

"The Evolution of Fiji's Capital Markets"

*Presentation by Capital Markets
Development Authority*

A financial market board displaying the SPSE (South Pacific Stock Exchange) logo and a table of market data. The table has columns for BUY/SELL, PRICE, QUANTITY, and various stock symbols. The symbols listed include FAL, FMF, FSC, FTV, PGE, RBE, RCE, and SPD. The board is a large electronic display with a grid layout.

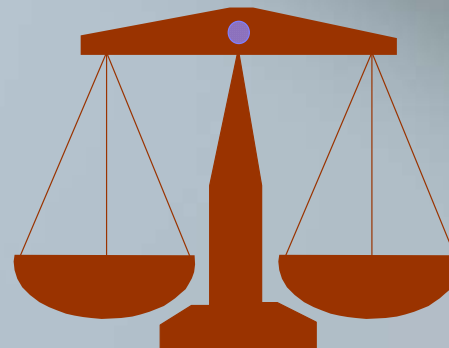
Capital Markets & Capital Markets Development Authority

What is the capital market ?.....

The capital market is the market for securities, where companies and the government can raise long-term funds. The capital market includes the stock market, bond market and the unit trust market. The capital markets consist of the primary market, where new issues are distributed to investors, and the secondary market, where existing securities are traded.

- Established under the Capital Markets Development Authority Act 1996
- Statutory Body - Fully Govt. funded
- Commenced Operations in 1998

Development



Regulation

CMDA – Key Roles

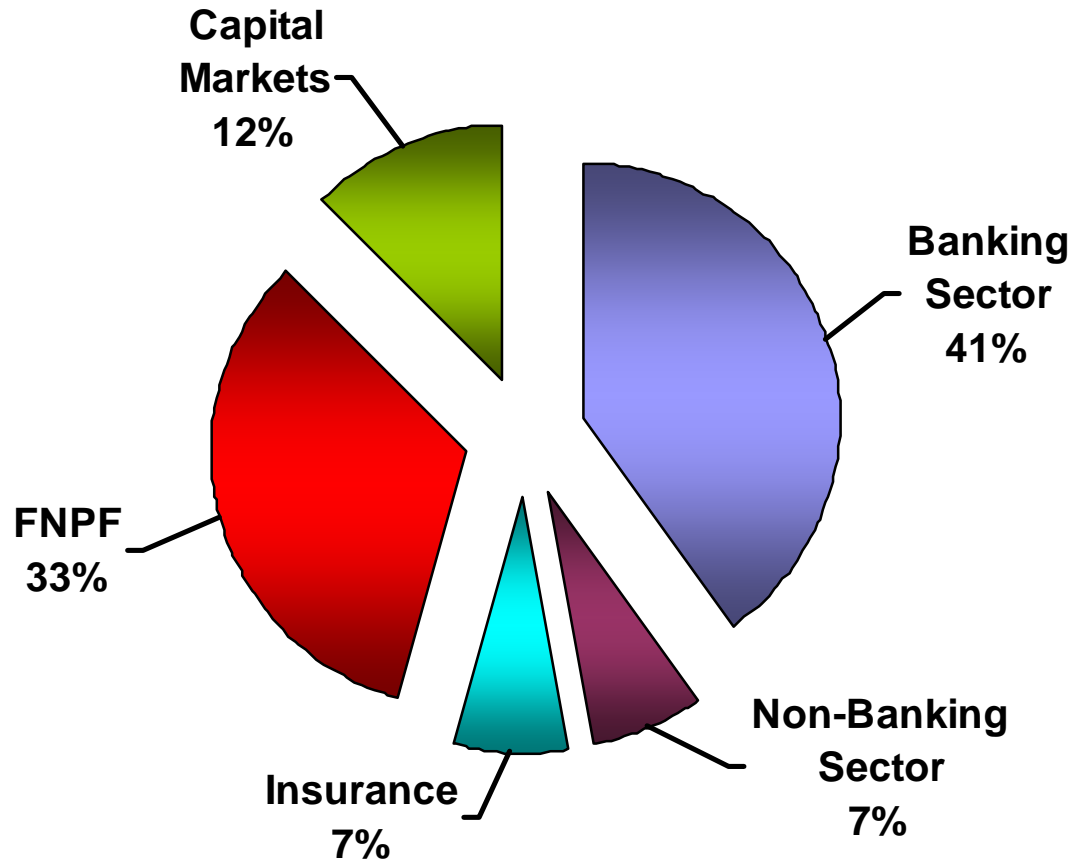
Development

- ➔ Develop market infrastructure and microstructure
- ➔ Policy frameworks and enabling legislation
- ➔ Training and development for intermediaries
- ➔ Awareness & education programs for investors and businesses

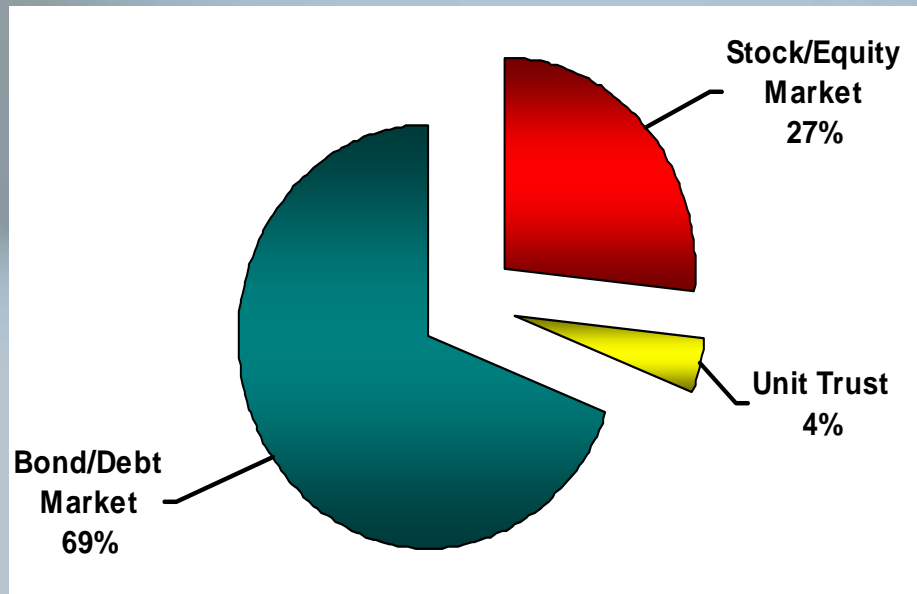
Regulation

- ➔ Licensed market players
- ➔ Vet applications for capital raising
- ➔ Protect Investors through prudential supervision
- ➔ Ensure Compliance of relevant laws and rules by market players
- ➔ Regulate & Supervise the Stock Exchange
- ➔ Enforcement
- ➔ Promote Good Governance

Overview of the Financial Sector



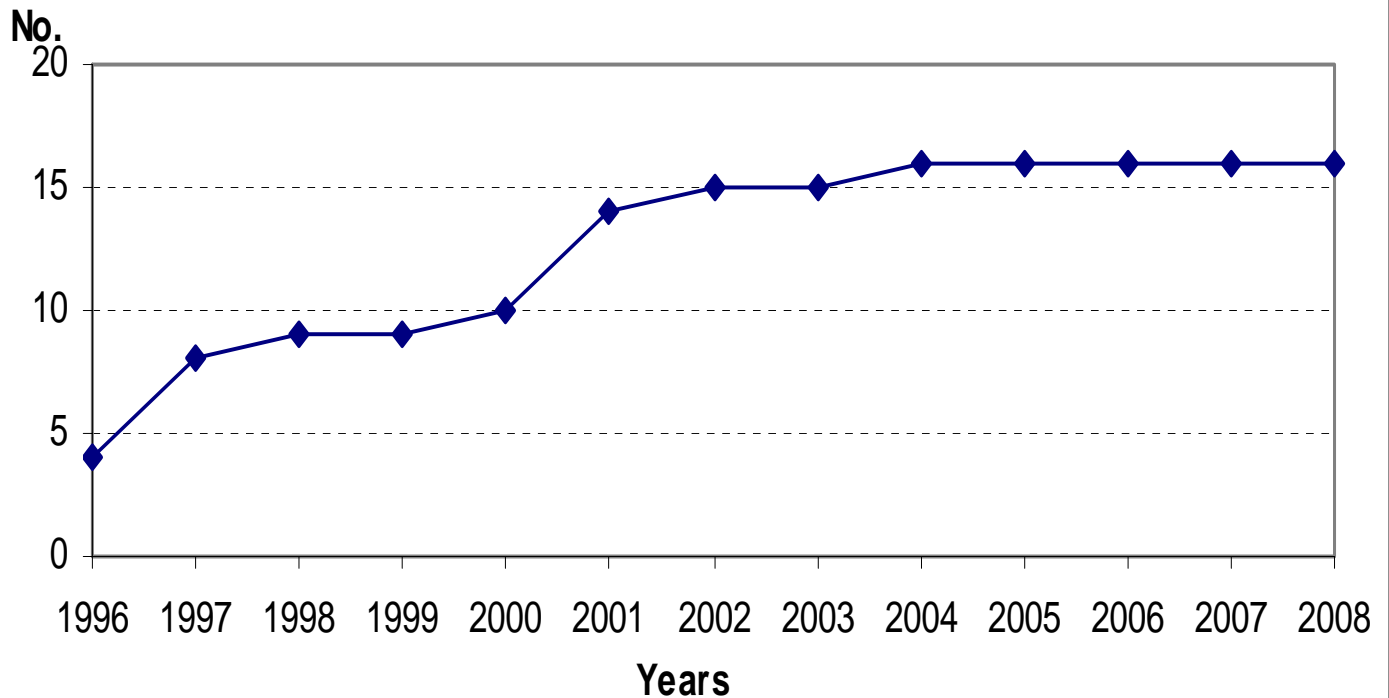
Overview of the Capital Markets Industry



- 3 Licensed Brokers
- 2 Dealers
- 30 Licensed Investment Advisers
- 6 Unit Trusts
- 1 Stock Exchange
- 16 Listed Companies

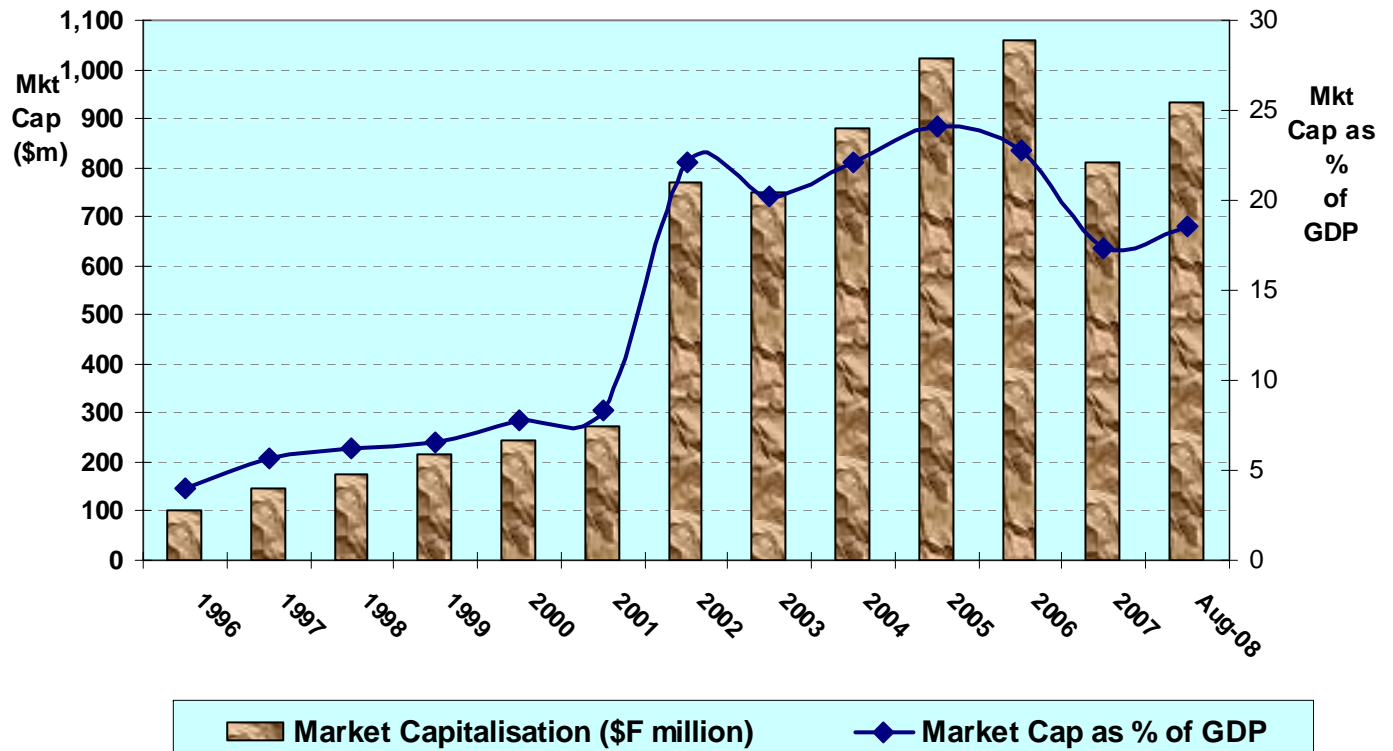
Stock/Equity Market

No. of listed companies



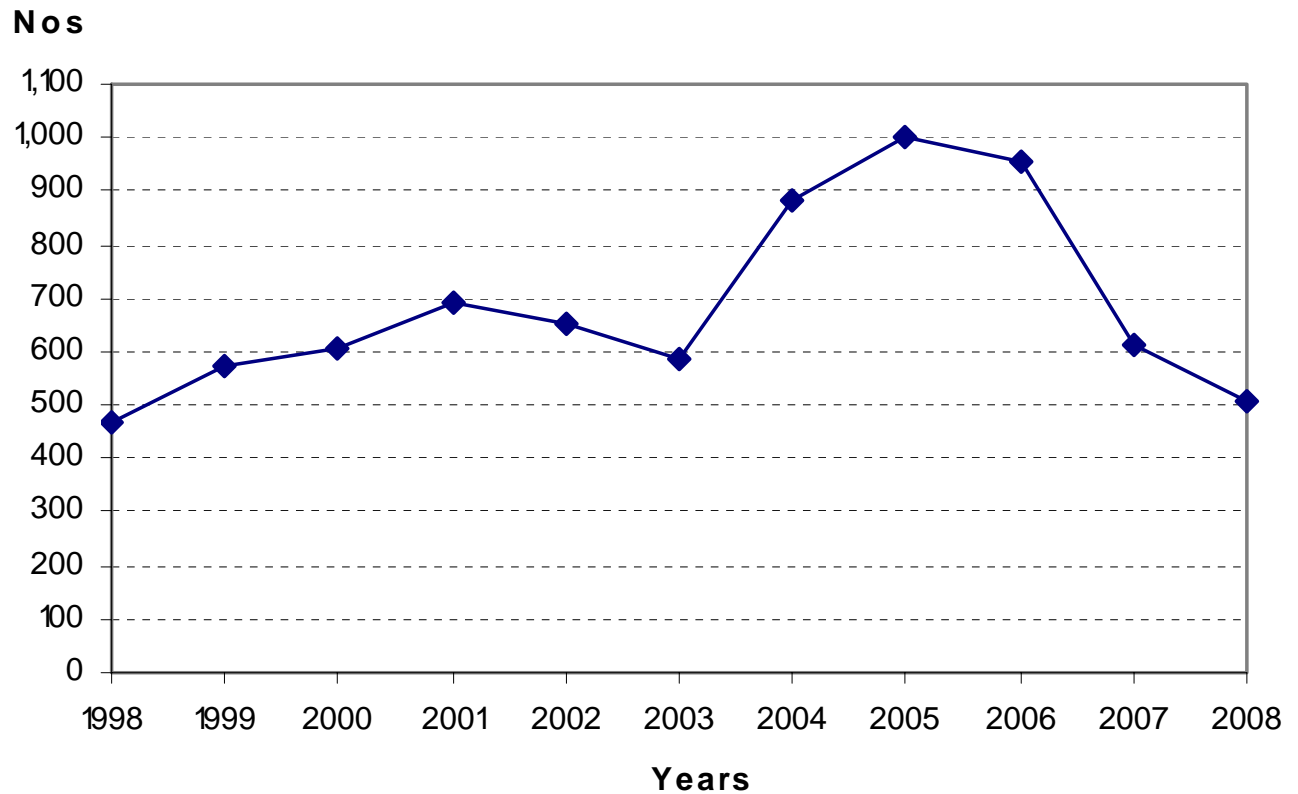
Stock/Equity Market

Stock Market Capitalisation: 1996 - Aug 2008



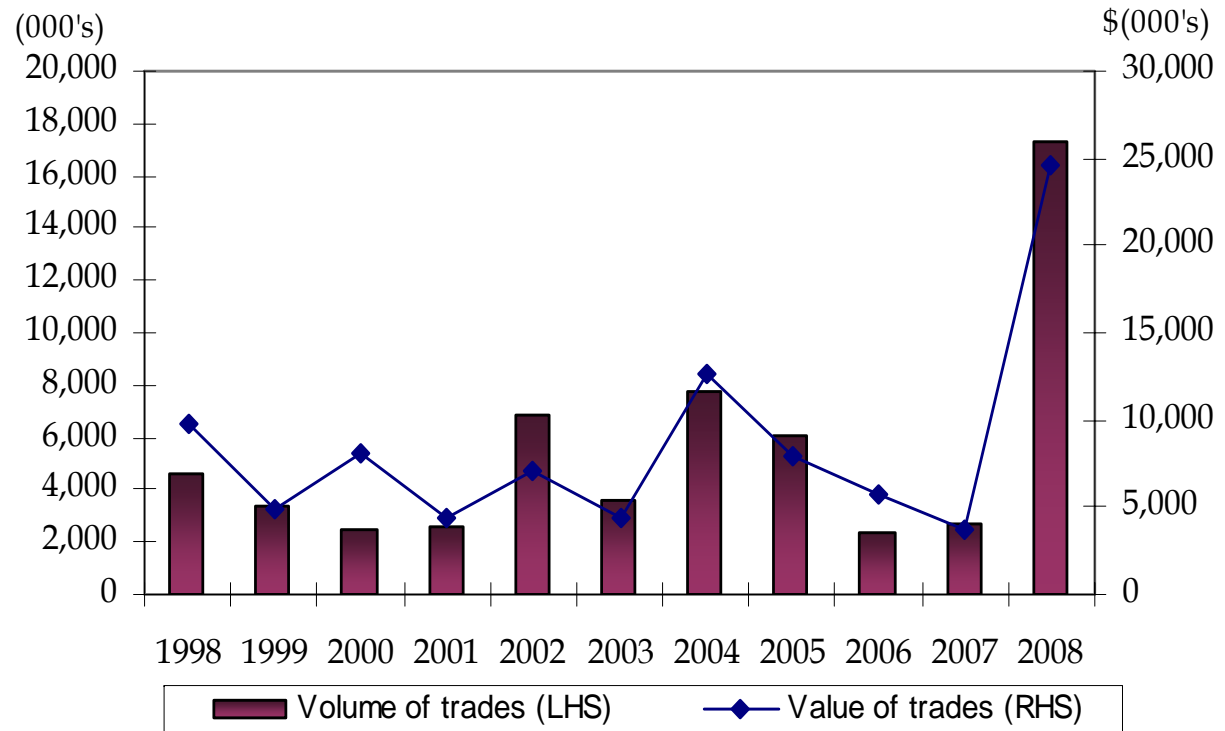
Stock/Equity Market

Number of Trades (1998-2008)



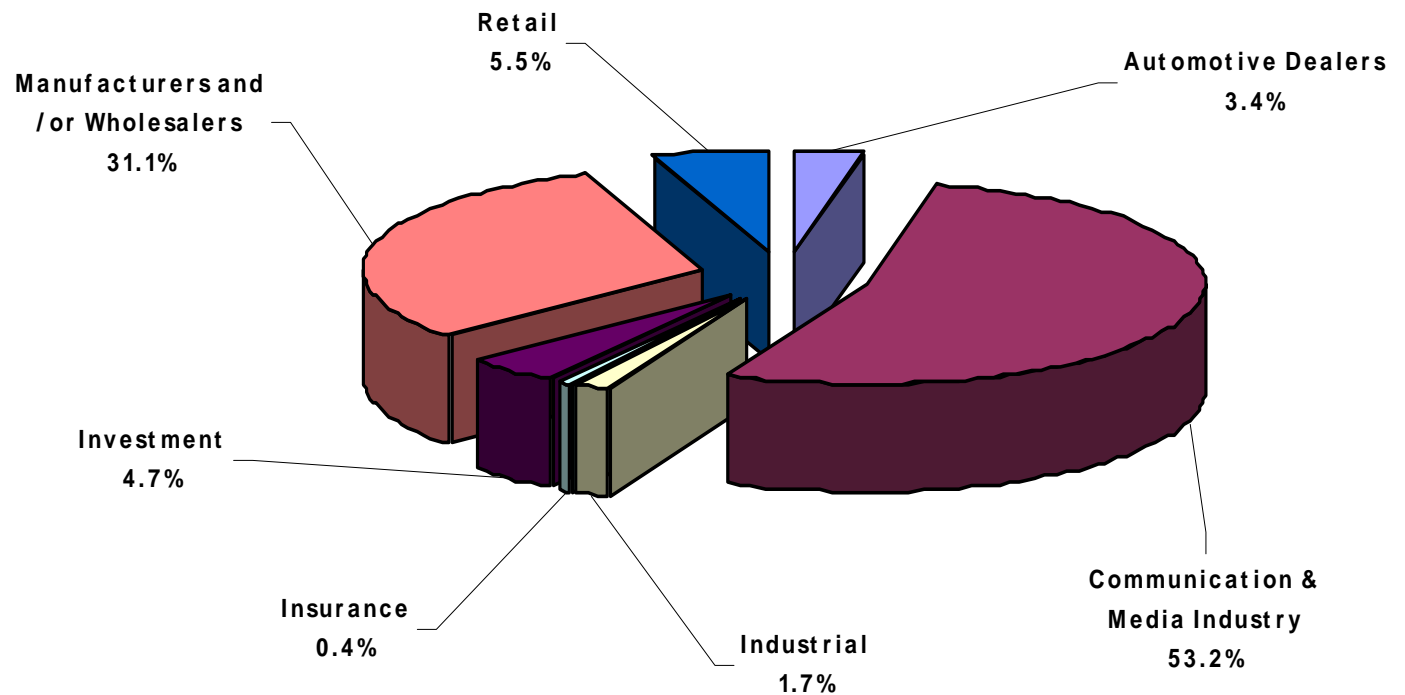
Stock/Equity Market

Volume & Value of Trades



Stock/Equity Market

Listed Companies by Sector



Stock/Equity Market

Listed Companies	Total Return (06)	Bank Rates (06)		Total Return (05)	Bank Rates (05)		Total Return (04)	Bank Rates (04)	
		SD	TD		SD	TD		SD	TD
APP	6.42	0.84	9.05*	15.79	0.4	2.03	60.77	0.36	1.77
ATH	14.1	0.84	9.05	-5.68	0.4	2.03	9.52	0.36	1.77
CFM	4.28	0.84	9.05	24.22	0.4	2.03	49.53	0.36	1.77
FGP	-8.82	0.84	9.05	84.17	0.4	2.03	n/a	0.36	1.77
FHL	20.1	0.84	9.05	14.53	0.4	2.03	10.9	0.36	1.77
FIL	-12.5	0.84	9.05	-2.13	0.4	2.03	17.1	0.36	1.77
FMF	0.22	0.84	9.05	79.4	0.4	2.03	92.57	0.36	1.77
FTV	5.88	0.84	9.05	24.97	0.4	2.03	23.4	0.36	1.77
FSC	28.82	0.84	9.05	-2.86	0.4	2.03	40	0.36	1.77
KGF	3.01	0.84	9.05	-0.96	0.4	2.03	4	0.36	1.77
PGI	-2.17	0.84	9.05	-3.36	0.4	2.03	11.76	0.36	1.77
RBG	32.9	0.84	9.05	33.96	0.4	2.03	25.85	0.36	1.77
RCF	1.27	0.84	9.05	25.92	0.4	2.03	34.25	0.36	1.77
TTS	5.95	0.84	9.05	10.08	0.4	2.03	2.41	0.36	1.77
VLB	26.3	0.84	9.05	10.24	0.4	2.03	60.3	0.36	1.77
YGL	-9.52	0.84	9.05	1.38	0.4	2.03	n/a	0.36	1.77

Stock/Equity Market

Challenges

- ▶ Lack of Active Trading
- ▶ Lack of Liquidity
- ▶ Absence of Market Makers
- ▶ Inactive Stock Exchange

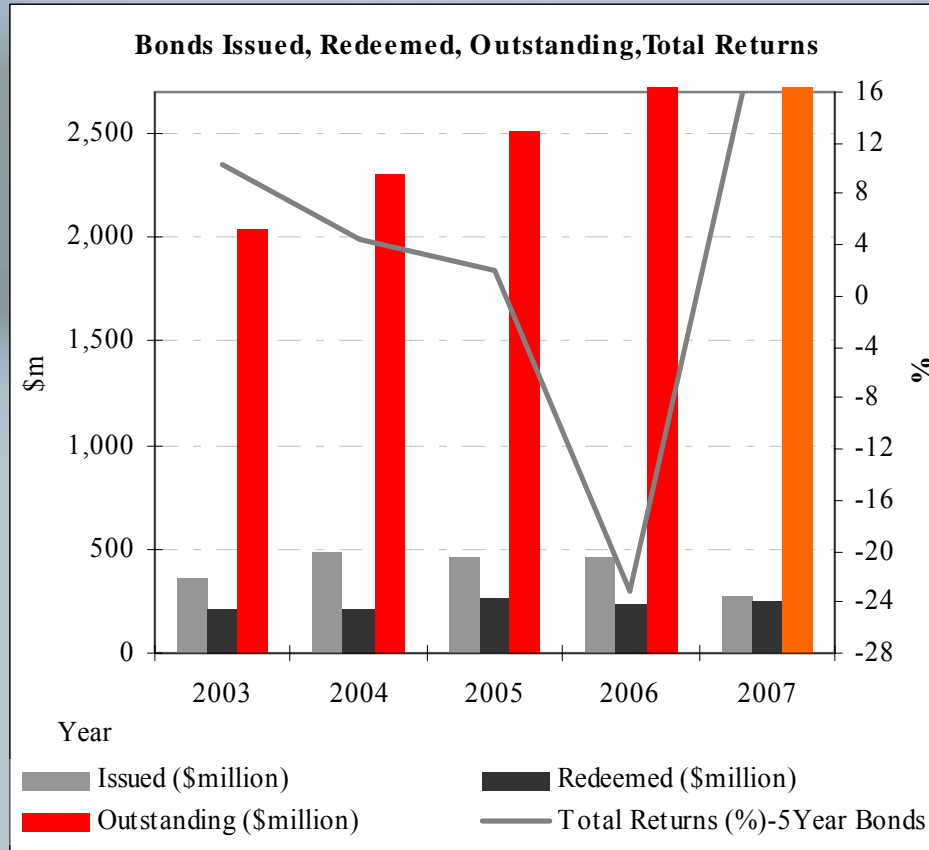
- ▶ Lack of investor familiarity with investment products
 - preferences for traditional bank deposits lack of interest for financial information /advice
 - ▶ Understanding the Alternative
 - private sector reliance on the banking sector as a major source of funding
 - lack of understanding of the alternative funding option for business
 - Non listing of state-owned entities
- ▶ Need for the Alternative Investment Market (AIM)
 - for small to medium enterprises
 - venture capital for start-ups
 - listing as viable exit strategy

Stock/Equity Market

Actions Taken To date

- ▶ Exploring the need to set-up an electronic trading board
- ▶ Increase public awareness on stock market and investment alternatives
- ▶ Encourage overseas brokers/dealers/fund managers to set-up in Fiji
- ▶ Encourage Government Investment Companies
- ▶ Require the Stock Exchange to take a more active part in promoting the Stock Market
- ▶ Selective Public Awareness and Workshops on Opportunities in the
Capital Markets

Bond/Debt Market



- Outstanding Bonds - \$2,750m
- Issued Bonds-\$269m
- Redeemed Bonds -\$252m
- Bond Issuers
 - Government
 - FDB
 - FEA
 - Housing Authority
 - Fijian Holdings

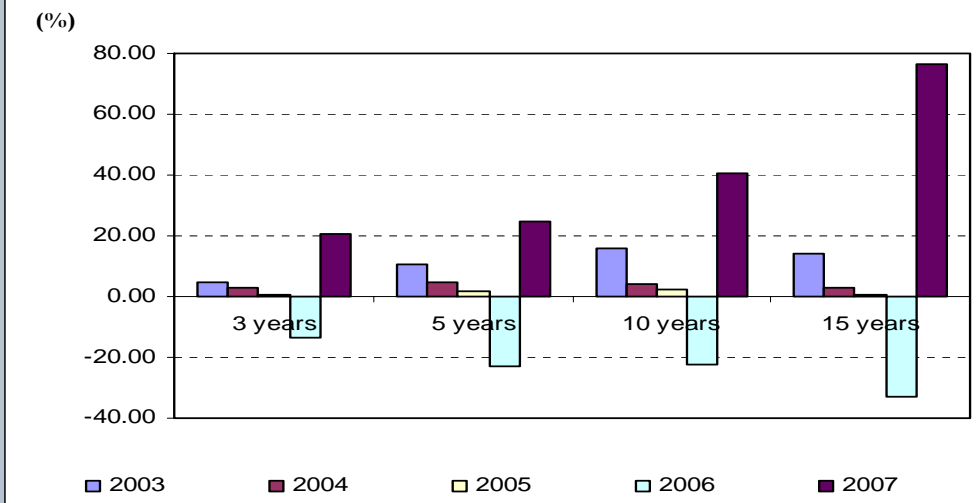
Bond/Debt Market

Summary of Bond Returns

	2003	2004	2005	2006	2007
3 years	4.53	2.74	0.86	-13.70	20.52
5 years	10.31	4.46	1.99	-23.15	24.49
10 years	15.62	4.14	2.45	-22.54	40.65
15 years	13.85	3.16	0.71	-32.82	76.58

* Bond Returns comprises of the Income and Capital Return :Source RBF

SUMMARY OF TOTAL RETURNS ON BOND



Bond/Debt Market

Challenge

- ▶ Lack of secondary trading of bonds on Stock Exchange
- ▶ Development of the Secondary Bond Market
 - need for secondary trading for bonds
 - need Government's auction time table
 - need long dated investments instruments for domestic institutional investors e.g. pension fund and insurance companies for 20 to 30 years bond for better asset and liability management
 - need to set-up a primary dealer system- spread the number of dealers
 - need the Ministry of Finance cooperation

Bond/Debt Market

Action To date

- Technical Committee made of officials from the Ministry of Finance, Reserve Bank of Fiji & CMDA
- Work is slow as much depends on how the Government implements the required action and different Government have different priorities



Unit Trust Market

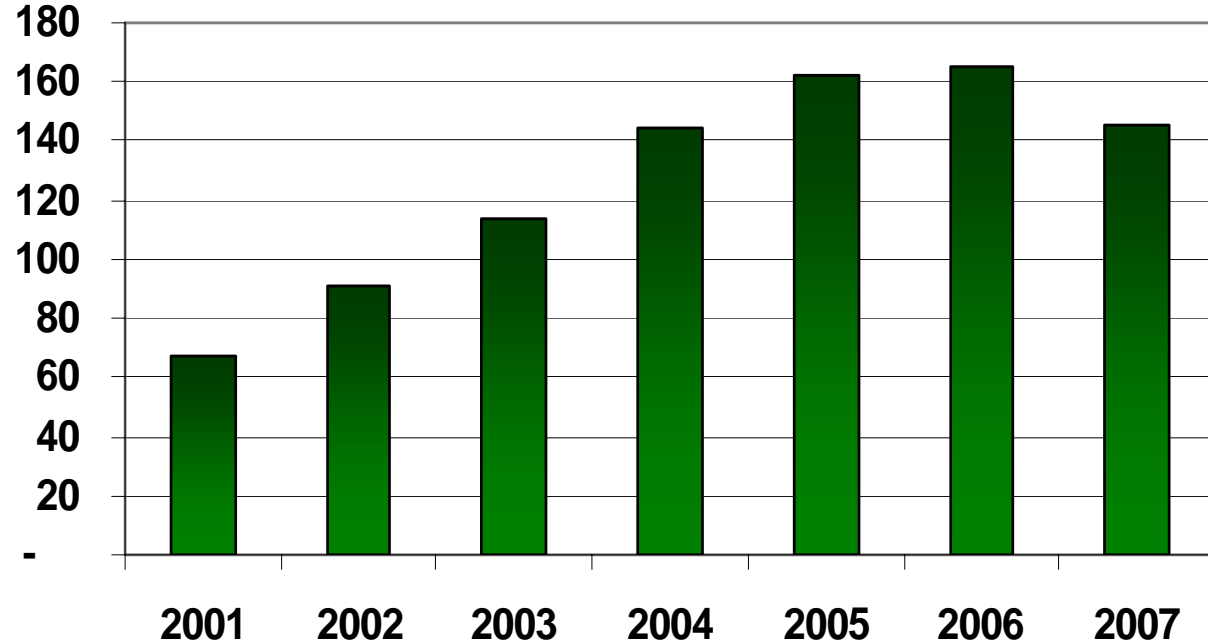
Six Unit Trusts

- Unit Trust of Fiji
- Fijian Holdings Unit Trust
- Fijian Holdings Property Trust
- Colonial First State Investment
- BT Investor Choice Funds (WBC)
- Hunter Hall (Kontiki Capital)

Unit Trust Market

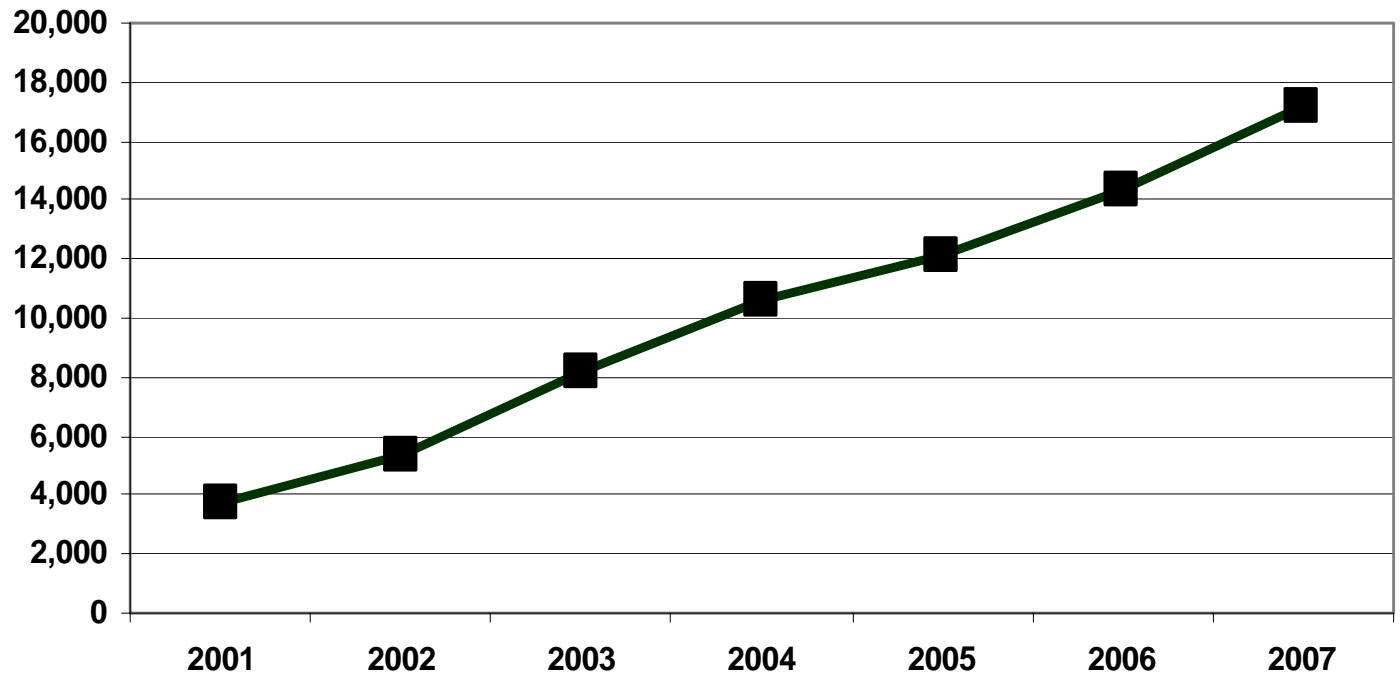
Funds Under Management

Value \$M



Unit Trust Market

Number of Unit Holders



Unit Trust Market

Unit Trust Returns (%)

Unit Trust Fund	2003	2004	2005	2006	2007
Unit Trust of Fiji	9.18	12.28	13.68	6.31	4.70
Fijian Holdings Unit Trust	11.75	10.73	10.51	4.48	10.65
Fijian Holdings Property Trust	0.00	0.00	0.00	5.76	7.78
Colonial First State Income Fund	5.14	4.69	4.54	-12.30	4.00
Colonial First State Income and Growth Fund	8.56	4.04	4.71	4.05	7.43
Colonial First State International Fund	4.54	4.97	13.13	11.13	4.70
Colonial First State	1.25	9.08	6.63	8.84	1.62
BT Choice Range	n/a	n/a	4.01 to 25.52	1.95 to 31.66	n/a
Hunter Value Growth Fund	n/a	n/a	18.16	n/a	10.40
Hunter Hall Australian Fund	n/a	n/a	26.36	n/a	2.40

Note: The return figures for UTOF is their financial year (31st September) end figures

Unit Trust Market

Challenges

- ▶ Increase in the value of funds under management
- ▶ Increase in the number of unit holders
- ▶ Lack of supervision oversight by CMDA in their operations
- ▶ Absence of Investment Guidelines
- ▶ Late Submission of annual reports and prospectus
- ▶ Hands off Approach of Trustees
- ▶ Outdated Legislations – Unit Trust Act
- ▶ Weakness in CMDA Act 1996 on Unit Trust Oversight

Unit Trust Market

Action to Date

- ▶ Developed and issued new returns to be submitted on a quarterly basis
- ▶ Developed a prospectus guideline and checklist
- ▶ Require all Unit Trusts to submitted draft annual accounts within 10 days and audited accounts within 4 months after the financial year

Capital Markets Industry

Challenges

- ▶ Gaps in Current legislations – CMDA Act, Unit Trust Act (financial crimes)
- ▶ Contradictions with legislations that impacts on the industry
- ▶ **Differing standards of investor protection for similar risks**
 - different institutional structure of regulation can lead to conflicts and differing standards on investor protection for similar products
 - similar investments with different standards of disclosure or even no disclosures, e.g. uneven financial disclosures in the financial sector
- ▶ **Unequal treatment of participants**
 - inconsistencies in the application of regulation resulting in the unequal treatment of participants e.g. finance companies, credit unions
- ▶ Limited funding for staffing and training

Capital Markets Industry

Moving Forward

- **Implementation of Risk Based Supervision**
- **Capital Markets Master Plan**
- **Review of Legislations impacting the Financial Sector**
- **Enhancing the Value Proposition for Fijian Issuers**
- **Improving the Role of the Capital Market in Meeting Investors Preferences**
- **Developing Internationally Competitive Market Institutions and Intermediaries**
- **Ensuring the Effectiveness of Regulation within the Changing Market Environment**

Capital Markets Industry

Thank you & Questions

