CAPITAL MARKETS OVERVIEW: CONSIDERATION OF KEY ISSUES

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OVERVIEW

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MEANING OF CAPITAL MARKET

- The market for the buying and selling of medium-term and long-term equity and debt securities
- ► This is different from the Money Market, which is the market for the buying and selling of short-term (from overnight to under a year) financial instruments (including commercial papers, treasury bills, certificates of deposit and repos)

TYPES OF CAPITAL MARKET

- The Capital Market is made up of the Primary Market and the Secondary Market

► The Primary Market is for the new issue of debt or equity instruments by the issuer. The proceeds go the issuer of the securities

► The Secondary Market is where investors buy and sell already-issued securities. The issuer is not involved in the trading and the proceeds go to the selling investors

TYPES OF CAPITAL MARKET

- **The Primary Market and the Secondary Market are interdependent. The securities are created or issued on the Primary Market and the trading of the securities take place on the Secondary Market**
- **The Secondary Market provides liquidity to investors by providing the platform for conversion of the securities into cash**
- **The Secondary Market platforms include the stock exchange and over-the-counter platforms**

MEANING OF SECURITIES

- "Securities" refers to Equity Securities and Debt Securities
  - Equity Securities means shares (or rights or options in shares)
  - Debt Securities means bond, notes or debentures (or rights or options in them)

STRUCTURE OF THE CAPITAL MARKET

- **The Securities and Exchange Commission (SEC)**
- **The Stock Exchanges**
- **The Market Operators**
- **The Issuers**

STRUCTURE OF THE CAPITAL MARKET

- **Securities and Exchange Commission (SEC) – the SEC's key mandate includes licensing the exchanges and the market operators as well as approving offer of securities which are deemed to be "invitations to the public"**

- **An offer is an invitation to the public if, among others it is published or advertised or circulated to persons or intended to be listed on an exchange. See section 295 of the Companies Act**

STRUCTURE OF THE CAPITAL MARKET

- **Stock Exchanges – there are 3 exchanges in Ghana**
  - **The Ghana Stock Exchange (GSE) is the main exchange for the listing and trading equity securities. It is for established and capitalised companies (minimum capital of GHS 1 million, minimum 3 financial years' audited accounts, minimum 100 public shareholders, and a minimum public float of 25%)**
    - **The companies listed on the GSE are regulated under the GSE Listing Rules and the Securities Industry Act, 2016 and related regulations**
    - **The GSE currently has 37 listed companies**

STRUCTURE OF THE CAPITAL MARKET

► The Ghana Alternative Market (GAX) is the alternative exchange for the listing and trading of equity securities. It is for start-ups and existing SMEs

► ► The minimum offer to be raised must be underwritten by the arranger or sponsor

► ► It has simplified listing procedures and reduced listing requirements (such as the reduced minimum stated capital of GHS 250,000 [GHS 1 million for GSE] and minimum number of public shareholders of 20 [100 for the GSE]) and incentives (such as waiver of regulatory fees and access to a listing fund) to attract the intended market. Requirement for 1 financial year's accounts or 3-year business plan for start-ups

► ► The companies listed on the GAX are regulated under the GAX Listing Rules and the SEC laws

► ► The GAX currently has 4 listed companies (equities)

STRUCTURE OF THE CAPITAL MARKET

► The Ghana Fixed Income Market (GFIM) is the alternative exchange for the listing and trading of debt securities

► ► The nominal value of the debt securities must be a minimum of GHS 1,000,000, a minimum 50 holders, and a minimum 3 financial years' accounts

► ► The companies with debt securities listed on the GFIM are regulated under the GFIM Manual and the SEC laws

► ► The GFIM currently has 6 listed debt securities

STRUCTURE OF THE CAPITAL MARKET

- **The Market Operators – these include stockbrokers, investment advisers, trustees, registrars and custodians**
  - **They are licensed and regulated by the SEC**

STRUCTURE OF THE CAPITAL MARKET

- **The Issuers – an issuer of equity or debt securities must be a public company**
  - ► **Private companies can convert to public companies for the purpose of issuing securities to the public**

CORPORATE FINANCING

■ Corporate financing is basically raising money, including through equity finance and debt finance for the needs of a company

► A company may need money for a number of reasons:

► ► for working capital (i.e. pay suppliers, salaries, bills, etc.) to solve cash flow problems (operating expenses)

► ► for a particular acquisition, project or transaction (capital expenditure)

► ► to solve a financial crisis

CORPORATE FINANCING

► The wrong choice of financing arrangement could result in cash flow problems, under-performance and/or insolvency

► Equity finance consists of raising money by issue of shares (to either existing shareholders or third parties) for consideration

► Debt finance consists of raising money by borrowing from a lender with a promise to repay the money (usually with interest) at a later date

► ► 2 main types of debt finance, debt securities and bank loan or lending

CORPORATE FINANCING THROUGH CAPITAL MARKET

- **Equity Finance – capital raising may be done through issuance of ordinary shares or preference shares by a public offer (new shares to the public) or a private placement (selected investors) and listing of the shares**
  - **This involves the preparation and issuance of a prospectus (approved by the SEC and filed with the Companies Registry). This will not apply if the securities are placed privately and are unlisted**
  - **It will also involve the appointment of key transaction parties including a sponsor, a legal adviser, a reporting accountant, and a corporate adviser (for only GAX listings)**

CORPORATE FINANCING THROUGH CAPITAL MARKET

► The key steps for an equity capital markets transaction:

► ► filing of prospectus with SEC (and the relevant exchange)

► ► filing of listing application and supporting documents with the relevant exchange

► ► approval of the SEC for the offer and conditional admission to list by the relevant exchange

► ► issuance of prospectus and commencement of offer period

► ► announcement of results and basis for allotment of shares

► ► issuance of shares in accordance with allotment

► ► admission and trading of shares on the relevant exchange

CORPORATE FINANCING THROUGH CAPITAL MARKET

■ **Debt Finance – capital raising may be done through issuance of bonds by a public offer or a private placement and listing of the bonds**

► **The issuance of the bonds may be a one-off issuance or a series of issuance under a bond programme**

► **This involves the preparation and issuance of a prospectus (approved by the SEC and filed with the Companies Registry)**

► **It will also involve the appointment of key transaction parties including a sponsor, a legal adviser, a trustee, a paying bank/agent and a reporting accountant**

CORPORATE FINANCING THROUGH CAPITAL MARKET

► The key steps for a debt capital markets transaction:

► ► filing of prospectus with SEC (and the relevant exchange)
► ► filing of listing application and supporting documents with the relevant exchange
► ► approval of the SEC for the offer and conditional admission to list by the relevant exchange
► ► issuance of prospectus and commencement of offer period
► ► announcement of results and basis for allotment of bonds
► ► issuance of bonds in accordance with allotment
► ► admission and trading of bonds on the relevant exchange

ADVANTAGES OF THE CAPITAL MARKET

■ **Regarding the Equity Capital Market, the key advantages over private capital raising are:**

► ***broader investor base*** **– there is a broader pool of retail and institutional investors. Pension funds can mainly invest in listed equity securities**

► ***tradability*** **– equity securities are freely transferable instruments and can be easily traded in the secondary market. An investor need not wait for dividends. This makes it attractive to sophisticated investors**

ADVANTAGES OF THE CAPITAL MARKET

► ***tax concessions*** **– gains from sale of listed equity securities are exempt from capital gains tax**

► ***less representations and covenants*** **– the documentation contain fewer and less stringent covenants and representations and warranties**

ADVANTAGES OF THE CAPITAL MARKET

■ **Regarding the Debt Capital Market, the key advantages over the Loan Market are:**

► ***broader investor base*** **– there is a broader pool of retail and institutional investors. Pension funds can only invest in listed debt securities and unlisted debt securities which have been rated by a credit rating agency licensed by the SEC**

► ***access to more funds*** **– the amount of bank loans may be limited by single obligor limits. The amounts to be raised from debt securities do not have any limitations**

ADVANTAGES OF THE CAPITAL MARKET

► ***tradability*** **– debt securities are freely transferable instruments and can be easily traded in the secondary market. An investor need not wait for repayments. This makes it attractive to sophisticated investors**

► ***tax concessions*** **– gains from sale of listed debt securities are exempt from capital gains tax**

► ***less covenants*** **– the documentation contain fewer and less stringent covenants and representations and warranties**

ADVANTAGES OF THE CAPITAL MARKET

► ***long term financing*** **– banks are usually short-term lenders interested only in less risky projects. This allows the issuer to structure flexible terms from 2 years to 10 years**

► ***favourable terms*** **– the issuer dictates the terms of the issue subject to market consultations**

► ***local retention*** **– encourages mobilisation and retention of funds in the local economy**

ADVANTAGES OF THE CAPITAL MARKET

► ***flexible interest rates*** **– usually have more flexible interest rate options (fixed rate, floating rate, zero coupon, etc.)**

► ***security*** **– usually unsecured, which reduces transaction costs. Where secured, the issuer determines which security to use**

► ***disclosure*** **– information about the issuer is usually limited to information that is publicly available**

ADVANTAGES OF THE CAPITAL MARKET

► ***better governance culture*** **– the transparency and disclosures required foster good decision making, good corporate governance and investor confidence in the issuer. The scrutiny from investors and analysts helps the issuer to take better decisions**

► ► some of the key disclosures required for listed companies include:

▲ any decision to declare dividends

▲ any meeting of the issuer

ADVANTAGES OF THE CAPITAL MARKET

▲ any event or condition which is likely to have a significant effect on the price of the securities or likely to be considered important by a reasonable investor in trading in the securities

▲ non-payment of principal or interest on the debt securities on a redemption date or due date

▲ any call of securities for redemption in relation to the debt securities

▲ any event of default on interest or principal payments in relation to the debt securities

▲ any change of directors, secretary, registrars or auditors

▲ any change in the business of the issuer

ADVANTAGES OF THE CAPITAL MARKET

- ▲ any decision to declare dividends
- ▲ any meeting of the issuer
- ▲ all special resolutions
- ▲ any proposed changes to the regulations
- ▲ any rights issue and related details
- ▲ any purchase or sale of an asset
- ▲ any acquisition of shares of another company
- ▲ any substantial changes in shareholding

ISSUES WITH THE CAPITAL MARKET

■ **The following are the key concerns with the capital market:**

► ***timelines*** **– a typical capital market transaction may be concluded within 6 months or more. This process usually includes the appointment of advisers, conduct of legal, commercial and financial due diligence, drafting and negotiation of transaction documents, obtaining corporate approvals, obtaining regulatory approvals and issuance/listing of the securities. Involving experienced and quality advisers and arrangers may minimise the delays**

► ***continuing disclosures*** **– some prospective issuers have concerns with the continuing listing obligations. Some think that they may be intrusive. As already indicated, this rather helps the issuer to make better decisions**


THANK YOU