

**Syrian Commission on Financial Markets  
And Securities (SCFMS).**

**A Study Concerning  
The Framework for Activating the Debt Instruments Market in  
Syria.**

## The Contents:

<u>The Title</u>	<u>The Page</u>
The Introduction.	<b>4</b>
<b><u>The First Chapter:</u></b>  <b>The Incentives for Activating the Debt Markets in Syria and Their Aims.</b>	<b>8</b>
<b>1-1</b> The Activating of the General Debt Instruments Market.	<b>8</b>
<b>1-2</b> The Activating Role of Damascus Securities Exchange (DSE).	<b>10</b>
<b>1-3</b> The Activating of the Investment Funds and the Sovereign Funds.	<b>11</b>
<b>1-4</b> Providing the Financing Resources for the Joint – Stock Companies.	<b>12</b>
<b>1-5</b> The Diversification of the Investment Instruments.	<b>14</b>
<b>1-6</b> The Expanding of the Investors' Base.	<b>14</b>
<b>1-7</b> The Absorption of the Negative Liquidity.	<b>15</b>

<b><u>The Second Chapter:</u></b>  <b>The Organizational and Legal Aspects for the Debt Markets in Syria.</b>	<b>16</b>
<b>1-1</b> The Organizational and Legal Frame Work for the General Debt Market.	<b>16</b>
<b>1-</b> The Legislative Decree No (60) for the Year 2007.	<b>16</b>
<b>2-</b> The Executive Directives.	<b>17</b>
<b>3-</b> The Guideline for the Securities' Procedures.	<b>17</b>
<b>1-2</b> The Organizational and Legal Frame Work for the Bonds Market of the Joint – Stock Companies.	<b>18</b>
- The Legislative and Legal Aspects.	<b>19</b>
- The Administrative and Organizational Aspects (The Guideline for Securities' Issuing and Offering.)	<b>19</b>
<b>1-3</b> The Related Aspects of Bonds' Listing Process in Damascus Securities Exchange (DSE).	<b>21</b>

<b><u>The Third Chapter:</u></b>	<b>21- 23</b>
<b>The Evaluation of the Previous Experience and the Success Requirements.</b>	

### **The Introduction:**

The Debt Markets or the Bonds Markets play an important role, beside the Banking Sector in facilitating the process of funds' transferring from the Entities that have a surplus in liquidity (the Savers) toward the Entities that lack the liquidity (the Bonds' Issuers), for the purpose of financing public projects, expanding and growing the private works, or financing the Exist Operations.

The Debt Markets grew within the previous decades obviously, and the volume of the Exist Bonds Market exceeded the ninety (90) trillions US. Dollar with the end of the year 2014.

The statistics in this regards indicated that the volume of the Exist Bonds Market at the Euro Zone, for example reached (14, 3) trillion Euros with the End of the First Quarter for the year 2015.

The quota of the Government Debt Bonds of it constituted a percent of (48) %, while the quota of the Government Debt Bonds were (6, 12) %.

In contrast, the Long Term Bonds formed a (93) % from the total of this Market.

The Issuance Volume amounted (479,4) Billion Euros at the End of the First Quarter 2015, its Government Debt Bonds constituted a (38)%, in contrast

to (10) % the quota of the Government Debts Bonds for the Private Sector Companies from the total of this Issuance.

The development of the Capital Markets are considered the priorities of the Financial and Economical Policies' Makers in various world's countries, because of the important tasks that they perform for the Economy, such as Savings' supply, increasing the capacity of the resources' allocation, facilitating the trading of the debt Instruments, the risks' distribution and the hedging against.

The risks are not related to form of financing only, but on the surrounding circumstances to the issuers, the Sector, and the whole Economy as well. And the Financing of the various activities whether such are related to the companies or governments that are reflected positively on the rates of the Economical Growth, and achieving the Cash and Financial Stability.

The activating and development of the Debt Markets in Syria specifically by providing a verification in the Investment Instruments for the investors, and the Financing Resources with the Various Terms (Short, Medium and Long Terms) whether for the companies or the Government, is considered one of the offered challenges that face the government and the Private Sector (the Financial and the Non-Financial one) equally, and their capacity to face the circumstances of the Current Crisis. In addition to the serious and real readiness to the post crisis stage, and its requirement of big supply for efforts and Financial Capacities .

The retreat of the Country's revenues from the income various resources severely because of the current circumstances of the Crisis and its related damages and devastation that affect the various Social and Economical life aspects from infrastructure, projects, institutions and the immigration of the Human Resources has caused to the fall of the country's institutions, and the Private Sectors' Institutions in a big deficits because of their consequent losses, their in ability to ensure their necessary needs to secure the production, and including such the difficulty for obtaining the necessary financing.

The unfair and oppressive Economical Sanctions that impose on Syria have participated in the expansion of the Economical Sector's problems and the most important of them are the difficulty in providing the raw materials, and the necessary items from the machines, modern technologies that are entered within the production process, and the difficulty in the marketing and reaching into the Neighboring and International Markets to sell the products.

Based on such, the vision for activating the Debt Markets in Syria is launched from these two main axes; the First one is related to the country's circumstances and the restructuring requirements from the National Financing Resources (within the Governmental Program for the Restructuring.)

The Second axis is concerned with these Markets importance in providing the Financing Resources for the Government and the Joint – Stock Companies beside the diversification of the available investment instruments in a way that activates the role of the securities' Sector, and Damascus Securities Exchange (DSE), and participates in the mitigation of the crisis's effects on the National Economy, in addition to the helping in achieving the Currency and Financial Stability on the general level.

The Government Statement has stated clearly its priorities including a specific item about the readiness for the re-construction stage. It states the necessity for defining the mechanisms for the re-construction execution in a scientific manner.

And assures the necessity for defining as well the specific financing means for the re- construction process without an obvious outline. And therefore the importance of this study is highlighted by way of making use of the offered modern administrative and legal system for the government's project and its statement.

In Syria, the currently used Investment Instruments are excluded on a one type of the Investment Instruments at Damascus Securities Exchange (DSE) that are the Ordinary Securities that are issued by the Joint – Stock Companies.

The crisis has stated clearly the risk of relaying on one type only. And within the new issuances of securities and the establishment of Public Joint – Stock Companies have been stopped.

And many of the existing Joint – Stock Companies were a target for devastation processes and the theft by the terrorist groups that had their effects on the retreated numbers of the probable number of listed joint – stock companies at Damascus Securities Exchange (DSE) beside the difficulties that were facing these Joint – Stock Companies as a whole exemplifying in the searching for substitute financing resources, other than the Traditional Financing Resources which are usually the Banks' borrowing.

## **The First Chapter**

### **The Incentives for Activating the Debt Markets in Syria And Their Aims:**

Within the effort of the Syrian Commission on Financial Markets and Securities (SCFMS) for activating the Securities' Sector at the National Economy, and within its faithful role of this Sector performance within the Crisis that faces Syria, the Commission has prepared a study concerning the ways and the incentives for activating the Debt Markets that can be stated in the prominent as the following:

#### **1- Activating the General Debt Instruments Market:**

The need of the government for accumulating the savings and increasing the volume of the investments in a form of participations are considered the most work's incentives for activating the General Debt Instruments Market.

The activating of this Market is considered the most important step for rationalizing the General Debt, and limiting the increasing dependence on the method of the deficit financing through the Direct Borrowing from the Central Bank. And depending on real Financing Resources that are characterized with efficiency and transparency away from causing inflationary pressures on the National Economy and what associated such of negative effects that are representative with the raising in the Production's Costs, the misdistribution of the resources, the retreat of the citizens' purchasing power, the raising of the rates of unemployment because of the constant raise in the General Prices' Level, and the abstain from the correspondence of the Real Production Growth to a Currency Bloc Growth.

Generally, the offering of Debts Market today shall participate in the following:

- The financing of the Investment Projects, and increasing the rate of the Investment Growth at the National Economy through encouraging the Investment Saving generally, and directing it basically toward the Economical Development Projects.  
(Specifically at the Framework of the Reconstruction Program. )
- The limiting of the speculation processes on the National Currency and the Foreign ones through increasing the demand on the National Currency to purchase the issued bonds.
- The studying of the actual Returns of the bonds that increase the Investment attraction at the Bonds Market, and form a rewarding compensation for the investors other than the substitute Investment Opportunities and their related risks.
- The defining of the Government Financing Needs in the light of the level of the Liquidity's Surplus at the individuals and the Joint – Stock Companies, that can be directed for the investment at the bonds and defined the methods for its investment.

Syria did have a previous experience in this topic as we will proceed later on, through the issuance of the Legislative Decree No /60/ for the year 2007, and the conducting of six issuances for the General Debt Instruments (The Bonds and the Treasury Bonds).

The Legislative Decree defined the aims of the Government Bonds as the following:

- The financing of the General Budget Deficit.
- The financing of the Projects of the National Priority that are listed at the Country's Public Plan.
- The providing of the necessary financing for the catastrophe and the contingent cases.
- The payment of the due debts on the country.

Through such the need for activating the General Debt Instruments Market appears obviously. And Syria is in serious need to achieve these aims at this time more than any other times. And this necessitates to define a clear strategic vision about the Methods for managing the related

Issuances' Funds, and the ways for disposing them. ( The Management of the Public Debt.) as we will mention later on when we study the Success Requirements.

## **2- The Activating Role of Damascus Securities Exchange (DSE):**

The trading in Damascus Securities Exchange (DSE) is exclusive on the Ordinary Securities. The Market lacks Modern Financial Instruments and works in an infrastructure that is burdened with many related to the crisis's problems.

The establishment and the operation of the Damascus Securities Exchange (DSE) have been in constant belief with its important role that it will play in the efforts of the Economical Development by the Economical Entities at the Government.

The aspired aims from establishing the Market are still humbled and:

- A.** The Market is still small in volume and it does not have an acceptable degree of the liquidity or the diversification ( The Financial Activity is concentrated on the Financial Sector ( The Banks and the Insurance) and there is a lack in the industrial Joint – Stock Companies and the effective, productive ones.)

Such is partly related to its newly establishment from one side, and other Social and Educational aspects from another that may affect the type of the Joint – Stock Companies' ownership and organization ( The control of the Personal Companies' Type, the Family Companies).

In addition to the lack of Joint – Stock Companies' Securities' Listing at the Market.

- B.** This Market is characterized by the lack of the institutions that practice the trading processes, the lack of the Market's industry, and the weak coverage of the issuances. It is well noticed the decrease of the coverage for the newly issuances of securities for the Increase of Capital Processes to full legal requirements within the Crisis Period.

- In addition to the weak of the Disclosure's Industry, the information's publishing about the Market's performance or the listed companies at in a professional manner.
- C. The weak in the organizational and legal structure. The Market is still working in Laws and Regulations that need to be modernized, to allow the development of new Financial Instruments, in addition to the weak of the technical aspect that constitutes the basic element for the development of the settlement and trading processes.

- D. The Market does not succeed in correcting the financing and investment practices and customs for the individuals and the institutions. It is recognized the institutions' direction toward the Traditional Financing Resources that are represented by the Banks' Loans, in addition to the investors' direction into the Substitute Investment Instruments the most important of them are the acquisition of the Foreign Currencies, and the precious metals.

All these have lead the capitals into achieving better profits fields such as the Currencies Markets because of their achievement of relatively higher rates of return in comparison with the other investments.

### **3- The Activating of the Investment Funds and the Sovereign Funds:**

The Investment Fund is according to the Stock Exchange Act No /55/for the year 2005 and the effective Laws, an investment channel that takes the form of the Public Joint – Stock Company and aims at providing its shareholders with the opportunity to participate unanimously at the securities' investment. And these Funds have extreme importance because of their tasks and performances which are prominently important such as:

- The savings' accumulation from the big and small investors.
- The directing of these savings toward the securities' investment in the various fields from the geographical distribution, and the various Economical Fields and such can lead to the maximizing of the returns at a certain level of the investment risks.

- The achieving of higher returns more than that of the ones that are achieved on the banks' deposits. And all these are done under the supervision of specialized experts in the Securities' Management and analyzing.

The Law No /2/ for the year 2012 was issued necessitating the establishment of the National Investment Fund, and the related Executive Directives, in a composed capital of two billions S.L. And the work's field of this Fund is defined as the following:

The investing at the Market through its account securities' purchasing and selling, and any other activities that are in correspondence with its aims, and basic purposes that are represented by the participation in the support of the Market's stability, subsidizing its levels of confidence through long Term Investment Policy, and achieving higher profits and returns for the shareholders through the diversification of the Financial Investments and providing the appropriate professional experience and consultancy.

Doubtless, the activating of the Debt Instruments Market shall support the work of these Funds and provide them with diversified securities' portfolios.

Worth to be mentioned, the number of the Legal obstacles that limit the activating of these Funds, and the most important of them are:

The exclusive of these Funds' activity on the securities, the limits of the ownership for the Legal Entities that are stated in the effective Laws and Regulations, and the circumstances of the crisis have abstained a vast majority of the shareholders from the citizens and investors from the possibility of participation.

#### **4- Providing the Financing Resources for the Joint – Stock Companies.**

The bonds are considered one of the resources that the Joint – Stock Companies depend on to finance their projects.

And such type of financing is distinguished that the volume of the granted credit by the Banks is limited and mostly a short term or a medium

term one. And it does not fulfill any of the financing needs for the productive, investment projects.

The crisis that swept various countries, and hit the International Economies such as the last International Financial Crisis, provided an important lessons about the big risks that resulted from the financing concentration in the Economy on the Bank Sector.

And many countries depended on the Bonds Market, and their new types of as in Europe during the past period in the following of the International Financial Crisis. Such as the direction toward the Covered Bonds.

And many Arab Countries resorted to activate the Debts Markets. In Egypt for example, the Financial Supervisory Authority has studied recently the activating of this Market, and the issuance of the Covered Bonds to support the providing of more Financing Channels for the Real Estate Financing Companies, and the working Banks in this field or even the Real Estate Companies.

And the Gulf Cooperation Council for instance issued the Unified Rules for the Treasury Bonds and Bonds' Issuing and Offering at the Gulf Cooperation Council Countries for the year 2014.

Consequently, the activating of the Debt Instruments Market generally, and the Bonds specifically shall help the Joint – Stock Companies in countering the difficulties that they face within these crises. That they are partly of them are related to provide the appropriate Financing Resources away from the Bank Financing that has been affected vastly during the current crisis.

Principally, there are not obstacles for the joint – Stock Companies (The Banks in particular) for practicing the issuance of Bonds, bust such requires the defining of the Financing Cost in the light of the limit of the investment opportunities.

## **5- The Diversification of the Investment Instruments:**

The activating of the Debt Market shall participate in ensuring investment channels that allow the investment in the various Financial Instruments, and providing therefore more investment opportunities for the investors.

Usually, the Debt Market is considered an attractive factor for the big investors, and minimized the dependence on the Banks.

Such contributes to decrease the Costs of Borrowing and participates mainly in the distribution of the investment risks, and the possibility for building more efficient investment portfolios.

The higher rates of inflation may decrease the Bonds' Value, because the Currency Authorities adopt and follow – up a traditional policy that is represented by the raising of the interest rates to control and limit the raising of the inflation rates.

And such will reflect negatively on the Bonds' investment, and limit their attractive factor sometimes.

Consequently, the investors in the Bonds may resort to the hedging through the issuance of the Bonds that their interest rates are correlated with the changes that occur on the rate of inflation. (Inflation – Linked Bonds) .

And such case can be tackled as well through the trading of the Financial Derivatives that to be considered with the inflation effects.

## **6- The Expanding of the Investors' Base:**

This factor is considered one of the most important factors that are related to the importance of the Debt Market.

And the direction to the individual investors and the institutional ones as well .

In addition to the Pension Funds, the Unions, and the Investment Banks, that help to establish a various investment base whether through the

Investment's time limits, the willingness of taking the risks, or the incentive of Trading Process and achieving the revenues.

The investors from the previously mentioned Funds and Institutions are considered the most important shareholders who are willing in the Financial Instruments of Fixed Income and Law risks.

The Pension Fund, the Social Insurances, the Unions and the Insurance Companies are considered basic parties in requiring Long Term Financial Instruments.

## **7- The Absorption of the Surplus Liquidity:**

The Debt Markets have an important role in increasing the capacity of the Liquidity's Management at the Banks through the activating of Inter-Banks Market in borrowing and depositing, and the redistribution of the resources within the Financial Sector toward the Economical Activities according to the available opportunities, and the exist level of competition at the Bank's Market.

The Debt Instruments Market has an important role in the Currency Policy that is accredited by the Central Bank through the use of the Open Market Operations as one of the most important indirect investments to control the Currency Offer.

Consequently, the Debt Market has an important role in the absorption of the Surplus Liquidity whether such is at the Financial and Banking Sector or at the individuals' level.

The crisis has shown the direction of individuals at the Syrian Community toward the saving through the acquisition of the precious metals, or the Foreign Currencies, and such has its negative effects on the individuals, because the small investors are a target in their savings value degrading, and the whole Economy as well.

And there is the establishment of a new Investment Notion through the providing of new investment opportunities for the Banks (that suffer from the Liquidity's Surplus.) Stipulated the Achieved Returns on these instruments are higher than the rates of interest on the Deposits.

## **The Second Chapter:**

### **The Organizational and Legal Aspects for the Debt Markets in Syria.**

#### **First: The Organizational and Legal Framework for the General Debt Market:**

The legislative, organizational provisions that are related to the topic of the General Debt Instruments are tackled as the following:

- A. The Legislative Decree No (60) for the year 2007.
- B. The Executive Directives that were issued by the Mr. Prime Minister by the Decision No /1329/ dated on 30/3/2008, and related to the Method of Bonds' Issuance.
- C. The Guideline for the Securities' Procedures that was issued by the decision of the Minister of Finance No (963/W) dated on 2011.

#### **1- The Legislative Decree No (60) for the year 2007:**

The legislator defined through it the notion of the General Debt, and Treasury Securities that had been identified by the First Article as "The Treasury Securities and Bonds, and the Islamic Financial Instruments" that were issued by the Ministry of Finance and registered in their Nominal Values by the Owners' Name at the registration.

The Legislative Decree formed in Article /3/ of, the Committee of Treasury Securities' Management that consisted of the following:

- The Minister of Finance.
- The Governor of the Central Bank of Syria.
- The Chairman of the Board of Commissioners of Syrian Commission on Financial Markets and Securities (SCFMS).
- Deputy Minister of Finance for the General expenditure Affairs.
- The Director of the General Debt at the Ministry of Finance.

- The Head Unit of the Treasury Securities' Management at the Ministry of Finance.
- And the Head of the Securities' Directorate at the Central Bank of Syria.

## **2- The Executive Directives:**

They defined the Method for the Treasury Securities' Issuance and Management (The Treasury Securities and Bonds).

✓ **The defining of the Price or Interest:**

The Treasury Securities and Bonds were issued by auctions. And the Treasury Securities were issued on the base of defining the return, while the bonds were issued on the base of defining the price

✓ **The Dealers:**

The Central Bank of Syria put the list of the qualified Legal Entities who were to participate at the Treasury Securities' Auctions, in cooperation with the Minister of Finance and the Chairman of the Syrian Commission on Financial Markets and Securities (SCFMS).

✓ **The Timing:**

An Agenda was issued before the end of the year.

✓ **The Clearance and Settlement.**

✓ **The Payment:**

The Central Bank should at the due date and automatically, deduct the due sum from the Ministry's Current Account.

And in case of the lack of liquidity at the Ministry's Accounts, the Bank should conduct a re – issuance .

## **3- The Guideline for the Securities' Procedures:**

It defined the operational, technical and detailed characteristics for the issuance of the Treasury Securities at the Initial Market.

✓ **The Treasury Securities:**

They were issued with a deduction of their Nominal Values. Whereas the Treasury Bonds were issued in their Nominal Values and they had a fixed interest rate.

✓ **The Trading:**

The trading in the Treasury Bonds was done in Damascus Securities Exchange (DSE) after the approval of the Committee for the Securities' Management had been obtained

✓ **The Auction's Method:**

It differed with the Securities' differences (The Treasury Securities or Bonds.)

✓ **The Qualified Entities to Submit the Auctions' Offers ( the Qualified Offers):**

The Banks, the Issuance Companies, and the Central Bank of Syria.

Worth to mention the possibility for opening the Bonds' Subscription Process (in purchase) by the Legal or Natural Entities by the way of the Banks' authorization.

Consequently, the legal, legislative and administrative framework for the issuance of the General Debt Instruments is complete through the complementary aspects that occur among the Legislative Decree No (60) for 2007, the Executive Directives and the Guideline for the Securities' Procedures.

**Second: The Organizational and Legal Framework for the Bonds Market of the Joint – Stock Companies:**

The legislative and organizational Provisions that are related to the topic of the Bonds' Issuance are stated in each of the following:

1. The Companies Law that was issued by the Legislative Decree No (29) for the year 2011.
2. The Securities' Issuing and Offering Act that was issued by Mr. Prime Minister No (3945) for the year 2006.
3. The Guideline for the Securities' Issuing and Offering.
4. The Securities' Listing Terms Act and its changes that were issued by the Executive Board of Damascus Securities Exchange (DSE), in its Decision No (505) that was dated on 17/1/2010.

## **1- The Legislative and Legal Aspects:**

The Companies Law No (29) for the year 2011 included many Articles that legislated the issuance of the Bonds for the Anonymous Joint –Stock Companies, and Specifically the Articles (121 and 129) stating the Terms for the Bonds' Issuance, the Issuance Method, The Rights and Responsibilities of the Bonds' Shareholders, the Issuance Entity, and the Subscription Method.

The Securities' Issuing and Offering Act that was issued by the Prime Minister's Decision No (3945) for the year 2006 included in the Article (4) of it, the Requirements of the Bonds' Issuance, in addition to the related provisions to organize the process of the Securities' Issuance generally ( The Bonds and the Securities ) whether such through the components of the Issuance Prospectus, the Advertisement of the Securities' Offering, or the Advertisement and Promotional Campaigns for the Issuances.

In addition to the responsibilities of all the Entities that were participating in the process from the Issuance Directors to the Subscription Banks that were participating in the securities and bonds.

## **2- The Administrative and Organizational Aspects:**

The Guideline for the Securities' Issuing and Offering tackled the administrative, and organizational aspects that were related to the Bonds' Issuance through the following:

1. Discussing the necessary steps to be followed – up to obtain the Syrian Commission on Financial Markets and Securities' (SCFMS) approval for the Bonds' Issuing and Offering.
- ✓ **The First Step:** The issuance of the Un usual General Assembly's Decision, and obtaining an approval by the Ministry of Economy (The Consumer Protection and Interior Trade Ministry Recently) in addition to the authorized Entities for licensing.
- ✓ **The Second Step:** Submitting a Bond Issuance Approval Application to the Commission's Board of Commissioners, attached with all required documents.

The Board of Commissioners had to consider the decision within (45) forty five days, either for an approval, or a suspending for it until other documents or information was fulfilled.

Or legal documents such as the Guarantee Evaluation Certificate.

Or the Board might reject the application totally.

- ✓ **The Third Step:** Preparing and submitting the Issuance Prospectus, and the Issuance Advertisement to be accredited by the Commission.

And beginning for the Offering Promotion.

Worth to consider that although the prevailed legal provisions did not abide the Issuer Joint – Stock Companies of Bonds to obtain a Guarantee Evaluation by the Guarantee Worthiness Evaluation Companies.

But the Commission might require such Bonds Issuer Joint – Stock Companies to submit a Guarantee Evaluation Certificate by a one institution or more from the Guarantee Evaluation Institutions to accredit the Issuance.

The need for requiring a Guarantee Evaluation Certificate is intensified in one or all of the following cases:

- ✓ The Issuance of Un Guarantee Bonds with a due Payment Period of more than two years or more.
- ✓ A vast Issuance Volume of more than (100) million S.L for example.
- ✓ The loss of the Bonds' Issuer Joint – Stock Companies to part of their capitals.

Worth to consider that the granted Guarantee Evaluation Degree to the Issuers' requiring Joint – Stock Company should not decrease its capacity to fulfill its obligations to the bonds' shareholders in their values' due payment period.

2. Defining patterns for each of: the Bonds' Issuance Approval Application Form and its attached required documents based on the Article (4) of the Securities' Issuing and Offering Act.  
And the Bonds Issuance Prospectus, in addition to the Bonds' Offering Advertisement Pattern.

### **3- The Related Aspects of Bonds' Listing Process in Damascus Securities Exchange (DSE):**

The Securities Listing Terms Act and its changes that was issued by the Executive Board of Damascus Securities Exchange (DSE) by the Decision No /505/dated on 17/1/2010, and certified by the Commission, included the regulating provisions for the Bonds' Listing Process at the Market.

And the Fourth Section of it, had defined each of the Bonds' Listing Terms and the required documents and attachments.

#### **As a Result:**

We conclude that the Laws and regulations provide the organizational and legal environment for the Bonds' Issuance by the Joint – Stock Companies.

And they consider such as their rights according to the Companies' Law No /29/ for the year 2011, the Securities' Issuing and Offering Act, and the Guideline for the Securities' Issuing and Offering.

But they put restrictions on the topic of the Bonds' trading at Damascus Securities Exchange (DSE), through the Securities Listing Terms Act and its changes.

#### **The Evaluation of the Syrian Experience in the Field of the Bonds' Issuance:**

1) Through the acknowledge of the Legislative Decree No /60/ for the year 2007, and its Executive Directives that were issued by the Decision No (1329) for the year 2008,

We find that the administrative and legal structure includes the following:

- A. Defining the Notion of the General Debt, and the Government Securities.
- B. The Form of the Management Committee of the Government Securities.

- C. The Method of the Bonds' Issuance and defining the Interests Rates.
  - D. The Guideline of the Securities' Procedures that defines the operational, technical and detailed characteristics for the Government Securities' Issuance.
- 2) The experience comes as an execution to the Tenth Fifth Plan.
  - 3) The Ministry of Finance is considered the responsible Entity for the issuance and management of the General Debt, including the management of the Short Term Government Liquidity.
  - 4) Many auctions were offered between the years 2010-2011.
  - 5) The qualified offers for entering the auction are exclusive on the working Banks and the Central Bank of Syria.
  - 6) The participation of the Public Sector Working Banks at the Government Auctions for the year 2010, was not to benefit from the interests rates that were below the level of their Deposited Cost of Funds, but the Banks had used their low or zero Cost of Liquidity level to participate in these auctions.
  - 7) The rates on interest reached to less than (2, 5) %. And the Management Committee of the Government Securities could define a certain target that included a higher limit and a lower limit for the interest rate. (In case of raising the cost of financing into the level of (2, 7) %.

In the Third Auction that was conducted, the Ministry of Finance rejected it and cancelled. Considering that the average Cost of Financing during such period at the Banks ranged between (5-7 %).

- 8) This Legislative Decree came with the Government endeavours to open and activate Damascus Securities Exchange (DSE), but these securities were not traded at the Market despite the stating of the possibility for trading at Damascus Securities Exchange (DSE) according to the Article (16) of this Decree, after obtaining the approval of the Management Committee of the Government Securities.

Through such, the need for activating the General Debt Instruments Market appears in the light of benefiting from the previous experience (the operational, administrative and legal structure), and stating the defect, weak or strong points, in addition to their correspondence with achieving the defined aims at the Legislative Decree No (60) for the year 2006.

## **The Requirements of Success:**

### **1- The Importance:**

The activating of the Bonds Market must have its importance at the Financial and Economical policy makers in Syria, in the light of a national strategy that puts the development of the Capital Markets generally, and the various Debt Instruments Markets specifically as its basic priorities. Benefiting from the existing Legal and Legislative framework and assuring the helping changes that eliminate the obstacles before activating and developing these Markets.

### **2- The Control and Supervisory Role:**

The necessity for the coordination and the cooperation among the various Control and Supervisory Entities and the dealers at the Market . Such is done through the setting – up of a strategic framework that ensures the activating of this Market, developing it to achieve its basic aim.

Considering the correspondence of the Market's related regulations and legislations and the abstain of the supervisory roles' duplicity.  
In addition to facilitating the Methods of Trading .

#### **- The Ministry of Finance:**

Its basic role is represented by defining the required Financing Volume based on the future expected projects and plans, according to defined time limit. In addition to define the Estimated Cost for Financing, and the

resources for the Debts' Payment and Coverage to reserve the investors' confidence and the success of the issuance process and its continuity.

- **The Central Bank of Syria:**

The management of the related auctions for the Issuance Process from conducting all the necessary procedures and measures in complete coordination with the Ministry of Finance .

And the intervention to abstain the convergence of the Financial Cost from the Estimated Cost through either the direct intervention at the auction and the participation as an investor to allow the decrease of the Financing Cost, and giving a clear notification for the expected rate of interest.

Or through the indirect intervention, and the abstain from the competition with the Ministry of Finance. So that the priority will be to fulfill the needs of the Ministry of Finance .

- **Syrian Commission on Financial Markets and Securities (SCFMS):**

Through the changing of some Laws, and providing the necessary regulations for the listing and trading of these securities at the Securities Exchange .

Beside the coordination with the Damascus Securities Exchange (DSE) to search for all the necessary, logistic measures for the settlement and listing process, and raise the investment awareness with its importance and privilege at the Securities' Sector. In addition to prepare an effective plan whether on the level of the Public Joint – Stock Companies, or the Financial Services and Intermediary Companies, or on the level of the institutions (the Unions – the Pension Funds) that clarifies the working method of the Debt Instruments Market, and its importance as an instrument for the financing and the investment.

### **3- The Management of the Public Debt:**

The management of the Public Debt efficiently requires the preparation of a clear strategy by the Economical and Financial Policies Makers on the Country's level, such as the Government Securities Committee for managing the resulted funds of the Public Debt Issuances.

And the basic target from the Public Debts Instruments Issuance will be defined, the type of instruments at the current stage, the fields that the fund is going to be paid – up in, the ways for the Future Payment – up and its effect on the National Economy as we will state in the following Paragraph.

### **4- The Effect on the Economy:**

The Debt Market is playing an important role at the Economy through its effect that it has on each of the Currency Markets and the Financial Market. And such is done through the following:

**A. The Type and source of debt and the type of the bonds.**

The Debt's source can be a real source such as the Non-Financial Companies (The Production Companies), and consequently it plays an important investment job.

Or it can be an Apparent Source such as the Financial Companies (the Derivatives and the Options) and consequently its Real Economical effects are not important.

**B. The usage of the resulted Funds from the Bonds' Issuance, specifically in the field of the General Debt Instruments.**

And this factor is considered one of the most important ones in the topic of the General Debt Instruments Market.

And there are many available choices for the country to use the outcome of these instruments' issuances as it was defined by the Legislative Decree No /60/ for the year 2007.

Either through the financing of the Current Expenditures that help the Government in expanding the local demand and increasing the rates of the

consumption and saving at the individuals and Companies (achieving a stability approximately for the prices and decreasing the rates of the inflation.)

Or through productive vital projects that the country is in needs for during the crisis. Whether these projects are for a medium or a long term. (To cover the budget deficit and to expand at the Government Expenditure.)

Such as the Infrastructures' Projects to participate at the Growth of the General Domestic Products (GDP) . Or for both reasons, so that this Market will include a short, medium and Long Term Financial Instruments .

**C. The Method of the Debt Payment, or the resource of the Funds that are used for the Debt Payment.**

The payment of the General Debt can be through the allocation of defined revenues for the debts' payment (the allocation of the debt's resources in the financing of the investments and the productive projects, in a way that increases the production and the Growth Rate of the General Domestic Products (GDP).

Or the escorting to impose in direct taxes, or direct taxes on the special Economical Activities that are supposed to form the big portion of the country's General Resources.

Or through the expansion in the Funds' offering ( the Direct Borrowing from the Central Bank).

The cost of the Bonds' Issuance remains less than the Cost of the Direct Borrowing from the Central Bank and its resulted upon negative Economical Effects.

**The Activating of the Secondary Market:**

That enables the possibility for the trading and liquidating of the various bonds and providing the privilege of the fair valuation of the security.

It provides the possibility for the security's re- purchasing process by the same issuer according to defined restrictions and terms.

The Secondary Market plays as well an important role in supporting the role of the Central Bank, and completing the necessary operational

framework for activating the Currency Policy and owning the Financial Instruments that enable it to manage the liquidity (the Open Market Operations) according to the needs of the National Economy.

### **5- Expanding the Investors' Base and its Diversification:**

The expanding of the investors' base and its diversification, to encompass the investors from the institutions and the various Entities, such as the Pension Funds, the Union, the Insurance Companies and the Investment Banks, is considered one of the most prominent challenges for the success of the Bonds Market, and for the success of any other Financial Market as well.

Such may require specific efforts whether through the awareness operations or through the issuance of considerable Legislations that guarantee the entry of these investors into the Market.

And such will have a great impact on the improvement of the Risks' Management, and supporting the liquidity.

Many of the Unions, for example; and the Pension Funds have the necessary liquidity that guarantees to activate the investment at this Market.

They may need to provide these Financial Instruments to invest their funds at.

And the development of the Non – Bank Financial Sector, that is able to attract the Long Term Savings, remains an important challenge in this framework.

And it requires the enhancing of the existing legislations or the issuance of new legislations and providing the necessary incentives for the development of its activities.

And worth to consider that the responsibility for expanding the Investors' Base as it has been mentioned previously, is not upon the Syrian Commission on Financial Markets and Securities' (SCFMS) responsibility only, but it is expanded to be as a common responsibility among the major

players at the Financial and Currency Sector, such as the Central Bank and the Supervisory Commission for Insurance.

#### **6- The Type of the Debt Instruments:**

One of the most important issues as well is to define the type of the Bonds that the Joint – Stock Companies can issue, or the General Debt Instruments that are required at the Current Stage.

And the possibility for the issuance of certain types that give a big protection for the investors from the risks specially those that are related to the inflation, and the changes of the Exchange Rate, such as the issuance of changeable Interest Bonds, for example, or the study of the type of the submitted guarantees or the Mortgage etc.

#### **7- The Interest Rates:**

Preparing a study for the Interest Rates or their limits (The Reference Interest Rate, and accrediting the Deduction Method) and their relation with the interests at the Bank's Sector, whether such are in relation to the Lending Interests, the Deposit Interests, or the Interest Rates on the Government Debt Instruments in case of their issuance .  
And the Reference Interest Rate will help in providing the necessary base for pricing the Assets in a fair manner.

#### **8- The Guarantee Evaluation:**

The cooperation of the exhorted efforts by the various parties to provide the appropriate environment for the establishment of the institutions that take into consideration the evaluation of the Credit Worthiness because of its basic role in submitting an accurate and clear vision about the Financial Adequacy of the issued Entity and its capacity for its Future Obligations' Fulfillment.

Consequently, it is necessary to establish a legal framework that allows the International Guarantee Evaluation Companies to work in Syria to submit this service in the light of the lack of the necessary National Experiences in this Field.

---