

The Promise of Transition

In just over 20 years Barbados has set the foundations of securities trading as the Eastern Caribbean nation has witnessed a major shift in its economy from the export of sugar to tourism. Despite the limited number of actively trading stocks, the Barbados Stock Exchange harbors ambitions to become a financial hub in the region with the development of the financial services sector lending support to the nation's prosperity.

What is the history of the Barbados exchange and what was the original mission of the exchange?

The stock exchange was originally called the Securities Exchange of Barbados. It was first established in 1986 but we started trading in 1987 with 10 listed companies. The Securities Exchange of Barbados was both the regulator for the capital markets in Barbados and the facilitator of trading equities on our board. In 2001, the enactment of the Securities Act 2001-13 marked the establishment of the Securities Commission. We reincorporated in 2001 and became known as the Barbados Stock Exchange with only trading responsibilities while the Securities Commission had responsibility for regulating the entire capital market.

The BSE is an association of member brokers so we are a mutual company at this time, but we are investigating and working towards demutualizing the stock exchange. We currently have 24 companies listed on our board and we have a market capitalization of approximately US\$8 billion.

Can you also explain to us where the Barbados economy is today, how has it changed in the last five years, and what could change again in the next five years?

We have been an independent nation since 1966 and have a democratically elected parliamentary system. Previously, we were under the U.K. rule and our economy was mainly a sugar crop based one. Since independence and especially in the last 15 years

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we have moved away from agriculture based economy to tourism based. Agriculture is still done on the island but it is not as strong as it was in earlier years. Our gross domestic product is approximately US\$27 billion and the country's per capita income is currently at US\$9,800.

Recently Government has placed increased emphasis on the development of the international business sector. Among the initiatives they have implemented include signing double taxation treaties with several countries around the world, primarily the U.S., Canada, the U.K., as well as some South American and European countries. This has led to many International Business Corporations (known as IBCs) being established here. As a result this segment of the economy is taking on an increasing importance.

What is the population and investor base of Barbados? What does the exchange do to educate investors?

The population has been stable at approximately 270,000 to 280,000 people with a workforce of about 109,000 people. The country's size is 166 square miles so it has relatively dense population. Like many of the developed countries, our population tend to be an aging one.

The active investor base is about 30,000 people. A few years ago, we had one of our major financial institutions, an insurance company, demutualizing. This created a whole group of investors in our marketplace. There are still a lot of people who are not part of the investing culture. In our market, many people tend to put their money in savings accounts in the commercial bank and real estate. What we at the stock exchange are trying to do is to create a class of equity investors and we are doing that through education. We are going out there and continually educating people about the stock exchange, about investing as a whole. To assist in this goal we hold panel discussions at least once



MARLON YARDE has been with the Barbados Stock Exchange Inc since November 1, 2003. He is the Chief Executive Officer and General Manager. An Accountant by profession, with over twenty years experience he is also a member of the Certified General Accountants Association of Canada and Barbados, as well as a member of the Institute of Chartered Accountants of Barbados.

Yarde held positions at various levels within some of the major corporations in Barbados. He is also a member of two committees set up by the Securities Commission to enhance the regulatory framework of the Barbados capital market.

Yarde was also the Chairman of CARICOM's Regional Capital Markets Committee from February 2004 to February 2008. To further enhance his skills, Yarde has been involved in many professional training programs in securities regulations and financial training courses regionally and internationally.

quarterly as well as creating educational brochures and booklets for distribution to the public.

Our vision is to be a great and lasting Caribbean institution by facilitating wealth creation through trading on an efficient and cost effective exchange. We intend to do this through education. As a consequence we hope to foster an environment of confidence and trust in the trading of financial instruments.

What initiatives does the exchange have to broaden its footprint in the region?

Our primary initiative to achieve this goal is the establishment of the Caribbean Exchange Network (CXN). It involves the linking of the Barbados, Jamaica and Trinidad & Tobago exchanges enabling brokers in each of these territories to trade through their exchange on the other participating exchanges in the region. The whole idea is to improve market liquidity and price discovery in the region. To this end, we have developed a body of rules, decided on a settlement bank for the region and have submitted the documentation to our regulators for approval. While our regulator here in Barbados responded, we are waiting for a response from the other two regulators. Once they have made their comments, we will make the various changes or amendments to our rules and agreements and resubmit them to the regulators for approval. This is something that we have been working on for some time and we are eager to get it going.

How many of the 24 securities trade every day?

Not all of them trade every day. The markets are not as liquid as we would want them to be, but we are seeing some improvements in this area. This is why our educational program is so critical to get out there and let people know about the benefits of trading on our Exchange. You will find that they would all trade within a quarter, but you would not find that all of them trade every day.

What industry groups are these 24 listed companies in and what is the range of market cap of these companies?

We have companies from a cross-section of the economy stretching from areas from agriculture, banking and finance, manufacturing to conglomerates to name a few. The primary areas tend to be in the financial sector, which includes banks and insurance companies; manufacturing and conglomerates. The company with the largest market capitalization would be FirstCaribbean International Bank. They have about 1.5 billion

shares outstanding and their market cap is about US\$3.1 billion.

FirstCaribbean was created by a merger between Barclays Bank out of the U.K. and Canadian Imperial Bank out of Canada. The major shareholder in that company is now CIBC because Barclays sold their portion of that bank late in 2006. The two next largest companies by market capitalization are Sagicor Financial Corporation with a market cap of US\$800 million and Cable & Wireless (Barbados) Limited with a market cap of US\$309 million.

There is one hotel, Almond Resorts, Inc., listed on the board of the exchange. There is not a predominance of tourism-based companies on our board despite the fact that tourism is the leading sector in our economy however you will find the conglomerates might have something within their portfolio of companies that would be tourism related.

The smallest company listed on our board is Sunbeach Communications, Inc. They are an Internet access provider, and their market cap is approximately US\$6.5 million. They provide the Internet connectivity and compete with Cable & Wireless.

The local newspaper owned by Nation Corporation and is part of a conglomerate, One Caribbean Media with a presence both in Barbados and in Trinidad and Tobago and is listed on the exchanges of both countries with a market cap of US\$184 million.

How many brokers are members of the exchange? What is the daily trading volume in terms of the number of stocks and in terms of the market value and stock market benchmark index performance?

Under our current ownership structure, to be a broker you must be a member of the stock exchange. Currently we have about sixteen ordinary members along with four designated members. Of the sixteen ordinary members nine are brokers in the marketplace. In addition, you also have to be licensed and registered with the Securities Commission here in Barbados to be a broker in the Barbados market.

In terms of trading activity, for the first six months of 2008 the total volume of shares traded on our board was just over 71 million shares. This compares to 142.4 million last year. The total value of shares traded for the in 2008 is 491.5 million

shares as opposed to 471.5 million shares last year so we are down about 50% compared to last year. The average daily share volume is approximately 583,565 shares compared to 1.2 million last year and the average daily share value is \$4 million Barbados dollars or US\$2 million compared to B\$4.2 million in 2007. The number of trades that occurred so far for the first six months of the year is about 2,529 and the average share price traded is B\$5.37 as opposed to B\$4.90 a year ago. The advance decline ratio was 13 to 7 on June 30, 2008, as opposed to 10 to 9 meaning for every 10 advancers there were 9 decliners in 2007.

We currently classify our market under three categories. Local, which tracks the performance of local listed companies only, cross-listed, which represents the performance of companies listed on our board but the home market is elsewhere and composite which tracks the performance of the overall market. A year-on-year comparison of the index performance at June 30th 2008 shows increases of 18.44%, 7.07% and 13.53% for the local, cross-listed and composite index respectively.

In terms of market capitalization, the local market capitalization increased 19.36% from B\$9.8 billion dollars or US\$4.9 billion to B\$11.78 billion. The cross-listed market capitalization declined by 42% falling from B\$7.4 billion dollars to B\$4.3 billion dollars. This decline was mainly because of the delisting of companies. The composite market capitalization on June 2008 compared to June 2007 declined by 7.28% moving from B\$17.375 billion to B\$16.109 billion dollars.

What is the exchange doing to improve the liquidity or trading volume?

We are approaching these dual problems in three main ways. First we are taking a look at our rules and seeking to ensure that we make our market more efficient. This is an ongoing process which we are working along with the Securities Commission. Currently we are in the final stages of implementing a new price stabilization rule and over the coming days we will meet with market actors to sensitize them about the implication of the new rule. There is a 10% cap on how much share prices can move in one day. We are removing that cap and in cases where the share price moves above or below 10%, we can halt the trading in that security to ensure there is a reasonable explanation for the share price movement. The goal is to ensure that market forces dictate how share price moves on our market.

Second at a procedural level we intend to eliminate the need for Share Transfer Forms for book-entry transactions. This is a relic from the time of manual trading and we believe that their removal will mean a more efficient and liquidity market.

The final way in which we are tackling the issue is through education. As mentioned earlier we recognize that most of the Barbadian public shy away from equity investing because it is not familiar to them. We believe that this attitude can only be changed through education and as a result we have been actively involved in public outreach by using panel discussions, presentations and producing educational material.

When was the last seat on the exchange sold or the last membership sold?

In 2006, the last member came on board the stock exchange. The membership price is about US\$5,000 and we still have seats available.

The valuation calculation in the demutualization process would be based on the net value of the stock exchange. Our net assets or our working capital is in the region of US\$13 million. One of the things we have decided from the beginning is that we are not going to be paying out cash to our members. What is going to happen is that members will be getting an equity holding which can eventually be converted to cash.

Currently, there is not a need for us to raise capital. We are cash rich. One of the initiatives that we are working on now is to purchase our own building. We are working on several initiatives to enhance the continued viability of the exchange.

What are the growth initiatives that the exchange is pursuing?

To help improve the investment opportunities for investors we need to attract more companies to list on our board. We want to set up of an international trading floor where we can list international securities or companies. This would capitalize on the bevy of double taxation treaties that Government currently has in place.

How many private companies are there in Barbados?

I do not have that figure. However, we have many private companies to target in Barbados. We have a strong commercial banking sector. Private companies might opt to go for debt finance in through commercial bank rather than go to the market to raise equity financing. The reason

is two-fold. They might be concerned about the regulatory oversight involved in being a listed company and they may not wish to disclose their financial information.

How is the exchange trying to go beyond stocks and include futures, options, derivatives or debt securities?

We do recognize the need to diversify beyond equities and we are working to develop a secondary market for trading government securities. At this time we are working with the Ministry of Finance with the view to having our subsidiary the Barbados Central Security Depository, managing all government paper in Barbados. One of the things that we want to push when we do this is that we to de-materialize the issue of government paper in Barbados. This is likely to create greater activity in these types of instruments.

Is the membership in the exchange still available today?

There is room for new members. We can have a maximum of twenty-five members. Currently we only have sixteen. In addition we have four designated members and these represent various interest groups in the economy. These are the Barbados Chamber of Commerce and Industry, the Central Bank of Barbados, the Bankers Institute, and the Barbados BAR Association.

If you become a member, do you have to be a broker?

Once you become a member, you can choose to be a broker. If you decide to take that route, then you have to be licensed and registered with the Securities Commission.

Those are the only questions I have unless you think there is something that I should have asked and I did not ask you?

Our intention at the Stock Exchange here in Barbados is to be the premier exchange in the region and we are working on a number of initiatives to help us get there. We are going to be demutualizing. We are going to be setting up an over-the-counter market. We want to set up an international trading floor. In addition, we will continue to look at our processes and practices and look at the products out there in the marketplace to help further develop our market. We are optimistic about the future. The whole initiative of the Caribbean Exchange Network, which will bring together the three markets, is an important feature for the development of our market and we look forward to this as well. 



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 Inception April, 1991

BSE INFORMATION

Members of the Exchange	19
Trading Sessions	10:00 - 13:00
Official Index	BSE 1000 Local Share Index

BONDS & SHARES

Securities Traded	Ordinary Shares Preferred Shares Government Debentures Government Bonds
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NUMBER OF LISTINGS

Companies	26
Securities	27

MARKET PERFORMANCE

Total Market Cap*	BB\$20,516
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KEY EXECUTIVES

General Manager of BSE	Marlon E. Yarde
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*Millions

Data through: 10/31/2008; Source: BSE

About ExchangeTalk

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

Our interviews reveal the size and diversity of the available investment options as well as the depth of global capital markets.

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