Middle East and North Africa Investor Council

High-Level Launching Meeting

- Meeting Agenda -

4 November 2013

Istanbul, Turkey
Background

Investor engagement and activism is nascent in the Middle East and North Africa region. While globally, investors and investor associations have been actively liaising with companies to communicate their expectations and any potential disagreements on strategy, this practice has so far not taken root in the region. Investor associations are not active in the region and have not been influential in lobbying for better corporate governance practices. As a result, there is a widespread view among listed companies that adopting better governance practices is only a matter of regulatory compliance.

On the other hand, stock exchanges and securities regulators in the region are facing significant challenges in attracting stable portfolio investment to local markets, especially in recent years which have seen low levels of liquidity and listings. These concerns are often voiced by heads of stock exchanges and securities regulators participating in the OECD's Taskforce of Stock Exchanges for Corporate Governance which aims to provide a platform for regular dialogue among Arab exchanges on issues of priority.

Given their first-hand experience in MENA markets, investors are best positioned to provide feedback on strategic and technical issues facing them in investing in companies listed on Arab exchanges. With this in mind, the OECD organised a first consultation hosted by Hermes in London with large private and institutional investors in MENA markets on 12 October 2012. This consultation underscored an active interest in the establishment of a regular platform – the MENA Investor Council – to act as a venue for regular discussions and collaboration among large investors.

Objectives

The MENA Investor Council is established to provide a framework for discussion among a select group of investors interested in promoting efficient and transparent markets in the MENA region. Participation in the Council is by invitation only from the OECD and is extended to large investors (both private and sovereign) with exposures to capital markets in the region as well as other market intermediaries with relevant experience.

It is envisioned that the Council would meet on a regular basis at a frequency to be jointly determined by its participants in order to advance its objectives. It is suggested that in the first instance the Council would meet twice annually and collaborate virtually in the interim as necessitated by specific projects. The Council has the following objectives:

- Provide a platform for ongoing investor consultation and collaboration on capital markets and corporate governance related issues;
- Allow investors to discuss their concerns regarding the quality of capital markets and governance regulations and practices in specific markets and companies;
- Conduct and publish research on emerging challenges related to the efficient operation of MENA markets;
- Engage with regulators and stock exchanges on issues of priority to the sound development of local capital markets;
- Engage with individual companies on practices seen as detrimental for future attractiveness of MENA markets.
9.00-9.30  Welcome coffee

9.30-10.00  Introductions and objectives

This introductory part of the meeting will allow the participants to get acknowledged with each other. In order to facilitate a productive discussion, participation in this meeting will be limited at this initial stage to 20-25 largest and most active funds/family offices in the region. Participation in the meeting will be on the invitation of the OECD only.

10.00-11.00  Emerging markets: how does MENA fit in?

The global financial crisis has had an enormous impact on both developed and emerging markets and MENA listed markets have also been affected in different ways. With the exception of a few markets such as Saudi Arabia, Tunisia and Iraq, the pipeline of IPOs has been limited and liquidity is an issue for all but a handful of equities. A number of stock exchanges have reacted by restructuring their ownership and governance (Kuwait, Morocco, Turkey), while other markets have sought to revise listing requirements and introduce other measures to maintain or grow market capitalisation (i.e. cross listing in Saudi Arabia). Despite these measures and recent positive developments such as the upgrade of Qatar and the UAE by MSCI, it is not clear that MENA markets are positioned to receive a greater portion of the growing flow of investment destined to emerging markets. This panel will be dedicated to exploring how the region can position itself better to address this challenge.

Background documents:

Who cares? Corporate governance in today's equity markets, OECD, 2013
Review of listing rules of Arab exchanges, OECD, forthcoming
Trading in the Middle East: the road to Mecca, Tabb Group, 2011

11.00-11.30  Coffee break

11.30-13.00  Transparency of MENA markets: sufficient versus attractive

One of the most fundamental obstacles to attracting greater investment to MENA public markets has been the lack of or low quality of disclosure. This is indeed the most common complaint, heard often from foreign investors in the region, especially with regard to companies beyond the main index. Analyst coverage of smaller companies has also suffered as a result of this, and hence their ability to attract investor interest. A number of countries in the region, notably Saudi Arabia and Turkey have introduced electronic information dissemination platforms which deliver material information to investors in real time. Yet there appears to be limited recognition of these efforts in the investor community. This panel will be dedicated to exploring investor perceptions of the quality and timeliness of the information available on companies with listed equity or debt and measures necessary to improve it.

Background documents:

A survey of corporate governance frameworks in the MENA region, OECD, 2011
The role of MENA stock exchanges in corporate governance, OECD, 2012
Corporate governance disclosure in emerging markets, UNCTAD, 2011
13.00-14.00  Lunch

14.00-15.00  Investing in MENA listed companies: moving beyond the index

Currently, international investors have little or no exposure to MENA companies, beyond the largest traded companies part of national indices. This implies that the incentives for smaller companies to list are reduced and that the liquidity of smaller companies listed on MENA markets suffers. Research estimates put the number of listed companies which are not covered by analysts at close to 90%. At a time when MENA stock exchanges seek to attract family-owned firms to list, it is important to ensure that these companies have a future in the public markets of the region. This panel will be dedicated to examining the policy options available to exchanges and securities regulators to promote broader, sustainable development in domestic capital markets. Investors will be given an opportunity to discuss how investment into smaller listed companies can be made lucrative and how analyst coverage of these firms can be promoted.

Background documents:

The role of institutional investors in promoting good corporate governance, OECD, 2011
The regional market overview and projections, Mubasher, 2013

15.00-16.00  Creating demand for better governance: regulations and incentives

Corporate governance frameworks have witnessed significant improvements with the introduction of comply-or-explain codes in a number of countries, tightening of the listing rules and amendments to companies and securities legislation. These changes have been accompanied by improvements in the enforcement capacity of most regulators in the region. While much discussion in the region has focused on "corporate governance compliance", little of it gets to the heart of changing the governance culture in listed firms. This is arguably due to the fact that presently, corporate governance is largely perceived by listed companies in terms of regulatory requirements. Companies do not currently see market expectations as a great incentive for introducing a certain governance practices. This panel will debate whether the current approach to promoting a good governance culture in the region is effective and, in particular, what large investors Arab capital markets can do to better communicate their expectations.

Background documents:

Shareholder spring in MENA Region, OECD, 2013
The role of institutional investors in promoting good corporate governance, OECD, 2011
Private and public enforcement in corporate governance, OECD, 2013

16.00-17.00  MENA Investor Council: governance and resources

This last panel will be structured as an open discussion to allow participants to discuss and agree on the governance structure of the Council and its plans going forward. The focus of this discussion will be on how the membership of the Council can be broadened without losing focus; how the resources of the Council be structured to obtain maximum impact; what research is necessarily to support the activities of the Council and last but not least, what the priorities of the Council should be. Each of the meeting participants will be given an opportunity to express their views on the above points.
Members of the Council could also pledge in kind or financial support to the specific or broad activities to be undertaken by the Council in the coming months and in the longer term.

**Background document:**

MENA Investor Council: Concept Note, OECD, 2013