



anncroft

Becoming a basket case

Sadly, self-interest trumps all in today's markets

At some stage during Coronation Fund Managers' two-hour AGM last week, I felt I might be slipping into Hillary Clinton's "basket of deplorables".

Not the racist, sexist, homophobic, xenophobic, Islamophobic part of the basket, but the part that doesn't get it any more. The part that doesn't understand when or why things got so out of hand; why the haves have a ridiculous amount of everything – not just money, power and access, but also hope – and the have-nots have so little of anything, including hope.

It might have been when the Coronation board was trying to persuade shareholder activist Theo Botha that the R600m or so allocated to employees was reasonable. Botha was working on the assumption most of it was going to a relatively small section of the group's 290 employees. But there wasn't enough information to even hazard a guess on that.

The board's attitude seemed to be that Botha doesn't understand because he's just not sophisticated enough. If he were sophisticated he'd understand that this is how the market works for people with financial skills.

It may have been when the chairman explained how the board had satisfied itself that a new director was independent. "We looked at the whole issue of independence and satisfied ourselves." How? "It's not just his shareholding, it's whether he can act independently", was the non-answer.

The following day I was in parliament listening to lobby groups trying to persuade the standing committee

on finance that the economy would be best served by imposing nothing more than minimal restrictions on audit firms. I could feel myself slipping into the deplorables basket again as I tried to figure out how this powerful industry still operates with a quaint early 20th-century mindset: "We are powerful so we must be trusted."

The CFO Forum, the SA Institute of Chartered Accountants, the King Committee, the International Federation of Accountants and one or two big audit firms repeated the message: SA's auditors do an outstanding job and have the required spades of integrity that enable them to declare themselves independent of high-paying, 100-year clients.

And, anyway, the Independent Regulatory Board for Auditors (IRBA), which is pushing for mandatory rotation of auditors, hasn't done sufficient research to justify its stance, said the woman from the CFO Forum.

Does this mean the IRBA's research amounts to a row of beans? Perhaps the only research deemed "adequate" will be something produced by EY, Deloitte, KPMG or PwC.

And before the week was done, the competition commission reminded us, again, of just how contrived our free markets are. Here were allegations that the largest market in the world is being manipulated. It seems little if any damage was done to the dollar-buying public. But damage was done to the assumed integrity of the market.

That might be a good thing. It will remind us that markets are generally flawed constructs driven by self-interested individuals; they have gamed the system and cornered all the rewards. x

BY THE NUMBERS

Gambling industry: tax

R2.6bn

is the tax revenue collected from gambling in 2015. Limited payout machines bring in the most tax, followed by bingo and casinos

A R2bn

is the amount of VAT collected on gambling revenue from casinos

17.5%

of the gambling population engages in illegal gambling activities

R140m

in lost tax revenue is the estimated cost of illegal gambling to government in 2015, according to the Casino Association of SA

REVENUE

R 26 bn

is the revenue accumulated by the gambling industry (casinos, limited payout machines, bingo and betting) in 2015, an 11.2% increase on 2014

R34.8bn

is what PwC expects revenue to increase to by 2020