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Institutional/Training Needs Assessment and Development of Five Years Strategic Plan for the Securities and Exchange Commission, Ghana

(FINAL)
STRATEGIC PLAN 2012-17

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TABLE OF CONTENTS

ABBREVIATION

ABS	Asset Backed Securities
AIM	Alternative Investment Market
BoG	Bank of Ghana
CSD	BoG Central Securities Depository
CSD Act	Central Securities Depository Act
ECOWAS	Economic Community of West African States
ETF	exchange traded funds
EU	Euro
GH¢	Ghana cedis
GSD	GSE Securities Depository Company Limited
GSE	Ghana Stock Exchange
HR	Human Resources
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
MMoU	IOSCO Multilateral Memorandum of Understanding
MoFEP	Ministry of Finance and Economic Planning
NPRA	National Pension Regulatory Authority
OTC	over-the-counter
PPP	Public Private Partnerships
REITS	Real Estate Investment Trusts
SEC	Securities and Exchange Commission, Ghana
SET	Stock Exchange of Thailand
SME	small and medium sized enterprise
SRO	self-regulatory organisation
SSNIT	Social Security and National Insurance Trust
UNITAR	United Nations Institute for Training and Research
US	United States of America
USD	US dollars
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This Strategic Plan 2012-17 sets out the SEC's vision for the development of the Ghanaian capital market and has been prepared with extensive input from market participants and other stakeholders. It outlines the major strategic objectives to be implemented within the Plan period and provides implementation strategies, activity implementation plans and a monitoring and evaluation mechanism. It is intended that the Plan will be used by participants in the securities industry to formulate their own business and operational plans.

The Plan encompasses an assessment of the current capacity of the SEC to carry out its statutory functions together with an evaluation of the regulatory framework in the light of the Objectives and Principles of Securities Regulation published by the International Organisation of Securities Commissions (IOSCO). Preparation also included an appraisal of the current state of the capital market and the conditions under which the market will develop and foster together with a review of the SEC's HR strategy and training needs/skills assessment.

The SEC's Vision is the creation of an efficient and effective capital market regulatory framework for Ghana. The Strategic Plan supports this vision as well as supporting Government policy of developing the capital markets.

SEC has set the following four strategic objectives:

i. **Enhancement of capital market infrastructure and strengthening the capacity of capital market institutions and intermediaries.** The objective will be achieved by creating the right environment for issuers, investors and market intermediaries to participate in the market, improved accessibility to the capital market by investors and issuers, the enhancement of good corporate governance practices, and strengthening the professional and managerial capacity of market intermediaries and licensed institutions.

   More specifically SEC will:

   - introduce corporate governance standards for licensees;
   - establish a corporate governance watchdog group;
   - commission independent review of stock exchange trading algorithm and GSD / CSD risk management systems;
   - draft changes to SIL to require directors, compliance officers and substantial shareholders to seek prior approval from SEC;
   - introduce sub categories of licences;
   - develop a Securities Institute, Resource Centre and Library;
   - issue regulations governing the trading, sale and promotion of securities via the internet;
   - issue regulations governing margin trading and financing and stock borrowing and lending; and
   - issue a consultation paper on short selling.

   During the period of the Plan, GSE will demutualise.

ii. **Development of capital market products and services.** This objective will be achieved by promoting financial innovation and creation of new products, attracting new companies to list on the GSE and broadening the range of domestic and regional products and services with a strong focus on equity, small cap, CIS, bond and commodity market development.

More specifically SEC will:

- review issuer disclosure of information regulations and the GSE listing rules;
- analysis and propose incentives for issuers and investors;
- review advisers’ fees and charges;
- work with securities regulators, exchanges and other stakeholders from ECOWAS to identify the benefits of and work towards harmonisation of rules and a regulatory framework;
- develop regulations for a Commodities Market;
- develop the infrastructure and corporate bond market;
- develop regulations on ABS;
- undertake a feasibility study on currency, financial, index and equity based derivatives;
- review regulations governing CIS;
- introduce regulations on REITS; and
- introduce a new Corporate Governance Code for listed and all public companies and seek assistance in extending the Code to companies licensed by BoG, NIC and NPRA, SOE, and large private companies.

During the period of the Plan, GSE will;

- develop new indices and index products;
- introduce SMS and email notification system;
- prepare report to Government on benefits of listing of energy and other companies licensed to operate in Ghana;
- prepare new rules on secondary listing;
- enforce 25% free float rule and require companies to have a minimum of 100 million shares for main board listing;
- investigate why there is reluctance from banks to listing;
- prepare report to Government on benefits of future disposal of holdings in former SOE via GSE, on allowing SOE and statutory bodies to raise capital via the stock exchange;
- develop a small cap (OTC/SME) market; and
- seek support for a Listing Support Fund.

iii. **Promote Public Awareness and Corporate Education.** The objective will be achieved through increased promotion, issuer and investor education and public awareness; and enhancement of public understanding of capital markets and investor rights thereby fostering an investment and savings culture and strengthening financial literacy.

More specifically SEC will:

- promote benefits of listing and education of companies and advisers;
- promote good corporate governance;
- launch long term educational programmes aimed improving investor awareness and encouraging participation in the securities market;
- introduce money management into the school curriculum; and

- implement a financial literacy survey.

iv. **Establishment of a robust, supportive, legal and regulatory framework that conforms to international best practice.** The objective will involve review of the existing legal and regulatory framework, capacity building and enhancing the internal structure, systems, policies and procedures of the SEC, thereby facilitating market development and enforcement efficiency.

More specifically SEC will:

- draft amendments to the SIL;
- discuss with MoFEP changes to Board appointment, accountability and budgetary freedom;
- discuss licensing application with CSD;
- commission and adopt a documented risk assessment;
- undertake an exchange and clearing system oversight programme;
- review office routines to strengthen audit trails;
- prepare a comprehensive office procedures manual;
- introduce permanent licences;
- introduce risk-based supervision;
- change the Regulations on notification requirements and prior notification of advertisements;
- introduce licence sub categories;
- introduce mandatory qualifications for certain positions in market operators;
- introduce new Regulations on market operators' notification requirements, prior notification of advertisements and submission of complaints summary;
- prepare contingency plan for the failure of an intermediary;
- implement the new market surveillance system;
- determine role of demutualised GSE as an SRO;
- implement new SEC HR strategy and staff training programme.

Implementation of the above activities will help SEC to achieve its goals of:

- raising the level of investments via the securities market from 0.74% to 1.5% of GDP;
- raising stock market capitalisation from 0.6% to 1.2% of GDP;
- increasing the number of main market listed companies from 35 to 55;
- increasing the amount of capital raised via corporate bonds issues from 4 to 21;
- increasing number of companies on a small cap (SME/OTC) market from 0 to 22;
- raising the number of people owning securities from 1.9% to 3.8% of the adult population;
- increasing the financial literacy level by an average of 10% per annum.

FOREWORD BY THE CHAIRMAN

CHAPTER ONE: INTRODUCTION

Need for a Strategic Plan

1. The Strategic Plan is set against a backdrop of changing economic environment in Ghana and across the globe. The Plan, which supports Government policy of developing the capital markets, goes beyond routine day to day operations to a much longer-term development plan for sustainable growth of the capital market, with the following high level goals:

   - Promoting efficiency, transparency, integrity and reliability of market mechanisms and providing the necessary infrastructure to enhance market competitiveness.
   - Development of the Ghanaian capital market by the introduction of quality products; traded on a professional marketplace under fair and transparent rules by professionally qualified and financially secure market participants.
   - Improved corporate and public awareness of the capital market and stimulation of a savings and investment culture.
   - Strengthening the legislative and regulatory environment and maintaining high professional standards of the Securities and Exchange Commission, Ghana (SEC) as the capital markets regulator.

2. Preparation for the Plan included an assessment of the capacity of the SEC to carry out its statutory functions together with an assessment of the regulatory framework in the light of the Objectives and Principles of Securities Regulation published by the International Organisation of Securities Commissions (IOSCO). Preparation also included an assessment of the current state of the capital market and the conditions under which the market will develop and foster.

3. The Strategic Plan therefore deals with the SEC's vision for the development of the Ghanaian capital market in the short to medium term. It has been prepared with extensive input from market participants and other stakeholders. It outlines the major strategic objectives to be implemented within the Plan period and provides implementation strategies, activity implementation plans and a monitoring and evaluation mechanism. It is intended that the Plan will be used by participants in the securities industry to formulate their own business and operational plans.

4. A valuable output from the Plan has been an HR Strategy and Training Plan for the SEC based on input from the capital markets and regulatory assessments. Successful implementation of the HR Strategy and Training Plan will ensure that staff of the SEC are fully equipped to carry out their regulatory functions and responsibilities.

5. To strengthen the monitoring and evaluation of the Plan each responsible officer within the SEC will develop a set of performance indicators to be used for periodic reporting for each output; a senior management meeting chaired by the Director General will be held periodically to report progress on the implementation of the Plan; and the monitoring and evaluation process will be directly linked to the annual performance of the SEC. The Plan will be updated on an annual basis and a comprehensive review of the Plan will be undertaken at the end of 2014.

6. The four strategic objectives of the Plan are:

- Enhancement of the capital market infrastructure and strengthening the capacity of capital market institutions and intermediaries.
- Development of capital market products and services.
- Facilitation of an investment and savings culture.
- Establishment of an effective, independent, supportive, legal and regulatory framework that conforms to international best practice.

7. These objectives will be achieved by inter alia:

- the creation of an environment that will encourage issuers, investors and market intermediaries to actively participate in the market;
- promoting financial innovation, the creation of new products and services and encouraging new companies to list on the GSE;
- improving accessibility to the capital market by investors and issuers;
- improving the level of financial literacy and public understanding of capital markets through systematic investor education and public awareness programmes;
- promoting corporate education and understanding of financial markets;
- introducing fiscal and other incentives to encourage listing and investment in securities;
- introducing improved systems, controls and procedures in market intermediaries and licensed institutions;
- introducing new legislation that meets internationally accepted standards and reforming the legal framework to facilitate market development and enforcement efficiency;
- maintaining effective cooperation with other domestic and international regulators; and
- building capacity and strengthening the internal structure, systems, policies and procedures of the SEC.

CHAPTER TWO: ECONOMIC AND POLITICAL ENVIRONMENT

Economic Analysis

8. The forecast by IMF[1] is for activity in the advanced economies to expand by 2.5 percent during 2011–12, which is still sluggish considering the depth of the 2009 recession and insufficient to make a significant dent in high unemployment rates. Nevertheless, the 2011 growth projection is an upward revision of 0.25 percent relative to the October 2010 World Economic Outlook (WEO), mostly due to a new fiscal package passed in late 2010 in the United States that is expected to boost economic growth this year by 0.5 percent.. Although growth in the periphery of the euro area is marked down for 2011, this is offset by an upward revision to growth in Germany, due to stronger domestic demand.

9. In both 2011 and 2012, growth in emerging and developing economies is expected to remain buoyant at 6.5 percent, a modest slowdown from the 7 percent growth registered in 2010 and broadly unchanged from the October 2010 WEO. Developing Asia continues to grow most rapidly, but other emerging regions are also expected to continue their strong rebound. Notably, growth in sub-Saharan Africa—projected at 5.5 percent in 2011 and 5.75 percent in 2012—is expected to exceed growth in all other regions except developing Asia. This reflects sustained strength in domestic demand in many of the region's economies as well as rising global demand for commodities

10. In his presentation to Parliament of the 2011 Budget on 18 November 2010, Dr. Kwabena Duffuor, Minister of Finance and Economic Planning, pointed to the significant progress made in the previous two years and the strong resilience and stability shown in the economy as indicated by the following key macroeconomic indicators:

- GDP growth of 4.1 percent in 2009 compared to the sub-Saharan Africa growth of 2.0 percent;
- the fiscal deficit reduced significantly from 14.5 percent of GDP on cash basis at the end of 2008 to 9.7 percent of GDP in 2009;
- inflation has trended downwards in sixteen consecutive months from 20.74 percent at the end June 2009 to reach 9.38 percent in October 2010, the lowest in the last two decades;
- gross international reserves of USD3,973.0 million at the end of October 2010 exceeded three months of import cover compared with reserves of USD2,036.2 million at end December 2008 which could barely cover 2 months of import; and
- the Cedi has strengthened and appreciated by 0.1 percent, 2.2 percent and 5.4 percent against the US Dollar, the Pound Sterling and the Euro respectively.

11. The Minister added that "the interim growth figures released by the Ghana Statistical Service clearly show that we have been able to return the economy to a path of sustainable growth. The oil and gas production which will be on stream very soon will further consolidate this effort and ensure accelerated growth. The careful and rigorous rebasing of our national income has revealed that the size of the economy has become bigger".

12. Real GDP growth is projected to reach about 12.3 percent in 2011, on account of strong performance in the manufacturing and services sectors and the coming on stream of oil production and exports.

[1] World Economic Outlook – WEO, January, 2011

13. The Budget was based on government's vision of a "Better Ghana", in which growth and economic prosperity are anchored on creating opportunities for improved standard of living for all Ghanaians.

14. The 2011 budget focuses on major growth-oriented programmes and projects designed to improve and sustain Ghana's middle income status. To this end, it is proposed there will be significant investments in the areas of energy, road and rail transport to facilitate private sector expansion for employment generation.

15. Growth of the economy in the medium term is expected to be more broad-based, with the manufacturing sector expected to expand and the oil and gas sector joining in very strongly. Growth in the manufacturing sector will be driven by the increased activity in construction, mining, oil-related infrastructure, electricity and water. The services sector is also expected to continue to grow at a faster rate, on account of the expected increase in activities in the tourism, wholesale and retail trade sub-sectors, as well as finance.

Role of the Capital Market in the Economy

16. The role that the capital market plays in the economic growth and development of the country is an important one. It enhances efficient financial intermediation, increases mobilisation of savings, improves efficiency and volume of investments, and aids economic growth and development. Economic growth hinges on an efficient and effective financial sector that pools together domestic savings and mobilises capital for productive purposes. The absence of an effective capital market could result in many productive projects which have a developmental agenda remaining unexploited.

17. The capital market connects the monetary sector with the real sector and therefore facilitates growth in the real sector and in economic development. It does this by increasing the proportion of long-term savings that is channelled to long-term investment. The capital market enables the contractual savings industry (pension and provident funds, life and general insurance companies, medical insurance schemes, collective investment schemes, etc) to mobilise long-term savings from small individual households and channel them into long-term investments.

18. The capital market fulfils the transfer function of current purchasing power, in monetary form, from surplus sectors to deficit sectors, in exchange for reimbursing a greater purchasing power in the future. In this way, the capital market enables corporations to raise capital/funds to finance their investment in real assets. This in turn leads to an increase in productivity within the economy leading to more employment, an increase in aggregate consumption and hence growth and development;

19. It also helps in diffusing stresses on the banking system by matching long-term investments with long-term capital. It encourages broader ownership of productive assets by small savers, enabling them to benefit from economic growth and wealth distribution, and providing avenues for investment opportunities that encourage a savings culture which is critical in increasing domestic savings and investment ratios that are essential for rapid industrialisation.

20. Infrastructure development is a necessary condition for long-term sustainable growth and development. The capital market provides equity capital and infrastructure development capital that has strong socio-economic benefits through the development of roads, water and sewer systems, housing, energy, telecommunications, public transport, etc. These projects are

ideal for financing through the capital market via long dated bonds and asset backed securities.

21. In addition, the capital market increases the efficiency of capital allocation by ensuring that only projects which are deemed profitable and hence successful attract funds. This will, in turn, improve competitiveness of domestic industries and enhance the ability of those industries to compete globally. The result will be an increase in domestic productivity which may spill over into an increase in exports and, therefore, economic growth and development.

22. Moreover, the capital market promotes public-private sector partnerships to encourage participation of the private sector in productive investments. The need to shift economic development from public to private sector to enhance economic productivity has become inevitable in a world of diminishing resources. It assists the public sector to close the resource gap and complement its effort in financing essential socio-economic development, through raising long-term project based capital. It also attracts foreign portfolio investors who are critical in supplementing the domestic savings levels and facilitates inflows of foreign financial resources into the domestic economy.

Political Environment

23. Ghana is a maturing democracy. In December 2008 Ghana held its latest round of general elections and much like the 2004 polls, these elections were a measure of the strength of the democratic process in a country that continues to be held up as an example for other African nations. The well-run 2008 elections and the subsequent smooth political transition have further boosted Ghana’s already-positive international reputation.

24. The presidential vote was narrowly won by John Atta Mills of the opposition National Democratic Party (NDC) over his opponent from the then-ruling National Patriotic Party (NPP). This marks the second peaceful transfer of power between the NPP and the NDC, the country’s two dominant political parties. Voting patterns in Ghana are regional in nature and this was demonstrated again in 2008, with the NPP drawing most of its support from the Akan-speaking peoples in the southern and central regions and the NDC faring strongly in the eastern Volta and the three northern regions. The NDC sits to the left of the NPP on the political spectrum.

25. The NDC was two seats short of a majority in parliament. Its narrow electoral victory means that it does not have a parliamentary majority to support its policy initiatives and the party therefore has to secure the backing of smaller opposition parties in order to pass legislation.

26. Policy is set out in The Coordinated Programme of Economic and Social Development Policies, 2010-16 “An Agenda for Shared Growth and Accelerated Development for a Better Ghana” presented to Parliament in December 2010.

27. In his speech to Parliament, the President stated that “the implementation of this Coordinated Programme of Economic and Social Development Policies will be undertaken through Medium-Term National Development Policy Frameworks. The Ghana Shared Growth and Development Agenda (GSGDA), 2010 to 2013 covers the first phase of this Coordinated Programme. It will form the basis for the preparation of development plans and annual budgets at the sector and district levels throughout the country”.

CHAPTER THREE: MARKET SITUATION ANALYSIS

Background

The Exchange

28. The Ghana Stock Exchange (GSE) was incorporated in July, 1989 as a private company limited by guarantee under Ghana's Companies Code 1963 and commenced trading in November, 1991. In 1994, the exchange converted into a public company limited by guarantee. It is the only exchange in Ghana.

29. The GSE is in the process of launching a three year Strategic Implementation Plan leading towards the eventual demutualisation of the exchange. Phase 1 of the Plan deals with the commercialisation of the GSE by growing existing business, developing new business streams and repositioning the GSE for all relevant capital market activities to guarantee future viability. Phases 2 and 3 deal with the corporatisation and demutualisation of the exchange. It may well make a public offer of securities.

30. Although a private sector initiative which was not funded by government, the GSE has enjoyed the support of the Government of Ghana. Over its twenty year history, the exchange has contributed to the development of the capital market in Ghana particularly through its education programs. Currently, there are 35 listed companies and 21 licensed dealing members on the exchange. Trading takes place five days in a week from Monday to Friday at 9.30 am to 3pm.

31. Towards the end of 2009, the GSE acquired an automated trading system and moved from a floor-based trading environment. Under this trading system, brokers are able to trade from remote locations when the market is open.

32. In September 2010, the GSE was adjudged the "Most Innovative African Stock Exchange for 2010" at the Africa investor (Ai) annual Index Series Awards held at the New York Stock Exchange. The GSE was one of seven African stock exchanges nominated for the award.

33. In early January 2011 GSE introduced a new method of calculating closing prices of equities on the market using the volume weighted average price of each equity for every given trading day.

Licensed Market Operators

34. In addition to the 21 Licensed Broker Dealer Members of the GSE, there are also 49 Investment Advisors, 12 Mutual Funds, 12 Unit Trusts, 9 Custodians, 3 Trustees, 4 Registrars and 1 licensed Securities Depository.

Table 1: Licensed Market Operators

TYPE OF MARKET OPERATOR	NUMBER
Broker –Dealers	21
Investment Advisors	49
Mutual Funds	12
Unit Trusts	12
Custodians	9
Trustees	3
Registrars	4
Securities Depository	1

Source: SEC

35. Whilst there is a category of license for an underwriter, no entity has applied for a license to undertake underwriting business.

36. Two of the 21 broker dealers are not trading in the market and of the remainder, most are not making a profit on their securities business. Whilst many of the broker dealers blame this on the high fees charged by SEC and GSE, the main reason is general lack of business – too many brokers chasing too few clients trading in too few securities.

37. All broker dealers are connected via a wide area network to the GSE's electronic trading system and to the GSD's depository system. Most brokers have or are installing new broker back office and risk management systems.

Depositories

38. The GSE Securities Depository Company Limited (GSD) was also established in 2009. It is a wholly owned subsidiary company of the GSE. It provides electronic book-entry recording of ownership in listed securities and to complement GSE's automated clearing and settlement system.

39. The Central Securities Depository (CSD) is the electronic depository for government bonds and operates on the basis of paperless electronic transfer. Between the enactment of the Central Securities Depository Act (CSD Act) in 2005 and July 2009, the Bank of Ghana was operating the securities depository as part of its overall responsibility for the government bond market. Since July 2009, however, the CSD has been operated by a separately incorporated company, wholly owned by the Bank of Ghana (BoG) and is unlicensed for this purpose by the SEC. The BoG has recently issued new rules governing the requirements and responsibilities of primary dealers in the Government securities market.

The Securities and Exchange Commission (SEC)

40. The SEC is a statutory body corporate established by the Securities Industry Law 1993 (PNDCL 333) as amended by the Securities Industry (Amendment) Act, 2000, Act 590 (SIL).

41. The main functions of the SEC are set out in the SIL and include the following:

- to license (or register or approve) the market institutions and intermediaries, such as exchanges, brokers, dealers, advisers and mutual fund functionaries;
- to set standards (formulate principles for guidance);

- to monitor market activity and compliance with regulatory obligations, including minimum financial requirements;
- to guard against abuse of the market or conflicts of interest;
- to review, approve (or deny) prospectuses for offers of securities and for rights issues, as well as proposals for takeovers and mergers between companies;
- to advise the Minister on matters connected to the securities industry;
- to create the conditions for the growth of the capital market.

42. The SEC has commissioned a review of the SIL with a view to ensuring that it has the powers necessary to perform the functions required of a signatory of the IOSCO Multilateral Memorandum of Understanding (MMoU). It has prepared a new draft SIL, which also includes amendments to address weaknesses identified in the existing SIL.

43. In addition to the SIL, the SEC is responsible for the implementation of Section 270 of the Companies Code (dealing with offers to the public) and for regulating securities depositories operating under the Central Securities Depository Act 2005. The Minister of Finance has issued SEC Regulations 2003, which set out regulatory obligations in more detail. The SEC has also issued a Compliance Manual which brings together the various regulatory obligations affecting intermediaries and, where the SEC has considered it appropriate, extends some provisions, using the powers in Sections 9 and 23 of the SIL, to issue statements of guidance and principle.

44. The SEC also regulates the operations of unit trusts and mutual funds and has issued Unit Trust and Mutual Funds Regulations, 2001.

45. The SIL vests the Commission with the role of creating the necessary atmosphere for the orderly growth and development of the capital market and advising the Government on all matters pertaining to the securities industry. This is an indication of how integral development is to the functions and mission of the Commission.

46. The SIL requires the Commission to play a pro-active role in the operations of the marketplace and has consequently vested it with the functions of:

- protecting the integrity of the market against abuses arising from malpractices such as insider dealing, market rigging and manipulation, all of which are offences under the SIL carrying penal sanctions;
- adopting measures that minimise conflicts of interest in the operations of market intermediaries and managers of collective investment schemes;
- regulating takeovers, mergers and acquisitions.

47. Although the SIL provided for the establishment of the Commission as an independent entity, its function was initially performed by the Governor of the Bank of Ghana as the interim regulator as stipulated in the SIL. It was only in September 1998 that the Commission was formally inaugurated as an independent body and commenced operations in the first quarter of 1999.

48. Under the SIL, the composition of the Commission is as follows:

- A Chairman.
- The Director-General.

- The two Deputy Directors-General.
- A representative of the Bank of Ghana not below the rank of a Director.
- A representative of the Ministry of Finance not below the rank of a Director.
- The Registrar General or his representative.
- Four other persons including either a judge of the Superior Court or a Lawyer qualified to be appointed a judge of the Superior Court.

49. The Commissioners of the SEC hold office for three years and are eligible for re-appointment at the end of their three-year term. The 11 member Commission is headed by a non-executive Chairman with the Director General being the chief executive officer of the Commission. The Commission secretariat has a total staff strength of 56.

Market Analysis

Market Performance

50. The market performed more positively in 2010 than in 2009. The year 2010 started with a steady rise in the GSE All-share index which ended the first quarter at 6,014.34 points, a positive return of 7.93%. The index then ended the second quarter at 6, 528.28 points to record a year –to –date change of 17.22%. By the end of December, the index had risen by over 30% since the beginning of 2010. This gain was well above the 12.3% interest equivalent on 91-day Treasury bills.

51. Below are current statistics on the market:

Table 2: Current Market Statistics

Listed Companies	**35**
Listed Shares:	
Ordinary shares	35
Depositary shares	1
Preference shares	1
Listed Bonds	
Corporate	1
Government-	
2-year	65
3-year	4
5- year	3

Source: GSE Market Statistics

52. Twenty of the thirty-five listed companies on the GSE saw their share prices appreciate by the end of the year, while twelve experienced a decline in their shares prices. Three equities maintained their share prices throughout the year.

53. Market capitalisation of companies listed on the GSE increased by GH¢4,210.34 million. The increase represents a gain of 26.4% over 2009's market capitalisation. The increased performance was led by stocks from the financial sector.

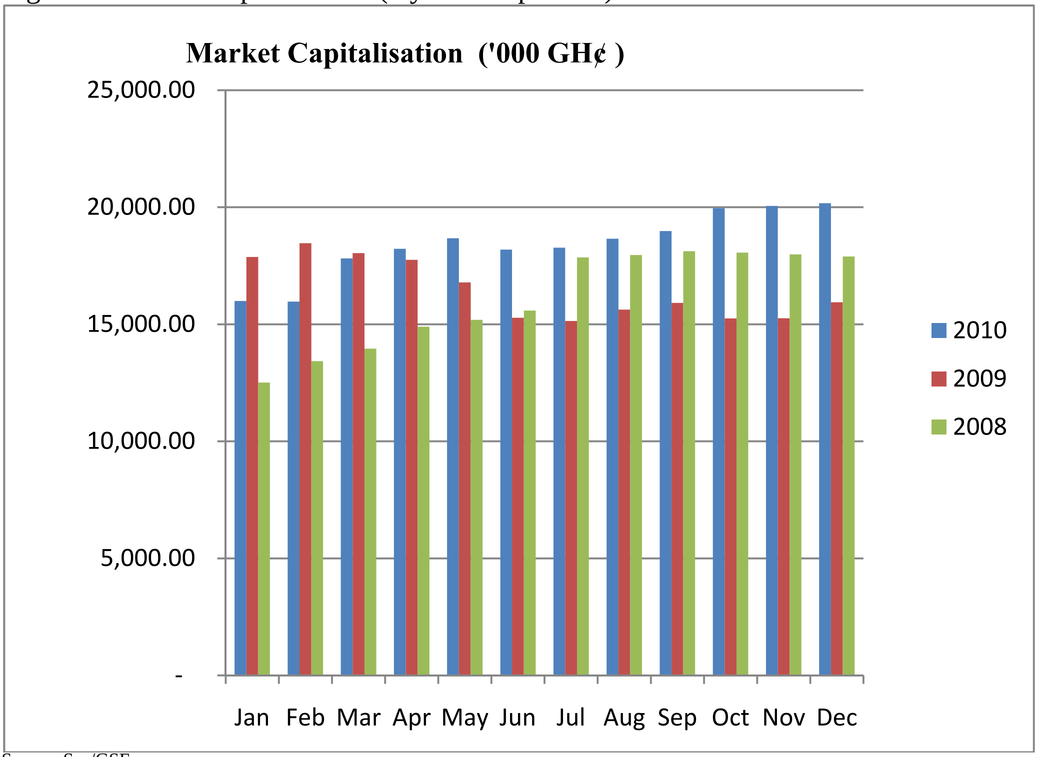
Table 3: Market Capitalisation (3 year analysis)

Market Capitalisation (GH¢ million)

Month	2010	2009	2008
Jan	15,997.03	17,872.87	12,513.29
Feb	15,970.37	18,465.15	13,426.32
Mar	17,815.51	18,041.20	13,961.62
Apr	18,225.16	17,751.90	14,897.37
May	18,672.79	16,787.22	15,190.72
Jun	18,191.30	15,279.49	15,587.76
Jul	18,270.11	15,139.50	17,852.38
Aug	18,655.66	15,627.55	17,953.91
Sep	18,982.61	15,914.08	18,119.78
Oct	19,962.79	15,249.75	18,057.51
Nov	20,053.78	15,257.65	17,984.69
Dec	20,116.70	15,941.92	17,895.12

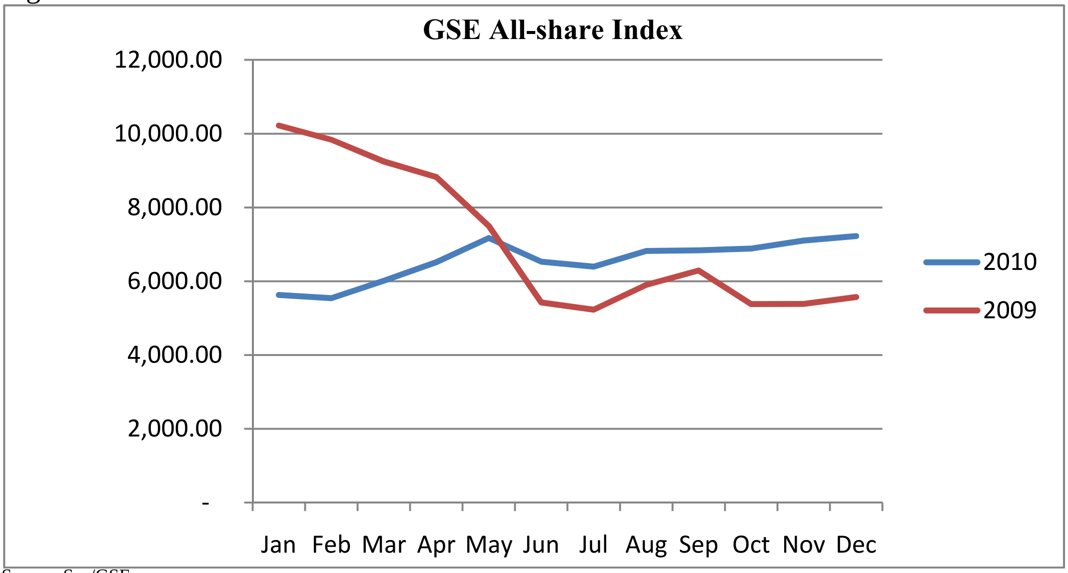
Source: Sec/GSE

Figure 1: Market Capitalisation (3 year comparison)



Source: Sec/GSE

Figure 2: GSE All-Share Index



Source: Sec/GSE

Market Liquidity

54. Among the major contributors to market liquidity in 2010 were the banking stocks which accounted for over 30% of the total volume of shares traded on the GSE. Other equities which recorded impressive trades were the Insurance stocks, Fan Milk Limited and Ghana Oil Company Limited.

55. Volumes traded per day averaged 1.23 million shares at an average value of GH¢600,000. Turnover volume started off low at the beginning of 2010 and rose steadily during the first quarter before peaking with the block trade of 141,024,085 shares of Ayrton Drug in April. This bulk trade was as a result of the acquisition of Ayrton Drugs by South African Pharmaceutical giant, Adcock Ingram. Following this unusual peak; turnover reduced to normal levels before rising again in the last quarter of the year.

Table 4: Volume Traded on GSE (3 year comparison)

Volume Traded (millions of shares)

Month	**2010**	**2009**	**2008**
Jan	14.5	7.3	22.1
Feb	12.1	4.9	39.6
Mar	58.5	5.2	21.5
Apr	152.6	19.3	66.3
May	27.7	2.2	9.8
Jun	12.7	2.6	15.6
Jul	7.5	6.3	327.0
Aug	9.2	7.6	10.7
Sep	10.7	30.0	3.2
Oct	18.8	5.5	3.5
Nov	46.3	4.6	10.5
Dec	19.6	10.3	1.2
Total (Jan-Dec)	**390.2**	**105.8**	**531.0**

Source: SEC

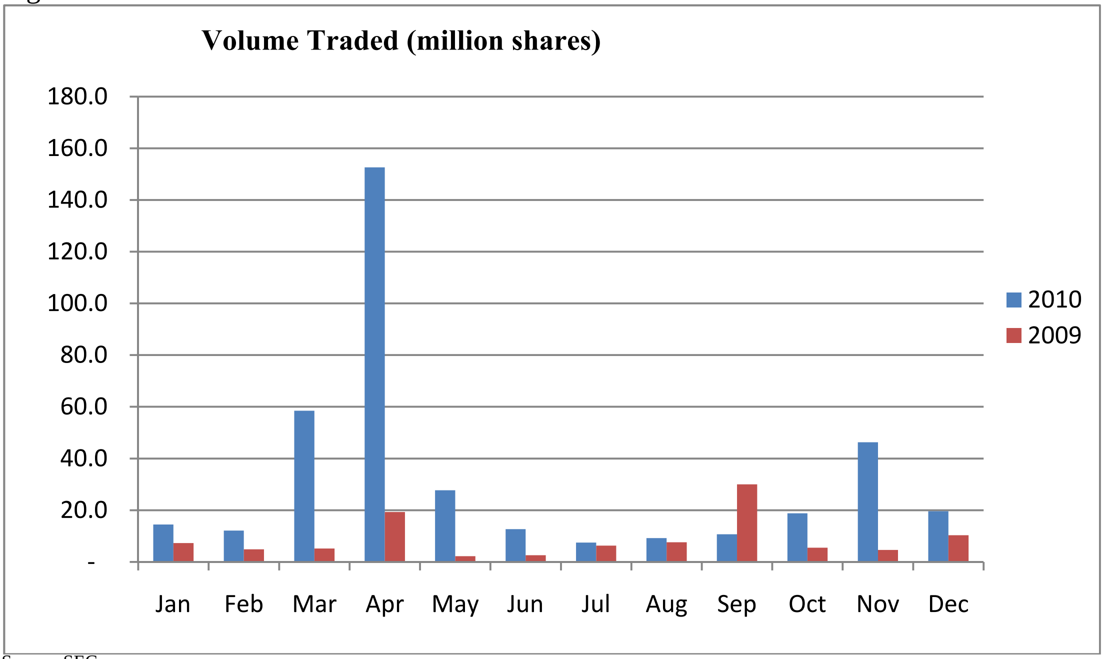
Table 5: Value Traded on GSE (3 year comparison)

Turnover Value (GH¢ million)

Month	**2010**	**2009**	**2008**
Jan	4.19	6.3	11.6
Feb	6.45	2.5	22.6
Mar	17.02	4.9	17.2
Apr	27.61	9.8	112.9
May	16.84	12.1	23.1
Jun	7.71	2.0	9.1
Jul	4.65	4.8	156.1
Aug	8.40	7.1	16.9
Sep	14.73	10.4	4.7
Oct	8.53	6.4	1.7
Nov	17.06	3.4	3.2
Dec	28.66	4.5	1.1
Total (Jan-Dec)	161.80	74.2	380.2

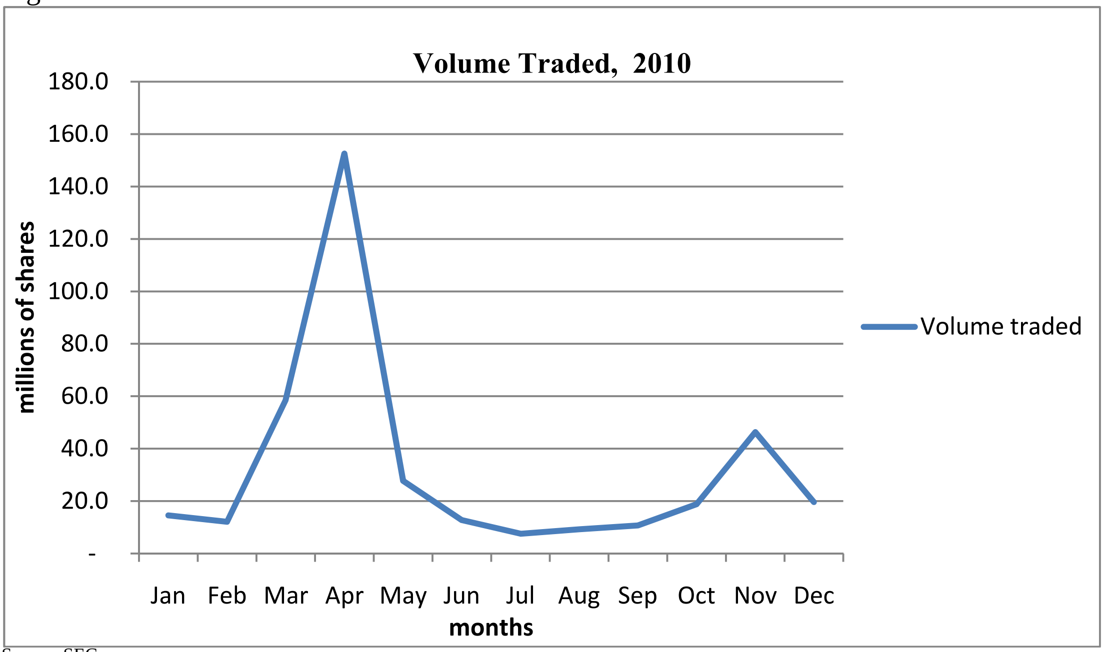
Source: SEC

Figure 3: Volume Traded on GSE 2009/2010



Source: SEC

Figure 4: Volume Traded on GSE 2010



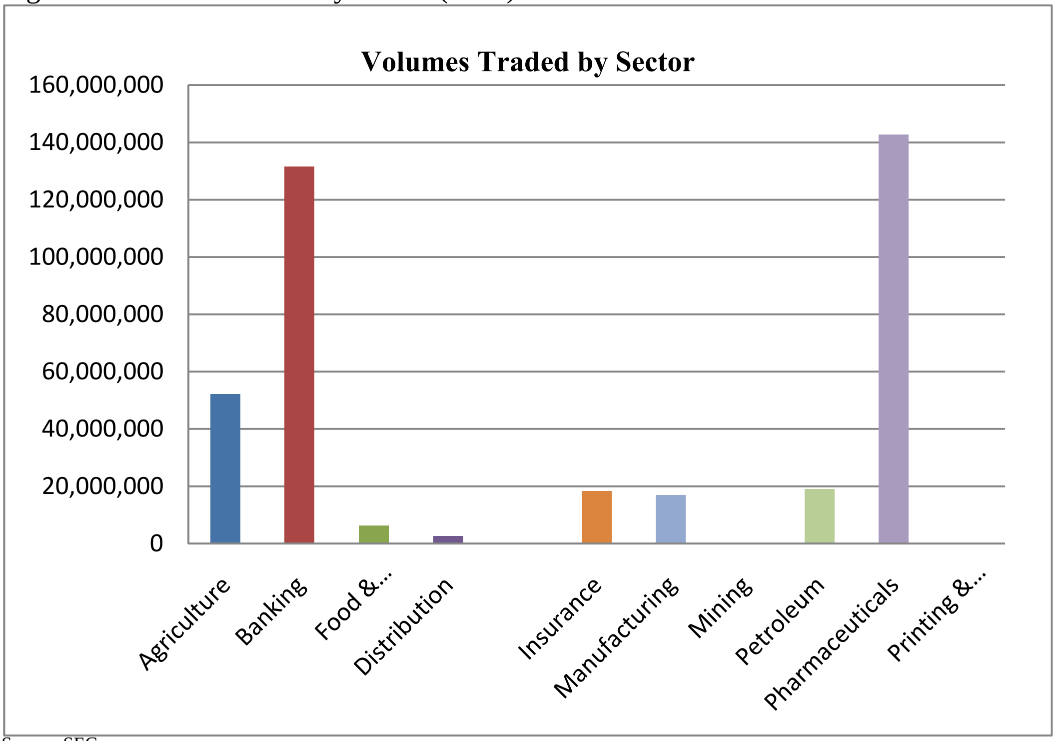
Source: SEC

Table 6: Market Performance by Sector (2010)

Sector	Volume Traded	% of Total Volume Traded
Agriculture	52,151,000	13
Banking	131,553,772	34
Food & Beverages	6,352,300	2
Distribution	2,571,900	1
Information Tech.	108,700	0
Insurance	18,248,801	5
Manufacturing	16,857,523	4
Mining	92,600	0
Petroleum	19,022,007	5
Pharmaceuticals	142,781,485	37
Printing & Publishing	159,000	0
Total	**389,899,088**	**100**

Source: SEC

Figure 5: Volumes Traded by Sector (2010)



Source: SEC

56. Market liquidity is partially impaired by a lack of margin trading and the ability to short-sell. As a result, the new draft SIL makes provision for margin trading and financing and stock borrowing and lending. Following promulgation of the new amendments to the SIL, the SEC will issue regulations governing both activities thereby facilitating margin trading.

Short selling

57. In March 2009, the IOSCO Technical Committee stated (IOSCOPD289) that short selling played an important role in the market for a variety of reasons, such as providing more efficient price discovery, mitigating market bubbles, increasing market liquidity, and

facilitating hedging and other risk management activities. However, there was also a general concern that especially in extreme market conditions, certain types of short selling, or the use of short selling in combination with certain abusive strategies, may contribute to disorderly markets.

58. IOSCO recommended that effective regulation of short selling comprise the following four principles:

    i. Short selling should be subject to appropriate controls to reduce or minimise the potential risks that could affect the orderly and efficient functioning and stability of financial markets.
    ii. Short selling should be subject to a reporting regime that provides timely information to the market or to market authorities.
    iii. Short selling should be subject to an effective compliance and enforcement system.
    iv. Short selling regulation should allow appropriate exceptions for certain types of transactions for efficient market functioning and development.

59. IOSCO was of the opinion that short selling should operate in a well - structured regulatory framework in the interests of maintaining a fair, orderly and efficient market. The primary objective of such regulation would be to reduce the potential destabilising effect that short selling, used in an abusive manner, can cause without exerting undue impact on securities lending, hedging and other types of transactions that are critical to capital formation and to reducing volatility (such as those used for risk management purposes).

60. Many markets believe that there should be a total ban on uncovered (naked) short selling although most such positions are taken over very short periods of time and are in relation to market making activities or the work of other kinds of liquidity providers; and these are closed out by the end of the trading session. When uncovered short positions are held for longer, the post-trade infrastructures in place on organised markets address the issue of potential disruption to post-trade certainty by the use of forced buy-ins.

61. In the case of covered short-selling, short sellers borrow stock or other securities and then sell them, hoping to profit from a price decline by buying the same issuer’s shares or securities in the market later for less to cover their borrowings. Short sellers therefore act as a stabilising force because they eventually have to buy back the shares they borrowed and sold. For this reason also short selling is not only difficult but risky when attempted in illiquid securities.

62. The SEC proposes to issue a consultation paper on the subject of short selling.

Internet Trading

63. In 2011, the GSE plans to institute an SMS Alert and E-mail notification system to further enhance efficiency in information dissemination.

64. In many markets the development of smart-phone technology for data dissemination and the use of the internet for trading is making markets more accessible leading to increased levels of liquidity. The Stock Exchange of Thailand (SET) recently launched “Settrade Streaming for iPad”, a real-time internet-based stock trading programme. SET first introduced mobile phone internet trading in 2009 and in 2010 launched “Settrade Streaming for iPhone”. The value of securities traded on SET via mobile phones totalled USD1.19 billion in 2010, a

724.50% increase from USD145.48 million in 2009. Stock trading via iPhones is the most popular with around 51,000 active users each month.

65. However, use of the Internet by securities market participants is not only about the ability to execute transactions over the internet. It also allows market participants to advertise and promote the sale of securities through electronic media. It is a flexible medium for securities industry participants whereby they can control the content of their websites and add new functions and services easily and quickly.

66. While the transient nature of information on a website provides enormous benefits 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. IOSCO issued its first report on addressing the regulatory and enforcement issues posed by securities activities conducted over the Internet in September 1998. Subsequent reports in 2001 and 2003 further strengthened the original recommendations.

67. The SEC will consider the issue of regulations governing trading and the sale and promotion of securities through the Internet.

GSE Demutualisation Strategy

68. Phase 1 of the GSE's three year Strategic Implementation Plan is intended to grow existing business, develop new business streams and reposition the GSE for all relevant capital market activities to guarantee future viability. The GSE's Plan has the following objectives:

- Make the market the number one choice in Ghana for raising long term funds from various instruments classes
- Make the market the number one choice for secondary trading of securities
- Make the Group the preferred choice for depository and securities registration services
- Provide IT services to the capital market
- Improve relationship with key stakeholders
- Improve the trading environment
- Improve surveillance
- Increase the number of listings
- Commercialisation of Data and Information Vending
- Improve securities education
- Review current Licensed Dealer Member (LDM) arrangements
- Further develop the GSE Depository
- Bring about cost saving measures
- Introduce an Small Cap Companies Development Market to replace the 2nd tier Official List
- Introduce market for other securities such as ETFs, open and closed ended mutual funds, commodities, etc.
- Operate the full range of registry services
- Provide centralised broker back-office to LDMs that do standard ones
- Deploy the bond trading module for corporate and government bonds
- Introduce new trading features

69. As the market develops, the GSE will consider the design of a series of indices representing the performance of Ghanaian companies to provide investors with a comprehensive and complementary means of measuring the performance of all capital and industry segments of the economy.

Listing and Trading on the GSE

70. Trading in the equity market is limited to a relatively small number of liquid securities and indeed some companies do not trade at all. The illiquidity of many shares is due in part to the small free float of many of the issuers. Whilst the listing rules of the GSE require that 25% of the issuer's shares be available to the market, in the past many companies have been exempted from this requirement. The following table shows the amount of free float available across the majority of the companies listed on the GSE:

Table 7: Equity Free Float (2009)

Trust Bank Ghana Limited (The Gambia)	0%
Ecobank Ghana Limited	5.11%
Accra Brewery Limited	5.23%
Standard Chartered Bank Ghana Limited	5.56%
Total Petroleum Ghana Limited	6.62%
Guinness Ghana Breweries Limited	7.28%
CFAO (Ghana) Limited	7.46%
Produce Buying Company Limited	8.42%
HFC Bank Ghana Limited	8.72%
Sam-Woode Limited	8.79%
Cocoa Processing Company Limited	9.15%
SG-SSB Limited	11.67%
Super Paper Products Company Limited	11.95%
Unilever Ghana Limited	12.86%
Benso Oil Palm Plantation Limited	20.55%
SIC Insurance Company Limited	20.60%
Ghana Oil Company Limited	21.06%
Fan Milk Limited	21.81%
Enterprise Insurance Company Limited	22.70%
Mechanical Lloyd Company Limited	23.78%
Ghana Commercial Bank Limited	26.72%
AngloGold Ashanti Limited	29.10%
CAL Bank Limited	34.48%
Starwin Products Limited	45.33%

Source: SEC

71. The difficulty of exempting companies from the minimum free float requirement is that little, if any, trading takes place and they tend to become just a listed security where this little advantage either to the exchange or the company.

72. There is no point in the GSE having a rule that is not observed even if there are historical reasons for this. In the interests of maintaining an active market, the GSE will enforce on new companies coming to the main market, the 25% free float requirement coupled with a requirement for a minimum of 100 million shares. This will not apply to companies whose prime listing is on another exchange and the GSE is a secondary listing,

73. Both SEC and GSE have been active in promoting to companies the advantages of going public and listing on the GSE. However, in the last few years there has been only moderate success as indicated by the following table:

Table 8: GSE listings

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
22	22	24	25	30	29	32	32	35	35	35

Source: SEC

Banks

74. A prominent feature of the capital market in Ghana is the low number of listed banks. Generally in most developing markets it is the banking sector that is the most dominant. However, only five of the 26 licensed banks in Ghana are listed on the GSE. The new capital adequacy requirements of the BoG may encourage some banks to raise capital via the stock market but some have already decided on private placements rather than public offering. A number of the banks are in fact private companies.

75. One reason being suggested as to why banks do not want to list is visibility. However the requirements of the BoG make bank information public, so the reason is not valid. It has also been suggested that banks may be reluctant to open up to shareholder scrutiny and questioning. However, that is the principle upon which good corporate governance operates and the banks should be showing the lead in this respect. Education is therefore important but prior to this, GSE should identify with the banks the details of their reluctance to list.

Listing and Licensing

76. The GSE is encouraging Government to require that companies from the mining, telecom, banking, insurance, oil and energy sectors that need a Government license should use the Ghanaian market to raise capital and should list on the GSE. If the company cannot meet the initial criteria for main market listing it would go into the small cap (SME/OTC) market.

77. This follows similar moves by the Tanzanian government which amended its Mining Act to ensure that all mining companies list on the Dar es Salaam exchange. Namibia has a similar requirement but all that are currently listed there are the parent mining companies. No trading takes place in those company's shares. It is expected that Tullow Oil Company Limited, one of the partners of the Jubilee oil fields, will list on the GSE and issue a portion of its shares on the Ghanaian market and this is the model that others should be encouraged to follow.

78. The efforts of the GSE are commendable but it is difficult to see how mandatory listing could be enforced without new legislation which is likely to be opposed by the foreign companies as it was in Tanzania. However, GSE should present to Government a paper on the benefits to the capital markets and Ghana of such a requirement.

79. Apart from the fact that enforced listing may deter companies from seeking to do business in Ghana, the difficulty with forcing companies to list is that if the company deliberately fails to comply with its continuing disclosure obligations, the only ultimate sanction open to the GSE is to delist the security. The Government licence therefore has to be conditional upon compliance with the continuing disclosure obligations of listing.

Government Holdings in Former SOEs

80. GSE to consider the preparation of a report to Government on the benefits of future disposal of holdings in former SOE via GSE and on allowing SOE and statutory bodies to raise capital via the stock exchange. The GSE is trying to encourage the Government to use the local market for any future disposals of state owned shareholdings, despite the Government's recent decision to dispose of a 1.28% stake in AngloGold Ashanti through Johannesburg rather than the local market. It is always difficult to balance support for the local market versus obtaining the best deal for the country's economy. The view is that, by using the tender process, Government is always assured of the best price and local institutions have an equal opportunity to bid for the shares. However, there are few investment opportunities in the Ghanaian market. This is further discussed below in the section on Pension Reform.

81. GSE is also seeking to encourage Government to allow SOEs to raise capital through the stockmarket, thereby facilitating a reduction in the level of Government ownership. GSE is also seeking approval from Government to allow statutory bodies such as the Road Fund to raise finance through the stock exchange. Depending upon how this is achieved, it may require a revision of the securities issuance rules and new/amended listing rules governing their initial and continuous disclosure obligations.

Benefits of Listing

82. Being listed is, to many companies, a sign of achievement and pre-eminence. Listed companies should therefore be encouraged to include in their advertising material "listed on the Ghana Stock Exchange". Similarly, the GSE in its promotional material should emphasise the status of listed companies, indicating compliance with good corporate governance standards and disclosure requirements. These should be emphasised as having a positive effect for companies rather than their being seen by some unlisted companies as being a negative in terms of going public.

83. The benefits for a company of joining a public market can be significant, but are often intangible; going public will:

- Offer existing shareholders an increase in the value of their investment and provide an exit strategy and the chance to realise their investment if desired.
- Provide an objective valuation for their business.
- Allow a company to boost employee motivation by creating a share ownership scheme
- Enable a company to broaden its shareholder base.
- Raise a company's visibility and enhance its status with customers and suppliers at home and overseas.
- Promote brand awareness of company products.
- Increase a company's credibility with a high quality and broad range of investors.
- Facilitate capital raising for funding organic growth and/or acquisitions.
- Enable a company to make acquisitions using its shares as currency.
- Lower the cost of raising capital.

84. These benefits need to be explained to company directors, advisers and corporate treasurers through seminars/workshops and one-to-one meetings. In addition perceived negative points such as loss of control and overburdening disclosure obligations need to be countered and explained. More efforts also need to be undertaken in promoting the need for good corporate governance.

SME Market Development and Small Cap Markets

85. Growth and employment in Ghana are directly linked to the growth of SMEs and therefore SME development is a key objective of Government. Most businesses in Ghana fall within the category of Micro, Small and Medium Enterprises, with an employment capacity of close to 70 percent of the Ghanaian labour force. SMEs thus have significant contribution to make to Ghana's socio-economic development and growth, and the attainment of its middle income status. The Government has therefore laid substantial emphasis on the development of this sector. The SEC and the GSE intend to support the work of Government by the development of appropriate rules for the listing and trading of small cap companies.

86. OTC/SME markets in which small companies can come to market with little by way of requirements are popular across the world. Many of them are variations of the model used by the Alternative Investment Market (AIM) in London. An example of this is the Bermuda Stock Exchange's Mezzanine Market which claims to be a "unique pre-IPO market listing for start-up, high growth potential companies." What differentiates this market from markets such as the AIM and the European Neuro Market is that it "offers development stage companies the opportunity to list on a recognized international stock exchange without having to commit to a full IPO."

87. The extent to which companies can come to market under reduced investor protection rules may determine those who can invest in such companies. For example, if the market was to be developed using nominal rules governing the disclosure of information, it may well be that investment in those securities should be restricted by regulation to professional or qualified investors only. This may not necessarily limit the attractiveness or the success of such a market but it would ensure that unsophisticated retail investors were afforded a degree of protection by being unable to invest in securities which, by definition, would have a higher risk profile. Care has to be taken however to ensure that CIS, which invest in SME securities, do not then package them together for on-sale to unsophisticated retail unit holders thereby circumventing the intention of the regulation.

88. Many second tier or growth markets are designed so as to nurture companies towards a full listing. Companies listed on those markets start with a low level of disclosure requirements and these are gradually increased as the company grows towards main board listing. Few, if any, markets allow the movement down as well as up as this would take from shareholder value the premium associated with being a main board listed company.

89. The principal benefits of having a small cap or SME type market are:

- Companies that cannot meet the listing criteria of the Main Board market will be able to list on the small cap 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 on an unofficial OTC 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 supports Government's objectives of supporting SMEs.
- Through supporting small and medium enterprises, the small cap market will contribute to employment and in the longer term to Government income through corporate and other taxes.

90. One of the problems of bringing new, especially small companies, to listing is the high up-front cost associated with restructuring and preparing the company for listing. This includes the work of lawyers, accountants and other professional advisers. Much of this work has to be paid for out of company funds and is then recovered from the proceeds of the issue. However, the fact that companies have to fund this up-front is an issue. The GSE is therefore seeking to initiate an SME Listing Support Fund through which SME companies can apply to have their up-front costs paid. Once the issue has been successfully completed, the company would repay the 'loan' to the Listing Support Fund.

91. The SEC's cap on the level of fees to advisers of 5% is also seen as a hindrance to bringing new small cap companies to market. The SEC will therefore consider undertaking a review of advisers' fees and charges with the objective of ensuring that they are appropriate and are not acting as a barrier to listing.

92. A properly established small cap (OTC/SME) market will be of benefit to Ghana. It will allow young growth companies an avenue for venture capital and provide a lower cost entry route to listing for small cap companies. It also has the potential, albeit small, to provide more investment opportunities for institutions and other professional investors who are aware of the risks involved. Furthermore, it also provides an exit route for existing venture capital funds who would otherwise have to wait until the company met the criteria for main board listing.

93. The market for small cap companies is not going to be large and therefore the costs of establishing and operating it have to be proportionate to its size. This will be achieved by ensuring that it sits alongside the main market and uses that GSE's existing infrastructure rather than creating a new market or exchange for OTC/SME securities.

94. Coterminous with the finalisation of the draft rules governing the listing of companies on the small cap (OTC/SME) market, SEC and GSE will undertake a review of the issuer disclosure of information regulations and the GSE listing rules to ensure that whilst they provide for a high degree of investor protection, they do not act as a barrier to listing on the GSE.

Incentives for Listing and Investment

95. Under current Ghanaian legislation, withholding tax on dividend payments for individuals is 8% whilst interest income on Government securities is tax-exempt for individuals. In support of the development of the capital market, Government needs to eliminate the differentiation in taxation of investment income. Exemption from capital gains tax was in force from November 1990 to November 2010. There was no mention of its renewal in the 2011 budget but efforts are being made to ensure that it is further extended. There is a general exemption from stamp duty tax in respect of all transfers of shares on the GSE. New companies listed on

the GSE enjoy a 3% rebate on corporate tax for the first three years of full listing. This has been in force since 2002/03 but appears not to be a great incentive as evidenced by Table 8 above. Why this sort of incentive has worked in other jurisdictions and not in Ghana needs to be investigated.

96. For many years governments have been actively promoting their countries as investment locations to attract private capital and associated technology and managerial skills in order to help achieve their development goals. They have increasingly adopted measures to facilitate the entry of foreign direct investment. Examples of such measures include liberalising the laws and regulations for the admission and establishment of foreign investment projects; providing guarantees for repatriation of investment and profits; and establishing mechanisms for the settlement of investment disputes. Tax incentives are also part of these promotional efforts. Most countries, irrespective of their stage of development, employ a wide variety of incentives to realise their investment objectives. Developed countries, however, more frequently employ financial incentives such as grants, subsidised loans or loan guarantees. It is generally recognised that financial incentives are a direct drain on the government budget, and as such, they are not generally offered by developing countries to foreign investors. Instead, these countries tend to use fiscal incentives that do not require upfront use of government funds.

97. Governments recognise the important role of stock exchanges and offer incentives that directly support the capital markets. These include exemption from income tax on dividends and interest paid by companies listed on the local securities exchange. Kenya has put in place a number of tax incentives that have contributed to the growth of the Nairobi Stock Exchange. Withholding tax on dividend income is 5% for local residents and 10% for non-residents. Capital gains tax was suspended in 1985, while withholding tax on interest income from listed corporate bonds and treasury bonds is 15%. A newly listed company pays corporate tax at a lower rate of 20% for a period of 5 years, provided that it offers at least 40% of its shares to the Kenyan public. Companies that successfully apply for listing get a tax amnesty on their past omitted income if they make full disclosure and commit to paying all their future taxes. Initial public offering related costs are also tax deductible.

98. In Thailand companies listed on the Stock Exchange of Thailand are taxed at 25 per cent corporation tax, against 30 per cent for non-listed companies. Those in the second-tier market (Market for Alternative Investment) are taxed at a rate of 20 per cent.

99. In an attempt to encourage companies to list on its new Over The Counter Market, the Government of Rwanda recently gave incentives to both companies and investors. Parliament approved various tax incentives on securities and companies listed on the Over The Counter Market. These include: income accruing to registered collective investment schemes and employees' shares scheme has been exempted from taxes and capital gains taxes on secondary market transactions on listed securities has been abolished. A capital gain resulting from the sale or cession of commercial immovable property is taxed on a rate of 30 per cent. The new modified policy on direct taxes on income stipulates that newly listed companies shall be taxed for a period of five years on favourable rates of 20 percent if those companies sell at least 40 per cent of their shares to the public and 28 per cent for those that sell at least 20 per cent; corporation tax is 30 per cent. In addition, secondary market trades are exempted from VAT. The tax incentives are expected to encourage new listings as companies pay less corporate tax and also lower withholding taxes on dividends and interest. They are also designed to encourage investors to save more through the capital market as investors will be taxed less.

100. Other countries offering tax incentives to listed companies include Egypt, Indonesia, Kazakhstan, Korea and Zambia, to name but a few.

101. SEC and GSE will co-ordinate their efforts at identifying the reasons why the current tax incentive is not effective and will investigate why other countries have been successful. Together they will prepare a recommendation for Government either to remove the current incentive or to introduce other incentives that will work. SEC is mindful of the needs of Government and the economy and will, if presenting a case for new incentives, seek to ensure that the effect is tax neutral.

102. On the demand side, governments of many countries provide incentives for people to save. The UK for example provides incentives for savings when invested in listed securities (UK ISA (Individual Savings Account) of up to GBP10,200 per year interest tax free. Previously the UK had PEPs (Personal Equity Plans) which were free of capital gains tax and interest when invested in UK listed securities. The SEC will prepare a paper for Government on the advantages of such a scheme in Ghana.

Cross Listing and Cross Border Trading

103. Exchanges globally are looking towards take-over, merger or linkages involving cross-border trading and listing. The most recent have included Singapore and Australia, BATS Global Markets and Chi-X Europe, London and Toronto, Deutscheborse bid for NYSE Euronext and the possible NasdaqOMX and Intercontinental Exchange counter-bid.

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104. 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 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.

105. 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[2]. A cross-border listing can help a company target new shareholders for fresh capital. The primary objective of a cross border listing, therefore, is to reduce the cost of equity capital for the issuer. 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.

[2] Doidge, Karolyi and Stulz (2001) found that companies 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 companies and 7,725 locally listed companies from 40 countries they confirm that cross-listed companies are valued more and provide clues as to why this is so. For the sub-sample of companies that are exchange-listed (the category that requires most disclosure), the average premium increases to 36.5%. (A Survey of Securities Laws and Enforcement, Florencio Lopez-de-Silanes, October 2003).

106. The disadvantage of cross-border listing is that through time, trading tends to migrate to the market that has the greatest liquidity. Therefore whilst successful promotion of cross-border listing may bring short term benefits to the Ghanaian capital market, in the longer term without the successful development of the market, those benefits are likely to disappear.

107. Cross-border trading on the other hand is being seen by many market practitioners as an essential requirement rather than a nice to have. Generally, the opinion is that the focus of attention should be on initiating cross-border trading between the Ghanaian and Nigerian capital markets; the two dominant markets in the region. However, this should not preclude the possibility of other smaller regional markets joining at a later date.

108. It should be noted that cross-border trading will only be truly successful if it also includes cross-border clearing and settlement.

109. The SEC will work with securities regulators, exchanges and other stakeholders from ECOWAS to identify the benefits of and work towards harmonisation of rules and a regulatory framework in support of cross-border trading,.

The Bond Market

110. There was little activity in the bond market during 2010. Government securities recorded trades to the tune of GH¢90.52 million during the first quarter of the year only. No trade was recorded in corporate bonds. The value of listed bonds at the end of 2010 stood at USD3.9 million for the HFC Housebonds and GH¢1,696.17 million for Government securities. There is only one listed corporate bond in Ghana (HFC) although there are three unlisted corporate bonds issued by way of private placements.

111. BoG has issued new rules governing the requirements and responsibilities of primary dealers in the government securities market. Eligibility as a primary dealer is restricted to banks and non-bank financial institutions licensed by BoG or other institutions licensed by SEC. To date only those licensed by BoG have been admitted as primary dealers. BoG regulates both the primary and secondary markets in government securities.

112. A yield curve is calculated which enables businesses and institutions to gauge cost of capital and rates of return, and thus facilitate informed investment decisions.

113. Reluctance to use the equity market for capital raising means that there is a greater need to ensure an active and liquid market in corporate bonds. This should be achieved by reducing both the cost of issuance and making it less onerous for companies to issue corporate bonds.

114. In an attempt to reduce the cost of bond issuance, IFC has been working closely with regulatory authorities around the world[3] and is promoting a system that will provide exemptions from the prospectus requirements for certain types of corporate bond issues. For example:

a. *In the case of an offer of corporate debt securities –*
    i. *where the total value of the offer does not exceed [x]; or*
    ii. *where the offer is restricted to 3 professional investors only,*
    iii. *the issuer or offeror may file with the regulator an information notice.*

[3] Efficient Securities Market Institutional Development Initiative (ESMID)

b. In the case of an offer of corporate debt securities –

i. where the minimum amount which may be paid under the offer of debt securities is at least [x million]; or

ii. where the debt securities are denominated in amount of at least [y million]; or

iii. where the offer is restricted to professional investors only but greater than 3 in number,

the issuer or offeror may file with the regulator an information notice.

c. In the case of an offer of debt securities under subsection (b), the issuer or offeror shall comply with such continuing disclosure obligations as may be prescribed.

"professional investor" means –

(a) any licensed person;

(b) an authorized or recognised scheme;

(c) any legal entity, company or partnership having proven liquid assets of not less than [x] million, or its equivalent in any foreign currency.

115. The issuance framework being proposed by IFC incorporates both a public offer as well as a private and exempt offer regime. As such, there are three possible avenues for issuing corporate bonds:

a. ***Public****: an offer issued to the public with no limitations on denomination size and number or type of investors, essentially allowing all types of investors, including retail, to participate and subject to full prospectus disclosure as well as ongoing disclosure obligations. For issuers with listed equity securities, there may be a 'fast track' approval process, given that the issuer would already be meeting required disclosure obligations. Similarly, companies that are regular and seasoned bond issuers may be allowed to go through 'shelf registration,' whereby the company files a prospectus with the regulator for anticipated public offering(s) of bonds and the prospectus remains in effect for a period of time (e.g., 2 years in the US). During this period, the company can expeditiously issue subsequent bond offers only having to provide an update on material changes since the filing of the original prospectus, which could be done by reference to its periodic filings.*

b. ***Private****: an offer placed directly with a small number of professional or qualified investors (defined based on international best practice and tailored to local conditions; e.g., in the US, "accredited investor," which can be an institutional investor or a natural person with more than USD1 million in net worth or more than USD200,000 in income), who mainly buy and hold the issue with limited trading only among the original investors. The issuer is required to notify the regulator about the planned offer, but the regulator does not provide approval for the offer. The notification serves as a way of informing the regulator about the issue, so that the regulator is aware of the general size of the private offer market and the companies involved. The issuer is exempt from both prospectus and ongoing disclosure requirements set by the regulator; any disclosure obligations would be purely contractual determined between the issuer and the investors.*

c. ***Hybrid****: an offer exempt from prospectus but subject to ongoing disclosure obligations if:*

i. it is targeted only at professional investors; and/or

ii. its denomination size is sufficiently large (defined based on local conditions; e.g., in the EU€50,000) ensuring non-participation of retail investors.

116. An issuer is required to register with the regulator, who will be responsible for ensuring the issuer's compliance with ongoing disclosure requirements. However, if the issue is listed on an exchange, then the latter could be responsible for enforcing compliance with ongoing disclosure obligations, assuming it is acting in the capacity of a self-regulatory organisation (SRO). Essentially, with prospectus exemption, the hybrid regime provides issuers a way to access the market relatively easily, but allows them to enjoy greater liquidity than with a private offer, since the issue can be widely traded among professional investors. The denomination size would also effectively limit trading to professional investors.

117. The SEC will seek technical assistance to develop the corporate bond market in Ghana. The primary objective is to provide a flexible system prescribing different issue requirements that allow variations according to the persons to whom the securities are offered and/or the type of securities offered.

Public Private Partnerships

118. In many countries, demand for new infrastructure projects is growing in quality and quantity. In addition there is the rising pressure for funds to renew, maintain and operate the existing infrastructure. According to World Bank estimates[4], developing countries must spend an estimated 7% of GDP annually, in order to service infrastructure requirements for both new investment and operations and maintenance of existing infrastructure. As developing countries today spend an average of 3% to 4% of GDP on infrastructure annually, they face a substantial investment gap. As a result, many countries have begun to use Public Private Partnerships (PPP) as a more efficient and effective means of delivering services to the public. Altogether, up to 60 countries are currently taking practical steps toward the development of their own PPP programme.

119. PPP projects often need to be supported by enabling legislation that is firmly embedded in the legal structure of the host country. Key aspects of this include: the existence of a concession law that can be readily applied to PPPs; the removal of tax anomalies that can weigh against PPPs; and refining of public expenditure capital controls to accommodate PPPs.

120. In order to support the private sector the Government of Ghana has initiated a PPP framework. Government proposes that projects such as the Alstom Power Plant in the energy sector, the Takoradi and Tema Port expansion and the Accra Kumasi Toll road will be undertaken within the PPP framework. The SEC will support this Government initiative whilst also supporting the development of the corporate bond market through a programme aimed at developing appropriate legislation, rules and procedures governing the issue and trading of, inter alia, infrastructure bonds, corporate bonds and special purpose vehicles.

121. Not only could Asset Backed Securities (ABS) be used to securitize for example, future road tolls, there is current interest in ABS from the collateralisation of insurance premiums, leasing, mortgages and credit cards. However, lack of legislation in this area is preventing the development of this sector. The SEC will therefore consider a project to identify the requirements of and to draft appropriate legislation for ABS.

[4] International Development Association Resource Mobilization Department, May 2010

Derivatives and ETFs

122. There is no derivatives market because derivatives are not recognised as a security under the SIL although there are some derivatives issued by banks which are not securities market instruments. Not only will classifying derivatives as a security require a change to legislation, but the development of derivatives and exchange traded funds (ETF) will require considerable education not only to investors but also to market participants. In view of the illiquidity of most equity securities, a market in equity options or single stock futures might be difficult to bring about.

123. The GSE is in discussions with an ETF manager on the possible introduction of an ETF on gold and will put forward to SEC rules governing trading, clearing and settlement of this instrument. In the SEC's review the CIS regulations (below) it will also identify if any changes are necessary to support ETFs.

124. Apart from ETFs it is difficult at present to see what derivatives could be successfully launched other than perhaps commodity, currency, financial or index derivatives. SEC is seeking a change to the SIL to include derivatives and will consider undertaking a feasibility study on introducing currency, financial, index and equity based derivatives.

Collective Investment Schemes

125. There has been reasonably good growth in the number of mutual funds and unit trusts during the last few years as indicated by the following chart:

Table 9: Growth in mutual funds and unit trusts

	2007	**2008**	**2009**	**2010**
Mutual Fund	8	8	11	12
Unit Trust	4	5	6	12

Source: SEC

Table 10: Total Net Asset Value of Funds Under Management of CIS

Year	**Amount**
2008	149,581,990.74
2009	127,036,216.90
2010	193,307,218.42

Source: SEC

126. Comment from market practitioners is that growth has been less than expected. In part this is because the regulations do not allow for some types of mutual funds e.g. where there are separate share classes. There is also a need to ensure that applications for approval of mutual funds are processed quickly otherwise the funds will seek approval elsewhere as has happened on more than one occasion. The CIS regulations, whilst relatively modern (2001) will be reviewed to ensure that they up to date and in keeping with international standards and requirements particularly in respect of things like international funds, umbrella funds etc.

127. Despite the fact that there are no regulations governing REITS, there is one real estate investment trust which predated the establishment of the SEC and the SIL. However, other fund management companies, whilst keen to establish REITS, cannot do so because of the lack of regulations. The SEC has, since 2009, been seeking to introduce a framework for

REITS. One of the problems is security of land tenure in Ghana and this must be addressed together with the issue of a regulation governing REITS which the SEC has as a matter of high priority.

Commodities Market

128. An area in which the SEC is expected to play a leading role in achieving Government's objectives is the development of a Commodity Exchange to connect the buyers and sellers of locally grown agricultural commodities in an efficient, reliable and transparent manner by making use of innovation, technology and learning from international best practice from the African Continent and beyond. The SEC and the Ministry of Trade and Industry are already engaged in this initiative.

129. A feasibility study on the establishment of commodities exchange has already been undertaken. This study recommended a number of commodities including maize, sorghum, rice, cashew and cocoa (domestic market). The market is likely to trade in warehouse receipts.

130. The role of the SEC is in the regulation of the Commodity Exchange. The SEC will therefore draft the appropriate legislation including the criteria by which it would seek to approve a licence to establish and operate the Commodities Exchange together with an indication of what the SEC would expect to see contained in the rules of the Exchange. This will enable a private sector body, working with MoFEP and/or the Ministry of Trade and Industry, to initiate a project to establish the Commodities Exchange.

Pension Reform

131. The National Pensions Act, 2008 (Act 766) was enacted on 12th December, 2008. The National Pensions Act caters for the establishment of a new contributory three-tier pension scheme with the National Pension Regulatory Authority (NPRA) to oversee the efficient administration of the composite pension scheme. The implementation of the new scheme started on 1st January, 2010 with the mandatory first and second tiers. Transitional Guidelines for the voluntary third tier provident fund and personal pension scheme have been published and took effect from 1st May, 2010. The first tier basic national social security scheme is managed by a restructured Social Security and National Insurance Trust (SSNIT). The mandatory second tier occupational pension and voluntary third tier provident fund and personal pension schemes will be privately-managed by approved trustees licensed by the NPRA with the assistance of pension fund managers and custodians registered by the NPRA. The pension fund managers and custodians will first be licensed by the SEC.

132. It is estimated that the new tier two and tier three funds will create in the first year GH¢300 million of new investment in the Ghanaian capital market. This is equal to 1.5% of the market capitalisation of the GSE or 185% of turnover on the GSE in 2010. As things currently stand, it is difficult to see where this new money is going to be invested and makes more important the need to improve the supply side of the market. It would be unfortunate if this new money were not to find a home in Ghana due to an absence of securities in which to invest. It would be more unfortunate if it was used to develop the economies of other African nations. Whilst by legislation there can be limits and restrictions on the amount that can be invested in particular securities and asset structures for the protection of scheme fund holders and similarly restrict the amount that can be invested outside Ghana, the fund management companies will need to find a home for this "new money".

Investor Education and Awareness

133. In addition to holding workshops aimed at improving awareness of the capital market generally or specifically about an individual topic e.g. commodities market, SEC participates in National Financial Literacy Week sponsored by MoFEP. In addition, GSE offers seminars, pamphlets, leaflets and information aimed at promoting the market and improving public awareness.

134. Returns from broker-dealers in 2009 show that they acted for 788 institutional clients and over 39,800 retail clients. In addition, there were over 15,000 clients of investment advisers. The numbers fluctuate from year to year. The 2010 returns from broker-dealers indicate that 874 institutional clients and 17,203 retail clients dealt during 2010. SEC intends to revisit its information gathering mechanism to ensure consistency in the questions being asked and in the returns being received.

135. SEC will institute a programme of investor education and awareness aimed at improving the knowledge and understanding of capital markets thereby helping investors to better manage their finances and encourage the emergence of a savings culture. Various media will be considered including the development of radio and television programmes, newspaper and magazine articles, videos, brochures, pamphlets, workshops and regional investment seminars. The programme should include information on investment in various types of investment instruments including equities, bonds and CIS, where to go for investment advice, and how to read the financial press. In order to measure the success of the education programme, a financial literacy survey will be used to measure individuals' knowledge and understanding of capital markets.

136. There are a number of initiatives that are tried and tested throughout the world to educate investors including working with education authorities to bring "money management" into the school curriculum. Countries such as South Africa have been highly successful in offering training to school children including running competitions such as essay writing and on-line investment programmes. Many such programmes, which allow school teams to register and invest a notional sum of money, conclude with prizes for the most successful team and there is a keen competitiveness to beat the index and indeed professional fund managers. The SEC will discuss with education authorities the introduction of such a programme.

137. Investment literacy and market sentiment surveys are used by the securities industry to advise on the success of education and awareness programmes. A questionnaire is issued to assess the investment knowledge and understanding of active and early-stage investors. The questionnaire results are then used to create an investor literacy index, and to provide a demographic analysis and results on which improved market awareness campaigns and investor education programs can be constructed. The results allow an assessment of the differing needs of society in relation to investor literacy. The survey results establish benchmarks for various groups in society, allowing market awareness campaigns to be tailored to the individual needs of those groups. For example, focusing on the needs of different age groups and investor locations. Surveys are repeated periodically to assess any improvement or deterioration in the results.

Investment Clubs

138. There are a number of investment clubs that have been established many of which have been formed by university students. Generally these appear to operate well but there is concern to

ensure that they are established and operate properly and that members of the investment club know how to go about leaving or winding up the club when the time comes. SEC is keen to foster the development of such clubs whilst ensuring that they do not fall under the regulations governing collective investment schemes. SEC will therefore consider establishing a help desk and publishing guidelines for investment clubs including pro forma articles of association and advice in getting started and on winding up.

Securities Institute

139. Another area which SEC is pursuing is the development of a Securities and Investment Institute. The overall objective is to improve professional standards among securities industry practitioners and bring Ghana up-to-date with international standards and best practice. The envisaged Institute and its associated Resource Centre and Library will be positioned as a centre of excellence in Africa. A project to establish the Securities Institute is currently underway.

Legislation and Regulation

SEC Independence and Accountability

140. The independence and accountability of the SEC falls short of international standards as established by IOSCO. The key issues are as follows:

a. The SEC cannot set its own budget but is obliged to negotiate with the MoFEP as if it were a government department.
b. The SEC is not able to recruit the number of staff that it considers necessary but must apply to the MoFEP for approval of all changes to the staff complement.
c. The SEC cannot pay salaries that it considers necessary to be competitive with the market in which its staff operate and therefore fails to recognise the need to attract and retain sufficiently skilled staff.
d. The Board of Commissioners of the SEC includes a representative of the MoFEP.
e. There is no general right for the subjects of any decision by the SEC to be informed about the reasons for the decision and to have a hearing before a final decision is made. Such rights are given in the law for some decisions (such as revocation of a licence) but not all (such as a refusal to grant or renew a licence).
f. Although the SEC publishes draft guidance or regulations for comment, it does not always respond to those comments so that members of the public can see how their viewpoints have been dealt with.
g. The process of submitting regulations for approval to the Minister is not as transparent as it should be to meet IOSCO Principle 2.

141. These provisions conflict with the IOSCO Objectives and Principles, particularly Principle 2 on independence and accountability and Principle 3, on the adequacy of resources.

Source of Funding

142. Ideally, regulatory authorities should have a source of funding from the capital markets that is independent of the government and not subject to the constraints associated with government expenditure. This is not the case in Ghana where the regulated capital markets are not yet fully able to sustain the SEC. It is recognised that, so long as the Government is contributing a substantial proportion of the resources of the SEC, there will be a need for the MoFEP to seek

to control that contribution. As part of the development of a five year plan, the SEC is seeking to achieve a fully independent source of funding as soon as possible. However, even within the constraints associated with the receipt of Government funds, there are steps that the authorities could take that would enhance their use of resources.

143. The SEC should have total control over the allocation of the resources. It should be able to make decisions as to whether or not to spend its resources on staff, capital equipment and expenditure on outsourced services. The Board should also be able to determine the balance between more or fewer staff and higher or more modest salaries. The President appoints an independent Board to run the SEC and it would seem to be a natural corollary of this decision to give the Board the power to allocate the available resources as it sees fit. It would also be consistent with IOSCO Principles that require a regulatory authority to be able to influence the allocation of resources within a budget once the total has been set.

144. In addition, the IOSCO requirement that the regulator should have a stable source of funding is not easy to reconcile with an annual budgetary allocation. While the SEC is not alone amongst regulators in being in this position, a better alternative would be to agree a three year budget with the MoFEP. Although the Ministry might wish to retain the ability to reduce the allocation in the event of a fiscal emergency, the agreement would give the SEC some certainty that, in the absence of such an emergency, it could plan ahead with reasonable confidence as to its future resources. It is, in any case, hard to imagine how a five year plan could be achievable if budgetary allocations were uncertain from year to year.

145. It follows that the SEC should have complete control over any funds it is able to raise from the capital markets, whether through fees, transaction levies, fines and other charges.

Government Representation on the Board

146. The SEC is not alone amongst developing countries having a representative of the MoFEP on its Board. Nevertheless, as capital markets become more mature, the practice is less common. Most developed countries do not have government representatives on the Board of the regulatory authority. One of the main purposes of establishing an independent regulatory authority is to take regulatory decisions away from government so that government can demonstrate that decisions are not influenced by political or commercial considerations. It is hard to see how this freedom can be demonstrated if a representative of government sits on the Board of the regulator. Moreover, good corporate governance principles require that the members of the Board of an organisation like the SEC should take decisions solely in the interests of the SEC and its statutory objectives. However knowledgeable the MoFEP representative is about the capital markets, it is clear that, as a matter of law and constitution, the primary concern of such a person must be to implement the policies of the Minister of Finance. However, it is not in accordance with good corporate governance principles for such a representative to be a member of the Board of an independent regulatory organisation, whose policies and interests may, from time to time, diverge from those of the Minister. The SEC will seek, over time, to amend the composition of the Board so that it consists solely of independent members.

147. The presence of representatives of the Office of the Registrar General (ORG) and the Governor of the Bank of Ghana (GBOG) on the Board of the SEC raises a number of issues. Clearly, there are some advantages in terms of coordination of the work of the SEC with that of other regulatory authorities (the BoG) and, in respect of companies, with the ORG. However, the question of coordination is, as a practical matter, often better achieved by close

relations between those operating at working level, rather than attendance of one senior official at a monthly Board meeting. There may be other disadvantages of ex officio institutional membership. Insofar as the appointments of such persons are themselves based on political affiliation, their presence on the Board of the SEC may undermine independence for the same reason as does the presence of a representative of the Ministry of Finance. However, if those appointments are themselves open and transparent, allowing all potential suitable candidates to be considered, this difficulty may not arise. Even if the appointments are not based on political affiliations, there remains the question of the first duties and loyalties of such appointees. It is inevitable that their first priorities will be the proper functioning of their own organisations (the ORG and BoG) and, where the interests of those organisations differed from those of the SEC, they would clearly put the interests of their own organisations first. It is, in the context of normal corporate governance principles, unwise to have directors, whose first priority is the interests of another organisation. Nevertheless, these issues are not always clear cut and it may be that, in the Ghanaian context, there are advantages in having institutional representatives on the SEC Board. The arguments for such presence would, however, also point to reciprocity, so that, for example, the SEC should also have a representative on the Board of the Bank of Ghana.

Appointment of Board Members

148. It is also important that the members of the Board should be appropriately qualified to undertake their task and be capable of acting in an independent manner. Two factors currently detract from full compliance with this principle. Firstly, the appointment process is neither open nor transparent. Secondly, all members of the Commission retire at the same time. The consequence of this is that it is likely over time that any government will be tempted to use the opportunity to appoint political supporters to the Board of the SEC, thus undermining the principle of independence. Moreover, the wholesale resignation of the independent members results in a loss of valuable expertise.

149. Taking first the appointment process, the draft SIL gives the President the power to appoint the Members of the SEC, acting in consultation with the Council of State. This is a provision that is in accordance with Ghanaian constitution and tradition and is entirely appropriate in the Ghanaian context. However, the process by which the President may take this decision is important in determining the extent of transparency. There has to be a process for identifying a person or a short list of persons for the President to consider and, since the President will be too busy to carry out this function him or herself, there has to be a body charged with the function of organising the collection and sifting of suitable candidates and making recommendations to the President.

150. While the normal public appointment process in Ghana can provide administrative support and advice on procedure, it is important that the existing Chairman and Board have some say in nominating candidates so as to ensure that the candidate for a vacancy meets the particular needs of the Commission for expertise and can work with the existing Board. It would be possible for the Commission (perhaps operating through a Nomination Committee) to make recommendations from their personal experience of possible candidates. This would be the cheapest and simplest approach. However, this approach would necessarily restrict the available pool from which candidates may be drawn to those within the knowledge of the Nominating Committee. There is a danger that relying solely on such a process would result in the exclusion of suitable candidates and a further risk that the Commission members would be tempted to continue to rely on those with very similar skills and outlook to themselves. It is important that any person who may be suitable should have the chance of being considered.

There are alternative ways of ensuring the net for suitable candidates is cast as wide as possible – including extending the search to citizens of other countries who will be able to bring a different perspective to bear. One way is to employ search agencies (head hunters) and another is to advertise widely. In many cases, head hunters will use advertisements anyway, so both methods would be used. The use of advertisements has the additional advantage, over more informal nomination processes, of demonstrating transparency.

151. The simultaneous departure of all Board members results in a very substantial loss of expertise at once time. Moreover, one consequence of such a practice is that it is likely over time that any government will be tempted to use the opportunity of the simultaneous expiry of terms of all Board members to appoint a Board consisting almost entirely of political supporters,, thus undermining the principle of independence. It is preferable, therefore, to arrange for the staggering of appointments, so that, in any one year, no more than one or two members retire. Moreover, if there are provisions allowing for a limit of two or three two to three year terms, the Board can retain experience and continuity, while also allowing for the regular infusion of new thinking.

152. One possible model would be to operate on the following lines:

a. Each Board member would be appointed for three years with the expectation that they would normally be reappointed once (limiting each Board member to two terms would preserve continuity while enabling a regular introduction of new thinking).
b. Appointments would be staggered, so that each year only two of the Board members would complete their term (and preferably, there should be a further adjustment, so that only one of the two retirees would be eligible for reappointment, while one would be replaced).
c. The Board should form a Nomination Committee which would specify the particular qualities required for the new appointee (for example, that they should be a professional accountant or perhaps an expert in a particular area of business). The Nomination Committee would appoint a search agency to find suitable candidates and an advertisement would be placed in newspapers, nationally and, if appropriate abroad.
d. The Nomination Committee, guided by the Public Services Commission, would interview candidates and draw up a short list for the President to consider.
e. The President would make an appointment, or instruct the Nomination Committee to begin the process again.

153. Such a process should result in a stronger, more independent and more professional Board. In addition, however, it is important that the SEC devises an appropriate induction process for Board members so as to assist them to fulfil their role as quickly as possible.

Accountability

154. The increased independence that would be achieved by these steps should be accompanied by enhanced accountability. Accountability is already achieved to some degree, at the level of the overall performance of the SEC, by the publication of an annual report and the practice of engaging in consultation about new regulations. At the level of individual decisions, there are many decisions that require the SEC to give reasons and allow hearings. These are strong provisions. However, they could be enhanced as follows:

a. The Annual Report to be expanded to include measurable objectives or targets that the SEC has set itself for the year ahead, together with a forward budget, so that the Annual Report can then comment on the extent to which the SEC has achieved those objectives within its budget.
b. The Chairman and Director General to volunteer to subject themselves to questioning by members of Parliament (if appropriate, by the Standing Committee on Finance) and public meetings of market participants and investors.
c. The SIL to be amended to give a general right to any person affected by a decision of the SEC to be given the reasons for that decision and to have a hearing prior to a final decision being taken.
d. The SEC to commit itself to a public consultation process for any new guidance or regulations that would include:
    i. Publication of the draft, together with a timetable for comments;
    ii. Following receipt of the comments, publication of a response by the SEC summarising the main comments by the public and giving the SEC's reasons for accepting or rejecting them;
    iii. Publication of the final draft, either as enacted by the SEC, where it is within its responsibility, or a draft Regulation as sent by the SEC to the Minister for approval (so that the Minister can be publicly accountable for a decision to accept, reject or modify the SEC's draft);
    iv. Final publication for enactment.

155. Some of the changes to the governance arrangements will require changes to legislation. Other changes may be implemented by securing agreement with the MoFEP. For both sets of changes, it will be appropriate to seek to reach an overall agreement with the Minister of Finance that covers the legislative changes, as well as changes to Board appointment procedure and accountability.

Inspections, Investigations and Co-operation

156. To meet the terms of IOSCO principles 10 to 12 (according to the 2010 revision of the Principles), a regulatory authority must have the powers to call for information from regulated persons, to inspect regulated persons and to carry out investigations into breaches of the regulatory framework. To meet the terms of IOSCO principles 13 – 15 on Co-operation, a regulatory authority must be able to use many of these powers to assist foreign authorities and be able to transmit information to such authorities, regardless of the constraints of provisions regarding confidentiality.

157. At present, the SEC has certain information-gathering, inspection and investigation powers, and very limited powers to co-operate with foreign regulatory authorities. It has sought technical assistance to upgrade those powers in order to be able to sign the IOSCO MMoU. The new draft bill contains provisions to add further investigation and inspections and cooperation powers. However, although the new provisions, taken on their own, may well enable the SEC to sign the IOSCO MMoU, they interact with existing provisions in the SIL in ways that may create uncertainty and ambiguity.

Oversight of Stock Exchanges, Clearing and Settlement Systems

158. Although the SEC receives regular reports from the GSE, it has not established a full oversight programme, which would include a full review of the trading system, the clearing and settlement systems and regular on-site inspections.

159. The GSE currently has rules which govern trading, conduct of members and listing. It has a surveillance department that is responsible for enforcing compliance with its rules and which conducts on-site inspections. It carries out some monitoring of the compliance by listed companies with their continuing obligations. There is no sharing of the results of inspections, risk assessments or other supervisory conclusions between SEC and GSE, although the law provides for an appeal to the SEC by a member dissatisfied by a GSE disciplinary action against him or her. There needs to be agreement between the SEC and GSE on regulatory roles and responsibilities. The SEC is of the view that the GSE should take a more active role in supervising its members whilst the GSE is inclined to take the view that, as it moves towards a more commercial approach, it should reduce its regulatory role.

160. The SEC will take action to implement a proper oversight programme for the exchange, and the clearing and settlement system. It will also rationalise the respective regulatory roles of the GSE and SEC, so that their combined resources are used to optimum effect. The establishment of the oversight programme and the review of the relationship will take full account of the prospective status of GSE as a "for profit" organisation, operating with independent shareholders.

161. The SEC will also consider the ongoing requirements that should be imposed on an exchange. Apart from the licensing criteria (which relate mainly to the rules of the exchange), there are few ongoing requirements that are imposed on the conduct of an exchange. When the GSE changes its status to that of a "for profit" organisation, it will be important to ensure that there are clear provisions setting out what is expected of the GSE to balance its desire to perform well for its shareholders. The SEC will consider recommending the Minister to issue a new Regulation containing provisions on the following lines:

a. A general provision that a person operating an exchange should:
    i. act with integrity;
    ii. apply due skill, care and diligence in maintaining the integrity of the market;
    iii. observe high standards of conduct; and
    iv. treat all similarly situated market participants consistently and fairly.
b. A requirement that a person operating an exchange should establish and operate proper markets that are conducive to the economic good, that are efficient in securing price discovery, allocating capital and transferring risks and that do not cause or promote instability.
c. A prohibition on the conduct of any business, other than that permitted by the licence, without the permission of the SEC.
d. A requirement to act in compliance with the SIL, Regulations and rules made under the SIL and with any other regulatory requirements of the SEC.
e. A requirement that the exchange should continue to comply with the licensing criteria on a continuing basis.
f. A prohibition on action that brings the capital markets of Ghana into disrepute.
g. A requirement to make a risk assessment that takes account of any factors that may:
    i. inhibit the fair, transparent, orderly and efficient functioning of the markets:
    ii. adversely affect the interests of market users; or
    iii. arise from conflicts of interest.
h. A requirement to devise and implement policies and procedures designed to mitigate those risks and to have trading systems, internal controls, record keeping procedures and other measures that support its operations.

i. A requirement that a person operating an exchange should publish such information to the market as may be necessary to ensure transparency and fair treatment to investors and that such information should include:
    i. the exchange order routing and other procedures;
    ii. completed transactions and other trading information;
    iii. the rules of the exchange;
    iv. all fees and charges; and
    v. the exchange's financial statements.

j. An obligation to appoint an independent auditor to audit its accounts.

k. A requirement that, where an exchange's facilities provide for the safeguarding and administration of assets which belong to market participants:
    i. satisfactory arrangements are made for that purpose;
    ii. clear terms of agreement exist between the participants and the exchange; and
    iii. the assets of the participants are clearly segregated from those of the exchange.

l. A requirement for continuous and effective monitoring of the market and the trading conduct of members and an ability to investigate suspicious trading patterns and report to the SEC.

m. A requirement to protect confidential information.

n. A general provision that, where a person operating an exchange creates a structure that, in the opinion of the SEC creates additional risk, the SEC may require the person to take additional measures to mitigate that risk.

162. The SEC will also consider the development of an oversight programme for clearing and settlement, including the depositories. The first essential is to regularise the legal status of the CSD, so that it is no longer operating without a licence. The SEC will then consider the ongoing requirements for the operation of a clearing and settlement system.

163. In the context of the proposed commodities exchange, the SEC will consider how best to ensure the settlement of obligations. For derivatives contracts, it will be necessary to determine if contracts can be settled on a cash basis, or by the physical delivery of the commodity. If there is to be physical delivery, the exchange will have to have robust procedures for determining if that which is delivered is of a specified standard. This will involve weighing and testing of commodities. If this to be done on the basis of warehouse receipts, which guarantee the quality and quantity of commodities, there will need to be a robust procedure for ensuring that such receipts are valid, are difficult to forge and are issued by warehouse keepers, whose integrity and competence is checked as thoroughly as are those of exchange personnel.

Licensing Issues

164. The existing SIL imposes a licensing requirement on broker dealers, which includes those who deal as agents, those who deal as principal and those who deal in both capacities. The law also requires investment advisers to be licensed and it is clear that the term "adviser" encompasses those who engage in portfolio management as well as those who give investment advice (without management) and those who act as investment bankers to issuers, offering advice on the valuation of securities offers and on takeovers and mergers.

165. In each case, the licence categories encompass activities which pose different risks and require different skills. The capital requirement, for example, for a dealer who takes positions trading on his own account needs to be considerably higher than is the case for a broker who

deals only as agent. The skills required for an adviser on the valuation of corporate securities being offered to the public are different from those required by a portfolio manager. The internal controls necessary for an adviser who deals with client money need to be stronger than for an adviser who does not handle client money. The nature of the quarterly returns for an adviser or asset manager who manages assets will be different from the returns of other advisers who do not manage client funds. The conflicts of interest faced by a dealer who acts as principal and agent are more likely to be realised than is the case with a dealer who acts either for investors only or for him or herself.

166. The SEC will consider devising sub divisions of these licence categories in order to be able to tailor the licensing criteria and ongoing regulatory obligations more closely to the circumstances of the business. The subdivisions could be imposed through the use of licence conditions. It would be open to any licensee to seek to extend their business but they would need the permission of the SEC, who would then be able to amend the licence conditions. Licence conditions could be re-imposed if the SEC were not satisfied that the additional business was being properly administered.

Approval and Licensing of Owners, Controllers and Representatives

167. The SEC Regulations require chief executives and directors of licensees to meet certain criteria in terms of integrity, qualifications and financial standing. However, although the SEC is able to impose these requirements at the time a firm applies for a licence, there is no provision that requires a licensee to seek the SEC's prior consent to the appointment of new chief executives and directors. The SEC simply requires the names and details of new appointees to be notified to it.

168. This leaves the SEC in the difficult position of having to seek the removal of chief executives and directors whose skills or qualifications do not meet the criteria.

169. The SEC will consider an amendment to regulation to require licensees to seek the prior approval of the SEC for any new appointments to the roles of chief executive, director and compliance officer. The same provisions may apply to new controllers who wish to take a substantial interest (the level of which the SEC will wish to consider but would typically be of the order of 10 or 15 %) in a licensee. In this way, the SEC can satisfy itself that the owners and controllers of licensees are fit and proper persons.

Annual Licence Renewals

170. The SEC currently requires annual relicensing. This is often seen as a way of pressurising licensees to maintain compliance and can also be used by a regulator as a means of refusing to renew a licence without the need for clear and verifiable reasons other than a decision to withdraw a licence. However, the effect on a licensee of a refusal to renew is the same as a withdrawal. If a decision to refuse to renew is taken to judicial review, there is little doubt that the Courts would expect the SEC to provide the same degree of rigour in justifying its position in refusing to renew as it would when withdrawing a licence. There is therefore no gain in terms of the pressure on licensees.

171. Annual relicensing is not necessary to ensure the payment of a licence fee. Annual fees are normal in countries that have a permanent licensing regime. They are best enforced by introducing late payment penalties that are imposed with no discretion by the SEC and which, although small at first, mount rapidly the longer a fee is unpaid. Penalties could also be

substantially higher for repeat offenders. The penalty can be made more severe by introducing a requirement that all regulatory penalties should be reported by a licensee to its board and, where it is a subsidiary, to its parent company. Many managers will seek to avoid the ignominy of being found to have failed in such a basic task as paying fees on time, especially if by so doing, they have cost their employers money. It follows that the SEC must ensure that such penalties are properly paid.

172. While annual relicensing does not offer any regulatory gain, it imposes a serious regulatory burden. The process of granting renewals is time consuming as well as unnecessary. There is a further disadvantage in that where a licensee is under investigation at the time of the annual relicensing, the SEC is in a dilemma. It may not yet have reached a conclusion on the investigation but it has to decide whether to renew a licence. If it refuses, it may not have sufficient grounds to justify its position at judicial review. If it grants the licence, it may then find it difficult to take enforcement action against a licensee when the licensee can show that the SEC granted a licence (and implicitly confirmed its fitness and properness) after the incident that gave rise to the investigation. While this difficulty may not always be insuperable, it poses an unnecessary burden. For these reasons, the SEC proposes a move to the granting of permanent licences.

173. The SIL will need to be amended. In addition, it will be necessary to clarify that the SEC can impose licence conditions at any time and not just at the time of granting or renewing a licence.

Licence and Approval Criteria

174. The SIL sets licensing criteria. It also establishes criteria for withdrawal of a licence. However, although the SEC has introduced requirements for licensees to have appropriate internal controls to enable them to comply with the regulatory requirements, there are no corresponding licence criteria. Some authorities have included the criterion that the applicant has the capacity and willingness to comply with the regulatory regime. This enables the SEC to make an assessment of the governance and internal controls of an applicant to ensure that they are sufficient to ensure compliance. It is also important that the SEC should be able to impose its requirement on the applicant to supply all relevant information. The licence criteria should include (as in many countries) the requirement that the applicant should have supplied all the information requested by the SEC as part of the application. An applicant who delays or fails to supply information risks refusal simply by declining to meet the SEC’s requests for information.

175. In the case of licence withdrawal, the criteria are broadly appropriate but one essential criterion is missing. The SEC should be able to withdraw a licence if it ceases to consider that the licensee meets the criteria for licensing. Thus if circumstances change, or the licensee acts in an unexpected way or some information turns out to be less than fully accurate, the SEC can make a judgement that the licensee is no longer fit and proper and can withdraw a licence. The SEC will ensure that these additional criteria are included in the amended law.

Risk Based Supervision

176. The SEC is operating with very severely constrained resources. It makes sense for it to move towards risk-based supervision. The essential features of risk-based supervision are that:

a. the SEC makes an assessment of the risks facing the SEC in discharging its statutory duty to oversee the capital markets;
b. the overall risk assessment forms the basis for the establishment of a risk scoring system by the SEC;
c. that risk scoring system is applied to each licensee, so as to establish a risk-based ranking;
d. the risk assessment is also the basis for an assessment of an oversight programme that ensures:
    i. That offsite returns give information about the key risk areas so far as possible;
    ii. The on-site inspection teams perform limited theme-based inspections on key risk areas over as wide a range of licensees as practical;
    iii. The programme of full scope inspections is focussed on the licensees with the highest risk scorings.
e. each licensee is be required to make their own risk assessments and to devise internal policies and controls accordingly;
f. the inspection teams pay greater attention to the corporate governance and risk management of licensees as part of the inspection process;
g. information from off-site reviews of inspections and on-site inspections is used to update the risk score of each licensee at least annually; and
h. information from the oversight programme is used to re-evaluate the Board's risk assessment, at least annually.

177. The most important changes to the current practices would be the Board's risk assessment, the use of risk scoring to determine the inspection programme (both themed and full scope inspections), the greater focus on licensees' corporate governance and risk management and the annual re-evaluation of the risk of individual licensees and, by the Board, of the risk assessment as a whole.

178. The use of a risk-based supervisory approach will also assist the SEC in moving away from their current compliance-based system, which tends to engender a higher degree of confrontation with the regulated community. A risk-based programme, in which the regulated community and the regulator share their views on the key risks and the best methods of mitigating those risks, can result in a greater sense of partnership.

179. The introduction of risk-based supervision will need to be handled with care and the SEC will wish to seek technical assistance. It will also be necessary to ensure that there is appropriate training for staff. Licensees will also need due notice of the change and, in particular, of the greater emphasis on corporate governance and risk management.

180. Regardless of if and when the SEC introduces risk-based supervision, it will be important to tailor the financial requirements of licensees to the risks that their business creates. At present licensees have a flat rate paid up capital requirement and, for some licensees, a liquidity requirement. The paid up capital in Schedule 1 of the SEC Regulations is the same for all licensees except stock exchanges and trustees / custodians.

181. The SEC will introduce levels of minimum paid up capital that vary according to the nature of the licensee. For example, those who handle client money might be expected to hold more capital than those who do not. Moreover, within each licensed activity, the amount of financial resources should vary according to the size of the risk taken on. In particular, dealers who take positions should be required to hold capital that is related to position risk. This in

turn would be related to the nature of the assets held, with Government securities requiring the lowest addition to capital and equities or real estate requiring more.

182. The current liquidity requirement is calibrated according to the aggregate indebtedness of the licensee. The SEC will consider an alternative approach whereby the liquidity requirement is related to the expenditure of the licensee. Thus, if a licensee were required to have a net liquid position equivalent to about three months of budgeted expenditure, there would be a cushion sufficient to arrange for an orderly wind down in the business and transfer of business to other licensees if there were a catastrophic event, such as a loss of records, or a loss of business.

Corporate Governance Licensees and Issuers

183. As part of a move to risk-based supervision, the SEC will need to pay greater attention to the corporate governance of licensees.

184. The purpose of focussing on the corporate governance of the licensee is to enable the SEC to satisfy itself that the licensee is taking its compliance responsibilities seriously. In addition to checking that the Compliance Officer is appointed and making quarterly reports, the SEC will be able to:

a. check that the licensee’s board meets regularly and evaluates the progress of the business;
b. check that the board makes a proper risk assessment and satisfies itself that its internal policies and controls are appropriate for its risks;
c. look for evidence that risk assessments, policies, controls and management information systems are properly evaluated by the board on a regular basis;
d. ensure that the Compliance Officer makes a regular report to the board and that the board considers it properly;
e. ensure that the board considers any recommendations that the SEC may make and reacts accordingly;
f. look for evidence that the board is informed about any disciplinary action by the SEC; and
g. satisfy itself that the board is monitoring the licensee’s financial position and its adherence to the financial requirements set by the SEC.

185. The degree of compliance of a licensee will ultimately depend on the culture imposed by its board and this is why it makes sense to focus on corporate governance.

186. The SEC has recognised the importance of good corporate governance by issuing a corporate governance code for issuers. At present, the Corporate Governance Code for issuers is only for their guidance. The SEC shall consider enhancing the status of the Code so as to require issuers either to comply with the provisions or to explain why they are not doing so.

187. The SEC will seek to implement a Corporate Governance Code that applies to listed companies and to all other public companies so that its application to listed companies only is not a deterrent to listing. As mentioned above, SEC will also introduce the Corporate Governance Code to all licensed companies. SEC will also work with BoG, NIC and NPRA to introduce the Corporate Governance Code for companies for which they issue a licence. SEC also believes that the Corporate Governance Code should apply to all State Owned Enterprises and to all private companies above a specified size and will seek Government support for its introduction to those entities. Some private companies are large employers in

Ghana and therefore as substantial contributors to the economic wealth and development of the country should be interested in promoting good corporate governance. SEC believes that for good corporate governance to be successful, it needs to be implemented across all sectors of the economy.

188. However, SEC is cognisant of the fact that a uniform Corporate Governance Code cannot be applied to such a broad range of companies and therefore will seek to implement a Code, which although having at its core, common features, can be modified to meet the needs of the various sectors. This would result in minor variations of the Code for listed SME's, SOE's, banks and other licensed entities etc.

Corporate Governance Watchdog Group

189. In Ghana, where there are many companies with a relatively small proportion of equity in the hands of the public, risks arise from the fact that public shareholders are always minority shareholders. The risk is that the majority owners will run the business in a way that may not suit shareholders as a whole. Moreover, the ability of the shareholders to hold the management of a company to account and require them to justify remuneration, financial statements and performance is likely to be limited if the management are, in practice, the majority shareholders, or accountable to a small number of shareholders who hold the majority stake. In these circumstances, the normal accountability arrangements may not work well.

190. The SEC will wish to consider establishing a corporate governance watchdog group, consisting of itself and institutional shareholders. The purpose would be to identify corporate governance shortcomings and use the combined weight of institutional shareholders and the regulator to insist that there is proper accountability and that corporate governance requirements are met. Working with the corporate governance watchdog group, SEC will consider the introduction of awards to companies for compliance with good corporate governance standards.

The Level of Compliance with Reporting Requirements

191. It will be difficult for the SEC to move to risk-based supervision given the current level of compliance with routine reporting requirements. It will therefore be necessary for the SEC to introduce strategies for improving that level of compliance. The SEC will consider the following steps:

a. the development of an appropriate data series, so that the Board can see the size of the problem and the trend, over time;
b. if the data justifies it, the determination by the Board that this is a matter of priority, about which the members wish to be kept informed and the establishment of a regular report to the Board on progress;
c. a meeting with the most regular offenders:
    i. drawing attention to the problem and seeking their views as to why the routine failure is occurring and establishing if there is anything in the reporting obligations that is causing a particular problem;
    ii. offering intermediaries a three month amnesty to upgrade systems and procedures to ensure compliance;
    iii. warning of heavier penalties for those who continue to offend;

d. making small adjustments to the regulatory requirements if this can ease the burden of compliance without causing significant regulatory consequences;
e. amending the financial penalties for failing to report in time, that have the effect of:
    i. increasingly more rapidly than at present for every day that a report is late;
    ii. being substantially more severe for repeat offenders;
f. making no exceptions for any intermediary, regardless of the apparently justifiable excuse;
g. amending the regulations so as to require any disciplinary action by the SEC to be reported to the board of the licensee and, in the case of a subsidiary, to the board of the parent company;
h. introducing an internal follow up system, within the enforcement or accounts department that ensures that there is adequate follow up to establish that any penalty is paid.

192. Other regulatory authorities have found that this kind of approach can be effective as it permits the regulator to focus on matters of significance. The key is to attach sufficient priority to the matter and demonstrate commitment, so that intermediaries understand that there will be no exceptions to the imposition of these penalties.

Summary of Changes to Regulatory Practices and Powers

193. In summary:

a. the SEC will replace the various existing and new provisions in the draft SIL relating to inspection, information collection, investigation, confidentiality and co-operation and replace them with a set of coherent and consistent provisions as described in this report;
b. the SEC will strengthen the licensing criteria for exchanges through Regulations and extend the requirements to any exchange or market;
c. the SEC will strengthen the ongoing requirements on exchanges and markets (that take account of the likely development of a commodities market) and will develop an oversight programme for exchanges – a matter for which it may seek technical assistance;
d. the SEC will also strengthen ongoing requirements for clearing and settlement systems (that take account of the likely development of a commodities market) and will develop an oversight programme for clearing and settlement – a matter for which it may seek technical assistance;
e. the SEC will regularise the position of the CSD;
f. the SEC will examine in particular the risk management arrangements for the GSD;
g. the SEC will define and document the appropriate regulatory role of the GSE (in the light of its proposed change in status) and will establish appropriate coordination arrangements with respect to surveillance of the market, and, with regard to members, risk assessments, information requirements and inspections;
h. the SEC will recommend an appropriate change to the definition of securities in the SIL that allows the Minister to designate derivatives, REITS, ETF and ABS as securities, thus paving the way for the SEC to seek assistance for the drafting of appropriate Regulations;
i. the SEC will consider seeking an amendment to the SIL that places any investment restrictions on CISs in Regulations, so that they can be amended in the light of market developments; that exempts private CISs and those that are offered to professional or

institutional investors; and that permits the distribution of foreign CISs whose home regulation is of a standard acceptable to the SEC;

j. the SEC will define licence sub categories imposed through license conditions to separate the very different activities that can currently be conducted with a single licence;
k. the SEC will amend the law so that a licensee may not appoint a new director, substantial shareholder or compliance officer without the prior approval of the SEC;
l. the SEC will cease to require individuals to seek licences;
m. the SEC will specify in greater detail the qualifications required by licensees' employees;
n. the SEC will grant permanent licences and cease the practice of requiring annual renewals;
o. the SEC will strengthen the licensing criteria for licensees and the criteria for licence withdrawal;
p. the SEC will introduce risk-based supervision and risk-based capital requirements with additional liquidity requirements;
q. the SEC will, in its inspection programme, focus more on the corporate governance of licensees;
r. the SEC will strengthen the enforceability of the Corporate Governance Code by introducing a requirement that it should be complied with unless the issuer explains why it has not done so;
s. the SEC will establish a corporate governance watchdog together with institutional shareholders;
t. the SEC will strengthen the notification requirements of licensees both to the SEC itself and to clients;
u. the SEC will draw up a contingency plan for the failure of an intermediary;
v. the SEC will require licensees to seek prior approval of advertisements but will be cautious about requiring approval of all individual advertisements;
w. the SEC will extend to all licensees the requirement to have audited accounts;
x. the SEC will require all licensees to submit a summary of complaints on a quarterly basis; and
y. the SEC will seek to enhance the level of compliance with reporting requirements by discussing the issue with licensees, strengthening penalties, maintaining appropriate records and follow up procedures and ensuring that penalties are paid.

S.W.O.T Analysis

194. The situation analysis has revealed a number of Strengths, Weaknesses, Opportunities and Threats (SWOT) which are summarised below.

195. The SWOT matrix formed the basis for the identification, framing of critical issues, development of objectives, and formulation of pertinent strategies set out in the following Chapters.

STRENGTHS	WEAKNESSES
Single Stock Exchange Recently developed automated trading system GSE owned clearing and depository system Professionalism and commitment of SEC staff Strong economic environment Discovery of oil Stable political environment Absence of negative history at the securities market Commitment of the regulator to develop the market Government believes capital markets critical for economic growth Revision of SIL underway Securities Institute project in progress SEC implementing new Surveillance System Seen as attractive to invest in by foreign investors Meets many of IOSCO requirements Good pool of institutional investors	Single product exchange – equities Two central depositories SEC not financially independent Limited ability to recruit and retain right calibre of staff Inadequate SEC staffing levels Few listed companies No corporate bond market Inadequate technical knowledge of issuers and their advisers SEC remuneration not competitive with industry Ineffective communication strategies within SEC Ineffective communication strategies within the market No integrated SEC IT systems Need to strengthen public investor awareness CIS legislation requires updating Inadequate training and qualifications in the profession Limited research and poor performance measurement in the industry Blurred lines of authority between the GSE and SEC Laxity on the part of GSE/ SEC in enforcing the rules Poor record management systems of market operators Slow and bureaucratic processes at SEC Lack of adequate free float in many listed securities Low liquidity in existing listed securities Lack of transparency in the private sector Small retail investor base

OPPORTUNITIES	THREATS
Increasing educated youthful population Reform of the pension sector - emergence of private pension funds Growth in the oil and oil related sector Development of SME sector Emerging market with untapped growth potential Interest from local and international investors Macroeconomic stability Stable GDP growth Relatively developed banking and insurance sector New legislation needed on collective investment schemes Strengthen understanding and cooperation between SEC, GSE and market intermediaries Strengthen corporate governance standards Education of government and their advisers Signing of IOSCO MMoU Strengthening of the banking sector Development of the bond market Need for infrastructure finance Development of a Commodities Market GSE demutualisation Regional capital market co-operation initiatives Utilise advances in technology Shareholder Rights Act in the offing Financial journalism largely underdeveloped	Judicial and legal system not familiar with capital markets Regional conflicts in the neighbouring countries Low level of disposable incomes and savings World financial / economic environment Impact of worsening political situation in North African and Gulf countries

CHAPTER FOUR: STRATEGIC DIRECTION AND ACTION PLAN

Vision

196. The SEC's Vision is the creation of an efficient and effective capital market regulatory framework for Ghana. In support of this Vision, the SEC has prepared the following Mission Statement.

Mission Statement

197. To promote the orderly growth and development of an efficient, fair and transparent securities market in which investors and the integrity of the market are protected through the proactive implementation of the Securities Laws. This involves ongoing supervision and regulation of the Ghanaian securities market, the education of market operators, policy makers as well as investors on their respective rights and obligations.

Supporting Government Policy

198. The following are extracts from Government's policy document entitled Coordinated Programme of Economic and Social Development Policies, 2010-16 "An Agenda for Shared Growth and Accelerated Development for a Better Ghana" presented to Parliament in December 2010:

> Ghana's capital market is small, illiquid and underdeveloped with limited instruments for resource mobilisation. These challenges constrain domestic resource mobilisation at all levels and expose the country to reliance on external financial support as well as foreign direct investment as the principal sources of funding for both public and private sectors. These challenges impede the pace of policy implementation which oftentimes becomes hostage to inadequate domestic funding and/or disbursements of external funding agencies, both bilateral and multilateral.
>
> Owing to the huge investment requirements, attracting requisite investment capital into oil and gas exploration and development will continue to be an important step towards increased benefits to the people of Ghana. The oil and gas industry will provide the impetus to strengthen the capacity of local financial institutions to compete with their foreign counterparts for opportunities. It will also build capacity to improve domestic resource availability to fund further exploration as well as the establishment of other strategic industries. A number of interventions to support the achievement of these policy objectives are as follows: provide a conducive legal, fiscal and regulatory environment to attract investors into the energy sector; encourage Ghanaian investors to use the capital markets, including the Ghana Stock Exchange, to raise financing for investments in the energy sector; establish transparent and non-discriminatory practices in the implementation of rules and regulations; and ensure efficient and transparent pricing regimes for energy services.
>
> Expansion of Domestic Financial Markets: Government is committed to accelerate financial sector reforms and capacity strengthening to enhance financial intermediation in the economy. It will also aim to increase the availability and pace of domestic resource mobilisation to support investments by the private sector in industrial initiatives. Capital market institutions will be further encouraged to position the nation as an attractive regional destination for large investments. Government will deepen the incentive system for the Ghana Stock Exchange and investors on the exchange in order to encourage the private sector to access long-term capital with the view to making Ghana a competitive regional destination for long-term investment.

199. The “Better Ghana” policy document went on to state that “Capital market institutions need further encouragement to position the nation as an attractive regional destination for large investments. The intention of Government is to deepen the incentive system to encourage the private sector to access long-term capital as an addition to bank resources”. It added that “Capital market institutions will be supported with the required incentives while existing regulatory and policy incentives will be enhanced to enable Ghana to become a competitive regional destination for long term investment”.

200. A small capital market limits the growth prospects of the private sector and aspirations of entrepreneurs because it constrains access to long-term capital for investment in production infrastructure.

201. This Strategic Plan supports Government policy of developing and expanding the domestic financial markets and SEC fully intends that the outcome at the end of the five years of this Plan will be a capital market fully equipped to play a critical role in the development of the economy of Ghana.

202. The Strategic Plan is also fully in line with amended recommendations resulting from a workshop held on 12/13 March 2011 to discuss MoFEP’s draft Financial Sector Strategic Plan II (FINSSP II).

203. The SEC is conscious of the need to support the real economy. Amidst an increasingly aging society, the need to support the private pension sector and the economy’s growth rate, the financial sector is expected to provide more solid support to the real economy and enterprises, by providing suitable investment opportunities to the pensions sector, and diverse fundraising methods to enterprises.

204. Growth figures released by the Ghana Statistical Service demonstrate that Government has been able to return the economy in 2010 to a path of sustainable growth. The oil and gas production due to come on stream soon will further consolidate this effort and ensure accelerated growth. There is therefore a need to utilise these favourable conditions to develop and add extra value to Ghana’s capital markets as a growth industry.

205. This Strategic Plan summarises measures that the SEC will take to develop an environment for Ghana’s capital markets to fully exercise these two roles, thereby showing the path to achieve the following four pillars:

- Environment for supply of funds to companies commensurate with borrowers’ size and stage of development
- Capital markets sector serving the needs of Ghana’s investors and investment institutions
- Competitive regional destination for long-term investment
- Provision of appropriate legislative infrastructure to regulate Ghana’s national assets safely and effectively.

Goals and Strategic Objectives

206. In support of the Vision and Mission Statement, the SEC has set a number of goals or targets to be achieved by 2017. To:

- the level of investments via the securities market from 0.74% to 1.5% of GDP;

- raise stock market capitalisation from 0.6% to 1.2% of GDP;
- increase the number of main market listed companies from 35 to 55;
- increase the amount of capital raised via corporate bonds issues from 4 to 21;
- increase number of companies on a small cap (SME/OTC) market from 0 to 22;
- raise the number of people owning securities from 1.9% to 3.8% of the adult population;
- increase the financial literacy level by an average of 10% per annum; and
- achieve an average ratio in each year of 90% of all targets set in the Action Plan.

207. The SEC has therefore set four strategic objectives, the attainment of which will contribute to the achievement of the above financial sector goals. These strategic objectives are:

i. **Enhancement of capital market infrastructure and strengthening the capacity of capital market institutions and intermediaries.** The objective will be achieved by creating the right environment for issuers, investors and market intermediaries to participate in the market, improved accessibility to the capital market by investors and issuers, the enhancement of good corporate governance practices, and strengthening the professional and managerial capacity of market intermediaries and licensed institutions.

ii. **Development of capital market products and services.** This objective will be achieved by promoting financial innovation and creation of new products, attracting new companies to list on the GSE and broadening the range of domestic and regional products and services with a strong focus on equity, small cap, CIS, bond and commodity market development.

iii. **Promote Public Awareness and Corporate Education.** The objective will be achieved through increased promotion, issuer and investor education and public awareness; and enhancement of public understanding of capital markets and investor rights thereby fostering an investment and savings culture and strengthening financial literacy.

iv. **Establishment of a robust, supportive, legal and regulatory framework that conforms to international best practice.** The objective will involve review of the existing legal and regulatory framework, capacity building and enhancing the internal structure, systems, policies and procedures of the SEC, thereby facilitating market development and enforcement efficiency.

Strategy and Objectives

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
Enhancement of capital market infrastructure and strengthening the capacity of capital market institutions and intermediaries	1.1	SEC to introduce corporate governance standards for licensees	1 Prepare draft rules governing corporate governance standards for licensees 2 Consult on draft rules 3 Issue rules	Enhanced market infrastructure	SEC
	1.2	SEC to discuss with SSNIT and other institutional shareholders the establishment of a corporate governance watchdog group	1 Open discussions with SSNIT and selected institutional investors 2 Prepare and agree ToR for watchdog group 3 Establish watchdog	Improved standards within issuers and enhanced market infrastructure	SEC
	1.3	SEC to commission independent review of stock exchange trading algorithm and GSD / CSD risk management systems	1 Prepare and issue RFP 2 Appoint consultant to undertake assessment 3 Analysis and report by consultant 4 Review and implement recommendations	Strengthened market capacity and improved risk management	SEC
	1.4	SEC to draft changes to exchange licensing criteria and ongoing requirements for both exchanges and clearing systems	1 Prepare draft licensing criteria 2 Consult with GSE 3 Issue new criteria	Enhanced market infrastructure	SEC
	1.5	SEC to draft changes to SIL to require directors, compliance officers and substantial shareholders to seek prior approval from SEC	1 Prepare changes and include in revised draft of SIL	Strengthened capital market institutions	SEC
	1.6	SEC to discuss the introduction of	1 Prepare draft for	Enhanced market	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		licence sub categories with the market	consultation 2 Consult market 3 Review and issue new rules	infrastructure	
	1.7	GSE demutualisation – Phase 1 - Commercialisation	1 Repositioning GSE 2 Growing existing business 3 Developing new business	Guaranteed future viability of GSE	GSE
	1.8	GSE demutualisation – Phase 2 - Corporatisation	1 Private placement 2 Shareholder elected board 3 Organisation changes	Enhanced market infrastructure	GSE
	1.9	GSE demutualisation – Phase 3 – Demutualisation (and listing)	1 Demutualisation 2 Optional listing 3 New Board	Enhanced market infrastructure	GSE
	1.10	SEC to develop a Securities Institute, Resource Centre and Library	1 Training needs assessment 2 Develop syllabus and design Institute 3 Prepare business plan 4 Recruit staff and trainers 5 Procure and install equipment 6 Promote and launch Institute	Strengthened industry capacity and professionalism	SEC
	1.11	SEC to issue regulations governing the trading, sale and promotion of securities via the internet	1 Prepare draft regulations 2 Consultation 3 Issue Regulations	Enhanced market infrastructure	SEC
	1.12	SEC to issue regulations governing margin trading and financing and stock borrowing and lending	1 Prepare draft regulations 2 Consultation 3 Issue Regulations	Enhanced market infrastructure	SEC
	1.13	SEC to issue a consultation paper on	1 Prepare consultation	Enhanced market	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		short selling	paper 2 Consultation 3 Issue Regulations	infrastructure	
Development of capital market products and services	2.1	GSE to develop new indices and index products	1 Consult on new products 2 Design, approval, and launch	New services and products	GSE
	2.2	GSE to introduce SMS and email notification system	1 Develop new system 2 Test, approval and launch system	Improved services for investors	GSE
	2.3	GSE to prepare report to Government on benefits of listing of energy and other companies licensed to operate in Ghana	1 Prepare report 2 Submit to and discuss report with Government	Expansion of the market	GSE
	2.4	GSE to prepare new rules on secondary listing	1 Prepare draft new rules 2 Approval and launch	Expansion of the market	GSE
	2.5	GSE to enforce 25% free float rule and require companies to have a minimum of 100 million shares for main board listing	1 Amend listing rules 2 Approval and launch	Strengthened market	GSE
	2.6	GSE to investigate why there is reluctance from banks to listing	1 Discuss benefits of listing with individual banks 2 Review of listing rules to determine how concerns can be overcome	Expansion of the market	GSE
	2.7	GSE to prepare report to Government on benefits of future disposal of holdings in former SOE via GSE, on allowing SOE and statutory bodies to raise capital via the stock exchange	1 Prepare report 2 Submit to and discuss report with Government	Expansion of the market	GSE
	2.8	SEC and GSE to undertake a review of the issuer disclosure of information regulations and the GSE listing rules	1 Discuss rules with individual companies and identify areas of concern	Expansion of the market	SEC and GSE

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
			2 Review of rules to determine how concerns can be overcome 3 Draft new rules, approval and launch		
	2.9	SEC to prepare analysis and propose incentives for issuers and investors	1 Research from other markets 2 Prepare report and discuss with potential issuers and other stakeholders 3 Consult Government	Market expansion	SEC
	2.10	GSE, or any other approved exchange, to develop a small cap (OTC/SME) market	1 Prepare draft rules 2 Consultation 3 Approval of new market rules 4 Prepare and test trading board 5 Promote market and launch	New products and investment opportunities	SEC to set criteria and GSE or other approved exchange to develop market
	2.11	GSE to seek support for a Listing Support Fund	1 Garner support 2 Establish criteria and rules 3 Promote to potential issuers	New market service	GSE
	2.12	SEC to undertake a review of advisers' fees and charges	1 Review of existing fees 2 Consult advisers and issuers 3 Propose and introduce new fee levels	Eliminate possible barrier to listing	SEC
	2.13	SEC will work with securities regulators, exchanges and other	1 Consult with regional regulators and markets	Expansion of the market	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		stakeholders from ECOWAS to identify the benefits of and work towards harmonisation of rules and a regulatory framework	2 Establish harmonisation review panel 3 Identify benefits 4 Agree roadmap 5 Initiate harmonisation project		
	2.14	SEC to develop regulations for Commodities Market	1 Draft required legislation/regulations 2 Prepare criteria for approval of an exchange 3 Set guidelines on content of rules 4 Vet and approve license application	Improved market in and transparency of pricing and trading of commodities	SEC
	2.15	SEC to seek technical assistance to develop infrastructure and corporate bond market	1 Agree scope of project, objectives and terms of reference 2 recruit and appoint consultant 3 Initiate project 4 Review and approve recommendations 5 Approve rule changes 6 Re-launch corporate bond market	Improved product for issuers and investors	SEC
	2.16	SEC to seek technical assistance to develop regulations on ABS	1 Agree scope of project, objectives and terms of reference 2 recruit and appoint consultant 3 Initiate project	New product for issuers and investors	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
			4 Review and approve recommendations 5 Approve rule changes 6 Launch new product		
	2.17	SEC to undertake a feasibility study on currency, financial, index and equity based derivatives	1 Agree scope of work 2 Undertake analysis 3 Report on feasibility 4 Consultation 5 Establish rules and procedures 6 Product launch	New products for hedging risk	SEC
	2.18	SEC to seek technical assistance to review regulations governing CIS	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project 4 Review and approve recommendations 5 Approve rule changes	Expansion and modernisation of existing CIS rules	SEC
	2.19	SEC to seek technical assistance to introduce regulations on REITS	1 Agree scope of work 2 Undertake analysis 3 Report on feasibility 4 Consultation 5 Establish rules and procedures 6 Product launch	New product for issuers and investors	SEC
	2.20	SEC to provide a help desk and publish guidelines for Investment Clubs	1 Prepare guidelines 2 establish and promote help desk	New service to investors	SEC
	2.21	SEC to introduce a new Corporate	1 Prepare draft code	Strengthened	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		Governance Code for listed and all public companies and seek assistance in extending the Code to companies licensed by BoG, NIC and NPRA, SOE, and large private companies	2 Consultation 3 Implement Code for listed and other public companies 4 Promote Code to other regulators and Government	shareholder protection and improved standards of corporate governance	
Promote Public Awareness and Corporate Education	3.1	SEC/GSE to promote benefits of listing and education of companies and advisers	1 Prepare brochure on listing benefits 2 prepare arguments against perceived disadvantages 3 Identify target audience of issuers and advisers 4 Hold on-to-one meetings and workshops 5 Follow-up	Corporate education and new market products	SEC
	3.2	SEC to promote good corporate governance	1 Establish review and award panel 2 Review companies' compliance with Code 3 Award for compliance	Increased standards of corporate governance	SEC
	3.3	SEC to launch long term educational programmes aimed improving investor awareness and encouraging participation in the securities market	1 Prepare marketing and education plan 2 Prepare promotional material including: - Brochures and pamphlets - Investment games - Essay subjects - TV and radio programmes	Increase levels of understanding and use of the capital markets by retail investors	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
			- Newspaper and magazine articles - DVDs 3 Prepare workshop and seminar programme 4 Launch education and market awareness programme		
	3.4	SEC to introduce money management into the school curriculum	1 Discuss with education authorities 2 Prepare education material	Increased awareness and interest in the capital markets	SEC
	3.5	SEC to implement financial literacy survey	1 Prepare questionnaire 2 Undertake survey and publish base score 3 Re-do survey periodically and assess and publish new levels	Assessment of education programmes	SEC
Establishment of a robust, supportive, legal and regulatory framework that conforms to international best practice	4.1	SEC to draft amendments to SIL	1 Consultants prepare draft law 2 Consultation 3 Draft law to Cabinet 4 Bill to Parliament 5 Law enactment	Strengthened legislation	SEC
	4.2	Sec to discuss with MoFEP changes to Board appointment, accountability and budgetary freedom	1 Discuss benefits of and implications of recommendations 2 Agree implementation schedule 3 Implement changes	Strengthened governance and accountability of SEC in accordance with international standards	SEC
	4.3	SEC to discuss licensing application	1 Submit existing licensing	Correct regulatory	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		with CSD	criteria to CSD and BoG 2 Discuss with CSD 3 Review and approval of licensing application	irregularity	
	4.4	Board to commission and adopt documented risk assessment	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project 4 Review, consult and approve recommendations 5 Introduce risk assessment	Prelude to introducing risk based supervision	SEC
	4.5	SEC to seek technical assistance on exchange and clearing system oversight programme	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project 4 Review, consult and approve recommendations 5 Introduce oversight programme	Strengthened regulatory oversight of exchange and clearing organisations	SEC
	4.6	SEC to commission independent review of office routines to strengthen audit trails	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project	Improved audit trail	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
			4 Review and adoption of recommendations		
	4.7	SEC to seek assistance for the drafting of a comprehensive office procedures manual	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project 4 Review of recommendations and procedures manual 5 Introduce new procedures manual	Consistency of regulation and improved regulatory capacity	SEC
	4.8	SEC to introduce permanent licences	1 Amend SIL 2 Prepare and adopt new rules 3 Implement new licensing regime	Ease regulatory burden	SEC
	4.9	SEC to seek assistance in the introduction of risk-based supervision	1 Agree scope of project, objectives and terms of reference 2 Recruit and appoint consultant 3 Initiate project 4 Review, consult and approve recommendations 5 Introduce risk based supervision	Improved regulation	SEC
	4.10	SEC to draft changes to Regulations on notification requirements and prior	1 Prepare draft regulation 2 Consultation	Strengthened regulation	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
		notification of advertisements and consult the market operators	3 Issue regulation		
	4.11	SEC to introduce licence sub categories	1 Prepare amendment to licensing regulations 2 Consultation 3 Issue amended regulation	Simplified licensing process	SEC
	4.12	SEC to introduce mandatory qualifications for certain positions in market operators	1 Prepare draft of qualification requirements 2 Consultation 3 Implement	Strengthened regulation	SEC
	4.13	SEC to introduce new Regulations on market operators' notification requirements, prior notification of advertisements and submission of complaints summary	1 Prepare draft of new regulation 2 Consultation 3 Implement	Strengthened regulation	SEC
	4.14	SEC to draft contingency plan for the failure of an intermediary	1 Undertake risk assessment 2 Prepare draft plan 3 Discuss with GSE and GSD 4 Refine and have available, if required	Contingency planning	SEC
	4.15	Implementation of new surveillance system	1 System design 2 Vendor development 3 Training 4 System testing 5 Implementation	Improved level of regulatory oversight	SEC
	4.16	SEC to determine role of demutualised GSE as an SRO	1 Discuss role with GSE 2 Agree split of responsibilities	Strengthened regulatory framework	SEC

Strategic Objective	Ref.	Action	Steps	Resultant Benefit	Responsibility
			3 Implement		
	4.17	Implement new SEC HR strategy and staff training programme	1 Introduce new Performance Management System 2 Implement new training plan	Improved knowledge and understanding of capital markets	SEC

Action Plan (Roadmap)

Ref.	Action Plan	2012/13	2013/14	2014/15	2015/16	2016/17
	Market Infrastructure					
1.1	Corporate governance standards for licensees		✓			
1.2	Establish corporate governance watchdog group				✓	
1.3	Review exchange trading algorithm and risk management systems	✓				
1.4	Changes to exchange licensing criteria	✓				
1.5	Prior approval for directors, compliance officers and substantial shareholders		✓			
1.6	Introduce licence sub categories			✓		
1.7	GSE demutualisation – Phase 1 - Commercialisation	✓				
1.8	GSE demutualisation – Phase 2 - Corporatisation		✓			
1.9	GSE demutualisation – Phase 3 – Demutualisation (and listing)			✓		
1.10	Securities Institute, Resource Centre and Library		✓			
1.11	Regulation on Internet Trading			✓		
1.12	Regulations on margin trading and stock borrowing and lending	✓				
1.13	Consultation paper on short selling	✓				
	Products and Services	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
2.1	New indices and index products					✓
2.2	SMS and email notification system	✓				
2.3	Report on benefits of listing companies requiring a license	✓				
2.4	New rules on secondary listing	✓				
2.5	Enforcement of 25% free float rule and minimum 100 million shares	✓				
2.6	Investigate why there is reluctance from banks to listing	✓				
2.7	Report on benefits of disposal of holdings in former SOE via GSE	✓				
2.8	Review issuer disclosure of information regulations	✓				
2.9	Analyse incentives for issuers and investors	✓				
2.10	Develop a small cap (OTC/SME) market	✓				
2.11	Seek support for a Listing Support Fund	✓				
2.12	Review advisers' fees and charges	✓				
2.13	Regional harmonisation of rules and a regulatory framework					✓
2.14	Regulations for Commodities Market	✓				

2.15	Development of corporate bond market		✓			
2.16	Regulations on ABS		✓			
2.17	Derivatives feasibility study				✓	
2.18	Review CIS regulations	✓				
2.19	Regulations on REITS	✓				
2.20	Help desk and guidelines for Investment Clubs	✓				
2.21	New Corporate Governance Code		✓			
	Public Awareness and Education	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
3.1	Education of companies and advisers	✓	✓	✓	✓	✓
3.2	Promoting good corporate governance		✓	✓	✓	✓
3.3	Long term educational programmes	✓	✓	✓	✓	✓
3.4	Introduce money management into the school curriculum	✓	✓	✓	✓	✓
3.5	Financial literacy survey	✓	✓	✓	✓	✓
	Legal and Regulatory Framework	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
4.1	Draft amendments to SIL	✓				
4.2	Governance and accountability of SEC	✓				
4.3	CSD Licensing	✓				
4.4	SEC adoption of risk assessment	✓				
4.5	Exchange and clearing system oversight programme	✓				
4.6	Review of office routines to strengthen audit trails		✓			
4.7	Office procedures manual		✓			
4.8	Permanent licensing	✓				
4.9	Risk-based supervision		✓			
4.10	Changes to Regulations on notification requirements		✓			
4.11	Introduce licence sub categories			✓		
4.12	Mandatory qualifications			✓		
4.13	Market operators' notification requirements				✓	
4.14	Contingency plan for the failure of an intermediary					✓
4.15	New surveillance system	✓				
4.16	Role of demutualised GSE as an SRO		✓			
4.17	Implement new SEC HR strategy and staff training programme	✓	✓	✓	✓	✓

CHAPTER FIVE: RESOURCE MOBILISATION

Organisational Structure of the SEC

208. In order to improve the efficient operation of the SEC, the Board has re-examined the organisational structure and reporting lines. The present organisational structure is flat and focuses on function rather than business lines. Whilst there are advantages in this type of structure the disadvantages are that:

    a. All departments have relationships with all members of the regulated community and so it requires excellent communication between divisions;

    b. Separating the licensing function from the monitoring function can mean that licences are given to applicants who are structured or behave in a way that is difficult to supervise properly;

    c. Information obtained about the licence applicant and which should affect the way they are monitored may not always be passed to the monitoring function;

    d. When the monitoring function considers that a licensee should be subject to enforcement action, it may not always be possible to persuade the enforcement department that the matter is of sufficient priority and there may be an inconsistent approach to a licensee;

    e. There is a risk that the SEC may not be sufficiently familiar with the business of licensees and the policy department has to keep abreast of a wide range of policy issues.

209. The main advantage of a moving to a structure according to the businesses that are being regulated is that the each licensee has a single department who is responsible for its regulation. The SEC can then become expert in that business and can understand it.

210. When considering the most appropriate structure for the SEC, it is necessary to take account of the following factors:

    a. The SEC must prepare itself for a stronger role in the oversight of exchanges and markets, with the new surveillance system coming in, and the possibility of a commodities exchange and Over the Counter (OTC) market, together with stronger oversight of clearing and settlement;

    b. New developments in corporate and government bond markets;

    c. The SEC will have a new on-line filing and database system that will require support;

    d. The number of mutual funds is expanding;

    e. Once the SEC becomes a signatory to the IOSCO MMoU, there will be an increased demand for action to respond to requests for information;

    f. The introduction of risk-based supervision and risk-based capital requirements;

    g. Stronger initiatives on investor education and the development of a Securities Institute, Resource Centre and library.

211. Moreover, the SEC's particular circumstances require a structure that:

    a. Maximises the opportunities for professionals;

b. Builds on existing skills;

c. Provides room for policy developments in terms of amendments to law and regulations;

d. Maintains the flat organisational structure;

e. Encourages the development of greater expertise with respect to the regulated business.

A structure for the SEC moving forward

212. In the light of these considerations, the SEC will introduce a structure that is based on business, not function, to help the SEC develop business expertise:

a. There will be a new department for exchanges/markets/depositories, so that the SEC can devote adequate attention to the oversight of the infrastructure of the capital markets;

b. Market surveillance will focus on dealers and brokers, so as to ease the transition to the new regime where they are divided into sub categories;

c. There will be a new department for investment advisers, to ease the transition to a new regime where they are divided into sub categories;

d. There will be a new department devoted to IT so that it can provide appropriate support for the on-line filing system and internal database;

e. The corporate finance department will focus on the responsibilities of issuers when making offers and when meeting their ongoing obligations;

f. The business departments created by this structure will deal with licensing, monitoring and most enforcement matters (short of major investigations, which will normally be outsourced);

g. The accounts department will be brought into the mainstream of operations, initially by being given the task of developing the risk-based capital regime;

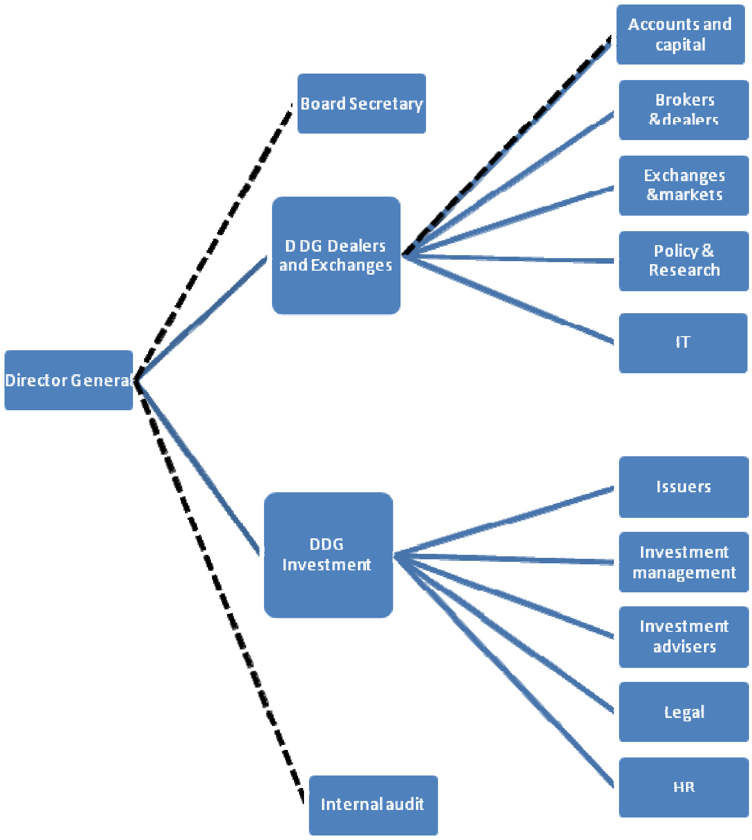
h. There will continue to be a legal department that offers advice and leads on the development of new regulations (including on money laundering and terrorist financing) and arranges the outsourcing to local law or accountancy firms of major investigations so as to avoid disrupting the ongoing work of the SEC;

i. The policy department will take the lead on new initiatives, investor education and the Securities Institute;

j. There will be no separate department for AML (the functions of developing guidelines will be passed to the legal department and the monitoring of obligations integrated with other monitoring activities in the departments for brokers, investment advisers, investment management and infrastructure);

k. The Board Secretary and Internal Audit will report to the DG, as they do now.

213. The organisational structure will be as shown in the diagram below.



214. This structure will best enable the SEC to discharge its duties efficiently.

Resource Requirements

215. The Strategic Plan outlines the major strategic objectives, provides implementation strategies, action plans and roadmap, together with plans for monitoring and evaluation. The successful implementation of this Strategic Plan will depend not only on the quality and commitment of the SEC but also on the availability and efficient utilisation of its resources. The projected physical and financial resources required to implement the Plan are set out below.

Current and Projected Staffing Levels

Table 11: Current and Projected Staffing Levels

Department	Currently In Post	Department	2016 Projection
Directors	3	Directors	3
	-	Exchange & Markets	2
Market Surveillance	5	Brokers & Dealers	4
	-	Investment Advisers	2
Corporate Finance	5	Issuers	6
Investment Management	2	Investment Management	3

AML	2		-
Legal	2	Legal (inc AML)	4
Research & Market Development	3	Policy & Research	6
IT	2	IT	3
Admin and HR	16	Admin and HR	19
Accounts	3	Accounts	4
Audit	1	Audit	2
Total	**44**		**58**

216. The proposed new organisational structure for the SEC focuses on organising departments around the businesses they are responsible to regulate. One department is eliminated (AML and its functions incorporated into other departments), and another function (IT) is established as a separate department. The Administration and HR department is more appropriately renamed HR. Departments are grouped under two DDG's, one for investment (managers, mutual funds and advisers) and the other for exchanges (and other infrastructure), brokers and dealers. The structure maintains a lean, flat organisation should yield greater clarity of function between departments.

217. From a manpower planning perspective such a structure would not, initially, alter the current projections for additional staff. However, when the structure is implemented, a new manpower planning assessment will be undertaken at the end of six months.

Training and HR Strategy

218. To maximize its contribution to the SEC the Human Resources Department of the SEC will adopt a role that is:

To attract and retain talented people to the SEC and develop, motivate and reward them in a manner that produces the highest calibre of financial professionals in the country. To also provide for professional needs through effective performance management and training and education programs to enhance knowledge and skills for all staff, and for the benefit of the financial sector as a whole.

219. This implies a much more active, rather than passive role for the HR Department, and puts the burden of initiating action related to HR on the part of the department itself.

220. The Training Plan incorporates the need to train an anticipated 14 new SEC staff over the next five years as well as enable existing staff to become confident in their knowledge of new products, regulatory requirements, systems, and operations. The plan divides proposed training into basic and intermediate/advanced levels.

Basic Level Training (first year)

221. Because new staff members will have little or no knowledge about capital markets basics, the SEC will to continue to provide core capital market information. Two existing training components and three new components can deliver the required knowledge and skills:

(i) UNITAR on-line courses.

(ii) GSE (and when established, Securities Institute) courses in:

- Introduction to Investment.
- Fundamentals of Finance and Financial Markets.
- Corporate Finance.
- Investment Analysis and Portfolio Management.
- Securities Trading and Investment Advisory Techniques.
- Legal and Regulatory Framework and Supervision.

(iii) Visitations and presentations by staff of GSE, Securities depository and at least one small and one large brokerage firm (new).

(iv) In-house training on market surveillance, introduction to risk management and anti-money laundering (conducted by SEC staff, new).

(v) Upon successful completion of the above training activities, participation in one overseas programme, such as US Securities and Exchange Commission or IOSCO training seminar (new pre-requisite).

Intermediate/Advanced Level Training

222. This level of training is targeted for narrower groups of SEC staff who need to increase their skill levels performing key regulatory tasks.

223. Intermediate and advanced level training will use attachments to other regulatory bodies, “reverse attachments” from other international financial institutions, and/or consultants from profit making training institutions to advise and “coach” selected groups for priority skill development as reflected in the training needs assessment.

224. The advisors, consultants, and “coaches” will offer brief workshop style programmes, but most likely will train “on-the-job,” reviewing policies, procedures, problem cases and other specific areas where Ghanaian SEC staff are encountering problems. The training will assume a problem-solving orientation, concentrating on everyday issues regarding the local capital market.

225. While overseas programmes may still play a role in this level of training, especially participation in IOSCO conferences, classroom programmes will not be the primary preferred method of learning.

Table 12: SEC Training Programme

TRAINING PROGRAMME	CONTENT	DELIVERY OPTIONS
New Product Knowledge (overview)	• Definitions and examples: – REIT’s – CIS – Index based derivatives – Commodity derivatives – Infrastructure bonds – ABS	• Self –study using books and on-line courses • Presentations/small group meetings with market participants planning introduction of new products
Individual New	• REIT’s	• Assign one staff member

TRAINING PROGRAMME	CONTENT	DELIVERY OPTIONS
Products (detailed knowledge)	• CIS • Index based derivatives • Commodity derivatives • Infrastructure bonds • ABS For each product: • Basic structure • Benefits • Recourse versus Non-Recourse • Accounting methods • Management of risks	each to become in-house resource for new product knowledge • Identify visiting market participants who trade such instruments and invite for presentations
Market Surveillance Techniques	• Market surveillance methodology • Planning/preparing the case • Techniques of market surveillance (analysis of market information) • Managing relations with the entity • Reporting • Finalizing the matter • Appeals	• Review of policies and procedures • On-going small group discussions working on actual Ghana cases • Outside case examples • Recommended methodologies for local market conditions • "Reverse attachment" of market surveillance specialist
Investigative Accounting	• Methods to uncover crime, financial fraud, and misappropriation of assets • Relation to money laundering and transnational financial flows are examined • Business valuations • Tools used: timeline analysis, link analysis, proof of cash, entity charts, etc.	• In-house programme presented by accounting firm • Regional and local case studies • Video-taped for future use
New Surveillance System Training	• Installation and technical requirements • Functions and operations • Hands on practice • Case studies • Simulations • Monitoring and back-up	• Provided by Vendor
Investment Companies and CIS in Ghana	• Overview of the funds management functions • Investment companies: – organization – investment objectives – investment management process – investment advisers – regulation of investment	• Invite series of investment company executives/investment advisors to present their company's organisation, objectives and functions • Follow with in-house presentation by staff

TRAINING PROGRAMME	CONTENT	DELIVERY OPTIONS
	companies and advisors • Role of CIS in Ghana: – legal structure – disclosure – investor protection – regulation	responsible for supervising investment companies/advisors • Same approach for CIS • Video-taped for future use
Risk Management	• Define risk management • Identify phases of risk management • Methods and inherent risks in equity valuation • Fair value measurement and issues • Risks associated with fixed income instruments • Measuring the risks of derivatives used in financial risk management • Value at Risk for derivatives • Measuring credit risk of derivatives • Examples, exercises and cases	• Create detailed outline and submit to 3-4 training institutions to which SEC has sent participants and know the instructors • Solicit proposals and evaluate instructors (ask for references and check) • Select visiting instructor(s) based on pre-established criteria to come to SEC (and possibly broader group of participants) • Local consultants may be available • International expert for 12 months –train and write procedure manuals
Mergers and Acquisitions	• Key advantages of acquisitions • The acquisition process • Basics of financing the deal • Valuing the acquisition candidate • Economic vs. accounting valuation • Due diligence and uncovering incorrectly valued and unrecorded assets and liabilities • Additional regulatory issues	• Create detailed outline and submit to 3-4 training institutions to which SEC has sent participants and know the instructors • Solicit proposals and evaluate instructors (ask for references and check) • Select visiting instructor based on pre-established criteria to come to SEC (and possible broader group of participants • Local consultants may be available
Research and Public Outreach	• Research methodology used to gather market information • Public affairs strategy and methods to reach stakeholders/public at large • Presentation skills • Writing skills	• Attachment to institution with department with similar functions or overseas programme with specific similar objectives • Local presentation skills/writing programme
SEC Organization Development	• Confidential staff satisfaction survey	• Solicit experienced management consultant

TRAINING PROGRAMME	CONTENT	DELIVERY OPTIONS
	• Presentation of results to all professional staff at weekend off-site • Team building activities • Identification of key strengths and areas for improvement at SEC • Small group problem-solving discussion • Large group summary of action steps for improvement • Shorter follow-up sessions throughout the year	familiar with capital market and able to create and compile survey results, organize off-site and facilitate discussion

Financial Plan

Table 13: Estimated Financial Cost (in GH¢) of supporting each Objective

	Year 2012/13	Year 2013/14	Year 2014/15	Year 2015/16	Year 2016/17	Total
Objective 1: Capital market infrastructure	30,000	22,500	15,000	22,500	15,000	105,000
Objective 2: Capital market products and services	630,000	61,500	150,000	75,000	30,000	946,500
Objective 3: Public awareness and corporate education	52,500	84,000	84,000	84,000	84,000	388,500
Objective 4: Legal and regulatory framework	1,157,000	1,607,000	1,007,000	1,007,000	1,007,000	5,785,000
Total	1,869,500	1,775,000	1,256,000	1,188,500	1,136,000	7,225,000

Table 14: Financial Summary

Summary of Financials						
Projected Revenue	**Year 2012/13**	**Year 2013/14**	**Year 2014/15**	**Year 2015/16**	**Year 2016/17**	**Total (GH¢'000)**
	GH¢'000	**GH¢'000**	**GH¢'000**	**GH¢'000**	**GH¢'000**	
Licence Fees	160,000	170,000	180,000	192,500	207,500	910,000
Transaction Levy	592,200	710,640	852,768	1,023,322	1,227,986	4,406,916
Prospectus Approval Fees	200,000	240,000	300,000	375,000	468,750	1,583,750
Penalties	30,000	36,000	39,600	43,560	47,916	197,076
Investment Income	500,000	500,000	550,000	550,000	605,000	2,705,000
Other income	10,000	11,000	12,100	13,310	14,641	61,051

Total Income	1,492,200	1,667,640	1,934,468	2,197,692	2,571,793	9,863,793
Projected Expenditure						
Emoluments and Allowances	1,565,849	1,932,520	2,377,085	2,861,484	3,286,436	12,023,373
Administrative Activity Expenses	829,968	954,463	1,126,267	1,328,995	1,568,214	5,807,906
Objective 1: Capital market infrastructure	30,000	22,500	15,000	22,500	15,000	105,000
Objective 2: Capital market products and services	630,000	61,500	150,000	75,000	30,000	946,500
Objective 3: Public awareness and corporate education	52,500	84,000	84,000	84,000	84,000	388,500
Objective 4: Legal and regulatory framework	1,157,000	1,607,000	1,007,000	1,007,000	1,007,000	5,785,000
Total Expenditure	**4,265,317**	**4,661,983**	**4,759,351**	**5,378,979**	**5,990,649**	**25,056,280**
Deficit (Ghana Government Subvention)	**(2,773,117)**	**(2,994,343)**	**(2,824,883)**	**(3,181,287)**	**(3,418,857)**	**(15,192,487)**

CHAPTER SIX: MONITORING, EVALUATION AND REPORTING

226. Monitoring the implementation of the Strategic Plan comprises systematic tracking of activities and actions to assess progress which is measured against specific objectives and output targets and time schedules included in the Plan. This is followed by analysing and reporting of information to various users. This helps them to remain alert to any short-falls or deviations and take early corrective action. Effective monitoring helps to identify difficulties and problem areas and to take immediate remedial action, thereby ensuring that targets are achieved. Regular reporting at all levels is necessary for follow-up and record keeping.

227. Senior management will follow up and ensure that strategies are being implemented, performance is being measured, progress reports are made and discussed, and corrective action is taken where necessary.

228. The Strategic Plan must translate to work and therefore the Plan will be cascaded downwards to the lowest positions. This will help each member of staff to understand and plan for their respective roles.

229. Detailed work plans will be developed showing clear performance indicators and responsibility for their achievement. Key indicators that will inform management decision making will be identified and the frequency of reporting on these indicators will be determined. This will form the foundation of the monitoring and evaluation system.

230. Data and information collection templates and procedures will be developed to measure performance as per the indicators and report to management. These procedures will be incorporated in operating procedure manuals so that they are part of routine work.

231. Regular review meetings by the Director General and both Deputies will ensure the Plan remains on track. Quarterly review meetings will be scheduled to get and give feedback. The Strategic Plan and its implementation is a responsibility of the Board. Therefore progress reporting will be an Agenda Item in Board Meetings.

232. The SEC will apply both quantitative and qualitative techniques to monitor the planned performance of its respective Departments. These include: variance analysis, ratio analysis, and budgets.

233. The SEC will compare the performance targets with the actual results and any variance identified. As a consequence of variance analysis and identification of causes, appropriate remedial action can be taken.

234. Ratio analysis is concerned with efficiency related objectives. The ratios will be calculated quarterly, semi-annually and annually and the actual results compared with target ratios. The differences between target and actual ratios will be identified and analysed. This analysis will invoke appropriate remedial action.

235. Under this monitoring and evaluation process, actual results will continually be checked against planned targets and variances investigated. If necessary, action plans will be changed so that they are brought in line with the budgeted results or the budget will be amended to take account of new developments.

236. Progress reports will be prepared by implementing departments of the SEC. The two Deputy Director Generals will assist the Department Heads in preparation and presentation of reports.

The reports will describe actions taken by the departments toward achieving specific outcome and strategies of the Plan and may include costs, benefits, performance measures and progress to date.

237. At the end of each financial year the SEC will prepare a report evaluating the year's activities and indicating the extent to which the SEC has implemented the Plan. The Plan will be updated on an annual basis and a comprehensive review of the Strategic Plan will be undertaken at the end of 2014.

238. The performance and evaluation matrix (the Performance Indicators) which will be used to evaluate overall performance is summarised in Table 15 below. The detailed implementation matrix is set out in the Action Plan in Chapter 4.

Table 15: Performance Indicators

Measurement	From	To
Raise the level of investments via the securities market as a % of GDP	0.74%	1.5%
Raise Stock Market Capitalisation as a % of GDP	0.6%	1.2%
Increase number of main market listed companies	35	55
Increase the number of corporate bonds issues	4	21
Increase number of companies on the SME/OTC market	0	22
Raise % of adults owning securities	1.9%	3.8%
Increase the financial literacy level by 10% per annum	low	+50%
Achieve an average ratio in each year of 90%of all targets set in the Action Plan	90%	90%