

SESSION V: THE ROLE OF LOCAL INSTITUTIONS: DISCLOSURE CHANNELS

ROLE OF EXCHANGES IN THE DISCLOSURE OF NON-FINANCIALS

Presentation on by

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¹ Financial information

The main direction of activities of any exchange, including the Trading system RTS, with respect to information disclosure is disclosure of financial information. Financial information disclosure is carried out by exchanges almost all over the world in accordance with similar rules, although by using different mechanisms.

Significance and influence on the market of financial information disclosure are quite well examined. Although, means and forms of information disclosure has suffered substantial changes in the course of technologies' development, its essence and purpose remained the same. Today tasks of construction of the modern civilized market substantially increase role of disclosure of other types of information, not connected directly with the process of concluding transactions and establishing quotations. This information can be determined as non-financial, although its influence on the market on the whole and on its constituents is quite significant.

Non-financial information

Non-financial information disclosed by exchange may include:

- information on the exchange participants;
- information on the issuers and securities;
- information on the activities of the exchange itself, on taken decisions.

If non-financial information itself can directly influence in different ways on the market, destabilize and strengthen it, then the fact of the presence of well-functioning scheme of collection and disclosure of non-financial information is a stabilizing factor decreasing risks of the market participants.

Information on the exchange participants

Information disclosure on the exchange participants is regulated by the FCSM legal acts and in accordance with internal rules and procedures of the exchange itself. The purpose of disclosure of information on the trade participants is to minimize risks of the trade participants connected with their activities in the trade system.

There are several regimes of disclosure of information on participants:

- 1) free access disclosure;
- 2) disclosure only among the participants;
- 3) disclosure for authorized state authorities and regulators.

¹ The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its member countries. This paper is subject to further revision.

For the purposes of more complete information disclosure and control over its reliability, the RTS Executive board collects all information on organization in the course of its enrollment in the exchange² and further monitoring of occurred changes. The RTS normative documents stipulate that if there are any changes in the documents earlier submitted to the RTS, the exchange member is obliged to notify the Executive board within seven days in case of legal status change and within one day in case of other changes. There are penalties envisaged for delay or non-submission of information. By agreement with the exchange members all submitted information can be subjected to analysis and examinations.

Based on the presented information, the RTS daily discloses information on its members in a free access basis on the web-server. RTS also provides the list of the participants of trades at the RTS indicating their codes, trade access regimes and names of employees the RTS members entitled to conclude transactions certified by relevant FCSM attestations.

The most important and urgent information is brought to notice of the trade participants in the course of trade sessions through the information port of the RTS workstation.

The RTS weekly discloses in a free access regime information on amounts of transaction concluded by the trade participants. Moreover, in a free access regime there is disclosed information on financial indices such as amount of owned capital, amount of initial net capital and amount of liquid net capital.

The RTS participants receive more detailed information, for example, quarter data on companies' balances and statements on profits and losses.

The FCSM monthly receives information on the trade participants and authorized traders, on a quarterly basis - general information on the exchange participants in accordance with the list of submitted information required by the FCSM legal acts. Information on transactions and their details is available only for the regulatory authorities.

Disclosure of information on the exchange participants is of great significance at new developing markets, when it is important for an investor (especially this relates to individuals) to get public information on the professional participants of the securities market in order to take a decision on choosing a broker.

Information on the issuers and securities

One of the serious questions in informational "transparency" of the issuers, whose securities are traded at the market (mainly these are joint stock companies). The RTS applies great forces for complete and qualitative disclosure of such information.

Today, even if issuers follow the Securities Commission's requirements, many companies lack a culture of information disclosure with respect to their activities. Companies do not have incentives for such disclosure, which is almost in the first place connected with the fact that many Russian joint stock companies are not explicitly interested in trade with their securities at the open market.

Existence of these problems indicates lack of development of the Russian market and shows that there is a long and difficult path ahead on establishing civilized relations between its subjects. From its

² Such as : on establishment and registration of the organization, shareholders' structure, legal and postal addresses of activities, telephone and fax numbers, e-mail address, www-address, biographical particulars on chiefs, financial situation, results of audit examinations, presence of license of the professional participant of the securities market.

part, in order to solve this problem the RTS performs the whole complex of actions on obtaining information from the issuers and presenting them for the market.

The RTS discloses such information in several directions, among which there can be noted urgent and current data, general information on the issuer, its securities, and information disclosed upon request of the issuer itself. In order to ensure a continuous flow of information, the RTS established bilateral relations with the companies that trade on the exchange or are only included in the RTS list. The Trade system and the issuer sign the Agreement determining the structure of and the procedure for information exchange between the parties. At present such agreement have been signed by approximately 90 issuers (from 240 issuers, securities of which are admitted for the RTS trades) and work on signing continues with respect to the rest of enterprises.

It is necessary to note that some time ago there has been a qualitative improvement in the issuers' relation towards trade areas and, in particular, towards information disclosure for / through trade areas. For example, in comparison with the situation of 1996-1997, when position of the majority of issuers with respect to the trade organizers could be called " suspicious-negative". Nevertheless, such results have been influenced by the active position of RTS trade organizers, in familiarizing employees of relevant departments of the issuers with business practice of trade areas, explanations of principles of the organized markets' activities and use of information received from the issuer, benefit from timely and complete information disclosure.

So as regards the information on the securities and their issuers disclosed by the RTS:

First of all, this is *urgent* information on global operations performed in the issuer's securities register: conversion, registration of additionally issued securities, securities' repayment and other operations, which substantially (in times or tens of times) change the securities' value. In this case the Listing department places a message in the information port of the RTS-PLAZA workstation, containing information on changes being performed in the register, dates of such changes. Such message, as a rule, is duplicated at the RTS Internet server, which makes this information available for more wide circle.

It is necessary to note that information disclosure through the RTS-PLAZA workstation is first of all oriented directly at the persons participating in the securities trades at the RTS, which assumes, firstly, urgent nature of such information, and, secondly, quite compact form of its statement.

Less urgent information, for example, *general data on the issuer, its securities*, is disclosed through the Internet server of the Trade system.

For example, this is the Security Form containing information on:

- the security itself: type, kind, security's category, par value, quantity, issues, state numbers of issues, etc.,
- the issuer: general information on legal entity, address, details, persons responsible for activities at the stock market, telephone numbers, e-mail addresses, etc.,
- register holder: name, license number, details, contact information, chief, etc.

Such forms on each security are placed on the RTS Internet server, available for each server's visitor absolutely for free and are renewed as the RTS Trade system receives information.

Besides that the Internet server also includes section "Issuers' news", which publishes the issuers' messages specially sent by them to the RTS for publication at the server of the Trade system. As a rule, such messages contain information related to corporate life of certain issuer (decisions of Board of Directors, changes in Management, adoption of business plans, development plans, programs for increasing liquidity, etc.). It is also necessary to note the work performed by RTS for the purposes of

tracking establishment of the issuers' representations in the Internet and organizing references on these resources in such a way as any interested investor can get to the issuer's server (if any) directly from the RTS pages omitting search engines.

Quite new and interesting form of information disclosure is performance of presentations, where representatives of the investors, trade participants and mass media meet face to face with managing authorities of certain issuer and have an opportunity to receive directly exhaustive information on joint stock company. The latest presentations performed by the RTS have introduced OJSC "Electrosvyaz" of Kemerovskaya oblast and "RITEK" Oil company to the investment community.

Besides effect from such way of presentation of information, it is necessary to mention one more result of such arrangement – the issuer's chief gains immediate experience of relations with investors, knowledge about the questions of interest of the investment community and why they exactly. We believe that this is a very valuable experience allowing the issuer after performing such presentation to organize in a new approach disclosure of information on its activities.

Information on activities of the exchange

While in the course of activities the exchanges take decisions aimed at modification and optimization of trade mechanisms, decrease of risks of their participants, increase of the market transparency. These decisions influence the market not only directly but indirectly as well, for example, by that, how the society has been informed about innovations, to what extent and how precisely the purposes and tasks of certain actions have been explained.

One of the rules observed by the RTS is public information of the society on legal acts regulating exchange activities so that any company deciding to become a member of the exchange, any active RTS member have clear ideas regarding the character of mutual relations with the exchange and partners.

The RTS Trade system is the largest and most actively used in Russia electronic exchange area, to the share of which there fall about half of the total amount of trades at the Russian stock market.

The RTS is electronic exchange trades on the basis of the RTS PLAZA workstation, which does not have analogues in Russia and represents complex of modern software and databases installed on personal computer of the Trade system member.

The RTS is the opportunity to propose quotations, receive efficient information on the market situation and conclude transactions of purchase and sale of securities of the Russian issuers in real time with settlements both in Russian rubles and foreign currency. Approximately 380 shares and bonds have been admitted to the RTS trades.

The RTS is the exchange area, which proposes to its participants a wide range of exchange and non-exchange technologies of execution of transactions. Depending on the risk management policy adopted in the company, market situation, client's requirements and other circumstances, each RTS participant may choose the most convenient method of conclusion and execution of transactions, including those based on the unique technology "delivery against payment", wide capabilities of the Internet and modern facilities of electronic documents circulation.

The RTS proposes to the market operators a wide range of trade applications, differing by price parameters and principles of activation and execution. Altogether the RTS participants can operate with 12 types of trade applications. The support system for initial securities placement developed by the Trade system allows the issuers or their agents to conduct auctions by initial public placement of securities among the market operators.

The RTS index, official index of the Trade system, has been first calculated on September 1, 1995, and as of today it is the general index of development of the Russian stock market. The index is calculated every half an hour during the whole trade session basing on information on transactions concluded in the RTS with the most liquid shares. The RTS index is renewed in the real time and published on the RTS Internet server at www.rtsnet.ru.

Information disclosure mechanisms, which have been developed and are successfully operating, are aimed at increase of investment appeal of the Russian securities market, attraction of new funds, ensuring maximal information transparency of the stock market for all its participants-issuers, investors, infrastructure organizations and regulatory