CAPITAL MARKET
Access to Finance

Private Placement Market

- A market where private companies can issue securities to raise finance without converting to a PLC.
- A common platform for connecting companies that want to raise finance with investors.
- An empowered segment of the capital market where only institutional/private or selected investors will participate.

Objective
- Provide local companies with an alternative access to finance avenue in the capital market,
- Create more market-based investments opportunities for investors,
- Increase participation of institutional investors in the market,
- Encourage entry of new market participants and
- Increase capital market activities and healthy competition in the financial market and accelerate business activities in the economy.

Overview

Issuance
- On private placement basis – not a public offer.
- Carried out via an electronic platform. Prior registration required for companies/issuers and investors on the electronic platform.
- Offer document and the offer letter to be registered with CMDA and to be published on the e-platform.
- Invitation to subscribe to be made to selected investors—Prior arrangements/allocation to be done by the issuer before going live on the platform.
- Maximum number of investors per issue is 50.
• Advertising can be done.
• Only bonds and Sukuk can be issued.
• Equity type securities can be issued if it is based on any sukuk structure or any structure approved by CMDA.
• Fixed price scheme considered for simplicity.
• An online process intended for subscription collection.
• Once allocation is done, securities to be deposited in a licensed depository.
• Listing of the instrument is mandatory.

**Listing**

- ‘In principle’ listing approval to be sought prior to issue—online process.
- Listing to be done within two weeks after issuance and allocation process is completed.
- Fees will be minimal.

**Disclosure**

- Public or private disclosures.
- Public disclosure mandatory if pension fund is investing.
- Quarterly management reports and annual audited financial reports.

**Value for companies**

- Flexibility to remain as a private entity and issue securities to raise finance for your investments.
- Availability of a low-cost financing alternative.
- Flexibility to select your investors with similar objectives and means to advise and assist your company and provide funding at various stages of your business lifecycle.
- Easy and efficient information sharing, securities issuance and listing process via an electronic platform.
- Availability of an organized – regulated market for private placements - More transparency, more investor confidence and easy access to finance - A group of investors may / could stand willing to fund your subsequent offerings.

**Value for investors**

- Access to a variety of private investment opportunities on a common platform.
- Opportunity for better returns.
- Availability of an organized – regulated market for investing – More transparency (regulatory oversight over disclosures of the companies).
- Flexibility over transfer of securities - Off market trades allowed.

**Trading**

- If an investor wants to trade, it will be done off market; not through securities dealers.
- Exchange may provide order book for buyer / seller
- Only a seller initiated online trade reporting form.
- High trading lot / blocks (market rules).
- Exchange monitored settlement process considered.
- Trade between only registered investors considered.
Types of Securities / Structures

Debentures / Bonds

**Criteria - Draft**

1) Should have been in operation for, and should have made profits in the last two consecutive years.

2) Should have a pre-issue interest cover of at least 150%.

3) Should have a pre – issue asset cover of at least 100% (No distribution of profit resulting in its asset cover falling below 150%).

4) Should have net assets (excluding goodwill) of at least MVR 5 million.

5) Should establish an independent audit function compliant to CMDA CG Code.

6) Issuer or originator should not transfer its shares without the approval of bond holders during the tenure of the bond.

7) If the bonds are marketed as **secured**, the assessed value of the assets should be at least 100% of the amount to be issued.

8) If the bonds are marketed as **partly secured**, the assessed value of the security should be at least 50% of the amount to be issued.

9) Security should be created by way of pledging or mortgaging an identifiable tangible asset (or pool of assets).

10) The security created should be insured.
Securitized Instruments

Criteria for the Originator:
1) Should have been in operation for, and should have made profits in the last two consecutive years.
2) Should have a pre issue interest cover of at least 150%.
3) Should have a pre issue asset cover of at least 100%.
4) Should have net assets of MVR 5 million.

Asset (or rights) transfer:
1) The originator should have a valid enforceable interest in the assets and in the cash flow of the assets prior to securitization;
2) The assets should be free from any encumbrances or impediments to their free transfer or the transfer of the rights;
3) The necessary regulatory or contractual permissions or consents should be obtained to effect the transfer;
4) The assets should be transferred at a price arrived at through an arm’s length transaction and solely on commercial considerations that represents a true sale and are legally realizable by it.

Special Purpose Entity:
1) Should not raise any money in the form of debt or issue any other securities other than through issue of proposed instrument.
2) May appoint either the originator or any other person as servicer/manager in respect of the scheme.
3) Should keep proper accounts and records to enable a true and fair view to be formed of its assets, liabilities, income and expenditures in relation to the scheme.
4) Should file reports and furnish information to CMDA or to the investors, as required by CMDA.
5) Should not be dissolved until the securitized instruments issued under it are fully redeemed or written off in accordance with their terms of issue.
6) Should not carry on any activity.
7) Issuer or originator should not transfer its shares in the SPE or the shares of its promoters in the issuer or originator without the approval of – (i) debenture holders, or (ii) members of SPE, or (iii) members of the fund – as applicable, by a special resolution of the meeting of the debenture holders/members.

8) Should be remote from the risk of bankruptcy, insolvency and winding up of the originator, sponsor and any other entity.

**Constitutional documents:**

1) The constitution documents of the security to be issued should allow free transferability, except if it’s unpaid, or is charged in any manner.

2) The constitution documents should not contain a clause which has the effect of –
   - limiting or extinguishing the obligations and liabilities of the originators or managers in relation to the scheme or the rights or interests of investors;
   - limiting or restricting or waiving the provisions of the applicable regulations;
   - Indemnifying the originator or the manager of special purpose entity for loss or damage caused to the investors by their act of negligence or commission or omission.

**Investor rights in a scheme:**

1) The constitutional documents of the securitized instruments should provide that investors holding such instruments have beneficial interest over the assets.

2) The terms of issue of securitized instruments should not be varied without the consent of the investors.

**Additional considerations for CMDA approval:**

1) The promoter’s, and its director’s track record, professional competence and general reputation, and.

2) Its objects as per the constitutional documents, composition of its board of directors and other relevant matters.
Unit of a Fund

Criteria for the Manager of the Fund

Where the issue is for a unit of a fund, the manager of the fund should meet the following criteria as it is applicable, except where the manager is a licensed investment adviser by CMDA.

1) Should have been in operation for, and should have made profits in the last two consecutive years.
2) Should have a pre issue interest cover of at least 150%.
3) Should have a pre issue asset cover of at least 100%.
4) Should have net assets of MVR 5 million.
5) Should establish an independent audit function within the company compliant to CMDA corporate governance code.

In addition to the above, the fund manager should ensure ongoing compliance with the regulations on registration and management of investments funds.