ADVANTAGES OF A SCRIp REPOSITORY FOR THE STOCK EXCHANGE THAT HAS ONE

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In the 1976 No. 1 issue of Jassa, a method for Stockbrokers to reduce their overdrafts and interest expense was outlined. This article extends that work.

This article discusses some of the advantages to a Stock Exchange, and its member stockbrokers, of a common pool of scrip, a scrip repository or scrip bank.

An article in the February issue of JASSA outlines one means of creating a scrip bank — brokers lending and borrowing scrip to and from the stock exchange. An alternative method of creating a scrip bank is for all deliveries of scrip by clients to brokers being received by the common pool and brokers being credited or debited in the manner of a (scrip) bank account.

Whatever method of creating the scrip bank, the marshalling of scrip for common use has implications for the service stock exchange members would be able to provide their clients and stock exchange liquidity.

Service to Clients
Given the availability of scrip in a scrip bank it is possible for an institutional or overseas client desiring to buy substantial quantities of scrip to be given immediate delivery (lodgment of the scrip at the share register), even before the buy order is
completed on the floor of the stock exchange.

For example, assume an order to buy 100,000 B.H.P. If the current price is $7.50 and the scrip depository holds 100,000 B.H.P., the broker involved could lodge the 100,000 B.H.P. for the client on payment of $750,000. The difference between actual cost of the 100,000 B.H.P. on the market and $750,000 would be adjusted when purchases were completed. The buying broker, if he borrowed the 100,000 B.H.P. from the scrip repository, would "repay" the scrip as he received deliveries from the market or, if a full scrip bank was utilised, his account would be debited on scrip lodgment and credited as he progressively carried out the buying order.

Lodgment of scrip could take place at any agreed time, such as immediately the full 100,000 B.H.P. were purchased. Whatever the case, the service to the client is much superior to the present. It is suggested that volume business of this type would progressively move to the stock exchange capable of offering this kind of service. It is also suggested that increasing activity on one stock exchange will draw all other business to that stock exchange.

Stock Exchange Liquidity
The liquidity of the stock exchange would be enhanced by the earlier receipt of the $750,000. In other words scrip on overdraft would be reduced.

The liquidity of the stock exchange operating a scrip bank would also be improved by the quicker delivery of scrip to interstate buying brokers. Assume a Brisbane broker buys 1000 B.H.P. through Sydney. Given knowledge of the transaction the Sydney scrip bank could deliver the 1000 B.H.P. the following day. Payment would take place on receipt in Brisbane.

There is no obvious reason why the Brisbane broker could not pay the proceeds into an account in Brisbane, this same account being used to pay Brisbane brokers who had sold scrip and delivered in Sydney. Delivery to Sydney could in fact take place in Brisbane with scrip and other documents being forwarded, by air, overnight to Sydney. The speed and convenience of this situation would make Sydney a preferable market.

Conclusion
In my view, a stock exchange operating a scrip bank, as above, would enjoy a decided advantage both as regards the business it would obtain and the liquidity it would enjoy. Both factors would increase efficiency and profitability.