The Role of MENA Stock Exchanges in Corporate Governance

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Foreword

The history of the development of stock exchanges in the Middle East and North Africa (MENA) region is fascinating. While some exchanges in the region have only been established in the past five years, others have been active since the 19th century. And while regional bourses have emerged in very different economic contexts, they have facilitated the growth of capital markets in the region, which currently feature over 1400 listed companies. They have also contributed to improving the transparency of public markets, which is especially important following the events of the Arab Spring, which has seen calls for better transparency in the region.

Considering the concentrated and often complex ownership of listed firms, the challenges faced by stock exchanges and securities regulators in improving corporate governance are considerable and vital to address. This observation has indeed motivated the formation of the *Taskforce of MENA Stock Exchanges for Corporate Governance*, composed of representatives of exchanges, securities regulators and market participants. This Taskforce was launched by the OECD in 2011 and its work has generated a great level of interest from the region.

This high level of interest is related to the fact that a number of exchanges in the region are undergoing significant transitions, including in some cases, privatisation. In addition, by virtue of their ownership, stock exchanges in the region appear to be in a unique position to influence corporate governance laws and regulations as well as company practices in implementing them. In particular, as regulators in a number of countries are introducing and revising corporate governance codes and requiring companies to report against these codes, exchanges can play an important awareness-raising function.

This report is a key product of the work of the Taskforce over 2011-2012 period. It is based on secondary research and discussions with individual Taskforce members and during the first regional meeting of the Taskforce held on 5 July 2011 in Paris. It also relies significantly on the responses to the OECD Questionnaire summarised in Annex II. The report was prepared by Alissa Amico (Koldertsova) with contributions by Serdar Celik. This report and the work of Taskforce have been generously supported by the Capital Markets Board of Turkey and the Istanbul Stock Exchange (Istanbul Menkul Kiymetler Borsasi), for which they are thanked.

Table of Contents

Executive Summary

Historically, stock exchanges have played an important role in the promotion of corporate governance practices among listed companies. The OECD has examined the role of the stock exchanges in promoting good corporate governance outcomes in 2009 and concluded that the primary contribution of exchanges has been the issuance of listing and disclosure standards and the monitoring of compliance with them. Stock exchanges were also found to contribute to establishing effective corporate governance frameworks by collaborating with, or acting as an agent of other regulatory agencies, in addressing broader governance and capital markets development challenges.

Considering the rapid growth and development of stock exchanges in the Middle East and North Africa (MENA) region, and the growing focus on better implementation of laws and regulations in the region, governments and private sector participants in the region called on the OECD to examine how MENA bourses could contribute to promoting better corporate governance practices in listed companies. This has led to the establishment of the *OECD Taskforce of MENA Stock Exchanges for Corporate Governance in 2011*[1], with the participation of stock exchanges and securities regulators from across the region. A key objective of the Taskforce was to answer the question posed by this report: what should be the role of Arab stock exchanges in advancing governance practices among issuers?

Members of the Taskforce consider that the potential role of Arab stock exchanges in promoting good governance practices among their issuers is significant. Arab bourses are for the most part state-owned or organised as public institutions and do not face the same potential conflicts of interest that private stock exchanges may in admitting issuers and enforcing regulations. However, to the extent that some regional stock exchanges are considering demutualisation and privatisation, lessons learned from other international markets on addressing potential conflicts of interest between regulatory and commercial functions need to be taken into account.

[1] For more information about the Taskforce, please refer to Annex I.

Considering that the situation of individual exchanges in the region is incredibly varied, reflecting the history of the development of local capital markets, this report does not aim to provide recommendations on a regional basis. Instead, it focuses on highlighting country experiences and practices useful to promoting good governance outcomes in individual markets. A number of important themes concerning the role of corporate governance in the development of Arab capital markets are explored, providing orientations for individual stock exchanges on how good governance practices among issuers can be encouraged.

The report points out that the role of Arab bourses in promoting corporate governance has been varied, depending on the division of regulatory and enforcement responsibilities between stock exchanges, securities regulators and other bodies. Some exchanges, notably the Omani, Jordanian, and the Egyptian stock exchanges have been active in incorporating good governance requirements into their listing rules and monitoring how those rules are applied by market participants. Over the past few years, the Egyptian Stock Exchange and the Kuwait Stock Exchange have delisted a large number of companies unable to fulfill ongoing listing requirements.

The positions of other exchanges in the region, including the Saudi Stock Exchange (Tadawul) and the Abu Dhabi Stock Exchange are different by virtue of the fact that regulatory and enforcement powers are concentrated with local security regulators. This reflects a different division of responsibilities between the stock exchange and the securities regulator and is not considered to be an issue so long as the regulator has adequate capacity and independence to establish and monitor the implementation of relevant market rules. The issue of appropriate division of responsibilities in listing and enforcement continues to be an important one to address.

The last two years have seen the introduction of "comply-or-explain" type corporate governance codes and a focus on the implementation of governance recommendations in the region. The introduction of such codes provides a further impetus to examine what might be an appropriate role for stock exchanges in their design and monitoring. OECD's work in the region highlights that the enforcement of existing regulations has been lagging and that securities regulators are facing a challenge in this regard, one that exchanges may help addressing. So far, exchanges have been involved in the design of codes, but their role in monitoring practices has been limited.

Considering the ownership structure of and competition dynamics among stock exchanges in the region, Arab bourses have a unique opportunity to advance governance practices, in particular through listing and maintenance requirements. The experiences of the Jordanian, Egyptian and Omani stock exchanges in this regard might be of interest to the wider region. The Palestinian Stock Exchange, the only entirely privately owned market in the region, has also followed an impressive development trajectory and its experience might be of interest to other exchanges considering privatisation and self-listing.

The view that good governance is not an accessory, but fundamental to attracting listing and liquidity in the region needs to be further reinforced and exchanges have to be convinced of its value, arguably more so than their prospective or existing issuers. The belief that raising governance requirements leads to a reduction in listings has already been challenged in the OECD's prior work. In the MENA context, the proof of the fact that higher governance standards do not deter issuers is that a few companies from the region are listed on the London Stock Exchange, which has more stringent listing criteria than most markets in the region.

Nonetheless, the risk of raising the requirements for listings too high is something Arab bourses are cognisant of and this concern might become more pronounced if competition among exchanges in the region intensifies. To address this challenge in the short term, a number of bourses are contemplating the establishment of differentiated listing tiers, with higher requirements for blue chip stock and lower requirements for small and medium size enterprises (SMEs), which otherwise face difficulties in accessing capital markets as a source of financing. In principle, the establishment of differentiated tiers allows to accommodate the listing of firms of diverse size and with different capital raising needs.

Virtually all MENA capital markets are dominated by retail investors and this appears to have exacerbated their volatility. The events of the Arab Spring, even more than the international financial crisis, have shaken confidence of investors and resulted in large losses for virtually all MENA markets in 2011, especially in Egypt, Tunisia, and Syria. The region needs more international investment and more institutional capital. A key message of this report is that exchanges can play a role in mobilising longer term investment from domestic and international investors, thus recalibrating the financial development model of Arab countries away from bank-driven financial development.

The OECD will continue working alongside MENA stock exchanges and securities regulators in order to provide decision makers with technical expertise on this challenging issue. It is hoped that this first report, reflecting a diversity of inputs of national experts and a rich debate within the Taskforce, takes a first step in this direction. The OECD would like to thank all of the participating stock exchanges, securities regulators and other experts whose contributions and questionnaire responses have served to enrich this report.

Introduction

Corporate governance frameworks in the Middle and North Africa have witnessed a significant transformation over the last decade, motivated by the need to improve the integrity of local markets and align governance practices with the relevant international standards. The first wave of reform in the region started with the introduction of corporate governance codes, initially by Oman in 2002, then by Egypt in 2005 and in parallel, with the establishment of institutions aimed to promote good governance practices such as institutes of directors, corporate governance centers, and capital market regulators. Today, almost all countries in the region have private and public organisations charged with promoting corporate governance practices domestically.

In recent years, the emphasis of policymakers in the region has shifted to the implementation and enforcement of corporate governance-related provisions, be they contained in codes, laws, or securities regulations. One manifestation of this trend has been the move to make corporate governance codes or guidelines applicable on a "comply-or-explain basis" in a number of MENA jurisdictions, mostly in the Gulf Cooperation Council Countries (GCC). This demonstrates a shift in the mindset of the regulators, who are increasingly recognising the imperative of good governance for market stability and efficiency as well as for attracting and retaining investment.

An important dimension of this transition is the strengthening of powers of capital market regulators, including their enforcement capacity. While enforcement actions in the region used to be rare and unpublicised, this has changed significantly in recent years. The establishment of dedicated corporate governance units within securities regulators (e.g. Oman, Saudi Arabia) has equipped regulators to better react to market abuses. The recent introduction of the Capital Market Authority in Kuwait and the pending establishment of a securities regulator in Lebanon are also expected to result in more robust market supervision in these countries.

These developments have to be considered in the context of the overall evolution of capital markets in the region, which have experienced tremendous growth over the last decade. A number of exchanges in the region are now being considered by asset managers worldwide and some listed companies in the region compare favourably with their global peers in terms of their market capitalisation. Faced with the relatively rapid development of local markets, exchanges are now re-considering their role in the oversight of listed companies. This reflection is rendered even more urgent by the planned privatisation of several bourses in the region.

All these trends raise questions regarding the appropriate role for stock exchanges in the region in terms of advancing corporate governance standards among issuers and how they may be best positioned to do so. As highlighted by the OECD's report on the *Role of Stock Exchanges in Corporate Governance* issued in 2009, the primary direct contribution of exchanges to corporate governance has been the issuance of listing and disclosure standards and the monitoring of compliance with them. Exchanges have also actively participated in the development of corporate governance codes and in some instances, in monitoring of corporate disclosure relative to these codes.

Subsequent to the revision of the *OECD Principles of Corporate Governance* in 2004, a number of stock exchanges have issued codes and recommendations or have participated in their development. In the MENA region, national corporate governance codes were modelled on the OECD Principles and some were elaborated with the input of the Organisation. A number of stock exchanges in the region have also participated in the development of corporate governance codes. Some exchanges (e.g. Egypt), have moved to incorporate recommendations of the local code in the listing standards.

This report provides illustrations of how MENA exchanges have been promoting good corporate governance outcomes in order to facilitate the sharing of experience among policymakers in the region. Part I of the report sets the scene for further discussions by highlighting the structure of MENA bourses and their issuers. Part II of the report examines the role of regional bourses in establishing corporate governance requirements and ensuring companies' compliance with them. The report concludes with broad observations on the future of stock exchanges in the region in light of their transitions and the development of local capital markets.

Part I

Key Features of MENA Markets

Over the past two decades, the landscape of the stock exchange industry all over the world has changed dramatically. In many developed and emerging markets, exchanges have demutualised, self-listed, or merged with domestic and foreign competitors. Recent years have witnessed the emergence of transatlantic markets the likes of NYSE Euronext, and at least in Europe and North America, a rapid rise of alternative trading platforms and dark pools, increasing competition in the industry. These trends have not for the most part been mirrored in the Middle East and North Africa, where stock exchanges remain predominantly state-owned or organised as public institutions.

Regional markets have been heavily impacted by the recent global financial crisis, made evident by the decline of initial public offerings (IPOs) and trading volumes across the region. IPO volumes in 2011-2012 period have remained low, with an almost a 70% decline on a year-to-year basis. According to Ernst and Young, only $844 mil USD was raised in the regional capital markets in 2011, less than a third of the $ 2.8 bil USD raised in 2010. This can be in part attributed to the ongoing impact of the global financial crisis, and in part due to the political developments in the region which have resulted in sharp declines of most MENA markets in 2011.

In order to situate the remaining analysis, this part of the report seeks to shed light on key characteristics of Arab stock exchanges and issuers in the region. Given the diversity of MENA exchanges, generalisations are difficult to make. For one, some of the markets in the region have been in operation for over a century while others were established in the last few years. Likewise, the capitalisation of these markets ranges dramatically from the Saudi Tadawul – by far the largest market in the region - to some relatively small markets such as the Beirut Stock Exchange.

That said, MENA markets share some common characteristics which are useful to explore:

Dominant state ownership

The first unique feature of Arab stock exchanges is that they are mostly state-owned or organised as public institutions. Very few exchanges in the region are listed or mutually-owned. Currently, out of the 18 bourses in the region, 14 are owned by the state and 3 are structured as mutual organisations. Only 2 exchanges in the region, namely the Palestine Stock Exchange and the Dubai Financial Market, are owned by private investors and are not mutualised. This reflects the history of the establishment of stock markets in the region whereby they are seen by national governments as a key part of the national infrastructure to develop local capital markets and the broader financial sector. For further information about the ownership structure of MENA exchanges, refer to Table 1.

As can be seen from this Table, the trend that started in Europe with the demutualisation of the Stockholm Stock Exchange in 1993 and its subsequent listing has so far left the region untouched. To date, no exchange has demutualised or transitioned to a private ownership model, however recent years have seen a growing interest among exchanges to do so. Currently, one exchange in the region is considering demutualisation (i.e. the Bourse de Casablanca)[1], while a number of bourses are considering privatisation. For the moment, these discussions appear to be at an early phase, except for the Dubai Financial Market and the Palestine Securities Exchange. The Dubai Financial Market has a legal form of a joint stock company and has 20% of its capital self-listed and the Palestine Securities Exchange was always privately owned and self-listed in April 2012.

The privatisation of the Kuwait Stock Exchange is planned, although no specific date has yet been announced. The modalities of the sale are outlined in the capital market legislation adopted by the government in 2010; that same legislation has also established the securities regulator in Kuwait responsible for carrying out this privatisation. By law, 50 percent of exchange shares are to be sold to the largest listed companies and the other half to the general public. Legislation has been adopted in 2011 to prepare the Beirut Stock Exchange for potential privatisation, but the timeline is currently unclear because the reform of the exchange is embedded in a wider capital market development project.

Table 1. Ownership Structure of MENA Stock Exchanges

Country	Stock Exchange	Abbreviation	Establishment	Ownership Structure[1]
Algeria	Bourse D'Alger	SGBV	1993	State-owned
Bahrain	Bahrain Stock Exchange	BSE	1987	State-owned
Egypt	Egyptian Exchange	EGX	1883	Public institution
Iraq	Iraq Stock Exchange	ISX	2004	Mutualised
Jordan	Amman Stock Exchange	ASE	1999	Public institution
Kuwait	Kuwait Stock Exchange	KSE	1984	State-owned
Lebanon	Beirut Stock Exchange	BSE	1920	Public institution
Libya	Libyan Stock Market	LSM	2007	State-owned
Morocco	Bourse de Casablanca	CSE	1929	Mutualised
Oman	Muscat Securities Market	MSM	1988	State-owned
Palestine	Palestine Securities Exchange	PEX	1995	Privately held[2]
Qatar	Qatar Exchange	QE	1997	State-owned[3]
Saudi Arabia	Saudi Stock Exchange Tadawul	SSE	1984	State-owned
Syria	Damascus Securities Exchange	DSE	2009	Public institution
Tunisia	Bourse de Tunis	BVMT	1969	Mutualised
United Arab Emirates	Dubai Financial Market	DFM	2000	State-owned[4]
	Abu Dhabi Securities Exchange	ADX	2000	State-owned
	Nasdaq Dubai	ND	2005	State-owned

Notes:

1. For the purposes of this Table, "public institutions" is used to denote exchanges with no share capital. State-owned exchanges, on the other hand, are those whose share capital is detained by the state.
2. The Palestine Securities Exchange is majority owned (74%) by PADICO Holding, one of the largest companies listed on the PSE. PADICO has committed to reduce its interest by a minimum of 20% in 2013. The current 4% free float of the PSE is anticipated to increase to 25% and there is an expectation that the number of shareholders will increase to 50 by 2013.
3. The Qatar Investment Authority holds 80% of the Qatar Exchange's shares, the remaining 20% are held by the NYSE Euronext.
4. 20% of the Dubai Financial Market shares are listed on its own market.

The Muscat Securities Market has also conducted studies to explore how its conversion to a private company model might be best achieved. The privatisation of Qatar Exchange is part of the five-year development plan of the exchange. The largest market in the region, the Saudi Stock Exchange at the moment has no plan to privatise but has previewed this possibility in its Articles of Association. They leave the possibility of a partial privatisation of the exchange's capital in the future. In part to facilitate this potential transition, Tadawul was converted from a public institution to a state-owned company in 2007.

Despite this interest in stock exchange privatisation, immediate transitions are not planned for most markets. The privatisation of the Muscat Securities Exchange is not being considered in the short term as the exchange considers that market volatility needs to be reduced prior to privatisation. Other exchanges have expressed the concern that privatisation may have the impact of reducing the potential pipeline of issuers. Indeed, considering the concentrated ownership structure and the culture of secrecy in the region, it may be that family-owned companies may be reluctant to list on an exchange owned by another family group, which may potentially be a competitor.

Whether such transactions are in the interest of the exchanges and for broader capital markets development is controversial and needs further discussion in the MENA region. For instance, it is widely debated whether ownership of exchanges should only be transferred to financial sector firms or if the sale should be open to the wider public. Some critics point out that allowing the transfer of ownership of exchanges to financial sector institutions may be dangerous considering that banks in the region are already dominant and that many have investment subsidiaries. According to this line of thinking, if banks are owners of brokerage, houses and the exchange at the same time, conflicts of interest may arise.

Questions are also being raised about the consequences of self-listing on potential conflicts of interest faced by exchanges. Currently, two stock markets in the region, namely the Dubai Financial Market and the Palestine Securities Exchange, are self-listed and they are now obliged to comply with the recommendations of the national corporate governance code. Although this report does not aim to examine the governance of exchanges themselves, it bears to note that current governance practices of a number MENA exchanges are not necessarily in line with the requirements of local codes. This implies that any future self-listing of exchanges would need to be prepared with a view to ensure the latter's compliance with governance and other requirements imposed on other listed companies.

Whatever the particular context of privatisation or demutualisation might be in the individual MENA markets, further reflection on the wider implications of exchanges' ownership would be beneficial. Following the wave of privatisation and demutualisation of bourses in 1990-2000 in Europe and North America, much reflection took place on the creation of frameworks for exchanges where their incentives to maintain a high standard for listing would not be negatively affected. The main concern was that exchanges under private ownership would be under particular pressure to attract listings and would not be motivated to set and maintain high standards for issuers. This concern was accentuated by intensive competition between exchanges for listings, which raised concerns of there being a "regulatory race to the bottom".

Some exchanges in the region have already transitioned to private ownership and/or listed form. In these markets, certain measures to address potential conflicts of interest have already been put in place. For instance, Dubai Financial Market has separated its listing and regulatory functions. In addition, any potential conflicts of interest are reported to the board of the exchange. Interestingly, many exchanges that are still state-controlled have also segregated these functions (e.g. the Muscat Securities Market, Qatar Exchange and the Iraq Stock Exchange). The Bourse de Casablanca also has introduced some separation between the listing and regulatory functions and ultimately it is the securities regulator that has to approve listings.

Low regional and international integration

A second particularity of MENA exchanges is that most bourses remain predominantly owned and oriented domestically. The consolidation of the industry through mergers and acquisitions, leading to vertically or horizontally integrated exchanges, sometimes spanning multiple jurisdictions, has not been witnessed in MENA markets. With the exception of Dubai Financial Market's bid for Bourse Dubai and the NASDAQ OMX Group's offer to acquire Nasdaq Dubai – both of which did not succeed - there have been few serious attempts at mergers or acquisitions among exchanges in the region.

Looking at markets in Europe and North America, one could argue that some degree of consolidation or at least coordination may help MENA stock exchanges enjoy economies of scale and establish a global footprint. At the moment, such consolidation appears unlikely, in large part due to the fact that exchanges are state-owned and there is little political appetite to merge them. In addition, there is little scope for domestic consolidation. The United Arab Emirates is the only country in the region with three stock exchanges: the Abu Dhabi Exchange, the Dubai Financial Market and

Nasdaq Dubai. Discussions to merge them are longstanding but so far have been inconclusive. However, NASDAQ Dubai has outsourced its key market operations functions for equities to the Dubai Financial Market effective July 2010.

That said, the recent green light given by regulators in a few counties to establish markets alongside existing national exchanges gives scope for some domestic consolidation in the long term. Bahrain, for example, has recently seen the establishment of the Bahrain Financial Exchange within the Bahrain Financial Harbour, in addition to the already existing Bahrain Stock Exchange. This market is mainly focused on trading of derivatives and index-based products, although it aims to trade equities as well. The pending establishment of an exchange in Erbil may trigger some competition with the Iraq Stock Exchange in Baghdad.

While stock markets in the region operate in an insulated fashion, some ownership integration between the regional bourses and markets in Europe and North America has taken place. For instance, the Dubai Financial Market holds a 21% stake in the London Stock Exchange and a 17% stake in NASDAQ OMX. Looking the other way, some large exchanges in Europe and North America have shown an appetite in taking stakes in MENA bourses. This was witnessed during the competition between NYSE Euronext and the London Stock Exchange in 2008 for a stake in the Doha Securities Market (now Qatar Exchange). Despite these attempts, MENA stock markets remain independently and domestically run.

In terms of market integration, available empirical evidence demonstrates that MENA markets are relatively decoupled from international capital markets, except for major contagion effects brought about by global financial crises.[2] Only Egypt and some GCC-based markets demonstrate a relatively high degree of correlation with international capital markets[3] (World Bank, 2011). Within the region, markets remain relatively delinked from each other. For instance, the fall of Gulf-based exchanges in 2006 was not mirrored by similar declines in other markets in the region.

Stock exchanges in the region remain focused on attracting domestic listings and many bourses do not especially aim to attract foreign companies. Some markets such as Kuwait require that an issuer be first listed on the local market before being able to list elsewhere.[4] Cross-listing activity is rare due to differences in regulatory frameworks and the fact that mutual recognition agreements exist only between a limited number of jurisdictions. The Gulf Cooperation Council has contemplated measures to harmonise the regulatory frameworks of its member countries, but so far concrete measures have been lacking.

This domestic emphasis of MENA exchanges may actually facilitate the coordination of the stock exchanges' regulatory and enforcement functions with national securities regulators. As highlighted in OECD's earlier work, the emergence of international stock exchanges has raised doubts about the basis of regulatory powers of exchanges domiciled in a different jurisdiction than the issuers they supervise. Concerns have also been raised as to the possible forced harmonisation of governance standards in companies listed on exchanges that cross multiple jurisdictions. Some regulatory harmonisation has already been achieved in the region by the adoption of international standards and practices promoted by the Financial Stability Board (FSB), the International Organisation of Securities Commissions (IOSCO) and the OECD; it is debatable whether further alignment of frameworks would be beneficial at this stage.

Moderate competition for listings

Competition for listings among regional exchanges has been less fierce than in Europe and North America. It is extremely rare for domestic companies to list abroad and if they do so, they appear to favour markets outside the region. Currently, over 20 companies from the region have listed their Depository Receipts on the London Stock Exchange and one company (i.e. DP World) has listed its shares on the Main Market. The London Stock Exchange has been most successful in attracting listing from the region, due to the facility of filing documents in English, the similarities in the regulatory framework with the common law countries, as well as access to institutional capital.

Most MENA exchanges generally do not see themselves as being in competition for listings, and even less so for domestic issuers. As a result, most exchanges do not feel concerned that raising listing standards will result in a migration of listings to other markets. Only smaller bourses such as the Beirut Stock Exchange, the Palestine Securities Exchange and the Damascus Securities Exchange feel that listings would be suffer if their requirements were to be raised and estimate that local issuers may be then attracted to list on larger regional markets. Larger markets in the region, such as the Bourse de Casablanca, are not concerned that raising listing standards will negatively impact listings, at least not of Moroccan companies.

Foreign listings on MENA exchanges have been rare. Only NASDAQ Dubai and the Dubai Financial Market have attracted considerable foreign issuers relative to the size of their overall market. Other markets in the region, such as the Kuwait Stock Exchange, have some foreign issuers, but their presence is rather limited: from the 229 listed companies listed at the end of 2010, 13 were foreign. In most MENA markets, the presence of foreign issuers remains marginal or non-existent. This might change in the future if one or more Arab bourses succeed to position themselves as a gateway to MENA capital markets.

While there is a growing interest in cross-listing among both exchanges and issuers, it has generally not been very popular in the region, in part due to the lack of agreements between regulators. This has been changing over the past five years with the conclusion of agreements between some markets. The Abu Dhabi Securities Market signed a cross listing agreement with the Muscat Securities Market in 2006, the Doha Stock Exchange and the Muscat Securities Market have signed a similar agreement in 2008. Other cross-listing agreements are understood to be under discussion. However, these announcements have not spurred much cross-listing activity so far.

Following an announcement of the Saudi Capital Market Authority in January 2012, foreign companies can cross-list on Tadawul on the condition that the listing rules in the foreign jurisdiction are at least equivalent to those in Saudi Arabia. To date, this announcement has not resulted in any listings, despite the fact that the Saudi market is the largest and most liquid in the region. This raises questions regarding what motivates companies to cross-list. In principle, the ability of companies from the MENA region to cross list on Tadawul should be appealing, considering the size and the liquidity of the market, unless companies perceive significant regulatory barriers or costs in doing so.

These regulatory announcements reflect the belief of some exchanges that cross-listing can positively affect market capitalisation. In order to assess the potential benefit of cross listing to MENA companies, an important question to consider is whether the cross-listing of a particular security would increase the total volume of trading in that security or whether it would merely fragment existing liquidity between two markets. Only on the assumption that cross-listing would lead to additional investor volume (i.e. new investors from the foreign market trading a security they did not previously trade), competition between exchanges to retain a particular listing would intensify.

An important question to consider in this context is whether cross-listing is issuer-elective or exchange-elective. The greater the influence of the issuer in the selection of cross-listing exchange, the more exchanges will have to compete in providing benefits to the issuer to secure their approval of the cross listing. Faced with a choice, issuers will likely choose a market for cross-listing that is large and liquid and where regulatory costs are not excessive compared with the domestic jurisdiction, unless there are strategic considerations (i.e. company presence in a particular country) that might dictate a different choice.

In principle, the simplification of dual listing procedures should result in a situation where trading in a particular security will be concentrated in the largest and most liquid markets in the region. In practice however, this has not occurred. As mentioned, there has been little cross-listing in markets that have signed mutual recognition agreements. On the other hand, companies wishing to list on two markets that have not signed such agreements report practical difficulties doing so. Their experience highlights that reporting practices in different markets can create confusion among investors. For instance, one company listed on the Beirut Stock Exchange and the Kuwait Stock Exchange voluntarily de-listed from the latter due to the fact that announcements could not be made in both markets in a synchronised fashion.

Finally, in discussing the competitive dynamics in the stock exchange industry in the region, it is important to consider that the development of alternative trading venues has so far not touched the region, where exchanges have a monopoly on all dealing in securities. Off-exchange trading is generally not permitted, and hence concerns regarding trading fragmentation and price discovery that have been subject of a vigorous debate in other jurisdictions are not for the moment relevant to MENA markets. However, it is not implausible to suggest that if and when Arab bourses decide to transition to private ownership, the issue of competition among them and with alternative trading platforms would move to the forefront as it has in other markets.

Young markets, dominated by a few sectors

With the exception of the Egyptian Exchange, which draws its roots from the Cairo and Alexandria exchanges established in the 19th century, stock exchanges in the region are for most part, relatively young institutions. A number of markets, such as the Damascus Securities Exchange, have only recently been established[5] and there are plans to establish new exchanges in Yemen and Iraq. The Iraq Securities Commission has in February 2012 granted a licence for the establishment of an exchange in Erbil. Yemen is the only country in the region which for the moment does not have a stock exchange; although the Ministry of Finance has established a unit to make preparations for its establishment.

While the Egyptian and the Kuwaiti bourses have historically been the largest market in the region, the situation has changed in recent years with the development of Tadawul which still has less listed firms, but which has grown to be the largest exchange in the region by market capitalisation. At the time of the publication of this report, Tadawul is estimated to represent approximately 40% of the market capitalisation of the entire MENA region and over 70% of the value traded. The largest listed companies in the region are Saudi, lead by SABIC with market capitalisation in excess of $68 mil USD.[6]

Apart from Saudi Arabia, other MENA markets with significant capitalisation include Qatar, Kuwait and Egypt. Taken together, the three UAE-based exchanges also have significant capitalisation but individually none emerges as a regional leader in terms of market size. In North Africa, Egypt has been a clear leader in terms of market size, however the Bourse de Casablanca has recently outperformed all other North African markets and its ambition to attract foreign listings from other African markets will support its future development.

Table 2 below provides further information on the key characteristics of MENA stock exchanges such as their market capitalisation and turnover.

Table 2. Composition of MENA Stock Markets, as of end 2011

	Number of Listed Companies	Market capitalisation (current $ US mil)	Stocks traded, turnover ratio	Market capitalisation as a % of the GDP[1]
Algeria	7	N/A	N/A	N/A
Bahrain	44	17 152	1%	66%
Egypt	231	48 683	34%	21%
Iraq[2]	85	2 874	N/A	4%
Jordan	247	27 183	14%	93%
Kuwait	206	100 869	19%	57%
Lebanon	10	10 164	4%	26%
Morocco	75	60 088	10%	61%
Oman	136	19 719	13%	27%
Qatar	42	125 413	19%	72%
Saudi Arabia	150	338 873	85%	59%
Syria[3]	21	1 348	N/A	2%
Tunisia	57	9 662	11%	21%
UAE	104	93 767	16%	26%
Total	1415	855 795	-	-

Source: World Bank Development Indicators, except where otherwise indicated.

Notes:

1. Based on IMF World Economic Outlook Database, April 2012 GDP figures.
2. Country response to the OECD questionnaire, 2010 figures.
3. Based on reporting provided by the Federation of Euro-Asian Stock Exchanges.

These market capitalisation figures reflect the significant development of Arab stock markets in recent years and enable positive comparisons with some other emerging markets. Market capitalisation to GDP is highest in Jordan, Bahrain, Qatar and Morocco. These figures are both impressive and, to some extent, misleading. While market capitalisation to GDP is a standard measure of capital market development, it hides the fact that local markets are dominated by financial and infrastructure firms. Financial institutions account for more than half of market capitalisation in the region, while the share of industry and services is only 20% (World Bank, 2011). In terms of the largest listed companies in the region, financial services, telecommunications and petrochemical companies dominate, highlighting the fact that the largest listed companies in the region are predominantly Gulf-based.

While these figures may reflect the economic fabric of MENA economies, particularly in countries such as Lebanon, where banks are effectively the key driver of economic activity, they also have implications on financial sector development and the advancement of governance practices. First, the ownership of some exchanges by financial sector institutions which are listed on them can raise important conflicts of interest. Second, insofar as financial institutions in the region tend to be better governed, having been subjected to Central Bank requirements, the benefits of their listings from a governance perspective are smaller than of companies in other sectors.

Where listings have improved corporate governance practices is in family-controlled firms (FOEs) and state-owned enterprises (SOEs), which both play a crucial role in MENA economies. Both of these categories of firms face particular governance challenges, which need to be considered during the listing process. For family-owned firms, the reluctance of controlling owners to agree to a dilution of their powers and the need to report financial results publicly retard listings and MENA bourses are currently looking for creative solutions to attract these firms, recognising their particularities.

For state-owned enterprises, the challenges posed by the listing process are quite different insofar as the decision to list comes from the state. Hence, the role of exchanges in attracting such listings is quite minimal. That said, SOEs face particular challenges when they decide to list their equity or debt. On the top ten privatisation transactions in the region, only one – that of Egypt Telecom – was conducted through an IPO. In fact, IPOs have not been a popular method of privatisation in the region: in Egypt, only 4 privatisations out of 69 were conducted through an IPO (World Bank Privatisation Database).

The OECD's work on corporate governance of SOEs has highlighted the important progress that listings of SOE equity or debt have brought in terms of transparency, considering that many SOEs, were subject to no or low public disclosure requirements prior to their listing. Listing of SOEs has also contributed significantly to the development of capital markets and has resulted in a growing presence of telecom and industrial firms in local capital markets. Indeed, privatisation activity in some MENA countries, notably in Kuwait and Qatar, which are both planning sales of stakes in national airlines, and in Iraq, where major telecom privatisations are planned, may further spur the development of local capital markets and the interest of major investors in them. A number of stock exchanges and capital market regulators in the region are therefore supportive of further divestment of government stakes in SOEs.

Increasingly, regional exchanges are attempting to respond to the diversity in corporate structures and ownership of firms they are trying to attract by creating different listing tiers. According to the responses to the OECD Questionnaire, a number of exchanges already have differentiated requirements for listing based on company size. A relatively new trend in the region is the creation of custom listing tiers for SMEs and in some cases, exchanges for listing SMEs. This reflects the difficulty faced by exchanges in the region to attract these companies - which are more often than not, family owned enterprises - to list under existing regimes.

Egypt was the first in the region to create an exchange dedicated SME market, the Nile Exchange (NILEX), in 2008. Dubai Financial Market and the Qatar Exchange have followed suit in 2012 by creating local SME markets. The Muscat Securities Market and the Abu Dhabi Securities Exchange are also looking at creating special tiers for family-owned companies with lower free float requirements, thereby responding to the concern of controlling shareholders. The revision of listing standards in a number of markets - even those that do not plan to launch dedicated SME tiers - reflects the perception that greater flexibility is needed in the standards for admission to attract companies to list.

Markets that feature differentiated listing tiers have generally lowered the capitalisation but also the free float requirements for firms wishing to list on lower tiers. For example, the listing requirements on NILEX are lower than on the main market: the minimum free float required is 10% and the minimum number of shareholders is 25, whereas listing rules for the EGX require a minimum free float of 30% and the required minimum number of shareholders is 150. While this relaxation of standards may be necessary to attract SMEs or family owned firms, there is a risk that companies attracted by these new standards would have insufficient free float and might not be traded regularly, if at all.

Several proposals were made to ensure that SMEs/FOE listings remain attractive for investors. One of the proposals put forth is to introduce sponsorship requirements similar to those applicable for companies listed on the AIM segment of the London Stock Exchange. Another idea that received some attention is introducing minimum holding or lock-up periods for controlling investors to attract investor confidence. The idea of providing SMEs and FOEs with tax incentives has also been discussed extensively. Egypt has already experimented with providing tax incentives to attract listings and its experience has not proven satisfactory considering that many of the companies that listed were not able to meet the ongoing listing criteria and eventually had to be de-listed. Observing this experience, other jurisdictions have been understandably reluctant to use fiscal incentives as a mechanism to attract listings.

These mechanisms of attracting listings of SMEs need to be examined in light of experiences of other markets that have created specialised SMEs exchanges or differentiated listing tiers which provide greater flexibility in listing. In a number of instances, the establishment of such mechanisms for listing of SMEs did not succeed in attracting them to the market. Another issue is that companies that might be attracted by these lower standards might not generate interest in the investor community. Finally, a related challenge is that SMEs, even in developed markets, are not able to attract analyst coverage. This is problematic because evidence shows that lack of analyst coverage negatively impacts company valuations, liquidity and ultimately their growth.

Considering the specific governance issues faced by different categories of issuers in the region (i.e. SOEs, SMEs, financial sector and industrial companies), imposing a single governance framework for all listed companies has been a challenge for the securities regulators and for those exchanges that have some regulatory functions. Responding to this observation, some countries in the region (e.g. Egypt, Morocco, and the UAE) are moving towards developing separate corporate governance guidelines and listing requirements for different categories of firms. Considering the recent nature of most of these initiatives, how they will affect the adoption of good governance practices in the region remains to be seen.

High levels of retail investment

Despite recent emphasis on the role of institutional investors in corporate governance, it is not institutional investors, but households that are the largest class of investors. This is also the case in the MENA region, where retail investors were estimated to own approximately $2.7 tril USD of assets as of 2010, as opposed to only about $0.5 tril USD of institutional investor assets (McKinsey, 2011). The annual compound growth rate of assets owned by MENA households is highest globally at almost 23%, while the rate of growth of the pensions and insurance sectors stood at 14 and 15.5%, respectively, during 2000-2010 period (ibid).

These statistics reflect the slow development of insurance, pensions and mutual fund sectors in the region and highlight the reasons for high retail investor participation in MENA markets. The highest institutional investor participation in stock markets is reported in Kuwait, Egypt and Qatar and is estimated to be closer to 30% (MEED, 2011). This is below institutional investor participation in most OECD jurisdictions (e.g. UK, US, France) and even some emerging markets (e.g. China[7]). Improving the participation of institutional investors in the region's capital markets is an important long term objective and one that requires long-term structural reforms.

Aside from the slow development of pensions, insurance and mutual fund sectors, the low institutional and foreign investor participation can be attributed to the low free float in most MENA markets. Whereas in most developed markets, free float accounts for no less than half of the market capitalisation, in few MENA market is this so. Only in Kuwait, Tunisia and the UAE, free float exceeds 50% of market capitalisation (World Bank, 2011). The low free float in Arab markets is in turn a reflection of high ownership concentration and the active role of the state as the owner of listed companies, either directly or through sovereign investment vehicles.

The low institutional and foreign investor participation in MENA stock markets is also related to the existing investment restrictions which - although liberalised over the past decade - still pose a significant barrier in some markets. Tadawul, the biggest market in the region, is also one with the highest investment restrictions: non-GCC nationals can currently invest through swaps only. In the UAE, foreign investment is limited to 49% of equity and in Qatar to 25% which has effectively been an impediment for these markets to be qualified as "emerging markets" by the MSCI.

The impact of this upgrade on the ability of these markets to attract additional investment is widely debated. According to estimates of EFG Hermes, the upgrade can attract approximately $1 bil USD of additional investment to the UAE and $3 bil USD to Qatar, while other experts argue that these markets would constitute only a small fraction of the overall MSCI emerging markets indices and that, as a result, additional investment arising from index-tracking will be minimal. Furthermore, a recent empirical analysis by the DIFC argues that there is a positive impact on the markets on the day of the announcement, but that in the longer-term, the impact of reclassification can be negative (Saidi at al, 2012).

It is important to consider the impact of low institutional and foreign investor participation on capital markets development. A number of market analysts consider that low institutional investment in the region has acted to increase market volatility since retail investors often have a limited investment horizon and tend to withdraw capital more rapidly, even if this might be against market fundamentals. This has often resulted in dramatic market declines as was witnessed in 2006 in GCC markets. It was also highlighted by recent declines of markets in Egypt, Tunisia, Syria and Bahrain, which were spurred by political uncertainty.

Another impact of retail investor domination is that while turnover ratios are high in the region by international comparison, the quality of price discovery is weak. In fact, the significant volume of trading in the MENA markets, particularly in the largest listed companies cannot be taken as being indicative of effective price discovery because indicators of price synchronicity in the region are high by international comparison (World Bank, 2011). Weak price discovery and relatively strong trading volumes in some MENA markets (e.g. Saudi Arabia) underscore the important need for financial education and investor protection.

That said, institutional investor participation should not be viewed as panacea to improving the efficiency of local markets. First, even in markets where the volume of trades by institutional investors is relatively high, the investment horizon of these investors also appears short and hence their ability and interest to influence corporate governance outcomes may be limited.[8] Second, most institutional investors in the region do not have clear voting policies and are not required to disclose their voting results to the regulator or to the public. This is a significant concern from the perspective of improving market transparency and stewardship by institutional investors.

In markets dominated by retail investors and where institutional investors do not have a long-term view of their investments, the importance of high transparency and investor protection increases. Investor protection is all the more important when one looks as the exposure of retail investors in the region to the capital markets. Currently, only 18% of MENA households have investments in equities and 14% in fixed income products (McKinsey, 2011). These figures are relatively low, indicating a scope for further growth of retail investment in MENA capital markets. Considering this trend, the burden falls on policymakers and market institutions to ensure that listed companies provide adequate and timely disclosure and that investor protection mechanisms are strong.

Stock exchanges can play a key role in this regard by setting higher disclosure standards and contributing to the establishment of investor protection mechanisms. Both of these measures would go a long way to addressing the volatility of exchanges in the region. In the past, when MENA markets have experienced large declines, the authorities and prominent businessmen have often come to support the market. In March 2011, Prince Alwaleed bin Talal, the largest private investor in the Saudi market, pledged to invest $260 mil USD in the market, noting that "the stock market fall is not justified" (Associated Press, 9 March 2011).

Indeed, it has become common that in some markets, declines are followed by significant injections of capital from prominent investors and sovereign funds in order to forestall any further falls. While MENA markets lack institutional investors, sovereign and quasi-sovereign type vehicles play an active role, especially in GCC markets. According to some estimates, in the GCC alone, regional SWFs hold stakes in over 130 listed companies (Markaz, 2008) and they investment focus is increasingly inward oriented. This suggests that sovereign investment vehicles can somewhat compensate for the lack of more traditional institutional investors in MENA markets.

Diversification of financial products

Recent discussions on the development of capital markets in the region have been dominated by two themes, namely the establishment of financial centers and the diversification of financial instruments in local markets. The sophistication of financial products and instruments listed on MENA markets is currently evolving. Traditionally, MENA capital markets have been dominated by equity issues.[9] Bond markets in the region have traditionally been underdeveloped owing to the lack of a yield curve of government debt and the dominant role of banks in the economies of the region.

This is slowly changing with the listing of some corporate debt, including of state-owned enterprises - especially in the GCC countries - where the debt markets grew to over $ 20 mil USD in 2009 compare to only just 5 mil USD five years earlier (World Bank, 2011). By international comparison, these figures remain small. The development of debt management offices in GCC countries in recent years and issues of debt by the governments of Qatar, Dubai and Kuwait have contributed to establishing a better yield curve, thereby fostering corporate debt issues. Outside of the GCC countries, listed debt - either traditional or sukuk – can be considered as negligible.

In other countries where banks play a dominant role as a source of credit to the corporate sector, companies do not face a compelling logic to list bonds. This is, for example, the case in Lebanon. For firms that have no listed equity, listing debt requires companies to be subject to substantial reporting requirements and hence usually represents a more complex choice of financing when compared with bank credit. Country-specific regulations have also stymied the issuance of debt products. For instance, in Tunisia, companies are prevented by law from listing debt in public markets before equity.

Apart from traditional debt and equity instruments, a number of MENA markets have in recent years allowed the introduction of more sophisticated products such as derivatives and swaps, although the regulatory frameworks for these products are still evolving. More recently, some exchanges have moved to allow margin trading in an attempt to boost liquidity. The Dubai Financial Market has in 2012 allowed two companies to offer margin trading and it is reported that short selling might soon be allowed by the local securities regulator, the Emirates Securities and Commodities Authority (ESCA).

A major global development that has affected the region is the emergence of index-based products, which trade a basket of the largest listed companies or companies selected based on specific criteria. In particular, environmental, social and governance (ESG) products and indices have experienced a growing popularity in the region in recent years. Standard & Poors (S&P) was first to launch an ESG index on the Egyptian Stock Exchange in 2010. For the moment, Egypt remains the only country in the region with such an index.

On a regional level, S&P and the Hawkamah Institute launched an ESG index covering 11 Arab countries in 2011. This index ranks approximately 200 companies based on their performance relative to regional peers. The S&P, in partnership with the Arab Federation of Exchanges, has launched the AFE 40 index in 2011. This index is designed to track the performance of 40 leading companies from the Arab region. Given that these indices have not been in place for long, it is premature to judge whether they have succeeded in incentivising companies to adopt better governance practices and attract capital to leading companies.

Although it is currently unclear to what extent the emergence of index-based trading will take off in the region, experience of other markets indicates that it may be just a matter of time. Institutional investors make heavy use of indices such as FTSE 100, S&P 500 and MSCI World Index. Standard and Poor's reports that $3.5 tril USD was benchmarked in S&P 500 alone in 2010, including $975 bil USD in explicit index funds. In an effort to attract more institutional investment, MENA stock exchanges may be tempted to launch indices and ETFs to attract such investment.

For the moment, the presence of index-based products more generally and exchange-traded funds (ETFs) specifically in MENA markets is low.

ETFs are traded in a small number of markets such as Egypt and Dubai, but their presence is likely to grow in the coming years. According to responses to the OECD Questionnaire and secondary research, a number of exchanges, including NASDAQ Dubai, the Bourse de Casablanca and the Abu Dhabi Stock Exchange, are interested in launching trading in ETFs.

Nonetheless, there appears to be some recognition that ETFs may not be the solution to the liquidity problems faced by MENA markets and indeed markets around the world. As highlighted by OECD's recent report on the *Role of Institutional Investors in Corporate Governance*, the popularity of indexing can carry several negative consequences, including the danger of passive investing relying on the index which does not necessarily differentiate companies based on their governance. In addition, considering the high number of companies that these indices track, active monitoring of company performance by institutional investors becomes challenging (OECD, 2011a).

Part II

The Role of Exchanges in Corporate Governance

As highlighted in OECD's earlier work, stock exchanges all over the world have historically contributed to promoting good corporate governance practices in several key ways. The primary means for exchanges to promote corporate governance has been through the issuance of listing and disclosure standards and monitoring of compliance with them. Exchanges have also collaborated, or acted on behalf of, other supervisory, regulatory and enforcement agencies. Last but not least, in recent years, exchanges have established themselves as promoters of corporate governance codes or recommendations.

Trends such as exchange demutualisation, privatisation and self-listing, as well as consolidation in the industry have raised issues regarding the appropriateness of regulatory functions of exchanges in this new setting. Policymakers in a number of countries have reacted to the transformation of domestic exchanges to private companies, at times removing some regulatory powers from exchanges, at times allowing exchanges to retain their regulatory powers on the condition that they separate their regulatory and commercial functions. A wide range of mechanisms to address the potential conflicts of interests faced by exchanges have been introduced.

As noted earlier, the evolution of MENA bourses has been very different, including in terms of their ownership and governance and consequently in terms of their objectives as well. Demutualisation and privatisation is of growing interest to MENA bourses, most of which are organised as public institutions or state-owned companies, but has not impacted many bourses in the region so far. Other challenges that have affected global bourses such as competitive pressures among exchanges and with off-exchange platforms have so far not been relevant in the region.

Responses to the OECD Questionnaire highlight a different set of priority issues for Arab stock exchanges. The top priorities include attracting listings, increasing liquidity, improving governance of listed issuers, and introducing new financial instruments. In addition, there appears to be some interest in creating mechanisms to foster regional co-operation by facilitating cross-listing and integration of markets. Whether further development of cross-listing and regional integration is feasible without further regulatory harmonisation is subject to an ongoing debate. Furthermore, it remains to be seen whether regulatory harmonisation or agreements between markets can succeed in lowering costs of cross-listing. One step in this direction was taken with the recent approval of common IPO and disclosure rules by the Ministerial Committee of the GCC Secretariat.[10]

Interestingly, all of the priorities noted by exchanges in the region are ultimately related to corporate governance. While attracting further listings may arguably be accomplished without high standards of governance, attracting investment to these markets cannot be done without adequate governance practices. This second part of the report is hence dedicated to examining the mechanisms at the disposal of MENA exchanges to promote good governance practices in listed companies, including through their regulatory responsibilities, their listing, monitoring and enforcement authority, and by facilitating better corporate disclosure.

The regulatory role

In Europe and North America, the regulatory function of exchanges was intensively debated during the process of demutualisation and as a result, regulatory and profit making functions of exchanges were separated in a number of markets. Through this separation, most exchanges were able to preserve some regulatory responsibilities, including in the area of corporate governance. For instance, following the demutualisation and self-listing of the New York Stock Exchange (NYSE), NYSE Regulation was set up as a non-profit subsidiary responsible for market surveillance and enforcement of rules that relate to trading on NYSE.[11]

In the MENA region, considering that most exchanges are state-owned or organised as public organisations, exchanges are not subject to the same conflicts of interest in exercising their regulatory responsibilities as would be private, self-listed exchanges. For exchanges which are organised as governmental entities, the exercise of regulatory powers, either on behalf of the securities regulator or independently, raises less questions since they do not have the same responsibilities to their owners to maximize profits.

Instead, the challenge becomes finding a suitable balance in the division of regulatory responsibilities between the exchange, the securities regulator, and other regulatory bodies (i.e. the companies comptroller, the central bank, and sectoral regulators). In the region, the division of regulatory responsibilities between exchanges and securities regulators varies significantly - on balance however, it is tilted towards the securities regulator, as indeed is the case all over the world. Stock exchange regulations, including listing rules, are often established by the securities regulator and approving listings is more often than not done by the securities regulator.

Few exchanges in the region have the powers of a true self-regulatory organisation (SRO). While Questionnaire Responses (summarised in Annex III) paint a different picture, this is due to differing interpretations of what constitutes an SRO. In a number of instances, such as in the case of Tadawul or the Abu Dhabi Stock Exchange, the exchange acts primarily as a listing venue, whereas the securities regulator is responsible for introducing and enforcing legal and regulatory provisions bearing on corporate governance. In most cases however, the picture is more complex.

A number of exchanges, including the Beirut Stock Exchange, the Amman Stock Exchange, the Qatar Exchange and the Egyptian Exchange have some regulatory powers intended to reinforce the powers of the securities regulator. Apart from the Beirut Stock Exchange however, it is debatable whether they can be classified as SROs. The case of the BSE is indeed unique since Lebanon for the moment does not have a securities regulator. At the moment, the BSE exercises both listing and other regulatory functions, with the exception of the banking sector, which is supervised by the Central Bank. With the introduction of a securities regulator in Lebanon, its regulatory responsibilities are expected to be reduced.

These developments highlight that the establishment of securities regulators has resulted in the reduction of exchanges' regulatory responsibilities. For instance, the Palestine Securities Exchange which used to have a status of a self-regulatory organisation saw a number of its regulatory powers shifted to the Capital Market Authority in recent years. Nonetheless, some exchanges, notably the Amman Stock Exchange, the Egyptian Exchange, the Muscat Securities Market have retained some regulatory responsibilities even after the establishment of securities regulators, which have specialised corporate governance expertise.

The Amman Stock Exchange noted in its Questionnaire response that it has a formal SRO status as per the Securities Law that gives it a wide range of authority, deemed to be sufficient. Although the Egyptian Exchange does not have a formal SRO status, the exchange has full powers to accept listings, but it is the securities regulator that officially promulgates listing rules, drawn up in consultation with the exchange. In addition, the exchange has established regulations governing the activities of its member firms, market trading and listing rules. Likewise, the Muscat Securities Market enacts its trading and listing regulations and provides licenses to brokers. Also, the Director General of the exchange can issue circulars to issuers with clarifications or additions to existing provisions.

Considering the need for exchanges to coordinate with securities regulators in a number of areas, collaboration between them is typically fixed by law - this appears to be the case in a number of jurisdictions (e.g. Morocco, Oman, Jordan, Egypt, Syria, etc.). In principle, this should clarify the division of regulatory and market supervision functions. A slightly different arrangement has emerged in Saudi Arabia, where the stock exchange and the capital markets regulator have signed a Memorandum of Understanding (MOU) which outlines the roles of the two organisations. This MOU effectively confers most regulatory functions on the Capital Markets Authority, which is also responsible for establishing listing rules for Tadawul.[12]

In a number of cases, exchanges are overseen directly by securities regulators and this is reflected in their governance arrangements. For instance, in Syria, the management of the exchange is chosen by the Prime Minister based on the proposal of the securities regulator. In Kuwait, the stock exchange is overseen by the Capital Market Authority, responsible for its privatisation. In a number of instances, a representative of the capital markets regulator sits on the board of the exchange. In the case of the Palestine Securities Exchange, the capital markets regulator used to sit on the board of the exchange but this arrangement was abandoned.

Whether it is a good practice for the regulator to sit on the board of the exchange and at the same time to oversee its day-to-day operations is questionable. For one, if the management of the exchange reports to the securities regulator, it might be less aggressive in attracting listings. In any event, most exchanges in the region do not have the power to accept listings, since this is the responsibility of exchanges. In addition, the effectiveness of such an arrangement rests on the independence of the securities regulator. Some Taskforce participants expressed reservations in this regard. The concern is that if the securities regulator is not entirely independent, its decisions might be politicised. For example, it might be pressured to soften its standards when supervising strategic listed companies, especially SOEs.

Regardless of the division of regulatory responsibilities, some Taskforce participants expressed the view that to minimise potential conflicts of interest, exchanges must have minimal independence. Some steps in this direction have been taken in a few markets. In a number of markets, securities regulators no longer sit on the board of the exchanges and a number of Arab bourses have an independent budget. The benefits and disadvantages associated with budgetary independence are important to address going forward, including during market downturns when the exchange may not be able to function on internally generated revenues.

The listing authority

With a few exceptions, the authority to admit companies to listing remains predominantly with the securities regulators. This is the case in Saudi Arabia, Kuwait, Qatar, Jordan, Bahrain, Syria and other jurisdictions. There are a few MENA markets where the listing decision remains in the hands of the exchange itself. Unsurprisingly, these are usually the same markets where the exchange is responsible for establishing listing rules. For example, in Tunisia, conditions for listing are set by the stock exchange itself and it is the exchange itself that makes the decision regarding listing.[13] In jurisdictions where the listing decision rests partially or entirely with the exchange (e.g. Oman, Morocco, etc.), the regulatory and commercial functions of the exchange have been separated to address potential conflicts of interest. Interestingly, even in markets where the listing decision lies with the securities regulator such as in Saudi Arabia and Kuwait, the listing and regulatory functions of exchanges have also been separated.

In deciding whether to list the debt or equity of a particular company, the stock exchange and/or the securities regulator consider a number of characteristics, including financial performance but also governance characteristics. In addition to the relevant corporate and securities legislation, specific corporate governance requirements are in some cases incorporated in the listing standards as is the case of the Egyptian Exchange, the Amman Stock Exchange, the Kuwait Stock Exchange and NASDAQ Dubai. However, responses to the OECD Questionnaire note that corporate governance requirements are not part of differentiated criteria for listing in specific tiers. Only in Oman and Egypt corporate governance requirements are in fact tailored depending on the market segment. The idea of having contractually established higher corporate governance segments such as BOVESPA in Brazil has so far not been subject of much interest in the region.

The latitude of stock exchanges to exempt issuers from certain aspects of listing requirements vary. The majority of responses indicate that regional bourses do not have any discretion in application of the listing rules. In some markets however, exchange management has the right to wave some listing requirements at its discretion. NASDAQ Dubai can grant waivers to prospective issuers when, for example, a company is not able to meet requirements related to free float. The Tunisian exchange can also grant exemptions to issuers that conduct IPOs or secondary offerings worth at least one million Tunisian dinars (approximately $620 000 USD). The Muscat Securities Market has the authority to exempt companies in specific circumstances from aspects of listing requirements; however this has so far never happened.

The fact that exchanges can exercise some flexibility in the application of their rules is not uncommon outside the region. NASDAQ OMX, the Toronto Stock Exchange and the Australian Stock Exchange have some discretion in application of their rules. In the past, this has raised concerns as to a potential regulatory "race to the bottom" in the context of competition for listings among bourses. The introduction of mechanisms to ensure that exchanges cannot admit issuers that do not meet the standard of listing is important. An interesting example in this regard is presented by the Egyptian Exchange which also has the latitude to exempt companies for some listing criteria. In Egypt, it is the Listing Committee which has the powers to accept derogations from the listing rules, which is arguably preferable to the centralisation of the decision-making powers seen in other markets.

Corporate governance codes

Beginning in early 2000, countries in the MENA region have started to introduce national corporate governance codes. Today, only 3 economies participating in the OECD's regional *Corporate Governance Working Group* do not have a corporate governance code or guidelines. While some jurisdictions have adopted a single corporate governance code applicable to all companies, a number of countries now have codes addressing specifically SOEs or SMEs. These codes are predominantly based on the *OECD Principles of Corporate Governance* and the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* and some have been developed with the input of the OECD.

Historically, stock exchanges have had a varying influence in the process of drafting national corporate governance codes. On the one end, the Copenhagen Stock Exchange (now part of NASDAQ OMX) was the one to release the Danish corporate governance guidelines. On the other end, there are many markets where the national code or corporate governance guidelines were prepared without participation of or input from the bourse. Indeed, obtaining exchanges' input into national regulatory initiatives, in view of their increasingly transnational structure, may prove to be increasingly challenging going forward. However, considering that most regional bourses are owned and focused nationally, this is not a relevant concern for MENA markets for the time being.

In the MENA region, while exchanges have not played a leading role in the introduction of national corporate governance codes, in most cases they have been consulted and have provided input. This is the case for example in Morocco and Palestine[14], where exchanges participate in the respective national corporate governance commissions. In Egypt, the Chairman of the exchange was a member of the team which developed the code in 2005. In Tunisia, the exchange participates in the work of the local corporate governance institute, which has led the work on the national code. In Oman and Jordan where there is no national corporate governance commission, local exchanges have provided input through other channels.

In terms of monitoring and enforcement of companies' compliance with national codes, the situation is quite varied. First, most corporate governance codes in the region are applicable on a voluntary basis and therefore neither the exchange nor the securities regulator monitor companies' compliance with them.[15] However, as corporate governance codes in the region are increasingly being introduced on a "comply or explain basis" (OECD, 2010), the monitoring aspect gains in importance. "Comply-or-explain" type codes currently exist in a number of jurisdictions, including Saudi Arabia, Oman, Qatar and Jordan. In Morocco, companies are asked to comply-or-explain their position vis-à-vis the code, but this is not mandatory.

The OECD's earlier work with stock exchanges revealed that in most instances, stock exchanges are in some way involved in monitoring the compliance of listed companies with national codes although their ability to take action based on observed deficiencies depends on the legal basis of the code and the national securities regulation framework (OECD, 2009). In instances where elements of corporate governance codes are incorporated in the listing standards, exchanges have more direct enforcement powers, whereas the role of exchanges in monitoring and enforcing compliance with soft rules is more circumscribed.

In the MENA region, the responsibility for monitoring companies' compliance with national corporate governance codes or guidelines rests predominantly with the securities regulators. This is the case in all but one jurisdiction in the region which has adopted a "comply-or-explain" code. The only market in the region where the exchange has a responsibility for monitoring companies' compliance vis-à-vis the code is the Muscat Securities Market, by virtue of the circular of the Capital Markets Authority of Oman which makes the local code part of the listing requirements. In all other markets, exchanges play a less prominent role in this respect.

In addition to the applicable corporate governance codes, exchanges may introduce additional governance criteria as part of the listing rules or maintenance standards. Most exchanges in the region indicated that they have no corporate governance rules or guidelines over and above the corporate governance code and the applicable securities and companies legislation. The Egyptian Stock Exchange is somewhat unique in this regard, having over the years incorporated elements of the domestic corporate governance code in the listing requirements. Indeed, it would not be surprising if other Arab exchanges continue to revise their listing requirements to incorporate emerging good corporate governance practices, especially as the codes themselves are now being revised.

In terms of the institutional capacity of exchanges to review disclosures regarding the application of national corporate governance codes, it appears that it is relatively atypical for regional exchanges to have staff exclusively dedicated to working on improving corporate governance of listed companies. On the other hand, a number of capital markets regulators in the region have dedicated corporate governance departments (e.g. Saudi Arabia, Oman). Only the Muscat Stock Exchange and the Dubai Financial Market reported that they have staff dedicated exclusively to working on advancing corporate governance practices.

However, it is not atypical for other departments focusing on compliance or disclosure to be charged with reviewing the governance practices of listed companies. For instance, in Egypt, the Disclosure Department is responsible for monitoring corporate governance practices of issuers. In Morocco, it is the responsibility of the Compliance Department. In Lebanon, in the absence of the securities regulator, it is the Audit Committee of the Exchange and the Disciplinary Board which share responsibilities in this area. Finally, in some markets such as Jordan and Tunisia, relevant expertise is widely spread among staff and therefore no responsible unit can be identified. The bottom line is that most exchanges have human resources assigned to reviewing corporate governance practices of listed companies.

A related question is whether exchanges have the capacity, and indeed the incentives, to review their own governance practices. This is important for both state-owned bourses and those that are privately owned. For listed exchanges in particular, it is important to ensure that the governance arrangements of the exchange itself are in line with the governance code applicable to listed companies. Indeed, the Dubai Financial Market presents a particularly interesting case considering that, as a listed company, it is subject to the same requirements of the Emirates Securities and Commodities Authority as are other listed companies. The exchange was the first company in the UAE to apply the corporate governance code and it seeks to lead by example in this area.[16]

Disclosure and transparency

Promotion of transparency and disclosure remains a key prerequisite for exchanges, considering their interest to attract investors and the need to assure them of market integrity. Given their role as the information gateway for the investor community, exchanges often play a greater role in facilitating company disclosure than in promoting other governance practices. As in other areas, the role of exchanges in monitoring corporate disclosure is more often than not shared with the securities regulator.

While transparency and disclosure requirements are typically encompassed in the companies and securities legislation and regulations, exchanges are often in position to ensure that the requisite information is disseminated to the investor community. In some markets, key company reporting can be accessed through sites administered by the securities regulators (i.e. EDGAR in the United States). In others, such as in Saudi Arabia and Turkey, company filings are made available through sites operated by stock exchanges.

In Saudi Arabia, the Tadawulaty site (www.tadawulaty.tadawul.com.sa) is operated by Tadawul in cooperation with broker firms. In Turkey, the Public Disclosure Platform (www.kap.gov.tr), developed jointly by the Capital Market Authority and Istanbul Borsasi, provides investors with electronic notifications on matters that companies are required to report on publicly.[17] Information about listed companies, exchange-traded funds and brokerage houses as well as announcements by regulatory bodies are all published directly on this Platform and disseminated to over 2500 users across the country.

The role of Arab exchanges in facilitating appropriate disclosure to the market is evolving in parallel with the tightening of disclosure requirements. As noted in OECD's 2011 survey of MENA securities regulators, disclosure frameworks in the region have evolved relatively fast. The International Financial Reporting Standards (IFRS) are now a relevant reporting standard for listed companies in several countries and in most countries, listed companies are required to provide audited annual reports and semi-annual or quarterly financial reports. Immediate disclosures on material events are now a standard requirement across MENA markets and insider trading is gradually growing to be better regulated.

The responsibilities for monitoring the application of these new requirements falls on securities regulators but also on stock exchanges, which are in position to monitor market developments in real time. As a result, they can instantaneously detect any potential market abuses and react by freezing trading on a particular security or forwarding cases to the securities regulator for potential prosecution. To ensure they are up to the task of monitoring market manipulation, a number of exchanges have moved to update their technical infrastructure. The Kuwait Stock Exchange, for instance, is upgrading its system to the NASDAQ OMX trading platform that links the market with clearing companies and brokers, thereby helping to prevent manipulation of market data.

Beyond ensuring market integrity, the exchanges' technical infrastructure enables the execution of trades and, in doing so, should facilitate an efficient price discovery process. This function is arguably the cornerstone of exchange operations and yet one that has been endangered in recent years by the emergence of off-exchange traded platforms (predominantly in Europe and in North America). The result of this phenomenon is that a significant portion of trading activity in these markets has shifted to off-exchange venues and there is a risk that trading fragmentation endangers the ability of exchanges to ensure a transparent price discovery process.

Another trend that has affected the ability of exchanges to ensure the transparency of the price formation process is the emergence of dark pools. While broker dealers have for a long time internalised orders in order to avoid having to pass through exchanges, the development of dark pools represents an additional step in moving trading away from regulated exchanges, and hence reducing the ability of exchanges to ensure transparency in the price formation process. An additional complication is that many dark pools welcome high-frequency traders (HFTs) who can use their speed to exploit price differences between exchanges and dark pools.

In the MENA region, off-exchange trading has not developed and therefore the challenges of trading fragmentation are, for the moment, not highly relevant. The absence of alternative trading platforms should in principle render the role of MENA bourses in facilitating efficient price discovery less challenging. That said, stock markets in the region do not necessarily have efficient price discovery, as noted above. Improving the efficiency of MENA markets would require not only the efforts of stock exchanges but other structural reforms to facilitate the participation of institutional investors and improve analyst coverage.

Exchanges can also make an impact in facilitating regular, periodic corporate disclosure to the market. For example, the Abu Dhabi Stock Exchange has already in 2006 recommended that all of its listed companies use the Extensible Business Reporting Language (XBRL) which allows for tags to be applied to individual items in financial reporting, thereby facilitating disclosure and its comparability. In 2011, ESCA signed an agreement with the Abu Dhabi Stock Exchange and the Dubai Financial

Market to start implementing XBRL for listed companies, making the UAE the first MENA country to require XBRL reporting.

In other markets, the securities regulator or the stock exchange either scan financial statements or key-in financial data in order to make it available to investors. Both of these methods are difficult for the party responsible for entering the data and for analysts/ investors wishing to compare key features of companies' reporting. There is also a risk that incorrect information can be reported as a result of manual entry errors. Indeed, some Taskforce participants noted the need to address the risk of exchanges relaying incorrect data to the market as a result of such errors. A related challenge is for exchanges to develop the capacity to verify the quality of material disclosures made by issuers.

Finally, beyond facilitating corporate disclosure, exchanges have on occasion supported the broader integrity and anti-corruption agenda. In Egypt for instance, the stock exchange was closed for over a month after the resignation of the Mubarak government in 2011. When the market re-opened, all listed companies were asked to report to the exchange on any affiliations with the former regime as well as on any investigations or charges pending against key corporate officers or owners. As highlighted by this experience, the practice of separation of ownership from management has facilitated the ongoing listing of companies where the owners were indicted or investigated.

The enforcement powers

Similarly to the listing authority, the sanctioning power of regional bourses varies widely, from one end of the spectrum, where some exchanges do not have the powers to impose fines, suspend or de-list any securities all the way to the other end of the spectrum, when exchanges can do all of the above, even without consulting the capital markets supervisor. Naturally, exchanges with greater powers to establish listing rules and make listing decisions also enjoy greater powers when it comes to sanctioning issuers and market participants. Interestingly, some regional bourses that have limited decision-making powers to accept securities for listing, have greater powers when it comes to sanctioning issuers.

In Egypt, Syria, Kuwait, Tunisia, Morocco, Lebanon, Qatar, and Dubai, stock exchanges consider to have the necessary regulatory powers to impose sanctions on issuers, including in some cases, de-listing them. In the case of the Bourse de Tunis, the exchange has a wide range of powers including suspending listings and de-listing companies, if necessary. The Egyptian and Kuwaiti exchanges have the right to suspend listings without first seeking the permission of the securities regulator. In Syria, the Board of the Damascus Stock Exchange can issue a notice to the company informing it of a breach of rules, impose a financial penalty or stop the trading of a particular security.

In other markets, the decision-making powers are divided between the exchange and the regulator. For example, the Rulebook of the Qatar Exchange notes that the exchange can temporarily suspend trading on its own initiative and its own discretion or at the request of the Qatar Financial Markets Authority. In addition, the exchange can, taking into account the applicable laws, impose specific conditions on the issuer to ensure its compliance with obligations set out in the listing agreement. The Dubai Financial Market also has the right to unilaterally suspend trading in a given security, but is required to report any such actions to the Emirates Securities and Commodities Authority.

Approaching the question more practically, forced de-listings have been relatively rare in the region with the exception of the Egyptian and Kuwaiti exchanges. The number of listed companies on the EGX has decreased dramatically from 740 in 2005 to around 350 in 2008. Almost 100 listed companies were de-listed from the exchange in 2010, mostly for failure to comply with disclosure and free float requirements. The EGX can also impose financial sanctions on issuers, a power that is relatively rare in the region, although it is debatable whether the monetary thresholds of these sanctions act as a sufficient deterrent in the Egyptian market.[18] The Egyptian Financial Supervisory Authority also has the power to apply financial fines for certain breaches of securities regulations.

The Beirut Stock Exchange has also delisted a few issuers for abusive related party transactions, for providing insufficient disclosure to the market, as well as for failing to comply with applicable reporting standards. The Bourse de Casablanca has de-listed a few issuers due to the lack of liquidity and NASDAQ Dubai has also de-listed one company for having insufficient securities held in the local market. The Iraq Stock Exchange has delisted a few issuers for failing to disclose their financial results and for providing misleading reports.

In Abu Dhabi, Jordan and Saudi Arabia, exchanges have no powers to de-list or sanction non-compliant issuers. In these jurisdictions, sanctions for breach of listing standards can only be applied by the relevant securities regulator. In Oman, a slightly different set of rules apply. Securities can be only de-listed from the exchange if a company changes its legal form to one that is not eligible for listing, in cases or mergers, takeovers, dissolutions or upon maturity of the security. The exchange cannot de-list securities for failing to comply with its rules, though the capital markets regulator can.

The question of de-listing has to be viewed, however, not only from the perspective of companies for which it is punitive, but also from the perspective of the shareholders which may be differentially affected by de-listing. From the perspective of shareholders, de-listing may not help address abuses and may further disadvantage them unless adequate protection is in place in the applicable legislation or in the articles of association. So far, due to the relatively few de-listings in most markets, this issue has not been addressed and remains an important one to consider in the context of the concentrated ownership structure in the region which raises particular minority shareholder protection risks.

Concluding Remarks

In considering the role of exchanges in promoting good corporate governance practices in listed companies, it is essential to keep in mind the diversity in governance frameworks that have emerged worldwide. While in the United States, numerous governance provisions are incorporated in the listing rules, effectively making them mandatory, most European and other major markets have followed a "comply-or-explain" model. In the MENA region, most corporate governance codes are voluntary and the extent of governance-related requirements incorporated in the companies and securities regulations varies significantly.

Corporate governance frameworks in the region have been subject to significant transformations in recent years with the move towards "comply-or-explain" codes in a number of countries, revisions to corporate and securities laws and the introduction of specialised guidelines for banks, state-owned enterprises and other categories of enterprises. Taken together, these developments indicate that exchanges in the region face an opportunity to reflect on their role in promoting good governance practices among issuers. A number of exchanges have already reacted to these developments by reviewing their listing standards, conducting awareness raising activities and playing a more active role in ensuring market integrity and transparency.

Considering that the majority of stock exchanges in the region are state-owned, they are in principle well positioned to play an active role in terms of the regulatory, monitoring and enforcement functions since the potential of conflicts of interest between their regulatory and commercial functions is reduced. However, as noted in this paper, state-owned exchanges may face other conflicts of interest that need to be addressed. For privately-owned exchanges, arrangements to ensure that they face strong incentives to set and monitor high standards of governance and that competition between markets does not result in a "race to the bottom" are important. Indeed, the urgency to introduce such arrangements is gaining importance considering the interest among some Arab exchanges to privatise.

Regardless of their ownership, an encouraging trend is that stock exchanges in the region are generally not concerned that raising the bar in terms of governance or other listing standards might deter listings. While demanding regulatory standards, including stringent corporate governance provisions, could be seen by exchanges as risky from the perspective of attracting further listings, Arab exchanges are moving towards raising the bar in order to attract institutional investment and to ensure longer term sustainability of local markets. In particular, as regional exchanges compete for listings with international marketplaces where some of the region's largest companies are listed, their interest is to promote high standards of listing.

At the same time, Arab bourses are moving towards establishing more flexible standards in lower listing tiers in order to attract SMEs and FOEs. This trend speaks to the interest of exchanges and securities regulators to create flexible regimes to accommodate a variety of ownership and governance structures of local companies. A key concern in this regard is that companies attracted to list by these less rigorous standards might be of less interest to investors, and certainly to large institutional ones which seek transparency and sufficient free float.

As they review their listing standards, Arab bourses need to consider the potential trade-off between attracting listing and attracting investors, in particular institutional capital. In this regard, examining the experiences of other markets that have introduced listing tiers for SMEs or differentiated listing tiers appears worthwhile. They also need to consider that attracting institutional investors is not enough. Ensuring that institutional investors act as responsible long-term shareholders requires further development of national corporate governance frameworks that is arguably beyond the mandate of exchanges.

Indeed, it is impossible to speak of the development of sound corporate governance frameworks in the region without addressing the role of securities regulators. As highlighted in the report, in most MENA markets, securities regulators play a fundamental role in establishing and monitoring companies' compliance with the relevant governance regulations. This underlies the importance of effective collaboration between exchanges and securities regulators, established through a clear division of responsibilities. As noted in the report, the frameworks for collaboration between exchanges and securities regulators vary enormously in the region.

It is debatable whether the division of responsibilities between exchanges and supervisory agencies is optimal in all MENA markets. In a number of countries, the stock exchange and the securities regulator have defined modalities for cooperation. Ultimately, so long as the division of regulatory responsibilities is adequately structured and coordinated, the fact that securities regulators play a greater role in establishing the corporate governance framework for listed companies may be appropriate and is more often than not the case globally. However, the fact that securities regulators establish listing rules and decide on listings is somewhat less typical.

Arrangements need to be put in place to ensure that both exchanges and regulators have the independence and resources to adequately fulfil their mandates. In some instances, heads of securities regulators and indeed of the stock exchanges continue to be political appointees. Methods of reinforcing the independence and the technical capacity of some securities regulators in the region continue to be discussed. Going forward, the governance arrangements of stock exchanges and securities regulators merit attention to ensure that these institutions lead by example. Especially for stock exchanges are self-listed, the application of a relevant corporate governance code is essential.

Conflicts of interests faced by stock exchanges, whether state-owned or private, are unavoidable and can only be addressed by adapting governance practices of exchanges to their new ownership, competitive and institutional landscape. This will require Arab exchanges to remain agile, aware of trends in international capital markets, and open to exploring experiences of other markets that have undergone the kind of transitions now being contemplated in the region. While developments affecting some of the largest international markets, such as the emergence of off-exchange platforms, have so far not affected the region, lessons learned from these experiences are useful to share.

The Taskforce of MENA Stock Exchanges for Corporate Governance provides a platform for sharing of experiences among Arab exchanges and with representatives of key global markets on priority issues. Going forward, it will continue to support regional dialogue, as well as provide technical advice to individual bourses faced with new developments or challenges. In so doing, it will seek to raise the profile of Arab exchanges and their recognition in the investor community, among the issuers, and in key international fora. The next decade for Arab stock markets and their issuers will be defining and needs to be carefully prepared considering that a number of these bourses are in the midst of important transitions.

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Annex I

About the Taskforce

The regional *Taskforce of MENA Stock Exchanges for Corporate Governance* was formed under the umbrella of the OECD's Working Group on Corporate Governance. Its objective is to engage Arab exchanges as well as securities regulators in a discussion among themselves and with their counterparts in OECD countries about the ways that exchanges can play a meaningful role in advancing corporate governance frameworks and practices in the region.

It is intended to serve as a unique platform in the region to focus on corporate governance issues and challenges specific to listed companies, examining issues through the lens of exchanges and regulators. The Taskforce works in collaboration with regional and international organisations such as the World Federation of Exchanges, the Arab Federation of Exchanges and the Federation of Euro-Asian Stock Exchanges.

The launching meeting of the Taskforce was held at the OECD Headquarters in Paris on 5 July. The objective of the meeting was to constitute the Taskforce and launch initial discussions on topics of priority for regional stock exchanges and regulators in relation to advancing corporate governance practices. On this occasion, the OECD presented preliminary results of a questionnaire disseminated to all regional exchanges in April 2011.

This meeting was attended by heads of stock exchanges and securities regulators from the region and other major stock markets. Participants engaged in a lively debate on the following issues: the landscape of the stock exchange industry and its impact on corporate governance; the role of exchanges in promoting listing standards; the regulatory powers of exchanges in relation to corporate governance; the enforcement of corporate governance codes/recommendations by stock exchanges; the role of exchanges in ensuring market transparency.

The second meeting, to be held on 22 June in Istanbul will be an opportunity to explore new themes, including the demutualisation and listing of Arab exchanges; regulatory; attracting further listings for SMEs and family-owned companies; attracting institutional investors to MENA markets; and the role of exchanges in monitoring market manipulation. It will also provide an opportunity to discuss findings of this report and discuss future avenues of work of the Taskforce.

Annex II

Consolidated Responses to the OECD Questionnaire

The following Annex summarises responses from 14 jurisdictions (16 stock exchanges) that have responded to the OECD Questionnaire disseminated to all stock exchanges in the region in 2011. Responses were provided by the Abu Dhabi Securities Exchange, the Amman Stock Exchange, the Beirut Stock Exchange, Algerian Capital Markets Regulator (CONSOB), Bourse de Tunis, Bourse de Casablanca, the Egyptian Exchange, the Muscat Securities Market, the Dubai Financial Market, Nasdaq Dubai, the Palestine Securities Exchange, the Saudi Stock Exchange (Tadawul) and the Saudi Capital Market Authority, the Kuwait Capital Markets Authority, the Iraq Stock Exchange, the Syrian Commission on Financial Markets and Securities, and the Qatar Exchange.

Governance of the exchange

What is the current governance structure of the exchange?

Stock Exchange	Governance Structure
Abu Dhabi Securities Exchange	State-Owned Company
Amman Stock Exchange	Public Institution
Beirut Stock Exchange	Public Institution
Bourse D'Alger	State-Owned Company
Bourse de Tunis	Mutualised
Bourse de Casablanca	Mutualised
Damascus Securities Exchange	Public Institution
Dubai Financial Market	State-Owned Company/Listed
Egyptian Exchange	Public Institution
Iraq Stock Exchange	Mutualised
Kuwait Stock Exchange	State-Owned Company
Muscat Securities Market	State-Owned Company
Nasdaq Dubai	State-Owned Company
Palestine Securities Exchange	Private Company
Qatar Exchange	State-Owned Company
Tadawul	State-Owned Company

Is there a plan to privatise/demutualise the exchange?

Stock Exchange	Response
Amman Stock Exchange	No
Beirut Stock Exchange	Yes, privatisation
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	Yes, demutualisation
Damascus Securities Exchange	No
Dubai Financial Market	No
Dubai Financial Market	No
Egyptian Exchange	No
Iraq Stock Exchange	No
Kuwait Stock Exchange	Yes, privatisation
Muscat Securities Market	Yes, privatisation
Nasdaq Dubai	No
Palestine Securities Exchange	N/A
Qatar Exchange	Yes
Tadawul	Yes, privatisation

Does the exchange have a dedicated unit that handles corporate governance matters?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	No
Beirut Stock Exchange	No
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	No
Damascus Securities Exchange	No
Dubai Financial Market	Yes
Egyptian Exchange	No
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	No
Muscat Securities Market	Yes
Nasdaq Dubai	No
Palestine Exchange	No
Qatar Exchange	No
Tadawul	No

Note: There appears to be a discrepancy in how this question was interpreted by the respondents.

What conflicts of interest could potentially arise in the governance of the exchange? Is there a separation between the regulatory and listing functions?

The vast majority of questionnaire responses noted there were no potential conflicts of interest, in most part because the exchanges are state-owned. In addition, the Egyptian Exchange noted that potential conflicts of interest are mitigated by the diversity of the board of directors who represent different constituencies. The Chairman and Vice Chairman are appointed by the Prime Minister, another representative is appointed by the Central Bank, whereas the remaining board members are elected.

The Board of the Beirut Stock Exchange is composed of representatives of companies, banks, listed companies as well as brokers. Contrary to the view of the Egyptian Exchange that board diversity helps to mitigate conflicts of interest, the Beirut Stock Exchange noted that tensions and conflicts of interest may arise.

Exchanges have adopted a number of mechanisms to address conflicts of interest at the level of the board. The Beirut Stock Exchange reported that conflicted members usually sustain from voting. The Dubai Financial Market, being a public joint stock company, also reported that it has mechanisms of reporting any potential conflicts of interest to the board.

Exchanges such as the Muscat Securities Market, the Qatar Exchange and the Iraq Stock Exchange have separated their listing and regulatory functions. Nasdaq Dubai also has separated listing and regulatory functions, but noted that a potential conflict of interest remains between the government ownership of the exchange and the fact that state-owned companies are listed on the exchange.

Other exchanges such as Tadawul and the Abu Dhabi Securities Exchange do not issue licenses for listing, it is the securities regulators that do so.

What is the process of appointment of top management of the exchange? Who does the top management of the exchange report to?

Stock Exchange	Appointment of Top Management/Board	Management Reporting Channels
Abu Dhabi Securities Exchange	The Chairman and board members are appointed by the government. The management is selected by the board of directors.	N/A
Amman Stock Exchange	The management is appointed by the board of directors.	Management reports to the board of directors.
Beirut Stock Exchange	Board members and the Chairman are appointed by Council of Ministers, in accordance with the proposal of the Minister of Finance, for a mandate of four years.	The head of each department reports to the Secretary General of the BSE who reports to the Chairman, who in turn reports to the Minister of Finance.
Bourse D'Alger	The CEO is appointed by the board of directors, subject to the approval of the securities regulator and the Ministry of Finance.	The CEO reports to the board of directors.
Bourse de Tunis	Board members are elected by the General Assembly for three years and are approved by the Minister of Finance. The board selects the Chairman.	The board of directors reports to the securities regulator.
Bourse de Casablanca	The CEO is elected by the board of directors for a three year term. The appointment is approved by the Minister of Finance.	The CEO reports to the board of directors.
Damascus Securities Exchange	Board members are appointed by the Prime Minister upon the proposal of the securities regulator.	The board of directors reports to the securities regulator.
Dubai Financial Market	The management is appointed by the Nomination and Remuneration Committee of the board.	N/A
Egyptian Exchange	The management is appointed by the Chairman and must also be approved by the board of directors.	N/A
Iraq Stock Exchange	The board of governors are elected by the members of the exchange.	N/A
Kuwait Stock Exchange	The Chairman and board members are appointed by the government.	N/A
Muscat Securities Market	Three members of the board are appointed and four members are elected by the General Assembly. They are to include representatives of two listed companies, one brokerage firm and one investors' representative. The Capital Market Authority appoints the Chairman.	Top management reports to the board.
Nasdaq Dubai	The CEO is appointed by the board of directors, other top managers are appointed by the CEO.	The CEO reports to the board of directors.
Palestine Securities Exchange	CEO is appointed by the board of directors; other top managers are appointed by the CEO.	The CEO reports to the board of directors.
Qatar Exchange	N/A	N/A
Tadawul	The CEO and other top managers are appointed by the board of directors.	Top executive management reports to the board of directors, in particular its Executive Committee.

How is the collaboration between the exchange and the securities regulator defined and formalised?

Stock Exchange	Response
Abu Dhabi Securities Exchange	By law
Amman Stock Exchange	By law
Beirut Stock Exchange	N/A[1]
Bourse D'Alger	By law
Bourse de Tunis	By law
Bourse de Casablanca	By law and circulars from the capital markets authority
Damascus Securities Exchange	By law
Dubai Financial Market	By law
Egyptian Exchange	By law
Iraq Stock Exchange	By law
Kuwait Stock Exchange	By law
Muscat Securities Market	By law
Nasdaq Dubai	By law[2]
Palestine Securities Exchange	By law
Qatar Exchange	By law
Tadawul	By law and MOU

Notes:

1. Not applicable because Lebanon does not have a securities regulator.
2. Additional protocols are being discussed by the exchange and the regulator to further improve the processes of collaboration.

Standard setting and the exchange

What is the role of the exchange in promoting corporate governance?

Responses to this question were extremely varied in nature.

The Egyptian Stock Exchange noted that it incorporates corporate governance in its listing, disclosure and membership rules and fines and/or de-lists non compliant companies. The EGX also noted that it launched an ESG Index in March 2010, in collaboration with the Egyptian Institute of Directors and Standard & Poor's. The index is the first of its kind in the Middle East and North Africa.

NASAQ Dubai noted that its Listing Rules contain a number of corporate governance provisions; the exchange also has enforcement powers relative to these rules.

Few exchanges in the region have had a role in terms of the establishment of a national corporate governance code. The Amman Stock Exchange noted that it has participated in the elaboration of the code of corporate governance. Furthermore, its listing directives include specific articles that support the implementation of the code.

The Casablanca and Palestine stock exchanges are members of their respective national corporate governance commissions.

The Beirut Stock Exchange stated that it plays a role in promoting corporate governance by promoting transparency and disclosure and investor protection mechanisms. Likewise, the BSE board may present to the competent authorities proposals of amendments of legislative or regulatory texts related to the operation of the stock exchange. The BSE participated in deliberations related to the new capital markets law and proposed major amendments to it.

The Iraq Stock Exchange noted that it incorporates corporate governance in disclosure regulations and suspends trading of non-compliant companies.

The Muscat Securities Market and Tadawul responded that they promote good corporate governance practices through seminars, forums and workshops. The MSM Information and Awareness Department is responsible for promoting and establishing such events. The response of the Bourse de Tunis also noted the role of the exchange in awareness-raising among existing and prospective issuers.

The Qatar Exchange also indicated that the exchange organises training for listed companies to increase their understanding and use of corporate governance as a way of improving company transparency, accountability and valuation.

Most respondents noted the role of exchanges in awareness-raising. NASDAQ Dubai, for example, noted that it promotes good corporate governance practices in meetings with issuers and advisers and in through its participation in the relevant conferences and workshops. The Dubai Financial Market also indicated that it organises workshops focusing on corporate governance in co-operation with partners in the region.

Does the exchange have a specific corporate governance program?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes
Amman Stock Exchange	No
Beirut Stock Exchange	No
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	No
Damascus Securities Exchange	No
Dubai Financial Market	Yes
Egyptian Exchange	No
Iraq Stock Exchange	No
Kuwait Stock Exchange	No
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	No
Qatar Exchange	Yes
Tadawul	No

Is there a corporate governance code or recommendations for listed companies in your jurisdiction?

Stock Exchange	Code/Recommendations/Guidelines	Status
Abu Dhabi Securities Exchange	Decision no. 32 of 2007 Concerning Corporate Governance Code for Joint-Stock Companies and Institutional Discipline Criteria	Comply or explain
Amman Stock Exchange	Corporate Governance Code for Shareholding Companies Listed on the ASE	Comply or explain (not enforced)
Beirut Stock Exchange	Corporate Governance Guidelines for listed Companies	Voluntary
Bourse D'Alger	Algerian Corporate Governance Code	Voluntary
Bourse de Tunis	Code of Best Practice of Corporate Governance	Voluntary
Bourse de Casablanca	The Moroccan Code of Good Corporate Governance Practices	Comply or explain (on a voluntary basis)
Damascus Securities Exchange	Good Practices of Corporate Governance Regulation	Mandatory (not enforced)
Dubai Financial Market	Decision no. (32\r) of 2007 Concerning	Comply or explain

Stock Exchange	Code/Recommendations/Guidelines	Status
	Corporate Governance Code for Joint-Stock Companies	
Egyptian Exchange	Corporate Governance Code for Private Sector Companies and Corporate Governance for State Owned enterprises	Voluntary
Iraq Stock Exchange	No	N/A
Kuwait Stock Exchange	No	N/A
Muscat Securities Market	CMA Code of Corporate Governance for MSM- listed Companies	Comply or explain
Nasdaq Dubai	No	N/A
Palestine Securities Exchange	Palestine Corporate Governance Code	Comply or explain
Qatar Exchange	Corporate Governance Code	Comply or explain
Tadawul	Corporate Governance Regulations in the Kingdom of Saudi Arabia	Comply or explain

What was the exchange's role in the development of corporate governance code or recommendation/guidelines for listed companies?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Provided input
Amman Stock Exchange	Active participation
Bourse D'Alger	Provided input
Bourse de Tunis	Active participation
Bourse de Casablanca	Active participation
Damascus Securities Exchange	Provided input
Dubai Financial Market	Active participation
Egyptian Exchange	Active participation
Iraq Stock Exchange	Active participation
Kuwait Stock Exchange	N/A
Muscat Securities Market	Provided input
Nasdaq Dubai	N/A
Palestine Securities Exchange	Active participation
Qatar Exchange	Provided input
Tadawul	Provided input

What is the exchange's role in the implementation, promotion or enforcement of the code or any other corporate governance guidelines?

Exchanges' responses to this question were rather varied and echoed the responses provided to some of the previous questions.

Most exchanges in the region have no direct responsibilities for monitoring and enforcement of compliance with the local corporate governance code.

Most powers of exchanges are limited to the establishment and enforcement of listing provisions. With respect to corporate governance codes, exchanges act largely to promote awareness. This is the case in Jordan, Qatar and Tunisia.

The Bourse de Casablanca commented that it is a member of the national commission in charge of the drafting and promotion of the corporate governance code. It is also the shareholder and Member of the Board of the Moroccan Institute of Directors.

Does the exchange have multiple listing tiers? If so, are corporate governance requirements considered as part of the rules for each/some of the tiers?

Stock Exchange	Multiple Listing Tiers	Corporate Governance Requirements for Individual Tiers
Abu Dhabi Securities Exchange	Yes	No
Amman Stock Exchange	Yes	No
Beirut Stock Exchange	Yes	No
Bourse D'Alger	No	N/A
Bourse de Tunis	Yes	No
Bourse de Casablanca	Yes	No
Damascus Securities Exchange	Yes	No
Dubai Financial Market	Yes	No
Egyptian Exchange	Yes	Yes
Iraq Stock Exchange	Yes	Yes
Kuwait Stock Exchange	Yes	No
Muscat Securities Market	Yes	Yes
Nasdaq Dubai	No	N/A
Palestine Securities Exchange	Yes	No
Qatar Exchange	No	N/A
Tadawul	No	N/A

Do the authorities envision introducing differential listing requirements to encourage SMEs or family controlled companies to list?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes[1]
Amman Stock Exchange	No
Beirut Stock Exchange	No
Bourse D'Alger	Yes[2]
Bourse de Tunis	Yes
Bourse de Casablanca	Yes[3]
Damascus Securities Exchange	Yes
Dubai Financial Market	Yes
Egyptian Exchange	Yes[4]
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	No
Muscat Securities Market	Yes[5]
Nasdaq Dubai	Yes
Palestine Securities Exchange	No
Qatar Exchange	No
Tadawul	No

Notes:

1. The Abu Dhabi Securities Exchange is planning to give family companies the opportunity to offer as little as 30% of its capital to the public according to a different set of rules.
2. Bourse D'Alger is planning to establish a SME market.
3. A project to establish an Alternative Market being explored by the capital market authority (CDVM).
4. The Egyptian Exchange has established a separate SME market (NILEX), which offers medium and small enterprises a flexible regulatory framework with relaxed listing and disclosure requirements as well as lower listing and trading fees.
5. The Omani Commercial Companies Law is expected to be amended to allow founders to hold from 60% - 75% of the share capital of any family enterprise willing to go public.

The regulatory function

Does the exchange have a self-regulatory organization (SRO) status? If so, what regulatory powers does the exchange have? Are they seen as sufficient?

Stock Exchange	Self-Regulatory Status	Explanation
Abu Dhabi Securities Exchange	No	N/A
Amman Stock Exchange	Yes	The securities law gave the board of directors of the exchange a wide range of authority to set the regulations needed by the ASE to perform its duties and these regulatory powers are deemed sufficient.
Beirut Stock Exchange	Yes	The BSE has the right to issue regulatory circulars that deems necessary to ensure the proper functioning of the stock exchange
Bourse D'Alger	No	N/A
Bourse de Tunis	No	N/A
Bourse de Casablanca	Yes	The Bourse de Casablanca has the right to de-list companies in breach of its regulations and is also responsible for the monitoring market more generally
Damascus Securities Exchange	Yes	N/A
Dubai Financial Market	Yes	The DFM has the right to suspend the trading of a security and report this to the securities regulator.
Egyptian Exchange	Yes	The Egyptian Exchange has regulatory powers over the listed companies and its member firms both in terms of monitoring and enforcement of its rules.
Iraq Stock Exchange	Yes	The Iraq Stock Exchange has regulatory powers through by-laws and regulations.
Kuwait Stock Exchange	Yes	The regulatory authority of the market is currently in the hands of the Market Committee of the stock exchange.
Muscat Securities Market	Yes	The MSM enacts its own trading and listing regulations and provides licenses for brokerage activities.
Nasdaq Dubai	No	N/A
Palestine Securities Exchange	No	The Palestine Exchange used to have self-regulatory powers before the adoption of the 2004 Securities Law.
Qatar Exchange	No	N/A
Tadawul	No	N/A

Do the listing rules contain governance requirements related to the protection of shareholder rights, disclosure and transparency, board structure and functioning, stakeholder rights, accounting and auditing standards?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes
Amman Stock Exchange	Yes
Beirut Stock Exchange	Yes
Bourse D'Alger	Yes
Bourse de Tunis	Yes
Bourse de Casablanca	Yes
Damascus Securities Exchange	Yes
Dubai Financial Market	Yes
Egyptian Exchange	Yes
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	Yes
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	Yes
Tadawul	Yes

Do the exchange's continuous disclosure rules contain corporate governance requirements (e.g. on material events, risk management, beneficial ownership, related party transactions, insider trading, shareholder agreements)?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes
Amman Stock Exchange	No
Beirut Stock Exchange	Yes
Bourse D'Alger	Yes
Bourse de Tunis	Yes
Bourse de Casablanca	Yes
Damascus Securities Exchange	Yes
Dubai Financial Market	Yes
Egyptian Exchange	Yes
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	Yes
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	Yes
Tadawul	Yes

Does the exchange have any corporate governance rules or guidelines for listed companies, over and above the corporate governance code?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	No
Beirut Stock Exchange	No
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	Yes
Damascus Securities Exchange	No
Dubai Financial Market	No
Egyptian Exchange	No
Iraq Stock Exchange	No
Kuwait Stock Exchange	No
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	No
Tadawul	No

Do the rules for market intermediaries contain corporate governance related regulations?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	Yes
Beirut Stock Exchange	Yes
Bourse D'Alger	No
Bourse de Tunis	Yes
Bourse de Casablanca	Yes
Damascus Securities Exchange	No
Dubai Financial Market	Yes
Egyptian Exchange	Yes
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	No
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	No
Tadawul	Yes

The enforcement function

Does the exchange have discretion in the application of its rules? Does it retain the right to approve the listing (or continued listing) of a particular company even if it does not fit the existing requirements?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	No
Beirut Stock Exchange	Yes
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	No
Damascus Securities Exchange	Yes
Dubai Financial Market	No
Egyptian Exchange	Yes
Iraq Stock Exchange	No
Kuwait Stock Exchange	Yes
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	No
Tadawul	No

Are violations of relevant corporate governance requirements enforced through warnings, fines, public reprimands, suspensions?

Exchanges responses to this question were rather varied. The Egyptian Exchange noted that companies are de-listed if they fail to comply with disclosure rules. The Listing Committee has the right to de-list the company if, for example, it does not provide the financial standards on time. Furthermore, a company can be fined LE 15 000 (approximately USD 2 500) if it does not disclose a matter that could cause damage to the shareholders.

The Beirut Stock Exchange also noted that it has some sanctioning powers. The exchange can impose a fine up to 0.5% of the company capital, provided that it does not exceed $10 000 USD. It can also suspend trading for up to six months, transfer the issuer from the official to the OTC market, or de-list a given security. It also has powers to take action against brokers, with a maximum penalty of $10 000 USD per infraction or suspension of their activity.

Tadawul noted that in Saudi Arabia a company can be fined between SR 10 000 (approximately $2 600 USD) and SR 100 000 (approximately $26 000 USD) for each violation of corporate governance regulations of the Capital Market Authority. However, the powers to sanction listed companies are with the Capital Markets Authority.

The Iraq Stock Exchange noted that it has some sanctioning powers including fines, suspension of trading and de-listing.

A few exchanges noted that their sanctioning powers are limited. For instance, the Abu Dhabi Securities Exchange and Dubai Financial market do not have the powers to fine or de-list issuers, but are required to report any violation to the securities regulator.

The same applies to the Bourse de Tunis, Damascus Securities Exchange and Qatar Exchange, where enforcement powers also lie with local securities regulators. In Palestine case, the Capital Market Authority can impose penalties directly or as proposed by the exchange.

Have there been instances when the exchange de-listed non-compliant companies?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	No
Beirut Stock Exchange	Yes
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	Yes
Damascus Securities Exchange	No
Dubai Financial Market	No
Egyptian Exchange	Yes
Iraq Stock Exchange	Yes
Kuwait Stock Exchange	Yes
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	No
Tadawul	Yes

Corporate governance priorities

What are the top three priorities for the development of your exchange? Is improving governance of listed entities one of them? If so, what are the key plans in this regard?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Improve corporate governance; support listing, trading and settlement of new products such as ETFs, REIT; support the creation of a fixed income market in UAE.
Amman Stock Exchange	Issue regulations in accordance to international standards; introduce developed market surveillance systems; ensure professional conduct of market participants; maintain a climate of high transparency and disclosure; protect investors from any abuse to their rights; enhance the level of disclosure and transparency in the market.
Beirut Stock Exchange	Increase the number of listed companies by encouraging family businesses as well as other companies to go public; encourage privatisation; attract foreign and domestic investment; increase the level of transparency and improve corporate governance for listed companies.
Bourse D'Alger	Enhance investment services; further develop the legal framework; and modernise information technology systems.
Bourse de Tunis	Facilitate the adoption of the corporate governance code and relevant regulations; diversify listed companies and products; limit board size; introduce more independent directors, introduce additional board committees.
Bourse de Casablanca	Contribute to the economic growth of the country with an objective of reaching 150 listed companies and 500 000 individual investors; introduce new products such as derivatives, funds (real estate, tourism); make Bourse de Casablanca a regional financial hub.
Damascus Securities Exchange	Increase the number of listed companies, achieve more effective control and improve disclosure practices.
Dubai Financial Market	Ensure compliance with corporate governance rules set by the regulator; monitor corporate governance trends in the international markets and introduce new initiatives.
Egyptian Exchange	Provide value-added services to the capital market in Egypt and the region; build a reliable and quality market that attracts issuers and liquidity from the region and worldwide; and build an institution that is trusted by the general public.
Iraq Stock Exchange	Develop technical trading methods and human skills; further develop existing regulations including corporate governance rules; and increase the number of listed companies and investors.
Kuwait Stock Exchange	Issue regulations in accordance with internationally accepted standards; introduce advanced technical systems and introduce new financial instruments including derivatives.
Muscat Securities Market	Introduce new investment products; further develop the existing code of corporate governance; convert to private company.
Nasdaq Dubai	Improve cooperation with governmental bodies; attract greater listings, support market innovation (e.g. developing derivatives market).
Palestine Securities Exchange	Enhance investment climate in Palestine through promoting corporate governance practices via training and awareness-raising services for listed companies.

What are the most relevant instruments that the exchange has to improve corporate governance of listed companies?

Stock Exchange	Response
Amman Stock Exchange	The corporate governance code of 2008.
Beirut Stock Exchange	New legislation on financial markets.
Bourse de Tunis	N/A
Bourse de Casablanca	Educating and assisting issuers with strengthening their financial disclosure.
Dubai Financial Market	Assistance with the implementation of the corporate governance code.
Dubai Financial Market	Ongoing awareness development programs.
Egyptian Exchange	Continuous update in the listing and disclosure rules in order to enhance corporate governance.
Iraq Stock Exchange	Development of awareness programs.
Kuwait Stock Exchange	N/A
Muscat Securities Market	Development of awareness programs and mechanisms.
Nasdaq Dubai	Development and enforcement of Listing Rules.
Palestine Securities Exchange	N/A
Qatar Exchange	Development of training programs.
Tadawul	Enforcement of regulations and development of awareness programs and trainings.

What priority do you attach to the ability of companies from the region to cross-list? Do you think that the establishment of recognition agreements with other exchanges to enable cross-listing of companies would be useful?

Generally speaking, most exchanges in the region agree on the importance of improving regional integration through regulatory harmonisation and encouraging issuers to cross-list. The Egyptian Exchange noted that it attaches a high priority to attracting companies from the region to cross-list and believes that the Egyptian Depository Receipts (EDRs) introduced in 2008 will be an attractive option.

The Bourse de Casablanca noted that cross-listing of companies from the region is part of the exchange's strategic plan to become a regional financial hub.

The Muscat Securities Market and Dubai Financial Market also noted that regulatory harmonisation and technical integration will help facilitate cross-listings in the region, and that the signing of MOUs between regional exchanges would be useful. A similar view was expressed by the Bourse de Tunis.

The Qatar Exchange noted that currently there are only domestic companies listed on the market, however there are specific provisions that allow for dual listing. The response also noted that although cross-listing would be beneficial, the precedent in the region has not been well established.

The Palestine Exchange noted that the cross listing experiences have not been very successful. The Damascus Securities Exchange also stated that currently the exchange does not consider cross-listing as a priority.

The Bourse D'Alger noted that while it considers cross-listing as useful, the exchange is at an early stage in terms of regional integration.

The Amman Stock Exchange noted that is has already witnessed a fair international interest during the past years, especially in the privatisation process. The Exchange believes that the existing stable environment as well as the signing of MOUs with other exchanges will encourage the cross-listing of companies.

Tadawul expressed the view that if the cross-listing occurs for the purpose of the secondary trading without additional capital raising, investors may select one exchange over others on the basis of prices, liquidity and transaction costs. The response also noted that cross listing may lead to competition between exchanges for retaining existing and attracting new investors only if listing is issuer-selective.

How do you judge the corporate governance indices introduced by some exchanges?

Most regional exchanges commented positively on the idea of introducing corporate governance indices in the region. The Egyptian Exchange, which has such an index already, noted that corporate governance indices raise the profile of companies that perform well according to sustainability, social, environment and governance variables, not just financial measures.

The Amman Stock Exchange expressed the view that such indices are crucial and will be adopted eventually by exchanges all over the world.

The Beirut Stock Exchange commented that indices will increase transparency of companies and their credibility vis-a-vis local and foreign investors. Likewise, they will increase the competition among listed companies to adopt a higher level standard of corporate governance.

The response of the Muscat Securities Market and Bourse D'Alger echoed a similar view.

The Bourse de Casablanca and the Dubai Financial Market commented that corporate governance indices are useful when good corporate governance practices are already implemented.

To what extent do you believe that listing and other requirements should be harmonised among some or all regional exchanges?

Most exchanges expressed the view that additional regulatory harmonisation would be useful, but that complete alignment of standards is neither useful nor possible. In particular, the Egyptian Exchange noted that it does not believe that it would be possible to have one set of listing rules and requirements that fits all exchanges, but there could be some level of harmonisation among few regional exchanges.

The Amman Stock Exchange noted that it believes that the regional exchanges should work closely to harmonise their regulations in order to be more effective and to benefit all market participants.

The Beirut Stock Exchange and the Iraq Stock Exchange likewise noted that further harmonisation of regulatory infrastructure would be useful.

The Bourse de Casablanca stated in its response that an effort to harmonise rules, regulations and listing criteria among some regional exchanges should encourage cross-listing.

The Abu Dhabi Stock Exchange and the Bourse de Tunis also positively commented on potential harmonisation of listing rules.

The Muscat Securities Market noted that regulatory harmonisation is particularly relevant for exchanges in Gulf Cooperation Council Countries.

The Palestine Exchange does not consider regional harmonisation to be particularly relevant for its development.

The Damascus Securities Exchange the harmonisation of regulatory infrastructure would be useful, but difficult to implement practically.

Are you concerned that increasing standards for listing would incentivise local and foreign companies to list on another exchange?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes
Amman Stock Exchange	No
Beirut Stock Exchange	No
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	No
Damascus Securities Exchange	Yes
Dubai Financial Market	No
Egyptian Exchange	No
Iraq Stock Exchange	No
Kuwait Stock Exchange	N/A
Muscat Securities Market	No
Nasdaq Dubai	No
Palestine Securities Exchange	No
Qatar Exchange	No

Do you think listed companies will de-list and non-listed companies will not go public if the exchange raises its corporate governance requirements further?

Stock Exchange	Response
Abu Dhabi Securities Exchange	No
Amman Stock Exchange	No
Beirut Stock Exchange	Yes
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	No
Damascus Securities Exchange	Yes
Dubai Financial Market	No
Egyptian Exchange	No
Iraq Stock Exchange	No
Kuwait Stock Exchange	No
Muscat Securities Market	No
Nasdaq Dubai	No
Palestine Securities Exchange	No
Qatar Exchange	N/A

Do you believe that you are in competition for listings primarily with other regional exchanges or those outside the region?

Stock Exchange	Response
Abu Dhabi Securities Exchange	Yes
Amman Stock Exchange	Yes
Beirut Stock Exchange	Yes
Bourse D'Alger	No
Bourse de Tunis	No
Bourse de Casablanca	Yes
Damascus Securities Exchange	No
Dubai Financial Market	Yes
Egyptian Exchange	Yes
Iraq Stock Exchange	No
Kuwait Stock Exchange	Yes
Muscat Securities Market	Yes
Nasdaq Dubai	Yes
Palestine Securities Exchange	Yes
Qatar Exchange	Yes

Annex III

Largest Listed Companies in the MENA region

Rank 2011	Company	Exchange (primary listing)	Sector	Market capitalisation ($mil USD)
1	Saudi Basic Industries Corporation	Tadawul	Petrochemicals	68 793
2	Al-Rajhi Bank & Investment Company	Tadawul	Financial services	28 597
3	Etisalat	Abu Dhabi	Telecoms	23 357
4	Zain Group	Kuwait	Telecoms	21 099
5	Industries Qatar	Doha	Conglomerate	19 425
6	Saudi Telecom Company	Tadawul	Telecoms	18 665
7	Qatar National Bank	Doha	Financial services	18 029
8	National Bank of Kuwait	Kuwait	Financial services	17 334
9	Maroc Telecom	Casablanca	Telecoms	17 163
10	Ezdan Real Estate Company	Doha	Real estate	16 864
11	Saudi Electricity Company	Tadawul	Utilities	13 887
12	Samba Financial Group	Tadawul	Financial services	11 183
13	Saudi Arabian Fertilizer Company	Tadawul	Petrochemicals	10 249
14	Attijariwafa Bank	Casablanca	Financial services	9 988
15	Kuwait Finance House	Kuwait	Financial services	9 847
16	DP World	Dubai (Nasdaq)	Transport	9 462
17	Riyad Bank	Tadawul	Financial services	8 799
18	Orascom Construction Industries	Cairo	Construction	8 063
19	Etihad Etisalat Company (Mobily)	Tadawul	Telecoms	8 063
20	Banque Saudi Fransi	Tadawul	Financial services	7 405
21	National Bank of Abu Dhabi	Abu Dhabi	Financial services	7 261
22	Sabb	Tadawul	Financial services	7 239
23	Kingdom Holding Company	Tadawul	Real estate	7 016
24	Arab Bank	Amman	Financial services	6 894
25	First Gulf Bank	Abu Dhabi	Financial Services	6 433

Source: adjusted from MEED's list of Top100 Listed Companies, 2012.

Notes

1. The Casablanca Stock Exchange might open its capital to other shareholders other than brokers, as per the Law 43-09 adopted by the government in January 2011.
2. See for example, Gallegati, Marco (2005). A Wavelet Analysis of MENA Stock Markets or Khallouli, Wajih (2008). Shift-contagion in the Middle East and North Africa Stock Markets.
3. In the case of the GCC countries, this is related to the fact that many Gulf-based banks held US securities the value of which had declined significantly during the crisis.
4. As per Article 17 of Kuwait CMA Board Resolution No. 3 for the Year 2011 Concerning Listing Requirements.
5. Syria was the last country in the region to establish a stock exchange in 2009, 4 years after the creation of the Syrian Commission on Financial Markets and Securities.
6. For a list of the largest listed companies in the region, refer to Annex III.
7. Institutional ownership in China on the Shanghai Stock Exchange is estimated at 50%, while individuals account for approximately 20% of investment.
8. The Dubai Financial Market reported that in 2009, institutional investors were net buyers of less than 1% of total trade value, considering that the buying amounted to 20.6% and the sell value amounted to 20.5% (Dubai Financial Market, Annual report, 2009).
9. In all MENA markets with the exception of Lebanon, listed equity by far exceeds listed debt instruments (including sukuk).
10. Common IPO and disclosure rules were approved by a Ministerial panel in June 2012. These rules were referred to the Supreme Council of the GCC for endorsement. It is reported that these rules might become compulsory in 2014 (Khaleej Times, 3 June, 2012).
11. That said, the Securities and Exchange Commission is responsible for establishing most corporate governance standards for companies listed on local markets.

12. In addition, some aspects of collaboration between the CMA and Tadawul are fixed by law.
13. The bourse has the right to admit companies for listing but the regulator has a 3 day window if it wishes to veto a decision.
14. The Palestine Stock Exchange is a member of the National Corporate Governance Committee.
15. This has in fact proven problematic in some jurisdictions which are considering revisions of codes and where is little information about companies' compliance with the original version of the code.
16. Interestingly, it has some responsibilities for ensuring that listed companies comply with the local "comply or explain" code issued by ESCA.
17. For the time being, information on the Public Disclosure is available in Turkish only.
18. For instance, for non-disclosure of material information as a first time offence, the penalty is equivalent to about $2 000 USD.

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Contents

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