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Regulatory framework of Egypt's capital market: room for reform?

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The Egyptian capital market was reborn during the last two decades and has been developing since then. This article discusses the regulatory framework of the Egyptian capital market and highlights some of the recent and potential reforms.



Introduction

Considered to be among the oldest markets in the region, the securities market in Egypt dates back to the 19th century, to 1888 to be exact, when Alexandria Exchange was established, followed by the Cairo Exchange in 1903. These two securities exchanges were very active in the 1940s and, at one point, were ranked in the top five exchanges in the world. Due to various government policies adopted in the mid 1950s, they were largely dormant until the early 1990s when new reforms were implemented.

In 2007 the two exchanges were merged into one exchange, government owned and controlled, and called the Egyptian Exchange (EGX) which became the only registered securities exchange in Egypt. By 2010 the number of activities and mechanisms which fell under the supervision of the capital market regulator rose to incorporate more than 16 different activities

including, *inter alia*, promoting and underwriting in securities, securities brokerage, portfolio management, mutual funds, fund management, venture capital, advisory services in relation to securities, management services in relation to mutual funds, settlement and set-off services in relation to securities transactions, margin trading services and intraday trading services.

This article highlights the current regulatory framework of Egypt's capital market and touches on recent and potential reforms.

General legal framework

Main legislative and regulatory framework
The capital markets in Egypt are regulated by the Egyptian Financial Supervisory Authority (EFSA). It was established as a public authority with independent legal status and is managed by a board of directors. It was established to supervise all non-banking financial activities



There was anticipation in the market that legislation would be updated to widen the categories of securities that can be listed

in Egypt, including capital market operations. It also acts as the supervisory authority for the board of directors of EGX. On 1 July 2009 EFSA began operations and officially replaced the Capital Market Authority, the former capital markets regulator.

The EFSA has a wide range of discretionary powers to issue binding directives for issuers and financial service providers in Egypt. EFSA oversees key market participants such as member firms, mutual funds, investment banks and rating companies. In addition, EGX has its own internal regulatory remit and has established a number of committees including the “Listing Committee” whose mandate is to regulate compliance with the Board of Directors Decree no. 30 for 2002 the former Capital Market Authority, now the EFSA (*Listing Rules*) and the Capital Markets Law No. No. 95 for 1992 (*CM Law*).

Several laws, regulations and decrees govern admission to listing and ongoing disclosure requirements.³ There was anticipation in the market that the current legislation will be updated in due course, so as to widen the categories of securities which can be listed (for example, futures, options and swaps) and to reform the corporate governance regulations for issuing companies. However, there have been no subsequent statements in relation to these anticipated developments, which might imply that they have been put on hold due to the “Arab Spring”.

Securities offering

Public offering

Conducting an initial public offering (IPO) in Egypt requires, *inter alia*, a shareholders’ resolution with special majority, fair value report by an independent financial adviser and a subscription prospectus subject to EFSA’s approval. Approaching the regulator at an early stage of any proposed IPO is advisable in Egypt to ensure that the process is conducted as smoothly as possible.

As with most jurisdictions, the issuer will need to appoint appropriate advisers at an early stage in the process in order to assist with the complexities of the IPO process. Typically such advisers would include lawyers, investment banks/underwriters, brokers and financial

advisers. Underwriters need to be licensed by EFSA. According to the CM Law, the minimum capital for companies offering shares in an IPO is EGP 1,000,000 (around USD 90,000) and provided that founders subscribe in at least 50 per cent of the company’s share capital.

It must be noted here that there is a distinction between the offering of securities to the public and admission to listing on EGX. It is not possible to carry out these two processes in parallel as the listing on EGX is a subsequent step to the IPO procedure. The IPO process (which includes the preparation and submission of the prospectus) is supervised by, and requires the approval of, EFSA.

On the other hand, listing is done through EGX. The Listing Committee of EGX is responsible for reviewing and verifying all applications and for providing the approval for listing.

It is not clear from the black letter of the law whether unlisted shares in the secondary market can be offered in a public offering. The regulations and procedures set out in the CM Law related to public offering assume that the public offering of shares is made in the primary market only (that is, shares issued by the company either in the incorporation process or for capital increase). In practice, however, there has been a precedent in the Egyptian market in 2010 for public offering of shares of a company in the secondary market, under which some of the existing shareholders of the company sold a portion of their shares in a public offering.

Public offering of shares in the secondary market may introduce additional flexibility for unlisted companies as it may offer an easy exit for a strategic investor in an unlisted company without the need to search for qualified investors as required in the private offering. Companies may also benefit from this if a company which satisfies the minimum capital for listing on EGX wishes to go public as a first step to being listed on EGX without having to increase its capital. Accordingly, we believe that this can be subject for consideration for development through future regulators aiming at creating a balance between the increasing market needs for flexibility and the protection of retail investors in the Egyptian capital market.



A company must have a fully paid up capital of at least EGP 20,000,000 to list its shares on the Egyptian Exchange

Private offering

A private placement, unlike an IPO, is targeted at certain types of persons who are deemed to be “qualified investors” for the purposes of the regulations. A private placement does not require the submission of a subscription prospectus, unlike an IPO, but requires the submission of an information memorandum which contains less detailed information compared with an IPO prospectus.

Qualified investors must either satisfy certain financial criteria⁴ or have adequate experience of the securities market.⁵

Marketing securities

An issuer must ensure that its marketing materials are true, accurate, up-to-date and not misleading so as to mitigate any potential action by investors. In addition, any entity wishing to market securities in Egypt must be licensed by EFSA to market and underwrite securities in Egypt. It is a criminal offence for any other person to do so.

While the prospectus must be approved by EFSA before publishing, the CM Law allows for certain marketing materials to be distributed before obtaining EFSA’s approval, but only after the filing of the application to approve the prospectus (with respect to an IPO). Any such materials may only contain basic information about the issuing company and must also include a very clear and prominent warning that the prospectus has not yet been approved by EFSA.

Once approved by EFSA, a summary of the prospectus should be published before the offer is due to commence, or, as the case may be, within 10 days of the approval of any amendments to the prospectus. Thereafter, the subscription period must remain open for a period of not less than 10 days and not more than two months (although this may be extended by EFSA if the offer is not fully subscribed during this period).

Listing on EGX

Regulatory requirements

The listing of shares on EGX is predominantly governed by the Listing Rules which include the eligibility criteria which must be satisfied before securities can be listed. The CM Law includes the underlying regulatory regime of EGX as well as

some additional general disclosure obligations relating to the contents of the offer document.

For a company to list its shares on EGX it must have a fully paid up capital of at least EGP 20,000,000 (about USD 3,308,600) comprising of at least 2,000,000 shares.

In addition, the company applying for listing must satisfy certain criteria set out in the Listing Rules, such as a minimum of 100 shareholders and a minimum free float of 5 per cent of its share capital.

It is worth noting that some of the listing requirements set out in the Listing Rules require ongoing compliance. The Listing Committee monitors these requirements on an ongoing basis and a listed company may be mandatorily delisted⁶ from EGX if non-compliance is not remedied within certain grace periods decided by EGX.

Dual/secondary listings

It is also possible for foreign issuers to have a dual primary listing in Egypt provided their securities are already listed on a recognised exchange (that is, a foreign exchange which is subject to the supervision of authority which exercises authorities similar to the authorities of EFSA). Such foreign securities will also have to meet the eligibility criteria as set out above.

In addition, it is possible to register Egyptian issued depository receipts for offshore issuers and this latter possibility is common in practice. In 2010, a Swiss company having depository receipts on EGX, Orascom Development Holding (AG), launched a rights issue on the Swiss Stock Exchange involving Egyptian depository certificates, which was the first rights issue offered for holders of Egyptian depository certificates in the Egyptian market.

Compliance

Corporate governance

Corporate governance is a growing subject in Egypt. There is currently no single all-encompassing code for corporate governance in Egypt. The fiduciary duty and corporate governance related regulations can be found in several different laws and regulations including the Listing Rules, the CM Law and the Companies Law.



Any trade of listed shares must be concluded through the Egyptian Exchange and must be purchased from the open market

In 2007 EFSA issued governance rules (the “EFSA Rules”) which must be followed by all companies incorporated under the CM Law (that is, companies that perform one or more of the capital market activities as set out in the CM Law). EFSA Rules include further governance requirements in relation to, *inter alia*, the composition of the board of directors, structure of the mandatory board sub-committees, disclosure requirements, conflict of interest and internal trading, dividend distribution and internal supervision.

In addition, every listed company must have an audit and compliance committee comprising at least three non executive directors. Companies which fail to comply with any corporate governance requirements are typically fined. EGX has recently indicated that it intends to adopt a more robust approach to compliance.

Furthermore, as a general protection, any shareholder may, before the Egyptian courts, challenge the decision of the general assembly which has been issued in prejudice to or in favour of a specific group of shareholders.

With respect to trading, there are no black out periods (that is, periods during which shareholders or certain persons related to the issuing company are prohibited from concluding any trades on the company’s shares) that must be complied with apart from:

- (i) any persons connected to the issuing company may not deal in the company’s shares within the period of 15 days before and three days after the company has released to the market any material price sensitive information
- (ii) no transfers of ownership of shares shall be effected within the period starting from the date on which the invitations for the company’s shareholders’ general assembly is sent until the conclusion of the shareholders’ general assembly.

Ongoing compliance for listed companies

The disclosure section of the Listing Rules (the Disclosure Rules) sets out the ongoing compliance obligations for any company listed on EGX.

In addition to the list below, listed companies must provide EGX and EFSA with their quarterly financial statements (which must

be reviewed by auditors) and must publish their annual and semi-annual financial statements in two daily Egyptian newspapers.

The reporting requirements under the Listing Rules are split into two main areas:

- (i) any listed company must immediately report to EGX any change to the information set out in the issuer’s listing application or in its board of directors’ annual reports
- (ii) all listed companies must appoint an investor relations officer who is responsible for reporting to EGX and for publishing press releases (which includes information that is required to be published by EGX).

Securities trading

Any trade of listed shares must be concluded through EGX and must be purchased from the open market. Orders are placed on EGX only by licensed member firms (that is, licensed securities brokers) and executed through the system. Trades may also be carried out through protected transactions under the rules and procedures set out by EGX and as approved by EFSA. EGX has indicated some illustrative examples of when its Trading Committee may grant a protection such as connected party deals and a bank exercising a pledge. While these are only examples and there is a clear power for the chairman of EGX to refer other cases to the Trading Committee to consider giving a protection, in practice, EGX and EFSA are reluctant to use their discretion and grant any protection in cases other than those explicitly mentioned in the Trading Committees rules.

As for non-listed shares, trading must also be concluded through a broker licensed by EFSA who will effect and complete the transaction. Unless the unlisted company has offered any of its shares to the public, there are no notice requirements and no mandatory offer obligations or pre-emption rights, except in cases where otherwise provided for in the statutes of the company.

Clearing and settlement

Listed shares

All listed shares are held in dematerialised form and are managed by Misr for Clearing Depository and Registry (the MCDR), which is the sole central depository company in Egypt and



There are no material nationality requirements or restrictions in relation to ownership of securities in any Egyptian company, whether listed or not

the sole entity authorised to perform clearing and settlement for all shares traded on EGX. Clearing and settlement is done on a delivery versus payment basis, whereby MCDR acts as the clearing house between the buying and selling member firms. The MCDR is responsible for the settlement of member firms' accounts at the request of and notification by EGX.

The broker will receive the buy or sell order and will then confirm with the custodian or settlement bank that the subject shares or funds required to complete the transaction are available. The broker will execute the deal at the exchange which in turn will notify the MCDR of the transaction. The MCDR will thereafter notify the broker and the custodian of the transaction and settlement will occur on T+2. The MCDR is also responsible for the recording of pledges of dematerialised shares, whether listed or unlisted.

Unlisted shares

Unlisted shares may be materialised (that is, issued in the form of physical share certificates backed up by the shareholders' ledgers held by the issuing company) or dematerialised (that is, centrally deposited with MCDR). Any trades over unlisted shares, whether materialised or dematerialised, must be executed by a licensed securities broker and registered at EGX. The title to the shares is legally transferred to the purchaser on the date EGX issues a certificate of the transfer of ownership. Afterwards, the purchaser of the shares is recorded as the owner of the shares either in the shareholders' ledger (with respect to materialised shares) or in MCDR registers (with respect to dematerialised shares).

Securities ownership restrictions

In general, there are no material nationality requirements or restrictions in relation to the ownership of securities in any Egyptian company, whether listed or not.

Also there are no absolute ownership restrictions with regard to specific sectors; however, the approval of the relevant sector's regulator is required for ownership of shares in Egyptian companies working in certain sectors. For example in the banking sector, any investor who wishes to acquire, directly or indirectly, five per cent or more of the issued share capital of an Egyptian bank must notify the Central Bank of Egypt (CBE). The prior approval of the

CBE is required if any such investor wishes to acquire 10 per cent or more of the issued share capital of the bank in question.

Similarly, any entity which wishes to acquire five per cent or more of the issued share capital of an insurance company must notify EFSA, and must obtain the prior approval of EFSA if the acquisition is for 10 per cent or more of the issued share capital of the insurance company in question.

In addition, the prior approval of the Chairman of the General Authority for Investment and Free-zones must be obtained for the transfer of title in the shares of companies running business in the Sinai area.⁷

There are various notification thresholds that apply to any persons acquiring the share of listed companies or unlisted companies which offered shares to the public, including prior-acquisition notification thresholds⁸ and post-acquisition notification thresholds.⁹ The consequences for violation of the said thresholds vary from discretionary measures applied by EGX and/or EFSA, including warnings or fines, to invalidation of the acquisition of the shares and mandatorily reversing the transaction.

Takeovers

Chapter 12 of the Executive Regulations to the CM Law was introduced in 2007 (the Takeover Rules). Takeovers fall under the ambit of EFSA's jurisdiction.

The Takeover Rules apply to all listed Egyptian companies and to any unlisted Egyptian company that has offered any shares to the public in Egypt. Foreign companies which have chosen to list their securities on EGX on a secondary or dual basis are also subject to the Takeover Rules, unless explicitly exempted by virtue of a decision by EFSA.

In general, the Takeover Rules set out a number of objective cases which justify the exemption from the said rules (for example: inheritance or mergers) and reserve for EFSA a discretion to grant exemptions in other cases as EFSA may deem appropriate. However in practice, EFSA is reluctant to use its discretion to grant an exemption from the Takeover Rule unless the applicant secures the acceptance of 100 per cent of the shareholders of the target company to sell their shares.



There are no specific regulations in Egypt governing derivatives transactions

Any person wishing to acquire by himself, or together with persons acting in concert, one-third of the share capital or one-third of the voting rights of a company which is subject to the Takeover Rules, or increases its shareholding or controlling stake in such company above certain thresholds,¹⁰ must submit a tender offer in respect of all of the shares or the voting rights of the company, as the case may be (Mandatory Purchase Offer).

It is worth noting that there is nothing in the Takeover Rules that forces a minority shareholder to sell their shares to the offeror, hence squeezing out a minority shareholder without their consent is not possible under Egyptian law. As further protection to minority shareholders, any minority shareholder holding at least three per cent of the shares of a company subject to the Takeover Rules may force a shareholder (either alone or together with concert parties) which acquired 90 per cent or more of the issued share capital of the company to buy out the shares of the minority shareholder within one year following the acquisition of the majority interest in the company. The price at which the minority shares shall be purchased must not be less than the highest price paid by the majority shareholder in any purchase offer made during the previous 12 months.

Recent updates and potential reforms

Derivatives

There are no specific regulations in Egypt governing derivatives transactions. So far, EGX has not issued rules for trading in futures or options. Nevertheless, the concept of options is generally recognised under the Egyptian Civil Code as long as a promise to execute a contract in the future is valid and that its duration and all the essential elements of that contract are provided. Also the Egyptian Commercial Code specifically validates future contracts even if there is no intention by the parties to do anything other than pay price differences thereunder, if the trade is carried out through the stock exchange.

Yet speculation on upward or downward movements in interest rates or currency exchange could be considered as prohibited gambling. The Egyptian Civil Code renders void any gambling contract.¹¹ Consequently,

any person who loses in a game of chance may, notwithstanding any agreement to the contrary, recover what he has paid within three years of the time of payment. Accordingly, derivative transactions must be entered into for non-speculative purposes and only for a genuine commercial purpose (for example, hedging purposes).

There have been a number of statements that EGX is considering establishing a market for derivatives which was delayed following the global financial crisis and the Egyptian revolution earlier in 2011.

With respect to repurchase transactions and buy/sell back transactions, according to Article 465 of the Civil Code, if a seller, at the time of sale, retains for himself the right to purchase back the sold property within a specified period, the sale will be deemed void. Based on this Article, repurchase transactions are problematic under Egyptian law.

As an exception to the above rule, the Executive Regulations of the CM Law allow Egyptian companies which are licensed to trade in bonds by EFSA to enter into repo agreements with its customers in relation to bonds.

Also during the 2003-04 financial year, a further exception was introduced by CBE by regulating Outright Sale and Reverse Repos in relation to the Egyptian Treasury Bills for the purpose of boosting open market transactions. On 21 March 2011 a new regulation was issued in relation to repo transactions over Egyptian Treasury Bills. Under the new repo regulation, the CBE started to conclude repo agreements on a weekly basis as part of the operational framework of the CBE's monetary policy.

Margin trading

Margin trading was introduced in 2007 in Chapter (9) of the Executive Regulations of the CM Law, allowing traders to execute leveraged trades on EGX subject to opening special accounts with member firms in accordance with the margin trading rules in the Executive Regulations and the trading rules issued by the CMA and EGX. Margin trading applies only to particular shares which satisfy the criteria set out by EGX. EGX periodically publishes lists of the shares eligible for margin trading.



Uncollateralised short-selling is banned

Following the Egyptian revolution in early 2011 and as a result of the deterioration in the market value of shares a number of amendments have been introduced to the margin trading rules with the purpose of mitigating the losses of existing traders through this system, but at the same time imposing further limitations on new margin trades.

First, the Executive Regulations of the CM Law were amended to raise the statutory thresholds of client indebtedness relative to the value of the shares purchased with margin as follows:

- (i) the threshold upon which the client is required to submit additional collateral became 70 per cent (instead of 60 per cent)
- (ii) the threshold upon which the broker is entitled to mandatorily sell the client's shares purchased with margin and liquidate the submitted collateral became 80 per cent (instead of 70 per cent).

Second, EFSA issued a decree raising the advance cash payment for any shares purchased with margin to 75 per cent instead of 50 per cent.

Intraday trading

In 2005 the CMA (EFSA's predecessor) introduced the Same Day Trading mechanism, which allowed for the purchase of shares on EGX and re-selling the purchased shares during the same trading session. In 2008 the Same Day Trading system was upgraded to Intraday Trading which allowed for trading during the same session on both sides (that is, purchasing

shares and then selling them or selling shares and then purchasing them before the end of the trading session). In 2010 the Intraday Trading rules were amended to leverage the maximum limit for daily transactions for each client under the system to 1/5000 of the total number of the company's securities (instead of 1/10000).

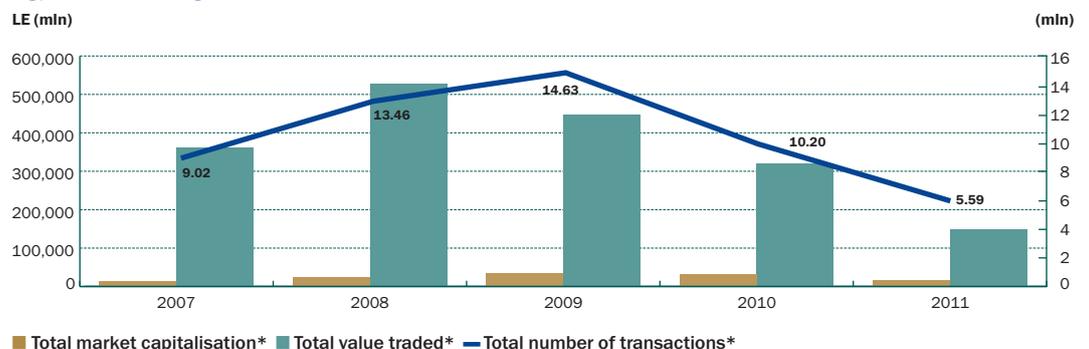
However, on 18 December 2011 EFSA imposed further limitations on Intraday transactions to suppress the maximum limit for daily transactions for each client under the system to 1/20000, which is 25 per cent of the previously applicable maximum limit. One interpretation for such further limitations is that EFSA is trying to limit leveraged speculative transactions over securities given the market fragility after the Egyptian revolution.

Short-selling

For short-selling there is a distinction between uncollateralised and collateralised short-selling. Uncollateralised short-selling is banned. According to the Executive Regulations to the CM Law, the short-seller must, before its sale, have borrowed the securities or have entered into an arrangement whereby the securities will be lent to the short-seller.

On the other hand, collateralised short-selling is in principle permitted under Egyptian law and broadly regulated under Chapter 9 of the Executive Regulations to the CM Law. Yet any such short-selling would need to be done in accordance with standards and rules to be issued by EGX in relation to securities lending. So far, EGX has not issued these

Chart 1
Egyptian Exchange volume (2007–2011)



Note. *Including listed/unlisted/ NILEX securities.
Source: Egyptian Exchange, www.egx.com.eg.



Although the “Arab Spring” may limit the development of Egyptian capital markets, regulatory framework reforms are being implemented

standards and rules, which have been frozen since the global financial crisis. Accordingly, short-selling is effectively not permitted and there have been no indications by EGX as to when securities lending will be permitted.

New Index – EGX 20

EGX has introduced a new index as of 2 October 2011. The main addition introduced in the new EGX 20 Index is balancing the Index relative weight by focusing on the mechanism of the relative weight and including the most active 20 companies in terms of liquidity and activity.

By limiting the portion of each share in the index to a maximum of 10 per cent, the new Index tries to offer a more balanced allocation of relative weights in the index to overcome the problem witnessed in the market’s principal index, EGX 30, which is the domination of a limited number of shares of significant portions of the index. This index is expected to be more appealing to Egyptian investment funds as it coincides with the statutory investment parameters for such funds limiting investment in any single share by a maximum of 10 per cent of fund assets.

Reform of the mutual funds’ regulations

A draft new chapter of the Executive Regulations to the CM Law was introduced by EFSA on 16 July 2010 with the intention of replacing the current regulations in the Executive Regulations in connection with mutual funds. Since the date of introducing the said draft, EFSA opened the door for receiving opinions and comments on the draft in preparation for the final draft to be ratified and issued by the relevant minister. However, this matter is still under consultation and there have not been any statements published confirming when the final draft is expected to be finalised.

The salient reforms proposed in the new draft intend to address previous weaknesses in the regulation in particular in relation to the corporate structure and legal personality of the fund and the lengthy procedures in relation

to fund incorporation and offering of fund certificates. In addition, the draft regulations intend to address, in more detail, the activities of specific purpose funds and fill in some of the gaps encountered in the current regulation.

Small and medium cap stock exchange – NILEX

On 13 November 2011 EGX started activating its new trading system for NILEX, as well as applying the listing rules amendments, which were announced during the press conference that was held on the same day.

NILEX is the EGX market for growing medium and small capital companies whose issued capital does not exceed EGP 50,000,000 (about USD 8,290,000) at the time of incorporation, or EGP 100,000,000 (about USD 16,577,000) after incorporation. NILEX is intended to offer medium and small capital companies a chance to raise capital with relaxed listing and disclosure requirements as well as lower listing and trading fees compared with the principal EGX market.

The trading of listed shares session is one hour per trading day under the same mechanisms used in EGX. The closing price for each share shall be calculated according to the volume-weighted average prices at the end of the trading day, subject to minimum traded quantities of at least 100 shares and minimum value of at least EGP 20,000 or its equivalent in other foreign currencies. The price limits per session should not be more than five per cent upwards or downwards and settlement of listed shares takes place on T+2.

Conclusion

The Egyptian capital market was reborn during the last two decades and has been developing since then. Although the “Arab Spring” may limit such development for a while there are still regulatory framework reforms of the Egyptian capital market being implemented and, moreover, there is a perspective for further potential reforms.

Notes

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³ These include: (i) the Capital Markets Law No. 95 for 1992 and its Executive Regulations (the "CM Law"), which regulates EGX and capital markets issues affecting all Egyptian companies (whether listed or not); (ii) the Companies' Law No. 159 FOR 1981 and its Executive Regulations (the "Companies' Law"), which regulate incorporation and management of all Egyptian companies; and Decree of the CMA's Board of Directors no. 30, dated 18 June 2002 concerning the securities listing and de-listing rules of EGX (the "Listing Rules"), as amended in 2008, 2009, 2010 and 2011, regulating all matters relating to the listing of securities on EGX (including the eligibility criteria) and ongoing compliance obligations once listed.

⁴ Different criteria are proscribed depending on whether the investor is a natural or a legal person. Natural persons will be treated as "qualified investors" if they satisfy at least one of the criteria set out by EFSA, which include, *inter alia*, ownership of assets of no less than EGP 2,000,000 (about USD 330,900) or annual income of no less than EGP 500,000 (about USD 82,700). As for a company or a legal person, it will be treated as a "qualified investor" if at least one of the criteria set out by EFSA is satisfied; which include, for example, ownership of equity with a book value of no less than EGP 10,000,000 (about USD 1,654,300) or ownership of assets with a total book value of no less than EGP 20,000,000 (about USD 3,308,600).

⁵ An investor will also be treated as a qualified investor if he has at least five years' experience in the field of securities and capital markets (whether national or international). Such a minimum experience period shall be reduced to four years only in relation to investors who successfully passed the relevant training courses accredited by EFSA.

⁶ Under the Listing Rules, securities listed on EGX may be de-listed in a number of circumstances such as if the listing was based on incorrect information, the company's failure to comply with the disclosure requirements of the Listing Rules or the passage of six successive months without any trading on the listed securities.

⁷ Sinai is a peninsula located on the north-eastern side of Egypt and due to its strategic importance and historic political disputes restrictions have been imposed on the ownership of real estate and on companies operating in Sinai for national security considerations.

⁸ Any person who intends to acquire more than 10 per cent of the issuing company's issued share capital must first give the issuing company at least two weeks' prior written notice of the intended acquisition. Failure to give the requisite notice to the issuing company will render the transaction void. These requirements are also applicable to transactions which would result in a board member or employee of the issuing company holding more than 5 per cent of the shares of the company.

⁹ Any person who acquires five per cent or any multiple of five per cent of an issuing company's issued share capital, either through one transaction or a series of transactions (but who holds less than one-third of the issued share capital) must disclose such a holding to EGX and EFSA. This disclosure must be made within two days from the completion of the relevant trade which takes the shareholder through this threshold. The abovementioned threshold drops from five per cent to three per cent in the case of acquirers who are employees or board members of the issuing company.

¹⁰ In addition, a Mandatory Purchase Offer will be triggered, if a shareholder who holds (either alone or together with its concert parties) more than one-third but less than 50 per cent of the issued share capital of the issuer: (i) increases their shareholding by two per cent or more during any 12 month period; or (ii) increases their shareholding to more than 50 per cent. There is also a similar requirement for shareholders holding more than 50 per cent but less than 75 per cent of the issued share capital.

¹¹ Gambling is defined as contracts or transactions with flagrant speculation.

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