

OVERVIEW OF THE WEST AFRICAN CAPITAL MARKETS INTEGRATION

Presented by

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for

COLLEGE OF SUPERVISORS

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The West African Capital Market Integration Council (WACMIC)

- The Securities and Exchange Commissions
- Securities Exchanges

Inaugurated on January 18, 2013 by the President of the Economic Community of West African States (ECOWAS) as the apex governance organ for integrating the West African capital markets.

PARTICIPATING REGIONS/JURISDICTIONS

- Ghana
- Nigeria
- Sierra Leone
- West African Economic and Monetary Union (WAEMU)

Primary Role

- To spearhead the integration of capital markets in West Africa and promote strong relationships among the member states.

HOW DO WE INTEND TO ACHIEVE THIS?

- Harmonized platform for listing and trading of securities.
- Harmonization of capital market regulations and practices across the region.
- Common Passport and Mutual Recognition of Capital Market Operators.
- Harmonised process for Clearing and Settlement of transactions across all member states.

NSE



- US\$77.45bn Equities market cap
- No of Listed Cos. – 189
- Avg. Daily Value Traded – US\$ 26.47m (Jan – Oct)
- YTD Main Index Returns – 34% (Oct 31)

GSE



- US\$28.11bn market cap*
- No of Listed Cos. – 34
- Avg. Daily Value Traded – US\$ 645,184 (Jan – Aug)
- YTD Main Index Returns - 75% (Oct 31)

BRVM



- (Ivory Coast, Benin, Burkina Faso, Mali, Niger, Senegal, Togo, Guinea Bissau)
- US\$8.31bn Equities market cap
 - No of Listed Cos. – 71
 - Avg. Daily Value Traded – US\$ 1.47m (Jan - Sep)
 - YTD Main Index Returns - 23% (Sep 30)

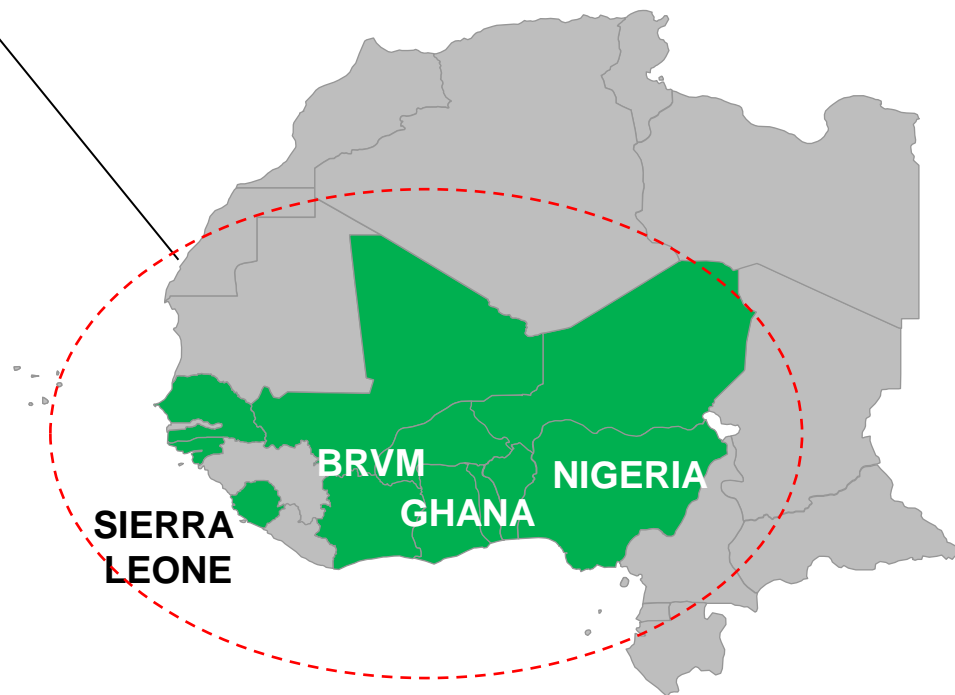
SSE



- Equities market cap – N/A
- No of Listed Cos. – 1
- Avg. Daily Value Traded – N/A
- YTD Main Index Returns – N/A

Source: ASEA Monthly Reports, www.African-Markets.com

*Total Market Cap provided



INTEGRATED PROFILE

- Equities Market Cap: US\$113.87b
- No. of Listed Cos.: 295
- Avg. Daily Value Traded: US\$ 28.56m

- The Capital Market Operators (CMOs) that will be recognised are Stockbrokers, Underwriters and Issuing Houses.

Criteria for Common Passport & Mutual Recognition

- Must meet regulatory capital requirement of \$500,000 for Brokers, \$625,000 for Underwriters and \$1 million for Issuing Houses in addition to other criteria such as capital adequacy and technology requirements.
- Capital Market Operators which qualify for a common passport status will enjoy the same status i.e. rights, privileges and responsibilities as local operators in the host jurisdiction.

INCENTIVE

DESCRIPTION

Financial Development

- Integration will speed up the development of our various domestic financial systems, promoting increased competition and innovation.
- The harmonization of regulations and trading practices that would accompany any regionalization of exchanges could deepen regional integration more broadly in such areas as taxation, accounting standards, corporate governance, and legal practices.
- As regionalization and capital market development advances, establishing stock market segments across a region, specializing in different industry sectors or types of share issues, might foster further capital market development by improving efficiency.
- Successful integration will provide more choices of financial products provided to regional and foreign investors; and increase the sub-regions integration with the global economy.

Growth Potential

- The sub-Saharan region is one with a strategic geographic footprint in Africa.
- Large and diverse population of over 290 million translates into a consumer base with significant domestic savings and investment potential.
- Increased opportunities for risk diversification.

Liquidity & Capital Raising

- Integration will result in more effective price discovery.
- Successful integration would empower WACMI members to remain relevant in attracting investment flows.
- The ease of capital movement within the region will create flexibility for issuers looking to raise capital and investors looking to invest across member states.

**Harmonized Listing &
Regulatory Requirement**

**Harmonized Trading,
Clearing Depository &
Settlement
Framework**

**Key Elements of
a Successful
Market
Integration**

**Common Trading
Platform**

**Qualified West African
Brokers (QWAB) &
Common Passport**

Short Term Arrangement - (March 1, 2014)

- Recognizing and formalizing the current informal relationship at the regulatory level so that brokers within the regions can trade and settle in markets other than their jurisdictions through local brokers in those jurisdictions.
- Memoranda of Understanding (MOUs)/agreements recognized by regulators. Local broker will have recourse to the home regulator.

CASH SETTLEMENT

- The West African broker may be allowed to open a cash account in any commercial bank in the local market to manage safely his cash account without the intervention of the local broker.
- In the case of Buy position: On or before settlement day, the QWAB moves the funds into the settlement account of the local broker.
- In the case of Sell position: on settlement day the CSD moves the funds to the local brokers account for onward transmission to QWAB.

Regional Integration of Qualified West African Brokers

- Integration of Qualified West African Brokers (QWAB). At this stage brokers who qualify and receive a common passport will be mutually recognized by Stock Exchanges, Regulators and Depositories to deal directly in the markets across jurisdictions.
- Local exchanges are expected to admit QWABs as trading participants and grant them access to the trading engines.

CASH SETTLEMENT

All QWABs shall abide by the settlement arrangement in the local market:

- Opening cash settlement account with the settlement banks.
- Setting up such account at CSD level.
- Ensuring that the funding rules are observed

Fully Integrated West African Stock Market

- Integration of West African Market: At this stage all the Exchanges will be linked in a virtual West African Securities Market (WASM) and QWABs will have access to listed securities and related market information to enable them execute transactions.
- The bank to be chosen as settlement bank should have presence in ECOWAS countries in addition to meeting other eligibility criteria.

CASH SETTLEMENT

QWABs to make funds available on settlement day in the designated settlement accounts.

Criteria

Criteria for Selecting a Settlement Bank

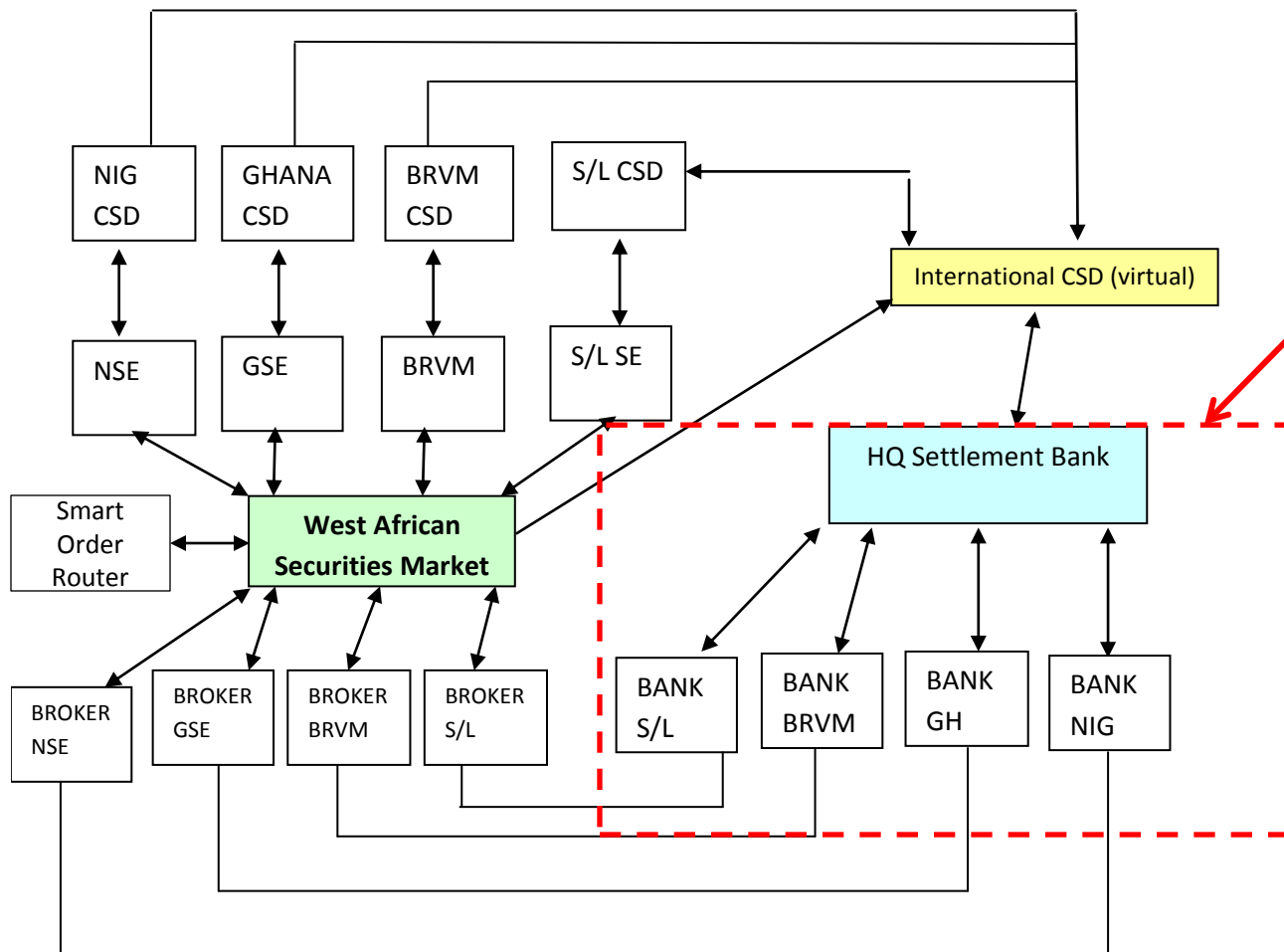
- Presence in all ECOWAS countries.
- Experience in securities settlement and funds transfer.
- Full network connectivity including backup systems.
- Business continuity plan and sound risk management processes/framework.
- Minimum capital requirement - US\$160 million

Criteria for Selecting Two (2) Settlement Banks

- Presence in 2/3 of ECOWAS countries.
- Experience in securities settlement and funds transfer.
- Full network connectivity including backup systems.
- Business continuity plan and sound risk management processes/framework.
- Minimum capital requirement – US\$160 million



Fully Integrated Market



The transfer and settlement process is heavily dependent on the sub-region's banking sectors.

Central Banks are also key due to large ticket transactions.

Potential Challenges and Risks

The benefits of capital market integration are clear, but the potential challenges and risks must not be ignored. Successful regional integration must be underpinned by a strong regulatory framework.

Risks

- Faster and multiple contagion of systemic risk.
- Regulatory Arbitrage.
- Market dominance by a handful of players.
- Regulation supervision and enforcement could be made difficult unless accompanied by proper coordination and cooperation between authorities i.e. restrictions on the movement of capital.
- Lack of uniform taxation rates and policies across the region.
- Foreign exchange risk

Risks Mitigating Measures

- An appropriate institutional framework for liberalizing financial services trade (eg. Free Trade Agreements).
- Deeper harmonization of national prudential and market regulatory framework using global standards such as those developed by IOSCO, Basel Committee
- Closer and effective coordination between relevant authorities.
- Information exchange under bilateral MOUs.
- Regional forums for regulatory cooperation between member states.

Settlement Banks – What do we expect?

To ensure the success of the integration process, bank involvement in certain key areas is expected:

- Capital Exchange
- Single Currency
- Bilateral Agreements

Risk Specific to Settlement Banks

There are also potential challenges and risks specific to Settlement Banks which must be recognized and addressed, in order to ensure a seamless integration process:

Risks

- Foreign exchanges risk due to operations in various jurisdictions.
- Counter-party risk arising from the settlement process.
- Market risk due to Settlement Bank's operations in West African region.
- Credit risk due to borrower default.

Risks Mitigating Measures

- Single Currency.
- Settlement bank presence in multiple jurisdictions.
- Basel III will ensure banks adhere to global best practices.
- Higher minimum capital requirements than local markets will help to mitigate default.

- We have set for ourselves a very ambitious target of completing the first phase of integration by March 1, 2014, and we believe it is achievable having carefully mapped out our implementation strategies.
- We are aware however, that the success of this project, to a large extent, involves participants from the banking sector who will be involved in settling transactions within the sub regions.

Collaboration with the College of Supervisors of West African Monetary Zone (CSWAMZ) is required to:

- Determine the modalities for risk management/identification of other potential risks -
 - Macro stability
 - Regulatory Arbitrage
 - Quality around the movement of people and companies
 - Implications from a foreign exchange control perspective
 - Resolution Management
- Determine modalities for foreign exchange transfers for transactions.
- WACMIC will select settlement banks and eligibility criteria will be circulated.

Consequently, we are seeking the full support of the *College of Supervisors* in this integration process.



MiFID

- The European Union's (EU) **Markets in Financial Instruments Directive** (MiFID) framework is a European Union law that provides harmonized regulation for investment services across the 31 member states of the European Economic Area.
- MiFID's main objectives are to improve the competitiveness of EU financial markets by creating a genuine single market for investment services and activities, and to ensure a harmonized, high degree of protection for investors in financial instruments.
- MiFID's implementation has successfully eliminated national exchange monopolies and introduced venue competition into the equity markets, which has led to a significant decline in transaction prices.

ASEAN Trading Link

- Countries within the Association of Southeast Asian Nations (ASEAN) recently introduced *ASEAN Trading Link*, a gateway for securities brokers to offer investors easier access to connected exchanges. This is a significant step towards the eventual goal of full integration.
- The purpose of the trading link is to connect the securities markets of the ASEAN exchanges, essentially making it just as easy for investors to trade in other ASEAN capital markets as it is to trade in their own domestic market.
- A virtual market of over 2,200 listed companies with a market capitalization of USD 1.4 trillion.



Thank You

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Q & A

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