

CIRCULAR

TO: All Market Participants and the Public

FROM: Listings and Trading Department

DATE: 9 August 2019

SUBJECT: INVITATION FOR COMMENTS – PROPOSED AMENDMENTS TO THE BSEL EQUITY LISTINGS REQUIREMENTS, BSEL AUTOMATED TRADING SYSTEM (ATS) EQUITY TRADING RULES AND RULES REGULATING MARKET MAKERS (THE MARKET MAKING RULES).

1. The Botswana Stock Exchange Limited (BSEL) has seen it necessary to make some amendments to the BSEL Equity Listings Requirements, BSEL ATS Equity Trading Rules and Rules Regulating Market Markets as detailed in Annexure 1 below.
2. Market participants and the public are invited to access the aforementioned Rules and submit written comments, suggestions and feedback on the proposed amendments to the BSEL's Listings and Trading Department at the email address below **on or before 21 August 2019**.
3. All communication must be emailed to listings@bse.co.bw .

LISTINGS AND TRADING DEPARTMENT

A. PROPOSED AMENDMENTS TO THE BSEL AUTOMATED TRADING SYSTEM EQUITY TRADING RULES (THE RULES) TO ALLOW SHAREHOLDER APPROVED TRANSACTIONS TO BE EXECUTED ON CROSSINGS BOARD

Background

1. The BSEL has defined 3 Boards in the Automated Trading System (ATS) for the purpose of matching orders. These are the Normal Lot Board, the Crossings Board and the All or None Board (AON) Board.
2. The standard order book is the Normal Lot Board, where buy and sell orders are entered into a central order book in the system by brokers, and the matching of orders and execution of trades takes place here based on the price, visibility, capacity and time to determine priority.
3. The Crossings Board was created for pre-negotiated deals. In the Crossings Board, there's is no matching of orders per se, but rather trades are reported as negotiated and finalised between one or two stockbrokers prior to being captured into the ATS. Given that price discovery does not take place at the Exchange in respect of pre negotiated trades, price restrictions apply to such transactions.
4. As per section 5.1 of the Rules, a crossing is a negotiated transaction entered into between two or more clients of a single Fund Manager, through one or two stockbrokers and reported to the BSEL via the Crossings Board.
5. The AON Board on the other hand caters for the execution of large parcels of at least P2 million. A transaction on the AON Board will remain open to be challenged for 2 market days at the end of which it will be executed.
6. Trades taking place on the Crossings and AON Boards are not considered when determining the closing price of a security, as a result price changes as a result of trades on these boards do not impact on the indices, reference price (last traded price) and closing price of securities.

Proposal for amendment

7. Since the introduction of the ATS, the BSEL has experienced a challenge so far as how listed entities can execute trades which have resulted from corporate actions on market.

8. This challenge is magnified even further by the fact that the enactment of the Securities Act has now outlawed the transaction of listed securities off market.
9. The challenge is that these transactions resulting from corporate actions are:
 - a) Usually large and between one party on one hand and one or more on the contra side; and
 - b) Are executed at a certain pre negotiated and pre agreed price which is usually not equal to the prevailing market price.
10. Examples of these transactions include:
 - a) General, Mandatory and other Offers as per the Mergers and Acquisition rules;
 - b) Share buyback Offers and other transactions where consideration is in the form of listed securities (e.g. BSEL Categorized Corporate Finance transactions);
 - c) Employee Share Scheme trades;
 - d) Book build trades; and
11. The BSEL proposes to deal with this challenge by opening the utilisation of the Crossings Board to shareholder approved pre-negotiated transactions in addition to the current situation where its only open to Fund Managers.

Proposed change

12. Currently, section 5.1 of the Rules reads thus;

'A crossing is a negotiated transaction entered into between two or more clients of a single Fund Manager through one or two stockbrokers and reported to the BSE via the Crossings Board. All Crossings must be pre-approved in advance by the BSE.'

13. We propose that section 5.1 be amended to allow shareholder sanctioned off book trades to be entered into and reported on the Crossings Board as follows;

'A crossing is a negotiated transaction entered into between two or more clients of a single Fund Manager, or entered into between two or more parties as sanctioned by a resolution of a General Meeting of shareholders of the issuer of the securities the subject of the trade, through one or two stockbrokers and reported to the BSE via the Crossings Board. All Crossings must be pre-approved in advance by the BSE.'

B. PROPOSED AMENDMENTS TO THE BSEL RULES REGULATING MARKET MAKERS (THE MARKET MAKING RULES) WITH RESPECT TO IMPACT ON CLOSING PRICES

Background

1. The BSEL has framed the Market Making Rules in order to regulate Market Makers whose purpose on the BSEL is to provide liquidity for trading in listed securities by submitting both bids and offers for a designated security during the designated Market Making session.
2. Having been approved by the NBFIRA, the Market Making Rules went live on 1 January 2019 as approved by the BSEL board.
3. As part of the preparations to effect these Rules, the BSEL conducted market education and at a recently hosted seminar, the practitioners raised the matter of how the trades executed on market with Market Makers would impact on the Closing Price of the listed securities.
4. In our current Market Making Rules, the trades with Market Makers will not affect the closing price. In this regard, section 6.0 of the Market Making Rules reads thus:

“Reporting of trades with a Market Maker

Executed trades with a Market Maker shall not impact closing prices but will be separately reported to the market on the BSE Daily Market Report”

Proposed Changes

5. Based on the discussions from the experts invited, and also the benchmarking conducted on the JSE, trades executed with Market Makers form part of the Normal Order Book and thus their prices must be reflected in computing the closing price of listed entities.
6. In fact, currently, this is the case with ETF and BTCL Market Makers.
7. As a result, it is proposed that section 6.0 of the Market Making Rules be amended to read as follows;

Trading with a Market Maker shall be through a Member Broker and carried out as per the criteria set out in the BSE ATS Equity Trading Rules.

8. As stated above, the rationale is that Market Makers' trades are entered into the normal order book with other investors' trades as they trade with each

other and thus impact on the price of securities on an ongoing basis. It would be both meaningless and impractical to separate the reporting of these trades.

9. The very purpose of a Market maker is to inject price discovery into illiquid securities, and thus separating their trades from the rest of the investors defeats the purpose and may have been an oversight in the drafting of the Rules.

C. PROPOSED AMENDMENT TO THE BSEL EQUITY LISTINGS REQUIREMENTS WITH RESPECT TO FEES AND PUBLICATION OF AUDITED FINANCIAL STATEMENTS FOR TSHIPIDI SME BOARD COMPANIES

Background

1. With effect from 1st January 2019, the BSEL has introduced the Tshipidi SME Board (TSME) – targeted specifically at the Small Medium Enterprise (SME) sector, and is working on setting up a mentorship program designed to support SMEs to ultimately list on the BSE.
2. SMEs and other potential listing applicants have expressed that one of the major barriers to listing are the costs.
3. In 2017, the Product Development department undertook a study to examine the total costs of listing on the BSE. The study was as a result of strong sentiments held by the market that costs associated with listing are exorbitantly high. Two key issues were discovered in the study, and they are:
 - a) BSE fees are the lowest as compared to professional/advisory costs
 - b) Costs of listing are inflated by the pre-listing work that goes into the “corporatization” of a company. “Corporatization” is ensuring that the company operates in a business-like manner and corporate governance structures are in place.
4. One of the ways which the BSEL is looking to reduce the cost of listing has been to set up lists of Registered Advisers as detailed in Chapter 12 of the Equity Listings Requirements. These lists of professional service providers will enable the applicants to choose from a wide selection of BSEL approved service providers, and thus improve their ability to negotiate lower professional fees.

5. Internally, the BSEL hereby proposes to review its fee schedule in order to take into consideration the size of the applicants and to ensure that SMEs are not liable to the same fee structure as the larger and well established companies. The proposal is for amendment to the initial and additional listing fees as well as the annual sustaining and review fee structures only.

Fee Proposal

6. Currently, the initial and additional listing fees as well as the annual sustaining and review fees are as follows;

REF.	DESCRIPTION OF FEES	FEE STRUCTURE (P) - EXCLUDING VAT
A	LISTING FEES	
(i)	Equity	0.025% of Market Capitalization subject to a Min of P50,000 and a Max of P200,000
B	ADDITIONAL LISTING FEES	
(i)	Equity	0.025% of each class of securities listed subject to a minimum of P5,000

REF.	DESCRIPTION OF FEES	FEE STRUCTURE (P) - EXCLUDING VAT
C	ANNUAL SUSTAINING & REVIEW FEES	
(i)	Equity	In respect of each class of securities, an amount equal to 0.025% of the market value, subject to a minimum of P50,000 and a maximum of P150,000

7. The proposal is to change these parameters as follows (the proposed changes are underlined);

REF.	DESCRIPTION OF FEES	FEE STRUCTURE (P) - EXCLUDING VAT
A	LISTING FEES	
(i)	Equity	0.025% of Market Capitalization subject to a Min of <u>P10,000</u> and a Max of P200,000
B	ADDITIONAL LISTING FEES	
(i)	Equity	0.025% of each class of securities listed subject to a minimum of <u>P2,500</u>

REF.	DESCRIPTION OF FEES	FEE STRUCTURE (P) - EXCLUDING VAT
C	ANNUAL SUSTAINING & REVIEW FEES	

(i)	Equity	In respect of each class of securities, an amount equal to 0.025% of the market value, subject to a minimum of P15,000 and a maximum of P150,000

Benchmarking

8. Comparison with the Johannesburg Stock Exchange (refer Table 1 below) shows that a deep discount is applied on companies listing on the Alternative Exchange (smaller companies' board) and fees are related to company size.

Table 1: JSE AltX initial listing fees

Initial & Annual Listing Fees for Companies: AltX

- a. The fees for listing of securities are based on the table below, payable to the JSE on the initial listing date of the securities.

Monetary Value of Securities Listed	Listings Fee (VAT Exclusive)		Listings Fee (VAT Inclusive)	
	(R)	(R)	(R)	(R)
Not Exceeding	R 2 000 000	R 1 023.28	R 1 176.77	
"	R 10 000 000	R 6 395.44	R 7 354.76	
"	R 50 000 000	R 12 790.88	R 14 709.51	
"	R 150 000 000	R 19 186.33	R 22 064.28	
Exceeding	R 150 000 000	R 25 581.79	R 29 419.06	

9. Comparison with the Stock Exchange of Mauritius revealed that the listing fees on main board are determined in proportion to the size of the company but there are predetermined thresholds based on size of Company. There rates appear to be higher than those proposed by the BSEL at the lowest Market Capitalisation levels.

Table 2: Stock Exchange of Mauritius Annual Sustaining Fees

Table III (a) : Annual Fee for Equity Securities

Av. Mkt. Capitalisation (Rs)	Initial Listing Rate (Rs)	Additional listing Rate (Rs)
Up to 100M	58,500	29,250

Rs 100,000,001 to 400M	140,400	70,200
Rs 400,000,001 to 600M	204,800	102,400
Rs 600,000,001 to 1,000M	251,500	125,750
Rs 1,000,000,001 to 2,000M	304,200	152,100
Rs 2,000,000,001 to 5,000M	350,900	175,450
Rs 5,000,000,001 to 10,000M	421,200	210,600
Rs 10,000,000,001 to 20,000M	497,200	248,600
Rs 20,000,000,001 to 30,000M	614,100	307,050
Rs 30,000,000,001 to 40,000M	783,700	391,850
Above 40,000M	783,700 + 0.001% on excess over Rs 40,000M	391,850 + 0.001% on excess over Rs 40,000M

Requirement to publish Abridged Annual Financial Statements in at least one national Newspaper

10. Section 5.6(b) of the Equity Listings Requirements (the Requirements) reads thus;

'A listed company must publish on X-News and in one (1) national newspaper the abridged version of its Audited Financial Statements within three (3) months of its financial year end. Publication on the newspaper must be done within a week of receiving confirmation of release on X-News. A written Audit opinion must be published on X-news at the same time and also be available for inspection at the Issuer's registered office.'

11. In order to further ease the ongoing compliance cost burden for SMEs, we propose removing the requirement for publication on a newspaper for SME companies by adding the underlined words to section 5.6(b) of the Requirements so that the paragraph reads as follows;

'A listed company must publish on X-News and in one (1) national newspaper the abridged version of its Audited Financial Statements within three (3) months of its financial year end. Publication on the newspaper must be done within a week of receiving confirmation of release on X-News. A written Audit opinion must be published on X-news at the same time and also be available for inspection at the Issuer's registered office. Companies listed on the TSME are not required to publish in a newspaper.'

12. The rationale is that at a minimum shareholding requirement of 5 shareholders, companies listed on the TSME Board will not have such a wide shareholding to the extent that there would be a need to widely distribute their financial information in the national media. Furthermore, the expectation is that largely only 'sophisticated' institutional investors shall have an interest in investing in these companies and therefore they will have access to the BSEL's X-News online channels to see the financial releases.
13. NBFIRA is requested to approve these proposals based on the rationale outlined herein. This revision to the fee structure is expected to encourage SMEs to raise capital on the market.
14. Further, since the companies are expected to graduate to either the Venture Capital or Main Board after a few years of being listed, this approach will be beneficial to the BSEL's strategic objectives, as the number of issuers will increase.
15. Additionally, the BSEL would be achieving its aim of contributing to the national economic development and diversification efforts as well as a deepening of the capital markets in general.