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

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

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 (i.e. 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 compared 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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