

SESSION V: THE ROLE OF LOCAL INSTITUTIONS: DISCLOSURE CHANNELS

ROLE OF SELF-REGULATORY ORGANIZATIONS IN IMPROVING CHANNELS FOR INFORMATION DISCLOSURE

Presentation on by

Mr. Ivan Tyrishkin,

Chairman of Executive Board, National Association of Securities Market Participants (NAUFOR)
Russia

¹ Securing of market transparency is one of the priority directions of economic policy of each modern state. International community is working on creation of generally accepted fundamentals of corporate governance. Organization for Economic Cooperation and Development (OECD) has already formulated such set of principles: protection of shareholders' rights; timely and accurate information disclosure and transparency of activities; liability of board of directors.

The Russian state step by step developing market institutions does not stay aside from the worldwide processes of increasing transparency of economy. The Federal Law On Protection of Rights and Interests of Investors protects investors' rights on information. Officials and legal entities, which do not fulfil requirements for information disclosure, can be fined and the shares of the issuer-infringer have to be withdrawn from auctions.

However, it is not enough to adopt the law – its implementation must be secured. Traditional forms of information disclosure such as reporting documents, publications in mass media, responses on shareholders' inquiries are not convenient both for the issuers and professional participants of the market, shareholders and investors; all this requires too much time and money. In Russian practice publication of all necessary materials on traditional paper media requires about 40 sheets quarterly. For example, information on results of a shareholders' meeting has to be submitted at five addresses and has to be provided to each shareholder (upon request). A shareholder has to keep an eye on the press including specialized publications, to send inquiries and wait for responses.

Adequate realization of the Federal Law "On Protection of Rights and Interests of Investors at Securities Market" required establishment of a new mechanism of information disclosure – efficient, public, ensuring authenticity and completeness of the presented data, convenient for regulatory authorities, issuers, shareholders and investors. National Association of Securities Market Participants (NAUFOR) has developed such instrument within the framework of its program for protection of rights and legal interests of investors. Thanks to establishment of the issuer comprehensive information disclosure system – SKRIN "Issuer" – all necessary data on the issuers and their securities can be efficiently transferred and received via the Internet. Such form of organization of information flows in addition substantially decreases expenses of the market participants, since only computer and wish are required for that.

SKRIN "Issuer" project has been launched by NAUFOR in January 1999. Now this system contains information on more than 1,500 Russian issuers, over 800 companies use it daily, and these indices are permanently growing. SKRIN is open for expansion and can ensure collection and disclosure of information not only for Russia, but and for the Republic of Belarus (within the framework of establishment of the Union state), Ukraine, Kirgizia and other former CIS states.

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.

About the project

SKRIN "Issuer" system established on the basis of experience of the countries with developed market economy is developed and structured in such a way so to meet at maximum the requirements of the market participants and the users inquiries.

SKRIN "Issuer" ensures for:

- **Issuers and professional participants** – possibilities to prepare and deliver all necessary reporting documents to all necessary addresses, reporting preparation becomes easier and terms of delivery are decreasing substantially. To implement this idea, there has been set up a remote access system to enter information using electronic signature and data encryption, which ensures efficient information provision for the market participants, shareholders with minimal expenses;
- **Regulatory authorities** – possibilities to automatically analyze reports on one or more indices. While using traditional forms (i.e., in the course of work with "paper" documents) it is impossible to process reporting documents and even to keep track of the fact of fulfillment of the requirements for information disclosure either by the professional participants or the issuers;
- **Shareholders, investors and interested parties** – to access information on the issuer or professional participant practically without time and money expenses, efficiently, in any time and any amount;
- **All users** – possibilities to receive and submit to the maximum reliable information through the most effective and less expensive way.

Types of information of SKRIN "Issuer" and sources of its receipt

The main source of information in SKRIN "Issuer" are the issuers themselves, which allows to avoid distortion of data received into the system and substantially reduces time of information flow from the source to consumer. FAPSI-certified systems of electronic digital signature, information protection guarantee solution of the problem of authenticity of data.

NAUFOR owns 1 share in several hundreds of the major issuers, which entitles it to receive all non-confidential information on their activities. Moreover, results of daily monitoring of the issuers' activities are received from 14 branch offices of the Association covering the whole territory of Russia.

Data on situation at securities market is submitted by the leading depositaries under agreement on information cooperation: National depositary center, Depositary-clearing center, Depositary-settling union and others.

SKRIN receives information on the results of securities auctions directly from the auctions' organizers: leading stock exchanges of Moscow, Saint Petersburg and Ekaterinburg.

Cooperation agreements are concluded with profile information agencies (Finmarket, PosBusinessConsulting and others) as well as with the state regulatory authorities.

The system also tracks all publications about the issuers and the securities market in the central and regional press.

The variety of sources allows rendering efficiently the whole scope of corporate information, which is of potential interest for users.

SKRIN receives not only reports on the Russian issuers but also data on the most significant corporate events on-line: information on dates and results of shareholders meetings, payment of dividends, changes in charter capital, major transactions, arbitration proceedings, investment projects and many others.

Another unique feature of the system is the possibility to get acquainted with the issuer's foundation documents and privatization plan. Authenticity of documents is confirmed by the fact that they are represented in the system as scanned versions.

Information file received by SKRIN "Issuer" constitutes a unique comprehensive database on major events and participants of the stock market. Well-functioning mechanism of efficient receipt of news represents the present market situation. Basic data supplemented with topical and authentic description of the current situation allows to perform objective analysis of the securities market opportunities and conditions.

Given that, the following should be emphasized in the information system of SKRIN: newswire; analytical materials; databases. All this information can be structured by a user in accordance with its owns goals and inquiries.

News

SKRIN publishes on a daily basis from 70 to 100 messages about major corporate events. This means that news from the issuers are received by SKRIN every 5-6 minutes. SKRIN allows to find or group news from all this amount by text, time of appearance as well as by the issuer (issuers) and by message type. In other words SKRIN allows to sort from the whole information file data on: shareholders meetings; payment of dividends; results of economic and financial activities of the issuers; auctions and tenders; issues, credits and investments; arbitration news.

Results of auctions

Stock exchange auctions are the face of the market and, therefore, their results are placed in a separate section "Results of auctions". SKRIN groups results of auctions both by the issuer and stock exchanges. The first allows to see the price of the same shares at different stock exchanges. The second evaluates trade organizer: the most comprehensive results for each day are represented here. SKRIN also provides a list of the most liquid shares and leaders of growth and drop not only for the current day but for any other period of time as well.

In order to complete the picture SKRIN lists statistics on the most important Russian and worldwide financial indices: financial indices, currency rates and oil prices.

References to the section contain definitions of financial indices and brief characteristic of the Russian stock exchanges.

Databases

SKRIN allows the issuer to place and the user to receive all necessary information about the company in the most prompt and handy way. Major corporations know that information on associated companies is received more efficiently with the assistance of SKRIN rather than in traditional reporting

forms. Therefore, such market leaders as RAO "UES of Russia", "Svyazinvest", "Sibneft", "Perm motors" officially recommend their associated companies to disclose information through SKRIN.

The system provides the user with all necessary data both on the issuer itself and its securities. Besides general information (contact information, foundation documents, quarter reports, main types of activities, information on management bodies, branches and representative offices) SKRIN practically describes the company in full – indicating affiliated persons, associated and dependent companies and major shareholders.

The system discloses information on the issuer's participation in other enterprises and financial groups as well as important information on results of economic and financial activities: accounting reports, information on major transactions and other significant facts, statistics on economic indices (assets, profit, borrowed current assets, etc.). As for securities, the system shows: dividend history and history of issues (privatization plans, decisions on issues, prospectus of issues, reports on the results of securities' issues), data on register holder, auditor. SKRIN also provides information on court claims with the issuer's participation (both as plaintiff and defendant).

SKRIN: new market opportunities

Hi-tech system SKRIN opens new opportunities of the securities market making it more extensional and at the same time dynamic.

SKRIN enriches the market by involving new categories of participants into it. Presently there are a lot of small and medium enterprises working in the real sector of the Russian economy. Such companies could have become reliable and profitable investment object, however, practically there is no information on them and their shares are not traded at stock exchanges because of modest sizes of the issuer. SKRIN puts such low-liquid shares to the market. As in the case with the major issuers, the system simultaneously shows information on small and medium open joint stock companies, their financial and economic activities, quotations of shares. There are no stipulated limitations for size or liquidity: the issuer's transparency is the main thing.

SKRIN increases dynamics and stability of the securities market making procedures for information disclosure easier and cheaper.

In the course of information disclosure the issuer has to submit information on itself not only to the FCSM, "FCSM Bulletin", mass media and but also to all stock exchanges, at which its shares are traded, in order to support listing. Preparation of the relevant documents on traditional paper media requires time and money. Therefore, the end of each quarter becomes quite intensive and for the issuers, and for the shareholders, and for the stock exchanges. Moscow stock exchange was the first, which decided to use SKRIN resources to support listing – the relevant agreement has been concluded on August 16. From the standpoint of the MSE president Maxim Karpenko, implementation of SKRIN substantially decreases risks of the professional participants of the stock market, which are connected with inadequate or incomplete disclosure of information by the issuer in the course of listing, and for the issuers themselves listing support is much cheaper with the assistance of SKRIN.

Analytics

The scope of information presented by SKRIN allows analyzing the securities market on all main parameters.

The database allows to identify the industry leader on main financial and production indices of companies and investment appeal coefficients (subsection "Industries").

It is possible to evaluate joint stock companies of the same industry or from the same region by indices of their work such as owned capital, dividends, profits, proceeds, etc. This information for any period of time is presented in the subsection "Indices".

The most interesting issuers deserve special attention: there are brief information-analytical surveys prepared on them (subsection "Surveys on companies"). Moreover, SKRIN provides weekly surveys on market opportunities in the subsection "Surveys on companies".

Ratings

Basing on data with respect to monthly or quarterly overall results SKRIN determines 50 leading issuers – leaders of the stock market by each of the most important economic indices: liquidity, profit, proceeds, owned assets, capitalization.

SKRIN system allows analysts to compose their own ratings. They include, for example, popularity rating drafted only on the basis of the system based on the statistics of hits on the issuer's information. Information on company first of all is of interest of real or potential investors. Therefore, the number of visits can be considered as the company's investment appeal index. The issuer in its turn can evaluate the extent of investors' interest in a certain event, for example, in a new issue.

Another unique project of SKRIN is a rating of the professional participants of the securities market based on financial indices (subsection "Ratings of professional participants"). The rating includes over 1000 professional participants. Traditional stock exchange ratings rank companies basing on volume of transactions concluded by them: in this way one can evaluate operator's activity but not its reliability. SKRIN rating also takes into account transactions' volume but includes also four indices: assets value, owned capital, charter capital and profits (losses) during the considered period. This rating allows to evaluate financial status of the company and its reliability.

SKRIN "Issuer" in English

Besides necessary issuers' contact information (address, e-mail, www-site, name and position of the chief, name, address and telephone number of register holder and auditor) English-language SKRIN database contains: corporate newswire; list of associated companies; dividend history; information on major shareholders, amount and type of issued and declared shares; prices on the issuers' shares at the main trade organizers; data on the international financial indices.

Categories of the issuers

Issuers in SKRIN "Issuer" are conditionally divided into six categories: "A+", "A", "B", "C+", "C" and "C-".

"A+" category includes issuers having signed relevant agreement with NAUFOR stipulating publicly available disclosure of corporate information on joint stock company. These companies are ready not only to disclose all necessary information about themselves to the shareholders, investors, all interested parties (as all companies enlisted in category "A"), but also to reimburse all expenses connected therewith. Now all necessary information on them, from issues prospectuses to financial reports, is available not only to the professional participants-members of NAUFOR and subscribers of SKRIN "Issuer" system, but also to absolutely all interested parties.

"A" category comprises companies having signed information disclosure agreement with NAUFOR. The agreement stipulates that the company will disclose information in the amount defined by respective legislation.

In accordance with the agreement issuers of "A+" and "A" categories get remote access system installed and software provided enabling to independently disclose information on the company's activities in SKRIN "Issuer" system.

In accordance with the agreement all necessary data are entered into SKRIN system within 10 days after the agreement between the issuer and NAUFOR has been signed.

"B" category comprises those issuers that have provided almost all necessary information, but have not yet signed information disclosure agreement with NAUFOR. "B" category will gradually include Federal group issuers as well as issuers trading at organized capital markets.

"C+" category includes issuers, on which there are presented quarter reports and all structured information from the latest available quarter report.

Open joint stock companies from categories "A+", "A", "B" and "C+" are included into the ratings of SKRIN "Issuer" divided by "Popularity", "Liquidity", "Capitalization", amount of "Profits", "Proceeds" and "Owned Capital".

"C" category comprises issuers, on which SKRIN "Issuer" still does not have complete information. On these issuers there are selectively provided quarter reports, accounting reports, issuing documents, all necessary contact information.

"C-" category includes issuers, on which SKRIN "Issuer" publishes only contact information and corporate news.

SKRIN facilitates information disclosure issue at maximum – it has to be only disclosed. Using available features of the system, the companies demonstrate their readiness for transparency. SKRIN becomes the index of reliability of the market participants both for the issuers and users making openness economically profitable.