An introduction to the JSE & its role in the economy

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The gear that counts...

Access to capital key for economic growth

Stock exchanges facilitate access to capital

Companies, government and the broader economy (you and I) benefit

The JSE makes it...

- Easier
- Cheaper
- Less risky
The importance of finance to economic growth

A company in any sector needs three elements to grow.

All sectors have one thing in common: their need for capital.

Government also needs capital to balance the national books, and to invest in infrastructure, schools, hospitals and other public services.
The role of financial markets

- Allow those who need capital (sellers of assets) to raise it. Markets pool the capital from lenders into one place and help to efficiently allocate the capital to borrowers.
- Allow sellers of capital (those with excess capital) to invest in financial assets. Financial markets offer a range of products with different rates of return, risk profiles and investment terms to allow savers a broad range of wealth creation options.
- Allow both sellers and buyers to manage the risk of changing prices. These risks arise due to changes in the inherent value of assets, as well as external factors such as the domestic and international economic conditions, fluctuations in exchange rates, and political unrest, amongst other things.
Financial markets: components

- Long-term finance for capital investments & expansion projects
- Short-term finance – from 1 day to 1 year (mostly 3 months)

**Financial markets**

- **Capital markets**
  - **Equity markets**
    - Stocks/shares:
      - Provide part ownership of company
      - Can pay dividends
  - **Bond markets**
    - Bonds:
      - Promise by government or company to repay borrowed money with interest

- **Money markets**

- **Derivatives markets**
  - Derivatives:
    - Contract to buy or sell an asset in the future at a price agreed & fixed now
    - Types: equity; interest rate; commodity; currency; etc.

- Derive value from other assets – equities, bonds, currencies etc.
From small beginnings...

The World Federation of Exchanges is an association of 58 publicly regulated exchanges.

1887 - JSE established
1963 - Member of World Federation of Exchanges
1996 - Open outcry floor replaced with automated trading
2001 - JSE adopts London Stock Exchange's trading technology
2002 - SAFEX acquired by the exchange
2003 - Alt-X launched with The dti
2004 - SRI Index launched
2006 - JSE Ltd lists on the Main Board
2009 - Bond market incorporated into the exchange
2012 - New equity trading platform

1978 - The gold rush
2002 - 2014 - New equity trading platform
The exchange value chain
Services that reduce costs & risks

**Listing** is the process through which a company or government makes available assets for sale on the exchange in return for capital. Listing takes place in the “primary market”.

**Primary market: Listing of shares to raise capital**

- Seller
  - Asset
  - Money
- Buyer A
  - Asset
  - Money
- Buyer B
  - Asset
  - Money
- Buyer C
  - Asset
  - Money

**Regulation and surveillance**

An exchange sets up rules and **regulations** to govern transactions and lowers the risk to investors, companies and the economy.

**The provision of market data**

An exchange provides **up-to-date information** on companies and market activity.

**Clearing**

**Clearing** is a post-trade service. It involves the management of the transaction between the seller and buyer to ensure that the seller gets the money and the buyer gets the asset.

**Trading** refers to activities in the “secondary market” where the investor can sell the asset on to other investors, who can also sell the asset and so on.

**Secondary market: trading in securities between investors**

- Buyer A
  - Asset
  - Money
- Buyer C
  - Asset
  - Money
- Buyer B
  - Asset
  - Money
- Buyer D
  - Asset
  - Money
Many leading South African companies have become significant regional and/or global players.

*As at end September 2014*
Trading activity across markets

[Graphs showing trading activity in Equities, Bonds, Currencies, Commodities, Interest rates, and Derivatives from 2004 to 2014]
Clearing

Who?

When Lehman Brothers went bankrupt in 2008, the close-out of the bank’s trades was instructive of the value of exchanges. The firm’s deals that were conducted on an exchange were cleared and unwound in a few weeks. By contrast Lehman’s non-exchange trades took five years to unwind as liquidators battled to identify how much was owed to and by whom in thousands of bilateral private transactions.

- At time of collapse, 4th largest US investment bank
- Debt amounting to $619 billion
- Largest bankruptcy in US history

Clearing involves risk management, transaction monitoring and offsetting or netting multiple transactions from a buyer or seller:

- Clearing ensures that the seller is able to deliver the assets that it has promised to sell and similarly, that the buyer is able to pay the amount it has agreed to pay for the asset.
Regulation and market information

Regulation of listing and trading on the JSE:

*The JSE is a self regulatory organisation overseen by the Financial Service Board. The JSE thus sets rules and regulation for both primary and secondary markets, and enforces these rules through monitoring market activity.*

- Behavior
- Transparency
- Democratic information

Market information dissemination:

*The JSE provides listed companies information and information on trading prices and volumes on the equity, bond and derivatives markets, as well as index data on a continual basis.*

- Stock exchange news service (SENS) since 1997 (democratic dissemination of company announcements and price-sensitive information)
- Daily market activity reports
- Indices data; indices reflect changes in market value of a group of underlying assets (e.g. healthcare index)
Who invests on the JSE?

Profile of investors on the JSE:

- South African institutional investors account for 40% of shareholding on the JSE. These include pension funds, life insurance companies and unit trusts. These investors hold assets on behalf of a broad range of South Africans.
- Government employees as a group are the biggest shareholders of many listed companies. This is primarily through the GEPF holding shares on behalf of government employees.
- 21% of investors on the JSE are BEE individuals.
- The JSE also has a sizable percentage of international investors.

The JSE is available to all South Africans as well as international investors.
Summary

The JSE makes it...

- Easier
- Cheaper
- Less risky

Costs:
- Search
- Information
- Transaction
- Societal

Risks:
- Price
- Settlement
- Concentration
- Liquidity
- Systemic
Thank you Q?