

INTRODUCTION

A lot of people may be asking the question: "What exactly is a Stock Exchange?" If you have such a question on your mind, you are not alone, because Stock Exchange is new to Ghana even though the idea is not new to all Ghanaians.

This brochure, which is the first in a series of brochures published by the Ghana Stock Exchange, is designed to clarify the "myths" about the stock market and to help you understand the basics of the securities market.

WHAT IS A STOCK EXCHANGE?

A Stock Exchange is an organized market in securities (shares, stocks and bonds).

On this market, individuals and companies can buy shares of companies through Licensed Dealing Members (Stockbrokers) of the Stock Exchange and hence, become part-owners or shareholders of these companies. Similarly, individuals or companies through Stockbrokers can buy stocks and bonds of other companies and the Government, and become lenders to or creditors of these companies or the Government.

Any individual or company who at one time or the other lent money or bought shares through the Stock Exchange can also sell back the relevant shares or stocks through the Stock Exchange at any time.

Since the Stock Exchange is an organized market, it has rules and regulations which govern it. These rules and regulations are designed to protect all market participants, including the individual who puts up some funds to invest.

WHAT ARE SECURITIES?

Securities are financial instruments or legal documents signifying either an ownership position in a company (i.e. shares) or a creditor relationship with a company or Government (i.e. stocks and bonds).

WHAT ARE STOCKS, BONDS AND SHARES?

Stocks and bonds are long-term fixed interest bearing securities issued by Government and companies. When one invests in stocks and bonds, one gets interest income which is paid periodically until the loan matures or is called back by the issuer. The holder of stocks and bonds gets interest even if the issuer does not make a profit.

Shares represent part-ownership in a business concern. Shareholders, therefore, among them, own the company, have votes in how its affairs are run and if the company makes profit, they are entitled to a share of it. However, the dividend which shareholders receive is dependent on the company's profitability and management decisions.

WHY IS THE GHANA STOCK EXCHANGE (GSE) IMPORTANT IN OUR ECONOMY?

When you own a small business and want to expand, you may be able to do this from the profits you have been making. Or, you may go to your bank or fall on friends for help.

Many large businesses, however, need funds for expansion far in excess of what can be provided from their profits or from private sources of capital. When a new factory or machinery costs millions of cedis, it might be impossible to meet such expenses from past profits earned by the company. Furthermore, the prospects of a major business raising huge sums from friends are negligible. Generally also, banks are not keen on providing sufficient funds on a long term basis, though banks will normally provide short-term finance. Large businesses with cash needs for expansion have their best prospects when they turn to the Stock Exchange. Through the Stock Exchange, such businesses can turn to the public at large and invite the public to lend them cash or take a share in the business and by implication, a share in future profits. In this way, companies can tap the savings of every person in the country in order to obtain the long-term capital that may not be available from their own resources or from their bankers.

The Government also undertakes a lot of investment in roads, hospitals, electricity, water, telephones etc. The Government often has to borrow money to finance such major capital spending. To procure the necessary funds from the investing public, the Government can also go through the Stock Exchange.

The Ghana Stock Exchange (GSE) is thus a vital link between Companies or the Government with capital needs, and the public with savings to invest. Through investment in shares, investors become part- owners of the companies of their choice. Companies which raise capital from the issue of shares or stocks are able to expand their services, replace equipment and develop new products. This increases employment and incomes both directly and indirectly. More goods and services come to the market, and as more Ghanaians are employed and have more money to buy, the overall economy thrives.

WHO ARE THE OWNERS OF THE GHANA STOCK EXCHANGE?

Ghana Stock Exchange has no owners (shareholders) as such but the Exchange, which is incorporated as a public company limited by guarantee, has members who are either corporate bodies or individuals who have contributed to the promotion of the Exchange.



There are two categories of members, namely Licensed Dealing Members and Associate Members. A Licensed Dealing Member is a corporate body licensed by the Exchange to deal in listed securities.

An Associate Member is an individual or corporate body which has satisfied the Exchange's membership requirements but is not licensed to deal in securities.

HOW DOES ONE BECOME A LICENSED DEALING MEMBER OR STOCKBROKER?

The applicant must fully meet the Exchange's conditions as contained in its Membership Regulations. Such conditions include the following:

- The company or firm must be incorporated under the Companies Code 1963 (Act 179) or the Incorporated Private Partnership Act, 1962 (Act 152).
- **Stated Capital:** The Company or firm must have a minimum stated capital of ₵100 million.
- **Liquid Funds:** Liquid Funds of LDMs must be as follows:
 - a) ₵10 million -per partner in case of partnership firms
and;
 - b) ₵ 10 million -per director in the case of member companies.
- Admission of LDMs shall be by auction after admission procedures have been complied with. The highest bidder shall not necessarily be allocated a seat.
- **Certificate of Specification:** After an LDM obtains an L D M license from the Exchange and before the LDM actually opens for business, the LDM must have a certificate of specification issued by the Exchange.

WHO IS AN INVESTOR?

An investor is a person or an institution who uses his savings or borrowings to buy securities.

WHAT DOES AN INVESTOR GAIN BY BUYING SHARES, STOCKS, BONDS, ETC.?

By purchasing shares of listed companies on the Stock Exchange, investors become part-owners of the companies and thereby gain:

- dividend income which is the company's distributed profit to



shareholders.

- Sometimes bonus shares which are additional shares distributed freely to existing shareholders.
- Possible capital gains when sale of shares is effected.

.the right to vote at shareholders' meetings.

.share certificates which are accepted as collateral by banks. .sometimes a 'rights issue' which is a new issue for cash to existing shareholders in proportion to their holdings usually at a preferential price.

.Investment in stocks and bonds, on the other hand, gives the investor fixed rates of interest periodically until the loan Matures or is called back by the issuer.

HOW DOES ONE BUY OR SELL SECURITIES ON THE GHANA STOCK EXCHANGE?

Securities are bought and sold on the Ghana Stock Exchange through Licensed Dealing Members also known as Stockbrokers.

A Licensed Dealing Member or stockbroker is a firm which buys and sells securities on behalf of investors for a brokerage fee or commission. When trading is in listed securities, the stockbroker must be a Licensed Dealing Member of the GSE.

An investor cannot personally come to the Stock Exchange to buy shares, stocks, etc., but can only buy them through the stockbrokers.

Stockbrokers, apart from buying and selling securities on behalf of clients, also advise clients on the mix or portfolio of investments (shares, stocks etc.) and provide functional services such as vaults for the safe-keeping of securities for clients. They also give up-to-date information about securities to their clients.

To buy securities, the potential investor must first contact a stockbroker. Once a stockbroker is chosen, the potential investor must decide on the kinds of securities that are of interest to him. The stockbroker will then recommend the shares and stocks which are suitable for his needs, assuming the stockbroker is given the option to make recommendations.

After making a decision on the securities to buy, the stockbroker buys the securities at the most advantageous price obtainable at the time of dealing on the trading floor of the GSE.



On completion of the deal, in the case of shares, for instance, the stockbroker sends to the buyer a Contract Note, showing the date of the transaction, the number of shares purchased, the price per share, the commission chargeable, and stamp, if any. The final figure will show how much is payable to the stockbroker on receipt of the Contract Note.

When the transaction is completed, a share certificate is issued to the buyer.

The procedure for selling securities is similar to buying but the total amount on the Contract Note shows the sale proceeds payable by the stockbroker to the seller excluding commissions and any charges.

IS THERE ANY PROTECTION FOR THE INVESTOR?

The Exchange has various regulations, namely membership regulations, listing regulations and trading and settlement regulations, which are designed to protect the investor. In addition, there is a Council (Board of Directors) with supervisory roles and whose duty, among others, is to prevent the commission of fraud or malpractices.

The Council also has the power to suspend and expel any member who contravenes any of the regulations of the Exchange. Other supervisory bodies of the Exchange are the Governor of the Bank of Ghana and the Minister for Finance and Economic Planning.

Under the Securities Industry Law, (1993) the apex regulatory body is the Securities and Exchange Commission (SEC).

The functions of the commission include:

- .Maintaining surveillance over securities to ensure orderly, Fair and equitable dealing in securities.
- .registering, licensing, authorizing, or regulating the Stock Exchange, investment advisors, securities dealers etc.
- .protecting the integrity of the securities market against any abuses arising from the practice of insider trading.

The Securities Industry Law also provides for the establishment of a Fidelity Fund. The purpose of this fund, among others, is to compensate persons who suffer financial loss from any defalcation committed by a Stock Exchange member company or member firm or any of its directors, partners or by any of the employees of such member company or firm in relation to any money or other property entrusted to the Stock Exchange member company or employees acting on behalf of the company.

TAXATION & REGULATIONS AFFECTING NON-RESIDENT INVESTORS

There is a 10% withholding tax (which is also the final tax) on dividend income for all investors, both resident & non-resident. Capital gains on listed securities are however, exempt from tax until November 2005.

Exchange Control permission has been given to non-resident Ghanaians and foreigners to invest through the Exchange without any prior approval. However, one external resident portfolio investor (whether individual or institutional) can hold only up to 10% of any security approved for listing on the Exchange.

Furthermore, the total holdings of all external residents in one listed security shall not exceed 74%. Ghanaians externally resident and foreigners resident in Ghana, though, may invest without any limit. There is free and full foreign exchange remittability for the original capital gains, returns and related earnings.

BROKERAGE COMMISSIONS

i) Ordinary/Preference Shares

Value Traded (¢)	Comm.	Cumulative Comm.
First 50,000	¢1,500 flat	¢1,500 max
50,001 -5,000,000	2.5%	¢125,250 "
5,000,001-50,000,000	2.0%	¢1,025,250 "
50,000,001-100,000,000	1.75%	¢1,900,000 "
100,000,001-500,000,000	1.5%	¢7,900,000 "
Over 500,000,000	1.0%	

e.g. trade of ¢145,000 -comm. of $[(1,500+(95,000 \times 2.5\%)]$
 $= \sim 3,875$

trade of 17m-comm- of $[(125,250+(\sim 12m \times 2.0\%)]$
 $= 365,250$



ii) Government/Corporate Bonds

Cumulative

Value Traded (¢) Comm. Comm.

First 50,000 ~ 1,500 flat ~ 1,500 max 50,001 -5,000,000 2.5% ~125,250 " 5,000,001 -50,000,000 2.0% ~ 1,025,250 "
50,000,001 -100,000,000 1.75% ~1,900,000 " 100,000,001 -500,000,000 1.5% ~7,900,000 " Over 500,000,000 0.25%

The names & addresses of the stockbrokers currently trading on the floor of the Exchange are:

1. MERBAN STOCKBROKERS LTD.

HEAD OFFICE ANNEX 57 EXAMINATION LOOP NORIHI RIDGE P. O. BOX 401, ACCRA TEL: (233-21) 666331-3/670463/251131-3 TLX: 2191 MERBAN GH FAX: (233-21) 667305 E- Mail :merbanservice@merbangh.com

2. ECOBANK STOCKBROKERS LIMITED

19 SEVENIHA AVENUE, RIDGE (WEST) P. O. BOX 16746 ACCRA-NORIHI TEL: (233-21) 231931 /231932 TLX: 2718 ECOBANK FAX: (233-21)775406 E-Mail: sbebga@ecobank.com

3. NTHC LTD.

MARTCO HOUSE, KWAME NKUMAH AVENUE P. O. BOX 9563 AIRPORT -ACCRA TEL: (233-21) 238492-3 FAX: (233-21)229975 E-Mail:nthc@ghana.com

4. GOLDCOAST SECURITIES LTD.

NO. 18, 8TH AVENUE RIDGE P. O. BOX 453, ACCRA TEL: (233-21) 256342-3/233-27 605809 FAX: (233-21) 256344 E-Mail: gsc@goldcoas.com

5. DATABANK BROKERAGE LTD.

SSNIT TOWER BLOCK, 5 FLOOR PRIVATE MAIL BAG MINISTRIES POST OFFICE, ACCRA TEL: (233-21) 669110/665124/663763 FAX: (233-21)669110 E-Mail: databank@africaonline.com.gh

6. FIRST ATLANTIC BROKERS LTD.

NUMBER I SEVENIHI AVENUE P. O. BOX CT1620, CANTONMENTS, ACCRA TEL: (233-21) 231433-5/245643 FAX: (233-21) 231399 E-Mail: fambl@ghana.com