

FEAS NEWSLETTER

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FEAS 7th Onsite Training and Interviews with Chairman of EGX and CEO of MCDR




FEAS

FEDERATION OF EURO-ASIAN
STOCK EXCHANGES



FEAS 7TH ONSITE TRAINING PROGRAM Took place in EGYPT

This year FEAS organized its 7th Onsite Training on 16-20 September, in Cairo, Egypt. The Egyptian Exchange (EGX), a full member of FEAS, kindly hosted 12 young professionals from Eurasian capital market institutions.

Since 2011, The Federation of Euro-Asian Stock Exchanges (FEAS) in cooperation with its members has been conducting an onsite training program. The primary objective of the program is to provide junior and mid-level employees of FEAS members with hands-on experience in peer institutions. The program enables the participants to gain insights and perspective on different levels of the working environment in capital markets. Further, the participants can mingle and share their views and ideas with others.

Participant selection criteria stay the same as for the previous years. Candidates were chosen based on their English proficiency and the results of the oral interview conducted by the Secretariat. At the end of the program, each fellow is awarded a certificate.

Since its inception, the Onsite Training Program has been hosted by Borsa Istanbul, Tehran Stock Exchange, Egyptian Exchange, Muscat Securities Market, Kazakhstan Stock Exchange and this year it was hosted by the Egyptian Stock Exchange second time.



Twelve fellows from FEAS members attended the 2018 program which took place on 16-20 September, in the EGX Smart Village. Participating members were Amman Stock Exchange, Boursa Kuwait, Central Depository of Armenia, Central Securities Depository of Iran, Iran Fara Bourse, Iraq Stock Exchange, Kazakhstan Stock Exchange, Muscat Securities

Market, Nasdaq OMX Armenia, Palestine Exchange, Securities Depository Center of Jordan, and Tashkent Stock Exchange.

The training started on 16 September with the presentation on the overview of the Egyptian market, presented by Ms. Dina Kamal - Section Head of Research & Markets Development department.



Ms. Kamal spoke about the economic reforms in Egypt, as well as about the history of EGX, its development and products.

Then Mr. Ahmed Talaat - Deputy Manager of Technical Follow-up Department, and Mr. Mohammad Alshaikh - Manager of Amendments Department, had a presentation about listing rules & regulations in the Egyptian market.

The second half of the day was summed up with the presentation of Mr. Mohamed Selim - Deputy Manager of Market Operations Department, who spoke about the market structure, as well as about trading & settlement cycle in EGX.

The second day of the training was opened with the presentation of Mrs. Hebatallah El Serafi - Head of Disclosure and Corporate Governance at the EGX. Mrs. El Serafi spoke about the EGX Disclosure and governance obligations, Egyptian code of corporate governance, as well as about EGX online disclosure system.

Mrs. El Serafi was followed by Mr. Hossam El-Garrahi (Deputy head of Membership Division), who together with his colleagues from the same division, presented the Membership rules and regulations, as well as the role of their division in the Egyptian Market. After, they had a group discussion with participants to reveal the membership rules in other countries.

After the end of the session, the participants had the opportunity to visit Giza and the Pyramids of Egypt, as well as to enjoy the Sound&Light show getting closer to the Egyptian history and culture.

The topic of the third day was Surveillance. This year FEAS Secretariat invited Mr. Mohammad Abu Baker - Acting Chief Operations Officer of FEAS Member Palestine Exchange (PEX). Mr. Abu Baker spoke about the Surveillance Framework and presented the results of FEAS Surveillance task force, which was led by PEX.

The third day was continued with the presentation of Mr. Mostafa Barakat - Section Head of Surveillance Division in EGX. Mr. Barakat presented the Surveillance rules and regulations in EGX, as well as the Surveillance operations system and its importance in the Egyptian Market. The day was concluded with the presentation of Mr. Ahmed Abu ElSaad (Managing Director of Rasmala Egypt), who spoke about the Economic reform story of Egypt, as well as about the development and opportunities of current Egyptian Market. After a very informative training day EGX has organized a city tour around the Old Cairo city for the participants of the training.

Another day of training started with the presentation about Risk Management and its types. The session was held by the Supervisor of Risk Management Department of EGX – Ms

Hanan Hamdi. She was followed by Mr. Ahmed Roushdy (Deputy Manager of the Risk Management Department), who had a presentation on Sustainability. He spoke particularly about why sustainability is important for the capital market, about global and regional sustainability initiatives, as well as presented EGX sustainability Index Case.

The day was concluded with the participants' visit to Disclosure and Surveillance departments of EGX, where they had the opportunity to communicate with the employees and to see their systems in practice.



Participants of the training visited the Egyptian Exchange and its museum. The Chairman of EGX Mr. Mohamed Farid Saleh welcomed all the participants, congratulated them on the successful end of the training program and handed them training certificates.

In the second half of the day, participants visited the Misr for Central Clearing, Depository and Registry (MCDR), where they were given a presentation by Dr. Tarek Ezzat Abdelbary (CEO of MCDR) on the activities and programs of MCDR.



2018 Fellows (in alphabetical order): Ali A. Aqoolee (Iraq SE), Golibjon Tursunov (Republican SE "Tashkent"), Hamza Al-Zamar (Amman SE), Hasmik Zakaryan (Nasdaq OMX Armenia), Hayk Babayan (Central Depository of Armenia), Lina Abu-Diab (Palestine Exchange), Mahdi Mahdian (CSD of Iran), Mohammed Al Hasani (Muscat Securities Market), Najed Al Najdawi (SDC of Jordan), Negin Allahyari Sani (Iran Fara Bourse), Shalena Hanif (Bursa Kuwait), Timur Kazgambayev (Kazakhstan SE).

THE INTERVIEW WITH THE CHAIRMAN OF THE EGX - MR. MOHAMED FARID SALEH

In the frames of 7th Onsite Training of FEAS which was hosted by FEAS member Egyptian Exchange the Member Relations Manager of FEAS - Ms. Ani Alikhanyan, had an interview with Mr. Mohamed Farid Saleh, Chairman of the Egyptian Stock Exchange (EGX).

Read the article below to explore about the current and upcoming developments of EGX.



Mr. Mohamed Farid Saleh
Chairman of the Egyptian Exchange (EGX)

Good afternoon Mr. Farid Saleh,
Firstly I would like to thank you for co-organizing and hosting FEAS 7th Onsite Training.
Let's start our interview with the following question:

How would you characterize the stock market currently?

- I would characterize it as improving. We are trying to implement an aggressive reform plan that touches the entire value chain of the Egyptian capital markets. From a supply side, as represented by the companies listed and the quality of disclosures, this involves looking at the communication between listed companies and investment banks, asset managers and brokerage companies. We've made plenty of effort in this area. We are also working on the intermediation aspect of the markets – the systems of trading, providing more capacity for investors to trade freely, in this environment – while introducing new financial products and tools to be traded in the market. And then we have the demand side, which basically involves facilitating the communication and the enquiry process by investors and trying to create broader financial or investment literacy. We're working with companies on this on a one-to-one basis, because we need more participation. If you adopt a 20-25 year investment horizon, incremental saving approach, you're definitely better off investing in capital markets compared to other investment vehicles in general.

If we're talking about in 25 years having a growing middle income class that is, relatively speaking, wealthier than what we're seeing now in terms of per capita GDP or per capita income, it has to happen through the capital markets. One amongst several clear differences between Egypt and other advanced markets relates to private pension schemes. In many advanced markets, the pension and insurance systems are quite large, and they are quite well equipped for these types of investments, so participation is high. For economies like Egypt, we still need to work on expanding the pension system on the one hand and promoting education for the pensioners to be able to invest their money in capital markets, on the other.

So we're trying to address these needs by immediately educating people in the middle income bracket so they can try to invest directly in capital markets via an incremental saving approach mechanism.

And how is this education taking place?

It's basically pitching to 200-300 employees per company, which is quite unorthodox, but the response and feedback is always positive. People have noted that it is the first time they have seen efforts being made to educate them on what the different products listed in the stock market are and how they can invest in them.

We first targeted relatively high paying companies – multinationals and the like – because their employees can afford to accrue incremental savings on a gradual basis. None of the participants are satisfied with only one round – they all want a second. We've done our homework also, so we can show them, for instance, if you had invested in EGX 30 in a diversified portfolio in 1998, on a gradual basis, compared to putting your money in FX, or putting your money in gold, this is what your returns would have been. We show them that the differences are significant and can have an impact on their income level in the long run.

We understand that part of EGX's plan for growth is to add new financial instruments to the Stock Exchange. Can you expand this more?

Both trading mechanisms and financial instruments are very important in the effective functioning and growth of the Stock Exchange. As well as adding new financial instruments, we are trying to simplify the trading mechanisms as much as possible. So for example we have conducted an extensive study on circuit breakers - a mechanism by which, if the price of a certain stock changes plus or minus 5%, you get to cease other markets – both advanced and emerging – we concluded that 30 minutes was too long a period to cease trading. So we took the decision in my first board meeting September 2017, to reduce the circuit breaker timing from 30 minutes to 15 – which is still quite long. The halt time was again reduced to 10 minutes in October 2018. Then we proposed amendments to something called intraday trading – a trading mechanism whereby there are certain limits on the amount of stocks that you are allowed to trade per day, for certain companies. After taking the opinion of market participants and comparing our situation to that of other markets, we proposed to the regulator that these limits be expanded. So that was another step to facilitate the process of trading in the market. The impact of dividends on the price of stocks is another important area we have looked at. It is well known that if there is a cash dividend being paid the stock price goes down immediately, with the amount of dividends – because basically this is cash being stripped out of the company. So if you have, for example, a stock of 100 pounds with dividends of 7 pounds, its value automatically decreases by over 5% in spite of not having been traded. It then opens by being suspended, due to the circuit breaker, and this is problematic.

So we have amended how we deal with circuit breakers for stocks that have sizeable dividends in the market.

ETFs – Exchange Traded Funds – are also very important and under-utilized. They are investment funds, however their certificates are being traded in the market. What is the benefit of this? Well, by buying one certificate, you're effectively buying 30 companies, which is EGX 30, so it's a very easy means of diversification. We found that this mechanism was not very active and one of the reasons for this is that there was no margin or credit available, due to the regulations. So basically if you buy an ETF, you would do so without being able to both borrow money and buy the ETF. So we have proposed that the ETFs should be traded using a margin, to stimulate activity in this area.

THE INTERVIEW WITH THE CHAIRMAN OF THE EGX - MR. MOHAMED FARID SALEH (CONTINUATION)



“Both trading mechanisms and financial instruments are very important in the effective functioning and growth of the Stock Exchange.”

When it comes to financial products, there has recently been a legal amendment to the Capital Markets law that set the regulatory framework for establishing and trading derivatives in the Egyptian market, so that is one of the items that we would want to introduce soon. This will add to the diversity of financial products, enabling investors to hedge their position for risk management purposes - even for investment purposes.

Hopefully if we manage to get the items that everyone is worried about being traded as futures for derivatives, it would be of added value. So for example, everyone is worried about the increased prices of real estate so if we manage to have indices on real estate and accordingly have futures on these indices, you would be able to hedge your position on the assumption that there will be an increase and either make some remuneration towards this price increase or benefit from the price increase, despite not being capable of buying the underlying asset itself. So these are some of the products that we're tinkering with, and trying to push, in this area.

What are some of the anticipated benefits of the IPO program due to be implemented this year?

A core part of the deepening of capital markets, and the root for attracting FDIs and better participation from the private sector, is through expanding the ownership of state owned enterprises. So what has been announced by the government, represented by the Ministry of Finance, is that they have 23 companies – nine are already listed – to be listed and traded in the market. Hence they are going to expand the number of shares to be floated to the market. This in itself will directly attract new international investors to the market.

Foreign investors often express a need for more sizeable companies to be listed, especially following the devaluation. For someone to be able to put a ticket of 50 million dollars in one company, it could be the value of the entire company – not only the free float – so the more you expand on the free float size in the market, the more opportunities you create for investment.

So definitely the proposed IPO program will be beneficial – not only from a financial perspective for the government, but also because of the discipline required when you are listed on the Exchange. Companies need to abide by the listing rules and requirements, so they need to have quarterly financial statements published on time, board representation needs to be disclosed.

So the entire discipline process and governance that happens, due to the listing aspect, improves the company's performance in general. We need to remember we are not working in a vacuum; we have competition from regional exchanges, regional economies, and international economies. We need to be equal to this and pursue every single reform measure.

About EGX

The Egyptian Exchange is one of the oldest stock markets established in the Middle East. The Egyptian Exchange traces its origins to 1883 when the Alexandria Stock Exchange was established, followed by the Cairo Stock Exchange in 1903.

The vision of EGX is to be a World-Class, Egypt-based Exchange: the Premier Capital Market in the Middle East & North Africa Region that best serves its stakeholders.

The mission of EGX is to operate and develop a high quality market for the benefits of its Egyptian and international clients. EGX will serve and empower its customers by providing top notch market technology, innovative products, fair, transparent and efficient market.

EGX Values

EGX has a set of values that define its culture and belief in applying high standards of ethics and integrity with all its stakeholders:

customers, members, issuers, managers, employees, regulators, the international and local investment communities.

The values comprise the following:

Customers (issuers, members, and investors) come first.

Just and equitable business environment. High standards of integrity and the highest ethical standards from our employees and market participants. We regulate our market in accordance with international best practices.

Continuous learning and employee training enable EGX to better serve its customers.

Our business, mission and values are comprehended by our employees.

Continuously respond to the changing needs of internal and external environments.



Follow the link below to get more information about The Egyptian Exchange:

<http://egx.com.eg>

THE INTERVIEW WITH THE CEO OF MCDR - DR. TARREK ABDEL BARRY

In the frames of 7th Onsite Training of FEAS which was hosted by FEAS member Egyptian Exchange, the participants of the training together with the Member Relations Manager of FEAS - Ms. Ani Alikhanyan, had the opportunity to visit also the Misr for Central Clearing, Depository and Registry (MCDR) of Egypt. Here the CEO of MCDR - Dr. Tarrek Ezzat Abdelbary, had a presentation for Training participants and a short interview with FEAS Member Relations Manager.



Read the article below to explore "Why MCDR decided to join FEAS?" "What are the main criteria for its success?" and much more about MCDR.



Dr. Tarek Ezzat Abdelbary
Managing Director of Misr for Central
Clearing, Depository and Registry (MCDR)

“Investors must feel the harmony
between the two financial entities.
They complete each other.”

Good afternoon Dr. Abdel Barry,

Firstly I would like to thank you for welcoming FEAS Onsite Training participants in the premises of MCDR, and for having a very informative and useful presentation for them.

I would like to start our interview with the following question:

This year MCDR has rejoined FEAS community. What are your expectations from FEAS? Why it's important for MCDR to be a part of FEAS?

- MCDR has rejoined FEAS hoping utilizing the world recognition of the FEAS to alter the obsolete concept that CSDs and Exchanges are competitors. Investors must feel the harmony between the two financial entities. They complete each other. Each entity has its own obligations and role in the capital market. Simply Exchanges are trade services provider and CSDs are post trade services provider. This does not waive the fact that both entities need to diverse other sources of revenues other than regular services.

MCDR is one of the oldest Depository Centres in the region. What are the main criteria for its success?

- The main criteria are:

- * MCDR commitment towards the services it provides, towards the market and all market players.
- * Respecting the different mentalities of different investors.

- * Abiding to rules and regulations
- * Adaptation according to international standards and market needs
- * Being flexible seeking developments all the time.

MCDR does all the functions of a depository, registry keeping, and clearing. What are your future steps on the combination of FinTech and classic depository and registry keeping services?

- Currently, financial technology is being used on a large scale of the process of straight through processing of activity of MCDR, however the current extra high level facility provided in the banking sector and the extra use of fin Tech is highly respected by the company, leading to detailed study to be used wherever it could be to facilitate the services provided by the company.

It's a well-known fact that MCDR pays attention to Social Responsibility. How you apply it?

- Luckily, MCDR noticed that maintaining the level of success and keep the role of leadership in the region are all conditioned by maintaining the level of company's services and role awareness among the different levels of the Egyptian population. So, MCDR is very keen to;

- * Provide summer training to university students
- * Hold seminars, workshops on any new system, law, service, etc
- * Provide training to technical people working in custodian banks, brokerage firms, mutual funds on various systems they are operating such as the bookkeeper system, register owner, primary dealer, ETFs, etc.
- * Hold regular meetings with different market players to listen to their problems, obstacles, suggestions or even thoughts about any new financial tool or system prior to introducing it to the market. MCDR's principle is to allow everyone to participate and share knowing that everyone has a role to play. It is not a one man show, harmonization among different roles is a must.

What are the major goals of MCDR for the next year?

- The major goals are:

- * Introducing new financial tools, sukuk is one of them.
- * Introducing new systems to enhance and develop the role of the depository
- * Maintain the high level of the capital market awareness among the Egyptian population
- * Attracting foreign investments despite the fact that in severe economic disturbances, the domestic investors are the one who save the economy unlike the foreign investors who seek other stable markets.

About M.C.D.R

Misr for Central Clearing, Depository and Registry (MCDR) was established within the framework of the programs adopted by the Capital Market Authority (CMA) for developing the capital market mechanisms and applying the central depository system.

The main objective of the MCDR is to apply the central depository system, effect central registry of securities traded in the Egyptian capital market and facilitate securities trading on dematerialized shares.

MCDR also aims at undertaking clearing and settlement on securities traded in the capital market and applying the Delivery Versus Payment system.

Follow the link to get more information about MCDR: www.mcsd.com.eg





**THANK YOU
FOR BEING A
PART OF FEAS!**

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