



## **Ministerial Decree #43 – Bond Trading (Unofficial Translation)**

**The Egypt Capital Markets Development Project**



CHEMONICS INTERNATIONAL INC.



**January 2000  
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## **Introduction**

The result of the effort of the Minister of the Economy and Foreign Trade H.E. Dr. Youssef Boutros Ghali and CMA Chairman H.E. Abdel Hamid Ibrahim, this bond decree establishes the necessary regulatory framework to permit dealer-based trading for bonds in Egypt. Its goal is to energize the capital market's bond sector, promoting non-inflationary growth by mobilizing domestic savings.

By using their capital to buy and sell securities for their own account, bond dealers bring a new dimension to the bond market. Principal trading allows the dealers to make continuous secondary markets in bonds. This market-making function enhances both the depth and breath of market transactions by providing liquidity for investors.

By putting their own capital at risk, bond dealers bring to the market a highly sophisticated layer of risk assessment. In addition, the dealers will increase investor protection by ensuring that all customers are informed of the conditions and ratings of an issue before they can purchase the security.

One of the most important contributions a principal dealer system brings to the development of the bond market is the ability to provide swaps. Bond dealers enable investors to sell securities from their portfolios in order to buy a new issue. This helps not only the investor but the insurer as well. By adding this liquidity to the marketplace, bond dealers both increase the value of debt securities for the investors and lower the cost of borrowing for the issuers.

The following is an unofficial translation of the bond decree signed by the Minister of Economy and Foreign Trade and printed in the Official Gazette on January 26, 2000.

**Decrees**  
**Of the Ministry of Economy and Foreign Trade**  
**Decree No. 43 for the Year 2000**  
**Amending Certain Provisions of the Executive Regulations of**  
**The Capital Market Law**  
**Law No. 95 for the Year 1992**

**Minister of Economy and Foreign Trade,**

After viewing Capital Market Law No. 95 of 1992,  
And the executive regulations thereof promulgated by the Minister's Decree No. 135 of 1993,  
And following the approval of the CMA Board of Directors:

**Decreed the Following**

**Article One**

The activity of dealing in bonds shall be added to the list of activities of securities companies as stipulated in article no. 27. This activity is referred to as **“Dealing in, Intermediating and Brokering of Bonds.”** The executive regulations state the terms and conditions pertinent to performance of this activity.

**Article Two**

This decree shall be published in the Official Gazette and be in effect as of the following day of publication.

Decreed on January 25, 2000  
Minister of Economy and Foreign Trade  
Dr. Youssef Boutros Ghali

**Decrees**  
**Of the Ministry of Economy and Foreign Trade**  
**Decree No. 44 of 2000**  
**Amending Certain Provisions of the Executive Regulations of**  
**The Capital Market Law**  
**Law No. 95 of 1992**

**Minister of Economy and Foreign Trade,**

After viewing Capital Market Law No. 95 of 1992,  
And the executive regulations thereof promulgated by the Minister's Decree No. 135 of 1993,  
And based on the proposal of the CMA Chairman of Board of Directors,

**Decreed the Following:**

**Article One**

Articles 39 and 92 of the executive regulations shall be replaced with the following respective texts.

Article 39

Bonds and funding debentures shall be subject to the same rules and provisions pertinent to stocks as stipulated by the law and this regulations for all the cases which are not specially provided for herein.

Article 92

Carrying out securities purchase and sale transactions shall be in the place and time specified by the management of the Stock Exchange. Those orders must be placed in such a manner that ensures publicity and in such details necessary to identify the transaction in compliance with the rules stipulated by the CMA.

The brokerage, while carrying out the orders placed by the parties to each transaction, shall display on the screen in such an unequivocal manner the subject transaction for at least half an hour prior to the execution thereof, provided that the prices shall be equal to the closing or trading prices as applicable. Each company during the time subject transaction is on display may interfere and carry out the transaction on the same conditions of the client at a higher price than that ordered or lower than that offered.

As an exception of the provisions of the above paragraph, prohibited shall be any interference with the transactions pertinent to bonds, funding debentures, treasury bills, and similar instruments. Subject transactions shall be displayed on the trading screen immediately after execution thereof, or at the beginning of the next trading session in case the transaction took place out of the set working hours.

The stock exchange shall set the regulating rules required to put the provisions of this article into force.

## **Article Two**

A new chapter, Number Seven, shall be added to the above referenced executive regulations of the Law under the heading “**Dealing in, Intermediating and Brokering of Bonds**” that reads as follows:

### **Chapter Seven Dealing in, Intermediating and Brokering of Bonds**

#### **Section One General Provisions**

##### Article 269

Dealing in, intermediating and brokering of bonds include buying, selling, and underwriting of all kinds of bonds, funding debentures, T bills, and other similar kinds of instruments, whether in the name and for the account of the licensed company or in the name and for the account of its clients. For the purpose of applying the provisions of this Chapter and Appendix 4 attached hereto, the entity licensed to perform the above activities shall be named “The Company” and the instruments shall be named “The Bonds”.

The CMA board of directors may permit the company to deal in those bonds via any other means.

#### **Section Two Licensing and Work Requirements**

##### Article 270

The issued capital of the company shall be not less than LE 20 millions, provided that the paid capital upon association shall not be less than LE 10 millions, in addition to the minimum capital required for practicing any other licensed activities.

The Company shall maintain at all times a minimum net capital not less than five million pounds or 15% of its total liabilities, whichever is greater, in accordance with the criteria shown in Appendix no. 4 attached to this regulations. The Company shall, on the last day of the month, report to the CMA its net capital and the total liabilities.

##### Article 271

The Company shall at all times satisfy the requirements and specifications determined by the CMA board of directors’ decision, provided that those conditions shall include furnishing the premises of the Company, the internal reports that should be produced, internal surveillance and financial auditing rules, and the efficiency requirements of the Company’s managers. The Company shall also segregate the accounts of Dealing in, intermediating and brokering of bonds and the accounts of any other licensed activities.

##### Article 272

The Company may conclude agreements that contain the regulating provisions of repos on bonds and the rights and obligations of the parties to those agreements. The agreements are executed through exchange of selling documents by one party coupled with an obligation of the other party to resell the bonds to the original seller on a later date.

The CMA shall prepare the forms and documents required for those agreements provided that the agreement form shall specify the manner in which disputes that arise in relation thereto shall be settled or resolved. The agreement form shall also include a definition of the kind of bond being traded, maturity date, and the prices agreed upon.

### **Section Three Rules of Disclosure**

#### Article 273

The Company shall disclose to its clients whether the bond transactions it carries out on their behalf are for its own account or for the account of any client thereof, in addition to settlement and clearing instructions, besides the commission charged by the Company in case the transaction is carried out on behalf of one of its clients.

#### Article 274

In case the bond, the issuer thereof, or its underwriter, has a credit rating, the Company shall disclose to its customers the last rating the bond has had prior to the last transaction thereupon. The company having this disclosure made shall state clearly that mentioning of the rating is not a recommendation to buy, sell or maintain the bond, and that the rating is subject to amendment, and that the status of the bond may be subject to change after the rating shall have been made, and that this rating is only related to one specific bond.

In case there is no such rating, or the current rating was modified within the five days that preceded the day of transaction on the bond, the Company shall disclose this information to its clients.

#### Article 275

The Company shall inform the CMA daily of the total market value of the bonds preserved in such time and manner as stipulated by the CMA in accordance with the form designed especially for that purpose.

The market value of the bonds shall be determined in accordance with the trading prices of the preceding day. In case the preceding day witnessed no trading the price shall be determined through comparison to the trading prices of the similar bonds in terms of conditions and credit rating. If prices of similar bonds are not available, the Company shall specify the price in accordance with such a price at least two companies accept to execute any transactions thereupon.

The CMA may require the Company to submit whatever additional reports it deems necessary.

#### **Section Four Bond Transactions**

##### Article 276

The Company shall abide by the instructions of the clients specified in their orders. It is permitted to execute transactions off the set trading hours of the Stock Exchange.

##### Article 277

The order to buy or sell bonds shall be in writing, orally or via any other customarily acknowledged methods, provided that if the order is placed in any method other than writing, it should be affirmed in writing.

Execution of transactions shall be on delivery versus payment basis.

#### **Section Five The Company's Obligations**

##### Article 278

The Company shall not collect any commission for the transactions executed for its own account.

##### Article 279

The company shall conclude a contract with all its clients. This contract shall determine the contractual nature of both parties and the rights and obligations as per the law and the executive regulations. This should be done on the forms prepared by the Company for that purpose, a related form should be sent to the CMA, this form shall include, in addition to the data stipulated by article 229, the following:

1. Identifying the client's investment objectives.
2. The name and capacity of the client's representative if it is a corporate person.
3. Specify the items to be disclosed by the Company as regards the credit rating of bonds.
4. The name of the bank or custodian where both parties keep their money and bonds.
5. Specifying an agreed upon method of correspondence between both parties and delivering clients' orders to the company.
6. The method of settling disputes arising between both parties upon executing the provisions of this agreement.

**Section Six  
Concluding provisions**

Article (280)

The provisions stipulated herein with regard to securities brokerages shall be applicable to the Company. The provisions included into this regulation concerning promotion and underwriting companies shall also be applied to the companies dealing in bonds, unless a specific stipulation is included in this chapter”.

Article Three

This decree is to be published at the official Gazette and shall be effective as of the next day it is published.

Appendix 4*First: Net Capital*

The Company's net capital is defined as the total equity of shareholders as per the report on financial position prepared according to the Egyptian accounting standards and amended as follows:

1. Adding any unachieved profits (or deducting any unachieved losses) as a result of re-evaluating securities accounts at their market value.
2. Adding supporting loans.
3. Deducting any fixed assets or other assets that cannot be transferred to cash such as: real estate – furniture- installations – prepaid expenses – goodwill- expenses of association - and others.
4. Deducting any uncovered loans and doubtful debts or any commercial notes not completely guaranteed.
5. Deducting any revenue such as interest, dividends and commissions that might be due by the company if these debts exceeded 30 days.
6. Deducting any debit amounts on insurance indemnity claims.
7. Deducting any other uncovered debit accounts.
8. Deducting any liabilities required according to repo's agreements.
9. Deducting any debit accounts for affiliated or sister company, in addition to deducting the increase in the market value for any guarantees submitted to a sister or affiliated company for the value of credit balances due to the guaranteed companies. This shall be done unless the sister or affiliated company is one of the companies working in the field of securities and listed at the CMA and liable to its supervision.
10. Deducting the value of any securities owned by the company that have no trading market, in addition to deducting any securities that cannot be offered or sold to the public because of any legal or contractual constraints.
11. Deducting any contractual obligations including obligations on the company as an underwriter unless these obligations are covered by other contracts.

*Second : Total Company Liabilities*

Total company liabilities include current and non-current liabilities as per the company's financial position report as prepared according to the Egyptian accounting standards whatever be the nature of the transactions resulting in such liabilities, these include, but not limited to, the following:

1. Guaranteed and non-guaranteed loans received by the company.
2. Loans due on the company for securities not received from other parties dealing with it.
3. Increase in the market value of securities that the company might have received as a guarantor for a loan for others in comparison to the balance of this loan, this is in case of sale of these securities.
4. Client and non-client credit balances.
5. Allocations for uncertain liabilities.

The following items shall be excluded from the total liabilities:

1. Any loans received by the company guaranteed by securities it owns or in its possession, provided that these are within the market value of these securities.
2. Amounts due on the company for securities not received from other parties if these securities are not sold, or if the company has a debit account due of securities of the same type, issue and quantity received as a guarantee for a loan to others.
3. Credit balances due on subscription in securities not received from the issuer or its agent provided that the settlement period of these balances should not exceed three days.
4. Credit balances due to clients within the limits of deposits made in a special bank account for the payment of these balances.
5. Loans received according to agreements that stipulate that these are supporting loans (non-priority).

*Third: Clients' Total Debit Balances*

The company clients' total debit balances include the following:

1. Debit balances of clients' accounts at the company excluding non-guaranteed or doubtful accounts.
2. Market value of securities used by the company in settling the transactions of its clients and the clients did not submit the securities required for its settlement.
3. Market value of securities not delivered by clients to the company during a period not exceeding 30 days.