

Unpacking Investment Banking



BY RICHARD MANGI

Introduction

Those who follow our articles will recall that we have spent a lot of time talking about the role of the Securities Exchange Commission of Zimbabwe (“SECZ”) in licensing and regulating players in the financial services industry. This week, Richard Mangi (“RM”), the CBZ Investment Banking Deputy Divisional Director sat down with Tafadzwa Chinamo (“TC”), the Chief Executive Officer of SECZ where they discussed a number of wide ranging issues on Zimbabwe Capital Markets. Here are excerpts of the discussion.

INTERVIEW

1. RM: Thank you Tafadzwa for having this discussion at a very interesting time in our capital markets. Kindly elaborate on the role of SECZ from a holistic perspective?

TC: The Securities Act captures the reasoning behind the Commission’s existence, and these can be summed up by the fact that the Commission was created to give focus to an important sub-sector in the country’s financial market. Prior to SECZ’s operationalization in 2009, the financial market was largely an unregulated sector. Therefore, the coming into force of the Commission sanitized the securities market. The initial steps of such sanitization happened during the former Governor, Dr Gono’s era where the RBZ assumed oversight of the Asset Management industry. The Commission stands as a fully dedicated entity to service, license, regulate and encourage the development of free, fair and orderly capital and securities markets in Zimbabwe.

2. RM: In your view, are the current regulations sufficient to fully regulate the financial services industry or there are still gaps needing to be addressed?

TC: SECZ was set up in 2009 and operationalized through the Securities Act, however, it was never tested. It was conceived from the realization that there was a need to govern capital and securities markets and thus, drawing up of the Act was based on studies and research from similar jurisdictions. The Act lays out our objectives from a broad perspective. One of the first challenges faced relates to the absence of specific rules in terms of governing players. The Commission was initially established to regulate capital markets, including Asset Managers, which as I previously mentioned was at the time regulated by the RBZ. In due course, the Commission was able to bring the Unit Trusts and Asset Management companies under its regulatory framework.

Whilst the Securities Act is serving its purpose, there are still some gaps which are being addressed through some amendments to the Act which have been approved by the Board and encompass a 28 paged amendment document driven by the proposed rules to address the short comings identified in the market. These are in the process of being approved by authorities. In the current act we are called a Securities and Exchange Commission but we do not regulate all the issuers of securities in Zimbabwe. SECZ management has managed to draft a comprehensive list of rules which the market players have seen and commented on. After the drafting of these rules, we approached the Ministry of Finance and Economic Development and Parliament to approve and make these a Statutory Instrument.

Some of the major highlights of the amendments to the act include the listing process of a security. In the past, SECZ has had no say who lists or who doesn’t. We intend to rectify this by ensuring that before any securities are listed in Zimbabwe, SECZ is notified.

When an issuer wants to list a security they must obtain an initial approval from SECZ. This is the standard practice the world over. Once the approval process is in place, SECZ will now have control over the listed entities. This will be quite transformational and all the ancillary issues that arise from some of these entities will be regulated through SECZ who will have the authority to ensure that issuers conduct their business fairly so as not to prejudice investors and stakeholders.

SECZ is preparing to join the International Organization of Securities Commission (“IOSCO”). This is the mother body of regulators in the world and once the Commission is a member, it brings us in line compliance with international best practice in regulating securities markets. The main benefit of being a member of IOSCO is that we will also be able to solve problem cases across borders, for example, if a company is moving funds across borders to a country which is also a member of IOSCO, we are able to engage the securities regulatory body in that country to get the information on the affected party’s banking details and accounts in that country. This will allow us to be more effective.

3. RM: In terms of authorizing the issuer, how do these new rules differ in comparison to the ZSE listing requirements?

TC: SECZ gives authority to the ZSE in terms of all its actions. Because ZSE has been listing securities all along, these rules will give SECZ power over and above what ZSE does, thus, the first filing for all ZSE transactions, including IPO, rights issues and EGM’s, amongst others, will be done through the SECZ. The envisaged process flow will be that entities first receive approval from SECZ before proceeding to ZSE.

4. RM: So essentially ZSE has delegated authority?

TC: Yes, in the industry they are called self-regulating organizations, like the Central Securities Depository (“CSD”). So ZSE can come up with their own member rules and regulations. However, everything they do is through SECZ approval. Challenges noted from recent cases show that SECZ was not the regulator of the issuer, but instead, of the Securities bourse. It is important for SECZ to discharge its duties over any institution that deals in securities. ZSE is now a private business, so their interests may differ from those of SECZ which is specifically regulator of issuers and securities. Thus, there is need to ensure that the Commission has the ability to intervene decisively in market related activities to ensure that the market is protected. An example is the case SECZ recently won in the Supreme Court against liquidators. In this case, it was clearly stated that the Securities Act stands at par with all the other Acts, including the Companies Act. The requirements for listed companies will therefore be enhanced and require companies to observe more rules and standards because at present, companies hide behind the Companies Act because the Securities Act does not cover some areas.

5. RM: What do you consider to be the most important role of SECZ today?

TC: When business is not good, people tend to cut corners because it becomes more expensive to comply with regulations generally. Therefore, as a regulator, there is need to watch the market more diligently. If we look at the current capital market, we are not yet fully developed, so there is need to develop and upscale infrastructure. Although the ZSE has now automated trading through the Automated Trading Platform (“ATP”), this is not accessible from mobile devices, so the next step is to ensure accessibility from any platform to the ordinary person. Costs of transacting are lowered when systems are based on electronically and IT geared platforms. So our thrust as SECZ at present, is to bring down the costs of transacting to the market through IT based and infrastructure development solutions. So it is a chicken and egg situation it is costly to develop such infrastructure whilst at the same time, our players may not be making potential revenues due to lack of accessibility and costly nature of trading by the ordinary individuals. In most markets, trading occurs from 9am to 330pm, however, in Zimbabwe trading is only for 2 hours a day. So there is definitely a lot that can be done to make the market more accessible and viable.

6. RM: What would you consider to be the defining moments for SECZ and

what else would you like to see happening in the future?

TC: It has been an exciting number of years since the Commission was established in 2009. It is never easy to impose a regulator in a market that doesn’t believe there is a need for regulation. We have since moved away from an environment of animosity, suspicion and lack of cooperation to a time where the key players in the market appreciate the presence of the Commission. From the Commission’s point of view, we never do anything without prior consultations with market players, which ensures everyone’s involvement and ultimately, players appreciate why things are being done.

Since inception we have noted that financial institutions are failing and wreaking havoc, but as an institution, we have not experienced any failure of institutions under our purview, to the detriment of investors, which is something we are proud of. We have been able to identify issues before they occur and taken action to the extent that our Investor Protection Fund which has approximately USD6.8 million, has never been utilized. The fund was set up to mitigate any monetary losses to investors due to fraudulent activities or general misconduct by licensed intermediaries. This is also the case partly because the Commission has moved the risk from the wider players in the market to very few players, such that the investors’ risk in most instances lies with the CSD and custodians. By concentrating risk at that level and automating the process to ensure an audit trail and our ability to retrieve information to investigate much quicker, it has made it easier to mitigate against potential risks. But as I highlighted, what we really want to achieve is an end-to-end infrastructure where everything is done electronically. Ultimately, the goal is to ensure that a customer can buy a share in the comfort of their home.

Additionally, we are a state institution and there has never been any debacle at SECZ. The Commission has been audited over the past years by one of the big four auditing firms, and we ensure that without fail, our audited accounts are available by the 31st of March each year whilst our annual reports are available by May in each year. In 2015 we early adopted the long-form audit report which for all other organizations was effective for accounts after 16 December 2016. This early adoption was to lead by example by setting the standard and showing the market that we do not impose what we do not conform to as an entity. So looking ahead, we hope the economy improves, and I would like to see other instruments in the market other than equities. There is certainly scope for debt instruments; the property market is a bit informal in Zimbabwe, but through proper structures and instruments, the Commission can play a significant role in driving its growth.

7. RM: In light of globalization and with Zimbabwe being part of the regional financial markets, do you think we have developed to that level, and if not, is that having an impact on the FDI level?

TC: On the regional front, SADC was very proactive with part of the founding principles being integration envisaging an EU type of set up. Before SECZ was established around 2008, there were protocols for all industries through various committees set up. The financial services sector has a Committee for central bank governors, whilst for SECZ, there is a committee for regulators for non-banking institutions called the Committee for Insurance and Non-banking Authorities (“CISNA”). I am the current Chairman of this committee. The main goal and drive is for integration and uniformity for all member states. CISNA is currently working on a project that entails the drafting of model laws across the industry. These model laws will see the enactment of a situation where we will have uniform listing rules as a region. We are pushing for uniformity across all SADC countries for these listing regulations, thus, making it easier for companies to list across different jurisdictions as well as encouraging investment and increasing the ability to attract FDI.

CISNA meets four times a year, and there is a meeting being held in October 2017 in Zimbabwe. This is an opportunity for players to also meet the regulators from the different SADC countries. The tone set by our president regarding integration has not been implemented as aggressively as the East Africans who seem to be moving faster in terms of

regional integration and will likely soon be having one currency, one stock exchange and so forth. As regulators, we will take a step further and hopefully our efforts will not be slowed down but, ideologically, certainly that is the objective.

8. RM: From a regulatory point of view, are companies doing enough to comply with regulations? What do you think can be done to strengthen compliance?

TC: This really is more to do with human behavior. If someone has a bad habit, this would be a difficult thing to change without effectively enforcing regulations to force adherence. Therefore, the conduct of players anywhere is a combination of themselves as people, corporate governance infrastructure, regulation and enforcement of that regulation. Every securities regulatory body naturally encounters non-compliance in one way or the other but we can safely say in Zimbabwe, we are yet to experience securities related fraud or scandals. In terms of compliance, I have no problem with regulated entities, however, challenges crop up on the issuer side. As I highlighted, the reason for this is because of the gaps that we have identified in the current Act which we are addressing.

Generally, grey areas are present because we don’t have the means to stop them. SECZ has largely been successful in its regulatory role because of its consultative nature in decision making. The latest requirement is for companies to also include a long-form audit report in their Annual Reports and through ZSE, all listed companies were advised of this new requirement. In addition to stating their auditor, companies are now required to state in all press publications the name and qualification of the preparer of their Financial Statements and also to list key audit matters thereon. Additionally, to increase awareness and add value to the financial reporting process, SECZ has requested that a public notice be published to this effect. It is envisaged that compliance with the international auditing standard regarding the long-form audit report will enhance better disclosure which investors have been requesting in order to enable them to make more informed investment decisions. Application of this auditing standard in our market will ensure that company’ management is held more accountable through disclosing timely relevant information to shareholders and the market, and this will without a doubt improve market information processing efficiency which is a key SECZ goal.

9. RM: So the management report is now being disclosed?

TC: No the management report is not being disclosed. What’s being disclosed is the name of the auditor, registration number, the auditor’s opinion, auditor’s responsibility, management’s responsibility, key audit matters and the going concern status of the entity. The investor will then get a perspective of what key risks the auditor looked at and how they audited them. This will help the investor understand how the auditor arrived at their opinion. The format is as set by International Auditing Standards which are set by the International Accounting & Auditing Standards Board (IAASB). Basically, under the audit opinion we have requested that the full audit report be available for easy access on the ZSE website and the individual listed company’s website. This is a major milestone which companies are complying with.

10. RM: As a former asset manager, what is your favorite asset class and why?

TC: I think in any securities market, the easiest securities to understand are listed shares. Normally, once they are well established, all other securities become easier to issue and trade in because markets tend to develop quicker. Once you have an established share trading exchange, your bond markets and even derivatives grow from that. Therefore, it’s easier to raise funding for an entity with a well-established share base.

11. RM: In as far as derivatives are concerned, what are the critical factors that have to be considered in order to ensure the presence of an active derivative trading market?

TC: Derivatives generally require a liquid and efficient market. Once the market is liquid, price discovery approaches a true market price for securities and this allows people to do other things such as

contracts, short them, or even lend them therefore derivatives will be naturally born out of such a market. Without liquidity, the price can be manipulated. An active money market is also essential.

12. RM: Where would you place the Zimbabwean capital market in as far ranking?

TC: As a regulator I normally look at the level of participation of the general public and awareness. In SADC, Zimbabwe would likely be ranked second to South Africa as far as awareness of capital markets is concerned. You won’t find widespread knowledge and participation at individual level in most African countries except South Africa. It is therefore important to note that when you are looking at market advancement, it is not only about the value, but size in terms of active asset managers, clients registered, volumes of trade on the exchange and also liquidity. Zimbabwe still trades more shares on a daily basis than most SADC countries, with the exception of South Africa.

13. RM: Generally, sticking to the local environment, what do you think can be done to increase level of participation in light of challenges foreign investors are facing in exiting such investments and remit funds offshore?

TC: I worry personally when there is talk of us being informal, as this works against capital markets. Investors, particularly foreign are averse to informal markets, preferring to invest in a company that is audited, produces results and adheres to good corporate governance principles. This protects them should there be an unforeseeable challenge in the future. We therefore need to generate foreign currency, which is best generated through exports, but in order to do that we need reasonably significant capital which cannot be raised from an informal sector. So it goes back to us as a country, are we attracting foreign investors who will inject funding into our struggling factories? If we as a country accept that we are largely informal when globalization and Anti money laundering rules require formal trading, we are then working against the capital markets. An investment policy that is friendly to the foreign investor needs and preferences is key.

14. RM: Last year there was talk of a secondary market for small scale businesses. What is happening in terms of developing that market?

TC: Just looking around, our companies have shrunk in size. So, if we want to apply the same standards for large corporates to companies classified as SMEs, no progress will be made. But at the end of the day, if an entity requires capital injection, its proprietors must be prepared to ensure that necessary infrastructure is in place to protect the investor who provides the capital much needed capital. So whether you have an SME exchange, or an exchange applicable to larger companies, we still need to address issues to do with accountability and recourse, which are missing from the local SME’s. This is a world-wide phenomenon as most SMEs are not willing to accept outside influence which naturally comes with accepting external funding such as adherence to good corporate governance principles, full disclosure and even ceding of shareholding in their companies.

15. RM: Are there any areas you may want to highlight or shed more light on in respect of SECZ and the capital markets in Zimbabwe?

TC: We may be going through a rough patch, but as a market, if we pull through this, we will only be much stronger in the future. The strong institutions will resolutely become much stronger. Economies normally become much stronger after a crisis as experiences the world over teach us what not to do next time.

16. RM: Thank you for this opportunity you have afforded us to gain insight into the roles of SECZ and the general capital and securities market in Zimbabwe from a regulators perspective.

17. TC Thank you for affording us the opportunity to explain SECZ and Zimbabwe’s capital markets.

Richard Mangi is Deputy Divisional Director, Investment Banking, CBZ Holdings Limited. He writes in his personal capacity and is reachable on rmangi@cbz.co.zw

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15. RM: Are there any areas you may want to highlight or shed more light on in respect of SECZ and the capital markets in Zimbabwe?

TC: We may be going through a rough patch, but as a market, if we pull through this, we will only be much stronger in the future. The strong institutions will resolutely become much stronger. Economies normally become much stronger after a crisis as experiences the world over teach us what not to do next time.

16. RM: Thank you for this opportunity you have afforded us to gain insight into the roles of SECZ and the general capital and securities market in Zimbabwe from a regulators perspective.

17. TC: Thank you for affording us the opportunity to explain SECZ and Zimbabwe’s capital markets.

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