



# CAPITAL MARKET AUTHORITY

## **BACKGROUND**

The Capital Market Advisory Council (CMAC) was transformed into a fully fledged regulator, the Capital Market Authority through the Law No 11/2011 of 18/05/2011.

## **VISION**

“To be a key contributor to Rwanda becoming a competitive financial center through mobilization of long term capital”

## **MISSION**

“To nurture wealth by facilitating the development of an orderly, fair, transparent and efficient capital market”.

## **CORE VALUES**

Confidence is the most important attribute of capital market. CMA shall continue to uphold the following values in order to instill confidence into the market:

- a) Good Governance
- b) Knowledge and professionalism
- c) Creativity and Innovation

## **RESPONSIBILITIES OF CMA**

The Authority is responsible for:

1. Implementing the Government policy on Capital Market;
2. Preparing draft policies on capital market;
3. Advising Government on policy relating to the capital market;
4. Promoting public awareness on the capital market and develop such market;
5. Elaborating action plans and conducting studies in order for CMA to achieve its mission;
6. Formulating principles and regulations for the capital market;

7. Making regulations governing capital market business in accordance with the Law regulating capital market in Rwanda;
8. Controlling and supervising all capital market activities with a view to maintain proper code of conduct and acceptable practices on the capital market;
9. Registering capital market business and related instruments provided for by the Law regulating capital market in Rwanda;
10. Issuing, suspending, and withdrawing licenses and approvals related to capital market business;
11. Seeking to achieve fairness, efficiency and transparency in the functioning of the capital market;
12. Protecting citizens and investors in capital market from unfair and unsound practices or practices involving fraud, deceit, cheating or manipulation;
13. Monitoring, supervising, and take actions with regard to the compliance with this Law and regulations thereto related as well as with the Law regulating capital market in Rwanda and regulations thereto related;
14. Co-operating and collaborating with other regulatory bodies in accordance with the provision of the Law regulating capital market in Rwanda;
15. Consulting concerned organs prior to making any decision to modify principles and regulations of the profession that may have impact on the functioning of the capital market;
16. Keeping adequately and timely records of decisions made in the accomplishment of CMA mission;
17. Accomplishing any other mission assigned by the Law regulating capital market in Rwanda.

## **2.1. CAPITAL MARKET BUSINESS**

In CMA act, capital market business refers to all business activities specified below:

- a) Dealing in capital market instruments;
- b) Arranging deals in capital market instruments;
- c) Safekeeping and administration of assets;
- d) Managing capital market instrument;
- e) Giving capital market advice;
- f) Using electronic means for giving investment instructions

## **2.2. CAPITAL MARKET INSTRUMENTS**

The law defines capital market instruments as any assets and interest generated by the instruments specified below:

- a) Shares
- b) Instruments creating or acknowledging indebtedness
- c) Government- owned capital market instruments
- d) Instruments entitling to shares or capital market instruments

- e) Certificates representing capital market instruments
- f) Options
- g) Contracts with future rights
- h) Contracts for difference
- i) Long term insurance contracts
- j) Rights and interests in capital market instruments

### **2.3. CAPITAL MARKET PARTICIPANTS**

The current participants include stock exchange, stockbrokers, dealers, sponsors, custodians and investment advisors. However, CMA shall endeavor to provide a conducive environment to attract more players to enter the market.

### **2.4 BENEFITS OF INVESTING THROUGH THE CAPITAL MARKET**

The following benefits apply both to the primary and secondary markets:

**a) Access capital**

By issuing shares or debt directly to the public through the RSE private sector businesses and government can raise funds for expansion of existing business or new projects

**b) Discover the value of its business.**

By listing on the RSE issuers or owners of business are able to discover the price of their securities and therefore the value of their business. This enables them to realize the market worth of their wealth.

**c) Raise a company's visibility and enhance its status with customers and suppliers at home and overseas**

A listing on the capital market raises the profile of a company through continuous media coverage. This is free publicity and enhances the product presence of the issuer among its customers.

**d) Have better bargaining position with financiers**

Increased capitalization of an issuer over time enables the issuer to raise capital at a lower cost due to their improved rating in the market.

**e) Enhance management practices**

The capital market requires a minimum level of disclosure and corporate Governance and this encourages the quality of management practices.

**f) Foster employee motivation.**

Listed companies may easily employ executive using stock option

techniques.

**g) Benefits from Capital Market incentives**

New issuers take advantage of incentives provided to listed companies. This comes in the form of low costs and tax advantages to shareholders and owners of the business

**h) Use of shares as currency**

Listed companies with known market value can use their shares as currency instead of cash when taking over other

## **2.5 HOW AM I PROTECTED?**

- a) CMA ensures that only competent and credible professionals are licensed to serve the market.
- b) CMA supervises all members of RSE to ensure compliance with regulatory requirements
- c) CMA ensures that prospectuses of issuers have adequate disclosure for decision making
- d) CMA ensures that there are periodic reports and all price sensitive information are released once they are available
- e) National public education and awareness campaigns create well informed investors

However, investor protection in capital market is aimed at providing fair play to investors. But it is not aimed at protecting an investor from his/her own errors of judgment or ensuring that he/she gets profits all the time. The law will protect investors who have been victims of fraud, dishonesty and unfair practices. All investors face the normal market risks. The regulator in this market is CMA.

## **2.6 HOW TO INVEST IN CAPITAL MARKET**

### **Primary Market**

The capital market is further divided into **primary** and **secondary market**. The primary market is the market where securities are sold for the first time.

Primary Market Transaction Process:

1. The issuer decides to raise capital through the Capital Market
2. Issuer appoints advisors, sponsors/co. registrar/fiscal agents/sponsoring brokers
3. Issuer prepares draft prospectus or information memorandum
4. The issuer applies to CMA to list its securities on the market
5. Issuer discusses the offer document with CMA and finalises the prospectus or information memorandum
6. The issuer states the offer period and offers securities to the public
7. Public investors subscribe to securities during the offer period
8. Offer closes and publication of allotment results
9. Issuer is admitted to list on RSE

## Secondary Market

The secondary market is the market where already existing securities are bought and sold through licensed brokers.

### Secondary market transaction process

1. Buying client or selling client approaches stockbroker, opens an A/C and pays for an order; either provides funds or gives securities to broker and broker acknowledges
2. If buying stockbroker has securities or sell order for securities sought or, required at ordered price, broker sells directly to the client
3. If buying broker has no selling orders for securities and or price given by sellers, the broker contacts the other brokers seeking securities required.
4. Buying stockbroker and selling stockbroker attends trading sessions at the trading floor. All stockbrokers attend the session and all report:
  - (i) traded securities – prices, volumes and securities
  - (ii) Buying orders outstanding positions –price, volumes and securities
  - (iii) Selling orders outstanding positions –price, volumes and securities
5. RSE compiles market report and distributes to the market and Public through the media.
6. On settlement day, the CSD (Central Securities Depository) clears the trades for settlement of securities against funds between stockbrokers and the change of ownership takes place at T+2. The CSD is under the Central Bank of Rwanda.

### STOCKBROKERS AT THE RWANDA STOCK EXCHANGE(RSE)

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