



## **Financial Market Council**

### **The 2020 Annual Report**

#### **- Abstract -**

In accordance with the provisions of the law n°94-117 of November 14, 1994 relating to the reorganization of the financial market, the Financial Market Council (CMF) drew up its twenty-fifth annual report which retraces the activity of the council and assesses the evolution of the Tunisian financial market during the year 2020, in the light of the key highlights that marked the national and international economic activity, as well as the developments of the international financial markets.

#### **I. International and national economic activity:**

Due to the spread of the COVID-19, the year 2020 was characterized by a global economic recession of an unprecedented scale. This unexpected economic crisis led to a decline in global growth, which recorded a negative rate of 3.5%. In fact, this result represented a strong regression compared to the International Monetary Fund forecasts, published in April 2019, which expected a 3.3% potential achievement of the growth rate.

Like other economies in the world, the Tunisian economy has suffered from the consequences of the COVID-19 pandemic, particularly from imposed lockdowns. Thus, during 2020, the Tunisian economy recorded a negative growth rate of 8.8% against 0.9% in 2019, which is lower than the one expected in the complementary finance law for the year 2020, developed on the basis of a contraction of -7.3%.

Actually, the weakness of economic activity recorded in 2020 is mainly due to the deterioration of the indicators of the market services sector, which experienced a contraction of -13.3% against 2.6% in 2019 and due to the underperformance of the manufacturing sector which suffered the impact of the global economic crisis.

## **II. The financial market activity:**

The year 2020 was marked by the return of introductions to the Tunis Stock Exchange with the introduction of the company "Assurances Maghreb" on the main market. This introduction took place through the transfer of old shares, representing 30% of the opening percentage of the company's capital and was conducted through a fixed price offer, generating an additional market capitalization amounting to 249.8 MD. In that respect, the number of listed companies increased to 80 at the end of the year, including 12 companies listed on the alternative market.

Like other international stock exchanges, the Tunis Stock Exchange has suffered the negative impact of the spread of the COVID-19 pandemic. Thus, the stock market index "Tunindex" recorded a decline of 14.7% during the period between March 3<sup>rd</sup>, 2020, during which the first case of contamination was announced,

and March 17<sup>th</sup>, 2020. This decline followed several previous regressions and the trading session of March 16, 2020 suffered the most in terms of losses. During this session, the index fell by 4.10% which is the largest slide ever recorded since 2008.

In this context, it should be noted that the Financial Market Council, in consultation with the Tunis Stock Exchange has approved a number of measures that have helped to sustain the trading operations and to stabilize prices. These measures were related to the setting at 3% of the maximum static threshold of the stock exchange session, the introduction of a validity day of the orders, as well as the establishment of a daily settlement by the stock exchange of the remaining order book.

After this strongly bearish phase recorded in March, the Tunis Stock Exchange began from April 2020, a period of recovery that lasted until June of the same year. This recovery period was supported in particular by the exceptional measures approved by the Financial Market Council which allowed the Tunis Stock Exchange to limit its losses and finish the year with a drop of 3.33%.

Indeed, it should be noted that unlike many international exchanges, the Tunis Stock Exchange has not experienced a massive withdrawal of foreign investors. Thus, the share of foreign investors has recorded a slight increase of 25.25% compared with 24.73% last year.

Regarding the market capitalization, it reached an amount of 23,092 MD at the end of 2020, against 23,724 MD at the end of 2019, recording a fall of 2.66%. This contraction of 631.81 million dinars is explained rather by a fall in price than by a fall in volume, as well as by the impact of two operations of

withdrawal of the main market and the alternative market of the Stock Exchange.

On the other hand, the overall volume of funds raised on the financial market in 2020 has increased by 16.7% to reach 1 235.6 million dinars against 1 058.8 million dinars in 2019. Consequently, the contribution rate of the financial market in the financing of private investment has recorded a remarkable progression compared with the last year. It has reached 16.4% compared with 9.8% in 2019.

With regard to the stock market intermediation sector, stock market intermediation companies were able to preserve their financial balances, despite the difficult general situation. Thus, the equity of these companies reached in 2020, a total of 123.8 million dinars compared with 123.5 million dinars in 2019. Similarly, the yield equity of intermediation companies recorded an improvement from 26.4% in 2019 to 31.6% at the end of 2020.

Recording an increase of 60%, these companies have also achieved an overall net income of 8 million dinars in 2020 against 5 million dinars in 2019. Thus, 17 out of a total of 23 intermediation companies recorded positive net results compared to 10 out of 23 a year earlier. As a matter of fact, these positive figures were achieved thanks to the exceptional measures taken to ensure the continuation of stock market trading during the period of health measure restrictions.

As for the mutual fund industry, the year 2020 was marked by the stability of the number of collective investment schemes which reached 119 organizations. On the other hand, the amount of net assets recorded

a sharp increase from 3,678 million dinars at the end of 2019 to 4,709 million dinars at the end of the year 2020.

Finally, the number of organizations operating in the venture capital sector amounted to 116 organizations compared to 109 in 2019, divided between 61 venture capital investment companies, 48 venture capital investment funds, 6 seed funds and one fund of funds. The number of projects carried out in 2020 by these organizations reached 152 for an overall value of 543.8 million dinars against 430.2 million dinars in 2019. It is noteworthy that 49.2% of the projects carried out concerned companies employing less than 20 employees and 19.3% concerned companies employing between 20 and 50 employees. This reveals the importance of the venture capital sector in strengthening the equity of small and medium enterprises and job creation especially in the interior regions in which 83 projects have been completed for an amount of 190.1 million dinars. Overall, during 2020, venture capital investment organizations created 8,000 direct jobs.

### **III. The Financial Market Council Activity:**

#### **1. Strengthening the financial transparency:**

The consequences of the health crisis on the economy have forced international financial regulators to take actions that will enable the various market participants to better face this particular situation. In this context, the International Organization of Securities Commissions (IOSCO) has encouraged issuing companies to respect the principles of transparency and equal access to information when disclosing information on the impact of the COVID-19 pandemic.

Following the international regulators of the capital markets, the Financial Market Council reminded listed companies of the main measures to be taken into consideration when submitting financial reporting, in order to guarantee the disclosure of an accurate information and in due time, which is a prerequisite of an orderly financial market, especially in period of crisis.

Yet, the attention of companies and various stakeholders such as auditors and sponsor listings has been drawn to the need for companies to communicate on the difficulties they are facing in dealing with the economic impact of the health crisis. In addition, the Tunisian financial market council reminded the importance of the role assigned to the permanent audit committees in terms of monitoring the reliability of financial information and the compliance with legal and regulatory provisions, in view of the importance of analyses and estimates related to the context of the health crisis and its consequences on economic activity.

In addition, the CMF required companies that experienced a significant decline in performance, to submit notes explaining the reasons of such decline. Following the CMF's request, the concerned companies disclosed to the public information detailing the impact of the health crisis on their business, as well as the strategic and operational decisions they adopted to face the crisis.

In view of the consequences of the spread of the COVID-19 pandemic, the year 2020 recorded a decline in the rate of compliance by listed companies with the deadline for the communication of their financial statements set at four months, at the latest of the end of the accounting period. Thus, 42% of the listed companies have respected the legal deadline for communication. It should be noted that the delays are due in the majority of cases to exceptional events such as the measures taken to combat the COVID-19 pandemic, difficulties in

implementing a new information system and the nomination of new executives. Nevertheless, in order to get the defaulting companies to disclose the required information, the CMF has conducted investigations, fined the recalcitrant companies and ordered them to comply with their legal and regulatory requirements.

On the other hand the year 2020 recorded an increase in the number of listed companies which have complied with their ongoing disclosure requirements by issuing press releases to inform their shareholders and the public of major events affecting their business and, mainly, of any important fact likely to have a significant impact on the price or value of securities. Thus, during the year 2020, the CMF issued 203 press releases compared to 158 press releases in 2019.

## **2. The protection of invested savings in securities:**

The Financial Market Council has been entrusted by the legislator to ensure the protection of savings invested in securities, financial products negotiable on the stock exchange and any other savings and investment vehicles. To fulfill its legal mission, the CMF has implemented comprehensive monitoring programs for all market participants, whether they are stock market intermediaries, managers of securities portfolios on behalf of third parties, or custodians of collective investment schemes, in order to conduct investigations if shortcomings or deficiencies are met. Likewise, the Council heard and investigated complaints made by investors to enable them to recover their rights in cases of breaches committed against them.

Within this framework, the Financial Market Council has conducted, during 2020, fourteen investigations, ten of which related to the non-compliance of listed companies with their financial disclosure obligations. The remaining

investigations concerned the share price of a listed company, the activity of a stock market intermediation company and the non-disclosure of the threshold crossing in the capital of a listed company.

Pursuant to the provisions of Article 34 of Law n°94-117 of November 14, 1994 on the reorganization of the financial market, the CMF also received four complaints against a listed company, two banks and a company managing securities portfolios on behalf of third parties.

In 2020 and following the investigations carried out and respecting all the legal requirements, including those guaranteeing the rights of defense, the board of the financial market council has ruled on the investigation and complaint files. It has imposed disciplinary and financial sanctions on offenders in order to protect the financial market against shortcomings and breaches, which is likely to guarantee its integrity and strengthen investor confidence.

### **3. Development of the legal and regulatory framework of the financial market:**

It is undeniable that the strengthening of the legal system governing the Tunisian financial market is the cornerstone for improving its performance. In this respect, the Financial Market Council participated in the development of the legislative and regulatory framework, in order to protect savings invested in securities, by enacting adequate rules to ensure the integrity of market transactions and to promote the imperatives of transparency.

During the year 2020, the Financial Market Council has elaborated a general decision draft relating to the criteria and modalities for the appointment of independent members and the representative of minority shareholders to the

executive board and the supervisory board of listed companies. The decision was taken in order to reinforce the principles of good governance within these companies and to guarantee a better representation of small holders.

The CMF also participated during 2020 in the preparation of the law n°2020-37 of August 6, 2020 relating to the crowdfunding. As a matter of fact, this new financial activity is an ideal solution to grant financial resources to small and medium enterprises as well as start-up companies via the collection of funds from the public through a dedicated internet platform. Financing projects or companies can be done either through the investment in securities or through the granting of loans or donations.

#### **4. Reinforcement of the international cooperation:**

The growth and speed of international capital transfers require greater coordination between the bodies responsible for financial market supervision, particularly in the framework of specialized international and regional organizations. It also requires the adoption of common rules to better protect investors, ensure market efficiency and address systemic risks. In this context, the financial market council has taken care to strengthen regional and international cooperation opportunities, albeit the challenges posed by the spread of the COVID-19 pandemic at both the national and international levels.

The Council has continued its various activities related to communication and exchange of expertise with its international counterparts by processing information requests, within its area of expertise, as regards to the financial market legal and regulatory framework, as well as the various measures adopted to address the spread of the global pandemic.

In spite of the difficult and challenging economic situation, the Tunisian financial market recorded positive results, highlighting the need to continue the reforms already undertaken, in order to strengthen the role of the market in the development of economic growth and the strengthening of its fundamentals especially in the post COVID-19 period.

Eventually, it is necessary to accelerate the process of reform of the legal framework governing the national financial market, considering that it constitutes an important opportunity to set up new incentives and to create new products to draw institutional savings in particular, in order to provide more depth to the market and to increase the rhythm of transactions.

***Salah ESSAYEL, Chairman of  
the Financial Market Council***