



Strategy Document

Palestine Capital Market Authority

2009

Table of Content

FORWARD	3
PALESTINE CAPITAL MARKET AUTHORITY STRATEGY	4
PCMA DIRECTORATES' STRATEGIES	5
SECURITIES DIRECTORATE STRATEGY	5
INSURANCE DIRECTORATE STRATEGY	6
MORTGAGE DIRECTORATE STRATEGY	7
LEASING DIRECTORATE STRATEGY	8
STRATEGY RECOMMENDATIONS	9
ANNEXES	11
ANNEX I: SWOT ANALYSIS	12
ANNEX II: KEY FACTORS AFFECTING THE PCMA STRATEGY	14
ANNEX III: SUB-SECTORS NEEDS MATRIX	15
<i>The Securities Sector</i>	<i>15</i>
<i>The Insurance Sector</i>	<i>19</i>
<i>The Mortgage Sector</i>	<i>23</i>
<i>The Leasing Sector</i>	<i>24</i>
ANNEX IV: RECOMMENDATIONS FOR REGULATORY REFORM ...	ERROR! BOOKMARK NOT DEFINED.

FORWARD

This Document is a result of an extensive process of evaluation, assessment and consultation with the PCMA stakeholders in the government, private sector and international community. The Board of Directors of the PCMA was very keen on having a strategy that responds not only to the immediate challenges facing the capital market in Palestine and the current crisis affecting the international capital markets at large, but also the need to address the long-term issues that will have an impact on the PCMA's role as a regulator and a partner to the private sector in mobilizing investments and supporting economic growth.

The PCMA's Strategic Management Retreat that took place in the Dead Sea between 13 – 15 of November, 2008 and attended by more than 45 people representing all stakeholders, was a real example of our intent to work with them to share ideas, needs, and expectations in a very open and professional manner, and to ensure that our strategy is grounded and relevant to their needs in both the long and short terms.

During the Retreat, the Board of Directors invested enormous effort analyzing and learning from every contribution made by our partners. This document concludes our strategy and programs guideline and initiatives for the next three to five years.

We hope that this strategy and method shall keep our stakeholders involved during that timeframe to ensure that our vision and goals are met for the benefit of our infant economy.

On behalf of the PCMA Board of Directors and staff, I would like to thank all of those who contributed to this effort, including, the DAI; our advisor throughout the whole process.

Sincerely,

Maher Masri
Chairman of the Board

PALESTINE CAPITAL MARKET AUTHORITY STRATEGY

Vision

Palestine Capital Market Authority to be the proficient regulator and the safeguard of a strong and transparent capital market in Palestine.

Mission

To implement a modern, robust, transparent and fair regulatory framework for the securities, insurance, mortgage and leasing markets in Palestine.

Goal

To maintain an orderly capital market, with the institutional capability to conduct effective and responsible market oversight and supervision that supports capital investment and economic growth in Palestine through:

Objectives

- Strengthening the legal and regulatory structure in accordance with international standards and best business practices.
- Ensuring investor access to complete, accurate, and transparent financial information on Palestinian enterprises.
- Protecting the interests of investors by developing the internal capacity for risk-based regulation and market monitoring practices.
- Implementing regional initiatives in coordination with relevant stakeholders to attract foreign investment in Palestine.
- Establish cooperation mechanism with the Palestine Monetary Authority to support the market development.

PCMA DIRECTORATES' STRATEGIES

Securities Directorate Strategy

Mission

Regulate and develop the securities sector in Palestine.

Goal

Build a strong securities sector overseen by a competent and effective capital market authority through:

Objectives

- Strengthening the role of market intermediaries (brokers) by reducing unnecessary regulatory and fiscal barriers, to improve the quality and effectiveness of brokerage services to investors.
- Promoting market growth by enforcing existing legislation, and encouraging enterprise financing through the Palestinian Stock Exchange.
- Improving market liquidity through initiatives to promote private investment in local enterprises.
- Improving internal systems and technology, and develop automated interfaces to enhance information services to investors.

Insurance Directorate Strategy

Mission

Regulate and develop the Palestinian insurance sector.

Goals

Build an efficient and effective regulation of the insurance sector through:

Objectives

- Developing the legal framework governing the Palestinian Road Accident Victims Compensation Funds (PRAVCF), including guaranteeing the rights of the companies, the insured and beneficiaries.
- Ensuring that the insurance companies meet their obligations towards the insured and beneficiaries.
- Strengthening the legal basis for obligatory enforcement of disciplinary decisions.
- Providing support to develop all professions related to the insurance sector.
- Expanding the provision of insurance services to cover wider economic activity.

Mortgage Directorate Strategy

Mission

Develop a sound Palestinian mortgage market consistent with international best practices.

Goals

Develop a competent Palestinian mortgage sector through:

Objectives

- Drafting the needed laws and regulations harmonized with other related Authorities' existing laws and regulations
- Designing, developing, and implementing educational training courses and certification programs to increase the capacities of mortgage lenders, appraisers, etc.
- Issuing clear licensing instructions, defining benchmarks and ongoing monitoring and evaluation systems consistent with international best practices
- Designing and implementing effective awareness campaigns with key stakeholders.

Leasing Directorate Strategy

Mission

Position the Palestinian Leasing Sector to become an effective contributor to private investment, economic growth and development.

Goal

Establish and maintain an appropriate legislative and regulatory environment that is applied in a fair, consistent and transparent manner to support the sustainable development of the leasing sector in Palestine through:

Objectives

- Drafting, Proposing, enacting and enforcing the leasing law and related regulations
- Designing and launching a comprehensive public awareness campaign in coordination with relevant stakeholders to improve level of public awareness on leasing
- Designing and implementing a specialized leasing professional training program
- Adhering to instruction on implementation of all other related legislation (i.e. taxation, assets registration)

STRATEGY RECOMMENDATIONS

The recommendations below are classified according to their relevance to the different operational activities of the PCMA.

Legal & Regulatory

- Conduct a legal revision for the PCMA legal and regulatory framework to determine required actions for the passage of existing draft laws & regulations and/or modifications to existing primary and secondary legislation. (See annex II for detailed recommendations and action plan)
- Promote the separation of the regulatory and executive roles given PCMA Directors the authority to enforce disciplinary decisions across all market segments through developing standard operating procedures including board and operations manuals.
- Launch an image building and a public awareness campaign for a perception and cultural change of the PCMA from a rigid regulator to a more welcoming and service oriented one.

Organizational Independence and governance

- Pursue full IOSCO membership that would include a complete “audit” of PCMA internal practices and recommendations for remedial actions.
- Conduct a review for the staff technical capabilities to ensure the right expertise and caliber are available to cope with and adjust to the new strategy requirements.
- Provide professional staff training

Reporting & Surveillance Systems

- Undertake a review of the trading and reporting systems currently used for market data analysis and surveillance, benchmark them to international standards.
- Conduct a “feature-by-feature” evaluation of recently developed system alternatives, both for trade reporting and monitoring, and for financial reporting & disclosure by listed enterprises. Improved (on-line) financial reporting & disclosure will force enterprises to adopt international accounting standards.

Market Supervision

- Adopt risk-based supervisory practices.
- Improve PCMA management capabilities and supervision of all sectors for which it is responsible through the acquisition of a more sophisticated market monitoring software

PSE Ownership & Governance

- Actively seek with other stakeholders a speedy resolution for the issue of PSE ownership structure either through conversion to a mutual ownership model, or a listing of PSE shares (through IPO) that will result in a substantial public "float" of shares available to the investing public.

Constituent Relations

- Formalize relations with the various market segments covered by PCMA regulatory mandate beginning with the creation of standing committees for each functional area (i.e. securities market, insurance, mortgage, and leasing). The individual committee should meet at least quarterly, with specific topics scheduled as a part of each meeting.
- Adopt a pro-active program to solicit comments and concerns from the investing public.

Market Expansion & Cooperation

- Start the process for the development of the Securities Secondary Market
- Actively engage and encourage other stakeholders to launch initiatives that will widen and deepen the capital market.

ANNEXES

Annex I: SWOT Analysis

Strengths
1. Established under the law is a source of strength
2. Financial and administrative independence
3. The presence of four important sectors is a source of strength
4. Possession of regulatory powers
5. Have the status of the judicial officer
6. Possession of the power to impose sanctions on violators
7. PCMA has the potential including the clarity of vision and objectives
8. PCMA officials have transparency and disclosure
9. The nature of representation at the PCMA board is based on sectoral and professional qualifications

Weaknesses
1. PSE taking over some of the PCMA powers
2. Weakness of PCMA staff
3. The composition of the Board and the instability (high turnover) of government representatives
4. Conflicts of interest in the membership of the Board of Directors
5. Lack of specialized advisory committees and independent specialist (audit, risk management, consulting, grievances)
6. Lack of clarity and coherence of the organizational structure
7. Lack of firmness in the application and follow up of regulations and instructions
8. Non-application of the IOSCO standards
9. Inadequate frameworks of understanding with other regulatory bodies (PMA and Company's Registrar)
10. The work environment and staff dissatisfaction
11. Independence
12. Inconsistencies in the laws, overlapping, non-coverage

Opportunities
1. Capitalize on the interest of donor countries in technical and financial support to emerging countries to create an efficient regulatory services through the recruitment and use of global or regional expertise
2. Setting up an example, at the internal and regional level, of credibility and good governance by building the internal efficiency of control and regulation
3. Using the results of the current global financial crisis and the thirst to create an effective supervisory role on financial markets and its' derivatives
4. Taking advantage of available domestic political opportunity to pass urgent legislation and the proposed amendments
5. Passing of laws governing the Mortgage and Leasing sector while taking advantage of the latest regional experience in this area
6. Activating the role of the PCMA to follow-up with all government institutions, private sector, donor countries, and foreign investors to improve the environment in which the PCMA sectors operate leading to increase and encouragement of investment
7. The establishment of a parallel financial market to pre-qualify non-listed companies in the financial market and a spreading the culture of listing through workshops and media
8. For PCMA to accept the principle of change and the inclusion of relevant parties in the change process

Threats
1. External influence and political pressure on decision makers in the PCMA, specially the from government and business
2. Conflict of interest and division of power between banking and non-banking sectors (Because of lack of clarity of legislation)
3. Spill-over effect of the global / regional financial crises on the PCMA sectors and the ability to PCMA to respond
4. Failing local institutions or branches of foreign companies
5. Affiliation of BoD members is a threat to BoD decision making
6. Political influence of the Chair and the CEO on non-professional grounds
7. Operation threats due to WB/Gaza division
8. Limited confidence in the PCMA (financial sector)
9. Legal / regulatory framework does not get amended or/and completed

Annex II: Key Factors Affecting the PCMA Strategy

Economic Factor
1. Local economic performance
2. Donor Support
3. Global economy

Notes: Access to credit (developments in financial systems)

Political Factors
1. The internal Palestinian Situation (unity/no unity)
2. Political Agreement with Israel (Peace and Independence/No Peace and No Independence)
3. Change in the Regional and International Political Position

Social and Technological Factors
Social
1. End-user culture (misunderstanding of the system, suspicion of the efficacy and transparency of the system, confidence in the system and uses of the system)
2. Good governance, openness and transparency (private companies do not want to be listed on the PSE because it requires higher levels of transparency and potentially loss of control; lack of interest in sharing control with foreign or other local investors)
Technological
1. Acceleration of information/transactions (technology leads to the acceleration of the number of transactions, making the regulators job more difficult; additional information that technology offers increases ability of CMA to regulate industry; misuse or misunderstanding of technology causes risk of business failure)
2. Integration of automated systems between stakeholders (all relevant stakeholders are not a part of the credit bureau, moveable asset registry is not integrated with other systems)

Legal and Environmental Factors
1. Laws and regulations governing the work of the PCMA
2. Laws and regulations governing the work of relevant institutions
3. The relation between the PCMA and relevant institutions

Annex III: Sub-sectors Needs Matrix

The Securities Sector

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
1. Financial Market	<ol style="list-style-type: none"> 1. Activating the role of the PCMA in the provision of new listings 2. The application of the laws strictly and specifically in the issue of listing 3. The establishment of the parallel market 4. Prohibiting the transfer of shares but only through the market 	<ol style="list-style-type: none"> 1. Promote the separation of the regulatory and executive role under the regulations and secondary legislations 2. Completing of the issuance of the regulatory frameworks 	<ol style="list-style-type: none"> 1. Commission studies and research to meet the needs of the sector 2. Launch regional and international marketing campaigns to promote the financial market 3. Provide proper technical environment for the processing and launching of the parallel market 4. Direct participation of the PSE with the PCMA in the implementation of the decision of not to transfer shares but only through the PSE 5. Sign memoranda of understanding between the PSE and other relevant institutions 6. Develop a business continuity plan
2. Shareholding Companies	<ol style="list-style-type: none"> 1. Activating the investment funds by encouraging cross-sector investment fund between the government 	<p>Issuing instructions to the public shareholding companies to commit to international accounting standards in issuing</p>	<ol style="list-style-type: none"> 1. Launching marketing campaigns to highlight the benefits of investment provided by these companies.

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
	<p>represented by the Investment Fund and the private sector such as banks</p> <ol style="list-style-type: none"> 2. Activate government intervention in the economy 3. Allow companies to buy their own shares by removing obstacles that prevent this and making use of the current situation 4. Abolish the tax on capital gains 	financial statements	<ol style="list-style-type: none"> 2. Provide voluntary disclosures to develop the culture of voluntary disclosure 3. Commit to apply the laws and regulations of relevant authorities
3. Brokerage Companies	<ol style="list-style-type: none"> 1. Review of fees and commissions 2. Identify the responsible regulatory body that brokerage firms report in an accurate and clear manner 3. Cancel the VAT on trading commission 4. Equality in the application instructions, without exception 	To study and meet the needs of brokerage firms, especially the issues of commission and VAT on trading commissions	<ol style="list-style-type: none"> 1. Developing the services provided to the public and investors away from just trading service. 2. Contribute to the dissemination of awareness of investment and savings to investors 3. Participation and effective contribution to the development of regulations and instructions issued by the relevant authorities 4. Promote the creation of an environment of compliance to laws, regulations and instructions

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
			5. Knowledge of customers' needs and study their requirements
4. Investors	Protecting Investors according to regulations and instructions		<ol style="list-style-type: none"> 1. Lobby the relevant authorities to expedite the issuance of a modern and Progressive Palestinian Companies Law that would help to create a friendly environment for investment, in addition to other laws that attract investment and provide adequate protection to public investors 2. Lobby relevant authorities to create the appropriate and encouraging legal environment that would attract regional and foreign investment funds
5. PMA and the Banking System	Determine the regulatory relationship between the PCMA and the PMA in respect of listed banks	Coordination with other relevant regulatory bodies	To urge the acceleration of the Memorandum of Understanding between the PMA and the PCMA with respect to banks and connected institutions, PMA and PSE
6. Financial Profession Professionals (such as: financial	Care, licensing and protection of financial professionals	Strives to achieve this	Provide financial services to public investors from based on accurate information obtained

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
analyst)			within a clear legal and regulatory framework

The Insurance Sector

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
1. Insurance Companies	<ol style="list-style-type: none"> 1. Obligate insurance companies to adhere to regulations and instructions issued by the PCMA 2. Expand the market of companies working in the West Bank 3. Periodic review of regulations and instructions in order to examine the appropriateness of insurance rates with insurance coverage 4. Protect the interests of insurance companies operating in Gaza 5. Enhance communication between the insurance companies and the PCMA with continuous coordination among each other 6. To stop the delay of the Traffic Accidents Fund in the payment obligations to insurance companies 7. Control over prices and terms of non-mandatory insurance to make sure it fits in with the risks of the 	<ol style="list-style-type: none"> 1. Address the problem of insolvent companies and monitor their commitment with the legal framework 2. Coordination with the competent authorities to find a mechanism to fully implement the imposition of mandatory insurance 3. Periodic review and update of the legal environment governing the operation of firms in coordination with the relevant authorities 4. Readiness to deal with any decisions that may be issued in Gaza on the establishment of new insurance companies there, or a new fund for traffic accidents 5. Organize periodic workshops and meetings with insurance companies 6. Request the fund to implement agreements signed with the insurance 	<ol style="list-style-type: none"> 1. The insurance companies develop and submit immediately written plans that are enforceable within a pre-determined timeframe in order to adjust their positions with the requirements of relevant laws. 2. Application of a unified program for vehicle insurance as soon as possible, and address any imbalance may result from its' application to take necessary action to prevent this Imbalance 3. Submit proposals and draft resolutions to the PCMA for the development of the Palestinian insurance market for through: a) wider application of the mandatory insurance currently imposed by law

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
	insurers without inflicting any harm to them or the insuring company	<p>companies</p> <p>7. Monitoring the financial results of the insurance companies with regard to various types of insurance and ensure the soundness of the subscription policy and pricing</p>	<p>(such as vehicle and workers insurance), b) Expanding the scope of mandatory insurance to cover new types of insurance, c) Market studies to bring new products tailored to the needs of the Palestinian market</p> <p>4. Enhance the efficiency of existing professionals through continuous training and development of professional and technical performance</p> <p>5. To create new opportunities for new professionals in this area and provide them with the necessary training and knowledge in the technical and marketing areas</p>
2. The Insured (Document Holders)	<p>1. Requiring insurance companies to fulfill their obligations towards them without any delay or procrastination</p> <p>2. Understanding of the rights of</p>	<p>1. Application of the rules of professional conduct and control its' vigorous application</p> <p>2. Conduct an awareness</p>	None

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
	<p>citizens under the Insurance Law</p> <p>3. Expedite the resolution of insurance issues in a friendly manner first, and expedite the it's consideration before the courts</p>	<p>campaign on the insurance law and regulations issued pursuant to it</p> <p>3. Activating the role of the PCMA to consider complaints by citizens and resolve them amicably with the insurance companies</p> <p>4. Coordination with the Supreme Judicial Council to create special divisions for insurance disputes</p> <p>5. Review contracts issued by insurance companies and get the approval of the PCMA before implementation and monitor their implementation</p>	
<p>3. Traffic Accidents Fund</p>	<p>1. Requiring insurance companies to pay the Fund dues on time and without delay</p> <p>2. Address the problem of the Fund's operations in the Gaza Strip</p>	<p>1. Follow-up with the companies in the payment of their obligations to the Fund</p> <p>2. Requiring insurance companies to pay their share in the Fund for their operation the Gaza Strip</p>	<p>Fund's commitment to institutionalize the relationship with the insurance companies</p>
<p>4. Union of Insurance Companies</p>	<p>Work to issue legislative tools that would grant jurisdiction for the Insurance Department in the PCMA to ensure</p>	<p>Review the relationship between the union and the PCMA to ensure the commitment of all insurance companies</p>	<p>None</p>

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
	that insurance companies comply with the union decisions	with the union decisions	
5. Assisting Professions	Organize their relationship with the insurance companies and with the PCMA	The issuance of all regulations, instructions and decisions in this regard, which has not issued until now	None

The Mortgage Sector

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
1. Mortgage Lender	<ol style="list-style-type: none"> 1. Well defined laws and regulations (Mortgage Finance, Foreclosure, tenancy, condominium...) 2. Coordination between all relevant stakeholders 3. An institutionalized Mortgage Finance Division at PCMA 4. Best Practice and standardization 	<ol style="list-style-type: none"> 1. Draft the needed laws & lobby for amendments 2. Issue regulations and Harmonize regulation and instruction with PMA 3. Build a strong well equipped directorate (appraisers, brokers, staff, etc.) 4. Capacity Building 	<ol style="list-style-type: none"> 1. Participate in the process of law drafting 2. Suggest ideas and key issues to be considered in the law and the operational aspects 3. Lobby for the creation of the enabling environment
2. Palestine Monetary Authority	Coordination between PMA and PCMA	Sign a Memorandum of Understanding to define roles and responsibilities	<ol style="list-style-type: none"> 1. Take the lead on the modality of coordination 2. Suggest key issues to be included in the law 3. Help in lobbying in the implementation
3. Developers	<ol style="list-style-type: none"> 1. Well defined laws and regulations (Tenants, Foreclosure...) 2. Awareness 	<ol style="list-style-type: none"> 1. Lobby for related laws to be drafted/amended 2. Develop Capacity Building programs to mortgage lenders 3. Design awareness campaigns, training sessions, education... etc. 	<ol style="list-style-type: none"> 1. Suggest ideas and key issues to be considered in the law and the operational aspects 2. Lobby for the creation of the enabling environment 3. Take the lead in the awareness campaigns
4. Home Owners	<ol style="list-style-type: none"> 1. Fair lending practices 2. Awareness of their rights 	<ol style="list-style-type: none"> 1. Code of Conduct 2. Enforce laws and regulations 3. Design awareness campaigns, 	<ol style="list-style-type: none"> 1. Lobby for the fair lending practices and transparency 2. Shop around for

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
		training sessions, education... etc.	mortgage products and rates.
5. Appraisers	<ol style="list-style-type: none"> Standards and benchmarks Training and capacity building Licensing 	<ol style="list-style-type: none"> Set the benchmarks based on international best practices Educational training courses and certifications A clear licensing instructions and ongoing monitoring and evaluation 	<ol style="list-style-type: none"> Set the benchmarks based on international best practices Educational training courses and certifications A clear licensing instructions and ongoing monitoring and evaluation

The Leasing Sector

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
1. Leasing companies	<ol style="list-style-type: none"> Legal / regulatory framework Appropriate / clear Tax treatment Movable assets registry Education, awareness Effective and Efficient registration procedures and encouraging fees Facilitate coordination among companies Need protection from unregulated competition 	<ol style="list-style-type: none"> Propose the law & regulation Public awareness Education / training Build Proper technical & institutional capacity to respond to the needs Promote / encourage / provide incentives to coordinate among companies Effective implementation of the law 	<ol style="list-style-type: none"> To participate in formulating the regulations Comply to the regulations Promote the sector Register the movable assets Identify the training needs Invest in capacity building Form an association of leasing companies (PLAC) Support PMA efforts in encouraging banks to participate in the leasing market
2. Palestine	1. Online real-time	1. Creating the	1. Encourage

Most Relevant Stakeholders	Needs to Grow their Business	PCMA Role to Fulfill these Needs	Stakeholder Role to Fulfill these Needs
Monetary Authority	information on banks leasing subsidiaries 2. Institutional coordination on reporting	needed MIS in coordination PMA 2. Provide needed information to the credit bureau	banks to develop their leasing activities 2. Cooperate with the CMA with the exchange of information and provide real-time info 3. Readiness and willingness of PMA to get into institutional cooperation (possible MOU)
3. Banks	1. Inspection reports about banks owned leasing subsidiaries 2. General Information on the sector	1. Provide the inspection reports 2. Publish industry reports	Part of the MOU
4. Ministry of Finance	1. To have access to PCMA records on leasing registered contracts 2. Distribute PCMA reports	Respond to MoF relevant requests	Application of the law concerning tax regulation on leasing activities
5. Ministry of National Economy	Nothing	Nothing	Activate the movable assets registry
6. Lessee (Productive Assets – SMEs, Public)	1. Awareness, education, information 2. Regulation to ensure transparent pricing (Truth in lending)	Public awareness, etc	Compliance