OPENING REMARKS

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First meeting of the Taskforce on MENA Stock Exchanges for Corporate Governance

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- Welcome participants to the first meeting of the Taskforce. The launch of this Taskforce is important not only because of recent events in the region and their impact on the region's capital markets, but because improving governance of listed firms remains a priority in the region. The listed companies sector in the region comprises about 1300 firms and is growing. Some of these firms such as the Saudi Basic Industries Corporation (SABIC) alone has capitalisation in excess of 68 bil USD.

- The issues relevant to improving governance of listed firms are as diverse as the region itself. Some companies are family-controlled firms, whose owners might be reluctant to agree to any frameworks which might lead to the dilution of their powers, some of them are newly privatised state-owned companies, where the state needs to provide input into the governance processes alongside private investors. Furthermore, a dominant share of the region's capital markets is represented by the financial sector (40% of largest listed firms in the region are in this sector), which faces quite specific governance challenges.

- Significant improvements have been realised in introducing and perfecting corporate governance frameworks in the region over the past decade. Now only 3 out of the 17 MENA economies participating in the MENA-OECD Working Group do not have a corporate governance code or guidelines and they are working towards this objective, a process which the OECD is very much supporting with our corporate governance instruments and technical capacity.

- MENA countries, as many OECD member countries, are now introducing these codes on a "comply or explain basis" (i.e. Jordan, Abu Dhabi, Oman, Qatar). What should be the role of regional stock exchanges in formulating and monitoring compliance with these codes? There are different examples in this regard. On the one hand, Copenhagen Stock Exchange (now part of NASDAQ OMX) was the one to release the Danish corporate governance guidelines. On the other hand, there are many exchanges in the Middle East but also in Europe which are essentially no more than platforms for order execution.

- Another question is whether stock exchanges should have the regulatory powers and responsibilities for introducing and enforcing additional regulations in the form of listing and maintenance requirements? In the United States, stock exchange listing requirements are rather prescriptive, whereas in Europe there is a greater reliance on the "comply or explain" model. In the MENA region, most regulatory and enforcement powers lie with security regulators and exchanges have few regulatory powers. In most OECD member countries, the regulatory powers of exchanges were also somewhat curbed following their demutualisation, but are still not insignificant.

- This leads me to another important question. How should the regulatory functions of exchanges be coordinated with the regulator? There are multiple configurations that have emerged and I think this is one of the main questions to be addressed today, with the input of regulators who are with us today.

- But perhaps a larger concern from the perspective of regional stock exchanges is not how to improve the governance of already listed companies, but how to attract further listings and liquidity to MENA markets. The balance between quality listings and deepening capital markets is a delicate one. We know of some markets in the region, notably Egypt, which have massively delisted companies that were not providing disclosures to the market and that were not actively traded. This has not been technically or politically effortless.

- Furthermore, we see that while exchanges in the region are working hard to attract listings, some companies from the region are choosing to list abroad or cross list. The London Stock Exchange has 25 listed companies from across the Arab world. What might motivate this interest of MENA companies in markets outside the region? I think this is an important issue for stock markets and regulators to consider.

- In considering these issues and questions, I think we should keep in mind the incredible diversity of regional capital markets in terms of their experience and history. Some of the regional stock exchanges such as the Damascus Exchange and the Dubai Financial Market and are very young whereas others such as the Egyptian Stock Exchange emerged already in 1883 when the Alexandria Stock Exchange was established, followed by the Cairo Stock Exchange in 1903.

- Nonetheless, there are a few regional specificities and common challenges that need to be kept in mind as the work of this Taskforce moves forward. For example, the vast majority of exchanges in the region are state-owned. This is a significant difference to OECD member countries where very few exchanges are still owned by the government, even in former communist states such as Poland.

- The investor base of MENA markets is also quite different in that institutional investment is low. Retail investors account for approximately 85% of trading on Tadawul (Saudi stock exchange) and even Kuwait with the highest institutional investor participation (approximately 30%) does not compare with most European and American exchanges which are dominated by institutional capital. The low participation of institutional investors in MENA markets historically, but also during the last financial crisis, has led to volatility and capital flight.

- This being said, institutional ownership is no panacea to better corporate governance and performance. Indeed, the role of institutional investors in corporate governance has been questioned and the OECD has recently done some work looking at the ability, or inability as it might be, of institutional investors to monitor their investments and meaningfully engage with company management.

- Another difference is that MENA markets have substantial restrictions on investment, which is most notable in Saudi Arabia, where non-GCC (Gulf Cooperation Council) investors have the right to invest only though special vehicles. This is an impediment for Saudi but also other MENA markets to be categorized as "emerging markets". Almost all MENA exchanges, except for Egypt and Morocco are classified as "frontier markets", and this has arguably slowed down the flow of institutional capital to these markets.

- MENA markets are also more inward oriented and less integrated regionally and internationally. There is still very little cross listing in the region and few foreign companies listed or cross listed on Arab bourses. This might actually have been beneficial during the past financial crisis as MENA exchanges were relatively unaffected by it.

- In my view, emerging markets, including those in the Middle East and North Africa, can learn both from the successes and failures of developed markets. There has been much discussion on demutualisation and subsequent self-listing of exchanges, and this debate was picked up in the OECD's recent publication that examined the role of stock exchanges in promoting corporate governance objectives in our own member countries. For exchanges that are self-listed, I think that there are conflicts of interest between their regulatory function and commercial functions that need to be carefully considered.

- Another distinction is that MENA exchanges do not face competition, or as my colleague Tom will probably argue - unfair competition - from off-exchange trading platforms which have proliferated in Europe and North America. The May 6 flash crash which temporarily erased an estimated 1 trillion USD in American equities has demonstrated the kind of consequences that might arise from fragmented trading and high frequency trading, which promise to offer liquidity. I would argue that all they promise is an illusion of liquidity.

- Speaking of illusions of liquidity, exchange traded funds are now the name of the game in almost all developed markets. Accounting for only 74 bil USD in 2000, they now represent over 1.5 trillion USD today and their trading volume actually exceeds the trading volume of cash equities today. In MENA markets, their presence is still limited and maybe this is not such a bad thing. ETFs give rise to specific concerns such as the decline of IPOs and the failure of the market to discriminate between well run and poorly run companies.

- In summary, I think that this Taskforce can work to address relevant concerns to making regional markets more transparent, more competitive, and more liquid. These are all concerns that are not specific to the MENA region and the presence of some of our own member countries today speaks to this. I think this is a good opportunity to pass the floor now to Dr. Vedat Akgiray, Chairman, Capital Markets Board of Turkey and IOSCO Emerging Markets Committee, who can highlight Turkey's experience, both as an OECD member country and as a market that has a structure similar to a number of MENA exchanges.