



The Johannesburg Stock Exchange building

Empowering your shares

*The Johannesburg Stock Exchange has found a way to provide a transparent and regulated environment for the trading of listed companies' BEE share schemes. Sasol's Inzalo scheme has taken the pioneering step of being the first to list. And why not? It was, after all, the energy conglomerate's idea. **Kerry Dimmer** explores this unique South African investment opportunity.*

It has been said that throughout the world stock market, companies with a single vision and mission statement tend to command a premium rating over those conglomerates with a diverse range of tenets. What many corporates, particularly those listed on a stock exchange, tend to focus on when creating a vision statement, is presenting the value a business can provide to its customers, particularly the value to its shareholders.

Shareholder wealth is one of the biggest motivators of good business practice. Any company can produce excellent quality products or services with the right amount of effort, but this alone is not enough to inspire investor confidence. Today's investor demands to see sustainable and best corporate practices, not least of which, and unique to South Africa, are those of BEE, a concept unique to South Africa.

The problem is, according to an independent survey initiated by the Johannesburg Stock Exchange (JSE) last year, and hotly contested by the Black Management Forum, that direct BEE shareholding by the top 100 listed companies accounts for just 8 percent. However, if you use the Department of Trade and Industry's regulatory framework as a measurement of BEE compliance then the figure is a somewhat healthier 18 percent.

Let it be said however, that the JSE has no influence on the BEE compliance of the companies it lists, but it does believe in promoting and, where possible, advancing economic equality. Just over a year ago, when the JSE was

considering how the bourse could be part of the country's broader BEE solution, it was approached by Sasol with the idea of a BEE trading mechanism.

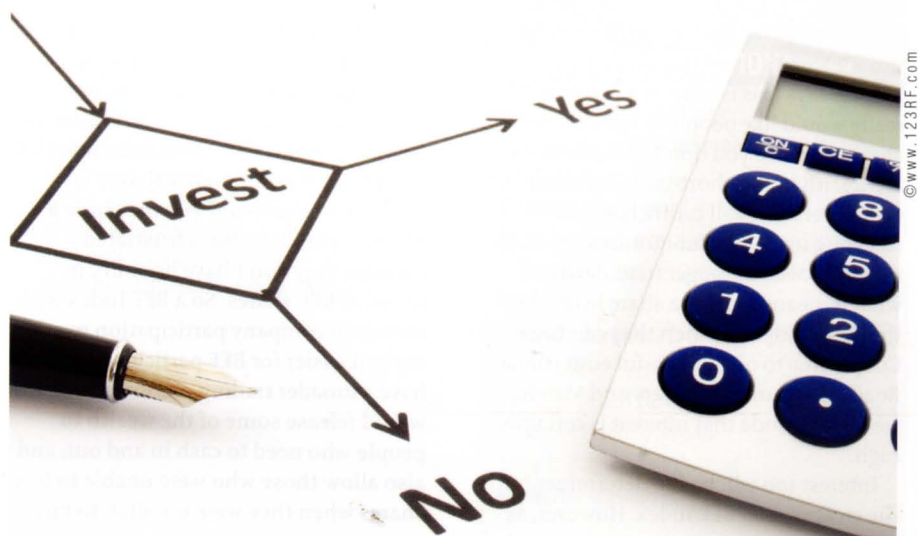
"Not only did we find this interesting," says the JSE's Chief Operating Officer, Leanne Parsons, "but it also meant the JSE could help companies retain their BEE compliance." The introduction of the BEE securities share trading platform was thus created and launched in February this year, with Sasol being the first company to list its black empowerment shares. "The segment is a world first for an exchange and gives shareholders access to regulated market benefits including," says Parsons, "greater transparency with regard to traded price, anonymity between trading parties,

improved price discovery, guaranteeing of settlement and ease of transfer of ownership."

Previously, shareholders of BEE ordinary shares were allowed to trade shares with other black individuals or groups as defined by the BEE Act, but only via an over-the-counter (OTC) platform. "This was a cumbersome process for shareholders, as they had to identify a qualified buyer for their shares and agree on a price between them. The BEE scheme shares trading facility eliminates the necessity for shareholders to find those potential buyers who satisfy the required qualifications."

This meant a slight amendment to the JSE Listing Requirements, ensuring that companies understand and know their obligations when listing BEE scheme shares. Determining who is eligible to trade is drawn from both the BEE Act and the Department of Trade and Industry's Code of Good Practice. Buyers will also need to provide proof that they belong to the designated groups, in addition to signing a BEE contract to that effect.

All hail then to Sasol whose Inzalo programme was the largest broad-based BEE transaction in South Africa, when some 24 000 of its employees became shareholders in 2008. This motivated over 280 000 new shareholders for the company, many of whom were investing in shares for the first time and therefore needed not just education on the benefits of being a shareholder, but a mechanism for trading over the next 10 years, the predetermined length of the investment, that was both sound and accredited. ▶





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“The JSE was very receptive to our suggestion of a trading platform for BEE,” says Nolitha Fakude, Sasol Executive Director “as it already had the mechanisms in place for a platform of this nature, while simultaneously servicing its own desire to enhance BEE processes. We worked very closely with the Department of Trade and Industry, as the so-called owners of the BEE Act, to ensure that from a government perspective, the scheme would be acceptable from a regulatory point of view.”

Since the listing, trading on BEE securities for Sasol’s Inzalo has been slow, but Fakude says this is seen as a positive. “We really would like people to hold onto their shares because you don’t necessarily create wealth in the short-term. However, our Computershare call centre has been receiving up to 1 000 enquiries a day from members who are eager to understand what it means to have a share listed, how they can trade and when they can trade. Couple this to our successful educational Roadshow during February and March, we can conclude that interest is certainly high.”

Interest too will be the determiner for the creation of a BEE Index. However, as

Parsons points out, there would have to be enough constituents and that in turn is dependent on what people want to do with such an Index. “If, for example, there is a desire for an exchange traded fund (ETF) on the BEE scheme share, then it would make sense to provide an Index for it because that is an automatic benchmark. But it really is dependent on user demand,” she says. An Index would be welcomed by Sasol because, as Fakude says, “One of the challenges around BEE transactions is the long lock-in periods for participants, which means that even if shareholders want to trade after, say, five years because their financial circumstances have changed, this would not be an option given that companies want to maintain their BEE credentials.

“On the other hand you may have a BEE shareholder who is frustrated because they don’t have liquidity in terms of BEE shares. So a BEE Index with increased company participation would make it easier for BEE participants to have a broader trading platform. This would release some of the wealth to people who need to cash in and out, and also allow those who were unable to buy shares when they were on offer, to buy

and trade on the market at a later time.”

The JSE does not wish to disclose the companies it is currently talking to in terms of the BEE securities platform. We can speculate that it is the likes of MTN, Massmart, Telkom and SAB who are ideal candidates, because they, like Sasol, have significant BEE programmes.

Likewise, it is the nature of investors to speculate, and bubbles such as a BEE trading platform or an Index will only prove valuable if companies can sustain the credibility of its BEE status.

Only once investors have confidence in a listed company, will they be prepared to pay a higher price for a share of the best of BEE practice.

At the same time, companies must continue to focus on their branding and the quality of their products and services, because at the end of a trading day, it is only if investors believe and have confidence in a listed company, that they will be prepared to pay a higher price for a share of the best of BEE practice. ☺