



## **Financial Market Council**

### **The 2018 annual report summary**

#### **I- The financial market activity:**

During 2018, the Tunisian financial market was marked by extended efforts to reinforce the official listing of the Tunis Stock Exchange, through the introduction of a new company on the main stock market, giving rise to an additional capitalization of 62 million dinars. Thus, the number of listed companies reached 82 at the end of 2018, including 13 listed companies on the alternative market.

As for the overall market capitalization, it reached during the year 2018, 24 380 million dinars amounting to 23.1% of the gross domestic product (GDP) against 21 852 million dinars in 2017, which shows an increase of 11.6%. Foreign participation in the market capitalization also increased in 2018 reaching 24.90% compared to 23.31% in 2017.

In terms of secondary market, the Tunindex index closed 2018 with 7271.65 points, recording an annual significant increase of 15.76% with regards to 2017, during which it grew by 14.45%. The stock prices of the newly listed companies followed a broad upward trend; 45 companies recorded an increase against 36 declines.

Regarding the stock market intermediation industry, it recorded a significant rise of 10% in the overall volume of transactions performed by the stock market intermediaries in 2018, which reached 3837 million dinars against 3480 million dinars in 2017. The trading activity volume of the listed companies had also considerably developed, going from 2408 million dinars in 2017 to 2521 million dinars in 2018, an increase of 5%.

For their part, mutual funds enjoyed a year of relative stability in 2018. In fact, their number reached 124 funds spread out among 40 fixed-incomes of bond-type funds, 82 mixed-type funds and 2 equity mutual funds. The net asset value fluctuated during 2017 until 31 December 2018 between 4390 million dinars and 3908 million dinars.

As regards the venture capital industry indicators during 2018, the number of companies went from 111 in 2017 to 110, broken down as follows 57 venture capital investment funds, 44 private equity funds and 9 seed funds. The venture capital investment funds completed 144 projects with an overall value of 453.1 million dinars of which 50% concerned companies hiring less than 20 employees and 30.6% of companies hiring between 20 and 50. This reveals the importance of the venture capital industry in terms of raising the equity capital of small and medium-sized enterprises as well as in term of job creation, particularly in the interior parts of the country, in which 97 projects were

conducted with a value of 317.4 million dinars. On this basis, it should be noted, that during 2018, the interventions of the various venture capital investment funds led to the creation of 7500 direct employment positions.

Despite the critical situation of the national economy and the rise in money market rates which attracts savers and deepens the competition of the money market in relation to the financial one, the overall positive results achieved by the financial market during 2018 reinforce the Financial Market Council in its approach aiming at strengthening its cooperation with all market participants in Tunis, to improve the market's performances in developing its participation in financing the private investment. To achieve this goal, raising awareness of investment opportunities in the stock market and a significant assistance to companies planning to engage in the initial public offering (IPO) process, are required.

**II- The Financial Market Council Activity:**

**1. Strengthening the financial transparency:**

Throughout 2018, the Financial Market Council kept on providing the means for an accurate and reliable financial information disclosed by public companies, during approval granting to financial transactions, controlling the compliance with periodic and timely financial disclosure or when overseeing threshold crossing transactions.

In this context, the Financial Market Council ensured the transparency requirements within the market, in order to allow investors access an accurate

information and take informed investment decisions. On this account, the Financial Market Council did not hesitate to call to order recalcitrant companies by enjoining them to comply with the legal and regulatory deadlines for disclosing financial information.

Consequently, due to control operations, 2018 recorded only a moderate decrease in the financial disclosure levels, since the rate of public companies, with respect to the legal deadlines for disclosing their annual financial statements, has dropped from 94% in 2017 to 88% in 2018.

In order to address the shortcomings referred to previously, the Financial Market Council auditioned the managers of the concerned companies, committing them to comply with the regulatory deadlines with respect to financial disclosure. The regulator has also conducted investigations against companies that do not comply with the applicable rules. However, it is noteworthy that the recorded delays are generally related to exceptional events, such as the appointment of new auditors or the implementation of an information system or even liquidity problems due to the national economic situation.

Thanks to continuous efforts of the Financial Market Council, 2018 has experienced a slight increase as regards the rate of compliance with the disclosure requirements by public companies. Indeed, the disclosure of the interim financial statements rose from 68% in 2017 to 72% in 2018. The same thing applies to quarterly activity indicators of public companies which moved from 80% in 2017 to 88%.

## **2. The protection of invested savings in securities:**

As for the protection of investments in securities as well as any other investment in an initial public offering, the Financial Market Council set out comprehensive control programs for all market participants, such as intermediaries, securities portfolios managers on behalf of third parties or depositaries of assets of collective investment schemes. The Financial Market Council also investigated complaint cases in order to allow investors recover their rights in case of misconduct committed against them.

In this context, during 2018, the Financial Market Council handled two complaints. The first one related to a non compliance of an intermediary regarding financial disclosure requirements. The second one concerned the disregard by an asset management company of investment decisions ordered by holders of a fund which it manages. The Financial Market Council also initiated thirteen investigations relating to violations of financial disclosure committed by a public company on the alternative market, as well as to a non-compliance with the legal and regulatory requirements, carried out by intermediations and management companies, in accordance with « The fight against money-laundering and terrorism financing law».

As a result of the performed investigations and after meeting all legal conditions including those ensuring the rights of defense, the Financial Market Council's College decided in 2018 to impose disciplinary and monetary sanctions against those breaches of law, in order to protect the financial market against securities violations, to guarantee its integrity and to strengthen investor's confidence.

### **3. Development of the legal and regulatory framework of the financial market:**

It is clear that strengthening the legal framework governing the Tunisian financial market represents the cornerstone of its performance progress. Based on that, the Financial Market Council participates actively in the development of the legislative and regulatory framework to protect mutual funds, by enacting the appropriate rules to guarantee the integrity of market transactions and to promote the need for transparency.

During 2018, the regulator amended its rules relating to the public offerings in a way to support national efforts aiming at improving the business climate and encouraging the private sector, in order to enhance Tunisia's classification in the annual report of "Doing business". New rules were introduced in the regulation, for the sake of protecting investors and allow them to access important information regarding their investments. Besides, the Council participated in issuing two important government decrees.

The first referred to the conditions of issuing Islamic Sukuks by private bodies so as to enable them to benefit from Islamic financing mechanisms and to broaden the investor base. The second government decree was enacted for the purposes of introducing money market funds into the Tunisian financial market, which are an important investment vehicle at the international level, since they provide short-term financing for the State as well as for the banking and financial institutions considering their ability to raise liquidity and to control risks.

#### **4. Enhancing the prevention of financial crime:**

Convinced that the protection of investments in securities and financial products requires full involvement in the prevention of money-laundering and terrorism financing because of the threat they pose to the integrity and the reputation of stock exchange markets, the Financial Market Council prepared during 2018 a sectoral study based on the risks associated to money-laundering and terrorism financing. This study provides a risk mapping related to these breaches and sets out a program of on-site inspections in accordance with the recommendations of the Financial Action Task Force (FATF).

In addition, The Financial Market Council reinforced its regulatory framework by amending its practical measures towards the suppression of money-laundering and combating Terrorism Financing. By doing so, the Financial Market Council intended to extend its authority in addressing arms proliferation, and to make intermediaries and management companies become responsive to face fund and asset freezing belonging to persons or entities subject to financial sanctions under United Nations Security Council resolutions.

#### **5. Reinforcement of the international cooperation:**

The increasing internationalization of financial activities and the promptness of capital transfers require better cooperation between the jurisdictions responsible for the supervision of the financial markets, particularly within the framework of specialized international and regional organizations. It also requires the adoption of common rules to better protect investors, ensure market efficiency and minimize systemic risks.

In fact, the Financial Market Council continued to build up opportunities for cooperation and partnership within the International Organization of Securities Commissions (IOSCO) as well as with other counterparts. Indeed, The Financial Market Council participated during 2018 in the Annual Meeting of IOSCO's Africa and Middle East Regional Committee -AMERC- and took part in the twelfth Annual Meeting of the Arab Union of Securities Authorities held in Beirut.

Furthermore, The Financial Market Council carried on its various activities related to information sharing and expertise exchange with its foreign counterparts, by providing assistance to information requests gathered by the Financial Market Council in the exercise of its functions and powers. Among the information requests received, some dealt with the Tunisian Financial Market regulatory specificities, processes and practices. By communicating with foreign authorities, the Financial Market Council contributed to ensure a better understanding of the Tunisian financial market and to promote the investment opportunities it offers.

Eventually, the overall results recorded by the Tunisian financial market are positive, despite the difficult and delicate economic situation. Indeed, these results highlight the need to pursue the undertaken reforms, in order to boost the role of the Tunisian financial market in the development of the economic growth and in strengthening its fundamentals. In this respect, the reform project of the legal framework governing the domestic financial market, on which the Financial Market Council is working, in partnership with all market participants, represents an important opportunity to set up new incentives and to create new products so as to raise savings, particularly the institutional ones, in order to give more depth to the market and increase the pace of transactions.