonds issued by Egyptian Joint Stock Companies through an independent financial portfolio. This new law is part of an effort to develop the capital market system and diversify non-banking financial instruments in Egypt.
- Covered bonds are supported by cash flows from mortgages or public sector loans with an underlying asset pool that provides additional credit cover beyond the standard corporate bond.
- More corporate issuance would give companies an important channel to raise funds for investment. Last year, around 90 percent of bond issues in Egypt were by the government.
- This financial portfolio must be independent of receivables of the company. This independent financial portfolio can include: (i) real estate assets that are registered or that have been privatized and can be collateralized; (ii) movable assets that can be registered based on No. 115 of 2015 on movable guarantees and that are actually registered in favour of the covered bonds. The movable assets must be listed securities with the Egyptian Stock Market that can be collateralized in favour of the bonds. To use them, a company must first meet certain guarantees, such as issuing financial statements for the previous year and also be permitted to fund its operations through covered bonds. This is reflected in its operational license, where such a company would be allowed to sell movable assets, to be licensed to operate in the real-estate finance market, real estate investment and promotion, financial leases, or sale of automobiles through progressive payments.
- There are certain minimum guarantees for using such a funding mechanism, including a financial portfolio that does not dip below EGP 20 million (\$3 million) without any disputes attached and to issue financial statements for the companies based on Egyptian accounting standards for supervision. The law sets out the procedure for issuing covered bonds, including the announcement with a minimum set of details underscored in the Executive Regulations to the Capital Markets Law

2. The Egyptian Financial Supervisory Authority (EFSA) drafts legislation on debt collection (April 2016)

Source: <http://www.almalnews.com/Pages/StoryDetails.aspx?ID=286121>

- This new legislation would regulate factoring companies, which buy current and forecasted receivables from other companies at a discount. The drafting process will be complete and put up for discussion in mid-July. The debt collection market is currently worth approximately EGP 5 billion (\$ 400 million). EFSA has not yet settled on whether this will be a stand-alone legislation or will be lumped in with

the Leasing Act, which is also being drafted. The law aims to provide a new source of income for companies, facilitate factoring transactions and transfer of ownership through factoring companies. However, there will be protections for the rights of debtors, whose obligations will not be affected as a result of the sale of rights. Indeed, companies would need to inform a debtor of a transfer of rights. The law will require a minimum capital of EGP 10 million will be required for these companies and they will have to follow certain executive regulations to follow issuance of the law.

3. President Sisi issues a decree allocating land free of charge in industrial zones to qualified investors (April 2016)

Source: Decree No. 185 of 2016 issued by the President of the Republic, published in the Official Gazette Issue 13 on 5 April 2016

- The Investment Guarantees and Incentives Law 8 of 1997 (amended by Law 17 of 2015) will now apply to publicly owned lands in specific industrial areas and to lands that have not been allocated for use or preserved for any purpose. The land delineated by the decree includes areas in Upper Egypt located in the provinces of Minya, Assiut, Sohag, Qena, Aswan and the New Valley.
- Article 74 of the Investment Guarantees and Incentives Law provides that for a period of five years starting April 2015, government-owned land and real estate can be allocated free of charge to investors who satisfy certain technical and financial capabilities for development purposes. These lands may be allocated free of charge to investors that fulfill certain criteria set out through a ministerial decree for that property, and without any financial return to the government. This decree will set out the financial and technical conditions necessary for investors to use that land.
- The land will be determined pursuant to a decree by the president upon the approval of the cabinet. In the event of high levels of competition among investors to acquire such an investment opportunity, a lottery mechanism will be followed, according to Article 74.
- This is a move intended to boost investment in industrial areas.

4. Egypt amends its property tax law (March 2016)

Source: Decree No. 119 of 2016 issued by the Ministry of Finance, published in the Egyptian Gazette Issue 66 dated 20 March 2016

- Under the new amendments, families owning private properties worth up to LE2 million will be exempted from property taxes, as will a host of public buildings. Under the new law, families owning private properties worth up to EGP 2 million will be exempted from taxes.
- The law's previous draft stipulated that properties with a value above EGP 500,000 (\$60,000) would be taxed. The new amendments state that commercial stores with

a annual rent value over EGP 1,200 (\$140) will be also be subjected to property taxes, said Qotb.

- The new law also exempts military property – clubs, hotels and hospitals.
- Exemptions for public buildings were also further specified to include hospitals, schools, shelters, non-profit institutions and political parties.
- An article in the old law stipulated that property value would be assessed every five years; however, tax raises were limited to a maximum of 30 percent. This article was paraphrased to clarify a 30 percent limit on property value.
- The property tax law, proposed in 2008, had been expected to bring the government some extra LE 2-3 billion, but it was never implemented.

5. EFSA Decree introduces rules for the issuance of non-rated bonds and their subscription

Source: EFSA Board of Directors Decree No. 23 of 2016, Issue No. 79 of the Official Gazette dated 4 April 2016

- This decree mainly addresses two matters: the rules of the issuance of non-rated bonds and the rules of its subscription.
- The rules of issuance of non-rated bonds were issued in accordance with the amendments to the Executive Regulations of the Capital Markets Law (recently published in February 2016), which aimed at diversifying financing tools in the Market.
- These rules aim to provide financing for small and medium enterprises without burdening small and medium enterprises with requirements to obtain annual credit scores. It is noteworthy that such bonds will be available only to financial institutions and investment funds – not for the public. This is because non-rated bonds will be issued by qualified investors which are able to evaluate the risks.
- The decree sets out a number of conditions and requirements for the company wishing to issue non-rated bonds for example that:
 - o The minimum of issued capital and paid-up capital for such company shall be at least one million pounds.
 - o The company had practiced its main activity for at least one year pursuant to the company's activities stated in its Articles of Association.
 - o The company had prepared its financial statements for at least a fiscal year in accordance with the Egyptian Accounting Standards.
 - o The required value of the bonds shall not exceed the company's net assets in accordance with its last budget.
- With regards to subscription to these non-rated bonds, the decree provides that it will be available for financial institutions like banks, insurance companies, investment funds, natural persons that own securities or other financial instruments worth over EGP 500,000 in two joint stock companies at least other than the company placing the bonds and for natural persons having relevant expertise with at least three years in the credit, finance and investment business.

6. EFSA Decree amending the Listing Rules regarding the disclosures of judgments and arbitral awards

Source: EFSA Board of Directors Decree No. 47 of 2016, Issue No. 117 of the Official Gazette dated 22 May 2016

- The decree provides that the listed companies shall disclose any arbitral award or judgment to the Stock Market upon its issuance, which may affect its financial position, any rights of its securities' holders or the trading price or traders 'investment decisions in the market.
- Taking into account that such disclosure shall be related to the awards or judgments requiring the company to pay or reimburse any sums exceeding 2% of the company's equity based on its latest annual or quarterly certified financial statements.
- Before the issuance of this decree, the listed companies were committed to disclose any rendered arbitral awards and judgments without any quantum qualification like the newly introduced percentage of 2 % of the company's equity.
- Finally, the decree introduces a new scope of disclosures regarding the company's board of directors or key managers by adding the issuance of any imprisonment sanctions against them.

7. EFSA Decree amending the Listing Rules and Delisting Rules

Source: EFSA Board of Directors Decree No. 35 of 2016, Issue No. 89 of the Official Gazette dated 16 April 2016

- According to the Mr. Sherif Samy - EFSA's Chairman, the Listing rules are reviewed -periodically- to be in line with the best international practices in the areas of disclosure and corporate governance and protection of dealers' rights.
- Therefore, this decree includes a number of Articles in regard to the mutual ownership of shares of sister companies and controls set for dealing with a substantial portion of the company's assets and trading in Treasury shares through subsidiaries, in addition to the formation of auditing committees at the company and setting a new definition of the independent BOD member.
- Firstly, with regards to the Ownership in sister companies, this decree provides that listed companies cannot own more than 10% of their sister companies 'shares and GDRs. It shall be noted this decree does not require adjusting existing situations of such ownership. Such amendment aims to mitigate the unjustified inflation the capital of companies, which may lead to a conflict of interest, or of management.
- Secondly, with regards to the Treasury Shares, this decree provides that in case of purchasing the company's shares through a subsidiary, then the purchased shares will be considered as treasury shares and will be subject to the provisions of the treasury shares. Thus, these shares shall have no voting rights in the meetings of the General Assemblies or profit share rights.

- Thirdly, with regards to the selling of fixed assets, this decree introduced a new condition for the listed company in order to dispose of more than 50% of its fixed assets and other associated assets, the said company shall take the prior approval of the Extraordinary General Assembly before such action..
- Fourthly, this decree defines the independent BOD member as follows: a non-executive BOD member who is not a shareholder in the company and who did not have any contractual or employment relationship or membership in the board of directors of the company, its holding company or its subsidiary or sister companies, during the previous three years prior to his appointment in the Board. Moreover, he must not be a spouse or second-degree relatives of any of these.
- Fifthly, the new amendments also provide that the auditing committee of the listed companies shall include three non-executive experienced board members and two of whom shall be independent members.
- Finally, with respect to the independent non-executive board member and auditing committee, the listed companies have until end of June 2016 to comply with its relevant amendments