

The Virtues of Listing

As the first demutualized stock exchange in the Caribbean, the Jamaica Stock Exchange is focused on improving liquidity and boosting regional cooperation on the back of solid growth in the country's financial services sector. General Manager Marlene Street-Forrest explains how the JSE is dedicated to raising awareness of the benefits of going public in a culture dominated by a strong entrepreneurial spirit.

How has Jamaica Stock Exchange evolved in the last four decades?

The exchange was incorporated in August 1968, and began operating in February 1969. It is the first and largest exchange in the English-speaking Caribbean region. Before the exchange was established, we had a stock market operating on a small scale. The exchange was born out of our central bank, the Bank of Jamaica; the then Prime Minister of Jamaica, Edward Seaga, was a major force in ensuring its inception.

The objective of the exchange was to ensure that we had an efficient and a transparent stock market where investors and companies can come together to raise capital and to efficiently trade their securities. At the point when the JSE kicked off, the government gave the exchange the authority to collect a small fee called a Cess Charge on every trade, which assisted the initiation of the bourse.

The exchange began with 34 companies and, at the end of 1969; we had a market capitalization of \$146 million. That entire year, we had a volume trade of 7.45 million with a value of about \$6.5 million. Also in that year,

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we had approximately 5,000 transactions; the index started at 100 and closed at 94.98. In order to get certain government benefits, companies were encouraged to list on the exchange. We have made significant progress and currently for the period January to August 2008 the exchange has just over 21,000 transactions with trading of just over 2.12 billion units valued at US\$838.9m. As at the end of August the JSE Index recorded 108,044.77 with a market capitalization of approximately US\$11.18 billion.

Approximately half of those companies are still listed today. The requirement of any stock exchange is disclosure, which is something that the Jamaica Stock Exchange is keen on, and some companies have come off the market because of the unwillingness or inability to persistently disclose. Some companies possibly did not see or would not have seen at some point the benefit of continuing to be listed. Today, we have 45 companies listed on the exchange. The most recent listing on the exchange in August of this year is a real estate investment trust.

How has the make-up of companies listed on the exchange changed in the last 25 years? Jamaica now attracts more than 3 million tourists a year and per capita income of more than \$4,000, or more than \$12 billion in GDP.

The Jamaican economy has a heavy reliance on tourism, it is agricultural based, and since the independence from the UK, the country has relied on exports of sugar, banana



MARLENE J. STREET-FORREST is the general manager of the Jamaica Stock Exchange. She attended the University of the West Indies, in Jamaica, where she read for the B.Sc in Management Studies and later gained her M.B.A. at Barry University, in the United States.

Street-Forrest has held many senior and management positions in Jamaica and overseas. Prior to the Jamaica Stock Exchange she was Assistant General Manager at the *Jamaica Observer* newspaper.

Street-Forrest has participated in many securities regulations, and financial training courses for regional and interantional securities market. She has also made presentations at regional conferences and at local seminars.

Her mandate is to continue the process of the developing the exchange, ensuring that cutting edge technology is used to assist in providing the greatest level of efficiencies in the market.

and bauxite. This has been changing rapidly over the last couple of years because of the removal of the preferential treaty on crops such as sugar cane and bananas. Now, there is a greater emphasis on diversification of crops that are grown.

Additionally, in terms of listed companies, we have seen a shift to more service-oriented companies. The best performing companies on the exchange over recent periods have been in the financial services sector. The commercial banks, merchant banks, insurance companies, asset managers, and financial brokers have powered the growth of the local economy.

Along with recent mergers and acquisitions, many companies in Jamaica are getting ready for a regional and global positioning. A Trinidad-based company acquired wine distributor Lascelles, deMercado & Company.

We have noticed that the top 10 listed companies by market cap are in the financial services sector and represent nearly 50% of total market cap on the exchange. Is this information correct?

Yes. This fact also underscores that the concentration on companies that are growing are mainly in the financial sector. The top 10 listed companies by market cap is a mix of sectors, which include financial services, manufacturing, insurance and

Listed Companies	*Mkt Capitalization
First Caribbean International Bank	\$2.75
Scotia Group Jamaica Limited	\$1.06
Guardian Holdings Limited	\$1.01
Sagicor Financial Corporation	\$0.85
National Commercial Bank Ja. Ltd.	\$0.81
Lascelles deMercado & Co. Ltd.	\$0.71
Carreras Limited	\$0.49
Trinidad Cement Limited	\$0.40
Sagicor Life Jamaica	\$0.39
GraceKennedy Limited	\$0.38

*US\$ BILLION

conglomerate. Of the top ten companies by market cap, only four are from the financial services sector. Please see the table above, which is a list of the top ten listed companies by market cap as at the end of August, 2008. The financial services sector, however, does represent 50% of total market cap on the exchange.

Jamaica is well-known as a tourism destination and the country has the potential to be a good outsourcing center for services such as accounting, telecommunications, and business related services. But, are any hotels or any companies in the tourism sector listed on the exchange?

The Jamaica Pegasus is the only company in the area of tourism that is listed on the exchange. The exchange has done strenuous work in trying to convince many of the other companies in the hotel industry to list on the exchange. I believe

that, with time, we might see some of these companies listed to take advantage of exit strategy that the market allows, rather than the need to raise capital on the exchange.

I think, in time, you will find that the newer generation of owners of these companies will see more of the advantages in listing on the exchange than the current people are seeing. By far, we have not had the great success that we would want with some of these companies. We have tried to convince them it is not only a matter of raising capital or an exit strategy; it is a matter of how you convert what you already have in terms of realization of your gains.

When we introduce the listing of the Junior Market, we hope to find more and more small and medium companies in the tourism industry coming to the market to list and seek capital.

About 80% of the corporate income tax collected by the government comes from these 45 listed companies. However, on a broader picture, how many companies are registered or how many are under family control that may be ready for a change of guard? According to my research, there are at least 500 companies in Jamaica that have J\$700 million or around US\$10 million in annual revenue and growing.

There are over a thousand companies on record registered with the Companies Office



of Jamaica. Some of those companies can potentially list on the exchange. However, one has to work hard at changing the culture and the mindset of many of our privately owned companies.

Several factors inhibit companies from coming to market. First, many of the companies that we believe have potential do not keep their books and records up-to-date or at least not of the standing that would allow for scrutiny. Second, it is a matter of compliance with a constant standard. A company listed on the exchange must maintain its records in keeping with International Financial Reporting Standards (IFRS). Third, in terms of a company listing, a prevailing notion persists that in the event that 'I list, I lose my company'.

The exchange's rule is very clear. In order to qualify for a listing, there must be one hundred shareholders owning at least 20% of the company. That means the current owners can own 80% and still remain in control. But it is something that we constantly have to explain to potential listed companies. Control of your company is not lost if it is listed. The more I think we can talk about that, the greater the chances that companies will consider listing.

People like to own their own companies. It is really a mindset in an entrepreneurial society such as Jamaica. A survey conducted recently, showed that over 50% of the nation are entrepreneurs. It is really challenging to get the message out that listing is actually a more sustainable way of raising capital. It provides the breathing space that you would normally not have if you were more leveraged.

Can you describe some of the major companies that are listed on the exchange?

We have quite a few international companies listed. The Bank of Nova Scotia has been there since inception, and so have Berger Paints and the telecom company Cable & Wireless Jamaica. We also have Jamaica Gleaner Company, the local newspaper and a media company

that has been a publisher in Jamaica dating back to 1834. Goodyear Jamaica is the local distributor of Goodyear products from the U.S. GraceKennedy, a nearly eight-decade old company that is active in food processing, imports and financial services. We also have Trinidad Cement that is cross-listed in Trinidad and Jamaica and is now the parent company of Caribbean Cement Company. Another listed offering is The Palace Amusement Company, a cinema hall and theater management company which has been around for 80 years.

How can one invest in Jamaica if they are an individual or corporate foreign investor?

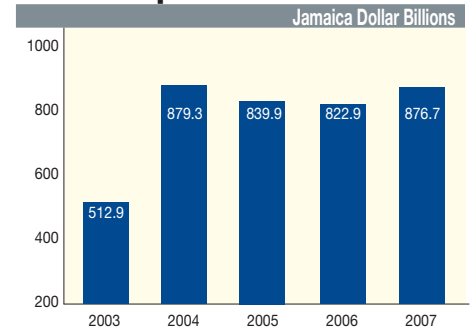
If you would like to invest in companies listed on the stock exchange, the investor should seek the brokers or member dealer who has the authority to trade on the exchange. At present, we have 11 such member dealers. A buy or a sell order is placed with the member dealers. Member dealers, through their terminal at their office will put in trades on behalf of clients. The member dealer's workstation is directly connected to the exchange's trading platform. We have a seamless connectivity and the trade is queued, time-stamped and matched on priority of orders. There is a tightly coupled process between our trading platform and our clearing and settlement platform; the latter which is operated by our subsidiary, the Jamaica Central Securities Depository.

Are there any restrictions as to how much a foreign investor can buy in companies listed on the JSE?

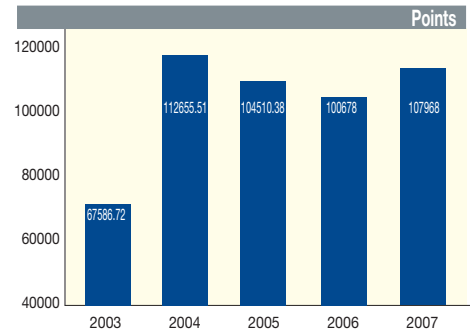
There is no restriction on a foreign company or an investor to buy local stocks except in the case of Jamaica Producers. There is still a restriction there, but for the other 44 companies, there is no restriction to the level of stake that they invest in. The foreign investor is treated no different than any local investor.

Every investor who purchases more than 15% of the company's shares must disclose to the company and the exchange the reason for purchasing this amount

Market Capitalizations



JSE Index



of the company's share. Moreover, for every 5% thereafter, they must disclose again. Nevertheless, there is no distinction between a local and a foreign investor purchasing local stocks. No distinction and no restriction except in the case of, as I said, Jamaica Producers where foreign investors are not allowed to purchase.

What is the exchange doing to attract overseas Jamaicans to invest in the companies listed on the exchange and, subsequently, helps the country to create jobs and facilitate capital access to local companies?

I think there is potential for us to do marketing with communities in North America, Europe and Caribbean. We have had such an event probably two times in the last three years when we invited Jamaicans from overseas to forums. Broker members too are trying to concentrate on this area. Yet, I believe that there is more consistent attention that needs to be paid.

We have about three million people living abroad, which is just about the size of the population on the island, and I am sure that a good number of them would want to invest. While there are about 85,000 active investor accounts, we have potential to add

at least that many new accounts from the overseas community.

One of the areas where we want to see a more significant growth, and I think we should see some of that shortly, is in greater liquidity. We are suffering from the low levels of liquidity in our market, which is why we want a solution to this problem through an enhanced integration in the Caribbean Exchange Network. Our investors frequently purchase shares that are held long-term. Sometimes there is a problem with the liquidity for people, whether internal or external, to have more of those shares available to purchase. As we work to solve this problem we feel that with the Junior Market, there is a possibility that it will create a bigger pool of companies in which people within Jamaica can participate.

What are the growth possibilities for the exchange and what further areas can the exchange diversify in?

The exchange is looking for growth in various avenues. We are seeing how the fixed income market has overshadowed the equities market. A couple of years ago we embarked on a process of creating a fixed income depository. The other side of it was to create the market for listing of those bonds. We do have some bonds listed on the exchange, but they are not traded. They have been listed rather for contract purposes. The domestic bonds issued by the government are listed, but they are not traded due to some hurdles in the development.


The Bank of Jamaica will complete the development of the fixed income depository in September 2008. After that, we will be talking either with the Bank of Jamaica or the government as this move relates to the listing of some of these instruments on the exchange and we are looking to invite corporations to issue and list bonds through the exchange. We have not pursued that yet because we are focusing on three major initiatives. One, we are working on the interface networking between Jamaica, Barbados and Trinidad in an attempt to grow

the market. Two, we are concentrating on the Junior Markets, which will be a reality before the year-end, and finally, we are preparing for the launch of exchange traded funds. In our recent communication, Senator Donald Wehby, Minister without Portfolio in the Ministry of Finance and the Public Services, endorsed the Junior Market.

We expect that the incentives developed between the stock exchange and the government will cause excitement, so to speak, in people listing on the Junior Market. We also understand that our chances of attracting bigger companies to list will improve if we focus on their extra needs.

Since Jamaica issues, as a country, quite a bit of debt, both corporate and government, would it be attractive to the exchange to get these debts issued and traded in an attempt to create an active market for domestic and overseas investors?

That gives emphasis to our intention of first introducing the fixed income depository and then listing these debts. The Bank of Jamaica is in the final stages of implementing the fixed income depository. The timeline is the last quarter of 2008. As soon as it has been implemented, we will discuss with the government the possibility of listing the government debt instruments on the market. It is something that we have started discussing already, but we will do so with even more vigor once the fixed income depository is implemented.

We are the first exchange in the Caribbean to be demutualized. We completed the process of the demutualization on April 1 of this year with the separation of the commercial division of the exchange was from the regulator. We have seen some immediate positives because, in the past, there were concerns that member dealers who owned the company also regulated the company and there could be possibilities of conflict. Having removed that perception it will still take time for the message to reach and sink in the broader public, but we are moving with confidence towards the development of a dynamic market. 

Jamaica Stock Exchange

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Kingston, Jamaica
Telephone 876-967-3271
Inception August 1968

JSE INFORMATION

Members of the Exchange	11
Trading Sessions	09:30 - 13:00
Main Index	JSE Market Index
Index Return - 2007	7.24%
Other Indices	JSE Select Index
Index Return - 2007	-0.47%

CONTRACTS TRADED

Instruments Traded	Common Shares Preference Shares Corporate Bonds
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Number of Listed Companies	44
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MARKET PERFORMANCE

Total Market Cap	J\$876.7 billion
Change in 2007	6.54%
Number of Trades - 2007	38,596
Change in 2007	-7.71%
Volume of Shares - 2007	J\$2.3 billion
Change in 2007	-20.69%

KEY EXECUTIVES

Chairman	Curtis Martin
Director of JSE	Marlene Street-Forrest

Data through: 08/31/2008; Source: JSE

About ExchangeTalk

Through its interview series, Ticker reaches out to stock exchanges worldwide.

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