ADDRESSING LIQUIDITY CONCERNS IN EMERGING MARKETS – LESSONS FROM BOTSWANA STOCK EXCHANGE

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World Exchange Congress
26 February 2019
Botswana Comparative Advantages

**Why Botswana?**

- Highest investment grade and sovereign credit rating in Africa (S&P: A- and Moody's: A2)
- Top 3 in terms of Governance (Ibrahim Index of African Governance)
- Highest rating in Africa in terms of macroeconomic stability
- Least corrupt in Africa (Transparency International)
- Stable political environment
- No Exchange Controls
**Overview of the BSE**

Successfully Demutualized: Registered as a company limited by shares (BOTSWANA STOCK EXCHANGE LIMITED) in August 2018

<table>
<thead>
<tr>
<th>Our Mission</th>
<th>To drive sustainable economic growth by providing a gateway for raising capital and accessing investment opportunities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our Vision</td>
<td>To be a world-class securities exchange delivering innovative products and services.</td>
</tr>
</tbody>
</table>

**Corporate Values**

- Innovation
- Integrity
- Sustainability
- Efficiency
- Commercial Focus
- Teamwork

**The BSE is a member of:**

- Committee of SADC Stock Exchanges (CoSSE)
- African Securities Exchanges Association (ASEA)
- World Federation of Exchanges (WFE)
- Partner Exchange - UN Sustainable Stock Exchange (SSE) Initiative
- Recognised Stock Exchange – UK’s HMRC
Market Indicators

BSE Limited is the 2nd largest Stock Exchange in Sub Saharan Africa

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Capitalisation</td>
<td></td>
</tr>
<tr>
<td>Domestic Companies (₦’Mn)</td>
<td>3,953.6</td>
</tr>
<tr>
<td>Foreign Companies (₦’Mn)</td>
<td>34,553.7</td>
</tr>
<tr>
<td>Total (₦’Mn)</td>
<td>38,507.3</td>
</tr>
<tr>
<td>Relative Performance</td>
<td></td>
</tr>
<tr>
<td>Domestic Market Cap/GDP (%)</td>
<td>23.1</td>
</tr>
<tr>
<td>Turnover/Avg. Domestic Co Mkt Cap (%)</td>
<td>4.3</td>
</tr>
<tr>
<td>Turnover/ Avg. All Co Market Cap (%)</td>
<td>0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECTORS (2018)</th>
<th>STOCKS</th>
<th>% MAR. CAP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>4</td>
<td>6.2%</td>
</tr>
<tr>
<td>Retail &amp; Wholesaling</td>
<td>6</td>
<td>1.8%</td>
</tr>
<tr>
<td>Property</td>
<td>6</td>
<td>1.6%</td>
</tr>
<tr>
<td>Banking</td>
<td>4</td>
<td>3.2%</td>
</tr>
<tr>
<td>Security Services</td>
<td>1</td>
<td>0.1%</td>
</tr>
<tr>
<td>Tourism</td>
<td>3</td>
<td>0.7%</td>
</tr>
<tr>
<td>Energy</td>
<td>1</td>
<td>0.4%</td>
</tr>
<tr>
<td>Telecoms.</td>
<td>1</td>
<td>0.2%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>0.5%</td>
</tr>
<tr>
<td>Mining &amp; Material</td>
<td>9</td>
<td>85.2%</td>
</tr>
</tbody>
</table>

1 Supranational (IFC) & 1 Eurobond (Investec)
Investor Profile

<table>
<thead>
<tr>
<th>Investors</th>
<th>Contribution to Turnover 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Companies</td>
<td>40.6%</td>
</tr>
<tr>
<td>Foreign Individuals</td>
<td>1.3%</td>
</tr>
<tr>
<td>Local Individuals</td>
<td>4.5%</td>
</tr>
<tr>
<td>Local Companies</td>
<td>53.2%</td>
</tr>
<tr>
<td>Brokers</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

CSDB Client Holdings by Geography

<table>
<thead>
<tr>
<th>Client Domicile</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Citizens</td>
<td>77.9%</td>
</tr>
<tr>
<td>US Citizens</td>
<td>1.4%</td>
</tr>
<tr>
<td>UK Citizens</td>
<td>1.8%</td>
</tr>
<tr>
<td>SADC Region</td>
<td>7.7%</td>
</tr>
<tr>
<td>Other Regions</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

- Local fund managers dominated due to deep pools of liquidity
- Significant international participation
- High levels of retail participation by regional standards
- Retail investors account for 94.4% of the number of CSD accounts

CSDB Holdings by Client Category

- Local Company: 66.0%
- Foreign Company: 11.9%
- Local Individual: 20.2%
- Other Clients: 1.9%
Promoting Liquidity Timeline

- Implementation of CSD and advent of dematerialization
- Implementation of ATS
- Open Days
  - Listing & Investment Conference
  - Internationalization Strategy
- SBL
  - Mobile App
  - Website with Analytics
  - Mentorship Programme
- Introduction of ETFs
- Introduction of the Seralal OTC Board
- New Equity Listings Requirement (Increased free float) & Introduction of Market-Making Rules
- Tshipidi SME Board
- SBL
Promoting Liquidity

**3 pronged Approach**

**Automation**
- CSD implemented in 2008
  - Advent of dematerialization
  - Settlement easier and faster
  - Increased liquidity from BWP3.4 million per day in 2007 to BWP4.7 million per day in 2008
  - Led to introduction of ETFs – NewGold in 2010
- ATS implemented in 2012
  - Replaced the Open Cry trading
  - Typical longer trading session than the open cry
  - Increase liquidity from BWP3.6 million per day in 2012 to BWP9.3 million per day in 2013
- More technology to implemented in 2019
  - New CSD with SBL capabilities
  - New Website and Mobile app
  - DARS

**Market Education**
- Open Days
  - Introduced in 2016, held every year
  - Meant take the Exchange to the people
  - Taught about the BSE and its products as well as
  - Demystifying the listing value proposition
  - Between 2016 and 2018 Open Days have been held in 11 settlements
- Listing & Investment Conferences
  - Annual conferences held since 2016
  - Meant to attract more issuances

**Regulation**
- Serala OTC Board (2014)
  - Platform for trading unlisted securities to be trading
- New Equity Listings Requirement (2018)
  - Increased of free floats on the Main and Venture Capital Market Boards
  - New Tshipidi SME Board
  - Formalized market making for any listed securities
  - Will ensure two way prices available at all times
- Securities Borrowing & Lending (2019)
  - To be implemented in 2019
Promoting Liquidity (cont’d)

- The BSE is currently spearheading a project to centralise the bond market
- Key objectives:
  - Settlement in Central Bank Money – eliminates counterparty risk
  - Integration of CSD with Real Time Gross Settlement System (RTGS)
  - Primary Dealers to trade at BSE (secondary market)
  - Real time information flow, transparency, price discovery, liquidity
  - Improvement in IOSCO compliance, higher Thomas Murray Ratings

SADC Bond Markets Centralisation Initiative Chaired by BSE

CoSSE Secretariat
CoSSE Prod. Dev Sub-Committee
CISNA Capital Market Sub – Com

The “sweet spot” of liquidity

BUILDING BLOCKS OF A WORLD CLASS SECURITIES EXCHANGE IN A FRONTIER MARKET
Thank You!!