

**Access to Microfinance & Improved Implementation of Policy Reform
(AMIR Program)**

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**Prepare/Distribute Educational Materials
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Understanding the Jordan Capital Market

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WHY DO PEOPLE BUY STOCKS?

Why should one risk investing in the stock market when banks can also hold your money in a savings account without much risk of losing your capital? Investors benefit from owning stock in two ways: capital appreciation and dividends. In most cases, the income received from the dividend yield and capital appreciation is larger than the income received from the interest rates of savings accounts. Of course there is risk involved as stock prices could decline, otherwise known as capital depreciation. But, in spite of this risk, investing in stocks is also an investment into the future of a business, its industry and country of operation.

When considering which stocks to buy, one needs to consider one's financial situation, financial goals and tolerance for risk. One should first establish financial goals such as saving for tuition, buying a house, paying for a wedding, purchasing property, or saving for retirement.

If time is not an urgent factor, then one can afford to assume greater risk and buy shares of small, rapidly growing companies for maximum capital appreciation later on. However, if one needs to be able to access money quickly, then one ought to consider investing in blue chip stocks - reputable stocks that are always in demand and therefore easy to sell.

The ease of online trading, regular media coverage on all the major stock indices, and the increasing availability of Internet access have contributed to a greater global awareness of stocks and the markets in which they are traded. Many people have a passing familiarity with the Nasdaq, the New York Stock Exchange (NYSE), London Stock Exchange and Tokyo Stock Exchange. But there is growing interest in the Jordan capital market as it has been undergoing major structural and regulatory changes in order to better compete in the international arena.

A modern, fair and just capital market system consistent with international standards can contribute to the economic stability and growth of Jordan by providing capital in the form of cash for growing companies, whether new or old. Banks may or may not be able to offer loans big enough for fueling growth, so the capital market offers an alternative means of obtaining cash. The stock market allows a company to issue ownership shares of the company in exchange for currency to fund expansion, operating expenses, startup costs and other expenditures associated with running a business.

THE BEGINNING OF A COMPANY

Let's say an entrepreneur named Dina develops a good idea and wants to start a business around it. Dina recreates a traditional Bedouin design on a loom and has sold a few as pillowcases. A local crafts store has indicated a desire to purchase many pillows in different designs. She decides that she can create a business around this venture as long as she buys more looms, more yarn, and employ some local weavers. She calculates that she would need around JD50,000 in order to buy enough equipment and raw equipment to build up a product inventory.

Dina thinks that the enterprise would be beneficial in several ways. Her customers would enjoy the beautiful pillows, her employees and vendors would benefit by making and selling the pillows. People selling the looms and yarn would also benefit because she would be buying goods from them.

But where can she get JD50,000? She has only JD3,000 in her savings which is not enough to purchase the 3 extra looms. She considers approaching a bank but the bank is undecided about a loan since the business is just starting and does not have much collateral. She decides to approach venture capitalists, financial professionals who find the business compelling enough to invest some initial capital for the business to develop. In exchange for this capital, Dina must give up some ownership rights of her business.

She creates a company for liability reasons. A corporation limits the financial risk of owners to the amount of capital invested. If the business goes bankrupt, creditors can claim any business, but not personal, assets. Once established, the company needs to form a board of directors until the first annual meeting of stockholders in which a board of directors will be formally elected by the stockholders.

The company decides to issue 50,000 shares out of the 100,000 shares authorized in the company's charter. Both Dina and the venture capitalists according to the terms of their agreement then share the 50,000 shares. In this case, there are 50,000 shares outstanding out of the 100,000 shares authorized. Each share outstanding is authorized to an equal vote in the annual election of directors.

The business flourishes and gets even more advance orders for the pillowcases. The cost of each pillow including the yarn, salaries, computer, advertising expenses, and administrative overhead is JD15. By selling each pillow at JD25, the business makes JD10 per pillow. Since 5,000 pillows have been sold, the gross profit is 5,000 units x JD10 = JD50,000. The net profit is the gross profit minus other costs. In this scenario, the net profit is the gross profit (JD50,000) minus the advertising expenses (JD5,000) which comes to JD45,000.

	Total Sales	JD125,000
Less	Manufacturing cost, materials, salaries	JD 75,000
	Gross Profit	JD 50,000
Less	Advertising expenses	JD 5,000
=====		
	Net Profit or Earnings	JD 45,000

The earnings per share figure would be JD45,000 divided by 50,000 shares which equal JD0.9 per share. If a company plans to expand, then the board of directors may decide to roll back some or all of the earnings into the company. Internal financing is the terminology used when the earnings go back into the company to fuel growth. The board of directors may also decide to reward the shareholders and distribute a portion of the earnings as dividends.

INVESTING AND TRADING ON THE AMMAN STOCK EXCHANGE

Now that the company has turned a profit and is planning to expand into the export market, Dina and the venture capitalists have decided to take the company public, that is, open up its stock to public shareholders. By offering its shares in the Amman Stock Exchange, the company is able to raise more money for its expansion plans and offset some of the risk among all the shareholders. For the initial public offering (IPO), investment bankers are needed to underwrite the issue by buying all the shares for resale at a predetermined price per share. The venture capitalists who first invested in Dina's business also benefit from the IPO since their shares can now be exchanged for money.

Individuals who want to invest in Dina's business first need to open an account with a certified brokerage firm licensed by the Jordan Securities Commission. Stocks can then be purchased through the brokerage firm. A current list of the stock brokerage firms that are members of the Amman Stock Exchange is provided in the Appendix.

The performance of a share is typically measured in terms of total return, that is, dividends received plus or minus capital appreciation/depreciation during a given period. Example: If Mr. Haddad buys a share in a company for JD 100 at the beginning of the year, the company pays a dividend of JD 5 during the year and the price of the shares in the market rises to JD 130 by the end of the year, the total return would be calculated as follows:

$$\begin{aligned}\text{Total Return:} &= (\text{Dividends} + \text{Capital Appreciation}) \div \text{Original Investment} \\ &= (\text{JD}5 + \text{JD}30) \div \text{JD}100 \\ &= 35\%\end{aligned}$$

This represents a total return of 35% on the initial investment. There are other benefits as well. Private investors, whether Jordanian or non-Jordanian, are exempt from tax on all types of interest earned as well as capital gains derived from trading in securities. A ten percent tax is levied at source on cash dividends, which means that the investor does not pay extra taxes.

HOW TO PICK STOCKS

There is an old Wall Street saying, “a stock is worth what someone is willing to pay.” That is to say, the potential investor needs to look at the earnings outlook, dividend prospects and financial condition in order to make an informed decision. The stock price revolves around these three fundamental factors as investors compare the stock to other investment opportunities.

The price to earnings ratio (P/E ratio) is calculated by dividing the price of the stock by the earnings per share number. A low P/E ratio is usually desirable because it indicates a better value since the rate of return is high compared to the price of the stock. This concept, however, does not hold true when looking at new businesses breaking into a new industry. New companies may have higher P/E ratios because earnings may be low or even non-existent as they spend money to enter new markets and introduce new technologies and services. A higher P/E ratio can indicate greater risk, but one ought to consider future profits and market positioning as well.

The dividend yield is calculated by dividing the annual cash dividend per share by the price of the stock. A mature company will usually offer a higher yield as it already has a successful product flourishing in a developed market. In contrast, newer companies will probably reinvest the revenue in the company in order to fuel growth and establish itself in newer markets.

These two figures never remain constant. Stock prices can vary within minutes, days, weeks and months. When the stock price increases, then the P/E ratio increases and the dividend yield declines. Furthermore, change occurs whenever earnings and dividends change as well. These financial numbers will fluctuate depending on news affecting the company itself, the country/ies the company is active in, and the industry. Sometimes a stock will rise or fall for no apparent reason. And sometimes a stock will fluctuate depending on how the company performs in comparison to the expectations from financial experts. However, over a long period of time, the stock price will generally rise or fall in line with the company’s earnings, dividends and financial condition.

Public companies, or companies with shareholders, usually publish a year-end annual report to their shareholders. Within financial statements, there are two important figures that the shareholder must look into in order to better understand the financial condition of the company. These are the balance sheet and the statement of income.

The balance sheet shows what the company owns (assets), what it owes (liabilities), and the value of the remaining amount, called stockholders’ equity (i.e. the net worth of the stockholders’ ownership).

The statement of income presents the company’s business results for the year and includes the company’s sales, costs, and profits earned during the year. These figures can be compared to previous years’ figures to determine how well the company is doing from year to year.

BE AN INFORMED INVESTOR

The downside of stock ownership is that there is no guarantee that the shares one buys will increase in value. Stock prices may rise **or** fall on the Market. In order to be able to make intelligent decisions, become an educated investor.

Get to know the company. There are various ways that an investor can become acquainted with a company. One way is by reading the company's literature including past annual reports, quarterly statements, management speeches, and press releases. Another is to read research reports written by securities analysts. Attend the company's annual meeting, peruse the financial column in the local newspapers, watch financial news and pay attention to trends. Be an informed consumer. Do the research.

JORDAN CAPITAL MARKET

Jordan's first officially sanctioned financial institution, the Amman Financial Market (AFM), was founded in 1976 through a joint effort between the Central Bank of Jordan and the International Finance Corporation. The AFM was the only institution officially sanctioned for trading securities, regulation and settlement. The Securities Law No. 23 of 1997 altered this structure by calling for three separate institutions to replace the single AFM. The separation of the regulatory functions from share trading follows international standards. The three institutions created by this law are: Jordan Securities Commission (JSC), Amman Stock Exchange (ASE), and Securities Depository Center (SDC). The three organizations have distinct functions, yet share the common objective to securing a stable environment that meets international standards for securities transactions.

HOW DOES THE SYSTEM WORK?

When a company lists on the Stock Exchange, it first must register all of its public shares at the Depository. Only after registration with the Depository are the shares then listed and traded on the Exchange. The Exchange facilitates the trading of securities and the brokers who buy and sell securities are held responsible for their transactions. After the trade is completed, the entire transaction is then electronically verified by the Depository for compliance of trading rules and regulations. Once verification has been completed, the ownership of the security is then transferred to the buyer.

JORDAN SECURITIES COMMISSION (JSC)

The Jordan Securities Commission (JSC) monitors trades to ensure that the capital market functions in accordance with international and Jordanian legal standards. As an independent entity with financial and administrative autonomy, the Commission's role is to achieve a sound and transparent securities market and to protect shareholders, investors and the public from irregular market practices.

JSC monitors and regulates all professional securities market participants and institutions, including:

- Amman Stock Exchange
- Securities Depository Center
- Management of Primary Issues
- Financial Brokerage Firms
- Investment Trusteeship
- Investment Management
- Financial Consultation

The Commission is responsible for licensing these entities and issuing rules and regulations to which they must adhere. Five full-time Commissioners, including the Chairman and Deputy Chairman, serve five-year terms on the Board of Commissioners. Commissioners are appointed by the Council of Ministers. The Board of Commissioners is responsible for preparing drafts of laws and regulations, approving internal regulations of the Stock Exchange and the Depository Center, approving the listing of securities, granting licenses to financial services companies and certified financial professionals, approving registration of investment funds, approving fees and commissions and accrediting accounting and auditing standards.

AMMAN STOCK EXCHANGE (ASE)

The Amman Stock Exchange, established on March 11, 1999, is the only agency in the country authorized to operate as a market for the trading of securities. With a market capitalization of approximately US\$5 billion at the end of 2000, the ASE is one of the largest stock markets in the region that permits foreign investment. The Exchange currently has 540,000 shareholders and is almost fully open to non-Jordanian equity ownership. The exceptions are companies in the construction contracting, commercial and commercial services and mining sectors, where there is a foreign ownership ceiling of fifty percent of paid-up capital. Jordanian corporate and individual investors hold 58.3% of the shares while foreign investors account for 41.7% of share ownership at the end of 2000.

The Exchange is a private sector, non-profit organization with legal and financial independence. It consists of certified financial brokers and is managed by a Board of Directors. The Board of Directors includes seven members: three who represent financial service companies licensed as financial brokers and two who represent banks authorized to function as financial brokers or financial brokerage firms owned by or affiliated with the banks. The Securities Commission Representatives Board appoints the other two members from the private sector, electing those who have expertise in either the legal, financial or economic fields. The Chairman and Vice Chairman are elected from the members of the Board of Directors. The Board of Directors, upon advice from the Board of Commissioners, appoints the Chief Executive Officer to manage the Stock Exchange.

ASE members are financial services companies licensed by the Commission to perform financial brokerage activities. The General Assembly of the Stock Exchange is composed of members who have paid association fees and annual subscription fees. Each broker has one vote in the General Assembly meeting. These meetings are held once a year.

Stocks and Bonds

Several types of financial instruments are traded on the Exchange: shares of public shareholding companies, government development bonds, treasury bills and bonds, as well as bonds issued by public institutions and public shareholding companies.

The primary market for securities is where new issues of bonds, common and preferred stocks are sold by the issuer to acquire new capital. In the primary market, the issuer receives the proceeds of the securities sale. New issues consist of share issues and bond issues. Share issues include both issues by newly-established companies, as well as the established ones through capital increases or by public and private offerings.

The secondary market of the ASE trades outstanding issues, and is classified as follows:

First Market: Securities traded in the First Market must comply with strict requirements. Companies listed in this first tier must have made a profit for at least two of the three years before being listed. They must also have distributed cash dividends or bonus shares at least once over the last three years.

Second Market: Securities traded in the Second Market have fulfilled the requirements to become a listed company, but have yet to fulfill the requirements needed to move up to the first tier.

Third Market: Securities traded in the Third Market are not listed on the Exchange and have few disclosure requirements. These are companies that are waiting to fulfill the requirements to become a listed company.

Bond Market: Both government and corporate bonds are issued on the Exchange but remain relatively small in relation to the overall stock market. The development of an active bond market is among the government's key priorities as it seeks to encourage higher levels of foreign investment.

There are also off-the-trading floor transactions which include inheritance, inter-family transactions and companies excluded from trading. These transactions were previously executed through the legal department of the ASE but are now implemented through the Securities Depository Center. Mutual funds, which are investment portfolios of different combinations of stocks and/or bonds, are also listed on the ASE.

SECURITIES DEPOSITORY CENTER (SDC)

The Securities Depository Center is an administratively and financially autonomous body in charge of all clearing and settlement activities resulting from trades on the Amman Stock Exchange. The clearance process verifies the accuracy of the agreed upon quantity and price of securities traded. After the trade clears, the Depository is responsible for settling the trade, which involves the transfer of money between parties and the transfer of ownership of the security. In order to facilitate the clearance and settlement process, the Depository maintains ownership records of all ASE securities.

The Depository is a non-profit agency and is run by a board of directors from the private sector. A world-class automated clearing and settlement, depository and share registration system is being established with assistance from the U.S. Agency for International Development.

The main functions of the Depository are summarized below:

- Electronic registration of securities traded on the Amman Stock Exchange (ASE)
- Maintenance of ownership records of shares of public companies listed on the ASE
- Clearance of trades on the ASE
- Settlement of trades on the ASE

APPENDIX

Contact information:

Jordan Securities Commission

P.O. Box 8802
Amman 11121 Jordan

Tel: 962-6-5607171

Fax: 962-6-5686830

Email: info@jsc.gov.jo

Web: <http://www.jsc.gov.jo>

Amman Stock Exchange

Arajan Area - Near the Ministry of Interior
P.O. Box 212466 Amman 11121 – Jordan

Tel: 962-6-5664109

Fax: 962-6-5664071

Email: info@ase.gov.jo

Web: <http://www.ase.gov.jo>

Securities Depository Center

P.O.Box 212465
Amman 11121 Jordan

Tel: 962-6- 5672788

Fax: 962-6- 5672590

E-mail: info@cdc.com.jo

Web: <http://www.sdc.com.jo>

List of Brokerage Companies:

Samir & Sameh Bros. for Investment
Sameer Ja'bari

5671546
5603329
20194
1118

International Financial Center
Dawoud Kishta

5674558
5696720
940919
11194

Trans Jordan for Financial Services
Abdullah Suht

4619517
4619516
8675
11121

The Financial Investment Company for Shares and Bonds
Sami Shanak

5671569
5699626
17170
11195

Shareco Brokerage Co. LTD.
Ibrahim Al- Dawoud

5673812
5695644
5377

11831

Tanmia Securities Inc.
Walid Najjar

5672460
5683559
925781

11190

The Financial Investment House Co.
Abdulhadi Jaradeh

5673455

11181 5673419
3301

Union Bank for Saving and Investment
Kamel Al-Zereh

5675558
5606996
35104

11180
<http://www.unionbankjo.com/>

Arab Jordan Investment Bank
Ihsan Al-Na'san

5671578
5671578
8797
11121

Arab Co-operation Financial Investment Co.
Hosam Eddin Hanbali

5674249
5674249
930059
11193

Al- Wafa'a Co. For Trading Stocks and Bonds *

-
5671477
5690585
926019
11110

Al-Amal Financial Investments Co. LTD.
Imad Al- Kharouf

5671485

961598
11196

Al- Hilal Securities Trading *

5663173
5663173
925989

United Co. for Financial Investment
Naser Al-Amad

5673163
5673163
927250
11196

<http://www.ufico.com/>

Philadelphia Investment Bank
Moneer Toffaha

5605039
5663172
925993
11110

<http://www.philibank.com/>

Universal Investment Co. LTD. *

-
5674291
5669396
925359
11110

The Arab Financial Investment
Tareq Khater

5538721
5538724
922634
11192

<http://www.afinstock.com/>

Jordan National Bank
Mohamed Tash

5624361
5624632
3103
11181

www.ahli.com

Amman Investment & Securities
Asa'd Addisi

5672572
5672572
851525
11185

National Portfolio Securities
Mohammed Al- Bilbesi

5673101
5688793
926721
11110

<http://www.npsc.com.jo/>

Al-Watanieh for Financial Services Co.
Dr. Hani Al-Halawani

5673872
5682803
925102
11190

Jordan & Gulf Investment
Sami Abu Samra

5675617
5826865
930174

Industrial Development Bank
Khaled Khunam

5674380
5688016
1982
11118

Jordan Investment and Finance Bank
Rajai Kossous

5673763
5682634
950601
11195

<http://www.jifbank.com/>

Middle East Investment Bank

Amjad Al- Rashaq
5681651
5681258
560
11118

Arab Financial and Consultancy Services

Amjad Al-Mousa
5669257
5669258
950545
11195

www.arabbank.com

Export & Finance Bank

Tareq Al-Ansari
5660081
5692062
941283
11194

<http://www.efbank.com.jo/>

Jordan Islamic Bank
Adnan Madi

5653046
5653047
926225

Atlas Investment Group

Wajdi Makhamreh
5623963
5656079
143156
11814

<http://www.atlasinvest.net/>

Bank of Jordan **

-
5696277
5696291
2140

United Arab Investors **

-
5662327
5662398
841327

The Housing Bank **

-
5670179
5691193
7693
11118

Selwan Financial Brokers
Asem Sgier

5674141
5657549
215260
11122

* suspended

** not working

Glossary:

Amman Financial Market (AFM): The institution that was previously the regulator and operator of Jordan's capital market and has since been replaced by the regulatory body, the Jordan Securities Commission. The operations of the capital market now occur in the Amman Stock Exchange and the Securities Depository Center.

Amman Stock Exchange (ASE): The only agency authorized as a formal market for trading securities in the Hashemite Kingdom of Jordan.

Annual Report: The formal financial statement issued yearly by a publicly-owned corporation, showing the company's assets, liabilities, revenues, expenses and earnings.

Asset: Anything a person, company, or group owns or is owed, including money, investments and property.

Balance Sheet: A financial statement showing the company's assets, liabilities and capital on a given date.

Bond: Debt certificates issued by a government or company that promises to pay back principle by a certain date with interest.

Book Value: A company's total assets minus intangible assets and liabilities (also called *Common Shareholder's Equity*).

Broker: An individual or company who handles public orders to buy and sell securities, commodities or other property on the behalf of clients. A commission is charged for this service. A broker is often a member of a stock exchange firm or is an exchange member.

Capital market: A place to buy and sell securities, including stocks and bonds.

Commission: The broker's basic fee for purchasing or selling securities on behalf of another party, usually a percentage of the amount of the transaction.

Disclosure: The release by companies of all information positive or negative that might bear on an investment decision as requested by the Jordan Securities Commission.

Dividend: Distribution of earnings to shareholders, usually paid in the form of money or stock (see Stock Dividend).

Dividend Yield: Calculated by dividing the annual cash dividend per share of stock by the current market price per share of the same stock, resulting in the annual percentage of return earned by an investor on a stock.

Earnings Per Share (EPS): Calculated by dividing after-tax net income by the total number of shares outstanding. Shows the portion of a company's profit allocated to each outstanding share of common stock.

Earnings Announcements: The results of a company's operations for a given time period, usually released annually in Jordan.

Income Statement: A report on a company's financial status describing revenues and expenses over a specific period of time.

Initial Public Offering (IPO): The IPO is the first time that a company's shares are offered for sale to the public.

Investment Banker: Also known as the underwriter, acts as the intermediary between the corporation issuing new securities and the public. The investment banker gives advice to the issuer about the general characteristics of the issue, its pricing and the timing of the offering. By underwriting the securities, the investment banker also accepts the risk of selling the new issue after purchasing it from the issuer.

Interest: The cost of borrowing, represented as a percentage of the amount borrowed.

Jordan Securities Commission (JSC): An institution in charge of regulating and supervising the capital market in Jordan. The objectives of the JSC are to create a sound regulatory environment in order to ensure a transparent securities market in the Kingdom and to protect shareholders, investors, and the public from irregular market practices.

Liabilities: The claims against a corporation, including, but not limited to, accounts payable, salaries payable, dividends declared payable, debenture bonds, and bank loans.

Liquidity: Ease with which a security can be traded on the market.

Mutual Fund: An established investment fund whereby an investment company pools funds from investors in order to purchase a wide variety of stocks and bonds that will meet the fund's investment goals.

Price to Earnings Ratio (P/E Ratio): Calculated by dividing the current price of the stock by the actual or forecasted earnings per share figure.

Securities Depository Center (SDC): Institution established in Jordan for the purposes of the registration of securities, the transfer of ownership of securities, and the settlement of their value. It operates as the central registry in the Kingdom.

Statement of Income: Represents the company's business results for the year and includes the company's sales, costs, and profits earned during the year.

Stock: Equity ownership in a company through the purchase of shares.

Stock Dividend: Payment of a corporate dividend in stock rather than in cash.

Stock Market: A market in which shares of stock are bought and sold.

Underwriter: An investment bank that agrees to purchase a new issue of securities from an issuer and distribute it to investors, making a profit on the fees charged for this service.

Venture capitalist: A financial professional who invests initial capital into a startup company in exchange for an ownership stake of the company.