REGIONALIZATION OF THE STOCK MARKETS IN SOUTHERN AFRICA

SYMPOSIUM PROCEEDINGS

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
AFRICA BUREAU
OFFICE OF SUSTAINABLE DEVELOPMENT

APRIL 25-26, 1996

KAROS INDABA HOTEL

JOHANNESBURG, SOUTH AFRICA

Price Waterhouse LLP


Botswana


Malawi


Namibia


South Africa


Swaziland


Tanzania


Zambia


Zimbabwe

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Price Waterhouse LLP

September 5, 1996

Dear Symposium Participant,

We would like to take this opportunity to thank you once again for your participation in the USAID-sponsored symposium, "Regionalization of the Stock Markets in Southern Africa." Your input was an important contribution to the Symposium's overall success.

We are enclosing a copy of the final Symposium contents and proceedings based on the presentations given and the results of the working group sessions. Also enclosed is a final copy of the project report, "Regionalization of the Stock Markets in Southern Africa."

The final Symposium volume contains two sections. The first is an Executive Summary consisting of conclusions and recommendations which came out of the presentations and working group sessions, along with the participant contact list and the Symposium agenda. The second section consists of copies of all presentations made at the Symposium.

We hope that all of you found the Symposium as valuable and interesting as we did. Please contact me or Tessie San Martin, Director of International Training, if you have any additional comments or questions. Thank you.

Sincerely,

Jeffrey Schwartz
Project Director
Price Waterhouse LLP

cc: USAID/AFR/SD
USAID/G/EG/EIR

REGIONALIZATION OF THE STOCK MARKETS IN SOUTHERN AFRICA

April 25-26, 1996

SYMPOSIUM CONTENTS AND PROCEEDINGS

Executive Summary

The Regionalization of the Stock Markets in Southern Africa symposium was hosted by the U.S. Agency for International Development (USAID) Africa Bureau on April 25-26, 1996 at the Karos Indaba Hotel in Johannesburg. Public and private sector senior officials from the stock exchanges, finance ministries, securities commissions, and representatives from the investor community in eight Southern African countries attended. The symposium provided an opportunity to discuss and exchange views on critical elements in the development of regional markets, including regulations, reporting/disclosure standards and systems, as well as explore the inter-relationships between stock market development and privatization program design.

Symposium participants focused on developing an agenda for harmonizing stock market regulations throughout the Southern Africa region. The Symposium sought to build upon and complement the work started last year by the African Stock Exchanges Association (ASEA), which has been sponsoring discussions, studies and debates on harmonization.

Symposium participants had an opportunity to review and discuss major findings of a recently-concluded study performed by *Price Waterhouse LLP*, and sponsored by USAID, on the regionalization of stock markets in the Southern Africa region. The study compared rules and regulations pertaining to, among other things, listing and information disclosure requirements, brokering and trading, clearing and settlement, and tax and foreign exchange regimes in eight Southern African countries.[1] The study also examined options for increasing the supply of securities in each of these markets through a broad range of ownership diversification schemes.

Proceedings

The symposium consisted of technical presentations, working group meetings, and presentations by the participants, culminating in the development of conclusions and recommendations for future action. The conference was opened on the first day by Mr. Chris de Beer of the Financial Services Board of South Africa, Mr. Roy Andersen of the Johannesburg Stock Exchange, and Mr. Michael Unger of USAID.

Mr. Jeffrey Schwartz, the Price Waterhouse partner in charge of the stock market regionalization project, began the Symposium with a brief summary of the stock market report. His presentation highlighted findings from the field research and provided an agenda for discussion during the symposium in the areas of listing requirements, brokering and trading, clearing and settlement, and taxation and foreign exchange policies.

Following Mr. Schwartz's opening presentation was a panel discussion on international investments in Southern African Markets. Two panelists, Mr. Kirk Jackson of New Africa Advisor, and Mr. Rodney Yaldwyn of Simpson McKie James Capel, commented on the key requirements for international investors to invest in the region, among which are reliable economic, sectoral, and enterprise data; market liquidity; extent of government restrictions on foreign investors, and timely execution of trading and settlement.

Mr. Roy Andersen and Mr. Darrell Till of the Johannesburg Stock Exchange (JSE) shared their views with the participants on the recent restructuring of the JSE, its impact on market liquidity, improvements in investor protection, and the operations of the Johannesburg Equity Trading System (JETS). Their presentation included

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[1]Botswana, Namibia, Tanzania, Malawi, Swaziland, South Africa, Zambia, Zimbabwe

a demonstration of the JETS trading system, a part of JSE's goals to be internationally competitive by 1997. Their presentation was followed by the first of two working group sessions, the results of which are summarized below.

Day 2 began with a presentation by Ms. Rosalind Marshall, a representative from the Federation of Euro-Asian Stockmarkets (FEAS), based in Istanbul. FEAS was established to encourage regional dialogue in the areas of capital markets development, and internationalization and harmonization of standards among stock exchanges in several European, Middle Eastern and Central Asian countries.

Dr. Auguste Rimpel, partner in charge of the Price Waterhouse capital markets group in Washington D.C., discussed strategies for developing depository and custodial institutions. Dr. Rimpel highlighted the importance of effective clearing and settlement systems, reviewed systems in the Southern Africa region, and discussed various strategies for reducing risk and cost through modernization and the development of an appropriate infrastructure.

The final presentation of the day was given by Jeff Schwartz. He described the concepts surrounding the linkage between stock market development and privatization, in particular the methods available to broaden ownership in the private sector.

Working groups met again in the afternoon to identify next steps for producing greater harmonization in the region and presented conclusions and recommendations. Dr. Arie Beenhakker closed the symposium with summary remarks about the findings, and working group conclusions. His concluding remarks highlighted critical success factors in a harmonization effort.

Conclusions

Participants convened in four working groups which were charged with the task of identifying and prioritizing actions required to harmonize standards in one of four areas:

- Listing requirements and accounting/auditing and reporting rules
- Brokering rules and cost effective exchange operations
- Clearing and settlement, central depository, and custodial services
- Broad policy issues affecting harmonization efforts in the region, including taxation and foreign exchange controls

The objectives of the working group discussion sessions were to:

- analyze and discuss the extent to which countries in the region have moved and can continue to move towards some form of harmonization;

- identify the extent to which current standards in the areas identified above are acceptable to all countries in the region;

- identify specific standards, rules, and requirements which are currently unacceptable to all or even a majority of countries in the region;

- identify next steps that organizations in the region can or will take to help produce greater harmonization.

Key conclusions from the group work undertaken at the symposium included:

- Establish task forces in the SADC region. These task forces could be based on the working groups created for this symposium. The task forces would support, sponsor, and coordinate on-going dialogue between exchanges, as well as indicate research priorities in each of the four issue areas highlighted above. These task forces could become vehicles for helping the exchanges in the SADC region liaise and support ASEA working committees. The task forces could also help monitor movement towards accepted standards.

- Harmonize listing requirements, as well as application forms, so that information requirements are compatible across countries.

- Encourage adoption of certain minimum standards for Articles of Incorporation.

- Encourage maximum disclosure to protect investor.

- Develop Best Practices Guidelines on the following areas:
  - a. Transparency
  - b. Best Execution - Price/Time
  - c. Efficient Price Discovery
  - d. Trading Capacity
  - e. Audit Trails
  - f. Insider Trading
  - g. Terminology

- Develop entrance exam standards for traders and brokers. There should also be minimum age requirements (with a minimum recommended age of 21 years).

- Establish minimum capital requirements for exchange membership which recognize international norms and standards.

- Develop a uniform set of broker/dealer requirements in areas of educational attainment, age, technical and business ethics training, and code of conduct.

- Education. It is critical to develop basic education programs for:
  - Members/Dealers
  - Surveillance
  - Stock exchange staff
  - Investor protection and promoting wider share ownership through privatization
  - Regulators
  - Foreign Investors (i.e. education with respect to specific market)
  - Issues related to Listed Companies/ to be listed (ie: new & existing)

- Eliminate the practice of trial by peers.

- Develop surveillance standards, including standards for record keeping and for enforcement and disciplinary procedures to enforce compliance.

- Educate government officials regarding the role of and need for a stock exchange in terms of economic development, privatization program effectiveness and ownership diversification goals.

- Encourage movement towards adoption of G-30 standards for clearing and settlement. Among the key areas in which harmonization should be sought:
    - -Trade comparison on T + 1
    - -Creation of Central Depository
    - -Adoption of Delivery versus Payment (DVP)
    - -Trades comparison system for indirect market participants
    - -Trade netting system
    - -Move to T + 3 rolling settlement

- Privatization programs that encourage and broaden ownership as a mechanism for stimulating interest and growth on the stock exchanges are imperative.

- Encourage harmonization through policies that either award or withhold tax incentives unless companies comply with certain standards.

Johannesburg Symposium Attendees
May 9, 1996

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SOUTHERN AFRICA REGIONAL STOCK MARKETS SYMPOSIUM

April 25-26, 1996 -- Johannesburg
Karos Indaba Hotel

Symposium objective: The two-day technical symposium brings together senior officials representing stock exchanges, finance ministries, securities commissions and privatization agencies in eight Southern African countries to examine issues pertaining to the regionalization and the development of stock markets. The symposium will be an opportunity to discuss and exchange views on critical elements in the development of regional markets, including regulations, reporting/disclosure standards, and systems. It will also be an opportunity to explore the inter-relationships between stock market development and privatization program design.

AGENDA

Wednesday, April 24

Arrival at hotel and check-in

19:30 Reception *(dress: smart casual)*

20:00 Dinner

Thursday, April 25

09:00-9:30 **Registration**

09:30-10:00 **Opening Ceremonies**
Welcome Address: Mr. Chris de Beer (*Financial Services Board of South Africa*)
Speaker: Mr. Roy Andersen (*Johannesburg Stock Exchange*)
Speaker: Mr. Michael L. Unger (*U.S. Agency for International Development*)

PART 1: Introduction

10:00-10:20 **Regionalization and Internationalization of Southern African Stock Markets**
Objective: Highlight key findings from the draft report on southern Africa regional stock market issues conducted by *Price Waterhouse LLP* under the auspices of USAID. The brief presentation will summarize the work of the research team, including the status of stock markets in the region, and key issues related to regionalization and internationalization of the region's exchanges.
Speaker: Mr. Jeff Schwartz (*Price Waterhouse LLP*)

10:20-10:35 **Break**

PART 2: International Investment in Emerging Markets

10:35-12:00 **Panel: International Investment in Southern African Markets**

Objective: Highlight international portfolio investor requirements for investing in Southern Africa. Among the requirements, the panel will address such issues as exchange operating procedures, listing requirements, disclosure, and clearing and settlement.
Panel moderator: Mr. Pieter van Huyssteen (*Price Waterhouse-SA*) and Jeff Schwartz
Panelists: Representatives of active investor groups in the Southern Africa Region.

12:00-13:00 **Lunch**

13:00-14:15 **The Experience of the Johannesburg Stock Exchange**

Objective: To outline the restructuring process currently taking place in the Johannesburg Stock Exchange, including changes intended in the area of exchange operating procedures, listing requirements, clearing and settlement, disclosure.
Speaker: Mr. Roy Andersen and Mr. Darrell Till (*Johannesburg Stock Exchange*)

14:15-14:30 **Break**

PART 3: Creating Common Standards

14:30-17:30 **Working Groups: Harmonization of Standards**

Objective: Participants will be divided into 4 groups, and each working group will be assigned to related sets of topics, listed below. Working groups will have an opportunity to: (1) analyze and discuss the extent to which countries in the region have moved and can continue to move towards some form of harmonization; (2) identify the extent to which current standards in a number of areas (ranging from listing requirements, to brokering rules, to clearing and settlement and exchange controls and taxation) are acceptable to all countries in the region; (3) identify specific standards, rules, or requirements which are currently not acceptable to all or even a majority of countries in the region. Groups will present their preliminary conclusions during a plenary session at the end of the day.

Working Groups

(14:30-16:30) **Group 1** *Listing requirements and accounting/auditing and reporting rules*. Among the issues that can be debated are: if complete standardization is neither feasible nor desirable, are there some basic listing requirements to which all countries in the region can agree? What minimum auditing standards are acceptable to all players in the region? What about enforcement rules/guidelines/powers?

Group 2 *Brokering rules and cost effective exchange operations*: Among the issues which can be debated by the group are: what minimum certification requirements can/should be demanded of all brokers in the region? Are there basic brokering rules to which all countries can agree? Which ones? What defines a cost effective exchange operation? What are reasonable fees for settlement and clearance, depository services, for listing, etc.?

Group 3 *Clearing and settlement, central depository and custodial services*: Among the issues that can be debated by the group are: what are reasonable clearing and settlement standards for the region? What are cost effective mechanisms for establishing and running central depository and custodial services?

Group 4 *Broad policy issues affecting harmonization efforts in the region, including taxation and foreign exchange controls*: Among the issues that can be debated by the group are: what are acceptable/reasonable taxation policies regarding issues such as dividends, capital gains and losses? What is both feasible and desirable regarding harmonization of foreign exchange policies?

(16:30-17:30) Presentations of working groups

Friday, April 26

09:00-10:30 **Case Study of Stock Market Regionalization: The Federation of Euro-Asian Stockmarkets**

Objective: Inform participants on how another region of the world is implementing a regionalization strategy, discuss applicability and lessons learned for Southern Africa.
Speaker: Ms. Rosalind Marshall (*Federation of Euro-Asian Stockmarkets, FEAS*)

10:30-10:45 **Break**

10:45-11:30 **Strategies for Developing Depository and Custodian Institutions**

Objective: Present and discuss public/private sector partnerships approaches to developing depository and custodian institutions in the region.
Speaker: Dr. Auguste Rimpel (*Price Waterhouse LLP*)

PART 4: Mobilizing Capital

11:30-12:30 **Linking Privatization and Stock Market Development: The Role of Ownership Diversification Schemes**

Objective: Discuss the linkages between ownership diversification schemes, stock market development and privatization program implementation. Experiences with diverse forms of ownership diversification schemes (e.g. mass privatization, mebos, IPOs, etc.) will be presented, focussing on what is relevant to the African situation. The role of local intermediaries, investor education, and information needs will also be discussed.
Speaker: Mr. Jeff Schwartz (*Price Waterhouse LLP)*

12:30-13:30 **Lunch**

13:30-16:30 **Working Group Session: Identifying Next Steps for Producing Greater Harmonization**

Objective: Provide participants an opportunity to identify next steps that organizations in the region can/will take to help produce greater harmonization. In particular, participants will be asked to consider those issue areas identified by each group on Thursday in which there was no consensus. The groups will be asked to identify concrete steps that should be taken to produce greater harmonization on each of these issue areas.

16:30-17:45 **Summary and Closing Remarks**
Speaker: Dr. Arie Beenhakker (*University of South Florida)*

Saturday, April 27

Hotel check-out and departure

BIOGRAPHIES OF SYMPOSIUM PRESENTERS

Jeff Schwartz is the Practice Leader for Price Waterhouse's International Privatization Group. Mr. Schwartz was the project director for the field study and report which formed the basis for this symposium on regionalizing stock markets in Southern Africa. He specializes in strategic management, privatization, and economic restructuring, and has directed projects in the United States, the former Soviet Union, Africa, Europe, and Asia. He has significant experience designing business strategies and programs, including mass privatization and mutual fund schemes. His professional experience prior to joining Price Waterhouse included setting up the first Peace Corps small business development program in Western Russia.

Tessie San Martin, who manages Price Waterhouse's training activities, has over 12 years of experience in the design and implementation of courses in corporate restructuring, securities issuance in emerging markets, negotiations, business plan evaluation, and corporate governance. Dr. San Martin has designed and conducted training programs for management institutes around the world, including ESAN of Peru, the Cyprus International Institute of Management, and INAP in Argentina, among others. She has also developed courses for public and private enterprise managers, boards of directors, privatization fund managers, and officials in Central Europe and the countries of the former Soviet Union.

Auguste Rimpel is the partner in charge of capital markets with Price Waterhouse LLP in Washington, D.C. Dr. Rimpel's expertise lies in developing modernization strategies to strengthen the financial sectors of developing countries and in the restructuring and privatization of state-owned enterprises. He is also experienced in the areas of management and organizational improvement, strategic planning, and investment and export promotion. Dr. Rimpel has been actively involved in privatization projects in Bolivia, Indonesia, Morocco, Paraguay, Costa Rica, and Ghana.

Michael L. Unger is Chief Advisor of the Finance and Private Sector Division of the U.S. Agency for International Development's Bureau for Africa, and is responsible for developing and guiding the Bureau's private sector initiatives. Mr. Unger is currently involved in initiatives to develop the stock market in Uganda, along with Zimbabwe's privatization program, and serves as advisor to the Government of Swaziland. He also led the team responsible for the design and development of the US $100 million Enterprise Fund for South Africa. Prior to assuming his current responsibilities in the Africa Bureau, Mr. Unger served as Chief Financial Economist in the Agency's Bureau for Private Enterprise. Mr. Unger holds degrees in Finance and Economics from Ohio State University, Washington University in St. Louis, the Harvard Graduate School of Business, and Pennsylvania State University.

Arie Beenhakker served as a principal researcher in the field study on the regionalization of stock markets in Africa. Dr. Beenhakker earned a Doctorate degree in Finance from Erasmus University in Rotterdam, the Netherlands, and a Ph.D. in Economics from Purdue University in West Lafayette, Indiana. Prior to joining the University of South Florida as a proressor of both undergraduate and graduate students, he spent over six years with the Ford Foundation, working in the area of development finance in Asia and Africa. His career includes achievements in research, consulting, written works, and academia. He has been a representative of the U.S. government in assessing privatization policies in Central and East European countries and the former Soviet Union. For the past three years, Dr. Beenhakker's work has focused on South Africa and other Southern African nations, where he has been involved in formulating changes in financial sector policies, institutions, and instruments. He is currently conducting research on financial restructuring in Southern Africa and on the potential use of financial derivatives in the region.

Roy Andersen has served as the Executive President of the Johannesburg Stock Exchange since 1992. He joined Ernst & Young South Africa in 1976, working as Partner, Senior Partner, Managing Director and, finally, Executive Chairman, the position he held from 1989 to 1992. Mr. Andersen presently serves on the Audit Commission of the Republic of South Africa, as well as on the Securities Regulation Panel, the Policy Board for Financial Services and Regulation, the Financial Markets Advisory Board, and the Standing Advisory Committee on Company Law. He is Chairman of both the African Stock Exchanges Association and the South African Airways Audit Committee. He also serves on the Board of the South African Futures Exchange. He is a Certified Public Accountant with a degree from the University of Witwatersrand.

Darrell Till has spent the past 35 years with the Johannesburg Stock Exchange. His expertise lies in the areas of securities markets, listings, information systems management, the development of clearing and settlement processes, the broker back-office accounting system, and the development of South African bond and futures markets. He is presently involved in the restructuring of the Johannesburg Stock Exchange and is responsible for developing automated solutions for trading, as well as for the design of new settlement and depository processes. Mr. Till holds a Bachelor of Commerce degree from the University of Witwatersrand, and early in his career worked as an accountant with South African mining and printing concerns.

Rosalind Marshall has worked for over 18 years in the areas of merger and acquisition financing, financial systems management, and strategic planning in retail, manufacturing, and service industries in both the United States and Central Europe. Since 1994, Ms. Marshall has served as the Assistant Secretary General of the Federation of Euro-Asian Stock Exchanges (FEAS). Her previous experience included working as Director of Marketing for Demirank, an investment bank in Istanbul, where she headed efforts to promote the sale of Turkish equities to foreign investors. As a consultant to the European Bank for Reconstruction and Development, she worked with the Central Bank of Kyrgyzstan to implement Western banking practices. Ms. Marshall is a member of the Executive Committee for the Istanbul Stock Exchange, and holds a Bachelors degree in Marketing from the University of Oregon and an M.B.A. from Golden State University.

Welcome Addresses

Mr. Chris De Beer (Financial Services Board of South Africa)

Mr. De Beer opened the symposium by highlighting key issues he hoped the participants would discuss over the next two days. He began by noting some of the factors which historically have led to the concentration of financial services in various settings. Such factors were:

1. Supportive legal, taxation and regulatory structures, and a congenial environment for foreign institutions.

2. The ability to tap into specialized labor markets.

3. Efficient infrastructure of services which support the financial sector, such as communications, legal and accounting professions, and a business information network. When communications began improving noticeably in the early part of the century, many of the regional exchanges were wiped out. But these have been built up again as the advantages of working with local knowledgeable agents became apparent. So the increasing sophistication of telecommunications is both a threat and an opportunity to the continued development of these local exchanges. With more and better communication options today, the need to harmonize standards to eliminate the possibility of regulatory arbitrage becomes more important. Nor should there be different codes of conduct.

4. Liquidity in the market place.

5. Trust must be built up and reinforced through a network of personal relationships and agents with a reputation for fair dealing.

According to Mr. De Beer, the one wild card that can upset the entire apple cart, even if all the other ingredients are in place, are governments. When government objectives, whatever these may be, have overridden the interests of the financial centers, imposing with restrictive regulatory regimes, damaging tax charges etc., then all bets are off in terms of the development of a financial center. This element of political risk continues to exist today.

How can these conditions be created, and how can the wild card of political risk be addressed? Mr. De Beers expressed hope that these would be some of the issues addressed through the symposium, because the southern African region must remain competitive or it will be left behind.

INGREDIENTS FOR SUCCESSFUL CONCENTRATION OF FINANCIAL SERVICES

- Require supportive legal, tax and regulatory structure & a congenial environment for foreign institutions
- Need to tap a large pool of highly specialised labour
- Rely on supporting services such as telecommunications, legal and accounting services, business information services, etc.
- In traded markets, business gravitates to where the liquidity is
- Relies heavily on trust reinforced by a network of personal relationships and by a centre's reputation for fair dealing

Mastering Management: Cities of gold (Richard Brealey)

FSB RFD

EFFECT OF IMPROVED COMMUNICATIONS

- More international competition between exchanges
- Exciting new options with ATS but same underlying supervisory regime
  - Regulatory Arbitrage
  - Code of conduct
  - Single passport (ISD type regime)

FSB RFD

POTENTIAL THREATS

- There is always a danger when governments have wider objectives that over-ride the interests of the financial centre and lead to restrictive regulation or damaging changes in the tax rules (political risk)

Mastering Manangement: Cities of gold (Richard Goldman)

FSB
RFD

Mr. Roy Andersen (Johannesburg Stock Exchange)

Mr. Andersen, who had just returned from the ASEA's Executive Committee planning meeting for the 28 October conference, began his address by noting that many of the issues debated by the Committee for inclusion in the 28 October conference are in some way being tackled in this symposium: education, harmonization and marketing. It is important to coordinate regional efforts such as those being discussed in this forum with the broader efforts of ASEA. The role of ASEA is to lift local standards. Among the actions that are being contemplated by the ASEA:

1. The introduction of a basic entrance examination. They are considering recommending the London Examination as a model for entry into the securities business in the continent.

2. Education. Four basic courses are being designed, with a number of pilot tests over the next few months. Among the topics: regulation, clearing and settlement harmonization strategies, and the role of ADRs and GDRs in Africa.

3. Marketing. Marketing is a major problem for the exchanges in Africa. There are many small exchanges that are highly illiquid and lack the resources to project well outside their immediate locality. Therefore ASEA is sponsoring a number of activities, such as the publication of Africa statistics. Information on the region's exchanges will be added to the Johannesburg Stock Exchange's World Wide Web site (which is averaging itself over 500 hits a day).

4. Harmonization. Here work is moving more slowly.

   a. Listing Requirements. ASEA had a paper prepared on the basic listing requirements, identifying the standards acceptable to all. The thinking is that exchanges in the continent will then be asked to report whether they are indeed meeting these standards. The hope is that the heads of exchanges will agree to meet prior to the October conference to discuss and agree on these minimum standards.

   b. Trading. The JSE has set up its automated system, JETS (a demonstration of which will take place later on). They are discussing with other exchanges whether there is interest in adapting it to a microcomputer. These arrangements, leading to greater harmonization in trading, will have to be done on a bilateral basis.

   c. Clearing and Settlement. ASEA is promoting harmonization based on G-30 standards.

All in all, the view of ASEA is that harmonization must evolve slowly. This process will start by promoting dual listings, as was the case with Ashanti Goldfields listed in Ghana and now Zimbabwe. This conference and its proceedings will be very valuable to ASEA.

Regionalization of Southern African Stock Markets

Mr. Jeffrey Schwartz, the Price Waterhouse partner in charge of the stock market regionalization project, gave a brief summary of the stock market report, and presented the following slides.

Regionalization of Southern African Stock Markets

Johannesburg Symposium
April 25-26, 1996

U.S. Agency for International Development

Price Waterhouse LLP

Agenda

- objectives of the project and report
- observations on issues and challenges facing exchanges in the region
- overview of the report's recommendations
- schedule for symposium

Price Waterhouse LLP

US Agency for International Development asked Price Waterhouse to examine

- the state of stock markets in Southern Africa
- prospects for their development in the context of regionalization (and internationalization)
- the relationship between privatization programs and stock market development

Price Waterhouse LLP

Specifically, the study reviewed

- Listing requirements and costs
- Trading rules, procedures, and systems
- Clearing & settlement and depositories
- Legal and regulatory frameworks
- Foreign exchange controls and taxation
- Supply of and demand for equities

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The study team conducted field work in Southern Africa in the fall of 1995

- Market participants included:
  - exchange officials
  - brokers and bankers
  - mutual and pension fund managers
  - public officials with local securities agencies
  - central banks
  - ministries of finance, privatization, and planning
- Countries studied:
  - Botswana
  - Malawi
  - Namibia
  - South Africa
  - Swaziland
  - Tanzania
  - Zambia
  - Zimbabwe

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The team drafted a report to facilitate comparative discussions on key issues

e.g. Listing Requirements

Minimum Requirements	**South Africa (Main Board)**	**Zimbabwe**	**Zambia**	**Botswana**	**Malawi (in draft)**	**Namibia**	**Swaziland**
Distribution							
Number of shares held by public	1 million	1 million	2 million	1 million	1 million	200,000	250,000
Percent of equity capital held by public	30%	30%	20%	20%	30%	20%	5%
Number of public shareholders	300	not specified	1000	300	in draft	75	not specified
Size and Earnings							
Subscribed capital	$550,965 (R 2 million)	$58,400 (Z$500,000)	$52,600 (K50 million)	$177,00 (P 500,000)	in draft	$277,000 (N$1 million)	N/A
Pretax Profit	$250,000 (current year)	not specified	not specified	not specified	not specified	$139,000 (N$500,000)	not specified

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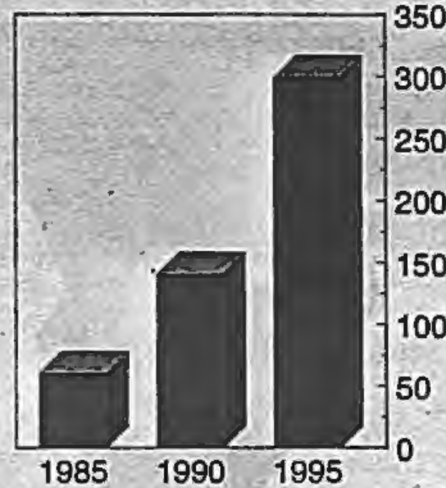
The past decade has witnessed significant change for stock markets within the region

- Restructuring and development of JSE and ZSE
- Establishment of new exchanges: LuSE, NSE, SSE, & BSE
- Plans for two new exchanges in 1996: Malawi and Tanzania

Market Capitalization
(US$ billion)



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This growth has been driven by domestic and international factors

- <u>Domestic</u>:
  adoption of economic liberalization programs including the financial sector and privatization
- <u>International</u>
  dramatic growth of portfolio investment, led by U.S. and European pension funds, in foreign and emerging markets

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Southern African Stock Exchanges -- preliminary observations

- Thin markets, low volume of trades
- Few tradeable securities (in smaller markets)
- Uneven development of institutional investors
- Low, but growing, levels of international portfolio investment
- Active consideration or current implementation of privatization programs
- Recent market developments focusing on and continuing to open access

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Common changes and technical challenges throughout the region (1)

- Restructuring, development, and creation of exchanges
- Interest in opening markets-- lifting foreign exchange and taxation barriers for portfolio investment
- Interest in broadening share ownership as an important element of privatization programs
- Active drafting and redrafting of financial sector legislation
- Developing regulatory, self-regulating, compliance and investor protection schemes

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Common changes and technical challenges throughout the region (2)

- Consideration of new trading systems to handle growing volumes and demands for transparency by investors
- Development of clearing and settlements, depositories, and custodial institutions to meet G-30 recommendations
- Financing the restructuring and development of exchange (front and back end) operations
- Recognition of importance of public and investor education programs

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Potential benefits of regionalization

- Increase intra-regional and international cross border portfolio investment
- Lower costs (in most cases) and investor entry barriers
- Increase investor confidence (especially with common standards which meet international benchmarks)
- Cost savings and learning benefits through regional approaches to common technical and developmental issues

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Factors influencing regionalization (1)

- **Barriers**
  - foreign exchange controls
  - varying listing, disclosure, and accounting rules
  - differing trade and clearing and settlement procedures
  - uneven tax treatment
  - perceptions and status of development of regulatory and investor protections

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Factors influencing regionalization (2)

- **Facilitators**
  - Common technical agendas facing stock exchanges, regulators, and central banks
  - Increasing cooperation among central banks
  - Increasing interest and participation in regional and international fora
  - Informal cooperation and formal technical assistance programs
  - Cross-border foreign direct investment
  - "Regional" interest of foreign portfolio investors

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Recommendations (1)

- **Regional standards and infrastructure development and training**
  - Promote dialogue on regional standards
  - Support efforts to develop clearing and settlement systems
  - Support cooperative arrangements among exchanges and brokers

Recommendations (2)

- **Broadening share ownership**
  - Support regional training in ownership diversification
  - Consider share distribution, mass privatization, and similar approaches adapted to local conditions
  - Consider development of privatization trusts and enterprise funds
  - Continue to develop institutional investment vehicles
  - Support broker and investor education programs

Recommendations (3)

- **Policy Issues**
  - Continue to remove foreign exchange and taxation restrictions and disincentives
  - Consider tax incentives to list securities
  - Coordinate and harmonize the drafting and redrafting of legal and regulatory frameworks
  - Continue to focus on macro-economic issues including inflation and reducing public sector borrowing

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Recommendations (4)

- **Approaches for technical assistance**
  - Promote regional approaches for technical assistance
  - Donor support should focus on training, technology ("software") transfer, and investments and development efforts
  - Maximize use of private sector participants
  - Exchange information with other regional initiatives

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Symposium Agenda - Thursday April 25

- Opening - 9:00 - 9:30
- Introductory Presentation - 10:00 - 10:20
- Panel: International Investment in Southern African Markets - 10:35 - 12:00
- Experience of the Johannesburg Stock Exchange: Presentation - 13:00 - 14:15
- Working Groups:
  Harmonization of Standards - 14:30 - 17:30

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Symposium Agenda (April 25, con't)

- Working Groups:
  Harmonization of Standards - 14:30 - 17:30
  - Group 1: Listing requirements and accounting/auditing and reporting rules
  - Group 2: Brokering rules and cost effective exchange operations
  - Group 3: Clearing and settlement, central depository and custodial services
  - Group 4: Broad policy issues affecting harmonization efforts in the region, including taxation and foreign exchange controls

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Symposium Agenda (Friday April 26)

- Case Study - Regionalization of the Federation of Euro-Asian Stockmarkets - 9:00 - 10:30
- Strategies for Developing Depository and Custodian Institutions - 10:45 - 11:30
- Linking Privatization and Stockmarket Development: The Role of Ownership Diversification Schemes - 11:30 - 12:30
- Working Groups: Identifying Steps for Producing Greater Harmonization - 13:30 - 16:30
- Summary and Closing Remarks - 16:30 - 17:45

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Panel: International Investors

(Adapted from transcript of the taped panel discussion)

Moderator: In order to help orient our thinking about regionalization, we wanted to take some time to discuss this issue with representatives from some investment houses. We wanted our discussions to be based on reviewing what investors within the region and potential investors in the region are thinking about. That is one of the purposes of this panel. We are extremely pleased to have representatives from two groups with us. To my right is Rodney Yaldwyn, director with Simpson Mckie James Capel based here in Johannesburg. To his right is Kirk Jackson who is with New Africa Advisors, also affiliated with the Calvert New Africa fund from the United States. I am going to ask first Kirk, and then Rodney, to make brief comments on their perspectives as investors into the region. I would like both of them to have a chance to speak, and then open the floor for discussion. Kirk?

Kirk Jackson: My focus and expertise is in the area of actually investing and investment analysis. Given that, the validity of economic data and data reported by the corporations themselves is extremely valuable to us. In South Africa, reporting is done on a semi-annual basis as opposed to a quarterly basis with the exclusion of the mining companies. Many U.S. investors would prefer to see reporting on a quarterly basis. Absent that, US investors would prefer to see semi-annual reports that are standardized, meaning that someone was not reporting in February and someone else in January and someone else in March. The non-standardized reporting makes it cumbersome for investors in terms of organizing information and data.

Before I came to South Africa, I was working for a fairly large firm in Boston investing in emerging markets, essentially debt, high yield debt, Brady bonds and things of that nature. Our company is a fiduciary, if you will, for U.S. pension funds. As a fiduciary we have to be concerned about looking for markets which are expanding quite nicely, which have stable economic conditions, and stable political conditions. Country economic performance is extremely important to us.

I believe it was UBS who did a very thorough study which looked at the history of IFC data over the last 11 years and tried to determine what was the most important characteristic for investment fund performance. What they found was that the country allocation decision was by far the most important. If you look at the last 11 years, only once (due to Mexico's devaluation in late 1994) did we have a stock in the top ten of the worst performing markets outperform the bottom ten in the better performing markets. So it was very clear that country allocation was the most important aspect of creating a mechanism for investing in emerging markets.

The second issue taken into account when investing in emerging markets would probably be sector analysis -- that is, having some mechanism for understanding the industries within a particular region or the industries in a particular country. Preferably you would like to have a mechanism for comparing industries amongst the entire region if that is possible because they theoretically should be able to compete against one another within the region. This is not always the case. Exchange controls make it difficult, and that is why controls are obviously a big issue to foreign investors, particularly from the U.S. Are the markets liberalized? Are they free? Are there any restrictions to normal market processes taking place within the environment?

In summary, the country allocation decision is the most important decision for us in investing Secondly, we try to understand the relationship between economic characteristics of the region or the country and how that impacts the industry. Thirdly, we have to select the stock. Some people would suggest that you just buy indexes, but in most developing countries that is difficult and would be very expensive to do. So you actually have to pick the stocks. What you would like to do is be able to pick stocks on a long term basis, with a five year horizon, so that you are picking good companies and not something you think might trade well over the next six month period.

This is why economic and industry data is of paramount importance to us. We really need to have nice clear data given to us with sufficient frequency and in formats that make some sense, are easy to analyze, and can be compared across other companies in other regions of the continent.

The only other big issue that I would add is liquidity. Anything that can enhance liquidity, so that there can be a broader distribution of ownership within the marketplace, helps to overcome some of the barriers with respect to foreign investors.

Rodney Yaldwyn: I come from the research side of an organization. Several years ago, investing in Southern Africa was largely limited to gold shares for a whole host of reasons. More recently, with the abolition of the financial rand, things have normalized, South Africa is back on the table, and overseas investors are interested. Foreign investors want us to help them get information on three issues: the first is government officials and those who provide the regulations. The second is individual companies because they would like to speak to the companies and find out how they are doing since many of them are new companies. And third, they want very often to talk to our research and administration departments.

On the government side, there are often requests to see those people who make the decision. Questions often revolve around how Reserve Bank officials intend to manage the economy. Surprises in the form of additional taxation (there is always the tendency to tax companies in the industries that are doing well) is something investors do not welcome. Therefore, any form of taxation and funny hidden extra costs would tend to make them feel less warm about investing in any particular country.

The second thing investors want to know are the restrictions placed on foreign investors in terms of foreign policy, be it an aggregate of share ownership in a particular company or any other restrictions. In terms of speaking to the administration departments and the people who run the actual committee of the stock exchange, something mentioned early on, settling procedures are very, very important. It is one of the first questions that are raised. If a big deal is going to be done, can they handle it, how long will it take. Are they expedient, are they conversant with the regulations.

Several of the other issues which always relate to companies is tradeability. You will find that international traders like to deal in large blocks of shares. They like to do the deal in a day, possibly better in a minute. Very often they get some form of notification whether it is a rumor, public announcement, resignation or something like that and they would like to get out of the stock or buy stock literally in a moment. The trade is very important and you will find they will shy away from small companies. Tradeability is really important.

Accuracy of execution is also very important. And that comes back to the relationship we mentioned earlier on personal relations with a broker. They feel far more comfortable dealing with people they know and trust than perhaps the new person on the block. It is critical for anyone to build up that relationship either with the government or the broker. That foreign dealing relationship is very important.

Getting back to regionalization, we have found that accounting standards are always quite important. In comparing the performance or the results to be used by any particular company and comparing it in terms of gold mines, steel companies, and are they comparable, has always been an issue from our point of view. We have tended to try and analyze our companies in the same or similar formats to those used overseas. This does not necessarily mean that overseas formats are correct or North America is correct, but that the lack of uniform standards is one of the problems for our brokers face when making decisions to invest in your companies. That is one issue that is quite important. I know in my investigations in South Africa, one of the big problems is the lack of a standard accounting system and I know that South Africa is going to go on the European standards now which will make things a lot easier for us.

I think those are the main issues. If I had to rank them, I think that settlement procedures, government interference, and the lack of standard government handling of the economy would probably be the major issues. Company reporting, company marketing, and actual company risks are also important. Tradeability is probably next.

Question: Just for clarification, when you talked about tradeability and you mentioned that these international investors would want information ahead of the public announcement, a little alarm in my head said "insider trading". Would you care to differentiate what you said in relation to the need not to be accused of insider trading?

Answer: In terms of the foreign investor trying to have equal access or disclosure, there are two approaches to the availability of data. Those who have been here for a long time or part of the mainstream, may well know results before they are formalized. Foreign investors tend to wait for a rippling effect and for things to be documented and certified. Again, there is always the concern in an emerging market that foreign investors will simply enrich well-heeled local investors. This causes friction.

I think what has happened is that the time barriers are breaking down. What companies are doing on an increasing basis is getting into one of the networks. In terms of releasing results, now we all get a fair crack at the same time. In the old system, we used to get complaints that brokers could manipulate the price and tended to get the higher prices. I think this is more a function of lack of tradeability than anything else.

Answer: Due to the openness of the U.S. system, and having facilities like computerized reporting mechanisms that are always available to everyone in the States, all companies essentially report their data real time. When you come to South Africa, things are different as far as foreign investors are concerned. Foreign investors are looking for the type of shareholder representation and information that they normally used to, and this is very difficult to get in South Africa. They are even trying to push for adoption of policies that would help boost productivity in South Africa, such as breaking up some of the big conglomerates and focussing on core assets. The local investors, on the other hand, are very comfortable with the current conglomerate structure, probably more comfortable than the foreign investors. The local perspective is something quite different.

Moreover, in South Africa there is such concentration of power, that even if you improve information disclosure, there are so many cross directorships that within a couple hours everyone knows how a company is performing.

Question/Comment: I know of a number of companies who would like to go abroad to meet with their overseas investors and help them get beyond the numbers. The income statement doesn't really tell people the entire story as you know. But they cannot identify their foreign investors because they are hidden in nominee companies.

Response: There is a theme in the questions that although we appear to be doing the right thing, our country is not seeing more foreign direct investments. In many new markets in the world and certainly in the former Soviet Union and Central Europe, international investors had to have to change their whole mind set about those markets. These were markets where one day there was no respect for private property, but within a relatively short number of months -- about 20, 30 or 40 months -- you are seeing billions of dollars of directed portfolio investment going into a number of countries. My point is that it is relatively easy to change the mind of international investors. Some investors would like to believe there is a positive story being told. I don't think it takes very long to establish a track record in a country, both a political track record and an institutional track record, to attract international investment. It certainly can't take more than a couple of years. We have seen countries and markets recreate themselves in a couple of years and attract billions of dollars in both foreign and portfolio investments.

Venezuela is a great real time example. Their stock market is up 36% this year, though the country will probably have growth of -1% next year, and devaluation of about 40% in their currency. But they are up 36% because the expectation is that they are now trying in an earnest and honest fashion to really focus on trying to reduce their budget deficit. Because they are going through this process, people expect that maybe three years down the road Venezuela, with its population growth and reserves in terms of gas and a little bit of oil and mineral resources, will have the ability to take off. South Africa and many of the African countries can also potentially create similar expectations. Once South Africa puts its fiscal house in order in terms of the economy, it can grow at +5% per year.

There is also the case of China. China gets a lot of capital flow because it can give people the expectation of +5% or more economic growth for a sustained period of time. In fact, in China people are thinking more in the range 8-10% or 8-12%. That is clearly possible in Southern Africa and most of Africa if for no other reason than population growth. But the issue in Africa, as far as foreign investors are concerned, is whether economic stabilization policies can be put in place, and whether existing governments are willing to take the punishment needed to set things on the right path so that people can believe in ten years of economic growth? If that happens, capital flow will come extremely quickly. Although the restructuring process takes 2-3 years, as soon as it gains some credibility, the capital flow comes almost overnight -- and Venezuela is again a great example of this.

Question: Can you comment on the extent to which the Venezuela market is well known to U.S. investors, influenced the pace of capital flows? How does that influence your thinking?

Response: It is always nicer to invest in your backyard. There is no doubt that you can get comfortable with it quicker. Certainly America understands Latin America a lot better than it understands Africa. There is a tax burden placed on the Southern African region because of remoteness. South Africa and the surrounding region is an emerging market. It should have all kinds of capital flow. But this market is so remote and most people (investors) don't know or don't understand the story, which affects their willingness to invest. But the reality still is that if you can create a policy that allows productivity to grow along with demographic expansion, you will get recognized.

There is $3 trillion of pension fund money in the U.S., and probably half that, if not just as much, mutual fund money. It has to go somewhere, and they are getting concerned about where to put it. The U.S. and Europe are not expected to grow more than 3% at best. So they are really looking as hard as they can to find those regions they can invest in. The only problem is that Africa is not well understood and CNN doesn't help.

Question: I would like to ask a question How important is locally produced research as far as investors are concerned?

Response: I think it is important and imperative. We tend to not have a lot. We tend to think that if someone gives you research, he is underwriting the stock, is going to make money, and therefore wants to convince you to buy it. Recently we have had reason tofeel that we really need to create our own in-house infrastructure for research. We try to do as much in house as possible.

Question: Could you comment on the implications of ADRs/GDRs in the investor's choice?

Response: Sure. It is a cheap way of being graded overseas and facilitates trading. I think the problems that we are seeing with ADRs recently is that there is absolutely no trade. To the best of my knowledge the trade is absolutely invisible.

Also, in our view, if you wait for the ADR, it is probably too late. In the case of South Africa, it is a great mechanism. We need it for the liquidity of the people who are in the market. But from a foreign investor's perspective we prefer to have a broker out in Botswana who can get research that is credible so that you can in fact be there before it gets to an ADR listing.

Question: What channels can we use to make available the information we have about our markets? I find the media's tendency to disregard the seriousness of what we are trying to do very frustrating. When we had the ASEA conference in Mauritius, there was an article in the South Africa paper which concentrated on the dinner that was held at the end of the conference. By reading that article one would get the impression that we had gathered from all over just to have this nice dinner. It was a very successful conference with many important issues discussed, but none of the discussions and debate were seriously covered by the media.

Then you look at a serious publication like The Economist, in which a month ago they did a short article about Southern African exchanges. This article noted that Zambia has "two or three" or "four" listed companies depending on who you ask. Now I find that very annoying because who did they ask? We are looking for ways to try and counteract that sort of reporting.

Response: I think that the best mechanism is for the people who are involved who want things to flourish in terms of capital investment, to try their very best to implement those policies that will create that growth.

It also helps to have allies on the ground. For example, you see in the press that Botswana grew 6.6% annually for a nine year period. No matter what The Economist says, I am going to try and figure out what is going on in Botswana. The Government of Botswana might help me by saying we have a Botswana Development Corporation that might be a partner with you if you invest in a direct investment opportunity, etc. which will help to get this off the ground. Then you won't need as much lead capital to do it and so on and so forth.

Most of all, we are going to look for the economic characteristics that make us want to be there. Secondly I guess if we haven't recognized the opportunity then you have to let us know somehow. I don't know how you avoid the fact that some media source is trying to say you can't drive one block and not get hijacked. It is totally untrue, but it is what the media will say. We will have to get over that. But more importantly from an investor's standpoint, it is those economic characteristics.

On another related aspect of what it takes to attract investor attention, we argue a lot about the sequence of public offerings. Do you do the domestic offering first and then the international offering? My sense is that international investors look at an offering or a listed company in a region and if they see that the people in the country aren't buying it, and the people in the region aren't buying it, it is going to be very difficult to tell that story to international investors outside the region. Therefore stock exchanges have a unique opportunity to change investor perceptions of Africa. International investors would take note and would follow that inter-regional investment. The view would be that the insiders of the region would know what is going on. If they are investing in the region themselves, this is a good investment for people outside the region. Would you agree with that or not?

In sum, South Africa and the region have some obstacles they need to overcome to promote investment. One is productivity. I don't care what everyone says. If the company can't be productive and compete with the rest of the world, then they are not going to have sustainable capital; it is just that simple. Another problem that you have here is that when I call specifically a major corporation in South Africa, there is no investor relations department. That is a huge problem. An investor might call the company to ask what the company is doing to become more productive. And the investor wants to avoid having to talk to five people before they get to a person who can finally answer their question. That is hugely important.

Question: There was a statement made that a foreign investor was not interested in small companies or small markets. I would like to ask that panel its reaction to this.

Response: Yes, it is a problem. Small markets, which very often tend to be tightly controlled, are of no interest irrespective of how attractive they might be in terms of growth. The way they have gotten around it to a degree is to form unit trusts specializing in small, emerging markets where you can have a few hundred thousand in a company. That is one way you can get around it. Package it differently. But if a U.S. investor comes in with $2 million then they just never get in.

Developing markets have volatility that is inherent. You can't avoid it. There is volatility in every single developing market in the economic curve. The first thing you want to know in this business is: if you make a mistake, will there be liquidity? That is probably part of the problem with some of the smaller companies in some of the smaller countries: investors realize that if they make a mistake and there is no liquidity, they are going to get hung. So they are very cautious about that and they are a bit prudent about opportunities that might be so small and so hard to characterize that if something happens they can't get out.

Moderator: I would like to thank Kirk and Rodney. I think they led excellent discussions. From our side you got us into the mindset we wanted for kicking off this two day symposium which was to focus on the perspective of investors both outside the region and into the region.

Johannesburg Stock Exchange: Restructuring Experience

(Adapted from transcript of the taped presentation)

Mr. Roy Andersen

Let me give you an overview of how we have restructured the JSE, and then I am going to comment on how we see it impacting the liquidity of our market. Then I am going to give you a quick summary of how we think we have improved the investor protection features in the market as a result of restructuring. After that we will get into JETS. We are going to tell you how JETS works. JETS stands for Johannesburg Equity Trading System. Darrell Till is going to give you a simulated demonstration of JETS just to give you a feel for it, and then he is going to talk about where we're going on settlement registration via a central depository.

Let's talk about the restructuring. Why did we restructure? We sat back about three years ago and said to ourselves: the JSE must remain relevant as South Africa transforms itself, so we have to address issues such as wider access to our capital, and greater economic involvement. Bear in mind that three years ago we were described as a white man's casino. There was a tremendous burden put on us to make sure that we get rid of it so that everyone can access this market which after all is a national asset for the whole of South Africa. The second perspective is that we foresaw the return of the foreign investors, and we have not been disappointed. Foreign investors are now over fifty percent of trade. Just to put it into perspective, net foreign investment in 1994 was two million rand, in 1995 4.8 million, this year so far 2.5 million and it is growing exponentially. Also we are monitoring very closely the trade on the South African shares quoted in London.

The first thing that we wanted to do was move from individual membership, where the individual stockbrokers had unlimited liability, to corporate membership, with the option of limited liability for the corporate entity. Second, we wanted to introduce a capital adequacy regime for our members that would be internationally recognized. Therefore, we adopted the European Union directive. Essentially when you deal with a broker in London or Johannesburg, the capital adequacy regime is the same and is recognized. Then we decided to move to dual trading. Then for reasons which we'll describe later we introduced automated trading, closing down the floor of the stock exchange, and moving to total automation.

Our goal is to go to a totally "scripless" society, with electronic scrip readers, via a central depository, following the London model, and moving to rolling settlements. In other words, moving to rolling settlement on a T + 3 basis.

The purpose of all of this is to bring us into line with many of the world's stock exchanges: with Singapore's, with Hong Kong's, and Australia. At the end of the day, that's what is going to drive us. Foreign investors want speed, they want security, they want transparency, they want accurate price determination. To succeed, you have to be the most efficient, most cost effective exchange.

We also asked ourselves: does it make sense to have a separate infrastructure with the futures exchange? Or should we rationalize it? What would the advantages be? One infrastructure, lower costs, more effective use of capital, and better surveillance capital. That's part of our restructuring, too.

Now, to achieve what we've done so far, we had to go through certain steps. We had a very good relationship with our regulator, and I'm not just being polite because he's here. We work very nicely with the regulator. We put a bill together, collectively, with lots of debate, and we went to bargain. Between us, we appeared before the

Parliamentary Committee for 17 ½ hours before they approved the bill and the bill went through Parliament unchanged. Parliament took it so seriously that they even flew from Cape Town to Johannesburg for a day to understand the market more. We then had to get our members to vote for these changes, and we actually got our members to vote for more competition because we opened the market to foreign brokers and banks, which previously wasn't in the bill. Those resolutions went to our majorities at 3 to 1.

Let me touch on some of the restructuring. Membership: on the 8th of November last year, we introduced the option of a sole proprietor, a partnership with unlimited liability or a limited liability company. Not surprisingly, most members chose the latter, a company with limited liability. But opening our membership to foreign entities has been very positive. Of our 47 brokage firms, 9 are foreign. That has resulted in an increased flow into the JSE, there's no doubt about it. Also, we opened the membership to the banks. What's been quite interesting, is although the banks now have access to the markets, by deregulating the whole structure, more banks have entered the market who are competing with our local banks for corporate financing. I'm not sure that the banks are necessarily being the winners of this whole scenario, but the country certainly has been.

Also, because we moved from individual membership to corporate membership, we had to create an institute of stockbrokers to handle the trading, education and examination.

With regard to capital, we decided to use the European Union directives, which we brought in on the 8th of November with a few modifications. It was very important to us that we not pitch the capital adequacy requirement too high.

Also very important--we have an electronic surveillance capability. Our surveillance department can, on a real-time basis if necessary, evaluate the broker's main trend and measure capital against risk on a real-time basis. I venture to suggest there's not another stock exchange in the world with that kind of capability. We said to our members who operate the futures exchange and in the bond market: we want to see all your positions in all the markets on a real-time basis.

An important part of our restructuring was a total revision of our listings requirement. First of all, we wanted our listings requirements to be internationally recognized, so our listings requirements are essentially the London Stock Exchange requirements, modified for local conditions.

Let me give you examples. We have a separate sector for the reconstruction and development program where money can be raised to be invested in the reconstruction program, or invested into black business. And there we have certain dispensations. Perhaps the best way to describe the change, though is just to run through a shopping list of dates, so that you'll get a feel for how rapid and dynamic it was.

Looking at last year's program, on the 1st of July we brought in new listings requirements. On the 24th of August our members voted for the restructuring. Parliament approved the new bill on the 13th of September, and the JETS contract was signed with the Chicago Stock Exchange on the 28th of September. We traded on the 8th of March the following year. I think that's quite an achievement, and a tremendous positive reflection, I would say, on the Chicago side.

Last October we were doing only 2,500 deals a day. A couple of weeks ago we did 8,000 deals. If you look in today's paper, yesterday we did 6,000. We predict that we'll be up to 30,000 deals in about 4 months time, which is why we've had to bring in extra mainframe computers.

On the 5th of November, we introduced 222 new computer brokers. I can say to you, in all honesty, without fear of contradiction, that all worked well.

On the 6th of November, we brought in a new system which requires our members to keep their funds totally segregated from their clients' funds. Every night the computer, the mainframe of the JSE, sweeps in electronically between the clients' funds and the trust account, or the brokers' funds, automatically. And if there aren't sufficient funds to be transferred to the trust account, the broker will be considered to be in default. Every night the clients' funds are secured in a separate trust account.

On the 7th of November, we took our surplus assets, the two buildings we own and the computer, and we put it into a separate company owned by the old stockbrokers, before the new stockbrokers joined. Then we distributed our surplus profits to members on the 7th of November.

On the so-called first Big Bang Day, the 8th of November, we moved to corporate membership, we brought in the new listing requirements, opened these to the stockbrokers, and brought in a totally revised guarantee fund. The big change in the guarantee fund was to provide wider cover, especially for the foreign investors, and also, to provide faster payment.

So much for the past, what about the future? Let's look at the dates for 1996. One that looks pretty simplistic is the internet page set up on the 23rd of January. We're averaging 500 hits a day, mainly out of the United States of America. So it's working.

On the 8th of March we took the first sector on the market, which included chemicals and oils, off the floor, and put it onto JET, never to trade on the floor again. About 40% of our trade is now on JET. It's our goal to have all the trade on JET by June 15.

I could honestly say to you JET has been a dream. Why do I say a dream? Technology was not the problem. We knew it wouldn't be, because it works in Chicago, Amsterdam, and Bangkok, and will shortly work in Tel Aviv. The challenge was to get the brokers to like it. If they didn't they would have killed it. The bottom line is, 90% of the dealers loved JET. One of the newspapers said, "The brokers have converted successfully from mouth to mouse."

We're probably going to start extending our trading hours. Now we stop at 4:30, we're probably going to push through to 6, to catch more of the London trade, and possibly until 10 to catch more of the New York.

On the first of April, we required each member firm to appoint a compliance officer, and we no longer talk to individual stock brokers. If there's a problem, we call in the compliance officer to fix it. Obviously, if one of the members has been naughty, the Institute of Stock Brokers will discipline the individual. But the firms are being brought into line through the fully qualified, specially trained compliance officers.

The equity options market will open later this year. Later this year, working with the banks, we hope to open the central depository. We will start immobilizing scrip. At the same time, we're going to introduce a formalized scrip-borrowing facility, for reasons we'll come to just now.

Now some dates which are outside of our control. The JSE still runs a part of the bond market on its floor. Our part of the bond market, together with the other part which is telephone screens, is being merged at the request of the registrar into a new bond market about to be licensed, called the South African Bond Market Exchange.

The next reform is one we're quite proud of; up until the last budget, there was a transactions tax of 1%. It was an undesirable tax, which negatively impacted the trading. We persuaded our Minister of Finance to cut it to half a percent, which he did.

We're also looking forward to the abolition of exchange controls. It's going to be a mixed blessing for us, because the abolition of exchange controls is going to bring different competitive currents into our market. What will happen to prices on the JSE when exchange controls go? Two schools of thought: one is that it could be a way to release funds locked in the country, and if you let it loose overseas, the prices will come down. The other school of thought is, if done properly, at the right time, with the confidence that it will bring foreign investment, the result will be prices going up. I think the most common view is that it will be a mixed bag. The prices will come down and then go up. We'll see.

The next item is requirements for the content of the prospectus. We'll be working with the accountants to upgrade that to totally international standards. We've also asked the government to reassess the insider trading legislation. It's highly deficient and requires a heavy burden of proof because it's a criminal action. We want civil actions to be allowed, class suits where the agreed parties sue the insider trader. That commission, on which I serve, will report by the end of September.

What does all this restructuring do to market liquidity? If you take the stock earnings, the mere introduction of automated trading pushed their volumes up 300%. Our preliminary figures are that on the sectors that are moved to JET, the volumes are up 50%. The question is, why?

Well, first of all, since all the bids and offers are in the computer, they match more effectively. On the floor, when you've got a hall of brokers, they've got to find each other, they've got to congregate. It's not efficient. Also I think there's a bit of impulse shopping. You see the prices there, you phone your client, you create the business. And maybe there's also at this stage some curiosity. The introduction of JET and the corporate membership (with the capital that comes in with corporate membership) will improve our liquidity. In fact, our liquidity has moved over the last two months from a measly 8% to a measly 10%. Ten percent, as you know, by international standards, is thought pretty poor.

We don't think we're going to reach the international standards, until that transactions tax is totally abolished and full exchange controls taken away. Why do I say that? The exchange controls mean that there's a high weight of funds locked into South Africa. Now institutions, what can they do? They can't build any more shopping centers, the housewives are shopped up, so they keep buying more shares.

Let's move to the last sector of my presentation, investor protection. What's the effect of all this on the man and woman in the street? There's no doubt that the new capital regime provides more protection, that there is more capital behind the broker.

We also require that if a bank is going to trade through a branch or a division, they've got to create a subsidiary. For two reasons: One is, we want to, on a real-time basis, interrogate the main frame to look at capital versus risk, and two, the intention is, if the greater business fails, the capital will still be intact. That's of course in theory. We've all seen liquidations where things get rather messy at that point.

I mentioned that there is a total segregation between the broker's funds and his client's. We now have electronic surveillance on the deal. We are continually running programs to pick up front running. Some of you might have seen a little bit of speculation in the media. We think we've picked up a trend, where a broker would be buying from the institution and just by coincidence, another broker would be buying for his own account just before that. It happens once, it's an accident, if it happens twice, you get worried, and if it happens consistently, you might have a mess. We've got very sophisticated surveillance capability.

I mentioned we've got compliance officers in place. In terms of investor protection, the guarantee fund has been restructured to provide wider cover and more prompt payment, and we put a lot of emphasis on these requirements for more disclosure and also timings disclosures. If a company reports late, suspension. If a company gets a qualified auditor's opinion, we take an advert; if a company gets a disclaimed opinion, a meeting is held to consider termination. A very tough regime, and it works.

We've also adopted new rules on corporate governance, South Africa's equivalent to the UK's Cadbury Report. The requirement is that a company must disclose whether it has or hasn't complied. It's not a requirement to comply.

One other item I wanted to mention is the JETS system. At any given moment you can only really pick up on the floor the order trail, but in the JETS system you pick up the order trail from the time the order was entered, and the system works on strict price priority. Simply put, Mrs. Smith wants to buy 100 DeBeers at 100 Rand each, someone wants to buy a second later 1,000,000 at 100 rand each. The computer will say that Mrs. Smith will get hers first. She got there first to the clock. I am sure that all of you have experienced this type of situation in your market where the small investor says the broker is moving off of me. You can't do that any more. The computer decides. Darrell will describe the general satisfaction rule.

Essentially the JETS system has two halves. The one half on the left side if you like, is order driven. The orders come in and the computer says snap and the broker has to produce. On the right hand side of the screen is the capacity for the broker to act as a market maker. He can put up a double price. He can say my price for DeBeers is 98 1/100. The system is essentially order driven, but there is capacity for quoting. We have a link between the two.

Our goal for the future is to move to absolute DVP (delivery versus payment). The ideal is you buy 100 DeBeers, as the money comes out of your bank account it goes into the seller's bank account and as the shares are registered in your name they are de-registered, real time, in the others person's name. We are working with our banks, together with the Reserve Bank, to swap the ordering and pricing system. It is a long term mission, but in the interim we have to introduce rolling settlement to reduce the settlement period. We are going to start demobilizing the scrip.

In summary we have gone around the world and we have taken the best. We have a training system from Chicago. We have capital equity from Europe. We have investor education from Nairobi, and so it goes. We have spent a lot of time picking the best from the world. As I mentioned, we have a team meeting in London on Monday to steal some more ideas. We reckon we will become a national competitor, and in due course our costs will come down. Once we can absorb the capital costs of JETS, it will be far less labor intense and we can handle a lot more volume. By the end of December of this year, we will be ready to meet the competition. I am going to make an idle promise to all of my producers. By the end of 1997, the Johannesburg stock exchange will be technically one of the most advanced and the most efficient stock exchanges in the world. Thank you very much.

Mr. Darrell Till

I will address the topics through the three main points of policy and structure. Looking at the issues of policy in the first place, the angle of the JSE is to introduce a system that is fully market-driven. From the investor's perspective, the system needs to be transparent, fair and secure. We can be internationally competitive through being cheaper in cost and by attracting a larger part of the business that is being traded on other international markets at the moment. If you can't attract business back to your own market, you won't succeed the way that we would like to. Now looking at each of these policy issues, that are order driven in this case. JSE undertook an extensive research project. It took us two years to complete this project. We produced a 500 page report with many recommendations. A lot of what you see evolved from that. This research included many trips around the world visiting relevant stock exchanges with their automated trading. We also looked at some of those that were still trading on floors so that we didn't miss any tricks as far as moving from floor trading. We came up with the decisions that we have.

You are all familiar with the fact that there are two basic types of trading systems: the quote-driven type system and the order-driven system. Typically a quote-driven system embraces the needs of the wholesale end of the market or the large block-type trading. An order-driven system is more appropriate for retail-type business. Through the investigations and the studies that we did, we came up with the conclusion that an order-driven system would be most appropriate for us.

This was further substantiated by a recent study that was completed by the Australian Stock Exchange. They demonstrated, in an analysis between the New York Stock Exchange, a quote-driven system, and the Australian trading system, which is an automated order-driven system, that less formation takes place more perfectly in an order-driven system under many circumstances than under a quote-driven system. A further dimension to the dictums that have been often alluded to this morning is the liquidity of the market. Our liquidity by international standards is not good. It is pretty low. We fluctuate between seven and ten percent of our market capitalization, whereas in other markets of comparable size, liquidity can range from thirty up to as much as sixty percent of market capitalization, and in some of the more eastern countries ratios are in excess of 250%. So, the liquidity ratio on our market, which is influenced by exchange control, also clearly influenced our decision to go with an order-driven system.

However, both systems can exist side-by-side. The London Stock Exchange is right now in the middle of implementing some order-driven type of capability to embrace the needs of their market makers. One sees arrangements where either an order-driven system or quote-driven system is used as the main approach; one of those becomes the dominate system in the marketplace.

Now in the JSE, unlike the situation in London, a broker does not have the obligation to make committed prices in the marketplace. The market-maker may come in and out of the market at any point in time as they wish. He may make a quote on the bid side and then make a quote on the other side. He can make a quote on both sides. The market-maker may withdraw at any time. The only requirement we have of the market-maker is that if he does have a price up there and somebody approaches to trade, it must be good for at least 200,000 rand value of trade.

Looking at the issue of our transparency, one achieves a real level of transparency which will provide the necessary amount of information to investors to exercise judgement in an informed way about their investment. The more information one can feed out to the public, the more the public itself will be observing what is happening within the market and assuring traders in the marketplace. We are introducing in the JETS training system a set of training rules. I will demonstrate some of those training rules and procedures that we developed into a program.

Apart from protecting the central market itself, the intention is also to give quotations to clients trading in the market. That introduces the concept of 'priorities'. Finally, on the question of protecting the small investors, both Parliament and ourselves, together with our regulator, are very concerned with how we can encourage the small business into the market. We have taken special steps to address small business and small investor needs.

We have got excellent electronic surveillance capabilities. We are not only able to track what happens from the point of time of an entry through a market's entire life, we are also able to time-stamp. This is very useful information. Through these capabilities, we are able to trace not only insider trading, but also cross-feeding things like front running. For example, we can go back to Thursday of last week, and show what trading took place in our shares between the hours 10 am and 11:30 am. And, as a result, people can search step-by-step how trades came into the system and how they were matched, and what sort of trades flowed from that. This is a very useful tool from the point of view of investigating which trades may have come forward. Also, the trading between members is confirmed in real time.

The JET system is made up of three electronic monitors which monitor the person who is dealing in large blocks (quantities of 100 shares or multiples of 100 shares), the odd lots, and special terms.

The odd lot training is actually managed by a specialist. We invite our members to tender to act as a specialist in the JET system. One member is appointed to act as that specialist, and he is obligated to trade every single odd lot that is entered into the odd lot order book. He is also expected to trade all of those odd lots at the price of the next round lot of the stock. The big difference that arises in this, is that in the past, when trading odd blocks, these have always been traded at a premium when you are buying or at a discount premium when you are selling. Now the odd-lot investor is actually benefitting from the better price and when he trades in odd-block.

(Mr. Till demonstrates the system through a PC-based simulation. See slides.)

THE EXPERIENCE OF THE JOHANNESBURG STOCK EXCHANGE

SOUTHERN AFRICA REGIONAL STOCK MARKETS SYMPOSIUM

25 - 26 APRIL 1996

Agenda

- Roy Andersen
  - Restructure Overview
  - Market Liquidity
  - Investor Protection Features
- Darrell Till
  - JET System
  - Settlement and Registration
- Questions

Restructure Overview

Restructure Purpose

- Meet Needs of -
  - New Era in South Africa
  - International Investors

Interim Vision

- Corporate Limited Liability Membership
- Appropriate Capital Requirements
- Dual Trading Capacity
- Fully Negotiated Brokerage
- Automated Trading
- ESR via CD
- Rolling Settlement
- Internationally Competitive Costs

Hurdles

- Parliament - Act
- JSE Members - Resolutions
- Registrar/JSE Members - Rule Changes

Membership

- Types
  - Sole Proprietor
  - Partnership
  - Unlimited Liability
  - Limited Liability
- Foreign Members
- Bank Members
- Institute of Stockbrokers

Capital Requirements

- EU Directive
- Host Broker
- Electronic Surveillance
- Lead Supervisor

Traded Options Market (EOM)

- Market Driven
- Joint Venture SAFEX
- Product
- Target Date

Listings Requirements

- Reasons for Revision
  - International
  - Local

Key Dates - 1995

- New Listings Requirements 1.7.95
- Vote by Members 24.8.95
- Vote by Parliament 13.9.95
- JET Contract Signed 28.9.95
- New Listings Requirements
  - Mineral Companies 1.10.95
- TOM Announcement 12.10.95
- New Mainframe 14.10.95

Key Dates - 1995 (contd)

► New Software	5.11.95
► Segregation of Funds	6.11.95
► Transfer of Assets	7.11.95
► First Distribution to Members	7.11.95
► Corporate Membership	8.11.95
► New Capital Requirements	8.11.95
► Institute of Stockbrokers	8.11.95
► Guarantee Fund Revised	8.11.95

Key Dates - 1996

Within JSE Control

▸ Internet	23 Jan
▸ Second Distribution to Members	28 Feb
▸ JET }	
Dual Capacity }	8 Mar
Negotiated Brokerage }	
▸ Compliance Officers	1 Apr

Key Dates - 1996

Within JSE Influence

- EOM Opening
- CD Opening
- Scrip Borrowing
- Rolling Settlement

Key Dates - 1996

Outside of JSE Control/Influence

▸ Transfer to BMA	15 Apr
▸ MST/Stamp Duty	
▸ Exchange Controls	
▸ Revised Schedule 3	
▸ Insider Trading Report	Sep
▸ Privatisation	1997/8

Market Liquidity

Restructuring Impact On Liquidity

- JET/Dual Capacity/Corporate Membership
- MST/Stamp Duty
- Exchange Control

Investor Protection Features

Investor Protection

- New Capital Requirements
- Separate Legal Entities
- Segregation of Funds
- Electronic Surveillance
- Compliance Officers

Investor Protection (contd)

- Guarantee Fund
  - Wider Cover
  - Prompt Payment
- Listings Requirements
  - Additional Disclosure
  - Timeous Disclosure
  - Adoption King Report

Investor Protection (contd)

- The JET System
  - Dual Capacity Mandates
  - Transparency
  - Time/Price Priority
  - Satisfaction Rule
  - Audit Trail

Investor Protection (contd)

- Settlement/Registration
  - DVP
  - Rolling Settlement
  - Immobilisation
  - Dematerialisation
- Protection of Purchasers of Securities

Achievements of Restructuring

- Enhanced Investor Protection
- Needs of Local Investor
- Needs of Foreign Investor
- Internationally Competitive
- Lower Costs

What will we achieve?

- Ready to Meet Competition
  - 31.12.96
- Fully Competitive
  - 31.12.97

In Conclusion

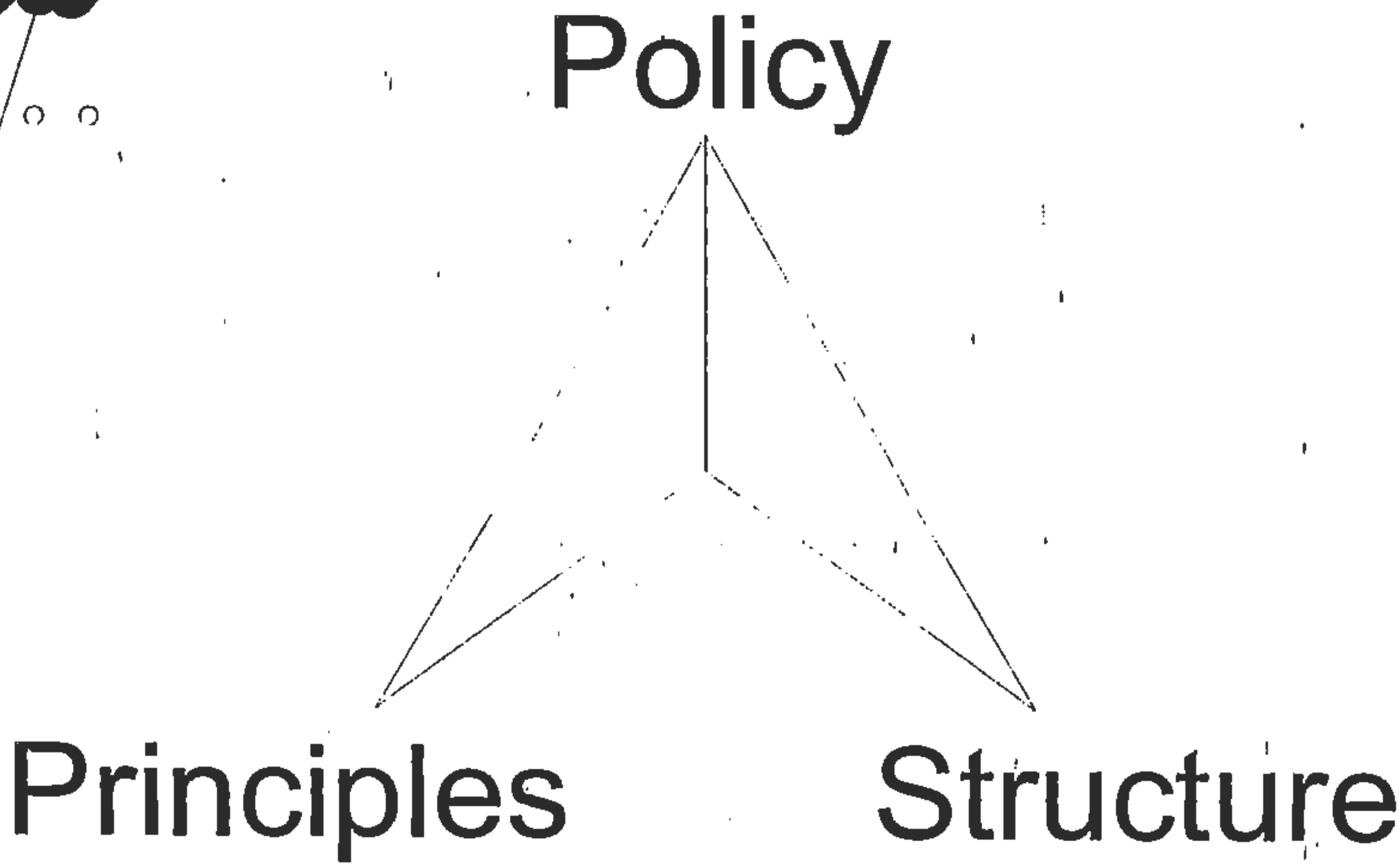
- Our aim in South Africa is to follow the Political Miracle with an Economic Miracle

- We at the JSE intend to Play our Part in Ensuring we become a Successful and Winning Nation

JOHANNESBURG EQUITIES TRADING SYSTEM

Automated Trading - The JET System

[redacted]



Policy

- Order Driven
- Transparent
- Fair
- Secure
- Internationally Competitive
  - Costs
  - Home Market

Policy - Order Driven

- Extensive Research
  - International Experience
- Dealer Driven Market
  - Wholesale
  - High End
- Order Driven Market
  - Retail
  - Low End
- Best Price Formation
  - JSE/ASX

Policy - Order Driven (contd)

- JSE Liquidity - External Influences
  - Exchange Control
  - MST
- Hybrids
  - Dominant Sibling
  - Membership Consequences
  - Force Linking
- Voluntary Market Maker

Policy - Transparency

- Disclosure
  - Orders/Trades
  - Public/Market
- Surveillance
  - Inspectorate
  - Participants

Policy - Fairness

- Investor Protection
- Trading Rules - Investor Friendly
- Continuous
- Protect Central Market
  - Satisfaction Rule
  - After Hours
- Protect Clients
- Assist Odd Lot Trading

Policy - Security

- Honesty/Limit Risk
- Additional Protection
  - Electronic Surveillance
  - Audit Trails
    - Order Recording
    - Tracing
- Replay Market
- Real Time Trade Confirmation

Structure

- Order Books
  - Round Lots
  - Odd Lots
  - Special Terms
- Restricted/Unrestricted Stocks
- Price Formation
  - Tick Sizes
    - Price Bands

Structure (contd)

Tick Sizes (cents)

Stock Price Band	Unrestricted Stocks	Stock Price Band	Restricted Stocks
1 - 500	1	1 - 100	1
		101 - 300	2
501 - 1000	2	301 - 1000	5
1001 - 5000	5	1001 - 3500	10
		3501 - 5000	20
over 5000	25	5001 - 10000	25
		over 10000	50

Structure (contd)

- Negotiated Brokerage
  - Bulking
- Dual Trading Capacity
  - Agent/Principal
  - Client Mandate

Structure (contd)

- Disclosure of Capacity
  - Pre-Trade - Mandate
    - Orders
  - Post-Trade - Brokers Note
    - Order Information
- Prices on Orders
  - Information Disclosure
  - 'At Market'
  - Limit

Principles

- Price /Time Priority
  - First come/First served
  - Client vs Member
  - Broker's Note

Principles (contd)

- Voluntary Market Making
  - Negotiation
  - Advertising Board
  - Size
- Linking Hybrid Markets
- Satisfaction Rule
  - Central Market Order Book
  - Wholesale - Negotiation
  - At Higher Prices

Order Book - XYZ Limited

Buy			Sell		
Member	Quantity	Price	Price	Quantity	Member
			103	16000	C
			102	1500	D
A & B	5000	100			
F	4500	99			
J	10000	98			

[redacted]

Satisfaction Rule

Example

Market Maker Function

A/C Code: 42044

Counterparty: 00020 Share: XYZ Volume: 400 000

Bid: 97 Obligation: Sell 19500 Total R's 19 255.00

Offer: 99 Obligation: Sell 5 000 Total R's 5 000.00

Bid

Offer

Select Bid/Offer &

Press "Enter" to complete transaction

OR

Press "Delete" and enter a new Bid/Offer

Seconds Remaining: 30

Principles (contd)

- Central Order Book Protected
  - Optimised -
    - Price Formation
    - Client Protection
  - Put Throughs - Satisfy Book
    - Higher and Equal Prices
  - Principal Trading - Test Market
  - Odd Lots - At Market Price
  - After Hours - Not for Clients

Principles (contd)

- Bear Sales
  - Trade Price
    - Liquid: At Any Price
    - Illiquid: On Up-Trend
  - Disclosure
  - Share Loan - Externalise Risk

Implementation

- Phased Conversion 8 Mar
- Groups Stocks
  - Chemicals Oils & Plastics
  - Building and Construction
  - Beverages, Hotels, Leisure
- 15 Sectors - 337 Stocks
- Experience

Implementation (contd)

- Completion
  - Mid Year
- Trading Hours
  - Initial 4.00 pm
  - Second Phase 6.00 pm
  - Satisfaction Rule
  - International Necessity - Extend

Settlement and Registration

Aim

- Paperless Society
- Immobilisation
- Dematerialisation
- Benefits
  - Efficiency
  - Security

International Experience

- FIBV Survey - 1985 : CD's
  - Developed Markets 80%
  - Emerging Markets 50%
- Standards
  - G30
  - Rolling Settlement
  - Delivery vs Payment (DVP)
  - Scrip Lending
  - Gross Settlement

Objectives

- Develop CD
- Co-operative Venture
- Remove Obstacles
  - MST/Stamp Duty
  - 5 Year Tax Haven
  - Legislation

Objectives (contd)

- Secure Settlement
  - Simultaneous Payment/Transfer (DVP)
- Speedy Transfer/Registration
  - Assist Identify Tainted Scrip
- Appropriate Access/Disclosure
- Convenience of Public

Approach

- Existing Infrastructure
- Rationalisation
  - Central System
    - Critical Mass Costs
    - Real Time Processing
  - Credibility and Security

Approach (contd)

- Incremental - Phases
  - Immobilisation
  - Corporate Actions
  - Access/Disclosure
  - Dematerialisation

Future Roles

- Transfer Secretaries
  - Remain Agent Of Company
  - Communicate With Shareholders
  - Secretarial
- JSE / Members
  - Trading
  - Settlement

Future Roles (contd)

- Central Depository (CD)
  - Electronic Transfer Of Ownership Against Secure Transfer of Value
  - Disclosure
  - Future - The New Multi-Currency Processing

Questions ?

Thank You

"FEAS Towards the Year 2000"

Presentation to the ASEA
Johannesburg, South Africa
26 April 1996

ROSALIND MARSHALL
Assistant Secretary General - Federation of Euro-Asian Stock Exchanges

Brief History

At the initiation of the Istanbul Stock Exchange the Federation of Euro-Asian Stock Exchanges was established on May 16, 1995, by 12 founding Exchanges from countries in Europe, outside the European Union and EFTA, including CIS, Central and South Asia, and the Middle East. As you can see by this map [map slide], the exchanges represented are as diverse geographically as they are in their respective areas of development (discussion to follow). The founding members are: Yerevan SE (Armenia), First Bulgarian SE (to become the Bulgarian SE after the merger of 6 regional exchanges) (Bulgaria), Zagreb SE (Croatia), Tehran SE (Iran), Tel-Aviv SE (Israel), Istanbul SE (Turkey), Amman Financial Market (Jordan), Central Asian SE (Kazakhstan), Karachi SE (Pakistan), Bratislava SE (Slovak Republic), Ljubljana SE (Slovenia), and State Commodity and Raw Materials Exchange (Turkmenistan). The new members, admitted at the 1st Annual General Assembly in October 1995, are the "Toshkent" Republican Stock Exchange (Uzbekistan), the Moldovan Stock Exchange (Moldova), and the Kyrgyz Stock Exchange (Kyrgyzstan). The Lahore Stock Exchange (Guarantee) Limited (Pakistan) was admitted as an associate member. As each country can be represented by one full-voting member, we created the category of associate member to include other exchanges such as Lahore.

Why? Why a Federation of Euro-Asian Stock Exchanges? The Istanbul Stock Exchange felt strongly that a Federation should be established based on the following criteria:

- Regional representation. Many of the Federation members are excluded from associations based on geographical location, such as FESE which accepts European exchanges whose countries are part of the EU, the Association of Arab Stock Exchanges excludes all our members except Jordan, etc. Istanbul noticed that, regionally, there was no representative voice to facilitate the movement toward globalization.

- Emerging market commonality. By virtue of the nature of this geographical area, all members are emerging markets in various stages of development. Because of this emerging market commonality the experiences and problems are unique to this group of exchanges as opposed to those of more developed markets.

- Capital market development. Through this association, the Federation has developed a set of common goals that ultimately will promote the development of member capital markets. The premise here being that greater achievements and successes can be derived through collective versus individual efforts and spill over to the region in attracting the attention of global investors. Additionally, as the Federation moves towards the standardization and harmonization of rules and regulations, the opportunity for cross-border trading will move into the sphere of member regions.

- Internationalization. By virtue of its "international" nature, FEAS is an international organization. What is meant here is that 'the adoption of more standardized and harmonized legislation, operations, etc. to create cross-listing and cross-border trading opportunities. This is a particular thrust behind many of the goals and objectives that we will discuss later. FEAS is utilizing other full accepted international organizations such as IASC (International Accounting Standards Committee) to help them identify and prioritize those factors affecting cross-border trading.

- Information. A large factor affecting all capital markets and primarily emerging markets, is the disclosure, dissemination, and distribution of information necessary to accommodate investors' demands. Experience and technology play a key role here and the Federation is heavily focused in this area as you will see later.

- Training. As a region, the Federation can promote training among its members by attracting market experts in many fields, promoting products and services, etc. of interest, and providing a regional location for this training to take place. We'll discuss what has been done to date at a later time.

Objectives

The main objectives of FEAS, as stated in the charter, reiterate the premise upon which the organization was established. Additionally, these objectives provide a common denominator that transcends the diversified needs of the members. These objectives, as stated in Section II of the Charter, are as follows:

a) To encourage cooperation among the Members and Associate Members in order to promote the development of their respective securities markets.

b) To act as a representative voice of the Members and Associate Members vis-a-vis the Federations and Associations of Stock Exchanges in the world.

c) To promote the development of more integrated International Stock Exchanges in the region and offer listing and trading opportunities for Securities issued in the region.

d) Any other objectives approved by the General Assembly.

Organizational Structure

To facilitate the above, FEAS members voted on an organization structure shown in the attached slide. FEAS has an elected President (Mr. Tuncay Artun, Chairman of the Istanbul Stock Exchange) and an elected Vice-President (Mr. Walid Asfour, Chairman of the Amman Financial Market). The Secretary General (Aril Seren, Senior Vice Chairman of the Istanbul Stock Exchange) was appointed.

So where does that leave us as a group? Let's take this time to briefly discuss the diversity so that you can better understand the internal structure and 5-Year Strategic Plan.

FEAS Member Diversification

The composition of FEAS is made up of emerging markets in various stages of development. Currently there are 15 full members and 1 associated member representing over 2,000 traded companies with a market capitalization of over 100 billion US$ [Graphs 1 & 2] and an average daily traded value of over 350 million US$. The diversity of FEAS can be seen in the average daily traded volumes of the largest exchange at over 200 million US$ and the smallest at under 500 US$ [Graph 3]. Openings, or dates when trading actually began, can be seen here with the youngest at less than a year (the Moldovan Stock Exchange) and the oldest established in 1947 -- the Karachi Stock Exchange [Table]. Current statistics of the members show the return on Indices for the month and the quarter. [Graphs 4 & 5].

Mission

As can be seen from our discussion of the diversification of our members, it was imperative to adopt a mission around which all the goals and objectives of FEAS will be focused. Thus, the mission of FEAS, as adopted by the General Assembly which convened for the first time in October 1995, is to create fair, efficient, and transparent market environments, with little or no barriers to trade, between the FEAS members and their operating regions. Harmonization of rules and regulations and adoption of new technology for trading and settlement by member securities markets, will facilitate the objectives of FEAS by promoting the development of the member markets and providing cross-listing and trading opportunities for securities issued within FEAS member countries.

Strategic Plan - 1996 - 2000

The role of FEAS in developing the emerging markets of the region can be seen in the 5-Year Strategic plan as adopted by the Federation. The following details the plan:

Category 1

The main objective is to facilitate the development of domestic markets with a goal to achieving greater interaction, cooperation, and harmonization among the FEAS securities markets,

a) In the development of domestic markets emphasis should be placed on the standardization and/or harmonization of the issues most immediate and important among the FEAS members. Some of those issues, requiring immediate priority in terms of importance, could be as follows:

   - listing requirements;
   - trading rules and operational structures;
   - settlement operations and controls;
   - disclosure and financial reporting (with regard to international accounting standards);
   - corporate actions as it specifically relates to their administration; and
   - the tax structure for foreign investors, with particular attention to repatriation.

b) As item (a) above is accomplished, the objective will be to move towards cross-listing and joint-ventures across all FEAS markets through the creation of a standardized and harmonized trading environment.

Within the scope of items a and b above, joint marketing activities coupled with the exchange of information among the FEAS members would promote and facilitate the achievement of greater volume, liquidity in member markets while gaining exposure to inter-regional investors and issuers.

Category 2

The main objective of this category would be to achieve higher efficiency among FEAS members through technological cooperation. It is very important that FEAS members take advantage of state of the art technology, which facilitates greater efficiency at stock trading and settlement. With a goal of achieving this objective, the following areas of importance may be considered:

a) improving communications among member markets through the utilization of information vendors, intermediaries, and direct computer interface with the FEAS center.

b) determining criteria and creating specifications on a technological level among the FEAS members with the goal of establishing trading, settlement, and custody software to be commonly adopted by all FEAS members.

c) creating in design and form, developing, and implementing new products within the member exchanges.

d) through the standardization of information by designing, developing, and implementing a database on all members of FEAS.

Category 3

The main objective of this category is to establish the requirement for the General Secretariat as well as the FEAS membership to act as a representative voice of the members vis-a-vis other Federations of Stock Exchanges and related Associations in the world. It is deemed beneficial for FEAS to be in constant contact with other organizations of stock exchanges. Objectives in this category can be accomplished through:

a) the design, development, and implementation of FEAS reports, newsletters, press released, and other information for distribution to all members and associated groups.

b) by attending and promoting FEAS through other international organization meetings, seminars, roundtables, or related activities as appropriate.

c) through the utilization of the statistical database to publish a member handbook for international distribution.

d) through the use of international data vendors.

Category 4

The main objective of this category is to promote the development of markets within FEAS, international in structure and operations, to achieve greater liquidity and exposure to global investors. The accomplishment of this objective would be through the efforts of the working committees and the achievement of the goals and objectives in the three categories above.

Establishment of a Working Structure

The assembly voted to amend the Charter to create an executive body, the Executive Committee, and two Working Committees, one for standardization and harmonization and one for technology. See slide.

Current Status

The FEAS Working Committees met from January 22nd through the 25th in Istanbul. The results of those meetings were to establish subcommittees and assign specific action items and tasks in order to make recommendations to the General Assembly in September. I would like to briefly outline the tasks that were set forth for 1996 by each Committee:

Technology Working Committee

1. It was agreed that certain specified information from each FEAS member market should be made available to the rest of the FEAS members. Therefore, it was recommended that a FEAS DATA CENTER be established in the Headquarters of the FEAS Secretariat. This data center will be established to collect and disseminate data from all members. Either a portion or all of the available information will be made available to the rest of the world.

2. That any information dissemination would be carried over reliable communications systems within each market and also among markets. Such a system should be set up to transmit information among members and the rest of the world via the FEAS DATA CENTER.

3. In the event that the Rules and Regulations Committee puts forward recommendations to standardize or harmonize trading and settlement systems within the region, it is recommended by the Technology Committee that they work towards the employment of standard software solutions for these recommendations.

4. For the purpose of expediency, the newly created Subcommittee will be broken up into regions headed by the following exchanges as stated below:

   The Bratislava Stock Exchange will cover the region of the Slovak Republic, Slovenia, Croatia, and Moldova;

   The Istanbul Stock Exchange will cover Bulgaria, Turkey, Iran, Jordan, Israel, and Armenia; and

   The Kyrgyz Stock Exchange will cover Pakistan, Kazakhstan, Uzbekistan, Kyrgyzstan, and Turkmenistan.

Rules and Regulations Working Committee

1. The Rules and Regulations Committee recommended that, to facilitate ease in cross listings and cross-border trading among FEAS member markets it is desirable to work toward standardization in accounting, disclosure, and listing requirements, along with harmonization of trading systems and rules as well as settlement procedures. The resulting product of such work will be in the form of recommendations put forward by FEAS, which each member may find desirable to utilize in its existing domestic market or work towards using in the future.

2. That the subcommittee will analyze and report on the possibility of standardization, for the purpose of cross-listing within the FEAS region. This subcommittee, in conjunction with IASC, will take into consideration, among other items, accounting formats in reporting; disclosure requirements, external audit requirements and frequency; basic criteria for listing and de-listing; and corporate actions.

These two Working Committees will reconvene prior to the General Assembly, in September, to assemble the subcommittee recommendations.

Other Benefits

As you can see, FEAS is moving towards the development of capital markets within the region of FEAS members. Since its inception, FEAS has created an internal structure, a newsletter for international distribution, and has held a training seminar entitled "Operating Successful Stock Markets in Emerging Economies." This seminar covered discussions of topics of concern and interest to the emerging markets of the region within FEAS, including surveillance, regulatory environment, trading systems, settlement and custody procedures, disclosure, listing requirements, international accounting standards, globalization and harmonization of international securities markets.

In conclusion, the challenges that lie ahead for FEAS are an aggregate of those facing all developing economies around the world. We as an organization are committed to the development of our collective capital markets with the goal of moving the region into the global arena. However, we also realize that a good deal of work to standardize and harmonize across a very diverse set of economies lies ahead. With the support of organizations such as IASC, associations such as the ASEA (Association of African Stock Exchanges) and its members, and our efforts, we look forward to achieving these goals.


ASEA
FEAS

Rosalind MARSHALL

Assistant
Secretary General

FEDERATION
of
EURO-ASIAN
STOCK EXCHANGES

FOUNDING MEMBERS

ARMENIA
BULGARIA
CROATIA
IRAN
ISRAEL
JORDAN
KAZAKHSTAN
PAKISTAN-Karachi
SLOVAK REPUBLIC
SLOVENIA
TURKEY
TURKMENISTAN

NEW MEMBERS

KYRGYZSTAN
MOLDOVA
PAKISTAN-Lahore
UZBEKISTAN

WHY?

- Regional representation
- Emerging market commonality
- Capital market development
- Internationalization
- Information
- Training

OBJECTIVES

- To encourage cooperation
- To promote development
- To act as a representative voice
- To offer listing and trading opportunities
- To develop integrated international stock exchanges
- Other objectives

FEAS
Organizational Structure

PRESIDENT
Mr. Tuncay Artun, Chairman an CEO, Istanbul Stock Exchange, Turkey

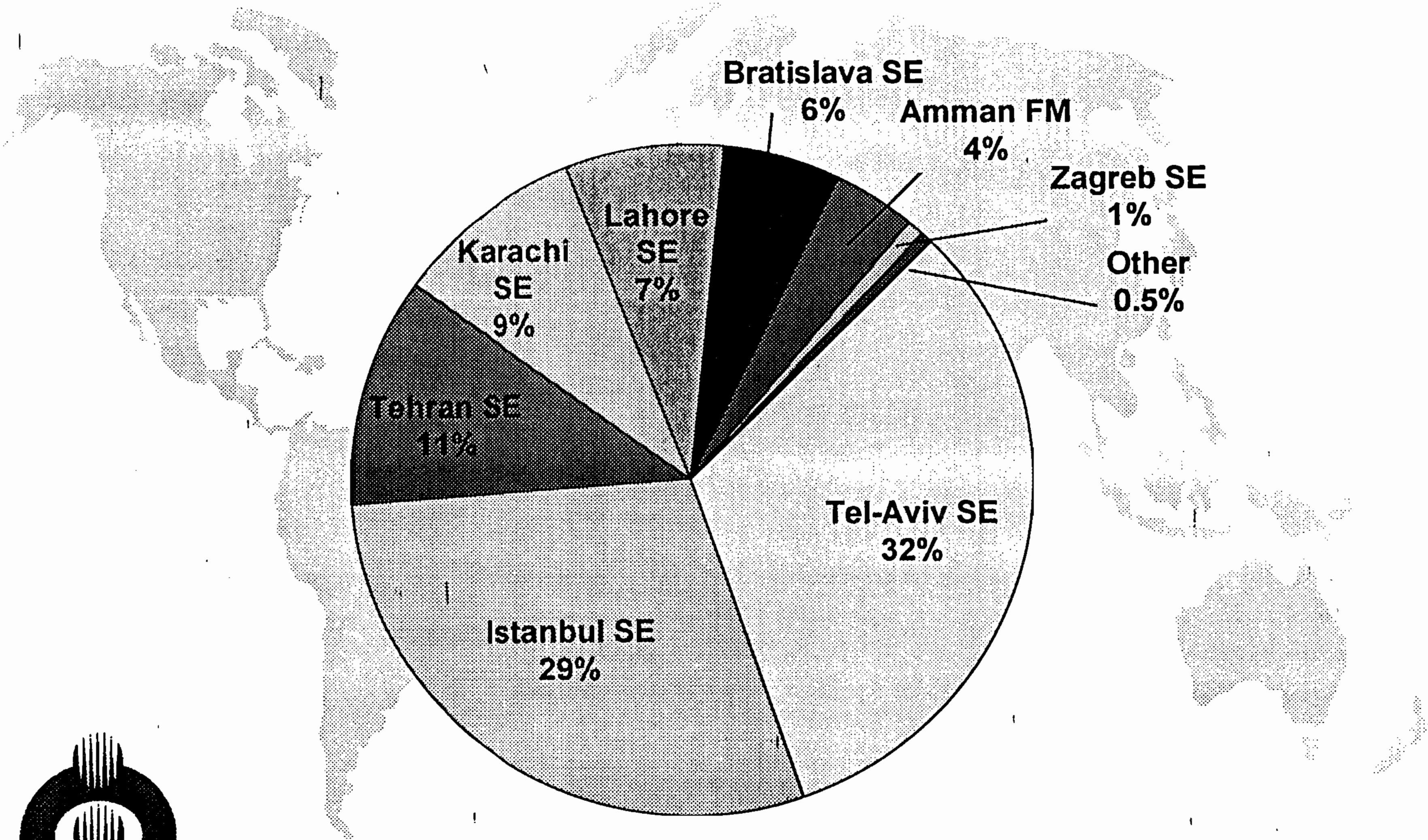
VICE PRESIDENT
Mr. Walid Asfour, Chairman, Amman Financial Market, Jordan

SECRETARIAT
ISTANBUL, Turkey
Phone: 90-212-298-2160
FAX: 90-212-298-2209

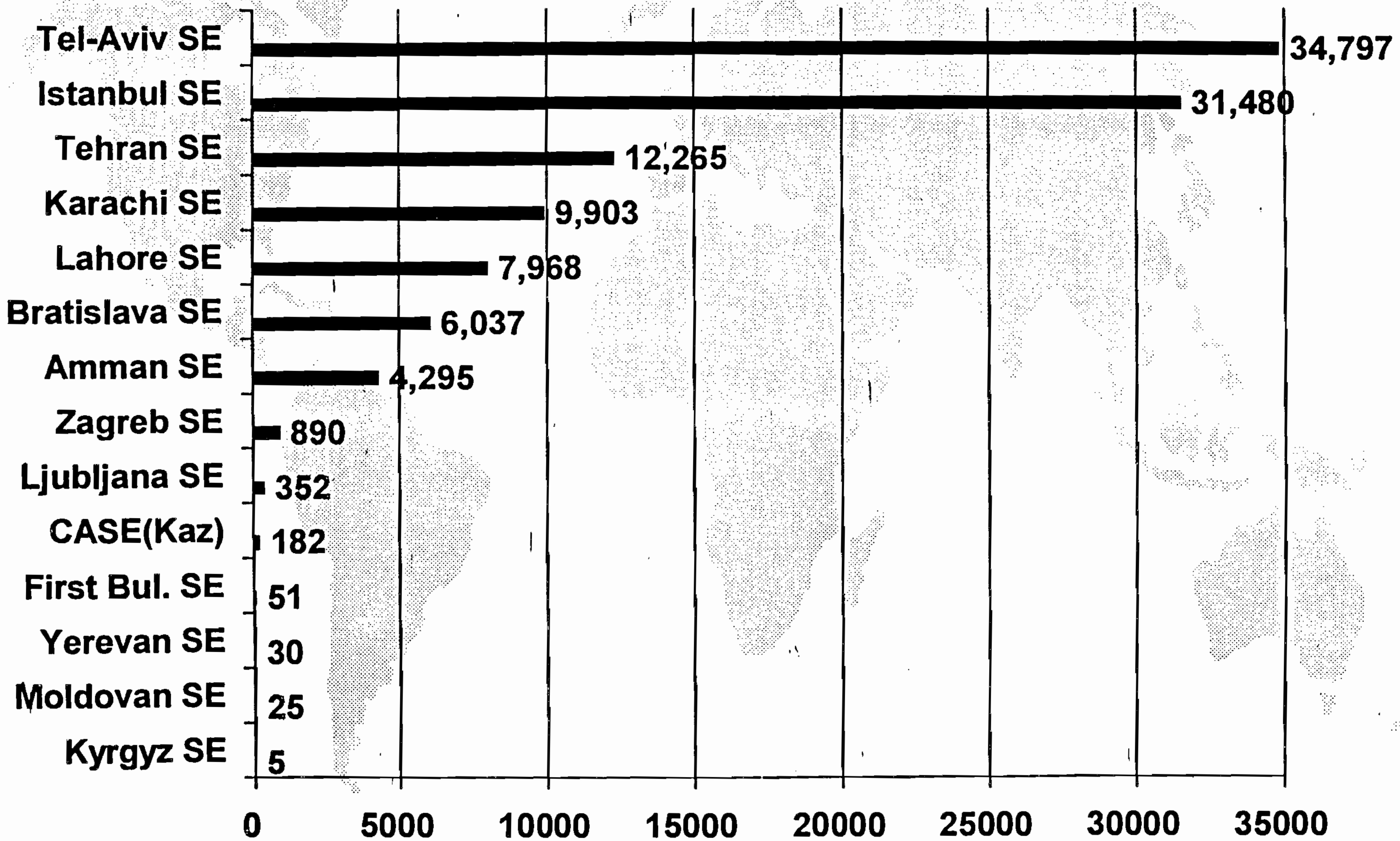
SECRETARY GENERAL
Mr. Aril Seren, Senior Vice Chairman, Istanbul Stock Exchange, Turkey

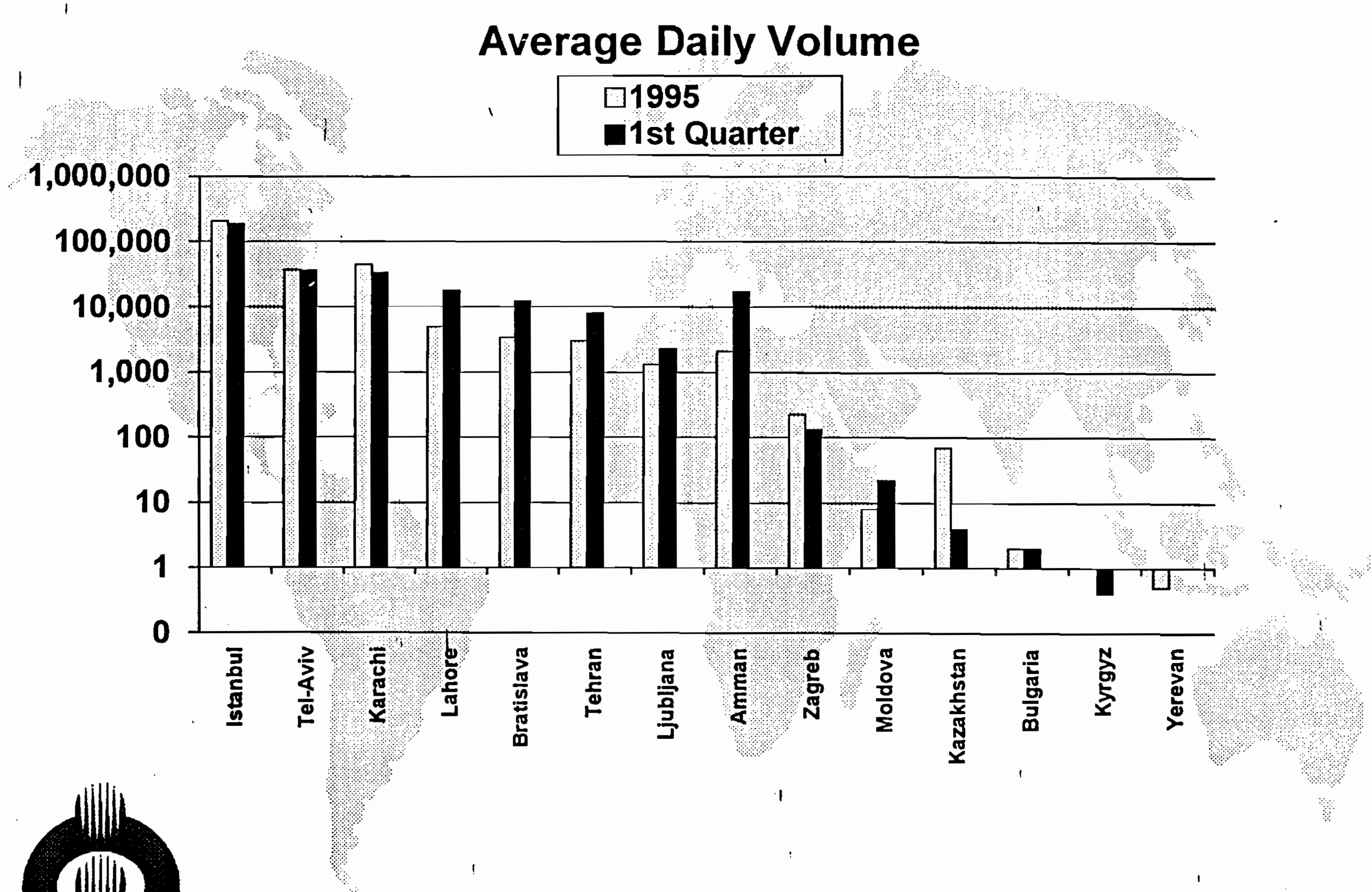
ASSISTANT SECRETARY GENERAL
Ms. Rosalind Marshall, Istanbul, Turkey

Market Capitalization



Market Capitalization (US$ Mil.)



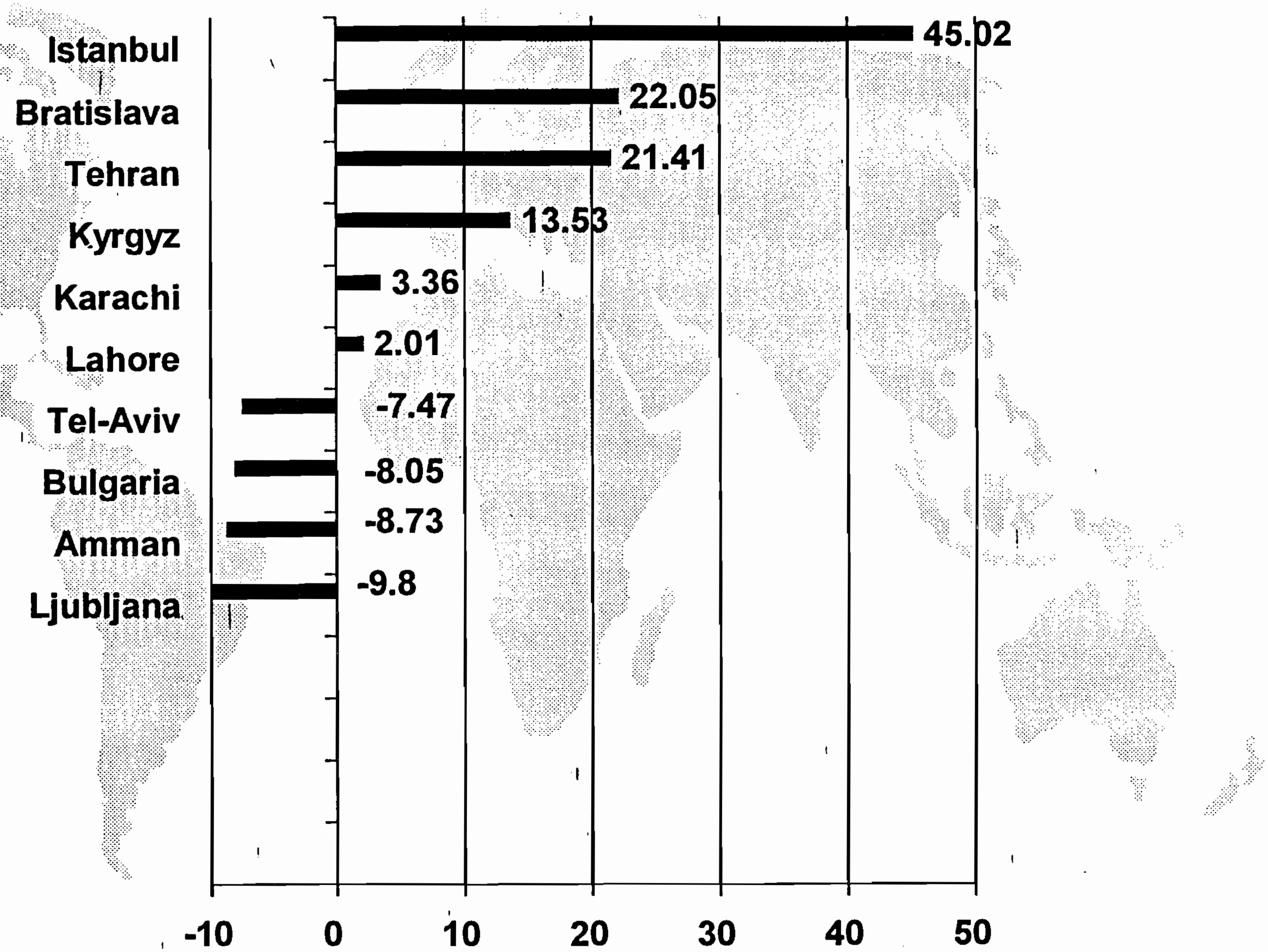


Average Daily Volume
1995
1st Quarter
1,000,000
100,000
10,000
1,000
100
10
1
0
Istanbul
Tel-Aviv
Karachi
Lahore
Bratislava
Tehran
Ljubljana
Amman
Zagreb
Moldova
Kazakhstan
Bulgaria
Kyrgyz
Yerevan

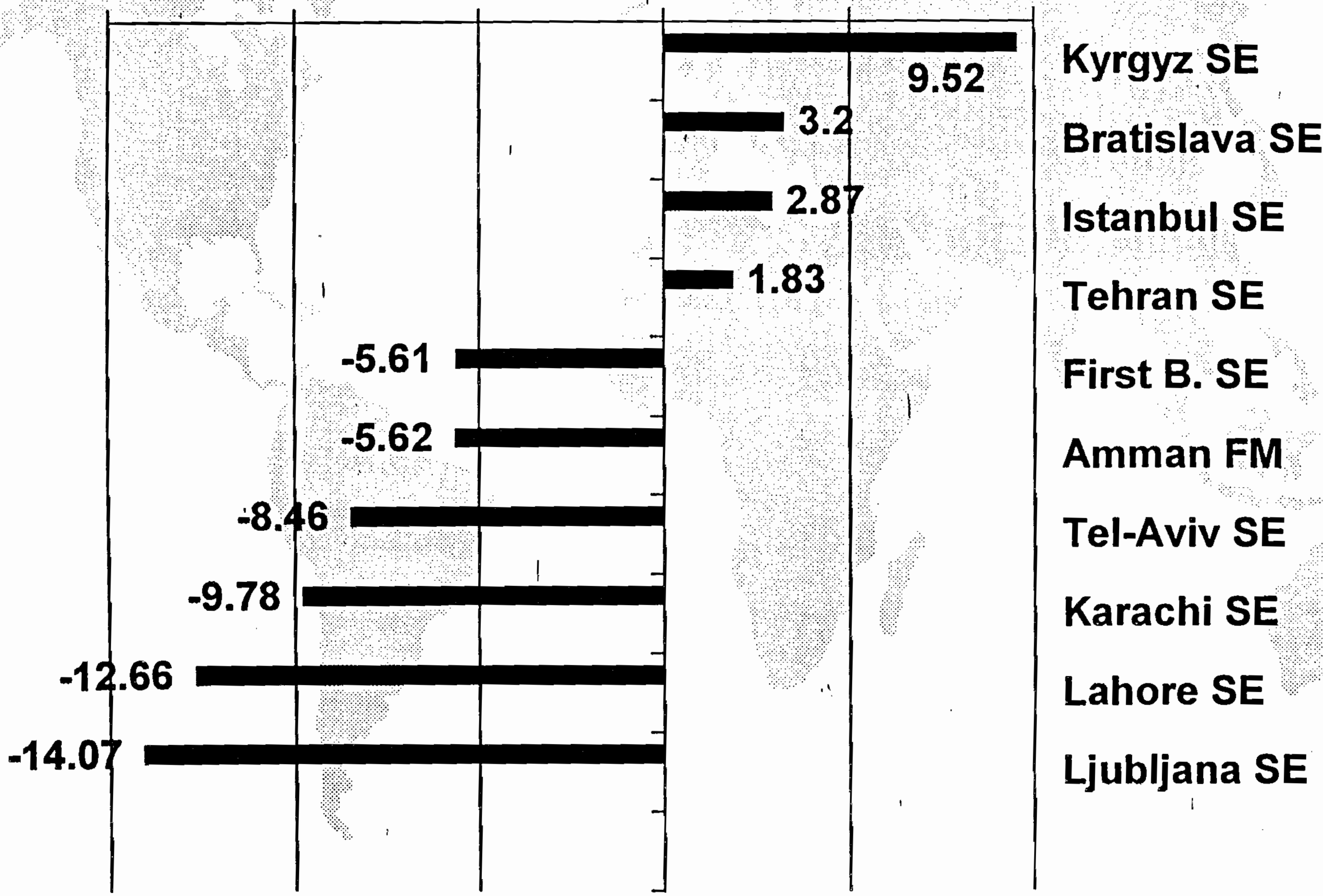
OPENING DATES

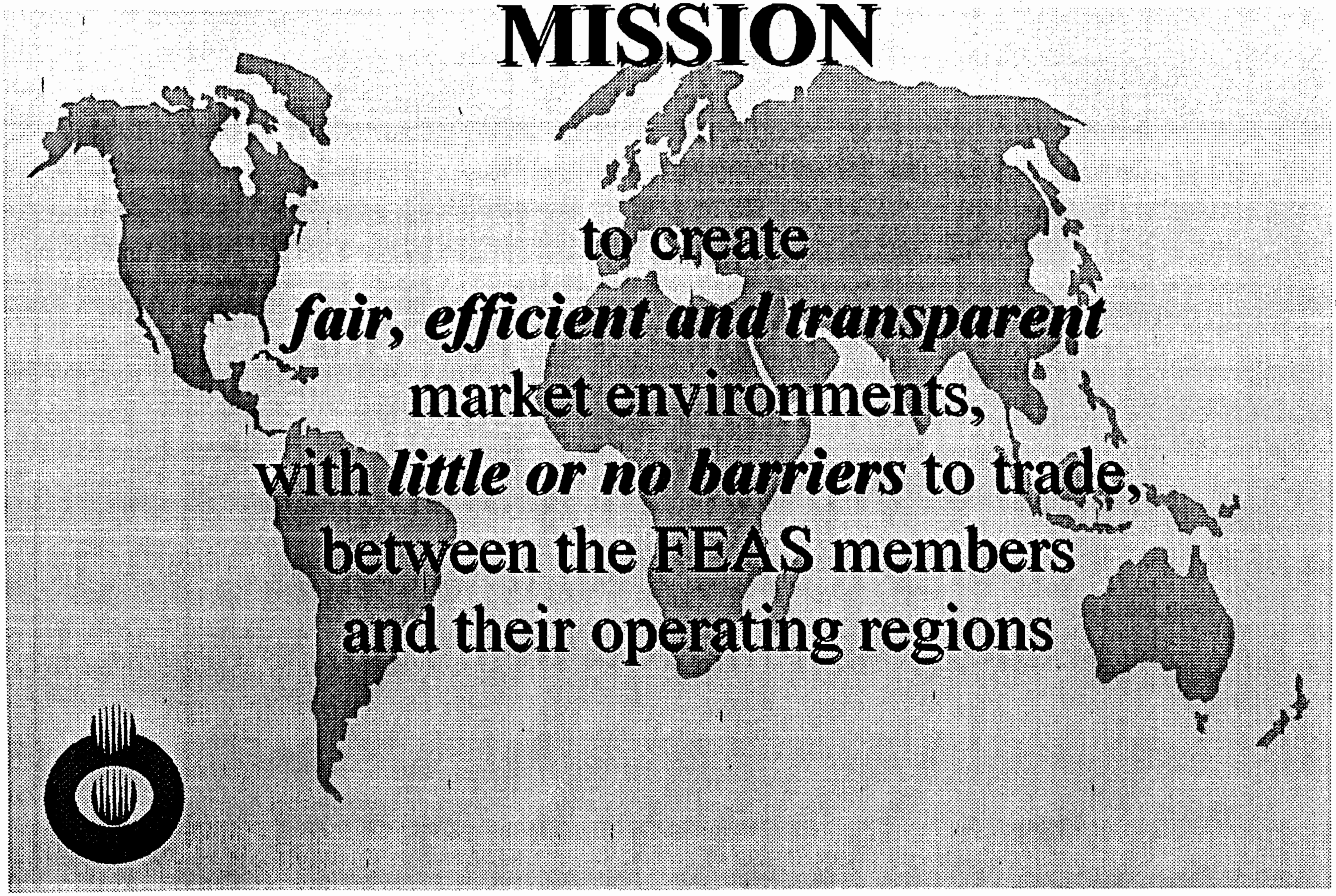
Karachi SE	1947
Tel-Aviv SE	1953
Tehran SE	1968
Lahore SE	1970
Amman FM	1978
Istanbul SE	1986
Ljubljana SE	1990
Zagreb SE	1991
First Bulgarian SE	1991
Bratislava SE	1993
Toshkent SE	1994
Central-Asian SE	1994
Kyrgyz SE	1994
Moldovan SE	1995

Return on Index
(1st Quarter)



Change in Index (March)




MISSION
to create
fair, efficient and transparent
market environments,
with little or no barriers to trade,
between the FEAS members
and their operating regions

STRATEGIC PLAN
1996-2000

Category #1

Development of domestic markets

a) standardization & harmonization of most immediate issues

- listing requirements,
- trading rules & operational structures,
- settlement operations & controls,
- disclosure & financial reporting
- corporate actions
- tax structure for foreign investors

b) cross-listing & joint ventures

Category #2

Technological Cooperation

a) improving communications
b) establishing trading, settlement and custody software
c) new products
d) database

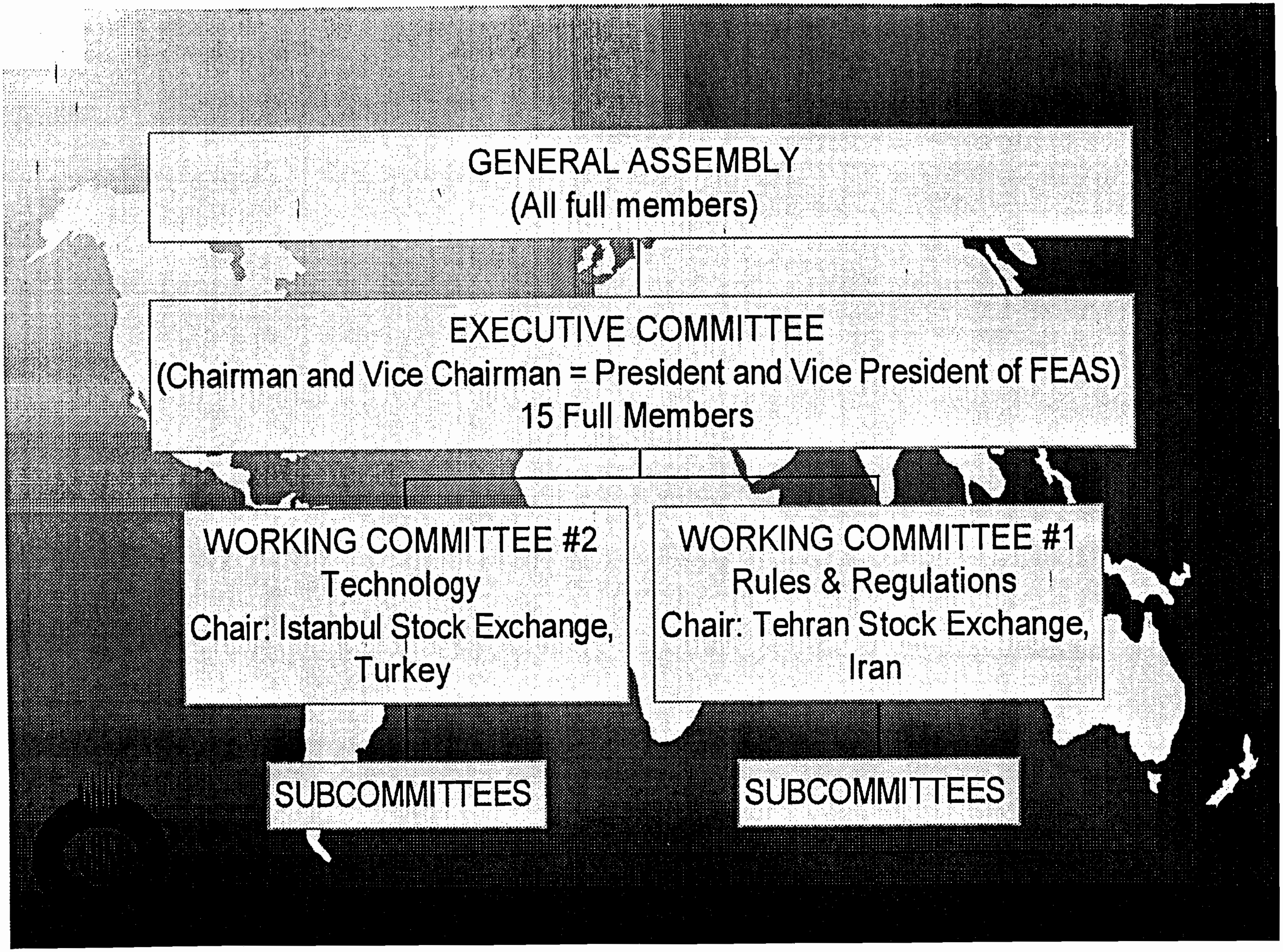
Category #3

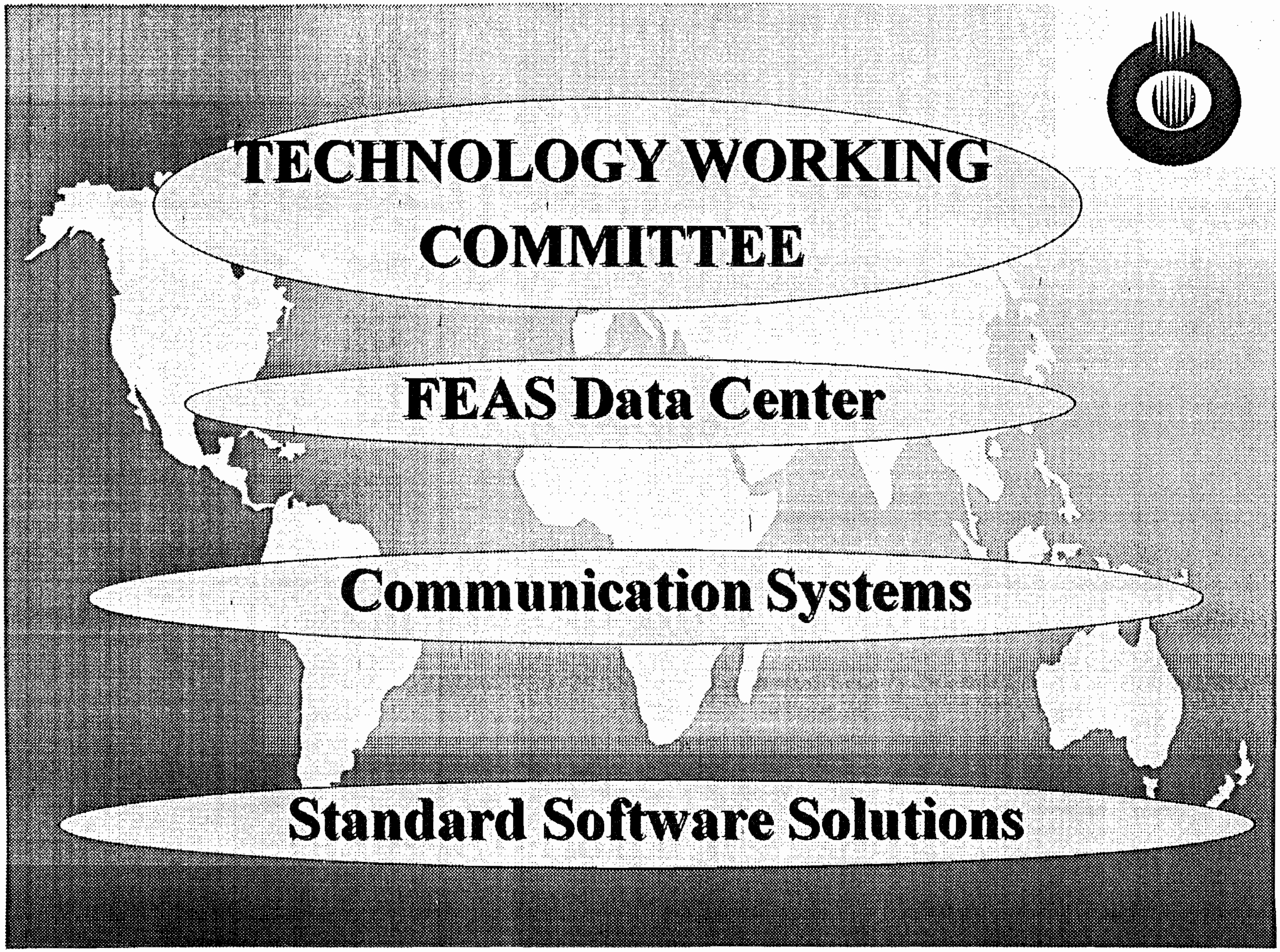
Representative voice of the Members

a) FEAS reports, newsletters, press releases
b) promoting through other International organizations
c) statistical DATABASE
d) data vendors

Category #4

To promote
the development of markets
to achieve greater liquidity
through the efforts of the working committees
&
the achievement of objectives in other categories


GENERAL ASSEMBLY
(All full members)
EXECUTIVE COMMITTEE
(Chairman and Vice Chairman = President and Vice President of FEAS)
15 Full Members
WORKING COMMITTEE #2
Technology
Chair: Istanbul Stock Exchange, Turkey
WORKING COMMITTEE #1
Rules & Regulations
Chair: Tehran Stock Exchange, Iran
SUBCOMMITTEES
SUBCOMMITTEES


TECHNOLOGY WORKING
COMMITTEE
FEAS Data Center
Communication Systems
Standard Software Solutions

RULES & REGULATIONS WORKING COMMITTEE

Standardization in
accounting,, disclosure and listing requirements

Harmonization of
trading systems

Standardization for
cross-listing

Developing Clearing and Settlement Infrastructure in Southern Africa

Dr. Auguste Rimpel, partner in charge of the Price Waterhouse capital markets group in Washington D.C , discussed strategies for developing depository and custodian institutions, and presented the following slides.

Developing Clearing and Settlement Infrastructure in Southern Africa

Price Waterhouse LLP

Agenda

- Importance of putting in place effective clearing and settlement systems
- Current clearing and settlement systems in Southern Africa
- Risk reduction and cost saving benefits of a modern clearing and settlement system
- Meeting the challenge of G-30 compliance in Southern Africa
- Strategies for developing appropriate clearance and settlement infrastructure

Price Waterhouse LLP

Why Focus on Clearing and Settlement Infrastructure?

- Interdependence and integration of the front and back offices: *"the visible half of execution can perform only as well as the 'invisible' operations area allows"*
  - Globalization of capital
  - Increasing foreign investment in emerging markets
  - Growing international consensus in favor of common standards for clearing and settlement
  - Availability of relatively-inexpensive technology to upgrade systems

Price Waterhouse LLP

Equity Markets Growth and the International Investor

- The attraction of international and intra-regional equity investment will depend on investor perception of three critical issues:
  - Liberalized foreign exchange regulations
  - Market liquidity
  - Certainty of clearance and settlement systems

Price Waterhouse LLP

Current Clearing and Settlement Practices in Southern Africa

Stock Exchange	Clearing System	Settlement System	Settlement Time
BSE	trade for trade	manual	T + 7
SML	trade for trade	manual	n/a
NSE	trade for trade	manual	T + 1 (retail)
JSE	netting	manual	T + 2 to T+14
SSE	trade for trade	manual	Negotiated
LuSE	trade for trade	automated	T + 3
ZSE	trade for trade	manual	T + 7

Price Waterhouse LLP

Benefits of a Modern Clearing and Settlement System

- Reducing the multiple costs and risks imposed by reliance on a paper-based system

Price Waterhouse LLP

Efficiency Gains and Cost Savings

- Modern clearing and settlement infrastructure produce efficiency gains and cost savings for market participants:
  - Increased accuracy through elimination of manual errors
  - Lower costs
  - Faster processing through automation

Price Waterhouse LLP

Risk Reduction

Modern clearing and settlement systems reduce risk for the investor and for market participants:

- Counterpart (credit) risk – risk that trades will not be settled for the full value at the expected settlement date
- Liquidity risk – risk that a counterparty will not settle an obligation when it is due but on some unspecified future date
- Operation risk – risk that a trade will fail due to clerical errors
- Systemic risk – "domino effect" risk that collapse or insolvency of one market participant will be transmitted to another

Price Waterhouse LLP

Risk Mitigation Strategies

◆ Counterpart (credit) risk	• Employ DVP to settle securities transactions • Provide same-day funds convention • Adopt rolling settlement • Move toward trade comparison T +1 • Impose minimum capital requirements on members of central depositories/clearing organizations
◆ Liquidity risk	• Ensure that all new corporate or municipal securities depository-eligible • Develop standard formats for securities industry info-messages and numbering ID • Enable book entry delivery of foreign stocks trading on domestic exchanges • Require immobilization of securities
◆ Operational risk	• Explore opening of electronic transfer system
◆ Systematic risk	• Study feasibility of netting • Implement/expand cross margining • Develop centralized "monitoring" activity

Price Waterhouse LLP

G-30 Recommendations

1. Trade Comparison on T + 1
2. Trade Comparison for Indirect Participants
3. Central Depository
4. Netting
5. Delivery versus Payment
6. Same Day Funds
7. T + 3 Rolling Settlement
8. Securities Lending
9. Use of ISO Standards 7775 and 6166

Price Waterhouse LLP

Achievement of G-30 Targets in Southern Africa

G-30 Targets	BSE	NSE	JSE	SSE	LuSE	ZSE
Comparison by T + 1			✓		✓	
Indirect Participant					✓	
Trade Comparison			✓			
Central Depository					✓	
Trade Netting System			✓		✓	
DVP For All Trades	✓		⇦		✓	
Same Day Funds			⇦		✓	
T + 3 Settlement			⇦		✓	
Securities Lending					✓	
ISIN Numbering					✓	

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Meeting the Challenge in Southern African Markets

- For low-volume markets the achievement of three G-30 targets is critical:
  - Trade comparison on T + 1
  - Central depository
  - Delivery versus payment

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Future Clearing and Settlement Targets for Southern Africa

- As transaction volume grows other G-30 targets will become important:
  - Indirect market participants (large institutions) trade comparison system
  - Trade netting system
  - Securities lending and borrowing

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Strategies to Develop Effective Clearing and Settlement Infrastructure

- Initiatives by exchanges and brokers
- Relationships with private banks
- Public-private partnerships

Private Solutions for Effective Clearing and Settlement Infrastructure

- Private sector market participants – exchanges, brokers—take the initiative
- Taking advantage of appropriate, affordable technology
- Private commercial banks are important collaborators

Public-Private Partnerships for Effective Clearing and Settlement Infrastructure

- Collaboration with international development agencies
- Public sector provides appropriate regulatory framework

Price Waterhouse LLP

Linking Privatization and Stock Market Development: The Role of Ownership Diversification Schemes

Jeff Schwartz described the linkages between stock markets and privatization, in particular the methods available to broaden ownership in the private sector, and presented the following slides.

Linking Privatization and Stock Market Development:

The Role of Ownership Diversification Schemes

Price Waterhouse LLP

Agenda

- Linking Stock Markets and Privatization
- Ownership Diversification
  - Issues
  - Approaches

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Stock Markets Development Objectives

- Increase the number of traded companies
- Broaden the number of investors in the market
- Develop infrastructure to facilitate trading
  - enhance performance of market players
  - promote regionalization and internationalization through common standards

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Privatization Objectives

- Transfer state-owned enterprises to the private sector
  - de-politicize enterprise ownership and management
- Diversify ownership and ensure equitable distribution of assets to the population
  - promote transparency and popular support for the privatization program
  - share the risks/benefits of ownership
- Accelerate stock markets development
  - support newly-privatized enterprises
  - provide secondary trading for investors

Price Waterhouse LLP

Privatization Worldwide

- Privatization has:
  - emerged over the past 10 years; most activity has occurred in the last 6 years
  - affected industries in many sectors: infrastructure, manufacturing, extractive, agriculture, social/municipal services
  - become a global trend throughout Africa, Asia, Europe, North America, Latin America, and the Former Soviet Union
  - been implemented through various methods

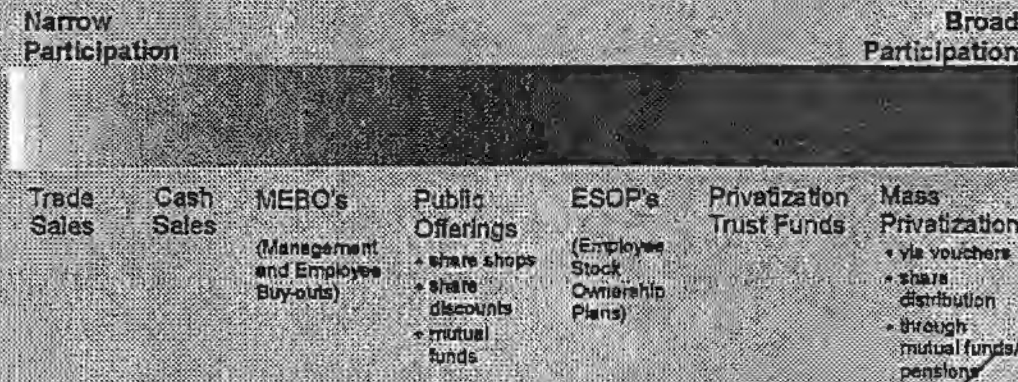
Price Waterhouse LLP

Linkages between Stock Markets Development and Privatization

Stock Markets		*Privatization*
Increase the number of traded companies	↔	Transfer SOEs to the private sector
Increase the number of investors	↔	Diversify ownership to the population
Develop stock markets infrastructure	↔	Accelerate stock markets development

Price Waterhouse LLP

Privatization methods and their impact on ownership diversification



Ownership Diversification

- Ownership diversification has gained importance in recent years as a critical dimension of privatization
  - broadens investor base
  - attracts target groups and popular support for privatization program (stakeholder analysis)
  - promotes equitable distribution of assets

Ownership Diversification: what are the drivers?

- **Political** -- stakeholder support for macro-economic and enterprise level reforms
- **Social** -- equitable distribution of state assets, financing of social security
- **Economic** -- privatize quickly, share risks/benefits, accelerate private sector and capital markets development
- **Technological** -- facilitate implementation

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Ownership diversification models: four broad approaches

	Insiders vs. Outsiders	Individual vs. Wholesale	Direct vs. Intermediaries	Timing
Public Offerings	Both	Individual	Both	Now
Mass Privatization	Both	Wholesale	Both	Now
MEBOs	Insiders	Either	Direct	Now
Privatization Trust Funds	Outsiders	?	?	Later

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Ownership Diversification Models

- Design and Implementation Issues
  - Stakeholder analysis
    - employees
    - targeted populations (local financial institutions, geographic regions)
    - general populations
  - State of development of stock market and supporting institutions and intermediaries
  - Public education and investor education
  - Suited to country situation and privatization program objectives

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Public Offerings

- Selling shares of privatized enterprises to public investors
- *Impact on stock markets development:* Immediate
- *Key Characteristics:*
  - requires existing stock exchange
  - shares are often floated on domestic and/or international exchanges
- *Implementation Issues:*
  - requires detailed due diligence for each enterprise; enterprises are offered individually
  - enterprises are medium/large size; floatation is economically feasible
  - shares can be sold at the retail level and/or to institutional investors (investment funds, pension funds)
  - discounted shares may be offered to targeted groups, i.e. employees/management or segments of the population

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Intermediaries: Investment Funds

- Privately-managed investment funds that serve as collective investment vehicles investing in shares in newly-privatized enterprises
- *Key Characteristics:*
  - diversified risk for fund shareholders
  - can be open or closed-end
  - shares are individually-owned
  - can be a voluntary or compulsory system
- *Implementation Issues:*
  - regulatory framework
  - registration and performance requirements
  - degree of competition

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Intermediaries: Pension Funds

- Privately-managed pension funds that serve as collective investment vehicles investing in newly-privatized enterprises
- *Key Characteristics:*
  - diversified risk for fund shareholders
  - managed disbursement of benefits with a trend to tie benefits to contributions
  - long-term investment horizon
  - fund investment policy subject to government limits
- *Implementation Issues:*
  - regulatory framework
  - mandatory v. voluntary participation
  - reform of existing pension system
  - degree of competition (optimal number of funds)

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Public Offerings
Ghana: Ashanti Goldfields Company

- *AGC considered a "crown jewel" of Ghana*
  - privatization structure of AGC had to include significant Ghanaian participation
  - 21.4 million shares offered (25.6% of total shares issued)
  - remaining shares held by government (31.3%) and Lonrho, a British joint venture partner (43.1%)
- *International and Ghanaian Offer (First Offer)*
  - shares priced at $20; available to
    - international investors (17.4 million shares)
    - Ghanaian institutional and individual investors (2.8 million shares)
  - shares began trading on the London and Ghanaian exchange the same day that the second tranche opened (May 17, 1994)

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Public Offerings
Ghana: Ashanti Goldfields Company

- *Ghanaian Fixed Price Offer (Second Offer)*
  - shares priced at 18,700 cedi (approx. $18), 1.2 million shares offered
  - 150,540 subscribed; 50,000 government employees subscribed through payroll deduction plan offered by one broker
  - many individuals invested in first offering; price of second offering was considered too high
- *Impact on local stock market:*
  - AGC represented approximately 90% of total market capitalization as of October 1995
  - AGC offering attracted interest of international investors
  - Market interests spurred privatization program
  - Market liquidity increased; trading activities being reviewed.

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Mass Privatization Programs

- Distributing certificates or coupons that entitle recipients to shares in privatized SOEs
- *Impact on stock markets development:* medium-term
- *Key Characteristics:*
  - can be implemented without a stock exchange
  - the public benefits at little or no charge
- *Implementation issues:*
  - vouchers or coupons can be distributed to the population for investment in privatized enterprises
  - shares can be transferred to privately-managed institutional funds

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Mass Privatization: The Polish Approach

- National Investment Funds
  - top-down approach; process in early stages
  - 512 enterprises; 15 closed-end funds
  - NIF managers selected through bidding process
  - each enterprise 33% owned by "lead" fund
  - NIFs listed on exchange
  - universal certificates issued with right to one share of each NIF

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Mass Privatization: The Russian Approach

- Voucher privatization: 14,000 companies, 40 million shareholders, worker control
- Voucher Investment Funds
  - bottom up approach; initiated in 1993
  - 662 licensed funds emerged at peak of voucher auction process (1994)
  - 23% of all vouchers issued collected by funds
  - 596 VIFs, 20 million shareholders existed in 1995
  - VIFs invested in 6,882 enterprises (out of 14,000 privatized)
  - VIFs converted to mutual funds at the end of the voucher program

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Mass Privatization and Pension Funds: The Bolivian Approach

- Program focused on 6 enterprises in infrastructure sectors:
  - ENTEL telecommunications
  - ENDE electricity
  - YPFB hydrocarbons
  - ENFE railways
  - LAB air transport
  - EMV smelters/mining

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Mass Privatization and Pension Funds: The Bolivian Approach

- Step 1: enterprises corporatized with government- and employee-owned shares
- Step 2: enterprises bid to strategic investors - proceeds retained by enterprise as capital investment; investor receives 50% of shares and management control
- Step 3: 50% of shares allocated to pension funds as the property of all Bolivians
  - pension funds licensed by the government
  - pension accounts are transferable

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Management/Employee Ownership

- Providing a mechanism for transferring ownership from the state sector to enterprise management/employees
  - MEBOs (management/employee buy-outs)
  - ESOPs (employee stock ownership plans)
- *Impact on stock markets development:* medium/long term
- *Key Characteristics:*
  - gives key stakeholders an incentive to privatize and improve enterprise performance
  - can be 51-100% of shares
  - may not raise significant revenues for the government
- *Implementation Issues:*
  - corporate governance
  - compensation for shares mechanism

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Privatization Trust Funds

- Creating state-owned funds that temporarily hold shares for companies targeted for privatization until they are sold to the public and/or strategic investors
- *Impact on stock markets development:* long term
- *Key Characteristics:*
  - no securities issues; shares are not individually owned
  - maximizes value of government-owned shares
  - allows for enterprise restructuring
  - limited life expectancy
  - does not own controlling interest in any SOE
- *Key Implementation Issues:*
  - competitive bidding process for management selection
  - management compensation
- A variation - Privatization Enterprise Funds

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Privatization Trust Funds: Zambia

- 150 enterprises to be privatized over 5 years
- Step 1: Create PTF to warehouse up to 30% of enterprise shares
  - management firm is selected through bidding process
  - government does not control shares held in PTF
  - no majority stakes are held by PTF
- Step 2: Identify majority private investors
- Step 3: Within 5 years, sell PTF shares through public offerings to the public
  - shares will be discounted
  - small investors will be given priority
  - installment plans and other incentives will apply

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Summary

- Stock markets development goals often coincide and/or complement privatization goals
- Ownership diversification has emerged as an important goal in both capital markets development and privatization
- A variety of ownership diversification models are being used to address the diverse needs of individual countries and/or regions
- Current thinking about ownership diversification models is evolving

Price Waterhouse LLP

Working Group Sessions

Symposium organizers provided participants with an opportunity to convene in smaller groups during the afternoon of both conference days to identify and discuss areas in which standards can be harmonized. Participants were allowed to sign up for one of four working groups. Facilitators with experience in each of these four substantive areas helped guide the discussion. The Working Groups were the following:

Group 1 *Listing requirements and accounting/auditing and reporting rules*. Among the issues that can be debated are: if complete standardization is neither feasible nor desirable, are there some basic listing requirements to which all countries in the region can agree? What minimum auditing standards are acceptable to all players in the region? What about enforcement rules/guidelines/powers? *Facilitator: Ms Rosalind Marshall (FEAS)*

Group 2 *Brokering rules and cost effective exchange operations*: Among the issues which can be debated by the group are: what minimum certification requirements can/should be demanded of all brokers in the region? Are there basic brokering rules to which all countries can agree? Which ones? What defines a cost effective exchange operation? What are reasonable fees for settlement and clearance, depository services, for listing, etc.? *Facilitator: Mr. Darrell Till (JSE)*

Group 3 *Clearing and settlement, central depository and custodial services*: Among the issues that can be debated by the group are: what are reasonable clearing and settlement standards for the region? What are cost effective mechanisms for establishing and running central depository and custodial services? *Facilitator: Dr. Auguste Rimpel (Price Waterhouse)*

Group 4 *Broad policy issues affecting harmonization efforts in the region, including taxation and foreign exchange controls*: Among the issues that can be debated by the group are: what are acceptable/reasonable taxation policies regarding issues such as dividends, capital gains and losses? What is both feasible and desirable regarding harmonization of foreign exchange policies? *Facilitator: Mr. Michael Unger (USAID)*

The objectives of the working group discussion sessions were to:

(1) analyze and discuss the extent to which countries in the region have moved and can continue to move towards some form of harmonization;

(2) identify the extent to which current standards in a number of areas (ranging from listing requirements, to brokering rules, to clearing and settlement and exchange controls and taxation) are acceptable to all countries in the region;

(3) identify specific standards/rules/requirements which are currently not acceptable to all or even a majority of countries in the region;

(4) identify next steps that organizations in the region can/will take to help produce greater harmonization.

Dr. Arie Beenhakker, Professor of Finance at the University of South Florida and a member of the team that prepared the USAID-sponsored report on the Regionalization of Stock Markets, then summarized the working group results on the final day of the symposium. Summaries of the working group discussions and their recommendations, as well as Dr. Beenhakker's remarks, are provided in the pages that follow.

Summary of Working Group Discussions and Presentations

Working Group 1--Listing requirements and accounting/auditing and reporting rules

Issues discussed:

1. There is interest in harmonization of standards, which need not mean the adoption of uniform standards. The proof of this growing interest is that dual listings are becoming more common. The ASEA definition of harmonization discussed this morning, whereby, minimum standards can be agreed, without having to comply with all the country's rules and regulations makes sense as a basis for harmonization.

2. There is already a fairly high level of commonality in the standards regarding disclosure requirements. Broad parameters in this area are established by the Companies Act governing joint stock companies in these countries. Most of the Companies Act are based on British law. Common ground is also provided by the fact that companies follow IAS (International Accounting Standards), and many are audited by Big 6 companies.

3. Current Taxation Act and Companies Act may also present stumbling blocks. While there is basic common ground, further movement, in terms of agreeing on details of disclosure and listing standards, may be impossible to achieve until certain aspects of the Companies Act and Taxation Act in each country are amended. Achieving this degree of harmonization will be therefore a much longer and more involved process, requiring a long term view by the interested players.

4. The natural forum through which to continue lobbying for basic changes and raising level of awareness of public and private sector officials is the ASEA.

5. Next steps for the group on Friday will be to review the Malawi Stock Exchange rules, as a way to identify detailed issues on which there are major differences and identify a strategy to address these differences. The group has selected the Malawi Exchange rules because it is a new and evolving document, reflecting the experience of Botswana, Zimbabwe, Johannesburg.

6. Notes from the group discussion suggest that the group debated, but could not reach closure/consensus on: minimum capital requirements, minimum number of shares, pricing of shares (only that prices need to somehow be kept low to keep shares widely accessible).

Recommendations.

After discussing the above issues, Group 1 identified a number of steps that should be taken to promote greater harmonization of listing requirements. The group also identified four main categories that could be looked at. These categories are the listing requirements themselves of each of the exchanges, the contents of the prospectuses, the contents of the memorandum and articles of association governing the public companies in each of the countries, and the standardization of the application form

1. *A set of minimum requirements should be compiled.* Group One decided that a set of minimum requirements for the region would be highly desirable. In this regard, it suggests a regional task force be set up which would look into the issues of putting a set of minimum requirements together. That would then facilitate cross listings and regionalization of the market because the amount of work over and above those minimum requirements between the countries involved would be marginal if those minimum requirements were adopted.

Under the auspices of ASEA, it was felt that the Johannesburg Stock Exchange, with their large infrastructure in place, would probably have enough resources to do this exercise under the group's guidance. It was proposed that one person should be responsible for the coordination of such a study and recommendations be made to ASEA which would then be adopted by ASEA itself. And so these minimum requirements would not necessarily mean just specifically a Southern African Stock Exchange market, but also stock exchange requirements that could be applied to the rest of Africa. But it is highly desirable, and at the end of the day, the results of that study would be voted on by the ASEA members.

Minimum listing requirements will be put into place in broad categories. They will include requirements of the minimum number of shares to be held by the public, the percentage of the company offered to the public, the number of public shareholders, and, possibly, a requirement on the minimum shared capital. In this early stage, the group would concentrate on the broad principles and any cross listings, etc., or any developments from that would be based on the fact that the listing requirements must, at least, contain these subcategories of requirements.

2. *Disclosure requirements should be standardized to protect investors and increase investor confidence in the region.* On the contents of the prospectus, one of the core issues would be the need for full disclosure to the investing public on anything that's happening to the company, anything initiated by the company in taking over other companies, rights issues, et cetera. There must be full disclosure to the general public even for listings which happened by way of introduction of depository rights. For example, Charles Mate of Zambia was not happy that ZCCM was listed in London. There wasn't necessarily a requirement in the Zambian rules to say that a prelisting statement must be published in Zambia.

3. *Company Acts throughout the region should be reviewed.* The Acts outline basic disclosure requirements for registered companies. A basic review of such legislation would enable ASEA and other interested players to understand better potential roadblocks to harmonizing standards on information disclosure throughout the region.

The review should be accompanied by a review of the Articles of Association used throughout the continent. The review should focus on the types of disclosure rights given to the shareholding public and to corporate directors (including who has rights to decide or approve mergers, acquisitions, and liquidations, issuance of shares, raising debt, preferential treatment for existing shareholders, etc.).

Under harmonization of the memorandum and articles, some important issues are involved. The memorandum and articles cover the directors' obligations to the general public, i.e., the borrowing limits of the company, of the listed company.

4. *The application form for listing should be standardized.* Actions can and should be taken to encourage harmonization in this area. Here, the overriding principle is that there is a resolution that is issued by the directors of the company to agree to abide by the rules and regulations of the exchange. This could be a common standard without any problem.

5. *Accounting standards should be reviewed.* This is an area that may need very little attention because of the consistency in application of the International Accounting Standards. There are the Big 6 Firms in the region. All public companies, in terms of the laws applicable in each of the countries, have to be audited anyway. We would assume the Big 6 are involved there.

6. *The burden of responsibility should be on the stockbroker.* The stockbroker should be able to handle any issues as the representative of the stock exchange itself. In Zimbabwe, there's a requirement that the responsibility for every issue rests with the intermediary, being the stockbroker, between the company and the merchant bank that's holding an issue. They were trying to make sure through an agreement that all the stock exchange rules and regulations are complied with. That's important in maintaining standards.

7. *Listings should be conducted through a sponsoring broker to ensure that listing/rights issuance is conducted properly.*

In summary, the Group's recommendations are:

a. Set up a task force for the region; submit findings to ASEA in long run.
b. Harmonize listing requirements.
c. Encourage harmonization of certain minimum standards for Articles of Incorporation.
d. Encourage companies to provide maximum disclosure to protect the investor.
e. Standardize listing application forms.
f. Harmonization may be helped along by policies that either award or withhold tax incentives unless companies comply with certain standards.

Working Group 2--Brokering Rules and Cost Effective Exchange Operations

Issues discussed:

1. Establishing membership requirements and processes for registering individuals and corporate entities. In particular, the group debated:

   a. The minimum requirements for an individual entering the brokering profession: What should be the minimum level of education? Should an examination be required? Should there be a common examination for Africa, the region? Who administers this exam? Who designs it? Also, is previous experience going to be a requirement? And if so, where do brokers in new exchanges go to get that experience?

   b. What other requirements should be placed on brokers? Should there be a credit reference as is required in the UK? The group here found wide variation in the region.

   c. Financial requirements for membership (whether individual or corporate). The group believes this area would be particularly difficult to standardize, given differences in the economies and markets.

   d. What entity should decide on membership requirements: the Exchanges? an independent authority? Which authority might this be?

2. The rules of the trade--by this they mean not whether it should be open outcry or call over, but the method of the trade.

3. Education of various critical actors/players in the market: from the brokers (who in a new market may lack the expertise and knowledge, and lack immediate access to both), to individual investors in the markets (whose interest is critical for any initiative to broaden share-ownership), to education of senior policy makers and regulators.

4. Surveillance. What should be the method of surveillance? Which body should be responsible? Should it be self-regulating? Should it be independent? How should the smaller markets be treated, where often a single entity is the broker, the exchange, the regulatory body? How to overcome investor perception problems? There may be some requirements that can be imposed, such as legislation to insure there is a hard copy of the trading record kept, as well as other policies adopted to facilitate surveillance and monitoring.

5. Pricing. The group decided that it would be impossible, and undesirable, to seek to standardize pricing. In fact, it would have a negative effect on competition, to the detriment of investors interested in the region.

6. Automation. How feasible and desirable would it be to automate the smaller exchanges? What would be gained? The group believed that while desirable, the limitation is financing for such an investment, and whether the investment can be justified in light of the market's limited size.

   A participant raised the point that there is at the present a fairly significant debate regarding the need for an exchange in the smaller markets. Why not OTC only?

After discussing the above issues, the group made recommendations to the plenary. In each case the group identified key action items, the priority that should be accorded to actions, the mechanisms for acting upon these recommendations and the type of group/organization that could follow through on these actions. The group made clear to the plenary that by recommended standards they meant "minimum standards." Moreover, the group recognized that it was extremely important to coordinate carefully with ASEA and the ASEA executive.

Recommendations:

Trading

1. *Develop Best Practices Guidelines for the following areas*:

a. Transparency
b. Best execution - Price/Time
c. Efficient price discovery
d. Trading capacity
e. Established facilities for an audit trail
f. Prevention of insider trading
g. Standardize terminology (Very often what is used in one area doesn't actually mean the same in another area. In a regional context, that's quite important as well. The group placed a high priority to try and develop guidelines to suit those issues.)

<u>What organization should be responsible for developing these best practices guidelines?</u> One possibility is this working group or a special committee formed under ASEA.

<u>How should these guidelines be developed?</u> It is important to develop these guidelines in close consultation with all the exchanges in the continent. After such consultation, the Working Group can make recommendations, circulate the draft guidelines and secure acceptance through a forum such as ASEA.

<u>When</u>? These actions need to be given very high priority.

2. *Promote automated trading*. This will require developing a trading model (a very basic model--no fancy "bells and whistles"). A trading model should be developed that is flexible enough to handle different situations and different size exchanges. It would be nice to have a donor agency defray costs for small exchanges, in particular. The trading model can then be adapted for different exchanges.

<u>Who? & How?</u>. Again, a Working Group, perhaps advised by consulting specialists in this area, needs to be created. Perhaps a donor can help with the development costs.
<u>When?</u> Compared to other areas, this has relatively low priority.

3. *Improve communications among exchanges and between exchanges and investors within and outside the region*. The Working Group should take the lead in developing a paper which encourages the improvement of communications within each country in order to reach a point of interexchange communications that are workable at a good technical level.

Who? This Working Group could again take the lead.
How? The Working Group would draft recommendations and distribute to all exchanges for comment.
When? This is considered a high priority area.

Membership

1. *Develop entrance exam standards for traders and brokers.* There should be minimum age requirements (with a minimum recommended age of 21 years). This Working Group should work towards developing a standard entrance exam. This could be done either by high school, or it can be done regionally, but it should be of a general nature, so that anyone who does become a member at least has some idea of how a stock exchange works.

For the various job categories, there should be further exams to specialize depending on whether one wants to be a dealer (he should know the rules, exchange controls, etc.) or researcher or bank officer. There is one broad, general entrance exam.

2. *Institute minimum capital requirements* (recognizing international norms / standards). As far as membership is concerned, there should be minimum capital requirements. These must be investigated by a working group. No one should tell any particular stock exchange that they should have that, but there should be some form of a capital requirement and a working towards an international norm or standard. Draft requirements should go back to the individual stock exchanges for comments. There's a fair amount of urgency in that.

3. *Promote equal access/treatment.* Standards need to be developed to promote equal access and treatment throughout the region. Such standards would need to address:

- Terms/conditions with specific categories
- Financial/Integrity and Business Ethics (code of conduct)
- Be Function related
- Qualifications: university entrance level of education
- Minimum practical experience (possible std to work towards)

Equal access, treatment terms, or conditions should be developed for specific categories such as full members, junior members, jobbing members, etc., and these should include issues such as the financial integrity of a broker, business ethics, code of conduct. There should be a minimum age limit for individuals of 21 years.

In terms of a qualification recommendation, there should be a minimum qualification of a university entrance, based on an A-level exam which is the standard in Swaziland. We think there should also be some specification for minimum practical experience so you don't just get someone off the street onto the exchange which can have major, embarassing financial ramifications.

Who? Working Group
How? Draft Report and Comment
(ensuring the regulations are satisfactory to potential trading partners)
When? High Priority

4. *Eliminate the Practice of Trial by Peers.* This is an issue which the press seems to love, the trial of our peers which many of us suffer from. This group should develop some standards to separate the responsibilities. There was a problem with small exchanges where there might be one broker who really regulates himself in a big

exchange. There should be some standard that people should aim towards, recognizing the fact that there might be some problems, though, with a very small broker. But that is something that we would like to aim towards, which will eliminate this issue of trial of our peers. In many instances, it's quite comforting to know that you can investigate yourself. You always know what the answer is going to be.

Who? The Working Group would take the lead.
How? The Working Group would draft recommendations and distribute to all exchanges for comment.
When? Medium Priority.

Improve Surveillance. Another priority area is the development of standards to measure and control risks. Included in this area are standards for record keeping and for enforcement and disciplinary compliance procedures, including sanctions. These issues are not very important in a brand new market. It is not that urgent because it seems to be working alright, but if there is a calamity somewhere, obviously, a working group might be able to place a great priority on that. Nevertheless it is important to develop standards for the enforcement of disciplinary procedures for compliance, and this could go as far as just to recommend a warning. It might even go as far as a procedural suspension at this stage.

Who? Working Group
How? The Working Group would draft recommendations and distribute to all exchanges for comment
When? Medium Priority, except for the development of minimum standards on record-keeping, which needs to be given a much higher priority.

Develop Education Programs. It is critical to develop basic education programs for:

- Members/Dealers
- Surveillance
- Stock exchange staff
- Investor protection and to promote wider share ownership through privatization
- Regulators
- Foreign Investors (i.e. education with respect to specific market)
- Issues related to Listed Companies/ to be listed (ie: new & existing)

Who? This is an area in which the Working Group could again take the lead.
How? The Working Group would draft recommendations and distribute to all exchanges for comment.
When? High Priority.

General

1. The Working Group believes it important to ensure that the recommendations made by this and other groups regarding harmonization of standards get conveyed to ASEA. The natural vehicle for doing this is through the Price Waterhouse stock market report. This report will be available and disseminated well before the October ASEA conference.

2. The Working Group has noted several areas in which donor or other specialized assistance is required. It is hoped that ASEA will help facilitate access to some of these resources.

3. The Working Group discussed Pricing of Services. It decided that no recommendations should be made regarding standardization in this area, as this is considered highly impractical. Rather, such issues should be sorted out through competition.

Working Group 3—Clearing and Settlement, Central Depository and Custodial Services

Issues discussed:

1. Clearing and settlement. The group agreed that it is desirable to have stock markets in the region move towards G-30 standards. The issue becomes a question of prioritizing. Since there is to be a presentation tomorrow regarding how adoption of the various G-30 recommendations could be prioritized, the group tabled further discussion in this area until tomorrow.

   In addition, the group agrees that it may be unreasonable to expect that all standards will be met overnight. Therefore, what is important is to agree on a timetable for meeting critical milestones by certain dates (e.g. T+3 may not be possible right away everywhere, but there could be an agreement to move to T+4, etc.). The group believes it is important to also review the extent to which what and how G-30 recommendations are relevant to small markets.

2. Central depository (CD). The only CD system is in Zambia. The group's view is that establishment of a CD would be a big boost to the market. But there are many barriers. Movement to a CD would necessitate "scrip-less" trading. There are major psychological barriers to this (people like to hold the certificates). The group believes this is particularly true among the smaller investors, and in the less well established exchanges. There will need to be an investor education component. Investors need to be informed as to how the system works, and its advantages in terms of security (no chance of lost share certificates). Back up systems in case the central electronic entry gets somehow corrupted also need to be developed.

   Transfer secretaries may also be reluctant, as their role disappears. Moreover, it is important to consider if the country's basic legislation is compatible with a CD system.

   A problem or possible fear is who controls the depository. If one company runs it, how is the monopoly controlled? The Zambia example was discussed, where the CD is jointly controlled and run by Barclays.

3. A major stumbling block is the system for clearing checks. The present system does not allow for fast clearing of payment. This lack of timely payment discourages investment.

Recommendations:

After discussing the above issues, Group 3 made recommendations to the plenary. The group recognized that it was extremely important to coordinate carefully with ASEA and the ASEA executive. The areas in which Group 3 made recommendations, in order of priority, are:

1. Encourage trade comparison on T + 1.

2. Encourage the creation of a Central Depository.

3. Encourage adoption of Delivery versus Payment (same day funds).

4. Encourage a trades comparison system for indirect market participants.

5. Encourage a trade netting system

6. Encourage securities lending and borrowing in order to expedite settlement.

7. Encourage a move to T + 3 rolling settlement.

8. Encourage eventually moving towards adoption of ISO Standards.

9. A Working Group should be established to monitor movement towards these standards.

10. Achievements must be made known both locally and internationally.

11. Implementation of a privatization program to stimulate interest and growth on the stock exchange is imperative.

Working Group 4--Broad Policy Issues Affecting Harmonization Efforts in the Region

Issues discussed:

The group agreed that the whole area of capital markets has failed to receive sufficient attention from governments in the region. Four broad policy environment issues that need to be addressed in the context of this symposium were identified and discussed:

1. Political stability/commitment. It is not clear whether the majority of governments in the region have the political will necessary to adopt the policies required to create an appropriate environment for investment. Is there commitment to creating a stable macroeconomic environment? Is there the will to establish and maintain the fiscal discipline necessary? The openness and transparency necessary to encourage foreign investment? Is there commitment to a privatization process that will be critical to creating the supply of equities needed to get these markets going?

2. Enabling environment. Among the types of enabling environment issues identified and discussed by the group were: developing and adopting internationally consistent accounting standards, legislation to encourage disclosure and transparency, investor protection legislation.

3. Tax policy. It is imperative to educate senior policy makers regarding how tax policy, by creating incentives or disincentives to own shares, affects profoundly capital markets in the region. The group decided that it would be impossible to attempt to reach agreement on harmonizing taxation policy. Therefore, efforts should be undertaken to encourage movement towards clearer and more transparent taxation systems that are evenly applied to all investors (i.e. eliminate bias against foreign investors that often exists).

4. Foreign exchange control. The group would like to encourage governments to agree to eliminate all exchange controls. They realize this is a long term process, however. The intermediate goal should be to remove restrictions on foreign purchases of equities. Also, ideally restrictions placed on foreign ownerships of equities would be relaxed and harmonized in some way throughout the region.

Recommendations:

The group made the following recommendations to the plenary, after debating the issues outlined above.

1. *Enlist political support for key policy changes*. It is important to convince the bureaucrats that they are there to help the market, not restrict it. This requires lobbying and exposing the high level ministers to new ideas, educating them on the needs, and lobbying and investing in educating the civil servants, the bureaucrats, and the technocrats at lower levels. There is also an important lobbying role for the private sector to play. We should not forget that stock exchanges are there for the private sector so we need to enlist the support of private companies. The lobbyist needs to realize that this is a long-term education process. For example, it took one year to convince Swaziland of the concept of unit trusts.

These should be sensitive to the fact that politicians are not familiar with what stock exchanges "do". The first step is to educate the politicians and bureaucrats at all levels. Most finance ministers don't see the benefits of stock exchanges. They would rather provide money for building a dam because they see it as creating jobs. They don't understand the benefits of stock exchanges as well as more tangible things like dams and factories

2. *SADC is a natural body for regional efforts of harmonization.* The group recommends beginning with regional harmonization at the country level and then harmonizing all of Africa.

Closing Remarks

Dr. Arie Beenhakker

(Adapted from the transcript of the taped presentation)

It's a difficult task to summarize some of our findings and come up with some suggestions for the future. In doing so, I want to first acknowledge that Price Waterhouse and I have learned a lot from all of you about the operations of a stock exchange system.

To begin with, I want to highlight the benefits of regionalization. One of the goals of regionalization is cross listing. Cross listing is very good because it increases trades. However, cross listing also means more fees to be paid by the companies. I would like to see some kind of arrangement in the future, whereby companies that do multiple listings in different stock exchanges are offered lower fees. Otherwise, it might become too expensive for the companies to cross-list.

Also, consider certain incentives for listing a company. Perhaps if a company is listed, it should get certain incentives such as no dividend withholding tax or a lower corporate income tax. That makes it very attractive for companies to do this. Also, capital gains taxes need to be revisited if trading is to be encouraged.

Why Harmonize?

On a more general level, let us step back and consider why harmonize? This morning one of the gentlemen here brought up the question of what are the benefits of regionalization, and why has it not been done yet? I had my assistants at the University search for empirical evidence that regionalization will increase the value of the shares being traded at the various exchanges. We could find no such evidence. Therefore, we are making assumptions, but I think the assumptions are based upon a number of valid factors which I've summarized below:

(1) Regionalization can help diversify ownership of companies brought to public. All too often, particularly in the smaller countries, shares are bought by just a few parties: the big institutional investors, a few wealthier individuals. Regionalization can help broaden the base of ownership.

(2) Regionalization can help deepen the capital market. It will enlarge the pool of capital available for trade, and increase the types of financial instruments available. Let us take options as an example, or derivatives. There is a sophisticated trade in derivatives in South Africa, but it would be too expensive, I believe, to also include derivatives in the small exchanges. In that sense, we can increase the types of instruments to be traded.

(3) Regionalization can provide access to credible equity capital from foreign sources. By foreign sources, I meant not just sources from outside Africa, but also sources from our own region. I think the South African market can play a very important role in this regard. It can also reduce the cost of educating brokers, traders, and the general public by pooling resources. This is very important.

(4) Another rationale for regionalization is that the smaller stock exchanges in Southern Africa suffer from a lack of secondary trades. The regional integration of the stock exchanges can increase the supply

of securities on each of the markets and facilitate secondary trade. Also, once you start to think about privatization, there's simply not enough capital available in the smaller countries to have a successful privatization process. The supply of equities is expected to far exceed the availability of investible funds in the smaller nations. Hence, the regional integration of the stock exchange will increase the ability of investible funds; for example, lots of money is available in Botswana and even in South Africa. By our estimates, there's excess liquidity among these investors which could be invested in some of the companies we have privatized in the countries where not that much capital is available, such as Swaziland.

If regionalization brings all these benefits, however, let us remember that it is not a remedy for all illnesses of small stock exchanges. You will not be able to get, in a short period of time, a dramatic increase in secondary trade just because you regionalize. By regionalize I mean, incidentally, increase cooperation as well as competition. Regionalization is a combination of competition and cooperation. To increase secondary trade we need merchant banking and discount houses. There are not very many in Africa. A discount house will be able then to increase secondary trade. The Central Bank of a country could also have a sort of equity interest in the discount house.

If you look around you in the world, only a very few stock exchanges have the size and the equity to be global markets, truly global markets. You can count those on the fingers of one hand. Most other stock exchanges serve a relatively restricted base of investors and issues drawn from the surrounding region. In Mexico, Mexican shares are traded more and more on the New York Stock Exchange. In Europe, shares are concentrated in London or in Paris. We will see that same trend, eventually, in Africa. That does not mean that the small exchanges will disappear; these exchanges have a very important role to play in raising capital in the smaller countries. But eventually, I think, we will get a balance between what should be done by the smaller stock exchanges, and what ought to be done by the bigger ones.

Unit Trusts

The establishment of unit trusts is a very important factor in the growth of exchanges in smaller countries. We do not have sufficient unit trusts in each and every country where we have the emerging stock exchanges. In Ghana, for example, there's not a single unit trust yet.

There is not one discount house. There is no discount house in Swaziland yet. Yet we have to recognize the fact that discount houses can play a very important role in accelerating the secondary trades as such.

Merchant Bankers

Although it hasn't been brought out sufficiently here yet, I believe we should not underestimate the very important role of merchant bankers, what we call in the United States investment bankers. Once we get cross listings of various exchanges, the merchant bank is going to play a very important role. Unfortunately, we do not have merchant bankers in each and every country on the African continent. But, again, we don't have to fall back upon the merchant bankers in our own country. We could use merchan bankers from other countries. In South Africa, we have outstanding merchant bankers.

Foreign Exchange Regulations

Foreign exchange regulations constrain the growth of pension funds and the harmonization of exchanges. The countries of the common monetary area (CMA), which include Swaziland, Namibia, Lesotho, and South Africa, all have the same foreign exchange regulations. They, and other small countries, should also allow the pension funds to invest a certain percentage in hard currencies or in securities. How can that be done? It can be done, for example, by establishing a unit trust in a country like Swaziland or Namibia, and letting that unit trust invest up to 50 percent, which is now allowed in South Africa, in hard currency securities. In doing so, you minimize the risk and maximize the returns.

Investors

Another point I want to make is that to make stock exchanges successful you also need investors. We cannot just privatize all the time by listing issued shares and using the stock exchange. We need the strategic investor as well. Governments and citizens are in a position to make money if they are wise about how they use a strategic investor. For example, you allow a strategic investor to buy shares in a company and have the government insist on issuing some out-of-the-money call options. Those options should be available for the public in the country at very low price. Then you can exercise your option after two years when the privatized company is making lots of money, at a predetermined price. If the privatization process is successful, the predetermined price is bound to be far below the market price, and, hence, the people in the country would really benefit from it. I think that is one way of counteracting the very common situation in which the assets of a company are scooped up by foreign groups or by small groups within the country.

We need to consider how to attract foreign investors. One way is through swaps. The way credits swaps are being done these days is through negotiating the swap rate of interest that you have to pay and the swap rate of exchange. As I've said, the rate of exchange which is applied when the monies are coming in, and then when they go out is the same and is negotiated as such. And, of course, the better you are in the negotiations, the better deal you can get. That's one way of counteracting the fear of depreciation which, unfortunately, we are suffering from again in this part of the world.

Communication with Stakeholders

I want to also emphasize, in brief, what has been mentioned already by the last group here: communications between our stock exchanges in the region is so important. Each and every time I talk with people from a different stock exchange I learn something. I think you can learn from each other a great deal. Also, be in contact with the companies in your country. This includes companies which are not listed yet because, hopefully they will be in the near future. Do this through the chamber of commerce, for example, or do it through other avenues.

Also be in contact with the monitoring authorities. By the monitoring authorities, of course, I mean the management of the Central Bank, and the management of the Ministry of Finance, because the monitoring authorities must also truly understand that the development of the country is very much dependent upon the development of the stock exchange. They need to understand that the days are over that we can expect a lot of foreign aid. Capital is becoming more and more scarce around the world. Also, the days are hopefully over that we have negative real interest rates for loans by commercial hanks because the rate of inflation is higher than the interest rate. As long as we have that situation, of course, nobody is interested in equity financing because you can get a loan at a negative interest rate. That situation has basically disappeared in most countries. You must convince your governments of the importance of the further development of the stock exchange.

Computers

I want to highlight a few points on issues where there is a lot of controversy, such as using computers. I would like to just suggest the following. There are basically three categories for computer use. One is simply for the records of trade, for customer cards and associate processing in the very first stage. The second one is for the securities and portfolio analysis. That is very important. Third, we can also give some professional advice on the side of the stockbrokers to the investors. It is only much later that the smaller stock exchanges should think about security-trading systems, simply because they cannot afford it at this point, in my view.

Role of Bankers

Much can be done very effectively by a bank. We don't need to do everything through the stock exchange. They can, indeed, have the custody of the customer and the security assets. They can transfer the securities, and could collect the difference or the interest in vaults. That processing, which is, of course, very important, should be contracted out to a bank or to more than one bank. The contract could be for three to four years. That will also more effectively leverage what is often a small staff. Small stock exchanges should concentrate on the trade itself rather than the processing of the transactions after the trades. Investment bankers, ideally, can do that, or if there is no investment banker, a commercial bank can do it as well, or any financial institution can do it because they already maintain customer accounts, so they can do it as well for the customers of the stock exchange.

Having said all this, I'd like to get feedback on what regionalization can mean from here on, and what, perhaps, could be done usefully by our participants.

Education

I think we all agree there is a need for education. There's no question about it. Some kind of regional publication on benchmarked performance would be very useful so that the small stock exchanges do not just do it for their own country, but also see what surrounding countries, and, eventually, all the member countries of the African Stock Exchange Association, are doing.

Information

What is very regrettable in this part of the world, and not only here, but also in the NIS countries, South America, and some Asian countries, is that there is not good data to evaluate a company. In order to evaluate a company, you should, ideally, compare with some of the averages of industries. If I want to see how company A's textile line is doing, I'd like to get the averages or the profitability ratios or solvency ratios, et cetera, from the industry, and we do not have that yet.

South Africa, as the largest country with a very modern financial sector, may assume the major role in trying to get some kind of a database off the ground. Perhaps the trade associations have such an effort already. The trade associations which are larger in South Africa than in some of your countries will play a major role in getting that effort off the ground.

Legislation

I have heard here and there that is very important for the further development of the stock exchange to have completed, up-to-date company acts, and to have wonderful securities act legislation, et cetera. Again, please do not get me wrong, I think it is very important for a country to have that legislation in place, but we cannot wait for that. How do we go ahead without the "right legislation"? By simply concentrating on the rules and regulations of the stock exchanges.

Another thing that should be considered is the concept of African depository receipts, which are negotiable certificates backed by the securities of a foreign issuer. This has been successfully used in other parts of the world including my own country, the United States. I fully realize that you may still have some foreign exchange regulations which make it impossible, but, on the other hand, we have the CMA. Hopefully foreign exchange regulations will eventually be abolished throughout the region. I think it is very difficult to abolish them soon, but I see nothing wrong in trying to convince our government leaders to at least start abolishing some of the foreign exchange regulations between and among the countries of Southern Africa and later on the whole African continent.

What to Harmonize?

I suggest that you may want to accept 10 categories in which guidelines for harmonizing rules and regulations, which will be acceptable to our stock exchanges, need to be formulated. I suggest that in this whole process we start, for example, with three or four stock exchanges, get them together and formulate some broad categories, and then get more and more on the bandwagon. Eventually, of course, it would be ideal to have all the broad categories of rules and regulations of stock exchanges approved by all the member countries of the African Stock Exchange Association.

What are these categories?

For example, one category would be the organization of corporate governance. The second category would be the listing of securities and the other ideas brought up already by Group One. You had many more examples than the one I just listed over here, the schedule of fees. Many of these are very useful to look into.

On trading, for example, we may address something about the price ranges and the use and number of shares.

Another category for the stock exchange rules and regulations where we can find broad agreement is the set amount of contracts that could, for example, address the establishment of a settlement agency. We could, as I mentioned before, use a bank for that. The bank could be the settlement agency.

A fifth category, one which is very important, is the qualification of the members, a corporation versus individuals. The sixth is the ethical conduct and the seventh is supervision and control, which includes, for example, the regular amount of credit extended by a member.

The eighth category is financial and operational responsibility. For example, itemized ledger requires the scope of the audits. This is probably the category which requires most of the work, because bere we get into some of the necessary operational aspects of the stock exchange.

Number nine is discipline. This includes the necessary broad guidelines for suspension of a member, when it happens, and how it happens.

Finally, in case of disagreement, arbitration. For example, you could decide on the selection of arbitrators.

These are the 10 categories that can be usefully addressed by our participants in trying to get a better understanding what regionalization is all about. Regionalization, again, is a rather difficult concept because on the one hand, we do not want to eliminate competition, but on the other hand, we want more cooperation between and among the stock exchanges. Under no circumstances do we want to eliminate certain stock exchanges. Each and every stock exchange plays an important role. But certain stock exchanges in the smaller countries cannot afford the luxury of automated systems in the present time, and, in my opinion, should not get involved in the present time in the trade of derivatives. It is not necessary, either, because there's a very good market place for that in South Africa.

SOUTHERN AFRICA REGIONAL STOCK MARKETS

SYMPOSIUM

SUMMARY AND CLOSING REMARKS

"Regionalization of Southern African Stock Exchanges"

Dr. Arie Beenhakker

(Adapted from the slides shown at the presentation)

Regionalization of the Southern African stock exchanges will not eliminate all problems of small, emerging stock exchanges. Other efforts must be considered, e.g.:

1) The involvement of a merchant bank

2) The establishment of a unit trust

3) The implementation of a discount house

4) Use of special instruments, such as the out-of-the-money call option

5) Measures to widen equity ownership via discounting and set asides on shares

6) Education of the public regarding investments

7) Introduction of credit swaps to attract hard currency investors

Rationalization for Regionalization

1) Regionalization tends to:

-Disseminate equity ownership among the broad public

-Deepen the capital market, i.e. enlarge pool of capital and increase types of financial instruments

-Enhance access to credit and equity capital from foreign sources

-Reduce cost of training and education

Rationalization for Regionalization

2) Only a few stock exchanges in the world have the size and liquidity to be global markets; most other stock exchanges serve a customer base of investors and issuers drawn principally from the surrounding region.

Rationalization for Regionalization

3) The smaller stock exchanges in Southern Africa suffer from a lack of secondary trade; that is, buyers of securities tend to hold on to their assets rather than selling them. Regional integration of the stock exchanges can increase the supply of securities on each of the markets, thereby facilitating enhanced secondary trade.

Rationalization for Regionalization

4) Looking into the foreseeable future, the privatization process in Southern Africa will significantly increase the supply of equity in the stock exchanges; the supply of equity is expected to exceed the availability of investable funds in the smaller nations. Regional integration of the stock exchanges will increase the availability of investable funds thereby favourably affecting the price development of new issues.

Rationalization for Regionalization

5) The concept of regional integration is not new to Southern Africa: Namibia, South Africa, and Swaziland (as well as Lesotho, which does not have a stock exchange) are member countries of the Common Monetary Agreement, which is a monetary union with parity conditions between and among their currencies, as well as similar foreign exchange control stipulations.

Financing of an Exchange

-Listing Fees

-Fees for Brokers: a percentage for stock exchange

-Membership: a basic annual fee

-Possibility of Stock Transfer Tax

-Selling Information

Multiple Listing

-Increased benefits and higher costs

-Role of merchant bank

Minimum Capital Requirements for Brokerage Industry

Should have variations based on:

-Servicing of customer account only

-Also custody of customer property

-Also executes and clears trades

-Size of custody and clearance of balances

Post Trade Processing of Transactions

-Maintain customer accounts

-Keeping of records

-Custody of customer funds and security

-Transfer of securities

-Collection of dividends or interest

For a small stock exchange consider contract with a bank (merchant bank or commercial bank)

Computer Use

Three categories:

-Records of trade, customer accounts and associated processing

-Securities and portfolio analysis

-Securities trading systems

Smaller exchanges should only consider the first two categories

Regionalization

-Trading and education

-Regional publication on market performance

-Commence a directory of companies similar to Standard & Poors

-Stock exchange rules acceptable to all participating exchanges

-African Depository Receipts: negotiable certificates backed by the securities of a foreign issuer

Stock Exchange Rules

Categories of Rules:

1) Organization and Governance (e.g. powers of the board)

2) Listing of Securities (e.g. schedule of fees)

3) Trading (e.g. price range and units of number of shares -- for example, E10 - E50 stock traded in units of 100 shares)

4) Settlement of Contracts (e.g. the establishment of a settlement agency)

5) Qualification of Members (e.g. corporation and/or individuals as members)

6) Ethical Conduct (e.g. unfairly influencing the price of a share)

7) Supervision and Control (e.g. the amount of credit extended by a member)

8) Financial and Operational Responsibility (e.g. itemised ledger accounts, scope of audit)

9) Discipline (e.g. suspension of a member)

10) Arbitration (e.g. selection of arbitrators)

NOTE:

1) Communicate with:

- Stock exchanges in region
- Companies in your country
- Monetary authorities

2) Stop "eternal" bank financing

3) Equity financing important for economic development

4) Tax incentives for listing of a company:

- No dividend withholding tax
- Lower corporate income tax
- No capital gains tax