

CAPITAL MARKETS AND SECURITIES AUTHORITY



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THE CAPITAL MARKETS AND SECURITIES AUTHORITY

1. Establishment

The Capital Markets and Securities Authority (CMSA) was established in 1995 following the enactment of Capital Markets and Securities (CMS) Act no. 5 of 1994. CMSA became operational as an autonomous body at the beginning of 1995/96 financial year. The formation of CMSA followed comprehensive financial sector reforms in early 1990s that were aimed at, among others, developing capital markets to provide appropriate mechanism for mobilising long term savings and ensuring their efficient allocation to productive sectors, thus fuelling economic growth.

2. Mission

“To design and implement purposeful measures which will enable the creation and development of sustainable capital markets that are efficient, orderly, fair and equitable to all”.

3. Roles and Functions

The main functions of the Authority are spelt out in Section 10 of the Capital Markets and Securities Act of 1994. These functions include:

- 3.1. To develop and promote capital markets in Tanzania;
- 3.2. To license stock exchanges, market professionals including brokers, dealers and their agents, investment advisers, authorized dealers’ representatives, investment advisers’ representatives as well as authorizing collective investment schemes;
- 3.3. To supervise capital markets and market professionals; and
- 3.4. To advise the Government on matters related to the securities industry.

4. Board

The Board of Directors is the governing body of the CMSA. The CMS Act refers this body as the Authority. The Board has a total of ten members who are appointed in accordance with Section 6, subsection 3 of the CMS Act. The Chairman of the CMSA Board is appointed by the President of the United Republic of Tanzania. Other members of the Board are appointed by the Minister responsible for finance. Five members are appointed by virtue of their positions. They are ex-officio members appointed based on their official capacities, and they include:

- 4.1.1 The Permanent Secretary - Treasury
- 4.1.2 The Governor of Bank of Tanzania
- 4.1.3 The Attorney General
- 4.1.4 The Chief Executive Officer, Business Registration and Licensing Agency (Registrar of Companies)
- 4.1.5 The CMSA Chief Executive Officer

The appointment of the remaining four members considers their relevant experience and expertise in areas of finance, economics, accountancy and law.

5. Management

The Chief Executive Officer (CEO) is responsible for the day to day activities of CMSA. The CEO is assisted by three Directors in charge of Research, Policy and Planning; Market Development and Supervision; and Legal Affairs and Enforcement. The Management is complemented by six managers who provide support to the Directors in the areas of finance, human resources, internal audit, legal affairs, market supervision and market development.

6. CMSA Organization Structure **Separately provided**

7. Achievements

The fifteen years of CMSA existence have seen many achievements, including:

7.1. Establishment of the Dar es Salaam Stock Exchange

When the CMS Act was passed, the need to have an organized market became necessary. Stock Exchanges are normally established by private sector and can prosper in the presence of a well developed private sector. Tanzania did not have a developed private sector. In its absence, it was necessary for CMSA to facilitate the establishment of the market. CMSA facilitated the incorporation of the Dar es Salaam Stock Exchange (DSE) in 1996 as a private company limited by guarantee. The DSE became operational in April 1998 with the listing of TOL Ltd. As at the end of August 2010, there were 15 listed equities, which included 4 foreign listings; 7 corporate bonds and 168 Government of Tanzania bonds of two, five, seven and ten years tenors.

7.2. Licensing of Market Players

In order to prepare for the initialization of the DSE, CMSA conducted the dealers' course in collaboration with GMA Capital Markets Ltd of the United Kingdom in 1996. The course facilitated licensing of five market intermediaries. These are:

7.2.1. Tanzania Securities Ltd;

7.2.2. Solomon Securities Ltd;

7.2.3. Rasilimali Ltd;

7.2.4. Exim Securities and Investments Ltd and

7.2.5. Orbit Securities Co. Ltd.

CMSA conducted a second dealers' course in 1998 and this course led to the licensing of two more firms. These are:

7.2.6. Vertex International Securities Ltd and

7.2.7. CORE Securities Ltd.

Exim Securities license was revoked due to misconduct in the sector. All the above are dealers as opposed to brokers. Dealers are market intermediaries with the license to buy and sell securities for their clients (agents) as well as buying and selling

securities on their own account (principals). Brokers can only buy and sell on behalf of their clients only. They can not take position in the market.

The CMSA conducted a third securities dealers' course in September 2006 and 23 qualified for the award of certificate.

7.3. Public Education Programme

CMSA in collaboration with other stakeholders, which include DSE, brokers, Ministry of Finance and the Privatization Trust, carried out public education programmes throughout the country on the roles, procedures, risks and benefits of participating in capital markets. Presentations were also made to Members of Parliament, Members of the House of Representatives (Zanzibar), academicians, and various professionals including Accountants, Lawyers, Journalists, etc. CMSA and DSE participated several times in the annual international trade fair and agricultural fairs and the National Public Service Week.

7.4. Research Programmes

As part of capital markets development and improvement of supervisory functions, CMSA carried out a number of researches in various topics including economic empowerment of indigenous Tanzanians; fiscal study; legal study; regional study on monetary and fiscal policies; management information system (MIS); mergers and acquisitions; legal framework for the establishment of collective investment schemes (CISs) and appropriate capital markets structure in Tanzania. These studies have contributed positively to the present level of capital markets development and investor confidence. Studies conducted include the following:

7.4.1. Policy Study on Economic Empowerment of Tanzanians

This study made several recommendations on how Tanzanian can be empowered including the establishment of National Empowerment Council. It provided useful inputs into our National Empowerment Policy.

7.4.2. The Fiscal policy as it relates to capital markets and securities business

The study came up with a number of recommendations including fiscal incentives for capital market development in Tanzania. (On both the supply and demand sides). Some of the incentives in place that resulted from the study are reduction of withholding tax on dividends from listed company from 15% to 5%, complete elimination of tax on interest for long-term bonds of at least three years, elimination of stamp duty on transfers of listed securities and inclusion of IPO cost as deductible expense.

7.4.3. Legal study to assess the impact of existing and proposed legislation on the development of capital markets and securities industry in Tanzania

The study reviewed the capital market regulatory framework and identified areas for improvement. Among the improvements suggested by the study are issues of Collective investment schemes and Public offers of securities. Some of the recommendations are being considered in the current review of the CMS Act.

7.4.4. A Roadmap for the Establishment of Collective Investment Schemes
This study recommended step by step procedures for establishing Collective Investment Schemes in Tanzania

7.4.5. A study on a road map for modernization of the capital markets management information system including automation of the DSE trading activities.
The study recommended modernization of CMSA information system and automation of trading activities at the DSE.

7.4.6. A study on mergers and substantial acquisitions
The study proposed regulations for systematic takeovers, mergers and substantial acquisitions of companies in Tanzania. The objective being to protect minority interests in the companies involved with Mergers and Acquisition.

7.4.7. A study on incorporation of unit trusts in Tanzania
The study recommended appropriate legal framework for establishing unit trusts and how to regulate them.

7.4.8. The study on the appropriate market structure for the capital markets in Tanzania

The study observed reasons why many companies do not use capital markets for mobilization of financial resources and recommended establishment of Enterprise Growth Market Segment (EGM) as market for start up and growth companies.

7.4.9. The study on Fiscal and Monetary Policies for East African Capital Markets

The study explored and identified fiscal and monetary policies that hinder the development of East African capital markets and recommended reforms that will accelerate the development of capital markets in the region. It also made recommendation on the operational aspects of East African Capital Markets

7.5. Market products

The CMSA has prepared and finally approved the issuance of several products in our markets. Up to August 2010 a total of 15 equities have been listed. Four of the companies are foreign and have been listed at the DSE by way of introduction. A total of three companies have raised funds in the market without listing. CMSA has also approved eight Information Memorandums for issuing and listing of corporate bonds. In addition CMSA has approved six Collective Investment Schemes to collect funds from public. The Government has also used domestic bonds and listed over 168 Treasury bonds.

As at the end of August 2010, a total of more than TZS 926.19 billion had been raised through capital markets in Tanzania, comprising of TZS 51.81 billion as equities; TZS

89.40 billion as corporate bonds, TZS 822.10 billion as Treasury Bonds and TZS 107 billion as Collective Investment Securities

7.6. Market Supervision

The supervision of market professionals and the Exchange have been a key function of CMSA. Both on-site and off-site supervision have been carried out on a continuous basis. As at 31st July 2010, there has been no serious market fraud such as insider trading or price manipulation.

7.7. Advisory Service to the Government

CMSA has been advising the Government on the several policy issues with regards to the development of capital markets and securities industry in general. Among others, these advice covered CMSA's advice on introduction of fiscal incentives, municipal bonds, treasury bonds and the fight against pyramid schemes.

7.8. New Market Structure at the DSE

Following the completion of market structure study in June 2006, CMSA in collaboration with other stakeholders have decided to establish an additional equity market segment at the DSE. This market segment will cater for start up, small and medium size companies with growth potential who can not meet the existing stringent listing requirements of the existing (main) market segment. Details of the features and conditions for accessing this market are covered in another booklet titled: "Guide to Enterprise Growth Market".

7.9. Regulations and Guidelines

CMSA has developed more than 21 key Regulations and Guidelines for regulating the securities industry in the country including:

7.9.1. Capital Markets and Securities (Establishment of Stock Exchange) Regulations, 1996

These Regulations provide for the procedures and conditions to be fulfilled on the establishment of a stock exchange. Applications for the establishment of a stock exchange will be considered if the application is submitted by a body corporate, there are sufficient numbers of members (at least three) who will be in a position to establish a stock exchange business as well as members who are licensed by CMSA. The stock exchange is continuously regulated by CMSA after the approval is granted.

7.9.2. Capital Markets and Securities (Accounting and Financial Disclosure Requirements) Regulations, 1996

These Regulations provide for the maintenance of accounting records (including an audit trail), preparation of interim and annual financial statements as well as treatment of customers' money in accordance with the Act. The Act requires brokers/dealers to keep customers money in a trust account. The Regulations supplement the provisions of the Act.

7.9.3. Capital Markets and Securities (Register of interests in securities) Regulations, 1996

These Regulations require certain market players to maintain a register, in a prescribed format, of securities in which members of staff and other related parties may have interests. The register of interest in securities enables transactions to be traceable by the CMSA and other interested parties to provide the requisite transparency in securities transactions as well as monitoring insider trading.

7.9.4. Capital Markets and Securities (Prospectus Requirements) Regulations, 1997

These regulations supplement the general provisions on public issues of securities which are contained in the Capital Markets and Securities Act. The prospectus is an important document since the issuance of a prospectus is a prerequisite where a public offer is being made. The items required to be included in the prospectus are listed in the Regulations. These include matters to be stated in the first page of the prospectus. Others include information on the rights of holders, information on bankers, capital from issuer, debt of issuing any material contracts, the use of the proceeds from the issue etc.

7.9.5. Capital Markets and Securities (Capitalization and Rights issue) Regulations, 2000

The Capitalization and Rights Issue regulations set out the disclosure requirements that an issuer is obliged to comply with during Capitalization or when making Rights Issue. This has to be done after obtaining the approval of the Authority.

7.9.6. Capital Markets and Securities (Collective Investment Schemes) Regulations, 1997

These Regulations provide guidance on the conduct of business on CIS in relation to inducements, churning, customer rights, confidentiality, charges and execution. The above are in addition to the conduct of business requirements as mentioned in the CMS Act.

7.9.7. Capital Markets and Securities (Advertisements) Regulations, 1997

These Regulations provide for the vetting of securities advertisements by CMSA and it provides for a number of conditions that have to be met by advertisers in the securities business, which include the requirements for the contents and presentation of the advertisement. The advertisements must be factual. Comparison of investment should not be allowed unless it is fair. In addition, the Regulations set specifications on forecasts and references to taxation.

7.9.8. Capital Markets and Securities (Guidelines on Issuance of Corporate Bonds and Commercial Papers)

These guidelines set out the disclosure requirements that the issuer is obliged to comply with when applying for approval of public issuance of corporate bonds

or commercial paper. It gives the eligibility criteria and disclosure requirements for issuers of both corporate bonds and commercial papers.

7.9.9. Capital Markets and Securities (Guidelines on Corporate Governance) Guidelines, 2002

These are guidelines that aim at improving and strengthening good corporate governance practices by issuers of securities through the capital markets and promote a standard of self-regulation so as to raise the level of governance in line with international best practices.

7.9.10. Capital Markets and Securities (Conflict of Interest) Guidelines, 2002

These are guidelines which aim at giving members of the CMSA a framework within which to deal with conflicts of interest and other related matters. The guideline is also intended to protect board members and staff of the CMSA against any suggestion that personal interests have influenced regulatory decisions or that their investment decisions are made by using insider information. The Guideline includes general principles on conflict of interest, the policy on employees' interests, securities transactions by employees and board members, treatment of gifts and consequences of default.

7.9.11. Capital Markets and Securities (Foreign Investors) Regulations, 2003

These Regulations set out the limit of the aggregate securities to be held and the manner and conditions under which foreign investors will participate at the DSE. The Regulations provides for surveillance mechanism that CMSA will utilize in monitoring compliance. For example the regulations limit the foreign ownership in listed companies to 60%. It also sets maximum limits of 1% and 5% for foreign individual and company's ownership in listed companies respectively.

7.9.12. Capital Markets and Securities (Foreign Companies Public Offers Eligibility and Cross Listing Requirements) Regulations, 2005.

These Regulations provide for the participation of foreigners in Tanzanian capital markets in terms of eligibility criteria and the disclosure requirements for such companies to make public offers or cross list at the DSE. The foreign issuers of securities who are affected by these regulations can be from prescribed territories only.

7.9.13. Conduct of business Regulations (2002)

These Regulations provides the rules for the conduct of securities business including inducements, churning, customer rights, confidentiality, charges and execution.

7.9.14. Capital Markets and Securities (Custodians of Securities) Regulations – these Regulations provide the legal framework under which custodians will operate and be supervised within the capital markets. This has become more important particularly with the opening up of the capital markets to foreign investors / participants

7.9.15. **Legislation on Pyramid Schemes** – these Regulations has facilitated banning of pyramid schemes in the country.

7.9.16. Capital Markets and Securities (Substantial Acquisitions Takeovers and Mergers Regulations) 2006.

These regulations have been prepared to regulate and govern mergers and acquisitions. The objectives of these regulations is to ensure that in the Tanzanian capital markets, the critical process of mergers, acquisition and takeovers, which significantly influences corporate growth, take place within an orderly legal framework and that such framework, conforms with the principles of fairness, transparency, equity and the need to protect the rights of shareholders affected by such transactions.

7.9.17. **Anti-money laundering Regulations** – these Regulations are intended for combat money laundering activities in the securities industry.

7.10. Regulations and Guidelines in the Pipeline:

CMSA is in the process of developing other regulations to strengthen its supervisory role. New regulations to be enacted soon include the following:

7.10.1. Enactment of Depositories Act:

This is an Act of Parliament to regulate depository and share registration services. The Act will facilitate the operation and regulation of central depositories, to provide the immobilization and eventual dematerialization of, and dealings in, securities deposited in the United Republic, and for related matters. The new Act will be operational in 2007/08 financial year.

8. Capital Markets and Securities Authority and Trade Automation at the Dar es Salaam Stock Exchange

CMSA has facilitated the automation of the DSE trading operations, upgrading of the Central Depository System (CDS) and the automation of the CMSA operations through installation of a market watch system which monitors the DSE trading operations as well as CMSA filing, and operation systems. The project was a result of the Management Information System Study conducted by CMSA. Under the project, DSE trading is now executed using an automated trading platform. A new CDS that is compatible with the ATS has been installed. Both systems went live in December 2006, and they make the DSE a modern market with state of the art technology. In addition, CMSA operations were also automated to provide electronic services in the areas of: Document Management Software; Knowledge Management Software; Event Management Software; Complaints Management Software; Library Management Software; Electronic Filing Software; Licensing Management Software; Statistical Package; Portable Document Format (PDF) - read and write software; Human Resource Management Software and CMSA Website.

The ATS will facilitate access to areas other than Dar es Salaam as the ATS is internet based and can be accessed in areas where internet services are available. This is the next stage of creating connectivity to the ATS whereby brokers will have terminals in

selected regions which will have access to the matching engine in Dar es Salaam. With this connectivity, upcountry investors will be able to participate in secondary market activities without being required to travel to Dar es Salaam.

9. The Future

CMSA has achieved a lot in its more than fourteen years of existence as highlighted above. Future activities to be achieved include the following:

9.1. Implementation of the Entrepreneurship Growth Market (EGM)

CMSA is currently working on the launching of EGM. The regulations and rules for this market are being prepared. Public awareness programmes are on going and the companies with potential for listing in this market are being prepared. It is expected that the segment will be operational in the financial year 2010/2011.

9.2. Promotion of Collective Investment Schemes:

CMSA is facilitating the establishment of CIS as a means of promoting savings and investments in Tanzania. CISs will facilitate pooling of resources especially in the rural areas where the potential investing public has not had access to the existing financial infrastructure.

9.3. Establishment of Municipal Bonds Market:

This is the market for Municipalities to raise capital for the purposes of financing development activities in municipal areas. The process is underway to identify and recommend a policy change in the country to enable municipal bonds to borrow from the public and the necessary framework for this market.

9.4. Increasing the listings on the DSE:

CMSA will work with other stakeholders to increase the number of listed securities at the DSE through policy advocacy for more listings and sensitizing private sector companies to issue and list their securities. Some of the companies that are in various stage of preparation for listing at the DSE include the NBC Ltd.

9.5. Investor Education:

Enhancement of investor education to various sections of the population.

9.6. Making the DSE more vibrant by introducing full range of investment products:

CMSA in collaboration with other stakeholders will facilitate the introduction of new products in the market. Some of the products to be introduced include municipal bonds and exchange traded funds such as unit trusts.

9.7. Capital adequacy requirements:

CMSA plans to increase capital adequacy requirements for the purposes of investor protection and control of systemic risk.

9.8. CMSA Website:

CMSA has established a website which will be used for the dissemination of capital markets information and as a feedback mechanism; to facilitate feedback from issuers,

investors, professionals and others; as well as parties with complaints to register them for further action by CMSA. The website can be accessed through www.cmsa-tz.org

9.9. Improvement of the secondary market for fixed income securities:

Efforts are being made to improve secondary market activities in fixed income market segment which has remained dormant for sometime now.

9.10. Regional Integration: Participation in regional initiatives for the harmonization and eventual integration of capital markets in the region.

Appendix 1

LICENSED DEALING MEMBERS OF THE DAR ES SALAAM STOCK EXCHANGE

1. Rasilimali Ltd.

TACOSHIL Building Sokoine Drive, DSM

Tel: +255 22 211 1708

Fax: +255 22 212 2883

Email: rasilimali@africaonline.co.tz

2. Tanzania Securities Ltd.

7th Floor, IPS Building

Samora Avenue and Azikiwe Street, DSM

Tel: +255 22 211 2807

Fax: +255 22 211 2809

Email: tsl@muchs.ac.tz

3. Solomon Stock Brokers Ltd.

Ground Floor, PPF House

Samora Avenue and Morogoro Road, DSM

Tel: +255 22 211 2874

Fax: +255 22 213 1969

Email: solomon@intafrica.com

4. Vertex International Securities Ltd.

Annex Building – Zambia High Commission

Sokoine Drive and Ohio Street, DSM

Tel: +255 22 211 0392

Fax: +255 22 211 0387

Email: vertex@intafrica.com

5. Orbit Securities Co. Ltd.

3rd Floor, Twiga house

Samora Avenue, DSM

Tel: +255 22 211 1758

Fax: +255 22 211 3067

Email: orbit@orbit.co.tz

6. Core Securities Co. Ltd.

Ground Floor, Twiga house

Samora Avenue, DSM

Tel: +255 22 2123103

Fax: +255 22 2182521

Email: info@coresecurities.co.tz

Appendix 2

Licensed Investment Advisers

1. Orbit Securities Company Limited

3rd Floor, Twiga House, Samora Avenue
P.O.Box 70254 Dar es Salaam
Tel: 255 (22) 2111758
Fax: 255 (22) 2113067
E-mail: orbit-sec@raha.com

2. Tanzania Securities Limited

7th Floor, IPS Building, Samora Avenue / Azikiwe Street
P.O.Box 9821 Dar es Salaam
Tel: 255 (22) 21 12807
Fax: 255 (22) 21 12809
E-mail: tsl@muchs.ac.tz

3. Standard Chartered Bank Tanzania Limited

International House, Shaaban Robert / Garden Avenue
P.O.Box 9011 Dar es Salaam
Tel: 255 (22) 2122160 / 2122162
Fax: 255 (22) 2122089

4. Rasilimali Limited

Tacoshili Building, Sokoine Drive
P.O. Box 9373 Dar es Salaam
Tel: 255 - 22 - 2111711 / 255 (0) 744 777818
Fax: 255 - 22 - 2113438

5. Consultants for Resources Evaluation Limited

Ground Floor, Twiga Building Samora Avenue
P.o. Box 23227 Dar es Salaam
Tel: 255 - 22 - 2125147
Fax: 255 - 22 - 2122562
Email: core@cats-net.com

6. Unit Trust of Tanzania

3rd Floor, Sukari House Sokoine Drive / Ohio Street
P.O. Box 14825 Dar es Salaam
Tel: +255 22 212 250 I / 213 7592/ 212 8460 /61
Fax: +255 22 21 3 7593
Email: uwekezaji@utt-tz.org
Website: www.utt-tz.org

7. Ernst &Young Advisory Services

Utalii House, 36 Laibon Road Oysterbay
P.O.Box 2475 Dar es Salaam
Tel: +255 22 266 6853 / 266 7659

Fax: +255 22 266 6869
Email: EYAS@tz.ey.comguarantee@raha.com

8. Choice Capital Management Company Ltd.

5th Floor, NIC Life House, Wing B Sokoine Drive/ Ohio Street
P.O. Box 61269 Dar es Salaam
Tel: +255 22 213 3997
Website: www.choicecapitalmanagement.com

9. Commercial Bank of Africa (Tanzania) Limited

Amani Place, Ohio Street,
P.O. Box 9640, Dar es Salaam
Tel. +255 22 2130113
Fax: +255 22 2130116
E-mail: info@cba.co.tz
Website: www.cba.co.tz

10. FTC Consultants Limited

2nd Floor, Osman Towers Zanaki Street
P.O. Box 22731 Dar es Salaam
Tel: +255 22 211 5251 / 2 / 3
Fax: +255 22 213 0519
Email: info@mbn.co.tz

11. Exim Advisory Services Ltd.

8th Floor, Office Academy Scheme Building, Azikiwe Street
P.O. Box 3219 Dar es Salaam
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