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# Legislative modernization efforts and limits: Casablanca Stock Exchange and Hedge Funds

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## Abstract

*Attracting hedge funds is a matter of balancing financial innovation with investor protection, reflecting global trends and investment complexities. Central to this is the Casablanca Stock Exchange (CSE), whose modernization through key legal reforms aims to enhance efficiency and global competitiveness. However, Moroccan companies' reliance on bank loans highlights a market gap, suggesting a need for regulatory reforms and financial education. We conclude that these developments position the CSE to attract hedge funds, bolstering Morocco's financial standing and global appeal.*

**Key Words:** *Hedge funds – Regulation – Financial markets – Casablanca Stock Exchange – Market transparency – Legislative reforms – Morocco – Banking sector – Investment funds – Investment strategies – Equity markets – Debt markets – Capital markets – Portfolio diversification*

## Introduction

Understanding the concept of a hedge fund is crucial in today's financial landscape, not only for investors and financial professionals but also for anyone interested in the dynamics of modern economies. Hedge funds, often shrouded in a veil of complexity and exclusivity, play a significant role in financial markets, making their comprehension essential for a rounded understanding of investment mechanisms. The term hedge fund encompasses a myriad of investment concepts, from engaging in the « buying » and « selling » of equities with the goal of hedging, or in other words, reducing the risk of market volatility, to more sophisticated investment strategies utilizing the usage of complex derivatives instruments. Hedge funds are renowned for their exceptional profits, often far surpassing the returns of traditional investment vehicles. This remarkable capacity to generate high returns is a key factor in their widespread appeal, drawing a significant number of investors who are attracted to the substantial financial rewards these funds can offer.

These benefits are made possible by the flexible and light regulatory regimes hedge funds operate under all over the world. Effectively, they benefit from their right of non-disclosure, reporting and low leverage requirements that are key for their operations. The regulatory landscape for hedge funds in Morocco


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is an integral component of the country's broader financial regulatory environment. It is designed to ensure a balance between fostering innovation in financial services and protecting investor interests. This framework is continuously evolving, reflecting changes in global financial trends and the increasing complexity of investment strategies.

The Casablanca Stock Exchange (CSE), established in 1929, stands as one of the oldest and most significant financial institutions in Africa. It plays a vital role in the Moroccan economy, offering a platform for both public and private sector entities to raise capital. In recent years, the CSE has gained prominence for its role in supporting the development of investment funds in Morocco, a critical aspect of the country's burgeoning financial sector[1]. As we assess the Moroccan legal framework for hedge funds, we will explore the role and influence of the Casablanca Stock Exchange, which is instrumental in overseeing investment vehicles and their operations.

Our analysis delves into the effectiveness of the regulatory reforms of the Casablanca Stock Exchange in establishing an attractive regulatory framework for hedge funds in Morocco centered around the problematic: .How effective are the recent legislative reforms efforts in making the Casablanca Stock Exchange an attractive regulatory framework for hedge funds?

For this purpose, our analysis will be structured into two comprehensive parts. First, we will scrutinize the recent legal reforms and their impact on the operational and regulatory environment of the CSE. We will then proceed with a comprehensive analysis of the Moroccan efforts to align its financial sector with global trends, focusing on the attractiveness of its regulatory framework to hedge funds and its limits to Morocco's financial growth and global competitiveness.

## 1. Legislative reforms and modernization efforts of the Casablanca Stock Exchange

Law No. 19-14 in Morocco, promulgated by Dahir No. 1-16-151 on August 25th, 2016, provided a significant update to the legal framework governing the Casablanca Stock Exchange, brokerage firms, and financial investment advisors. This law aimed[2] to revitalize the stock market by dividing the exchange into two segments: one for large capitalization companies and another, with less stringent access rules, for smaller companies. This reorganization was designed to give smaller companies easier access to significant financing resources.

The law introduced enhanced prudential rules and increased the supervisory and control powers of the Moroccan Capital Markets Authority over stock exchange companies and professionals. It necessitated that depending on the nature of their activities, investment advisors could only operate with AMMC's approval. Additionally, the law provided multiple opportunities for disclosure, including during public offerings and through periodic information.

[1] Hammes, K. (2023). Stock exchange and economic growth in Morocco (1991-2022). Economic and Social Development: Book of Proceedings, 115-128.

[2] Press release of the Government Council of 10th September 2015

Furthermore, Law No. 19-14 complemented other legal reforms in Morocco, such as Law No. 60-16 for investment reform, which aimed to attract both domestic and international investments by restructuring investment promotion activities. This broader legal framework, including Law No. 19-14, aligns with Morocco's ongoing efforts to modernize its financial and investment landscape, reflecting its commitment to fostering a dynamic and transparent financial sector.

**Box 1 : Key pillars of innovation of the Law No. 19-14 relating to CSE**

Law No. 19-14 in Morocco, enacted in August 2016, is a pivotal piece of legislation that brought significant changes to the Casablanca Stock Exchange, brokerage firms, and financial investment advisors. The key pillars of this law include:

- **Modernization of the Casablanca Stock Exchange**: The law restructured the stock exchange to better accommodate both large and small companies.
- **Segmentation of the Market**: It introduced two market segments for different-sized companies, offering more financing opportunities, especially for smaller firms.

**Enhanced Oversight and Regulation**: Strengthened the role of the Moroccan Capital Markets Authority in overseeing stock exchange operations and professionals.

- **Increased Transparency and Disclosure Requirements**: Mandated more stringent disclosure norms for public offerings and periodic reporting to foster investor confidence.
- **Approval System for Investment Advisors**: Established that investment advisors must obtain approval from the AMMC to operate, ensuring better regulatory compliance.

This law represents a significant effort to modernize and enhance the efficiency and attractiveness of Morocco's financial sector.

The modernization aspect of Morocco's Law No. 19-14 primarily focuses on updating the Casablanca Stock Exchange to make it more efficient, transparent, and accessible. This includes implementing advanced technological solutions for trading and information dissemination, enhancing the regulatory framework to meet international standards, and facilitating the entry of a broader range of companies into the market. These measures aim to make the Casablanca Stock Exchange more competitive globally and attractive to both local and international investors.

Consequently, article 3 of the aforementioned law creates additional stock market compartments for the trading of financial instruments, all the while giving the discretion to the CSE management company the possibility to attend to specific needs of the operators and enhancing the market development opportunity. Additionally, all management matters are conceded to a Plc, a public limited Company (Société Anonyme), that operates under the specifications approved by the Ministry of Finance of the Kingdom.

Under Article 5, the management company thus establishes the regulatory framework under which the Stock Exchange operates. The latest update of said general regulation was implemented on


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the last quarter of 2019[3]. This new version of the General Regulations of the CSE represents a major step forward in the modernization of the Moroccan stock market.

Indeed, the new measures taken give the Casablanca Stock Exchange more flexibility in implementing the tools necessary for market development. This flexibility will make it easier to adapt to the expectations of national and international issuers and investors.

Through these modernized provisions, the Casablanca Stock Exchange will have, in particular, the possibility of adjusting the rules relating to the admission to listing of financial instruments, their stay and their delisting. Moreover, the new general regulation sets the terms of admission relating to the new organization with a main market and an alternative market, dedicated to securities issued by small and medium-sized enterprises. Each market will have compartments reserved for different types of instruments as well as a compartment dedicated to qualified investors.

The new regulation also highlights the possibility of listing securities issued by Collective Investment Organizations such as OPCIs and ETFs. More generally, the new general regulations support certain initiatives of the "Ambition 2021"[4] roadmap of the Casablanca Stock Exchange.

**Box 2: Highlights on the Ambition 2021 Plan of the CSE**

The "Ambition 2021" plan for the CSE was a comprehensive initiative aiming to modernize and enhance Morocco's capital market. The key aspects of this plan include:

- **Diversification of the Product Offering**: The plan emphasized diversifying the range of financial products available on the CSE. This included the introduction of real estate investment trusts and exchange-traded funds, providing investors with a broader spectrum of investment options.
- **Focus on Small and Medium-Sized Enterprises (SMEs)**: The Ambition 2021 plan aimed to provide greater flexibility for SMEs looking to enter the CSE. The market introduction of real estate investment trusts and exchange-traded funds, providing investors with a broader spectrum of investment options.
- **Focus on Small and Medium-Sized Enterprises (SMEs)**: The Ambition 2021 plan aimed to provide greater flexibility for SMEs looking to enter the CSE. The market structure was adapted to include a main segment with sub-funds and an alternative market specifically tailored for SMEs, allowing them to report on a half-yearly basis instead of quarterly.
- **ELITE Programme**: Launched in 2016, the ELITE programme was designed to assist Moroccan SMEs in improving their investment attractiveness and eventually listing on the CSE. This program included training, mentorship, and networking opportunities with the financial community.
- **African Exchange Linkage Project (AELP)**: The plan also involved the CSE in the AELP, which aimed to interconnect seven major stock exchanges across Africa. This project was expected to enhance cross-border trading and liquidity in the Moroccan and other African markets.
- **Modernization and Regulatory Reforms**: The CSE underwent significant modernization, including the launch of a new electronic trading system and regulatory reforms. This modernization was part of a broader overhaul to make the CSE a more attractive and efficient platform for investors and companies.
- **Sectoral Expansion**: The plan recognized the potential of emerging sectors like automobile, aeronautics, and green energy, which were growing rapidly but not yet represented in the stock market.
- **Privatisation Initiatives**: The Moroccan government's plan to privatise additional public assets through the stock exchange was expected to attract more investor interest and bring companies strongly representative of the local economy to the market.

Overall, "Ambition 2021" aimed to create a more inclusive, dynamic, and diversified financial market in Morocco, aligning the CSE more closely with the needs of the modern economy and making it a pivotal financial hub in Africa.

## 2. Limits to the attractiveness of the financial environment landscape

Hedge funds, known for their flexible investment strategies and potential to generate high returns, are relatively inexistant in the Moroccan financial landscape, however, other types of investment funds are well deployed and the CSE facilitates their growth in several ways.

Firstly, it provides a regulated and transparent environment for these funds to operate. This environment is crucial for attracting both domestic and international investors, who are often cautious about the risks associated with emerging markets. By adhering to international standards of financial reporting and governance, the CSE helps investment funds in Morocco gain credibility and trust.

Furthermore, the CSE offers a diverse array of financial instruments, including equities, bonds, and derivatives, which are essential for the operation of investment funds. These instruments allow funds to diversify their portfolios and employ complex investment strategies. The availability of a wide range of financial products not only attracts funds but also enables them to innovate and tailor their approaches to the specific needs of their investors.

The legal framework introduced by the law No. 19-14 revitalized the market and enhanced the prudential rules while reinforcing the AMMC's role of supervision and control on stock exchange companies and actors, most particularly by supervising investment services and advisors that were not falling under the umbrella of the previous 1993 law. Additionally, it initiated a modernized approach to public offerings and financial disclosures, thereby heightening transparency and investor confidence in the Moroccan capital markets.

[3] Press release of the 10th September 2019 of the Stock Exchange of Casablanca, pertaining to the new general regulation of the CSE
[4] Corporate Law in Morocco aligned with international standards, Morocco 2020 Report, Oxford Business Group


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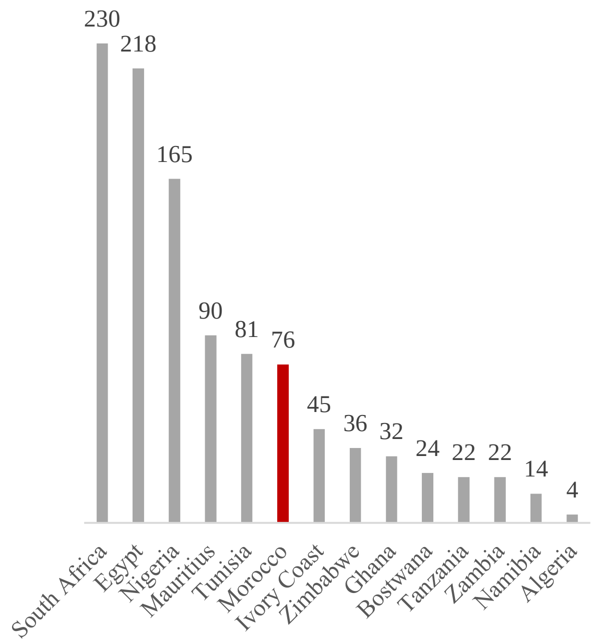
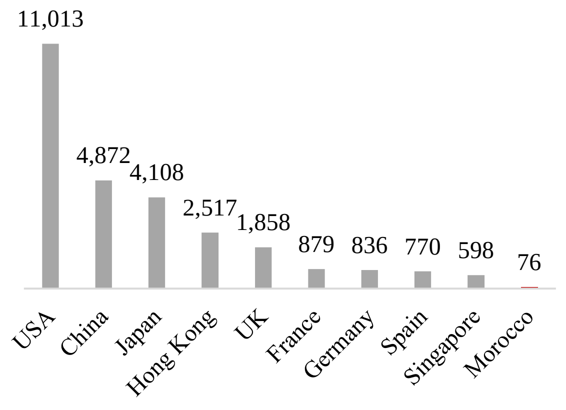
As of year closing 2022, 76 companies are publicly traded within the CSE, along with 31 bonds[5]. The CSE is strongly focused on increasing investor awareness and education on alternative financing possibilities from initial public offering, to secondary financing through workshops and roadshow across the Kingdom in order to reach out to potential candidates to financing among the industrial and financial actors of the economy, with a strong focus on the small and medium enterprises. The diversification of the offering participates in the increase of opportunities for domestic and foreign investors.

**Figure 1: Selected overview of number of publicly listed companies in Africa as of December 2023**




*Source: Bloomberg, January 2024*

**Figure 2: Selected overview of number of publicly listed companies worldwide as of December 2023**




*Source: Bloomberg, January 2024*

Compared to other African stock exchanges (Figure 1) and globally (Figure 2), the public offering in Morocco remains attractive, but far from being one of the top 5 leaders. In order to attract hedge funds, for which 30-40% of the hedge funds on a global scale specialize in Long/Short strategies, it is important for hedge funds managers to look at a wide range of opportunities that have strong potential for upside. Therefore, despite the current efforts of the Kingdom, the public offering in Morocco remains rather conservative, especially given the strong reliance of the companies on the banking sector[6], more particularly, loans, to finance their financial needs for growth.

In that context, ever since the COVID-19 pandemic, the statistics relating to bank loans for companies have highlighted that dependance. In December 2019, this statistic stood at MAD 189bn, versus MAD 262bn, an increase of close to 40%. In 2020 and 2021, banks had to respond to the Covid-19 crisis, which generated enormous treasury financing needs for all types of businesses. With national and global lockdowns, production halts, and reduced consumption, many sectors saw their activities either completely stop or slow down abruptly. The increase in demand was met favorably by banks, which were at the forefront of implementing public authority strategies and crisis council directives involving the government, private operators, and bankers. Later on, between November 2021 and November 2022, treasury credits saw an additional increase of over 34 billion dirhams[7], a 15.5% growth over a year. This sharp increase was due to the rise of global raw material prices, in particular, oil, gas, coal, leading to strong inflationary pressures that increased the need of refinancing. But this reliance on the banking sector reveals many elements.

The prevalent dependence of companies on the banking sector for fund-raising is indicative of a broader issue in the financial landscape. This reliance could stem from a lack of awareness or education among companies about the array of options available for raising capital through the markets. Many businesses, especially smaller or less established ones, might not be fully informed about the alternatives to traditional bank loans, such as issuing equity or debt in capital markets. This knowledge gap highlights the need for more extensive financial education and advisory services to help companies navigate the complexities of capital markets.

Moreover, the tendency to lean towards bank loans over market-based financing could also reflect the traditional nature of certain markets, where capital markets are either underdeveloped or not the preferred route due to their perceived complexities or risks. In such environments, companies might find it more straightforward or secure to obtain financing through banks, which they perceive as a more familiar and reliable source.

There's also the aspect of market accessibility. In some regions, accessing capital markets can be a daunting process due to stringent regulatory requirements, high costs of entry, or a lack of supportive infrastructure. Such barriers can deter companies from considering market-based financing options.

Additionally, the cultural and business norms within a region can play a significant role. In markets where banking relationships are deeply ingrained in the business culture, companies might opt for bank loans out of tradition or loyalty, even when alternative financing methods offer better terms or more flexibility.

All these factors culminate in a scenario where the capital markets are underutilized for corporate financing, underscoring a need for a more balanced financial ecosystem. This balance could be achieved

[5] Casablanca Stock Exchange Annual report, 2022, p. 5

[6] Evolution des comptes débiteurs et crédits de trésorerie, Bank Al-Maghrib

[7] Annual report, Bank Al-Maghrib, 2022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through regulatory reforms that make market access more straightforward, further educational initiatives to raise awareness about market-based financing options, and the development of more robust capital markets that can cater to the diverse needs of companies.

Consequently, the diversity of products offered by a stock market is a crucial factor in attracting hedge fund investments. Hedge funds, known for their sophisticated investment strategies, seek markets that provide a wide range of investment opportunities. This variety allows them to implement complex trading strategies, hedge risks effectively, and optimize returns. A market rich in product offerings, including equities, derivatives, commodities, and various fixed-income instruments, offers the flexibility and depth that hedge funds require to maneuver and achieve their diverse investment goals.

For instance, the Casablanca Stock Exchange, while playing a significant role in Morocco's financial landscape, could enhance its appeal to hedge fund investors by broadening its product offerings. Currently, its focus is primarily on equities, which limits the scope for hedge funds to diversify their portfolios and apply multifaceted investment strategies. By introducing a wider array of products, such as derivatives and more sophisticated debt instruments, the exchange could provide hedge funds with the necessary tools to execute a broader range of investment strategies. This expansion would not only attract hedge funds but also contribute to the overall liquidity and depth of the market.

Moreover, to become more attractive to hedge fund investors, the Casablanca Stock Exchange could benefit from implementing more advanced technological platforms for trading and risk management. The introduction of algorithmic trading facilities and robust risk management systems would align with the operational needs of hedge funds, who rely heavily on technology for executing high-frequency trades and managing complex portfolios.

In addition, regulatory reforms that ensure transparency, investor protection, and efficient market operations can make a significant difference. Hedge funds prefer markets that are regulated in a way that balances oversight with operational freedom. Clear and consistent regulations, coupled with a stable economic environment, would further enhance the attractiveness of the Casablanca Stock Exchange to global hedge fund investors, positioning it as a competitive financial hub in the region.

In conclusion, Morocco's regulatory landscape for investment funds in general, and hedge funds in particular, under the vigilant oversight of Bank Al-Maghrib, the Moroccan Capital Market Authority, and the Casablanca Stock Exchange represents a robust and dynamic framework. This regulatory environment facilitates a balance between fostering innovation and safeguarding investor interests. The Central Bank's enhanced legal and operational mandates, coupled with AMMC's comprehensive oversight of diverse financial entities, ensure market stability and transparency. The legal provisions underpinning the Casablanca Stock Exchange further strengthen this environment, supporting a wide array of investment opportunities. This comprehensive framework not only underlines Morocco's commitment to aligning with global financial trends but also highlights its potential as a burgeoning hub for hedge funds and various investment vehicles.

To conclude, the Moroccan regulatory landscape for hedge funds, as an essential part of the country's broader financial framework, is designed to balance innovation in financial services with investor protection. This evolving framework mirrors global financial trends and the growing complexity of investment strategies. The role of the Casablanca Stock Exchange (CSE) is pivotal in this context, serving as a cornerstone for overseeing investment vehicles and operations.

The modernization efforts, particularly the update to the CSE's general regulations, aim to augment its efficiency, transparency, and global competitiveness. These include technological advancements in trading, regulatory alignment with international standards, and facilitating diverse market entry. The flexibility introduced in market rules, especially regarding listing and delisting of financial instruments, is a step towards accommodating various investor and issuer needs, making the CSE more adaptable and appealing.

However, despite these advancements, Moroccan companies' continued reliance on banking sector loans for financial growth points to a gap in market utilization. This reliance might stem from a lack of awareness about capital market options, traditional market norms, or accessibility challenges. Such factors suggest the need for a more balanced financial ecosystem, achievable through regulatory reforms, financial education, and market development.

The CSE's product diversity is crucial in attracting hedge fund investments. Expanding its offerings to include derivatives and advanced debt instruments, alongside technological enhancements, and regulatory reforms, will make it more appealing to hedge funds. These changes are not just about attracting hedge funds but also about enriching the market's liquidity and depth, positioning the CSE as a competitive financial hub in the region. This holistic approach towards market development and education about alternative financing options is essential for Morocco's financial growth and global competitiveness.

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