

The role of banks in activating the stock exchange.

دور البنوك في تفعيل البورصة.

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Abstract:

The Algerian Stock Exchange has been characterized by stagnation despite the support provided by the state, there are many reasons for this, The Algerian legislature has attempted to support Algerian banks with an arsenal of laws to activate the stock market, these laws enable banks to establish and finance new companies capable of issuing securities, they can also assist national companies in offering their shares or bonds on the stock market.

The legislator also authorized it to issue bonds through a mortgage refinancing company, in addition to its work as a trustee institution for some newly established companies.

Keywords: Banks, Stock Exchange, Shares, Bonds, Financial Intermediary, Investment Portfolio

الملخص:

تتميز البورصة الجزائرية بالركود بالرغم من التدعيمات التي تقدمها الدولة لها، وأسباب ذلك كثيرة ولقد حاول المشرع الجزائري أن يدعم البنوك الجزائرية بترسانة من القوانين لتفعيل سوق البورصة، من خلال إنشاءها وتمويلها لشركات جديدة قادرة على إصدار أوراق مالية، كما لها أن ترافق الشركات الوطنية في طرح أسهمها أو سندات في سوق البورصة، كما أجاز لها المشرع إصدار سندات عن طريق شركة إعادة التمويل الرهني، زيادة على عملها كمؤسسة مؤتمنة لبعض الشركات المستحدثة.

الكلمات المفتاحية: البنوك، البورصة، الأسهم، السندات، الوسيط المالي، المحفظة الاستثمارية

Introduction:

Banks play an effective role in qualifying the state's financial activity through their various operations, in addition to accepting bank deposits from individuals and contributing to their financing through lending.

Their transactions have expanded to include several roles in the stock market, such as acting as intermediaries in this market or intervening directly in it through buying and selling, and managing investment portfolios.

To perform these roles and others that will be discussed, Algerian banks are required to undertake certain procedures and roles stipulated in the Law on Money and Credit 03-11 ¹ and Law 03-04 ² concerning the stock exchange.

Research Problem:

This study aims to identify the most important roles played by banks in the stock market, especially in countries with active stock exchanges that benefit the national economy, and to compare them with the roles of banks in Algeria. Therefore, what are the main shortcomings in the performance of Algerian banks compared to leading global banks in this field, and do banks truly have an effective role in activating the stock exchange?

This study is also particularly significant given the current period the country is experiencing, marked by a noticeable decline in oil prices, which constitute the most important exports for Algeria. Consequently, the legislator must seek to find new solutions to advance the national economy, including activating the stock market.

Addressing this problem requires the following hypothesis:

The more the Algerian legislator intervenes with legal texts to encourage banks to enter the stock exchange as financial institutions with expertise in this field, the more it will stimulate this financial market and thus drive development.

Regarding the scope of this study, it covers the legal and economic aspects of banks' interventions in the stock exchange, excluding other **areas of bank** activity.

Concerning previous studies, this research is considered the first of its kind in legal studies, as all other references are purely economic studies. Therefore,

¹ - Law No. 03-11 dated Jumada al-Thani 27, 1424, corresponding to August 26, 2003, *relating to Money and Credit*, Official Journal No. 52 dated August 27, 2003.

² - . Law 03-04 dated February 17, 2003, amending and supplementing Legislative Decree No. 93-10 dated May 23, 1993, *relating to the Stock Exchange*, Official Journal, dated February 19, 2003

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the study relied on these economic references and the analysis of specialized legal texts.

The difficulties encountered in this study include a lack of specialized references, especially since most are purely economic studies characterized by difficult terminology.

Thus, the following central question can be posed: What are the roles assigned to Algerian banks, most of which are public banks, in activating the stock market? This main question branches out into several sub-questions:

-Do banks contribute to the establishment and financing of institutions active in the stock market?

-Do banks have a role in accompanying public enterprises to offer their shares and bonds on the stock exchange?

-Can a bank, as a joint-stock company, offer its own shares and bonds for trading on the exchange?

-Can banks deal in securities by buying and selling within the market?

Research Methodology:

To answer the central question, several methodologies were used, including the descriptive method when presenting the opinions of jurists, the comparative method when comparing Algerian stock exchange laws with those of developed countries, the analytical method when analysing the provided information and legal texts to identify key advantages and disadvantages the legislator should avoid to create an effective legal system, and finally, the critical deductive method at the end of each section and in the conclusion.

I.The Role of Algerian Banks in Establishing and Financing Institutions:

To enable Algerian banks to create and expand the primary issuance market on the stock exchange, the Algerian legislator granted them two main roles: establishing companies or institutions capable of offering their securities ¹for trading on the stock exchange, or granting loans to pre-existing institutions.

¹ - Al-Qazwini Shaker, *Lectures on Bank Economics*, University Publications Office, (Fourth Edition),2008 Algeria,p124.

First Subtitle: Establishing Companies Capable of Issuing Securities:

As we know, companies capable of issuing securities are joint-stock companies¹. These securities consist of shares and bonds, which can be defined as follows: "A share is defined as the partner's share represented by a negotiable instrument, while a bond is defined as negotiable instruments representing a long-term loan for the company, meaning the bondholder is a creditor to the company, while the shareholder is an investor in it"².

Since a bank is a joint-stock company, both Article 72 of the aforementioned Law on Money and Credit 03-11 and Article 729 of the Commercial Code³ authorized it to participate in establishing new companies. However, the bank is not free to make these contributions without the approval of the Money and Credit Council regarding the types of investments and the maximum limits for participation in those projects.

Since the bank is a joint-stock company, it may also establish new companies through the technique of spin-off, either total or partial, dividing the financial estate between two or more legal persons⁴

Regarding the types of activity sectors in which a bank can participate, the legislator did not specify this and did not restrict the bank to participating only in banking activities; rather, the latter may participate in the industrial and commercial fields.

However, despite the existence of thousands of companies in Algeria, Algerian banks participate in only dozens of them, and these participations are considered very limited.

For example, the Financial Investment Company, in which the National Bank of Algeria participates with 4,000,000 DZD, and another example is the Company for Investment, Exploitation, and Real Estate and Building Management, in which the National Bank of Algeria contributes 250,000,000 DZD and the Popular Credit Bank (Crédit Populaire d'Algérie) contributes 5% of the capital.

¹ - . Al-Shawarh Faisal Mahmoud , *Investment in the Stock Exchange Market*, Wael Publishing House (First Edition)2008, Jordan,p75.

² - Malham Bassem Mohamed, and Al-Tarawneh Bassam Mohamed, *Commercial Companies*, Dar Al-Masirah for Publishing and Distribution, (First Edition),2011 Jordan,p429.436.

³ - Ordinance 75-59 dated Ramadan 20, 1395, corresponding to September 26, 1975, containing the *Commercial Code*, amended and supplemented, Official Journal No. 101 issued on December 19, 1975.

⁴ - . Boudjenane Nassima, *Merger and Spin-off of Commercial Companies*, (PhD Thesis), University of Abou Bekr Belkaid, Tlemcen, Faculty of Law and Political Sciences, page count 292, Algeria.p31.

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From the above, it can be said that the activity of Algerian banks in financing investments and participating in company capital is still less than it should be, both in terms of the quality and quantity of investment provided¹.

Second Subtitle: Financing Start-up Companies.

Algerian banks support start-up companies with loans, but on the condition that the latter provide guarantees, especially real estate guarantees, which constitutes an obstacle for these companies due to the difficulty of providing such guarantees as they are start-ups still at the beginning of their journey.

Banks also fear financing these start-up companies if they do not provide real estate guarantees, fearing the failure and bankruptcy of these companies and thus their inability to repay the loan amount at maturity.

It is notable in this area that Algerian banks contribute only 17% to financing corporate investments, resulting in 90% of companies resorting to self-financing.

Faced with this problem, it became necessary to create institutions supporting the banking system, such as venture capital institutions, financial leasing institutions, and mutual guarantee funds.

1- Venture Capital Institutions:

Venture capital, or capital risqué in French, is an American economic term that emerged after World War II by General Georges Doriot, who is considered the father of venture capital. He initiated the establishment of the first venture capital company in 1946, known as the American Research and Development Corporation, which invested its funds in innovative projects characterized by high growth rates and future returns. This form gained attractiveness after the success achieved by investing in the Digital Equipment Corporation, where the investment value multiplied 600 times.

Venture capital is defined as a technique for financing investment projects through companies called venture capital companies. This technique is not based on providing cash as in bank financing, but rather on partnership, where the participant finances the project without guaranteeing the return or its amount, thus risking their funds.

In this case, the investor bears the risks entirely or partially if the financed project fails. To reduce risks, the investor does not limit themselves to

¹ - Ben Jedoua Abdel Salam*The Role of Universal Banks in Activating the Securities Market*, (Master's Thesis), University of May 8, 1945, Guelma, Faculty of Economic Sciences, Algeria 2006 ,p261.

contributing capital only but also participates in managing the project, ensuring its development¹.

Examples of such companies in Algeria are the Algerian European Financial Company and the Financial Company for Investments, Participation, and Employment.

However, while this technique has many advantages, primarily supporting small and medium-sized enterprises (SMEs) or troubled enterprises, it also has disadvantages. Participants with their capital can represent a burden on the founders through their intervention in project decisions and directing its course, and they also demand high amounts in case of project success.

Given the current situation of the Algerian national economy, resulting from the drop in oil prices, we must find new sources of financing and not halt the economic wheel. Therefore, we must focus on new financing sources, especially investment capital for project financing²

2- Participation in Establishing Mutual Guarantee Funds:

To encourage small and medium-sized enterprises, the legislative system sought to establish mutual guarantee funds. These entities operate on the principle of risk distribution, thus reassuring banks to move forward in financing these private enterprises accurately, which removes the bank's fear of not recovering loan amounts at maturity³.

Examples of funds established under Algerian law:

- Loan Guarantee Fund for Small and Medium Enterprises.
- Investment Loan Guarantee Fund for Small and Medium Enterprises.
- Joint Guarantee Fund.

3- Financial Leasing:

A financial leasing contract is established between the lessor and the lessee. By virtue of this contract, the lessor (the bank) undertakes to transfer the leased asset, owned by them or obtained from the supplier, to the possession of the lessee for use in income-generating activities for a specified period and for a certain rent.

¹ - Law 06-11 dated Jumada al-Ula 28, 1427, corresponding to June 24, 2006, *relating to Venture Capital Companies*, Official Journal No. 42 dated June 25, 2006.

² - Bouwaqfa Ahlam, and Belaouej Boulaid, The Role of Venture Capital in Diversifying Financing Sources in Algeria, *Journal of Economic Studies*, Volume 01, Issue 04, Faculty of Economic, Commercial, and Management Sciences, University of Constantine 2 Abdelhamid Mehri, Algeria, 2017, p270.

³ - Ben Jedoua, Abdel Salam, op.cit,p266.

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This is one of the guarantees provided by the Algerian legislator for start-up companies. This form represents a more suitable financing tool for investments for companies that have started their activities, allowing them to benefit from necessary equipment and machinery for operation without purchasing them or borrowing for financing. The burdens here are limited to paying the rental value of the assets only¹.

There are several forms of financial leasing, such as financial leasing for movables, financial leasing for real estate, and financial leasing for commercial premises and artisanal establishments.

II. Banks Offering Their Securities on the Stock Exchange:

On the other hand, Algerian banks can increase the supply of securities on the stock exchange by opening up their capital, especially public banks, as they have large capital compared to other commercial banks, even though the latter are few in number.

Banks can also convert debts resulting from mortgage loans (long-term) into securities through the mortgage refinance company

First Subtitle: Banks Resorting to Public Savings.

Although Algerian banks are joint-stock companies, and despite most being public banks, [their shares are characterized by not being tradable on the market], which deprives the stock market of a significant volume of securities capable of expanding and activating it.

Trading in bank shares dominates the largest share of the total quantity and value of shares traded in many global financial markets. For example, in Gulf stock markets, trading in bank shares averages 60% of the total quantity and value of shares traded².

Therefore, opening the capital of public banks falls within the framework of partially or fully privatizing them to elevate the Algerian banking system to the level of global banking activity. However, the legal framework for privatization³ did not mention in its texts the possibility of opening bank

¹ - Ordinance 96-09 dated October 10, 1996, *relating to Financial Leasing*, Official Journal No. 03 dated January 20, 1996.

² - Ben Jedoua, Abdel Salam, op.cit,p262.

³ - Law 01-04 dated August 20, 2001, *relating to the Organization, Management, and Privatization of Public Economic Enterprises*, Official Journal 47 dated August 23, 2001

capital or privatizing them, limiting itself only to non-financial public economic enterprises¹.

Algeria, during the government of Ali Benflis (2000-2003), adopted the option of launching the privatization of the first Algerian public bank, represented by the Algerian Popular Credit (CPA) and the Local Development Bank (BDL). The economic expert at the time, Kamel Rezig, who is the current Minister of Trade, confirmed that developing the banking sector in Algeria depends on a complete review of the system, and the government should move towards bank privatization and open the door for foreigners to own a majority of shares in these banks².

Indeed, the Finance Law for 2017 included the privatization of banks, conditional on the approval of the Governor of the Bank of Algeria³.

Perhaps the anticipation by Algerian banks of attractive partnership offers from international banks is the reason for the delay in the process.

Second Subtitle: Bank Securitization.

Bank securitization⁴ is a modern financial technique that enables credit institutions, including banks and financial institutions, to assign a portfolio of mortgage debts to a specialized entity (in Algeria, the Mortgage Refinance Company) for consideration.

This company converts these mortgage-related debts into securities and then offers them to the stock exchange in the form of tradable bonds.

The importance of securitization in the securities market lies in its ability to activate the market by creating a new financial instrument that attracts both savers and investors with its high return, ease of trading, and diminished risk, in addition to not requiring any technical expertise from them.

In terms of high return, investors benefit from the returns on the portfolio of rights throughout their maturity period, in addition to recovering the portfolio itself upon the set term. Furthermore, many systems allow the intermediary entity (the specialized entity) to invest its surplus funds in purchasing other financial instruments that benefit investors.

¹ - Ben Hamou Issam Mohamed, and Al-Harrouchi Khitab, The Importance of Enterprise Valuation in the Success of the Privatization Process in Algeria, *Journal of Finance and Markets, University of Mostaganem*2014, see link e-biblio.univ-mosta.dz, accessed February 2, 2020.

² - Privatization of Banks, (n.d.), *El Khabar Newspaper*, www.elkhabar.com, accessed February 20, 2020.

³ - Finance Bill 2017, Encouraging Privatization of Public Banks, *Algeria Today Newspaper*, <http://www.aljasairalyoum.com>, accessed February 20, 2020.

⁴ - Law 06-05 dated February 20, 2006, containing *the Securitization of Mortgage Loans*, Official Journal No. 15 issued on March 12, 2006.

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In terms of ease of trading, holders of securities arising from securitization operations can assign them in financial markets through the same commercial methods known for shares and bonds.

The Mortgage Refinance Company uses the liquidity obtained from selling bonds to pay the asset value to the bank or financial institution ¹.

Although securitization involves transferring risks from banking markets to financial markets, it contains many guarantees that protect the rights of savers and investors, whether those guarantees relate to the formulation of the legal structure of the securitization process, the creation of real and personal securities in favor of investors, or the tight control exercised by multiple entities.

However, the weak contribution of Algerian banks, except for the National Savings and Provident Fund (CNEP) in housing loans, is the main reason that led to the company's inadequacy in feeding the market with securities derived from mortgage loans.

III. The Role of Algerian Banks in Accompanying Issuances and Activating the Trading Market:

The Law on Money and Credit removed many obstacles in the Algerian securities market, provided many regulated freedoms for dealing in securities, and created a highly distinctive and effective role for banks, enabling them to play an active role in both parts of the market (the primary market and the secondary market). This can be through practicing investment banking functions by underwriting issuances or through practicing securities company activities by intermediating in the market and trading securities.

First Subtitle: The Role of Algerian Banks in Accompanying Issuances.

This section will discuss the role of Algerian banks in accompanying the issuance of shares of public enterprises offered for privatization, as well as accompanying issuances of national companies.

1- Accompanying Shares of Public Enterprises Offered for Privatization:

Privatization, in its general concept, means transferring public ownership to private ownership by excluding public capital. It is the opposite of nationalization, which means confiscating private properties for the benefit of the state.

¹ - Seklab, Farida, *Bank Securitization as a Mechanism for Guaranteeing Bank Loans*, (PhD Thesis), University of Mouloud Mammeri, Faculty of Law and Political Sciences, Tizi Ouzou, Algeria 2016, page count 328,p17,18.

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The new world order is characterized by the predominance of trade freedom, the sovereignty of privatization, and economic openness. There are no restrictions on the movement of goods and capital between developed countries to serve their interests at the expense of developing countries. This system is a trap into which developing countries fall, led by the group of major industrialized countries, who also use the cover of the International Monetary Fund, the World Bank, and the World Trade Organization to promote economic openness and move towards privatization, thus exposing themselves to what is called neo-colonialism today.¹

As for Algerian legislation, it prohibits the internationalization of enterprises offered for privatization, a principle applied in Algeria since the issuance of the first law related to privatization (95-22)²

Privatization operations (Law 04-01, 2001) are considered complex and can only be carried out with the help of banks. Furthermore, to ensure successful privatization, strong banks supporting the market must be available, using their financial resources, providing necessary financial advice, and being capable of acquiring shares of public enterprises offered for privatization.

This process has resulted in enriching the stock market with a significant block of bonds, and all bonds offered to the public were subscribed to (either through a public savings call or a public offering for sale)³.

2- Algerian Banks Accompanying National Companies in Issuing Their Bonds:

Banks undertake the offering of bonds for national companies not intended for privatization. They also accompany government issuances of public treasury bonds.

A- Accompanying Issuances of National Companies:

Enterprises have several options for obtaining external financing: increasing capital, borrowing from banks, or borrowing from the financial market through a bond loan. This is done by offering the loan amount for public subscription, divided into equal parts, each representing a bond

¹ - . Mebarek Shaima ,The Privatization Strategy in the Algerian Enterprise, *Journal of Researcher in Humanities and Social Sciences*, Volume 08, Issue 26, University of Kasdi Merbah Ouargla, Algeria ,2016, pages 431-449,p434.

² - Privatization law95/22 is ordinance no.95-22 of august 26,1995, which was issued in ALERIA and began the process of privatizing public enterprises there .this law established the legal framework for the process of transferring ownership of public enterprises to the private sector ,but it found some loopholes ,which necessitated its amendment by ordinance 97-12 in march 1997.

³- Ben Jedoua Abdel Salam, op.cit,p271.

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subscribed to by many lenders, i.e., collective lending, which is called a bond issue.¹

Algerian banks play another role, which is accompanying enterprises in successfully offering their issuances on the stock exchange. However, there is a recommendation from the Bank of Algeria within the framework of precautionary measures that banks only conclude this type of issuance within an underwriting syndicate that distributes risks among themselves.

Public banks practiced the role of lead underwriter in the first operation organized for the benefit of Sonatrach. The banks, within the framework of forming an underwriting syndicate, also provided post-issuance services to these companies. These services included making a market for the bonds to ensure their liquidity after the subscription period ended and until their listing on the exchange, in addition to enabling subscribers to obtain interest at any point of sale affiliated with any bank member of the syndicate².

B- Underwriting Government Bond Issuances:

To succeed in their issuances of bonds and bills and ensure a degree of liquidity for these issuances, many governments worldwide resort to partners capable of making that happen. In France and Algeria, they are called Specialists in Treasury Values, and they are often banks and financial institutions.

In Algeria, a body representing the state, the General Directorate of the Treasury under the Ministry of Finance, accredits a number of banks and financial institutions that meet the required conditions to intervene as buyers or sellers of government securities in both the primary and secondary markets, whether for their own account or for their clients' accounts. These entities, after obtaining accreditation, enjoy a monopoly on intervention in the government bond market.

Thus, any investor wishing to subscribe to government bonds issued for the first time or deal with them in the secondary market can only do so through the intermediation of a Specialist in Treasury Values. This specialist guarantees the following:

- Underwriting in the form of (firm commitment underwriting) the entire government issuances offered in the primary market.

¹ - Shukrin Mohamed, *The Repercussions of Using Bond Loans in Algeria as a Financing Tool for Enterprises and a Trading Tool in the Financial Market*. (PhD Thesis), University of Algiers 3, Faculty of Economic, Commercial, and Management Sciences, Algeria, (2013-2014, page count 300,p09.

² - Ben Jedoua, Abdel Salam, op.cit,p274.

- Negotiating government bonds and treasury bills in the trading market, either for their own account or for clients' accounts.

Second Subtitle: The Role of Algerian Banks in Activating the Trading Market.

There is nothing preventing Algerian banks from dealing in securities, buying and selling for their own account, negotiating on behalf of others, or managing collective portfolios.

1- Dealing for Own Account:

Trading by banks in securities means purchasing them with the intention of reselling them ¹ in the short term to make a profit from the operation. For banks to carry out this operation, certain conditions must be met: the securities must be tradable in a market with guaranteed liquidity and have a permanent quotation, or at least the dealing bank must be a market maker for these securities. Without these guarantees, banks do not risk dealing in securities.

However, what characterizes the Algerian securities market is its lack of the necessary breadth and depth to support market liquidity. There is neither sufficient demand nor supply, nor continuity in orders, and thus a lack of liquidity. The biggest evidence of this is holding only one pricing session per week for only half a day.

On the other hand, the lack of diversity of securities on the stock exchange are factors that deter Algerian banks from dealing in securities.

Trading sessions are held twice a week, on Monday and Wednesday, and customer attendance is prohibited; only brokers represent them².

2- The Role of Algerian Banks in Managing Investment Portfolios:

An investment portfolio can be defined as "a combination of investment instruments that include financial instruments: such as shares, bonds, deposits, acceptances, bills, and notes... and foreign exchange accounts; thus, it is everything directed for investment"³.

¹ - Taha, Mustafa Kamal. (2005). *Bank Operations*, Dar Al-Fikr Al-Jami'i., Egypt 2005,p119.

² - Algiers Stock Exchange, the Graveyard of Trade, *Echorouk Online Newspaper*, www.echaroukonline.com, accessed February 21, 2020

³ - Abdel Gawad Mohamed Awad, and Al-Shudaifat Ali Ibrahim , *Investment in the Stock Exchange*, (First Edition), Dar Hamid for Publishing and Distribution, Jordan2006 ,p21.

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The task of managing portfolios is undertaken by Collective Investment Organizations in Transferable Securities ¹. These organizations can be defined from two aspects:

From an economic perspective, it is defined as a means of securing operations to finance the national economy by linking national savings to capital markets, allowing for the protection of savers.

From a legal perspective, it is defined as capital collected through collective investment institutions for securities, giving their owner the right to own shares in the capital of the issuing entity (shares) or a right of claim on specific assets ("bonds").

Several types of Collective Investment Organizations in Transferable Securities have emerged:

- Investment companies with fixed capital, mutual investment funds (common stock funds, balanced funds, specialized funds, dual-purpose funds) – the latter not enjoying legal personality²– and investment clubs.

- Establishing such an organization requires obtaining accreditation from the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB)³.

The question posed in this area is: how do banks intervene in the work of these organizations?

Most legislations, including Algerian legislation through Article 36 of Ordinance 96-08, stipulate: "The custody of the assets of (Collective Investment Organizations in Transferable Securities) shall be entrusted to a single depositary/custodian institution, distinct from (the management company) or from the manager (of the fund), and chosen from a list of legal persons determined by the Minister of Finance...."

Most legislations have assigned the role of the depositary/custodian institution, where assets are deposited, to major banks and financial institutions, for example, Swiss, German, and Belgian law.

¹ - Collective Investment Organizations in Transferable Securities, (n.d.), *Official Website of the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB)*, www.cosob.org, accessed February 23, 2020.

² - Al-Saba'i Ahmed Shukri , Collective Investment Organizations in Transferable Securities, *Electronic Law Library, (May 14, 2018), * www.bibliojuriste.club, accessed on February 20, 2020.

³ - Ordinance 96-08 dated January 10, 1996, *relating to Collective Investment Organizations in Transferable Securities*, Official Journal No. 03 dated Sha'ban 23, 1416.

However, neither French nor English law requires the depositary institution to be a bank; the important thing is that it is a company practicing its functions within the state. In this context, Article 13 of the French 1988 law stipulated the mandatory appointment of a depositary institution existing within a list approved by the Minister of Economy. The Algerian legislator followed the French legislator's lead by specifying the bodies undertaking the role of the depositary institution through a list issued by the Minister of Finance according to Article 36 of Ordinance 96-08, with its headquarters in Algeria.

This list is issued in Algeria based on current data and is limited only to major banks, as the latter are more knowledgeable and specialized in the country's financial and stock market fields than insurance companies and other financial-type institutions.

Among the tasks of banks (the depositary institution) in this case is to undertake the task of safeguarding the assets of the collective investment organization that entrusts them with it and the task of legal oversight over these organizations¹.

Banks also contribute by marketing the units issued by the organization through the counters available at these banks. The counters are also used to disseminate the information memorandum and the net asset value (NAV) calculated after each pricing session on the stock exchange.

3- The Role of Banks as Intermediaries in Stock Exchange Operations:

Algerian banks are qualified to play the role of intermediaries in stock exchange operations, given that they possess the necessary physical means (a wide network of agencies spread across the country), have qualified competencies, and are participants in the capital of the stock exchange management company.

Initially, bank intervention in intermediation for stock exchange operations was indirect, whereby the bank was licensed to practice financial intermediation activity on the condition that it proves the existence of an independent department within it that achieves separation between the intermediary activity and the other activities carried out by the bank in the field of its intervention in stock exchange work, as previously mentioned.

In 1998, five companies practicing brokerage on the stock exchange were accredited. As for their shareholders, they were all public banks and insurance

¹ - . Mansouri Youcef ,*Collective Investment Organizations in Transferable Securities*, (Master's Thesis), University of Algiers 1, Faculty of Law, Algeria. (2018-2019) , page count 140 ,p 107.

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institutions except one, Union Brokerage, which is a financial intermediary belonging to the private sector. At that time, the broker would conclude an agreement with the bank, whereby the bank would use its network of agencies spread across the country to receive purchase and sale orders from their owners and transfer them to the brokers for stock exchange operations, in exchange for a specified commission taken by the bank.

The second phase began with the issuance of Law 03-04 concerning the stock exchange, previously mentioned. This law introduced several amendments, including the possibility of offering securities for trading at all bank agencies across the country, thus allowing banks to intervene directly in the stock exchange through financial intermediaries working within bank structures, so that each bank has an intermediary working on its behalf and in its name after obtaining accreditation from the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB) ¹.

4- Account Keeping and Securities Custody:

One of the most important amendments introduced by the aforementioned Law 03-04 is allowing banks to act as what is called Account Keeper Securities Custodian, whose activity is linked to both the Central Securities Depository (Algerian Clearing Company) or the Settlement Bank (Bank of Algeria). It is even considered an essential partner for them in the central settlement and custody system, acting as a link between the two mentioned entities and the investors. Accordingly, the Account Keeper performs all procedures prior to executing orders and those related to settling operations after execution, safeguarding securities, and providing services related to this custody, while the stock exchange broker focuses on executing orders in the pricing session ². Examples include the Local Development Bank (BDL) and the External Bank of Algeria (BEA) ³.

Conclusion:

The small size of the securities market in Algeria is due to the few companies capable of issuing securities tradable among the public (only five companies listed on the exchange). In addition, the stagnation of the trading market and its lack of liquidity are due to the absence of a class of market makers with financial surpluses allowing them to absorb excess supply in the market.

¹ - Ben Jedoua Abdel Salam, op.cit,p279,280.

² - Ben Jedoua Abdel Salam, op.cit,p281.

³ - Securities Custodians, Account Keepers, (n.d.), *Official Website of the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB)*, www.cosob.org, accessed February 20, 2020

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Furthermore, Algerian banks, despite legislative openness, still practice traditional banking activities, and investment banking activities, which would establish and expand the stock market, are absent from their functions. This is alongside their lack of expansion in intermediation and investment portfolio management activities, which would inject vitality into the trading market and increase its liquidity.

Among the results drawn from this research:

- The activity of Algerian banks in financing investments and participating in company capital is still less than it should be, both in terms of the quality and quantity of investment provided.

- Algerian banks contribute only 17% to financing corporate investments (i.e., granting them loans for investment), resulting in 90% of companies resorting to self-financing.

- The failure to open the capital of public banks (privatize them) deprives the Algerian stock exchange of a large proportion of securities.

- Regarding banks issuing their own bonds (bank securitization), the path is hindered by the weak contribution of Algerian banks, except for the National Savings and Provident Fund (CNEP) in housing lending. This is the main reason that led to the inadequacy of the Mortgage Refinance Company in feeding the market with securities derived from mortgage loans.

- The accompaniment of public enterprises offered for privatization by public banks, the offering of national company bonds for trading on the exchange, and the monopoly on trading government bonds issued by the public treasury are tasks that public banks performed successfully, resulting in the enrichment of the capital market.

- Banks dealing in securities by buying and selling (as dealers) is met with the Algerian financial market's lack of the necessary breadth and depth to support market liquidity. There is neither sufficient demand nor supply, nor continuity in orders, and thus a lack of liquidity. On the other hand, the lack of diversity of securities on the stock exchange are factors that deter Algerian banks from dealing in securities.

- Banks play an effective role in managing financial portfolios, acting as a custodian for securities on behalf of collective investment organizations. The legislator also assigned them the practice of legal oversight over these organizations, alongside the statutory auditor and the Commission for the Organization and Supervision of Stock Exchange Operations (COSOB).

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-Following the amendment of the Stock Exchange Law 03-04, banks now work as financial intermediaries on the stock exchange directly, whereas they previously performed this task indirectly.

-As for their task as Account Keepers, it is another task introduced under the aforementioned law. In this case, they perform the role of a link between the Central Securities Depository, the Settlement Bank, and the investors.

As for the recommendations made by the researcher, they are:

-Since Algerian banks have contributed significantly to the problems suffered by the stock exchange, they are called upon to activate the stock market by moving beyond traditional activities and showing broad interest in investment banking functions.

-Legislative intervention with legal texts encouraging the privatization of banks and other public institutions.

-Encouraging private savers and investors to invest in the stock exchange by activating the principles of good governance for this market and the companies listed on it.

Finally, we can only say that a national economy based on rent (oil) is not permanent. Here we are these days facing a significant drop in oil prices. Therefore, decision-makers in the state must hasten to find other solutions, including encouraging companies and banks to activate the securities market.

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