

# **Hub and Spoke Interconnectivity Model for SADC Exchanges**

**Vipin Mahabirsingh**

**Managing Director, CDS Mauritius**

**Chairman, Interconnectivity PSC**

**Committee of SADC Stock Exchanges (CoSSE)**

# Committee of SADC Stock Exchanges

- Formal organisation of Securities Exchanges of SADC that was set up in 1996
- Recognised as a private sector association by the Committee of SADC Ministers for Finance and Investment
- 11 members - Bond Exchange of South Africa; Botswana Stock Exchange; Dar Es Salaam Stock Exchange Limited; JSE Securities Exchange; Lusaka Stock Exchange; Malawi Stock Exchange; Mozambique Stock Exchange; Namibian Stock Exchange; The Stock Exchange of Mauritius Limited; Swaziland Stock Exchange and Zimbabwe Stock Exchange

# Integration of SADC Exchanges

- Vision of CoSSE is to establish an integrated real time network of national securities markets in the Southern African Development Community (SADC)
- In the past ten years, there has been a number of attempts to achieve integration by inviting SADC exchanges to share the same trading platform
- Most SADC exchanges have remained cautious about platform sharing fearing loss of independence and ultimately consolidation with the emergence of a single exchange in the region

- The type of consolidation that took place in Europe does not seem to be applicable to Africa at this stage
- The interests of the different exchanges, market players and regulators do not seem to converge
- Structural, macro-economic, political and cultural differences
- Even in Europe, the recent emergence and relative success of alternative trading platforms, tend to indicate that some form of plurality is desirable (different context though)
- There does not seem to be a one-size-fits-all model as far as the integration of capital markets across different regions of the globe is concerned

- Most SADC states seem to favour having their own national exchange and a regulatory framework whereby local issuers and brokers are supervised by the national regulator
- 6 out of the 11 SADC exchanges have automated systems
- The interconnection of the SADC exchanges via a hub and spoke model that will allow investors in each country to trade on all SADC exchanges through their local brokers seems to be a more acceptable alternative to achieve CoSSE's vision
- CoSSE has set up the Interconnectivity Project Steering Committee with the mandate to deliver a comprehensive business case for the implementation of the hub and spoke model

## **Some of the barriers against cross-border flows**

- Current cross-border flows within SADC markets are very low
- A number of SADC countries still have exchange control
- Local players do not readily have access to information and market data about products listed on other SADC exchanges
- Limited visibility = low level of interest
- Liquidity problems with dual listed stocks (how to make the securities readily available at the secondary venue)
- Payment systems not yet integrated

## **Benefits of SADC exchanges interconnectivity**

- Local brokers will have online access to the other SADC exchanges and this would facilitate cross border investments
- Diversify range of products available to investors in SADC countries
- SADC Exchanges would be more visible and accessible to international investors – single point of access
- Improve liquidity at smaller exchanges by overcoming structural constraints
- Avoid compliance issues and practical difficulties relating to dual listings
- Local issuers can more easily tap investors in the other SADC countries – increased visibility can offer opportunities for market expansion

# Guiding Principles for Developing the Model

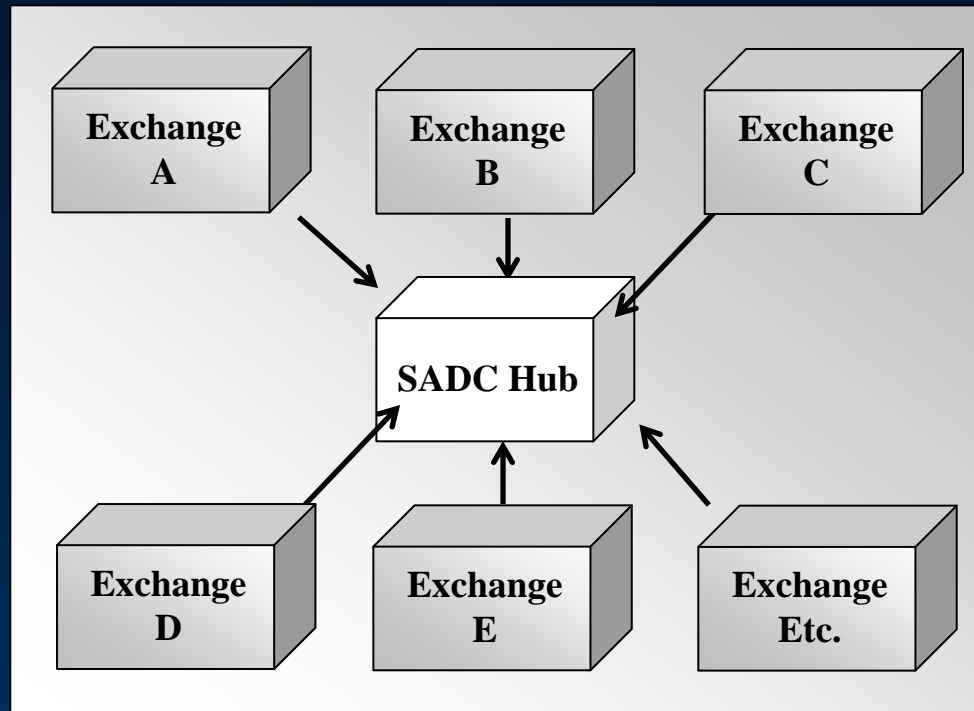
- The exchanges will operate **different trading, clearing and settlement platforms.**
- The exchanges will **regulate their own listings.**
- The exchanges will **regulate their own trading** but instruments will be accessible to brokers in the other markers.
- The exchanges will **comply** with individual **country legislation.**
- There will still be forms of **exchange control** in various countries.



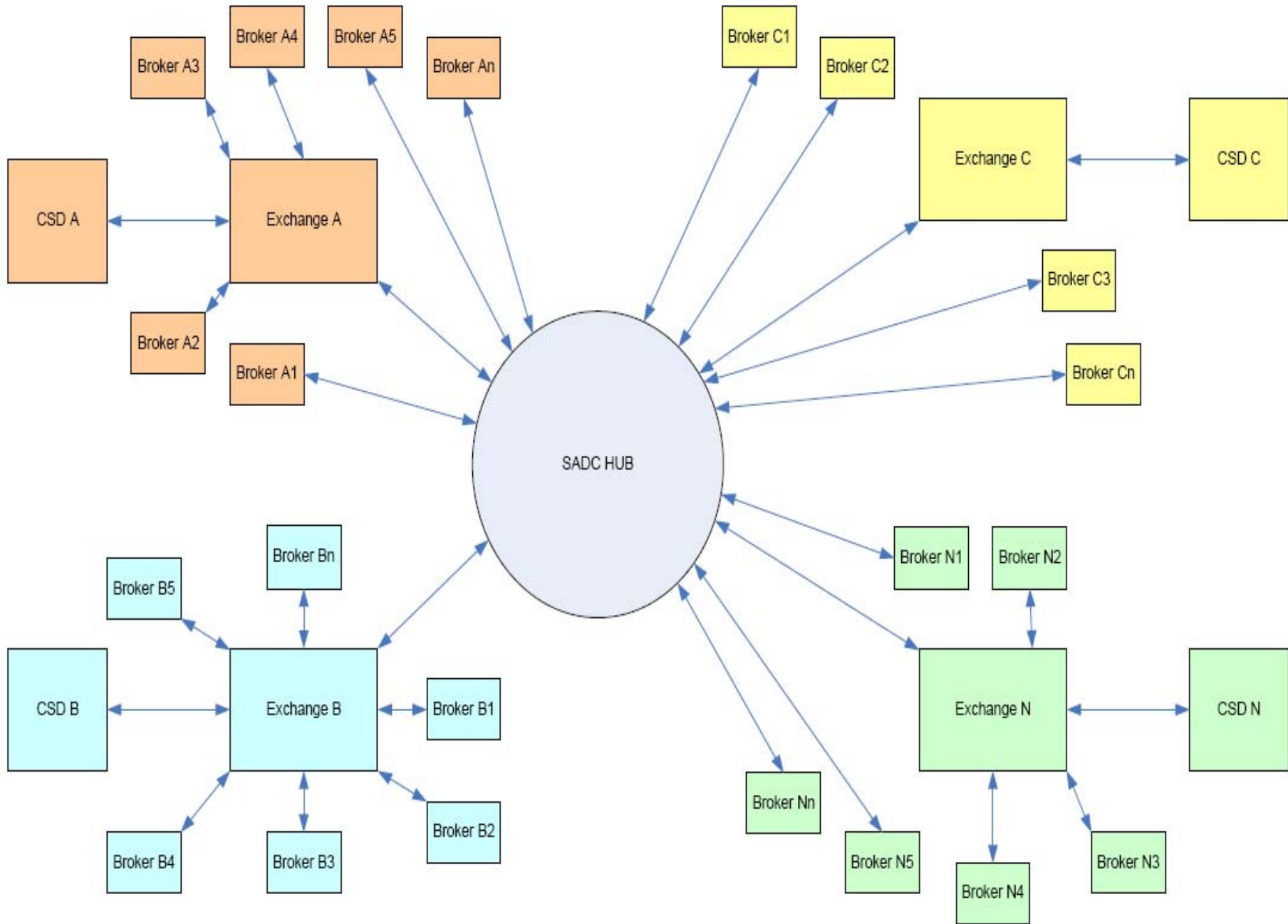
# Guiding Principles for Developing the Model

- The exchanges will trade and settle in their own currency.
- Securities will be held in the country of register.
- The exchanges will decide on data sales independently and manage these relationships individually.
- However, exchanges' market data should be visible internationally.
- The implementation of a Common Monetary Area is not considered in this timeline.

# Hub and Spoke exchange interconnectivity model



- External hub (hardware, software and network) to be installed and managed by an appropriate service provider
- Different connectivity option: Managed Network; VPN over Internet; Leased Circuits etc.
- Brokers may connect directly to the hub or through the local exchange

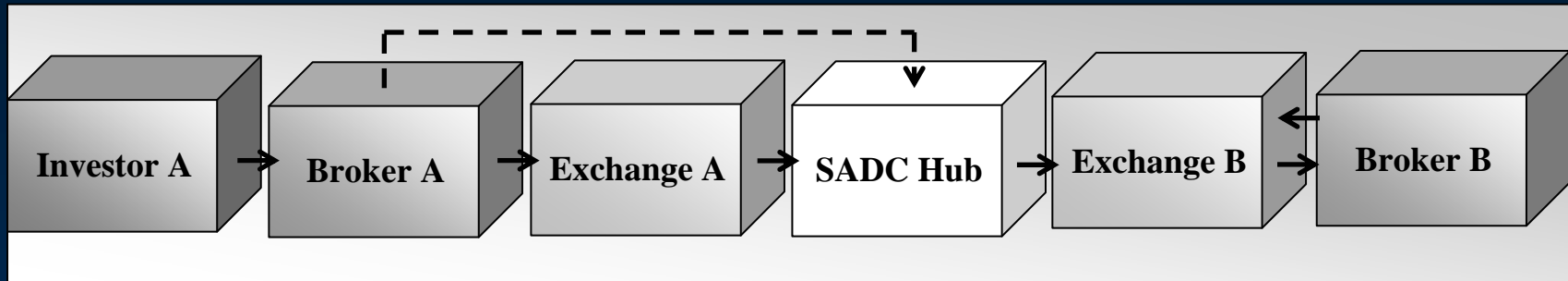


## Functions of the Hub

- Accept orders from brokers (through the local exchange or directly) located in the SADC countries (and even elsewhere) and route them to the exchange where the relevant security is traded
- Receive confirmation of execution from the exchange and forward it to the relevant brokers
- Receive market data from each exchange and disseminate it to the SADC brokers (either directly or through the exchanges)
- Orders and market data will be transmitted between the hub and the exchanges using the Financial Information Exchange (FIX) protocol

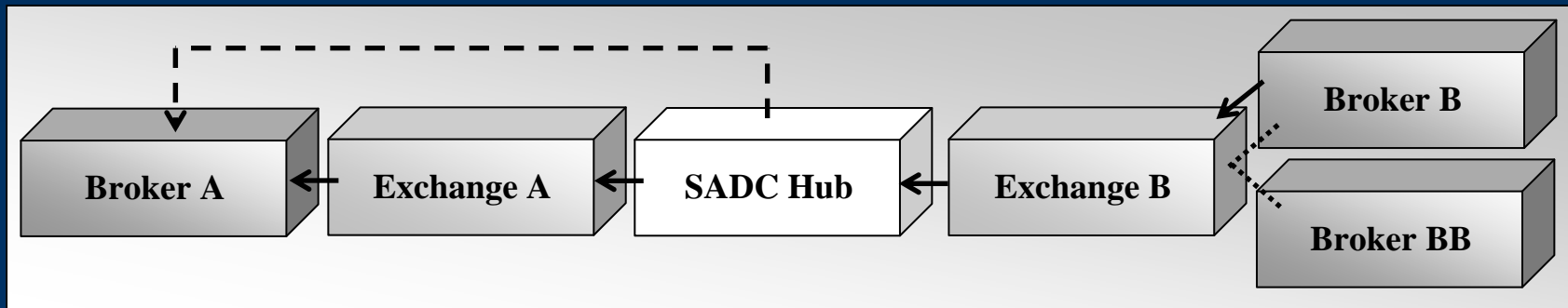
# Trading Process

## Order Placement

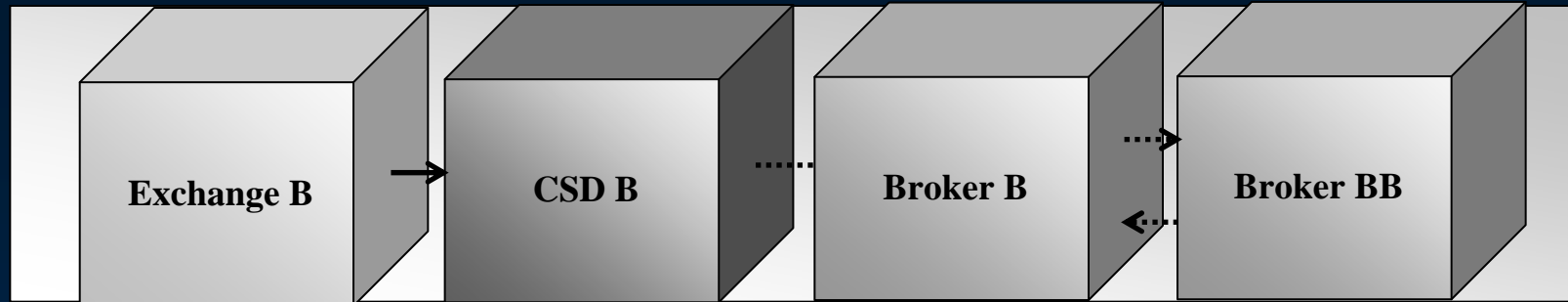


Broker B is the agent (Responsible Broker) of Broker A in Country B

## Trade Confirmation



# Clearing and Settlement Process



- Exchange B sends the trade to CSD B for settlement
- Broker B settles the trade in CSD B through the local market model and mechanism
- Transfer of funds from Broker A to Broker B takes place outside the network (international bank transfers)
- Ownership of securities registered in CSD B (e.g Broker B – Sub-account Broker A – Investor A)
- Investor A can have online access to CSD B to view its holdings

# Data Dissemination Process

- Trading data of each exchange must be visible to brokers in other countries
- Policy to be determined by each exchange independently
  - Real Time data  
Exchanges may publish data directly to brokers, to publish data directly to data vendors, or to publish data to the hub in FIX format
  - EOD data  
Exchanges to decide individually how this data will be disseminated

## Corporate Actions

- CSDs will process corporate actions in accordance with local model as per instructions from the account holder

# Benefits the Hub and Spoke model

- No Business Model Integration
- Exchanges Trading Efficiency Improved through Automation
- No Significant Legal Implications
- Potential Quick Win



# Envisaged Challenges

- Cost of infrastructure
- Revenue sharing model
- Membership challenges
  - Process for appointment of Responsible broker at other exchanges
  - FIX capability at broker level
  - Authorised clients
- Electronic trading and depository systems is a prerequisite for connection to the Hub

# Project Status

## Completed Tasks

- Issue of Request for Information (RFI) to identify the most appropriate solution for implementing the hub and spoke interconnectivity model
- Conduct survey to assess the current situation at each SADC exchange and the potential perceived benefits of the project
- Meetings with short-listed vendors
- Development of business model and process flows
- Gap analysis
- Issue of Request for Proposal
- Evaluation of proposals

# Project Status

## Next Major Tasks

- Develop business case
- Develop and submit funding proposals to potential donors
- Submit comprehensive report including response of potential donors to CoSSE for final decision regarding the implementation of the hub and spoke model

**Thank You**