

Costa Rican Stock Exchange  
Proposal to the country  
Alternative Equity Market - MAPA

Consultation document

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# 1. OBJECTIVES OF THE BOLSA

At the beginning of 2006, the Costa Rican Stock Exchange ("the Bolsa") established a committee of experts to review and refine a proposal for a new type of equity market in Costa Rica - Alternative Equity Market or Mercado Alternativo para Acciones "MAPA" -that could serve as a platform for the growth of domestic and regional companies.

This document presents the vision of that committee and the Bolsa. The document has two principal functions:

- to explain the proposal in plain English
- to seek feedback from all possible interested parties. This includes businessmen, investors, potential sponsors and any other party with an interest.

## The new market

The main objective of the market described in this document is to provide a platform for the development of the fledgling private company sector in Costa Rica. More particularly, the objectives can be summarized as follows:

- to facilitate access to capital for companies that are looking to grow. These companies may be relatively early in their development; they may want to develop a new product to complement existing successful products; they may want to expand into new products
- to offer a new investment opportunity to sophisticated investors - opening up the possibility of participating in the capital of specific high growth and high risk projects
- to facilitate exit by venture capital funds - reducing the risk for early investors to exit their investment, thus encouraging this type of private investment into smaller companies at very early stages of development
- to refocus interest in equity investments in Costa Rica
- to assist in lifting corporate governance standards generally

## Types of companies

The Bolsa does not believe that it is appropriate for it to set restrictions on the size and type of company on the MAPA - it is for the market to decide what is appropriate. The job of the Bolsa is to make sure that the framework of regulation and pricing is one in which investors can have confidence.

For this reason, there are no proposed minimum or maximum sizes for the companies, nor limitations on the activity or geography of the companies.

What is important is that a company wanting to join the market understands that it will be expected to embrace the following:

- High standards of corporate governance - application of the corporate governance code will be mandatory (note that the elements of the code are themselves voluntary and the only requirement will be to state annually whether the company complies and if not, why not)
- Significant level of independent investors - the proposed minimum level of shareholders is 30% of all voting power
- Clear and serious communication with shareholders - through transparent announcements and by mandatory application of the code of investor relations (again, like the governance code, voluntary elements)

The Bolsa believes that this market will be attractive to young, professionally run companies with an ambition to grow. They may be software companies, service companies, manufacturing companies - any company willing to open itself up to transparency that can attract investors to invest in their project.

These companies will be able to use the MAPA to access capital to develop their services and markets and also, in time, to consider listing themselves on the principal, public markets.

## New figure - Sponsor

The main difference between MAPA and the principal Costa Rican market is the role of a new figure - the Sponsor. This figure will be the facilitator of the company's ongoing compliance with the MAPA rules. All companies will have to have a Sponsor at all times.

The sponsor (an expert approved by the Bolsa) will assist the company in the process of admission and make a declaration to the Bolsa that it has carried out appropriate due diligence on the company's Admission Document. After admission, the Sponsor will continue to assist the company in interpreting and applying the MAPA rules and explaining the company's behaviour to the Bolsa.

The Bolsa recognizes that the credibility of the market and of individual companies will be only as good as the credibility of the sponsors. It will therefore be admitting Sponsors only after careful consideration and will be reviewing their performance regularly. It will also seek to limit the number of Sponsors.

#### **Feedback to the consultation**

The Bolsa welcomes comments in any format or structure.

However, to assist readers, we have posed various specific questions in the different sections. Please feel free to make comments outside the framework of the questions wherever you think it appropriate.

The Bolsa considers this document an opportunity for all participants in the market to join in the creation of a new market. For that reason, if there is something you would like to contribute, no matter what your background, please do contact the Bolsa.

Responses should preferably go to one or both of the following addresses by 15 January 2007

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**Thank You to the Comité**

The Bolsa would like to take the opportunity within this document to recognize publicly the efforts of the individual members of the Committee and the contribution that they have made to this document.

<b>Alfredo Artiles</b>	Pricewaterhouse Coopers
<b>Alvaro García</b>	Newport Pharmaceuticals
<b>Ariel Vishnia</b>	BCT Securities
<b>Carlos Mora</b>	Capitales.com
<b>Christopher Music</b>	MesoAmerica
<b>Erick Brenes</b>	KPMG
<b>Gastón Certad</b>	Batalla & Associates
<b>Guillermo Solórzano</b>	Zurchner Odio Raven
<b>Manuel Ossenbach</b>	Volio Capital Banca de Inversión
<b>Marta Arrea</b>	Magané Consultants
<b>Michael Caggiano</b>	Hotel Alta
<b>Oscar Luis Chaves</b>	Aldesa
<b>Rafael Mora</b>	Interbolsa
<b>Randolf Kissling</b>	CAMTIC / Aura Interactiva
<b>Roy Vargas</b>	Lidersoft

## 2. ROLE OF GROWING COMPANIES IN THE DEVELOPMENT OF COSTA RICA

The importance of the small and medium enterprises, SMEs, as vehicles for the development of entrepreneurial initiatives within the country is fundamental. In fact, more than 95% of the Costa Rican companies fall into this category.

SMEs are perfect vehicles for talented people to develop their own ideas. They do not need to go to a large company in order to flourish - they can direct the development of the idea themselves and enjoy the risks and rewards themselves and with their family and friends.

The development of technology and eCommerce in the last decade has made this an important part of the current commercial reality - giving many smaller companies a level playing field on which to compete with larger established companies. The internet has revolutionized access and delivery and many companies enjoy international access to markets with models firmly based on eCommerce.

This tendency towards the increase in opportunities will benefit in particular smaller companies with an ambition to grow.

On the more negative side, many companies have remained small or medium sized and have walked away from opportunities to grow significantly because of a lack of availability of risk capital at fair prices. Family funds have a limit. Bank debt is available at a fair cost but, again, for smaller or newer businesses, up to a limit. To grow significantly, a smaller company needs risk capital which will allow it to develop without demanding regular payment but which will participate in losses and gains along with the current owners.

The Bolsa recognizes this gap in the capital market. It believes it has the responsibility to help create an environment in which these smaller growing companies needing financing for projects can find that finance at reasonable prices and in which investors looking for opportunities to invest can find those opportunities in a framework that offers transparency and security.

Now, with the speed of change accelerating and with Costa Rica in an excellent position to take advantage of the opportunities presented, this role is even more important than ever.

This document sets out a proposal that the Bolsa believes will give Costa Rica a framework for progress, harnessing the spirit of enterprise that exists in the country, enabling the consolidation of dynamic and innovative ideas being generated and enabling growth of already successful companies.

### 3. DEVELOPMENT OF EMERGING COMPANY MARKETS

Markets for emerging companies have blossomed in the past ten years in Europe and Asia.

The pioneer market, and the most successful, is the Alternative Investment Market ("AIM") a creation of the London Stock Exchange.

AIM started in December 1995 with just 10 companies and now has almost 1,600. It has become the dominant growth company market in Europe - more than half of all listings in Europe in the past ten years have taken place on AIM.

AIM, and a parallel London market Ofex (for less actively traded companies - now converted to "PLUS") were both created in December 1995, based on a new principal of regulation - at heart, full transparency and disclosure and direct oversight and assistance by a new type of adviser - for AIM, the Nominated Adviser ("Nomad").

The Nomad, an independent expert approved by the exchange, is responsible for shepherding the company through the admission process, verifying the completeness and accuracy of information that goes to investors and then acting as a constant adviser to the company to help ensure that the company continues to understand and meet all the requirements of the AIM rules after admission. The Nomad is also the first point of contact for the Exchange whenever there needs to be communication with the company.

The success of the AIM market demonstrated to other European markets the need for a small company market and in the late 1990's a number of "new markets" were created (Neuer Markt, Nouveau Marché etc). These were based on a different market model to AIM - a copy of the main market but with reduced regulatory requirements. Each of these markets has now been closed down following initial success (in some cases, spectacular success) but then a lack of investor confidence following highly publicized scandals arising from abuse of the lower level of regulation.

Those markets have now been replaced with tailored copies of the AIM market, including the following

- Expandi - Italia 2003
- Irish Enterprise Market ("IEX") - Irlanda 2005
- Alternext - Francia 2005
- Nordic Alternative Market - OMX 2005
- Entry Standard - Alemania 2005
- Alternative Market - España 2006

Within Asia, similar alternative markets have successfully emerged in Hong Kong (Growth Enterprise Market "GEM", 1999) and Japan (Mothers Market, 1999). Within Latin America, Bovespa in 2005 created MAIS, to sit alongside its successful Novo Mercado.

These markets are true alternatives to the main markets, specializing in meeting the needs of smaller growing companies. Their success in serving smaller companies is demonstrated by the number and size of companies admitted to them:

	AIM	Ofex/PLUS	Alternext	GEM	Entry Standard
Country	UK	UK	France	Hong Kong	Germany
Exchange	LSE	PLUS Markets	Euronext	HKEX	Deutsche Börse
Date launched	1995	1995	2005	1999	2005
Mandatory sponsor before and after admission	Yes	Yes	Yes	Yes	Yes
<i>Oct 2006</i> Number of companies	1,591	182	68	198	69
Median size (market cap \$USmm)	31	5	39	12	37
Max size (market cap \$USmm)	2,930	310	250	950	2,390

Examples of the wide range of companies that come to these markets include the following:

#### Ofex / PLUS

- Arsenal Holdings - the holding company for the Arsenal Football Club (PLUS also has Manchester City and Rangers)

- Shepherd Neame - a family-controlled brewer and pub owner since 1698 (similar companies on PLUS include breweries Adnams, Thwaites, Brakspears and the English Wine Company)
- Eden Research - develops an array of 'green' agrochemicals
- Parkfield Projects- project management outsourcing company
- China Biotech Healthcare -- develops and distributes healthcare products in partnership with leading Chinese universities

#### AIM

- Dominos Pizza - Pizza franchise operator in UK and Ireland
- TV Loonland - German company. International leader in production and distribution of cartoons, eg Cramp Twins" on Cartoon Network
- Urals Energy - Russian oil exploration company
- Sportingbet - sports betting centres

#### Entry Standard

- NanoFocus - nanotechnology company specializing in optical measurement of surfaces at micrometre and nanometre level
- FRIMAG - Real estate investment company specialising in buying and restoring residential buildings in Frankfurt
- ifa systems - software for ophthalmologists and other eye specialists
- Amitelo - Swiss company created to buy, restructure and sell IP voice over specialists

#### Hong Kong GEM

- Wumart - supermarket operator in Beijing
- BIG Media Group - production and sale of videos and films, licensing of videos and copyrights/film rights
- Jessica Publications - publication of monthly Chinese language "lifestyle" magazines for female readers

*Q 1 Do you believe that the Bolsa is right to look to strengthen the environment specifically for smaller growing companies?*

## 4. THE STRUCTURE OF THE MARKET

The MAPA will be operated within an exception granted to the Bolsa by the Superintendente General de Valores (“Sugeval”) in the Reglamento de Oferta Publica. It will have a very specific regulatory structure.

### Private offer exemption

The exception allows the Bolsa to provide a facility for the negotiation of “Private Offer” securities, so long as the securities continue to meet the definition of private offer and do not cross into the definition of public offer.

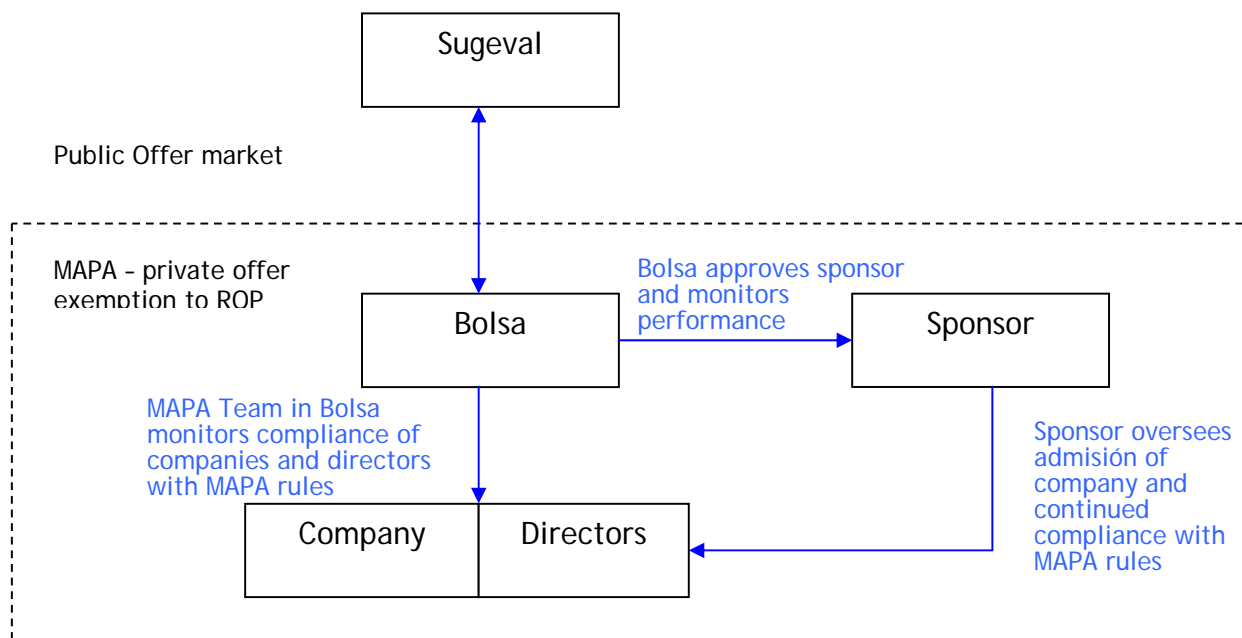
In effect, this means that the company:

- should not have 50 or more shareholders
- must not have any issued any public offer securities - shares or debt of any type

These are ongoing requirements which the company and its advisers will have to actively monitor and ensure that they do not breach.

### Regulatory structure of the market

The overall structure of the market is shown in the following diagram:



There are several significant elements to highlight

- **Rules of the Bolsa** - a structure will be established and run within the exception granted to the Bolsa. It will be defined by Rules of the Bolsa and by contracts between the Bolsa and the main participants - the Sponsors, the companies and the directors of each company.
- **Bolsa MAPA Team** - the Bolsa will establish a special team to oversee the market, under the control of a director reporting to the CEO. This team will be responsible for three important functions:
  - assisting the MAPA Committee with the approval of Sponsors
  - monitoring the compliance of companies with the ongoing rules of the market
  - assisting Companies, Directors and Sponsors in the interpretation and application of the rules
- **Sponsor** - this is a new figure for Costa Rica and will be extremely important element in maintaining the quality and credibility of this market. Every company will have to appoint one of the sponsors that has been approved by the Bolsa. These Sponsors will be independent experts charged with two key functions:
  - Assisting the company in the admission process and assuring the quality of the information given to investors
  - Assisting the company in continuing to meet the rules of the MAPA market after admissionAs an independent adviser, the Sponsor will be in a position to give comfort to both the Bolsa and the shareholders in the company that all rules are being met.
- **Directors** - several of the rules of the MAPA market relate directly to the behaviour of directors. For admission of a company to MAPA, the company's directors will be required to enter into contracts with the Bolsa that outline their obligations. They will be accountable to the Bolsa for failures to meet these obligations.

*Q 2 Do you consider the restriction to less than 50 shareholders a significant barrier to investment in this type of company?*

*Q 3 Are there any type of company that you think will be particularly drawn to MAPA or which will feel excluded from it?*

## 5. THE IMPORTANT ROLE OF THE COMPANY SPONSOR

Every MAPA company will be required to have a sponsor to help it through the admission process and to continue to comply with MAPA rules once admitted.

Through application of the rules described below, the Sponsor will be key to giving credibility and confidence to the various participants. The Sponsor will help:

- to prepare the company for admission and verify the contents of the Admission Document
- to ensure that it continues to meet the rules and will alert the company to any potential problems
- to educate shareholders to know that their interests will be protected
- He will assist the Bolsa in the oversight of the company

Companies will need to use a sponsor approved by the Bolsa. The Bolsa expects that approved Sponsors will generally be persons experienced in helping companies to find financing and may be attached to Puestos de Bolsa, investment banks or boutique investment groups. They must be independent of the company. The sponsor's roles and tasks will specifically include the following:

On Admission:

- The Sponsor must train the directors and senior employees of the company on the MAPA Rules
- The Sponsor must carry out due diligence on the Admission Document and declare formally that it meets all the requirements and that the information it contains is true and not misleading
- The Sponsor must confirm that the company meets the admission requirements of MAPA

After Admission:

- The Sponsor must be appointed as the Fiscal of the Company and must attend every Board meeting of the company
- The Sponsor must make himself available at all times to advise the MAPA company on the application of the Rules
- The Sponsor must act with due skill, care and competence

- If a Sponsor has reason to suspect that the company has breached MAPA Rules, it must inform the company and advise it on corrective steps. If the company does not correct the problem, the Sponsor must inform the Bolsa.

### Other services

The Sponsor cannot be the company auditor but will be free to assist the company in other ways so long as it can demonstrate to the Bolsa that it has controls to manage any conflicts of interest. This would include the following:

- finding investors before, at and after admission
- advising on pricing of issues
- managing announcements

### Sponsor shareholdings

The sponsor can itself purchase shares but

- (i) he cannot hold more than 10% directly or indirectly through family of other companies which he controls and
- (ii) shareholdings by the sponsor or related parties will be subject to the same controls as shareholdings of directors and senior employees.

*Q 4 The Bolsa has tried to be careful in defining the responsibilities of the Sponsor clearly and practically without making the Sponsor responsible for everything the company does without his knowledge. Do you think the Bolsa has got the rules about right?*

*Q 5 Are there any other services (other than external audit) that you believe are incompatible with being a sponsor?*

*Q 6 Do you think any other restrictions are necessary on Sponsor shareholdings?*

*Q 7 Would you add any other requirement or protection to the Rules regarding Sponsors?*

## 6. ADMISSION TO MAPA

The Bolsa has sought to make the admission process as painless as possible.

Key to the process are the following:

- The involvement of the Sponsor and
- The production of an Admission Document

To assist the process, the MAPA Team at the Bolsa will help companies and Sponsors interpret the requirements of the Rules.

### Requirements that companies have to meet

The Bolsa believes that it is unnecessary to impose restrictions on types and sizes of companies - it will be for Sponsors, companies and investors to decide what opportunities are right for MAPA.

There are therefore no requirements as to

- a) country of registration
- b) country of operations
- c) activity - except must be operating company not investment company
- d) size

There are however a series of other requirements to ensure that the company remains eligible for admission to MAPA and to ensure that shareholders interests are protected:

- a The company must fall within definition of Private Offerings in the ROP (less than 50 registered shareholders and no other public offer securities)
- b The securities to be admitted must be shares with at least the rights of common shares. The shares must be freely transferable.
- c The constitution of the company must establish that transfers of shares will only be registered after approval by the Junta Directiva
- d The company must establish a "Social Pact" and "Para social Pact" exactly as required by the Bolsa - these documents include important rights for shareholders, to ensure that all are treated fairly. They are intended as a complement to current Costa Rican law. (See Annex B)

- e Management and key employees should be locked in as employees and investors for 2 years
- f After admission at least
  - (i) 30% of voting rights are in hands of independent investors
  - OR
  - (ii) 45% of voting rights in hands of independent investors or Angel investors

Independent investors - shareholders unconnected to management and not part of block of connected investors that hold 20% or more of the voting rights

Angel investors - shareholders unconnected to management who may hold or be part of block of connected investors with 20% or more of the voting rights.

### Admission Document

At the time of admission to MAPA, it is important to investors to be able to turn to a single reference document with all the information necessary for making a decision to invest in a specific high-growth, high-risk company.

The Bolsa has sought to establish requirements for an Admission Document which meet the needs of investors but are not unduly burdensome for companies. As its starting point, the Bolsa took the prospectus for OFEX and AIM companies, which are short but hugely informative. Below are links to two Ofex company prospectuses:

<http://www.plusmarketsgroup.com/cgi-bin/reports.cgi?action=DisplayReport&report=cegprospectus.pdf>  
<http://www.plusmarketsgroup.com/cgi-bin/reports.cgi?action=DisplayReport&report=zimadmissiondoc2006.pdf>

For reasons of confidentiality, the Bolsa is proposing two documents - the Admission Document (available to all potential investors) and a confidential annex. The confidential annex will be available only at the offices of the Sponsor and only after an investor has signed a non disclosure agreement.

The admission document will need to contain the following.

- Details of management
- Summary details of the offer
- Key information about the issue
- Information on the company
- A business overview

- Financial information
- Summary of the Constitution of company
- Private Annex to admission document

Greater detail of the contents of the Admission Document can be found at Annex C

*Q 8 The 30% limit was set with a view to ensuring a serious relationship and accountability between the management and majority owners of a company and the independent shareholders. Do you think 30% is about right? If not, what would you suggest and why?*

*Q 9 The Bolsa has imposed few restrictions or entry requirements and has left much to the market to decide. For example it has not required a track record of profitability or a minimum period of operations. Are there any requirements that you think should be universally imposed?*

*Q 10 Are there any of the requirements that you regard as unduly onerous or unnecessary or which you would amend or remove?*

*Q 11 The "Pactos social" and "parasocial" are detailed legal agreements which would be enforced through arbitration not through the courts. This is to ensure speedy resolution of problems. Do you think that this is a necessary requirement for an investor to have confidence in the market?*

*Q 12 Are there any types of information required in the Admission Document which you think are unnecessary or which should be amended? Is there anything essential but missing from the list of requirements?*

## 7. LIFE AFTER ADMISSION

The Bolsa has sought to establish a set of simple ongoing rules for companies to follow after they have been admitted - easy to understand and easy to apply.

In addition, the Bolsa is committed to helping companies and sponsors in interpreting these rules - the MAPA Team within the Bolsa will answer questions from sponsors and companies on specific cases.

The ongoing rules fall into four categories:

- **general responsibilities**
- **relationship with sponsor**
- **price sensitive information**
- **dealings by directors**

The proposed rules are set out in Annex C. The principal rules are described below:

### General Responsibilities

- An Issuer must treat all holders of a class of securities equally
- The company must apply the Costa Rican Code of Corporate Governance and Code of Investor Relations. These are voluntary codes, which only require that the company explain whether it complies with all the elements and if not why not

### Relationship with Sponsor

- The company must have a sponsor at all times
- The company must appoint the Sponsor as fiscal
- The company must seek advice from its sponsor whenever it believes that it may be required to make an announcement.
- Whenever the company decides not to follow the advice of their sponsor, the company must inform the Bolsa before it takes any action

### Price Sensitive Information

- An issuer must announce immediately any information which:
  - (i) if made public could reasonably be expected to have a significant effect on activity in, or the price of, its shares or
  - (ii) is necessary to avoid a false market in its shares
- An Issuer must ensure announcements are accurate, complete and not misleading

- The Issuer does not need to publish information about an ongoing negotiation if the publication could affect the results of the negotiation. However, in this case, the Issuer has a responsibility to ensure that the information remains confidential. This includes maintaining a list of all persons who have been advised of the information

### Dealings by directors

- Directors and senior employees and connected persons (one degree of separation) who may not buy or sell any shares of the Issuer in the following circumstances:
  - (i) Two months before the publication of the year end results
  - (ii) When the company is in possession of unpublished information that could reasonably be expected to have a significant effect on activity in, or the price of, its shares
- Outside of these periods, directors and senior employees can only buy or sell shares of the company with specific permission of the Chairman or another appointed person
- All trades by directors and senior employees will be announced the next working day (including details of class and number of shares, price, and total numbers of shares held by the person after the trade)

The Bolsa will issue guidance on what types of events need to be announced under the general rule. A draft of this guidance is attached at Annex D.

The Bolsa is committed to assisting companies and Sponsors in interpreting the rule. Companies and Sponsors can therefore expect clear guidance from the Bolsa in specific situations on what needs to be done. A company or sponsor will therefore not be able to defend a failure to announce with the excuse that it was unsure what to do.

*Q 13 Are any of these rules unduly onerous or unhelpful to investors?*

*Q 14 From the viewpoint of an investor, are any additional rules that you would regard as essential?*

*Q 15 The guidance as to announcement is relatively complete and is accompanied by a commitment to assist companies and sponsors. Are there any elements that are unnecessary or are there any elements that are missing?*

## 8. APPROVAL AS A SPONSOR

Given the importance of the new figure of Sponsor, the Bolsa will be investing significant time in selecting and approving appropriate sponsors and then keeping their activities under review.

Prospective sponsors will be expected to be able to demonstrate to the Bolsa that they fit the profile of a Sponsor

- **Independence** - the ability to act independently of their clients (the companies) and in the long term interests of all market participants
- **Experience** - experience in assisting companies find and retain independent long term investors
- **Capacity** - the time and the necessary support (administrative or otherwise) to enable them to carry out their functions
- **Understanding of the MAPA market** - both its philosophy and the specific rules.
- **Reputation** - it will be vitally important that a sponsor has a strong professional reputation which it will want to protect

The Bolsa will be admitting specific individuals as Sponsors affiliated to specific firms. The process for approval will be structured as follows:

1. Initial Application - the applicant will be required to fill out a form which the Bolsa will make available. The form will ask for details of the Sponsor's background and of all the above profile attributes.
2. Interview with the Bolsa - the applicant will have to attend one or more interviews with the MAPA Team (and possibly also the CEO of the Bolsa) to review the information requested in more detail and to establish the applicant's understanding of the market.
3. Review by MAPA Committee - the application and a report by the MAPA Team will be considered by a committee of 8 persons. The Committee will be composed of specific persons in the market and by senior employees of the Bolsa. The Committee will meet at least every three months. Part of its functions will be to discuss each Sponsor application in detail and to decide whether to approve the application.

4. Vote - the approval decision will be made by individual, secret, votes on the basis of a majority decision.

If an approved Sponsor changes company affiliation, reconfirmation of approval will be requested by the Bolsa. The sponsor will be expected to advise the Bolsa within five working days of the change and the application for reconfirmation will be considered at the next meeting of the MAPA Committee.

*Q 16 From your perspective, are the attributes of a Sponsor properly defined? Are any attributes missing?*

*Q 17 The Bolsa believes that it needs to control the quality AND NUMBER of Sponsors in order to control the quality of companies coming to MAPA. It is likely therefore to want to ensure that there are sufficient sponsors to manage the companies wanting to come to market but does not want to have Sponsors who intend to act for just one company. Do you share the Bolsa's view on managing this important figure?*

## 9. ACCESS TO INFORMATION AND TRADING

The Bolsa will not be providing the MAPA market over its normal market facilities (at present the "SITE" trading platform).

Instead the Bolsa is creating a special web based facility to which access will be strictly controlled by a company's sponsor.

To gain access to information about a MAPA company, a person will have to contact the Sponsor to obtain a login and a password. The sponsor will always have the right to refuse to give access.

Once onto the facility, a person will have access to the following:

- Book of buy and sell orders
- Announcements by the company and sponsor
- Other documents published by the Company
- List of shareholders and details of his own shareholding (this will be restricted to actual shareholders)

### Trading in shares of MAPA companies

- All trading will go through the Sponsor so that the company maintains its private-offer status.
- Orders will be given to the Sponsor who, upon acceptance, will post them in the Order Book. Orders can only (no market orders?) be limit orders all or nothing orders and can carry a date of expiry.
- Execution will be by intermediation of the Sponsor, who will check that the buyer meets all specific requirements (such as the "sophisticated investor" definition) and that the number of shareholders will not exceed 50. The Sponsor will then remove the orders from the Book.
- The operation will remain pending until confirmed by the Company's Board.
- After confirmation, the Sponsor will carry out transfer of the shares against the necessary payment by the buyer.
- The Bolsa will permit market makers in the shares of the company but their orders will be separately identified as such for the benefit of investors. The key obligations of any market makers will be: Minimum size of offer \$1,000 and maximum spread 30%.

*Q 18 Is there anything else that could be usefully added to the MAPA website?*

*Q 19 If the Bolsa were to separate information so that some could only be seen by shareholders and some by all persons with access (a login and password), what do you think should be restricted to shareholders?*

*Q 20 At present the Bolsa is proposing to show shareholder information only to actual shareholders? Should it restrict this information even further - showing them information only about their own holdings?*

## 10. OVERSIGHT BY THE BOLSA

The Bolsa will establish a MAPA Team reporting to the CEO. The Team will have three key functions:

- Assisting the MAPA Comité with the approval of Sponsors
- Monitoring the compliance of companies with ongoing rules
- Assisting Companies, Directors and Sponsors in the interpretation and application of the rules

The monitoring function will encompass all necessary measures to ensure the credibility of the market and to protect the interests of investors.

The MAPA Team will monitor trading and announcements. If it believes it necessary, it will communicate directly with Sponsors and companies to request facts and explanations. It will also have the power to insist that a company makes an announcement of an important fact.

The credibility of the market and the security of investors rests squarely on the credibility of the Rules and the perceived seriousness of the Bolsa in enforcing compliance with those rules. The Bolsa will not react to every potential problem with a heavy hand, especially when a company has acted in good faith. However, when it believes that there has been deliberate or reckless disregard or breach of rules, it will take significant action.

If the MAPA Team finds that there is a serious deviation from the MAPA Rules, one that threatens the interest of shareholders or the credibility of the market, the process to be followed will be as follows:

1. The MAPA Team will review the facts and submit a report to the Director of MAPA and the CEO of the Bolsa.
2. If the Director and CEO consider the matter important, the report will be sent to the Company, its directors and the Sponsor, who will be asked to respond in writing.
3. The MAPA Committee will review the report and the Company's response. Under the authority established through contracts made with the company, directors and sponsor, the Committee may impose any sanctions it thinks necessary.
4. Prior to the imposition of sanctions, the company, directors and sponsor will be granted the opportunity to address the committee one more time.

## Sanctions available

The Committee will have a wide range of sanctions available to reflect the possible range of problems.

Proposed sanctions fall into two categories, soft and hard, and there will be specific sanctions for companies, for directors and for Sponsors:

	Soft	Hard
Companies	<ul style="list-style-type: none"><li>• Formal warning</li><li>• Requirement to make specific improvements</li><li>• Fine</li><li>• Discretionary publication of the sanction</li></ul>	<ul style="list-style-type: none"><li>• “Sin Bin” –application of a restrictive regime BUT in which investors will always be able to buy or sell shares:<ul style="list-style-type: none"><li>– Prohibition on further issues of any type</li><li>– Prohibition on share sales by any director or senior employee or the sponsor</li><li>– If the Bolsa has requested specific improvements, monthly publication of progress</li><li>– Higher fee</li></ul></li><li>• Trading suspension</li><li>• Expulsion from MAPA</li><li>• Publication of the sanction</li></ul>
Directors	<ul style="list-style-type: none"><li>• Formal warning</li><li>• Fine</li><li>• For improper purchases or sales of shares, restitution with interest</li><li>• Discretionary publication of the sanction</li></ul>	<ul style="list-style-type: none"><li>• Prohibition of being a director of a MAPA company for 2 to 5 years</li><li>• Publication of the sanction</li></ul>
Sponsors	<ul style="list-style-type: none"><li>• Formal warning</li><li>• Fine</li><li>• Requirement to make specific improvements</li><li>• For improper purchases or sales of shares, restitution with interest</li><li>• Discretionary publication of the sanction</li></ul>	<ul style="list-style-type: none"><li>• Prohibition against taking on new companies until problem resolved</li><li>• Changes in personnel</li><li>• Removal of approval as Sponsor</li><li>• Publication of the sanction</li></ul>

Confronted with serious breaches, the Bolsa will always seek first to apply the "Sin Bin" rather than apply a suspension of trading or exclusion from the market, in order to allow investors to continue to buy or sell shares even after the Bolsa has acted. In the worst of cases, exclusion, an investor will always have a holding in a company supported by the social and parasocial Pactos.

*Q 21 The credibility of the new market depends on the oversight by the Bolsa and the credibility of the potential sanctions. With the proposed framework of supervision and discipline, do you think that the Bolsa has managed to define a regime in which you could have confidence as an investor?*

*Q 22 From the point of view of a company, director or sponsor, do you think that the combination of help from the MAPA Team (in interpretation of rules) and discipline through a committee is appropriate? Do you consider the extent of involvement of the company, director or sponsor in the process to be adequate?*

## 11. INVESTMENT RISK

By definition, emerging companies are unlikely to have an established track record for the development they are seeking to finance.

They may have a track record in other areas, or their directors may be well established and successful businessmen, but the goal of the financing is likely to be the creation of something new. No matter who the directors are or what the company has previously achieved, this will be new territory. There will always be a strong inherent risk that they may not achieve their development goals.

The plans for development will also be at an early stage and may subsequently prove to be over-ambitious.

These are real risks and make the MAPA market a higher risk market than the main market in Costa Rica, with its well established companies, many of which have established business plans and steady, almost predictable, generation of dividends.

For these reasons, the Bolsa sees this as a market only for sophisticated investors, who must recognize their responsibility to read the Admission Document carefully and take their own decisions.

The Bolsa will create and maintain a regime of transparency and accountability. It cannot guarantee successful companies.

Caveat Emptor.

## SUMMARY OF QUESTIONS

*Q 1 Do you believe that the Bolsa is right to look to strengthen the environment specifically for smaller growing companies?*

*Q 2 Do you consider the restriction to less than 50 shareholders a significant barrier to investment in this type of company?*

*Q 3 Are there any type of company that you think will be particularly drawn to MAPA or which will feel excluded from it?*

*Q 4 The Bolsa has tried to be careful in defining the responsibilities of the Sponsor clearly and practically without making the Sponsor responsible for everything the company does without his knowledge. Do you think the Bolsa has got the rules about right?*

*Q 5 Are there any other services (other than external audit) that you believe are incompatible with being a sponsor?*

*Q 6 Do you think any other restrictions are necessary on Sponsor shareholdings?*

*Q 7 Would you add any other requirement or protection to the Rules regarding Sponsors?*

*Q 8 The 30% limit was set with a view to ensuring a serious relationship and accountability between the management and majority owners of a company and the independent shareholders. Do you think 30% is about right? If not, what would you suggest and why?*

*Q 9 The Bolsa has imposed few restrictions or entry requirements and has left much to the market to decide. For example it has not required a track record of profitability or a minimum period of operations. Are there any requirements that you think should be universally imposed?*

*Q 10 Are there any of the requirements that you regard as unduly onerous or unnecessary or which you would amend or remove?*

*Q 11 The "Pactos social" and "parasocial" are detailed legal agreements which would be enforced through arbitration not through the courts. This is to ensure speedy resolution of problems. Do you think that this is a necessary requirement for an investor to have confidence in the market?*

*Q 12 Are there any types of information required in the Admission Document which you think are unnecessary or which should be amended? Is there anything essential but missing from the list of requirements?*

*Q 13 Are any of these rules unduly onerous or unhelpful to investors?*

*Q 14 From the viewpoint of an investor, are any additional rules that you would regard as essential?*

*Q 15 The guidance as to announcement is relatively complete and is accompanied by a commitment to assist companies and sponsors. Are there any elements that are unnecessary or are there any elements that are missing?*

*Q 16 From your perspective, are the attributes of a Sponsor properly defined? Are any attributes missing?*

*Q 17 The Bolsa believes that it needs to control the quality AND NUMBER of Sponsors in order to control the quality of companies coming to MAPA. It is likely therefore to want to ensure that there are sufficient sponsors to manage the companies wanting to come to market but does not want to have Sponsors who intend to act for just one company. Do you share the Bolsa's view on managing this important figure?*

*Q 18 Is there anything else that could be usefully added to the MAPA website?*

*Q 19 If the Bolsa were to separate information so that some could only be seen by shareholders and some by all persons with access (a login and password), what do you think should be restricted to shareholders?*

*Q 20 At present the Bolsa is proposing to show shareholder information only to actual shareholders? Should it restrict this information even further - showing them information only about their own holdings?*

*Q 21 The credibility of the new market depends on the oversight by the Bolsa and the credibility of the potential sanctions. With the proposed framework of supervision and discipline, do you think that the Bolsa has managed to define a regime in which you could have confidence as an investor?*

*Q 22 From the point of view of a company, director or sponsor, do you think that the combination of help from the MAPA Team (in interpretation of rules) and discipline through a committee is appropriate? Do you consider the extent of involvement of the company, director or sponsor in the process to be adequate?*

PACTOS SOCIALES Y PARA SOCIALES

Not translated into English

## REQUIRED CONTENTS OF THE ADMISSION DOCUMENT

### Management

- Details of auditors, bankers, legal advisers and sponsor
- Details of directors and senior management
- Statement by all directors that having taken reasonable care, information is factual and contains no omission

### Summary of offer

- Total amount and number of shares offered by class, issue price, nominal value
- Time period of offer and when and how to apply and pay
- When and how securities will be delivered
- Statement that offer is FULLY CONDITIONAL on admission to MAPA
- Statement that MAPA is a market of higher risk than the main market

### Key information about issue

- Total and net proceeds expected and main uses of proceeds
- Analysis of estimated costs

### History of Company

- Name and registered address of company, date of incorporation and length of life
- Description of any group.
- Description of operations and principal activities, main categories of products or services for each of last three financial years. Explanation for significant changes.
- Dependence on intellectual property/contracts if material, and expiry dates
- Important dates in development of company's business, including obtaining Angel financing, mergers, subsidiaries, any proceedings by banks or other creditors
- Legal or regulatory proceedings

### Business overview

- Description of markets in which operate, main competitors
- Review of business drivers of income and costs
- Description of key assets of business - location, state, value and renewal
- Summary of key loans or other borrowings, insurance coverage
- Section on History of Directors and key employees

- Name, age, experience, functions, areas of expertise
- Date of appointment and expiry of contract
- Principal activities outside company
- Relationships with any other director or senior employee or major shareholder
- Biography including all past directorships, all past significant successes and failures, all legal or regulatory sanctions, all insolvencies with which connected
- Share ownership and options held by each director
- Detailed declaration of all transactions or contracts with directors
- Details of beneficial owners of 10%+ of voting rights
- Summary of outstanding loans with directors or key employees or connected parties
- Identification of transactions anticipated in future course of business with entities connected to directors or key employees or connected parties
- Summary of key loans or other borrowings including summary of impact of default on company
- Note that explicit forecasts or estimates will not be permitted

#### Financial information

- Audited financial statements for at least last full financial year prepared under NIFs including copy of full audit opinion
- If 9 months since date of results, interim results (and statement as to whether audited or not)

#### Summary of constitution of company

- Confirmation that the MAPA Social Pact and Para Social Pact have been properly adopted
- Summary of all key elements of statutes, including:
  - Directors powers to enter into transactions
  - Directors powers to vary constitution
  - Powers to issue new shares
  - Rights attached to each class of share - voting, pre-emption rights, other rights
  - Process for calling meetings
  - Limitations on share transfers

#### Private Annex to admission document

This annex would be available at Sponsor only, and only for reading. Access will only be granted once the Sponsor is convinced that the person is a genuine investor and after they have duly signed a Non Disclosure Agreement.

The Sponsor and company retain the right to refuse to give access to the document to a person who is not a shareholder.

- Salaries of directors on individual named basis for last full financial year and for period up to admission to MAPA - including all benefits of any kind to director and to all family members
- Budgeted salaries of directors on individual named basis for remainder of financial year following admission to MAPA - including all benefits of any kind to director and to all family members
- Details of any agreement with shareholders of any class which confers any additional rights

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## GUIDANCE ON ANNOUNCEMENTS BY ISSUERS

- The Bolsa may grant an exception to the requirement to announce of ongoing negotiations on the basis that it would be adversely affected by disclosure. This information may be disclosed to advisers of the company but only under duty of confidentiality and agreement not to deal in securities
- The requirement includes information relating to material changes in the company's markets or operations, its management, its financial position and/or its development plans.
- When pending company developments are likely to have a significant affect on market activity or the price of shares, it is the direct responsibility of the directors to ensure that procedures are in place to keep such information strictly confidential until published.
  - An issuer must announce audited full-year results prepared under IAS including a copy of the audit report
  - Issuer must announce full half-year results in a format consistent with recent annual reports.
- The following circumstances will generally give rise to a requirement to issue an announcement:
  - (i) Any change to the name or constitution of the company
  - (ii) Change in the senior management structure such as executive leaving/joining a company or working in a different capacity
  - (iii) Change in the board of directors
  - (iv) Stock buy back
  - (v) Issuance of new shares or other change in capital structure
  - (vi) Change in shareholding of a significant shareholder (>10% holding, change which takes from one percentage level to another, ie 10.xx% to 11.xx%; 10.xx% to 78.xx%)
  - (vii) Sale or acquisition of a new company or division (M&A activity)
  - (viii) Physical or natural disasters which affect the company (eg, an earthquake destroys a major factory which produces 10% of the companies revenue)

- (ix) Beginning or ending of a major product, service or division
- (x) Governmental rules or regulations that profoundly effect the core business of the issuer
- (xi) Significant legal action initiated or resolved against the company
- (xii) Changes in financial projections
- (xiii) Delay in releasing financial projections or quarterly financial results
- (xiv) Clarification, confirmation or rejection of rumors and reports that have affected market activity or prices
- (xv) Response to unusual market action
- (xvi) Dividends or stock splits
- (xvii) Large borrowing or debt relief activities
- (xviii) Significant labor disputes
- (xix) Significant changes to previous announcements
- (xx) Significant changes to major supply or customer contracts
- (xxi) Significant major company policy or process changes
- (xxii) Significant employee hiring or layoff activities
- (xxiii) Changes to accounting date or accounting policies
- (xxiv) Hiring or firing of key service providers or contractors