JSE proposals seek to tighten bond-market listing rules

By **HILARY JOFFE**

● In June last year, the then water affairs minister Nomvula Mokonyane dissolved the board of the Umgeni Water Board, leaving it without a permanent CEO or a board of directors. Though Umgeni has R1.5bn of bonds listed on the JSE, none of this was disclosed to investors or rating agencies and it was only after asset manager Futuregrowth raised the alarm that Umgeni issued a Stock Exchange News Service announcement in August last year.

The incident highlighted the dearth of disclosure or governance requirements for JSE-listed bond market issuers, which are not subject to anything like the stringent rules with which equity market issuers have to comply.

Last week the JSE published proposed debt-listing requirements that aim to change this, imposing tougher discipline, particularly on state-owned entities which have listed bonds but, unlike most private-sector corporate bond issuers, are not also listed on the equity market.

These include Eskom, Transnet, Sanral and Umgeni, as well as the Development Bank of SA and the Land Bank, and some larger municipalities.

The new rules come after a period in which the debt market helped to impose some discipline on companies such as Eskom, which the JSE threatened to suspend last year if it missed the deadline to publish its financial statements. The power utility was one of five public entities to which Futuregrowth suspended lending on concerns about governance.

The extensive proposals, on which the JSE has worked closely with the National Treasury and market participants, would require companies listed on the bond market to disclose details of their directors and how they are appointed and to announce and explain any changes and any directors' dealings or holdings in the company's bonds. Issuers will have to comply with mandatory corporate governance practices, including the King code, appoint an investor representative to represent the interests of bondholders and ensure transparency by the issuer.

The new rules also aim to address concerns about state capture and corruption by requiring issuers such as state-owned enterprises (SOEs) to disclose their policies on procurement, and make available an up-to-date register of procurement partners representing 10% or more of their annual spend.

Issuers will also have to disclose, and have policies on, any "domestic influential prominent persons", such as politicians, who have relationships with board members, or loans or procurement relationships with the company.

The Treasury said on Monday the new proposals would "bring about increased transparency and improved governance for SOEs and complement measures to strengthen SOE governance. SOE governance is at the centre of government's efforts to reignite growth in the economy and combat corruption."

JSE listings department head John Burke said the proposed requirements would force bond market issuers to ensure proper governance and transparency. Though the requirements were still not the same as for the equity market, they went a lot further than before.

Market players are still studying the proposals, which are open for comment until the end of the month.

The JSE has published proposals that are intended to tighten disclosure requirements for bond issuers such as state-owned enterprises. Picture: Simphiwe Nkwali

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> **Andrew Canter**
> CEO of Futuregrowth

Futuregrowth CEO Andrew Canter said the two thrusts required in bond market reform are for improved investor protections and better reporting on governance issues. "If we can get those two thrusts right we will have gone a long way to improving bond market standards and governance oversight as well as supporting SA's democracy."

He added that "we want to create an environment where governance reporting standards are standardised and robust enough so analysts can assess companies' governance applying competence and judgment, much the same way that they analyse financial statements. Governance is really a web of oversight that is performed by company insiders, shareholders, lenders, auditors, regulators, journalists, ratings agents and even the public."