



**Consultation with Institutional Investors**

***Challenges and Prospects for Institutional Investment  
in the Middle East and North Africa Region***

**Meeting Agenda**

**October 12, 2012**

**Hosted by Hermes Fund Management**

**Lloyds Chambers  
1 Portsoken Street  
London**



## Background and Objectives

The OECD's work on improving corporate governance in the Middle East and North Africa region started in 2005 on the request of policymakers in the 18 jurisdictions with which the Organisation collaborates. The interest in this work has grown tremendously in recent years, resulting in close collaboration between the OECD and key private and public institutions charged with promoting good governance objectives in the region.

As part of this wider project, a *Taskforce of MENA Stock Exchanges for Corporate Governance* was established by the OECD in 2011. It is composed of representatives of stock exchanges, securities regulators, and other experts from the region, as well as their global peers. High level representatives of these institutions participate and support the work of this Taskforce. The objective of this group is to find an optimal role for stock exchanges to promote corporate governance objectives. A report of the role of MENA stock exchanges in promoting good governance was released by the OECD on the occasion of the last Taskforce meeting held in Istanbul on 22 June, 2012.

Heads of stock exchanges, but also securities regulators, have demonstrated a high level of interest in continuing this work in 2013-2014, with a focus on a number of priorities. One of these priorities is to attract domestic and foreign institutional capital to companies listed on Arab exchanges. Currently, the level of institutional investment in most of the region's stock markets is low with the result that trading continues to be dominated by retail investors.

This is the basis for launching this consultation with key institutional investors with experience and interest investing in the region had emerged. The consultation responds to the interest of stock exchanges but also to the desire among institutional investors for a better dialogue on key challenges faced by them when investing in MENA markets. The consultation will be organised in a high level roundtable of key experts representing private and sovereign asset managers and will be on an invitation basis only. The format of the discussions will be informal, allowing for maximum interaction among participants. The meeting will be subject to Chatham House Rules.

For further information, please contact Ms. Alissa Amico, Manager, MENA, Corporate Affairs, OECD ([alissa.amico@oecd.org](mailto:alissa.amico@oecd.org) or +33 1 45 24 83 05). For more information on OECD's project on promoting good corporate governance in the Middle East and North Africa region, please refer to: [www.oecd.org/daf/corporateaffairs/mena](http://www.oecd.org/daf/corporateaffairs/mena).



**9.30-10.00**      **Welcome coffee**

**10.00-10.15**      **Introductions and objectives**

**10.15-11.30**      **Investing in MENA listed companies: challenges and prospects**

This panel will serve as a "tour de table", allowing participants to introduce their organisation and present their experience investing in MENA markets. The objective of the panel will be to provide an overview of challenges that institutional investors see as being key, with a focus on corporate governance-related problems. The scope of issues for discussion in this introductory panel is broad: participants are welcome to bring up any corporate governance issues related to the selection and operation of boards, disclosure and transparency, remuneration, investor protection or any other issue they deem to be critical for improving the attractiveness of MENA markets.

Questions for discussion:

- How do institutional investors judge the progress made by stock exchanges and securities regulators in improving the governance of listed companies over the past decade?
- What do institutional investors see as key challenges in investing in MENA stock exchanges?
- Are there significant differences by market and if so, how can they be addressed?
- To what extent are key gaps rooted in a lack of a sound regulatory framework as opposed to enforcement?
- What are the key differences between governance related deficiencies in MENA markets as opposed to other emerging markets?

**11.30-13.00**      **Exercise of shareholder rights: reality and objectives**

The exercise of shareholder rights has been subject to much discussion and interest, especially in the wake of the financial crisis, which has seen much criticism of passive behavior of shareholders. A number of measures have been proposed to provide incentives to shareholders to act in the long-term interest of the company. In the MENA region, short-termism is also coupled with the passive investment approach by most shareholders, which is not surprising considering that most markets are dominated by retail investment. This panel will provide an opportunity to have an in-depth discussion about the effectiveness of the exercise of shareholder rights in the region and main impediments to it.

Questions for discussion:

- How do institutional investors judge their ability to effectively exercise their rights in companies they hold shares in? What are key impediments in this regard?
- Are institutional investors interested in controlled companies and what conditions they impose when investing in such companies which may have low free float?
- Do corporate governance frameworks in the region protect shareholder rights sufficiently and equally? Have corporate governance codes been effective in raising awareness in this regard?



- What are the key mechanisms used by institutional investors to influence the governance of companies in which they have investments? What lessons can be learned from private enforcement in the region?
- To what extent are exchanges, securities regulators and courts effective in ensuring that redress is effective? What institutions need to be build or further developed to support shareholder activism in the region?

### **13.00-14.00 Lunch**

### **14.00-15.30 Managing expectations: domestic and international investors**

Ensuring that expectations of domestic and international investors are aligned is an important signal for listed companies, but also for exchanges and regulators which are responsible for introducing listing and disclosure standards. Going forward, it would be important to understand how the expectations and priorities of domestic and foreign investors differ and what may be points of common interest. This panel will provide an opportunity for dialogue between domestic and foreign investors in the region and explore points of mutual interest in reforming the regulatory framework and practices of listed companies.

Questions for discussion:

- To what extent are the expectations of domestic and institutional investors in the region aligned? To what extent might they differ based on the type of institutional investor (pension, mutual, insurance funds, private equity)?
- Are there remaining issues to address in simplifying procedures for voting and access to management and the board for investors?
- Are investors effective in proposing resolutions or calling for extraordinary shareholder meetings when they feel necessary? In voting against certain corporate decisions, have investors been effective in changing corporate policies?
- What critical information is still missing from the reporting of companies to enable investors to make informed decisions?
- How can analyst coverage of MENA markets be broadened and improved in terms of its quality?

### **15.30-17.00 Investor collaboration: towards creating a demand for better governance**

Formal and informal mechanisms to foster the collaboration of institutional investors have been subject of significant focus all over the world. The OECD's recent work on the role of institutional investors in promoting good corporate governance outcomes has highlighted that collaboration between these investors may be at least a part of the solution to the situation where investors hold extremely diversified portfolios and do not have the capacity to be informed on the operation of each company in which they hold shares. That said, acting in concert is often subject to strict rules and investors in some jurisdictions report legal and practical obstacles to effective collaboration. This panel will be dedicated to look at how investors in the region can effectively express their expectations to individual companies and to the wider market.



Questions for discussion:

- To what extent do institutional investors in the region act in a fiduciary capacity? What conflicts of interest might domestic investors (often owned by banks) face?
- Are there mechanisms for collaboration between institutional investors in the region?
- To what extent are legal impediments for formal or informal collaboration between institutional investors present? Is voting in concert limitations of concern?
- How can collaboration between private and sovereign entities/individuals be effectively fostered?
- Do institutional investors gain access to company management and boards when necessary? What is the role of investor relations departments in facilitating access to information and discussions with between investors and companies?

### **17.00- 17.30 Moving forward: recommendations to exchanges and regulators**

This last panel will be structured as an open discussion to allow all participants to agree on possible future activities of the group. Further institutionalisation of the group in the form of an institutional investor council is possible, as are other informal means of collaboration with the OECD, as well as stock exchanges and securities regulators in the region. It is proposed that one of the panels of the next *OECD Taskforce of MENA Stock Exchanges for Corporate Governance* be dedicated to reviewing recommendations from this roundtable.

Questions for discussion:

- What key recommendations need to be made to stock exchanges and securities regulators to improve the investment climate for institutional investors in the MENA region?
- Is there an appetite for establishing a mechanism for collaboration and systematic feedback among key investors in the region?
- What other actors/entities might need to be involved in this discussion?