



# THE TANZANIA MERCANTILE EXCHANGE AT GLANCE

## **Incorporation of the Tanzania Mercantile Exchange PLC**

Tanzania Mercantile Exchange (TMX) was incorporated on 25<sup>th</sup> August 2014 to perform the business of a commodity exchange in Tanzania. The Exchange has been established as a public private partnership company. The first four shareholders of the company are the Treasury Registrar, TIB Development Bank, Public Service Pension Fund (PSPF) and the Tanzania Federation of Cooperatives (TFC). The Memorandum and Articles of Association (MEMARTs) of TMX among others, make provision for the TMX company to have an authorized share capital of Tanzania Shillings fifty billion (TZS 50 billion) to be subscribed for by investors from the public and the private sector at 49% and 51% respectively. The Exchange is regulated by the Capital Markets and Securities Authority (CMSA) under the Commodity Exchanges Act, 2015.

Consistent with the global market developments, the establishment of a commodity exchange in Tanzania has emerged as the most appropriate channel through which the free marketing of commodities can occur in a liberalized environment. Establishing the commodity exchange was therefore given priority by the Government and was included among the “Kilimo Kwanza” milestones as the more reliable, transparent and efficient marketing platform for farmers’ produce to fetch competitive prices transparently and thus reward them for their efforts. Establishment of commodity exchange in the country is expected to revolutionize the agricultural sector by providing reliable markets for agricultural produce which is expected to effectively boost production and enable agricultural sector to assume its rightful role in the economy by improving rural livelihood and contribute to economic growth as well as creation of employment opportunities.

Since aspects of commodity exchange cut across many sectors, the Government established a Steering Committee to coordinate the process of establishment of a Commodity Exchange in Tanzania at the national level. The Steering Committee comprises of the Permanent Secretary in the Prime Minister’s office who is the Chairman, Permanent Secretaries of the Ministry of Finance, Ministry of industry and Trade, Ministry of Agriculture, Food Security and Cooperatives, Ministry of Livestock Development, the Attorney General, the Chief Executive Officer of the Capital Markets and Securities Authority and the Director General of the Tanzania Warehouse Licensing Board.

## TMX's Objectives

TMX is committed to provide a world-class commodity exchange platform for market participants to trade in a wide spectrum of spot and future commodity contracts driven by best global practices, technology, professionalism and transparency. TMX firmly believes that it would achieve its main objective when a Tanzanian farmer would be in a position to choose his cropping pattern based on the spot and futures prices disseminated by the Exchange, rather than the practice of sowing a particular crop based on current prices. Once the Exchange start trading futures contracts, it will help producers, processors, export and import companies to minimize risk in import and export businesses, thus providing a hedging platform. The Exchange will commence with spot contracts and within a medium timeframe, it will add in futures contracts. The Exchange does realize that with every passing day will be moving a step closer to achieving this objective.

### Key objectives of the Commodity Exchangelokets

- ✓ Improving efficiency of marketing through on-line trading in Dematerialization form.
- ✓ Minimization of settlement risks;
- ✓ Efficiency of operations by providing best infrastructure and latest technology;
- ✓ Advocate for Implementation of best quality standards of warehousing, grading and testing in tune with trade practices;
- ✓ Improving facilities for structured finance due to availability of a reliable market;
- ✓ Improving quality of services rendered by suppliers;
- ✓ Promoting awareness about spot and futures trading services of TMX across the length and breadth of the country;
- ✓ Development and implementation of hedging needs.

### Innovations at TMX Price Discovery

TMX will provide near real time spot and futures prices of commodities traded on the Exchange. TMX will revolutionize the entire system of price discovery in commodity markets in Tanzania. Existing Tanzania markets, particularly in respect

of agricultural products is fragmented and spread over so many market places. The participants who trade on the Exchange can use these near real-time spot prices to take decisions on the futures segment once established.

### **TMX Trading Systems**

TMX will establish reliable, time tested and transparent trading platforms very similar to those being used by successful electronic spot and futures exchanges. TMX will provide screen based trading and hence it will be possible for one to place trades on the platform without visiting the Exchange.

### **Clearing and Settlement Systems**

For efficient clearing & settlement of trades, TMX will have an automated clearing and settlement system with the Exchange's Clearing Banks. TMX's clearing and Settlement will assume a Central Counter Party (CCP) risk for all members' trades. It will establish the net obligations of each member, informs the members of their daily net obligations and transfers cash funds and commodity ownership among members. TMX will identify settlement banks which will have to have dedicated TMX settlement team in their Head Office

### **TMX Central Depository System**

ECX maintains a Central Depository or Registry of warehouse receipts which guarantee product integrity. Manual Receipt issued under the Warehouse Receipts Act, 2010 will be immobilized into Depository Receipt. The TMX Central Depository is the sole entity authorized to and responsible for issuing Depository Receipt, printing copies of receipts, transferring legal title, and canceling receipts. The Depository Receipt issued by the TMX Central Depository represents legal title to the deposited commodity. The Depository Receipt is transferable and negotiable on the TMX through the function of the TMX Central Depository. The Central Depository will maintain separate accounts for every depositor. The Exchange Central Depository will provide the following services:

- ✓ Create Depository Receipts;
- ✓ Maintain and edit required depository receipt data;
- ✓ Maintain a register of Depositors
- ✓ Effect settlement of contracts traded on the Exchange by transferring Depository Receipts between holders;

- ✓ Issue Delivery Note after transfer of Depository Receipt;
- ✓ Void or cancel Depository Receipts;
- ✓ Reconcile records daily

## Trade Surveillance

TMX believes that fairness of commodity trading and adequate protection for its participants (buyers and sellers) members is essential for a quality market and prerequisite for price discovery. The main activities of TMX market surveillance operations are to preserve the integrity of price discovery process by monitoring the market to detect and deter the following:

- Market manipulation practices- an act by a market participant or a group to deceive in prices or volume of a commodity.
- Insider trading – commodity trading made by TMX employee, Board member or affiliate based on insider information
- Misstatement – Rumors or false information to mislead the public in making a commodity trading decision.
- TMX will use software models for generating real time price, volume, alerts for each trading member's unusual trade activities. The software will have a capability to link transaction prices and trades volumes in each commodity traded in real time, and in the past and if there is unusual changes in trading pattern will alert the market surveillance team.
- Market surveillance team will investigate all unusual trading pattern and pass on evidence in a report to the TMX Compliance team for further action if there was sufficient evidence that the exchange's rules have been breached.

## Warehouse Surveillance

Primarily, the responsibility of warehouse surveillance falls under the purview of the Tanzania Warehouse Licensing Board. However, in order to minimize risks to the Exchange settlement of commodity leg and in an effort to ensure that TMX build the requisite confidence of the market participants, the Exchange in collaboration with Tanzania Warehouse Licensing Board, will undertake periodical snap checks to minimize risks to the exchange and its members. Accredited Warehouse snap check will comprise the following elements:

- Verification and Sampling and grading process at all Exchange accredited warehouses
- Spot tests of sampling, weighing process ,and the grading process
- Spot tests at loading and unloading of commodities
- Verification of laboratory tests on commodities

### **Settlement Guarantee Fund (SGF)**

Settlement Guarantee Fund will be made up by deposit or contribution by broker / dealer to the SGF. TMX will prescribe the norms from time to time, the procedures, the terms and conditions governing SGF, which may, inter-alia, specify the amount of contribution. SGF is a pool of assets used as a guarantee to the successful settlement of all trades executed on the exchange. In the event of a Broker / Dealer being unable to pay for his commitments, the SGF shall be used to meet the payment obligation of such intermediary. The SGF is intended to avoid the default of one Broker / Dealer producing a “snowballing” effect of defaults among other Broker / Dealer and their customers. In the unlikely event of a default, the SGF will act as an essential element of a comprehensive settlement-risk-containment system. Creation of an SGF provides the Exchange Clearing, Settlement and Depository framework with the resources to meet its obligations, even when a participant fails to make good on a payment obligation.

### **Differentiation Factors**

The differentiating factors for the Exchange are: transparency in the price discovery mechanism, consistency and ease in clearing and settlement procedures and robustness of risk management systems. The Exchange understands the business needs of its participants and will endeavor to offer efficient and reliable services to its members/clients and stakeholders.

### **Market Information Dissemination**

The TMX Market information dissemination will involve using modern information and communication technologies (ICTs) to empower all market stakeholders, including smallholder farmers to access markets more efficiently and profitably. The key market dissemination channels of the TMX will include the following:

**Electronic Tickers:** TMX envisages disseminating its market information during on and off trading hours to strategically selected regional production sites across Tanzania. The TMX Electronic Displays will transmit real time prices of all commodities traded on its platform.

**The Mobile Phone SMS:** SMS is text messages sent and received with mobile phones. TMX will use this technology to disseminate market information. TMX will develop SMS market information via mobile phone service providers. The SMS system will enable anyone from anywhere in the country where the mobile phone network exists to access market prices, commodity related news headlines, weather forecasts, and other relevant market information.

### **The IVR System**

The TMX Interactive Voice Response (IVR) system is a fully automated telephone based system that will allow stakeholders to access price information 24 hours a day, 7 days a week. Once it goes live, the IVR system may be accessed using mobile / wireless/ fixed line telephone networks which make critical market price information within the reach of stakeholders located in all parts of the country. The IVR system features a voice menu that disseminates real –time and historical (up to 7 days) price information in English and Kiswahili languages.

### **The Website**

The TMX will provide real time market data on all commodities traded. It will also provide historical data, research, news, graphs, contract specifications and other key information.

### **Media (TV, Radio, and Newspaper):**

TMX is disseminating market information on daily basis via radio, television and newspaper – daily, bi-weekly and weekly newspapers will publish TMX market updates.

### **Market Intelligence**

- Market Bulletin – TMX will provide a summary of price comparisons with local and international prices; analysis and market developments via the Exchange weekly market bulletin. The analysis will include graphs, commentary and research on

international markets and commodities traded on its platform.

- Market Hotline – TMX will provide real time market information and updated international market prices for TMX members via a dedicated telephone line.
- Info Center - TMX info center will provide a variety of market information such as, daily domestic and international prices, market trends, production and weather forecast, market related news and events, etc.

## **Customer Education and Awareness**

Significant education and awareness needs to be created amongst a vast majority of the population. TMX in collaboration with CMSA has been conducting awareness programs across the country to highlight the opportunities in the commodity space, which have been very well received. The CMSA has introduced a certification course for commodity exchange market intermediaries' analogues to the Securities Market Certification Course. Certification in Commodity markets is expected to deepen the knowledge of operating staff working on commodity desks of the Members/interested individuals and enable them to take appropriate decisions at the right time while trading on the Exchange.

## **Board of Directors**

The governance of TMX vests with the Board of Directors. The Board comprises directors from public and private sectors who are persons of eminence, each an authority in his/her own right in the areas very relevant to the Exchange. They are well known, highly experienced and independent. The Exchange Acting Chief Executive Officer who is a full time employee is an expert in the field with over 16 years' experience in banking, finance, securities and commodity markets. Besides the Board, the CEO will be assisted by various committees like Membership Services Committee, Compliance Committee, Clearing and Settlement Committee and Disciplinary Committee, entrusted with handling independent portfolios.



**(For more information, please contact)**

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