The Stock Market Structure in Fiji

The stock market plays a significant role in the Fijian economy; it generates income for investors, increases capital for a listed company, and provides jobs for stockbrokers. For such an important aspect of the economy, it is imperative to understand its structure as well as the regulations associated with it. This essay will, therefore, examine the stock market structure in Fiji, particularly that of the South Pacific Stock Exchange (SPSE), and discuss its regulations on listed companies and stockbrokers.

To begin with, a stock market is a place where the buying and selling of securities take place. A security, according to the Merriam-Webster dictionary, is a document that acts as an instrument of investment, and provides evidence of ownership of such investment, such as stocks, bonds and notes. Like any market, there are various key players that constitute the stock market. The seller, in this case, is the listed company issuing its shares to its customers, who are interested investors. This trading is performed with the help of a licensed stockbroker acting as a middleman and the electronic platform on which it takes place is called the stock exchange, with the Reserve Bank playing the role of regulator. These components coupled with a Central Share Registry, is essentially the structure of a stock market.

Investments are one of the main components in the stock market, but are often associated with risk. With this in mind, there is a possibility of risk involved in the stock market, because this type of investment can equate to either a profit or loss, and this depends on how well the listed company performs. If a listed company makes a profit, a portion of it is paid out to shareholders, who are those that have a stake in the shares of the company. These payments are referred to as dividends. Aside from dividends, shareholders can make additional profit by selling their shares for a higher price than they paid for, when the share price increases, i.e. when there is more demand for that share, and consequently, make a capital gain. On the other hand, if the company incurs a loss, the shareholder incurs a loss too. Therefore, investors should be well informed about the stock market before they undertake any investment, and the SPSE is commended for providing easy-to-read information for potential investors. Despite the risks associated with investing in a stock market, there are benefits, granted that the investor makes wise investment decisions. For long term financial goals such as education, retirement plans, or purchasing a car or house, investing in stock can provide the means to achieve such goals.

Moreover, another component of the stock market structure, a subsidiary of the SPSE, is the Central Share Registry Ltd (CSRL). The purpose of a share registry is to record the shareholders of the company, that is, their names, addresses, and the number and class of shares and issue a certificate accordingly. With the Central Share Registry, all the different share registers of each individual company can be merged into one for efficient and effective management. The Registry regularly informs the shareholders of any updates and provides them with the listed company's annual reports on the company's behalf. With the services that CSRL provides, companies can fully focus on their principal business activities.

In Fiji, the only licensed institution that provides a platform for public listing is the South Pacific Stock Exchange. The Exchange, along with the Reserve Bank of Fiji (RBF), regulates the stock market in Fiji, with the objective of facilitating 'the orderly, efficient, transparent and timely trading of securities', as stated in their mission. Their objective is achieved through the use of regulations that govern the different elements of the stock market.

In the case of a company, listing on a stock exchange means that it can raise capital by offering its shares to the public at large, thus the term "going public" is used. This is also known as equity financing. The very first public offering of shares in a company is called the Initial Public Offering, abbreviated as IPO. Public listing gives the company the means to receive additional finance, which could be used to 'fund expansion projects, key acquisitions, organic growth, retire existing debt, invest in research and development or move into larger and diverse markets', according to a guide to listing by the SPSE (SPSE, 2016). Not to mention the positive publicity associated with being listed due in part to indirect advertising by SPSE. Other than that, the company is able to enjoy the Government's numerous tax incentives, such as reduced tax or even zero tax on corporate tax, financial advisory costs (any costs that are related to listing), dividends paid and capital gains tax, among others. Thus, there are a total of 19 listed companies on SPSE, including ATH, RBG, and CFL.

In light of these benefits, it is quite encouraging for any company wishing to endure the process of completing application forms, getting approval from the RBF and SPSE, and meeting other requirements to achieve public listing. Some requirements may call for the company to relook at its own constitution and change it if necessary. Like any constitution, a company's constitution contains a set of rules that govern it, and is made up of the Memorandum and Articles of Association, which are usually amended to comply with the two main legislations governing listed companies: SPSE's Listing Rules and the Companies Act of 2015. For instance, companies must ensure that its constitution does not impose any limit on the number of members it can have, nor on the transfer of shares from members to non-members. Therefore, private companies intending to become public usually have to change their constitution accordingly to prevent contradicting SPSE's Listing Rules. After careful consideration of every compulsory rule or requirement, the company is ready to become a listed company, which can be done by either making an IPO or through a Compliance Listing. The first method entails that an offering of shares is made before getting listed, whereas in the latter method, the company receives public listing after simply meeting SPSE's listing criteria, after which an offering of shares can be made. Details of the public offering of shares are termed a prospectus, which is a legal formal document. After being listed on the SPSE, there are other rules that are mandatory for companies to abide by. For example, the type of information a company must disclose to the SPSE, such as the disclosure of information which is 'likely to have a significant effect on the price of the listed securities' (SPSE, 2010), among others. This information will then be disseminated by the SPSE to the public so shareholders can make informed decisions.

Furthermore, when a company issues shares to the public, they are offering a part of their ownership to interested investors. Investors need someone who is well-versed with the stock market to do their trading for them in the vast and perhaps, confusing world of the SPSE Electronic Trading Platform (ETP). This financial expertise comes in the form of investment advisers, who are able to give financial advice and stockbrokers, who initiate their client's buy or sell order form according to their client's wishes, with their financial status taken into account. Stockbrokers are vital in any stock market because of their significant role in helping their clients achieve their financial goals. It is, therefore, crucial that stockbrokers perform their duties well and are careful not to give the wrong information to their clients. Everything that they do on behalf of their client should be with the intention of getting them the most beneficial deal, especially since they are paid a commission for their services.

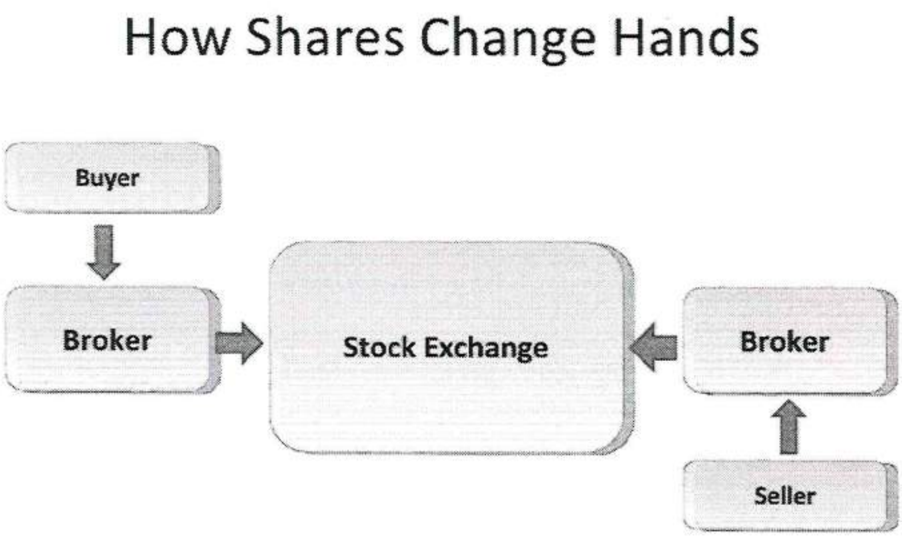

Fig.1: The role of Stockbrokers

In addition, investors must understand the importance of which stockbroker they choose to use. It is absolutely essential that the stockbroker is licensed by the Reserve Bank of Fiji. Licensed stockbrokers are usually from one of the three stockbroking firms in Fiji, which are Kontiki Stock-broking Limited (KSB), Fiji Stock-Brokers Limited (FSB) and the FHL Stockbrokers Limited (FHS). In fact, stockbrokers are monitored by SPSE's Business Rules, such as their code of conduct, including their responsibilities towards the SPSE, RBF, other stockbrokers and clients. The Business Rules also set out the criteria for membership in the SPSE. For example, pursuant to Part 4.1.1.c., on Membership of the Business Rules, potential stockbrokers must present to the SPSE either '$20,000 cash', 'a bank guarantee to the value of $20,000', 'government bonds with a face value or current market value of $20,000 whichever is the lesser', or a combination of these (SPSE, 2015) .A comprehensive list of regulations for stockbrokers can be found in the 105-page Business Rules of SPSE.

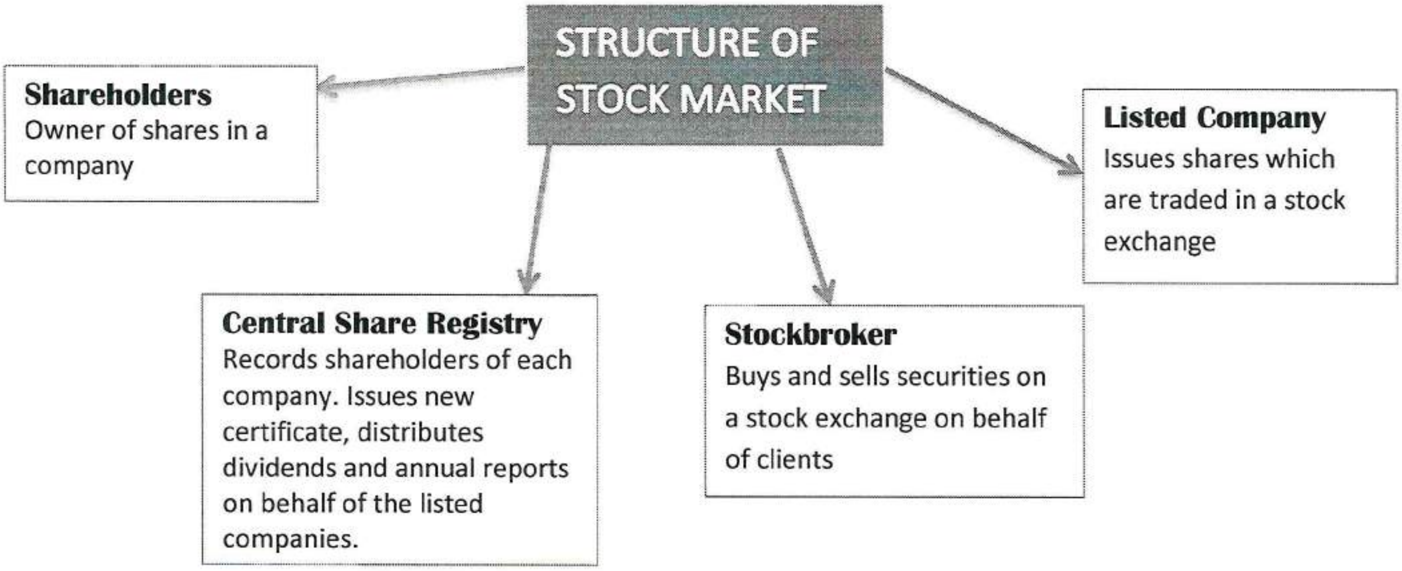

Fig.2: Summary of Stock Market Structure in Fiji

As can be seen, the stock market is made up of investors, listed companies, stockbrokers and the Central Share Registry, while the South Pacific Stock Exchange and Reserve Bank of Fiji regulate the industry. This industry contributes to the positive growth of the Fijian economy and hence, the SPSE should be commended for its approach and effort to educate the public of this.

Approx. 1495 words

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