

# Investor's guide in Tunis Stock Exchange

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## **Introduction**

The iconic institution of finance, the stock exchange appears more as a tool reserved for an informed public, endowed with an increase in capital.

Such image that was long ago established has no longer any reason to exist. Nowadays, the stock exchange is accessible to everyone, each according to his means, with tempting opportunities to grow their savings.

The stock market professionals, especially stock brokers, are present to guide all new investors. As for the Financial Market Council, whose primary mission is to ensure the protection of savings invested in transferable securities, it ensures the respect by all actors of the legislation.

This document aims to familiarize new stock investors with the stock market mechanisms.

In addition to this brochure, Tunis Stock Exchange also offers a 'guide of the stock exchange products' which lists the forms of investments existing in Tunis Stock exchange.

### **1. The stock exchange in brief:**

Tunis stock exchange is a place to exchange different financial products, the most famous are the shares and bonds (see the list of financial products in the "guide of stock exchange Product "). The stock exchange is therefore both a place of business financing and a place of investment for investors.

Therefore, the stock exchange plays a key role in financing the economy: companies find additional capitals through traditional financing means (cash, bank loans ...) that are necessary for their development, while individuals have tools that allow them to grow their savings by becoming partners of companies through shares or by becoming creditors through bonds.

Tunis Stock Exchange is a private organization whose shareholders are Stock brokers.

Its operation is governed by an elaborate legislative and regulatory system which application is subject to the supervision of The Financial Market Council.

### **2. The main products of the stock exchange**

Tunis Stock exchange products are divided into two main categories: equity securities and debt securities. Each category is different by the nature of the risks it generates and the rights it provides.

## **A-Equity securities or shares**

Equity securities are more known as shares

The shares represent equal shares in the capital of companies whose most common form is the limited company. The commitment of a shareholder in a limited company is restricted to the amount he/she invest in it.

The shares entitle their owners, the shareholders, the status of partner.

The shareholders have a number of rights:

- **The right to management:** Each share entitles its owner a voting right during General assemblies of the company; these regular meetings aim to validate the company's major management orientations.
- **The right to information:** Each share gives its owner the right to access the accounts and results of the company.
- **The right to profits:** At the end of each fiscal year, all or part of the profit is distributed to shareholders as dividends. These dividends vary from one year to another because they depend on results achieved by the company and its capital remuneration policy.
- **The right to corporate assets:** shareholders have a right to the assets of the company, net of debt. The pre-emptive subscription right and allotment right are rights attached to the share capital transactions (such as capital increases through cash subscription or by incorporation of reserves) that materialize this right.

## **B-Debt securities or bonds**

Any business, public or private, that meets certain conditions can issue a loan in the stock market. The loan is divided into cuts of equal value called debt securities, more known as bonds.

The subscribers of bonds are called bondholders.

The bondholders are thus creditors of the company; such status gives them a number of rights.

- **The right to information:** through the documents presented to bondholders' meetings.
- **The right to remuneration:** bonds receive interests. Their rate is fixed or variable according to the conditions planned during their issue. They are calculated by applying the rate to the nominal value of the bond. Interests are paid at fixed intervals specified in the program. For bonds called zero coupon, interest rates result in a single payment on repayment of principal.

## **c- Return on debt securities and bonds and their taxation**

### **1. The return and taxation of shares**

#### **a. The return on shares**

The share provides two types of income:

. Dividends: they represent the net profit distributed to shareholders

.Capital gain on sale: this is the difference between the purchase price and sale price of a share. The capital gain becomes effective at the completion of the sale at a higher price than the purchase price. Otherwise, it is called depreciation.

#### **b. Taxation:**

**Tax on dividends:** Profits or income distributed from January 1, 2015 by resident companies in Tunisia are subject to a full withholding tax at the rate of 5% when distributed to resident and non-resident individuals in Tunisia and legal entities.

The withholding tax is deductible from the tax on annual income. It can be refundable in case the distributed income does not exceed 10,000 dinars annually.

#### **Tax on capital gains from the transfer of publicly traded shares**

The capital gain of listed shares acquired or subscribed from 1 January 2011 and sold before the end of the year following that of their acquisition or subscription is subject to tax:

- For individuals, at a 10 % rate, after deduction of the depreciation recorded during the same year and 10 000-dinar tax allowance of remainder.
- For the resident legal entities, as part of the overall profit by taking into account the depreciation
- for non-resident individuals not established in Tunisia, and subject to the exemptions provided by the double taxation agreements between Tunisia and the country of residence of sellers, by a discharge withholding tax of 10 % with a maximum of 2,5% determined on the basis of the sale price.

Non-resident legal entities that are not established in Tunisia are subject to a withholding tax rate of 30% with a 5% ceiling calculated on the basis of the sale price.

Nonresidents can opt for a tax return to benefit from the deduction of the depreciations recorded during the same year. While individuals can opt for a 10 000-dinar allowance; following the example of the residents.

However capital gains are exempt from:

- The transfer of shares listed on the Tunis Stock Exchange, acquired or subscribed:

-before 1 January 2011

-from 1 January 2011 and sold after the end of the year following that of their acquisition or subscription

- The contribution of shares and partnership shares with a capital of the parent company or of the holding company which makes a commitment to list its shares to Tunis stock exchange no later than the end of the year following that of the deduction.
- The transfer of shares of unit trust and mutual funds independent of a professional asset.
- The transfer of shares of seed funds and venture capital funds subject to the terms and conditions of their assets.

Finally, it should be noted that a tax benefit is granted in the form of a 35% to 100% tax allowance on profits or taxable reserves that are reinvested in capital subscription of firms operating in certain sectors namely:

- Companies whose activity is governed by the investment incentives code
- Venture capital companies or venture capital funds placed within them, venture capital funds and seed funds.

Companies located in regional development zones or in free economic zones.

Moreover, the acquisition by individuals of shares within the framework of the Share Savings Account allows them to benefit from a tax allowance of the amounts invested in the account subject to an annual ceiling of 50,000 dinars of the tax base on income. The maximum tax reduction should not exceed 40% of the tax due before deduction.

**(cette partie n'existe pas dans la version en papier)**

## **2. Bond yield and taxation:**

### **a. Bond yield**

**When a bond is held until maturity, its income consists of the interest it produces.**

**When a bond is sold, it may lead to the realization of a capital gain in case of a decrease in the level of interest rates on more recent issues. However, it can lead to a capital loss in case of an increase in the interest rate.**

## **b. Taxation:**

As income from movable capital, interest is subject to withholding tax at the rate of 20%, chargeable on personal income tax and corporate tax.

However, for individuals, interest of bonds are similar to the interests of other forms of savings, deductible from the tax base on income of individuals within the limit of an annual limit of 1,500 dinars.

### **III How to access Tunis stock exchange?**

Investing in the stock exchange cannot be done directly by an individual. It requires to resort to a professional: The stock brokers is the only authorized person to trade on the stock exchange.

Conducting a transaction, whether buying or selling, is therefore performed by placing a stock exchange order to the chosen stock broker.

This order must include a number of indications necessary for its proper execution:

- The contractor's identity
- The type of the operation: purchase or sale
- The name of the value to which the order relates
- The number of shares of that value that are going to be negotiated
- The validity of the order, that is, the date beyond which the order is no longer valid.

The validity can be updated, at a fixed date or in revocation, that is 365 days

- The price

The new version of the electronic trading system V900, functional as of December 3rd 2007, extended the typology of orders. Certain orders look for an insurance of an execution without setting conditions on the price (market order or market-to-limit order), whereas more sophisticated orders seek to cover the buyer/ seller's position to protect against possible reversals of trend (stop orders).

#### **A. The new typology of orders**

- **Limited price order:** This is an order with a price limit that cannot be exceeded. The buyer indicates the maximum price he is willing to pay and the seller indicates the minimum price below which he is no longer willing to sell his shares. This order is accepted during the periods of accumulation of orders and the all-day trading phase.
- **Opening price order:** This is an order that includes no price limit and is accepted only in the period of accumulation of orders.

- **Market-to-limit order:** This is an order which includes no price limit and which is only accepted in the all-day trading phase.
- **The market order:** This is an order which includes no price limit and which is accepted in the phase of accumulation of orders and all-day trading phase.
- **The stop order:** it is an order for purchase or sale for which the contractor wishes to intervene in the market, when the price of the shares reaches in the market a level previously fixed by himself, it is called "trigger price". The "stop" order is acceptable during the periods of accumulation of orders and all-day trading phase.

#### **B. costs of transactions:**

Any transaction on the stock exchange, whether it is a purchase or sale of shares or bonds is accompanied by transaction costs. These transactions are composed of commissions to the stock broker and the stock exchange. These fees typically do not exceed 1% of the transaction amount.

#### **IV The market functioning**

Trading of listed securities is made on a computerized system. This computer-assisted trading system was developed by Atos Euronext Company according to the model of a centralized and order driven market. Today this quotation system is used by several developed and emerging financial institutions.

The trading of securities in the Tunis Stock exchange is done daily from Monday to Friday. From October 2008, Tunis Stock Exchange has extended the duration of the trading session which increased to 5 hours and 10 minutes. Its markets are now open from 9 am to 14:10 pm.

Customers' purchase and sale orders are introduced into the trading system in order to be confronted depending on the degree of liquidity of the securities:

\* Less liquid securities are listed according to the fixing mode.

\* The most liquid securities are listed according to the continuous mode.

#### **A. quotation through fixing**

The confrontation of the orders of the listed securities according to the fixing mode is proceeds as follows:

. **A pre-opening phase** from 9 am to 10 am: During this phase, the orders are entered without giving rise to transactions. The system only shows a theoretical opening price which constitutes the theoretical balance price at a given moment.

. **The opening by fixing** starts at 10 am: The system then determines the balance price which is the unique opening price that ensures the effective completion of transactions.

. **After the opening** of 10am, the listed securities according to the fixing mode turn to a new phase of accumulation of orders. The Stock exchange organizes a second fixing at 11:30 then a final fixing at 13pm that will determine a closing price.

. **Closing price orders** take place from 1 pm to 1:05 pm at a closing price. In this phase, the orders placed in the system will be traded at a closing price.

#### A. All-day trading

The confrontation of the orders on listed securities according to the continues mode is as follows:

\* A pre-opening phase, from 9 am to 10 am: During this phase, the orders are entered without giving rise to transactions. The system only shows a theoretical opening price.

\* The opening by a fixing at 10 am: the system then determines a unique opening price which ensures the effective completion of transactions.

\* After the opening and during the continuous session (from 10am to 2pm) the entry of an order in the system can lead to an instant transaction when there is a compatible limit from the opposite direction.

\* An order- accumulation phase starts from 2pm to 02:05pm: in this phase orders are entered without leading to transactions, the system only shows a theoretical opening price which constitutes the theoretical balance price at a defined moment.

\* **A closing fixing** starts at 14:05: the system determines the balance price that ensures the effective completion of the transactions, it is the closing price.

Closing price orders take place from 2:05 p.m to 2:10 p.m at a closing price. In this phase, orders placed in the system will be traded at the closing price.

### C. The processing of orders by the trading system

#### 1. The limit order:

· In the pre-opening, purchase orders which price exceeds the theoretical opening price are reduced to the limit of the latter; Similarly sale orders which price is less than the theoretical opening price are converted to the limit of the latter (the principle of crushing the limits).



In continuous trading phase, any order that finds compatible limit from the opposite direction is immediately executed.

## **2. The opening price order**

Until the beginning of trading, the limit of this order constantly adjusts to the theoretical opening price. At each fixing, this order can be executed at prices fixed by the system; it is also met compared with the limit orders.

In the absence of a quoted value during fixing, the opening price order remains in the order book, denominated at the opening price. In case of partial execution, the remaining unexecuted shares are transformed into a limit order during the first execution.

## **3. market-to-limit order**

Market-to-limit order has authority to be executed as soon as there is an opening of a market to limit order from the opposite direction (for example, a purchase market to limit order will be executed at the price of a sale market to limit order and vice versa) . In case of partial execution, the remaining unexecuted shares are transformed into a limit order during the first execution. However, when the market-to-limit order cannot find a compatible limit of opposite direction, it is automatically rejected by the system.

## **4. The market order**

This order can be executed with several limits of the opposite direction and at the most of the available quantity.

If it is not fully executed, it remains in the order book with the same Market wording and remains ready to be executed at any price as soon as possible. The market order has priority over all other types of orders.

## **5. The stop order**

- This order becomes operational on the market only when the trigger price is reached. There are two types of stop orders

- An order issued to a "trigger price" (stop loss) which does not include a price limit and which is thus transformed into "market order"

- An order issued to "a trigger and maximum price" (stop limit order or stop limit) that includes a maximum price and is thus transformed into a "limit order".

## **D. The thresholds of variation**

At the beginning of the trading session, the thresholds of variation of prices allowed for each security are determined with regard to the reference price 3%, the reference price is generally equal to the closing price of the previous day.

After the opening of the session, the authorized thresholds of variation are recalculated with respect to the opening price 3%.

A security can be subject to a reservation. This condition involves the establishment of a balance price exceeding the thresholds of variation of prices authorised by the stock exchange.

In every reservation, the stock exchange adds an additional percentage of fluctuation of 1.5% without exceeding the maximum variation allowed in the session, that is 6.09% compared to the reference price.

## **V. The golden rules for investing in the stock exchange**

### **A. have a long-term planning horizon**

The price of a share is a reflection of the results of a company, its valuation is to be considered over the long run. If the investor should remain alert to daily changes in values of his portfolio, it is also in his interest not to react hastily over the daily increases and declines.

In this sense, the stock exchange is not a short-term investment.

### **B. use a commitment-free savings account**

The second golden rule is based on the previous one: for a long term investment, it is strongly recommended not to invest borrowed money or money that could possibly be needed in the short term because stock exchange investment requires waiting for the right time to sell shares; thus the investor must be able to assume this waiting period.

### **C. Do not put all your eggs in one basket: diversify your investments**

To minimize the consequences of a decline in the value of a security, it is advisable not to stake everything on the same value but to diversify investment by creating a portfolio that contains different shares. It is indeed unlikely that an event can cause the decline of a security (e.g. the poor performance of the company or sector of company affects all listed securities traded. The effect of a substantial drop in a security is redeemed by all other securities comprising the portfolio.

In general, a well balanced portfolio fluctuates on average much less than each security taken separately.

### **D. Being well informed**

A stock investor will be able to manage his portfolio rationally and objectively when he has a maximum of information on listed companies and the economic environment in which they operate. In this sense, the general press, specialized periodicals and also professionals in the stock exchange (brokers, financial advisors ...) and the annual reports of companies are sources of essential information.

Investors find in these media, the quarterly and annual results of listed companies, their prospects, quarterly activity indicators, any kind of economic information complemented by financial analysis of specialists and even recommendations of purchase and sale .

## **VI. Portfolio management**

A stock investor can not intervene directly in the market. He must resort to a professional such as the stock broker. However, there are two portfolio management forms: individual management and collective management.

### **A.individual management**

It can be free or discretionary. In both cases, the portfolio is placed in an account with the professional in charge of the execution of orders or mandate for the management of portfolio.

#### **1. Free management**

Free management is to decide for oneself which securities to be bought and sold, amounts to incur, the time and prices for purchase and sale. The investor's decision is formalized by purchase and sale orders passed to the stock broker and/or his bank. In this case stock brokers are merely executors of the decisions of the investor.

Free portfolio management requires a very good knowledge on listed companies, values and economic conditions. The assistance of professionals, stock brokers and bankers is always recommended.

#### **2. Discretionary management**

It consists of a delegation of the responsibility of portfolio management to a professional, a stock broker or banker. It also requires the signature of an agreement of management specifying the terms of this management, namely the scope of the delegation, the remuneration and the frequency and content of information on the evolution of the portfolio that the investor will receive.

### **B. Collective management**

It's a different form of stock exchange investments. Collective management is in fact the purchase of mutual fund securities :UCITS(UNDERTAKING FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES).

This management has the advantage of sparing the investor the responsibility of the collection of information, analysis and follow-up through the use of a professional.

There are two types of UCITIS: unit trust and mutual funds. Their characteristics and tax benefits are described in the "Guide of the stock-exchange products" developed by the Tunisian stock exchange.

## **VII. Information Services of the Tunisian Stock exchange**

Tunis Stock Exchange makes public the following media:

\* Daily Newsletter and market physiognomy. These documents recapitulate the daily news of the Tunis Stock exchange. They are available daily on the website of the Tunis stock exchange.

\* The Activity Report. This document summarizes all the activity of the stock exchange and all of activities of the year. It is available in hard copy upon request to Tunis Stock Exchange or downloadable in pdf version from the website.

\* The monthly newsletter of the Exchange. This is a monthly document that describes market activity, news of listed companies, as well as the events that concern Tunis Stock Exchange during the month.

\* The website: [www.bvmt.com.tn](http://www.bvmt.com.tn) contains different types of financial and statistical information, as well as educational documents: the collection of guides published by Tunis Stock Exchange ("The guide of Initial Public Offering ", " the stock products Guide "and" the investor's Guide on the stock exchange ") can be downloaded in pdf version. Furthermore, the website provides the consultation of current market data.

\* Publication of indices. Tunis stock exchange publishes two indices: << The capitalization index called Tunindex, created in December 1997, with a base equal to 1000, Tunindex is a general index grouping listed securities whose seniority of stay is more than 1 month. >>

- Tunindex20; It was launched since January 2nd 2012. It is a new and a more detailed instrument of performance assessment of the top 20 most active market capitalization on the Stock market.

Tunis Stock Exchange also publishes sectorial indices, intended for allowing assessment of the performance of different sectors.

The main indices published are those related to the banking and financial services, consumer services and consumer goods. The calculation of these indices is the same as the Tunindex with a base of 1000 in 31 December 2005.

