

Sada Reddy: Fiji's first Stock Exchange celebrates its 30th anniversary

Opening address by Mr Sada Reddy, Governor of the Reserve Bank of Fiji, at the 30th Anniversary of the South Pacific Stock Exchange (SPSE), Suva, 28th October 2009.

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Introduction

Representatives of the capital market intermediaries, distinguished guests, ladies and gentlemen. Good evening to you all.

I am delighted to join you this evening to celebrate the 30th Anniversary of the South Pacific Stock Exchange (SPSE), and I thank the SPSE for the warm invitation.

Firstly, I would like to commend the Board and Management of the SPSE for continuing the good work in developing SPSE to where it is today. As we reflect on the developments over the last 30 years, I would also like to pay respect to the founding members for this vision, some 30 years ago to establish the first ever Stock Exchange for Fiji.

Importance of the capital markets

The stock market is often seen as a very significant component of the financial system of any economy. There is indeed a growing body of research which points towards capital market development making positive contribution to economic growth.

Fiji's stock market fulfils two main functions. Firstly, the market acts as a means for raising capital for companies, and secondly, a more important secondary role is that it facilitates the exchange of previously issued shares.

No doubt, a market economy like ours needs a vibrant and developed capital markets as it offers great opportunities to make a real and positive contribution to the economic development of our country. It is therefore important that these opportunities are fully exploited.

History of the stock exchange

Let me share with you some of the brief highlights of Fiji's stock market over the past years.

What started off as a mere trading post in 1979 at the then Suva Stock Exchange, has today grown to accommodate 16 of Fiji's most successful public companies. I congratulate the few public companies who had pioneered this establishment, and have decided to remain on-board despite the bull and bear cycles of the industry within the last 30 years - Fiji Sugar Corporation Limited (FSC), Toyota Tsusho Company Limited (TTS) and prominent manufacturer, Flour Mills of Fiji Limited (FMF), to name a few.

Although there have been ups and downs in the industry, and the economy as a whole, the stock market continued to provide alternative savings and investment opportunities for most of our citizens. Let me highlight few statistics:

- In 2008, the total dividends declared and distributed to shareholders amounted to around \$57 million;
- The market capitalization, which represents the total value of stock listed on the Exchange, reached a peak of \$1.2 billion in 2008;

- The number of listed companies on the Exchange has increased from 4 companies in 1996 to 16 in 2009;
- The average value of trades per annum has increased from about \$93,000 for the first 5 years of the trading post to around \$17.1 million¹ in the past 5 years;
- Public companies have managed to raised around F\$113 million using the Stock Exchange.

Considering the general level of Fiji's macro economic developments, these developments in the Stock Exchange are quite encouraging.

Challenges in the capital markets

Despite these achievements, I believe that we still have a long way to go in terms of developing a more vibrant capital market. Fiji is generally regarded as having a relatively well developed financial sector among the Pacific Island countries. Most of the basic fundamentals are in place, upon which we can built a more vibrant capital market. However, the range of investments and financing options available are very limited. The potential benefits of further mobilizing capital markets in Fiji are significant, as you know - but so too, are the challenges.

A number of challenges confront us in the development of the capital market in Fiji. Let me mention a few:

1. **Listing of more public companies and privatization of state enterprises to improve liquidity at the stock exchange** - I believe that concerted efforts have been undertaken by both the SPSE and the CMDA over the years to identify and recruit potential issuers of securities in the market. However, most companies remain reluctant to tap into the opportunities in the market. We need to find out why companies choose to remain private, or what's hindering them to go public and list;
2. **Development of new financial products** – as I mentioned earlier, we need to make available more investments and financing instruments for both companies and potential investors, and provide financing options for Government and municipal authorities;
3. **An efficient legal and regulatory framework** is also an important element in promoting market integrity and investor confidence;
4. **A supportive macro-economic policy and financial environment** is also critical for the capital market to grow as the economy grows;
5. **Investor education** is also important to raise the level of financial literacy both in the capital markets and financial sector generally.

These are enormous challenges, which need to be addressed urgently if our capital market is to realize its full potential. It calls for coordinated efforts by all stakeholders - the government, the regulator, and the market players. No single stakeholder has the resources or the capacity to develop this market alone. We need one another, and we need to understand the roles each can play, and the contribution each can make, in the development of our market.

¹ \$17.1 million includes special crossing transactions.

New regulatory arrangements

Ladies and gentlemen, let me now talk very briefly on the recent changes in capital markets regulatory arrangements undertaken by the Government.

As most of you are aware that the Government on 13th August 2009, announced that the administration of the Capital Markets Development Authority (CMDA) Act, was being transferred to the Reserve Bank of Fiji as part of the Government's ongoing review of the Financial Services Sector in Fiji.

This recent decision by the Government has meant that the whole administration of the CMDA and likewise the regulation and supervision of Fiji's capital market will now be consolidated under the ambit of the RBF. For a small economy like ours, it makes good practical and financial sense to consolidate our supervisory functions and to approach supervision of the financial markets in an integrated and coherent manner.

I am aware that some of you will view this move as a conflict of interest for the RBF especially where Bonds are concerned. If anything, a central regulatory entity for Fiji's financial systems will ensure that operations and processes are done in a much coordinated and orderly fashion. Fiji is not the first country in the world to introduce such a unified regulatory model. Similar practices have been followed in other economies such as in Singapore, Denmark, Japan, Korea and the UK, where 3-4 regulatory organizations were integrated into a single financial regulatory agency.

The merger also bonds in well with Government's overall public sector reform efforts to bring about greater efficiency and cost savings.

I am pleased to announce that the transition has been successfully undertaken, and a Capital Markets Unit under the Financial Systems Development and Compliance Group of the RBF has already been set up in Tower 6 of the RBF.

Let me assure you all that I have no intention of down grading or removing any of the important functions previously carried out by the CMDA. I am personally aware of all the capital market developmental work that was undertaken at the Reserve Bank back in the mid 1990s when the Bank decided to move the Capital Market regulation and development role to a specialized institution - after which the CMDA was established.

The Capital Markets Unit will continue to license and carry out all the supervisory activities previously done by the CMDA, but with a more strategic and focused approach. A list of indicators are being developed which will measure developments in the capital markets within certain time frames. These indicators are currently being drafted by the unit and you should expect to be contacted to comment or assist in its development.

Let me turn to the purpose for this evening.

Launching of the Stock Market Index

Tonight we will witness the launching of the *SPSE Total Return Index (STRI)*. This STRI will be very useful in gauging how the equities markets in Fiji are performing on a daily basis. The concept, I am told, is similar to the various stock market indices that you are all familiar with – for example, the NZSX, ASX, SING SX, etc.

I am sure that in developing and maintaining its own Index, the SPSE should be able to provide great assistance to issuers and investors both at home and internationally, to monitor the level of market activity and make better and informed investment decisions and choices.

Tonight, we will also be unveiling the new corporate logo for the Exchange. I have also been briefed that the purpose of changing the logo was to give a more professional and corporate look to better reflect the role of the Exchange and its progress over the thirty years.

I am confident, that if provided the right policy and direction, the Fiji capital markets and the financial markets as a whole will be well placed to become a reputable international financial centre for the region in time to come.

I hope that the Exchange will grow from strength to strength in the years ahead.

Thank you.