

LEGAL
ALERT

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Forecasted Growth for the Cambodia Securities Exchange

The Cambodia Securities Exchange (CSX) has not grown much since its founding in 2011. Despite its aims to generate capital and expand businesses, there are currently only 6 companies listed on the CSX. A Fortune article dated 25 March 2016 reported the CSX as being one of the smallest stock exchanges in the world. However, the registration of the Sihanoukville Autonomous Port in June last year, as well as the recent push for corporate bonds, suggests that this microscopic market may be primed for growth.

One company attracted to the potential benefits of capital funds in the CSX is Mengly J Quach Education Ltd, which operates the American Intercon Institute and American Intercon School. Needing capital to expand the rapid growth of his businesses, the company's Chief Executive Officer (CEO), Mr. Mengly Quach, has turned to the CSX with high hopes. In an interview with the Khmer Times published on 14 August 2017, Mr. Quach says that he is currently waiting for approval from the government, the Securities and Exchange Commission of Cambodia (SECC), and the CSX on the tax incentives to the private sector, in particular for companies operating in the education sector. Although Mr. Quach aims to have his company listed by the end of this year, this is unlikely to be the case due to the legal requirements that must be met.

The main legislation governing listing on the CSX is the Prakas on the Implementation of the Listing Rules of the Cambodia Securities Exchange ("Prakas"), which passed on 10 September 2015. The Prakas sets out the eligibility requirements, processes and other matters relating to the listing of equity securities on the CSX.

Key steps and requirements in a listing exercise:

Eligibility Review. Listing applicants must undergo a listing eligibility review to determine if they satisfy CSX's listing requirements. As part of this eligibility review, the listing applicants must submit prescribed information and documents to the CSX, including shareholders' information, plan for usage of proceeds from the Initial Public Offering (IPO), and the applicant's financial and business status information.

Quantitative and Non-quantitative Requirements. Articles 8 and 9 of the Prakas stipulate the quantitative and non-quantitative requirements that must be met by a listing applicant. While the conditions are not overly onerous, there are requirements that relate to a listing applicant's performance and corporate actions within the last few years of the listing application. For example, applicants intending to list on the Main Board must satisfy the following conditions:

- The listing applicant's net profit must be at least KHR2 billion (approximately USD500 million) for the previous financial year prior to the listing application, and the aggregate net profit for the previously 2 financial years must be at least KHR3 billion (approximately USD750 million).
- The share ownership of the largest shareholders (i.e. generally, the shareholder(s) and the specially-related persons of a listing applicant who hold the largest number of voting shares of the company) must not have changed in the year prior to the official listing.

This signifies that a potential Main Board listing applicant must start planning for a listing years in advance of the listing application.



Fees. A listing applicant must pay an examination fee to review their eligibility for listing; currently, the fee is KHR4 million (approximately USD1,000) for listings on the Main Board and KHR2 million (approximately USD500) for listings on the Growth Board. Aside from this examination fee, a listed entity on the Main Board must pay a one-off listing fee and annual fees in subsequent years, both of which are calculated in accordance with the formulas set out in the Prakas.

Post-application. After the application has been submitted and the fee paid, the CSX will then notify the applicant within a month of their eligibility status. If rejected, the applicant can request the CSX for clarification and even appeal to the SECC for a new decision. However, if the application does fulfill the requirements and is approved by the CSX, then the company has 7 working days after their securities have been allotted to subscribers to complete the remaining procedures for official listing.

By compiling the rules of the CSX into a uniform document, the SECC has made it easier for potential listing applicants (such as Mengly J Quach Education Ltd) and existing listed entities to navigate this new and unfamiliar market. Hopefully, this current increase in exposure will attract more companies to join the CSX, thus raising the Cambodian stock market from its small-scale status to something of paramount significance in the nation's economy.

If you have any questions or require any additional information, please contact [Sin Soromnear](#), [Nith Niteyana](#) or the ZICO Law Partner you usually deal with.

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