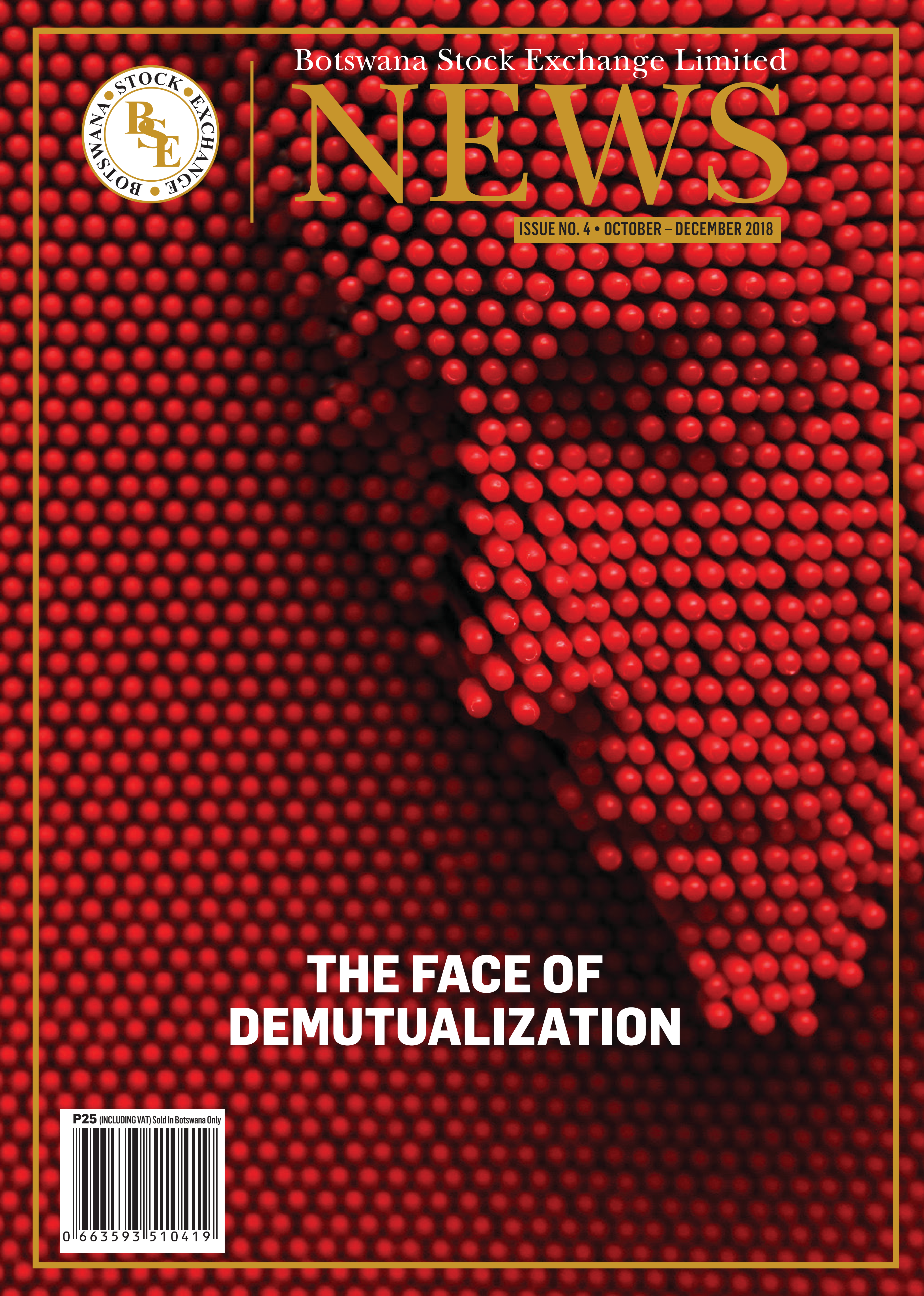
Botswana Stock Exchange Limited

NEWS

ISSUE NO. 4 • OCTOBER – DECEMBER 2018



THE FACE OF DEMUTUALIZATION

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ALL AT RMB COMMEND YOU ON THIS MONUMENTAL ACHIEVEMENT.

Demutualisation is no easy feat for any stock exchange and we just want to say, "Congratulations" on this epic milestone transition for both the Botswana Stock Exchange and Botswana. We are grateful for the opportunity to have contributed through the provision of bespoke valuation when it was required, showcasing Solutionist Thinking at work. We look forward to watching the Botswana Stock Exchange grow as more shareholders sign on.

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Search **Solutionist Thinking**

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Traditional values. Innovative ideas.

I am delighted to welcome you to the 4th edition of the ***BSE News***. As I write this foreword, I cannot help but ponder about how far we have come as an exchange. It feels like yesterday when the demutualization of the BSE began on the 1st December 2015 when the BSE Transition Act, No. 2 of 2015 came into being.

If you have been following the media, then you know already. It is with great honor that I announce to you our readers the greatest achievement and historic milestone, one that will significantly energize the capital markets in Botswana, and the continent at large. As of the 2nd August 2018, Botswana Stock Exchange as it has been known, has fully demutualized following its conversion from a mutual exchange to a company incorporated under and in terms of the Companies Act. The Exchange is now known as the Botswana Stock Exchange Limited (BSEL).

Looking at stock exchanges across the world, the pace of demutualization has been rapid in developed markets and slower in emerging markets. This makes us the 7th stock exchange in Africa, out of about 28 to demutualize, some stock exchanges are still working hard to achieve demutualization. This demonstrates the difficulty with which this process is accomplished given the diverse interests of the parties involved. On our part, the pace of demutualization has been exceptional and without hurdles, and BSEL now joins an elite league of stock exchanges to have undergone demutualization.

Looking at stock exchanges across the world, the pace of demutualization has been rapid in developed markets and slower in emerging markets. This makes us the 7th stock exchange in Africa, out of about 28 to demutualize, some stock exchanges are still working hard to achieve demutualization.

With demutualization and immediate corporatization of the Exchange, we look forward to enormous efficiencies that will enable the bourse to discharge its mandate and drive value for shareholders and stakeholders as we strive to become a world class securities exchange. At this point we are working hard towards undertaking the rebranding exercise that will align the company closely with its stakeholders.

'Your Partner in Wealth Creation'

Thapelo Tsheole
Chief Executive Officer

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Contributors in this edition: Koobonye Ramokopelwa, Keabetswe Newel and Imara Capital Securities.


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BSEL RADIO PROGRAMMES

- Monday 0630-0635 RB1 – **Sefalana sa Papadi**
- Thursday 1830-1845 RB2 – **Understanding Stock Markets**
- Friday 1610-1615 RB2 – **Eazy Drive**
- Friday 1730-1735 RB2 – **Tsele le Tsele**

Photo by Thomas Le on Unsplash

Know Your **Stock Market Terms**

Spreadsheet – is a ledger sheet on which a company's financial statements, such as the statement of financial position, statement of comprehensive income, sales report, are laid out in columns or rows. Financial analysts use them to research companies and industries.

Transfer Secretary – An agent, appointed by a corporation, whose task is to maintain the records of its shareholders or bondholders or both.

Underwriter – An entity that agrees to purchase a new issue of securities from an issuer and distribute it to investors, making a profit on the underwriting spread. An underwriter is usually an investment bank.

Price/Book Ratio – Ratio of a stock's price to its book value per share.

Asset – Anything having commercial or exchange value that is owned by a business, institution or individual.

Base Market Value – Average market price of a group of securities.

Hedging – Strategy used to offset investment risk.

Illiquid – Not readily convertible into cash, such as a stock, bond or commodity that is not traded actively.

Listings Requirements – The set of rules or guidelines enforced by a given stock exchange upon companies that want to be listed on that exchange. Such requirements sometimes include minimum number of shares outstanding, minimum market capitalization, and minimum annual income.

Market Capitalization – Value of a particular market.

Mutual Fund – Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, currencies, money-market securities, etc.

Oversubscribed – Underwriting term describing a new stock issue for which there are more buyers than available shares.

Portfolio - a range of investments held by a person or organization.

Order – Instruction to a Broker or Dealer to buy or sell securities or commodities.

DEMUTUALIZATION OF THE **BOTSWANA STOCK EXCHANGE**

(Left to Right) The BSELs Head of Legal Services & Board Secretary, Ms. Tidimalo Poonyane, CEO, Mr. Thapelo Tsheole and Head of Market Development, Ms. Thapelo Moribame

Stock Exchanges are vital enablers of economies in that they facilitate the transfer of capital from economic agents with surplus capital to those with a deficit in order to create economic activity.

Introduction

Stock Exchanges are vital enablers of economies in that they facilitate the transfer of capital from economic agents with surplus capital to those with a deficit in order to create economic activity. In other words, stock exchanges provide a platform on which Governments and Corporates can issue securities in exchange for capital (from investors seeking returns) as well as serve as a market on which these issued securities can be traded.

Evolution of Stock Exchanges

Typically, stock exchanges evolved through three distinct stages. The initial stage was characterized by an informal network of brokers who would meet at a physical place and match orders from the public (buyers and sellers). This meeting of the brokers to match the order constituted a market.

The second stage of the evolution came when these networks of brokers gradually formalized into not-for-profit mutual or member-owned organizations that employed governance structures akin to those of associations or cooperatives. This stage brought about the earliest version

Most stock exchanges have transformed from mutual or member-owned organisation to companies limited by shares.

of the modern-day stock exchange. Then, the Exchanges were established using the capital of the members (stock brokers) and in some instances with assistance of Government. During this stage the stock brokers owned the exclusive rights to trade on the stock exchange as well as the ownership rights. They even had the right to admit or reject any new entrants to the market.

As the stock exchanges grew in relative importance to their host economies, capital markets regulation evolved and strengthened, primarily to protect the interests of the investing public. Consequently, it was recognized that the brokers' exclusive rights to trade on the market ought to be separated from their ownership rights. This ushered in the third and the current stage of the evolution of stock exchanges: the age of demutualized stock exchanges.

Most stock exchanges have transformed from mutual or member-owned organisation to companies limited by shares.

What is Demutualization

Demutualization is the process of transforming from a member owned, not-for-profit, entity to a for-profit, investor-owned corporation which involves of changing the legal status, structure and governance of an entity. In the case of a stock exchange, the Proprietary Rights of the members, as well the cash injection by Government, are converted to shares and the Exchange can subsequently be listed on its own platform.

History of Stock Exchange Demutualization

Demutualisation can be traced to a number of events paramount of which was the liberation of the European Union (EU) capital markets' regulation as prescribed in the EU Council Directive 93/22/CEE of 10 May 1993 on investment services in the securities field. The directive opened up access to stock exchange membership and financial markets in the EU to authorised firms other than stock brokers. That is, stock exchanges could also be owned by regulated market participants. As a result, this led to the demutualization of the Stockholm Stock Exchange (SSE) in 1993, the first Exchange to do so. From the 1990s, demutualization gained prominence as a way of enhancing the fortunes of stock exchanges. Following the demutualization of the SSE in 1993, more stock exchanges have followed suit especially in developed markets.

Reasons for Demutualisation

Broadly speaking stock exchanges demutualize because mainly for the following reasons;

a. Improvement of governance structures – demutualization helps in streamlining decision making by separating trading and ownership rights as well adopting international best practise with regards to the constitution of the board of directors.
b. Access to capital– broadening access to capital needed for investment in ever improving technology (electronic trading and clearing and settlement systems), seek innovation in technology and services as well as acquire other markets, products and services.

The turn of the 20th century brought with it rapid progress in the development of technology. Consequently, stock exchanges looked towards electronic trading and settlement platforms. It was then that the open outcry trading method began to be replaced by the automatic trading system (ATS). This, coupled with the strides in the telecommunications, meant that stock exchanges could serve customers from outside their countries. Stock exchanges could list companies (primary or secondarily) from anywhere in the world and investors from anywhere in the world could trade on any exchange without having to be at the market physically. Therefore, the open-outcry floor based method of trading shares gradually became a thing of the past.

Competition amongst stock exchanges increased and they had to evolve and adapt in order to survive. This meant that Exchanges had to adopt corporate governance structures that rendered them agile enough to manoeuvre the competitive environment. Moreover, stock exchanges also needed to broaden their access to capital needed for investment. Before demutualization, stock exchanges depended on the capital of their limited members, and that of Government. It is through demutualization, and sometimes self-listing, that the stock exchanges ensured access to greater capital necessary for their growth and commercial survival. This is particularly important given the faster pace of globalisation and the rapid emergence of alternative trading platforms which threaten to lure trading activity away from regulated exchange.

Before demutualization, stock exchanges depended on the capital of their limited members, and that of Government. It is through demutualization, and sometimes self-listing, that the stock exchanges ensured access to greater capital necessary for their growth and commercial survival.

History of Botswana Stock Exchange Limited

The modern day Botswana Stock Exchange Limited (BSEL) traces its origins to the Botswana Share Market (BSM) that was established in 1989. Back then there was only one stock broker (Stockbrokers Botswana) and it created the market by matching orders from the public on the shares of the then five listed companies. The buoyancy of Botswana's economy led to more companies and more stock brokers coming to the market and ultimately creation of the BSE in 1994 through an Act of Parliament.

Following the establishment of the BSE as a stock exchange through an Act of Parliament of 1994, which resulted in the BSE opening for trading in 1995, the exchange was owned by its members (stock brokers) through ownership of Proprietary Rights as well as the Government of Botswana. Proprietary Rights were defined in the BSE Act "as a share in the assets of the Exchange acquired for the purposes of registering as a member of the exchange in order to trade on the exchange". Historically, Government has provided majority of the financing targeted at developing the BSE infrastructure and undertaking market development initiatives, and jointly, Government and brokers have played a meaningful role of developing various facets of the BSE and the market as a whole. This includes establishing a favourable regulatory environment, driving marketing efforts and investor awareness, among others.

Commencement of the BSE's Demutualization Process

On 1 December 2015, the BSE (Transition) Act of 2015 came into operation to commence the process of conversion of the BSE from a mutual entity to a public company limited by shares under the Companies Act, a process known as demutualization. The BSE Transition Act was primarily aimed at governing this process

As the BSE would become a company, the BSE Act would become repealed effective the date of conversion, and in its place would be the Companies Act.

by outlining the details of conduct of the BSE whilst it is undergoing conversion, following conversion, and defining the powers of the relevant stakeholders overseeing the transition of the BSE during this period, being the Minister in the Ministry of Finance and Economic Development. It is worth noting that although BSE was regarded as a mutual entity, it was by and large a parastatal.

The Main Committee of the BSE, comprising of broker representatives and Government representatives, whose responsibility was to oversee the affairs of the BSE played a strategic role in the commencement of the demutualization. As the BSE would become a company, the BSE Act would become repealed effective the date of conversion, and in its place would be the Companies Act. The Companies Act required the promulgation of the Constitution of the BSEL as a governing document of the Exchange with respect to governance issues.

Demutualization of Other Stock Exchanges

Generally, the pace of exchange demutualization has been rapid in developed markets. Research indicates that in the fifteen years since the first demutualization in the world took place in 1993, only 21 exchanges in developed markets have demutualized. This number represents almost 40 percent of the membership of the World Federation of Exchanges (WFE). In contrast, the pace of demutualization in emerging markets has been relatively slower. A report published by the International Organisation of Securities Commissions (IOSCO) in 2014 showed that only 5 jurisdictions out of a total of 76 emerging market jurisdictions had completed demutualization.

The foregoing demonstrates the difficulty with which this process is accomplished given the diverse interests of the parties involved. In Africa, as at June 2018 only 6 stock exchanges amongst the 28 members of the African Securities Exchanges Association (ASEA) were demutualized. BSE became the 7th.

Valuation of the BSE

Some of the heated issues that delay demutualization includes the allocation of shareholding in the new company by way of converting the Proprietary Rights (ownership of the brokers) and the capital injection by Government into shares on the company. By and large, the BSE has operated with just four members for a long time, each having a certain number of Proprietary Rights amounting to various amounts. Government has financially supported the Exchange for many years by way of a subvention, majority of which has gone towards the development of the BSE's technology infrastructure and initiatives around market development. For purposes of demutualisation these investments by both stock brokers and the Government had to be converted into shares in the BSEL.

Following international best practise, the Main Committee of the BSE appointed an independent consultant in 2017 to determine the value of the BSE and attribute shareholding of the BSE between the brokers and Government, and among the brokers as individual shareholders.

Determining the Allocation of the BSE Limited' Shareholding

The Transition Act, provides that "the shareholding of the Company shall be open to Government, securities brokers, employees of the Exchange and members of the public…" This formed the basis for apportioning the share capital of the BSE. However, an independent valuation by an independent consultant was to provide the appropriate, independent and objective basis for such allocation and subsequent determination by the Minister of Finance and Economic Development.

The exercise of determining the share capital of the BSE, the value of the BSE and the attribution of shareholding in the BSE was completed in November 2017, by a consultant appointed through an open international tender which was impressively contested for. This was an impressively shorter period of time from the commencement of the Transition Act, which was just under 24 months.

As per the provisions of the Transition Act, the Minister had the power to determine the shareholding of the BSEL, and in this instance the independent valuation and share attribution report merely provided guidance, anchored on fundamentals, independence and objectivity, to this crucial decision. Perhaps, owing to the meticulousness of the report, the Minister approved the shareholding of the Exchange as presented in the report, paving a way for each of the four brokers to then take note of their individual shareholding on the basis of the number of Proprietary Rights held by each. This approval by the Minister signalled the commencement of the conversion of the stock exchange by way of registration of the company by Companies and Intellectual Property Authority (CIPA).

> The full demutualization of the exchange to a company called BSE Limited represented a historic milestone for Botswana and the capital market as a whole.

On 2 August 2018, CIPA completed the registration of the stock exchange as a public company limited by shares under and in accordance with the Companies Act. The date will go into the memoires of history as the date of full demutualization of the exchange to a company called Botswana Stock Exchange Limited (BSEL). In line with Section 12 of the Transition Act, the BSE Act has been repealed.

Transition from Parastatal to Company

The full demutualization of the exchange to a company called BSEL represented a historic milestone for Botswana and the capital market as a whole. Upon reflection, this has been a fairly shorter process, and one that was characterized by diplomacy and a concerted mission by the management of the exchange, the members of the exchange and Government of Botswana to modernize the domestic capital market. It is perhaps important to note that it happened at the time that the exchange was one-year shy of its 30 years of existence. This evolution elevated the position of the BSE in the African continent, as just a few of the 28 members of the African Securities Exchanges Association (ASEA) servicing 32 countries in Africa, have demutualized whilst just 4 have proceeded to self-list.

A FOCUS ON DEMUTUALIZATION

The primary sources of income for exchanges are listings and annual sustaining fees as well as trading fees. If the exchange is to impose the burden of responsibilities and obligations on its issuers in favour of protecting the investors, it may crowd out the issuers and therefore lose out on the listings and annual sustaining fees, and thereby fail to maximize shareholder return.

Arguably, the milestone was worth undertaking looking at the various facets of the organisation itself and the need to promote the competitiveness of the exchange in the face of global competition and its internationalization strategy.

The BSE was converted to a Government Parastatal through an Act of Parliament in 1994, having operated as an informal share market. In the earlier years, the BSE was mainly funded by Brokers through the purchase of Proprietary Rights from time to time. In subsequent years, Government started funding the exchange through a subvention primarily financing the capital projects of the exchange and its market development activities. This investment gradually translated into improved performance of the market which positively impacted the performance of the organisation. In 2012, the exchange moved from negative profitability position and has been generating profits each year since then.

Balancing Public Interests and Profit Motives

Traditionally, stock exchanges are viewed as institutions for public good and clearly, the BSE, being a Government Parastatal (statutory body, member exchange) was seen as a national strategic asset that operates for the broader and more inclusive benefits of all Batswana. This perception was expressed in the various activities that the exchange has undertaken, which were largely undertaken to promote the reach of the exchange, the inclusion of all in the stock market and without due priority to lament on the cost or expect a return on investment.

A certain scholar, Rydzewska (2014), contests that as a public good an exchange exists to provide three basic functions to the public. These are; (a) allocation – stock exchanges are a platform on which limited capital is allocated to worthy investments; (b) valuation – stock exchanges assist in the price discovery of the listed securities and this is achieved by ensuring transparency and nurturing liquidity in the market; and (c) control – stock exchanges are also tasked with ascertaining that shareholders have meaningful control of their companies by protecting and upholding the rights of the minority shareholders.

These three functions ought to be equally pursued by the exchanges, because if there is inefficiency in one function there will be market imbalances. An analogy would be an instance where there is poor disclosure by issuers (because of lax regulation by the exchange) which leads to inaccurate market pricing, which in turn leads to inefficient allocation of resources on the market. Such has the risk of distorting rewards in the market and further threaten the stability of the market.

In relation to the foregoing, a transition from a Parastatal to a fully demutualized exchange operating as a Company or a Corporate poses one fundamental challenge in that the exchange has to reconcile being responsible for providing a public good with maximizing profit for its shareholders. The primary sources of income for exchanges are listings and annual sustaining fees as well as trading fees. If the exchange is to impose the burden of responsibilities and obligations on its issuers in favour of protecting the investors, it may crowd out the issuers and therefore lose out on the listings and annual sustaining fees, and thereby fail to maximize shareholder return. On the flip side, there is a possibility that the exchange might relax its regulation so as to attract and keep issuers for their fees, much to the detriment of the investors.

As such, it is important that demutualization efforts are preceded by bolstering and adequately capitalizing the supervision of the capital markets. Most markets have set up standalone public agencies, regulatory authorities and securities exchange commissions that regulate the capital markets. In the Botswana market, the Non-Bank Financial Institutions Regulatory Authority (NBFIRA), being the regulator of BSE Limited, with the NBFIRA Act is well equipped to accommodate this regulatory conundrum of ensuring adequate supervision of a stock exchange pursuing for-profit objectives whilst balancing the protection of investors and ensuring adequate compliance by listed entities.

As a way of improving the financial sufficiency of exchanges and cushion the heavy reliance on listing fees, annual sustaining fees and trading fees, some stock exchanges have sought to increase revenues by expanding their product offerings to include post-trade services as well as information and data services. This has helped to diversify exchange revenue from the main sources.

BSEL Post Demutualization

The move towards corporatisation of the BSE by way of demutualization has been well thought out in the manner in which the exchange has gradually been behaving like a corporate for this eventuality. The exchange has successfully balanced the public interests and profit motive for some time. The BSEL has over the years been embarking on initiatives to diversify its revenue streams, whilst putting in place robust programmes to equally rationalise expenditure. In 2014, the BSE signed several data vending agreements with international data vendors. Besides promoting the visibility of the BSE and enhancing the reach of market statistics, these have generated revenue for the exchange. This area represents an immense potential for the BSEL, which owns the Central Securities Depository Botswana (CSDB). The CSDB also functions as a data repository with respect to listed and unlisted instruments and can offer a broad range of cash generating services at its maximum capacity. Undoubtedly, pre and post-trade data services represent a growing income avenue for the exchange.

Until 2016, the BSE would undertake public roadshows across various places in Botswana primarily in various public arenas and these would be characterized by entertainment to pull the crowd.

Notably, there has been modernization also in the manner in which the exchange has undertaken its market development initiatives. Until 2016, the BSE would undertake public roadshows across various places in Botswana primarily in various public arenas and these would be characterized by entertainment to pull the crowd. This was a necessary mode of execution given the low levels of awareness at the time, the myths and misconceptions about the stock market and the low retail investor participation in the stock market. As the financial literary improved over the years, along with retail participation from as low as 3 percent to 15 percent, the BSE remodelled this approach to be represented by highly targeted Open Days, still open to the general public for free and also introduced targeted annual listings and investment conference to cultivate the supply side of the market. As an institution moving towards corporatization, the remodelling of these highlighted activities was inevitable as, as a corporate, the focus will be on striking an optimal balance between attaining shareholder expectations without compromising the broader reach and inclusion of everyone in the stock market, more so that Government remains the majority shareholder in BSE Limited.

step for many exchanges in their evolution. Post-demutualization, the exchange can evolve further by listing on its own platform, and this is referred to as self-listing. Globally, a number of exchanges progressed to self-list after they demutualized as a way of further enhancing their governance and competitiveness given

(Left to Right) His Excellency, The President of the Republic of Botswana, Mr. Mokgweetsi E.K Masisi seated with Minister of Finance and Economic Development, Honourable Kenneth Matambo, BSEL CEO, Mr. Thapelo Tsheole and Minister of Investment, Trade and Industry, Honourable Bogolo Kenewendo.

that a listing expands the shareholder base and enables access to deeper pools of capital.

All these aspirations of becoming a competitive corporate and a world-class securities exchange are enshrined in the strategic plan which spans 2017 to 2021. Evidently, the design of the strategic plan had foresight to the corporatization of the exchange. The strategies are highly cost and revenue conscious, there is greater indication of product and services diversification, a shift towards optimising the technology infrastructure, commitment towards building a conducive regulatory environment, human capital uplifting and traction towards previously unchartered territories such as the derivatives market. The BSE Limited, however, will refine its 2017 to 2021 Strategic Plan to capture post-demutualization initiatives.

History of Self-Listing

More often than not, demutualization is just an interim

Early examples of exchanges that underwent a self-listing are the Stockholm Stock Exchange AB in Sweden, Australian Stock Exchange, Hong Kong Stock Exchange and Singapore Stock Exchange. As time progressed Deutsche Bourse, London Stock Exchange, Euronext and NASDAQ followed suit.

The same phenomenon has been experienced in Africa. For example, the Johannesburg Stock Exchange was the first stock exchange in Africa to self-list in 2006 following its demutualization in 2005. The Nairobi Securities Exchange self-listed in 2014 in the same year that it demutualized. The most recent self-listing in Africa was by the Dar es Salaam Stock Exchange in 2016, a year after its demutualization in 2015. Notwithstanding, few of the demutualized exchanges in Africa, such as Zimbabwe Stock Exchange, Stock Exchange of Mauritius, and Bourse de Casablanca remain unlisted. BSEL as a newly demutualized stock exchange is also unlisted. A handful, especially those that were established in recent times, such as Rwanda Stock Exchange, Trop-X (Seychelles) and Lesotho Stock Exchange were registered from the onset as companies limited by shares and have never had to experience the transition from a mutual to a demutualized stock exchange.

Perhaps, with this background, it's worth exploring a key perspective with respect to self-listing especially that it is the only next and ultimate step in the evolution of BSEL. This perspective is to do with maintaining a balance between serving the regulatory functions and pursuing the corporate objectives without jeopardy to stakeholders.

Benefits of Self-Listing

Transformation of stock exchanges is undertaken primarily to revitalise their business models. Evidently, the listing of stock exchanges has transformed their business models significantly. Although demutualization is undertaken to alter the ownership of stock exchanges, in some cases significant ownership stakes were often retained by previous member firms, particularly in exchanges that were predominantly member owned from the onset. Therefore, the fundamental governance structure of exchanges was not significantly impacted in such cases. Self-listing and the subsequent dispersion and dilution of ownership of exchanges have immensely impacted the governance of stock exchanges.

A self-listing is a privatization of the exchange. Experience and empirical evidence shows that privatization brings about a broader mix of shareholders ranging from institutional investors, retail investors, listed companies, technology companies, the public at large, and in some cases foreign investors. Often, as is common practise in most government-driven privatization efforts, foreign institutions might become owners of newly privatized entities to a certain extent.

In the context of BSEL, demutualization has ushered the exchange into an era of corporatization. This is particularly necessary as the exchange itself is mandated to regulate corporatized institutions, being listed companies. Corporatization brings about significant expectations from the shareholders of BSE Limited. One such is the expectation that the exchange, once listed, should maximise profits and value for its shareholders.

The listing of a stock exchange strongly accentuates the business orientation of the exchange. As with any listed company, the exchange can be expected to be more value oriented, more efficient, more innovative and growth oriented and, as a result, highly motivated by short-term

BSEL as a Self-Regulatory Organization (SRO)
A self-listing of the exchange presents a number of conundrums and one such is to do with maintaining an optimal balance between serving its regulatory functions and pursuing its corporate objective without jeopardy to its stakeholders.

profit maximisation. This is because where the open ownership attracts outside investors, they will expect a return on their investment that is commensurate with the return they could earn on their investment alternatives. However, this probably will not be the case if the owners are insiders (members, issuers) with other interests in the exchange than outsiders.

BSEL as a Self-Regulatory Organization (SRO)

A self-listing of the exchange presents a number of conundrums and one such is to do with maintaining an optimal balance between serving its regulatory functions and pursuing its corporate objective without jeopardy to its stakeholders.

A common and widely observed practise is to delegate a demutualized stock exchange a Self-Regulatory Organization (SRO) status. An SRO is "an organization whose object is to regulate the operations of its

International best practice suggests that once BSEL is self-listed, it will continue to regulate companies and securities listed, the listings and trading platform, and NBFIRA will regulate BSEL with the same set of listing requirements that BSEL uses to regulate companies listed on its platform.

members or of the users of its services and include the organizations that may be recognised as such".

Under its SRO status, the exchange maintains its primary regulatory functions of developing listing requirements, enforcing compliance by listed companies with the listing requirements, facilitating listings and trading and conducting market surveillance. These may be financially demanding functions in the context of an increasingly competitive environment. However, not doing these functions can be detrimental to the reputation of the exchange and the definition of the securities market as a whole, whereas doing them may be unfavourable to the value maximisation objective of the exchange. So why does an exchange strive to maintain an optimal balance?

A number of approaches have been explored and practiced to deal with this. For example, when the Stockholm Stock Exchange (SSE) demutualized it set up an independent Disciplinary Committee to handle compliance of the SSE with its own listing requirements. Prior to this, the function had been handled by the Board of the SSE. The stock exchange law was later amended to require that all authorised exchanges organise such committees. When the Johannesburg Stock Exchange (JSE) demutualized and self-listed the JSE equities listing requirements were amended to include the establishment of the SRO Oversight Committee which was the Board Sub-Committee responsible for overseeing the issuer regulation and market regulation functions of JSE Limited. Subsequently, compliance of JSE Limited with its listings requirements was seconded to the financial market regulator, the Financial Services Board (FSB).

These two examples represent some of the strategies used to work around promoting the independence and objectiveness of the exchange with respect to its regulatory function and the compliance of the exchange to its own listing requirements in order to ensure that the exchange discharges its functions in a manner that is transparent and equitable to all.

Regulating the SRO

The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) regulates BSEL and the NBFIRA Act provides that an institution such as BSE Limited can be declared a SRO. However, if declared, the status will not absolve the exchange of its supervision by NBFIRA and NBFIRA will continue with its role of approving any rules, including the amendment of listings requirements. Section 36 of the NBFIRA Act outlines this relationship and due process by SRO in detail.

Recent developments are that NBFIRA is undertaking this assessment regarding BSEL being declared a SRO and will submit a recommendation to the Minister of Finance who will make this declaration. The declaration of SRO status will evolve and possibly expand when BSE Limited progresses to the next phase of its development which is a self-listing at a future point in time.

International best practice suggests that once BSEL is self-listed, it will continue to regulate companies and securities listed, the listings and trading platform, and NBFIRA will regulate BSEL with the same set of listing requirements that BSE Limited uses to regulate companies listed on its platform.

SECOND OPENING **BELL CEREMONY IN JULY**

His Honour, The Vice President of the Republic of Botswana, Mr. Slumber Tsogwane was the guest of honour at the 2nd Opening Bell Ceremony.

Official Bell Ringing (left to right) BSEL CEO, Mr. Thapelo Tsheole, His Honour, The Vice President of the Republic of Botswana, Mr. Slumber Tsogwane and Former Chairman of the BSE, Lt. Gen. Tebogo C. Masire

BSEL Head of Market Development, Ms. Thapelo Moribame

Delegates

THIRD OPENING **BELL CEREMONY IN AUGUST**

The 2017 winners of the BSEL Senior Secondary Schools Finance & Investment Competition, Lobatse Senior Secondary School, were honoured with an opening bell.

BSEL CEO, Mr. Thapelo Tsheole, and University of Botswana Finance Society President, Ms. Onkemetse Bulayani, taking a picture with the winners of the 2017 BSE Senior Secondary Schools Competition

Official Bell Ringing

Attendees

FOURTH OPENING **BELL CEREMONY IN SEPTEMBER**

The Chairman of MISA, Mboki Chilisa was honoured with an opening bell. Media practitioners were also invited to discuss what can be done to enhance financial reporting and strengthen media relations in Botswana.

(Left to Right) Official Bell Ringing & the Opening of the Market - The BSEL CEO, Mr. Thapelo Tsheole joined by the Chairman of MISA - Botswana Chapter, Mr. Mboki Chilisa

BSEL Market Development Specialist, Mr. Kgotla Segwe

BSEL Head of Product Development, Mr.Kopano Bolokwe

SAVE THE DATES

BSEL CALENDAR

5th October, 2018	**5th Opening Bell Ceremony, Gaborone**
18th October, 2018	**Equity Listings Requirements Workshop, Gaborone**
1st November, 2018	**6th Opening Bell Ceremony, Gaborone**
4th December, 2018	**7th Opening Bell Ceremony, Gaborone**

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THE MAKING OF **BOTSWANA'S FIRST INDEGENOUS BANK**


BBSL Managing Director, Mr. Pius Molefe, delivering the Official Remarks at the BBS Limited Registration Ceremony.

Just a few months back, BBS Limited (BBSL) announced that it successfully completed the process of demutualization, fully transforming into a company limited by shares. It was the first ever company to undergo demutualization in Botswana. This month however, the company also made history when it completed the listing of its shares on the Botswana Stock Exchange Limited (BSEL) Serala OTC Board, also a first for both BBSL and BSEL.

Botswana Building Society Limited (BBSL) is on course to become Botswana's first ever indigenous commercial bank, a significant sector that has been controlled by foreign banks for years.

BBSL started trading on the Serala OTC Board on Tuesday 4th September this year, and is the first company ever to trade under that platform. The BSEL, under the stewardship of Chief Executive Officer (CEO) Thapelo Tsheole, established the Serala OTC Board which was meant to have less strict trading and listings requirements in the quest to attract small and medium enterprises into the domestic bourse.

BBSL Managing Director (MD) Pius Molefe said the listing is geared towards becoming a commercial bank. "BBSL will graduate to the BSEL Main Board in a period of 18 months," said the elated Molefe.

This will enable the shareholders of the bank, who are over 5,000, to trade their shares on the BSE and also present an opportunity to other Batswana who do not have shares in BBSL, to buy the shares. BSEL CEO, Tsheole, said the BBSL shares will be traded like any other on the BSE. The Company intends to apply for a banking licence in terms of Section 6 of the Banking Act. If the license is granted, the Company will be the first bank in Botswana to be majority owned and controlled by citizens of Botswana, giving it a competitive advantage to be able to craft and create bespoke tailored products suitable to the unique needs and requirements of Botswana and Batswana.

BBSL wants to rub shoulders with banking behemoths, the likes of Barclays Bank Botswana and First National Bank Botswana (FNBB). Botswana has ten (10) commercial banks, all of which are subsidiaries of major international banks. South Africa's Public Investment Corporation (PIC) controls Barclays Bank of Botswana indirectly, while 32.2% remaining shares are held by a diverse group of institutional investors and individuals, mostly pension funds.

Including Barclays, three (3) are listed on the BSE, FNBB, Standard Chartered (Stanchart). Stanchart has 25% of its shares listed, while Standard Chartered Holdings (Africa) BV, a subsidiary of Standard Chartered PLC owns the remaining 75%.

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FNBB Holdings Botswana, is fully owned by First Rand Bank South Africa, which holds a controlling 70% stake. In addition, First Rand in South Africa has a diversified shareholding, which includes a stake held by the Black Economic Empowerment Trust, Royal Bafokeng Holdings, REMGRO, senior management, as well as RMB Holdings, being the largest shareholder of First Rand. Stanbic Bank is fully owned by Standard Bank in South Africa and has got no plans of listing on the BSE.

By the end of 2019, BBSL will also be a commercial bank. It all started in August 2017, when shareholders of BBSL met and voted with 99.96%, in support of demutualization of the society. The voting was just a green light for the society to now fully transform into a commercial banking outfit. Demutualisation is the process through which any mutual body, such as a building society, becomes a company limited by shares. This company could then either be listed on the stock exchange or be closely held by its shareholders.

> Molefe announced that an application for a banking license with the Bank of Botswana (BoB), the banking sector regulator, will be filed, and that by December 2019 BBSL will be a commercial bank.

As a society, BBSL could not offer banking services equivalent to normal commercial banks. Some of the services a building society does not offer are current (cheque) accounts, unsecured/personal loans, foreign exchange services, car loans and treasury services. Now that BBSL is fully demutualized, and is now a company limited by shares, it will then apply for a banking license to enable it to operate as a commercial bank. Molefe announced that an application for a banking license with the Bank of Botswana (BoB), the banking sector regulator, will be filed, and that by December 2019 BBSL will be a commercial bank.

Molefe announced that as a society, BBSL was only reliant only on mortgages, as well as savings and investment products, which limited its revenue streams because of lack of diversity. Furthermore, some of the advantages include being able to compete fairly with commercial banks by offering all products and services found in commercial banks, thus increasing shareholder value. BBSL will also become part of the clearing system and thus no longer rely on commercial banks to collect payments on its behalf. More employment opportunities will also be created for Batswana because the business will expand its operations, and then contribute more to the economy.

More importantly, while BBSL is on a transition, Molefe announced that customers will continue benefitting just as before. Currently, there are customers with mortgage loans at BBSL, as such, it emerges that there will be no changes to any mortgage loan arrangements. Rather, the loans will simply be carried over to the new BBSL. Further, savings accounts will also be transferred to the new BBSL and customers will continue to operate them as they have been doing. According to the BBSL MD, customers will still be able to take out short loans under the new entity. "However they will not use their shares in the new company as security for such loans but their savings accounts. For those with short loans currently, they will be given the opportunity to clear them before the conversion or to carry them over into the new BBSL," he explained.

Because BBSL would like to retain its customers and keep them happy, depositors will be allowed to convert their deposits into deposit products bearing similar terms and conditions. Shareholders/Members (Fixed Period Paid Up, Subscription, and Indefinite Period Paid Up holders) are the ones that will be allowed to buy shares in the new company up to 15% of the total issued share

Further, Molefe believes that BBSL will grow into a bigger entity both professionally, financially and structurally, after the transformation will diversify revenue base

BBSL & BSEL Management teams ringing the bell to signify the opening of the market at the BBS Limited Registration Ceremony.

capital subject to the qualifying date. Alternatively, they may convert them to comparable investment products in the new business. Usually, when a company or institution goes through a transformation, chances are that retrenchments are highly likely. In this case however, Molefe seems to trust that BBSL would rather grow its structures and employ more people. He however does not rule out possibilities of restructuring. He said various human resource strategies will be employed that will include redeployment, training as well as recruitment.

Further, Molefe believes that BBSL will grow into a bigger entity both professionally, financially and structurally, after the transformation will diversify revenue base. Currently, the society has nine (9) branches, three (3) in Gaborone, and one (1) branch in Francistown, Serowe, Selibe Phikwe, Maun, Kasane and Lobatse. These branches employ a total of 204 people.

Further, the society has however been profitable over the years. For the period ending 31st March 2018, BBSL delivered an admirable set of results achieving a profit of P49.941 million. It increased by 4% compared to that of the prior year which affirms the resilience of the business. However, we can only build on this success if we can transform BBSL quickly into a commercial bank, a process that is moving apace.

Strategically, the BBSL MD said the ongoing transformation will result in a stronger BBSL financially and operationally which will also deliver high shareholder value over the coming years. “We expect to operate fully as a bank by the first half of 2019 subject to obtaining the relevant shareholder and regulatory approvals,” he said. He is also optimistic about the future of BBSL which he said will be made stronger by becoming the first indigenous commercial bank. In closing, Molefe cited BBSL’s continued success is a result of the dedication of its employees across Botswana as well as the BBSL Board with its continued guidance and support during these exciting times.

STANDARD CHARTERED BANK BOTSWANA **BACK ON ITS FEET**

Mr. Mpho Masupe
Standard Chartered Bank Botswana CEO

In this interview, Standard Chartered Bank Botswana CEO, Mr. Mpho Masupe tells ***BSE News*** that the bank has weathered the storm and is poised for even greater feats in the future.

BSE NEWS: The bank recently posted a profit for the first half of the year (H1:2018). Does this suggest that the bank is now in a profit-making trajectory after experiencing declining profits in the past few years?

Mpho Masupe: Standard Chartered Bank has always been a profit-making institution. The loss we incurred in 2017 was the first in our over 120-year existence in Botswana and was induced by specific impairments. These impairments have had noticeable impact on our operations but not to the extent of threatening the financial health of the business. The return to profitability immediately after registering the previous year's results is symbolic of the resilience of our balance sheet.

The profit we have registered for the first half of 2018 is not at the levels we would have wanted, but it does confirm that our strategy and decisions have been correct and we certainly expect greater growth through 2018 and beyond. This confirms that beyond just the low base effect is a strong set of fundamentals –balance sheet, people, products, opportunity, innovation, heritage and international brand that drive performance.

Standard Chartered Bank has always been a profit-making institution. The loss we incurred in 2017 was the first in our over 120-year existence in Botswana and was induced by specific impairments.

BSE NEWS: What really drove profits of the bank after recording a decline in profits for three straight years?

Mpho Masupe: The Bank's profits are driven by the underlying business, with key segments posting positive results. Conversely, the losses have been eliminated by our continuous portfolio re-balancing, which recently required some targeted de-risking. We have re-arranged and reduced some of our exposures in specific sub sectors without necessarily diluting our contribution to the country's economic activity. The results of this targeted exercise confirm that we took the right decision having turned around a large impairment position in 2017 to a net profit by the close of the first half of 2018.

The Bank's profits are driven by the underlying business, with key segments posting positive results. Conversely, the losses have been eliminated by our continuous portfolio re-balancing, which recently required some targeted de-risking.

This has afforded us the confidence and flexibility to push for sustainable growth across our Retail, Commercial and Global Banking segments going forward.

BSE NEWS: Interest income for the period under review is marginally down. Does this in any away put it to somebody that, the Bank is struggling to grow this segment given the fact that interest rates are at record lows?

Mpho Masupe: Yes, there is a marginal decline in our interest income but it is not something that we are concerned about. The possibility of the decline was anticipated as it was mainly driven by our decision to remove certain assets from the portfolio that were previously interest earning, which, however contributed to our overall impairment charges. Despite the decline in our overall interest earning assets, the retail segment, which constitutes the bulk of our business currently, registered an impressive 5% year-on-year growth. The health of our overall portfolio is good as we are now operating with cleaner books.

BSE NEWS: What strategies are in place to grow customer deposits?

Mpho Masupe: We have intensified our market engagements, and you might have seen progressive enhancements on our overall offering on the back of customer needs. We have sought to drive deposits on the back of assisting customers to see the benefit of developing a saving – and in particular long-term saving – culture. In so doing, we are continuing to give our clients a differentiated banking experience.

BSE NEWS: The bank has closed some of its branches. Will this trend continue in the short to medium term?

Mpho Masupe: We are not closing branches in that literal sense. What we have done, and what we will continue to do is to reconfigure our branches as we fully exploit our digital capabilities. Our market access approach is client centric and as our clients and the global trend moves towards digital we choose convenient banking. So it is on this basis that we periodically consolidate our resources, merge some branches and in some cases open new ones – as we did with our Mowana Branch in Phakalane which we opened in January this year.

BSE NEWS: As more technologically driven products are pushed, has the bank experienced a slow down on the number of those who visit banking halls for various services and products?

Mpho Masupe: Definitely. Currently 83% of all our transactions are made through our safe digital channels. Digitisation of banking is in our DNA. Earlier this year, Standard Chartered Bank pioneered a fully digitised branch in Côte d'Ivoire affording clients an opportunity to experience end-to-end digital banking, wherein a transaction can be initiated and closed without human intervention. We are excited about this innovation and looking forward to launch it in our shores in the not too distant future.

BSE NEWS: The bank seems to be bullish on the future. What segments of the business will drive growth given the fact that both retail and business clients are each experiencing a reduction on disposable income and lack of bankable projects?

Mpho Masupe: Lending is one aspect of our business, and it is just one of the others. As you rightly put it, lending is by nature exposed to economic cycles and we are not immune to that. However, we have a range of value adding, non-lending products that will drive growth in our non-funded income. As a typical example; we recently launched a suite of life products wherein we deliver value through collaborations with key players in the insurance industry- both short and long term. Our digital offerings bring in new possibilities as we enhance transaction banking solutions. We are taking a fresh approach to relationship management with our key clients, just to ensure their banking experience is ever improving. Our trade capabilities are very strong, and are supported by the wide and global nature of the Standard Chartered Group network.

Lending is one aspect of our business, and it is just one of the others. As you rightly put it, lending is by nature exposed to economic cycles and we are not immune to that.

BSE NEWS: After suffering a huge knock in the mining sector lately, will the company still continue to pump money towards mining related projects?

Mpho Masupe: Our interest in the mining industry remains, and we have key partnerships therein. What we have done though is to re look at the level of our exposure to the mining value chain as it progresses to the downstream. Mining remains a key component of our economy and hence it does make a lot of sense to support the sector in one form or another.

BSE NEWS: Is the Bank keen to fund Private Public Partnerships (PPPs) projects that government has talked a lot about in recent times?

Mpho Masupe: Government remains a key stakeholder in our business. We support the economic prosperity ambitions and we will always evaluate opportunities as they come through.

BSE NEWS: What is the Bank's position on fintech?

Mpho Masupe: The Bank views fintech favourably as an opportunity to find alliances. As we continue to expand our digital enhancements, fintechs are able to offer us an even greater degree of integration and convenience on top of our award-winning digital platforms. These alliances ultimately help us to achieve our goal of expanding our reach to customers in even the most remote of areas such as what we have been able to do with our Mobile Money platform.

BSE NEWS: What kind of partnerships can we expect from the bank in the short to medium term?

Mpho Masupe: Partnerships are a viable initiative to derive additional value from the market by being able to offer additional convenience to our customers under one roof. We demonstrated this affinity for partnerships through the recent announcement of enhancements to our Banc assurance suite of products in association with the market leaders in the short, long and investment-linked insurance segments. Where opportunities like this exist, we will always evaluate them for fit and function especially where they create a value add to the digital innovations that we will be rolling out.

BSE NEWS: How is the bank's SMME portfolio performing in general terms?

Mpho Masupe: We see the SMME sector as having a high growth potential for the Bank. Through our two (2) segments – Business Banking and Commercial Banking, we have a strong suite of products, service and expertise to support both ends of the SMME segment. With Commercial Banking being our youngest business segment, it has gone through its initial settling phase but now has a focused strategy that it is accelerating into. Our Business Banking segment has honed its value proposition to ensure that the smaller SMME companies are given the necessary support to grow sustainable businesses that can eventually move into the higher Commercial Banking segment. Both segments leverage the significant advantages that are provided through the award-winning Straight2Bank digital platform which offers cost and business stream-lining efficiencies.

BSE NEWS: Finally, what kind of a bank will Standard Chartered be in the next three to five years, as long as you in the hot seat?

Mpho Masupe: Standard Chartered Bank has a proud 121-year history in Botswana, we want to ensure that all we do in the next three to five years puts words into action proving that we are indeed Here for good. That means driving convenience and championing digital innovation so that banking is a true value-add to our customers no matter what their needs may be. At the same time, we are committed to seeing that as we innovate, we are not creating or widening an existing financial inclusion and financial education gap but rather encouraging and educating as we innovate.

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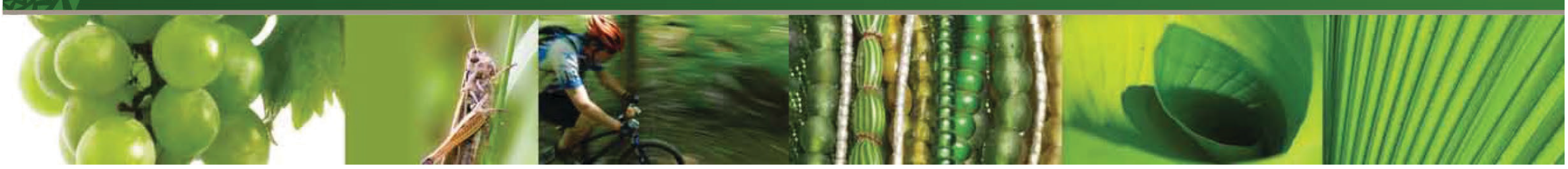

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ECONOMISTS SUGGEST EXPORTS **DIVERSIFICATION FOR THE COUNTRY**

Botswana, a mining-rich economy, has been urged to diversify its exports base, considering that diamonds volatility in the global market has often had catastrophic impacts on the country. For decades, diamonds have been Botswana's biggest export and revenue earner. However, recent economic data clearly suggest that the country must up the ante especially when it comes to broaden the country's export base, which is skewed towards minerals.

Top economists such as International Monetary Fund (IMF) Deputy Managing Director, Mr. Tao Zhang and our very own Dr. Keith Jefferies concur that, it is high time the country looks for new sectors to pick the baton from diamonds going forward. It is even more urgent to diversify given the scenario that, diamonds contribution proportionally to the economy has been reducing in the past decade. According to Jefferies, mining's gross domestic product shrunk from 53% in 1988/9 to 20% in 2017 indicating a diversified economy, as trade and hotels now top the GDP contributors at 22%. Diamond exports still remain the highest contributor to government revenue, prompting fears that the country is fast reaching its growth ceiling.

Zhang, who was in Botswana for the first time this July, suggested that the country should concentrate in two sectors, namely beef and tourism. "When diversifying, consideration should be given to sectors with large export and employment potential, such as beef and tourism," proposed Zhang.

Through the troubled Botswana Meat Commission (BMC), the country exports beef mainly to the European Union (EU), South Africa, Malta, and Malaysia among others. However, private players within the beef sector have argued that there is need for liberalization of the market since BMC is the absolute monopoly. They posit that, the status quo (BMC monopoly) has hampered growth, notwithstanding the back to back recurrence of Foot and Mouth Disease (FMD), especially in the Northern part of the country.

It appears government is ready to liberalize the beef, industry, a development which will bolster revenue and pick up the export base away from diamonds. Zhang has suggested that monopolies should be removed within the beef and tourism sectors for them to reach full potential. Early this year, the Permanent Secretary in the Ministry of Agricultural Development and Food Security Mr. Molefi Keaja said the loss making BMC will be converted to a limited liability company, with ownership between farmers, legal entities and the state. ***BSE News*** understands that a beef industry regulator will be formed in due course. While Zhang has proposed that more attention should be moved towards the beef sector, the situation on the ground indicate that government has in the past tried to lift the sector but in vain.

However, the latest plans to put BMC for sale (partly) and the ultimate establishment of a regulatory body is seen as an important step towards picking up the sector, which provides livelihood to many Batswana. The country has over 2.5 million cattle mainly those in the communal farms. The sector contribution to the national GDP has remained flat since January 2015. According to Statistics Botswana's latest trade digest publication, meat and meat products contribute on average of P1 billion between January 2015 and December 2017. IMF's Zhang indicated that, for the beef and tourism sectors to flourish and ultimately contribute meaningfully to the local economy, there has to be some structural changes which must be undertaken. "Unlocking the potential of these two sectors requires removing distortions and promoting market friendly solutions. This means removing monopolies to enable competition, improving air transportation and tourism infrastructure, and facilitating Visa processes," argued Zhang.

Meanwhile, Chairman of Hospitality and Tourism Association of Botswana (HATAB), Dr. Thapelo Matsheka has been quoted by a local publication, Botswana Guardian, as having said that, tourism sector can contribute more to Botswana's economy provided there are structural changes and a conducive environment for the industry to thrive on. Tourism is among the biggest contributors to the GDP although it is grouped under trade, hotels and restaurant by Statistics Botswana. Figures from government show that the tourism sector continues to grow, in the process picking up the economy while other sectors such as mining are faltering.

According to World Travel Tourism Council 2017 report, the travel and tourism industry's total contribution to GDP was P17.7 billion in 2016 and was forecast to rise by 6.5% in the past year.

The country's GDP expanded by 6.5% in the last fourth quarter of 2017, lifted by an 18.1% expansion in trade, hotels and restaurants which tourism is part of. For 2017, the sector expanded by 7.3% despite tough economic conditions in the year under discussion. According to World Travel Tourism Council 2017 report, the travel and tourism industry's total contribution to GDP was P17.7 billion in 2016 and was forecast to rise by 6.5% in the past year. However, Matsheka who has been the Chairperson of the advocacy body since 2013, noted with concerns that, while it has grown exponentially over the years, uncoordinated strategies and lack of consultations can only derail the sector. Department of Tourism, Botswana Tourism Organisation (BTO) and private sector-led HATAB are the key institutions that should work in sync in all matters that affect the industry.

Jefferies, a highly-sought after economist, who is also a former deputy Governor for Bank of Botswana has added; "We have avoided many of the pitfalls that mineral rich countries face. Diamonds have served us well but the model is running out of steam," said Dr. Jefferies, highlighting that exports can inject growth into the local economy.

He stated that, the economy has witnessed some economic diversification, while exports have lagged behind. "Exports are much less diversified than GDP," Dr. Jefferies said adding that exports have not grown, recording a 71% of diamonds exports in 1992 and 72% in 2016. Some of Botswana's exports include gold, soda ash, textile, among others.

6th ANNUAL BOTSWANA STOCK EXCHANGE LIMITED SENIOR SECONDARY **SCHOOLS FINANCE & INVESTMENT COMPETITION 2018**

Lobatse Senior Secondary School emerge the winners of the 6th Annual Botswana Stock Exchange Limited Senior Secondary Schools Finance & Investment Competition 2018

With its official tagline, '***Your Partner in Wealth Creation'***, the Botswana Stock Exchange Limited (BSEL) prides itself in creating the best available avenue for capital raising and investment opportunities for issuers and investors in Botswana. These efforts have further been motivated by the recent demutualization to convert the national stock exchange into a company limited by shares as it shifts the focus towards a more flexible governance structure. This flexible governance structure does not only aid in streamlining processes, but it will assist in achieving one (1) of the key objectives from the BSEL 5 Year Strategy, the attraction and retention of 100,000 retail investors into the Market by 2021, through the promotion of investor confidence.

On a national level, Government has recognized the need to promote financial literacy and inclusion. As such, to complement this goal and to assist in tackling issues of financial literacy at a grass root level in Botswana, the BSEL established the Senior Secondary Schools Finance & Investment Competition in 2013 to raise awareness about capital markets, with the long-term view of cultivating a culture of investing to encourage youth participation in the stock market. This annual competition, which is opening to all senior secondary schools in Botswana, also assists in providing the student community with an in-depth insight into the importance of future financial planning and it serves to educate the students on how they can utilize the stock market as an investment avenue. Moreover, the students of first (1st), second (2nd) and third (3rd) placed schools are given the opportunity to invest in the market and 'kick-start' their investment portfolios as they are afforded share vouchers for their participation amounting to P30, 000.00 collectively.

This year's competition was held on 18th August, 2018 at the AVANI Resort & Casino in Gaborone. The shortlisted schools who advanced from stage 1 of the competition were the 2017 champions, Lobatse Senior Secondary School, Goodhope Senior Secondary School, Swaneng

Hill School, Matsha College, Nata Senior Secondary School, Crescent School, Letlhakane Senior Secondary School and Selebi Phikwe Senior Secondary School. The eight (8) schools chosen in stage 1 are randomly selected into two (2) groups consisting of four (4) schools. Each team then competes against each other in 10-minute sessions consisting of two (2) teams answering a total of ten questions. Time allocation for each question is 20 seconds. All teams get an equal opportunity to compete against each other in their individual groups for points. The top two (2) teams from each group with the highest points will then move to stage 3. The same format is followed in the last stage of the competition until an eventual winner is awarded.

The Deputy Permanent Secretary to the Ministry of Basic Education, Mr. Simon Coles, graced the event and delivered the Official Remarks as he applauded the BSEL on the pioneering and drive of this educational initiative. At the end of the programme, the reigning champions, Lobatse Senior Secondary School, were able to retain their title for the second consecutive year, with Nata Senior Secondary School finishing in 2nd and Matsha College settling for 3rd.

With over thirty (30) applications for participation in this competition on an annual basis, the BSEL is quite optimistic looking ahead. Collaborative support from Government and key stakeholders have resulted in the growth and popularity of this competition amongst the student community and the public at large. In due time, the BSEL hopes to bridge the gap, with respect to financial education and inclusion, to increase the number of retail investor participation in the market.

2nd placed school, Nata Senior Secondary School, taking a group picture with BSEL Management

3rd placed school, Matsha College, taking a group picture with BSEL Management

IMARA Capital Securities

MARKET COMMENTARY

Mr. Gregory Matsake
CEO, Imara Capital Securities

The Domestic Companies Index (DCI), contracted by 5.16% in pula terms in H1 18 to 8,402.66 pts at 29/06/18 vs. 8,860.13 pts at 29/12/17. Due to the 4.96% appreciation of the USD against the BWP during the period under review, the DCI was down 9.86% in H1 18 in USD terms. The DCI declined by 3.05% in Q1 18 and 2.18% in Q2 18. The index's H1 18 loss was largely attributable to the weakening of some of the large cap stocks, such as Letshego Holdings (-2.13%), First National Bank Botswana (-4.72%), Botswana Insurance Holdings (-5.61%) and Barclays Bank Botswana (-8.36%). The Domestic Financial Sector Index weakened by 2.29% to 1,053.35 pts during H1 18.

4 counters on the domestic bourse closed the half year in the green, 3 were flat and 17 in the red. Counters from the tourism and hospitality sector were the top gainers for the half year, those being Chobe Holdings (+9.05%), followed by Cresta Marakanelo (+8.85%) and Wilderness Holdings (+6.36%). Olympia Capital Corporation, whose 5-year trading suspension was lifted on 15 December 2017, closed H1 18 as the biggest loser amongst the domestic companies. The company's share price shed 40.00% to BWP 0.12, reflective of low investor confidence in the counter. Other notable losers for the six months ended 29 June 2018 were Botswana Telecommunications Corporation (-33.15%), Minergy (-19.05%) and Standard Chartered Botswana (-17.32%).

Bearish activity was also recorded on the foreign bourse, which has 10 listed companies incorporated outside Botswana, 8 being in the mining sector. This was reflected in the weakening of the Foreign Companies Index, which closed the half year 0.24% lower in BWP terms at 1,571.12 pts and 5.18% weaker in USD terms. A-Cap Resources (+11.43%) and CA Sales Holdings (+6.84%) were the only counters to register price gains; while African Energy Resources (-21.43%) was the biggest loser followed by Lucara (-13.32%), Botswana Diamonds (-9.09%) and Shumba Energy (-0.86%). Anglo, Investec, Tlou Energy and Raven were flat during H1 18.

Market activity on the domestic bourse increased by 40.60% y-o-y to 363.8m shares worth BWP 907.2m (USD 88.7m) transacted vs. 258.7m shares worth BWP 896.7m (USD 87.7m) at H1 17. There was also a significant upturn y-o-y registered on the foreign board with 47.9m shares worth BWP 177.6m (USD 17.4m) traded from the previous year's 4.1m shares worth BWP 5.7m (USD 556,482) at H1 17. This was mainly attributable to trades CA Sales, which was listed on the BSE on 9 November 2017, accounting for 99.56% of volumes and 99.90% of turnover in the subsector. Total market turnover improved by 20.20% y-o-y to BWP 1.1bn (USD 106.1m) on 411.6m shares traded during H1 18 compared to the BWP 902.4m (USD 88.3m) on 262.8m shares generated at H1 17.

Letshego Holdings maintained its position as the most liquid counter on the bourse, with contributions of 43.64% and 30.86% to volumes and value traded respectively, followed by New African Properties (NAP) with contributions of 22.06% and 26.86%, largely attributable to the 87.5m linked units (14.47% of issued linked units) worth BWP 280.7m (USD 27.5m) that traded on 30 May 2018, having been released by Cash Bazaar Holding – NAP's holding company.

Although, real GDP in Botswana grew by 2.4% in 2017

Letshego Holdings maintained its position as the most liquid counter on the bourse, with contributions of 43.64% and 30.86% to volumes and value traded respectively, followed by New African Properties (NAP) with contributions of 22.06% and 26.86%, largely attributable to the 87.5m linked units (14.47% of issued linked units) worth BWP 280.7m (USD 27.5m) that traded on 30 May 2018, having been released by Cash Bazaar Holding – NAP's holding company.

compared to the higher growth of 4.3% in 2016, the domestic economic outlook remains positive having registered a 4.8% growth in the first quarter of 2018 compared to an increase of 0.9% recorded in the same quarter of 2017. We expect GDP to grow at a faster rate in the short-to-medium term, driven largely by growth in the services sectors and recovery in mining activity, in line with the positive global economic prospects. However, despite the improvement in the local economy, which should augment counters' top-line growth, we are of the view that the domestic equity market will continue to register bearish activity. We see the large cap stocks, mainly comprising of companies in the banking sector and financial services, continue to face trading challenges due to the prevailing all-time low interest rate environment following the central bank's dovish monetary policy stance which saw the bank rate maintained at 5% in August 2018, previously cut by 50 bps in October 2017. We expect the continuation of pockets of bullish activity on the tourism and hospitality sector as forecasts for the Southern Africa tourism sector point north

DEVELOPING COUNTRIES ON EDGE **AS TRADE WARS LOOM**

The escalating trade tensions between the United States and some of the world's major economies should not be wished away, as they can evolve into full trade wars which can have calamitous impact on emerging and developing economies, Botswana included.

The trade tensions, coupled with protectionism policies and tendencies by the United States since the assumption of power by Donald Trump in 2017, has rattled the economic landscape setting the US into a collision course with countries such as China and the European trading block. Most countries in the world do business with the US in one way or the other. This explains why Botswana and indeed other African countries stand to lose big if both the United States and major economies fail to find a common ground in the shortest possible time. The planned retaliatory by some major economies against the US could only add spark to the real fire that is just about to start.

It all started this May when the Trump administration rocked markets and international trade when tariffs for steel and aluminum were introduced ranging from 10 % to 25 %. These tariffs targeted imports from EU, North America and Mexico. The three affected economies had made their resentments on the historic decision known. The tariffs are part of a multi-pronged strategy by Trump to domesticate the US economy, a strategy which has been roundly criticized. Most leaders and other commentators have made it clear the results of US protectionism and imposition of several tariffs imports will have far reaching impact on the world economy.

On the domestic front, economists are worried the trade tensions that are being created are not good for both Botswana and the rest of developing countries, especially in Africa.

In a commentary on his recent quarterly economic briefing, Managing Director of Econsult, Dr Keith Jefferies said: "The dangers of a full-scale global trade war are very real. One of the main lessons of history is that trade wars and protectionism lead to lower economic growth and leave everybody worse off. At worse, there could be a 1930s-style global depression, which was

The dangers of a full-scale global trade war are very real. One of the main lessons of history is that trade wars and protectionism lead to lower economic growth and leave everybody worse off. At worse, there could be a 1930s-style global depression, which was brought about by protectionism and retaliation".

brought about by protectionism and retaliation". China, the world's second biggest economy is keen to retaliate against the world's biggest economy. During the recent Forum on China - Africa Cooperation (FOCAC) conference between China and African countries, President Xi Jinping spoke highly against protectionism and trade tensions, which could put pedals on the global economy.

According to Bank of Botswana (BoB), the global economy is estimated to expand by 3.9% in 2018, up from 3.8% last year. Responding to ***BSE News*** questions, an economist at Barclays Botswana, Naledi Madala noted that, while the global economic outlook for the current year is strong compared to the past few years, trade tensions and protectionism tendencies by the US is likely to spoil the show. She further highlighted that the trade tensions will disrupt the economic order as well as weakening the World Trade Organization (WTO) as an effective trade dispute resolution institution. "The US bypassed the WTO when it announced the aluminum and steel tariffs," said Madala as a matter of fact. Deputy Managing Director, Mr. Tao Zhang also agrees with Madala that an escalation in trade tensions can derail global recovery- a recovery that has been powered by a rebound in trade and investment Zhang told local stakeholders during his recent visit to Botswana.

Botswana exports most of its diamonds, through De Beers to the US market, which has a vibrant middle class structure. Additionally, Botswana is also seeking to expand its export base especially under the Africa Opportunities Growth Act (AGOA), which was launched. It is not clear if there are plans to expand tariffs to other products, minerals included. Nonetheless, as Trump appears unmoved in his protectionism policies, Botswana will be affected in the medium to long term, same as of some African countries who are US major trading partners. "A widespread and protracted trade war would disrupt global demand and weaken commodity prices, a situation that would hurt African economies which are slowly recovering from the effects of the 2014–2015 commodity price crunch (including Botswana)," commented Madala in written response.

"We also have an exposure from a currency perspective. For example, in the past three months, the ZAR has been the second worst performing Emerging Markets currency driven by the Turkey – USA trade tensions and Turkish Lira depreciation. The ongoing ZAR weakness in turn led to USD BWP weakness (depreciation of the Pula makes Botswana exports more competitive but raises the cost of importing goods into Botswana). According Statistics Botswana's latest International Trade Digest, during the month of May, Botswana imported machinery and electrical equipment from the US. The value of imports from that country were nearly P50 million. Madala said the current unstable trade order will also force companies to undergo structural changes.

"The retaliatory measures and the escalating rhetoric are affecting investment flows and global business operations. Companies are beginning to consider a reorganization of supply chains, reducing exposure to low cost manufacturing bases in favor of more localised production," said the Barclays economics expert. Trade tensions will also negatively affect emerging countries who are hoping to bolster growth through an export-oriented manufacturing growth model might face greater barriers to entry. The Botswana Government continues to urge locals to become export-oriented in nature, since the local economy is not big enough to accommodate all factory supplies.

"Meanwhile, for the firms looking to manufacture, localizing production will reduce vulnerability to more protectionist policy in developed markets, but also result in higher costs along the supply chain. Higher trade barriers would make tradable goods less affordable, disrupt global supply chains, and slow the spread of new technologies and lower productivity," added Madala.

> "In the shorter-term, however, there are reasons to be optimistic, in my opinion. While the US President's rhetoric remains fierce, we expect him to shift focus from creating a problem to working on a 'solution' to the problem. This view has received a lot of 'are you living in cloud-cuckoo land?' type of reaction.

While most commentators are against Trump's administration especially on imposed tariffs, Chief Investment Strategist at Standard Chartered Private Bank, Steve Brice appears optimistic. "In the shorter-term, however, there are reasons to be optimistic, in my opinion. While the US President's rhetoric remains fierce, we expect him to shift focus from creating a problem to working on a 'solution' to the problem. This view has received a lot of 'are you living in cloud-cuckoo land?' type of reaction. However, we believe the US President is focused on two things: making deals and wide US public support, especially ahead of the mid-term elections in November," said Brice in his commentary titled 'The art of a US-China trade deal' published mid-August.

As the current trade tensions plays, small players in the global economy and indeed African countries will continue to helplessly watch. However, this should act as a rude awakening call for Africa. "The protectionism policies in the developed world are a wakeup call to Africa that the region needs to focus now more than ever on the benefits of greater regional integration. The Tripartite Free trade, a proposed free trade agreement between Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC)and East African Community (EAC) has potential to move the region toward high levels on intra- regional trade," concluded Madala.

CHANGES TO THE LISTING REQUIREMENTS AS OF 1st JANUARY 2019

1. Competent Authority

The Main Committee has delegated its authority, inter alia, to review all matters relating to the listings requirements such as decisions on continuing obligations or interpretation of the requirements, authority to examine and approve all applications for listing and supporting documentation to the BSEL Listings & Trading Executive Committee, chaired by the Chief Executive Officer of the BSEL.

The BSEL Listings & Trading ExCo shall refer any application that requires special dispensation or waiver and appeals to the Listings & Trading Sub-Committee of the Main Committee.

2. Directors and Senior Management Direct Undertakings to BSEL

The applicant's Audit Committee to satisfy itself of the appropriateness of the expertise and experience of the Finance Director or Chief Financial Officer.

Directors of an applicant shall individually undertake to the BSEL that they have exercised their fiduciary duties and that they will honor their responsibility for the applicant's compliance with the listings requirements.

3. Main Board Requirements

- 75% of shares owned by Promoter locked in for 2 years
- Trading in 33.3 % of the locked holding permitted after 12months
- Minimum subscribed capital of P5, 000,000
- 3-year profit forecast required if profit track record inadequate
- Minimum of 300 shareholders
- 30% to be held by public shareholders

4. Venture Capital Board

- 75% of shares owned by Promoter locked in for 2 years
- Minimum subscribed capital of P2,500,000
- 3-year profit forecast required
- Minimum of 100 shareholders
- 10% to be held by public shareholders
- Evidence that directors and senior managers have successful track records

5. Introduction of the Tshipidi SME Board

- New Capital Raising Platform for SMEs
- BSEL Tshipidi SME Board (TSME) Listings Panel: a panel of industry experts established by the BSE to make independent recommendation to the BSE, on whether or not applicants to the TSME can be listed
- 75% of shares owned by Promoter locked in for 5 years
- Minimum subscribed capital of P500,000
- 3-year profit forecast and Business Plan
- Minimum of 5 shareholders
- 5% to be held by public shareholders
- Evidence that directors and senior managers have successful track records
- Nominated Adviser (NOMAD) a key part of application to list and must be retained for the observation period
- Directors of companies applying to list on the TSME Board must attend
- An Induction Workshop

6. Dual Listing

- Precondition to make an offer for sale or subscription of shares to the public of a size to be determined in consultation with the BSEL (based on demand for the said company's shares).
- Appoint a market maker in Botswana.

7. Special Acquisition Companies (SAC)

- SAC is a special purpose vehicle incorporated for raising capital
- Capital earmarked for acquisition of specific assets
- Once acquisition complete, Company must be listed on any of 3 Boards
- Investors must be refunded if acquisition is not completed within 24 months
- Promoter(s) must have subscribed for shares in the applicant of at least a 5%
- All shares owned by Promoter(s) locked in for 2 years
- Must satisfy the BSEL that it has sufficient and satisfactory management experience in the type of Specific Assets in which acquisitions are proposed

8. Fast-track Listing

- Secondary listings on Main and Venture Boards can be fast tracked
- Only applicants listed on a Recognized Exchange (RE) for 18 months or more
- Disclosure Documents published at the RE recognized by BSEL for the listing

9. Market Maker Compulsory for Introductions

- Except for those companies applying to list on the TSME Board, an introduction shall be permitted only if the applicant company appoints a market maker to facilitate the trading of its shares on the BSE.

10. Mergers and Acquisitions

- Botswana has no Mergers and Acquisitions Code yet
- BSEL requesting NBFIRA to address this
- South African law in this regard applied to BSE listed entities
- Inadequate as unlisted entities and public not held to fair practices

11. Underwriting

- BSEL accepts irrevocable letters of undertaking in lieu of underwriting
- Partial underwriting may also be considered

12. Directors' KYC Documents

- Onboarding conducted in accordance with the NBFIRA and FIA requirements
- The director's personal declaration (Appendix4A) which is to be completed by each Director of a listed company and submitted to the BSE subsequent to any material change or every five (5) years.
- Questionnaire tests Experience and Integrity among others
- Ever been disqualified by a court from acting as a director of a Company;
- Ever been convicted of any offence resulting from dishonesty, fraud, theft, forgery, perjury, misrepresentation or embezzlement;
- Any company ever been put into liquidation or been placed under business rescue proceedings or had an administrator or other executor appointed during the period when you were (or within the preceding 12 months had been) one of its directors, or alternate directors or equivalent position
- Ever been adjudged bankrupt or sequestrated in any jurisdiction

13. King III Code of Corporate Governance

- Now a listing Requirement
- Apply or Explain basis

14. Transactions

- Category 3 - a transaction where any percentage ratio is greater or equal to 5% and less than 10%;
- Category 2 - a transaction where any percentage ratio is 10% or more but each is less than 40%;
- Category 1 - a transaction where any percentage ratio is 40% or more.

15. Continuing Obligations

- Entities now required to permanently have appointed a Sponsor, and/or Sponsoring Broker as per Chapter 12
- Listed entities not required to send hard copies of the documents to be distributed provided that shareholders have elected not to receive such hard copies
- Cautionary Announcements relating to Profit Warnings must now include more Information, including, for example a range of expected results.
- Written Audit and Review opinions must be published on X-news
- When declaring a dividend, the company must submit to the BSE a declaration by the board of directors that the company has passed the solvency and liquidity test
- As far as waiving of pre-emptive rights is concerned, special resolution defined as 90% if public float is below 30% and 75% if at or above 30% Dealing in listed securities by key persons now has to be published on X-News and DMR

16. Transactions with related parties

- Less strenuous since "Small" Related Party Transactions introduced
- Instead of Shareholder approval, only the Audit Committee reviews and recommends to Board for approval.

17. Mineral Companies

- BSEL Accepted Mining Codes: The South African (SAMCODEs), Australian (JORC), Canadian (NI 43-101) National Mineral Codes as well as the Petroleum Resources Management System (SPE-PRMS) for oil and gas exploration and mining companies

18. Readers Panel

- BSEL will refer all Competent Person's Reports to the Readers Panel for approval based on compliance with the relevant mining code

19. Mining Company Quarterly Cash Flow Update

- Quarterly cash position updates in accordance with international practice

20. Registered Advisers

- Sponsors
- Sponsoring Brokers
- Legal Advisers
- Corporate Finance Advisors
- Property Valuers

21. Sanctions

- Default Board for failure to publish financial statements or upon receipt of a qualified audit opinion by any issuer whose securities are listed on the BSE
- Daily P500 fine whilst on Default Board
- Maximum fine increased to P150,000
- Detailed Procedure for Forced Termination of listings including delisting orders, referral to NBFIRA, Ban on seeking listings for 10 years
- Detailed Procedure for voluntary Termination of listings including buyout offer

BSEL Equity Listings Requirements Implementation Plan

Activity	Effective Date
Equity Listings Requirements Workshop	18 October 2018
Formal constitution of Panels	31 October 2018
Closing date - Registration of Advisers	9 November 2018
Formal Listing of Registered Advisers	27 November 2018
Go Live	1 January 2019
Deadline for compliance with new Free Float requirements	31 December 2019

COMPANIES AND **DATE OF LISTING**

BARCLAYS	BIHL GROUP	btc	CHOBE HOLDINGS LIMITED
19-June 1989	9 August 1991	6 Apri 2016	29 September 1999
CHOPPIES Great value for your money!	CRESTA MARAKANELO LIMITED	ENGEN	FNB
26 January 2012	28 June 2012	19 June1 989	6 December 1990
FaR PROPERTY	Furnmart	G4S Group 4 Securicor	letlole la rona
4 May 2016	9 December 1998	12 June 1991	15 June 2011
Letshego	minergy coal and energy	NEW AFRICAN PROPERTIES	OLYMPIA Capital
25 September 2002	27 April 2017	28 September 2011	5 October 2005
PRIME TIME	RDC	SBHL SECHABA BREWERY HOLDINGS LIMITED	Sefalana GROUP
20 December 2007	1 January 1996	19 June 1989	19 June 1989

Company	Listing date
Standard Chartered	21 July 1989
Turnstar Holdings Limited	23 October 2002
Wilderness Holdings	8 April 2010
Afinitas Limited	27 July 2015
CA	9 November 2017
Shumba Energy	8 April 2013
Tlou Energy	13 December 2017

WHY **BOTSWANA?**

We take pride in the strength of our well regulated transparent and investor friendly business environment. Botswana aims to work with you to meet your investment needs as you go further with your investment.

Speak to Botswana Investment and Trade Centre (BITC) for investment opportunities in the following sectors:

- Financial and Business Services
- Leather and Leather Products
- Cargo and Logistics
- Beef
- Mineral Beneficiation
- Automotive and Components Manufacturing
- Agribusiness
- ICT

Incentives enjoyed by investors in Botswana include:

- No foreign exchange controls; remittance and full repatriation of profits and dividends
- No restrictions on business ownership
- Duty-free import of machinery and equipment for manufacturing purposes
- Customs duty exemption on raw materials for goods going outside of SACU
- Liberal tax regime: 22% corporate and 25% personal tax, with 15% corporate tax for manufacturing and IFSC-registered companies (lowest taxes in the SADC region)
- Negotiable tax holiday up to 10 years maximum
- Deductible training rebate of 200%

GO BOTSWANA
BOTSWANA INVESTMENT & TRADE CENTRE

BOTSWANA
Our pride, your destination

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BSEL HOSTS A SUCCESSFUL **MARKET MAKING SEMINAR**

Attendees

BSEL Head of Clearing & Settlement, Ms. Masego Pheto, delivering a Vote of Thanks.

The Botswana Stock Exchange Limited (BSEL) hosted its first ever seminar following the demutualization, on the 6th September 2018. The "Market Making Capacity Building Seminar" took place at the BSEL premises in Fairgrounds, Gaborone, and received a vibrant crowd of 30 attendees from various entities within the financial services industry such as banks, brokers and auditing firms just to name a few.

The BSEL Chief Executive Officer, Mr. Thapelo Tsheole officially opened the seminar, followed by a presentation from the BSEL Head of Listings and Trading, Mr. Tsametse Mmolai, who highlighted the important role of and current lack of market-makers within the Botswana capital market. Mr. Tsheole welcomed all the attendants warmly, especially the two experts in Market Making, being Mr. Sedayshum Naidu of Standard Bank and Mr. Stephen Charles of RMB, both visiting from South Africa specifically to workshop attendants at this seminar on the principles and business opportunities in Market Making.

Mr. Tsheole encouraged all the participants to challenge and discuss issues critically as it was a learning opportunity not only for them but even for the BSEL staff themselves. When introducing the Rules Regulating Market Makers (the Rules), Mr. Mmolai gave a brief outline of the Rules and informed the audience that the Rules had already been approved by both the Board of the BSEL and the capital markets regulator, being NBFIRA.

The Rules define all the key concepts and outline the criteria for one to become a Market Maker on the BSEL. The Rules emphasize the Market Making agreement as the ultimate determinant of the finer details as far as setting of spreads, the quantities and amounts to be contractually applied into the market by the Market Maker etc. Mr. Mmolai also highlighted the need for Market making applicants to take into account Insider Trading and Risk Management.

The highlight of the day was however the detailed presentations from the visiting experts from South Africa, with Mr. Naidu focusing on Market Making for Equities and Mr. Charles focusing on Market Making for Bonds. The audience were spellbound by the knowledge and skills demonstrated by the two presenters who were very positive yet honest about the realities of the business of Market Making. Both covered the advantages of the practice in detail, highlighting how participants could execute from a strategy, technology and human resourcing perspective, as well as the risks and challenges including capital adequacy challenges and insider trading and reputational risks. The participants were very impressed, and the seminar ended with a thorough and wide ranging Q&A session, and an hour of lunch during which attendees and guests engaged and networked with one other.

MARKET PERFORMANCE REPORT FOR THE **PERIOD 1 JANUARY TO 30 JUNE 2018**

Analysis of Equity Indices

Compared to the same period in 2017 (1 January to 30 June), the performance of the Domestic Company Index (DCI) has declined in 2018 on the back of a similarly challenging environment that is characterised by sluggish corporate earnings. Over this period in 2018, the DCI has depreciated by 5.2% in comparison to a depreciation of 2.2% during the same period in 2017.

The Foreign Company Index (FCI) has depreciated by 0.2% on a year to date basis in both 2017 and 2018. A synopsis of the performance of equity indices is included in Figure 1.

Figure 1: Market Performance Statistics

	Quarter 1 2018	Quarter 2 2018	1 Jan to 30 June 2018
Index Performance			
DCI	8,589.64	8,402.66	8,402.66
% Change	(3.1)	(2.2)	(5.2)
FCI	1,574.19	1,571.12	1,571.12
% Change	(0.05)		
Liquidity		(0.2)	(0.2)
Turnover (P' Mn)	236.2		
Average Daily Turnover (P' Mn)	3.8	848.5	1,084.7
No. of Shares Traded (Mn)	100.7	13.9	8.8
Market Capitalization		310.9	411.6
Domestic Companies (P' Mn)	43,079		
Foreign Companies (P' Mn)	373,526	42,098	42,098
Total (P' Mn)	416,605	373,087	373,087
Market Indicators Note 1		415,185	415,185
P/E Ratio (times)	14.3		
Dividend Yield (%)	4.9	12.6	12.6
Price/Book Value (times)	1.6	5.2	5.2

Note 1: Earnings, Dividends and Book Value based on the last audited financial statements

Source: BSEL

With effect from 1 January 2018, the BSEL introduced the Domestic Company Index Total Returns (DCI-TR) following Main Committee and NBFIRA approvals in December 2017. As at 31st March 2018, the DCI-TR had depreciated by 1.9%, reflecting the cushioning effect of dividends on the weakening of prices over the quarter.

1.1. Analysis of Equity Turnover

Performance has however improved with respect to trading activity and liquidity. As at 30 June 2018, the BSEL has recorded a turnover of P1,084.7 Mn from 411.6 Mn shares traded. During the same period in 2017, the BSEL had registered a turnover of P903.8 Mn and a total volume of 291.4 Mn shares traded (see Figure 2).

Figure 2: Equity Turnover on the BSE

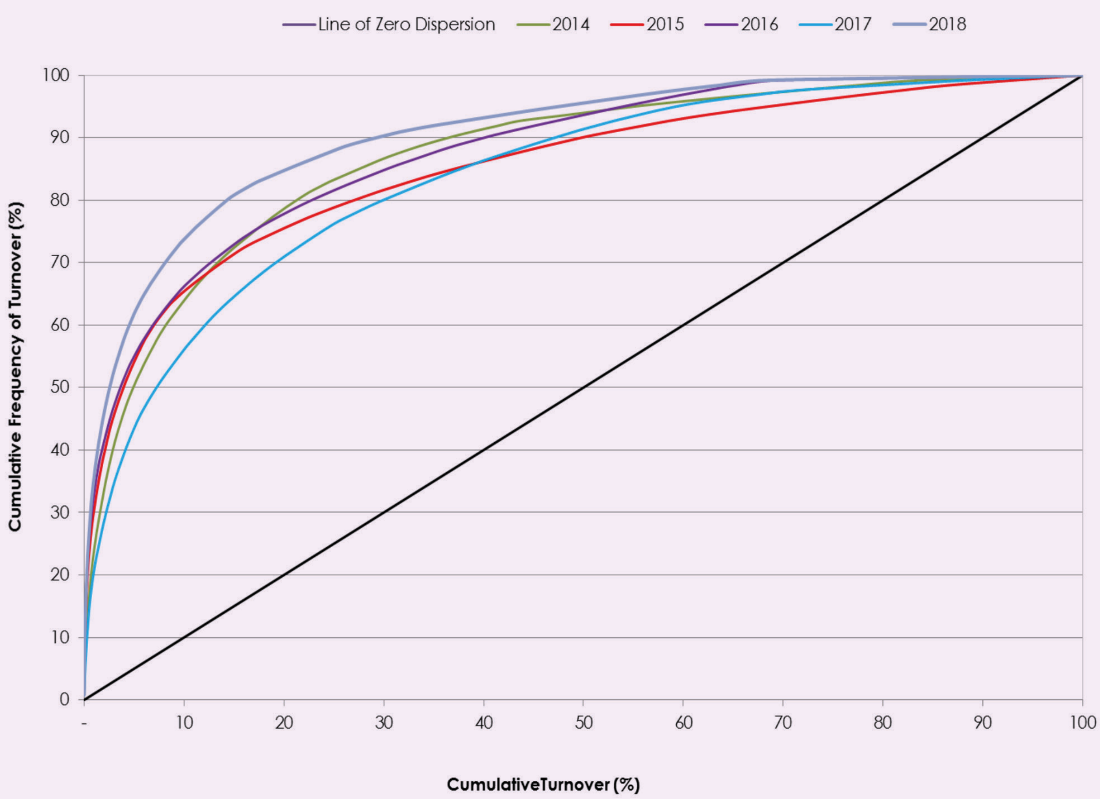
Liquidity*	2014	2015	2016	2017	2018
Turnover (P' Mn)	1,045.2	1,502.6	1,635.0	903.8	1,084.7
Average Daily Turnover (P'Mn)	8.5	12.2	13.1	7.3	8.8
No of Shares Traded (Mn)	303.4	395.6	483.1	291.4	411.6

*Note: Year to 30 June

Source: BSEL

It can be noted from the Lorenz Curve in Figure 3 that during the year-to-date period turnover in 2018 was relatively unstable compared to the same periods in the previous four (4) years. This is supported by the higher coefficient of variation of turnover of 3.7 in 2018 in comparison to 2.0 and 3.5 in 2017 and 2016 respectively.

Figure 3: Stability of Equity Turnover (A): 1 January to 30 June

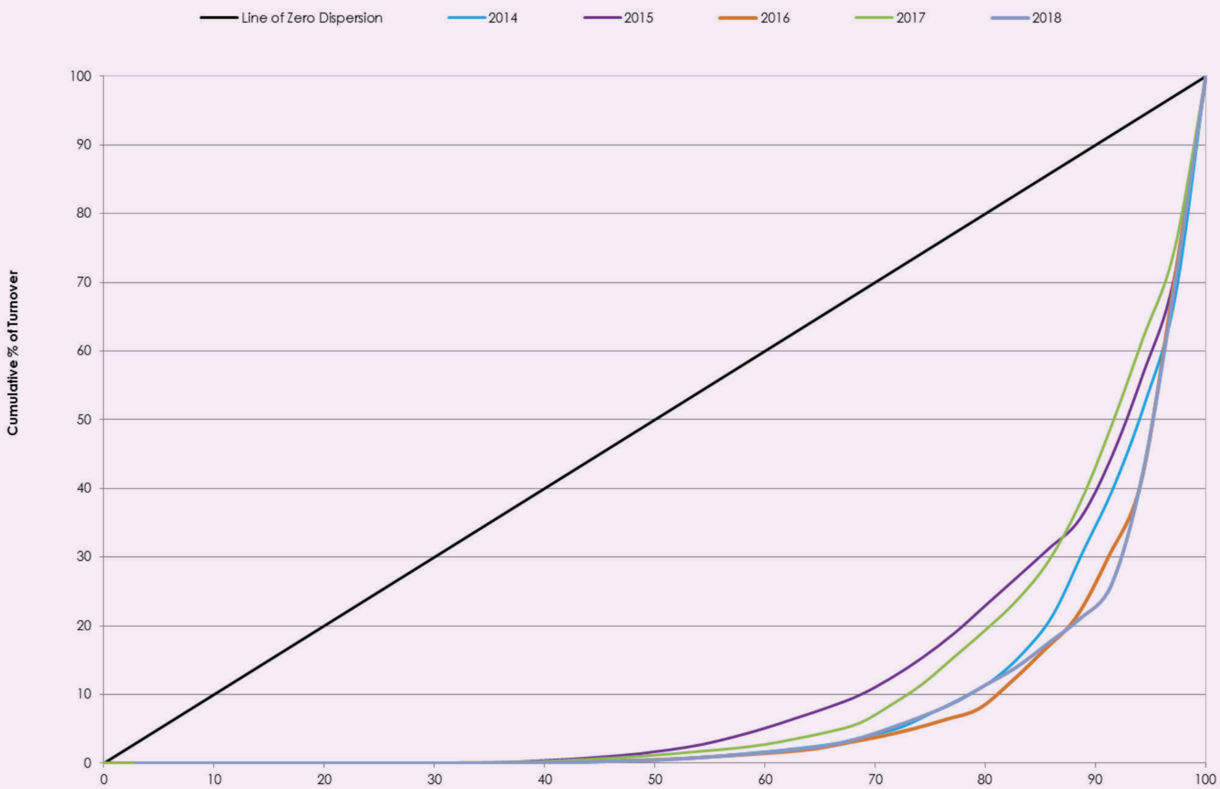


Source: BSEL

MARKET PERFORMANCE

The Lorenz Curve in Figure 4 demonstrates that a relatively lower number of companies accounted for a relatively larger amount of turnover over this period compared to the same period in 2017. This further explains the lower stability of turnover compared to 2017.

Figure 4: Stability of Equity Turnover (B): 1 January to 30 June



Source: BSEL

To substantiate this deduction, the top 3 traded companies in terms of value, on a year to date basis, were Letshego (P334.8 Mn), NAP (P291.4 Mn) and CA Sales (P177.4 Mn) and these accounted for 74.1% of total turnover during the first half of 2018. During the same period in 2017, 3 companies accounted to 50.9% of turnover, an indication of turnover concentrated and wider dispersion in 2018 relative to 2017.

Investor Contribution to Equity Turnover

During the first half of 2018, local companies contributed 60.1% to total turnover compared to 59.1% in the corresponding period in 2017. Further, local individuals contributed 3.5% of total turnover recorded during the period 1 January to 30 June 2018 compared to 5.9% in the corresponding period in 2017.

Figure 5: Investor Contribution to Turnover (%): Q1 and Q2 of 2017 and 2018

	2017			2018		
Investor Category	Quarter 1	Quarter 2	1 Jan to 30 June	Quarter 1	Quarter 2	1 Jan to 30 June
Foreign Companies	30.5	35.1	32.4	34.8	34.8	34.8
Foreign Individuals	2.2	2.5	2.3	1.1	1.4	1.3
Local Individuals	4.8	7.4	5.9	5.7	2.9	3.5
Local Companies	62.2	54.6	59.1	57.6	60.8	60.1
Brokers	0.2	0.4	0.4	0.8	0.1	0.3
TOTAL	**100.0**	**100.0**	**100.00**	**100.00**	**100.00**	**100.00**

Source: BSEL, CSDB

2. PERFORMANCE OF EXCHANGE TRADED FUNDS (ETFS)

The ETF Board experienced an increased level of activity in the first half of 2018 compared to the same period in 2017. The value of units traded increased in the year to date period, reaching P186.9 Mn compared to P131.9 Mn in the corresponding period in 2017 whereas the number of units traded amounted decreased from 3.2 Mn units in 2017 and 2.0 Mn units in 2018.

Figure 6 summarises the comparable ETF performance for 2017 and 2018 on a year to date basis.

Figure 6: Performance of ETFs: 1 January up to 30 June

	1 Jan – 30 June 2017			**1 Jan – 30 June 2018**		
Indicator	**NewGold**	**NewPlat**	**Core-Shares**	**NewGold**	**NewPlat**	**Core-Shares**
Turnover (P' Mn)	6.452	4.009	121.434	13.620	175.430	0.307
Units Traded	52,469	42,000	3,108,879	110,894	1,935,011	7,602
Price Change	3.2%	(9.2%)	0.1%	(16.5%)	4.5%	(3.9%)

Source: BSEL

3. COMPARATIVE PEFORMANCE OF THE BSE WITH SELECTED MARKETS

Figure 7: Comparative Performance with other Indices: 1 January to 30 June 2018

Index	Index Change (%)	P/E Ratio (times)
JSE ALSI	(3.2)	17.0
SEMDEX	1.9	18.9
DCI	(5.2)	12.6
MSCI EM	(7.7)	Not Computed

Source: Bloomberg, BSEL, JSE ALSI: Johannesburg Stock Exchange All Share Index, SEMDEX: Stock Exchange of Mauritius Equity Index, MSCI EM: MSCI Emerging Markets Index

As can be seen in Figure 7 above, the SEMDEX is the only index under review that realized positive returns in domestic currency during the first half of 2018, appreciating by 1.9%. On the other hand, the JSE ALSI, DCI and MSCI EM depreciated by 3.2%, 5.2% and 7.7% on a year-to-date basis respectively.

4. BOND MARKET PERFORMANCE

As illustrated in Figure 7, activity in the bond market has improved compared to the same period in 2017. The value of bonds traded during the year-to-date period was P755.7 Mn in comparison to P85.2 Mn traded during the same period in 2017.

Bank of Botswana (BoB), on behalf of Government, held two (2) bond auctions so far in 2018. At its first bond auction of 2018 on 2 March, additional tranches of the following were offered; BW007 (P77 Mn allotted), BW008 (P100 Mn allotted), BW011 (P100 Mn allotted), BW013 (not allotted) bonds and a Treasury Bill (P220 Mn allotted).
At its second auction of the year conducted on 1 June, these bonds were reopened; BW011 (P200 Mn allotted), BW012 (P200 Mn allotted) and BW013 (P155 allotted).

The BSEL has registered five (5) bond listings in the first half of 2018, being the BW013 (P250 Mn), GBL003 (P15 Mn), GBL004 (P25 Mn), GBL005 (P5 Mn) and BDC003 (142.53 Mn) On the back of Government bonds' tap issuances and new issuances, the market capitalisation of listed bonds increased to P14.6 Bn compared to P12.4 Bn as at the same period in 2017.

Figure 7: Comparative Performance with other Indices: 1 January to 30 June 2018

	1 Jan – 30 June 2017	1 Jan – 30 June 2018
Value Traded (P'Mn)		
Government Bonds	85.2	747.3
Corporate Bonds	4.5	8.4
TOTAL	**89.7**	**755.7**
Market Capitalisation (P' Bn)		
Government Bonds	8.3	9.6
Corporate Bonds	4..1	5.0
TOTAL	**12.4**	**14.6**
Number of Bonds Listed		
Government Bonds	5	6
Corporate Bonds	38	40
TOTAL	**43**	**46**

The BoB's Monetary Policy Committee (MPC) sat thrice so far in the year: on 13 February 2018, 30 April 2018 and 19 June 2018. At all sittings, the MPC left the Bank rate unchanged at 5.0% in view of the positive outlook for price stability. Inflation rose slightly from 3.2% in December 2017 to 3.3% in May 2018, which is still within the Bank's 3.0–6.0% objective range. A low inflationary environment helps the bond coupons maintain purchasing power.

CSI IS CENTRAL TO **THE OPERATIONS OF BSEL**

BSEL CEO, Mr. Thapelo Tsheole addressing the students from Kanngwe Primary School.

The Botswana Stock Exchange Limited hosted its adopted school Kanngwe Primary School under the 'Adopt-a-School' initiative on July 25th, 2018 at the BSEL offices at the Fairscape Precinct.

The overall aim of this tour visit is to sensitize and educate the students on the importance of a stock market in any thriving economy as well as to expose them to the outside world beyond their settlement. Furthermore, BSEL Management Team shared their experiences on how education played an integral role in transforming their lives to serve as encouragement and motivation for the visiting students.

Group Photo

The BSEL welcomed Spring Day and hosted a staff picnic solely to recognize its employees and encourage team integration to maintain the consistent high moral and good workmanship at the BSEL. It was a day of warm weather, great food and smiling faces.

WE WISH ALL BATSWANA A HAPPY 52 YEARS OF INDEPENDENCE. PULA!!

WORLD FEDERATION OF EXCHANGES **RESEARCH DESK**

Nandini Sukumar
World Federation of Exchanges, CEO

KEY HIGHLIGHTS

- Global market capitalization was up 9.1% on H1 2017, though down 1.6% on the end of H2 2017.
- Value and volume of trades in equity shares were up 24.6% and 14.1% on H1 2017.
- IPO new listings were down 9.9%, while investment flows were up 4.1% on H1 2017.
- Exchange traded derivatives volumes traded were up 17.4% on H1 2017, driven by increases in volumes traded across all asset classes, except commodity futures.

The WFE publishes h1 2018 market highlights report on the 7th August 2018 – The first half of 2018 was eventful for stock markets worldwide. While the year started on a high note with domestic market capitalization and benchmark indices scaling record levels in markets across the globe, February 2018 was marked by a global stock market correction and a return of volatility after a remarkably calm period over 2017. Overall market valuation declined in the months that followed, with market capitalization at the end of H1 2018 down 1.6% on the end of H2 2017 (though still up on the same period in the previous year). Trading activity (value and volumes of trades in equity shares) was up on H1 2017; however, primary market activity was mixed, with IPO listings down and investment flows slightly up on H1 2017.

According to the WFE's half-year statistics, the key trends of H1 2018 when compared H1 2017 were as follows;

- Overall **domestic market capitalization** at the end of H1 2018 was 9.1% higher than at end H1 2017. This was due to increases across all three regions – the Americas up 14.9%, Asia-Pacific up 5.3%, and EMEA up 4.3% on H1 2017.

➔ Stock markets got off to a strong start in January 2018, maintaining the momentum observed in 2017, as valuations continued to soar and benchmark indices scaled new highs in several markets across the globe. With positive macroeconomic data coming in from economies across the world, investors continued to pour money into stock markets. The overall market capitalization reached US$91.8 trillion at end January 2018, the highest market capitalization in the five-year period under review.

➔ However, the trend of a positive month-on-month growth rate in market capitalization seen since November 2016 came to an end in February 2018, when a stock market correction was observed in markets across the globe. Global market capitalization as at end February 2018 fell by 2.5% on end January 2018, removing over US$2.3 trillion in market value. Benchmark indices in several markets dropped significantly. The decline was against a backdrop of a marked increase in volatility at the start of the month, and positive news on wage growth in the US, which, together with corporate tax cuts sparked investors' fears of faster than expected interest rate hikes to tame inflation. The trend in US markets spread to stock markets across the globe, with other regions also experiencing sharp declines in market valuations. While the Americas recovered from the downturn, with market capitalization at end June 2018 exceeding the level seen at end 2017 (up 4.8%), the Asia-Pacific and EMEA regions saw market capitalization fall by 7.3% and 4.3% respectively, in the presence of continued uncertainty caused by geopolitical tensions and the likelihood of a global trade war.

➔ The first six months of 2018 were characterized by a gradual month-on-month decline in overall market capitalization, with an average monthly growth rate of -1.3%. This was in contrast to the trend observed in 2017 when there was a positive growth rate in market capitalization over the entire period. In H1 2017, the average monthly market capitalization growth rate was 1.5%.

- **The number of companies listed** at end H1 2018 was up 1.3% on H1 2017, due to slight increases across all three regions: the Americas up 0.3%, Asia-Pacific up 1.3%, and EMEA up 2.1%. However, overall listings were broadly flat versus the end of 2017 (0.3%), and in fact marginally down in the Asia-Pacific region (-0.03%).

- **Value and volume of trades** in equity shares in H1 2018 were up 24.6% and 14.1% on H1 2017. This was due to increases across all three regions:

  - Value traded: Americas (+28.3%), Asia-Pacific (+21%), EMEA (+19.9%).
  - Number of trades in equity shares: Americas (+11.3%), Asia-Pacific (+16.3%), EMEA (+9.8%).
  - In the five-year period under review, overall value and volume traded in H1 2018 were higher than in the first half of all years except H1 2015.

- In the presence of risks and uncertainties, **new listings and investment flows** through IPOs in H1 2018 got off to a slow start. New listings were down 9.9%, largely due to declines in the Asia-Pacific and EMEA regions. Investment flows were up 4.1% versus H1 2017, however, driven by increases in the Americas and EMEA regions.

➔ The Americas region was a bright spot for IPO activity with both new listings and investment flows increasing on H1 2017 - up 64.5% and 8.3% respectively. The increase in new listings could be attributed to a rise in the number of IPOs on Nasdaq, TMX Group (including the listing of capital pool companies) and B3. Technology, financial services and consumer products were the leading sectors in terms of listings and proceeds.

➔ The Asia-Pacific region saw new listings and investment flows in H1 2018 decline by 26.1% and 10.8% on H1 2017. Increases in IPO investment flows in India, Australia and Indonesia were offset by falls in other markets including China, Korea, Japan, Philippines, Thailand, Malaysia and New Zealand. Similarly, an increase in the number of new listings through IPOs on exchanges in India, Hong Kong and Taiwan were offset by falls across most other markets in the region.

  - The Chinese exchanges (Shanghai and Shenzhen Stock Exchange) saw IPO listings decline by 74.4% on H1 2017.
  - The two Indian exchanges (BSE Ltd and National Stock Exchange of India) together accounted for the second largest number of IPOs (110) in a country in H1 2018, with proceeds of nearly US$6.5 billion, driven by steady investor confidence, a positive earnings outlook for financial services, infrastructure, and consumer companies, and a rise in domestic capital in the equity market.
  - In the presence of a new listings regime in Hong-Kong, IPOs listings were up by 44.1% versus H1 2017. Top sectors by number of IPOs were infrastructure, consumer products and telecom, media and technology.

- ➔ In the EMEA region, the number of new companies listed through IPOs was nearly the same as in H1 2017, while investment flows were up 31.5% on H1 2017. This was due to a number of large companies coming to market: the listings of Siemens Healthineers (Deutsche Boerse), DWS Group GmbH & Co. KGaA (Deutsche Boerse), and Elkem ASA (Oslo Bors) generated combined capital raised of over US$7 billion. LSE Group and Nasdaq Nordic exchanges led in terms of listings with 57 and 35 IPOs respectively in H1 2018.

- **Non-IPO listings**, which accounted for about 36.8% of the total new listings, were up 29.1% on H1 2017, with only the Americas experiencing a decline (down 8.5%). Asia-Pacific and EMEA listings were up 25.5% and 53.4% respectively.

- **Investment flows** through already listed companies were, however, down 19.4% on H1 2017, due to declines across all regions - the Americas down 7%, Asia-Pacific down 8.7% and EMEA down by a sharp 43.8%. In the EMEA region, where a bulk (71.2%) of capital raising takes place on the secondary market, investor sentiment appears to have been dampened by various factors such as uncertainties stemming from Brexit negotiations in Europe, an impending end to easy monetary policy in the EU, economic turmoil in some markets, fluctuating oil prices, and geopolitical tensions within and outside these regions.

- **Exchange traded derivatives volumes** in H1 2018 were up 17.4% versus H1 2017. This was due to increases in volumes traded across all asset classes except commodity futures which saw a slight decline in volumes on H1 2017 (-0.3%).

  - Stock options volumes were up 18.1% due to increases in volumes traded across all three regions. In the Americas, where 81% of the volumes were traded, volumes were up 18.9%.
  - Single stock futures volumes were up 74.3% due to sharp increases in volumes traded in the Asia-Pacific and EMEA regions – up 65.9% and 82.3% respectively - where over 99% of the volumes are traded.
  - Index options volumes were up 25.9% on H1 2017, driven by increases in volumes traded in the Americas (+22.5%) and Asia-Pacific regions (+42.4%), where 21% and 70% of the volumes are traded respectively.
  - Index futures volumes traded were up 32.6%, due to increases in volumes traded across all regions: The Americas region up 51.1%, the Asia-Pacific region up 32.4% and the EMEA region up 12.5%.
  - Currency options volumes traded were up 35.5% predominantly due to increases in volumes traded in the Asia-Pacific region (+40.9%), where 90% of the volumes are traded.
  - Currency futures volumes were up 21.5%, driven by increases in the Americas (+20.8%) and the Asia-Pacific regions (+66.3%) where 22% and 46% of the volumes are traded respectively.
  - Commodity options volumes were up 5.2% while futures volumes were slightly down on H1 2017 (-0.3%).
  - Interest rate options and futures volumes were up 2.8% and 5.9% respectively.

Listed ETFs (Exchange Traded Funds) grew by 9.1% in H1 2018, driven by increases across all three regions. ETFs value traded increased by 28.4%, almost entirely driven by the 28.3% increase in the Americas region, which accounts for nearly 90% of the value traded. The ETFs market in the Asia-Pacific region, although small in terms of market share of value traded (7%), saw turnover grow by 80.8% on H1 2017. Only the EMEA region saw ETF value traded drop by 20.9% on H1 2017. Investment funds listings and value traded were both down 11.8% and 5.9% respectively. Securitized derivatives listings were up 11% and turnover was up 60.1%. Bond listings were up 6.9%, however, value traded was down 44.3% on H1 2017.

(Source: World Federation of Exchanges Website)

ABOUT BDC

Botswana Development Corporation or 'BDC,' is the country's main agency for commercial and industrial development. Established in 1970 under the Companies Act, BDC is a company Limited by Shares and owned by the Government of Botswana. The control of the Corporation is vested in an independent Board of Directors led by an Independent Non-Executive Chairman. The Managing Director is responsible for the day to day running of the Corporation.

OUR MANDATE

BDC's primary mandate is to drive the industrialisation of the country by providing financial assistance to investors with commercially viable projects. BDC provides both **debt and equity funding** to commercially viable projects that perform one or more of the following functions:

- Pioneer new industries
- Unlock value in existing industries
- Stimulate private sector growth and foster linkages with the local industry
- Drive diversification and exports
- Create significant employment
- Investment outside Botswana boarders

Financing starts at P30 million investments.

SECTORS

The Corporation invests in commercially viable projects in all sectors of the economy except large-scale mining. These sectors include:

- **Industry / Manufacturing**
- **Agriculture**
- **Services**
- **Property & Infrastructure**
- **Energy**

VISION

To be an innovative and sustainable development finance institution.

MISSION

To provide, facilitate and support financing of commercially viable enterprises in order to contribute to the sustainable development and economic growth of the Botswana economy.

VALUES

- Enterprising -

Ready to undertake projects of importance, difficulty and in unchartered territories, with energy, imagination or initiative

- Collaboration -

Foster the spirit of collaboration internally to work with one another to achieve our vision and with other institutions within Botswana and abroad to achieve our mandate

- Integrity -

Remain steadfast in delivering on BDCs promises in a manner which upholds honesty, fairness and equality

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