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*SHAREHOLDER RIGHTS, EQUITABLE TREATMENT
AND THE ROLE OF THE STATE*

Major Developments at Exchanges in Euro-Asian Region

By

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1. Subject for Discussion

For the purpose of our discussion we suggest to focus on the following groups of exchanges in Europe and Asia:

Group 1: Exchanges in Albania, Bulgaria, Estonia, Latvia, Lithuania, Macedonia, Moldova, Poland, Russia, Romania, Slovakia, Slovenia, Turkey, Hungary, Ukraine, Croatia, Czech Republic

Group 2: Exchanges in Azerbaijan, Bangladesh, Armenia, Georgia, Egypt, Jordan, Kazakhstan, Kyrgyzstan, Mongolia, Oman, Pakistan, Palestine, Tajikistan, Turkmenistan, Uzbekistan.

Group 1 includes the countries of Eastern Europe, Baltic, Turkey and Russia. Group 2 represents the countries which are members of the Euro-Asian Exchange Federation and the new independent states of Middle Asia and Caucasian Region

2. Some Statistical Data

Unfortunately, consolidated data on Euro-Asian exchanges are practically not available. We have the data generated from various sources that form up the groups on the basis of their specific principles.

According to Salomon Smith Barney, a share of the Group 1 countries in the total capitalization of the world capital market is 5% (compare to USA – 52%; Europe – 29.1%; Euro-Asian Region – 13.9%). If only freely traded financial instruments are taken in to account, then these indicators turn into the following figures: Group 1 – 3% (USA 57.4%; Europe 29.1%; Euro-Asian Region – 10.5%). It is necessary to note that Salomon Smith Barney refers some African countries, Israel, Greece, etc. to developing markets.

The statistics disclosed by the Euro-Asian Exchange Federation (Attachment 1), which is estimated on the basis of information provided by Federation members, shows that their total capitalization amounts to bit more than 114 billion US dollars. However, compare to the same period of the previous year, it has reduced by 21.3%. The total number of securities that have undergone listing procedure is 7,072. It is 27.1% less than in the same period of the previous year.

Also, there are some interesting recommendations prepared by Salomon Smith Barney as to the purchase of financial instruments national currencies of some countries of Group 1 in 2001 (Attachment 2).

According to Salomon Smith Barney, indices of almost all countries of Group 1 cannot reach their values in period before the 1997-1998 crisis. In this regard, the biggest progress you can see in Poland and Hungary. In Turkey, the stock exchange index has significantly dropped after its booming in 1999.

3. Major Development on Stock Exchange Markets in Euro-Asian Region

Privatization and Property Redistribution

Privatization is one of the most development indicators in Group 1. In those countries where privatization was very low (almost all countries of Group 2) the indicator of development is lower as well.

It was the privatization that has served for the successful start of the major part of exchanges in the Group 1 countries (however, with some exceptions, of course). Here, we need to point out that not only privatization of enterprises is important but the further block of shares formation and property redistribution are of much importance as well. It should be admitted, after the process of ownership entitlement has completed, the relevant shares do not come in circulation on the market (with exception of Russia). Therefore, exchanges lose this source of financial instrument inflow.

Pension Reform Impact.

A properly implemented pension reform may become a considerable impetus for development of Euro-Asian exchanges. As a matter of fact, its impact can be very significant.

The major repercussion of pension reform is the emergence of big internal investors which should invest their pension assets in various financial instruments.

For example, from February 2000 to October 2001 the amount of pension assets in Kazakhstan has grown by three times, and the capitalization of share market amounts to 1 billion US dollars.

Lack of Financial Instruments in Circulation

This tendency is typical practically for all groups of Euro-Asian exchanges. Despite of the big number of securities that have been listed, only insignificant part of them is in real circulation. Even in Russia, the major part of trade volumes covers a limited number of securities. Design and creation of new liquid financial instruments is the main task and problem for all exchanges in the region.

The very important indicator of availability of financial instruments is a method of privatization which is used in a given country. The Russian experience proves that a fast path of privatization with big number of shareholders provides for a bigger amount of financial instruments. The focus on strategic investors in countries like Kazakhstan and Ukraine is leading to the lack of shares of privatized enterprises on the market.

It is quite certain to project that the portion of debt securities will be growing on exchanges of both Group 1 and Group 2 countries. This may be caused by two factors. First, owners who have just gained control over enterprises but are not ready yet cut down their shareholdings, as they often consider that as a way of absorption by competitors. However, debt securities do not bear such risk. In addition, given the low level of corporate governance, the debt instruments are more reliable for an investor too. The second factor stands for the fact that no other instruments are possible in those countries where privatization has not been effected.

The appearance of new enterprises, that have not been established as a result of privatization, which are seeking for capital assets on the market should also be pointed out.

Globalization and Integration Impact on World Stock Market

This process does not endanger the existing exchanges in quite politically and economically closed countries (some countries of Group 2).

Integration processes have already impacted and will have the highest impact on exchanges of almost all countries of Group 1. Their dependence upon external investments, in the context of speculative and portfolio capital, may lead to negative consequences for these exchanges. The use of depositary receipts for moving trades of securities from these countries to recognized international stock exchanges is just the first step. The entry of these countries into

EU, without having their own internal investors, may raise a issue of shutting some exchanges down.

Impact of 1998 Crisis Keeps up

The 1998 crises has changed the attitude to developing markets in general (these markets constitute a major part of exchanges in Euro-Asian Region). Now investment policy is more prudent and projected for long perspective. The issue of corporate governance has become very important in developing countries. Western investors have moved out of all markets where they succeeded to do is, or they have frozen their operations for indefinite term.

The impact of the above mentioned events on the functioning of relevant exchanges was inevitable, the Western investors were primarily interested in highly liquid and speculative securities offered by those exchanges.

Listing and Information Disclosure

It is quite evident that the information disclosure is concentrated on exchanges. The exchanges provide more information about issuers than state regulatory bodies, and they do it more often. In this regard, it is exemplary that Russian Trading System has purchased the information disclosure system "Screen". In general, this tendency is fairly understandable, as investment decisions are made after having conducted appropriate technical and fundamental analysis. And this analysis may be feasible only if the needed data is available.

It is also indicative that in Kazakhstan, for instance, the state regulator has decided to authorize the exchange to collect and disclose information.

Unfortunately, listing and delisting procedures in many Euro-Asian exchanges do not correspond to world codes of practice. However, this does indicates on poor performance of exchanges but the level of development of capital markets in these countries.

We may assume that after the Code of Corporate Governance for developing markets has been completed, Euro-Asian exchanges will follow its provisions in their rules.

Attachment 1

Data of Euro-Asian Exchange Federation as on January 2002

1. Market capitalization

Country/ Exchange	Market capitalization (million USD)	Change compare to previous month (%)	Changes compare to same period of previous year (%)	Changes compare to 2001 (%)
Amman SE Jordan	6,420	1.7	27,3	1,7
BICEX Azerbaijan	n/a	n/a	n/a	n/a
Baku SE Azerbaijan	n/a	n/a	n/a	n/a
Bulgarian SE Bulgaria	509,3	0.5	-14,3	0,5
Dhaka SE Bangladesh	1,044.50	-6.6	-8,9	-6,6
Egyptian SE Egypt	23,837.60	-2.3	-23.8	-2,3
Georgian SE Georgia	74,6	-16.5	533,4	-16,5
Istanbul SE Turkey	50,343.80	5.6	-33,8	5,6
Karachi SE Pakistan	6,119.50	23.8	-2,6	23,8
Kazakhstan SE Kazakhstan	1,203.20	0,0	-13,5	0,0
Kyrgyz SE Kyrgyzstan	4,9	3,8	29,4	3,8
Lahore SE Pakistan	5,963.30	26,2	-0,8	26,2
Macedonian SE Macedonia	13,5	4,0	77,1	4,0
Moldovan SE Moldova	359,0	2,7	-14,9	2,7
Mongolian SE Mongolia	42,6	13,6	12,6	13,6
Muscal SE Oman	4,444.70	-0.7	-8,4	-0,7
Palestine SE Palestine	606,6	-16.1	-19,5	-16,1
SC&RME Turkmenistan	n/a	n/a	n/a	n/a
Tehran SE Iran Tirana SE Albania	10,047.30 n/a	3,6 n/a	34,5 n/a	3,6 n/a
"Toshkent" RSE Uzbekistan	16,9	-39,5	-27,6	-39,5
Zagreb SE Croatia	3,261.20	6,3	15,9	6,3
Total	114,331.00	4,5	-21,3	4,5

2. Indices

Country/ Exchange	Index	Change compare to previous month (%)	Changes compare to same period of previous year (%)	Changes compare to 2001 (%)
Amman SE Jordan	248.3	1.9	28.7	1.9
BICEX Azerbaijan	n/a	n/a	n/a	n/a
Baku SE Azerbaijan	n/a	n/a	n/a	n/a
Bulgarian SE Bulgaria	117.4	-1.0	8.6	-1.0
Dhaka SE Bangladesh	818	0	n/a	0
Egyptian SE Egypt	25.7	-10.4	-56.3	-10.4
Georgian SE Georgia	n/a	n/a	n/a	n/a
Istanbul SE Turkey	591.2	6	-35.5	6
Karachi SE Pakistan	1620.2	27.3	10.8	27.3
Kazakhstan SE Kazakhstan	107.2	3.1	1.2	3.1
Kyrgyz SE Kyrgyzstan	70.6	10.3	33.5	10.3
Lahore SE Pakistan	4.8	27.6	-10.8	27.6
Macedonian SE Macedonia	990.6	1.3	n/a	1.3
Moldovan SE Moldova	n/a	n/a	n/a	n/a
Mongolian SE Mongolia	876.5	7.7	70.5	7.7
Muscal SE Oman	161	5.8	-17.4	5.8
Palestine SE Palestine	159.1	-18.4	-21.9	-18.4
SC&RME Turkmenistan	n/a	n/a	n/a	n/a
Tehran SE Iran Tirana SE Albania	3681 n/a	3.6 n/a	29.8 n/a	3.6 n/a
"Toshkent" RSE Uzbekistan	102.7	24.9	18.9	24.9
Zagreb SE Croatia	1167.1	12.8	31.6	12.8

3. Listing.

Country/ Exchange	Listed companies	Change compare to previous month (%)	Changes compare to same period of previous year (%)	Changes compare to 2001 (%)
Amman SE Jordan	208	0	-1.0	0
BICEX Azerbaijan	0	n/a	n/a	n/a
Baku SE Azerbaijan	70	180	118.8	180
Bulgarian SE Bulgaria	389	-2.5	-21.7	-2.5
Dhaka SE Bangladesh	256	1.6	4.1	1.6
Egyptian SE Egypt	1120	0.9	4	0.9
Georgian SE Georgia	282	0	4.8	0
Istanbul SE Turkey	306	-1.3	-2.9	-1.3
Karachi SE Pakistan	747	0	-2.0	0
Kazakhstan SE Kazakhstan	58	-3.3	7.4	-3.3
Kyrgyz SE Kyrgyzstan	75	38.9	10.3	39
Lahore SE Pakistan	601	-2.0	-2.0	-2.0
Macedonian SE Macedonia	76	-19.1	-44.1	-19.1
Moldovan SE Moldova	1026	-3.8	-5.8	-3.8
Mongolian SE Mongolia	400	0	-2.2	0
Muscal SE Oman	69	-9.2	-15.9	-9.2
Palestine SE Palestine	24	0	0	0
SC&RME Turkmenistan	0	n/a	n/a	n/a
Tehran SE Iran	318	0.6	3.6	0.6
Tirana SE Albania	0	n/a	n/a	n/a
"Toshkent" RSE Uzbekistan	596	-1.5	30.4	-1.5
Zagreb SE Croatia	45	0	21.6	0
Total	7,072	0	-27.1	0

Attachment 2.

**Recommendations of Salomon Smith Barney as to purchase of financial instruments
nominated in national currencies of some countries of Group 1 in 2001**

Country	Short-term	Long-term
Bulgaria	neutral	neutral
Croatia	n/a	n/a
Czech Republic	neutral	underestimated
Hungary	overestimated	neutral
Pakistan	N/a	n/a
Poland	Overestimated	neutral
Romania	neutral	neutral
Russia	Neutral	neutral
Turkey	overestimated	neutral
Ukraine	neutral	neutral