



17 August 2018

Mr Allen Wicomb and Ms Teboho Sepanya
Committee Secretaries
Standing Committee of Finance

Per email: tsepanya@parliament.gov.za
awicomb@parliament.gov.za

Johannesburg
Stock Exchange

One Exchange Square
Gwen Lane
Sandown, South Africa
Private Bag X991174
Sandton 2146

Tel: +27 11 520 7000
Fax: +27 11 520 8584

www.jse.co.za

Dear Mr Wicomb and Ms Sepanya

DRAFT TAXATION LAWS AMENDMENT BILL

The JSE welcomes the opportunity to submit our comments on the *Draft Taxation Laws Amendment Bill* to the Standing Committee of Finance. Our comments are limited to the proposed amendment to Section 25BA of the Income Tax Act, 1962 and we attach a copy of our submission to National Treasury and the South African Revenue Service.

We are unable to attend the hearing on 21 August 2018 and consequently we are not requesting an opportunity to make an oral presentation.

Yours sincerely

Anne Clayton

Head: Public Policy and Regulatory Affairs

Executive Directors: NF Newton-King (CEO), A Takoodeen (CFO)

Non-Executive Directors: N Nyembezi (Chairman), VN Fakude, Dr M Jordaan, Dr SP Kana, BJ Kruger, DM Lawrence, Dr MA Matoane

Alternate Director: JH Burke

Group Company Secretary: GA Brookes

JSE Limited Reg No: 2005/022939/06 Member of the World Federation of Exchanges

16 August 2018

Ms. Langeni
National Treasury

Ms. Collins
South African Revenue Service

Per email: Nombasa.Langeni@treasury.gov.za
acollins@sars.gov.za

Dear Ms. Langeni and Ms. Collins

TAX TREATMENT OF AMOUNTS RECEIVED BY OR ACCRUED TO PORTFOLIOS OF COLLECTIVE INVESTMENT SCHEMES

The JSE welcomes the opportunity to provide our comments on the proposed amendment to Section 25BA of the Income Tax Act, 1962 ('the proposed amendment'). We share the concerns raised by ASISA in its submission on the proposed amendment and our comments are focused on our primary concern that the proposed amendment may have a negative impact on the liquidity of the South African financial market and the domestic economy.

The importance of liquidity

*"Liquidity is the lifeblood of financial markets. Its adequate provision is critical for the smooth operation of an economy. Its sudden erosion in even a single market segment or in an individual instrument can stimulate disruptions that are transmitted through increasingly and interconnected financial markets worldwide"*¹.

Market liquidity is understood as the ability of participants in a market to buy and sell securities efficiently and in a manner that is least disruptive: with minimal loss to nominal values, low transaction costs and within a short time frame². Liquidity contributes to investor confidence, price discovery and the robustness and attractiveness of a financial market. More importantly, high liquidity is crucial to financial system stability as a liquid market is better able to absorb systemic shocks; low liquidity places a constraint on economic and market development.³⁴

It is generally recognised that a diverse investor base and wide variety of financial products significantly contributes to growing and maintaining liquidity in a financial market. A decline in a type of market participants or a reduction in financial products in a market will have a negative consequence on the liquidity of that market.

¹ Fernandez (1991), p1

² IOSCO (2007). Factors Influencing Liquidity in Emerging Markets

³ ibid

⁴ World Federation of Exchanges and Oliver Wyman (2015). Enhancing Liquidity in Emerging Market Exchanges

Liquidity on the JSE

The JSE facilitates trading of approximately R23 billion daily on the Equities Market, ranking the JSE amongst the top 20 exchanges in the world. The majority of the liquidity on the exchange originates from institutional investors, many of whom manage collective investment schemes ('CIS'). Major global investors trade on the JSE, with foreign activity on the JSE equity market averaging approximately 20-25% of total trade per day. The trading activity of High Frequency Traders also contributes positively to liquidity on the exchange. This ecosystem of diverse investor types is an important feature of robust market structure and a liquid market.

Managers of CIS control assets in the region of R2.26 trillion and a significant portion of those assets are traded on the JSE. Retail investors, seeking affordable, diversified and safe savings and investment products, invest in CIS or exchange traded funds ('ETFs') directly on the JSE. The ETF market is R71 billion in size and 64 of the 74 ETFs listed on the JSE are structured as CIS which accounts for 55%-60% of the total ETF value traded on the JSE.

The South African ETF industry is predominantly retail investor focused and, apart from the securities transfer tax exemption it offers and its inclusion in tax free savings accounts, does not offer any direct tax benefits.

Behavioural changes

Any significant change that impacts investor appetite and ultimately investor behavior could lead to diminished activity in the market, affecting liquidity which impacts all market participants and their investments. The proposed amendment, if implemented, will increase the cost of investment in CIS and will yield a lower after-tax return for investors. In these circumstances CIS will become less attractive and investors are likely to move their savings to other tax-friendly jurisdictions or unregulated investment vehicles. The unintended consequence of reduced investment activity in CIS will render the products unviable which will have a direct and negative impact on the liquidity, stability and attractiveness of the South African financial market.

We thank you for the opportunity to submit our comments. Should you require clarity on any of our comments or any further information please contact the undersigned, annec@jse.co.za or 011 520 7791.