



A2X

SA financial markets embrace competition

The SA financial market has embraced competition, which has become the norm in global markets, says A2X CEO Kevin Brady, whose exchange went live in October 2017 as expected. A2X met its deadlines without compromising its business plan and has four brokers on board and connected - RMB Morgan Stanley, Peregrine, Investec and SBG Securities. Avior and Sinayo have been approved as members but are not connected as yet while membership applications have been received from Macquarie and ABSA Securities. Kevin says the entry of A2X into the market is likely in time to result in lower pricing across the board – the JSE has already cut prices on its co-location offering to become more competitive.

Progress slower than expected?

A2X had initially hoped that it would start with 10 of the top 100 stocks (it currently has 4: Peregrine Holdings, Coronation Fund Managers, African Rainbow Capital and Afrimat) and is targeting 20% market share from the JSE over the next five years.

Why large corporates should allow their shares trade on A2X

While A2X has only signed four large corporates to date, it is making good headway with others and points out that there is no downside for corporates to authorize their shares for trading on A2X.

- There is NO impact on the company's current listing on the JSE
- There is NO cost to secondary list on A2X or to remain listed on A2X (in most countries NO authority is required to admit a company's shares for trade on a secondary market)
- Authority can be withdrawn at any point in time
- There are NO additional regulatory requirements for the company

However, as the international experience has shown, there is potential upside for the corporate as cutting the cost of transacting improves liquidity and can bring in some different investors, particularly the new breed of Quant Funds, Liquidity Providers and Hedge Funds (who view SA as a high-cost destination).

Kevin Brady says "competition in the SA industry will drive down exchange costs while at the same time boost innovation and client service levels – surely, this must be good for the growth and development of SA's capital markets".

Key points

- **Working with other brokers** – A2X is also working with Citigroup, Deutsche Bank, UBS, Merrill Lynch, JP Morgan, Credit Suisse and Rencap
- **Sticking points** – the dissemination of real-time market data via Bloomberg and Reuters, a post-trade system for brokers to interface with A2X on allocations and settlement and getting new corporates on board.
- **Plans for 2018** – increase the number corporates listed on A2X and expand the product range to include ETFs and ETNs.
- **Engagement with JSE good** – Kevin says engagement so far has been good.
- **Small team** – A2X currently only has 12 employees and does not expect this to exceed 30 when running at planned capacity.
- **Competition in global markets** – the US has more than 50 trading venues, Canada 6, the UK 4, and Australia 2.
- **Health warning** – Competition has the unintended consequence of additional costs for the broking firms in terms of dual infrastructure (hardware, software, connectivity), the costs of connecting with multiple venues, dealing with fragmented market, maintaining multiple infrastructures, connections to multiple vendors and multiple regulatory costs.