Role of Stock Exchanges in Improving Corporate Governance

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Background

- Starting with late 1990s, significant changes in the SE industry
- IOSCO work on exchange demutualisation (2001), regulatory issues raised by exchange evolution (2006)
- Entry of MiFID into force in 2007
- OECD to look at the role of stock exchanges in cg (eg. mechanisms, conflicts of interest, emerging challenges), cooperation with the WFSE
- Report released in 2008, based on research and comparison of 10 exchanges in member countries

Some questions behind the research

- What are the mechanisms at the disposal of SEs to improve cg of issuers?
- Has the demutualisation of exchanges impacted their ability to act as cg standard setters?
- What kind of conflicts of interest do demutualised exchanges face and how can they be best addressed?
- Have recent trends (ATS, dark pools, exchange mergers, etc.) affected the incentives and ability of SEs to pursue the cg agenda?
- What monitoring role can exchanges play in terms of disclosure and transparency?
- To what extent these concerns are different in the different regulatory environments?

Survey of selected OECD exchanges

Selection criteria:
- size
- diversity of ownership structure
- geographic coverage
- interest of member countries

Name	Status	Equity Market Capitalisation ($US billion)[1]	Total Value of Equity Trading ($US billion)[2]
Australian Stock Exchange (ASX)	Listed	1,238.1	753.2
NASDAQ market	Listed	3,603.2	7,349.8
New York Stock Exchange (NYSE)	Listed	14,413.3	17,077.0
Euronext	Listed	3,500.9	2,605.0
London Stock Exchange (LSE)	Listed	3,308.7	3,966.9
NASDAQ OMX Nordic Exchanges	Listed	1,043.5	802.1
Tokyo Stock Exchange (TSE)	Demutualised (not listed)	4,042.8	3,067.8
Toronto Stock Exchange (TSX)	Listed	2,168.0	937.0
Six Swiss Exchange (SWX)	Demutualised (not listed)[3]	1,182.7	885.4
Warsaw Stock Exchange (WSE)	State-owned[4]	181.9	39.6

Sources: websites of stock exchanges, WFSE.

Important trends in the exchange industry in OECD

- Ongoing debate on demutualisation and self-listing: conflicts of interest?
- Intensifying competition among stock exchanges, emergence of international exchange groups
- Cross-border consolidation of stock exchanges and questions about legal basis of regulation by SEs
- Emergence of ATS and emergence of "dark pools"
- Establishment of "dark pools" by exchanges themselves
- Ongoing debate on the incentives of stock exchanges to maintain a high regulatory standard

Key contributions of stock exchanges to improving corporate governance

- Participating in regulatory initiatives (i.e. codes, standard setting, etc.)
- Setting listing requirements and screening issuers
- Setting ongoing disclosure requirements
- Monitoring disclosure and coordinating action with other regulators in cases of failure
- Monitoring compliance with governance codes
- Providing accurate, complete, and up-to-date data to market participants
- De-listing and other sanctions
- Setting up special listing segments (ie. BoVESPA)

Limitations to ambitions of SEs in this area

- Regulatory function exercised in the context of existing legal framework
- In OECD countries, regulatory function of exchanges debated following demutualisation
- In US and Canada, certain regulatory functions of SEs outsourced to avoid conflict of interest
- Some exchanges separated regulatory and profit making functions to address conflicts of interest
- Responsibility for listing and enforcement often shared with securities regulator
- The thrust of responsibility is on monitoring market developments

Project on the role of MENA stock exchanges in corporate governance

- Objective: to understand the regulatory functions of MENA SEs, gaps and opportunities
- Value: first of its kind in the region, MENA stock exchanges understudied as a group
- Potential benefits: reputational, easier cross-listing, best practice sharing
- Approach: Coordinate through the UASE and the OECD
- Methodology: develop survey, disseminate to exchanges, synthesise findings, organise workshop
- Partnerships: possibly UNPRI and Hawkamah
- Essential: active input of regional SEs

MENA-specific considerations

- Most exchanges are still mutually or state-owned, demutualisation not yet on policy agenda
- Exchanges have less of a regulatory role, more power to the securities regulator
- Alternative trading venues relatively underdeveloped compare to Europe and North America
- Larger diversity within the group (Syrian SE vs Tadawul)
- In some cases, listing disclosure requirements under review/change (eg. EGX)
- Cross listings and foreign listings less frequent: competition implications
- Question of regulatory independence

Case study - Egyptian Stock Exchange

- Previously overseen by the CMA, now EFSA
- Cooperation between the EGX and the CMA (now EFSA) in terms of oversight of issuers
- Tightening listing requirements (audit committee mandated through the listing rules)
- Significant de-listing: 740 in 2005 to just approximately 350 in 2008 and further de-listing
- Possibilities to improve disclosure to the market, EFSA evaluates disclosure
- Ownership concentration remains a challenge (listing rules)

Other OECD activities of interest

- MENA Annual Working Group on Improving Corporate Governance - open for participation
- OECD project on corporate governance systems, practices and issues in AOSEF member exchanges, objective to produce a best practice guide
- OECD Steering Group on Corporate Governance: work on the role of cg in the financial crisis
- Financial Market Trends and other publications of the OECD Committee on Financial Markets

Thank you for your attention!

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