

Recent Developments in the Egyptian Financial (non banking) Sector

Introduction

1. In August 2013, Mr. Sherif Samy was appointed as the new Chairman of the Egyptian Financial Supervisory Authority ("EFSA") to replace the previous chairman whose term of appointment has expired with the previous Board at the end of June, 2013.
2. Mr. Samy managed EFSA without the support of a board until November 2013 when a new board was appointed.
3. EFSA supervises the following financial sectors in Egypt:
 - i) Capital Market Sector including the Stock Exchange;
 - ii) Insurance Sector;
 - iii) Private pension funds;
 - iv) Certain governmental insurance funds (excluding pensions);
 - v) Real Estate Mortgage Finance Sector;
 - vi) Leasing Finance Sector;
 - vii) Factoring activities; and
 - viii) Micro finance activities (law under issuance).

The purpose of this representation is to highlight the different developments that took place, in the above sectors, during the last year with special emphasis on the Capital Market Sector.

Before going through the recent developments that took place in the different sectors, it may be important to touch upon the current legal status of EFSA. Traditionally, EFSA was affiliated to a minister in the Cabinet. Upon the issuance of the new Constitution in January 2014, EFSA became an autonomous authority, its head appointed by the President and the selection ratified by the Parliament. The Parliament has to review EFSA's annual report and take the necessary actions accordingly within four months from the receipt of the report and publish the report to the public.

EFSA is empowered to regulate non banking financial activities, ensure confidentiality of transactions, apply conflict of interest rules, protect the interest of the customers, ensure sustainability of the markets and enhance transparency in the sectors it supervises in cooperation with other supervisory authorities in the State. With such mandate entrusted in EFSA, EFSA embarked on a mission to revamp and update the different legislations governing the sectors it supervises to be in line with international practices and standards of ISOCO, IOPS in the private pension funds and IAIS in the Insurance Sector.

Recent Developments

1) Capital Market Sector

a) Stock Exchange and Brokerage Activity

- i) In February 2014, new listing rules on the Stock Exchange have been issued.
- ii) In June 2014, block trading regulations were introduced.
- iii) In August 2014, trading precautionary measures have been eliminated.

EFSA has also issued regulations regarding:

- i) Dealing of brokerage companies in Foreign Depository Certificates (FDC) of Egyptian registered shares.
- ii) Registering foreign entities as depository banks and as "registered" owner of shares.
- iii) Amending the rules for intra day trading (same day trading).
- iv) Amending the financial adequacy standards for brokerage firms.
- v) Rules regarding dealings in foreign securities not listed in the Egyptian Stock Exchange.
- vi) Amending the rules regarding margin trading.
- vii) Financial adequacy standards regarding entities licensed as market maker.
- viii) Conditions and specifications required in dealing, mediation and brokerage activity in bonds.

b) Investment Funds

The Executive Regulations of the Capital Market Law has been amended in February 2014 regarding the section of investment funds. Several decisions have been issued in this respect such as:

- i) The introduction of the first Exchange Traded Funds ("ETF").
- ii) EFSA also issued the investments conditions that have to be met by real estate funds.
- iii) Terms and conditions for preparing the financial statement of funds.
- iv) Conditions that have to be met by the founders of the company owning the investment fund that are regarded as qualified investors.
- v) Setting the model statutes and by laws of the company owning an investment fund.
- vi) Real estate funds investment fields and valuation directives.

Finally, EFSA has issued regulations regarding existing funds to accommodate their legal structure to the new regulations, within a period of one year from February 26, 2014. Further, the new regulations obligated every fund to appoint a management service company, in addition to the fund manager. The deadline to appoint the management service company is August 26, 2014.

c) Other Amendments regarding the Capital Market Sector

- i) A proposal for amending Sukuk regulations was completed.
- ii) Amendments regarding mandatory tender offers.
- iii) Bearers shares were abolished to comply with money laundry regulations.
- iv) Requirements for technological infrastructure and securing information by hosting service companies.
- v) Amending the regulations regarding the splitting of companies.

Further amendments are in the pipeline and in the process of being issued such as updating corporate governance code for listed and unlisted companies, amending the by-laws of the central depositing company and finally amending the by-laws of the settlement guarantee fund.

2) Insurance Sector

EFSA has issued several directives addressing:

- i) Rules regarding the insurance intermediary activity by individuals and companies.
- ii) Conditions that insurance companies should abide with in operating open ended funds, money market funds and debt instrument funds.
- iii) Regulations regarding marketing insurance products through banks and the Post Authority.

EFSA is currently studying amendments to the Insurance Law No. 10 of the year 1981 and its Executive Regulations to allow the establishment and regulation of specialized medical insurance companies to cover private medical insurance activity and TPAs.

EFSA is planning to introduce the following in the coming months:

- i) Amendments to the Executive Regulations of the Law No. 10 of the year 1981 to give further push to the development of insurance industry.
- ii) New rules for registering international reinsurance companies in the Egyptian market to be applied in the year 2015.
- iii) New rules for the Corporate Governance Code for insurance companies.
- iv) The establishment of settlement guarantee fund (policyholders protection fund).
- v) Introducing new insurance law to modernize and develop the insurance industry practice.

3) Private Pension Funds

EFSA is currently studying the present legal framework of this sector and plans to amend the Executive Regulations of the Private Pension Funds Law and introduce a new law next year to further develop this sector.

4) Certain Governmental Insurance Funds

EFSA is currently studying the present legal framework of this sector including the law and executive regulations governing such sector. EFSA plans to introduce amendments to the current Executive Regulations next month that would enhance this sector.

5) Real Estate Mortgage Finance Sector

Major changes to the Mortgage Law were proposed by EFSA and issued in early July 2014. Amendments to the executive regulations are in process.

EFSA has set up new rules regarding:

- i) Clarifying and simplifying securitization of mortgage activity for real estate finance.
- ii) The minimum requirements that should be included in the real estate evaluator report.
- iii) The investment goals to be observed by the real estate investment funds.

6) Leasing Finance Sector

EFSA is currently studying the present legal framework of this sector and plans to introduce amendments that would enhance this sector.

7) Factoring Activities

EFSA has issued two decisions in December 2013 and August 2014 regulating this activity in the local market covering wholesale and retail down to the end user.

EFSA is closely monitoring the application of such decisions that will have a positive effect on the market.

8) Micro Finance Activities

EFSA has prepared a draft law that was presented to the Prime Minister. We hope that such draft will be issued as a law shortly.

In this respect, it should be noted that EFSA has been given a grant from the World Bank to prepare the systems that will apply to this activity and train the personnel who will be involved in this sector.

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I hope that the above brief presentation will be helpful for you to understand what has been taking place in the Egyptian market, during the last year and what is expected to be introduced in the coming year, in this difficult period that Egypt is going through.

Samir M. Hamza
Board Member
Egyptian Financial Supervisory Authority

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Biography of Mr. Samir Hamza

Mr. Samir Hamza is an Attorney at Law and Of Counsel to Helmy, Hamza & Partners in Cairo, a law firm working in different areas of law and a member of the International Law Firm of Baker and McKenzie. Mr. Hamza specializes in the areas of Capital Market Law, Banking Laws and Banking Transactions, Companies Law, Telecommunications and Electronic Signature Laws, Intellectual Property Laws and Petroleum Concession Agreements. He is currently a member of the Board of Directors of the Development Fund for Information Technology, TE Data Company and the Egyptian Financial Supervisory Authority.

Mr. Hamza served for many years on the Board of two major banks owned by the Government of Egypt.

Also, he has significant activity in the areas of civil societies and charity. He holds the following positions, the Secretary General of the Egyptian Association for Intellectual Property, the Secretary General of the Egyptian Capital Market Association, the Secretary General of Banque Misr Foundation for Community Development and Welfare, and Shefaa Charity Foundation. He also founded the Egyptian Association for the Protection of Competition.

He has also written numerous articles and presented lectures in the areas of his professional specialization.