



**COMCEC**

Standing Committee  
For Economic and Commercial Cooperation  
of the Organization of Islamic Cooperation

## *Market Development Task Force*

# *Transparency Requirements – Public Disclosure Systems*

*November 19, 2015*

CAPITAL MARKET  
REGULATORS FORUM  
COMCEC



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SECURITIES & EXCHANGE  
COMMISSION OF PAKISTAN

# Outline of Presentation

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# Introduction

- ▶ Market Development Task Force aims to reinforce COMCEC CMR Forum members' to support effective operations of the financial markets for the best interests of the investors and market participants.
- ▶ Task Force worked in leadership of the Chair, Securities and Exchange Commission of Pakistan in co-operation with Vice-Chair, Securities & Exchanges Organization, Iran and the CMR Forum Secretariat, Capital Markets Board of Turkey.
- ▶ The subject report is intended to provide guidance to OIC capital markets regulators for the development of appropriate disclosure and transparency requirements.



# The objectives of the Report

- ▶ Assist the members of the CMRF to understand different practices and regulations concerning transparency and disclosure requirements in place in member jurisdictions;
- ▶ Identify useful regulatory elements that could be adopted by members, that will help improve their regulatory frameworks and different approaches used by members keeping in view the evolving technological spectrum and how it effects or aids transparency and disclosure requirements, and
- ▶ Develop recommendations or best practices for appropriate disclosure requirements which will lead to enhanced investor protection and access to all relevant information for the general public.



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# Main types of Disclosures

The report primarily focuses on the following areas of appropriate requirements for Transparency and Disclosure:

- ▶ Disclosure systems in place within OIC member jurisdiction
- ▶ Disclosure requirements at the time of Initial Public Offering
- ▶ Disclosure requirements pertaining to Asset Management Companies
- ▶ Material disclosures requirements by companies
- ▶ Disclosure requirements within alternative markets (SME)
- ▶ Financial instruments disclosure requirements (Exchange traded securities)



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# Respondents

A total of 8 jurisdictions responded to the Questionnaire for gathering information on current practices

No .	Jurisdiction	Institution
1	Bangladesh	Bangladesh Securities and Exchange Commission
2	Iran	Securities and Exchanges Organization Iran
3	Kuwait	Capital Markets Authority Kuwait
4	Malaysia	Securities Commission Malaysia
5	Maldives	Capital Market Development Authority Maldives
6	Pakistan	Securities and Exchange Commission of Pakistan
7	Turkey	Capital Markets Board of Turkey
8	Iraq	Iraq Securities Commission (ISC)

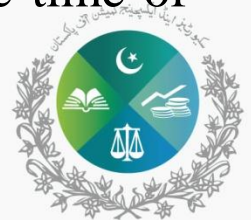


# Disclosure systems in place within OIC member jurisdiction

- ▶ Regulatory framework prescribes clear and reasonably specific disclosure requirements.
- ▶ Capital market regulators are primarily responsible for maintaining and regulating the disclosure criteria that companies (issuers) have to follow.
- ▶ All jurisdictions require reporting of financial information as part of annual and quarterly reporting. For non-financial information, it is required to be reported at the occurrence of the event, in addition to the annual report.
- ▶ Public documents are required to be available on websites, in addition to head offices of the companies.
- ▶ In almost all Member States (with the exception of Iran), International Accounting Standards are used for financial disclosure.
- ▶ Information sharing with domestic and foreign regulatory authorities exists in all jurisdictions, subject to bilateral or multilateral agreements.
- ▶ The minimum time for storing data across all jurisdictions is 5 years.
- ▶ In most countries, it is not mandatory to have compliance officers who ensure appropriate disclosure.
- ▶ None of the jurisdictions are currently using data tagging, however in some countries companies are encouraged to file reports using interactive data.

# Disclosure requirements in OIC member jurisdiction

- ▶ In most Member States, the prospectus (or offering document) at the time of initial public offering is available for access by the general public at registered office of the issuing company.
- ▶ Except for Iraq and Maldives, the operator of a collective Investment Scheme “CIS” is subject to continuing obligation to report to the regulatory authority or investors, any information relating to material changes in its management or in the by-laws of the CIS or the CIS operator.
- ▶ The regulatory framework requires the listed companies to immediately disseminate all material information relating to the business and other affairs that will affect the market price of their shares.
- ▶ Disclosure requirements within the alternative markets are mandatory and are issued through an information memorandum/prospectus at the time of listing.





# International Standards adopted by developed economies

The current practices in OIC region were compared to the international standards adopted by developed economies, these standards include:

- i. IOSCO Standards on Disclosure ( Principles 16, 18 & 26)
- ii. The G20 High Level Principles for financial consumer protection, Principle 4: Disclosure and Transparency
- iii. Transparency Directive of European Union
- iv. Disclosure Systems in the United States – EDGAR/IDEA/XBRL
- v. Disclosure Systems in Canada – SEDAR



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# KEY CHALLENGES AND ISSUES ON DISCLOSURE IN OIC REGION

## **Lack of control on timely reporting of mandatory disclosure:**

- ▶ Although the requirement for mandatorily disclosure of price-sensitive information by the listed companies to the public exists across all jurisdictions, it has been observed that this requirement is not effectively practiced in some jurisdictions which may undermine the ability of investors in making effective investment decisions.

## **Lack of a web-based centralized database:**

- ▶ Most member countries lack a web-based centralized database that contains information on securities and filings by public companies.
- ▶ The statutory objective in making public such information is to enhance investor awareness of the business and affairs of public companies and to promote confidence in the transparent operation of capital markets.



# Issues with Mandatory Disclosure:

- ▶ Although mandatory disclosure is the esteemed methodology of securities regulation, it has numerous challenges to contend with.
- ▶ It assumes that the information is disclosed in a usable manner. Typically, disclosure in the primary market is by way of a prospectus containing the mandated information. It is a lengthy and detailed booklet. In addition, the language used is technical.
- ▶ Abridged prospectuses are equally technical and largely unappealing.
- ▶ It presumes that investors have the capacity to comprehend, synthesize and apply the information to their decision making.
- ▶ It may be noted that ordinary investors can neither comprehend nor synthesize or apply the information.

# Issues with Key Material Disclosure:

- ▶ **Financial disclosure:** All countries have requirements for the disclosure of the enterprise's financial and operating results, related-party transactions and critical accounting policies.
- ▶ Even with detailed disclosure requirements, not all enterprises actually disclose the financial information necessary for *both* shareholders and other stakeholders to properly understand the nature of the business.
- ▶ **Transparency in ownership and control:** In most of the countries reviewed, transparency in ownership and control structures could be considerably improved. In many cases, beneficial ownership remains difficult to ascertain, and pyramid structures and interlocking board directorships may make conflicts of interest difficult to detect.
- ▶ **Disclosures regarding material risks:**
  - Material foreseeable risk factors are usually discussed in filings for initial public offerings.
  - In addition, certain risk factors must be disclosed in the financial statements in accordance with applicable accounting standards if there is a reasonable presumption that they could occur.



# Lack of standardization in disclosure:

- ▶ Companies have different ways of providing their disclosures.
- ▶ In the absence of standard formats, each firm will naturally choose the format that is the most favorable to its data, consequently, impairing investors' ability to make comparisons across firms.
- ▶ In the mutual fund industry different categories of funds choose diverse methodology when reporting their performance.
- ▶ This difference in the way returns are reported leads to significantly different results thereby impairing the process of capital allocation to fund managers producing the best returns.



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# Lack of continuous disclosure:

- ▶ In certain cases, continuous or updated information is required beyond the initial disclosure.
- ▶ In the case of Sukuk, the main question of continuing compliance with Shariah relates to the activities of the originator, and the uses to which the funds are put.
- ▶ These can, in principle change during the lifetime of the Sukuk in ways that affect Shariah compliance; for example, the originator may buy a brewery, or rent its real estate to a conventional bank.

## Lack of XBRL:

- ▶ None of the jurisdictions has responded to the questionnaire regarding applicability of Extensible Business Reporting Language (XBRL).
- ▶ However, Iran encourages filing by companies using XBRL. Similarly, in Turkey there is an ongoing XBRL project at the Public Disclosure Platform.
- ▶ XBRL is a new way to present core financial information, and has revolutionized the way that publicly traded companies generate, report and analyze their financial results, allowing for interactive uses of financial data.
- ▶ Interest in XBRL continues to grow as regulatory bodies around the world further embrace it as a reporting standard.
- ▶ Due to the homogeneity in the way financial information is presented, XBRL has an indirect effect on the reduction of information asymmetries on financial markets.





# Issues involving Cross-border listings

- ▶ There are certain material differences between IPO laws and regulations governing pre-IPO and post-IPO requirements on disclosure obligations.
- ▶ These can result in compliance challenges for the issuer, especially when cross-border listings are involved.
- ▶ Additional compliance requirements for dual-listed issuers have resulted in higher compliance costs than companies with a single listing.
- ▶ Regulators have to face the practical risk of unequal treatment of shareholders of dual-listed companies.



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# Conclusion

- ▶ The objective of the report is the development of a harmonized regulatory framework for COMCEC member countries which will facilitate regional financial integration and development of appropriate disclosure and reporting standards amongst COMCEC member states.
- ▶ Keeping in view the objective, study of the current requirements in OIC region, international standards and practices and issues regarding disclosures in OIC member states, it can be safely concluded that the countries that responded to the questionnaire have similar requirements regarding disclosure.
- ▶ However, certain gaps exist between OIC region and the international best practices.



# Recommendations

- ▶ There is need for developing an online central database / dedicated web portal, for storing financial statements and other disclosure documents that may be accessed by the general public.
- ▶ This will also ensure continuous disclosure for issuers, not just before or during IPO but also post listing of the security. The use of technology, especially use of data tagging and interactive data can enhance transparency, while allowing the general public to analyze available information and make informed decisions.
- ▶ By improving disclosure systems, developing countries within OIC region have the opportunity to increase transparency and access to information within their respective jurisdictions.
- ▶ Improved disclosure systems and transparency will help regional financial integration and cross border listings.



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# Recommendations

- ▶ The information presented to the recipient must be clear and concise, and it must be comprehensible and usable for prudent investment decision making. Therefore, the language and methodology of disclosure should be meticulously prepared, by eliminating sophisticated financial terminologies, keeping in perspective the target audience.
- ▶ .Any document delivered electronically must be prepared, updated and delivered in compliance with applicable laws pertaining to issue of securities.
- ▶ In the context of Islamic mutual funds, it is imperative that the funds disclose detailed information on their screening methods (e.g. source of data, benchmarks, frequency of screening, exact definitions of black list criteria). This will assure investors in Islamic funds about compliance with the principles of Shariah.
- ▶ For cross border listings, in addition to the standardization as well as convergence of regulatory requirements, there is need to further improve the quality of financial information disclosure by companies undertaking an IPO.



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# Thank You!!!



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