

LISTING ON THE CYPRUS EMERGING COMPANIES MARKET (ECM)

WHAT IS THE CYPRUS ECM

The Cyprus ECM is a Multilateral Trading Facility under the control of the Cyprus Stock Exchange (CSE) and it was launched as an alternative to the main market. It addresses the needs of small and emerging companies which benefit from the simplified regulatory environment. The ECM is a favorable vehicle for:

- Smaller Entrepreneurial companies looking to raise funds from investors in a simpler cost-effective way through a recognized EU secondary market
- Companies looking to promote their reputation through a listing
- More experienced investors looking to invest in higher risk business
- Existing public companies looking for a cheaper and less burdensome IPO.
- Private companies that want to hedge against existing or proposed CFC (Controlled Foreign Companies) rules of specific countries.

ADVANTAGES/BENEFITS OF ECM

- No requirement for daily volume.
- No maximum ownership rule. The beneficial owner can hold up to 99% of the company/investments.
- No minimum capitalization criteria. If the value of the shares declines a company does not risk expulsion from the Cyprus Stock Exchange.
- Much lower costs than regulated markets.
- Trading in shares is possible electronically and remotely through online trading platforms.
- Ultimate owner can approach Pension Funds or other regulated funds (ex UCITS) in order to raise funds for various projects (Pension Funds & UCITS can only invest in listed titles).
- Funds that are scattered and under different entities can be consolidated under a tax efficient vehicle. The ultimate owner can invest in various projects in any country without the need to provide explanations with respect to origin and ownership of the funds.

TYPES OF LISTING

Private Listing: A private placement is usually the method of choice for existing private companies, as it requires no formal prospectus. Only an admission document is required which does not require approval by the Cyprus Securities and Exchange Commission (CySEC) A private placement can be effected when:

- The offer is made to less than 100 potential investors or
- Funds raised are less than €2.5 million or

- The offer is made only to institutional investors

Public Listing: If the offer is greater than €2.5 million and made to more than 100 private investors, it is deemed to be a public listing or IPO. In such cases, a formal Prospectus must be prepared and approved by CySEC.

Hybrid Listing: A listing may also be made by combining both private and public listing.

LISTING REQUIREMENTS

- Existing audited accounts for the 2 years preceding application. However, this does not prevent new enterprises from listing, provided that they can satisfy the Cyprus Stock Exchange that potential shareholders can be given satisfactory information by the Nominated Advisor of the issuer that would allow them to accurately assess the value of the shares.
- The issuer should be a Cyprus Public Company. It is advisable that the company should have at least 10-12 shareholders at the time of the application, although the principal shareholder may hold up to 99% of the shares (in reality, it is not recommended that the principal shareholders own more than 90%, as the application will be subjected to much greater scrutiny).
- The company must have a minimum issued share capital of €26,000, although €100,000 is recommended.
- A minimum of three directors are required on the board, one of which must be an executive director. It is preferable that the majority of the directors are resident in Cyprus in order for the company to benefit from the very favorable local tax regime. A full CV and business background of each director must be provided.
- The company must have a Cyprus registered office, disclose the banks with which it has a relationship, and appoint a local legal advisor and auditor.
- There is no minimum share dispersion requirement.
- A regulated Nominated Advisor must be appointed and retained to advise and sponsor the initial application and to ensure ongoing compliance with the requirements of ECM.
- An admission document must be produced on application.

CONTINUING OBLIGATIONS FOR ECM LISTED COMPANIES

The ongoing obligations for a company listed on the ECM are quite simple and straight forward and they are detailed below.

- Annual audited accounts must be published within 4 months of the year end
- 6 monthly reports (not audited) must be published within 2 months of the period end
- Any changes in the Nominated Advisor should be announced.
- Announcement of certain material decisions likely to affect shareholders, although again much less onerous than for a formal listing (for instance, there is no requirement to issue a profits warning).



ECM – NOMAD ADVISOR

Every listed company needs to appoint a CSE approved nominated advisor (NOMAD) who will be responsible for the company's listing and regulations that have to be followed. The most important initial tasks of the Nominated Advisor will be to assist with the production of the Admission Document, which must include:

- A history of the business
- An adequate business plan. No financial projections are required, unless than company has less than 2 years trading history, in which case at least 3 years of financial projections are usually required.
- Information on the directors and significant shareholders
- Information about the placement or offer of the subscription
- Risk Factors
- Audited financial statements prepared under IFRS for two preceding years, where applicable
- Information on proposed use of listing proceeds

HEDGING AGAINST CFC REGULATIONS

A controlled foreign company is defined as a legal entity whose shares are privately held and not listed on an approved stock exchange.

As a company that operates under the ECM is considered to be a listed company to the CSE (Cyprus Stock Exchange), the CFC rules do not apply. The Cyprus Stock exchange is recognized worldwide as an approved EU stock exchange.

Shareholders owning the majority of shares in companies that are listed under the ECM will be able to hedge against the CFC rules set by their home Countries. In addition, with the reduced regulation, high level of credibility and marketability, cost efficiency and many more advantages, ECM can be seen as a well-designed tool that offers flexible and credible investment solutions to the owners and investors.

Should you require any further information or clarifications regarding the above, please do not hesitate to contact us:

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