

October 2018

# Quarterly Update



It's official! On 6 October 2018, A2X celebrated its first birthday. A year ago, on a Friday morning at exactly 9am we opened our doors for business for the very first time.

South Africa now had an additional venue to list and trade shares. As you can imagine, it was an incredible moment for all of us at A2X. After 22 months of working with the FSB (now FSCA) to be granted a licence and then a hectic 6 months to implement and build out the platform, we opened on time with no system issues.

Many said it was a terrible time to launch, resources were being consumed ahead of the introduction of MiFID II in Europe and the local roll-out of ITaC wasn't helping matters, and still isn't. Markets were tricky and the business mood was generally negative, but as with all things new, there was never going to be a perfect time to do what we believed in.

We had a small team committed to the dream of bringing real choice to the industry and making it a fairer and more efficient market place. Breaking a 130-year monopoly was never going to be easy but employing a team of experts from within the industry and having carefully analysed the strategies of the first challenger exchanges in Europe and Australia, we believed we were on the right track.

A year on, we have 11 listed companies and 9 leading brokers that account for over 50% of the total market activity in South Africa. Our pipeline of issuers remains healthy and trade on our platform is growing sharply as the industry adapts to the opportunity of having a lower cost alternative platform to trade on.

It has been an exciting year seeing A2X begin to navigate many of the obstacles created by decades of having only one exchange. However, we couldn't have done it without the support of certain brokers, asset managers, vendors and SA corporates. On behalf of A2X, a really big thank you!

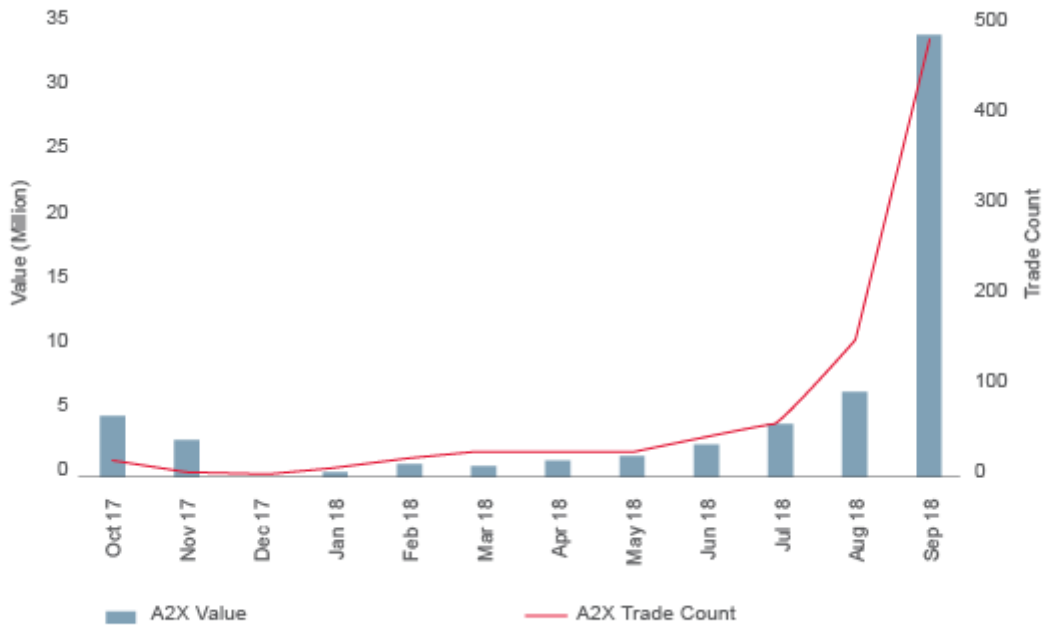
The path to success is never a straight line though and I am extremely proud of what the team at A2X achieved in a relatively short period of time. I look forward to what year two has in store for us.

Warm regards  
**Kevin**  
CEO, A2X Markets

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## DEVELOPMENTS AT A2X

1. On 13 September, **Sygnia Limited** secondary listed on A2X and their shares are now available for trade on our platform. This brought the total number of companies listed to 11.
2. In August, **Absa Capital** traded on A2X for the first time. We look forward to many more trades and a successful ongoing relationship.
3. We are pleased to report that activity levels on A2X continue to grow steadily. We achieved a number of new record trade days over the past few months with a particularly strong September, where the total value traded jumped five times compared to the previous month.



4. Some highlights of where A2X have captured a meaningful share of the overall market has been included in the table below:

<b>Date</b>	<b>Share Code</b>	<b>Market Share</b>
28 September 2018	AFT	5.00%
28 September 2018	AIL	5.50%
27 September 2018	ACG	3.80%
26 September 2018	GRT	5.20%
25 September 2018	GRT	2.40%
06 September 2018	ACG	10.80%
31 August 2018	ACG	6.50%
24 August 2018	AFT	6.90%
21 August 2018	CML	3.50%
10 August 2018	ASC	6.10%
10 July 2018	AFT	13.20%
06 July 2018	AIL	5.60%

5. The steady climb in activity levels is supported by an increase in both product on A2X as well as the ongoing investment from brokers in their infrastructure to allow them to trade more effectively across markets. As more brokers come on-line, we anticipate that activity levels will continue to grow steadily.

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## BEST EXECUTION

The coming into effect of the Market in Financial Instruments Directive II (MiFID II) earlier this year in Europe has refocused attention on the important factors to be considered when achieving best execution.

As many in the financial industry will already know, the key principle set out in MiFID I that “an investment firm must take all sufficient steps to obtain the best possible results for its clients when executing a client order” has largely remained unchanged, as the factors that need to be taken in to account when obtaining the best possible result are: price, costs, likelihood of execution and settlement, size, nature, or any other consideration relevant to the execution of the order.



Interestingly, it is Article 64 of MiFID II “Delegated Regulation” that provides new detail on the obligation of achieving best execution. This states that in order to determine the relative importance of these factors, investment firms also need to take in to account issues such as the characteristics of the client; the order, the instrument and the execution venues being considered.

In South Africa, while our regulatory environment is not yet in line with international best practice (although it is heading that way), the moral onus and existing exchange rules do require an investment firm or broker to achieve best execution. While these may lack some of the detail of MiFID II, it doesn’t alter the responsibility.

In considering best execution locally, the big game changer for South Africa over the past year, is that we now have more than one venue where shares can be executed. As a result, brokers need to start looking across markets to be sure that they are achieving best execution for their clients.

A simple example, if you were a travel agent sourcing flights for a client and just looked at one airline, you wouldn’t know if you could secure better prices elsewhere and potentially be overpaying for the exact same flight.

A hurdle that we have to overcome is that the infrastructure of most brokers has been designed for a single exchange. To transition to a dual venue environment takes time, focus and resources but encouragingly, this process is underway at many broking firms.

As A2X grows and more companies list, it is becoming clearer that unless this investment is made and firms can trade across venues, it will become more and more difficult for brokers to prove to clients that they have taken ‘all reasonable steps’ to achieve the best possible result. Changing technology is just one step but breaking 130-year old habits is another, as it is human nature to resist change. Luckily, the enthusiasts, supporters and early adopters are already starting to enjoy the benefits that this change brings.



## AVAILABILITY OF A2X DATA

A2X real time data is available via all 3 major data vendors: Bloomberg, Iress and Reuters, as well as on our website.

On Bloomberg, the data can be located using the A2X exchange code 'AJ'. Users can access the data by typing in the security code followed by the exchange identifier and asset class. For instance, the price of Afrimat shares can be accessed using AFT AJ Equity < GO >.

On Iress Pro, you simply need to enter in the ticker followed by @A2X e.g.: [AFT.JSE@A2X](#) or use AFT.ZAX to view the consolidated price feed. This displays the Bids and Offer prices from across the two exchanges into one order book.

On Reuters, real time price data can be found by typing in the share code, followed by the suffix.A2X. For instance, AFT.A2X

## A2X LISTED COMPANIES

Security Code	Share Name	Market Capitalisation*
ACG	Anchor Group Limited	R768m
AFT	Afrimat Limited	R3.7bn
AIL	African Rainbow Cap Inv	R6.1bn
ASC	Ascendis Health Ltd	R4.6bn
CML	Coronation Fund Managers	R17.6bn
GRT	Growthpoint Prop Ltd	R68.1bn
HUG	Huge Group Ltd	R1.6bn
PGR	Legae Peresec	R4.5bn

SDC	Sandown Capital	R879m
SLM	Sanlam Limited	R166.3bn
SYG	Sygnia Limited	R1.3bn

\*as of 10 October, 2018

## A2X AUTHORISED USER STATUS

APPROVED AND TRADING	APPROVED – IN THE PROCESS OF COMPLETING TECHNICAL CONFORMANCE
<ul style="list-style-type: none"> <li>- RMB Morgan Stanley</li> <li>- Legae Peresec</li> <li>- Investec Securities</li> <li>- SBG Securities</li> <li>- ABSA Capital Securities</li> </ul> 	<ul style="list-style-type: none"> <li>- Mazi Macquarie Securities</li> <li>- Avior Capital</li> <li>- Sinayo Securities</li> <li>- Nedgroup Securities</li> </ul> 

## THE A2X MARKET QUALITY MAP (MQM)

The A2X Market Quality Map (MQM) has been created to visually demonstrate one of the benefits of a secondary listing on A2X. International experience has shown that reducing the cost of transacting has a positive impact on the quality of the market.

The MQM reflects the quality of the market by assessing the price discovery process, using the following criteria:

- Liquidity available at the NBBO by market;
- The price spread as measured by the difference between the best Bid and the best Offer by market; and
- Time spent at the NBBO by market.

The results of the MQM have been consistent with the international experience and demonstrates how reducing friction costs can help improve the price discovery process and the overall quality of the market.

The table below shows the results of the A2X MQM for the period:

Share Code	ACG	AFT	AIL	ASC	CML	GRT	PGR	SDC	SLM
<b>Avg % Time @NBBO</b>									
A2X	99.8%	99.6%	99.2%	98.8%	98.8%	100.0%	100.0%	95.1%	99.7%
Primary	24.3%	10.8%	49.3%	4.0%	7.0%	80.7%	4.9%	29.4%	14.4%
<b>Average Spread in Cents</b>									
A2X	4.6	53.9	4.3	14.6	7.2	1.8	36.2	14.3	4.5
Primary	5.7	52.2	4.2	15.6	8.5	1.8	38.2	14.7	5.6
<b>Average Posted Liquidity @ NBBO's in R's</b>									
A2X	47 154	95 078	76 450	54 810	98 694	156 451	69 790	67 445	144 938
Primary	9 938	27 757	24 199	1 621	10 828	655 668	4 044	8 910	27 117

## REGULATORY DEVELOPMENTS

National Treasury, the Reserve Bank and FSCA established the Financial Markets Review Committee (FMRC) in 2017 to develop recommendations to reinforce conduct standards in wholesale financial markets. This Committee's project commenced in May 2017, with a draft of the report distributed for comment on 3 September 2018.

The report focuses on the South African over-the-counter fixed income, currency, commodities and derivatives markets, but does deal with issues that affect the equities market.

The mandate of the FMRC was to consider the following in relation on to market conduct:

- review the standards and practices in South Africa's wholesale financial markets, both regulated and unregulated;
- review governance, accountability and incentives in wholesale financial markets;
- develop overarching principles for conduct and integrity to provide a consistent framework for specific reforms in wholesale financial markets;
- identify any gaps in the legislation, regulation and/or supervision of conduct in wholesale financial markets, to be addressed through the market conduct policy framework under the Twin Peaks model of regulation;
- identify and incorporate the role of global standards and good practice in South Africa's regulatory approach to wholesale financial markets;
- develop recommendations for regulators on a pre-emptive, outcomes-focused and risk-based approach to conduct and integrity in wholesale financial markets;
- facilitate the establishment of a market-led Financial Markets Standards Group.

The report contains 43 recommendations including providing some direction around the introduction of the multilateral trading facility (MTF) model and amendments to the Self-Regulatory Organisation (SRO) model.

The draft report is available at: [http://www.treasury.gov.za/publications/other/2018\\_FMR\\_07.pdf](http://www.treasury.gov.za/publications/other/2018_FMR_07.pdf)