



# Capital Markets Newsletter

Iraqi Association of Securities Dealers

www.iasd-iq.org

## Raising Capital – A Strategic Decision

One key to a successful business is the ability to secure financing by raising capital. Many entrepreneurs quickly discover that it is not easy; in fact, it can be a complex and frustrating experience.

When seeking financing, it is important to explore all of the options before making a decision. If a company needs capital beyond the ability of bank loans or private venture capital, it raises funds through the public sale of stocks, bonds, or other securities.

The basic steps to raise public funds:

1. The company contacts a securities firm that will underwrite the securities issue and will advise the company on

the public, describes the company, the proposed issue and how the raised capital shall be used. This document must be approved by the Securities Commission as to its compliance with the existing laws, rules and regulations. By approving the prospectus, the Commission **DOES NOT** approve or disprove the opportunity and/or potential success of the offering.

4. After the regulatory approval, the underwriter will begin soliciting indications of customers' interest. The underwriter may organize meetings between the company's management and potential investors, such as pension or mutual funds.

	SOURCE	TIME CAPITAL IS AVAILABLE	COST TO COMPANY	AMOUNT OF CAPITAL AVAILABLE
Venture capital	Sophisticated investors	Varies, but tends to be short term	Gives up a share of equity/control	Pool of money from investors willing to take risks on a new business
Reinvestment	Company's own resources	Limited to profit cycle	Lost profits	Profits that could be earned
Bank loans	Commercial bank	Tends to be short term	Pays interest	Bank's evaluation of company's ability to pay
Bonds	Public	Tends to be long term	Pays interest	Company's ability to offer competitive interest rate
Stocks	Public	Permanent	No direct cost unless dividend is declared	Supply and demand

Source: Securities Industry Association (SIA)

the pricing of the securities, offer quantity, type of securities that should be offered, and the timing of the public offering.

2. The issuer may sell the securities outright at a set price in a "firm underwriter commitment", which then resells them to the public. Or, under a "best-effort arrangement", an underwriter may act as a sales agent for the security offering on a commission basis. If the new issue is so large that one underwriter cannot commit to the entire offering, the underwriter invites other securities firms to form a syndicate to spread the underwriting risk and to distribute the securities. The underwriter helps the company prepare a prospectus for the securities to be issued.

3. The prospectus, made available to

5. Immediately prior to the actual sale, the underwriter establishes the offering price at which the security will be sold to the public.

6. On the first day the new security trades, its price can rise or fall from the offering price depending on whether investors agree with the underwriter's valuation of the company.

Usually a company issues new stock only if its stock price is fully valued (high), since the larger the supply of stock outstanding, the less valuable each share is because ownership percentage is diluted.

Raising capital for the purpose of paying salaries and/or short term expenses is not a reasonable option. It is only a quick way to bankruptcy.

## "Developing Capital Market - IASD'S Role"

An interview with Mr. Taha Abdul-Salam, CEO, Iraq Stock Exchange, Interviewer: "Mr. Taha, what do you think the IASD can do to support the Iraqi capital market?" Mr. Taha: "The Association should monitor the activity of the brokerage companies by conducting periodic evaluations of their performance and by organizing specialized courses to develop this industry and promote its traditions and ideas. It has an important role in building good communications with similar Arab and international associations. Such communications improves the professional performance of our dealers and helps protect the investors' rights through organizing and facilitating the necessary training of professionals. I believe that the Association should stay away from being just a union party or a defense advocate. It should be a force to develop the capital market and protect the public interest."

"The Association may set up information offices and a legal department to investigate and reply to accusations of regulatory violations against brokers. This is an important function that can improve the investors trust and confidence in the brokers."

"The Association is still in the first stage of its existence: I wish you to enjoy a long and successful march forward. I recommend to the Association to prepare detailed work plans for each area of activity and involve its members to participate in their design and implementation."

Mr. Taha is a very supportive friend of our brokerage community, and we are grateful for his professional advice.

## Highlights

- \* Dar Al-Salam: Profile
- \* New Corporate Image for IASD
- \* Mutual Funds Take Hold in Iraq
- \* ISC Extension
- \* ISX Trade Analysis for March 2006

## Dar Al-Salam Brokerage Company Profile

Dar-Al-Salam Brokerage Company, established in 1999 as a subsidiary to Dar Al-Salam Bank, has 4,000 investors with a 4 member staff that includes 2 brokers, an accountant and an office manager. In 2005 the bank made a partnership with HSBC bank. The office manager of Brokerage Company says that "this partnership was positive which enables them to connect the bank systems with all 70 HSBC branches in the world via HUB financial system and training courses of computer and English language for the employees". He thinks also that "this partnership will enable them to make use of HSBC branches world wide in transferring money with foreign investors".



Dar Al-Salam Employee Discussing Investment Option

He added that "the major steps to improve the market are to improve the security situation, put in force the foreign investment law, install electronic trading and open the depository and transference office". One of the major problems that they face now is the delay of issuing certificates.

## Correction to ISX Settlement Process

In last month's edition, we incorrectly stated that "the Stock Exchange pays the selling broker for these securities". In actuality, the ISX sends settlement instructions to the settlement bank where all brokers have bank accounts. The settlement bank debits all the buying brokers' bank accounts and credits all the selling brokers' bank accounts by the amounts specified in the ISX settlement instructions.

## IASD NEWS

### New Corporate Image for IASD

As part of its efforts to develop a public image consistent with its nature and mission, the IASD is revising its visual identity. To that end, the IASD Board of Directors recently decided to adopt a new logo (see picture) that speaks of the Association as a professional, open and flexible body which represents the unified voice of the dynamic community of brokers.



The logo combines two symbols: the palm tree and the sunrise. The 18 rays reflect all the governorates of Iraq and speak at the same time about the willingness of the Association to help its members explore new horizons. The recently adopted logo is also meant to depict the IASD as a reliable and trustworthy organization which gathers the energies of its members and contributes to the growth and progress of the entire country.

### IASD Headquarter developments

The IASD facility, located outside Karrada near the brokerage companies and within easy reach of the ISX, is nearly furnished and the staff has been spending part of its day getting the offices prepared. Twenty-five computers for the training center have arrived and are being set up in preparation for the basic PC-MS Office Training Course in May.



Communications Committee

### Mutual Funds Take Hold in Iraq

A pariah in the international capital markets since the first Gulf War in 1991, Iraq is trying to clean up its debt to get back into good standing. The country got a big head start last year when 19 nations, including the U.S., Japan, Russia, and European countries, agreed to write off 80% of the \$38.9 billion Iraq owed them.

If things go right, Iraq could be a very wealthy country, say both Mr. Peta of Standish Mellon and Mike Conelius, portfolio manager of Emerging Market Bond Fund at T. Rowe Price. They say they believe that if the country stabilizes, it will have more than enough in oil revenue to meet its debt obligations from its 115 million barrels of proven reserves, the third largest in the world behind Saudi Arabia and Iran.

However, considering the strife bordering on civil war, this may not seem like the best time for mutual funds to put money into Iraq.

But some are doing just that. Looking for high yields -- and confident that oil reserves will be there to repay the debt -- mutual funds are among the investors quietly buying small chunks of about \$2.8 billion in bonds issued by the Iraqi government in January as part of its restructuring of debts left by Saddam Hussein.

T. Rowe Price Group Inc., based in Baltimore, says about \$16 million of its \$558 million Emerging Market Bond Fund is invested in the new Iraqi bonds. Standish Mellon Asset Management Co., of Boston, says it has about \$2 million in Iraqi bonds, spread out among some of its emerging-market mutual funds. It declined to identify the funds but said they had a total of \$400 million in assets.

According to a Morgan report, the "medium-term outlook is that of a united country with sufficient stability to ensure that sovereign-debt obligations are honored."

Excerpts from a Wall Street Journal Article by Jennifer Levitz March 17, 2006

### Commission Extended For 2 More Years

The Securities Commission has received an extension for two years as presently configured. The extension provides for the Securities Commission to continue in its present functions as outlined under CPA Order # 74 (Interim Law on Securities Markets) for two years or until a new Securities Law is passed, whichever event or date comes first.

### Joint PR training

The IASD staff participates, together with representatives of the Iraq Stock Exchange and the Iraqi Securities Commission, in an ongoing local capacity building program in the area of public relations and communications which is organized by the USAID-funded IZDIHAR project.

### “ISX Will Soon Select a Supplier for Automation”

An interview with Mr. Taha Abdul-Salam, CEO, Iraq Stock Exchange

\* Mr. Taha, what is the latest news on the automation of the Iraq Stock Exchange?

Mr. Taha: We are in the final stage of selecting the supplier. As you know, we are looking for a complex package that includes electronic exchange, central depository, remote exchange, electronic clearance and settlement, training and hardware equipment.

### ISX Trading Analysis March 2006

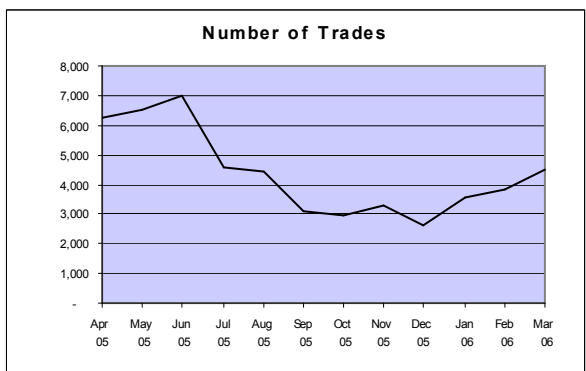
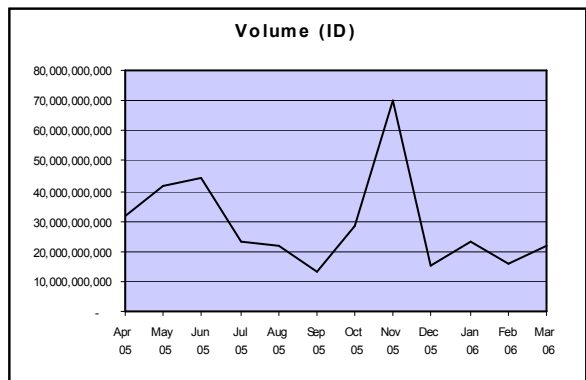
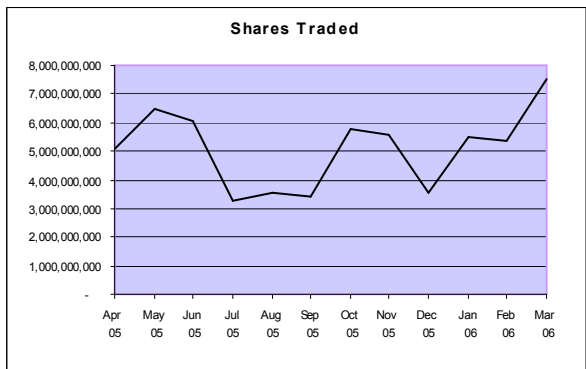
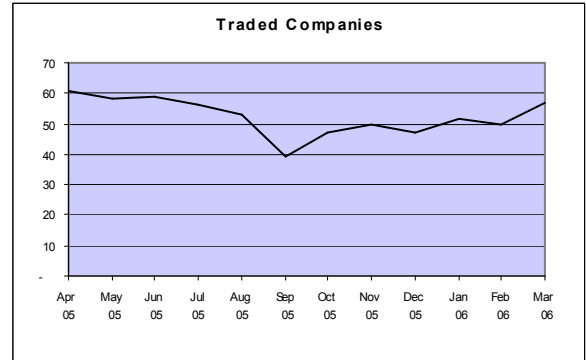
Trading activity on the ISX reflected increased figures in the following categories:

The two main sectors that continue to lead the trading activity

Category	February 2006	March 2006	% Increase
Companies traded	50	57	14%
Number of trades	3,819	4,528	19%
Number of shares traded	5,348,030,831	7,484,420,230	40%
ID Value of shares traded	16,186,619,794	21,968,704,427	36%

are the banking and industry sectors making up 88% of the shares traded and 86% of the value traded. However during this past month, the Agriculture and Services Sectors increased their share volume by 689% & 1315% with the Value traded in the Services Sector increasing by over 2000%. The Hotel Sector fell 46% during this month.

### ISX Market Activity April 2005 To March 2006



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

## IASD Training Calendar May 2006

Basic Computer and Microsoft Office User Training – Beginner and intermediate hands-on learning for Windows PC users, including basic Windows functionality, Internet Explorer, and Microsoft Office Word, Excel, PowerPoint, and Outlook.

The trainees will apply their new knowledge, skills, and attitudes by demonstrating proficiency in their use of a PC as an effective tool. The trainees may be able to use their new PC skills to create forms to be used when opening new accounts for customers, for creating spreadsheets to maintain books and records for customer and firm transactions, for creating forms to be used when depositing stock certificates with the ISX, and any other form or spreadsheet needed to participate in the market.

Course Schedule; There will be four concurrent sessions offered as follows;

Saturday, Monday, & Wednesday  
1300 - 1600

Sunday, Tuesday, & Thursday  
0900 - 1200 & 1300 - 1600

Cost:

Members in good standing - 75.000 ID

Non-Members - 100.000 ID

Venue – IASD Headquarters.

Dates – to be announced.

Certificates available to Members in good standing that successfully complete the course. More details to be available soon in our course brochure.

For more information please contact  
[training@iasd-iq.org](mailto:training@iasd-iq.org)

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

To receive an IASD email account ([iasd-iq.org](mailto:iasd-iq.org)) or 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

A Business Analyst sent in a list of eight major issues he believed to be weakening our Iraqi capital market: This list includes 1. the existing capital raising mechanism leads to share inflation and depreciation; 2. the [present] need for transparency [in securities markets] and quarterly reports [by issuers]; 3. the need for automation of market activities and the establishment of a depository; 4. the poor telecommunication linkages [in the country]; 5. the market not being open to foreign investors; 6. the presence of numerous conflicts of interest in the securities business; 7. the long period investors have to wait for the new share certificates; and 8 the economic environment is still confused, due to political and [national] security issues.

## Regional News

### REGIONAL STUDY TOUR - June 2006

The IASD Board and Staff will experience first hand the functioning of the capital markets of Istanbul and Cairo. They will be meeting with local brokers, representatives of the Securities Dealers Associations, officials of the Istanbul Stock Exchange and Cairo and Alexandria Stock Exchange, and representatives from the Securities Commissions.

## Glossary of terms

**Par value** (synonym: **face value, nominal value**): value set by the issuing company for its newly offered shares of stock. Sometimes the law may require a minimum or even a unique par value for the issued shares. The par value is mainly used to compute the accounting value of the common shares on the issuing company's balance sheet. Par value has no relation to **market value**, which is determined by such considerations as net asset value (book value), yield (return on invested capital) and investors' expectations of future earnings.

**Net capital requirement** (synonym: **net capital rule, net capital ratio**): requirement of the Securities Commission (or equivalent authority) that brokerage companies maintain a maximum ratio of indebtedness to liquid capital of 15 to 1. [*Indebtedness covers all money owed to the company, while liquid capital includes cash and assets easily convertible into cash.*]

**Registered company**: company that has filed a Registration Statement with the Securities Commission in connection with a public offering of securities and must therefore comply with the Securities Commission's disclosure requirements.

**Registered security**: securities issue registered with the Securities Commission as a new issue.