



BOURSE
A F R I C A

African Markets. Global Opportunities.

**Presentation to the Regional Capacity-Building Workshop
Enhancing the Functioning of Cereals Markets in West Africa**

***Lessons learnt from the creation of Bourse Africa:
The Role of Different Actors***

Adam Gross, Director of Strategy, December 2010

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- **Creating a regional exchange**
- Roles of the Different Actors



Introducing Bourse Africa



- ❖ **A Pan-African exchange, warehouse receipt system and clearinghouse, operating on a hub and spoke model across the Continent – to launch 2011 - *in line with the AU's vision under the Lagos and Arusha Plans of Action***
- ❖ **Africa's 1st spot, derivatives and central counterparty clearinghouse (ex-SA)**
- ❖ **Delivering price discovery, procurement, trade, risk management, arbitrage and investment solutions to African and global market participants**
- ❖ **Pan-African Advisory Board chaired by H.E. Festus Mogae (former President of Botswana), includes Babacar Ndiaye (Senegal, former President of AfDB), and Christopher Edordu (Nigeria, former President of Afreximbank)**
- ❖ **Promoted by Financial Technologies Group and prominent African institutions**



Why Exchange-Trading for West African cereals?



- Improving market access for **all cereals chain players in West Africa** to storage, sales, procurement, trade, finance and risk management instruments
- Improving transparency and price discovery for cereals markets by **establishing West African price benchmarks**
- **Integrating fragmented national cereals markets into regional and continental markets** through Bourse Africa's pan-African hub and spoke structure
- Underpinning the capacity of **West Africa's banks and development partners** to expand their trade, finance and investment services for cereals chains
- Mitigating counterparty risk and guaranteeing performance on contracts through a **Central Counterparty (CCP) Clearing and Settlement System**
- Structuring and streamlining **settlement processes** through an exchange-defined settlement cycle, and through **secure payment channels** via African banks
- Ensuring that trade takes place within a **fair, neutral, transparent, robust and enforceable rule-based regulatory framework**



Bourse Africa Vision: One Infrastructure, Multiple Exchanges



We believe:

- Every country or region has its own needs, and thus should have its own exchange
- It is not economical for every African country to set up its own independent infrastructure – exchanges are too capital-intensive
- African exchanges should be compatible with each other so more African inter-regional trade can take place

Bourse Africa

One common infrastructure

Supporting

Multiple Exchanges
(per Country or per Region)

Harmonising

Rules, Systems and Processes

Facilitating

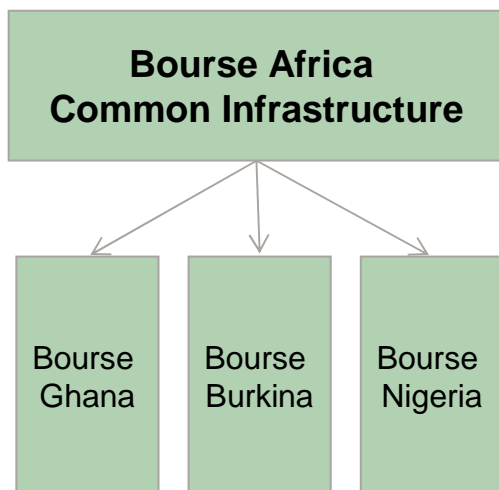
Regional and Pan-African
Integration



Possible structures for a Regional Exchange

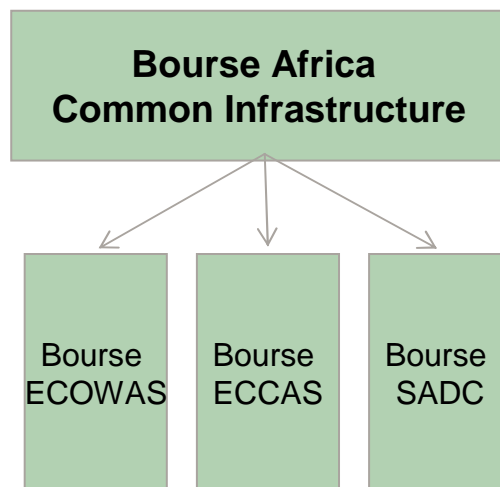


1) NATIONAL APPROACH



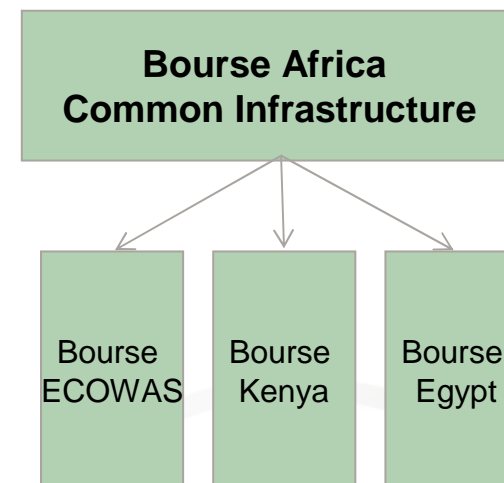
- Membership of the national exchange
- Regulated and enforcement by national regulators
- Trading products relevant for each national market
- Harmonised rules, systems, processes to enable trade between the exchanges

2) REGIONAL APPROACH



- Membership of the regional exchange
- Regulated by regional regulator (enforcement by national regulators)
- Trading products relevant for each regional market
- Harmonised rules, systems, processes to enable trade between the exchanges

3) HYBRID APPROACH



- Membership of the national or regional exchange
- Regulated by national or regional regulator (enforcement by national regulators)
- Trading products relevant for each national or regional market
- Harmonised rules, systems, processes to enable trade between the exchanges

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To Create a Truly Regional Exchange



- 1. Regulation:** Common licensing and oversight regime – i.e. licensing and oversight of brokers / participants on a regional basis - i.e. one license for all regional activity

- 2. Products:** Regional standards against which product quality can be certified;

Delivery locations across the region with free movement of goods between delivery locations;

Contracts denominated and settled in the same currency.

- 3. Membership:** Brokers and participants operate across multiple national jurisdictions, irrespective of physical location

- 4. Operations:** Harmonised rules, systems and processes

Banks and payments operate smoothly cross-border



Contents



- Creating a regional exchange
- **Roles of the Different Actors**



How do Market Participants Use the Exchange?



1. Market Information

- Negotiate and benchmark sales – spot or forward – against a neutral authoritative price reference
- Improve decision-making (production, marketing, risk management), based on projected future price scenarios

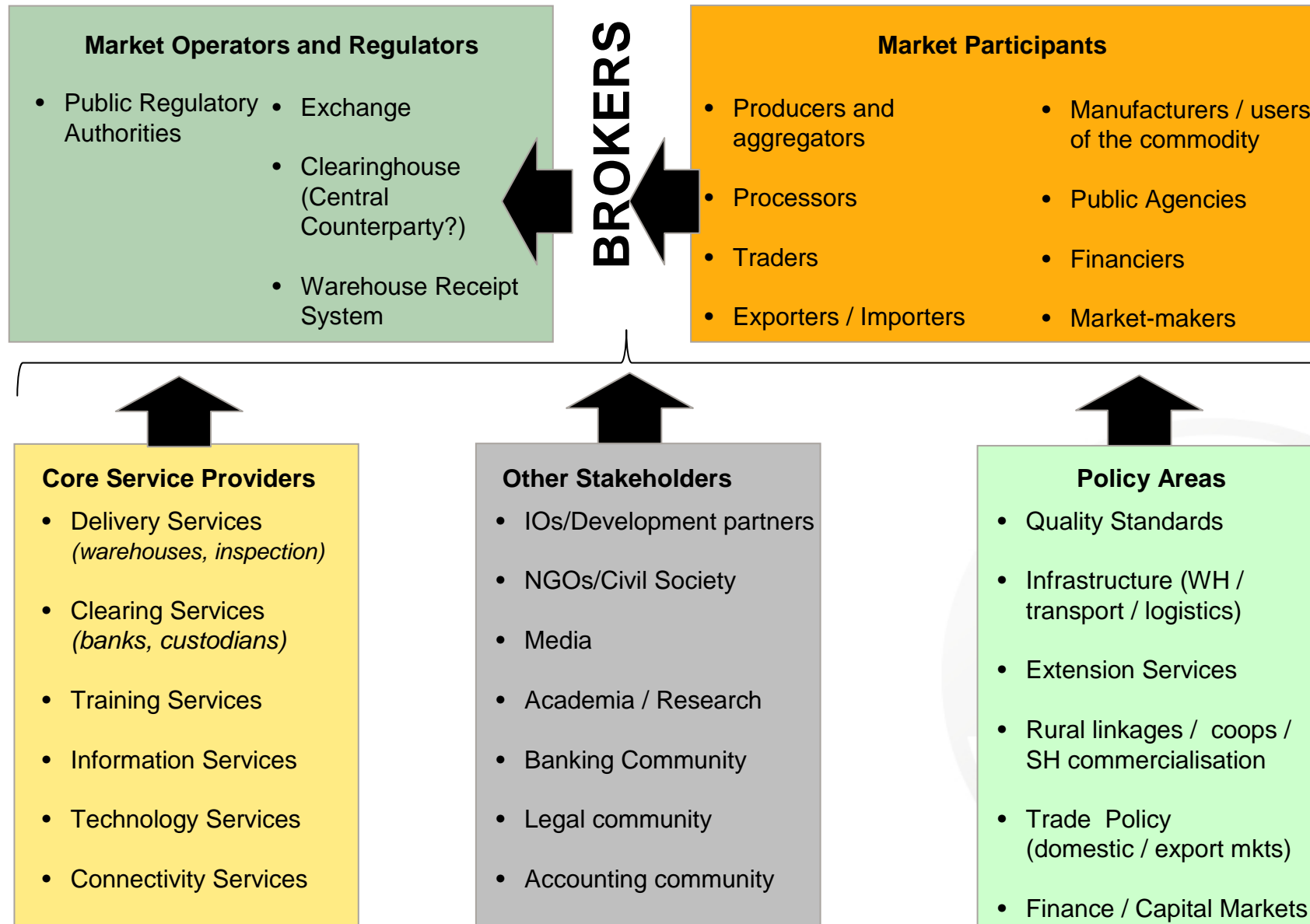
2. Delivery, Storage and Finance: Deliver to an accessible exchange-accredited warehouse; Store or sell depending on market conditions; Access lower-cost bank finance on the back of warehouse receipt as collateral (and, ideally, having hedged exposure to price risk)

3. Sale and Purchase of the Physical Commodity: Access open and competitive markets; receive a market price; operate within well-defined trading rules, procedures and contract specifications

4. Price Risk Management solutions: Hedge directly using futures and options instruments, or indirectly via an intermediary – e.g. trader, bank – who can offer forward pricing and/or OTC solutions



The Universe of Actors



Three of the Key Partnerships



- Regulator / Government
- Rural Aggregators
- Banks



Roles for Regulator / Government



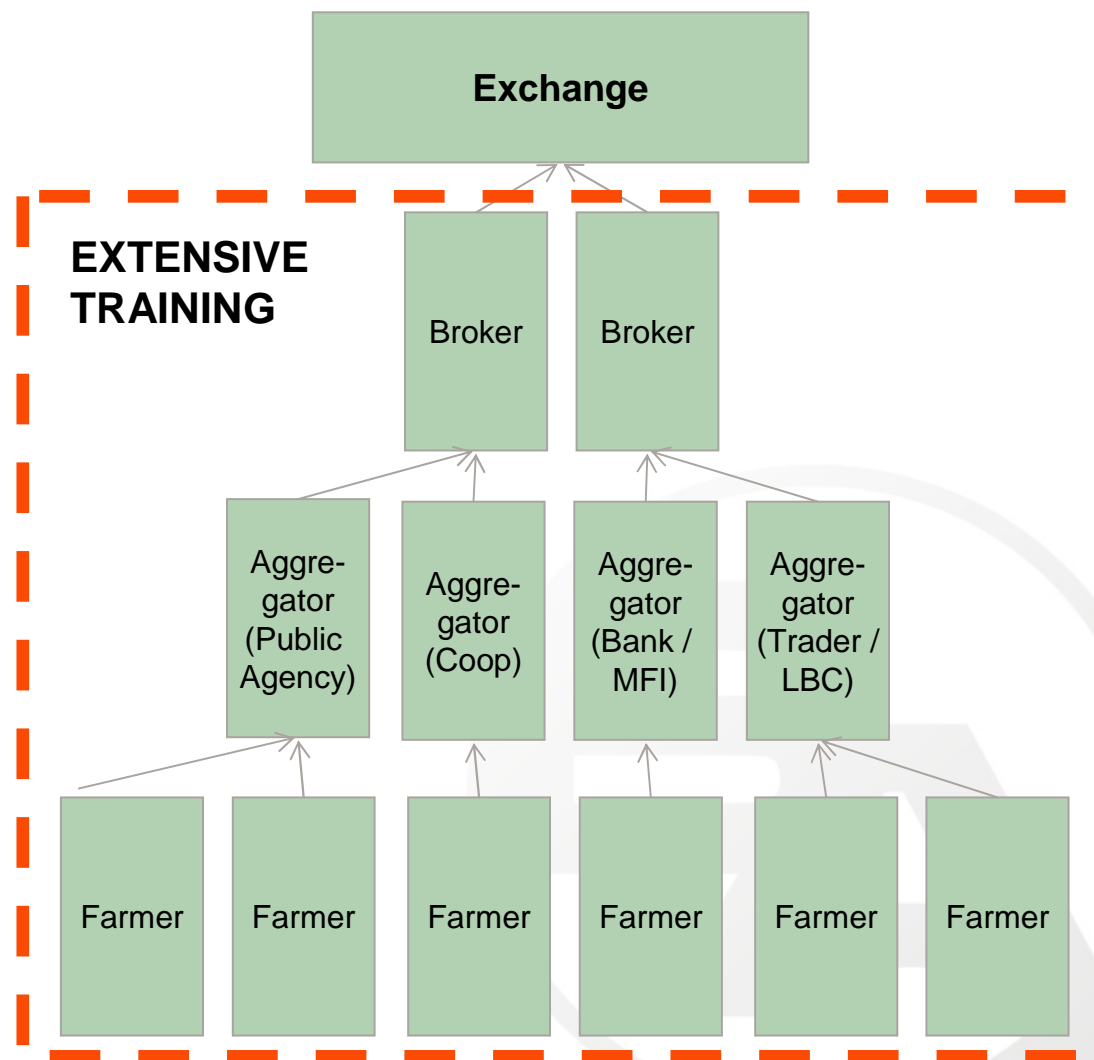
1. Accessible and enforceable commercial law (sanctity of contracts)
2. IOSCO-compliant legal-regulatory framework for exchange-trading environment (trading, clearing, settlement, delivery)
3. Grant exchange the status of a Self-Regulatory Organisation (SRO) to act as frontline regulator for enforcing its rules and admitting its members
4. License and oversee the activities of the exchange as an SRO
5. License and provide oversight of exchange participants
6. Cooperation and information-sharing with other African and international regulators
7. Public agencies to leverage exchange mechanisms
8. Supporting policy initiatives (standards, infrastructure development, extension, rural linkages, trade, finance & capital markets)
9. Create the framework for regional integration



Roles for Rural Aggregators



1. Leverage existing distribution networks and relationships in rural areas
2. Build and maintain a database of farmers, production, price and quality data
3. Receive training and develop skills to link farmers to exchange-based services
4. Develop physical hubs or mobile solutions for input supply, market information, delivery, storage, finance, and risk management



Roles for Banks



1. Payment conduit in clearing and settlement system
2. Depository participant / custodian for warehouse receipts
3. Clear and settle on behalf of brokers
4. Margin financing / hedging lines to market participants
5. Provide brokerage services to market participants
6. Inventory financing to producers, processors and traders
7. Structure OTC hedging to corporates and financial institutions
8. Foreign Exchange services for, e.g. USD-denominated transactions
9. Research and advisory services
10. Technology hosting and infrastructure support



Africa's first truly continental financial exchange

Thank You!

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