

Renewing the Call for a Regional Stock Exchange

The call for a Regional Stock Exchange was renewed in January by Bruce Golding, the Opposition Leader in Jamaica. According to the Jamaica Observer, he advocated that a regional stock exchange would 'effect real economic growth in the region through capital investments in the creation of new businesses.'

The move toward a Regional Stock Exchange was actually initially the vision of the Government of Jamaica in 1989 as this was seen as an essential component of the integration process of CARICOM. Two years later, The Grand Anse Declaration agreed to put measures in place to facilitate the movement of capital across the region starting at first with the three existing exchanges. Subsequently, in April 1991, an arrangement was made under which the three existing stock exchanges, Trinidad; Barbados and Jamaica, would be able to cross list and cross trade stocks. Currently, the region comprises of seven different exchanges: Jamaica, Trinidad, Barbados, Suriname, Bahamas, Eastern Caribbean and Guyana. Today, the advent of such an Exchange coincides with the direction toward a Caribbean Single Market and eventually single economy.

One of the major advantages of the establishment of a Regional Stock Exchange is in fact the promotion of free movement of capital across the region. This is because a regional exchange would see the removal of certain barriers, for example cross-listing fees. The free movement of capital will enable integrated, open, competitive and an efficient equity market and would also facilitate the realization of part of the Caribbean Single Market Economy (CSME) goal.

Table 1

Country	No. of Listed Securities
Jamaica	41
Trinidad	33
Barbados	25
Suriname	11
Bahamas	19
Eastern Caribbean	9
Guyana	1

The coming together of these exchanges would see the listing of over 100 companies. Currently, Jamaica has the largest number of listed companies on its primary market while the Guyana has the least. (See Table 1) Investors would therefore be able to easier access shares that were not originally listed in their domestic market. Presently, if you wish to invest in a share that is not listed in your home country, you would either go straight to a registered broker in the country where the stock is listed, or go through a broker in Trinidad who would then go through a broker in the intended country. However, with all the Companies listed on one stock exchange, this would not be necessary as all shares would be easily accessible from your own domain. Such convenience would lead to more investment opportunities and therefore more diversified investment portfolios regardless of the residence of an individual.

In addition, the listed companies would benefit from increased market exposure as there will now be a regional awareness of companies that perhaps would not have been previously known in some markets. Hence, some companies would have the opportunity to possibly penetrate new markets to improve its base. This is especially important for companies with an ambition to grow regionally. The regional market can then be seen as a tool that can be used for companies to position themselves in order take advantage of opportunities created by this wider market to develop and increase market share. Such companies would then be better able to make the leap into the global economy.

This regional visibility could then see an increase in the number and range of investors and overall volume of trading in the market. Of the existing markets, Jamaica is by far the most liquid with average daily volumes of over 5 million shares crossing the floor. Generally, the equity markets of the region tend to be thin with large investors dominating trades. This was most evident in the Trinidad and Tobago market when institutional investors had to pull out of the market due to constraints in the size of their equity investment. The absence of these large investors on the market resulted in a protracted bearish period which only saw some alleviation in November of last year. Hence, with exposure to a wider market, it is thought that market activity will be able to pick up and so liquidity would be improved.

An increase in liquidity should also result in narrower spreads and reduced price volatility. This is because, as discussed in a previous article, larger volumes would result in smaller bid-ask spreads. On a trading day one can find a spread of as much as 25 per cent in the Jamaica market. The narrowing of the spread would also signify a decrease in the volatility of the price of the share. The benefit of this for investors can also be the fact that shares should be better valued.

The Regional Exchange would also remove any need for cross listing. Of the seven exchanges, Trinidad Cement Limited (TCL) is listed on five of the seven while GraceKennedy & Company (Gk) is listed on four. Unfortunately, the absence of cross-listed securities would remove any arbitrage opportunities that used to exist from time to time among the markets. However, boding well for the Companies is the fact that fees to list on the Regional Exchange may be less expensive than to cross list. The expense associated with cross-listing was evident on Wednesday, January 31, 2007 when the Jamaica Observer published an article in which board members across the three major regional exchanges were lobbying for a 50 per cent reduction in cross-listing fees.

The pooling of the regional capital would also increase the attractiveness of the region as an area for investment both by regional and non-regional investors. The region could then benefit from increased capital investments and economic growth. This would also encourage savings and investment and would offer investors the opportunity to share in and benefit from the growth of some of the best companies across the region.

Despite all of these advantages, there are some difficulties that would be encountered on the journey to a Regional Stock Exchange. A Regional Stock Exchange would need to

be governed by common legal framework and a single exchange commission. This exchange would govern the legislation and rules under which the companies would operate. For example, the existing exchanges have different trading days and settlement periods. Even the three major exchanges, Trinidad, Jamaica and Barbados do not share commonality among trading days. (See Table 2)

Table 2

Exchange	Settlement Period	No. of Trading Days
Jamaica	T+3	5
Trinidad	T+3	3
Barbados	T+3	3
Bahamas	T+3	5
Eastern Caribbean	T+1	5
Guyana	T+5	1
Suriname	T+5	1

Another example of differences in rules can be seen by the limit by which a share can move on a particular trading day. Limits are placed on securities to avoid market manipulation resulting in erratic movements in price on a certain day. In Trinidad there is a 10 per cent limit by which a stock can move in one trading day based on the closing quote from the previous day. In Jamaica, there is a 15 per cent limit. However, the closing quote is not considered if the closing bid was higher (for a stock that is rising) or if the closing offer was lower (for a stock that is falling). This can be easily explained using Table 3. For example, if Stock X is moving up, the maximum price at which it can close the following day would be \$23.29 (15 per cent higher than \$20.25). Similarly, if Stock Y is moving down, the minimum price at which it can close the following day would be \$12.50 (15 per cent less than the closing offer).

Table 3

Stocks	Closing Quote	Closing Bid	Closing Offer
Stock X	\$20.00	\$20.25	\$20.30
Stock Y	\$15.00	\$14.50	\$14.70

There would also need to be policies concerning financial reporting standards and a common currency under which the stocks will be quoted. (The need for a common currency would also be an important matter concerning the CSME). Other disparities such as cultural differences would also have to be considered. For example, public holidays that exist in one country may not exist in another and so, some agreement would have to be made concerning the policy of the exchange on such an occasion.

Hence, all such issues would have to be sorted out and agreed upon by all involved before the implementation of the Regional Stock Exchange.

In conclusion, there are many advantages to be realized from the establishment of a Regional Stock Exchange by investors and companies. While there would be some difficulties in achieving this goal, such an exchange would also play an integral role in the economic growth and development of the region toward a single market economy.