

# **Proposal for Jamaica Stock Exchange Junior Market**

## **1.0 Introduction**

1.1 This initiative has evolved out of an ongoing dialogue between the Ministry of Finance & the Public Service and the Jamaica Stock Exchange (JSE). The Executive Summary of the JSE proposal is attached as Annex 1.

## **2.0 Background**

2.1 An important factor in the promotion of growth in the Jamaican economy is a solid investment climate. Currently, it is very difficult for small and medium sized enterprises (SME) to raise capital through commercial loans because they lack the necessary security. Also, there is no capital market facility in Jamaica for SMEs to raise equity capital, which is extremely important to have a proper capital structure. As such, the Junior Stock Exchange is being proposed.

2.2 The following successes have been noted in the establishment of Junior Markets elsewhere, namely:

2.2.1 The London Stock Exchange junior market – the Alternative Investment Market (AIM)

2.2.2 The Toronto Stock Exchange junior market – Venture X.

2.3 These junior markets allow investors to put capital into legitimate small and medium sized companies that are listed. The fundraising and development activities of the listed investment securities have demonstrated their ability to grow the local economy by creating established and transparent businesses, jobs and ultimately, economic confidence.

2.4 The Board of Directors of the Jamaica Stock Exchange has received favourable feedback from the various member dealers that there is a demand for this facility and has committed to several new listings in this category within the first year of implementation.

### 3.0 Key Considerations

3.1 The success of the JSE Junior Market project is dependent on the support of key stakeholders, including:

- 3.1.1 **Government** – for overall support, as well as for the purposes of the implementation of appropriate tax incentives and legal reforms for the purposes of the Junior Market. See section 6.1.
- 3.1.2 **Other regulators** – namely the FSC, for their cooperation in the process for listing appropriate entities on the Junior Market.
- 3.1.3 **Financial Professionals** – (Bankers, Securities Dealers, ICAJ) for their willingness to participate in and promote the Junior Market.
- 3.1.4 **Entities willing to list on the Junior Market** – given appropriate incentives, it is anticipated that the Market will be launched with a minimum of 5 listings. However, based on feedback from member dealers who have indicated that they are working with companies that desire to be listed, the number could increase significantly over a 24 month period.
- 3.1.5 **The investment community** – for its confidence in, and selection of, investment products offered on the Junior Market.

### 4.0 Criteria for the JSE Junior Market

- 4.1 Companies desirous of listing must do so via an Initial Public Offering.
- 4.2 The only Method of Issue is that of the PROSPECTUS ISSUE through which an offer must be made to the public by or on behalf of a company at a fixed offer price.
- 4.3 A company which is wholly or partially a subsidiary of a registered entity on a recognized stock exchange shall not be eligible to be listed.
- 4.4 A company once listed on the main board of the Exchange is ineligible for listing on the Junior Market.
- 4.5 The SME must appoint a mentor to its Board. The mentor must be approved as 'Fit & Proper' by the Financial Services Commission (FSC).
- 4.6 The shareholder's equity of the company following the capital raising activity shall not be less than J\$50 million and shall not exceed \$500 million.
- 4.7 For the purpose of transparency, **annual statutory audit, quarterly and annual reports are required** in keeping with the submission requirements of the main exchange.

## **5.0 Cooperation with Other Entities Engaged by SMEs for the Purposes of the SME's Development**

5.1 The Exchange and the Ministry of Finance & the Public Service intend to explore potential synergies with the Private Sector Development Programme (PSDP) and its Corporate Finance Brokers Unit. The PSDP is a technical assistance programme implemented jointly by the European Union and the Government of Jamaica that is administered by JAMPRO.

5.2 The criteria for assistance given by the PSDP may benefit some of its target SMEs for the Junior Market. The Exchange intends on an ongoing basis to work with entities such as the Corporate Finance Brokers Unit in an effort to continue to provide potential Junior Market companies with information on mentors as well as other mentoring service.

## **6.0 Taxation Issues and Delisting**

6.1 (As noted in section 8 of Annex 1) SMEs will be attracted to the Junior Market based on the level of support which will be provided to them. This includes appropriate tax incentives which can be provided by the government. The JSE is proposing a tax incentive for an **Allowable Period** not exceeding ten (10) years from the date of listing on the JSE Junior Market. The method of implementation is also proposed as follows:

- 6.1.1 A full income tax holiday for half of the Allowed Incentive Period after listing.
- 6.1.2 A half income tax holiday for the second half of the Allowed Incentive Period.
- 6.1.3 An exemption from tax on dividends or other distributions by Junior Markets.
- 6.1.4 An exemption from transfer tax and stamp duty on transfers of shares in JSE Junior Market companies.

6.2 If a company exceeds its maximum market capitalization of J\$ 500 million, it will be required to list on the main JSE Board. If the company delists within 15 years of being listed on the combined exchanges, it will be required to repay to the Government the tax benefits enjoyed during this period.

6.3 An SME will enjoy the benefits of any approved tax incentive while on the Junior Market during the allowed incentive period. At the end of the allowed Incentive Period, the SME will be obligated to move to the main board of the JSE.

6.4 Should the SME decide after the period in which the tax holiday was granted not to list on the main board or to delist without compelling reasons, the SME must reimburse the government for the tax incentive provided.

6.5 Should the SME be acquired by a private entity following any full year on the Junior Market where the benefits were received, then the company must delist and the government be reimbursed for the benefits received during this period.

## **7.0 Expected Timelines**

7.1 The expected timeline for drafting and implementation is 3 to 6 months. The Exchange together with the Ministry of Finance & the Public Service propose to draft the Junior Market Rules, and after Government approval of incentives, there will be a sensitization programme for potential listing companies.

## **8.0 Steering Committee**

8.1 It has been agreed that a Steering Committee be established to ensure implementation within 6 months; the Committee will be chaired by a representative of the Jamaica Stock Exchange and consist of representatives from:

- i. The Ministry of Finance & the Public Service
- ii. The Financial Services Commission
- iii. The Registrar of Companies
- iv. The Institute of Chartered Accountants Jamaica

**Senator Don Wehby**  
**Minister without Portfolio**  
**Ministry of Finance and the Public Service**  
**September 9, 2008**