

CAPITAL MARKETS AND SECURITIES AUTHORITY



CAPITAL MARKETS INTERMEDIARIES IN TANZANIA

Table of Contents

CAPITAL MARKETS INTERMEDIARIES IN TANZANIA	0
CAPITAL MARKETS INTERMEDIARIES	2
1. Introduction	2
2. Capital Markets and Securities Authority.....	2
3. Stock Exchange	2
4. The Stock Exchange as a Self Regulated Organization.....	2
5. Brokers	3
6. Dealers	3
7. Authorized Dealers’ Representatives.....	3
8. Investment Advisors	4
9. Dar es Salaam Stock Exchange Floor Traders	4
10. Licensing	4
12. Tanzania Stock Exchange Brokers Association	5
13. Other Key Players	5
14. List of Licensed Dealing Members of the DSE.....	8
15. List of Licensed Investment advisers.....	10

CAPITAL MARKETS INTERMEDIARIES

1. Introduction

The securities industry and capital markets, just like other economic sectors have their specialists; firms and individuals that specialize in organizing and implementing primary market issuances and facilitate the secondary market trade of securities. Some of the key specialists operating on capital markets are referred to as intermediaries. As this grouping name suggests they are parties that facilitate transactions between issuers and investors on primary markets and between investors and investors on secondary markets.

2. Capital Markets and Securities Authority

Markets need confidence to grow. One key role of a regulator like the Capital Markets and Securities Authority (CMSA) is to ensure that participants on capital markets follow rules and regulations. CMSA exercises the power vested in it by the CMS Act No. 5 of 1994 (as amended) through the approval of issuance documents like prospectuses, information memorandums and offering documents; licensing of market players; setting and enforcing various rules and requirements; conducting off-site and on-site inspection; etc. Such supervision builds investors' confidence by limiting the opportunities for players to commit irregularities such as price manipulation, insider trading or failure to settle/deliver.

3. Stock Exchange

A stock exchange is a specialized market place where demand and supply for securities can meet easily to transact. In Tanzania, stock exchanges are authorized by CMSA. In order to be authorized, stock exchanges must have at least three licensed members (brokers/dealers). Currently, in Tanzania, there is only one stock exchange: the Dar es Salaam Stock Exchange (DSE); which was established 1996 and became operational in April 1998.

The right to trade on a stock exchange is limited solely to members of that specific stock exchange. Such members (dealers and brokers) are referred to as Licensed Dealing Members (LDMs) of the exchange. DSE dealer and broker membership requirements are:

- 3.1.** The firm must have obtained CMSA's license to act as a Broker /Dealer;
- 3.2.** A formal application for membership;
- 3.3.** Payment of membership fees (admission and annual);

4. The Stock Exchange as a Self Regulated Organization

Worldwide, stock exchanges are "business clubs" that are Self Regulated Organizations (SRO). An SRO is an institution which sets its own rules to govern the conduct of its members, who are required to comply with these rules. DSE has various members, including Licensed Dealing Members (brokers and dealers who conduct trade), institutional investors, listed companies, academic institutions, fund managers/investment advisors and professional bodies. These members appoint among themselves parties to sit on the DSE Council, the governing body of the exchange. CMSA, the market regulator, was vested with the power to appoint one person to represent public interest on the Council. The term for DSE Council membership is three years and members can serve for a maximum of two consecutive terms. The council appoints the top management of

the exchange as well as setting up different rules to be observed by its members and by different users of services that are offered by DSE such as listing rules, trading rules, clearing and settlement rules, etc. Rules that are set by the DSE Council are binding on all members, thus DSE being an SRO.

5. Brokers

An important group of capital markets intermediaries are brokers (also called stockbrokers). Brokers' roles on primary market are:

- 5.1.** Selling of securities to the public on behalf of issuers (selling & receiving agents).
- 5.2.** Advising investors about issuances.
- 5.3.** Providing investment advisory services to issuers.
- 5.4.** Act as Sponsoring Brokers. The law requires issuers of securities to the public to appoint a sponsoring broker who is a Licensed Dealing Member of DSE. In the process of preparing an issuance, sponsoring brokers are the main link between the issuer on the one hand and CMSA and DSE on the other. Sponsoring brokers have to ensure that issuers fulfill the Regulator's (CMSA) and the Exchange's (the DSE Council) requirements for issuing and listing securities. They will also test the market to establish the demand for the securities being offered to ensure a successful issuance.
- 5.5.** Brokers' roles are not limited to primary markets; they also extended to the secondary markets:
 - 5.5.1.** Acting as agents, they buy and sell securities on behalf of their clients at a commission.
 - 5.5.2.** Advisory services with or without a fee is a continuous service provided by all brokers on the market. Investors in securities, often, develop close relationships with their brokers.

6. Dealers

Dealers undertake the same functions as brokers, but on top they may also trade on secondary markets as principals, that is, they may buy and sell securities on their own behalf; thus act as market makers on the secondary market. As market makers, dealers buy securities that they believe are under-priced and sell them when the price is right, thereby carrying a risk and making a profit from the differences between buying and selling prices. This function helps stabilize supply and demand on the market and decreases unwarranted excessive price movements. Dealers are also allowed to underwrite issues.

In Tanzania, as of August 2010, all six licensed brokers are also dealers. They are able to deal on both accounts (dual capacity - as agents and as market makers).

7. Authorized Dealers' Representatives

These are individuals who represent their respective companies. Brokerage or dealership firms need to be represented by a natural person who can execute transactions including

placing of orders and putting up business strategies at company level. One of the requirements for any firm to be granted a license to operate as a broker/dealer is to have a person on full or part time basis licensed by the CMSA as an ADR. To be licensed as an ADR, an individual is required to attend a CMSA dealers' course conducted over three weeks, write and pass the examination at the end of the course. CMSA has administered such exams three times, in the years 1997, 1998 and 2006.

8. Investment Advisors

These are entities which provide financial advisory services, for a fee, to investors in various ways; as well as advising issuers wishing to go public and/or obtain listing at DSE. They also organize for placements of bonds, arrange for the underwriting of public offers and perform any other financial advisory service as required by the financial sector in general and capital markets in particular. Requirements to obtain a license are similar to that of brokers and dealers with two key exceptions:

- 8.1.** Banks licensed by the Bank of Tanzania, by virtue of their responsibilities and roles in the market can be granted an Investment Advisors' license without meeting some of the conditions like having a person who has attended and passed the relevant CMSA course and exam.
- 8.2.** Investment advisors also have authorized representatives, referred to as Authorized Investment Advisors' Representatives. The rationale behind their roles and functions, as well as their licensing requirements is similar to that of ADRs'.

9. Dar es Salaam Stock Exchange Floor Traders

The placing of orders on the DSE trading platform can also be done by another class of representatives called Floor Traders. Floor traders are individuals who are granted permission by the DSE to place orders on behalf of their companies even though they are not ADRs. The key requirement for Floor Traders is having attended a Floor Traders' Induction course and passed an examination, which is administered by DSE. DSE conducted the first induction course in 2002 and a second one in 2006.

10. Licensing

Only dealers and brokers licensed by the CMSA are allowed to operate on Tanzanian capital markets. License holders are required to meet certain licensing conditions for CMSA to grant them a license. Brokerage firms must:

- 10.1.** Have a person who has attended and passed the CMSA dealers' course. This person is given a separate license as an Authorized Dealers Representative (ADR);
- 10.2.** Have office accommodation (in an acceptable condition, for instance stock broking business can not be mixed with a butchery) and office equipment;
- 10.3.** Meet capital requirements: minimum of TZS 10 million and TZS 20 million for brokers and dealers respectively;
- 10.4.** Be owned 100% by Tanzanians;

10.5. In addition, the following fees must be paid (see the applicable rate in the table below):

11. Capital Markets and Securities Authority fee structure

	Exchange	Interim Stock trading facility	Broker / Dealer	Investment Advisers	Collective Investment Schemes	Dealers Representative	Investors
Application fees not refundable in TZS	50,000	50,000	50,000	50,000	50,000	30,000	
Admission fee in TZS	500,000	500,000	500,000	500,000	500,000		
Annual fees to be reviewed as the market grows – in TZS	2,000,000	1,000,000	500,000	250,000	1,000,000	250,000	
Replacement of license in TZS	100,000	100,000	25,000	12,500	25,000	12,500	
Gross earnings	1%	1%					
Transaction fees							
- Seller			.01%				.14%
- Buyer			.01%				.14%

12. Tanzania Stock Exchange Brokers Association

The Tanzania Stock Exchange Brokers Association (TSEBA) is an association established in 2001 by brokers for safeguarding their interests. It is an organization formed to develop the securities business while ensuring conformity with the law and regulations of the industry. TSEBA has three types of members namely ordinary (Licensed Dealing Members), associate (persons interested in securities business but they are neither LDMs nor ADRs) and honorary memberships (conferred by the Council of TSEBA to parties for their notable contribution to the industry).

13. Other Key Players

13.1. Issuance Advisors

Companies intending to issue/offer securities to the public must appoint a team of professionals to assist them in different capacities; these include the Lead Advisor, Sponsoring Broker, Reporting Accountant, Legal Advisor, Main Receiving Bank and Collecting Agents. **Lead Advisor:** is a firm appointed by issuers of securities to guide the entire issuance process including the preparation of issuance documents (e.g. prospectus), pricing the issuance and coordinating other service providers to the issuance.

Sponsoring broker: every public offer of securities has to be sponsored by a Licensed Dealing Member of the DSE. An issue can be sponsored singly or be co-sponsored. The main role of the sponsoring broker (leading sponsoring broker) is to ensure that the issuer meets CMSA prospectus approval and DSE listing requirements and continuous listing obligations.

Reporting Accountant: is required to assist the issuer by looking at the way accounting data has been compiled in the issuance document, including assumptions and forecasts. The reporting accountant provides an independent evaluation of the company's financial reports. In order to ensure independence, the role of the reporting accountant cannot be performed by the company auditor. This segregation is in accordance with the National Board of Accountants and Auditors (NBAA) specifications.

Legal Advisors: are responsible to guide the issuer according to the CMS act. They draft contracts with other service providers on behalf of the issuer, give legal opinion on the legal existence of the issuer, its ownership of assets and properties as well as reviewing any pending litigations of the company.

Receiving Bank and Collecting Agents: at issuance, issuers normally do not have the infrastructure and resources to handle the high volumes of applications and cash from the public. Thus, regulations require issuers to appoint a bank to act as a Main Receiving Bank. This bank has the overall responsibility of ensuring that all monies and forms collected by all receiving agents reach the bank according to the contract (Sales Level Agreement). The main bank coordinates all other receiving agents that may include other banks, brokers, dealers, Tanzania Post Corporation or any other organization appointed by the issuer for that purpose.

13.2. Depositories

Traditionally securities were held in a form of certificates (paper). Recent changes have displaced the share certificate with an electronic form for registering securities ownership.

13.2.1. Depositories Operations

A depository operates like a bank for securities. Ownership of securities is maintained in an electronic format to facilitate their authentication, transfer and delivery. This electronic format proved to be superior in terms of risk related to forgery and administration of securities to the earlier paper based system. DSE has installed a Central Depository System (CDS), an electronic record of securities as they change ownership. Beyond facilitating trade, CDS is also used to update the register of holders for the purpose of corporate actions such as administration of dividends.

13.2.2. Depositories Bill

Currently, the depository facility for securities listed at the DSE (except government bonds) is within the exchange itself as a department (Clearing & Settlement Department). The Bank of Tanzania maintains a different depository facility for treasury bonds and bills.

CMSA in collaboration with the Ministry of Finance has already drafted a bill to facilitate the establishment, operation and regulation of central depositories, to provide for the immobilization and eventual dematerialization of, and dealing in securities deposited in the United Republic of Tanzania, and for related matters. Immobilization is the process of retrieving securities certificates from holders for the purposes of keeping them in a depository. Dematerialization is the process of implementing a paperless system in which investors do not hold physical certificates but can obtain information about their holdings in statements (like a bank statement for money).

The envisaged plan is to have an independent depository company that will carter for all institutions. The establishment of such a company is in line with the road map for regional integration and harmonization of rules. It is also envisaged that the creation of an independent depository company will increase efficiency in training, delivery and settlement of securities not only in Tanzania but also in East Africa as each system will be carrying interface features to enable cross border transactions

13.3. Collective Investment Schemes

Collective Investment Schemes (CIS) refer to enterprises aimed at raising funds from the public for the purpose of investments (including on capital markets). The two main formats for such enterprises are Investment Companies and Unit Trusts.

13.3.1. Trustees/Custodians

Unit Trust custodians or trustees are responsible to keep under their control all assets of trust. The law in Tanzania requires a trustee/ custodian to be a bank licensed by the Bank of Tanzania to conduct banking business. The professional oversight provided by the trustee enhances financial market transactions in the sense that it reduces investors' worry about the way the fund manager invests the funds of the CIS.

13.3.2. Fund Managers

Fund Managers, both in the case of Unit Trusts and Investment Companies play a vital role in CISs since they are responsible for investing funds collected. As at December 2006, any investment advisor licensed by the CMSA can be a Fund Manager. Plans are under way to amend the Act in such a way that a specific license will be required for a firm to operate as a fund manager.

13.4. Underwriters

These institutions play an important role in direct financing. At issuance, they take risks by assuring issuers a guaranteed price for their securities. A wide range of financial institutions like dealers, Commercial Banks, Pensions Funds and Insurance Companies can underwrite. There are different forms of underwriting. Some of these are:

13.4.1. The underwriter buys the entire issue then resells the securities individually to investors.

13.4.2. The underwriter buys any securities not taken by the market at issuance; at a preferential price (e.g. TOL Limited shares were underwritten at a price of TZS 400 per share while the offer price was TZS 500 per share).

13.4.3. The underwriter takes unsold securities at market/offer price by charging a fee for committing funds (an example is the Offer for Sale of TCC shares in 2000, whereby some institutions committed such underwriting funds. Ultimately the offer was oversubscribed).

13.5. Nominated Advisors

This new category of advisors is particular to the Entrepreneurship Growth Market (EGM). The role of the nominated advisor is to act as a full time consultant to start-ups, small and medium enterprises aiming at raising capital through EGM. The nominated advisor is expected to guide the company from inception all the way until the company

exits EGM. The nominated advisor acts also as the regulator's (and therefore the investing public's) eye and ears in the company. Licensing requirements are the same as for Investment Advisors.

13.6. Financial Intermediaries

Unlike the intermediaries reviewed up to now, which may be construed to be trade intermediaries, Financial Intermediaries play a special role on money and capital markets. Such entities allow for the creation of new investment opportunities, by "repackaging" money and capital market securities. Thus, they invest on money and capital markets, by collecting funds from the public using their own products that have different characteristics to the securities in which these intermediaries are investing.

For example, Collective Investment Schemes (CIS) issue units or shares that have different characteristics to the securities in which the CISs invest. Thus they offer "new" products that serve specific needs of investors that could not be addressed otherwise.

The list of financial intermediaries is not limited to CISs, but includes, among others, banks, life insurance companies, pension funds and savings and credit cooperative societies (SACCOS), each of which invest on money and capital markets while collecting funds from the public through various products that are different from the "standard" securities in which the financial intermediaries themselves invest. Through this, they facilitate:

13.6.1. Liquidity: Many of the financial assets offered by such intermediaries are more liquid than "standard" securities.

13.6.2. Diversification: Such intermediaries will generally purchase a variety of securities that are not perfectly correlated to each other and therefore overall carry a reduced risk.

13.6.3. Denomination divisibility: Often, financial intermediaries offer their products for amounts that can not be invested on capital markets.

13.6.4. Maturity flexibility: Such intermediaries are able to create products with a wide range of maturities, which can be very different from the maturities that are available on capital markets.

14. List of Licensed Dealing Members

Trade in securities is implemented through dealers and brokers. The following is the list of Licensed Dealing Members of the Dar es Salaam Stock Exchange as at August 2010 (See Appendix 1):

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
Tel: +255 22 213 4156
Fax: +255 22 213 4157
Website: www.eximadvisoryservices.com

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