



**CAPITAL MARKETS AND SECURITIES
AUTHORITY**

**Business and Institutional Strengthening Plan
for the period 2007/8 to 2011/12**

11th April 2007

TABLE OF CONTENTS

PART 1 - EXECUTIVE SUMMARY	1
PART 2 – INTRODUCTION (VISION).....	2
PART 3 - TRENDS AND CHALLENGES.....	3
Products	3
Current Status	3
Trends and Challenges	4
DSE	12
Current Status	12
Trends and Challenges	13
CDS	16
Current Status	16
Trends and Challenges	16
Market Participants.....	17
Current Status	17
Trends and Challenges	17
Capital Adequacy	21
Current Status	21
Trends and Challenges	21
Regulation by CMSA	22
Current Status	22
Trends and Challenges	22
The Role of Government	29
PART 4 – STRATEGIC INITIATIVES	31
Strategy and Objectives	31
PART 5 – ACTION PLAN.....	35
Products	35
DSE	36
CDS	36
Market Participants.....	36
Capital Adequacy	36
Regulation by CMSA	37
PART 6 – DEPARTMENTAL ACTION PLAN.....	38
PART 7 – PERFORMANCE MONITORING.....	46
PART 8 – FINANCIAL PLAN	47
PART 9 – AREAS OF REQUIRED TECHNICAL ASSISTANCE.....	57
1. Project: Review of Cost of Going Public	57
2. Project: Removal of barriers to the development of collective investment schemes	58
3. Project: The development of Securitised Products	59
4. Project: Development of a Financial Derivatives Market	61
5. Project: Reform of trading on the DSE	63
6. Project: Strategy for CDS.....	64
7. Project: Implement risk based capital adequacy.....	66
8. Project: Review of the Regulatory Structure.....	67
9. Project: Establishment of an East African Securities Institute	68
10. Project: Assistance to the Legal Directorate of the CMSA	69

PART 1 - Executive Summary

The CMSA's vision of the capital market of the future is one in which:

- Companies and others who wish to raise capital have a logical route for obtaining long term finance.
- Investors can feel that their investments are secure and that they are adequately protected.
- Professionally qualified capital market participants have confidence in the integrity of a market that complies with all IOSCO's core principles of regulation.
- The CMSA is a firm and fair law enforcement agency that meets high standards of integrity, transparency, understanding and responsiveness.

The Strategic Plan focuses on six key areas:

1. Education and promotion and bringing new companies, new investors and new products to the marketplace.
2. Creating a vibrant Stock Exchange trading a full range of investment products.
3. Establishing a well capitalised clearinghouse (CDS) employing value at risk methodologies that complies with IOSCO standards.
4. Bringing new professionalism to market participants through new licensing and qualification requirements.
5. Increased capital adequacy requirements that ensure investor protection and control systemic risk.
6. The CMSA's regulation of the capital market.

In particular, the CMSA wishes to see:

- The emergence of a share-ownership culture in Tanzania through expanded educational programmes and by Government promoting employee share participation schemes.
- Development of the capital market by encouraging more capital raising initiatives by public companies.
- The issue through the DSE of the remaining Government holdings in companies that have undergone initial privatisation.
- A new second tier development and growth market targeting smaller companies and those that cannot meet the listing criteria of the main market.
- New Listing Rules that encourage a variety of existing and new types of products to list on exchange.
- Increased listings from non Privatisation sources.
- The development of a strong framework for corporate governance and shareholder value recognition.
- The development of the secondary market in Government bonds.
- The development of the corporate bond market.
- The introduction of municipal bonds.

- The introduction of securitised debt instruments to facilitate leasing, hire purchase and mortgage businesses.
- The development of collective investment schemes.
- The introduction of exchange traded derivative products which will improve investor protection, lower systemic risk and provide new vehicles for investment purposes.
- Regional initiatives towards harmonisation and integration.
- New and/or amended legislation aimed at correcting deficiencies within the existing Act and facilitating new investment products.
- A new regulatory structure that meets international standards.
- A single integrated non-banking financial sector regulator.
- A regulatory environment that supports the development of innovative and appropriate products for investors.
- A capital market environment that is both attractive to investors and is disclosure based.
- Securities market intermediaries that offer a full range of financial and advisory services.
- A strengthening of the fund management, custodian and venture capital industries.
- Strengthened surveillance and supervision of the capital markets.
- The establishment of a Securities Institute together with new qualifications for all types of market intermediaries.
- Strengthened regulatory capacity and systems within CMSA.
- A vibrant Stock Exchange.
- New rules governing how securities are traded.
- The implementation of surveillance monitoring systems at exchange level.
- Remote access for trading and the potential for internet trading.
- A CDS with appropriate internal and external systems and controls to ensure protection of securities and money settlement.
- The deployment of an appropriate system to manage market risk.
- Reducing systemic risk by strengthening capital adequacy requirements of market intermediaries.
- Timely and regular inspections of intermediaries.
- Enhanced rules and procedures to assist in inspection/enforcement program.
- The emergence of a commodities market to assist growers, producers and buyers.

PART 2 – Introduction (Vision)

CMSA's Mission is "...to design and implement purposeful measures which will enable the creation and development of sustainable capital markets that are efficient, transparent, orderly, fair and equitable to all".

The Business and Institutional Strengthening Plan supports this Mission Statement by setting out the CMSA's plans for the strategic development and future positioning of the Tanzania capital market during the next five years. It is intended for use by the CMSA and all stakeholders to provide strategic clarity as to the vision and objectives for the capital market. It is also intended to ensure that the Tanzania capital market is well positioned to play its part

in supporting national growth needs and aspirations, as well as meeting the challenges of relevant external influences such as regionalisation and globalisation.

The five year Strategic Plan relies on the following vision of the capital market:

The capital market is a meaningful alternative for issuers of securities and investors and one in which investors are adequately protected. It has well capitalised and qualified capital market participants and is regulated in compliance with all IOSCO core principles of regulation by a firm and fair law enforcement agency that entertains high standards of integrity, transparency, understanding and responsiveness.

The Plan is set against a backdrop of changing economic environment in Tanzania and the increasing complexity of financial markets. The strategic plan goes beyond routine day to day operations to a much longer-term development plan for sustainable growth of the capital market, with the following strategic objectives:

- To enhance the attractiveness of the capital market by the introduction of high quality products, traded on a professional marketplace under fair and transparent rules by professionally qualified and financially secure market participants.
- To promote efficiency, transparency, integrity and reliability of market mechanisms.
- To provide the necessary infrastructure to enhance market competitiveness.
- To maintain high professional standards of the CMSA as a regulator.

In order to achieve the strategic objectives set forth in the plan, action will focus on six main aspects as follows:

1. Education and promotion and bringing new companies, new investors and new products to the marketplace.
2. Creating a vibrant Stock Exchange trading a full range of investment products.
3. Establishing a well capitalised clearinghouse (CDS) employing value at risk methodologies and one that complies with IOSCO standards.
4. Bringing new professionalism to market participants through new licensing and qualification requirements.
5. Increased capital adequacy requirements that ensure investor protection and control systemic risk.
6. The CMSA's regulation of the capital market.

PART 3 - Trends and Challenges

Products

Current Status

The financial sector in Tanzania is small and dominated by the banking sector which comprises around twenty commercial banks. There are currently ten equities listed on the

DSE; three of which are cross-listings from Kenya. Only one Tanzanian company has sought a listing on the DSE for the purposes of raising capital. The other six listed equities have been the result of privatisation issues. Three other IPOs (one bank and two investment companies) did not meet the listing criteria and are traded off-market. Although during the period 1998 to 2006 the amount raised through the capital market was TZS236.77 billion (USD182 million) a survey conducted by the CMSA showed that most companies use retained earnings and loans from financial institutions to finance their capital needs instead of using the capital market. In addition to the ten equities twelve Government and seven corporate bonds are listed but not traded on exchange. There is one collective investment scheme in operation.

Trends and Challenges

Further development of the capital markets will support more rapid macro economic growth. More developed and efficient securities markets, including both equity and debt, can also help to reduce systemic vulnerabilities in a bank-dominated financial system. The small mutual fund industry offers significant potential for expanding the retail investor base.

Second Tier Market

The CMSA recognises the fact that there are companies which do not meet the criteria for listing on the main market and therefore during 2007 it is proposed to launch a second tier market that will become a nursing ground for smaller growing companies which can, in time, move on to the main market.

The perceived benefits of such a market are:

- Companies that cannot meet the listing criteria of the main market will be able to list on the second tier market.
- Companies will have a less expensive way of raising capital than obtaining long term finance from a bank.
- Issue costs will be reduced through reliance on placings rather than public offerings.
- Investors will have greater choice of securities in which to invest. This will be of particular benefit to institutional investors.
- Those companies that are traded off-market will find a reliable and accurate price making mechanism for their shares together with a secure exit route should they wish to dispose of their holdings.
- It fits nicely with the Government's objectives of supporting SMEs.
- Through supporting small and medium enterprises, the second tier market will contribute to employment and in the longer term to Government income through corporate and other taxes.
- The second tier market will be a logical exit route for venture capital funds.

The establishment of a second tier market such as this is fundamental to the healthy development of the capital markets. A strong second market will complement the private equity sector, providing a viable exit strategy for venture capitalists and private equity funds. Many issues still surround the establishment of the second tier market and these are set out in the Phase 1 report. The next stage of the establishment of the second tier market will be the resolution of these outstanding issues and the introduction of new rules governing the market.

In establishing the second tier market, the CMSA will introduce steps to end the largely unregulated off-market trading in unlisted securities. Companies that are traded off-market will be invited either to list on the main market or on the second tier market as appropriate. The CMSA will publish details of a simplified entry route to listing for such companies. Within six months of the commencement of the second tier market, all trading off-market will cease and the CMSA will introduce new rules that will allow only for the occasional bargain in unlisted securities. These rules will require the prior approval by the CMSA of all off-market transactions in unlisted securities. If the CMSA believes that by the nature or volume of the transactions a market is developing in those securities, it will require the company to seek a listing and will not approve further transactions in that company's securities whilst it remains unlisted.

Main Market

Although a large part of the focus of product development will be concentrated during the first year of the Strategic Plan on the development of a second tier market, the CMSA will continue in its efforts to promote listing on the main market to existing well established companies that can meet the criteria for listing in the main market. A factor that has acted as a deterrent to companies to seek a listing on the DSE is the perceived high cost of an Initial Public Offering (IPO). These costs include not just the financial cost but management time before, during and following the IPO e.g. compliance with the continuing disclosure obligations of listing. The CMSA will undertake a study into the cost of "going public" with the objective of seeking to reduce these costs. This will include looking at the listing rules and at the charges levied by advisers and others.

An important factor in persuading well established companies to opt for the main market instead of the second tier market is that securities listed in that market will carry a more serious risk warning advising potential investors of the more serious risk of investing in securities that are listed in the second tier market.

Investor Awareness

Until now, the CMSA has acted largely alone in undertaking promotional activities and in encouraging companies to seek to raise finance through the capital market. That will now change and the CMSA will be taking steps to encourage other stakeholders to participate actively in the development of the capital market.

The CMSA will introduce a Market Development Fund, the fees payable to the Fund will be used for the development of the capital markets in Tanzania. Singapore and other markets have used similar initiatives with very credible success.

The CMSA will continue to offer an extensive public awareness programme by running seminars, road-shows, workshops, holding conferences, attending trade fairs and other similar events. Television, radio and press will also continue to be used to promote public awareness of the capital markets.

A competition will be introduced, initially in schools and universities, in which groups or individuals will be invited to prepare an essay on a subject related to the capital markets. This will be judged by an independent panel of judges.

Also, schools will be invited to take part in an annual investment game to determine the most successful investment team. Teams representing schools will be given a notional sum of money which they will “invest”. They may change their investments during the life of the game. Earnings from dividends and interest will be added to their total and will be available for investment. The winning team will be the one that generates the greatest profit.

Working together with the Ministry of Education and the Institute of Curriculum Development, the CMSA will introduce capital markets into the school curriculum. Until now, the CMSA has focused only on higher learning institutions. However, the intention of this initiative will be to educate schoolchildren about savings and investing in securities.

The CMSA will continue to run education programmes to potential issuers, their management and existing shareholders on the benefits of going public and of raising money through the capital markets. Particular emphasis will be focused on encouraging companies to introduce employee share participation schemes. This will be part of an initiative, together with Government, to encourage the emergence of a share-ownership culture in Tanzania.

Privatisation

In order to further develop the capital market and to provide greater investment opportunities for Tanzanian investors, the CMSA will continue to discuss with the Presidential Parastatal Sector Reform Commission (PSRC) the sale of further Government holdings in parastatals through the DSE. In particular, the CMSA will look at ways in which the capital market can better support the privatisation process through making the market more accessible to investors and potential investors outside Dar es Salaam. This will be partially supported by the introduction of the new trading platform at the DSE although for the moment both trading terminals and brokers are still located in Dar es Salaam. PSRC has indicated that it would envisage two or a maximum of three issues coming to the market each year. The problem being the time it takes to prepare the issue rather than the market’s ability to absorb more issues.

Venture Capital Funds

Venture capital funds are a pooled investment vehicles that primarily invest the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. As such, venture capital investments are generally high-risk investments but offer the potential for above-average returns and/or a percentage of ownership of the company.

Venture capital funds invest in businesses at all stages of development - i.e. start-ups, early stage, development, management buyouts and management buyins. Generally, they look for businesses which are able to demonstrate the potential for rapid sustainable growth.

A logical exit route for the investments held by venture capital funds will be the new second tier market which is designed specifically for growth and development companies.

The CMSA wishes to encourage the growth of venture capital funds in Tanzania but it also wishes to ensure that the funds themselves are properly regulated. The CMSA therefore proposes to pass, during the year 2007/08 regulations governing the licensing and operation of venture capital funds.

Collective Investment Schemes

Collective investment schemes are regarded as one of the main vehicles for the mobilisation of individuals' savings. Presently, there is only one collective investment scheme in operation in Tanzania although there is one further potential applicant on the horizon.

There are two investment companies, neither of which is listed although the CMSA carries out the same degree of supervision over these companies as if they were listed.

The CMSA will undertake a study with the objectives of identifying the constraints to the development of collective investment schemes and increasing the number and use of such schemes. The study will build upon the analysis undertaken in 2006/07 on the appropriate legal framework for incorporation of unit trusts in Tanzania and consider:

- The competence, powers and capacity of the CMSA to regulate the market in CIS;
- The existence of potential operators and service providers;
- The demand from potential investors;
- Adequate numbers of securities in which to invest;
- Money transfer and payment services;
- Accounting standards;
- Fiscal policy.

In order to assist the development of collective investment schemes, the CMSA proposes to pass, during the year 2007/08 regulations governing the licensing and operation of Fund Managers.

Government bonds

The Bank of Tanzania is presently examining the structure of the Government bond market. The CMSA is highly supportive of a strong primary and secondary market in Government bonds. However, what is important from its perspective is that there is a place in that secondary market for retail investors. The establishment of any sort of retail market in Government bonds depends upon there being a successful and transparent primary dealer or institutional market. The institutional market will set the prices and the retail market will trade off those prices. In ensuring that there is retail participation in the secondary Government bond market, there are two alternatives. First that it is an institutional market, regulated by the Bank of Tanzania, but open to banks, brokers (acting on behalf of clients) and potentially institutional investors. The alternative would be to establish a 'wholesale' market with banks only and where brokers and others were excluded. This would mean that the DSE would establish a retail Government bond market but in order to ensure the success of that market it would need one or more of the banks from the wholesale market to act as a market maker. Either way, the CMSA is committed to a strong and active secondary market in Government bonds.

Corporate bonds

Corporate bond markets can help company borrowers reduce their financing costs in two ways. First, they facilitate bank disintermediation, by allowing direct access to investors and removing the ‘middleman’ and related costs. Second, by issuing corporate bonds, companies are in a better position to tailor their asset and liability profiles, and reduce the risk of maturity and currency mismatch on their balance sheet, which should also reduce their overall cost of capital. Corporate bonds are particularly useful for financial institutions with long-term liabilities, such as life insurance companies and pension funds. These institutions may otherwise be forced to charge their clients a higher premium to offset risks arising from any maturity mismatch.

An active and efficient bond market broadens the capital market by offering savers opportunities to invest in a wider range of assets. The presence of an active and efficient bond market would give corporations an alternative source of domestic debt finance, allowing them to raise debt capital in the event that banks are unable to do so, thus ameliorating the potential adverse effects that a bank-credit crunch would otherwise have on the economy.

Most companies have not yet recognised the benefits of raising capital by the issue of corporate bonds on the DSE – other than of course some of the banks who have borrowed through the issue of corporate bonds and are lending this money to their corporate and individual customers at higher rates. The CMSA’s five pronged approach to the development of the corporate bond market is:

1. review of the costs of going public (described earlier);
2. promoting to companies the use of corporate bonds as an alternative to other more expensive forms of meeting their long term capital requirements;
3. raising the standards and qualifications of corporate finance advisers to be better able to advise the companies on raising long term capital through the capital markets;
4. developing strong well capitalised intermediaries (investment banks);
5. to encourage banks to act as guarantors in respect of corporate bond issues by guaranteeing principal and interest payments.

Municipal, infrastructure, housing bonds

The CMSA, working together with the BOT and MOF, will appoint a consultant to report on the development of municipal and infrastructure bonds. The objective of the assignment will be to identify and report on the benefits of sub-sovereign debt, quantify the potential demand, develop a regulatory framework for corporate and municipal bond markets and offer training to market participants.

Securitised debt instruments

Securitisation is the process by which a portfolio of relatively illiquid financial assets are repackaged into marketable securities and sold into the capital markets.

Securitised products are becoming increasingly more popular in developed and developing markets with the creation of securitised debt instruments. The following are the steps in a simple securitisation:

1. Financial institution (FI) originates asset e.g. leasing or equipment loans to businesses or hire purchase contracts with consumers
2. FI sells asset to Special Purpose Vehicle (SPV)
3. SPV funds purchase of assets by issuing zero coupon or interest bearing securities – bonds or beneficial interests
4. Credit enhancement is added to improve credit quality of the bonds
5. Bonds are sold to investors.

However, before this can happen in Tanzania there would have to be a “Securitisation Law”. The objective of securitisation is to achieve a “sale” and transfer of the assets from the seller (originator) to a Special Purpose Vehicle (SPV). The SPV may be in the form of a Trust or a Company. For a range of reasons and unless there are specific reasons, a Trust arrangement is usually preferred. However, this needs to be verified that this is the best course of action in Tanzania. The CMSA has been informed by IFC that there is already demand for such instruments. The CMSA will, in conjunction with IFC, the BOT and key stakeholders in the leasing market, undertake a study to identify the optimum structure for the market, the legislative, tax and accounting issues and market conditions. Once these are identified and discussed, work can commence on the legislation and on other necessary reforms that will ensure the success of the market.

Credit rating agencies

An important component in the development of the bond market is the existence of licensed credit rating agencies. Currently there are no licensed credit rating agencies operating in Tanzania although one foreign company is reportedly offering its services. The CMSA will create a category of license for firms wishing to operate as a credit rating agency and seek to attract such firms to set up licensed businesses in Tanzania. The conditions of licence will include requirements in relation to: a) financial standings; b) systems capabilities; c) pertinent levels of market knowledge; and d) the fit and proper person test. In addition there will be requirements that each firm operates and maintains adequate compliance functions and procedures.

Custodians

The role of a custodian is to act as an agent responsible for safeguarding a firm's or individual's financial assets. Typically, a custodian holds in safekeeping assets such as equities and bonds, arranges settlement of any purchases and sales of such securities, collects information on and income from such investments, provides information on the underlying companies and their annual general meetings, manages cash transactions, performs foreign exchange transactions where required and provides regular reports on all their activities to their clients. Custodians are primarily banks and are often referred to as Global Custodians if they hold assets for their clients in multiple jurisdictions around the world, using their own local branches or other local custodian banks in each market to hold accounts for their underlying clients.

In order to encourage foreign investors into the Tanzanian capital market, the CMSA has produced regulations governing the licensing and operation of custodians.

Derivatives

The capital market in Tanzania is not sufficiently mature or deep enough to support derivatives on equities. Therefore, CMSA does not see, within the period covered by this Strategic Plan, any consideration being given to, for example, equity options, single stock futures, or exchange traded funds. It does see however the possibility of other derivatives such as:

- Index futures or index options;
- Interest rate futures;
- Currency futures or options;
- Commodity futures.

During the life of the Strategic Plan, the CMSA will conduct a study of the feasibility of introducing one or more of the above derivative products. In the meantime however, the Act will be amended to ensure that it caters for all forms of derivative instruments.

Commodities

Agriculture dominates the economy of Tanzania, providing more than 60% of GDP and 80% of employment. Cash crops, including coffee, tea, cotton, cashews, sisal, cloves, and pyrethrum, account for the vast majority of export earnings. The volume of all major crops--both cash and goods, which have been marketed through official channels--have increased over the past few years, but large amounts of produce never reach the market. Poor pricing and unreliable cash flow to farmers continue to frustrate the agricultural sector.

The following tables, taken from the Grains Retail Prices Yearly Average Summary Reports published by the Ministry of Agriculture, Food and Cooperatives show the prices of grain produce at the Dar es Salaam market in 2003 and 2004; indicating a reasonable degree of volatility.

Year: 2003		Market: DAR' SALAAM				Price is Tshs/kg	
	Year	Maize	Maizeflour	Rice	Wheatflour	Millet	Sorghum
Market Year Summary							
	Year Avg	259.30	340.50	521.50	319.50	492.50	625.00
	Year Min	225	250	400	295	300	300
	Year Max	350	520	800	400	575	2200
Year: 2004		Market: DAR' SALAAM				Price is Tshs/kg	
	Year	Maize	Maizeflour	Rice	Wheatflour	Millet	Sorghum
Market Year Summary							
	Year Avg	340.63	413.13	706.88	375.63	397.14	542.86
	Year Min	235	300	600	300	330	450
	Year Max	400	530	850	420	450	600

In 2005, a total of 627,796.22 kilograms of gemstone were produced in Tanzania compared to 1,613,848.47 in 2004, equivalent to a decrease of 61.1 percent. The sharp decline was caused by decrease in production and lack of market of low valued gemstones, such as sunstone, moonstone and opal. However, gemstone exports amounted to USD31.4 million in

2005 compared to USD24.8 million in 2004, equivalent to an increase of 26.6 percent. The increase was attributed to price increase of tanzanite in the world market. Gold exports also increased from USD629.4 million in 2004 to USD655.5 million in 2005, equivalent to an increase of 4.1 percent. Again the increase was attributed to an increase in gold price in the world market. The export of diamonds on the other hand was down by 6.2% in 2005 due largely to the decline in diamond production.

Commodity markets are markets where raw or primary products are exchanged. These raw commodities are traded on regulated commodities exchanges, in which they are bought and sold in standardised contracts. Most commodity markets across the world trade in agricultural products and other raw materials and contracts based on them. These contracts can include spot prices, forwards, futures and options on futures. Thus, a farmer raising corn can sell a futures contract on his corn, which will not be harvested for several months, and guarantee the price he will be paid when he delivers; a breakfast cereal producer buys the contract and guarantees the price will not go up when it is delivered. This protects the farmer from price drops and the buyer from price rises.

A private sector initiative is currently being undertaken to determine the feasibility of launching a commodities market in Tanzania. The CMSA is highly supportive of this initiative which it considers will bring considerable benefits to farmers and mineral producers.

Corporate governance

“If a country does not have a reputation for strong corporate governance practices, capital will flow elsewhere. If investors are not confident with the level of disclosure, capital will flow elsewhere. If a country opts for lax accounting and reporting standards, capital will flow elsewhere. All enterprises in that country – regardless of how steadfast a particular company’s practices may be – suffer the consequences. Markets must now honour what they perhaps, too often, have failed to recognise. **Markets exist by the grace of investors.** And it is today’s more empowered investors that will determine which companies and which markets will stand the test of time and endure the weight of greater competition. **It serves us well to remember that no market has a divine right to investors’ capital.**”¹

Although the CMSA has issued guidelines to listed companies on good standards of corporate governance, these guidelines are not mandatory. The CMSA, in conjunction with the BOT, National Board of Accountants and Auditors (NBAA) and Institute of Corporate Governance will review and recommend the introduction of measures to improve disclosure practices and increase boardroom transparency. These measures will also include mechanisms to ensure compliance. As an Australian Parliamentary report noted: “A cursory investigation of companies involved in recent corporate failures and fraud reveal that they may have exhibited the trappings of good corporate governance, such as an audit committee, a statement of corporate governance practices in the annual report, and the existence of non-executive directors on the board....Outward compliance with good corporate governance principles is not sufficient guarantee of their effective operation”.

¹ Arthur Levitt, Former Chairman of the United States Securities and Exchange Commission.

Experience, not only in Australia but around the world, is that just laying down the standards of good corporate governance is not sufficient. It is necessary also to have in place a mechanism for monitoring for compliance with those standards.

DSE

Current Status

The small size and illiquidity of Africa's stock exchanges partly reflects low levels of economic activity, making it hard to reach a minimum efficient size or critical mass, and partly also the state of company accounts and their reliability. Several of the exchanges established in the late 1980s and 1990s were set up mainly in order to facilitate privatization, and in the hope of attracting inward investment with the modernization and technology transfer that that could convey. To the extent that their establishment was driven by outside influences—rather than emerging from a realistic need felt in the market, whether by investors or issuers—it is perhaps unsurprising that many have so far struggled to reach an effective scale and activity level. Low turnover is reflected in, and feeds back onto, a lack of liquidity as illustrated by large gaps between buy and sell orders, and high price volatility. This lack of transactions is also somewhat reinforcing, as the transaction volume does not justify investment in technology either by the exchange itself or member brokers. Limited trading discourages listing and raising money on the exchanges. Even linking different centers electronically (as for example in the Bourse Régionale des Valeurs Mobilières, or with the case of Namibia whose stock exchange is now electronically linked to the Johannesburg Stock Exchange) cannot guarantee much more trading and liquidity.²

The investor base in Tanzania is small with less than 1% of the adult population owning shares.

During the quarter ending December 2006, the equities counter traded a total of 13,497,223 shares with a value of TZS9,813 billion (USD7.6million) compared to 3,037,627 shares with a value of TZS2.29 billion (USD1.7million) traded in the previous quarter. The volume and value traded was 344% and 328% above that of the first quarter. As at 31st December 2006, the total market capitalisation of equities was TZS3,082.86billion (USD239million) as a result of the cross listing of Jubilee Holdings Ltd. This brought a 6.7% increase in the market capitalisation.

The market capitalisation of domestic companies was TZS833.82billion (USD646million), down from TZS848.95billion (USD658million) recorded at the end of September 2006. The percentage share of local companies therefore declined from 29.41% in September to 27.05% in December 2006.

During the quarter ended 31st December 2006 the Government issued and listed bonds worth approximately TZS72.04billion (USD55.8million). The total market value of Government Bonds as of 31st December 2006 reached TZS718.036billion (USD556million), compared to TZS581.892billion (USD691million) as of 30th September 2006.

² Extracts from the World Bank Report "Making Finance Work For Africa" November 2006

In December 2006, trading moved from a manual system on the floor of the DSE to an automated trading system (ATS) installed by Millennium Information Technologies of Sri Lanka with World Bank technical assistance. The system operates both trading and CDS. Initially, the system will utilise a local area network (LAN) and be restricted to the floor of the DSE. There are six broker/dealer firms on the DSE although the floor has been configured for eight trading positions.

The DSE did not achieve all that it intended to do in 2006 due largely to a lack of financial and human resources. There are only four management and seven support staff at the exchange. For the year ended 30 June 2006 DSE incurred a loss of TZS76,407,638 (USD54,969). This was after receipt of a grant of TZS223,326,316 (USD173,121) from GoT, through CMSA, to cover the DSE's running costs. Total income of the DSE for the year ended 30 June 2005 was TZS519,587,143 (USD402,780) which included TZS238,728,405 (USD185,060) from listing and transaction fees and TZS57,532,422 (USD44,598) of other income (sale of motor vehicle, membership fees, and amortization of capital grants). Maintenance of the new ATS will add a further USD93,000 to the DSE's annual running costs.

The DSE presently operates the depository, clearing and settlement system. There is no guarantee of the market although there is a Fidelity Fund to protect investors in the event of default of a Licensed Dealing Member. As at 30th June 2006, the fund stood at TZS55,574,118 (USD43,000). There have been no claims made on the fund.

Settlement is net on T+5 delivery versus payment on a trade for trade basis.

Trends and Challenges

Recent technological advances have been made which makes it easier to link the operations of securities markets, and it might be that by forming multi-country regional markets, existing exchanges could expand their volume of business and the number of market participants. The theoretical attractions are clear: larger markets are more likely to gain from the vertical and horizontal integration of services and products. Regional securities markets could provide larger economies of scale and increase firms' access to debt and equity. From an investor's perspective, regionalization would theoretically offer opportunities to diversify risk by allowing investment in a wider range of instruments and debt and equity issuers. The development of larger markets would encourage the entry of emerging market funds, which provide access to a global pool of savings for equity issuers.³

Exchanges globally are looking towards merger or linkages involving cross-border trading and listing. In Europe, the focus has been on consolidation resulting in three major players (London, Frankfurt, and Euronext). Within Europe, Euronext's policy is towards merger of exchanges whilst outside Europe it is offering its trading platform to smaller national and regional exchanges. London too has formed technical alliances with smaller exchanges. Until recently the US exchanges, other than Nasdaq, have shown little interest in extending outside the US although Archipelago's merger with the NYSE may facilitate a change of direction. However, the NYSE and other US exchanges will no doubt be mindful of Nasdaq's less than wholly successful forays into Europe and Japan.

³ Extract from the World Bank Report "Making Finance Work For Africa" November 2006

The regional financial markets and trading centres that are being established in the Gulf have links to international securities houses and international investors and they are already targeting companies in other Arab and Asian countries to list on their exchanges either by way of an IPO or dual listing of the securities. Whilst they might indeed pose a threat to some local exchanges, they will also have the effect of heightening the interest of global investors in investment generally in that part of the world. These exchanges rely on remote member access by making full use of existing technology which allows trading participants to be located anywhere in the world.

Cross border listing and cross border trading will become more prevalent in the coming years as international issuers look to raise capital in other markets and international investors seek wider investment opportunities; particularly in markets which have legislation and rules with which they are familiar. The main benefits of pursuing a cross border listing are access to a broader investor base and increased marketability of an issuer's securities. A cross-border listing can help a company target new shareholders for fresh capital. The primary objective of a cross border listing, therefore, is the financial goal of reducing the cost of equity capital for the issuer. Indeed, the evidence suggests that when foreign issuers list their shares abroad the market value of the company increases and investors perceive such companies as "less risky" so that the expected returns required by investors decreases. In addition, liquidity normally increases because of the extended trading hours, the increased potential investor base and the heightened information flow from the company.

Doidge, Karolyi and Stulz (2001) find that firms cross-listed in the US trade at an average Tobin q ratio that is a 16.5% larger than those that do not. Using information on 955 cross-listed firms and 7,725 locally listed firms from 40 countries they confirm that cross-listed firms are valued more and provide clues as to why this is so. For the sub-sample of firms that are exchange-listed (the category that requires most disclosure), the average premium increases to 36.5%.⁴

The main obstacles to cross border listing and trading are generally:

- foreign exchange and exchange control regulations;
- legislative and regulatory prohibitions or constraints.

The capital markets of Tanzania have benefited from partial exemption from foreign exchange and exchange control regulations because the BoT looks on cross-border listing on a case-by-case basis. However, further discussion with the BoT is necessary in order for the capital markets to feel the full benefits of the liberalisation of the capital account. The second obstacle is being addressed by the CMSA through the EASRA MOU on developing technical cooperation and providing mutual assistance among EASRA members. The particular focus is on harmonization of market standards and requirements and exchange of information among EASRA members.

Whilst unification or merger of the three stock exchanges in the East African Community may be a possibility, it is not being considered within the lifetime of this Strategic Plan.

⁴ A Survey of Securities Laws and Enforcement, Florencio Lopez-de-Silanes, October 2003

However, the CMSA recognises that the momentum is towards merger of exchanges worldwide and ultimately there may be political and strategic sense in looking towards a unified sub-Saharan or indeed pan-African exchange.

As stated in the previous section on products, the CMSA will be moving forward with the second tier market and in conducting studies on:

- the expenses of “going public”;
- the development of the secondary market in Government bonds;
- the development of municipal bonds;
- securitisation and securitised debt instruments;
- derivatives.

Each of these, if implemented, may result in a change in the DSE’s rules and or trading procedures.

The biggest challenge facing the DSE is to increase liquidity and the principal efforts of both the DSE and CMSA will be in achieving this, principally through, as already mentioned, promotion and education both of investors and of issuers.

The intention is that ATS will be extended nationwide with the implementation of a wide area network (WAN). However, prior to that, the CMSA will undertake a feasibility study to determine the most appropriate mechanism for extending trading to all major centres of population within Tanzania. There are a number of proven mechanisms for achieving this:

1. the establishment of branch offices of brokers. This can often be an expensive business as not only does the broker need to fund the establishment of the office but also having a resident qualified person (investment adviser) to run the office.
2. the establishment of exchange offices throughout the country. These have been highly successful in Sri Lanka with the establishment by the Colombo Stock Exchange (CSE) of Regional Branch Offices. Brokers are allowed to set up branches within the CSE Regional Branch Offices. The CSE’s branch network has been successful in attracting a significant number of retail investors into the market. Currently, around 10% of the activity on the CSE is through the Regional Branch office network.
3. the use of agents. These can either be individuals or corporate entities, such as a bank. For obvious reasons an agent can only act for one broker, must be an investment adviser, and all business must be booked in the name of the broker. Agents would be subject to inspection by CMSA.
4. the use of internet trading. Internet trading is fast becoming the most popular route for execution of retail customer business. Internet trading lowers the costs of entry and significantly enhances information disclosure. It facilitates the breaking down of traditional walls between financial services. “On-line Financial Supermarket” based on a single website has become a new model for financial service providers.

The CMSA will also undertake a separate study into internet trading and the legislative and regulatory controls and procedures necessary to ensure investor protection. The internet is a flexible medium for participants of the securities industry, due to their ability quickly to control the content of their websites. This enables brokers quickly and easily to add new functions and services. While the transient nature of information on a website provides

enormous cost savings for market participants, it poses regulatory and evidentiary issues for securities regulators. For example, evidence of false or misleading statements on a website can be quickly erased or changed creating difficulties for regulators attempting to build an investigation.

CDS

Current Status

The CDS is presently operated by the DSE.

Securities are immobilised although the CDS Bill contemplates a situation whereby securities will eventually be dematerialised.

There is no market guarantee, no value at risk (VaR) system and no stock lending and borrowing facility. Short selling is not permitted.

Trends and Challenges

Whilst dematerialisation and straight through processing have gone a long way to reduce the cost of participants' undertaking securities transactions in many securities markets, a large part of the cost is still attributed to clearing and settlement. As European markets merge and securities become traded in more than one country it seems inevitable that at some point a single depository will emerge along the lines of the US that will provide custody and settlement for all European securities and for all other securities traded by European based entities. In the much longer term it seems likely that the same will also happen in Africa and on other continents.

However, long before that, the CMSA needs to ensure that the CDS is properly equipped to control market and systemic risk. The CMSA will therefore conduct a study on the future role and positioning of the CDS. The study will examine issues of ownership, guarantee, risk management, operation and resources with the objective of presenting a strategy that will best serve the interests of the capital markets.

The study will:

- document the current and future requirements of the Tanzanian capital markets, including regional considerations;
- present a strategy that will meet those future requirements;
- assess the risks associated with the preferred strategy and recommend steps that should be taken to mitigate risk.

The study will include an assessment of the securities settlement system presently in place in Tanzania using the Assessment Methodology for "Recommendations for Securities Settlement Systems" published by IOSCO. This assessment will be repeated following the implementation of any reforms proposed as a result of the implementation of the new strategy.

Whilst the CDS successfully operates immobilisation of securities there is still the opportunity for investors to withdraw their shares from the CDS and to hold them in

certificated form. With the passage of the CDS Bill, the CDS will implement dematerialisation. Dematerialisation will be compulsory for all new companies coming to the market and progressively introduced across all existing listed securities.

Stock borrowing and lending is a standard feature of all developed markets and, as the legislation permits, is becoming increasingly prevalent in emerging markets. In order for derivative markets to achieve their full potential it is important to have market makers. Market makers, or liquidity providers as they are known by in some markets, provide the liquidity that is essential for a derivatives market. However, in order for market makers to function properly it is important that they have the ability to borrow stock to cover any short exposure to the market. The CMSA will introduce regulations governing stock borrowing and lending. Initially, this facility will only be available to market makers to cover their short exposure but as the market evolves and develops, it may be extended, under strict control, to other participants in the market.

A short settlement period reduces risk to market participants and to investors. Whilst T+3 is the standard settlement time frame recommended by the Group of Thirty for equities markets, many jurisdictions are investigating the cost benefits of moving to a shorter settlement cycle. The CMSA intends to reduce the settlement period from T+5 to at least T+3 or better.

Work is progressing at the moment for CDS to be included in the Bank of Tanzania bank payments system. This is expected to come about during 2007/08.

Market Participants

Current Status

There are six licensed broker/dealers and eleven licensed investment advisers; three of whom are also broker/dealers.

The brokers execute transactions on an agency basis. They do not take positions or warehouse transactions. There is therefore little need for large amounts of capital. The brokers are primarily execution only agents. None of the brokers offer investment research facilities.

With so few transactions, brokers find that they cannot exist solely on the commission from executing trades. The 2% agents' collection fee that brokers received for the Twiga Cement issue kept many of them going in 2006.

The dilemma facing brokers is that there is a need for them to expand both the services they offer and to expand into the regions. However, this costs money and brokers feel there is no guarantee that the outlay will result in increased financial returns.

Trends and Challenges

Brokers

Because of the low liquidity in the market, brokers are not incentivised to go out and capture new business relying instead on the business coming to them. Even if they were to actively

promote their services, are there adequate securities in which to invest? Two of the objectives of the Strategic Plan are to increase both supply and demand. However, brokers too have to play their part in this, otherwise any effort aimed at increasing market activity will be unsuccessful.

The CMSA wants to see brokers doing more than acting as execution only agencies. They should be offering a full range of services to their clients including:

- Research
- Investment advice
- Fund management
- Margin lending
- Dealing
- Corporate finance
- Underwriting

However, the existing brokers are neither equipped nor capitalised to undertake such services. Although brokers execute principal trades (i.e. they buy and sell as a principal), principal trading should not be confused with market making. The CMSA therefore wishes to see a reform of the broking industry whereby brokers will be incentivised sufficiently to reform their businesses and to actively go out and capture new clients on both the supply and demand side. The CMSA proposes to work with brokers to see how these reforms can be achieved. Strenuous efforts will be being made by CMSA over the life of the Strategic Plan to ensure the development of the capital market in Tanzania. The CMSA, in return, will expect brokers to be doing their bit to assist in this process. Every effort will be made by the CMSA to encourage brokers to actively participate in the development of the market by expanding the services they offer. This includes raising the minimum capital base of brokers progressively during the life of the plan thereby encouraging their shareholders to seek an adequate return on their investment. The CMSA will also look at other alternatives such as encouraging the banks to play a more active role in the securities market.

With this in mind, the CMSA proposes to raise the capital requirements for dealers and to require dealers actively to post bid and offer prices in listed securities in the main market. In return dealers will be given concessionary fee rates, be allowed to short-sell within agreed market limits and given access to stock borrowing and lending facilities.

In terms of ensuring that brokers are better equipped to offer a full range of services, the CMSA will be offering training to brokers and others and require that those who wish to offer increased services have the necessary qualifications and experience to do so. As a first step to ensuring that brokers and dealers have the necessary capital to undertake additional activities, the CMSA proposes to introduce risk based capital adequacy (see below).

Nominated Advisers

The CMSA will introduce a new category of licensed person called a Nominated Adviser who will act on behalf of applicants to the new second tier development and growth market. Nominated Advisers will be used to bring issuers to a listing on the new market and will remain responsible for ensuring the issuer's compliance with the continuous disclosure obligations. The CMSA will publish a regulation setting out the eligibility criteria by which

it will approve an application to become a Nominated Adviser, the application and approval process, the conditions attached to the licence and the fee payable.

The criteria will include a requirement that the applicant “have practiced corporate finance for at least three years and acted as the principal corporate finance adviser in three corporate finance transactions in that three-year period”. This will ensure that only those who have taken the lead role in corporate finance advice will qualify.

The overriding consideration is the preservation of the reputation and integrity of new second tier development and growth market and the DSE. Accordingly, the CMSA will reserve the right to decline an application as a Nominated Adviser notwithstanding that an applicant otherwise meets its minimum criteria.

Corporate Finance Advisers

The issue that the CMSA has is not with the knowledge or experience of corporate finance advisers but with the quality of the issue documents that are submitted for approval. All too often, sponsoring brokers are submitting substandard issue documents (prospectuses) despite the fact that they have the same checklist that is used by the CMSA and therefore know what to submit and the form in which it should be submitted.

In order to encourage sponsoring brokers to submit more complete and more accurate first drafts of issue documents, the Board of the CMSA has approved the introduction of a charge that will be levied on the submission of initial and subsequent drafts of prospectuses. It is hoped that this will act as a deterrent to sponsoring brokers from submitting substandard drafts. The concern is that this charge will merely be passed onto the issuer as part of the expenses of the issue. However, the intention is that the regulation bringing in this new charge will stipulate that such a charge must be borne solely by the sponsoring broker and may not be passed on.

In order to ensure high standards of corporate finance advice, the CMSA intends to make this a licensable activity and to introduce a qualifying examination. This will ensure that only those who are licensed as corporate finance advisers may give corporate finance advice.

Investment Advisers

Presently investment advisers, although licensed under the Act, are not required to sit a qualifying examination although many of the licensed investment advisers also hold a dealers representative licence which requires them to pass an examination that includes investment advice. In addition, investment advisers are presently not required to submit periodic activity or capital adequacy reports.

The CMSA believes that, in the interests of investor protection, all persons that are giving investment advice should be required to demonstrate a minimum level of knowledge and competence and be required to maintain minimum levels of financial adequacy. The CMSA proposes to undertake a complete revision of the qualification requirements and continuing obligations for all licensed persons and to introduce separate examinations, eligibility and reporting requirements for each licensable activity.

Underwriters

An underwriter (a bank or other financial institution) will guarantee to a company that it will acquire a certain number of shares in a company's new issue or rights issue, should the issue not be fully subscribed by other investors. From the company's point of view, having its new issue underwritten is a form of insurance. It means that if the issue is priced too high or the market drops prior to the issue, the company can still be sure that it will receive the money it needs from the new issue.

In return for this insurance, underwriters charge a fee (normally based on a percentage of the proceeds of the issue) which it retains whether or not the issue is successful.

Underwriting is an important component in ensuring the success of public offerings.

The CMSA will introduce a category of licensed activity called “underwriting” and will establish rules for those entities that wish to undertake underwriting activities.

Securities Institute

A high premium placed on people having a qualification to work in the securities industry; first because securities regulators insist that only those people who have a license can offer, for example, investment advice. IOSCO Principle 21 states that **Regulation should provide for minimum entry standards for market intermediaries**. The authorisation, licensing or registration of market intermediaries should set minimum standards of entry that make clear the basis for authorisation and standards that should be met on an ongoing basis. In particular, IOSCO requires that “**investment advisers that deal on behalf of customers or that are permitted to have custody of client assets should be licensed**”. Second, investors take tremendous confidence from the fact that those who are looking after their finances are qualified to do so. A market that requires the people working in it to be qualified is much more highly regarded than a market that operates with minimal qualification requirements.

In most securities markets it is the securities regulator that sets the examination although many now leave it to training institutes to carry out the training. Some jurisdictions have formed Securities Institutes. These lay down the qualification criteria and administer the examinations. They also accredit training organisations to do the training of individuals. In London, this is the role undertaken by the Securities & Investment Institute which operates a full range of exams and has links with organisations throughout the world. Hong Kong, Canada and many others also have their own securities institutes. These are however large markets where there are many thousands of people working in the securities industry. Such an institute in Dar es Salaam would be hard pressed to find much more than a hundred or two who would require a qualification.

However, an East African Securities Institute offering training to securities market practitioners in neighbouring countries could, whilst performing a highly valuable role, prove financially viable if funding could be provided for the initial setup costs. The CMSA will undertake a feasibility study into the establishment of a regional Securities Institute. This may include partnering with an existing training or education establishment to provide the expertise to establish and operate such an institute.

The securities institute will not only be responsible for running securities examinations but also for offering training courses to brokers, investment advisers, corporate advisers, fund managers etc.

Capital Adequacy

Current Status

The present capital requirements for Licensed Dealers are TZS20 million (USD15,000) and for Brokers TZS10 million (30% of which must be in liquid form). In addition, every Licensed Dealing Member of the DSE is required to put up a bank guarantee of TZS20 million and 10 million for dealers and brokers respectively.

Trends and Challenges

All developed and the majority of emerging markets have formal, continuous obligations for firms to meet capital adequacy requirements. Most jurisdictions have in recent years bolstered their capital requirements for brokers. Hong Kong, Sri Lanka, Malaysia and Thailand have all introduced new regimes. India has significantly restructured its exchange and membership environment bolstering capital requirements significantly. China is also in the process of introducing a new capital adequacy monitoring system.

Capital adequacy standards foster confidence in the financial markets by achieving an environment in which securities firms and other market intermediaries can wind down their business when they are in financial distress and still allow them to fulfill their financial obligations without harm to the investor or other intermediaries.

Minimum capital requirements also help protect the securities community as a whole by reducing the possibility of systemic risk. It is appropriate to require firms wishing to enter the industry to demonstrate a level of commitment by requiring them to meet certain minimum capital requirements. These minimum requirements should not be uniform for all firms. While substantial minimum capital requirements are necessary to enhance confidence in the financial safety of the markets, a principal effect of a minimum requirement is that it also acts as a barrier to entry, too high a requirement could adversely effect competition in the marketplace. To address this concern, differential minimum capital requirements should be based on the type of business the firm will conduct. In general, higher minimum capital requirements should be imposed on firms that hold customer funds and securities.

In keeping with the CMSA's desire to encourage brokers to offer a full range of investor services, the CMSA proposes to move to risk based capital adequacy.

A risk based approach to capital adequacy involves developing a risk profile of a firm by identifying its financial activities and the risks to which these activities expose the firm. Once the risks are identified a risk assessment methodology is employed to measure that specific risk. In the securities industry these risks are generally, market risk, credit risk, liquidity risk. There are also operational and systems risks, as well as front and back office operational risk (which includes clearing and settlement risk) and legal risk.

Through the use of additional methodology and specific parameters that indicate the level of

exposure the firm is willing to accept, capital adequacy requirements can be calculated.

The advantage of a risk based approach is that it provides firms with a level of capital appropriate to the amount of risk. Thus, the capital requirements are neither too severe, which would increase costs for the firms and affect their efficiency, nor too slack, which would enable firms to run excessive risks relative to their capital and leave the markets vulnerable to participant default.

Regulation by CMSA

Current Status

The CMSA is concerned with ensuring an appropriate regulatory environment to protect investors, enforce securities legislation, promote disclosure of important information, and sustain fair and efficient markets. It achieves this through the Capital Markets and Securities Act of 1994.

The CMSA oversees and requires the registration of key participants in the securities industry, including the DSE, brokers and investment advisers. Crucial to the CMSA's effectiveness in this area is its licensing and enforcement capability.

The CMSA requires public companies to disclose to the public meaningful financial and other information so that investors may judge for themselves if a company's securities are a sound investment. Only through the steady flow of accurate, comprehensive, and timely disclosure of information can the public make informed investment decisions.

The CMSA also importantly sees its role as that of promoting and supporting capital market development, regulating market activities to ensure that public confidence is generated and retained, and advising Government on policy matters related to securities business.

Trends and Challenges

The CMSA is faced with a number of challenges including:

- Reducing systemic risk through:
 - The introduction of risk management systems and procedures.
 - Strengthening capital adequacy requirements of market intermediaries.
 - Strengthening the role and position of CDS in the marketplace.
- Improving client protection by:
 - Educating investors about the market and about market risk.
 - Strengthening regulation and enforcement at exchange and regulator level.
 - The introduction of qualifications for market intermediaries.
 - Building regulatory capacity within CMSA.
- Development of the market by:
 - Educational and promotional activities targeting both the supply and demand side.
 - Encouraging more IPOs and the corporatization of public sector entities.
 - The introduction of new products.
 - The participation of market players in market development.

The Regulatory Structure

The trend internationally is towards single financial sector regulators encompassing banking, securities, insurance and pensions. The prime driving force for this is the globalisation and internationalisation of banks and other financial institutions that are offering multiple financial services and products. A single regulator approach is not only more economic but it also enables the regulator to look at the regulated entity in its entirety rather than looking at separate parts of it. However, banking and other financial institutions are not presently at such an advanced stage that might present opportunities for a single financial sector regulator. The CMSA, as the regulator of the securities industry and responsible for the development of the capital market, will continue to advise Government on matters concerning securities business for the purpose of creating the required enabling environment.

The trend also amongst securities regulators worldwide is towards either full time regulatory boards or the delegation of powers by part time boards to full time regulatory staff. This is due to a number of factors including:

- The complexity of regulation
- The need for highly qualified full time executives
- Increased demand for speed of decision taking
- The avoidance of conflict of interest
- Good standards of corporate governance
- The demands on the time of part time directors of boards
- The need for independence from Government intervention (a requirement of IOSCO)

Principle 2 of IOSCO's Principles of Securities Regulation states that "*The regulator should be operationally independent and accountable in the exercise of its powers and functions. Independence and accountability are inter-related. Independence means the ability to undertake regulatory measures and to take and enforce decisions without external (political or commercial) interference. Accountability means that, in the use of its powers and resources, the regulator should be subject to appropriate scrutiny and review.*"

The term "interference" means a formal or informal level and method of contact that affects day-to-day decision making and is unsusceptible to review or scrutiny. What IOSCO is NOT saying is that Government should not be represented on the Board of CMSA. Only that Government should not seek to influence or "interfere" in the lawful operations of the CMSA by, for example, overturning a decision of the CMSA with regard to the discipline of an individual or an institution. The CMSA believes that Government representation on the Board is beneficial to the development of the capital markets at this time. However, the Board is not only cognisant of the need to ensure that it operates under the principles of good corporate governance but that the CMSA operates in an as efficient a manner as possible.

As an example, presently, all listing applications have to be considered by the Listing Committee. Whilst this currently does delay the listing process, the CMSA envisages a time when the number of listing applications will be significantly greater than at present. This will

put considerable strain on the Listing Committee and the listing process. For this reason, the CMSA is recommending that greater power be devolved to the Executive. This would enable the Executive to, for example, approve a listing where the applicant had complied with all the listing criteria. In instances where the applicant cannot fully comply with the listing criteria or where the Board calls for a review itself, the application would be referred to the Listing Committee for approval. The Listing Committee would still be responsible for modification to the listing rules and for ensuring that the decisions of the Executive, with regard to the approval of listing applications, are taken in accordance with the rules.

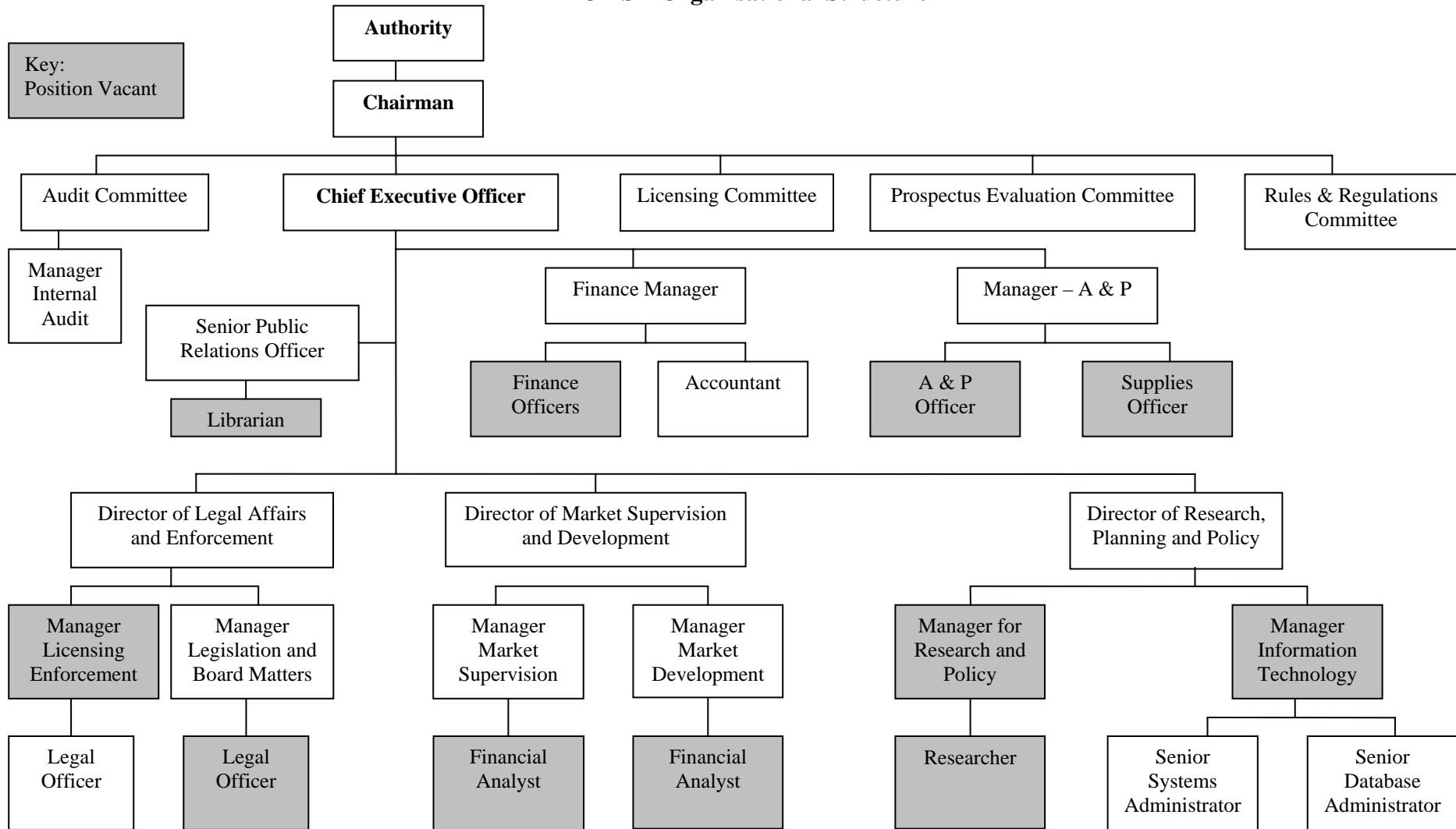
To be effective, the proposed change will require to be enshrined in the law. The Board resolved to consider this proposal for ratification in its subsequent meetings.

The independence of the regulator concerns independence from inappropriate commercial pressures as well as independence from Government. The CMSA must be seen to be neutral and unbiased in the exercise of its responsibilities and powers. This means that administrative and disciplinary decisions should not be influenced by powerful individuals or firms in the securities industry or by major listed companies, for example. While consultation and lobbying based on commercial interests is a standard feature of regulatory structures, the CMSA must maintain its independence from commercial pressures and avoid giving special treatment to any person that it has jurisdiction over. Accountability also extends to market participants and other persons affected by the regulator's decisions and activities. The CMSA must be transparent in its operations; for example any decisions or actions that affect market participants or regulated firms should be made public. The CMSA will continue to consult with market participants and the public on matters of policy, particularly proposed regulations. Also, it is important to communicate the CMSA's plans, initiatives and performance to its stakeholders, for example by publishing the annual report and obtaining industry buy-in to the Strategic Plan.

The CMSA believes that present regulatory structure has served the market well over the past eleven years. However, now is the time to undertake a review of that structure to ensure that it meets the demands of a modern securities market and in particular that it addresses the issues highlighted above. That review will consider the structure of the board, appointment to the board, duties and responsibilities of the Board, committees, executive power and responsibilities, and the organisational structure of the CMSA.

The following is the present organisational structure of the CMSA:

CMSA Organisational Structure



The staff compliment is presently twenty-five of which ten are administrative staff (drivers, receptionist, secretaries, etc.)

Following the introduction of the new Management Database, it is proposed that Information Technology should be transferred to the area of Market Supervision to provide more direct support to this important function.

Market Development is primarily concerned with three functions.

1. Training and education;
2. Approval of new issues; and
3. Introduction of new products.

These are functions that fit more comfortably with Research, Policy and Planning than with Market Supervision. Therefore it is proposed that Market Development should be re-located in this area.

During the period covered by this Plan, the number of professional staff is expected to rise from 15 to 25 in line with the growth in the market. This increase in numbers is reflected in the Financial Plan.

Strengthening Regulatory Capacity

In order for the CMSA to fulfil its regulatory function, it must have in place adequately qualified and trained professionals experienced in the regulation of securities markets. It must also keep abreast of changes in how markets are regulated and supervised. This can only be achieved by a continual process of education and training. Ensuring that markets are adequately supervised raises investor confidence and adds to market use and therefore liquidity.

The approach that the CMSA will adopt is to empower and equip the DSE as the front line supervisory body responsible for ensuring compliance with its rules and maintaining a high quality of market. This will be achieved through the introduction of surveillance monitoring procedures and systems at exchange level. The CMSA will regulate the DSE to ensure that it carries out its regulatory responsibilities. The CMSA will identify with DSE the split of regulatory responsibility to ensure there is no regulatory overlap or gaps in regulation.

The CMSA will implement its own regulatory monitoring systems and procedures aimed at providing improved supervision over the capital markets.

Co-operation with other Regulators

The CMSA is presently undergoing an assessment of its compliance with the IOSCO Objectives and Principles of Securities Regulation. This assessment is not an end in itself but rather a tool for identifying potential gaps, inconsistencies, weaknesses, and areas where further powers or authorities may be necessary, and as a basis for framing priorities for enhancements or reforms to existing law, rules and procedures. The ultimate objective of the assessment is the signing by CMSA of the IOSCO Multilateral MoU. Further MoUs will also be entered into with the Bank of Tanzania and the Insurance Commission for the sharing of information.

The assessment has also highlighted the need amend the Capital Markets and Securities Act of 1994 in order to correct observed deficiencies, enable new investment products, and ensure that the Act fully meets the needs of present and future regulatory requirements. The opportunity will also be taken during the period of the Plan to enact the CDS Bill.

Technology

Technology will allow new segments of the securities industry, such as Alternative Trading Systems, to grow significantly. These electronic markets are employing technology to challenge traditional exchanges, using computers rather than humans to match buyers and sellers. Technological advances also are creating new market efficiencies. For example, computer and communications advancements and the drive to reduce risk are moving the industry toward straight-through processing, eliminating any delay in the settlement of transactions. A rapidly expanding web of connections among customers, brokers, and markets has brought diverse participants together, challenging existing institutions. This mix of technology, innovation, and competitive pressure will help to reduce costs borne by investors.

However, these advances also bring many challenges. The Internet, while a great resource for investors and the securities industry, presents new opportunities for fraud and abuse. Moreover, the reliance upon complex financial instruments and computer programs to manage risk makes it all the more important that investors and market participants understand the threats these tools may pose to the underlying safety of the markets. In an increasingly automated environment, there is a corresponding need to address the linkages between markets. For example, while these linkages may improve market transparency and reduce investor trading costs, they also have significant implications for how markets compete. Also, brokers must be able to monitor these linkages sufficiently to record and retrieve the history of electronic transactions.

Technology is also driving significant changes within the CMSA, as resources are increasingly being directed toward the application of new technologies to gather and analyse data. Intelligence gathering and data analysis are critical components of the CMSA's ability proactively to identify issues affecting the markets, assess risks, conduct enforcement investigations, and target disclosure review and inspection activities to those activities that pose the greatest risk to the safety of the markets.

The internet is a flexible medium for members of the securities industry in that new functions and services can be easily added. While the transient nature of information on a website provides enormous cost savings for market participants, it poses regulatory and evidentiary issues for securities regulators. For example, evidence of false or misleading statements on a website can be quickly erased or changed creating difficulties for regulators attempting to build an investigation. Regulators have expressed concern that certain aggressive advertising by broker-dealers could lead investors to have unrealistic expectations about the risks and rewards of investing. Guidelines are issued in most jurisdictions that firms should ensure their advertising is balanced, describing the risks as well as the potential rewards of trading and investing.

With online trading comes the increased popularity of day trading which can pose unique investor protection concerns. Individuals engaging in day trading activities often trade their

accounts aggressively. However, the ability to engage effectively in day trading requires not only sufficient capital but also a sophisticated understanding of securities markets and trading techniques. Such investors should be aware that the risk of loss of capital can be very high.

When the day trading trend emerged, the US Securities & Exchange Commission (SEC) started receiving increasing customer complaints about margin calls, often from customers who believed that their broker should not have liquidated their margin accounts without providing an opportunity for the customer to provide additional funds. Many customers have stated that they do not understand some of the essential terms of their margin accounts.

CMSA will watch carefully the development of the internet in securities services in Tanzania and be prepared to issue guidelines and/or regulations should circumstances warrant it.

The CMSA has developed its website to offer both information and advice to potential investors about investing in securities. The website includes a facility for investors to submit on-line complaints about services they are receiving from regulated persons.

Initial Public Offerings

Recent Initial Public Offerings (IPOs) have been marred by the number of multiple applications that have been received. Multiple applications arise because of the desire for wider-share-ownership and the practice of scaling back large applications where the IPO is heavily oversubscribed. The practice of making multiple applications has existed for many years but really only came to the fore in the UK in the 1970s with the privatisation of state assets. Most countries suffer from the practice of multiple applications and many have developed sophisticated means of preventing it. It is the responsibility of the receiving bank to weed out multiple applications but generally the securities regulator is present to offer support and advice where appropriate. The use of post codes and national identification numbers greatly aides the process of identification but these tools are not available here in Tanzania. It is therefore down to the skill and judgement of the staff of the receiving bank and the CMSA to identify and deal with suspected cases of multiple applications.

Until now CMSA has adopted the practice of grouping together suspected instances of multiple applications and this has been done with some degree of success. However, grouping together is not regarded as a sufficient deterrent to stop the practice of multiple applications as the applicant is still guaranteed some success should he be caught. The more successful deterrent implemented by many securities markets around the world is rejection of multiple applications. In this case, the applicant receives no shares and it causes applicants to think seriously about whether or not to take the risk in the first place. The CMSA proposes therefore to add a warning to all future prospectuses and application forms that all multiple applications will be rejected.

Complaints were received following a recent IPO that monies from oversubscriptions had not been returned timeously. The CMSA will consult with the industry and introduce new rules governing the initial public offering process including the maximum time that an offer can be open, the maximum time between the closure of the offer and commencement of trading, and the maximum time for the return of oversubscriptions.

Regulatory Costs

The CMSA is consciously aware of the need to ensure that the cost of regulation is proportionate to the benefits that are achieved. The Tanzanian capital market is a developing or emerging market and as a result some of the more stringent forms of market regulation that exist in developed markets are inappropriate for Tanzania at this time. “For the present, most organized African securities markets are largely primary markets with relatively little secondary activity. Perhaps an over-elaborate model of regulation has been adopted for these markets (the modernist model over-reaching itself), effectively precluding small issuers, yet failing to achieve substantial liquidity for larger issuers” “it may be that too much emphasis has been placed in recent years on building costly regulatory regimes designed to ensure a high level of protection for the retail customer in the secondary market. This represents a substantial upfront investment, partly in systems and infrastructure but mostly in processes, legislation, regulation and supervision. While the technology costs of a basic trading platform have fallen, the more substantial costs and administrative challenge of establishing a conducive operating environment for an exchange have, if anything, increased. These fixed costs make sense in a market with heavy volumes, but are not so easy to justify for a start up market. They lead to high costs which in turn limit volumes even further. Compliance costs are also potentially high.⁵”

The World Bank, in its recent publication “Making Finance Work for Africa” advocates a lighter touch approach to legislation and regulation of emerging African securities markets. The CMSA has already identified this need and has reacted positively through the proposed establishment of the second tier market for smaller companies. In addition, the CMSA will introduce procedures to ensure that, in everything that it does, it will look at the cost implications of its actions to ensure that cost of regulation is not unduly burdensome.

The Role of Government

Government’s role in the development of the capital markets is indeed a crucial one. The establishment of the CMSA was part of a comprehensive financial sector reform programme initiated by the Government of Tanzania in the early 1990s, which aimed to develop the capital markets by providing appropriate mechanisms to support effective savings mobilisation and the channelling of accumulated funds towards the growth of the securities market. Subsequently, the Government has contributed substantial amounts in financial support to the running of the CMSA and DSE.

Governments generally do not take an active role in the securities market and indeed the IOSCO Principles of Securities Regulation discourage Governments from influencing or interfering in the regulation of securities markets.

However, there are methods and policies by which the Government's actions may have an indirect influence on the market.

Fiscal policies that affect the taxation of capital gains, dividends and interest gains may eventually have an effect on market activity. For example, favourable policies such as tax cuts could persuade investors to become more active in buying and selling securities, while

⁵ Extracts from “Making Finance Work for Africa” – Published by the World Bank, November 2006.

unfavourable policies might cause individuals to move to fixed-income securities or alternative investments such as real estate and other appreciable assets.

Furthermore, through monetary policies, Government can indirectly involve itself in the market by adjusting interest rates and taking part in open-market operations. In theory, cutting rates will discourage investors and companies from putting their money into fixed-income investments - the lower rates instead may encourage borrowing for investment purposes.

The continued financial support of the Government will remain crucial to the well being of the capital markets and whilst it is the objective of the CMSA to reduce the amount of Government subvention over the coming five years, it will not be possible to eliminate Government funding entirely.

However, Government can also help in other ways by, for example, the sale of further Government holdings in parastatals through the DSE and by promoting a share-ownership and savings culture through direct investment in securities, indirect investment through collective investment schemes and by encouraging employee share participation schemes. Employee ownership and participation serves several functions – it ties in key human assets; it links individual and company performance and reward and it thus engenders entrepreneurial attitudes. Government can greatly assist by encouraging a dynamic entrepreneurial economy and devising tax breaks for such schemes.

PART 4 – Strategic Initiatives

Strategy and Objectives

Strategy	Objective	Target
An IPO environment that is both attractive to investors and is disclosure based	Working with PSRC to make the market more accessible to investors outside Dar es Salaam	10% of volume to come from investors outside Dar es Salaam by 2011/12
	Increasing the number and use of collective investment schemes	10 collective investment schemes by 2011/12
	New Capital Issue Rules governing the offering of securities that attract companies to raise capital	by Q3 2007/8
	Increased listings from non Privatisation sources	16 new equity listings by 2011/12
Reduce the costs of going public	The establishment of a second tier market for growth and development companies	two companies in the first year reaching a total of 16 by 2011/12
	Attracting one or more credit rating agency	by 2009/10
Increased stakeholder participation in the development of the market	The introduction of a Market Development Fund	by 2007/8
	The introduction of Nominated Advisers	by Q3 2007/8
	Allow the introduction of new entrants into the market	three banks as participants by 2009/10
The development of a share-ownership culture	Long term educational programmes aimed improving investor awareness and encouraging participation in the securities market	increase number of investors by a factor of ten by 2011/12
	The introduction of capital markets into the school curriculum	by 2008/9
Improved standards and enforcement of good corporate governance	Strengthen guidelines on Corporate Governance	by 2010/11

Strategy	Objective	Target
Provision of a regulatory environment that supports the development of innovative and appropriate products for investors	New Rules that encourage a variety of existing and new types of products to list on exchange	by Q4 2007/8
	Creating a retail market in government, corporate and municipal bonds	16 new corporate bonds and 8 municipal bonds by 2011/12
	Introducing securitised debt instruments	first securitised debt product by 2009/10
	Enabling the environment for derivate products	one or more exchange traded derivative product by 2011/12
A vibrant market for the issuance and trading of securities	Increased liquidity in existing products	turnover increased by a factor of ten by 2011/12
	The launch of a second tier market for growth and development companies	by Q3 2007/8
	The extension of trading on the DSE to all major centres of population in Tanzania	all major centres of population to have direct access to DSE by 2008/9
	Market making in main market securities	by 2009/10
Rules and systems in place that will support the development of the market	The introduction of new products to support the development of the market	four new product types by 2011/12
	The introduction of new listing rules to support the development of the market	by Q4 2007/8
	The introduction of rules governing custodians	by Q4 2007/8
	The introduction of rules governing venture capital funds	by Q4 2007/8
	The introduction of rules governing Fund Managers	by Q4 2007/8
Strengthened supervision of the capital markets	The implementation of surveillance monitoring systems at exchange level	by Q3 2007/8
	Implement new procedures for monitoring and enforcement of the market	by 2009/10

Strategy	Objective	Target
Co-operation with other exchanges in the region and harmonisation of rules where appropriate	The establishment of an East African Securities Institute in Dar es Salaam	by 2008/9
	Enter into MoUs with Bank of Tanzania and the Insurance Commission	by Q3 2007/8
	Signing of IOSCO MMoU	by 2008/9
	Initiation of regional initiatives on co-operation	ongoing
A CDS that is fully equipped to control market and systemic risk	Inclusion of CDS in the bank payment system	by Q2 2007/8
	Clearing and settlement processes meeting IOSCO principles and standards	by Q4 2007/8
	Reduction in the settlement period from T+5 to T+3 or better	by Q4 2007/8
	The introduction of appropriate stock borrowing and securities lending rules	by 2009/10
Brokers to develop as full service companies	Encourage banks to act as direct participants in the market	three banks as participants by 2009/10
	Introduce appropriate levels of capital adequacy requirements	new capital adequacy rules by Q3 2007/8
	Enhancing and developing the role of corporate finance advisers	new rules and qualifications by 2008/9
	Increasing the qualification requirements of investment advisers	introduction by Q4 2007/8
	Appropriate staff of licensed entities to be registered with the CMSA and be required to pass a qualification examination	full implementation by 2008/9
Have in place capital adequacy requirements that will ensure investor protection and control systemic risk	Implement new risk based capital adequacy rules	by 2009/10
	Have in place adequately capitalised intermediaries making monthly returns, properly completed and monitored by the CMSA for completeness and accuracy	by 2009/10
	Put in place systems which ensure that corrective action is undertaken in a timely manner	by 2009/10

Strategy	Objective	Target
CMSA to continue to advise Government on the regulation of the securities market	Amend the Capital Markets and Securities Act of 1994	by Q4 2007/8
	Pass the CDS Bill	by Q3 2007/8
Introduce systems procedures and requirements to reduce systemic risk	Strengthen the qualifications and capital requirements of market intermediaries	full implementation by 2008/9
Ensure Tanzania has the most appropriate regulatory structure to ensure investor protection and facilitate the most efficient operation of the capital market	Review and make changes to the regulatory structure of the CMSA	by Q4 2007/8
	Strengthen the organisational structure and enforcement capabilities and capacity of the CMSA	by Q4 2007/8
	Enter into Memorandum of Understanding with domestic and foreign regulators	Have in place MoUs with domestic regulators by Q3 2007/8 and appropriate foreign regulators as the needs arise
	Introduce rules relating to the use of the internet for securities business	by 2010/11 or before if required
Ensure appropriate levels of disclosure by issuers of securities	Improve the procedures for IPOs	by Q3 2007/8
Reduce the cost of regulation	Bring about the continued development of the market through the introduction of new products	four new product types by 2011/12
	Further expand the market through education and awareness programmes	increase number of investors by a factor of ten by 2011/12

PART 5 – Action Plan	2007				2008	2009	20010	2011
	/8				/9	/10	/11	/12
Products	Q1	Q2	Q3	Q4				
Prepare rules for second tier market	✓							
Promote second tier market		✓						
Launch second tier market			✓					
Undertake study on the expenses of going public		✓						
Review issuance and listing rules			✓					
Implement new issuance and listing rules				✓				
Encourage stakeholder participation in market development			✓					
Introduce Market Development Fund					✓			
Run market awareness programmes	✓	✓	✓	✓	✓	✓	✓	✓
Introduce an investment competition				✓				
Introduce an Investment Game					✓			
Introduce Capital Markets into the school curriculum					✓			
Support PSRC in making the market more accessible	✓	✓	✓	✓	✓	✓	✓	✓
Undertake study on collective investment schemes			✓					
Have five CIS in operation							✓	
Establish retail market in Government bonds					✓			
Promote corporate bond market		✓	✓	✓	✓	✓	✓	✓
Prepare report on the development of municipal bonds			✓					
Introduce market in municipal bonds					✓			
Prepare rules for licensing of credit rating agencies	✓							
Attract one or more credit rating agency					✓			
Undertake study on securitised products					✓			
Pass Securitisation Law						✓		
Conduct study of derivative products						✓		
Introduce one or more derivative products								✓
Undertake review of Corporate Governance					✓			

Strengthen guidelines on Corporate Governance							✓	
	2007 /8				2008 /9	2009 /10	2010 /11	2011 /12
<i>DSE</i>	Q1	Q2	Q3	Q4				
Launch second tier market			✓					
Introduce new listing rules				✓				
Introduce market making in main market securities					✓	✓		
Implement surveillance monitoring at exchange level			✓					
All major centres of population to have direct access					✓			
Launch municipal bond market					✓			
Launch market in securitised products							✓	
Launch market in derivative products								✓
<i>CDS</i>								
Inclusion of CDS in the bank payment system		✓						
Reduce settlement period to T+3				✓				
Conduct study of CDS compliance with IOSCO		✓						
Ensure CDS compliance with IOSCO principles and standards				✓				
Introduce stock borrowing and lending						✓		
<i>Market Participants</i>								
Discuss risk based capital adequacy with the market		✓						
Introduce new risk based capital adequacy rules				✓				
Introduction of Nominated Advisers for second tier market			✓					
Initiate project to establish East African Securities Institute	✓							
Establish East African Securities Institute					✓			
Introduce new rules and qualifications for investment advisers				✓				
Introduce new rules and qualifications for corporate finance advisers					✓			
All staff of intermediaries appropriately licensed					✓			
Banks to be direct participants in the market						✓		
<i>Capital Adequacy</i>								
Implement new risk based capital adequacy rules						✓		

Implement new procedures for monitoring						✓		
Implement new enforcement procedures						✓		
	2007 /8				2008 /9	2009 /10	20010 /11	2011 /12
Regulation by CMSA	Q1	Q2	Q3	Q4				
Review of regulatory structure		✓						
Implement recommendations for regulatory structure				✓				
Strengthen CMSA organisational structure				✓				
Amend Capital Markets and Securities Act				✓				
Introduce rules governing custodians				✓				
Introduce rules governing fund managers				✓				
Introduce rules governing venture capital funds				✓				
Pass CDS Bill			✓					
Sign MoUs with Central Bank and Insurance Commission			✓					
Strengthen qualifications and capital requirements of market intermediaries					✓			
Facilitate entry of new market participants						✓		
Facilitate launch of municipal bond market					✓			
Facilitate launch of market in securitised products						✓		
Facilitate launch of market in derivative products								✓
Introduce rules on the use of the internet							✓	
Introduce new procedures for IPOs			✓					

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q1	Q2	Q3	Q4				
1.000	Legal Affairs and Enforcement								
1.010	Prepare rules for second tier market	✓							
1.020	Prepare rules for licensing of credit rating agencies	✓							
1.030	Pass Securitisation Law						✓		
1.040	Introduce new listing rules				✓				
1.050	Introduce rules governing custodians				✓				
1.060	Introduce rules governing fund managers				✓				
1.070	Introduce rules governing venture capital funds				✓				
1.080	Introduce new risk based capital adequacy rules				✓				
1.090	Introduce new rules and qualifications for investment advisers				✓				
1.100	Introduce new rules and qualifications for corporate finance advisers					✓			
1.110	All staff of intermediaries appropriately licensed					✓			
1.120	Sign MoUs with Central Bank and Insurance Commission			✓					
1.130	Establish compliance with the 27 IOSCO Core principles	✓	✓	✓	✓				
1.140	Draft amendments to CMS Act / draft new CMS Act	✓	✓	✓	✓				
1.150	Submission of the amended CMS Act to the Minister				✓				
1.160	Sign MoUs with Central Bank and Insurance Commission			✓					
1.170	Follow-up on passing of the CDS Bill	✓	✓						
1.180	Prepare rules for second market segment	✓							
1.190	Review issuance and listing rules		✓						
1.200	Implement new issuance and listing rules			✓					
1.210	Issuing of licensing requirements of new market participants			✓					
1.220	Introduce new rules and qualifications for investment advisers				✓				
1.230	To evaluate and make recommendations on licensing or renewal of licences for the market players as and when applications are received	✓	✓	✓	✓	✓	✓	✓	✓

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q1	Q2	Q3	Q4				
1.240	To provide legal service to the Authority in terms of legal opinions, advice, making court appearances on behalf of the CMSA	✓	✓	✓	✓	✓	✓	✓	✓
1.250	To follow up implementation of recommendations/directives made by the Authority and its Committees	✓	✓	✓	✓	✓	✓	✓	✓
1.260	Introduce rules on the use of the internet							✓	
1.270	Conduct study of CDS compliance with IOSCO		✓						
1.280	Review of regulatory structure		✓						
1.290	Amend Capital Markets and Securities Act				✓				
1.300	Pass CDS Bill			✓					
1.310	Authorise CIS formation	✓	✓	✓	✓	✓	✓	✓	✓
2.000	Market Supervision								
2.010	Review issuance and listing rules			✓					
2.020	Implement new issuance and listing rules				✓	✓	✓	✓	✓
2.030	Implement new risk based capital adequacy rules						✓	✓	✓
2.040	Implement new procedures for monitoring						✓	✓	✓
2.050	Implement new enforcement procedures						✓	✓	✓
2.060	Conduct On-site inspection of Licensees and Issuers	✓	✓	✓	✓	✓	✓	✓	✓
2.070	Conduct Off-site reviews for Licensees and Issuers	✓	✓	✓	✓	✓	✓	✓	✓
2.080	Prepare Monthly market reports for Management	✓	✓	✓	✓	✓	✓	✓	✓
2.090	Prepare quarterly market reports for the Authority	✓	✓	✓	✓	✓	✓	✓	✓
2.100	Screen media for possible breaches of the law	✓	✓	✓	✓	✓	✓	✓	✓
2.110	Monitor public companies' compliance with disclosure and corporate governance guidelines	✓	✓	✓	✓	✓	✓	✓	✓
2.120	Undertake daily surveillance of the trading system at DSE using the Market Watch System	✓	✓	✓	✓	✓	✓	✓	✓

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q1	Q2	Q3	Q4				
3.000	Market Development								
3.010	Promote second tier market		✓			✓	✓		
3.020	Launch second tier market			✓					
3.030	Encourage stakeholder participation in market development								
3.031	Develop strategy			✓					
3.032	Implement the strategy				✓	✓	✓	✓	✓
3.040	Introduce Market Development Fund			✓					
3.050	Run market awareness programmes:								
3.051	To air television programmes on different capital markets educational messages	✓	✓	✓	✓	✓	✓	✓	✓
3.052	To air Radio programmes on different capital markets educational messages	✓	✓	✓	✓	✓	✓	✓	✓
3.053	To distribute public education reading materials on different capital markets educational messages	✓	✓	✓	✓	✓	✓	✓	✓
3.054	To prepare table and wall calendars with capital markets educational messages		✓			✓	✓	✓	✓
3.055	Policy makers of the Ministry of Finance and, President’s office Planning and Privatisation		✓						
3.056	A workshop to the Public Companies on Disclosure and Corporate Governance			✓					
3.057	Conducting sensitization visits to municipal councils			✓	✓	✓	✓	✓	✓
3.058	Conducting a workshop for companies with potential for listing under new market segment		✓						
3.059	Conducting a workshop for intermediaries on listing process at the new market segment		✓						
3.060	Conducting a workshop for nominated advisors on their roles and expectations regarding the new market segment		✓	✓					

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q 1	Q 2	Q 3	Q 4				
3.061	Various educational activities on promotion of retail market in Government bonds	✓	✓	✓	✓	✓	✓	✓	✓
3.062	Various educational activities on promotion of corporate bond market		✓	✓	✓	✓	✓	✓	✓
3.070	Introduce an investment competition				✓	✓	✓	✓	✓
3.080	Introduce an Investment Game					✓	✓	✓	✓
3.090	Introduce Capital Markets into the school curriculum					✓	✓		
3.100	Support PSRC in making the market more accessible	✓	✓	✓	✓	✓	✓	✓	✓
3.110	Have five CIS in operation							✓	
3.120	Establish retail market in Government bonds					✓			
3.130	To evaluate and facilitate approval of prospectus or information memorandum for:								
3.131	i) Equity securities on main market segment	✓	✓	✓	✓	✓	✓	✓	✓
3.132	ii) Equity securities on alternative market segment	✓	✓	✓	✓	✓	✓	✓	✓
3.133	iii) Corporate bonds;	✓	✓	✓	✓	✓	✓	✓	✓
3.134	iv) Collective investment schemes;	✓	✓	✓	✓	✓	✓	✓	✓
3.135	v) Treasury bonds; and	✓	✓	✓	✓	✓	✓	✓	✓
3.136	vi) Cross-listed securities.	✓	✓	✓	✓	✓	✓	✓	✓
3.140	Introduce market in municipal bonds					✓			
3.150	Attract credit rating agency					✓	✓	✓	✓
3.160	Introduce derivative products								✓
3.170	Implement surveillance monitoring at exchange level			✓					
3.180	All major centres of population to have direct access					✓	✓		
3.190	Launch municipal bond market					✓			
3.200	Launch market in securitised products						✓		
3.210	Launch market in derivative products								✓
3.220	Introduce stock borrowing and lending						✓		
3.230	Introduction of Nominated Advisers for second tier market			✓					

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q 1	Q 2	Q 3	Q 4				
3.240	Banks to be direct participants in the market						✓		
3.250	Implement recommendations for regulatory structure				✓				
3.260	Strengthen qualifications and capital requirements of market intermediaries					✓			
3.270	Facilitate entry of new market participants						✓		
3.280	Facilitate launch of municipal bond market					✓			
3.290	Facilitate launch of market in securitised products						✓		
3.300	Facilitate launch of market in derivative products								✓
3.310	Introduce new procedures for IPOs			✓					
3.320	Launch second tier market			✓					
3.330	Inclusion of CDS in the bank payment system		✓						
3.340	Reduce settlement period to T+3				✓				
3.350	Establish risk based capital adequacy for market intermediaries								
3.351	i) Workshop on the new approach		✓						
3.352	ii) Review regulations on capital adequacy			✓					
3.360	Promote adherence to the Corporate Governance guidelines by way of a seminar		✓						
4.000	Regional and International Cooperation								
4.010	Establish East African Securities Institute					✓			
4.020	EASRA	✓	✓	✓	✓	✓	✓	✓	✓
4.030	CISNA	✓	✓	✓	✓	✓	✓	✓	✓
4.040	Capital Market Development Committee of the EAC (CMDC- EAC)		✓		✓	✓	✓	✓	✓
4.050	PRE and POST Budget meetings of EAC			✓		✓	✓	✓	✓
4.060	IOSCO	✓	✓	✓	✓	✓	✓	✓	✓
4.070	Eastern and Southern Africa Anti- Money Laundering Group (ESAMLG)	✓		✓		✓	✓	✓	✓
5.000	Policy Research								

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q 1	Q 2	Q 3	Q 4				
5.010	Participate in a study on the cost of going public		✓	✓					
5.020	Coordinate a study on conditions for increased participation by the collective investment schemes			✓	✓				
5.030	Undertake study on securitised products					✓			
5.040	Conduct study of derivative products						✓		
5.050	Undertake review of Corporate Governance					✓			
5.060	Coordinate a study on the development of municipal bonds	✓							
5.070	Coordinate a study on development of investment banking, underwriters and corporate bonds guarantors	✓	✓						
5.080	Compile data and information on the market and economy for use in formulation of policies, and decision proposals.	✓	✓	✓	✓	✓	✓	✓	✓
5.090	Publish annual report			✓		✓	✓	✓	✓
5.100	Supporting finalisation of a study on development of market for debt securities by BoT / IMF.	✓							
5.110	Coordinate stocking of the library with requisite reference materials.	✓	✓	✓	✓	✓	✓	✓	✓
5.120	Conduct study of market making in main market securities					✓			
6.000	Planning								
6.010	Strengthen CMSA organisational structure				✓				
6.020	Support CMSA projects under the second generation financial sector reform programmes.	✓	✓	✓	✓	✓	✓	✓	✓
6.030	Support other sectors' projects under the second generation financial sector reform programmes.	✓	✓	✓	✓	✓	✓	✓	✓
6.040	Coordinate preparation of the annual corporate work plan.		✓	✓		✓	✓	✓	✓
6.050	Continuous review of the corporate 5 year business plan.	✓	✓	✓	✓	✓	✓	✓	✓

PART 6 – Departmental Action Plan		2007/8				2008/9	2009/10	2010/11	2011/12
		Q 1	Q 2	Q 3	Q 4				
7.000	Management Information System								
7.010	Ensure smooth running of the intranet	✓	✓	✓	✓	✓	✓	✓	✓
7.020	Ensure smooth running of the Wide Area Network with DSE.	✓	✓	✓	✓	✓	✓	✓	✓
7.030	Ensure smooth operation of the market watch system	✓	✓	✓	✓	✓	✓	✓	✓
7.040	Ensure adequate support on systems administration	✓	✓	✓	✓	✓	✓	✓	✓
7.050	Ensure adequate support on data base administration	✓	✓	✓	✓	✓	✓	✓	✓
7.060	Review of MIS policy		✓	✓	✓				
7.070	Ensure continuous support service for all IT users	✓	✓	✓	✓	✓	✓	✓	✓
7.080	Update CMSA website	✓	✓	✓	✓	✓	✓	✓	✓
7.090	Administer the intranet service agreement with vendors	✓	✓	✓	✓	✓	✓	✓	✓
7.100	Administer the website service agreement with vendors	✓	✓	✓	✓	✓	✓	✓	✓
8.000	Personnel and Administration								
8.010	To facilitate recruitment of required staff.	✓				✓	✓	✓	✓
8.020	To coordinate implementation of Staff Regulations, Code of Conduct, Scheme of Service, and Performance Appraisal Scheme In New Employment and Labour Relations Act no. 7, 2004.	✓	✓	✓	✓	✓	✓	✓	✓
8.030	To supervise the established medical services provision systems to CMSA Staff.	✓	✓	✓	✓	✓	✓	✓	✓
8.040	To strengthen and supervise well keeping of hard copy records ensuring reliable retrieval of required information.	✓	✓	✓	✓	✓	✓	✓	✓
8.050	To carry out Performance Appraisal to CMSA Staff.		✓		✓	✓	✓	✓	✓
8.060	To provide secretarial services to the CMSA Tender Board	✓	✓	✓	✓	✓	✓	✓	✓
8.070	Coordinate the CMSA office building project	✓	✓	✓	✓	✓	✓	✓	✓
	Skills And Knowledge Development Programmes.								
8.080	Chairman of the Authority and CEO will attend IOSCO Conference		✓	✓		✓	✓	✓	✓
8.090	Seminars/ Workshops	✓				✓	✓	✓	✓

PART 6 – Departmental Action Plan		2007/8				2008/ 9	2009/ 10	2010 /11	2011/ 12
		Q 1	Q 2	Q 3	Q 4				
8.100	Attachment on areas of different market development challenges		✓			✓	✓	✓	✓
8.110	Training of staff		✓		✓	✓	✓	✓	✓
9.000	Finance								
9.010	Prepare monthly financial reports for management by 15 th of the following month.	✓	✓	✓	✓	✓	✓	✓	✓
9.020	Prepare quarterly financial reports for Authority by 15 th of the following month.	✓	✓	✓	✓	✓	✓	✓	✓
9.030	Prepare the annual financial statements for the fiscal year	✓				✓	✓	✓	✓
9.040	Support the audit exercise of the annual financial statements for the fiscal year	✓				✓	✓	✓	✓
9.050	Publish the audited annual financial statements 2006/07 with the annual report.		✓			✓	✓	✓	✓
9.060	Prepare the annual financial report for Finance and Economic Committee of the Parliament.	✓				✓	✓	✓	✓
9.070	Coordinate preparation of the budget for the fiscal year		✓	✓		✓	✓	✓	✓

PART 7 – Performance Monitoring

	Monitoring Plan	Benchmarks
Products	Regular reporting against plan Monitoring success of education and marketing initiatives	Increased listings
		Introduction of new rules
		Launch of second tier market
		Launch of new products
		Increased number of investors
DSE	Regular reporting by DSE against approved plan	Increased turnover
		Launch of second tier market
		Launch of new products
		Introduction of new rules
		Direct access to DSE from regional centres
		Implementation of surveillance monitoring
CDS	Regular reporting by CDS against approved plan	Settlement period reduced
		Compliance with IOSCO principles
		Introduction of stock borrowing and lending
Market Participants	Regular reporting against approved plan	All appropriate persons licensed by CMSA
		Securities Institute established
		New entrants admitted to the market
Capital Adequacy	Regular reporting against approved plan	Implementation of new risk based capital adequacy rules and new procedures for monitoring and enforcement
Regulation by CMSA	Annual assessment published in Annual Report	New regulatory and organisational structures
		Amendment to existing legislation and passage of CDS Bill
		Launch of new products and markets
		Entry of new participants
		Growth in the number of issues
		Increase in the number of investors

PART 8 – Financial Plan

Capital Markets and Securities Authority Five years Projections - 2007/08 - 2011/12

EXPENDITURE

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	5 yrs CAGR
Staff emoluments						
Salaries	839,065,180	963,034,987	1,011,186,736	1,061,746,073	1,127,655,135	7.1%
PPF contribution 15%	125,859,777	144,455,248	151,678,010	159,261,911	169,148,270	7.1%
Transport on leave	69,922,098	80,252,916	84,265,561	88,478,839	93,971,261	7.1%
House and fuel allowance	140,811,410	159,724,803	167,711,043	176,096,595	184,901,425	6.6%
Special allowance in lieu of overtime	13,200,000	13,860,000	14,553,000	15,280,650	16,044,683	5.0%
Furniture allowance	-	9,325,325	24,385,383	7,661,741	-	N/A
	1,188,858,465	1,370,653,278	1,453,779,734	1,508,525,809	1,591,720,773	7.0%
Other Operating Expenses						
Stationery	15,464,700	16,237,935	17,049,832	17,902,323	18,797,440	5.0%
Office tea	6,368,500	6,507,761	6,833,149	7,174,807	7,533,547	4.4%
Staff medical expenses	46,500,000	51,000,000	51,000,000	51,000,000	52,500,000	2.4%
Uniforms	570,000	598,500	628,425	659,846	692,839	5.0%
Cleaning	1,091,680	1,918,560	2,014,488	2,115,212	2,220,973	15.8%
Office rent	144,053,372	151,256,041	158,818,843	166,759,785	-	N/A
Electricity & water	18,480,000	19,404,000	20,374,200	21,392,910	22,462,556	5.0%
Telephone & fax	63,120,000	66,276,000	69,589,800	73,069,290	76,722,755	5.0%
Professional membership fees/subscriptions	28,233,080	29,644,734	31,126,971	32,683,319	34,317,485	5.0%
Security guard expenses	3,000,000	3,150,000	3,307,500	3,472,875	3,646,519	5.0%
Office maintenance & repair	56,209,000	59,019,450	61,970,423	65,068,944	68,322,391	5.0%
Motor vehicle expenses	31,345,500	32,912,775	34,558,414	36,286,334	38,100,651	5.0%
Other transport expenses	3,927,000	4,123,350	4,329,518	4,545,993	4,773,293	5.0%
Audit fee	7,128,000	7,484,400	7,858,620	8,251,551	8,664,129	5.0%
Bank charges	2,880,000	3,024,000	3,175,200	3,333,960	3,500,658	5.0%
Miscellaneous expenses	6,000,000	4,800,000	5,040,000	5,292,000	5,556,600	-0.7%
Insurance	8,450,000	8,872,500	9,316,125	9,781,931	10,271,028	5.0%
Annual report publication	6,000,000	6,300,000	6,615,000	6,945,750	7,293,038	5.0%
Board expenses	150,131,111	157,637,667	165,519,550	173,795,528	182,485,304	5.0%
Capacity Building for Members of the Authority	36,061,200	75,728,520	39,757,473	41,745,347	43,832,614	-3.8%
Seminar and conference	45,615,150	47,895,908	50,290,703	52,805,238	55,445,500	5.0%
Staff training	150,979,500	167,810,475	147,949,599	153,163,079	158,637,233	0.0%
Library acquisition	11,907,830	12,503,222	13,128,383	13,784,802	22,000,000	13.4%
Depreciation - Equipment	14,692,420	2,619,104	4,001,727	5,453,482	6,929,584	-14.0%
Depreciation furniture	18,608,952	17,515,734	20,008,636	27,026,208	28,377,518	13.3%
Depreciation Computer and Accessories	193,550,000	193,550,000	193,550,000	179,550,000	179,550,000	-2.2%
Depreciation buildings	-	-	275,000,000	255,000,000	365,000,000	N/A
Depreciation Motor vehicles	17,100,000	17,100,000	29,000,000	28,000,000	28,000,000	15.3%
Provision for terminal benefit costs	69,922,098	80,252,916	84,265,561	88,478,839	93,971,261	7.1%
Regional cooperation	133,131,600	139,788,180	146,777,589	154,116,468	161,822,292	5.0%
Furniture and equipment	31,352,000	32,919,600	34,565,580	36,293,859	38,108,552	5.0%
Initiatives to combat money laundering	7,344,200	7,711,410	8,096,981	8,501,830	8,926,921	
Business promotion and hospitality	10,400,000	13,734,000	15,946,700	16,618,140	18,385,132	14.0%
	1,355,366,894	1,439,296,740	1,721,464,988	1,750,069,650	1,756,847,810	7.3%
Total operating expense	2,544,225,359	2,809,950,018	3,175,244,722	3,258,595,459	3,348,568,584	7.2%
Projects / Development expenditure						
Research and development projects	869,979,500	1,450,838,538	1,109,720,670	202,786,144	127,420,538	-39.3%
Public education programme costs	760,000,000	783,000,000	822,150,000	863,257,500	906,420,375	4.6%
Legal review project	69,700,000	6,970,000	-	-	-	
FSSP Local component	34,728,750	85,283,888	8,126,528	-	-	N/A
Acquisition of motor vehicles	-	-	70,000,000	70,000,000	-	N/A
CMSA office building	3,500,000,000	1,800,000,000	200,000,000	-	-	-33.6%
Total development expenditure	5,234,408,250	4,126,092,425	2,209,997,198	1,136,043,644	1,033,840,913	N/A
Total Expenditure	7,778,633,609	6,936,042,443	5,385,241,919	4,394,639,103	4,382,409,497	-14.7%

Capital Markets and Securities Authority
Five years Projections - 2007/08 - 2011/12

REVENUE

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	5 yrs CAGR
Internal Sources						
Interest Income	33,000,000	54,643,389	79,004,938	74,535,127	82,135,336	22.7%
Application, license and admission fees	49,140,000	85,144,000	98,859,000	111,142,000	131,790,000	24.3%
Transaction fees	62,216,000	100,664,200	187,670,028	256,221,922	346,820,538	50.5%
Prospectus Evaluation Fee	96,600,000	155,388,333	178,521,333	200,172,921	224,105,849	20.8%
Foreign Exchange Gain	19,714,295	18,728,580	17,792,151	16,902,543	16,057,416	-5.0%
Other	2,088,526	2,192,952	2,302,600	2,417,730	2,538,616	5.0%
Subtotal	262,758,821	416,761,455	564,150,051	661,392,244	803,447,755	29.9%
Government subventions						
Government - recurring	1,692,603,957	2,077,234,155	2,281,095,863	2,295,150,656	2,239,908,189	6.7%
Government - development	4,317,472,580	2,843,608,000	1,252,374,000	1,105,686,375	1,001,956,781	-30.7%
Bank of Tanzania	350,000,000	350,000,000	350,000,000	350,000,000	350,000,000	0.0%
FSSP	177,187,500	584,931,375	81,265,275	-	-	N/A
Other Donors	529,294,500	690,457,163	946,427,895	30,357,269	31,875,132	
Subtotal	7,066,558,537	6,546,230,692	4,911,163,033	3,781,194,299	3,623,740,102	-17.0%
Total Revenue	7,329,317,358	6,962,992,147	5,475,313,083	4,442,586,543	4,427,187,856	-13.5%
Net of Revenue and Total Expenditure	(449,316,252)	26,949,703	90,071,164	47,947,440	44,778,359	N/A
Add Non Cash expenditure (Depreciation + Prov for Terminal Benefits)	313,873,471	311,037,753	605,825,925	583,508,529	701,828,363	23.9%
Amount for Investing / Discounting Tills and FDRs	(135,442,781)	337,987,457	695,897,088	631,455,969	746,606,722	N/A

Annexure:

Annex 1	2006 / 07	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Number of staff						
Chief Executive Officer	1	1	1	1	1	1
Directors	3	3	3	3	3	3
Managers	6	7	8	8	8	8
Total Management staff	10	11	12	12	12	12
Princ. Officers	1	3	3	3	3	3
Senior Officers (various)	4	4	6	6	6	6
Officers	0	3	3	3	3	4
Secretaries	5	5	5	5	5	5
Supporting Staff	5	5	5	5	5	5
	25	31	34	34	34	35

Annex 2: Number of Equities/Bonds/Commodities to be listed and CIS to be approved

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Equities (Main Market)	4	4	4	4	4
Equities (Alt Mkt)	2	2	4	4	5
Cross listed equity securities	1	2	2	2	2
Commodities	0	2	6	6	6
Corporate bonds	2	3	4	5	6
Municipal bonds	0	2	2	2	2
Treasury Bonds	6	6	6	6	6
TOTAL SECURITIES TO BE LISTED	15	21	28	29	31
Collective Investment Schemes	2	2	2	2	2

Annex 3:**NUMBER OF LISTED / TRADED SECURITIES**

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Equities (Main Mkt Local)	11	15	19	23	27
Equities (Alt Mkt)	2	4	8	12	17
Equities (Main Mkt Crosslisted)	4	6	8	10	12
Commodities	0	2	6	6	6
Subtotal - equity securities	17	25	35	45	56
Corporate bonds	9	12	16	21	27
Treasury Bonds	18	24	30	36	42
Municipal bonds	0	2	4	6	8
Subtotal Debt Securities	27	38	50	63	77

Annex 4: Number of Market players to be licensed

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Broker/Dealer (DSE)	0	1	0	0	0
Broker/Dealer (Commodity market)	0	2	3	0	0
Broker/Dealer Representatives DSE	1	2	3	2	2
Broker/Dealer Representatives Commodity	0	2	3	4	4
Investment Advisers	1	2	1	1	1
Nominated Advisors	2	1	1	1	1
Fund managers	1	2	2	2	2
Trustees / Custodians	1	2	1	1	1
Investment bankers	2	2	1	0	0
CDS direct participants	3	4	1	1	1
Floor Traders (DSE)	1	1	1	0	0
Floor Traders (Commodity)	0	4	6	4	2
Credit rating agencies	0	1	1	0	0
Venture capital companies	2	1	1	0	1
Collective Investment Schemes	2	2	2	2	2
CDS Company Ltd.	0	1	0	0	0
Commodity Exchange	0	1	0	0	0
Stock Exchange	0	0	0	0	0

Annex 5: Number of Market players licensed

Total Number of Market players	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Broker/Dealer DSE	6	7	7	7	7
Broker/Dealer (Commodity market)	0	2	5	5	5
Broker/Dealer Representatives DSE	10	12	15	17	19
Broker/Dealer Representatives Commodity	0	2	5	9	13
Investment Advisers	10	12	13	14	15
Nominated Advisors	2	3	4	5	6
Fund managers	2	4	6	8	10
Trustees / Custodians	2	4	5	6	7
Investment bankers	2	4	5	5	5
CDS direct participants	3	7	8	9	10
Floor Traders (DSE)	12	13	14	14	14
Floor Traders (Commodity)	0	4	10	14	16
Credit rating agencies	0	1	2	2	2
Venture capital companies	2	3	4	4	5
Collective Investment Schemes	2	4	6	8	10
CDS Company Ltd.	0	1	1	1	1
Commodity Exchange	0	1	1	1	1
Stock Exchange	1	1	1	1	1
CMSA Licensees	54	85	112	130	147

Annex 6 : Average Turnover level per Security per Annum (Figures in TZS)					
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Equities (Main Mkt)	2,000,000,000	2,100,000,000	2,215,500,000	2,349,537,750	2,505,899,487
Equities (Alt Mkt)	100,000,000	105,000,000	110,775,000	117,476,888	125,294,974
Cross listed equity securities	5,000,000	5,250,000	5,538,750	5,873,844	6,264,749
Commodities		20,000,000,000	40,000,000,000	60,000,000,000	90,000,000,000

Annex 7: Transaction fees assumed

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	5 yrs CAGR
Equities (Tier 1)	0.28%	0.28%	0.28%	0.28%	0.28%	0%
Equities (Tier 2)	0.28%	0.28%	0.28%	0.28%	0.28%	0%
Cross listed equity securities	0.28%	0.28%	0.28%	0.28%	0.28%	0%
Commodities	0.03%	0.03%	0.03%	0.03%	0.03%	0%
Corporate bonds	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Treasury Bonds	0.00%	0.00%	0.00%	0.00%	0.00%	N/A
Municipal bonds	0.00%	0.00%	0.00%	0.00%	0.00%	N/A

Annex 8:

	2006 / 07	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Exchange Rate	1350	1,418	1,488	1,563	1,641	1,723
Assumed Inflation rate		5%	5%	5%	5%	5%

Annex 9: Projected License Fee Structure

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	CAGR
<u>BROKER/DEALER DSE</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	500,000	525,000	525,000	551,000	579,000	3.5%
<u>BROKER/DEALER Commodity Exchange</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	500,000	525,000	525,000	551,000	579,000	3.5%
<u>BROKER/DEALER REPRESENTATIVES</u>						
Application Fees	30,000	32,000	32,000	34,000	36,000	4.3%
Admission Fees	0	0	0	0	0	N/A
Annual Licensing Fees	250,000	263,000	263,000	276,000	290,000	3.5%
<u>BROKER/DEALER REPRESENTATIVES Commodity</u>						
Application Fees	30,000	32,000	32,000	34,000	36,000	4.3%
Admission Fees	0	0	0	0	0	N/A
Annual Licensing Fees	250,000	263,000	263,000	276,000	290,000	3.5%
<u>INVESTMENT ADVISERS</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	250,000	263,000	263,000	276,000	290,000	3.5%
<u>NOMINATED ADVISERS</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
<u>FUND MANAGERS</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
Annual Licensing Fees	1,500,000	1,575,000	1,575,000	1,654,000	1,737,000	3.5%
<u>TRUSTEES / CUSTODIANS</u>						
Application Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Admission Fees	1,500,000	1,575,000	1,575,000	1,654,000	1,737,000	3.5%
Annual Licensing Fees	1,500,000	1,575,000	1,575,000	1,654,000	1,737,000	3.5%
<u>INVESTMENT BANKERS</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
Annual Licensing Fees	4,000,000	4,200,000	4,200,000	4,410,000	4,631,000	3.5%
<u>CDS Direct Participants</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	500,000	525,000	525,000	551,000	579,000	3.5%

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12	CAGR
<u>FLOOR TRADERS (DSE)</u>						
Application Fees	20,000	21,000	21,000	22,000	23,000	3.3%
Admission Fees	0	0	0	0	0	N/A
Annual Licensing Fees	50,000	53,000	53,000	56,000	59,000	3.9%
<u>FLOOR TRADERS (Commodity)</u>						
Application Fees	20,000	21,000	21,000	22,000	23,000	3.3%
Admission Fees	0	0	0	0	0	N/A
Annual Licensing Fees	50,000	53,000	53,000	56,000	59,000	3.9%
<u>CREDIT RATING AGENCIES</u>						
Application Fees		53,000	53,000	56,000	59,000	N/A
Admission Fees		1,000,000	1,000,000	1,050,000	1,103,000	N/A
Annual Licensing Fees		500,000	500,000	525,000	551,000	N/A
<u>VENTURE CAPITAL COYS</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
Annual Licensing Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
<u>COLLECTIVE INVESTMENT SCHEMES</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	1,000,000	1,050,000	1,050,000	1,103,000	1,158,000	3.5%
<u>CDS Ltd.</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	2,000,000	2,100,000	2,100,000	2,205,000	2,315,000	3.5%
<u>COMMODITY EXCHANGE</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	2,000,000	2,100,000	2,100,000	2,205,000	2,315,000	3.5%
<u>STOCK EXCHANGE</u>						
Application Fees	50,000	53,000	53,000	56,000	59,000	3.9%
Admission Fees	500,000	525,000	525,000	551,000	579,000	3.5%
Annual Licensing Fees	2,000,000	2,100,000	2,100,000	2,205,000	2,315,000	3.5%

Annex 10 : General Public Education Programmes

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
General awareness campaigns	300,000,000	315,000,000	330,750,000	347,287,500	364,651,875
Promotion of new products	400,000,000	420,000,000	441,000,000	463,050,000	486,202,500
Promotion of new market segment / processes	60,000,000	48,000,000	50,400,000	52,920,000	55,566,000
	760,000,000	783,000,000	822,150,000	863,257,500	906,420,375

Annex 11: Donnor Supported Projects

	Total USD	006 / 07	2007 / 08	2008 / 09	09 / 10	10 / 11	11 / 12
FSSP Component							
Municipal bonds framework study	120,000	24,000	96,000				
Corporate bonds guarantors & framework stu	90,000	9,000	81,000				
Public education project							
Investor awareness on AIMS	140,000	28,000	84,000	28,000			
Potential new issuers - AIMS	120,000	24,000	72,000	24,000			
Capacity building	100,000	40,000	60,000				
5 Year Bussines Plan Project							
Total FSSP	570,000	125,000	393,000	52,000	-	-	-

Other Donnors

Legal and operational framework for Commodities market	90,000		90,000				
Certification Programme for Commodity market Dealers / brokers	60,000		60,000				
Further liberalization of capital account	90,000			90,000			
Review of the Issuance and Listing Rules including the expenses of going public	-	51,500					
Undertake a study on collective investment schemes	-	51,500					
Securitisation	253,200			253,200			
Derivatives	243,900			243,900			
Reform of trading on DSE	192,400		192,400				
Market needs on clearing, settlement and guarantee in relation to CDS	-	103,000					
Risk based capital adequacy	-	93,000					
Review regulatory structure	-	74,400					
Establishment of an East African Securities Institute	103,000		103,000				
Legal support on various projects	92,500		18,500	18,500	18,500	18,500	18,500
Total other donors	1,125,000	373,400	463,900	605,600	18,500	18,500	18,500
Total donors	1,695,000	498,400	856,900	657,600	18,500	18,500	18,500

Annex 12: Other Research and Development expenses					
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Encouraging share ownership schemes		20,000,000			
Stakeholders participation in market development	4,000,000	4,200,000	1,102,500	1,157,625	-
Cost of going public	60,000,000				
Incorporation of securities topics in secondary schools curricula		18,000,000	10,800,000		
Launch second tier market	15,000,000				
Investment Competition (schools / universities)	50,000,000	52,500,000	55,125,000	57,881,250	60,775,313
Investment game		60,000,000	15,000,000	15,750,000	16,537,500
Credit rating agencies - licensing rules		5,000,000			
Launch municipal bonds market		15,750,000			
Launch market in securitized products				17,640,000	
Launch market in derivative products					18,232,594
Nominated Advisors	34,497,500				
Internet Trading				80,000,000	
Donnor supported projects	706,482,000	1,275,388,538	1,027,693,170	30,357,269	31,875,132
	<u>869,979,500</u>	<u>1,450,838,538</u>	<u>1,109,720,670</u>	<u>202,786,144</u>	<u>127,420,538</u>

Annex 13 : Regional and International Cooperation					
Key Assumptions	Number of		Air Ticket in \$	Perdiem in \$	Number of programmes
	Staff	Days			
IOSCO	2	8	3,000	480	2
AMEC	2	8	2,500	480	2
ASEA	1	6	3,000	480	2
CISNA	2	4	600	480	2
EASRA	4	4	500	480	2
Cost - TZS	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
IOSCO	38,782,800	40,721,940	42,758,037	44,895,939	47,140,736
AMEC	35,947,800	37,745,190	39,632,450	41,614,072	43,694,776
ASEA	16,669,800	17,503,290	18,378,455	19,297,377	20,262,246
CISNA	14,288,400	15,002,820	15,752,961	16,540,609	17,367,640
EASRA	27,442,800	28,814,940	30,255,687	31,768,471	33,356,895
	<u>133,131,600</u>	<u>139,788,180</u>	<u>146,777,589</u>	<u>154,116,468</u>	<u>161,822,292</u>

Annex 14 : Seminars and conferences					
Key Assumptions	Number of		Air Ticket in \$	Perdiem in \$	Number of programmes
	Staff	Days			
Conferences	2	7	2,500	480	1
Seminars	3	9	2,500	480	1
Cost - TZS:					
Conferences	16,613,100	17,443,755	18,315,943	19,231,740	20,193,327
Seminars	29,002,050	30,452,153	31,974,760	33,573,498	35,252,173
	<u>45,615,150</u>	<u>47,895,908</u>	<u>50,290,703</u>	<u>52,805,238</u>	<u>55,445,500</u>

Annex 15: Initiatives to combat Money Laundering					
	Number of Staff	Days	Air Ticket in \$	Perdiem in \$	Number of programmes
Key Assumptions travel outside country					
ESAMLG	1	4	600	480	2
Cost - TZS - Regional Initiatives					
ESAMLG	7,144,200	7,501,410	7,876,481	8,270,305	8,683,820
Local Budget	200,000	210,000	220,500	231,525	243,101
	7,344,200	7,711,410	8,096,981	8,501,830	8,926,921

Annex 16: Staff Training					
a) Local Programmes	Number of Staff	Days	Traveling	Perdiem in	Fee
Local (Key Assumptions)	4	10	200,000	200,000	400,000
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Number of Local Programmes	3	4	4	4	4
The programmes:					
Accounting profession					
Labor laws / pension contribution					
Financial Markets					
Office management skills					
Market oversight					
New products					
b) Foreign Programmes	Number of Staff	Days	Air Ticket in \$	Perdiem in \$	Fee
(Key Assumptions)	1	8	3000	480	1500
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Number of Programmes	10	10	8	8	8
The programmes:					
Collective investment schemes,					
Municipal bonds,					
Commodity markets					
Leadership skills					
Derivatives markets					
Corporate governance					
Corporate bonds					
Stock exchanges					
Leadership skills					
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Training Cost (Total)	150,979,500	167,810,475	147,949,599	153,163,079	158,637,233
Training Cost (Local)	32,760,000	43,680,000	43,680,000	43,680,000	43,680,000
Training Cost (Foreign)	118,219,500	124,130,475	104,269,599	109,483,079	114,957,233

Annex 17: Capacity Building for Members of the Authority

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
One week seminar for 4 members of the Authority	1	2	1	1	1
Capacity Building for Members of the Authority					
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
One week seminar for 4 members of the Authority					
4 Return Air Tickets @ USD 3000	17,010,000	35,721,000	18,753,525	19,691,201	20,675,761
Perdiem 7 days@ 400 X 4 Members	19,051,200	40,007,520	21,003,948	22,054,145	23,156,853

Annex 18: CMSA Office Building:

	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Substructure	1,500,000,000				
Walls and fittings	2,000,000,000				
Finishing / utilities		1,000,000,000			
Partitioning		400,000,000			
Furniture		400,000,000	200,000,000		
	3,500,000,000	1,800,000,000	200,000,000	-	-

Annex 19: Depreciation Exp - CMSA Computer Equipment

USD

Hardware and applications for the
Office Automation project (project
less recurrent) 380,000

Tzs Equivalent 538,650,000

Depreciation exp in TZS	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Depreciation over 3 years	179,550,000	179,550,000	179,550,000		
Depreciation B/F	14,000,000	14,000,000	14,000,000		
Deprecation C/D (replacements)				179,550,000	179,550,000
Deprecation expenses	193,550,000	193,550,000	193,550,000	179,550,000	179,550,000

Annex 20: Office management system maintenance fees

Intranet	18,675				
Human Resource Management System	5,250				
Website	4,000				
	<u>27,925</u>				
Total USD					
	2007 / 08	2008 / 09	2009 / 10	2010 / 11	2011 / 12
Annual Charge in TZS	39,583,688	41,562,872	43,641,015	45,823,066	48,114,220

PART 9 – Areas of Required Technical Assistance

1. Project: Review of Cost of Going Public

Objective

The objective of the project is to simplify the issuance and listing process and reduce the cost of issuance and listing.

Background

There are currently ten equities listed on the DSE; three of which are cross-listings from Kenya. Only one Tanzanian company has sought a listing on the DSE for the purposes of raising capital. The other six listed equities have been the result of privatisation issues. Three other IPOs (one collective investment scheme and two investment companies) did not meet the listing criteria and are traded off-market. A survey conducted by the CMSA showed that most companies use retained earnings and loans from financial institutions to finance their capital needs instead of using the capital market. The CMSA recognises the fact that there are companies which do not meet the criteria for listing on the main market and therefore during 2007 it is proposed to launch a second tier market that will become a nursing ground for smaller growing companies which can, in time, move on to the main market.

The perception is also that the cost of issuance via an IPO is high. These costs include not just the financial cost but management time before, during and following the IPO e.g. compliance with the continuing disclosure obligations of listing.

Scope

The CMSA wishes to undertake a study into the cost of “going public” with the objective of seeking to reduce these costs. This will include looking at the issuance and listing rules and at the charges levied by advisers and others. The study will also consider the new second tier market to ensure that there is a meaningful difference between the requirements of both markets and that development companies listed on the second tier have meaningful targets to aim for in progressing to a listing on the main market.

Deliverables

- A study and report on the cost of issuance of securities and of obtaining a listing on the DSE. The report will include:
 - Review of the existing issuance and listing rules and of the proposed listing rules for the second tier market;
 - Analysis of the financial cost of issuing securities in Tanzania;
 - Identification of the non-financial costs of issuing securities in Tanzania;
 - Comparison of cost of issuance and listing with other markets in the region;
 - Recommendations for reducing the cost of “going public” including revision of the existing fees, rules, and regulations governing the issuance, listing and continuing disclosure obligations.

- Workshop to discuss the recommendations.

Consultant Expertise

The consultant will have extensive proven experience in the issuance and listing of securities in developing markets and in the drafting of listing rules.

Involvement

- International Listings Consultant 1.25 person months
 - Local Consultant 0.5 person month
-

2. Project: Removal of barriers to the development of collective investment schemes

Objective

The objective of this project is the removal of any barriers to the development of collective investment schemes.

Background

Collective investment schemes are regarded as one of the main vehicles for the mobilisation of individuals' savings. However, they have been slow to take off in Tanzania. Presently, there is only one collective investment scheme in operation although there is one further potential applicant on the horizon.

Scope

The CMSA wishes to undertake a study with the objectives of identifying the constraints to the development of collective investment schemes and increasing the number and use of such schemes. The study will build upon the analysis undertaken in 2006/07 on the appropriate legal framework for incorporation of unit trusts in Tanzania. In addition, the consultant should consult the "Study Report on Absorptive Capacity of the Tanzanian Capital Market" dated August 2001 which contains a section on collective investment schemes.

Deliverables

- A study and report on the development of collective investment schemes in Tanzania and recommendations for increasing their attractiveness for Tanzanian investors. The study should cover inter alia:
 - The competence, powers and capacity of the CMSA to regulate the market in CIS;
 - The existence of potential operators and service providers;
 - The demand from potential investors;
 - The supply of securities in which to invest;
 - Money transfer and payment services;
-

- Accounting standards;
- Fiscal policy.

Consultant Expertise

The consultant should have extensive proven experience in the legislation, regulation and development of collective investment schemes in emerging markets.

Involvement

- | | |
|--------------------------------|--------------------|
| • International CIS Consultant | 1.25 person months |
| • Local accountant/tax adviser | 0.5 person months |

3. Project: The development of Securitised Products

Objective

The objective of this project is to propose an appropriate legal framework that will facilitate securitisation in Tanzania and to assist the Tanzanian authorities to develop and implement a Securitisation Act consistent with international best practice.

Background

The last few years have seen a significant increase in the use of securitisation by financial institutions to meet financing needs. The securitisation commonly carried out in developing markets is more akin to a collateralised loan. The leases/receivables are sold to a trust or special purpose vehicle (SPV), which then issues securities to investors. As a result, the leasing companies or mortgage institutions can free up their balance sheets, generate cash, and extend more leases or mortgages, while investors benefit by reducing the risk of their investment.

The most important securitisation products are generally auto/vehicle lease receivables (for the lease of private buses, lorries, and other vehicles) and housing mortgage receivables. Indeed, securitisation is largely driven by the special needs of the leasing industry. Leasing has become an important method for financing the acquisition of vehicles and leasing companies, in turn, are using securitisation to raise cash to extend more leases.

Securitisation has also proved extremely important for housing finance institutions, especially given the absence of a long-term debt market. Housing finance is of relatively long maturity, and the inability of financial institutions to source long-term funds at competitive rates constrains the channelling of funds to this important sector.

There normally exist several regulatory impediments to securitisation. These include hindrances caused by Finance Leasing Acts and by requirements of the registrar of motor vehicles. Taxation of the SPVs and trusts, transfer fees, and the loss of depreciation for tax purposes also impose extra costs on securitisation.

A well-designed legal framework will provide a clear and transparent framework to govern securitisation transactions and help define institutional responsibilities of market participants, facilitate transactions, and remove regulatory impediments. Such a framework will ultimately help improve acceptance of securitised paper and promote the growth of the market for asset-backed securities.

Over time, this process should promote disintermediation (and therefore reduce spreads between deposit and lending rates). Securitisation will facilitate the creation of longer-term investment securities, which are badly needed by insurance companies and pension funds. In addition, proper securitisation will allow financial institutions better to manage their balance sheets, increasing their ability to provide loans.

Scope

This Project is designed to assist the CMSA in devising the most appropriate legislative framework to facilitate securitisation transactions. The project will be comprised of three main phases. The first will assess demand and the existing legal framework and produce an action plan. The second will involve the drafting of legislation, and the third phase, capacity-building activities.

Deliverables

The main outputs of this project are:

Phase 1

- Report identifying the demand for securitisation including documentation of findings of a review of the legal framework.
- Workshop to discuss the findings

Phase 2

- A draft Securitisation Act.
- A time-bound roadmap of the recommended legal/regulatory changes that identifies which agency is responsible for undertaking each measure.
- Workshops explaining the Securitisation Act and roadmap.

Phase 3

- Training for regulators and training to the industry.

Consultant Expertise

The consultant will have extensive proven experience in the legislation, regulation, and development of securitisation in emerging markets.

Involvement

- International Securitisation Consultant

Phase 1	1.5	person	months
Phase 2	3.5	person	months
Phase 3	1.0	person	months

• Local Lawyer/Tax Adviser	Phase 1	0.5	person	months
	Phase 2	2.5	person	months

4. Project: Development of a Financial Derivatives Market

Objective

The objective of this project is to assess the feasibility for development of a financial derivatives market and, if appropriate, prepare infrastructure and rules necessary to support that market.

Background

The DSE presently trades equities and bonds (corporate and Government). Liquidity on the DSE is low and there are limited equity and bond securities in which to trade. The CMSA is actively encouraging banks to join the capital market in order to both assist in its development and to expand into other areas.

The capital market in Tanzania is not sufficiently mature or deep enough to support derivatives on equities. Therefore, CMSA does not see any consideration being given to, for example, equity options, single stock futures, or exchange traded funds. However, it does see the possibility of other derivatives such as:

- Index futures or index options;
- Interest rate futures;
- Currency futures or options;
- Commodity futures.

The banks have expressed potential interest in interest rate and currency derivatives and a private sector initiative is currently being undertaken to determine the feasibility of launching a commodities market in Tanzania.

Scope

The key benefit from the first phase of the project will be a series of recommendations that will, if positive, advise on a strategy and actions needed to establish a market and which initial products to develop, or, of negative, spell out the reasons, and what pre-conditions will need to be achieved for any future launch.

Phase two will encompass putting together the market infrastructure, including arrangements for trading, clearing and settlement, drafting the contract specifications and the rules for trading, clearing and settlement, assistance in resolving technical and procedural issues, the preparation of educational and promotional material and project management.

Phase three will focus on training of CMSA and staff of intermediaries.

Deliverables

The key project output from Phase 1 will be a feasibility study which will include:

- Recommendations on whether a case for a derivatives market is made and if so for what initial products
- Trading demand assessment
- Clearing and settlement solutions
- Regulatory or legal framework issues to be addressed
- Estimates of implementation cost
- Methodology for project managing implementation
- Additional TA needs.

Phase 2

- Assistance in implementing the market infrastructure
- Preparation of contract specifications
- Preparation of rules governing trading and clearing and settlement
- Assistance in resolving trading and clearing and settlement systems issues
- Project management of the implementation
- Assistance with the preparation of educational, promotional and marketing material

Phase 3

- Training to CMSA regulatory staff
- Training to brokers and other market intermediaries

Consultant Expertise

The consultant will have extensive proven experience in the operation and development of financial derivatives markets in developed and emerging markets.

Involvement

- | | | | | |
|--|---------|------|--------|--------|
| • International Derivatives Consultant | Phase 1 | 1.25 | person | month |
| | Phase 2 | 3.5 | person | months |
| | Phase 3 | 1.0 | person | months |
| • Local Consultant | Phase 1 | 0.5 | person | months |
| | Phase 2 | 2.5 | person | months |
-

5. Project: Reform of trading on the DSE

Objective

The objective of this project is to institute a reform of the way in which securities are traded on the DSE and to open up the market to well capitalised institutions that are capable of ensuring its development.

Background

There are presently six brokers on the DSE. All of whom are based in Dar es Salaam. They do not take positions or warehouse transactions although some of the brokers undertake principal trading. The brokers are primarily execution only agents who do not require substantial amounts of capital. There are currently ten equities listed on the DSE; three of which are cross-listings from Kenya. The CMSA view of the brokers is that they are not proactive in going out in search of new business. This is particularly evident in the regions. Government and the Presidential Parastatal Sector Reform Commission (PSRC) have been actively encouraging applications for IPOs from the regions but are critical of the fact that the DSE and its brokers have no market presence outside Dar es Salaam.

During the quarter ending December 2006, the equities counter traded a total of 13,497,223 shares with a value of TZS9,813 billion (USD7.6million) compared to 3,037,627 shares with a value of TZS2.29 billion (USD1.7million) traded in the previous quarter. As at 31st December 2006, the market capitalisation of domestic companies was TZS833.82billion (USD646million), down from TZS848.95billion (USD658million) recorded at the end of September 2006. The total market capitalisation of equities was TZS3,082.86 billion (USD239million) as a result of the cross listing of Jubilee Holdings Ltd.

In December 2006, trading moved from a manual system on the floor of the DSE to an automated trading system (ATS). The system operates both trading and CDS. Initially, the system will utilise a local area network (LAN) and be restricted to the floor of the DSE. The intention is that ATS will be extended nationwide with the implementation of a wide area network (WAN).

The CMSA is looking to a number of initiatives to boost trading on the DSE. These include encouraging the banks to be direct participants in the DSE both as brokers and as dealers (market makers); expanding ATS nationwide; and introducing internet trading.

Scope

This project will bring about the introduction of market making in main market securities. It will determine the basis for market making, what securities, how client orders will be traded, what are the obligations of those who will be market making (continuous pricing, size, capital requirements) and what concessions (fee, short-selling, stock borrowing) they will be offered. It will also look at ATS to identify what, if any, modifications need to be made to the system and identifies a strategy for taking ATS nationwide. The project will also address the introduction of stock borrowing and lending for market makers and the rules for stock borrowing and lending. In addition, the project will determine the rules for internet trading and offering of securities through the internet.

Deliverables

- An analytical review of the market identifying those securities listed on the main market that would be eligible for trading in a market maker environment.
- A report containing draft rules for market making including the obligations and benefits of market making.
- A review of ATS identifying what, if any, modifications need to be made to the system to accommodate market makers.
- A report setting out the rules, systems and procedures to allow market makers to sell short and to borrow and lend securities.
- A report governing the rules systems and procedures permitting the offering and trading of securities through the internet.
- Workshops to explain the new market structure and rules.
- Training to CMSA and DSE regulatory staff in monitoring market makers compliance with trading and stock borrowing rules and in monitoring the offering and trading of securities through the internet.

Consultant Expertise

The consultant will have extensive proven experience in the trading of securities and in the development of trading rules, stock borrowing and lending rules, internet trading and securities exchanges in emerging markets. The consultant will also have extensive proven operational and technical experience of automated securities trading systems.

Involvement

- International Capital Markets Consultant 4.5 person months
 - Local Consultant 2.5 person months
-

6. Project: Strategy for CDS

Objective

The objective of this project is to establish a clearing depository and settlement system (CDS) that is fully equipped to support the needs of the Tanzanian financial markets in the coming years.

Background

The CDS is presently operated by the DSE. Securities are immobilised although the CDS Bill contemplates a situation whereby securities will eventually be dematerialised. There is no market guarantee, no value at risk (VaR) system and no stock lending and borrowing facility. Short selling is not permitted. A private sector initiative is undertaking a feasibility study on the establishment of a commodities market and the CMSA also has intentions of introducing non-equity based derivative instruments. Both these initiatives would require a CDS that will provide a guarantee of the market or act as a central counterparty. The DSE is not capitalised so as to fulfil that guarantee function. In addition, the CDS needs to be able to

control market and systemic risk through the implementation of appropriate risk management systems and procedures.

Scope

The project will consider the needs of the market in the longer term with particular focus on the clearing, settlement and guarantee of the market. The project should also link with the commodities market study. There may be a need to take clearing and settlement out of the DSE into a more highly capitalised clearing house and to implement modern risk management systems.

The project will determine the future role and positioning of the CDS, examine issues of ownership, guarantee, risk management, operation and resources and present a strategy that will best serve the interests of the Tanzanian capital markets.

The project will:

- document the current and future clearing, settlement and depository requirements of the Tanzanian capital and commodity markets, including regional considerations;
- present a strategy that will meet those future requirements;
- assess the risks associated with the preferred strategy and recommend steps that should be taken to mitigate risk.

The project should include an assessment of the securities settlement system presently in place in Tanzania using the Assessment Methodology for “Recommendations for Securities Settlement Systems” published by IOSCO. This assessment should be repeated following the implementation of any reforms proposed as a result of the project.

Deliverables

- A report setting out a strategy for the current and future clearing, settlement and depository requirements of the Tanzanian capital and commodity markets. The report will include an assessment of the risks associated with the preferred strategy and recommend steps that should be taken to mitigate risk.
- A timebound Implementation Plan together with the identification of implementation costs.
- Workshop to explain the recommended strategy.
- A pre and post assessment of the Tanzanian securities settlement system using the Assessment Methodology for “Recommendations for Securities Settlement Systems” published by IOSCO.

Consultant Expertise

The consultant will have extensive proven experience in the establishment, operation and development of securities settlement and depository systems in developed and emerging markets.

Involvement

- International Securities Settlement Consultant 2.5 person months
- Local Consultant 1 person month

7. Project: Implement risk based capital adequacy

Objective

The objective of this project is to develop Rules governing risk based capital adequacy.

Background

There are six licensed broker/dealers and eleven licensed investment advisers in Tanzania three of whom are also broker/dealers. The brokers execute transactions on an agency basis and do not take positions or warehouse transactions. There is therefore little need for large amounts of capital as they are primarily execution only agents. None of the brokers presently offer investment research facilities although it is the desire of the CMSA for brokers to develop as full service intermediaries. In order to achieve this, the CMSA is seeking a reform of the capital market by introducing new forms of licensed intermediaries including:

- Nominated Advisers;
- Corporate Finance Advisers;
- Fund Managers;
- Venture Capital Funds;
- Credit Rating Agencies;
- Custodians;
- Brokers; and
- Dealers (market makers).

In addition, the CMSA wishes to see the development of the market by the future addition of financial and commodity derivatives.

Scope

In keeping with the CMSA's desire to encourage brokers to offer a full range of investor services, the CMSA proposes to move to risk based capital adequacy. The advantage of a risk based approach is that it provides firms with a level of capital appropriate to the amount of risk. Thus, the capital requirements are neither too severe, which would increase costs for the firms and affect their efficiency, nor too slack, which would enable firms to run excessive risks relative to their capital and leave the markets vulnerable to participant default.

Deliverables

- An assessment report on the move to risk based capital adequacy for differing forms of licensed intermediaries.
- Draft Rules governing risk based capital adequacy.
- Training to CMSA staff in the implementation and monitoring of risk based capital adequacy.
- Workshops to discuss outputs.

Consultant Expertise

The consultant will have extensive proven experience in risk management and in the introduction of capital adequacy rules in developed and emerging markets.

Involvement

- International Risk Management Consultant 2.5 person months
-

8. Project: Review of the Regulatory Structure

Objective

The objective of this project is to ensure that Tanzania has the most appropriate regulatory structure to ensure investor protection and facilitate the most efficient operation of the capital market.

Background

The trend amongst securities regulators worldwide is towards either full time regulatory boards or the delegation of powers by part time boards to full time regulatory staff. This is due to a number of factors including:

- The complexity of regulation
- The need for highly qualified full time executives
- Increased demand for speed of decision taking
- The avoidance of conflict of interest
- Good standards of corporate governance
- The demands on the time of part time directors of boards
- The need for independence from Government intervention.

Whilst the existing regulatory structure has served the market well over the past eleven years, there are indications, particularly in the area of listing that some of the powers of the Board of CMSA could more efficiently be devolved to executive staff. It is therefore deemed necessary to undertake a review of that structure to ensure that it meets the demands of a modern securities market and in particular that it addresses the factors referred to above.

Scope

The review will consider the structure of the board, appointment to the board, duties and responsibilities of the Board, committees, executive power and responsibilities, and the organisational structure of the CMSA. The project will look at the existing regulatory structure (board, committees, executive) and advise on changes to make the CMSA more efficient and cost effective. This will be particularly important if the initiative to establish a commodities market reaches fruition. The project will draw heavily on what is happening elsewhere in the world but the solution will be tailored to Tanzania.

Deliverables

- A review of the existing regulatory structure and recommendations, including action plan, to make the structure more efficient and effective.
- Workshops to discuss outputs.

Consultant Expertise

The consultant will have extensive proven experience as a securities regulator in developed and emerging markets.

Involvement

- International Regulatory Consultant 2 person months

9. Project: Establishment of an East African Securities Institute

Objective

The objective of this project is to establish an East African Securities Institute in Tanzania.

Background

CMSA is a member of East African Member States Securities and Regulatory Authorities (EASRA) which comprises the Capital Markets Authority Kenya (CMA (K)), Capital Markets Authority Uganda (CMA (U)) and the Capital Markets and Securities Authority Tanzania (CMSA). The object of EASRA is to establish a framework for mutual cooperation in the area of capital markets development and with a mission to facilitate the harmonization of securities laws among the East African member states and to promote information sharing and cooperation among the members.

Each of the three countries sets its own examinations for market intermediaries and runs training courses for brokers, investment advisers and other intermediaries.

In most securities markets it is the securities regulator that sets the examination although many now leave it to training institutes to carry out the training. Some jurisdictions have formed Securities Institutes. These lay down the qualification criteria and administer the examinations. They also accredit training organisations to do the training of individuals. In the UK, this is the role undertaken by the Securities & Investment Institute which operates a full range of exams and has links with organisations throughout the world. Hong Kong, Canada and many others also have their own securities institutes. These are however large markets where there are many thousands of people working in the securities industry. Such an institute in Dar es Salaam would be hard pressed to find much more than a hundred or two who would require a qualification.

However, by combining their resources members of EASRA and other regional securities markets would benefit from having a regional training and examinations centre of excellence for securities and possibly other financial products e.g. banking and insurance.

- MoUs with other regulators
- Compliance with IOSCO Core Principles
- New licensing requirements for market participants
- Evaluation of licence renewals
- Provision of legal services, opinions and support to the CMSA
- Making Court appearances on behalf of the CMSA
- Follow up on recommendations/directives made by the Authority

During the life of the Strategic Plan, the CMSA will introduce a number of new rules and revise many of its existing rules. New rules which the CMSA anticipate introducing include:

- Listing rules for the new second tier market
- Admission and continuing qualification rules of:
 - Nominated Advisers
 - Credit Rating Agencies
 - Investment Advisers
 - Corporate Finance Advisers
 - Custodians
 - Fund Managers
 - Venture Capital Funds

Scope

The provision of off-site review of drafts and/or the preparation of drafts of new rules to support the development of the capital markets in Tanzania during the five years 2007/7 – 2011/12. This will include mentoring support where requested.

The Legal Directorate will be responsible for the preparation of drafting instructions and will liaise closely with and direct the work of the consultant.

Deliverables

- The provision of off-site support and mentoring to the Legal Directorate of the CMSA in the review and/or drafting of new rules.

Consultant Expertise

The consultant will have extensive proven experience as a securities regulator in developed and emerging markets.

Involvement

- International Regulatory Consultant 15 person days per annum for five years.