

## Certificate Issuance Causes Major Problem for Brokers

A major impediment to the current market development is caused by the delay in issuing stock certificates on behalf of new buying investors so say brokers interviewed. When shares are bought and sold on the Iraq Stock Exchange, the following business day the buying broker must pay for these securities and the selling broker must deliver to the Depository the sold stock certificates.

The Stock Exchange pays the selling broker for these securities, and the Depository forwards the sold certificates to the issuer for cancellation and issuance of the new buying investor's certificate. This registration process may take from 2-3

the same time, the re-issuance of a dematerialized book-entry position for the new buying investor. The Depository automation would provide the necessary capability to record all shareholders of companies both in physical form as well as the new dematerialized positions.

The Depository would provide statements to all shareholders whenever ownership records were changed and on a predetermined periodic basis. By having the new ownership being recorded in book-entry form, there would no longer be any delay in the receipt of the statements from the time monies exchanged hands between the buyer and seller.



Depository employees processing stock certificates

weeks during which time the buying investor is at risk of falling market prices.

In addition, the buying investor has no recourse available to sell these shares until receipt of the actual physical certificates takes place. "We are losing customers because of this delay" (Al-Waha Brokerage). The CEO of Karmal stated that we are losing money on transaction fees due to these delays.

The solution to the "paperwork nightmare" is to have automation in place at the Depository to allow the deposit of the sold certificate, and at

"Delivery Versus Payment" (DVP) would become a reality in the Iraqi Securities Market and would substantially reduce risks to all parties involved in the transaction.

This automation would also allow for increased market trading since customers would be able to sell purchased securities more readily.

If you have any comments or suggestions on how this certificate delay can be improved prior to automation please send your ideas to [comments@iasd-iq.org](mailto:comments@iasd-iq.org)

## IASD Board Establishes A Communication Committee

The IASD took an important step in building a sustainable and coherent communication policy for the Association by setting up a Communication Committee. Representatives of five brokerage companies (Middle East Bank, Al-Rafidain, Al-Waha, Karmal Co. Ltd, and Al-Hadhar) volunteered for this committee, which will provide general guidance and orientation to the IASD newsletter.

As part of its role, the committee will recommend topics of major concern for brokerage companies that should be addressed by the publication. The five members will review the summary proposals and the stories before publication. The committee may also make recommendations to the communications strategy of the Association and oversee its implementation, to make sure that the newsletter and other communication tools (website, brochures, leaflets etc.) are consistent.

"By establishing the first specialized committee of the Association, we took a step in the right direction", said one of the IASD Board members. "We need to build a sustainable mechanism for the newsletter, as this is the publication of the brokerage companies. We own it and we have to support it to make sure that it fulfills its role in promoting our interests and in advocating for a proper functioning of the capital market in Iraq", said the IASD Board member.

## Highlights

- \* A Top Ten Broker Karmal Co. Ltd.
- \* Brokers Want Accurate Issuer Information.
- \* Dealing in stocks behind Baghdad's sandbags.
- \* Corporate Disclosure for a Robust Economy.

## A Top Ten Broker Karmal Co. Ltd.

Six years after establishing a brokerage company which in 2005 had 1,500 customers and generated 20% of all the trading in the Iraq Stock Exchange, the manager of Karmal looks at it as a good investment of his time and efforts. "It is a good job for me", says the chief executive, "because it's dynamic and there is no routine involved". Since 2000, Karmal has been one of the top ten trade producers on the ISX.



Karmal employee analyzing stocks

Karmal currently employs seven staff, three of whom are brokers. As the company wants to maintain its leading position on the market, the manager is planning to train the personnel in foreign languages, computer skills and – more importantly – in economic data analysis. "We are working hard to make well-founded recommendations to our customers", says the manager, who is expecting an increase in trading and stock prices if a permanent government is formed in two months.

## Securities Market Staff gets PC Training

Forty-nine staff members from the three market institutions (IASD, ISC, and ISX) are attending a comprehensive computer, MS Windows, and MS Office User training program. The program opened Saturday, 3 March, runs three days per week, four hours per session, for ten sessions in total, covering all aspects of Windows computer operations and the most widely used features of the popular MS Office suite.

## IASD NEWS

### Training Center

The IASD will soon be receiving twenty-five computers and five laser jet printers for its new training facility. Delivery and installation of this new equipment is in preparation for the first of the Association-sponsored training offerings, one of which will be a comprehensive computer, MS Windows, and MS Office User training program. See the related article "Securities Market Staff gets PC Training".

### Brokers Want Accurate Issuer Information

Issuer companies should obey the corporate disclosure requirements, indicates a quick survey among several Iraqi brokerage companies. "We need information in order to analyze the data and assess the correct price of the shares. This is not gambling", says the manager of Karmal Co. Ltd, who indicates that every time he gets new economic data he shares it by email with his clients.

Other brokers say that they are not recommending their customers to buy stock in companies who have not submitted corporate reports. "We are all losing in this situation", says one broker, emphasizing that the availability of economic data will attract new customers, increase the volume of transactions and improve the stability of the market.

Several members of the IASD say that the source of the problem is the current lack of accounting standards and enforcement of the law. They agree that the best solution is to educate the issuer community and have expressed support for the recent efforts by the Iraq Securities Commission (ISC), which organized a seminar on corporate disclosure requirements. They see a role for the IASD to organize meetings with the issuers to highlight the benefits of submitting the reports required by the ISC. See related article "Corporate Disclosure For A Robust Economy".

### Trading behind Baghdad's Sandbags

Hundreds of investors and dozens of brokers gather in the compact ground floor hall of the Iraq Stock Exchange building on the two days of trading for a brisk two-hour session, which starts at 10.00 am. As the bell sounds, the hall fills with a sudden rush of energy as hungry brokers rush to the trading floor, shouting and quoting stock prices as their clients watch over each other's shoulders from a distance.



AFP/ Iraqi stock exchange workers vie to register the value of different stocks at a board...

I think this is the only place where there is a buzz ... vibrancy in Iraq, where we want to forget our daily worries and do some business," says Rita Eliyas, one of the few female brokers on the ISX.

As the session peaks, brokers literally shove each other out of the way and run to-and-fro between their clients and the floor. Most of the time it's to rub off old stock prices and write new ones on the white boards fixed on the wall, a sign that electronic trading is still far away.

"We are looking at electronic trading," said Taha Ahmed Abdul Salam, the chief executive officer of the exchange. "Let the political situation and security stabilize and then we are sure we will be the key financial institution in Iraq." More than 80 companies are currently listed on the exchange and its market capitalization has doubled to 2.14 billion dollars at end of 2005 compared to 1.15 billion dollars a year earlier.

At the moment however, the market is bearish. The index closed in 2005 at 46 points but has lost ground over the past weeks. Brokers, however, continue to be upbeat, and one of the investors offers a solution: to open the market to foreign investors and get money into the market.

Source: AFP Internet  
Dated Feb 26, 2006

## Corporate Disclosure for a Robust Economy

The Iraq Securities Commissions recently organized a seminar to outline the importance of Corporate Disclosure in ensuring transparency and accountability in the market. The proper reporting should include:

- Annual Reporting based upon standardized reporting requirements
- Quarterly Reporting of financial progress
- Timely Material Information Reporting

The corporate disclosure is imperative to effectively evaluate the performance of the company. It's a real driver to a sound investment strategy based on solid facts and has broader



Corporate Disclosure was well received by the Capital Market

economic implications on the country's sustainable development. Much of the current trading prices on the ISX are quoted according to assumptions based on outdated Annual Reports containing questionable information

The annual and quarterly reporting should include a financial statement, a management's explanation of reported results and explain internal controls used for financial reporting. The financial statement would encompass the following:

- Balance Sheet
- Income Statement
- Statement showing Changes in Equity
- Cash Flow Statement
- Selected Explanatory Notes

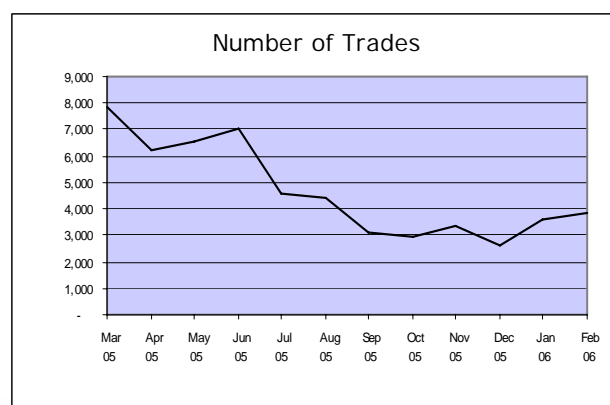
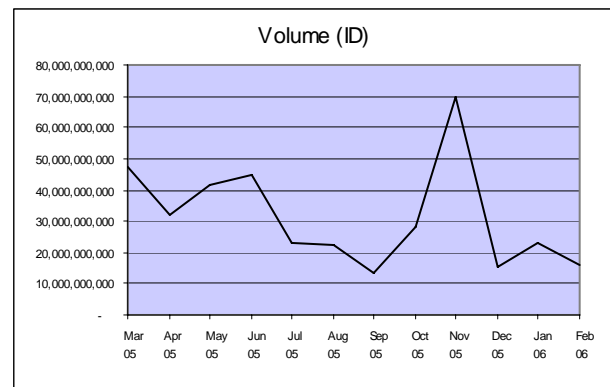
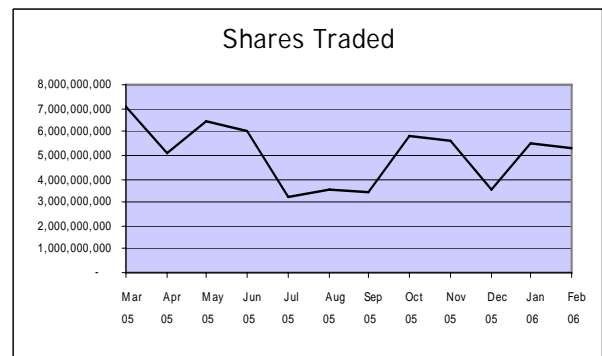
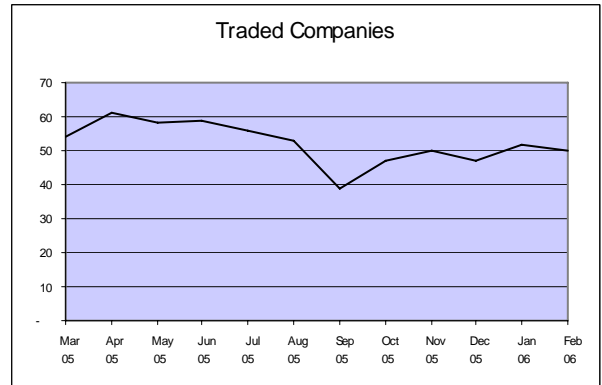
The management's explanation is a key factor in identifying liquidity, capital resources, operational results, off-balance sheet obligations, risks, opportunities and legal proceedings. Management must produce a statement of responsibility for establishing and maintaining adequate internal controls over financial reporting. This statement must identify the processes used by management to evaluate the effectiveness of the registrant's internal controls over financial reporting.

Failure to meet those obligations, within the time limit, would result in serious penalties and might even go as far as imprisonment of responsible persons.

The Commission has scheduled the information to reach their offices within the time limit stated as follows:

- declaring the initial registration of securities by May 1, 2006 or within 60 days after March 1, 2006,
- Annual Re-registration in 120 days after the end of the financial year of the company,
- Annual Reporting 150 days after the end of the financial year of the company,
- Quarterly Reporting within 60 days of the end of the quarter and
- the Material Information Disclosure within 7 calendar days of the occurrence of the material event.

## ISX Market Activity March 2005 To February 2006



Source: [www.isx-iq.com](http://www.isx-iq.com)

## IASD Training Calendar April 2006

Listed below are the training programs to be offered by the IASD at their new training facility. Course fees for members and non-members are to be determined. If you are interested in the courses, please contact [training@iasd-iq.org](mailto:training@iasd-iq.org).

### **Introduction to Capital Markets – 1 day seminar**

**Attendees:** 20-25 brokers – This course is designed to introduce brokers to Capital Markets and how they are structured and developed. Information about the roles of the Iraq market institutions (Iraq Securities Commission-ISC, Iraq Stock Exchange-ISX, and the Iraqi Association of Securities Dealers-IASD) will be described as well as their relationship to one another.

### **What is a Principal ? 1 day seminar.**

**Attendees:** 20-25 principals – This course is designed to inform the principals of the brokerage firms about the role of the principal, what responsibilities and duties they have, what reporting is required and how often, how they perform surveillance and compliance within their firm, and how they cooperate with regulatory agencies, such as SRO's and the Securities Commission.

### **May 2006 Course Titles**

Understanding Financial Statements  
What is a Registered Representative  
Back-Office Accounting  
Basic Accounting for Broker  
Basic PC-MS Office Training Program

### **IASD Member Email Address & Email Distribution of Newsletter**

To receive an IASD email account ([iasd-iq.org](mailto:iasd-iq.org)) and to receive future editions of the IASD newsletter, please send your requests to [membership@iasd-iq.org](mailto:membership@iasd-iq.org). Indicate what version (Arabic, Kurdish or English) you'd prefer to receive. Membership email addresses can only be given to paid in members.

## Reader Comments & Opinions

The IASD welcomes your comments and opinions on matters that will help develop the Capital Markets in Iraq into a world class market. Forward your comments and opinions to [comments@iasd-iq.org](mailto:comments@iasd-iq.org)

## Regional News

### **Liberalization of the Market**

The Capital Market Authority (CMA) of Saudi Arabia announced on March 20, 2006 that starting Saturday March 25, the foreign residents will be allowed to invest directly in the Saudi stock market, as part of CMA efforts to strengthen the bourse, the largest in the Arab world.

The expatriate community of Saudi Arabia counts about six million individuals, with earnings estimated at about \$35 billion a year, out of which \$15 billion gets transferred out of the country as remittances.

Cautiously, an official from National Commercial Bank who requested anonymity said that a lot of foreigners were already investing in the market, either through Saudi friends or using mutual funds, and that in his opinion the entry of expatriates would only shoot up the stock prices.

More optimistic, Mr. Abdul Wahab Abu Dahesh from the Saudi Economics Association said: "The new move will inject more liquidity in the bourse... but it needs to be accompanied with the speeding up of listings".

## International Events

### **The 3rd International Rebuild Iraq Exhibition Amman International Fair in Marj El Hamam Amman, Jordan**

**8 - 11 May 2006** (<http://www.rebuild-iraq-expo.com/>)

56 Government and International Trade Bodies from 36 countries have joined together to support IFP's 3rd International Rebuild Iraq Exhibition, the largest and most prominent exhibition planned in 2006 on the Iraq rebuilding effort. The list of supporting countries runs through all the major powers (the USA, UK, France, Italy, Germany, Russia, Japan, Korea) to most economies in Europe, and the Far East.

### **Stock Market Simulation Program**

The Iraqi Association of Securities Dealers (IASD) with cooperation of the Iraqi Stock Exchange (ISX), has proudly designed a study tour for training (33) Broker / Dealers in the Kingdom of Bahrain. The training will take part at the Bahrain Institute of Banking and Finance (BIBF) in two groups. The training subject is **Stock Market Simulation Program**, and it shall include visits to the Bahrain Stock Exchange and the Bahrain Securities Commission. This program is financed by the ISX, and is scheduled to take place in April or May, 2006. Every trainee will obtain a certificate from BIBF.