

# Capital Market Development Strategy and Roadmap for Jordan

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**European Bank**  
for Reconstruction and Development



*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

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This Strategy and Roadmap was prepared under a joint project between the Jordan Securities Commission and the European Bank for Reconstruction and Development.



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## TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY .....	1
II.	BACKGROUND .....	3
III.	WHY SHOULD JORDAN FOCUS ON CAPITAL MARKET DEVELOPMENT? .....	4
IV.	CURRENT CONDITION OF JORDAN'S CAPITAL MARKET.....	7
A.	Elements of the System.....	7
B.	Recent Activity Levels .....	9
C.	Lessons Learned.....	11
V.	STRATEGIC GOALS AND NEEDED ACTIONS .....	12
A.	Increasing Investor Interest.....	12
Domestic Investors: .....	12	
Foreign Investors:.....	13	
B.	Making the Market More Attractive For Issuers.....	17
Capital Access for Large Size Issuers: .....	17	
Capital Access for Small and Medium Size Issuers: .....	19	
Capital Access for Financial Sector Firms: .....	20	
C.	Converting the ASE to a Private Sector Operation .....	22
Corporatizing the ASE .....	22	
Enhancing the ASE's Operations.....	24	
Enhancing the SDC's Operations .....	24	
D.	Making the Brokerage System More Competitive .....	26
E.	Strengthening the JSC .....	27
Revisiting the JSC's Rule-Making Powers.....	27	
Expanding the JSC's Authorities and Responsibilities.....	27	
Revising the JSC's Supervision Approach. ....	28	
Devoting Adequate Budget.....	29	
F.	Providing More Attractive Investment Choices .....	31
Creating a Wider Range of Attractive Corporate Securities. ....	32	
Providing Better Direct Access to Government Securities. ....	32	
Supporting Sukuk .....	34	
Enabling Investment Funds.....	34	
Creating Pilot Funds.....	35	
Covered Bonds and Securitizations.....	36	
Creating the Yield Curve. ....	37	
G.	Building the Market's Credibility .....	40
Improving Corporate Governance .....	40	
Restructuring or Closing Poor Corporate Performers .....	40	
Outreach to Issuers.....	41	
Outreach to Investors .....	41	
VI.	IMPLEMENTATION.....	42
A.	Managing the Roadmap's Implementation.....	43

## Capital Market Development Strategy and Roadmap for Jordan

B.	Legal and Regulatory Reforms.....	43
C.	Tax Policy Changes .....	44
D.	ASE Restructuring and Changes to ASE/SDC Operations.....	45
E.	Changes to the Jordan Securities Commission .....	45
F.	Product Development .....	45
VII.	IMPLEMENTATION CHARTS .....	46
A.	Tasks by Topic .....	46
B.	Tasks by Responsible Implementer .....	57
C.	Summary of Strategic Goals by Theme .....	68
VIII.	ANNEXES .....	76
	Annex 1: July 2016 Cabinet of Minister’s Decision .....	76
	Annex 2: September 2016 Economic Policy Council Recommendations.....	78
	Annex 3: Studies Linking Capital Markets to Economic Growth .....	80
	Annex 4: Jordan’s Securities Market Performance .....	86
	Annex 5: Benchmarking Data for Jordan .....	87
	Annex 6: Application of US SEC 7f-7 to the SDC.....	90
	Annex 7: Characteristics of Corporate Securities .....	92
	Annex 8: Tax Issues for Investment Funds.....	96
	Annex 9: Characteristics of Covered Bonds and Securitizations.....	99
	Annex 10: Description and Uses of Unit Investment Trusts.....	102
	Annex 11: Bank Liquidity Analysis .....	107
	APPENDIX A: Roadmap for Legal Changes.....	110

### LIST OF TABLES

Table 1: Suggested Action Items - Increasing Investor Interest.....	16
Table 2: Suggested Action Items – Making the Market More Attractive to Issuers.....	21
Table 3: Suggested Action Items – Converting the ASE to a Private Sector Operation .....	25
Table 4: Suggested Action Items – Making the Brokerage Industry More Competitive .....	27
Table 5: Suggested Action Items – Strengthening the JSC .....	31
Table 6: Corporate Securities Features to be Considered under JSC Regulations.....	32
Table 7: Most Current Rates at Auction.....	38
Table 8: Suggested Action Items – Providing More Attractive Investment Choices .....	38
Table 9: Suggested Action Items – Building Credibility .....	42
Table 10: Tasks by Topic .....	46
Table 11: Tasks by Responsible Implementer .....	57
Table 12: Action Items by Theme.....	68
Table 13: Performance Relative to Jordan 2025 Peers Countries .....	87
Table 14: Performance Relative to Similar Sized GDPs .....	88
Table 15: Aspects of Classic and Customized Preferred Shares .....	93
Table 16: Aspects of Classic and Customized Corporate Bonds .....	95
Table 17: Banks’ Excess Liquidity (Amounts in JOD).....	108
Table 18: Use of Available Funds (JOD).....	108
Table 19: Detailed Use of Available Funds.....	109

### LIST OF FIGURES

Figure 1: The Capital Market - Investors and Issuers .....	6
Figure 2: Generic Correlation; Market Cap to GDP .....	7
Figure 3: Components of Jordan’s Capital Markets.....	8

Figure 4: Annual Value of Public Securities Offerings 2005 - 2015 .....	9
Figure 5: ASE Trading Volume 2005 – 2015 (JOD billion) .....	10
Figure 6: ASE Market Cap 2005 – 2015 (JOD billion).....	10
Figure 7: Performance Benchmarking against Peers .....	10
Figure 8: Capital Markets Assistance to Enterprises.....	19
Figure 9: Optimal Taxation of Direct vs. Indirect Investments .....	35
Figure 10: Current Yield Curve .....	38
Figure 11: World Market Capitalization and GDP per capita .....	80
Figure 12: Comparison to Vision 2025 Peers – Mkt Cap to GDP per Capita .....	87
Figure 13: Comparison to Vision 2025 Peers – Mkt Cap per Capita to GDP per Capita .....	88
Figure 14: Comparison to GDP Size 2025 Peers – Mkt Cap to GDP per Capita .....	89
Figure 15: Comparison to GDP Size peers – Mkt Cap per Capita to GDP per Capita .....	89
Figure 16: Hierarchy of Securities.....	92
Figure 17: Optimal Taxation of Direct vs. Indirect Investments .....	96
Figure 18: Conditions for Tax Exemption for Investment Funds .....	97
Figure 19: Hierarchy of Securities.....	99
Figure 20: Simplified Schematic of the UIT Transaction .....	103
Figure 21: Detailed Schematic of Offering .....	105
Figure 22: Ongoing Operations .....	105

## ACRONYMS AND ABBREVIATIONS

ASE	Amman Stock Exchange
CBJ	Central Bank of Jordan
CG	Corporate Governance
CoM	Cabinet of Ministers
CPSS	Committee for Payment and Settlement Systems
EBRD	European Bank for Reconstruction and Development
EPC	Economic Policy Council
ETF	Exchange Traded Fund
EU	European Union
GDP	Gross Domestic Product
GoJ	Government of the Hashemite Kingdom of Jordan
IOP	Issuer Outreach Program
IOSCO	International Organization of Securities Commissions
ISB	Individual Savings Bond
JSC	Jordan Securities Commission
MSCI	Morgan Stanley Capital International
PE	Private Equity
MoF	Ministry of Finance
SDC	Securities Depository Center
SSIF	Social Security Investment Fund
UIT	Unit Investment Trust
VC	Venture Capital

### Acknowledgements

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## I. EXECUTIVE SUMMARY

1. This **Capital Market Development Strategy and Roadmap (Strategy)**<sup>1</sup> is intended to support Jordan’s efforts to build economic growth, create jobs and raise the material standard of living for all of its residents. It is rooted in “Jordan 2025: A National Vision and Strategy” and is a set of suggested decisions to be taken by the Government under that framework.

2. While this Strategy discusses a specific aspect of the financial system, and therefore may seem abstract to the ordinary Jordanian citizen, it should be emphasized that all of the suggested decisions and action steps are aimed at achieving a better economic life for all persons living within the Kingdom. This is especially important during this period of regional upheaval and the strains it is creating for the State and the economy as a whole.

3. It should also be emphasized that the success of implementing this Strategy depends heavily on the involvement and participation by the private sector participants. These businesses – investment firms, asset managers, investment bankers and fund managers – are indispensable partners in reforming and reviving the Jordanian capital market.

4. Broadly speaking, this Strategy represents a change of approach and vision for the capital market. It recognizes that although the capital market creates a substantial and irreplaceable public benefit, it is at its core a private sector activity. The ownership and operation of the market is better left to private sector hands, not public sector ownership and administration (but not abandoning robust oversight by the regulatory bodies). This change in approach parallels the overall shift described in Jordan 2025. It concluded generally that instead of the State attempting to provide a protective umbrella through subsidies and protective measures, the best chance for growth and better living standards lies in creating opportunity. Applying this same principle to the capital market, this Strategy seeks to harness market-based incentives for the market’s improvement rather than attempting to force it by government edict.

5. During the first phase of devising this Strategy, the Jordan Securities Commission (JSC) requested assistance from the European Bank for Reconstruction and Development (EBRD) to conduct a broad, yet intensive, diagnostic of the Jordanian capital market and to suggest ways to increase the market’s health, efficiency and safety. From this investigative work several observations became clear. These have been previously presented during sessions held with the responsible public sector bodies with approximately 60 persons attending.

### Core Observations:

- Jordan possesses all of the required ingredients to operate a healthy capital market; while additional functionality and restructurings may be advisable, the country does not need to create new entities;
- Domestic investors possess large sums of investable monies; the absence of investable funds is not the problem for the Jordanian capital market. Savings rates are high, but substantial sums lie outside of Jordan. The lack of participation by domestic investors appears driven by the regional unrest and lingering resentment from the market bubble and crash ending 2007.

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<sup>1</sup> The Capital Market Development Strategy and Roadmap can be found on <http://www.lc2-reports.com/JordanCM-Roadmap.pdf>

- There are regulatory and mechanical obstacles that impede foreign investors from coming to Jordan. While foreign investment levels are respectable, curing these disincentives will help Jordan better attract foreign inflows within the keen competition among countries for investment.
- The current Companies Law is not clear on the types of securities enterprises may issue; a more supportive framework is needed. Domestic companies do not view the securities market as an attractive alternative to bank financing.
- The Tax Code imposes income tax on investment funds, making them more costly than direct investment (which is tax free for individuals); this is crippling development of the mutual fund industry. This is also damaging the use of venture capital (VC) funds and private equity (PE) funds for financing start-up, small and medium sized enterprises. Further, the legal form of 'Limited Partnership' needs to be created within the Jordanian law to better enable VC and PE funds.
- The 2012 decision to impose the civil service salary structure on the JSC, the Amman Stock Exchange (ASE) and the Securities Depository Centre (SDC) has caused severe personnel loss and is impeding staff training and development. The recent decision to reverse this policy needs to be carried through to its implementation in April 2017.
- Similarly, the recent decision to convert the ASE from public sector utility, not-for-profit status to a private corporation needs to be fulfilled. The Exchange could benefit from a fresh injection of capital for IT improvements and strategic owner(s) for advancing expertise.
- The legal and regulatory regime surrounding the capital market has not kept pace with recent developments in finance. It needs to be reviewed and upgraded; statements that it is aligned with Islamic finance need to be confirmed.
- In a parallel vein, the JSC's potency needs to be improved by granting more authorities, and a revamped approach to corporate governance enforcement. Recent decisions to shift jurisdiction from the Companies Controller to the JSC need to be fulfilled.
- The market needs better investment products. The permitted characteristics of corporate stocks and bonds need to be updated and expanded to reflect modern choices. The general public needs better access to government securities. Government bond investment funds, unit investment trusts, and exchange traded funds should be enabled.
- The general public's financial literary and issuers' awareness of the benefits of the securities market are both low.

Strategic Goals and Actions Items:

6. **All of these deficiencies can be remedied.** The required actions, stated in positive terms, can be organized along 7 sets of Strategic Goals:

- a) Increasing Investor Interest
- b) Making the Market More Attractive to Issuers
- c) Reorienting the Infrastructure Institutions as Private Sector Operations
- d) Making the Securities Industry More Competitive
- e) Strengthening the JSC
- f) Creating More Attractive Investment Products
- g) Outreach and Education for Investors and Issuers.

7. **Section V describes where Jordan currently stands with regard to each goal.** Thus, the material in this Section organizes the needed actions by the desired outcomes, not the nature of the work. For, example ‘making the market more attractive to issuers’ will require legal and regulatory revisions, tax code changes, product development, and outreach and education. The other six strategic goals require differing mixes of actions.

Activity Streams and Assignments for Responsibility:

8. **To make the overall tasks ahead more understandable, Section VI organizes the suggested actions by the nature of the work.** These categories are:

- Legal and Regulatory Reforms
- Tax Policy Changes
- Corporate Restructurings and Business Planning
- Changes to the JSC
- Product Development

Time-Bound Roadmap

9. **Lastly, for further ease of reference, the tables in Section VII take the needed actions and organize them from two differing aspects, (1) by theme, and (2) by the required implementers.**<sup>2</sup> Together they constitute a “Time-Bound Roadmap” for implementation of the decisions taken in the Strategy.

## II. BACKGROUND

10. **This Capital Market Development Strategy and Roadmap is intended to support Jordan’s focused and intensive efforts to build economic growth, create jobs and improve the material standard of living.** The Strategy is rooted in “Jordan 2025: A National Vision and Strategy” and should be considered a set of suggested implementation decisions to be taken by the Government under that framework.

11. **While this Strategy discusses a specific and important aspect of the financial system, and therefore may seem abstract to the ordinary Jordanian citizen, it should be emphasized that all of the suggested decisions and action steps are aimed at a better economic life for all persons living within the Kingdom.** This is especially important during this period of regional upheaval and the strains it is creating for the State and the economy as a whole.

12. **During the first phase of devising this Strategy, the JSC asked the EBRD to conduct a broad, yet intensive, diagnostic of the Jordanian capital market and to suggest ways to increase the market’s health, efficiency and safety.** From this investigative work several needs became clear:

- Regaining the trust and confidence of domestic investors, including the need for better corporate governance and disclosure by issuers;

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<sup>2</sup> Clearly, the involvement of the Parliament of Jordan is a key determinant for the success of this Strategy. However, given that the Parliament is an independent body of the State apparatus, this Strategy cannot assign it tasks and deadlines.

- Making foreign investment easier, including meeting required international standards, eliminating tax withholding for tax-exempt investors and providing issuer and trading information in English;
- Making the securities markets a more attractive alternative for companies, including by providing greater clarity on the types and terms of securities that can be issued;
- Removing tax disincentives to the use of investment funds, private equity funds and venture capital funds (the latter two items addressing the needs of medium sized enterprises);
- Reorienting the Exchange as a privately-owned and managed operation, competitive with the private sector pay scales;
- Building the capacity of the Jordan Securities Commission by granting it more authorities, and enabling it to recruit and retain highly specialized staff through compensation levels competitive with the private sector;
- Creating a wider variety of attractive investment products, such as government bond funds, unit investment trusts, and mortgage bonds;
- Providing proactive, practical and effective outreach and education for investors and issuers

The results of the diagnostic were presented to the public sector in April 2016, with approximately 60 persons attending.

13. **Subsequently, and after extensive, parallel input from the Jordanian public and private sectors, the Cabinet of Ministers (CoM) has taken preliminary actions along these themes:** They are:

- The July 2016 CoM decision covering 13 topics, all of which apply to the capital market directly or indirectly (attached as Annex 1)
- The September 2016 recommendations by the Economic Policy Council (EPC) covering 38 topics, 13 of which apply to the capital market (attached as Annex 2)
- The September 2016 CoM decision approving the EPC's recommendations and authorizing the relevant stakeholder to take the necessary steps for implementation

14. This Strategy seeks to merge its extensive set of recommendations with the Government of Jordan's (GoJ) preliminary actions to create an integrated, comprehensive set of steps designed to modernize and invigorate the Jordanian capital market.

### **III. WHY SHOULD JORDAN FOCUS ON CAPITAL MARKET DEVELOPMENT?**

#### Building Economic Growth, Creating Jobs and Raising the Material Living Standards

15. **Although the capital market can use esoteric terms of art, and requires support by advanced IT systems, its reason for existence is very simple - it serves to match persons holding savings with entities wishing to raise capital.** The capital markets are simply a conduit. They are a financial plumbing system. All of the other entities surrounding this 'matching function' – such as the stock exchange, depository and regulator – are designed to make the market safer, cheaper and more efficient, thus making it more attractive for investors.

16. **This catalyst function – matching investors with entities seeking capital – helps ease 'financial friction' for the economy.** Without an organized, centralized way to raise funds,

companies and governments would be required to seek investors “door to door”, approaching each on an individual basis and repeating their proposition endlessly. The capital market offers “one stop shopping” for both investors and issuers. Each investor can come to the market to see all available choices. Each issuer can come to the market to address all interested investors.

17. **In addition, the capital market allows a variety of investment choices.** These include common and preferred shares (constituting ownership), and debt securities with a varying maturities (constituting a debtor-creditor relationship). In addition to this direct investment style, the investment can be indirect; the investor invests in a fund that in turn allocates the monies among several different issuers. This variety of choice allows the investor to bargain for exactly the terms desired. This too eases ‘financial friction’ and promotes efficiency.

18. **The generic capital market serves differing types of investors; each of these is applicable in Jordan.**

- **Domestic savers are individuals and households.** These are so-called “retail investors”. As discussed below it is clear that Jordanian households possess JOD billions in savings that could be directed to the local capital markets.
- **Foreign investors can be institutions or individuals.** Because these investments are made cross-border foreign investors have additional requirements, both in terms of regulatory standards and the actual mechanical question of moving monies and recording ownership. In theory, the amount of foreign funds available for the Jordanian capital markets is almost unlimited. The actual amounts of foreign investment in Jordan are discussed below.
- **Pension funds.** These are long-term investors that must find an investment home for the participants’ contributions made today, until pay-out time in the future. Pension funds require high grade investments, consistent with their fiduciary obligations. In Jordan’s case this is the Social Security Investment Fund (SSIF), *and the provident funds currently unregulated.*
- **Insurance companies.** Because insurance companies take in premiums today that may need to be paid out in the future, they too must find an investment home for these monies. Life insurance companies have a longer term investment horizon than property and casualty companies. While Jordan’s insurance industry is in a nascent stage its potential as an investor should not be ignored.
- **Commercial Banks.** When banks have deposits in excess of loans placed, they must find an investment home for this ‘excess liquidity’. Because the deposit base is shorter term than the base for pension funds and life insurance, the type of investments banks seek is shorter term also. As discussed below, Jordan’s banks have excess liquidity of JOD 13 billion, even after their investments in government securities. Please see Annex 11.

19. **The generic capital market serves differing types of issuers, who can offer equity and debt instruments, either publicly or through private placements.** Again, each of these is applicable in Jordan.

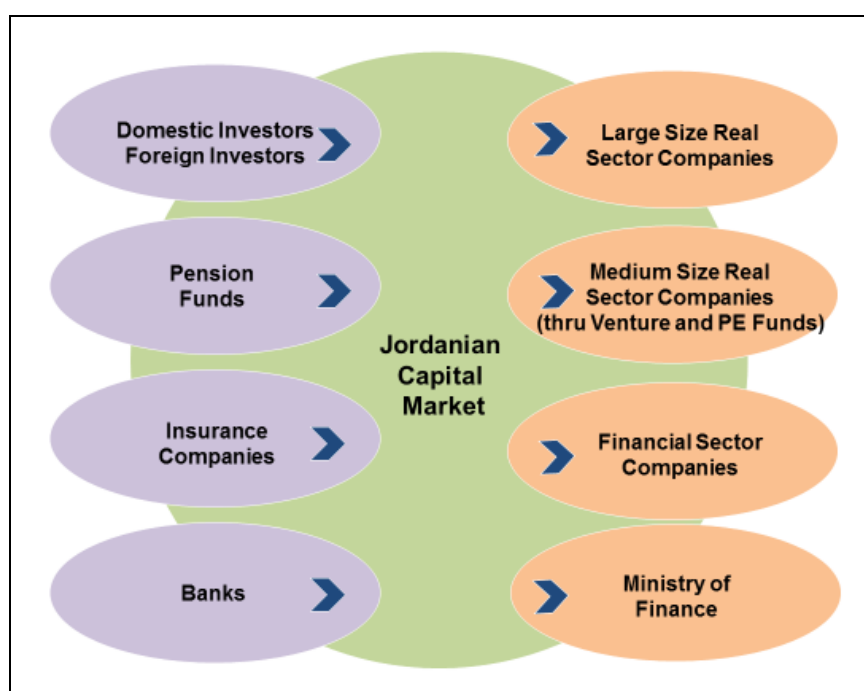
- **Large-size real sector companies.** Currently there are 224 listed companies. The total amount of offerings over the past ten years was JOD 49.41 billion.
- **Medium-size real sector companies.** This set of companies is usually too small to merit an offering directly through the securities markets; it is not cost efficient. Instead, their financing needs tend to be serviced by private equity firms that may or may not be

publicly-held. The need to enhance the access for medium size companies through the capital markets is discussed below.

- **Financial sector companies.** This set of issuers is listed separately from the real sector companies because their financing needs differ somewhat. They can issue more advanced securities such as asset-backed bonds and securitizations.
- **The Government of Jordan.** Within Jordan this is the largest issuer, with JOD 13.02 billion in treasury securities outstanding. Recent events indicate the government may be turning more to the securities markets to issue bonds. The impact of the GoJ's activities on the rest of the securities markets is discussed below.

20. In sum, the conduit function of Jordan's capital market can be depicted as follows:

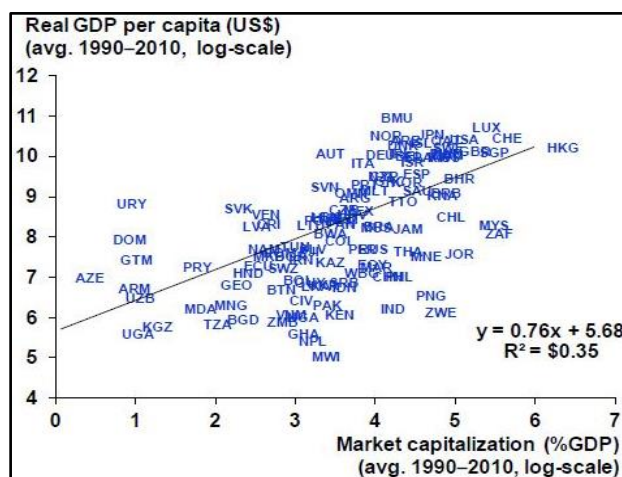
Figure 1: The Capital Market - Investors and Issuers



21. **Because the capital market matches investors to enterprises, it directly enhances the amount of investment into the economy.** This facilitated investment leads to growth in enterprises which leads to economic growth overall (increases in GDP). The growth in enterprises also leads to job creation within the companies themselves and has further spillover impacts for the remainder of the economy. Thus, investments through the capital market are a *vital, positive force for increasing the material standard of living* – one of the main objectives of Jordan 2025.

22. **The correlation between the health of a country's capital market and its economic size has been demonstrated in numerous studies.** These are summarized in Annex 3. The thrust of the findings is that there is a strong connection between the amount of monies invested (as expressed by market capitalization) and overall GDP levels.

Figure 2: Generic Correlation; Market Cap to GDP



Sources: World Bank—World Development Indicators; *Financial Development and Structure Database*; Milken Institute.

23. The fact that Jordan’s capital market is a conduit for increasing investment in the real sector, contributing directly to economic growth, increasing jobs, and thus helping to raise the material standard of living is the main driver behind the creation of this Strategy and Roadmap. Developing Jordan’s capital market is not the end goal, but instead a means towards achieving the end aim of positive economic impact for the citizens.

#### IV. CURRENT CONDITION OF JORDAN’S CAPITAL MARKET

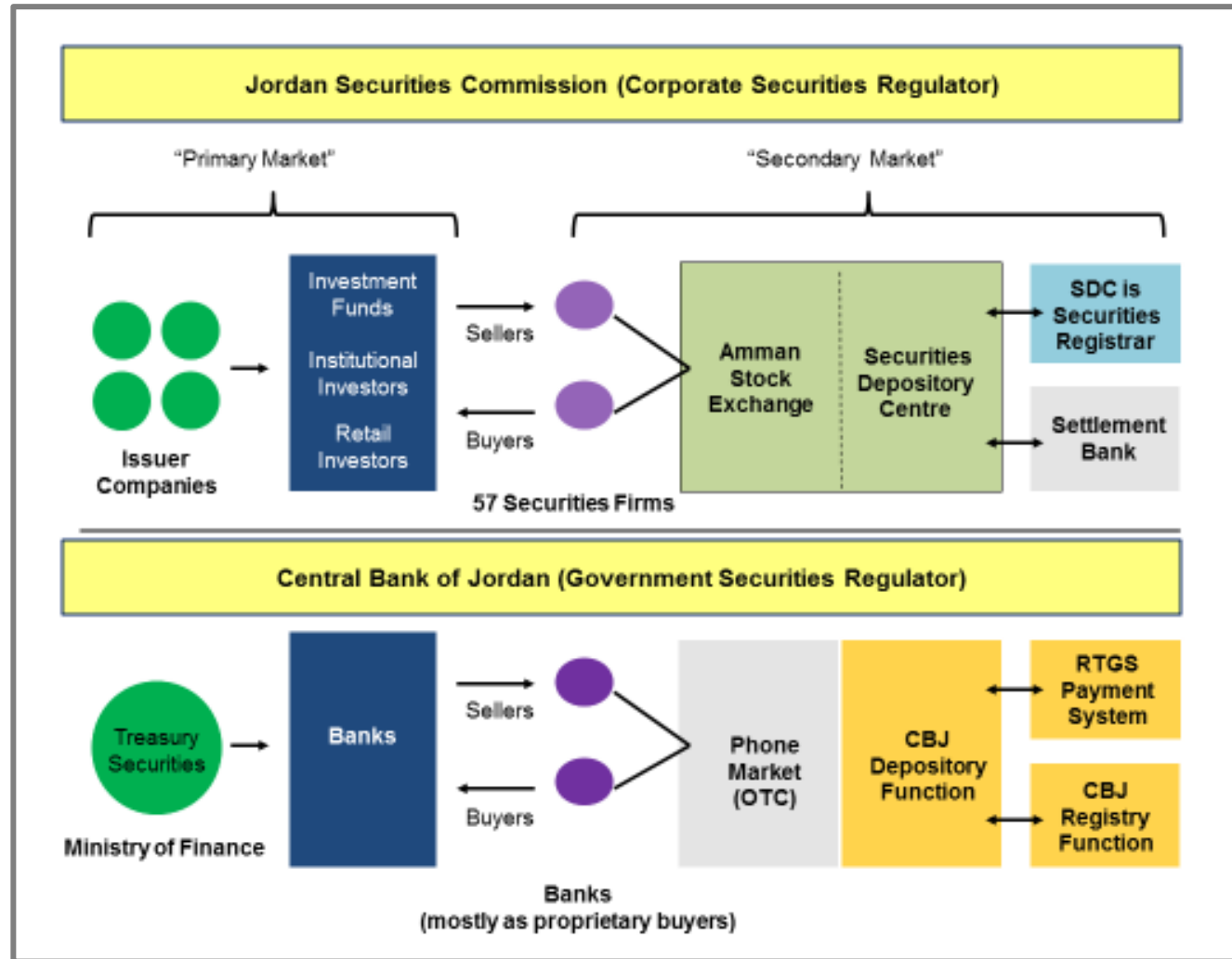
##### A. Elements of the System

24. Jordan’s corporate securities market possesses all of the required components for operation. Although additional functionality and some restructuring is advisable, there is no need to create new entities. The market is overseen by the JSC. Trading is facilitated by the ASE as the centralized, organized and transparent trading mechanism. The SDC provides clearing and settlement to process ASE trades and also maintains ownership recordation for securities issued by public companies.

25. This said, the variety of securities (investment choices) offered in the system is limited. Although 224 companies have outstanding publicly-held securities, roughly 38% incurred operating losses last year. The supply of high quality equities and corporate bonds needs to be increased. To achieve this, features of existing classes of securities need to be updated and expanded within the legal framework. There are many types of shares and bonds that might be attractive to local investors but are not supported by the regulatory framework. Further, several types of investment choices (types of securities), currently not available in Jordan, can be introduced here. Please see Section F.

26. Lastly, the population of market intermediaries consists of a few most active brokers and asset managers, followed by a much larger set of low volume or inactive licensees. Delicensing the ‘on-the-shelf’ market participants will make the industry more competitive and robust (better serving the needs of the economy) and focus the market’s attention on those participants actually interested in growing this market. Making the industry more active and competitive is a key aspect of developing this market. Please see Section D.

Figure 3: Components of Jordan's Capital Markets





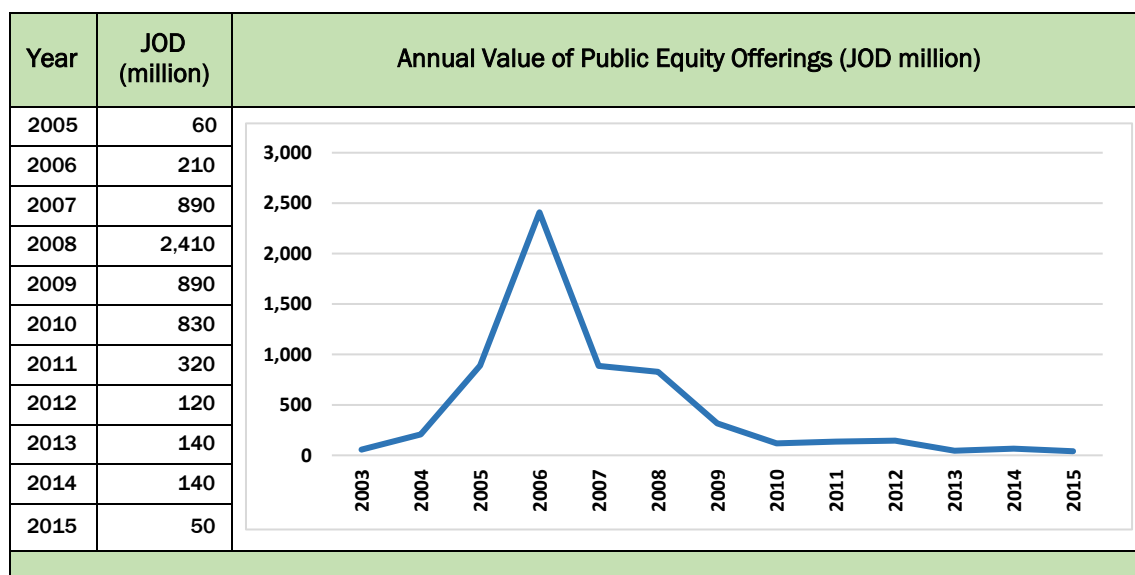
### B. Recent Activity Levels

27. The anecdotal evidence from the diagnostic phase is that the Jordanian capital market enjoyed ‘boom times’ during 2003 through 2007, largely due to a vast influx of monies from Iraq. Persons interviewed spoke of cash being transported into Jordan and invested in real estate and securities.<sup>3</sup> This rapid inflow of monies, coupled with the limited number of securities publicly available, resulted in a to-be-expected rise in prices. This in turn generated much attention from resident Jordanians and resulted in a self-reinforcing cycle of price increases.

28. The bursting of this bubble did not occur overnight. Instead, prices trended lower from 2005-2007. Persons interviewed stressed that Jordan’s market sell-off did not relate to, or result from, the global financial crisis of 2007-2008. There was little linkage between the Jordanian financial system and the global system to draw the Kingdom into the broader disaster. Taking this as correct, the causal event(s) leading to the market sell-off are unclear.

29. The narrative, at least in terms of reciting the results, is supported by the data. The number of public equity offerings peaked in 2006. Trading on the ASE followed the classic pattern of a deflating price bubble. This included heavy trading during the sell-off phase, followed by much lower volumes. As prices decreased during the sell-off phase, followed by further price decreases resulting from a perceived lack of liquidity, the ASE’s market capitalization traced the other metrics.

Figure 4: Annual Value of Public Equity Securities Offerings 2005 - 2015



<sup>3</sup> If, in fact, monies coming into Jordan’s capital markets were in the form of cash transported over the border, this should not be viewed as an indictment of regulatory oversight. It should be recalled that the current emphasis on antimoney laundering and combatting terrorism financing is a relatively recent mode. Also, these were very turbulent times for the region. Jordan today fully emphasizes the need for AML/CFT policies and strong enforcement.

Figure 5: ASE Trading Volume 2005 – 2015 (JOD billion)

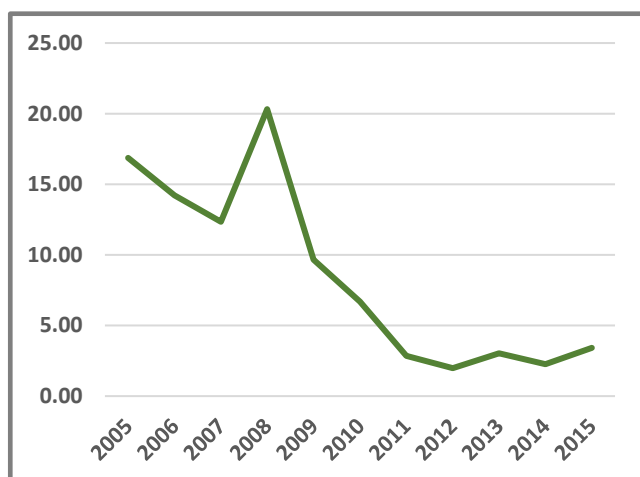
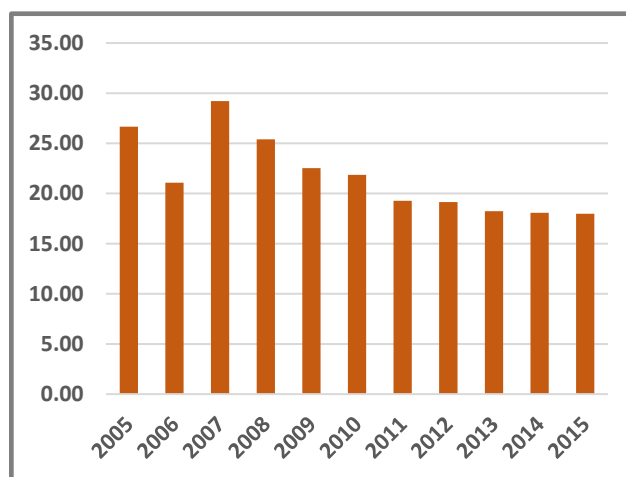


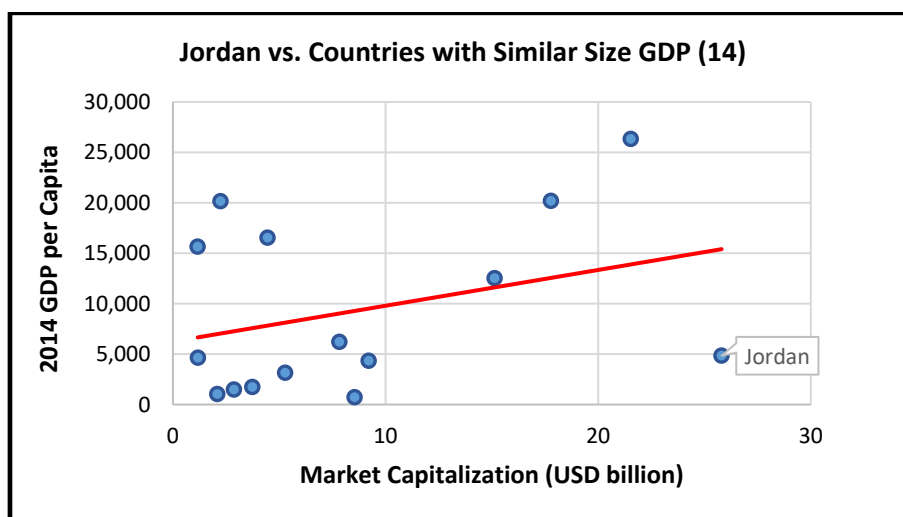
Figure 6: ASE Market Cap 2005 – 2015 (JOD billion)



The relevant data underpinning these graphics is attached in Annex 4.

30. While activity may be low, the size of the market compared to Jordan’s GDP peers is relatively large. At the same time the country does not seem to be receiving the expected economic benefits, as expressed either in GDP or GDP per capita. Please see Annex 5 for a full discussion.

Figure 7: Performance Benchmarking against Peers



31. Part of the reason for this ‘disconnect’ may be the poor quality of many of the companies listed on the exchange. They may be big, but they are not contributing to growth. The Cabinet has issued a preliminary decision to address the poor operating results of 30 distressed listed companies. (Please see Annex 1, Item #10). Another answer may be the poor corporate governance practices cited repeatedly during the diagnostic. This Strategy makes several recommendations in this regard. Please see Section G. As implementation moves forward this question must be addressed in full.

### **C. Lessons Learned**

32. **For purposes of this Strategy, it is not so important to conduct a precise *post mortem* of the last 13 years as it is to understand the impact this recent history is having on today’s market.** This Strategy seeks to avoid those volatile conditions. Instead, it aims to understand why Jordan’s capital markets are in their current condition and to devise a path for steady, sustained growth based on objective data and sound valuations.

33. **Why then the current lethargy in Jordan’s capital markets?** During the diagnostic work, persons interviewed pointed to several causes:

- The current regional upheaval causes investors to seek safer havens, such as Dubai and Qatar and beyond, for placing investments.
- As referenced above, domestic investors are still bitter over the bubble of 2003-2006 and the subsequent crash of 2007-2008.
- The local market does not possess the cachet offered by foreign exchanges, as witnessed by two offerings recently done outside Jordan. Potential issuers do not believe it fills their needs.
- The regulatory framework for the securities markets is shifting, and corporate governance is weak.
- Poor communication between the regulators and the private sector, coupled with a disregard for the importance of the private sector’s input, have created a disconnect between the policy-makers’ goals and actual implementation by the private sector.

Clearly, these are impressions. But, they are impressions noted by the major market players. To this end they must be respected, honored and addressed when devising this Strategy.

34. **More encouragingly, the diagnostic phase also revealed that almost all of the public and private sector participants strongly desire a better capital market for Jordan.** The “lethargy” demonstrated by investors and issuers is not evidenced by the market regulators or the private sector intermediaries. All want a better result.

35. **The problem, at least as cited by the market participants, has been the lack of an integrated plan to find and fix the current impediments for this market.** Because the capital market is a private sector activity, yet yields significant public sector good, both the government and private sector firms have an interest in advancing this market. Yet a comprehensive plan embraced by all players has been absent. *This Strategy is designed to fix that problem.*

## V. STRATEGIC GOALS AND NEEDED ACTIONS

### A. Increasing Investor Interest

#### Domestic Investors:

36. **The Jordanian population has substantial funds to invest.** With a net savings rate of 15.7% of GNI for 2014 this equaled JOD 3.786 billion in monies that needed to find an investment home. The question becomes: where did these funds flow? Deposits within the banking system grew at JOD 2.668 billion for 2014. Net inflows to the Social Security Investment Fund (SSIF) were JOD 393 million. Taken together, this accounts broadly for the total net savings, indicating a strong preference for bank deposits.<sup>4</sup>

37. **Part of these savings are looking for long-term investments.** The SSIF's annual inflow of monies (again JOD 393 million for 2014) must be invested in domestic instruments. For 2014, life insurance accounted for 9.83% of the total industry which for 2014 meant JOD 52.7 million in annual life premiums. These too must be invested in local instruments – or at least in JOD denominated investments.<sup>5</sup> Taken together these two drivers for local, long-term investment totaled 445.7 JOD million. This is exactly the type of investment that should be offered by the securities market.<sup>6</sup>

38. **There are also significant monies looking for short-term investments.** For 2015, twelve local banks possessed a total of JOD 24 billion in excess liquidity (liquid funds minus loan placements). Even taking into consideration their purchases of government securities to absorb excess monies the excess liquidity still stood at 27.15% of available lending funds, or JOD 13 billion. While the banks need short-term investments to match their deposit structure this is still a need that could be addressed by the securities market. See Annex 11.

39. **In sum, Jordan does not suffer from the deficiency suffered by other emerging markets - a lack of domestic investable funds; Jordanians have money.** Instead, the lack of participation in the local markets appears to be driven by three factors: (1) a narrow choice in the types of available investment products, (2) poor corporate governance, leading to distrust of issuer management, and (3) poor corporate operating results. Each of these “objections” to participating in the local securities markets is significant. Each is addressed in their separate sections below.<sup>7</sup>

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<sup>4</sup> It should also be noted that total 2014 premiums for the insurance industry were JOD 537 million, an amount roughly equaling the difference in savings versus deposits + pension contributions. The diagnostic work indicates investment in real estate is also a savings destination.

<sup>5</sup> Because property and casualty insurance is largely reinsured this means that most of the premiums paid are forwarded out of the country. Moreover, the investment horizon for P&C premiums is roughly annual and thus this segment of the insurance industry does not generate meaningful amounts of longer-term investment needs.

<sup>6</sup> Moreover life insurance premiums are expected to grow dramatically. One of the three major life providers estimate they have JOD 40 million today in reserves but expect that to grow to JOD 500 million in ten years.

<sup>7</sup> As noted above in Paragraph 33, persons interviewed also pointed to the current regional upheaval causing investors to seek safer havens, and to lingering resentment from the crash of 2005-2006. This Strategy cannot eliminate the first factor, but it can – by building credibility within the market system – address the second.

Foreign Investors:

40. **Foreign investment levels appear mixed depending on the metric used.** Foreign direct investment for 2014 was US\$ 2 billion or 5.6% of GDP. But foreign portfolio holdings actually shrank by US\$ 31 million. The number of foreign accounts at the SDC were 0.59% of the total; but the value of foreign holdings accounted for 9.08% of the total value. Regardless of the mixed message, these figures could be expanded substantially. In theory the amount of available funds from foreign investment is virtually unlimited.

41. **Within this category, several obstacles to greater foreign investment are readily identifiable.** These relate to legal obstacles, accessibility of information in English, current tax withholding practices, Know Your Customer (KYC) rules and mechanical channels for moving monies into and out of Jordan.

42. **Solving Legal Obstacles.** While the rationale may not be readily apparent, Jordan’s ability to attract foreign investment is significantly impacted by the Securities Depository Centre’s ability to be “certified” under the US Securities and Exchange Commission’s Rule 17f-7. A full discussion of this aspect is included as Annex 6. In short, having the SDC qualified under this rule directly impacts the legal ability of US funds to come to Jordan and indirectly impacts the willingness of EU and other funds to enter this market.<sup>8</sup>

43. **Under recent changes to the certification process the US SEC does not make the determination of eligibility; that responsibility now falls on the investment fund’s Board of Directors.** It must conduct its own due diligence to determine a depository’s eligibility. This requires extensive investigation by the fund, even prior to taking the decision to invest.

44. **Given the keenly competitive global environment for foreign investment Jordan cannot sit idly by waiting for a foreign fund to become interested in this market, decide to undertake the timely and costly due diligence process and then approach the Kingdom unilaterally.** Instead this requires proactive outreach by the country’s market sponsors.<sup>9</sup> The SDC should prepare a due diligence package (in English) that contains (a) analysis of the SDCs compliance with Rule 17f-7, (b) all of the relevant laws, regulations and operating rules, along with (c) an analysis of the SDC’s compliance with the relevant IOSCO Principles, Group of Thirty Recommendations and the more current CPSS-10 Principles for Financial Market Infrastructure, and its responses to the annual Questionnaire from the Association of Global Custodians. It would be advantageous if its rating from Thomas Murray Ltd. (currently private) could be made public. This due diligence package should be posted to the SDC’s website, and the chances for preparing a roadshow

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<sup>8</sup> This requirement for an “eligible foreign depository” should not be confused by parallel requirements for an “eligible foreign custodian”. Depositories (acting as registrars) are the record-keepers for the ownership position. Custodians are the local entities holding the ownership on behalf of the foreign investor. The ownership is placed in the trusted hands of the custodian, and that ownership is recorded at the depository. Rule 17f-5 (not 7) applies to “eligible foreign custodians”.

It appears that Jordan possesses two eligible custodians, Standard Chartered Bank and Bank of Jordan, who are members of internationally recognized global custodial networks. Thus 17f-5 eligibility does not appear to be an issue.

<sup>9</sup> The SDC has reported that it meets with potential custodians during their visits. While this is a positive step, custodians are the middle participants. They are hired after a fund decides to enter a market.

presentation should be explored. It should be emphasized that the distribution of this due diligence material should be as widespread and through as many channels as possible.

45. **Improving Jordan's MSCI Rating.** Jordan presently is ranked as a "frontier" market under the Morgan Stanley Capital International (MSCI) Market Classification. Prior to 2008, it was ranked as an "emerging" market (a higher level). MSCI ranks against four key criteria: openness to foreign ownership; ease of inflows and outflows to foreign investors; efficiency of the operational framework; and stability of institutional framework. This ranking is important as it provides a shorthand due diligence result for firms considering entering this market. More importantly, the number of foreign firms allowed to invest in the 'more risky' frontier markets is much lower than those able to invest in emerging markets. Jordan must seek to regain its higher ranking. The market infrastructure institutions, led by the JSC, should organize a review of the needed steps to regain Jordan's emerging market status, and then to execute these steps.

46. **Providing Important Information in English.** The keen competition for foreign investment also means that the market must seek to provide all relevant information in English. This includes all information relating to (a) companies, investment funds and other issuers, (b) all trading data and attendant market information, and (c) all laws, regulations, guidelines, instructions and infrastructure operating rules. Again the goal must be to make it as easy as possible for foreign investors to enter the market and identify attractive investment choices. *The clear evidence is that today Jordan is failing badly in this regard.*

47. **The ASE and JSC have been attempting to remedy some of this problem.** They are implementing a project to buy / join the XBRL system which translates key information from one language electronically and automatically to another (here Arabic to English).<sup>10</sup> The preliminary results of the field work indicated that the plan is to have the converted documents only available to the JSC and ASE for free (their need for the English versions unexplained) and while private investors will be provided summary information in PDF format, they will be required to pay for the full translation. Subsequently the ASE has commented that all documents generated by the XRBL, both financial and non-financial in Arabic and English will be provided to all investors free of charge. This needs to be confirmed.<sup>11</sup>

48. **In view of the above a more potent approach is required.** The actions steps identified here are:

- The JSC should adopt a rule requiring full parallel disclosure in English for all periodic reports and news releases by:
  - Companies listed on the first tier of the ASE
  - Investment funds (including the proposed Unit Investment Trusts and Exchange Traded Funds discussed below) held by more than a stated number of investors (the precise parameters to be established by the JSC after study).

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<sup>10</sup> This cost is being shared 60% by the ASE and 40% by the JSC. The ASE is leading the implementation.

<sup>11</sup> Implementing the system will take 3 years to implement. A pilot program for an unspecified number of issuers is planned for late 2017. To address this the ASE is adopting templates for financial information that can be used today. This will be for non-financial data, as financial data must be translated and presented in English.

- Any company with more than a stated number of securities holders and a stated amount of assets (the precise parameters to be established by the JSC after study).
- The JSC should adopt a rule requiring the ASE and SDC to provide full parallel disclosure in English for all data and information released to the public. This should include the contents of databases and the websites. It should also include all of the ASE’s and SDC’s organic documents establishing and controlling the institution, as well as all operating rules and guidance.
- The JSC should adopt an internal rule (or absent this the Securities Law should be amended) requiring full parallel disclosure in English of all applicable laws, regulations, guidelines, and information released to the public. This should include the contents of databases and the JSC’s website.

All of this information should be placed on the “Securities Information Center’s website as a one-stop shopping source. Please see Section G.

49. **Revising the Tax Treatment and Withholding for Foreign Investors.** The current tax treatment and withholding processes are dissuading foreign investors from entering this market. Many foreign investors are tax exempt, especially investment funds (please see the discussion at Section F.4). They do not expect to be taxed in the foreign jurisdiction, much less to have withholding performed.

50. **Withholding tax on interest paid to foreign persons is currently levied at 10%.** This can be offset against domestic tax due where double tax treaties apply (these exist with 32 countries). However, because many foreign institutional investors are tax exempt in their home country this is not a meaningful provision. This will make Jordanian interest-bearing securities less attractive to such investors. In view of this the tax withholding rules should exempt any foreign investor which can establish its tax exempt status in its home jurisdiction, according to rules established by Jordan’s tax service.

51. **Adjusting the Know Your Customer Procedures.** The Know Your Customer rules are a valuable tool for combatting money laundering and terrorist financing. Their application to foreign investors in Jordan, however, may need adjustment. Currently Jordanian financial firms must conduct a full due diligence review of all customers, including foreign based. While this requires substantial time and expense, it is considered justified on a cost / benefit basis. But in some cases the cost may yield only marginal benefit; it may be possible simply to rely on the customer’s status in its home market. In view of this the KYC rules should be amended to allow Jordanian financial firms to rely on the regulated status of their client in its home jurisdiction. Under this approach, if the investor client is a regulated entity, the KYC investigation may end there. This change of rules can be adjusted by type of regulated entity (brokerage, investment fund and so forth) or by host jurisdiction (for example, OECD countries)

52. **Installing Clearstream / Euroclear Linkages.** These two global operations provide an “international plumbing system” for the movement of monies and facilitate the clearing and settlement for cross border trades. They are especially valuable for attracting investments in government securities. Indeed the initial functionality when these institutions enter a country tends to be focused on the treasuries market. Given the current presence of two eligible custodians in Jordan it cannot be said that foreign investment is being barred by the lack of a Euroclear or Clearstream connection. Still this would tend to open the market to more types of investors from more countries. Plus experience has shown that the due diligence during the

linkage process helps identify and resolve operational issues. The SDC should study the feasibility of joining the Clearstream and Euroclear international networks.

**Table 1: Suggested Action Items - Increasing Investor Interest**

<b>Demonstrating SDC's Eligibility under US SEC Rule 17f-7</b>	
1.	The SDC should prepare a due diligence package (in English) that contains (a) analysis of the SDCs compliance with Rule 17f-7, (b) all of the relevant laws, regulations and operating rules, along with (c) an analysis of its compliance with all applicable international standards. This due diligence package should be posted to the SDC's website, and the chances for preparing a roadshow presentation should be explored. All distribution channels should be explored.
<b>Improving Jordan's MSCI Rating</b>	
2.	The market infrastructure institutions, led by the JSC, should organize a review of the needed steps to regain Jordan's MSCI's emerging market ranking, and then to execute these steps.
<b>Providing Investor Access to Information in English</b>	
3.	The ASE and JSC should continue with their project to buy / join the XBRL system for automatic translation of documents from Arabic to English. The interim approach of developing templates should be continued.
4.	Documents created under the XBRL program should be provided to investors and the general public free of charge.
5.	The JSC should adopt a rule requiring full parallel disclosure in English for all periodic reports and news releases by: (a) companies listed on the first tier of the ASE, (b) investment funds (including the proposed UITs and ETFs discussed below) held by more than a stated number of units or shares (the precise parameters to be established by the JSC after study) and (c) any company with more than a stated amount of securities holders and a stated amount of assets (the precise parameters to be established by the JSC after study).
6.	The JSC should adopt a rule requiring the ASE and SDC to provide full parallel disclosure in English for all data and information released to the public. This should include the contents of databases and the websites. It should also include all of the ASE's and SDC's organic documents establishing and controlling the institution, as well as all operating rules and guidance.
7.	The JSC should adopt an internal rule (or absent this the Securities Law should be amended) requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public. This should include the contents of databases and its website.
<b>Eliminating Tax Withholding for Tax Exempt Foreign Investors.</b>	
8.	The tax withholding rules should be revised to exempt any foreign investor which can establish its tax exempt status in its home jurisdiction, according to rules established by the tax service.
<b>Adjusting Know Your Customer Rules</b>	
9.	The KYC rules should be amended to allow Jordanian financial firms to rely on the regulated status of their client in its home jurisdiction. Under this approach, if the investor client is a regulated entity, the KYC investigation may end there. This change of rules can be adjusted by type of regulated entity, or by host jurisdiction.
<b>Establishing Clearstream / Euroclear Linkages.</b>	
10.	The SDC should study the feasibility of joining the Clearstream and Euroclear international networks.



## B. Making the Market More Attractive For Issuers

### Capital Access for Large Size Issuers:

53. **Specifying the Permitted Types of Corporate Securities.** The diagnostic work has concluded that the Companies Law is outdated in terms of specifying the types of securities (and their attributes) that companies may issue. It limits public shareholding companies to issuing common shares, and fails to specify adequately types of shares and their associated rights. Thus under the current approach the law allows one-size-fits-all common shares, and corporate bonds.
54. **This ignores recent advances in corporate finance which create a greater deal of flexibility in setting the terms of preferred shares and corporate debt.** Authorizing this wider range of choice under Jordan’s law would allow issuers to create securities that better meet their financing needs, as well as better meet investors’ tastes.
55. **A full description of possible characteristics of corporate securities is set out in Annex 7.** For example, preferred shares can be allowed to participate in profits in addition to the stated minimum dividend. They can carry conversion rights into other categories of the issuer’s securities. They can be “callable” or “putable”. Corporate bonds can be denominated in foreign currency, carry variable interest (or zero coupon), and even carry contingent voting rights. The point is these instruments can be highly customized to meet the needs of investors in creative ways.
56. **While the Companies Law could be amended to address this need, the better approach is to authorize the JSC to fashion the appropriate regulation.** This will allow the JSC to adjust the rule over time, based on implementing experience, and avoids the time-consuming process of repeated law amendments. Thus the suggested action in this regard is to define through JSC regulation the types of securities that companies may issue, and the terms and conditions those securities may carry. Please see Section F.
57. **Creating More Flexibility on Offering Modes.** The diagnostic work has also concluded that issuers could benefit greatly by creating new types of offerings that can be tailored to specific needs. Currently, the Securities Law allows for two categories of offerings (a) private placements to 30 or fewer investors, or (b) full public registrations. But this legal approach ignores a second type of limited offering – those to professional investors.
58. **The terminology for this type of offering varies by jurisdiction: “professional investors”, “accredited investors”, “sophisticated investors”, but the concept is the same.** Under this approach, the issuer may sell securities to an unlimited number of investors, so long as they are qualified by their level of investment sophistication and knowledge. The defined categories of “professional investor” might include banks, insurance companies and investment funds. It might also include individuals who have applied for this status.
59. **A professional investor offering does not require the same level of prepared registration statements.** Instead the requirement is to provide the buyers with all of the relevant underlying documents. The idea is that these can be properly understood by the sophisticated buyers without requiring the issuer to draft the description and analysis. This approach saves time and money, which makes the offering less expensive, *and thus increases issuer interest in coming to the market.* The suggested action step here is that the JSC should adopt a regulation enabling the concept of the professional investor offering. This regulation should (1) define the categories of persons and entities that can be classified as “professional investors” as well as (2) define the limited offering process itself

60. **Creating Differing Types of Registration Procedures.** A closely related issue is how the registration process for the full public offering can be processed. In addition to the current procedure, there are two alternatives that can make public offerings more attractive to issuers. The first is to allow “shelf registrations”. Under this system the issuer files the registration statement with the JSC but is not required to commence the offering immediately. The issuer keeps the contents of the registration up-to-date but waits until the market conditions are suitable. Then the offering can be commenced immediately. This avoids a situation where the issuer finds market conditions ready but must go through the time-consuming process of registration, only to find upon approval that market conditions have shifted. A second approach is to allow “short form” registration. This allows for less detailed registration statements for smaller public offerings. It is based on a recognition that the costs of preparing the registration statement may not be justified by the amount of funds raised. This approach also makes coming to the securities market more attractive. In view of the above, the suggested action is for the JSC to devise regulations adopting the concepts of (a) shelf registration, and (b) short form registration, both for public offerings.

61. **Outreach and Education for Potential Issuers.** The evidence collected during the diagnostic phase indicates that potential issuers do not have a full understanding of the benefits and obligations of coming to the securities market. *The capital market sponsors cannot afford to wait for issuers to become interested in raising capital by issuing securities. Instead, proactive and comprehensive effort is required.* To address this, the market sponsors should engage in an “Issuer Outreach Program” (IOP) designed as an outreach effort. This can also include current companies that have raised financing through the market to introduce them to the improvements driven by this Strategy.

62. **The IOP should be executed by cross-sectoral team under the leadership of ASE, and include the JSC and professional intermediaries such as brokers, asset managers, auditors, lawyers and investor relations experts.**<sup>12</sup> The first step would be to identify the population of potential and current issuers and then meet with them to understand their perceptions of the securities market and the obstacles impeding their use of it. These discussions should include the entire range of financings that the capital markets can offer. Thus, the instruments covered should be both debt and equity and the offerings modes should include private placements, professional investor offerings as well as public offerings. The IOP team would then create a program of workshops and training materials to educate issuers about the benefits of raising capital and listing, and to increase their knowledge of the process. The team would then offer support and skills to help a select number of target issuers for offerings. Work could include one-on-one training in corporate finance, investor relations (before, during and after offerings), governance, compliance, legal aspects, and so forth. The overall goal is to increase the knowledge of issuers regarding the market and their participation in it. In view of the above, the suggested action is for the ASE to form a team to execute the IOP and to lead the outreach program including identifying target issuers, providing workshops and training, followed up by one-on-one consultations, all aimed at increasing participation by the issuers in the securities market.

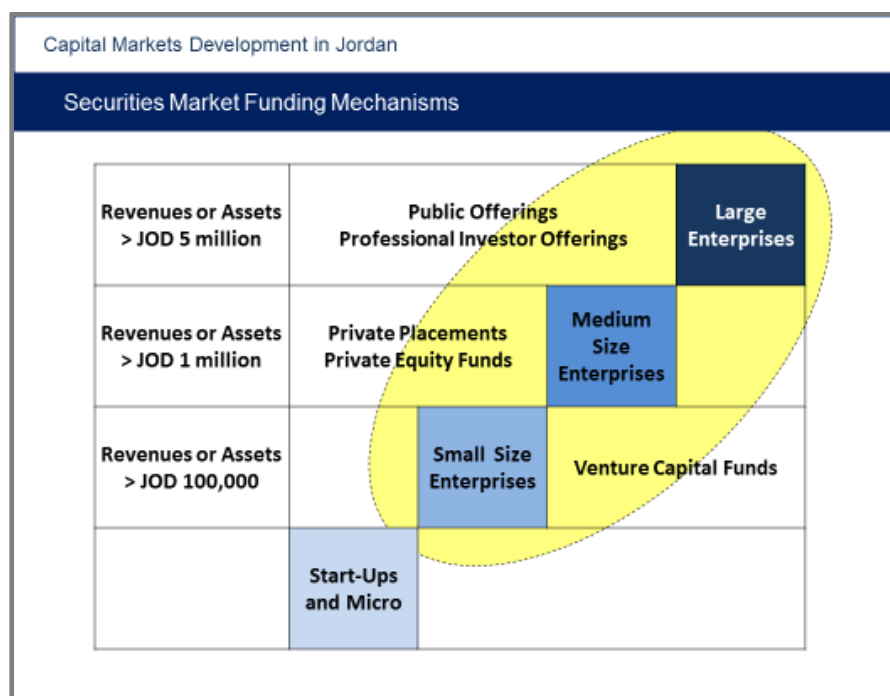
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<sup>12</sup> Under similar programs the private sector participants have donated their time as part of their business development programs.

Capital Access for Small and Medium Size Issuers:

63. **Enabling Venture Capital and Private Equity Funding for SMEs.** Although the capital markets tend to be viewed as a financing tool only for the largest sized companies within an economy, this is not correct. In fact there are many ways in which the capital market structure can help small and medium size companies raise debt and equity capital.

**Figure 8: Capital Markets Assistance to Enterprises**



64. **Jordan is focusing on SME financing needs.** The CBJ sponsors a line of credit program for banks wishing to lend to start-up companies. The EPC has recently recommended that this be increased to JOD 100 million.<sup>13</sup> The CBJ is also organizing a private equity fund to be owned by the banks with a contribution goal of JOD 150 million from commercial banks and JOD 40 million from Islamic banks. But while these are valuable efforts they mostly focus on debt financing and are bank-centric. *The current approaches are not tapping the potential of the securities market to fill the SME financing void.*

65. **Indeed, capital markets possess two types of specialized investment funds specifically designed to finance SMEs: venture capital (VC) funds and private equity (PE) funds.** Venture funds invest directly in start-up and early stage companies. They have been particularly famous in the US for financing the Silicon Valley technology sector. Private equity firms finance ongoing enterprises with the goal of growing them and then taking them public through a full securities offering. The “private” in private equity fund denotes that the investment is made directly with the company, not through buying existing securities in the secondary market.

<sup>13</sup> See EPC recommendation #2, dated September 2016

66. **The diagnostic work reveals that there is limited use of the VC or PE concept in Jordan.** There are 4 PE firms, some of them specializing only in tech, or energy and water. The number of VC firms is unknown but estimates are almost nil.

67. **One reason for this is that current tax policies are severely undermining the development of the investment fund industry generally, and the use of VC and PE funds specifically.** As discussed in Section F.4 below and Annex 8 the current approach to taxing investment funds makes them unattractive. Legal entity investors in funds are taxed twice, once at the fund level and then again upon receipt of profits at the investor level. Natural person investors in funds pay tax at the fund level they could otherwise avoid if making a direct investment.

68. **Not only does this make investing in VCs or PEs unattractive for Jordanian citizens, it is contrary to the expectation of foreign investors.** Almost uniformly, foreign VC and PE funds are structured to be tax exempt at the fund level. Profit tax is paid by the individual investors. So, foreign persons and firms considering an investment in a Jordanian VC or PE fund will expect the same tax treatment. In view of the above, the suggested action item is that the tax code must be amended to exempt investment funds meeting certain criteria.<sup>14</sup> *Without the elimination of this disadvantageous tax treatment it is unrealistic to expect the development of VC or PE funds in Jordan.*

69. **A second obstacle to the use of VC and PE funds is the lack of legal entity forms normally used by the industry.** Again, as discussed in Section F.4 below, the investment fund industry in more developed markets predominantly uses two types of forms because they are less expensive and more flexible: the Limited Partnership, and the Trust. While the corporate form can be used for closed-end funds and the contractual plan form is used in countries without an Anglo-Saxon legal heritage (such as Jordan), by far the LP structure is used for VC and PE. Again, the advantage to this form is management flexibility, as well as liability protection. LPs are also considered as tax neutral, with the fund exempt from profits tax and the investors paying tax on fund profits. To promote the use of VC and PE funds, the Companies Law should be amended to allow for the Limited Partnership legal form.

70. **A third method to promote the use of PE and VC funds is to allow them to be publicly-held.** This is to say that the investments made by the fund shall continue to be privately made (*i.e.*, directly with the SME) but the ownership of the fund can be public (widespread). This raises questions on how the fund's holdings should be valued (since there is no available market for the securities) and disclosed to the fund's owners. But this can be addressed through specialized rules adopted by the JSC. The suggested action item in this regard then is that the JSC should adopt rules (a) permitting the public ownership of PE and VC funds, and (b) issuing specialized rules for valuing the fund's portfolio holdings.

71. **After the above actions have been taken and the impact on the VC and PE industries is understood the ASE should undertake a study of whether a special system for financing SMEs should be adopted within its electronic system.** This 'separate floor' might be modeled after the TMX in Canada and/or the AlterNext platform affiliated with Euronext.

Capital Access for Financial Sector Firms:

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<sup>14</sup> The EPC has recommended that tax incentives be considered for "investment in start-ups". See September recommendation #23. This aspect is not addressed here as it requires further elaboration on the scope of the proposed incentives.

72. **Assessing banks as possible issuers must take into account their bifurcated nature.** First, they are corporate entities. Banks have a need to structure their balance sheet the same as real sector corporations. Second, banks have a need to manage their liquidity, leverage and regulatory capital given the specialized nature of their business. It is possible for them to issue additional types of securities to meet these goals: (1) covered bonds, and (2) securitizations.

- Covered bonds are used when banks that have reached their liquidity limits but not their D/E ratio limits. This generates new cash.
- Securitizations are used when banks have reached both their liquidity and D/E ratio limits and cannot issue more bonds. Securitizations are a sale of assets and thus also generate new cash.

Although the business driver for issuing these securities does not currently exist in Jordan (the system is highly liquid) the legal framework should be ready in case (for when) the situation changes. New enabling laws and regulations are needed and thus this is an action item. Please see Section F.6 and Annex 9.

**Table 2: Suggested Action Items – Making the Market More Attractive to Issuers**

<b>Defining Permitted Securities Types and Their Characteristics</b>	
1.	The JSC should adopt a regulation defining and greatly expanding the types of securities that companies may issue, and the terms and conditions those securities may carry.
<b>Creating More Flexibility on Offering Modes</b>	
2.	The JSC should adopt a regulation enabling the concept of the “professional investor offering”. This regulation should (1) define the categories of persons and entities that can be classified as “professional investors” and (2) define the limited offering process itself.
<b>Creating More Attractive Registration Procedures</b>	
3.	The JSC should devise regulations adopting the concept of shelf registration for public offerings.
4.	The JSC should devise regulations adopting the concept of short form registration for public offerings.
<b>Outreach and Education for Potential Issuers</b>	
5.	The ASE should form a cross-sectoral team to execute a “Issuer Outreach Program” and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations, all aimed at increasing participation by the issuers in the securities market.
<b>Enabling Venture Capital and Private Equity Funding for SMEs</b>	
6.	The tax code should be amended to exempt investment funds (meeting stated criteria established by the tax service) from the imposition of profits tax.
7.	The Companies Law should be amended to allow for the Limited Partnership legal form.
8.	The JSC should adopt rules (a) permitting the public offering of shares in private equity and venture capital funds, and (b) setting out specialized rules for valuing the fund’s portfolio holdings.
9.	After the impact of the reforms for venture capital and private equity funds is understood, the ASE should undertake a study of whether a special system for financing SMEs should be adopted within its electronic system.
<b>Meeting the Financing Needs of Financial Institutions</b>	
10.	The JSC should draft a legislative package enabling the use (a) “covered bonds” (to include “mortgage bonds”) and, (b) securitizations.

11.	The JSC should subsequently adopt regulations governing the specialized disclosure requirements relating to the offer and sale of covered bonds securitizations.
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### C. Converting the ASE to a Private Sector Operation

73. **Although the capital market creates a substantial and irreplaceable public benefit, it is at its core a private sector activity.** Its main function is to connect private sector investors with private sector enterprises (recognizing that it also helps fund the national budget). The market intermediaries are private firms, as are the asset managers for investment funds and individual accounts. While it is true that many emerging markets began operations using government-owned infrastructure entities – exchanges, clearance and settlement houses, depositories and/or registries – the strong trend has been to convert these to private sector ownership over time.

74. **This recognizes that exchanges and depositories are in fact businesses.** They serve customers for a fee. Their ability to survive and thrive depends on their ability to deliver good value for the prices paid. Further, securities markets must compete with their counterparts across national borders. Whether investments are flowing into or flowing out of a country depends on whether the market system is efficient and low cost. Harnessing the “for profit” motive incentivizes management to innovate and grow the business. *And, this is exactly the goal of this Strategy: broader and deeper participation in the Jordanian capital market, resulting in more investment inflow.*

#### Corporatizing the ASE

75. **The GoJ appears to have recognized these arguments and taken initial steps to privatize the ASE.** Item #8 of the CoM’s July decision speaks in terms of “restructuring of ASE and transform[ing] it into a company fully owned by the government”. Item #11 of the EPC’s September recommendations (approved by the CoM in September also) speaks in terms of “Converting Amman Stock Exchange into a public company”.<sup>15</sup> The recommended action here is: complete the corporatization of the ASE, as preliminarily approved by the Cabinet of Ministers. However, converting the Exchange into corporate form will not, by itself, make the ASE more innovative or improve its operating capacities. Further steps will be needed.

76. **Speaking more broadly, the GoJ should be willing to commit the financial resources needed to expand and update both the ASE’s and SDC’s operations, making them more innovative and effective.** There are three recommendations in this regard.

77. **First, the ASE and SDC should be taken off of the civil service system.** Both institutions compete with the private sector for talented personnel. And, this part of the private sector tends to pay the highest wages. To be competitive then, the ASE and SDC must at least be able to offer salaries near private sector levels. *Currently, this is not possible given the 2012 decision to*

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<sup>15</sup> While the SDC is not mentioned specifically in the CoMs’ decision, we recommend that strong consideration be given to including the depository in this process. The arguments for this taking this step are parallel to the reasons for converting the ASE to private sector status.

place the ASE and SDC within the civil service system.<sup>16</sup> This has had three serious negative impacts on their operations.

- **Both the ASE and SDC have experienced serious staff attrition.** Estimated losses are 40% and 25% respectively. While the diagnostic work indicates that remaining staff remain dedicated and optimistic, even these persons admit that staff losses are severely damaging their institutions.
- **The civil service caps are also limiting the training and staff development for those who have stayed.** Current civil service limits mean, in effect, that staff pay out of their own pockets for part of the cost of any off-site training attended. Given the wage levels, this seems grossly unfair. Further, given that the markets are constantly evolving, forgoing professional development training means that the institution itself is falling behind.
- **Hiring staff can take as long as 9 months.**

Therefore, in order to improve the overall health of these institutions, the suggested action item is: reverse the 2012 decision and remove the ASE and SDC staffs from the civil service system.

78. **Second, the ASE and SDC should be taken off budget; these institutions should be allowed to reinvest surplus back into their operations.** If, after funding all needed upgrades, there is further surplus this can be paid to the GoJ in the form of a dividend. But the reinvestment needs of the ASE and SDC should come first. The decision on what the institutions’ budget will be, coupled with how to reinvest any profit, should be left to ASE and SDC management.

79. **Third, the GoJ should be ready to open up ownership of the ASE to private investors, particularly strategic investors.** This will bring needed capital to finance the several operational improvements recommended below. It will also – in the case of the strategic investor - bring expertise. Here the GoJ has two choices: (1) allow investment into the ASE by the new investors, enlarging the capital base, or (2) selling part of its ownership to the new investors. This allows the GoJ to decide whether to ‘cash out’ now or to wait until the enterprise grows and becomes more valuable. But it should be emphasized that a GoJ plan to hold onto 100% ownership over time, and not finance growth, will not lead to a more valuable holding.<sup>17</sup>

80. **At this stage a logical question arises: how can the GoJ be assured that taking these recommended steps will in fact lead to better corporate performance?** Here the ASE’s and SDC’s managements need to take a few proactive steps:

- Perform a complete review of their current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.
- Revise their performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets. These should scaled according to the degree of difficulty.

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<sup>16</sup> The decision also included the JSC and the SSIF. The impact on the JSC’s operations is discussed at Section E below.

<sup>17</sup> This recommendation applies with equal force to the SDC, although there has been no formal decision to convert it to private sector status. If and when that decision is made, then the issue of future ownership will arise.

- As part of their human capacity development program, devise a training schedule and professional education system geared to each position; this should include a training ladder applicable to all employees within their certain specialties.
- Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling. This should include the costs of the operational upgrades recommended below.
- Itemize expenses needed to meet international standards. For example, this should include the SDC's need to carry certain types of insurance, currently unmet.
- Itemize the expenses needed for expanded marketing, domestic and international. For the ASE this will include costs of the Issuer Outreach Program discussed in Section B. For the SDC this might include the incremental cost of converting the currently private rating from Thomas Murray Ltd into a public rating.

#### Enhancing the ASE's Operations

81. **Given a commitment to provide the necessary capital for ASE upgrades and enhancements, what exactly should those steps be?** The market participants indicate a few needed improvements.

82. **All members of the ASE need to be connected to its electronic system.** Currently this is true for only 10 ASE members.<sup>18</sup> The remaining members either need to be linked or to have their membership withdrawn. This should be part of the effort to eliminate the inactive members and licensees from the system. Please see Section D immediately below.

83. **More importantly, the exchange needs to expand online trading for the general public.** In the modern world it would appear that any activity not available on the web (*i.e.*, that exists outside cyber-consciousness) does not capture the interest of the general public. The ASE states that 11 members currently provide an online trading service and that the ASE and JSC will work to increase this number.<sup>19</sup>

84. **The ASE should also consider allowing short-sales.** This will require stock loan via the SDC.<sup>20</sup> The ASE advises that a rule on Short-Selling, Lending and Borrowing, and Depository Receipts have been issued for JSC comment.

#### Enhancing the SDC's Operations

85. **The SDC should conduct a review of its compliance with the relevant IOSCO Objectives and Principles of Securities Regulation, currently planned for this business year.** This will help

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<sup>18</sup> There is a conflict between the information supplied by the ASE on this point (*i.e.*, that all member firms are connected) and the statements in EPC's recommendations (that 30 out of 40 are not). This needs to be resolved.

<sup>19</sup> The online trading system could also be available for foreign investors, given that it is internet based. However, due to regulatory restrictions in other countries, this may need to be limited to "professional investors".

<sup>20</sup> Given changes to the ASE's Listing Rules which go effective April 2017, there is no need to make a recommendation now on condensing the listing tiers. Under the rule changes, the third market will be cancelled, and companies in that category must either qualify for the second tier or have their securities traded OTC. After the impact of this change is understood, this issue can be revisited.



identify any reforms needed to meet international standards. A review under the CPSS-10 Principles for Financial Market Infrastructure is also advised.

86. **The SDC should also introduce securities lending capacity.** This will enable (1) short-selling, (2) repurchase transactions, and (3) market-making. It will also provide better protection in the settlement process.

87. **Lastly, the SDC can be combined with the depository function currently maintained at the CBJ for the treasury securities.** This would yield a number of tangible results. It would eliminate the duplication of systems and cost; for a market the size of Jordan’s economies of scale should be sought wherever possible. It would combine the recorded holdings for both corporate and treasury securities and allow both to be used as collateral for lending, repurchase transactions, capital adequacy calculations and processing of both OTC and ASE trading on a net basis.

88. **One objection might be that the CBJ views its fiscal agent responsibilities as prohibiting the merger.** But perhaps the answer is not so much a ‘merger’ between the two entities, or even two operations but as an ‘outsourcing’ by the CBJ to the SDC.<sup>21</sup> Thus the CBJ would remain in ultimate control but the operation would be contracted to the SDC.

**Table 3: Suggested Action Items – Converting the ASE to a Private Sector Operation**

<b>Corporatizing the ASE</b>	
1.	Complete the corporatization of the ASE, as preliminarily approved by the Cabinet of Ministers.
2.	Remove the ASE and SDC from the civil service system
3.	Take the ASE and SDC off budget and allow these institutions to reinvest surplus back into their operations.
4.	Allow the ASE and SDC management to determine their institutions’ budgets.
5.	The ASE’s and SDC’s managements should: <ul style="list-style-type: none"> <li>• Create a revised staffing organization and position responsibilities plan, matching this to proposed salary levels.</li> <li>• Create performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets.</li> <li>• Devise a training schedule and professional education system geared to each position.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Itemize expenses needed to meet international standards.</li> <li>• Itemize the expenses needed for expanded marketing, domestic and international.</li> </ul>
<b>Enhancing the ASE’s Operations</b>	
6.	Connect all ASE members to its electronic system
7.	Expand online trading for the general public.
8.	Introduce short-sales
<b>Enhancing the SDC’s Operation</b>	

<sup>21</sup> The CBJ’s depository operations are processed through IT systems the central bank owns but are not segregated as a legal entity. Thus a ‘merger of entities’ is not possible, only a ‘merger of operations’ at most.

9.	Complete review of compliance with applicable IOSCO Principles and CPSS-10 FMI Principles to determine needed upgrades.
10.	Introduce stock lending capacity to allow short sales, facilitate repos, allow market making, and enhance the settlement process.
11.	Outsource the depository function for treasury securities, currently maintained at the CBJ, to the SDC, thereby generating combined records of corporates and treasuries that will support more types of financial transactions and use of securities for regulatory capital.

#### D. Making the Brokerage System More Competitive

89. **As the ASE is converting to private sector form and outlook, the Roadmap should also focus on making the brokerage industry more competitive.** Today, there are 57 licensed brokerage firms. Only a handful are significantly active. There is a moratorium on granting new licenses. Thus, no new entries are permitted. Any firm wishing to enter the industry must either buy or merge with an existing licensee.<sup>22</sup> The result is a fixed pool of brokerage firms, many of which are stagnant, with the industry standing little chance of becoming more invigorated.

90. **This approach appears to be driven by the same ‘protective’ attitudes identified in Jordan 2025.** The concern seems to be that withdrawing licenses, or adding competition to the industry, will unduly harm the existing firms. The result, however, is that the market then lacks a main driver for growth. The current set of intermediaries capable of engaging potential investors and issuers is small (albeit enthusiastic). The greater good of building the market, thus leading to the macroeconomic improvement, is sacrificed in the interest of 50 or so inactive firms.

91. **This approach should be revised:**

- The moratorium on granting new licenses should be lifted.
- Inactive firms should be suspended.
- Firms that do not restart activity within a specified time should have their license revoked.

92. **In order to allow better market entry, the capital requirements should be made scalable.** Under this approach a certain minimum capital requirement should be imposed. Then, as the firm’s activity grows, the capital requirement should also grow. This is part of risk-based supervision discussed in the Section E on Strengthening the JSC. In this way market entry is encouraged, and thus competition within the industry should increase, while guarding against increased systemic risk.

93. **The same ‘protective’ attitudes are also evident in the policy on allowable commissions.** Minimum commissions chargeable are 54 basis points for trades < 100,000 JOD per person, per security, per day, and 34 basis points for trades > 100,000 JOD. Again, the goal seems to be protection of the weaker firms.

94. **This too should be revised:**

- At least, the minimum commissions on trades > 100,000 JOD should be eliminated.
- Optimally, all minimum commissions should be removed

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<sup>22</sup> This creates a “rent” for those possessing a license and is an example of how regulatory policy creates an unearned benefit for no value added in return.

- There should be no minimum fee for underwritings.

This should not be read as proposing that the regulatory fee of 20 bps be eliminated.

**Table 4: Suggested Action Items – Making the Brokerage Industry More Competitive**

Opening the Licensing Scheme	
1.	The moratorium on granting new licenses should be lifted.
2.	Inactive firms should be suspended.
3.	Firms that do not restart activity within a specified time should have their license revoked
Removing Minimum Commissions	
4.	Optimally, all minimum commissions should be removed
5.	At least, the minimum commissions on trades > 100,000 JOD should be eliminated.
6.	There should be no minimum fee for underwritings.

### ***E. Strengthening the JSC***

95. **Another critical ingredient to developing this market is strong sponsorship from the JSC.** While it is tempting for a securities regulator in an emerging market to stand back and react to private sector initiatives, experience shows that an engaged, proactive regulator can greatly accelerate market development, both in terms of products, services and systems. The diagnostic work indicates that the JSC is ready to take on this role. But it needs better powers, more authorities and more resources. This is especially true given the lead role assigned to it under this Strategy.

#### Revisiting the JSC’s Rule-Making Powers

96. **The starting point for ensuring that the JSC can fulfill its leadership role is to provide it with the proper power to adopt implementing regulations.** The Securities Law is a “framework law”, as opposed to a “code law”. The overall approach is for the Law to establish policy, set out broad requirements and prohibitions, and then allow the Commission to fill in the implementing details through regulations. But, this approach only works when in fact the Law grants the Commission proper authority.

97. **This Strategy calls for extensive legal and regulatory reforms.** These are listed as line items in Section VI. To ensure there are no implementation gaps the laws must be reviewed at two stages (1) as the law currently exists to ensure that all rule-making powers necessary for today’s provisions have been granted, and (2) as the law is amended, to ensure that any new provisions can in fact be properly implemented. Thus the action item suggested here is: conduct a review of the Companies Law, Securities Law and all other laws touching on the development of the capital market to determine if adequate rule-making power has been granted the Commission. Second, as amendments to laws are drafted, ensure that the Commission is granted specific rule-making power to implement.

#### Expanding the JSC’s Authorities and Responsibilities

98. **There are a few ‘weak areas’ or ‘danger spots’ currently within the market because of a lack of regulatory oversight.** These can be remedied by granting the JSC both the authority and responsibility to oversee the area.

99. **First, there are numerous ‘Provident Funds’ in operation that are not regulated.** These are employer sponsored compensation plans where both the employer and employee contribute funds for investment and later pay-out. In the parlance of the pension fund world they are ‘sponsored Pillar III funds’, but participation may be mandatory. The diagnostic work indicates these plans may be defined contribution, not defined benefit, and thus the risk of investment is on the employee. At the same time, the invested funds are managed by the employing company themselves which raises possible conflicts of interest. Employees’ contributions may not be invested according to prudent standards but instead funneled back into the employing firm.<sup>23</sup>

100. **Should one of these provident funds collapse, not only will the employees be damaged but the capital market’s reputation will again suffer.** Provident funds may not be publicly offered investment funds, but they are ‘investment plans’. Any scenario where investors lose money in schemes operated by others impacts the trust and confidence in the capital market itself.

101. **To remedy this gap, jurisdiction over the provident funds should be granted to the JSC.** This should mainly include devising requirements for disclosure during the offer of the plan but also how the invested monies shall be managed. The suggested action item here is: include in the Securities Law (or other law if more appropriate) JSC jurisdiction over Pillar III pension fund plans.

102. **Second, the JSC should be given broader authority to devise and enforce proper corporate governance standards covering publicly-held companies and securities market participants.** Section G.1 describes in detail how corporate governance practices can be improved. With regard to the JSC’s proper authorities three points are important. First, the July Cabinet of Minister’s decision transferring authority over CG rules for public companies from the Companies Controller to the JSC needs to be implemented in full. (See Annex 1 item #6). Second, the JSC needs to be granted proper rule-making authority to exercise its jurisdiction. Then, third, the JSC needs to determine which CG aspects shall be mandatory and which can be left to the “comply or explain” regime. Without these three steps it is difficult to foresee how CG practices will improve, thus improving the image of the securities market.

Revising the JSC’s Supervision Approach.

103. There are three suggested reforms the JSC could implement that would make its interaction with the regulated community more efficient and effective.

104. **First, the JSC should move from a “compliance based” supervision system to a “risk based” system.** Under a compliance based system the regulator devotes an equal amount of time for all regulated entities. Further, on-site and off-site examinations check for compliance with regard to all provisions. Thus the approach covers all regulated entities for all regulatory requirements. While this may give the regulator comfort, it requires significant staff resources.

105. **Risk based supervision attempts to understand where the most regulatory risk exists in the market and devote supervisory resources there first.** It is aimed at identifying the biggest threats to the integrity of the system and using the staff’s valuable time to address them. While a risk based approach requires greater managerial skill it also uses the budget more efficiently and effectively. Installing a risk based supervision model, by now a well-established trend,

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<sup>23</sup> The danger of this practice is best illustrated by the Enron experience where the employees’ pension monies were used to buy Enron shares and other securities. When Enron collapsed employees not only lost their jobs but also their pension savings.

requires a ‘risk mapping’ of the market and adopting a methodology for assigning risk scoring. From this, supervision assignments are determined. Given the additional responsibilities the JSC will face coupled with budget constraints, moving to a risk based approach can help conserve resources.

106. **Second, the JSC should create a separate department aimed at market development.** The role of this department would be to work with the private sector to introduce new products and services, improve systems and interact with investors and issuers. Its role would continue to focus on regulatory issues but with the goal of fitting those aspects into the broader market development.<sup>24</sup>

107. **Third, in a related matter, the JSC needs to engage more broadly and effectively with the private sector.** A recurring theme in the diagnostic work was that the interaction between the market participants and the regulator needed improvement. Perhaps the answer lies in using the two market associations better. But a systemized and recurring interaction appears needed.

#### Devoting Adequate Budget

108. **Given the JSC’s expanded role under this Strategy, and the expectations upon it generally for building this market, there are strong questions concerning the adequacy of its current resources.** There are three recommendations in this regard.

109. **First, the JSC should be taken off of the civil service system.** All of the arguments set out above for the ASE and SDC to come out of the caps apply with equal force to the JSC. Since the 2012 decision the JSC has experienced 30% staff attrition. Management recognizes that these staff losses are damaging the institution. The civil service caps are also severely limiting the training and staff development for those who have stayed. Therefore, in order to improve the JSC’s overall health, the suggested action item is: reverse the 2012 decision and remove its staff from the civil service system.

110. **Second, the JSC’s budget should take into account the upgrades and added functionality required under this Strategy.** There should be a strong focus on allowing the JSC to retain its surplus and reinvest it back into its operations.

111. **In connection with revamping the JSC’s budget, it should take a few business planning steps:**

- Perform a complete review of its current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.
- Revise its performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets. These should scaled according to the degree of difficulty.

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<sup>24</sup> The JSC advises that it has a Risk Management and Strategic Planning Division within the Research and International Affairs Department, in addition to the Strategic Planning Committee at the JSC. Moreover, the JSC has a Development Division within the Human Resources Department. Further, the promotion of the different sectors of the economy is the responsibility of the Investment Commission. Thus it needs to be explored how these various units fit into the need for a focused effort on market development.

- As part of its human capacity development program, devise a training schedule and professional education system geared to each position; this should include a training ladder applicable to all employees within their certain specialties.
- Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.
- Conduct a self-assessment of its compliance with IOSCO's Objectives and Principles of Securities Regulation. This will help identify where operational improvements are needed.
- Itemize the expenses needed for expanded marketing, domestic and international.

**Table 5: Suggested Action Items – Strengthening the JSC**

Revisiting the JSC Rule-Making Powers	
1.	Conduct a review of the Companies Law, Securities Law and all other laws touching on the development of the capital market to determine if adequate rule-making power has been granted the Commission.
2.	As amendments to laws are drafted ensure that the Commission is granted specific rule-making power to implement.
Expanding JSC Authorities and Responsibilities	
3.	Include in the Securities Law (or other law if more appropriate) JSC jurisdiction over Pillar III pension fund plans.
4.	Fully implement the July Cabinet of Minister’s decision transferring authority over CG rules for public companies from the Companies Controller to the JSC
5.	Grant the JSC proper rule-making authority to exercise its jurisdiction.
6.	The JSC should determine which CG aspects shall be mandatory and which can be left to the “comply or explain” regime.
Revising the JSC’s Supervision Approach.	
7.	The JSC should move from a “compliance based” supervision system to a “risk based” system.
8.	The JSC should create a separate department aimed at market development.
9.	The JSC needs to devise a format and system to engage more broadly and effectively with the private sector.
Devoting Adequate Budget	
10.	The JSC should be taken off of the civil service system
11.	The JSC’s budget should take into account the upgrades and added functionality required under this Strategy
12.	There should be a strong focus on allowing the JSC to retain its surplus and reinvest it back into its operations
13.	<p>In connection with revamping its budget, the JSC should:</p> <ul style="list-style-type: none"> <li>• Perform a complete review of its current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.</li> <li>• Revise its performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets</li> <li>• As part of its human capacity development program, devise a training schedule and professional education system geared to each position; this should include a training ladder applicable to all employees within their certain specialties.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Conduct a self-assessment of its compliance with IOSCO’s Objectives and Principles of Securities Regulation. This will help identify where operational improvements are needed.</li> <li>• Itemize the expenses needed for expanded marketing, domestic and international.</li> <li>• Create a project budget over 5 years that indicates its self-sufficiency</li> </ul>

**F. Providing More Attractive Investment Choices**

112. As outlined above, many of the elements for a successful capital market are present in Jordan. But according to the diagnostic work a key ingredient is missing – the availability of

**attractive investment choices.** The evidence is clear that this is a main cause of the lack of investor interest. Without curing it, the above described reforms may well result in a well-built plumbing system without content, and therefore without participation. This Section addresses this need.

Creating a Wider Range of Attractive Corporate Securities.

113. **The Barriers Report notes that the Companies Law limits publicly-held companies to issuing common shares and fails to provide proper guidance on the terms and conditions that may be offered for other securities.** The suggested action for the JSC is clear: devise an expanded set of permitted securities that may be issued *by all companies*, and enable a series of terms and conditions that may be set for each, with the specifics to be set in the issuers' governing document.

114. **The JSC's regulation should include a 'menu of choices' enabling:**

- Common shares
- Classic preferred shares
- Customized preferred shares
- Classic corporate bonds
- Customized corporate bonds

115. **Based on the full discussion in Annex 7, the terms and conditions the JSC should consider are as follows:**

**Table 6: Corporate Securities Features to be Considered under JSC Regulations**

Features to be Considered under JSC Regulations	
Regarding Preferred Shares	
1.	Require Par Value to be expressed in JOD
2.	Allow Dividends to be expressed in JOD or foreign currency
3.	Recognize and allow for both cumulative and non-cumulative approaches to dividends
4.	Recognize and allow for the concept of 'profit participating' dividends
5.	Allow for contingent voting rights
6.	Allow put and call features
7.	Allow for convertibility of preferred shares into other securities classes.
Regarding Corporate Bonds	
8.	Allow for secured and unsecured bonds
9.	Allow the face value of the bonds to be set in both JOD and foreign currency
10.	Allow required interest payments to be set in both JOD and foreign currency
11.	Allow for variable interest bonds
12.	Allow for zero coupon bonds
13.	Allow for contingent voting rights
14.	Allow put and call features
15.	Allow for convertibility of bonds into other securities classes.

Providing Better Direct Access to Government Securities.



116. **The CBJ and MoF have been attempting to expand direct access to treasury securities for the general public.** In June 2016 the CBJ offered 5-year Individual Savings Bonds (ISBs) direct to the public, with an undertaking to repurchase them on demand at face value. Thus the CBJ is providing liquidity with loss protection. JOD 27.9 million in bonds were sold, with a yield of 4.25%. On November 20, 2016 the CBJ announced a second offering of 5 year bonds with 4.25% coupon, with the bonds processed through the SDC and available for trading on the ASE. The minimum bid has been reduced to JOD 500. It is unclear if the ‘redemption on demand’ feature will remain. The offering is open through January 19<sup>th</sup>.

117. **This effort is a positive step in curing the obstacles the general public currently faces when attempting to purchase government securities.** Under today’s system banks are permitted to submit only one bid during treasury auctions. Thus the bank must combine its proprietary bid with all bids from its clients. As a result, not only are customers prohibited from bidding differing prices among themselves, but they must also bid the same price as the bank. For all practical purposes the end result is that bank customers (the general public) do not participate in the auctions.

118. **At the same time having the general public invest in government securities is a key step towards developing the corporate securities markets.** Because treasuries are low risk, and tend to pay attractive returns, the public’s investing experience should be positive. This is the first step in creating (recreating) an investment culture. For Jordan, it is especially important to repair investor attitudes resulting from the 2007 crash. Creating retail investor interest in, and access to, treasury securities is an important step towards developing the overall capital markets.

119. **According to some, the results of the July treasury direct offering were disappointing, with JOD 27.9 million purchased out of 50 million offered.** Only time will tell if the program will sustain sufficient demand. In this regard this Strategy includes a few suggestion:

- The CBJ could space the offerings out in time, perhaps every 9 months. This would provide time for the general public market to absorb the amounts offered, with more savings aimed at future offerings.
- The maturities offered could be shorter. Since some of investors’ concerns seem to revolve around regional tension, a shorter amount of time to maturity might make the bonds more attractive.
- The maturities offered might be the same tenor as outstanding bonds. This would constitute a “reopening” of the tenor and fit in with efforts to reduce the number of tenors outstanding, while deepening the amount outstanding within each maturity.<sup>25</sup> Deepening each tenor will help promote secondary trading of that tenor, although the liquidity position of the banks currently militates against this.

In view of the above, the suggested action item here is: continue the treasury direct program and consider the aspects noted directly above.

120. **Processing the treasury direct sales through the SDC will also support consolidation of the clearing and settlement and depository functions.** For the reasons set out above in Section C this should result in economies of scale and cost reduction in terms of providing the services.

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<sup>25</sup> As discussed in Section F.7 below this would be part of creating a more accurate and “smoother” yield curve.

However, it should be emphasized that this should not impact how treasuries are traded. The custom is for institutional investors to trade treasury securities OTC. Attempting to change this would not be productive. Thus the SDC should provide post-trade services for OTC and listed trades in treasuries. The suggested action item here is: process all treasury direct access transactions through the SDC.

#### Supporting Sukuk

121. **The interest in Sukuk as an investment choice is rising in Jordan; the legal and regulatory environment needs to fully support this type of product.** The input received during the diagnostic is that the Securities Law and the Islamic Finance Law work seamlessly and there are no gaps or conflicts between the two. The input also was that any unspecified matters have been addressed by JSC regulations. Both of these points need to be confirmed.

122. **The same holds true for the infrastructure institutions.** Again, the input was that there are no operational obstacles to Sukuk. This also should be confirmed.

#### Enabling Investment Funds.

123. **Although the logic may not be readily apparent, the next group of attractive investment choices in Jordan are investment funds, albeit in a greatly simplified form.** The focus here needs to be on quality, simplicity and return versus risk.

124. **A troubling aspect discovered during the diagnostic phase is that most investment funds operating in Jordan are organized outside of Jordan.** This is because the local legal and tax framework is not supportive. As a result, local market participants are being displaced by foreign operations within Jordan itself. *This can be remedied by focusing on three distinct areas.*

125. **First, two new legal forms need to be authorized: (1) the Limited Partnership, and (2) the Trust.** Each are used for different types of funds. As discussed above, the limited partnership form tends to be used by privately-held funds focused on small and medium enterprises. For Jordan this will be the Venture Capital and Private Equity funds. Trusts tend to be used by publicly-held funds because they provide a low cost and flexible form for fund management.<sup>26</sup> Creating these two types of legal entities will require amendments to the Companies Law, with conforming amendments to the Securities Law.

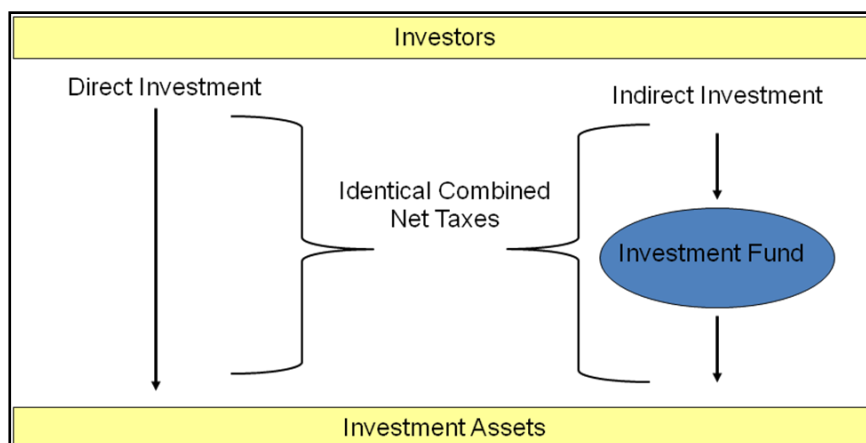
126. **Second, the current tax treatment of investment funds needs to be reformed.** As discussed in Annex 8 the current approach to taxing investment funds makes them unattractive. Legal entity investors in funds are taxed twice, once at the fund level and then again upon receipt of profits at the investor level. Natural persons investing in funds pay tax at the fund level they could otherwise avoid if making a direct investment. This disincentive extends to foreign investors who have a high expectation that their returns will not be taxed at the fund level.

127. **To achieve a “level playing field” between direct and indirect investment, investment funds must be treated as “tax transparent”.**

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<sup>26</sup> Indeed the Massachusetts Investment Trust was the vehicle used to create the US investment fund industry in the late 1800s. The trust form is still used today as the vehicle of choice for mutual funds.

Figure 9: Optimal Taxation of Direct vs. Indirect Investments



Essentially, tax transparency means that the fund does not pay profits tax on its income (received in the form of interest and/or dividends received) or on gains from sales of securities. Instead the shareholders in the fund pay tax when they receive distributions from the fund and/or sell their shares. *Without adopting this ‘tax transparency’ approach it is unrealistic to expect the development of investment funds in Jordan.* The suggested action item here is: amend the tax code to provide an exemption from profits tax for qualifying investment funds.<sup>27</sup>

128. **Third, the current legal regime surrounding contractual plan and corporate form funds needs to be revisited.** The corporate form can be used for closed-end funds whose shares are traded on the ASE. The diagnostic work indicates the current treatment of contractual plans under the Securities Law does not reflect the current use in other markets. The suggested action is: conduct a comprehensive review of the Companies Law and Securities Law, and the implementing regulations, to ensure that they are up-to-date and completely enable use of the corporate and contractual plan forms, as well as the new types of funds recommended here.

#### Creating Pilot Funds.

129. Once the legal regime for investment funds is revised, the public sector sponsors (JSC, ASE and SDC), teaming with the private sector, need to engineer a series of high quality funds that will attract the interest of investors. There are several choices.

130. **Government Bond Funds tend to be viewed as lowest risk funds.** For Jordan, this may be exactly what investors are seeking. There is an ample supply of treasuries being offered, either through the traditional auctions or the treasury direct program. A government bond fund would represent a new buyer of these securities, most likely focused on the longer maturities. This is due to the fund’s need to offer attractive yields. At the same time, due to limited liquidity in the secondary market a government bond fund cannot be formed as an open-end fund. Thus the closed-end form can be chosen, with the shares traded on the ASE. Admittedly, this is less desirable than the open-end approach but is a result of the current market reality. The suggested action item here is: the public sector sponsors (JSC, ASE and SDC), teaming with the private sector, should engineer and introduce the product of a government securities fund,

<sup>27</sup> The recommended eligibility criteria are set out in Annex 8.

providing all of the required legal and regulatory framework and needed infrastructure functionality.

131. **Another attractive choice for Jordan may be Unit Investment Trusts (UITs) which offer simplified, high yield, low risk investments.** These are “investment funds lite”. They consist of a portfolio of securities, usually chosen for their similarities. What makes UITs different from more complex funds is that the portfolio is fixed, not managed. In essence, they are a group of investments placed in a legal “wrapper”, not changing over time. They pay out to investors what the ‘wrapper’ receives in interest or dividends. When creating a UIT, sponsors are able to gauge what investors want, and then to fashion the portfolio accordingly. The package can include securities by country, by quality or by industry. The trust structure keeps administrative costs low, providing better net return for investors. Please see Annex 10. The action item needed here is: the public sector sponsors (JSC, ASE and SDC) teaming with the private sector, should engineer and introduce the concept of the Unit Investment Trust, providing all of the required legal and regulatory framework and needed infrastructure functionality. This will include a safe-harbor rule recognizing that UITs are not ‘managed’ but ‘sponsored’ and therefore the servicers of this type of fund do not need to be licensed as fund managers, but only to be a form of financial institution adequately regulated under the Jordanian law.

132. **Exchange Traded Funds (ETFs) are the next step up.** Essentially, ETFs are closed-end funds consisting of a specialized portfolio focused on a particular asset, industry or country. Unlike UITs, ETFs may “rebalance” or “adjust” their portfolios. Thus while they provide the same type of focus on certain assets, industries or countries, the risk for investors is shifting somewhat. On the plus side, ETFs can be used to invest in assets other than securities, such as foreign currency. It is not clear if Jordanian investors are now interested in this more advanced form of fund, but the legal and regulatory regime and the market infrastructure should be ready. The suggested action here is: the market sponsors, teaming with the private sector, should engineer and introduce the concept of the ETFs, providing all of the required legal and regulatory framework and needed infrastructure functionality.

#### Covered Bonds and Securitizations.

133. Lastly, there are two further classes of securities often issued by financial institutions that may be attractive for Jordan. Both are used to generate liquidity for the financial firm to enable more lending or leasing. Both carry fixed rates of return.

134. **Covered bonds are secured bonds, but with two important investor safeguards.** First, they are secured by a group of assets with maturities equal to or longer than the maturity of the covered bond. Moreover, the value of the collateral cover must be equal to or greater than 110% of the bond obligation. Second, the content of the collateral pool is floating, not fixed. If a component of the collateral pool matures, deteriorates or defaults, the covered bond issuer must replace it with new collateral. Thus the default risk on the collateral is borne by the covered bond issuer, not the bondholder. Please see Annex 9 for the full description.

135. **In Jordan’s case certain facets of covered bonds should be emphasized to make them more attractive to investors.** First, the collateral pool should consist of assets from one originator only. This makes the liability for repairing deteriorating and defaulting components clearer. Pools mixing collateral from several originators blurs the lines of liability, making the bonds less understandable. Second, the loans serving as collateral should have similar characteristics. They should carry similar terms and be lent using the same criteria (e.g., maximum loan to value). Again, this makes the covered bonds more understandable, making risk assessment and pricing more precise.

136. **Securitizations are investments in a pool of assets that generate income, usually loans or leases.** As with covered bonds, they are formed and sold by financial firms that need to generate liquidity for further operations. The advantage for investors is that the portfolio is static and therefore (like UITs) the management fees are extremely low. And, there is the benefit of diversification. More of the income passes through to investors while the risk is spread among the portfolio. At the same time, securitizations present more risk to investors in that if an asset in the pool defaults, the loss is borne by the investors, not the pool sponsor. Please see Annex 9.

137. **It should be noted that securitization helps support Islamic finance.** Assets that are permitted under Sharia law (*i.e.*, noninterest bearing) can be readily packaged and sold through securitization. The fact that the assets are placed in a special purpose vehicle and the ownership interests in the SPV then sold does not impact the eligibility of the investment under Islamic finance.

138. **Given that the banking system is highly liquid, it does not appear there is a need to issue covered bonds or securitization now.** Still, the legal and regulatory regime should be ready for when this changes. The suggested action item here is: the market sponsors, teaming with the private sector, should engineer and introduce the concept of the covered bonds and securitizations, providing all of the required legal and regulatory framework and needed infrastructure functionality. Given that the quality of covered bonds and securitizations (*i.e.*, the safety for investors) depends on the quality of the pool assets, the JSC should devise a regulation governing the types of assets that may be pledged for covered bonds, or pooled for securitizations, that will be offered to the public.

#### Creating the Yield Curve.

139. **While the above has been focused on: “will the law and regulations allow it”, there is a second, critically important, question: “will the securities be attractive from a risk/reward basis”?** Here again, the health of the government securities market directly impacts the future for the corporate securities market.

140. **The baseline for the risk/reward calculation for corporate securities is the return on comparable treasuries.** Given that government securities are deemed to be risk-free, all pricing for other types of securities derives from those current rates. So, to develop the corporate securities market two ingredients are needed: (1) the yield curve must provide a reliable gauge of current costs of funds, and (2) the rates paid by the MoF should not “crowd out” the private sector, both real and financial.

141. **A yield curve can be derived from “rates at auction” or by “rates at trading” on the secondary market.** Currently, Jordan does not have significant trading in government securities (given the high liquidity in the banking system and the SSIF’s needs) and thus devising a yield curve depends on rates at auction. The problem here is that historically the MoF has issued bonds at a variety of tenors, with some not being repeated. This leads to data from tenors that are “one-off”. While the shorter-term treasuries are repeated as they mature and are rolled over, this is not so for the longer tenors. Thus, there is no current yield curve that represents recent offering data across the variety of maturities.

142. **Consolidating the number of tenors and reopening them as finance is needed will help deepen the amount outstanding within the remaining maturities.** This should lead to generating “fresh” data points for each tenor and keep the yield curve more current. It also may lead to more secondary trading in the remaining tenors as they are consolidated. In anticipation of greater trading the JSC and CBJ should adopt rules requiring *all* secondary trades to be reported

to the ASE/SDC system so that they can be reported in a combined and consolidated fashion. This will allow for a data-based computation of the curve, bringing transparency and help with pricing of all financial instruments in JOD.

143. **This will require some discipline in the deciding which tenors to offer.** The anecdotal evidence is that when making decisions on which tenors to offer the question is not: “what does the MoF need”? Instead it is: “what are the banks willing to buy”? This reflects the limited pool of buyers (banks and the SSIF) and the power they exert over the process. However, a current reform can combat this. There is an effort underway to create a “front office unit” that will make projections on MoF financing needs and then select the tenors offered to meet those needs. This should be adopted.

Table 7: Most Current Rates at Auction			Figure 10: Current Yield Curve
Maturity	Last Auction Date for the Tenor	Yield (average)	Latest Yields at Auction (percent)
3 months	21-Sep	0.441	
6 months	20-Sep	1.009	
1 year	27-Sep	2.403	
2 year	5-Oct	2.900	
3 year	13-Aug	3.184	
5 year	3-Oct	4.113	
7 year	30-May	5.047	
10 year	16-Nov	6.499	

144. **Driving rates down, and thus avoiding the “crowding out” effect cannot be done by government edict.** This is a result of supply and demand, the latter of which appears to be insufficient. This can be addressed in a few ways. First, creating government securities investment funds will spread domestic buying interest. This should provide more demand for the longer term treasuries. Second, there should be more outreach to foreign investors. This requires curing the obstacles noted in Section A.2 and perhaps also establishing a link to the international clearance and settlement system via Clearstream and/or Euroclear.

Table 8: Suggested Action Items – Providing More Attractive Investment Choices

Creating a Wider Range of Attractive Corporate Securities	
1.	<p>The JSC should adopt a regulation defining and greatly expanding the types of securities that companies may issue, and the terms and conditions those securities may carry. These categories should include:</p> <ul style="list-style-type: none"> <li>• Common shares</li> <li>• Classic preferred shares</li> <li>• Customized preferred shares</li> <li>• Classic corporate bonds</li> <li>• Customized corporate bonds</li> </ul>
Providing Better Direct Access to Treasury Securities	

2.	The CBJ and MoF should continue the treasury direct program and consider: (a) spacing the offerings over time, perhaps every 9 months; (b) offering shorter maturities; (c) offering the same tenor as outstanding bonds
3.	All treasury direct sales should be processed through the SDC.
4.	All secondary trades in treasury direct tenors should be processed through the SDC, whether they occur OTC or on the ASE.
5.	All secondary trades in treasury securities should be reported to the ASE/SDC system so that they can be reported to the market in a consolidated fashion, leading to better market information, yield curve and pricing of other debt securities.
<b>Supporting Sukuk</b>	
6.	Confirm that Securities Law and the Islamic Finance Law work seamlessly and there are no gaps or conflicts between the two, and that any unspecified matters have been addressed by JSC regulations.
7.	Confirm that there are no operational obstacles to servicing Sukuk.
<b>Enabling Investment Funds</b>	
8.	The Companies Law should be amended to create two types of legal forms: (a) the Limited Partnership, and (b) the Trust. Conforming amendments to the Securities Law should be adopted.
9.	The tax code should be amended to provide “tax transparency” (an exemption from profits tax) for qualifying investment funds.
10.	The tax service should establish objective criteria for qualification for tax transparency.
11.	The JSC should conduct a comprehensive review the Companies Law and Securities Law, and the implementing regulations, to ensure that they completely enable use of the corporate and contractual plan forms, as well as the new types of recommended funds.
12.	The JSC should review and revise its regulations to enable the use of corporate and contractual plan forms.
13.	The market’s public sector sponsors (JSC, ASE and SDC) teaming with the private sector, should engineer and introduce the product of a government securities fund, proving all of the required legal and regulatory framework and needed infrastructure functionality.
14.	The market’s public sector sponsors (JSC, ASE and SDC) teaming with the private sector, should engineer and introduce the concept of the Unit Investment Trust, providing all of the required legal and regulatory framework and needed infrastructure functionality. This will include a safe-harbor rule recognizing that UITs are not ‘managed’ but are ‘sponsored’.
15.	The market sponsors, teaming with the private sector, should engineer and introduce the concept of the Exchange Trade Fund, providing all of the required legal and regulatory framework and needed infrastructure functionality.
<b>Enabling Covered Bonds and Securitizations</b>	
16.	The market sponsors, teaming with the private sector, should engineer and introduce the concept of the covered bonds and securitizations, providing all of the required legal and regulatory framework and needed infrastructure functionality
17.	The JSC should devise a regulation governing the types of assets that may be pledged for covered bonds, or pooled for securitizations, that will be offered to the public.
<b>Developing the Yield Curve</b>	
18.	The MoF should form a front office unit to project financing needs and make decisions on tenors to be offered based on that analysis.
19.	The CBJ should actively market Jordan’s treasury securities to foreign investors

20.	To facilitate this, linkages to Clearstream and/or Euroclear should be explored.
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## G. *Building the Market's Credibility*

### Improving Corporate Governance

145. **Lastly, a consistent theme throughout the diagnostic was that corporate governance is weak and that this is undermining the investing public's view of the market.** This results from several factors, all of which can be remedied.

146. **First, there are 4 separate sources of corporate governance rules:** (1) the Companies Controller, (2) the CBJ, (3) the Insurance Commission, and (4) the JSC. Each set of rules applies to a differing set of enterprises. Each is administered by a separate body. The logic for this is not defective. There are in fact corporate governance issues that are specific to the banks and the insurance companies. And, governance rules for publicly-held companies should differ from those for privately-held concerns. Thus the recommendation is not to create one corporate governance code, but instead to ensure that they are not in conflict and any gaps are remedied. Companies uninterested in good corporate governance should not be able to point to a conflicting legal framework as an excuse. Thus the suggested action item here is: review the four sets of corporate governance rules to ensure they do not conflict or present gaps.

147. **Second, the CG rules for public companies now rest with the Companies Controller; this should be shifted to the JSC.** And, in fact the July Cabinet of Minister's decision has directed this (see Annex 1 item #6). The CoM's decision should now be made effective through amendment of the relevant laws and/or regulations. It will provide for unified enforcement by the JSC for all publicly-held companies.

148. **Third, and perhaps most importantly, the current approach to corporate governance for publicly-held companies is so-called "comply or explain", rather than imposing mandatory rules.** The practical experience in other emerging markets is that this may not be effective. Some of the current 'guidelines' should instead be required action. Without this, companies will be able to explain (justify) noncompliance on the flimsiest of reasons. Corporate governance will not improve and the market's credibility will continue to suffer. The action item suggested here is: review the current CG code as it relates to publicly-held companies to determine which aspects shall be made mandatory though JSC rules.

149. **To encourage compliance the JSC should conduct an annual rating of all subject companies creating and publishing a "corporate governance scorecard" for each.** This approach has proven very successful in other emerging markets. Some programs include awards for the best performance, granting publicity for the well-run companies. (Of course this also includes penalties by the regulator for the noncompliant). Conducting a corporate governance scorecard program is included as an action item.

### Restructuring or Closing Poor Corporate Performers

150. **A second factor damaging the market's credibility is the poor operating performance of many publicly-held companies.** The data indicate that 86 out of 224 companies listed on the ASE (38%) had operating losses for 2015.

151. **This is not a matter for the State to cure; it is a question of management performance and accountability to its shareholders.** Thus the question becomes: is there a way to harness shareholder activism to push management either to improve performance or liquidate the



company? The answer is not to delist the company and push trading in its securities into the darkness but to cure the problem or return what is left of the capital to the owners.

152. **Shareholder activism is not occurring in Jordan, perhaps because no shareholder has a large enough holding to make its involvement worthwhile.** The only category of likely owner is the SSIF. And, it is unclear if the SSIF has the interest in taking on this role. Indeed the SSIF may not in fact be a shareholder of these laggard companies.

153. **The CoM’s July decision has begun to address the situation.** Item #1 instructs that a committee be formed to examine the status of 30 distressed companies on the ASE and to distinguish between the viable firms which can be restructured and the nonviable ones which would be liquidated. (Please see Annex 1.) For purposes of this Strategy no further action can be recommended until the results of the review are in. But this should continue to be a focus area given the damage to market credibility that is resulting.

#### Outreach to Issuers

154. **The diagnostic work indicates that both potential issuers and investors have a poor understanding of the benefits and risks of participating in the market.** Addressing this requires strong outreach. But devising an effective campaign can be difficult. Measuring the results is also a challenge.

155. **Meeting the issuers’ knowledge gap through the “Issuer Outreach Program” has been noted above.** While the IOP will be aimed at making the market more attractive to issuers, it also represents “outreach”. Again, in brief, the program should be executed by cross-sectoral team under the leadership of ASE, and include the JSC and professional intermediaries such as brokers, asset managers, auditors, lawyers and investor relations experts. The team would identify the population of potential and current issuers and then meet with them to understand their perceptions of the securities market and the obstacles that are impeding their use of it. The discussions should include both equity and debt securities, and private placements and professional investor offerings as well as the full public offerings. The IOP team would then create a program of workshops and training materials to educate issuers about the benefits of raising capital and listing, and to increase their knowledge of the process, and then offer support and skills to help a select number of target issuers for offerings.

#### Outreach to Investors

156. **The beginning point for investor outreach appears to be providing all relevant information from a “one-stop shopping” source.** Today information concerning the market is fragmented and perhaps not user friendly, especially to retail investors. This can be cured by creating a web-based “securities information center” that would contain (1) real-time reports of all transactions, (2) description of all securities, (3) description of all issuers, (4) copies of all periodic reports, (5) all relevant laws and regulations, and (6) prospectuses relating to public offerings. This operation should cover all securities offered and traded in Jordan: treasuries, corporate bonds, corporate equities, investment funds, UITs, and ETFs. All of the information posted on the site should be in both Arabic and English. All descriptions of the documents should be written in plain language. In this one step, then, Jordan could cure many of the transparency concerns cited in this Barriers Report.

157. **The question remains where this function should be housed.** Jordan does not need a new capital markets entity; the choices for housing the function include the JSC or the ASE complex. It can be handled as a business unit with a separate website.

158. **A longer term goal should be creating educational material concerning the securities markets for the general public.** This could include a curriculum to be offered within the high school and/or university system. A series of informational videos could also be produced and offered through the securities information center or even through internet sites such as youtube.com. These materials should be devised by the proposed market development department at the JSC, with the input of the ASE and private sector.

**Table 9: Suggested Action Items – Building Credibility**

<b>Improving Corporate Governance</b>	
1.	The JSC should review the four sets of corporate governance rules to ensure they do not conflict or present gaps.
2.	Authority for setting CG rules for public companies and their enforcement should be shifted from the Companies Controller to the JSC, as per the July Cabinet of Minister’s decision (Item #6).
3.	The JSC should review the current CG code as it relates to publicly-held companies to determine which aspects shall be made mandatory through JSC rules, and then to adopt such regulations
4.	The JSC should conduct an annual rating of all subject companies creating and publishing a “corporate governance scorecard” for each, providing positive publicity for the best run companies and penalizing the noncompliant.
<b>Restructuring or Closing Poor Corporate Performers</b>	
5.	The CoM’s July decision to form a committee to examine the status of 30 distressed companies on the ASE and to distinguish between the viable firms which can be restructured and the nonviable ones which would be liquidated should be fully implemented.
<b>Conducting a “Issuer Outreach Program”</b>	
6.	The ASE should form a cross-sectoral team to execute an “Issuer Outreach Program” and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations.
<b>Creating a Securities Information Center</b>	
7.	Create a web-based “securities information center” that would contain (1) real-time reports of all transactions, (2) description of all securities, (3) description of all issuers, (4) copies of all periodic reports, (5) all relevant laws and regulations, and (6) prospectuses relating to public offerings. This operation should cover all securities offered and traded in Jordan. All of the information posted on the site should be in both Arabic and English.
8.	Determine where this function should be housed, at the JSC, ASE, or otherwise.
<b>Creating Educational Materials for Web Dissemination</b>	
9.	Create educational material concerning the securities markets for the general public, to be offered within the high school and/or university system.
10.	Create a series of informational videos to be offered through the securities information center and internet sites that allow uploading files.

## VI. IMPLEMENTATION

159. **Although there are many “moving parts” to this Strategy, all are achievable.** But, this will require a clear and sustained focus by all of the interested parties on completing their specific assigned tasks within established deadlines. Strong government leadership and accountability are a must.

### **A. Managing the Roadmap’s Implementation**

160. Because the suggested actions cut across several agency jurisdictions and involve several market institutions, as well as the private sector firms, successful implementation can only be achieved through a high-level **Capital Markets Working Group**, comprised of the senior leaders from each interested body.

161. The implementation plan envisions a **Steering Committee led by the Prime Minister’s Office** and comprised of the heads of the following organizations:

- Jordan Securities Commission
- Parliament Committee covering the Securities Market
- Parliament Committee covering Tax Policy
- Amman Stock Exchange
- Securities Depository Center
- Central Bank of Jordan
- Social Security Investment Fund
- Economic Policy Council
- Market Professional’s Association

162. **The work on the needed actions can be divided among 5 separate Teams with members drawn as needed from the CMWG institutions.** These will cover:

1. Amendments to the Applicable Laws or Regulations
2. Changes to Tax Policies
3. Restructuring the ASE , and Changes to ASE/SDC Operations
4. Changes for the JSC
5. Product Development

163. **This work will also require significant staff support.** To achieve this the Roadmap suggests creating a Secretariat comprised of full-time staff. This can be achieved through “seconding” staff from the various institutions and/or hiring outside specialists. “Seconded” staff should be devoted full-time to this effort. Outside specialists should not covered by the civil service system. The CMWG will need to compete with the private sector for this staffing and to be able to fill these positions quickly.

164. **In order to better measure the progress of Roadmap implementation, and the actual impact it is having on the capital market, the CMWG Secretariat should create and maintain a database consisting of capital markets benchmark data.** This will support semi-annual progress reports and evaluations at the 2 and 4 year marks.

165. **Although this is nominally a 5 year action plan, the emphasis is on completing much of the work by year 3.** This is the result of two considerations. First, many of these tasks can in fact be completed by year 3. The only consideration causing delay might be available staff resources. Second, a plan designed to last 5 years tends to lack of a sense of urgency. There is no need to delay for later what can be done sooner.

### **B. Legal and Regulatory Reforms**

166. **The biggest task facing the CMWG may be formulating the required amendments to the laws and applicable regulations.** This is not because this task is more important than the others; it is because so many facets of the current legal regime must be reviewed and adjusted as part

of this Strategic plan. Many laws and regulations under the jurisdiction of various State bodies are implicated here. They each must be adjusted to provide a seamless framework for the market's operations, and for oversight by public sector bodies. Some of these laws and regulations are:

- Securities Law
- Companies Law
- Islamic Finance Law
- Law on Insurance
- Law on Social Security Investment Fund

167. **As the Legal Team sets out to make the specified adjustments to the legal regime, it should determine whether these can be accomplished via changes to laws or regulations.** In other words, the task may be achieved by (1) changes to an existing regulation or adopting a new regulation, on the one hand, or (2) amendments to existing laws or creating new laws, on the other hand. In all cases where the stated goal can be accomplished via regulation this should be the path chosen. This is faster than enacting laws, and allows the issuing institution to make later adjustments based on implementation experience. Choosing the 'regulations' path will speed up implementation time.

168. **The nature of the Legal Team's task is both specific and undefined at the same time.** The previous diagnostic work created an extensive set of suggested changes to the Securities and Companies Laws. This is attached as Appendix A. (Given its volume it cannot be incorporated into the Implementation Gantt chart; however, it should be viewed as a task item.) Similarly, the Strategic Goals section has identified several specific items requiring changes to laws or regulations. These are contained in the Gantt chart. This said, there may be a variety of issues discovered during the law and regulation reviews that should be folded into the drafting process.

169. **As the Securities Law is revised the Team will need to decide which 'model' should be followed.** The broad choices are the "EU" and "US" approaches. And while they both contain many, identical core principles there are differences in coverage and approach. There are also differences in technical terms as used in English. The reason for choosing a 'model' is to make it more recognizable and understandable to foreigners. This should help in attracting foreign investment.

170. **Lastly, the Team will need to decide when packages of proposed amendments will be introduced to Parliament.** Several urgent action items require law amendments. At the same time it is not possible to devise a comprehensive, integrated set of amendments to address the other needs within that short timeframe. Thus two packages of proposed law changes may be needed. The Implementation chart indicates a package at the ½ year and 2 year marks.

### **C. Tax Policy Changes**

171. **Although work on the proposed tax policy changes will involve changes to laws and regulations, this is separated from the larger Legal Team inventory.** The work here, while crucial to developing investment funds and other new products, is more narrowly focused and requires a different set of expertise. The Tax Team can be a smaller group; leadership can be assigned by the CMWG. Essentially the Team will be responsible for two main issues: (1) adopting the principle of tax transparency for qualifying investment funds and (2) revising the tax withholding

system for foreign tax-exempt investors. The Tax Team should interact heavily with the New Products Team.

#### ***D. ASE Restructuring and Changes to ASE/SDC Operations***

172. **The ASE/SDC Team will need to address two main categories of activities: (1) managing the ASE’s conversion process to private sector status, and (2) significant improvements to functionality.** Some of the tasks in this section relate to both the ASE and SDC, others relate only to one. Thus the responsible party for the line items will vary.

#### ***E. Changes to the Jordan Securities Commission***

173. **The assignments within this workstream should be differentiated from the legal and regulatory work.** This area relates more to jurisdiction and operations, and includes:

- Moving to Risk-Based Supervision Techniques
- Regulation of Provident Funds
- Regulation of Brokers
- Budget and Business Planning

Within this Team the JSC will take the lead. Coordination with the CoM will be required for actions to remove the JSC from the civil service system. Coordination with the ASE and SDC will be required for investor and issuer outreach programs.

#### ***F. Product Development***

174. **Creating new products and updating existing ones will require strong leadership from the private sector participants, with input from the JSC, ASE and SDC.** In view of this a representative from either the brokerage or asset management sector should be assigned as the Team lead.

175. **The Strategy envisions that the Products Team will devise the needed characteristics for each existing and new product and trace through all of the regulatory and operational issues to be addressed / resolved.** After achieving the regulatory regime is adjusted and the ASE/SDC operational rules are changed (as needed) the Team would devise a “how to” manual to be used by any sponsor of these new products. This manual should include a detailed schematic on creating the needed legal entity, creating the product, offering it to the public, placing the securities in the infrastructure institutions, and enabling secondary trading. The steps to be described in the ‘how to’ manual should include all of the items set out in Annexes 7, 9 and 10. It is hoped that by creating this specific guidance, sponsors will be better enabled to actually introduce these products into the market.

VII. IMPLEMENTATION CHARTS

A. Tasks by Topic

Table 10: Tasks by Topic

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
1		<b>Roadmap Implementation</b>											
Formation	1.1	Adopt the Strategy and Roadmap as an official Implementation Effort under Jordan 2025 and commit to a five year program of reforms, with a heavy emphasis on completing much of the program in the first 3 years.	Cabinet										
Formation	1.2	Create the Capital Markets Working Group (JCMWG) to oversee implementation of the Roadmap.	Cabinet										
Formation	1.3	Place management of the CMWG in a Steering Committee, led by the Prime Minister's Office, and comprised of the heads of the following institutions: <ul style="list-style-type: none"> <li>• Jordan Securities Commission</li> <li>• Parliament Committee on Securities</li> <li>• Parliament Committee on Tax</li> <li>• Central Bank of Jordan</li> <li>• Social Security Investment Fund</li> <li>• Economic Policy Council</li> <li>• Amman Stock Exchange</li> <li>• Securities Depository Center</li> <li>• Market Professional's Association</li> </ul>	Cabinet										
Formation	1.4	Create CMWG Secretariat outside the Civil Service remuneration structure at locate it at JSC	Cabinet										
Formation	1.5	Create 5 Action Teams for the following areas of effort: <ol style="list-style-type: none"> <li>1. Amendments to the Applicable Laws or Regulations</li> <li>2. Changes to Tax Policies</li> <li>3. Restructuring the ASE, and Changes to ASE/SDC Operations</li> <li>4. Changes in JSC Operations</li> <li>5. Product Development.</li> </ol>	Cabinet										
Formation	1.6	Seek donor support for financing and staffing.	CMWG										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Formation	1.7	Create and maintain a database consisting of capital markets benchmark data to measure implementation impact and progress	CMWG										
Formation	1.8	Report implementation progress semi-annually	CMWG										
Formation	1.9	Evaluate Roadmap progress at 2.5 years and 4 years.	CMWG										
2		<b>Amending Laws and Regulations</b>											
Process	2.1.0	Create the "Legal and Regulatory Reforms Team," to be headed by the JSC.	CMWG										
Process	2.1.2	Create a package of urgent law amendments to be introduced in the first tranche by H1 2017.	JSC										
Process	2.1.3	Undertake a drafting effort for the Securities Law and Companies Law to achieve the revisions contained in Appendix A, to be completed by year 2.	Legal Team										
Process	2.1.4	In parallel, undertake a review of the Securities Law and Companies Law to achieve the specified actions below, along with conforming amendments to the laws and regulations governing insurance, the social security investment fund, and treasury securities, to be introduced by year 2.	Legal Team										
Process	2.1.5	Conduct a review of the Company Law, Securities Law and all other laws touching on the development of the capital market to determine if adequate rule-making power has been granted the Commission.	Legal Team										
Provident	2.10.1	Include in the Securities Law (or other law if more appropriate) JSC jurisdiction over <b>Pillar III pension fund</b> plans (to include <b>Provident Funds</b> ).	Legal Team										
CG	2.11.1	Fully implement the July Cabinet of Minister’s decision transferring authority over <b>Corporate Governance</b> rules for public companies from the Companies Controller to the JSC	Cabinet										
CG	2.11.2	Grant the JSC proper rule-making authority to exercise its jurisdiction.	Legal Team										
CG	2.11.3	Review the four sets of corporate governance rules to ensure they do not conflict or present gaps.	JSC										
CG	2.11.4	Adopt a JSC regulation determining which CG aspects shall be mandatory and which are left to the “comply or explain” regime.	JSC										
Budget	2.12.1	Remove JSC from the <b>civil service system</b>	Cabinet										
Budget	2.12.2	Include in JSC’s budget the upgrades and added functionality required under this Strategy	Cabinet										
Budget	2.12.3	Allow the <b>JSC to retain its surplus</b> and reinvest it back into its operations	Cabinet										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Islamic	2.13.1	Confirm that Securities Law and the Islamic Finance Law work seamlessly and there are no gaps or conflicts between the two, and that any unspecified matters have been addressed by JSC regulations.	JSC										
Islamic	2.13.2	Confirm that there are no operational obstacles to servicing Sukuk.	JSC										
ASE SDC	2.5.1	Revise laws (or regulations as needed) to complete the conversion of the <b>Amman Stock Exchange</b> from not-for-profit, public utility status to for-profit company (corporatization).	Legal Team										
ASE SDC	2.5.4	Remove the ASE and SDC from the <b>civil service system</b>	Cabinet										
ASE SDC	2.5.5	Take the ASE and SDC <b>off budget</b> and allow these institutions to reinvest surplus back into their operations.	Cabinet										
ASE SDC	2.5.6	Allow the ASE and SDC management to determine their institutions' budgets.	Cabinet										
Products	2.6.1	Amend the Securities and Companies Law to support the investment products devised by the "Products" Team.											
Products	2.6.11	Draft law on <b>covered bonds</b> and <b>securitizations</b> .	Legal Team										
Products	2.6.12	Draft separate <b>law on Investment Funds</b>	Legal Team										
Products	2.6.2	Based on the recommendations of the Products Team, adopt a JSC regulation defining the types of securities that companies may issue under the current Companies Law, and the terms and conditions those securities may carry.	JSC										
Products	2.6.2	Based on the recommendations of the Products Team, adopt a JSC regulation expanding the types of new securities that companies may issue, and the terms and conditions those securities may carry.	JSC										
Products	2.6.3	Taking into consideration the recommendations of the Products Team, amend the Companies Law to allow for the <b>Limited Partnership</b> legal form (to support the use of VC and PE funds) and <b>Trust</b> legal form (to support the use of classic investment funds).	Legal Team										
Products	2.6.5	Based on the recommendations of the Product Team, adopt a JSC rule (a) permitting the public offering of shares in private equity and venture capital funds, and (b) setting out specialized rules for valuing the fund's portfolio holdings.	JSC										



Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Products	2.6.6	Based on the recommendations of the Products Team, the JSC drafts a legislative package enabling the use (a) “covered bonds” (to include “mortgage bonds”) and, (b) securitizations.	JSC										
Products	2.6.7	Once new products are established, amend <b>insurance regulation</b> to enable investment.	IC										
Products	2.6.8	Once new products are established, amend <b>social security investment fund</b> regulation to enable investment.	SSIF										
Products	2.6.9	Based on the recommendations of the Products Team, the JSC subsequently adopts regulations governing the specialized disclosure requirements relating to the offer and sale of covered bonds and securitizations.	JSC										
Mkt Ops	2.7.1	Revise JSC regulations, as needed, to adopt risk based supervision	JSC										
Mkt Ops	2.7.2	Adopt new JSC risk based capital adequacy rule for market participants.	JSC										
Mkt Ops	2.7.3	Adopt a JSC rule requiring full <b>parallel disclosure in English</b> for all periodic reports and news releases by: (a) companies listed on the first tier of the ASE, (b) investment funds (including the proposed UITs and ETFs) held by more than a stated number of units or shares (the precise parameters to be established by the JSC after study)and (c) any company with more than a stated amount of securities holders and a stated amount of assets (the precise parameters to be established by the JSC after study).	JSC										
Mkt Ops	2.7.4	JSC adopts a rule requiring the ASE and SDC to provide full <b>parallel disclosure in English</b> for all data and information released to the public. This includes the contents of databases and the websites. It also includes all of the ASE’s and SDC’s organic documents establishing and controlling the institution, as well as all operating rules and guidance.	JSC										
Mkt Ops	2.7.5	Amend the <b>KYC rules</b> to allow Jordanian financial firms to rely on the regulated status of their client in its home jurisdiction, variable according to type of regulated entity or by host jurisdiction.	JSC										
Mkt Ops	2.7.6	Adopt JSC regulation on <b>short selling</b> and <b>securities lending and borrowing</b>	JSC										
Offerings	2.8.1	Adopt a JSC regulation enabling the concept of the “professional investor offering” defining, (1) the categories of persons and entities that can be classified as “professional investors” and (2) the limited offering process itself.	JSC										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Offerings	2.8.2	Adopt a JSC regulation enabling the concept of <b>shelf registration</b> for public offerings.	JSC										
Offerings	2.8.3	Adopt a JSC regulation enabling the concept of <b>short form registration</b> for public offerings.	JSC										
3		<b>Tax Policy Changes</b>											
Formation	3.1.0	Create the "Tax Team", with the head designated by CMWG.	CMWG										
Withholding	3.1.1	Undertake workshops on international taxation policy including withholding taxes on income or gains from shares, bonds or Sukuk distributed to domestic or foreign funds, individuals or companies.	Tax Team										
Withholding	3.1.2	Revise the tax withholding rules to exempt any foreign investor which can establish its tax exempt status in its home jurisdiction, according to rules established by the tax service.	Tax Team										
Inv. Funds	3.2.1	Establish eligibility criteria for <b>tax transparency</b> need to be established.	Tax Team										
Inv. Funds	3.2.2	Amend the tax code to provide tax transparency (exemption from profits tax) for eligible investment funds.	Tax Team										
4		<b>ASE Restructuring and Changes to ASE/SDC Operations</b>											
Formation	4.1.0	Create the "ASE / SDC Team".	CMWG										
Investor Outreach	4.1.1	The SDC prepares a due diligence package (in English) that contains (a) analysis of the SDCs compliance with Rule 17f-7, and (b) all of the relevant laws, regulations and operating rules, along with an analysis of its compliance with all applicable international standards. This due diligence package is be posted to the SDC's website, and the chances for preparing a roadshow presentation are explored. All distribution channels are be explored.	SDC										
Investor Outreach	4.1.2	The market infrastructure institutions, led by the JSC, organize a review of the needed steps to regain Jordan's MSCI's emerging market ranking, and then to execute these steps.	JSC										
Investor Outreach	4.1.3	The ASE and JSC continues with their project to buy / join the <b>XBRL system</b> for automatic translation of documents from Arabic to English. The interim approach of developing templates is continued.	ASE										
Investor Outreach	4.1.4	Provide documents created under the XBRL program to investors and the general public free of charge.	ASE										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Investor Outreach	4.1.5	The SDC studies the feasibility of joining the <b>Clearstream and Euroclear</b> international networks.	SDC										
Investor Outreach	4.1.6	Create a web-based “ <b>securities information center</b> ” that contains (1) real-time reports of all transactions, (2) description of all securities, (3) description of all issuers, (4) copies of all periodic reports, (5) all relevant laws and regulations, and (6) prospectuses relating to public offerings. This operation covers all securities offered and traded in Jordan. All of the information posted on the site is in both Arabic and English.	ASE										
Investor Outreach	4.1.7	Determine where the securities information center function should be housed, at the JSC, ASE, or otherwise.	ASE										
Investor Outreach	4.1.8	Create educational material concerning the securities markets for the general public, to be offered within the high school and/or university system.	ASE										
Investor Outreach	4.1.9	Create a series of informational videos to be offered through the securities information center and internet sites that allow uploading files.	ASE										
Issuer Outreach	4.2.1	Form a cross-sectoral team to execute a “ <b>Issuer Outreach Program</b> ” and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations, all aimed at increasing participation by the issuers in the securities market.	ASE										
Issuer Outreach	4.2.1	After the impact of the reforms for venture capital and private equity funds is understood, the ASE undertakes a study of whether a special system for financing SMEs should be adopted within its electronic system.	ASE										
Conversion	4.3.1	The ASE’s and SDC’s managements: <ul style="list-style-type: none"> <li>• Create a revised staffing organization and position responsibilities plan, matching this to proposed salary levels.</li> <li>• Create performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets.</li> <li>• Devise a training schedule and professional education system geared to each position.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Itemize expenses needed to meet international standards.</li> </ul>	ASE / SDC										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		<ul style="list-style-type: none"> <li>Itemize the expenses needed for expanded marketing, domestic and international.</li> <li>Create a projected budget demonstrating self-sufficiency.</li> </ul>											
Conversion	4.3.2	Complete review of compliance with applicable IOSCO Principles and CPSS-10 FMI Principles to determine needed upgrades.	ASE / SDC										
Conversion	4.3.3	Develop plan identifying optimal shareholding structure and future governance with implementation of membership rights	ASE										
Mkt Ops	4.4.1	Connect all ASE members to its electronic system	ASE										
Mkt Ops	4.4.2	Expand online trading for the general public.	ASE										
Mkt Ops	4.4.3	Introduce short-sales	ASE										
Mkt Ops	4.4.3	Introduce stock lending capacity to allow short sales, facilitate repos, allow market making, and enhance the settlement process.	SDC										
Mkt Ops	4.4.4	Combine the depository function for treasury securities, currently maintained at the CBJ, with the SDC function for corporate securities, thereby generating combined records that will support more types of financial transactions and use of securities for regulatory capital.	SDC / CBJ										
Mkt Ops	4.4.5	Process all treasury direct sales through the SDC.	SDC										
Mkt Ops	4.4.6	Process all secondary trades in treasury direct tenors through the SDC, whether they occur OTC or on the ASE.	SDC										
Mkt Ops	4.4.6	Require that all secondary trades in treasury securities be reported to the ASE/SDC system so that they can be reported to the market in a consolidated fashion	JSC / CBJ										
Mkt Ops	4.4.7	Put in place trading caps, institute VAR margining and bolster protection of the availability of the SGF	SDC										
5		<b>Changes to JSC Operations</b>											
Formation	5.1.0	Create the "JSC Changes Team".	CMWG										
Outreach	5.1.1	Conduct a study on feasibility and timeline for JSC internal rule requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public.	JSC										
Outreach	5.1.2	The JSC adopts an internal rule requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public. This includes the contents of databases and its website.	JSC										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Outreach	5.1.3	Devise a format and system to engage more broadly and effectively with the private sector.	JSC										
Outreach	5.1.4	Conduct an annual rating of all subject companies creating and publishing a “corporate governance scorecard” for each, providing positive publicity for the best run companies and penalizing the noncompliant.	JSC										
Outreach	5.1.5	The CoM’s July decision to form a committee to examine the status of 30 distressed companies on the ASE and to distinguish between the viable firms which can be restructured and the nonviable ones which should be liquidated is fully implemented.	JSC										
Outreach	5.1.6	Create separate JSC department aimed at market development.	JSC										
RBS	5.2.1	Prior to adopting the new rules for risk based capital adequacy, conduct an analysis of the industry and the impact the new parameters can be expected to have.	JSC										
RBS	5.2.2	Revise JSC operating procedures and IT systems to adopt risk based supervision	JSC										
RBS	5.2.3	Move from a “compliance based” supervision system to a “risk based” system.	JSC										
RBS	5.2.5	Provide capacity building to JSC staff and market participants to enable introduction and application of risk based supervision	JSC										
Brokers	5.3.1	Lift the moratorium on granting new brokerage licenses.	JSC										
Brokers	5.3.2	Suspend inactive brokerage firms.	JSC										
Brokers	5.3.3	Revoke licenses of firms that do not restart activity within a specified time.	JSC										
Brokers	5.3.4	Optimally, remove all minimum commissions.	JSC										
Brokers	5.3.5	At least, eliminate the minimum commissions on trades > 100,000 JOD.	JSC										
Brokers	5.3.6	Eliminate minimum fee for underwritings.	JSC										
Budget	5.5.1	In connection with revamping its budget, the JSC: <ul style="list-style-type: none"> <li>Performs a complete review of its current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.</li> <li>Revises its performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets</li> </ul>	JSC										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		<ul style="list-style-type: none"> <li>As part of its human capacity development program, devises a training schedule and professional education system geared to each position; this includes a training ladder applicable to all employees within their certain specialties.</li> <li>Devises an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>Conducts a self-assessment of its compliance with IOSCO's Objectives and Principles of Securities Regulation. This will help identify where operational improvements are needed.</li> <li>Itemizes the expenses needed for expanded marketing, domestic and international.</li> </ul>											
Budget	5.5.2	Create a JSC project budget over 5 years that indicates its self-sufficiency	JSC										
Provident	5.6.1	Assess number, nature and scale of existing provident funds	JSC										
Capacity	5.7.1	Provide capacity building in understanding and supervising investment management, investment funds, investment trusteeship and custody.	JSC										
6		<b>Product Development</b>											
Formation	6.1.0	Create the "Products Team".	CMWG										
Types	6.1.1	Recommend to JSC the contents of a regulation to define the types of securities that companies may issue, and the terms and conditions those securities may carry, including common shares, classic preferred shares, customized preferred share, classic corporate bonds, and customized corporate bonds.	Products Team										
Types	6.1.2	Devise the suggested parameters of categories of new products, suggest needed changes to JSC regulations to support them and create a roadmap manual outlining the steps needed to create and distribute those securities: investment funds, unit investment trusts, exchange traded funds, covered bonds, securitizations.	Products Team										
VC / PE	6.2.1	Advise JSC on how the <b>Limited Partnership and Trust legal forms</b> should be structured to enable venture capital, private equity and classic mutual funds to function properly.	Products Team										
VC / PE	6.2.2	Advise JSC on contents of a rule setting out specialized rules for valuing <b>VC / PE fund</b> portfolio holdings.	Products Team										
CBs / Sec	6.3.3	Engineer and introduce the concept of the <b>covered bonds and</b>	Products										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		<b>securitizations</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality	Team										
Treasuries	6.4.1	The CBJ and MoF continues the treasury direct program and considers: (a) spacing the offerings over time, perhaps every 9 months; (b) offering shorter maturities; (c) offering the same tenor as outstanding bonds	CBJ										
Treasuries	6.4.2	Form a front office unit to project financing needs and make decisions on tenors to be offered based on that analysis, but with the view of consolidating the number of tenors and deepening the amount outstanding within the remaining maturities.	MoF										
Treasuries	6.4.3	Actively market Jordan’s treasury securities to foreign investors	CBJ										
Treasuries	6.4.4	Require primary dealers to provide two way quotation prices	CBJ										
Funds	6.5.2	Advise the Tax Team on the objective criteria for qualification for <b>tax transparency</b> .	Products Team										
Funds	6.5.3	Conduct a comprehensive review the Company Law and Securities Law, and the implementing regulations, to ensure that they completely enable use of the <b>corporate and contractual plan forms</b> , as well as the new types of recommended funds.	Products Team										
Pilots	6.6.1	Engineer and introduce the product of a <b>government securities fund</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality.	Products Team										
Pilots	6.6.2	Engineer and introduce the concept of the <b>Unit Investment Trust</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality. This will include a proposed safe-harbor rule recognizing that UITs are not ‘managed’ but are ‘sponsored’ and therefore the servicers of this type of fund do not need to be licensed as fund managers, but only to be a form of financial institution adequately regulated under the Jordanian law.	Products Team										
Pilots	6.6.3	Engineer and introduce the concept of the <b>Exchange Trade Fund</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality.	Products Team										





**B. Tasks by Responsible Implementer**

**Table 11: Tasks by Responsible Implementer**

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
<b>Actions by Cabinet</b>													
1		<b>Roadmap Implementation</b>											
Formation	1.1	Adopt the Strategy and Roadmap as an official Implementation Effort under Jordan 2025 and commit to a five year program of reforms, with a heavy emphasis on completing much of the program in the first 3 years.	Cabinet										
Formation	1.2	Create the Capital Markets Working Group (JCMWG) to oversee implementation of the Roadmap.	Cabinet										
Formation	1.3	Place management of the CMWG in a Steering Committee, led by the Prime Minister's Office, and comprised of the heads of the following institutions: <ul style="list-style-type: none"> <li>• Jordan Securities Commission</li> <li>• Parliament Committee on Securities</li> <li>• Parliament Committee on Tax</li> <li>• Central Bank of Jordan</li> <li>• Social Security Investment Fund</li> <li>• Economic Policy Council</li> <li>• Amman Stock Exchange</li> <li>• Securities Depository Center</li> <li>• Market Professional’s Association</li> </ul>	Cabinet										
Formation	1.4	Create CMWG Secretariat outside the Civil Service remuneration structure at locate it at JSC	Cabinet										
Formation	1.5	Create 5 Action Teams for the following areas of effort: <ol style="list-style-type: none"> <li>1. Amendments to the Applicable Laws or Regulations</li> <li>2. Changes to Tax Policies</li> <li>3. Restructuring the ASE, and Changes to ASE/SDC Operations</li> <li>4. Changes in JSC Operations</li> <li>5. Product Development.</li> </ol>	Cabinet										
<b>Legal and Regulatory Matters</b>													
CG	2.11.1	Fully implement the July Cabinet of Minister’s decision transferring authority over <b>Corporate Governance</b> rules for public companies from the Companies Controller to the JSC	Cabinet										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Budget	2.12.1	Remove JSC from the civil service system	Cabinet										
Budget	2.12.2	Include in JSC's budget the upgrades and added functionality required under this Strategy	Cabinet										
Budget	2.12.3	Allow the JSC to retain its surplus and reinvest it back into its operations	Cabinet										
ASE SDC	2.5.4	Remove the ASE and SDC from the civil service system	Cabinet										
ASE SDC	2.5.5	Take the ASE and SDC off budget and allow these institutions to reinvest surplus back into their operations.	Cabinet										
ASE SDC	2.5.6	Allow the ASE and SDC management to determine their institutions' budgets.	Cabinet										
<b>Actions by CMWG</b>													
Formation	1.6	Seek donor support for financing and staffing.	CMWG										
Formation	1.7	Create and maintain a database consisting of capital markets benchmark data to measure implementation impact and progress	CMWG										
Formation	1.8	Report implementation progress semi-annually	CMWG										
Formation	1.9	Evaluate Roadmap progress at 2.5 years and 4 years.	CMWG										
Process	2.1.0	Create the "Legal and Regulatory Reforms Team," to be headed by the JSC.	CMWG										
Formation	3.1.0	Create the "Tax Team", with the head designate by CMWG.	CMWG										
Formation	4.1.0	Create the "ASE / SDC Team".	CMWG										
Formation	5.1.0	Create the "JSC Changes Team".	CMWG										
Formation	6.1.0	Create the "Products Team".	CMWG										
<b>Actions by Legal Team</b>													
Process	2.1.3	Undertake a drafting effort for the Securities Law and Companies Law to achieve the revisions contained in Appendix A, to be completed by year 2.	Legal Team										
Process	2.1.4	In parallel, undertake a review of the Securities Law and Companies Law to achieve the specified actions below, along with conforming amendments to the laws and regulations governing insurance, the social security investment fund, and treasury securities, to be introduced by year 2.	Legal Team										
Process	2.1.5	Conduct a review of the Company Law, Securities Law and all other laws touching on the development of the capital market to determine if adequate rule-making power has been granted the Commission.	Legal Team										
Provident	2.10.1	Include in the Securities Law (or other law if more appropriate) JSC jurisdiction over <b>Pillar III pension fund</b> plans (to include <b>Provident Funds</b> ).	Legal Team										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
CG	2.11.2	Grant the JSC proper rule-making authority to exercise its jurisdiction.	Legal Team										
ASE SDC	2.5.1	Revise laws (or regulations as needed) to complete the conversion of the <b>Amman Stock Exchange</b> from not-for-profit, public utility status to for-profit company (corporatization).	Legal Team										
Products	2.6.11	Draft law on <b>covered bonds</b> and <b>securitizations</b> .	Legal Team										
Products	2.6.12	Draft separate <b>law on Investment Funds</b>	Legal Team										
Products	2.6.3	Taking into consideration the recommendations of the Products Team, amend the Companies Law to allow for the <b>Limited Partnership</b> legal form (to support the use of VC and PE funds) and <b>Trust</b> legal form (to support the use of classic investment funds).	Legal Team										
<b>Actions by Jordan Securities Commission</b>													
Process	2.1.2	Create a package of urgent law amendments to be introduced in the first tranche by H1 2017.	JSC										
CG	2.11.3	Review the four sets of corporate governance rules to ensure they do not conflict or present gaps.	JSC										
CG	2.11.4	Adopt a JSC regulation determining which CG aspects shall be mandatory and which are left to the “comply or explain” regime.	JSC										
Islamic	2.13.1	Confirm that Securities Law and the Islamic Finance Law work seamlessly and there are no gaps or conflicts between the two, and that any unspecified matters have been addressed by JSC regulations.	JSC										
Islamic	2.13.2	Confirm that there are no operational obstacles to servicing Sukuk.	JSC										
Products	2.6.2	Based on the recommendations of the Products Team, adopt a JSC regulation defining the types of securities that companies may issue under the current Companies Law, and the terms and conditions those securities may carry.	JSC										
Products	2.6.2	Based on the recommendations of the Products Team, adopt a JSC regulation expanding the types of new securities that companies may issue, and the terms and conditions those securities may carry.	JSC										
Products	2.6.5	Based on the recommendations of the Product Team, adopt a JSC rule (a) permitting the public offering of shares in private equity and venture capital	JSC										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		funds, and (b) setting out specialized rules for valuing the fund's portfolio holdings.											
Products	2.6.6	Based on the recommendations of the Products Team, the JSC drafts a legislative package enabling the use (a) "covered bonds" (to include "mortgage bonds") and, (b) securitizations.	JSC										
Mkt Ops	4.4.6	Require that all secondary trades in treasury securities be reported to the ASE/SDC system so that they can be reported to the market in a consolidated fashion	JSC / CBJ										
Products	2.6.9	Based on the recommendations of the Products Team, the JSC subsequently adopts regulations governing the specialized disclosure requirements relating to the offer and sale of covered bonds securitizations.	JSC										
Mkt Ops	2.7.1	Revise JSC regulations, as needed, to adopt risk based supervision	JSC										
Mkt Ops	2.7.2	Adopt new JSC risk based capital adequacy rule for market participants.	JSC										
Mkt Ops	2.7.3	Adopt a JSC rule requiring full parallel disclosure in English for all periodic reports and news releases by: (a) companies listed on the first tier of the ASE, (b) investment funds (including the proposed UITs and ETFs) held by more than a stated number of units or shares (the precise parameters to be established by the JSC after study)and (c) any company with more than a stated amount of securities holders and a stated amount of assets (the precise parameters to be established by the JSC after study).	JSC										
Mkt Ops	2.7.4	JSC adopts a rule requiring the ASE and SDC to provide full <b>parallel disclosure in English</b> for all data and information released to the public. This includes the contents of databases and the websites. It also includes all of the ASE's and SDC's organic documents establishing and controlling the institution, as well as all operating rules and guidance.	JSC										
Mkt Ops	2.7.5	Amend the <b>KYC rules</b> to allow Jordanian financial firms to rely on the regulated status of their client in its home jurisdiction, variable according to type of regulated entity or by host jurisdiction.	JSC										
Mkt Ops	2.7.6	Adopt JSC regulation on short selling and securities lending and borrowing	JSC										
Offerings	2.8.1	Adopt a JSC regulation enabling the concept of the "professional investor offering" defining, (1) the categories of persons and entities that can be classified as "professional investors" and (2) the limited offering process itself.	JSC										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Offerings	2.8.2	Adopt a JSC regulation enabling the concept of shelf registration for public offerings.	JSC										
Offerings	2.8.3	Adopt a JSC regulation enabling the concept of short form registration for public offerings.	JSC										
Investor Outreach	4.1.2	The market infrastructure institutions, led by the JSC, organize a review of the needed steps to regain Jordan’s MSCI’s emerging market ranking, and then to execute these steps.	JSC										
Outreach	5.1.1	Conduct a study on feasibility and timeline for JSC internal rule requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public.	JSC										
Outreach	5.1.2	The JSC adopts an internal rule requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public. This includes the contents of databases and its website.	JSC										
Outreach	5.1.3	Devise a format and system to engage more broadly and effectively with the private sector.	JSC										
Outreach	5.1.4	Conduct an annual rating of all subject companies creating and publishing a “corporate governance scorecard” for each, providing positive publicity for the best run companies and penalizing the noncompliant.	JSC										
Outreach	5.1.5	The CoM’s July decision to form a committee to examine the status of 30 distressed companies on the ASE and to distinguish between the viable firms which can be restructured and the nonviable ones which should be liquidated is fully implemented.	JSC										
Outreach	5.1.6	Create separate JSC department aimed at market development.	JSC										
RBS	5.2.1	Prior to adopting the new rules for risk based capital adequacy, conduct an analysis of the industry and the impact the new parameters can be expected to have.	JSC										
RBS	5.2.2	Revise JSC operating procedures and IT systems to adopt risk based supervision	JSC										
RBS	5.2.3	Move from a “compliance based” supervision system to a “risk based” system.	JSC										
RBS	5.2.5	Provide capacity building to JSC staff and market participants to enable introduction and application of risk based supervision	JSC										
Brokers	5.3.1	Lift the moratorium on granting new brokerage licenses.	JSC										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
Brokers	5.3.2	Suspend inactive brokerage firms.	JSC										
Brokers	5.3.3	Revoke licenses of firms that do not restart activity within a specified time.	JSC										
Brokers	5.3.4	Optimally, remove all minimum commissions.	JSC										
Brokers	5.3.5	At least, eliminate the minimum commissions on trades > 100,000 JOD.	JSC										
Brokers	5.3.6	Eliminate minimum fee for underwritings.	JSC										
Budget	5.5.1	In connection with revamping its budget, the JSC: <ul style="list-style-type: none"> <li>• Performs a complete review of its current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.</li> <li>• Revises its performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets</li> <li>• As part of its human capacity development program, devises a training schedule and professional education system geared to each position; this includes a training ladder applicable to all employees within their certain specialties.</li> <li>• Devises an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Conducts a self-assessment of its compliance with IOSCO's Objectives and Principles of Securities Regulation. This will help identify where operational improvements are needed.</li> <li>• Itemizes the expenses needed for expanded marketing, domestic and international.</li> </ul>	JSC										
Budget	5.5.2	Create a JSC project budget over 5 years that indicates its self-sufficiency	JSC										
Provident	5.6.1	Assess number, nature and scale of existing provident funds	JSC										
Capacity	5.7.1	Provide capacity building in understanding and supervising investment management, investment funds, investment trusteeship and custody.	JSC										
<b>Actions by Tax Team</b>													
Withholding	3.1.1	Undertake workshops on international taxation policy including withholding taxes on income or gains from shares, bonds or Sukuk distributed to domestic or foreign funds, individuals or companies.	Tax Team										
Withholding	3.1.2	Revise the tax withholding rules to exempt any foreign investor which can establish its tax exempt status in its home jurisdiction, according to rules	Tax Team										

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		established by the tax service.											
Inv. Funds	3.2.1	Establish eligibility criteria for tax transparency need to be established.	Tax Team										
Inv. Funds	3.2.2	Amend the tax code to provide tax transparency (exemption from profits tax) for eligible investment funds.	Tax Team										
<b>Actions by Securities Depository Center</b>													
Investor Outreach	4.1.1	The SDC prepares a due diligence package (in English) that contains (a) analysis of the SDCs compliance with Rule 17f-7, and (b) all of the relevant laws, regulations and operating rules, along with an analysis of its compliance with all applicable international standards. This due diligence package is be posted to the SDC’s website, and the chances for preparing a roadshow presentation are explored. All distribution channels are be explored.	SDC										
Investor Outreach	4.1.5	The SDC studies the feasibility of joining the Clearstream and Euroclear international networks.	SDC										
Mkt Ops	4.4.3	Introduce stock lending capacity to allow short sales, facilitate repos, allow market making, and enhance the settlement process.	SDC										
Mkt Ops	4.4.4	Combine the depository function for treasury securities, currently maintained at the CBJ, with the SDC function for corporate securities, thereby generating combined records that will support more types of financial transactions and use of securities for regulatory capital.	SDC /CBJ										
Mkt Ops	4.4.5	Process all treasury direct sales through the SDC.	SDC										
Mkt Ops	4.4.6	Process all secondary trades in treasury direct tenors through the SDC, whether they occur OTC or on the ASE.	SDC										
Mkt Ops	4.4.7	Put in place trading caps, institute VAR margining and bolster protection of the availability of the SGF	SDC										
<b>Actions by Amman Stock Exchange</b>													
Investor Outreach	4.1.3	The ASE and JSC continues with their project to buy / join the XBRL system for automatic translation of documents from Arabic to English. The interim approach of developing templates is continued.	ASE										
Investor Outreach	4.1.4	Provide documents created under the XBRL program to investors and the general public free of charge.	ASE										
Investor Outreach	4.1.6	Create a web-based “securities information center” that contains (1) real-time reports of all transactions, (2) description of all securities, (3)	ASE										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		description of all issuers, (4) copies of all periodic reports, (5) all relevant laws and regulations, and (6) prospectuses relating to public offerings. This operation covers all securities offered and traded in Jordan. All of the information posted on the site is in both Arabic and English.											
Investor Outreach	4.1.7	Determine where the securities information center function should be housed, at the JSC, ASE, or otherwise.	ASE										
Investor Outreach	4.1.8	Create educational material concerning the securities markets for the general public, to be offered within the high school and/or university system.	ASE										
Investor Outreach	4.1.9	Create a series of informational videos to be offered through the securities information center and internet sites that allow uploading files.	ASE										
Issuer Outreach	4.2.1	Form a cross-sectoral team to execute a "Issuer Outreach Program" and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations, all aimed at increasing participation by the issuers in the securities market.	ASE										
Issuer Outreach	4.2.1	After the impact of the reforms for venture capital and private equity funds is understood, the ASE undertakes a study of whether a special system for financing SMEs should be adopted within its electronic system.	ASE										
Mkt Ops	4.4.1	Connect all ASE members to its electronic system	ASE										
Mkt Ops	4.4.2	Expand online trading for the general public.	ASE										
Mkt Ops	4.4.3	Introduce short-sales	ASE										
<b>Joint Actions by Amman Stock Exchange and Securities Depository Center</b>													
Conversion	4.3.1	<p>The ASE's and SDC's managements separately:</p> <ul style="list-style-type: none"> <li>• Create a revised staffing organization and position responsibilities plan, matching this to proposed salary levels.</li> <li>• Create performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets.</li> <li>• Devise a training schedule and professional education system geared to each position.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Itemize expenses needed to meet international standards.</li> </ul>	ASE / SDC										



Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		<ul style="list-style-type: none"> <li>Itemizes the expenses needed for expanded marketing, domestic and international</li> <li>Create a projected budget demonstrating self-sufficiency.</li> </ul>											
Conversion	4.3.2	Complete review of compliance with applicable IOSCO Principles and CPSS-10 FMI Principles to determine needed upgrades.	ASE / SDC										
Conversion	4.3.3	Develop plan identifying optimal shareholding structure and future governance with implementation of membership rights	ASE										
<b>Actions by Product Team</b>													
Types	6.1.1	Recommend to JSC the contents of a regulation to define the types of securities that companies may issue, and the terms and conditions those securities may carry, including common shares, classic preferred shares, customized preferred share, classic corporate bonds, and customized corporate bonds.	Products Team										
Types	6.1.2	Devise the suggested parameters of categories of new products, suggest needed changes to JSC regulations to support them and create a roadmap manual outlining the steps needed to create and distribute those securities: investment funds, unit investment trusts, exchange traded funds, covered bonds, securitizations.	Products Team										
VC / PE	6.2.1	Advise JSC on how the <b>Limited Partnership and Trust legal forms</b> should be structured to enable venture capital, private equity and classic mutual funds to function properly.	Products Team										
VC / PE	6.2.2	Advise JSC on contents of a rule setting out specialized rules for valuing <b>VC / PE fund</b> portfolio holdings.	Products Team										
CBs / Sec	6.3.3	Engineer and introduce the concept of the <b>covered bonds and securitizations</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality	Products Team										
Funds	6.5.2	Advise the Tax Team on the objective criteria for qualification for <b>tax transparency</b> .	Products Team										
Funds	6.5.3	Conduct a comprehensive review the Company Law and Securities Law, and the implementing regulations, to ensure that they completely enable use of the <b>corporate and contractual plan forms</b> , as well as the new types of recommended funds.	Products Team										
Pilots	6.6.1	Engineer and introduce the product of a <b>government securities fund</b> ,	Products										

Capital Market Development Strategy and Roadmap for Jordan

Topic	Item	Action	Ownership	H1 2017	H2 2017	H1 2018	H2 2018	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
		addressing all of the required legal and regulatory framework and needed infrastructure functionality.	Team										
Pilots	6.6.2	Engineer and introduce the concept of the <b>Unit Investment Trust</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality. This will include a proposed safe-harbor rule recognizing that UITs are not 'managed' but are 'sponsored' and therefore the servicers of this type of fund do not need to be licensed as fund managers, but only to be a form of financial institution adequately regulated under the Jordanian law.	Products Team										
Pilots	6.6.3	Engineer and introduce the concept of the <b>Exchange Trade Fund</b> , addressing all of the required legal and regulatory framework and needed infrastructure functionality.	Products Team										
<b>Actions by the Central Bank of Jordan</b>													
Treasuries	6.4.1	The CBJ and MoF continues the treasury direct program and considers: (a) spacing the offerings over time, perhaps every 9 months; (b) offering shorter maturities; (c) offering the same tenor as outstanding bonds	CBJ										
Treasuries	6.4.3	Actively market Jordan's treasury securities to foreign investors	CBJ										
Treasuries	6.4.4	Require primary dealers to provide two way quotation prices	CBJ										
<b>Actions by the Ministry of Finance</b>													
Treasuries	6.4.2	Form a front office unit to project financing needs and make decisions on tenors to be offered based on that analysis, but with the view of consolidating the number of tenors and deepening the amount outstanding within the remaining maturities.	MoF										
<b>Actions by the Social Security Investment Fund</b>													
Products	2.6.8	Once new products are established, amend <b>social security investment fund</b> regulation to enable investment.	SSIF										
<b>Actions by the Insurance Commission</b>													
Products	2.6.7	Once new products are established, amend <b>insurance regulation</b> to enable investment.	IC										

*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

**C. Summary of Strategic Goals by Theme**

The following table sets out the action items required by the implementers according to theme.

**Table 12: Action Items by Theme**

	Action	Rationale	Responsible Entity
	<b>Increasing Investor Interest</b>		
1.	Demonstrate SDC's Eligibility under US SEC Rule 17f-7	The SDC should prepare a due diligence package (in English) that contains (a) analysis of the SDCs compliance with Rule 17f-7, and (b) all of the relevant laws, regulations and operating rules, along with an analysis of its compliance with all applicable international standards. This due diligence package should be posted to the SDC's website, and the chances for preparing a roadshow presentation should be explored. All distribution channels should be explored.	SDC
2.	Improve Jordan's MSCI Rating	The market infrastructure institutions, led by the JSC, should organize a review of the needed steps to regain Jordan's MSCI's emerging market ranking, and then to execute these steps.	JSC
3.	Provide Investor Access to Information in English	The ASE and JSC should continue with their project to buy / join the XBRL system for automatic translation of documents from Arabic to English. The interim approach of developing templates should be continued.	ASE / SDC
4.	Provide Investor Access to Information in English	Documents created under the XBRL program should be provided to investors and the general public free of charge.	ASE
5.	Provide Investor Access to Information in English	The JSC should adopt a rule requiring full parallel disclosure in English for all periodic reports and news releases by: (a) companies listed on the first tier of the ASE, (b) investment funds (including the proposed UITs and ETFs discussed below) held by more than a stated number of units or shares (the precise parameters to be established by the JSC after study)and (c) any company with more than a stated amount of securities holders and a stated amount of assets (the precise parameters to be established by the JSC after study).	JSC
6.	Provide Investor Access to Information in English	The JSC should adopt a rule requiring the ASE and SDC to provide full parallel disclosure in English for all data and information released to the public. This should include the contents of databases and the websites. It should also include all of the ASE's and SDC's organic documents establishing and controlling the institution, as well as all operating rules and guidance.	JSC
7.	Provide Investor Access to Information in English	The JSC should adopt an internal rule (or absent this the Securities Law should be amended) requiring full parallel disclosure in English for all applicable laws, regulations, guidelines, and information released to the public. This should include the contents of databases and its website.	JSC

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

	Action	Rationale	Responsible Entity
8.	Eliminate Tax Withholding for Tax Exempt Foreign Investors.	The tax withholding rules should be revised to exempt any foreign investor which can establish its tax exempt status in its home jurisdiction, according to rules established by the tax service.	Tax Team
9.	Adjust Know Your Customer Rules	The KYC rules should be amended to allow Jordanian financial firms to rely on the regulated status of their client in its home jurisdiction. Under this approach, if the investor client is a regulated entity, the KYC investigation may end there. This change of rules can be adjusted by type of regulated entity (brokerage, investment fund and so forth) or by host jurisdiction (for example, OECD countries)	JSC
10.	Establish Clearstream / Euroclear Linkages.	The SDC should study the feasibility of joining the Clearstream and Euroclear international networks.	SDC
	<b>Making the Market More Attractive to Issuers</b>		
11.	Define Permitted Securities Types and Their Characteristics	The JSC should adopt a regulation defining and greatly expanding the types of securities that companies may issue, and the terms and conditions those securities may carry.	JSC
12.	Create More Flexibility on Offering Modes	The JSC should adopt a regulation enabling the concept of the “professional investor offering”. This regulation should (1) define the categories of persons and entities that can be classified as “professional investors” and (2) define the limited offering process itself.	JSC
13.	Create More Attractive Registration Procedures	The JSC should devise regulations adopting the concept of shelf registration for public offerings.	JSC
14.	Create More Attractive Registration Procedures	The JSC should devise regulations adopting the concept of short form registration for public offerings.	JSC
15.	Outreach and Education for Potential Issuers	The ASE should form a cross-sectoral team to execute a “Issuer Outreach Program” and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations, all aimed at increasing participation by the issuers in the securities market.	ASE
16.	Enable Venture Capital and Private Equity Funding for SMEs	The tax code should be amended to exempt investment funds (meeting stated criteria established by the tax service) from the imposition of profits tax.	Tax Team
17.	Enable Venture Capital and Private Equity Funding for SMEs	The Companies Law should be amended to allow for the Limited Partnership legal form.	Legal Team

*Capital Market Development Strategy and Roadmap for Jordan*

	<b>Action</b>	<b>Rationale</b>	<b>Responsible Entity</b>
18.	Enable Venture Capital and Private Equity Funding for SMEs	The JSC should adopt rules (a) permitting the public offering of shares in private equity and venture capital funds, and (b) setting out specialized rules for valuing the fund's portfolio holdings.	JSC
19.	Enable Venture Capital and Private Equity Funding for SMEs	After the impact of the reforms for venture capital and private equity funds is understood, the ASE should undertake a study of whether a special system for financing SMEs should be adopted within its electronic system.	ASE
20.	Meet the Financing Needs of Financial Institutions	The JSC should draft a legislative package enabling the use (a) "covered bonds" (to include "mortgage bonds") and, (b) securitizations.	JSC
21.	Meet the Financing Needs of Financial Institutions	The JSC should subsequently adopt regulations governing the specialized disclosure requirements relating to the offer and sale of covered bonds securitizations.	JSC
	<b>Converting the ASE to a Private Sector Operation</b>		
22.	Corporatize the ASE	Complete the corporatization of the ASE, as preliminarily approved by the Cabinet of Ministers.	Cabinet
23.	Corporatize the ASE	Remove the ASE and SDC from the civil service system	Cabinet
24.	Corporatize the ASE	Take the ASE and SDC off budget and allow these institutions to reinvest surplus back into their operations.	Cabinet
25.	Corporatize the ASE	Allow the ASE and SDC management to determine their institutions' budgets.	Cabinet
26.	Corporatize the ASE	<p>The ASE's and SDC's managements should:</p> <ul style="list-style-type: none"> <li>• Create a revised staffing organization and position responsibilities plan, matching this to proposed salary levels.</li> <li>• Create performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets.</li> <li>• Devise a training schedule and professional education system geared to each position.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Itemize expenses needed to meet international standards.</li> <li>• Itemize the expenses needed for expanded marketing, domestic and international.</li> </ul>	ASE /SDC
27.	Upgrade the ASE's Operations	Connect all ASE members to its electronic system	ASE
28.	Upgrade the ASE's Operations	Expand online trading for the general public.	ASE

*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

	<b>Action</b>	<b>Rationale</b>	<b>Responsible Entity</b>
29.	Upgrade the ASE’s Operations	Introduce short-sales	ASE
30.	Expand the SDC’s Operations	Complete review of compliance with applicable IOSCO Principles and CPSS-10 FMI Principles to determine needed upgrades.	SDC
31.	Expand the SDC’s Operations	Introduce stock lending capacity to allow short sales, facilitate repos, allow market making, and enhance the settlement process.	SDC
32.	Expand the SDC’s Operations	Combine the depository function for treasury securities, currently maintained at the CBJ, with the SDC function for corporate securities, thereby generating combined records that will support more types of financial transactions and use of securities for regulatory capital.	SDC / CBJ
	<b>Making the Brokerage Industry More Competitive</b>		
33.	Open the Licensing Scheme	The moratorium on granting new licenses should be lifted.	JSC
34.	Open the Licensing Scheme	Inactive firms should be suspended.	JSC
35.	Open the Licensing Scheme	Firms that do not restart activity within a specified time should have their license revoked	JSC
36.	Remove Minimum Commissions	Optimally, all minimum commissions should be removed	JSC
37.	Remove Minimum Commissions	At least, the minimum commissions on trades > 100,000 JOD should be eliminated.	JSC
38.	Remove Minimum Commissions	There should be no minimum fee for underwritings.	JSC
	<b>Strengthening the JSC</b>		
39.	Revisit JSC Rule-Making Powers	Conduct a review of the Companies Law, Securities Law and all other laws touching on the development of the capital market to determine if adequate rule-making power has been granted the Commission.	JSC
40.	Revisit JSC Rule-Making Powers	As amendments to laws are drafted ensure that the Commission is granted specific rule-making power to implement.	CMWG
41.	Expand JSC Authorities and Responsibilities	Include in the Securities Law (or other law if more appropriate) JSC jurisdiction over Pillar III pension fund plans.	CMWG
42.	Expand JSC Authorities and	Fully implement the July Cabinet of Minister’s decision transferring authority over CG rules for	Cabinet

*Capital Market Development Strategy and Roadmap for Jordan*

	<b>Action</b>	<b>Rationale</b>	<b>Responsible Entity</b>
	Responsibilities	public companies from the Companies Controller to the JSC	
43.	Expand JSC Authorities and Responsibilities	Grant the JSC proper rule-making authority to exercise its jurisdiction.	Legal Team
44.	Expand JSC Authorities and Responsibilities	The JSC should determine which CG aspects shall be mandatory and which can be left to the “comply or explain” regime.	JSC
45.	Revise JSC’s Supervision Approach	The JSC should move from a “compliance based” supervision system to a “risk based” system.	JSC
46.	Revise JSC’s Supervision Approach	The JSC should create a separate department aimed at market development.	JSC
47.	Revise JSC’s Supervision Approach	The JSC needs to devise a format and system to engage more broadly and effectively with the private sector.	JSC
48.	Devote Adequate Budget	The JSC should be taken off of the civil service system	Cabinet
49.	Devote Adequate Budget	The JSC’s budget should take into account the upgrades and added functionality required under this Strategy	Cabinet
50.	Devote Adequate Budget	There should be a strong focus on allowing the JSC to retain its surplus and reinvest it back into its operations	Cabinet
51.	Devote Adequate Budget	<p>In connection with revamping its budget, the JSC should:</p> <ul style="list-style-type: none"> <li>• Perform a complete review of its current staffing organization, including job descriptions and position responsibilities, matching this to proposed salary levels.</li> <li>• Revise its performance evaluation systems to focus heavily on meeting specified goals and include the possibility of performance-based bonuses for meeting specific targets</li> <li>• As part of its human capacity development program, devise a training schedule and professional education system geared to each position; this should include a training ladder applicable to all employees within their certain specialties.</li> <li>• Devise an IT upgrade plan, specifying exact needs and costs, along with specified scheduling.</li> <li>• Conduct a self-assessment of its compliance with IOSCO’s Objectives and Principles of Securities Regulation. This will help identify where operational improvements are needed.</li> <li>• Itemize the expenses needed for expanded marketing, domestic and international.</li> </ul>	JSC
	<b>Providing More Attractive Investment Choices</b>		



*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

	Action	Rationale	Responsible Entity
52.	Create a Wider Range of Attractive Corporate Securities	The JSC should adopt a regulation defining and greatly expanding the types of securities that companies may issue, and the terms and conditions those securities may carry. These categories should include: <ul style="list-style-type: none"> <li>• Common shares</li> <li>• Classic preferred shares</li> <li>• Customized preferred shares</li> <li>• Classic corporate bonds</li> <li>• Customized corporate bonds</li> </ul>	JSC
53.	Provide Better Direct Access to Treasury Securities	The CBJ and MoF should continue the treasury direct program and consider: <ul style="list-style-type: none"> <li>(a) spacing the offerings over time, perhaps every 9 months;</li> <li>(b) offering shorter maturities;</li> <li>(c) offering the same tenor as outstanding bonds</li> </ul>	CBJ / MoF
54.	Provide Better Direct Access to Treasury Securities	All treasury direct sales should be processed through the SDC.	CBJ
55.	Provide Better Direct Access to Treasury Securities	All secondary trades in treasury direct tenors should be processed through the SDC, whether they occur OTC or on the ASE.	CBJ
56.	Provide Better Direct Access to Treasury Securities	All secondary trades in treasury securities should be reported to the ASE/SDC system so that they can be reported to the market in a consolidated fashion	JSC / CBJ
57.	Support Sukuk	Confirm that Securities Law and the Islamic Finance Law work seamlessly and there are no gaps or conflicts between the two, and that any unspecified matters have been addressed by JSC regulations.	JSC
58.	Support Sukuk	Confirm that there are no operational obstacles to servicing Sukuk.	JSC
59.	Enable Investment Funds	The Companies Law should be amended to create two types of legal forms: (a) the Limited Partnership, and (b) the Trust. Conforming amendments to the Securities Law should be adopted.	Legal Team
60.	Enable Investment Funds	The tax code should be amended to provide “tax transparency” (an exemption from profits tax) for qualifying investment funds.	Tax Team
61.	Enable Investment Funds	The tax service should establish objective criteria for qualification for tax transparency.	Tax Team
62.	Enable Investment Funds	The JSC should conduct a comprehensive review the Company Law and Securities Law, and the implementing regulations, to ensure that they completely enable use of the corporate and contractual plan forms, as well as the new types of recommended funds.	JSC

*Capital Market Development Strategy and Roadmap for Jordan*

	Action	Rationale	Responsible Entity
63.	Enable Investment Funds	The JSC should review and revise its regulations to enable the use of corporate and contractual plan forms.	JSC
64.	Enable Investment Funds	The market's public sector sponsors (JSC, ASE and SDC) teaming with the private sector, should engineer and introduce the product of a government securities fund, providing all of the required legal and regulatory framework and needed infrastructure functionality.	Product Team
65.	Enable Investment Funds	The market's public sector sponsors (JSC, ASE and SDC) teaming with the private sector, should engineer and introduce the concept of the Unit Investment Trust, providing all of the required legal and regulatory framework and needed infrastructure functionality. This will include a safe-harbor rule recognizing that UITs are not 'managed' but are 'sponsored' and therefore the servicers of this type of fund do not need to be licensed as fund managers, but only to be a form of financial institution adequately regulated under the Jordanian law.	Product Team
66.	Enable Investment Funds	The market sponsors, teaming with the private sector, should engineer and introduce the concept of the Exchange Trade Fund, providing all of the required legal and regulatory framework and needed infrastructure functionality.	Product Team
67.	Enable Covered Bonds and Securitizations	The market sponsors, teaming with the private sector, should engineer and introduce the concept of the covered bonds and securitizations, providing all of the required legal and regulatory framework and needed infrastructure functionality	Product Team
68.	Enable Covered Bonds and Securitizations	The JSC should devise a regulation governing the types of assets that may be pledged for covered bonds, or pooled for securitizations, that will be offered to the public.	JSC
69.	Develop the Yield Curve	The MoF should form a front office unit to project financing needs and make decisions on tenors to be offered based on that analysis.	MoF
70.	Develop the Yield Curve	The CBJ should actively market Jordan's treasury securities to foreign investors	CBJ
71.	Develop the Yield Curve	To facilitate this, linkages to Clearstream and/or Euroclear should be explored.	SDC
	<b>Building Credibility</b>		
72.	Improve Corporate Governance	The JSC should review the four sets of corporate governance rules to ensure they do not conflict or present gaps.	JSC
73.	Improve Corporate Governance	Authority for setting CG rules for public companies and their enforcement should be shifted from the Companies Controller to the JSC, as per the July Cabinet of Minister's decision (Item #6).	Cabinet
74.	Improve Corporate Governance	The JSC should review the current CG code as it relates to publicly-held companies to determine	JSC

*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

	Action	Rationale	Responsible Entity
		which aspects shall be made mandatory through JSC rules, and then to adopt such regulations	
75.	Improve Corporate Governance	The JSC should conduct an annual rating of all subject companies creating and publishing a “corporate governance scorecard” for each, providing positive publicity for the best run companies and penalizing the noncompliant.	JSC
76.	Restructure or Closing Poor Corporate Performers	The CoM’s July decision to form a committee to examine the status of 30 distressed companies on the ASE and to distinguish between the viable firms which can be restructured and the nonviable ones which would be liquidated should be fully implemented.	Cabinet
77.	Conduct a “Investor Outreach Program”	The ASE should form a cross-sectoral team to execute an “Issuer Outreach Program” and lead the outreach effort, including identifying target issuers, providing workshops and training, followed up by one-on-one consultations.	ASE
78.	Create a Securities Information Center	Create a web-based “securities information center” that would contain (1) real-time reports of all transactions, (2) description of all securities, (3) description of all issuers, (4) copies of all periodic reports, (5) all relevant laws and regulations, and (6) prospectuses relating to public offerings. This operation should cover all securities offered and traded in Jordan. All of the information posted on the site should be in both Arabic and English.	ASE / JSC
79.	Create a Securities Information Center	Determine where this function should be housed, at the JSC, ASE, or otherwise.	ASE / JSC
80.	Create Educational Materials for Web Dissemination	Create educational material concerning the securities markets for the general public, to be offered within the high school and/or university system.	ASE / JSC
81.	Create Educational Materials for Web Dissemination	Create a series of informational videos to be offered through the securities information center and internet sites that allow uploading files.	ASE / JSC

## VIII. ANNEXES

### ***Annex 1: July 2016 Cabinet of Minister's Decision***

The following is a translation of the Cabinet of Minister's July 2016 decision, issued in Arabic:

\* \* \* \*

H.E. the Chairman of Jordan Securities Commission,

The Cabinet has reviewed the EPC recommendations issued after their meeting on 28/6/2016 in which the EPC discussed the causes behind the declined performance of ASE and the proposed procedures were taken by JSC. Accordingly, the Cabinet has decided on 10/7/2016 the following:

1. Commission CBJ to advise their opinion regarding the recommendation to (1. Availing liquidity for ASE through encouraging banks to loosen their restrictions on the credit facilities related to bank's investment in ASE, 2. Reducing the cost of funding and increase the limits banks can invest in securities/limited liabilities shareholding companies) in coordination with JSC. It is also important to revise the regulations at CBJ with relevance to improving liquidity in ASE.
2. Commission JSC to coordinate with the Social Security Corporation to set the best mechanism to encourage banks, the SSIF and national saving funds to encourage institutional investment via mutual funds.
3. Commission MoF and CBJ to develop the bonds and Sukuk markets through the following actions:
  - a. Allocate a portion of the government bonds/bills for retail investors with listing and trading on the ASE.
  - b. Allocate a portion of the government Sukuk for retail investors with listing and trading on the ASE.
  - c. Register ownership book of bonds, bills and Sukuk in the SDC and trade them on ASE.
4. Commission the Minister of Finance to advise the ministry opinion on the recommendation to (introduce tax incentives for traders of financial securities and mutual funds as the current law doesn't provide tax incentives for founding investors and mutual funds. Currently retail investors enjoy such incentives which encourage retail investment and reduce the competitiveness of ASE. In comparison, regional exchanges attract institutional investors through various tax privileges and incentives).
5. Commission Ministry of Industry and Trade and JSC to expedite legal amendment of JSC Law and the Companies Law; the amendments of both laws shall be examined in tandem.
6. Advance executing the decisions of the Integrity and Anti-Corruption Royal Commission to transfer the supervision of public shareholding companies from the Companies Controller to JSC which will streamline reference agency and reduce burden on investors.
7. Advance the development of a law to allow financial services companies to trade in global markets.

8. Approve the restructuring of ASE and transform it into a company fully owned by the government.
9. Take necessary decisions required to list some of the government owned companies in ASE.
10. Establish a committee consisting of the Companies Controller, MoF, CBJ, and the Amman Chambers of Commerce and Industry to examine the status of the 30 distressed shareholding companies in ASE. The commission should come with recommendations to resolve the problems these companies with distinction between viable firms which can be restructure and nonviable ones, which would be liquidated.
11. Expedite enacting the Insolvency Law which bring a legal framework for restructuring distressed companies allowing them to keep their assets, continue being in business, and temporarily safeguard them from their creditors.
12. Commission the Ministry of Public Sector Development to study giving JSC and ASE independency to attract competent resources.
13. Commission JSC to take necessary steps to introduce new financial instruments such as futures and ETFs in addition to make JSC corporate governance code mandatory for companies listed in ASE.

The PM economic advisor should follow-up on the implementing of these decisions in coordination with Deputy PM and Minister of Industry and Trade.

Prime Minister of Jordan

**Annex 2: September 2016 Economic Policy Council Recommendations**

The following are the 13 recommendations issued by the by the Economic Policy Council (EPC) in September 2016 impacting, directly or indirectly, capital markets development in Jordan. There were 38 recommendations total.

<b>Item</b>	<b>Recommendation</b>	<b>Action Required</b>	<b>Executive Body</b>	<b>Monitoring Body</b>
2.	Central Bank of Jordan to increase its provisions for loan guarantee program for emerging companies (start-ups) from JOD 50 million to JOD 100 million.	The council of Central Bank of Jordan takes the decision	Central Bank of Jordan / Jordan Loan Guarantee Corporation	Prime Minister
7.	Establishment of an investment fund for private contributions (Private Equity) owned by banks worth JOD 150 million commercial banks and the amount of JOD 40 million Islamic banks.	A committee from four banks has been established and the establishment of the fund will be announced before the end of this year. The committee will put together the legal framework for the said fund.	Banks / Central Bank of Jordan	Prime Minister
11.	Converting Amman Stock Exchange into a public company	Jordan Securities Commission to study the available legal options (the existing law or through amending the draft of Securities Act that is presented to the Parliament)	Jordan Securities Commission	Prime Minister
12.	Expansion of electronic trading at the Amman Stock Exchange	Encourage the brokerage firms that have not adopted the electronic trading system (30 out of the 40 companies) to adopt the system	Jordan Securities Commission	Prime Minister
13.	Amending the Jordan Securities Commission Act and the Companies Act to give the Commission more powers to enable them to issue the necessary instructions for the new investment tools	Accelerate the adoption of the amended law and mark it as urgent. (when the discussion of the draft law by the House of Representatives , the government should make the necessary adjustments)	Jordan Securities Commission	Prime Minister
14.	Apply Corporate Governance on the public shareholding company with the transfer of the right of implementation from the Companies Control to the Jordan Securities Commission	Speed up the adoption of appropriate legislation (the Securities Commission Act and the Companies Act)	Jordan Securities Commission	Prime Minister
15.	Establishing and stimulating mutual investment funds and index funds (ETF)	Speed up the approval of the draft amended law and mark it as urgent	Jordan Securities Commission	Prime Minister
16.	Promote the issuance of savings bonds program	Work on targeting private individuals and specially the	Central Bank of	Prime Minister

Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Item	Recommendation	Action Required	Executive Body	Monitoring Body
	and educate the Jordanian diaspora about investment opportunity.	Jordanian diaspora in the issuance with dated 25/09/2016 and through: 1. Promote the issuance of savings bonds program to Jordanian diaspora in Arab Gulf states in particular. 2. Adopt a program for the promotion of these bonds in accordance with the where are the Jordanian diaspora ( Road Show)	Jordan/ Ministry of Finance	
17.	Expand the issuance of Islamic Sukuk and allocate a portion of it to include individuals	To allocate part of the Islamic Sukuk issuance to individuals in the future through the use of the web portal of the Central Bank for subscription and promotion	Central Bank of Jordan/ Ministry of Finance	Prime Minister
20.	Modifying the Companies law to allow for the establishment of investment funds	Add legal provision on Investment Limited Partnership in the Companies Act for the purposes of facilitating the establishment of companies and venture capital funds and give it the necessary incentives	Ministry of Industry & Trade Council of ministers Parliament	Ministry of Planning and International Cooperation
23.	Take into account granting tax cuts on start-ups investments when drafting the new income tax law	Add provision to the 2014 Income Tax Act to allow to deduct investments in emerging companies that are under 3 years from the taxable income	Ministry of finance Council of ministers Parliament	Ministry of Industry & Trade
33.	Accelerate the necessary legislations to implement the financial clearing system for the year 2016	Council of ministers approved the draft financial clearing system for the taxpayers for the year 2016	Ministry of Finance	Ministry of Finance
35.	Exempt Social Security Investment Fund and Jordan Securities Commission from the civil service system	Council of ministers decision	Ministry of Public Sector Development Prime minister	Ministry of Public Sector Development

### Annex 3: Studies Linking Capital Markets to Economic Growth

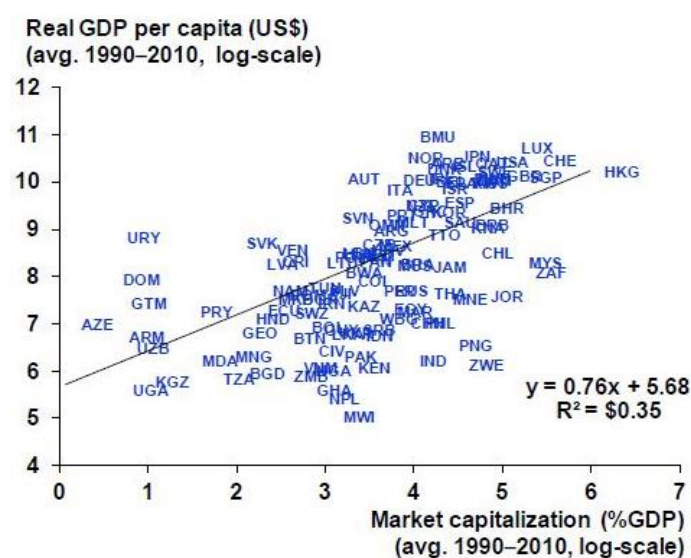
Many data studies have attempted to chart the links between developing capital markets and achieving macroeconomic goals. One of the key problems in this regard has been an academic dispute on what should be the relevant measures of CM development. There are many choices. For instance the World Bank financial development and structure database<sup>28</sup> considers a wide range of measures including: deposits, bank credit, liquid liabilities, net interest margin, bank concentration, life insurance and non-life insurance premium volumes, stock market capitalization, stock market total value traded, number of listed companies per 10,000 population, and the market capitalization of private and public bonds. In many cases these are considered as a ratio to GDP, which makes it possible to assess relative capital market strength partly irrespective of the size of the economy.

Although there are many measures, most of the studies look to market capitalization, which is the total market value of all shares (and bonds) listed on the public securities exchanges. It is usually measured in local currency and considered as a ratio of GDP.

#### Capital Market and GDP Growth

Most studies conclude that development of the capital market has a positive effect on GDP growth. The following scatterplot graph (also included in the main text of the Strategy) illustrates the strong correlation between capital market development (measured by market capitalization) and GDP per capita.

Figure 11: World Market Capitalization and GDP per capita



Source: Milken Institute, using data from World Bank Financial Development and Structure database.

Various aspects of this have been reviewed many times in the literature. One of the most notable studies shows that financial sector development predicts GDP growth and in particular total factor productivity.<sup>29</sup> Another study concludes that stock market liquidity (measured as the value

<sup>28</sup> Accessible via <http://data.worldbank.org/data-catalog/global-financial-development>.

<sup>29</sup> Neusser and Kugler (1998).



of trading in proportion of the market capitalization) is positively and robustly correlated with current and future rates of economic growth.<sup>30</sup>

### **Capital Market and FDI**

There has been increasing flow of foreign direct investment (FDI) to developing countries and attracting this is a key target of policymakers, including in Jordan. They believe FDI has positive effects in addition to the capital, including gains in productivity, technology transfers, and introducing new processes, managerial skills, know-how, training, international production networks and access to markets. However, lack of development of local financial institutions, including capital market, can limit a country’s ability to attract FDI and to make the most of it.<sup>31</sup> For example, local firms may need to raise finance in order to alter their everyday activities and reorganize, buy new machines and hire new skilled managers and labour. Lack of financial markets can constrain entrepreneurs, particularly when new technology brings the ability to tap export markets or for local companies to supply the new manufacturer.<sup>32</sup> “Absorptive capacities” identified by the World Bank including macroeconomic management, infrastructure and human capital.<sup>33</sup>

A study by authors Laura Alfaro, Areendam Chanda, Sebnem Kalemli-Ozcan and Selim Sayek in 2003 used many financial market variables to show “although FDI on its own plays an ambiguous role in contributing to economic growth, having well-developed financial markets alters the results significantly... Countries with well-developed financial markets seem to gain significantly more from FDI”. This is consistent with two other 2003 studies. The stock market data used is the value of stock market trading relative to the size of the economy (GDP) and the average value of listed domestic shares on the domestic exchange in a year as share of the GDP. The data covers approximately 50 countries and the period 1980-1995.

This is reinforced by the need to compete in a global race for foreign investments. FDI flows are drawn to countries with a stable and transparent economic system, including a functioning capital market (which may also help foreign investors augment their efforts with domestic capital). Net foreign portfolio investment (FPI) is also growing.

### **Capital Market and Access to Finance for Small Businesses**

Jordan 2025 has accurately identified MSMEs as a key driver of growth and employment. A World Bank report found SMEs provide more than 60% of employment in developing countries. They contribute 51% of GDP in high-income countries but only 16% in low-income countries, suggesting much room to grow. In most cases they find finance is a key constraint. Banks are the main source of finance, but loans must be repaid short-term, putting pressure on cash-flows and slowing growth. Banks also require collateral, which can be difficult.

Equity investors can be a better fit, whether family, friends, angels, venture capital investors, or specialist funds. Good equity investors add management and strategy, and build growth platforms by improving governance, operations and accounting.

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<sup>30</sup> Levine, Ross and Zervos (1998).

<sup>31</sup> This section draws on Alfaro and others (2004).

<sup>32</sup> Daewoo opened a textile plant in Bangladesh in 1979 and the textile export industry evolved in the early 1980s, from a labour force in the textile industry of 40 before 1979. Daewoo trained 130 Bangladeshi workers in Korea, and 115 eventually left to set up their own garment export plants, probably mostly financed through other domestic sources. Garment exports grew from \$55,000 in 1980 to \$2bn by 2000.

<sup>33</sup> World Bank (2001).

Two recent studies of SME financing, by World Bank and World Federation of Exchanges (WFE), looked into the efforts of regulated securities exchanges worldwide to support the financing of SMEs by creating specialist trading lists for them, often known as “SME boards” or “growth boards”.

Siobhan Cleary, Head of Research and Public Policy at WFE, says: “Regulators (whether the exchange or the securities regulator) in various jurisdictions have recognised the importance of reducing the cost for SMEs of accessing capital market financing. The trick is to find the balance where investors have what they need in order to make informed decisions and SMEs are still able to access capital markets in a cost effective manner. Transparency is central component of the listed environment as is flexibility”.

There are many examples of global success stories with SME boards. One of the most notable is the Korean Exchange (KRX), which has grown to be the world’s third biggest stock exchange for listing and trading SMEs and has subsidiary exchanges, KOSDAQ, KONEX and >koscom for technology companies.<sup>34</sup> KOSDAQ was launched in 1996, and provides funds for well-established SMEs and “technology-savvy” companies including information technology (IT), bio technology (BT) and cultural technology (CT). KONEX was launched in 2013 exclusively for SMEs and start-up companies to support their early-stage financing and development through the capital market. Government offers key incentives including tax, deregulation and other support. KOSDAQ and KONEX play a critical role in a virtuous circle of growth and investment. Typically venture capital (VC), angel investors and government (through policies as well as funds) invests into start-up companies. These grow to list on KONEX, where professional investors tend to invest in what have developed into start-up SME companies, and VC investors can take some funds out to re-invest into fresh start-ups. As the companies grow further, they can move to KOSDAQ where often non-professional investors may be interested as they have evolved into established SMEs, and the VCs can take more funds to reinvest into the earlier growth stages.

There are many efforts around the world to set up growth boards so that capital markets can boost investment and growth of SMEs. There are global success stories such as KRX and others where the growth board is proving slower than expected to show significant results. The lessons include:

- The regulatory structure for SMEs to use the capital market needs to be finely balanced and driven by the structures and constraints of that particular market.
- There should be well functioning institutions and intermediaries such as venture capital funds and angel investors who can add the necessary skills and other inputs to help SMEs to grow and make best use of the capital.
- Boosting SMEs through the capital market can lead to a virtuous circle in which the best advance to the main board on the capital market and the pioneer investors have more funds to invest in picking the next generation of SME growth winners.

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<sup>34</sup> Based on presentation by Honghee Shin, Executive Director of Korea Exchange, March 2016, World Exchanges Congress, London in March 2016

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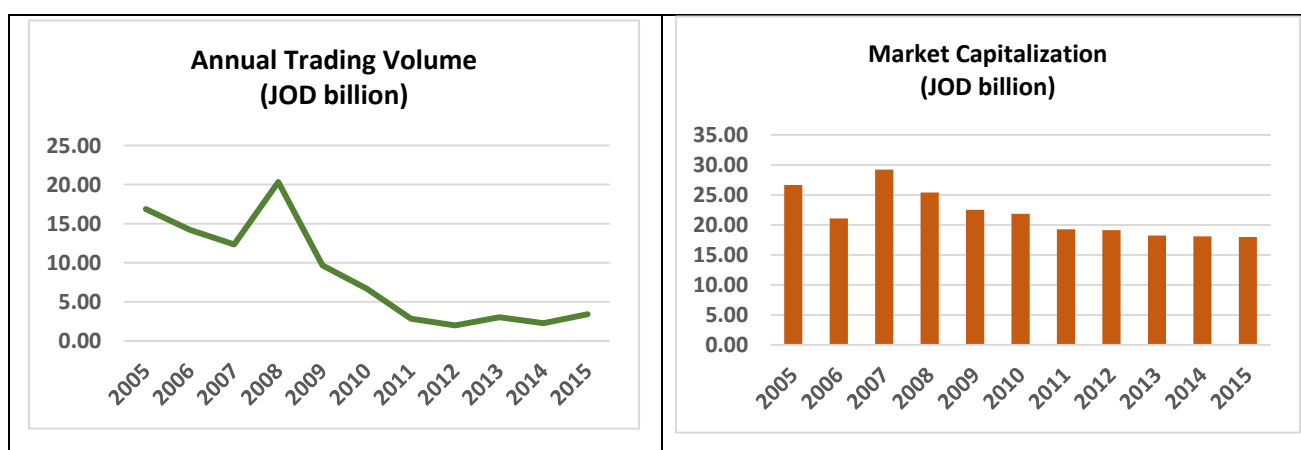
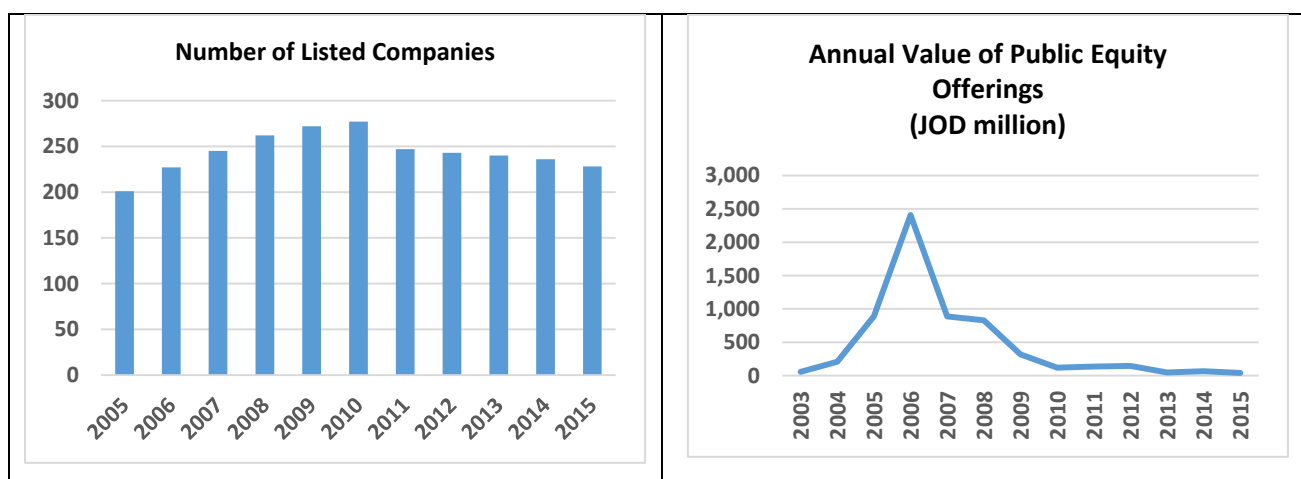
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Annex 4: Jordan's Securities Market Performance

Year	Number of Listed Companies	Total Value of Public Equity Offerings (JOD million)	Market Capitalization at Year-End (JOD billion)	Annual Trading Volume (JOD billion)
2003	161	56.16	na	1.86
2004	192	207.07	na	3.79
2005	201	888.83	26.67	16.87
2006	227	2,408.84	21.08	14.21
2007	245	885.77	29.21	12.35
2008	262	827.96	25.41	20.32
2009	272	317.32	22.53	9.67
2010	277	119.28	21.86	6.69
2011	247	136.67	19.27	2.85
2012	243	144.83	19.14	1.98
2013	240	45.98	18.23	3.03
2014	236	65.82	18.08	2.26
2015	228	40.55	17.98	3.42



**Annex 5: Benchmarking Data for Jordan**

In order to determine Jordan’s relative performance against its peers – in terms of its level of capital markets development and the connection to GDP improvement – we reviewed two sets of comparison data.

The first was the set of 13 ‘peer countries’ identified in Jordan 2025. Perhaps more accurately this is a set of countries that either are in fact peers or are better described as role models for Jordan. Using the metrics described in Annex 3 the data is as follows.

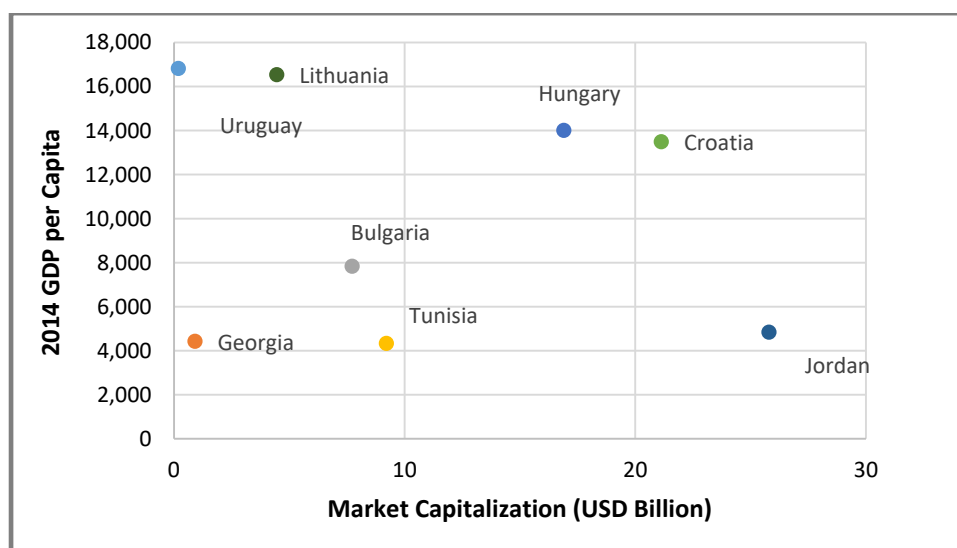
**Table 13: Performance Relative to Jordan 2025 Peers Countries**

	GDP 2014 (USD bill.)	Population 2014 (mill.)	GDP per Capita 2014 (USD)		Market Capitalization (USD bill.)	Market Capitalization per Capita (USD)	Market Cap as a % of GDP
Uruguay	57.24	3.40	16,814		0.195	57	0.3%
Georgia	16.51	3.73	4,428		0.915	245	5.54%
Lithuania	48.47	2.93	16,531		4.459	1,521	9.2%
Bulgaria	56.72	7.24	7,836		7.730	1,068	13.6%
Tunisia	47.60	11.00	4,328		9.216	838	19.4%
Hungary	138.35	9.88	14,007		16.906	1,712	12.2%
Croatia	57.17	4.24	13,490		21.130	4,986	37.0%
Jordan	35.88	7.42	4,838		25.803	3,479	71.9%
Finland	272.90	5.45	50,063		156.151	28,646	57.2%
Ireland	256.27	4.61	55,590		161.041	34,933	62.8%
Singapore	306.37	5.47	56,007		741.139	135,492	241.9%
Switzerland	701.22	8.14	86,145		1,531.75	188,176	218.4%

However, depicting the data graphically is problematic as the range of the data is significant and the distribution binodal. Switzerland and Singapore are outliers and there is a strong clustering near the nil end of the axes.

Removing the largest 4 peers, and comparing market capitalization to GDP per capita the results are as follows:

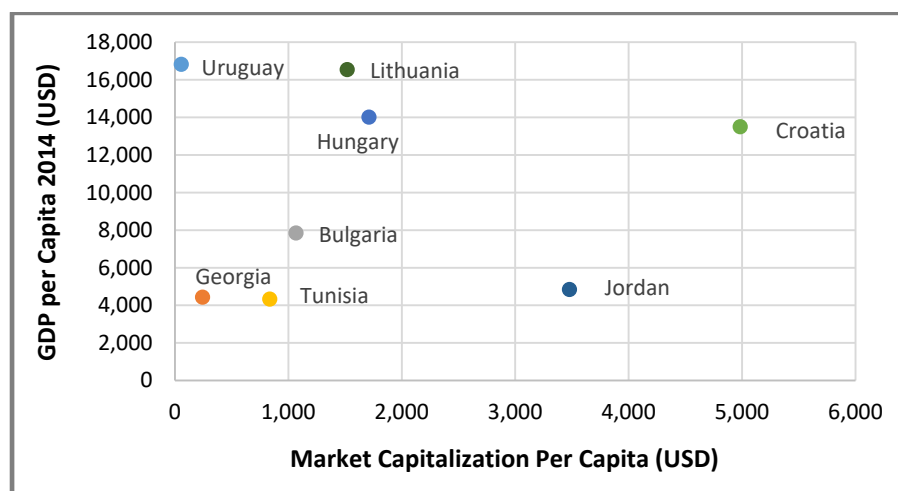
**Figure 12: Comparison to Vision 2025 Peers – Mkt Cap to GDP per Capita**



There are two concerns with the depiction. First the sample is not large enough to provide meaningful comparison. Second the linear trendline when inserted is actually declining. This too calls into question the size of the comparator class.

That said the scatterplot indicates a somewhat surprising message: Jordan's market is large in valuation compared to its peers, but it is not being rewarded with a bigger GDP per capita. The message is reinforced when comparing market size (market cap) per capita to GDP per capita.

Figure 13: Comparison to Vision 2025 Peers – Mkt Cap per Capita to GDP per Capita



Again, Jordan compares well in terms of size of the market, but not so well in terms of the size of the economy.

To obtain a better sample set we compared Jordan's capital market to 14 other countries with similar sized GDPs. The comparator countries were drawn from all over the world.

Table 14: Performance Relative to Similar Sized GDPs

	GDP 2014 (USD billion)	Population 2014	GDP per Capita 2014	Market Cap (USD billion)	Market Cap per Capita
Estonia	26.53	1,316,000	20,157	2.25	1,707
Zambia	27.14	15,721,000	1,726	3.74	238
Trinidad and Tobago	27.27	1,351,000	20,184	17.78	13,164
Uganda	27.52	38,728,000	711	8.55	221
Paraguay	30.88	6,657,000	4,639	1.18	178
Latvia	31.30	2,001,000	15,644	1.166	584
Bolivia	33.24	10,562,000	3,147	5	500
Bahrain	33.38	1,268,000	26,326	21.54	16,985
Jordan	35.88	7,416,000	4,838	25.80	3,479
Ghana	38.61	26,216,000	1,473	2.88	110
Serbia	44.21	7,132,000	6,199	7.84	1,099
Tunisia	47.60	10,998,000	4,329	9.23	838
Tanzania	48.26	46,744,000	1,032	2.09	45
Lithuania	48.47	2,932,000	16,531	4.46	1,521
Panama	49.17	3,928,000	12,517	15.13	3,853

The enlargement of the sample set restored the trendline to the expected slope. But the overall message remains the same. Whether speaking in terms of overall market cap to GDP per capita



or in terms of market cap per capita to GDP per capita, the data indicate that Jordan – compared to its size peers – has achieved a relatively larger capital market but not a larger GDP result. The correlations found in the numerous studies discussed in Annex 3 do not seem to apply in Jordan’s case. And, it is important to understand why.

Figure 14: Comparison to GDP Size 2025 Peers – Mkt Cap to GDP per Capita

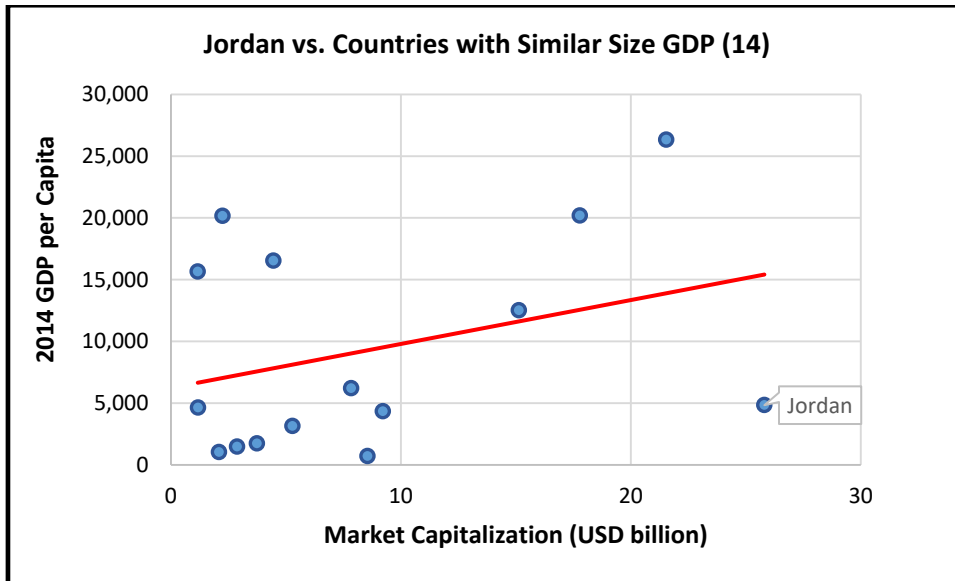
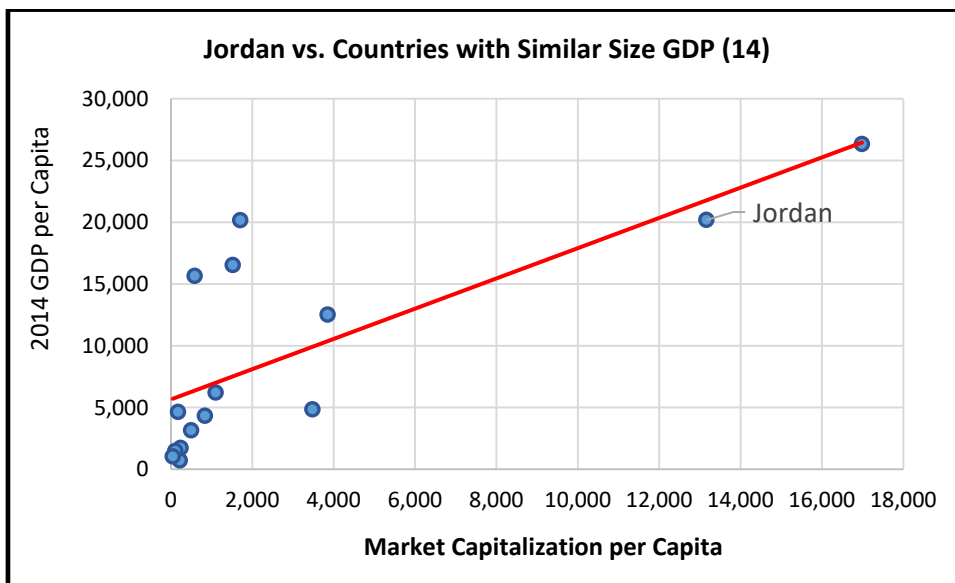


Figure 15: Comparison to GDP Size peers – Mkt Cap per Capita to GDP per Capita



## Annex 6: Application of US SEC 7f-7 to the SDC

### Why US SEC Rule 17f-7 Impacts Jordan

While the rationale may not be readily apparent, Jordan's ability to attract foreign investment is significantly impacted by the Securities Depository Centre's ability to be "certified" under the US Securities and Exchange Commission's Rule 17f-7. This rule is part of the SEC's overall regulation of investment funds under the Investment Company Act of 1940 (1940 Act).

Section 17(f) of the 1940 Act sets out the requirements for publicly-held US investment companies wishing to invest their monies in foreign markets. Under the Section, US funds may not invest in any country that does not have an "eligible foreign securities depository" that will be the record-keeper for the fund's ownership positions. In other words, in order for a US fund to invest in a foreign country, that country must have a securities depository that meets the requirements of Section 17(f). SEC Rule 17f-7 specifies the detailed requirements a depository must meet in order to be an "eligible depository".<sup>35</sup>

*Thus, in order for publicly-held US investment funds to invest in Jordan, the SDC must qualify under Rule 17f-7. Just as importantly, this requirement has impacts for investment from other sources. Although the EU does not possess a rule as specifically focused as 17f-7, many funds within the Member States view a 17f-7 certification as a stamp of approval and require it as a precondition for investing in that foreign market. It should be emphasized that this is a risk management business practice as opposed to a legal requirement. This risk management and good governance practice is also followed by some privately-held funds. Thus the SDC's eligibility under 17f-7 has direct impact on the legal ability of US funds to come to Jordan and indirect impact on the willingness of EU and other funds to enter this market.*

### Certification Process

Up until recently, a depository wishing to be certified as an eligible foreign depository applied for a so-called "no-action ruling" from the SEC staff. In essence, the application letter stated the depository's qualifications and asked the SEC staff to state that if the depository was used by the US investment fund this would not result in the SEC bringing legal action for violation of Section 17(f). The application letter was accompanied by an extensive "due diligence" file containing not only all of the applicable foreign laws, regulations and depository operating rules, but also analyses of the depository's compliance with applicable international standards.

Although this certification process may seem backhanded, it was used for decades and relied upon by all of the investment funds in the US. However, recently the process has changed. Instead of the SEC staff issuing the "certification", that responsibility falls on the Board of Directors for the investment fund. The Board must conduct its own due diligence to determine a depository's eligibility. This requires extensive investigation by the fund, even prior to taking the decision to invest.

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<sup>35</sup> This requirement for an "eligible foreign depository" should not be confused by parallel requirements for an "eligible foreign custodian". Depositories (acting as registrars) are the record-keepers for the ownership position. Custodians are the local entities holding the ownership on behalf of the foreign investor. The ownership is placed in the trusted hands of the custodian, and that ownership is recorded at the depository. Rule 17f-5 applies to "eligible foreign custodians".

It appears that Jordan possesses two eligible custodians, Standard Chartered Bank and Bank of Jordan, who are members of internationally recognized global custodial networks. Thus 17f-5 eligibility does not appear to be an issue.

### **The Resulting Burden on the SDC**

Under this new ‘certification’ approach, countries seeking foreign investment within the keenly competitive global environment cannot sit idly by waiting for a foreign fund to become interested in its market, decide to undertake the timely and costly due diligence process and then approach the foreign market unilaterally. Instead this requires proactive outreach by the country’s market sponsors and the depository specifically.

In order to assist foreign funds in deciding to come to Jordan, it is advisable that the SDC prepare the same type of due diligence package that otherwise would have been presented to the US SEC. This package must contain all of the relevant laws, regulations and operating rules, along with an analysis of the SDC’s compliance with the relevant IOSCO Principles, Group of Thirty Recommendations and the more current CPSS-10 Principles for Financial Market Infrastructure, and its responses to the annual Questionnaire from the Association of Global Custodians. It would be advantageous if its rating from Thomas Murray (currently private) could be made public.

This due diligence package should be posted to the SDC’s website, and the chances for preparing a roadshow presentation should be explored. It should be emphasized that the distribution of this due diligence material should be as widespread and through as many channels as possible.

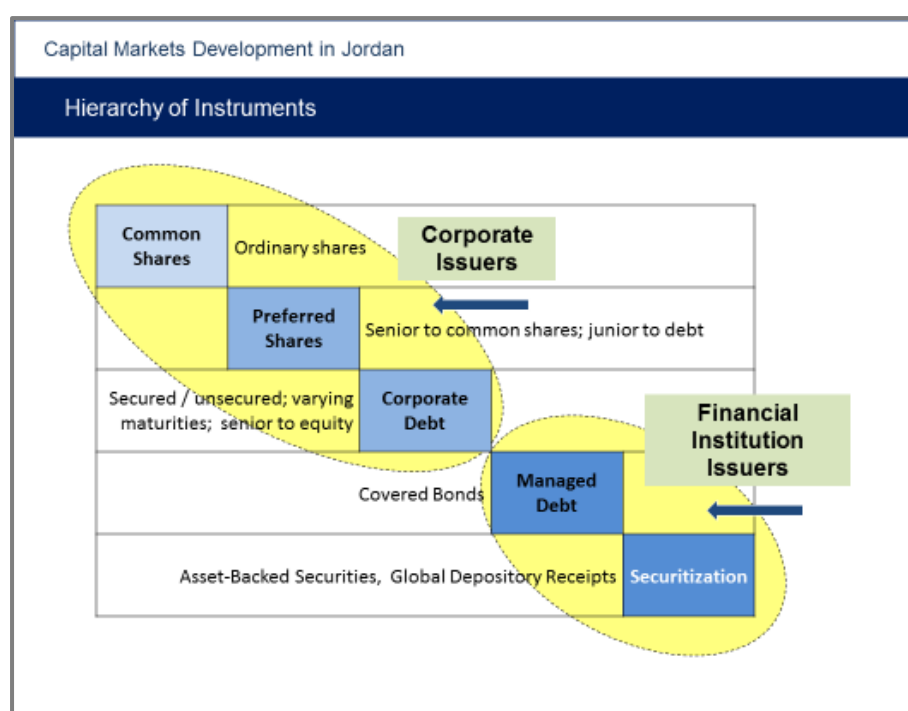
### Annex 7: Characteristics of Corporate Securities

As the JSC devises the regulations specifying the types and characteristics of corporate securities it should consider the following points as part of implementing this Strategy.

176. For Jordan, 5 categories of securities are currently possible for development and use. Two of these categories are in use, but need further elaboration. Three additional categories can be introduced into this market.

177. Whether these types of securities are in fact issued within the Jordanian market depends on (1) the business drivers for the potential issuers and (2) the demand by (interest of) investors. While these private sector forces cannot be controlled by the JSC (and it should not attempt to do so), the JSC must enable these securities categories in a clear manner, with an eye towards creating flexibility for issuers, while meeting the needs of investors. These categories fall along a continuum in terms of their complexity and level of regulatory risk.

Figure 16: Hierarchy of Securities



This Annex describes the types of Corporate Securities available for Jordan. For a discussion of Covered Bond and Securitizations please see Annex 11.

#### Common Shares

Characteristics. Common shares are the bedrock ownership equity in any corporate form enterprise. Their characteristics do not vary widely among jurisdictions. Jordan's Company Law sets out the basic parameters of common shares and there is no need to deviate significantly within the JSC regulations. Common shares represent equity ownership in a company. They are issued in shares, with the nominal value set in JOD. While the financial parameters for preferred shares and debt securities can be set in foreign currency (please see below) this should be avoided for common shares as it creates significant financial reporting difficulties. Nominal value and dividends should be set in JOD.

#### Preferred Shares

**Characteristics.** Preferred shares can be enabled within the JSC’s regulations to offer significant flexibility on terms; this should make preferred shares adaptable to almost any business situation. For Jordan, the task should be to define the choices of terms within the JSC regulations, then to allow the precise terms to be set in the company’s charter. Basic investor protection aspects – such as voting rights upon default of dividend payment – should be established in the regulation to prevent dilution.

The nominal value for preferred shares should be set in JOD. Allowing this to be set in foreign currency will require resetting of the “stated capital” versus the “surplus capital” of the preferred shares at each reporting period. This adds unnecessary confusion to the balance sheet.

The amount of the dividend for classic preferred shares should be set in JOD. For customized preferred shares, this can be set in foreign currency - but it exposes the company to currency translation risk. If the funding raised through the sale of preferred shares is designed to finance foreign operations, this aspect may well result in matching revenues to dividend obligations.

Seniority of the preferred shares over the rights of the common shares is a basic differentiation of these two classes. The JSC regulations should not allow this seniority of claims to be disturbed.

The dividend can be “cumulative” or “noncumulative”. Cumulative dividends accrue to the right of the shareholder even if not paid. If the dividend is noncumulative and the company fails to make the payment for any particular period then the shareholder’s right is forfeited. However, in this case no dividends can be paid on common shares. Best international practice is also to provide that if the dividend is not paid for a specified period then the preferred shareholders achieve voting rights, including the right to liquidate the company. The JSC’s rules should incorporate these principles.

Preferred shares may be allowed to “participate” in profits. They may also carry the right of the shareholder to “put” the shares back to the company at a defined price and within certain time limits, or for the company to “call” (repurchase) the shares. Lastly, they may carry conversion rights allowing the holder to convert the shares into specified corporate debt or common shares. All of these optional features should be allowed under the JSC regulations.

**Table 15: Aspects of Classic and Customized Preferred Shares**

Comparison of Classic and Customized Preferred Shares		
Elements	Classic Preferred	Customized Preferred
<b>Category:</b>	Equity Security	
<b>Units:</b>	Shares	
<b>Nominal value:</b>	In JOD	
<b>Seniority:</b>	Senior to Common Shares. Junior to all Debt	
<b>Dividends:</b>	In JOD	In foreign currency; Cumulative or non-cumulative; Participating in profits
<b>Voting Rights:</b>	Voting rights upon failure to pay dividend for specified time.	Liquidation voting rights upon failure to pay dividend for specified period
<b>Other Rights:</b>	None	Puttable / callable; Conversion
<b>Accounting Treatment for Issuer Upon Issuance:</b>	Cash increases; improves Debt to Equity ratio	
<b>Tax Treatment of Payments from Issuer:</b>	Non-deductible	
<b>Tax Treatment of Payments to Recipient:</b>	Income to recipient exempt from tax	

**Business Drivers.** The key advantage to issuing preferred shares is that it increases the equity capital of the company without impacting voting. Preferred shares do not present “loss of control” issues for the main owners of the company. This aspect may prove a key consideration for Jordan.

Companies that issue preferred shares publicly – just as all issuers of public securities – should still have the disclosure and transparency obligations of reporting companies. Issuing preferred shares, as opposed to issuing common shares, does not allow the company to escape the transparency obligation.

Issuing preferred shares also improves the debt to equity (D/E) ratio for the company.

The main disadvantage to issuing preferred shares is that dividends paid are not a tax deductible expense for the issuer as they represent a return on capital. Thus, as compared to corporate debt, preferred shares are more expensive capital. For Jordan – with varying corporate tax rates – the dividend rate on preferred shares will be the applicable percentage more expensive than corporate debt interest service. However, in cases where the company has hit its D/E limit, it may have no choice but to pay the market dividend and incur the higher net financing costs.

**Investor Drivers.** From the investor’s perspective, part of the comparison of preferred shares to corporate bonds depends on the tax treatment of preferred share dividends as opposed to debt interest payments. For Jordan, with no taxation on dividends or interest for natural persons, this is not applicable. For legal persons receiving dividends the applicable differential is the income tax rate.

### **Corporate Bonds**

**Characteristics.** The minimal terms and conditions for corporate bonds existing within the Company Law must be honored within the JSC regulations, with additional clarification.

Best international practice is for the interests of the bondholders to be overseen and protected by a “bondholders’ representative”. This needs to be further developed within the JSC regulations. Also, imposing negative or positive covenants on issuers of corporate debt needs to be allowed and embedded in the JSC’s enabling rules.

Unlike preferred shares, corporate debt can be denominated in foreign currency. There is also variation in how the interest payments may be defined: (1) interest can be denominated and paid in foreign currency or denominated in foreign currency but paid in JOD, and (2) the required interest payment can be variable, based on a benchmark rate or index.

Like preferred shares, corporate bonds may carry a “put” right or be “callable”. They may carry conversion rights. However, they usually do not participate in profits as the relationship of the bondholders is “creditor / debtor”.

Table 16: Aspects of Classic and Customized Corporate Bonds

COMPARISON OF CLASSIC AND CUSTOMIZED BONDS		
Elements	Classic Bonds	Customized Bonds
Category:	Debt Security	
Units:	Bond	
Face Value of Units:	In JOD	In JOD or In foreign currency
Seniority:	Senior to all Equity	
Interest Payments:	In JOD	In JOD or Denominated In foreign currency, but payable in JOD Payable in foreign currency Variable rate
Collateral	Secured and unsecured	
Voting rights	No voting rights	
Other Rights:		Putable / callable convertibility
Accounting Treatment for Issuer Upon Issuance:	Cash increases; long-term liabilities increases	
Tax Treatment of Payments from Issuer:	Interest payments tax deductible	
Tax Treatment of Payments to Recipient	Mo Tax for natural persons Taxed for legal entities as income at variable percentages	

**Business Drivers.** Corporate bonds are usually used to increase the “leverage” or “gearing” of profits for the owners. The success of the gearing depends on the increased profitability of the company compared to the cost of the debt.

Because interest paid is a tax deductible expense, corporate bonds have an advantage over preferred shares as a funding technique. There are, of course, prudential limits to a company’s permitted D/E ratio.

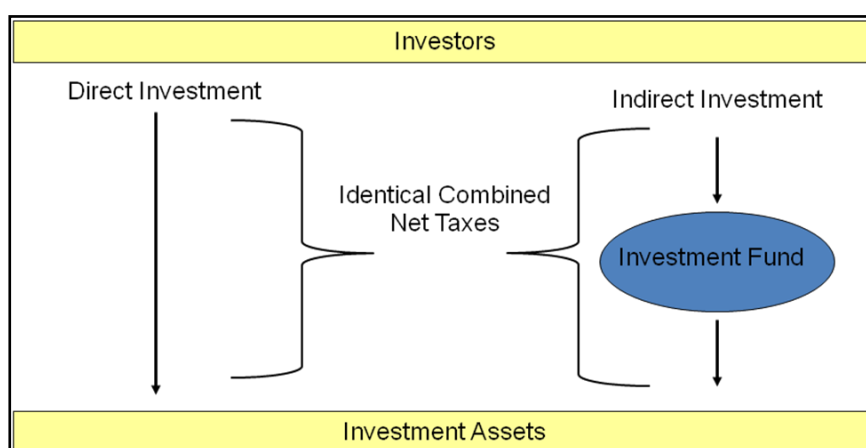
**Investor Drivers.** From the investor’s perspective, part of the comparison of preferred shares to corporate bonds depends on the tax treatment of preferred share dividends as opposed to debt interest payments. Again, for Jordan, with no taxation on dividends or interest for natural persons, this is not applicable. For legal persons receiving dividends the applicable differential is the income tax rate.

## Annex 8: Tax Issues for Investment Funds

### Eliminating Double Taxation

In order to expect the investment fund industry to develop in Jordan, some changes to the tax legislation will be required. Without these there will be a disincentive to use investment funds as they will be more expensive from a tax perspective than direct investment in securities.<sup>36</sup> To achieve this “level playing field” the investment funds must be treated as “tax transparent”.

Figure 17: Optimal Taxation of Direct vs. Indirect Investments



Essentially, tax transparency means that the fund does not pay profits tax on its income (in the form of interest and/or dividends received) or on gains from sales of securities. Instead the shareholders in the fund pay tax when they receive distributions from the fund and/or sell their shares. Without this tax transparency two undesirable results occur for Jordan

- Domestic natural persons pay tax on income that would normally be exempt for direct investments
- Domestic legal entities are taxed twice – once at the fund level and then again upon receipt of distributions. In contrast the direct legal entity investor (that buys the security directly for its own account) pays tax only once.

The question then becomes what circumstances and limitations should be applied in this regard. In other markets, the most frequent limitation imposed for tax exemption does not refer to whether the fund is publicly or privately held but instead the nature of the portfolio. Stated another way, in order to qualify for the exemption the investment fund’s portfolio must be widely diversified and the fund itself should not participate in management of the portfolio companies. Some examples for consideration include:

- The fund shall not hold more than 10% of any class of security;
- The fund shall not invest more than 5% of its assets in any one security; and
- The fund shall not hold more than 10% of its assets in securities issued by any one issuer.

While most persons understand the diversification rules to be an investor protection mechanism (and they are) the rules were originally introduced to protect the tax base. Were the

<sup>36</sup> This disincentive extends not only to domestic investors but also to foreign investors who have a high expectation that their returns will not be taxed at the fund level.

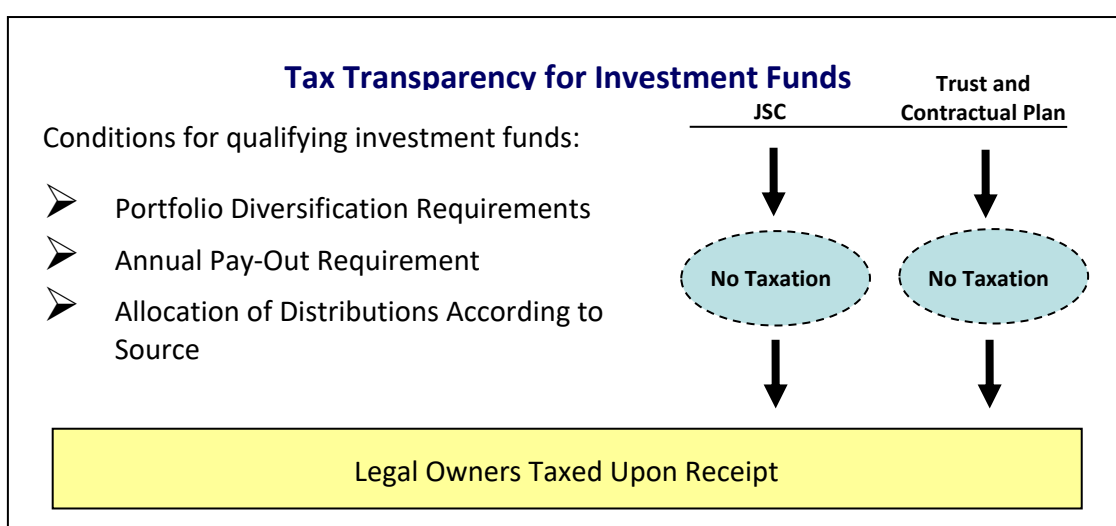


diversification rules not in place any real sector company could convert to holding company form, claim ‘investment fund’ status and then claim the exemption. Not only would this pervert the concept of investment funds it would erode the taxable base. Thus limiting the tax exemption to diversified funds (which due to this limitation cannot control their portfolio companies) helps ensure that tax transparency is properly applied.<sup>37</sup>

Another requirement for the tax exemption is that the fund shall pay out its investment income at least annually. This is designed to match the accrual of taxable income to the payment of taxes on such. Otherwise taxable income could accrue within the fund, be retained and no taxes paid upon it, to the disadvantage of the tax base.

A third common requirement is that distributions be classified by their source origin. The reason is that there are several types of tax liabilities depending on the nature of the passive income. And this will remain true for Jordan even if it adopts the other recommendations to the tax policy.

Figure 18: Conditions for Tax Exemption for Investment Funds



In summary, Jordan’s tax policy should be revised to provide an exemption from the profits tax for investment funds (both privately and publicly held) if they: (a) meet defined diversification rules, (b) make payouts at least annually, and (c) categorize the payments as to source origin. If this is achieved, the disadvantageous taxation for investment funds will be eliminated for **Classic Investment Funds**, investing in corporate equities and bonds, and **Unit Investment Trusts**.

The question remains how government bonds funds should be approached. Technically under the above diversification requirements a government bond fund invests all of its assets in the securities of one issuer and thus would not be eligible for tax transparency. But in the case of the treasury the default risk is considered zero, and the fund cannot control the management of the MoF. Thus, the policy drivers for these requirements are absent. **Government bonds funds** should be exempted from the issuer concentration rule and treated as tax transparent.

A further policy issue to be decided is the tax treatment of **venture capital and private equity funds**. In developed markets, VC and PE funds are treated as tax transparent, not by tax code exemption but because of the legal form they adopt. Most often this is the Limited Partnership

<sup>37</sup> An example of the diversification rules are at the U.S. Tax Code, Subchapter M appearing at Title 26 United States Code §861 *et. seq.* A user friendly site for Tax Code sections is <http://vlex.com/source/us-code-internal-revenue-code-1025/toc/01.01.13>

format. Funds formed with a General Partner along with numerous Limited Partners are not taxed as legal entities. Instead they are viewed as “pass through entities’. The income to the LP is deemed to be the income of the individual partners, with income tax paid by them *regardless of whether the partnerships incomes is indeed distributed to them*. Thus, for Jordan, there are two alternatives (1) create a tax exemption for funds operating as VC or PE (with qualification requirements to be determined), or (2) as the GP/LP entity form is adopted under this Strategy specify that all GP/LPs shall be tax exempt.

### **Tax Administration Issues**

Since investment funds are regard as tax transparent, persons paying income to the fund should not be required to withhold tax on behalf of the fund. If withholding takes place (such as when banks withhold taxes on interest paid), the fund should be able to reclaim the withheld amounts. If withholding is required (or occurs without the chance for the fund to reclaim), and there is no chance for reclaim, then the fund will not be in fact tax transparent.

For **classic funds and UITs**, income taxes should be paid by the investors according to the amount distributed. For **VC and PE funds**, tax should be paid on the amount of the income to the fund, regardless of whether it is in fact distributed.

Because the Jordan tax code taxes different types of income differently, Jordanian investment funds must account for the types of income they receive. Distributions made to investors should be reported to the tax service and investors based on the various types of income received. That is to say that the composition of the distribution should be specified by its components of origin.

The investment fund should act as the tax agent. It should calculate the withholding according to (1) the source make-up of the distribution and (2) the category of the taxpayer (natural person or legal entity) and remit to the proper amount to the tax service. The net amount should be forwarded to the investor.<sup>38</sup> The taxpayer should be able to reclaim against the withheld amount if its overall tax liability is less than the paid amount.

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<sup>38</sup> While it is true that in the U.S., for example, the fund only notifies the tax service but does not withhold and pay, the level of tax compliance in Armenia does not make that approach advisable.

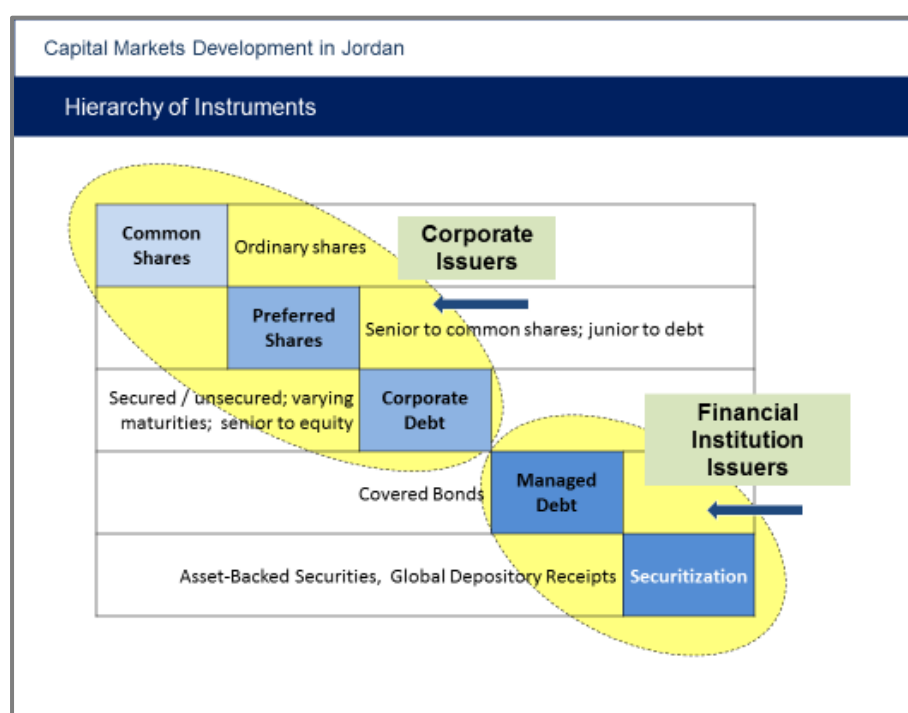
### Annex 9: Characteristics of Covered Bonds and Securitizations

As the JSC devises the regulations specifying the types and characteristics of corporate securities it should consider the following points as part of implementing this Strategy.

For Jordan, 5 categories of securities are currently possible for development and use. Two of these categories are in use, but need further elaboration. Three additional categories can be introduced into this market.

Whether these types of securities are in fact issued within the Jordanian market depends on (1) the business drivers for the potential issuers and (2) the demand by (interest of) investors. While these private sector forces cannot be controlled by the JSC (and it should not attempt to do so), the JSC must enable these securities categories in a clear manner, with an eye towards creating flexibility for issuers, while meeting the needs of investors. These categories fall along a continuum in terms of their complexity and level of regulatory risk.

Figure 19: Hierarchy of Securities



This Annex describes the latter two categories - Covered bonds and Securitizations - available for Jordan. For a discussion of Corporate Securities please see Annex 9.

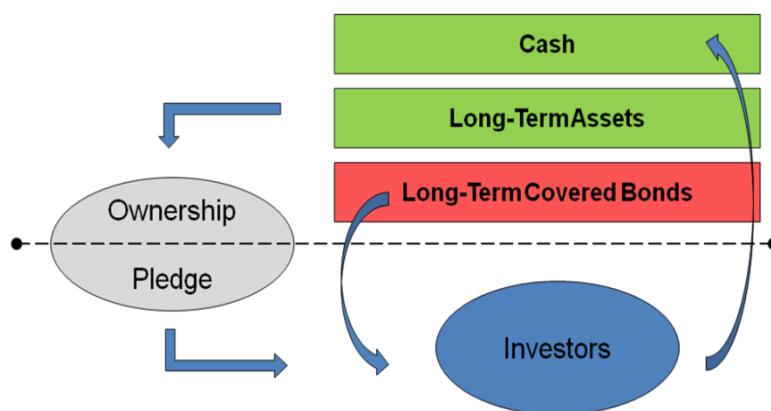
#### Covered Bonds

**Characteristics.** Covered bonds are identical to secured corporate bonds except with regard to the structure and operation of the collateral. Covered bonds are secured by a group of assets with maturities equal to or longer than the maturity of the covered bond. Thus the bonds are secured by a pool of like assets, not a single property.

Moreover, the content of the collateral pool is floating, not fixed. Usually, the value of the collateral cover must be equal to or greater than 110% of the bond obligation. Further, if a component of the collateral pool matures, deteriorates or defaults, it is replaced with new collateral by the covered bond issuer.

The bonds are the direct obligation of the issuer. Ownership of the collateral remains with the issuer, but the pledge is given to the bondholders. There is a collateral pool “controller” (analogous to the bondholders’ representative) who monitors the adequacy of the collateral coverage. Thus, covered bonds are “managed bonds” in that the collateral is monitored and adjusted (compared to “static collateral”).

The transaction can be diagrammed as follows:



**Business Drivers.** Covered bonds allow generators of long-term financial obligations (e.g., makers of (1) real estate and cars loans, and (2) leases) to recycle their funds. To the extent that net cost of funds is less than the net return on new loans / leases, Return on Equity is boosted.

Because issuance of a covered bond means more debt for the issuer it increases the D/E ratio. Therefore there is a limit to the amount of covered bonds that any one issuer may sell. Issuers of covered bonds face the same D/E limitations as issuers of generic corporate bonds. Use of covered bonds is not an open-ended business option.

**Investor Drivers.** Given that covered bonds are a refinancing tool they rarely carry the types of investor enhancements that can be seen with preferred shares and corporate bonds. This is a refinancing instrument, more so than an investment instrument.

Given this, the buyer market for covered bonds tends to be institutional investors, although retail investors can buy them.

### Securitizations

**Characteristics.** Securitization is used for the same reason as covered bonds – to refinance long-term assets and create liquidity for the company. However, the structures are very different.

1. Securitization involves a *sale* of the asset, not a *pledge*.
2. A third entity – a special purpose vehicle (“SPV”) – is used.
3. The *pool of assets is static*. There is no management.
4. For this reason, securitizations are an example of a “*passive conduit*”.

In the Jordanian context the transaction would operate as follows:

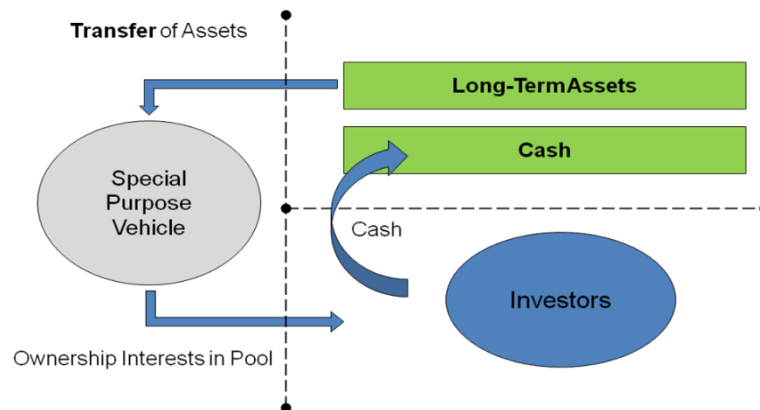
- The issuer company determines the assets to be packaged and securitized.
- The company creates a SPV and places the assets into it.
- The owner then registers the SPV and its ownership shares at the Securities Depository Centre.
- A servicer (Securitization Fund Manager (“SFM”)) of the SPV is appointed.

- The shares in the SPV are then sold to investors.

After the transaction, the holders of SPV shares have no relationship with the creating company. Any future liquidation / insolvency of the creating company does not impact the SPV or the SPV shareholders’ rights.

The SFM administers payments out of the SPV to the shareholders. The dividend schedule is parallel to the income the SPV receives on its assets. There is no other management of the SPV.

The transaction can be diagrammed as follows:



**Business Drivers.** Securitization is used by companies that originate a type of asset but have reached their debt-to-equity limits (and thus cannot issue more covered bonds). Securitizations can be used for: (1) mortgage-backed securities, (2) car loans, (3) lease pools (by leasing companies to refinance their positions), and (4) in some cases factored accounts receivable.

Securitization sponsors are usually lenders or lessors who conventionally earn revenue by (1) origination fees, and then (2) interest income. Securitizations allow the lender to still earn the origination fees, but replace interest revenue with “servicing fees”. Thus, securitizations replace long-term interest income with long-term fee income (from servicing the SPV).

**Investor Drivers.** The advantage of securitizations for investors is that the portfolio is static and therefore (like UITs) the management fees are extremely low. Yet, there is the benefit of diversification. More of the income passes through to investors while the risk is spread among the portfolio.

## Annex 10: Description and Uses of Unit Investment Trusts

### Purpose and Structure

Unit Investment Trusts (UITs) are a mechanism to bring foreign securities into a local market for offer and subsequent trading in that market.<sup>39</sup> UITs use a 'legal wrapper' to purchase and house the securities; ownership interests in the wrapper are then sold in the local market.

**Technically speaking, UITs are collective investment schemes.** A group of investors pool their monies to purchase a group of securities. However, because of their simplified nature and the specialized purpose of the transactions, UITs are not normally regulated as 'full blown' investment funds, and instead are treated under a more simplified set of regulations.

**Under the UIT structure a 'sponsor' purchases the securities in the foreign jurisdiction and then places the ownership of that security in either a trust entity or a 'segregated account' that is created locally.** The exact choice depends on the nature of the sponsor. Banks and investment firms can hold the asset in nominee ownership and then issue 'receipts' for fractional undivided ownership interests in that asset. This is the segregated account approach. Using a trust is equally possible in that it incurs low operating costs; it may be used by any type of sponsor. Jordan will need to explore if these types of structures are available. Using the more costly choice of using a corporate form should be avoided.

**Because UITs contain a pool of securities they approximate a generic investment fund.** Like generic funds, the trust's asset portfolio is established at time of creation. However, unlike generic funds, *the portfolio remains fixed over time.*

**Because UITs are formed locally and traded within the local market they also approximate Exchange Traded Funds (ETFs).** But UITs do not possess the characteristics of the more complex ETFs. For example there is no daily 'rebalancing' of the portfolio, and the portfolio does not grow and shrink over time. *Again, the portfolio remains fixed over time.*

**Because the portfolio is fixed, UITs also tend to be used as a simple way to package fixed income, limited lifespan securities.** They are particularly useful for packaging debt securities of a certain sector issuer or risk rating. For example, the pool can consist only of bonds issued by companies in a particular sector (e.g., telecommunication companies). Or, the pool can consist only of bonds with a certain credit rating (e.g., all AA rated bonds). Taken together, one way to look at a UIT is to view it as one fixed income security with several paying parts.

**Given that the pool is fixed, a UIT is not "managed", it is "serviced".** There is no portfolio management, only payment servicing to the unitholders. As interest / dividends are paid to the pool on the securities held, that money is paid directly out to investors. There is no retention and reinvestment. Similarly, as bonds in the pool mature and are paid off, the principal is paid out directly to the investors.<sup>40</sup> For this reason, the bonds in the pool tend to have similar maturity

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<sup>39</sup> Much of this discussion also applies to Global Depository Receipts (GDRs). Because developing GDRs in Jordan is not part of the current Strategy, this discussion is omitted. If the market participants determine that GDRs would be attractive for the securities market, this issue can be revisited.

<sup>40</sup> This 'servicing' aspect creates one of the main benefits for UITs. This is a low-margin, high-volume business for sponsors. Fees can be as low as 25 bps of assets under management. Similarly, many of the usual custodial functions are not implicated. For example, there is no clearance and settlement of trades or ongoing monitoring of the portfolio for compliance with investment policies. This also translates into lower fees. The combined low administrative costs are particularly important in terms of rates of return for UITs invested in debt securities.

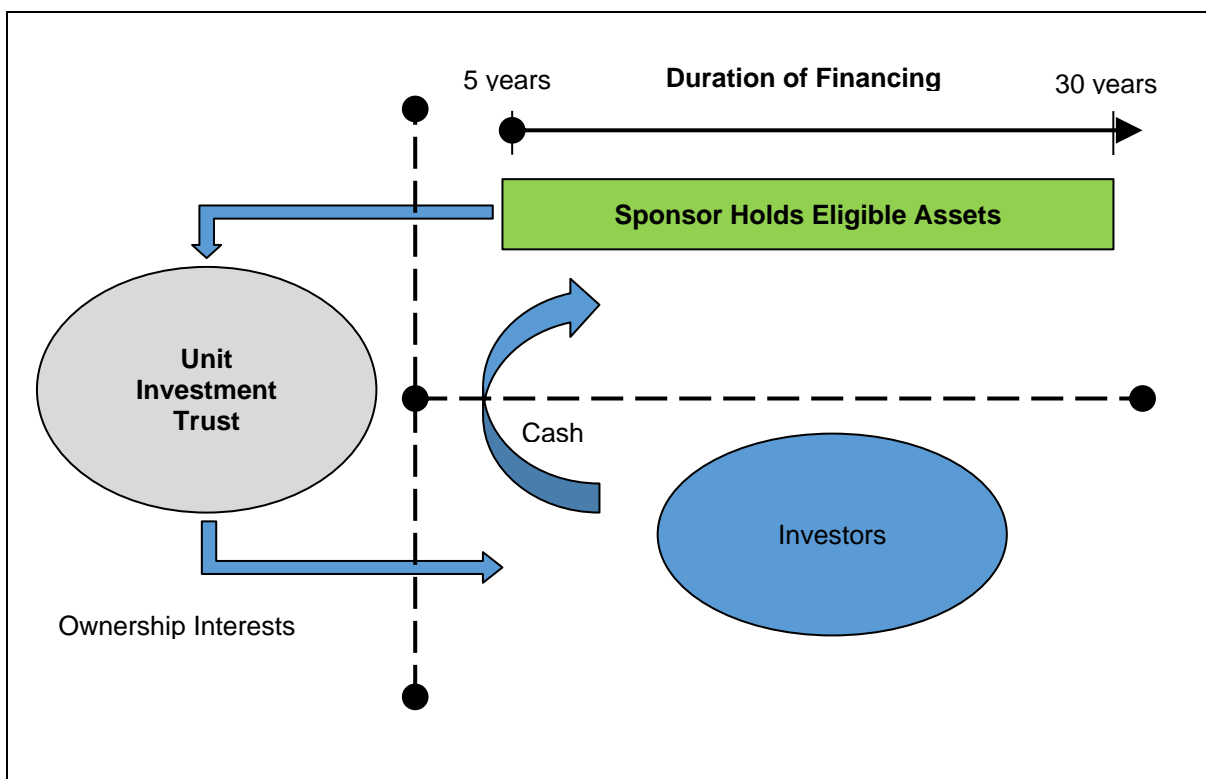
dates (e.g., all 10-year or all 15-year bonds). A bond pool with varying maturities leads over time to an ‘orphan pool’ consisting perhaps of only one or two remaining issues. This is not operationally efficient or attractive for secondary traders.

**UITs vary in risk according to the quality of the assets placed in the pool.** UITs are not *per se* safer or riskier than managed funds. However, because the pool is set and fixed, the risk inherent in a particular UIT is more transparent in that the portfolio is constant and known at all times. Creditworthiness risk can change if one or more of the individual bonds is subsequently impaired. If a component of the UIT pool defaults, this loss is incurred by the UIT. The sponsor is not required to replace the defaulting bond or to seek a cure. Thus the risk of loss for all of the pool components is borne by the unitholders. For debt and preferred share pools interest rate risk remains.

**Lastly, UITs present some ‘market price’ risk.** Because a UITs’ portfolio is fixed, it must be formed as closed-end fund with its units traded in the secondary market either on-exchange or OTC.<sup>41</sup> The secondary market price per unit may be higher or lower than net asset value per share and thus presents ramifications for introducing the product into an emerging market. If the prevailing market pricing is lower than NAV, this impacts credibility of the product with investors.

### CREATION AND ISSUANCE PROCESS

Figure 20: Simplified Schematic of the UIT Transaction



<sup>41</sup> An open-end structure is not possible because there is no way for the fund to honor redemptions or add securities to the pool due to new purchases of units.

178. **Steps in a UIT Transaction:**

1

The UIT sponsor determines the assets to be packaged into the trust. The sponsor is almost always the intended servicer ('fund manager') for the pool. It will be responsible for passing on interest and principal payments paid to the pool to the unitholders.

2

The UIT segregated account or unit investment trust is created.

3

The assets are placed into the account or trust.

4

The sponsor of the UIT takes back – instead of ownership in each individual asset itself – ownership in the UIT as the collective. This is the packaging phase

5

The sponsor then registers the UIT and its ownership shares at the securities registry.

6

The sponsor appoints itself as the 'servicer'.

7

If the sponsor cannot act as a custodian, a separate custodian is also appointed.

8

Offer and sale to investors. This is the fragmentation phase

9

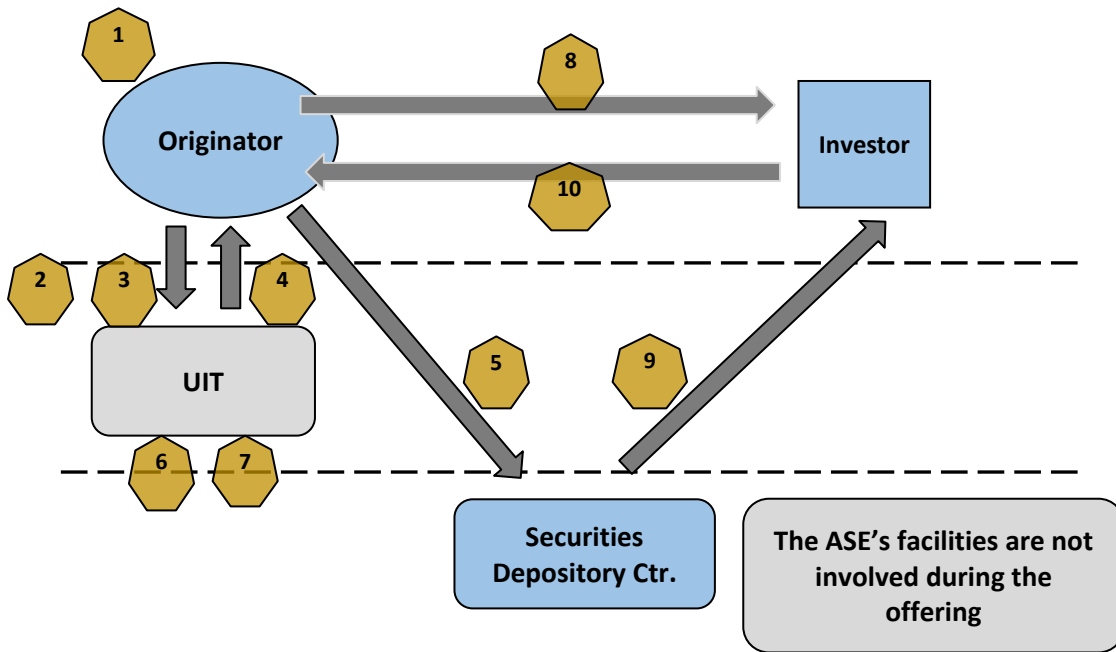
Results of the offerings are recorded and title of the UIT shares are transferred to the investors.

10

Proceeds from the offering are received by the sponsor. The investors now own the UIT.



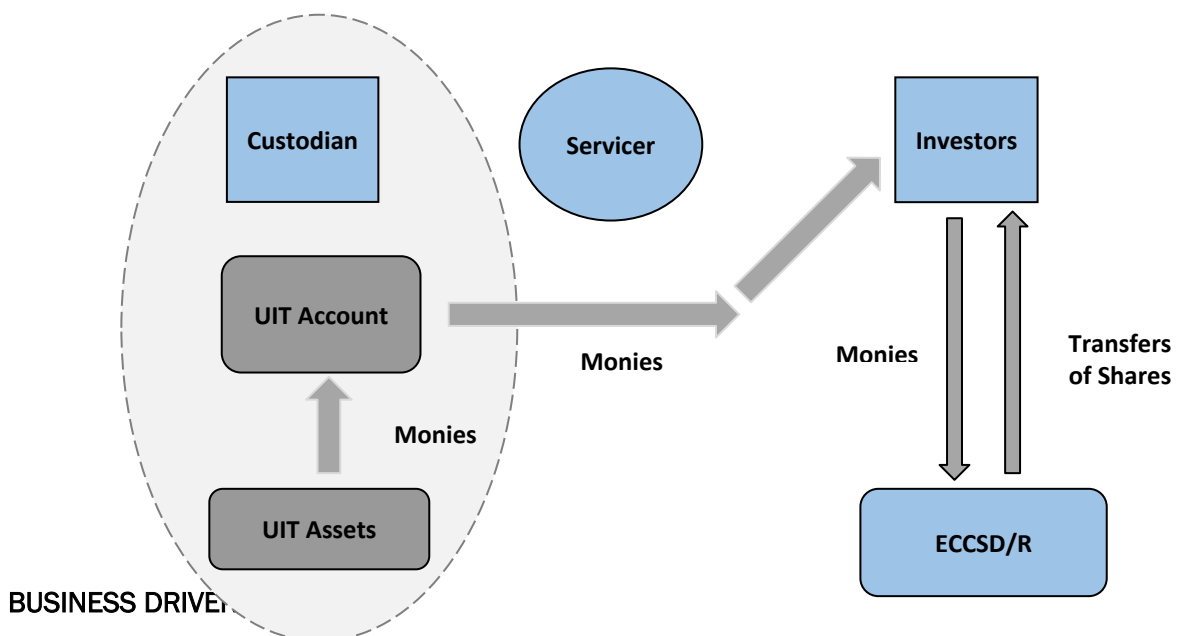
Figure 21: Detailed Schematic of Offering



After the transaction, holders of UIT units have no creditor / owner relationship with the creating sponsor. A liquidation / insolvency of the sponsor does not impact the UIT unitholders' rights.

If there is a separate custodian, it holds the UIT assets and oversees the activities of the asset servicer. The UIT servicer directs payments out of the UIT account to the unitholders. The payout schedule is parallel to the income the UIT receives on its assets. In the case of debt assets, as they mature, they are paid out to the investors, the pool shrinks and eventually the UIT is dissolved after last pay-out. For UITs holding preferred or common shares, a time limit must be placed on the pool, and then liquidated.

Figure 22: Ongoing Operations



**UIT sponsors are usually banks, investment firms or fund managers who seek to “capture funds”, then earn the servicing fee.** As noted above, this is a high volume, low margin business. The notional servicing fee of 25 bps does not result in significant revenue until a large volume of assets under management is achieved.

**Thus the sponsor seeks to replicate the UIT, perhaps offering UITs from other sectors or risk ratings categories.** As each UIT is created, then sold to investors, the sponsor is able to recycle the cash into further UIT creation. Thus, UIT sponsorship allows the originators to leverage up the fee income they are making on the same size of assets. This is income statement leverage, as opposed to balance sheet leverage. This strategy makes sense if the sponsor is confident it can in fact recycle the cash generated until critical mass is reached.

**Although UIT servicing requires sufficient IT, it does not require advanced fund management expertise or large staffing.**

#### **APPLICATION TO JORDAN**

**From an operational viewpoint, the UIT sponsor must have the capacity to acquire the assets for the pool, then move them to the nominee holding of a custodian.** This requires both a foreign account and a custodian relationship.

**Since the assets will be purchased using foreign currency, the sponsor must be able to convert JOD into the foreign currency.** The custodian must also have the ability to convert the income stream back into local currency for payment.

**Also from an operational viewpoint, the infrastructure must have the capacity to:** (a) announce record date and payment date for dividend payments from the UIT; (b) secure accurate data for UIT holders of record; and (3) make dividend payments to UIT holders on a safe and cost-efficient basis. Clearly, the Securities Depository Centre has this capacity.

**From a regulatory viewpoint, UITs can be formed under the existing chapter of the Securities Act governing investment funds.** It is recommended that a safe-harbor rule be adopted to create a streamlined approach for creating and issuing UIT interests. A key part of that rule would be allowing banks and investment firms to act as UIT sponsors without having to obtain a full fund manager’s license.

**At this point, the UITs could consist of any security or financial instrument.** Using UITs for real estate or physical movable assets is a more advanced stage and is not recommended. It is also recommended that the policy-makers determine that the assets within the UIT pool may be foreign as well as domestic.

### Annex 11: Bank Liquidity Analysis

One of the most striking aspect of the Jordan’s financial system is its high level of liquidity. Our analysis of the 2015 financial statements of 12 indigenous commercial banks indicates that the system contains a substantial portion of idle, unused monies.<sup>42</sup> While it is clear that this presents numerous negative impacts for the banking sector, the focus below is the impact that this liquidity is having on the capital market and how it could be harnessed for the future.

To quantify liquidity for this portion of the analysis we calculated the “lending to available funds” ratio for each of the 12 banks.<sup>43</sup> Within this, we used two methods: (1) a “narrow” scope, which includes lending to customers compared to available funds, and (2) a “broad” scope which includes lending to both customers and banks compared to available funds. For the purposes of the discussion below we have used a notional ratio of 80% as indicating a bank approaching liquidity constraints.<sup>44</sup>

**None of the 12 banks exceed the 80% threshold under the narrow method.** All are highly liquid. As a group they lend only 49.88% of available funds to their customers. In total, this results in **JOD 14.4 billion** in idle funds, or 54% of Jordan’s 2015 GDP.

**The picture resulting from the broader method is less severe, but points in the same direction.** All 12 banks studied lend some of their excess funds to other financial institutions, and thus the broader measure of their excess funds is lower, but not by much. Even under this metric the results are 61.37% lending to available funds, with JOD 8.9 billion in idle funds or 33.5% of 2015 GDP.

<sup>42</sup> The banks included were: (1) Arab Bank Group, (2) Housing Bank for Trade and Finance, (3) Jordan Kuwait Bank, (4) Cairo Amman Bank, (5), Jordan Ahli Bank, (6) Bank Al Etihad, (7) Capital Bank of Jordan, (8) Arab Jordan Investment Bank, (9) Jordan Commercial Bank, (10) Arab Banking Corporation, (11) SGBJ Bank (2014 statements), and (12) Invest Bank. For purposes of depicting the data here and in the main text, each bank was assigned a random code.

<sup>43</sup> In general, the calculation of “available funds” starts with a bank’s Total Assets and then subtracts all illiquid resources. For this study, available funds was calculated as follows:

Included in ‘Available Funds’ (Liquid Assets)	Not included in ‘Available Funds’ (Illiquid Assets)
Cash and Balances with Central Bank	Required Reserves with Central Bank
Loans to Banks	Prepaid Expenses
Loans to Customers	Equity Investments
Financial Assets	Construction in Process
Accounts Receivable	Property Plant and Equipment
	Deferred Taxes
	Other Assets

<sup>44</sup> There is no precise, hard limit indicating liquidity constraint. The target percentage depends on the bank and the national system. This said, as the bank reaches the 80% threshold it begins to lose large pockets of liquidity within the balance sheet.

Table 17: Banks' Excess Liquidity (Amounts in JOD)

Bank Code	Available Funds	Lending to Available Funds (Customers)	Excess Funds Narrow Method (Using 80% Metric)	Lending to Available Funds (Customers and Banks)	Excess Funds Broad Method (Using 80% Metric)
1	2,159,966,059	59.66%	439,423,931	67.45%	271,106,208
2	1,742,211,813	52.26%	483,277,172	63.73%	283,468,027
3	23,251,967,000	48.45%	7,336,596,600	60.47%	4,541,175,600
4	2,355,953,848	48.57%	740,522,897	76.82%	74,966,876
5	7,265,551,051	48.10%	2,317,755,021	57.46%	1,637,374,516
6	1,604,325,755	45.91%	546,888,134	60.14%	318,640,904
7	710,751,094	63.98%	113,896,607	71.13%	63,042,315
8	931,719,273	56.34%	220,462,100	64.69%	142,608,421
9	1,316,846,718	45.51%	454,188,438	52.47%	362,540,256
10	2,216,204,187	55.38%	545,640,249	62.90%	378,996,241
11	3,565,157,219	54.31%	915,895,586	63.55%	586,343,778
12	793,635,236	40.33%	314,864,321	46.21%	268,177,253
	47,914,289,253	49.88%	14,429,411,057	61.37%	8,928,440,396

For purposes of this Strategy the question becomes: where do all of these excess funds go? Ideally they could be funneled into the capital market as a source of investment funds. But this is not currently the case. As the table overpage indicates, out of a total of JOD 47.91 billion in available funds the destination of monies is as follows:

Table 18: Use of Available Funds (JOD)

Available Funds 2015	47,914,289,253	
Lending to Customers	23,902,020,345	49.88%
Purchases of Treasury Securities	11,001,909,053	22.96%
Idle Funds at CBJ (non-reserves)	5,829,904,868	12.17%
Lending to Other Institutions	5,500,970,661	11.48%
Investments in non-government Securities	1,679,484,326	3.51%
		100.00%

Thus only 3.51% of the banks' available funds for operations was directed to the capital market. Answering the question "why?" should help advance the success of this Strategy.

Table 19: Detailed Use of Available Funds

Bank Code	Funds at CBJ in Excess of Required Reserves	Percentage of Available Funds	Funds Invested in Treasury Securities	Percentage of Available Funds	Funds Lent to Other Institutions	Percentage of Available Funds	Funds Invested in Non-Government Securities	Percentage of Available Funds
1	45,299,714	2.10%	576,710,015	26.70%	168,317,723	7.79%	81,089,691	3.75%
2	244,972,353	14.06%	323,812,579	18.59%	199,809,145	11.47%	63,125,458	3.62%
3	3,549,416,000	15.27%	4,809,217,000	20.68%	2,795,421,000	12.02%	832,936,000	3.58%
4	127,079,085	5.39%	256,483,088	10.89%	665,556,021	28.25%	162,595,473	6.90%
5	702,498,096	9.67%	2,204,275,456	30.34%	680,380,505	9.36%	183,711,174	2.53%
6	36,294,384	2.26%	588,563,087	36.69%	228,247,230	14.23%	14,648,584	0.91%
7	62,974,722	8.86%	82,075,105	11.55%	50,854,292	7.16%	60,142,707	8.46%
8	34,321,862	3.68%	275,294,318	29.55%	77,853,679	8.36%	19,336,096	2.08%
9	220,031,738	16.71%	377,060,177	28.63%	91,648,182	6.96%	28,817,685	2.19%
10	192,071,828	8.67%	583,650,973	26.34%	166,644,008	7.52%	46,514,277	2.10%
11	428,855,737	12.03%	685,719,429	19.23%	329,551,808	9.24%	184,800,056	5.18%
12	186,089,349	23.45%	239,047,826	30.12%	46,687,068	5.88%	1,767,125	0.22%
<b>Totals</b>	<b>5,829,904,868</b>	<b>12.17%</b>	<b>11,001,909,053</b>	<b>22.96%</b>	<b>5,500,970,661</b>	<b>11.48%</b>	<b>1,679,484,326</b>	<b>3.51%</b>

APPENDIX A: ROADMAP FOR LEGAL CHANGES

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
	<b>SECURITIES LAW</b>	
Article 3: Definition of securities	Amend to clarify that this covers all types of securities including government stock derivatives and options, futures and contracts for differences.	<p>Best practice usually provides for a broad definition requiring <b>any person (individual or corporate)</b> who carries on the business of “investment business” in Jordan to be licensed. [This means that licensing is on the basis of a combination of:</p> <ul style="list-style-type: none"> <li>A. The activity being undertaken e.g. dealing, arranging deals, managing investments, investment advice, establishing collective investment schemes and using computer based systems to give investment advice;</li> <li>B. The width of the definition of investments (a generic term) covering securities, instruments creating or acknowledging indebtedness (debentures, loan stock bonds), government and public securities, instruments giving entitlement to investments (warrants), certificates representing securities, units in collective investment schemes, options, futures, contracts for differences (indexes); and</li> <li>C. The requirement that the activity with the security must be done by way of business.]</li> </ul> <p>The above combinations give a regulatory agency much more flexibility in their licensing regime and cover all possible combinations of activities in the securities markets including investment banking and discretionary and fund management.</p>
Article 5: Registration by issuers	To apply only to public offers on Exchange	

<sup>45</sup> The JSC is a full member of IOSCO and a signatory to the Multilateral Memorandum of Understanding (MMoU).

*Proposed Implementation under “Jordan 2025: A National Vision and Strategy”*

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
Article 8 and 12: Powers of the JSC	To include corporate governance, consumer rights and redress, ADR/Tribunal arrangements as an alternative mechanism to challenge JSC decisions and risk based supervision	P 1: Responsibilities of the Regulator should be clear and objectively set out, preferably by law and P 3. The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.
Article 10	To include reasons for removal of a Commissioner.	P 1: Transparency and reasoned decision making
Article 12 (b) OTC Trading	To clarify the mechanism by which the JSC intends to regulate the OTC market and “approve any security trading outside the market”	The JSC must ensure that it has in place mechanisms to effectively regulate and monitor the OTC market
Article 17: Powers of Investigation	To cater for legal professional privilege where documents or records are seized.	Legal professional privilege should be included as an exemption to the production of any documents in the powers of investigation
Article 22: Fines and review by the JSC	To consider if monetary limits for fines in primary legislation could be removed to regulations and thus subject to regular updating as fines in legislation quickly become outdated and ineffective penalties.	As a matter of good practice and in the interests of natural justice the review procedure should be undertaken by Board members not part of the original decision making.
Article 23: International Cooperation	To consider limiting this to foreign regulators who are full members of IOSCO and signatories to the IOSCO MMoU as potentially there are no safeguards in respect of onward disclosure of regulatory confidential information from the JSC by a foreign regulator	To mirror the specific onward disclosure requirements recommended by the IOSCO MMoU and comply with P. 14 Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
Article 32: Immunity from Suits	To clarify to ensure this section offers the JSC and its officers immunity from suit in the bona fide exercise of their regulatory functions	It is crucial that staff of regulatory authorities are protected from liability in the proper discharge of their functions and duties
Article 34 to 43: Disclosure	These articles do not expressly provide for full timely and accurate disclosure of financial results, risks and other information material to investors decision making. Nor do they do not require equitable and fair treatment for all holders of securities.	Best practice usually requires a ban on the use of the word “guarantee” in any prospectus by the issuer of that prospectus. P 16: There should be full, accurate and timely disclosure of financial results, risk and other information that is material to investors’ decisions; and P 18: Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.
Article 41(4): Hearings	The article is silent about the procedural arrangements for hearings (and the timescale for undertaking these) and the rights of the issuer to be heard and respond to the JSC’s concerns.	As a matter of good practice and in the interests of natural justice the review procedure should be set out and made publicly available.

*Capital Market Development Strategy and Roadmap for Jordan*

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
Article 43: Reporting Requirements and financial statements	These provisions should elide with the reporting requirements in the Company law as well as the reporting requirements of the Exchange or the burden on issuers may be unduly burdensome.	Consistency of legislative requirements and cost effective regulation.
Article 47: Licensing	see comments on Article 3 above	
Article 48 (B) Fit and proper	There is no explicit requirement to be “fit and proper” on an initial and on-going basis; and the licensing, registration and monitoring provisions do not appear to require the JSC to publish a list of all license holders and registered persons and it is silent as to the means of supervision compliance or risk based?	Fit and proper is a corner stone of the regulatory framework and is usually set out as a specific obligation in the body of the legislation. It is best practice for Regulatory bodies provide members of the public with a list of all license holders in order to check their regulated status.
Article 55 (b) and 62 (c) Client Money	These provisions are intended to confer “preference/trust status” on client money. However, the concern remains that the Company Law does not mirror this preferential status and should for the avoidance of doubt be amended to reflect this preferential status	The Consultants understand the Court of Cassation has upheld the interpretation that the SL is a “special law” with specific power to override the operation of other laws in the securities markets sector. The trust status impressed on client money is of the utmost importance in insolvency proceedings and there should be no legal possibility of any challenge to such status.
Article 64: SRO for individuals	This article enables the creation of an SRO for registered individuals.	Disciplinary arrangements within any SRO should elide with the JSC’s powers to avoid unnecessary duplication. There should be formal interagency cooperation mechanisms and protocols. For example, are joint investigations contemplated, is there a referral system and who takes the lead in disciplinary matters? P. 9 Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities and P 14 Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.
Articles 67 and 68: The Stock	Oversight and Interagency Cooperation	Regulatory effectiveness requires that the by-laws of the ASE interface with the powers of the JSC. There should be protocols established to



Proposed Implementation under “Jordan 2025: A National Vision and Strategy”

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
Exchange		address issues such as who takes the lead on day to day supervision, compliance and enforcement and to facilitate timely exchange of information between the ASE and JSC on matters such as complaints and or breaches of laws and regulations? P. 33. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.
Article 71: Non-payment of fees	Non-payment of fees to the ASE should be enforceable as a legal debt as well as being a disciplinary sanction.	SROs need certainty as to the source of their funding
Article 75: Suspension of trading	Suspension of trading on an Exchange is not usually subject to ministerial approval	It is fundamental to the independence of the Exchange that its decision making is not fettered by government intervention.
Article 76	The law only caters for one securities depository center	In practice there are two securities depository centers which may lead to unnecessary duplication and cost.
Articles 91 to 106 Mutual Funds	The legal structure of funds should be amended to permit all types of vehicles and extend the range of securities that can be issued by funds. These are currently restricted to shares or investment units neither of which are defined in either the SL or the CL. Extend the exemption under A. 94(B) (3) to all funds and not just venture capital funds and align the number of investors to the definition of public offer.  The law should set out criteria for the eligibility, governance, organization to market or operate an investment fund. The law should make specific provision for liquidation or business transfer for investment funds and the CL is silent on the winding up of such funds	P 24 The regulatory system should set standards for the eligibility, governance, organization and operational conduct of those who wish to market or operate a collective investment scheme. P 25. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets. P 26. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor’s interest in the scheme. P 27. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme; and P 28. Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.
	Define category of professional investor and enable unlimited offer to professional investors as well as public offer and private placement	Standard international practice
<b>Demutualization of the Amman Stock Exchange</b>		

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
Article 75	It is strongly recommended that greater consideration is given to current draft amendments to Securities Law as these do not appear to comprehensively address the key issues in the demutualization process.	Demutualization laws are usually self-standing and make detailed provision for the timetable and procedures for the IPO process. The law usually ensures that the allocation of shares between government and brokers is specifically agreed in advance of demutualization. Other matters that need to be addressed are the separation of the ASE's business and regulatory functions and the composition of its board of directors.
<b>The Islamic Finance Law</b>		
General Observation: It should be made clear on the face of this law that the Securities Law applies to the regulation and conduct of Islamic financial business since the law as it stands appears on reading to permit such business to be undertaken without a license which may lead to confusion for foreign investors.		
<b>The Companies Law</b>		
Definitions and General Provisions	<p>There is no definition of "Shares" or "stocks" and the words are used interchangeably throughout the text. The CL is silent as to:</p> <ul style="list-style-type: none"> <li>• Legal Nature of Shares;</li> <li>• The classification of Shares;</li> <li>• Preferences, Rights and Limitations in Respect of Shares;</li> <li>• Transferability of Shares</li> </ul> <p>Limited Partnerships and Private limited companies can issue classes of shares according to the terms and conditions contained in the Memorandum and Articles of Association whereas Public Limited Companies do not appear to have this flexibility and appear to be able to issue only one class of shares which will have equal rights to voting, capital and dividend.</p> <p>Bearer Shares appear to be permitted for Limited Partnerships and Private Companies. These types of shares should be prohibited in all forms.</p>	<p>Whilst most private companies will only ever issue one share class public and listed public companies will want to have greater choice of classes of shares to attract investment; to enhance dividend income; to remove or enhance voting rights of categories of shareholders and to motivate staff and retain their employees.</p> <p>There are eight basic types of shares:</p> <p><b>Ordinary shares:</b> these carry no special rights or restrictions. They rank after preferred shares as regards dividends and return of capital but carry voting rights usually one vote per share.</p> <p>Some companies create more than one class of ordinary shares such as "A Ordinary Shares", "B Ordinary shares" etc. This gives flexibility for different dividends to be paid to different shareholders or, for example, for pre-emption rights to apply to some shares but not others. In some cases, different classes of ordinary share may also be of different nominal values.</p> <p><b>Deferred ordinary shares:</b> these are shares which will not pay a dividend until all other classes of shares have received a minimum dividend. On a winding up they will only receive something once every other entitlement has been met.</p> <p><b>Non-voting ordinary shares:</b> usually restricted in some way – e.g. they only carry voting rights if certain conditions are met.</p> <p><b>Redeemable shares:</b> these shares give the company the option to buy</p>

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
		<p>them back in the future; occasionally, the shareholder may have the option to sell them back to the company. This option may arise at or after a specific date, between two dates or be effective at any time the shares are in issue. The redemption price is usually the same as the issue price and a company can only redeem shares out of profits or the proceeds of a new share issue.</p> <p>If a company chooses to have redeemable shares, it must also have non-redeemable shares in issue and at no point can all of its share capital be made up of redeemable shares.</p> <p><b>Preferred shares:</b> these shares have a right to receive a fixed amount of dividend every year. This is received ahead of ordinary shareholders. The amount of the dividend is usually expressed as a percentage of the nominal value. On a winding up, the holders of preferred shares are usually entitled to any arrears of dividends and their capital ahead of ordinary shareholders. Preferred shares are usually non-voting (or only have a vote only when their dividend is in arrears).</p> <p><b>Cumulative preferred shares:</b> these are if a dividend is missed or not paid in full then the shortfall will be made good when the company next has sufficient distributable reserves. It follows that ordinary shareholders will not receive any dividends until all the arrears on cumulative preferred shares have been paid. By default, preferred shares are cumulative but many companies also issue non-cumulative preferred shares.</p> <p><b>Redeemable preferred shares:</b> these shares combine the features of preferred shares and redeemable shares. The shareholder therefore benefits from the preferential right to dividends (which may be cumulative or non-cumulative) while the company retains the ability to redeem the shares on pre-agreed terms in the future.</p> <p><b>Note: Bearer shares:</b> are now almost obsolete because they are freely transferrable and almost untraceable. They were issued in the form of warrants which is a legal document certifying that the bearer is entitled to own the shares designated in the warrant.</p> <p>International best practice is to specifically prohibit the use of bearer shares by all companies and partnerships. The consultants understand that in practice there are no bearer shares as all listed securities are dematerialized and the records held by the Securities Depository Centre</p>

*Capital Market Development Strategy and Roadmap for Jordan*

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
		enable beneficial ownership to be ascertained. Investment companies in particular need to be able to issue the types of securities listed above
Limited Partnerships	Amend these provisions to permit the general partner and limited partner of such partnerships to be institutions and companies as well as individuals to enable development of funds offered to professional and institutional investors	Internationally the structure is that the general partner is the management company of the fund (which itself may be a partnership or a company) and the investors are limited partners (the investors may be mutual funds, pension funds, insurance companies or other forms of fund which may be contractual, corporate or trust in type)
Corporate Governance	Amend to include specific core corporate governance obligations on licensed and listed companies	The international trend is to make corporate governance obligations mandatory by way of operation of law and codes have limited effectiveness in terms of enforcement.
Bonds	Both private and public companies can issue these loan stocks which can be secured or unsecured (the unsecured bonds are commonly known as debentures) however there appears to be no provision for preferential treatment in liquidation of unsecured bonds. This should be redressed.	It is understood that the SL at A.55 (b) has the effect of ensuring the sanctity of client money and its preferential treatment in the event of liquidation or bankruptcy of a company or individual licensed by the JSC. It would be prudent to reflect this in an amended company law.
Covered Bonds	There is no definition of a covered bond in the Company or Securities Law. This could be redressed by an amendment to the Companies Act or by introduction of a Securitization Act which would guarantee coverage in the event of insolvency	It is crucial to ensure that covered bonds are “ring fenced” in any insolvency proceedings. This would facilitate the introduction of structured products such as mortgage backed securities (MBS) and asset-backed securities (ABS) by establishing a clear and precise regulatory framework.
General Assembly Meetings	The procedures for General Assembly meetings (in particular with regard to bond holders) would benefit from clarification and the roles and responsibilities of the issue trustee clearly defined.	Jordan rates poorly on investor protection partly for this reason
Insolvency Proceedings	There is no provision for the direct intervention by JSC in prospective or ongoing liquidation proceedings/business rescue arrangements of licensed firms or registered individuals	Ideally the JSC should be able to commence liquidation or bankruptcy proceeding against licensed firms or registered individuals and or facilitate the transfer of the business of such a firm or individual to another licensed firm or individual to protect investors’ interests. Also the JSC should be able to commence liquidation or bankruptcy proceedings against unlicensed companies or individuals with the view to restitution of client monies to investors. The consultants understand that the lack of these powers do not cause any immediate concerns for the JSC.

Roadmap - Legal changes		
Article No	Suggested change	Justification (Referenced to IOSCO Principles <sup>45</sup> and or international best practice)
		<p>P 3. States that “The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers”. The consultants remain concerned that the lack of these powers may unnecessarily fetter the JSE in the discharge of its regulatory functions</p> <p>Furthermore, from a legal perspective it is also understood that the JSC as a government agency is considered to be an “administrative” body as opposed for example to the Tax Authority or the Customs Authority which are considered to be “enforcement” bodies leading to domestic experts to conclude that constitutional interpretational issues such as separation of powers would appear to preclude the JSC having the direct right to petition the Courts. Were the JSC to become a non-governmental agency this concern would fall away</p>
<p>General Observation: It is widely considered international best practice to remove from company law all the powers relating to compliance, supervision and enforcement of licensed companies from the Company Registrar. It is also considered best international practice to permit the regulatory authority to petition the Courts in cases of insolvency, intervene to protect investors in any other cases of insolvency and enable the regulatory authority to facilitate “business rescue packages” to protect investors (including minority shareholders).</p>		