Q&A: NAMIBIAN STOCK EXCHANGE

Namibian Stock Exchange CEO Tiaan Bazuin on the relationship with the JSE, attracting international investors and plans for demutualising

Q: What are some of the highlights the Namibian Stock Exchange (NSX) has enjoyed since it began trading in 1992?
A: The NSX has been very successful in diversifying the market by bringing secondary listings into the Namibian pension and insurance funds investable market. By total market cap, the NSX is the second-largest securities market in Africa. Due to a low cost base and good trading volumes, we have been able to self-fund and not require any form of government or external funding. On the local listings side, we have seen great successes in companies coming to market and raising significant amounts of capital. Our local index speaks for itself, reflecting a rise of 27.99% for the year 2015.

Q: The relationship between the NSX and JSE is very strong. What benefits has the NSX drawn from this?
A: When the exchange started, the cost of an electronic trading system was prohibitive, so outsourcing the system to the JSE and not having to buy our own has enabled the NSX to run off a low cost base and focus on business development, and not spend efforts on developing and running IT and trading systems. It's important to note that decisions regarding our market by way of rules, listing requirements, trading practices and broker surveillance are all done by the NSX – the JSE is only our equity trading system provider.

Q: The NSX is aiming to offer derivatives. What sorts of products are planned?
A: As soon as our central securities depository is licensed and live, we intend to dematerialise all Namibian securities, after which derivatives are planned for the market. The obvious products to start with would be local forex and other hedging products. Thereafter we should be in a position to launch products based on what the markets then want to see.

If we look at the current trends in the SA market, the future options are not trading as much as they used to, so products need to be vetted at the time in terms of what clients want and what market makers will trade.

Q: Africa's exchanges often battle to attract international investors. How is the NSX addressing this?
A: Understanding what hinders international investors from entering the local market is key, and in our case we realise the buy side of the international market cannot enter the bond market in certificated form. Namibian government bonds have been oversubscribed in international issuances, so it's clear that once we dematerialise the market will grow considerably.

The stability of the Namibian market mustn't be underestimated and has been reflected in the investment grade credit rating the country has enjoyed. This also allows state-owned enterprises to tap into the bond market. Due to overweight local demand, we need to bring more local companies to market so the international investors already interested in our market can make substantial investments.

International investors are usually not interested in multiple small transactions but prefer medium-term investments of sufficient size. Small and illiquid markets are often disregarded, as asset managers and investors need to justify time spent analysing markets, currencies and companies.

Q: The majority of the NSX's listed firms are dual or secondary listings. Why has it emphasised this strategy?
A: SADC has long had a framework in the Protocol on Finance and Investment to enhance cross-border investment. Secondary listings are the avenue established to do this. In the Namibian regulatory space, some local status is given to these dual-listed issuers. The NSX targeted companies active in Namibia to secondary list in this fashion so our market could invest in them.

Outside the SADC region, we have secondary listings from Canada and Australia by companies with operations in Namibia (such as mining exploration companies) that make use of the NSX to release their data and find potential investors outside their home markets. Recently we have targeted firms wishing to access the common monetary area for capital raising from Mauritius to set the NSX up as an alternative to the JSE.

Q: How is the NSX going about attracting more listings from Namibian companies?
A: Besides creating a vibrant market to access capital and diversify shareholding, creating the fundamentals for international investment is key, such as the Central Securities Depository (CSD). In engaging with government, we also attempt to assist in having a predictable regulatory framework to encourage direct foreign investment.

For companies seeking to localise shareholding or apply BEE criteria, we are creating a solution to have BEE shareholding trade only in the approved BEE pool. However, due to uncertainties in various industry charters and discussions on BEE requirements in government procurement, firms have been hesitant to commit to listing without assurances that listing would comply to these final requirements.

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Q: What is the aim of the Development Capital Market initiative?
A: As in most markets, we have companies that have potential without being profitable yet. The majority of these have been mining exploration companies active in Namibia, listed out of Toronto and Australia. So we created a separate board for these companies who obviously carry more risk but also potentially greater rewards.

In addition, we created an over-the-counter (OTC) market for companies with a broad shareholding base that wish to safely trade and release data without being listed – similar to the pink sheets quoted market in the US.

Q: Financial education of the youth is critically important for all countries. What are the NSX's plans in this regard?
A: The NSX has teamed up with the Financial Literacy Initiative under the Ministry of Finance to create brochures and other educational material, as well as virtual share trading competitions to create a wider understanding of how markets operate and the benefits and value they create.

Q: The NSX wants to demutualise. How far along is the project?
A: We are well progressed on the path to demutualisation as our members already approved the principle at our AGM. The next steps are finalising the details to a level where they can be approved by the Regulator.

Unfortunately, this cannot be rushed as separation of shareholding and trading requires the extensive rewriting of rules and the regulatory requirements need to be very clear. However, once all of these technical requirements are completed, we foresee demutualisation and self-listing in one approval process.

Timelines are always difficult to commit to when external approvals are required, but the proposed Financial Institutions and Markets Bill requires demutualisation within one year of enactment. The NSX has proactively started the process as other exchange demutualisation processes have taken from four to eight years.

Q: Providing up-to-date technology has proved to be a challenge for many African stock exchanges. How has the NSX tackled this vital aspect of trading?
A: The outsourced solution has served the NSX well, but recently it is clear the costing of systems has changed as the technology itself has changed. Ten years ago it may well have been unaffordable to implement a CSD or a trading system for bonds and derivatives, but now it is. That's why we are in a position to expand our products and services.

Many exchanges are re-evaluating the systems they have bought and the ongoing license and maintenance costs.

Q: The NSX has pioneered NamCode, a corporate governance code for Namibia. What has been the reaction from local business to it?
A: The NamCode has been very positively received by private, public and government sectors. In fact, the principles are now part of the listing requirements. We have also seen many non-listed entities subscribe to them.

Due to legislative differences post-independence it became clear we needed a Namibian corporate governance code that was in line with the country's legislation while still following best practice as per King III.

So in conjunction with the IoDSA, we localised those principles and added details not contained in our legislation, such as board confidentiality and directors' fiduciary duties.

Q: How has the NSX gone about formalising the Namibian bond market?

A: During the last few years government bond issuances outside Namibia by way of a Eurobond and JSE issuance, the buy side of the market has grown significantly.

The CSD will allow international buyers to take part in the local market. Revising the current cost structures in the market and establishing an electronic trading option as an alternative to the current OTC methods with reporting obligations will create a reliable yield curve that will further deepen the market.

By also differentiating our bond market from the SA partially lit market, we may create an alternate market for issuers that want their bonds trading in a fully lit market.

By Patrick Farrell

Image: Matina Steyn