

A2X Media release

Best execution rule set to become law in South Africa - a boon for SA investors

- Based on an average trading day, investors will save over R1 billion a year

Wednesday, 15 July 2020: With competition having taken a foothold in South Africa's capital markets over the past few years, the country's regulator is introducing Conduct Standards for Exchanges. A draft of these standards is available for public comment until 16 July 2020.

Kevin Brady, CEO of [A2X](#), says that the bulk of the proposed regulations deal with setting common standards and establishing enhanced interoperability between exchanges to ensure a better and more coordinated market for users and investors.

He emphasises, "The draft regulations also deal with the requirement for brokers to have policies and procedures in place to achieve best execution for their clients."

The draft regulation defines 'best execution' as the duty of an authorised user to obtain the best possible result for a client when trading in securities on behalf of that client. These policies must be disclosed to clients and consider the best bid or offer, total trading costs, certainty of execution, speed of execution as well as several other criteria.

"This development is a big win for investors and pensioners. The local asset management industry, which manages many of the funds of investors and pensioners, frequently buys and sells a range of equities to create an appropriate risk/return adjusted portfolio. Introducing a rule that requires their broker to transact on their orders at the best available price on any market, will translate into huge savings for clients," says Brady.

Small savings per transaction add up to significant savings

A2X has calculated that based on an average trading day of R20 billion in SA listed equities, the savings available to the end investor will be in excess of R1 billion a year.

An analogous example of how it works is a traveller who needs to buy US\$1,000 ahead of a trip to America. Historically, there has only been one bank in town and they quote a rate of R17.00 / R17.40. This means the traveller can buy US\$1 for R17.40 at the bank (and similarly, sell US\$1 at R17.00). A new digital bank opens and has a much lower cost structure. They are happy to quote R17.10 / R17.30 for each US\$1. The 10c saving on buying each dollar at R17.30 (rather than R17.40) ends up in the pocket of the traveller.

Says Brady, "Imagine tens of thousands of such transactions happening each day and you can see how these savings add up to significant numbers. The same principles apply to buying and selling shares on the equity market."

Resultant savings are made possible by exchanges passing on efficiency gains created through the use of the latest technology and business practices, in the form of lower fees. Reducing friction costs, as measured by the end-to-end cost of a trade, has a very positive impact on the price formation process and the overall quality of the market. It reduces the average bid/offer spread and increases the amount of liquidity at the best price in the market (typically known as the National Best Bid and Offer). In short, like the traveller example, you can transact at a better price and save money.

A2X welcomes the planned introduction of the best execution regulations proposed by FSCA. “We look forward to the introduction of these regulations. They protect investors by requiring brokers to assess the orders on all markets offering the shares they wish to purchase and get the best deal for their clients. These savings will have a positive impact on enhancing investment returns over time. The regulations are likely to be finalised during early 2021,” adds Brady.

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