Corporate Governance

Capital Markets in Eurasia

TWO DECADES OF REFORM

OECD

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OECD
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Foreword

This report and its recommendations is the outcome of a two-year initiative of the *Eurasia Group on Corporate Governance for Capital Market Development,* established by the OECD with the support of the Turkish Capital Markets Board and Istanbul Stock Exchange. The Group, which met three times during 2011 and 2012 to discuss and develop this report, brings together representatives of Eurasian governments and capital market authorities that are responsible for shaping and implementing corporate governance-related laws and regulations. It also involves stock exchanges and relevant private sector stakeholders. Key participating countries from the region include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan, along with representatives of international and regional organisations and OECD member country governments.

The report is aimed at supporting the Eurasia Group's four main objectives, which are to:

(i) Address the link between capital market development and economic growth. Identify how better corporate governance practices can contribute to capital market development in Eurasia.

(ii) Create awareness in Eurasia of the role of corporate governance in capital market development through sharing of international best practices and knowledge with all relevant stakeholders. Create awareness outside of Eurasia about efforts and progress made in the region.

(iii) Suggest how existing policies, regulations and institutions can be improved to strengthen corporate governance and development of Eurasian capital markets;

(iv) Reinforce the capacity of Eurasian regulators to efficiently exercise their responsibilities.

The Group's work, carried out under the auspices of the OECD Corporate Governance Committee's work programme, builds upon initial work carried out by the *Eurasian Corporate Governance Roundtable***,** organised by the OECD from 2000 to 2008, as well as the work of other regional and international institutions on corporate governance and capital markets. In view of the fundamental role played by capital markets in economic growth, the conclusions of the Roundtable highlighted the need to empower regulators to enforce existing laws and rules and the important role of capital market authorities and stock exchanges in corporate governance issues, such as for the protection of minority shareholder rights, prevention of abusive related party transactions and insider trading.

The two major outputs of the Eurasian Roundtable process were the report, *Corporate Governance in Eurasia: A Comparative Overview* (2004), and the *Policy Brief on Corporate Governance of Banks in Eurasia,* developed jointly with the European Bank for Reconstruction and Development (EBRD) (2008). Both reports provided a detailed comparison and analysis of the corporate governance landscape in the Eurasia region.

The draft text was prepared by Daniel Blume, Serdar Celik, Baris Dincer and Duygu Ozkarabuber within the Corporate Affairs Division headed by Mats Isaksson (OECD Directorate for Financial and Enterprise Affairs), with a contribution from W. Richard Frederick acting as a consultant. Representatives of participating Eurasian countries provided country-specific information and guidance that served as the main basis for the report and its recommendations.

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Executive summary

This report from the *Eurasia Group on Corporate Governance for Capital Market Development* analyses the structure, experience and prospects for Eurasian capital markets, and makes recommendations to support the development of liquid and vibrant capital markets as a key ingredient for economic growth. It underlines the critical role that corporate governance can play to underpin such growth. It reviews and notes the region's rapid economic growth during the last decade and the need for equity capital to complement bank financing to maintain sustainable economic growth in the future.

However, the report also concludes that Eurasian capital markets remain underdeveloped, with low capitalisation and liquidity levels, and have yet to reach a level sufficient to perform the key functions of: 1) providing an attractive alternative to bank funding; or 2) offering a secondary market in ownership.

The report provides detailed information on both the progress that has been achieved as well as gaps and weaknesses in the legal and regulatory frameworks, corporate governance requirements and guidelines in place in 12 countries from the region: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The report concludes with recommendations, agreed at the Group's meeting of December 2012, which may be broadly summarised as follows:

1. **Develop overall strategies for capital market growth and corporate governance improvements.** Such strategies should consider the roles of different market participants and their incentives, the role of institutional investors, corporate bond markets, and market education;
2. In terms of financial and human resources, **the capacity of regulators should be enhanced,** their mandate should be clearly articulated and the risk of political intervention should be reduced to ensure even-handed protection of shareholder rights and timely and transparent disclosure;
3. **Stock exchange infrastructure should be improved**, including clearing and settlement systems and market oversight mechanisms. Incorporating corporate governance requirements in listing rules and monitoring of implementation by listed companies would contribute to the effectiveness of the overall corporate governance framework;
4. **Disclosure of financial and non-financial information should be improved,** including disclosure on share ownership, related party transactions, governance policy and practices and remuneration policies, in accordance with international standards;
5. **Effective and professional boards of directors are a core element of any corporate governance framework,** and their improvement remains a priority.

While clear legal definitions of board duties and requirements are an important prerequisite for effective boards, many improvements cannot be legislated and may be stimulated by codes of best practices and directors' institutes; and

6. **Current state-owned enterprise (SOE) IPO programmes should be implemented** with a view to their potential to support capital market development. Considering their strong presence in the region's economies, corporate governance improvements to listed and large SOEs may play a leading role in improving SOE performance and their returns to the state.

Introduction

Two decades have passed since the independence of Eurasian countries and their considerable efforts to develop their capital markets. The first decade started with a deep recession and hyper-inflation, and naturally focused on macroeconomic stabilisation and structuring of economic institutions to move to market economies. The capital market authorities, stock exchanges and other capital market institutions were mostly established during this period. With the support of international institutions, Eurasian countries had a significant opportunity to organise these institutions and market infrastructure in accordance with the practices of more developed financial markets. For instance, most countries in the region have established stock exchanges based on a private company model format.

Yet, all capital markets in the region are still at an early stage of development. They differ from each other in terms of market size, market participants and institutional and regulatory frameworks. In some countries there are no organised stock markets. Others have exchange or trade platforms with modest trade volumes. In addition, good examples of public disclosure platforms for listed companies, government bond markets, clearing and settlement systems and international co-operation also exist in the region.

Although capital markets in the region remain at a relatively early stage of development, their reform endeavours have been important. All Eurasian countries achieved high annual economic growth rates in the second decade of their independence, with an increasing role for securities markets. Indeed, Eurasian economies along with developing and emerging economies in other parts of the world represent an increasing share of global capital markets, especially in terms of total market capitalisation. The share among developing economies increased from 6% in 1990 to 10% in 2000, and reached 32% in 2010[1]. The share of market capitalisation of Eurasian capital markets, while small in relative terms, also increased sharply during this period, from 0.01% of total global market capitalization in 2000 to 0.19% in 2010. Although in different stages of development, Eurasian countries have all benefited from this global trend of shifting wealth[2].

In addition, they have undertaken significant legal and institutional reforms with regard to corporate governance over these two decades, including commercial law and financial regulatory reforms. Most Eurasian countries have also introduced corporate governance codes for listed companies, as well as in some cases codes for special types of corporations such as banks. On the other hand, weak implementation and enforcement is still the case across the region.

The OECD *Principles of Corporate Governance* (the OECD Principles) say that "corporate governance is one key element in improving economic efficiency and growth, as well as enhancing investor confidence." This role of corporate governance in building investor confidence, as a *sine qua non* for capital market development, emphasizes the links between corporate governance, capital markets and economic growth. Considering the importance of good corporate governance for capital market development, this

Eurasia Group on Corporate Governance for Capital Market Development was launched to address the link between capital market development and economic growth, and to identify how better corporate governance practices can contribute to capital market development in Eurasia.

This paper provided background and recommendations for consideration of the Group's plenary meeting of 13 December 2012. It has been finalised by written procedure approval of Eurasia Group participants at the beginning of 2013. It builds upon the paper presented at the first meeting of the Group, held in Almaty, Kazakhstan in October 2012, and a second expanded report that included the results of a survey of both Eurasian regulators and stock exchanges that was discussed at the Group's second meeting, convened in Istanbul at expert level in June 2012. These data were supplemented with feedback gathered in interviews, which provided a more qualitative view on developments, as well as additional published materials.

Box I.1. OECD survey of Eurasian stock exchanges and regulators

The OECD conducted a survey of Eurasian stock exchanges and regulators from 12 countries in the spring of 2012. The purpose of the survey was to conduct a stock-taking of corporate governance practices to better understand the relationship between corporate governance and the development of capital markets. Regulators were asked a series of questions on, among other things, what factors and institutions encourage better corporate governance, the legal framework, the role of boards, shareholder rights and disclosure and the independence of regulatory bodies. Stock exchanges were questioned regarding their own governance, their ability to develop and enforce rules, the instruments available to improve governance practices, institutional investors, and the incentives and disincentives to better governance.

The responses received from 11 of 12 countries to the survey served as the basis for much of this background paper. While not all of the institutions that were contacted responded, enough responses were received to develop a reasonably accurate picture of the issues facing both regulators and exchanges. Responses were received from eight regulators in Armenia, Azerbaijan, Belarus, Kyrgyz Republic, Moldova, Tajikistan, Ukraine and Uzbekistan. Nine stock exchanges responded from seven countries: Armenia, Azerbaijan, Kazakhstan, Georgia, Moldova, Mongolia and three Ukrainian exchanges. No response was received from Turkmenistan. The survey was then supplemented with publicly available research.

The paper is organised as follows: Chapter 1 addresses the links between corporate governance and capital markets, and the role of capital markets in economic growth. Chapter 2 provides an updated overview of the macroeconomic situation of the region over a 20-year perspective as well as a brief overview of the business environment. Chapter 3 presents the size of capital markets and the capital market regulatory and stock exchange environment. It also reviews the privatisation implementation of Eurasian countries with a link to capital markets. This chapter has been supplemented with data from the 2012 OECD survey. Chapter 4 provides an overall assessment of the challenges facing Eurasian exchanges and regulators. Finally, Chapter 5 sets out conclusions and recommendations on how to achieve the goal of better and stronger capital markets.

Notes

1. In terms of total market capitalisation of local listed companies (see World Bank Development Indicators: http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS/countries?display=map).
2. See OECD's Perspectives on Global Development 2010: Shifting Wealth.

Chapter 1

Corporate governance, capital markets and economic growth

The underlying premise behind the drive for better corporate governance across developing and developed economies alike is the view -- backed by a range of empirical studies and experience – that good corporate governance underpins stable and effective capital market growth, which in turn is an important factor in support of economic growth. The quality of corporate governance impacts on the whole investment process, influencing an economy's ability to mobilise capital as well as the effectiveness with which this capital is allocated and its use is monitored.

A key reference in this respect is the OECD's review of the first four years of experience from its Regional Corporate Governance Roundtables held in Asia, Eurasia, Southeast Europe, Russia, and Latin America. The report (OECD, 2003) concluded,

> *"In emerging market economies, the experiences of economic transition and all too frequent financial crises have confirmed that a weak institutional framework for corporate governance is incompatible with sustainable financial market development. Good corporate governance helps to bridge the gap between the interest of those that run a company and the shareholders that own it, increasing investor confidence and making it easier for companies to raise equity capital and finance investment in the process. Good corporate governance also helps ensure that a company honours its legal commitments, and forms value-creating relations with stakeholders including employees and creditors."*

Empirical research has supported these findings. Access to finance has been found to be a critical factor for economic growth, and one that corporate governance strongly influences. A review of empirical research by Demirgüç-Kunt and Levine (2008), for example found that countries with better developed financial systems tend to grow faster. "Specifically, countries with i) large, privately owned banks that funnel credit to private enterprises and ii) liquid stock exchanges tend to grow faster than countries with corresponding lower levels of financial development." The review found that the level of banking development and stock market liquidity each exerts a positive influence on economic growth. A second review of the link between corporate governance and development undertaken by Claesens and Yurtoglu (2012) found that those countries with liquid stock markets grew faster than those with less liquid stock markets.

Claesens' and Yurtoglu's review summarizes empirical research addressing how different aspects of corporate governance may contribute to firms' success and corresponding economic growth, including:

- Increased access to external financing by firms which can lead, in turn, to larger investment, higher growth, and greater employment creation;

- Lowering of the cost of capital and associated higher firm valuation which makes more investments attractive to investors, also leading to growth and more employment;
- Better operational performance through better allocation of resources and better management, which creates wealth more generally;
- Good corporate governance can be associated with reduced risk of financial crises, which can have large economic and social costs; and
- Good corporate governance can mean generally better relationships with all stakeholders, which helps improve social and labour relationships…and can help further reduce poverty and inequality.

Some of this research has focused on the legal framework and foundations, including property rights that are clearly defined and enforced as well as key regulations addressing disclosure, accounting, and financial sector regulation and supervision. Claesens and Laeven (2003) reported that in weaker legal environments firms not only obtain less financing but also invest less than the optimal in intangible assets. These factors in turn affect the economic growth of a sector. A more specific review of firms' mutual fund holdings found that firms that had adopted International Accounting Standards (IAS) attracted a significantly larger pool of foreign investors by reducing the funds' costs of processing and acquiring information, and that the firms also achieved a lower cost of capital (Chan, Covrig and Ng, 2009).

Research by Djankov, Lopez-de-Silanes, La Porta and Shleifer (2008) established an "anti-self-dealing" index measuring legal protection of minority shareholders against expropriation by corporate insiders. Djankov et al concluded that a high anti-self-dealing index is associated with higher-valued stock markets, more domestic firms, more initial public offerings, and lower benefits of control, confirming previous research findings that better legal protection positively influences capital market development. Other research has stressed the importance of enforcement of these rules, including the critical importance of a well-staffed and independent securities regulator (Jackson and Roe, 2009).

Another important review by De Nicoló, Laeven and Ueda (2008) documented firm-level changes related to accounting disclosure, transparency and stock price behaviour between 1994 and 2003 and its impact on growth and productivity of the economy and its corporate sector. The review found that the impact of improvements in corporate governance quality on traditional measures of real economic activity including GDP growth, productivity growth and the ratio of investment to GDP is positive, significant and quantitatively relevant. The impact on growth is particularly relevant for industries dependent on external finance.

Looking more closely at the conditions in Eurasia, two additional references are the Eurasia Corporate Governance Roundtable's *Corporate Governance in Eurasia: A Comparative Overview* (OECD, 2004a) which pointed to several elements of corporate governance that are important to improve company performance, attract investment and spur economic growth in the region, and *Securities Markets in Eurasia* (OECD, 2005) which contains an overview of securities markets in the region and selected country reports. It provides comprehensive data and analyses of securities markets in the region updated to April 2005. It addresses measures to develop securities markets and infrastructure, the role of institutional investors, clearing and settlement systems, building investor confidence, and the regulation and supervision of securities markets.

An important contextual consideration is that corporate governance models for the Eurasian region should be tailored to the specific characteristics of Eurasian markets. As noted later in this report, Eurasia's capital markets were largely introduced two decades ago through mass privatisation programmes. These new markets were encumbered both by the absence of an equity culture and the absence of market incentives. Ultimately what resulted were markets with low liquidity and little trading volume, and companies with problematic governance structures that had some of the negative characteristics of both concentrated and dispersed ownership.

Both concentrated and dispersed ownership can work well depending upon the context. Dispersed share ownership is prevalent in the US, UK and Australia, where corporate governance tends to be more focused on addressing the agency problems stemming from conflicts of interest between shareholders and managers. However, in most of the world, including in continental Europe as well as in emerging and developing markets such as those in Asia, Latin America and Eurasia, concentrated ownership is more predominant and it is generally assumed that the controlling shareholder either takes part directly in management or has enough incentives and resources to closely monitor management. Therefore, the more prevalent principal-agent problem addressed by corporate governance in such countries is the potential conflict between controlling and minority shareholder interests, and the protection of minority shareholder rights necessarily becomes a stronger priority.

In Eurasia, strong controlling shareholders and newly emerging regulatory institutions have been associated with an increased risk of asset stripping, abusive related party transactions, self-dealing, tunnelling and other forms of minority shareholder abuse. At the same time, markets for control and the consolidation of ownership have been thwarted by illiquid markets and the large numbers of small shareholders that resulted from mass privatization.

To counter these risks and to establish arrangements that can contribute to high company performance and more vibrant capital markets, a number of corporate governance priorities tend to be emphasised, including the need for:

- ***Improved transparency and disclosure.*** This refers not only to reporting based on international standards and practices for accounting, audit and non-financial disclosure, but also disclosure of ownership structures of companies and shareholders, including both controlling shareholders and institutional investors, in order to be able to understand conflicts of interest and to manage them in such a way as to minimize the risk of abuse.[1]
- ***Effective exercise of shareholder rights and responsibilities.*** The Eurasia *Comparative Overview* found that both minority and majority shareholders have suffered from the low liquidity within the markets, as in many cases it has not been feasible for Eurasian small shareholders to sell their shares to owners who can more effectively exercise their rights as shareholders. Conversely, large and controlling shareholders have encountered obstacles to the consolidation of their stakes and generally to their participation in the corporate governance process of

1. For an international consensus view on best practice corporate governance disclosure building on the *OECD Principles of Corporate Governance* recommendations in this area, see UNCTAD's *Guidance on Good Practices in Corporate Governance Disclosure*: http://unctad.org/en/docs/iteteb20063_en.pdf . UNCTAD has also collected statistics on the governance disclosure practices of emerging compared to developed markets: http://unctad.org/en/docs/diaeed2011d3_en.pdf .

the companies they own. Weak shareholder rights have been among the impediments to the development of the market for corporate control in the region, which undermines the incentives for company management to restructure, improve operations and look for profitable opportunities to take the company forward and attract investors.

- ***Boards of Directors capable of objective, independent judgement.*** The *Comparative Overview* suggested a particular need for boards to improve their role in strategic planning, monitoring of internal control systems, and independent review of transactions involving managers, controlling shareholders and other insiders. It found that problems related to boards' independence, diligence and sometimes unclear role vis a vis management have led to persistent problems of abuse of minority shareholders within the region.
- ***Credible enforcement capacities for corporate governance-related requirements.*** Experience in developing and emerging economies has shown that regulators are the main line of defence for shareholders. It is essential for such regulators to have the resources, independence and integrity to play an effective role in ensuring that regulatory requirements related to disclosure, shareholder rights and other corporate governance arrangements are respected. These regulators can also play an important role in ensuring that stock exchanges and other self-regulatory bodies observe high ethical and professional standards. Effective regulatory enforcement also requires the backing of an independent, knowledgeable and predictable judiciary.

The *Comparative Overview* concluded that Eurasian markets were still strongly reliant on bank lending and that the capital markets were not yet able to provide efficient debt and equity financing or offer a secondary market in ownership. The Roundtable in its second phase (2006-2008) therefore concentrated specifically on a joint initiative with the European Bank for Reconstruction and Development to promote better corporate governance of banks as one of the leading sources of corporate finance in the region.

In addition, private equity, venture capital and other funding vehicles have also played a role in financing corporate development in recent years. Corporate governance remains relevant in such cases, but adjustments are necessary to fit the particular context of a more restricted set of owners and the corporate governance measures that they may seek as a condition for their investments.

Finally, a number of emerging markets in other parts of the world have experienced rapid capital market growth during the past decade at the same time as they have undertaken significant corporate governance improvements, such as in Brazil and a number of Asian economies, while Eurasia's capital markets remain at a less developed stage. With economic growth projected to slow during the next five years (see Figures 2.1 and 2.2 for details), it is both important and timely to try to understand more clearly what the main obstacles to capital market development have been, how better corporate governance may help to address them, and to reconsider the potential role for capital markets to more strongly support economic growth in the region in the future.

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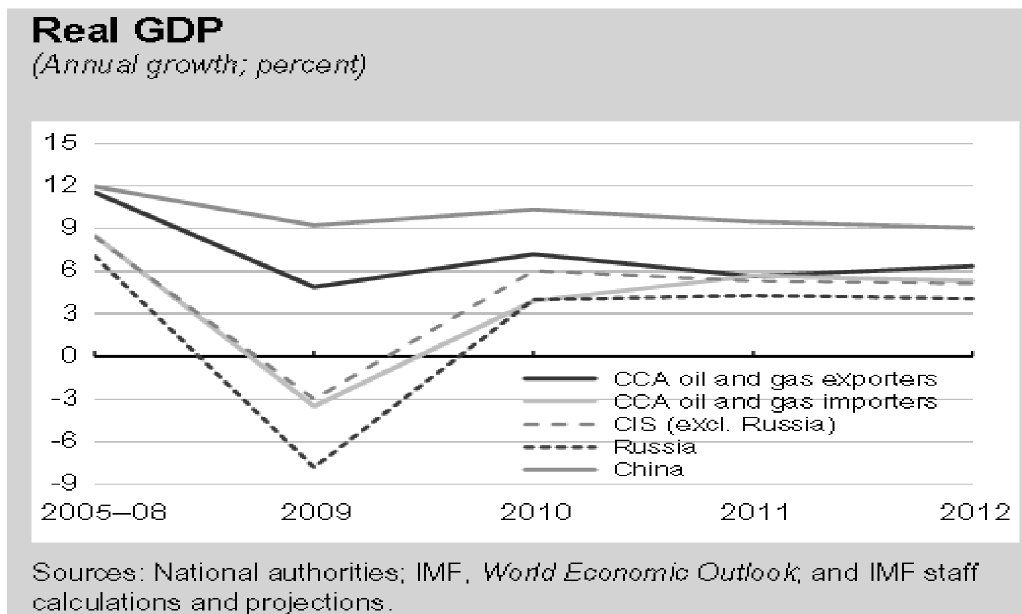
Chapter 2

Macroeconomic overview of the region

The dissolution of the Soviet Union was followed by a deep recession in the first half of the 1990s. Although all countries in the region showed better performances in the second half of the decade, the average annual growth rates were still negative except in Mongolia which experienced mild marginal growth. On the other hand, in the first decade of this century, Eurasian countries have achieved high annual growth rates, which have exceeded both the world and advanced economies' averages. Along with their considerable reforms in transition to a market economy, oil and natural gas resources helped Azerbaijan, Turkmenistan and Kazakhstan to occupy the first three places. Beyond these three countries, most other economies in the region have also had high average growth rates compared to other emerging and developing economies.

In addition, considering the strong relationship between national savings and economic growth (World Bank, 2011), the high national saving ratios may have helped Eurasian economies to sustain high growth rates during the last decade. The gross national savings have been gradually increasing after 2000 and reached relatively high levels in Azerbaijan, Mongolia and Kazakhstan in 2010 (46%, 37% and 35% respectively). In principle, high savings rates are conducive to the growth of capital markets by generating demand for long-term savings instruments.

Figure 2.1 Comparison of recent real GDP growth rate



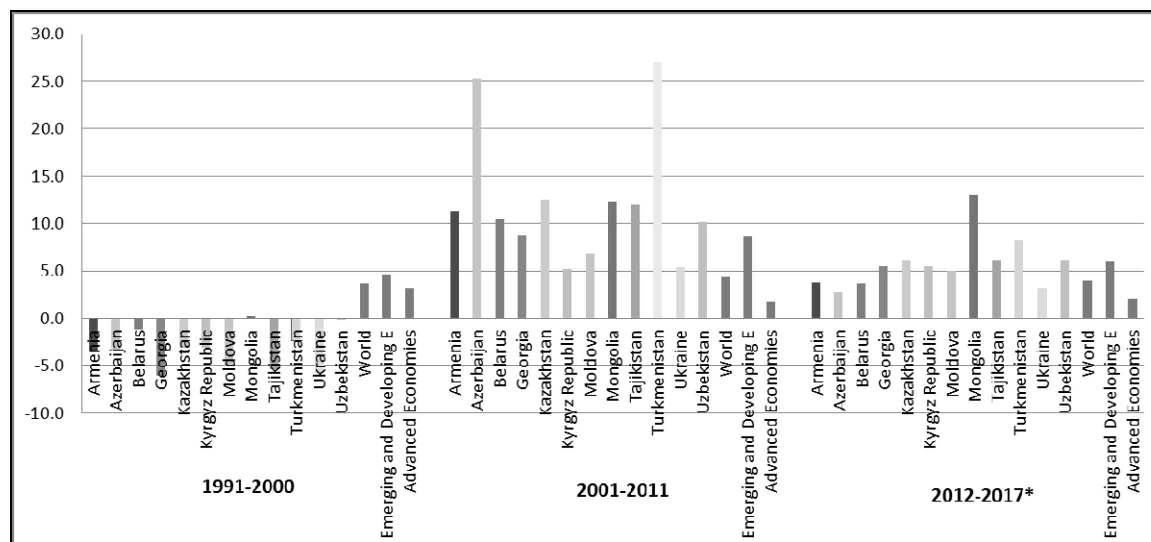
In the near-term the growth outlook for the region is expected to remain broadly positive. Growth was helped as oil and gas exports continued to expand during the second half of 2011. The region benefited from strong oil and commodity prices, strong domestic demand, and increased agricultural output in Armenia, Belarus, and Kazakhstan (IMF, 2012).

Growth was expected to slower in the coming period even if oil prices remained high. The region has been affected by spillovers from the euro area. Russian demand has weakened and it is feared that the Euro crisis could lead to a global downturn which would, in turn, affect commodity prices. Despite weaker external conditions, growth will be supported by strong terms of trade, as well as investment in oil and mining (Kazakhstan) and infrastructure (Kazakhstan and Uzbekistan). Azerbaijan's hydrocarbon output was expected to remain stable, and growth in the non-hydrocarbon sector was expected to help the economy expand by 2.7% in 2013.

In the energy-importing economies, external and domestic factors are contributing to the slowdown. Both reduced export demand and tighter monetary and financial conditions are contributing factors. For example, growth was expected to slow to 3.4% in Belarus and 3.5% in Ukraine in 2013, down from the average of more than 10% annual growth in Belarus and more than 5% per year in Ukraine during the previous decade (IMF, 2012).

Historically, Eurasian countries have faced elevated inflation, especially in the first five years of their independence. Inflation has been reduced across the region, with median inflation in 2011 of 8.4% (World Bank Development Indicators). Still, some countries Tajikistan (14% in 2011), Turkmenistan (15% in 2011), and Uzbekistan (16% in 2011) have high consumer price inflation compared to the world (2.5%) and developing economies (5.6 %). Belarus has been suffering significant inflationary pressure, moving from 7.7% in 2010, to 52% in 2011(World Bank Development Indicators). Controlling inflation is important for the development of capital markets because excessive inflation contributes to capital flight to foreign jurisdictions at the cost of investment into local alternatives.

Figure 2.2 Historical and projected average annual real GDP growth rates (%)



*Based on IMF's World Economic Outlook April 2012 estimations.

Source: OECD calculations based on data from IMF and EBRD.

The overall environment for conducting business has improved in the region over the past half-decade (IMF, 2011a). According to the World Bank's *Doing Business* report, the business environment has improved greatly in Azerbaijan, Georgia, Kazakhstan and the Kyrgyz Republic. Each country significantly raised its ranking between 2006 and 2011. Most noteworthy is Georgia which rose to occupy 12th position globally in 2011. This made Georgia the highest ranked country in the region and placed it on par with many developed countries. Significant improvements were also visible in Kazakhstan. Still, most countries in the region score poorly on some World Bank indicators. While many countries have an overall rank that is similar to or higher than low-income countries, the *Global Competitiveness Indicator* of the World Economic Forum confirms that scores are below average for emerging market economies.

It is worth remembering that an additional and important factor that defines the business environment is the quality of public sector governance. Public sector governance appears to be improving in most of the countries in the region. However, the World Bank's *World Governance Indicators* indicate that, with the exception of Georgia, the rule of law and control of corruption remain relatively weak and could pose an impediment to the conduct of business. Seven of 10 countries for which data were available in the World Economic Forum's *Global Competitiveness Report* cite corruption as one of the top three most problematic factors for doing business (World Economic Forum, 2012).

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Chapter 3

Capital markets landscape in Eurasia

The capital markets in Eurasia only have a two-decade history. However, over the last decade the strong performance of these economies has engendered interest both from national and international players in these markets. Yet, despite what has been achieved in the past twenty years, regional capital markets are still at an early stage of development. With respect to FTSE and S&P indices, none of the Eurasian markets is classified as an emerging or frontier market, with only Kazakhstan, Ukraine and Mongolia on the watch list to become a frontier market of the FTSE[1]. Another index company, MCSI, has classified Kazakhstan and Ukraine as frontier markets.

The World Economic Forum's *Global Competitiveness Report* assigns scores to countries on the basis of 12 pillars, including financial market development. Azerbaijan is the Eurasian country with the best rank among 142 countries. More important, with the exception of Kyrgyz Republic, all Eurasian countries' financial market development rankings are lower than their own overall competitiveness ranking indicating that financial markets are an area of concern. In particular, their performance on the sub-pillars *financing through local equity market* and *regulation of securities exchange* appears to have a negative effect on the countries' overall competitiveness.

Table 3.1 Ranking of financial market developments in Eurasia (lower numbers are better)

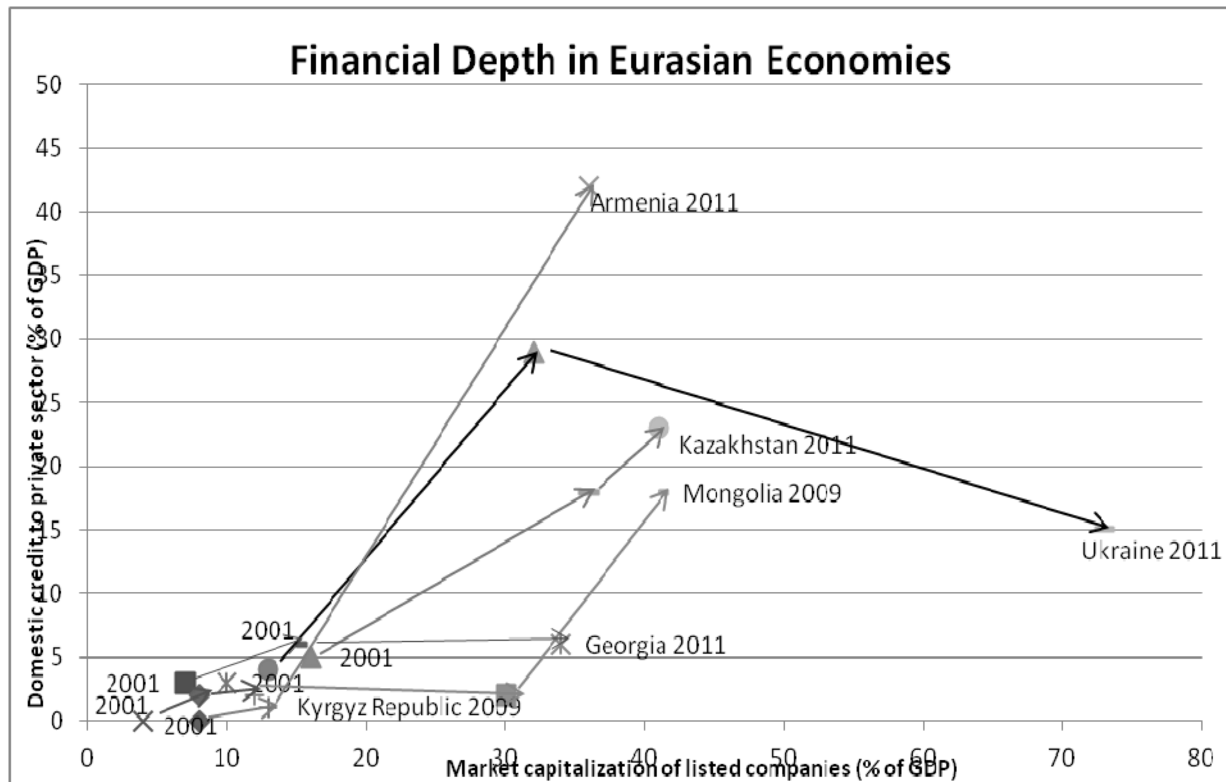
Country	Financial Market Development	Selected Subcomponents of Financial Market Development Ranking				
		Availability of financial services	Ease of access to loans	Financing through local equity market	Venture capital availability	Regulation of securities exchanges
Azerbaijan	94	98	69	77	54	88
Armenia	95	102	85	120	109	110
Georgia	99	107	79	122	97	122
Moldova	105	122	109	128	126	120
Kyrgyz Republic	113	133	131	131	136	134
Ukraine	116	115	128	123	114	127
Tajikistan	119	118	64	100	57	125
Kazakhstan	121	91	120	107	92	112
Mongolia	129	124	136	97	137	131

Source: World Economic Forum (2012), the *Global Competitiveness Report* 2011-2012. The GCR provides no information on Turkmenistan or Uzbekistan.

The *Global Competitiveness Report* also tracks what companies consider the most problematic factors for doing business. An analysis of the World Economic Forum data by the OECD indicates that businesses in six of 10 countries cite access to finance as one of the most problematic factors for doing business. Access to finance covers the full spectrum of financial markets ranging from bank lending, to equity markets to venture capital. The various sources of finance seem to be correlated; a weakness in one tends to be reflected as a weakness in the others.

In a similar study, the OECD's *Policies for Competitiveness Assessment Framework* reviews human capital development, investment promotion and access to finance as the three main dimensions of the assessment. According to the preliminary results of the assessment, under the access to finance dimension, the largest gap between the best practice level and the current situation in Central Asian countries (excluding Turkmenistan and Uzbekistan) is on the access to capital market criteria (OECD, 2011). Therefore, capital markets in the region do not yet appear to have been an important factor in the region but with improvements in their functioning retain the potential to positively influence economic growth and competitiveness in the future.

Figure 3.1 Financial depth in Eurasian economies



Source: Based on data from World Bank and EBRD.

Financial market depth is mostly defined as the size of the financial system to the GDP, while financial breadth provides the relative importance of banks to capital markets and diversification of the financial system. Private credit and stock market capitalisation as per cent of GDP are the most widely used measures used as a basis for these two indicators (Estrada et al., 2010). As seen in Figure 3.1, at the beginning of the new

century, both financial depth and breadth indicate a similar level of development for regional economies. During the last decade, Eurasian stock markets showed low performance relative to the banking sector. In Ukraine, before the financial turbulence in 2008, equity markets reached a high of 78.3% of GDP. Equity markets subsequently plummeted though bank lending actually grew from 61.1% in 2007 to a high of 88.6% in 2009 before levelling off in 2010.

Table 3.2 Domestic credit provided by banking sector as % of GDP

Country	2008	2009	2010	2011
Armenia	18.6	21.5	27.5	36
Azerbaijan	16.2	22.5	23	20
Georgia	32.7	33	33.2	34.3
Kazakhstan	54.2	54.6	45.4	40.7
Moldova	39.8	41.4	37.2	39.5
Mongolia	31.6	29.6	29.9	41.2
Ukraine	82.1	88.6	79.5	73.4
OECD Members	186	202.4	203	202.6
World	154.7	169.1	167.4	165.3
Europe and Central Asia	39	47.6	50.7	49.5

Source: World Bank Indicators. No information available on: Belarus, Kyrgyz Republic, Tajikistan, Turkmenistan, or Uzbekistan.

Table 3.3 Market capitalization of listed companies % of GDP

Country	2008	2009	2010	2011
Armenia	1.5	1.6	0.3	0.4
Azerbaijan[1]	NA	.16	.22	.2
Georgia	2.6	6.8	9.1	5.5
Kazakhstan	23.3	50	41	23.3
Moldova	1.8	1.5	1.6	2.8
Mongolia	7.2	9.4	17.6	18.4
Ukraine[2]	9.02	12.64	15.87	13.66
OECD Members	60.1	84	91.6	71.8
World	58.7	83.8	88.7	66.3
Europe and Central Asia	19.8	50.6	51.8	33

Notes: 1. Figures from Azerbaijan SCS refer to first tier listed companies only.

2. Figures from Ukraine NSSMC

Source: World Bank Indicators. No information available on: Belarus, Tajikistan, Turkmenistan, or Uzbekistan.

Compared to OECD Member countries, World Markets, and Europe and Central Asia, the depth of financial markets is still low, thus echoing the findings in the *Global Competitiveness Report* that access to finance is one of the greatest barriers to doing business in the region.

Equity and bond markets

Market capitalisation of listed companies, especially as a percentage of GDP, is the most commonly used indicator to compare stock market development among national economies. Kazakhstan has the largest equity market in the region, both as percentage of GDP (40.8%) and total market capitalization (USD 43.3 billion in 2011 down from USD 60.7 billion in 2010).[2] Ukraine (28.6%) and Mongolia (17.6%) also have relatively more developed stock markets.

Nevertheless, comparisons based solely upon market capitalization may be misleading due to the fact that stock market capitalisation by definition covers not only the free floating part of listed companies' shares but also the value of all outstanding shares. Levels of free float in Eurasian countries can be quite low, as is evident from Annex A showing liquidity levels as measured by stock trade volume as a small fraction of total market capitalization in each Eurasian market.

The low level of liquidity in Eurasian stock markets is also related to the methods that have been adopted for mass privatisation transactions in the 90s. In Mongolia, the government provided vouchers to each citizen with a right to purchase state shares in SOEs. The reorganisation and listing of 475 SOEs was the first step for capital market development. In practice privatisation did not have the intended effect of creating vibrant equity markets. In some cases, newly privatised companies were either not viable or were stripped of their valuable assets. In other cases, new shareholders, unfamiliar with share ownership, sold their shares to cover their daily financial needs. Eventually, the government decided to sell its remaining shares through auctions, which resulted in a sharp decrease in market liquidity (Tsolmon, 2008).

As Annex A shows, the number of local listed companies has shrunk across the region over the past decade, especially after the 2008 global financial crisis. In some cases the decline was dramatic; for example, in Armenia the number of companies declined from 198 in 2005 to just 12 companies by the end of 2011, and in Ukraine from 276 in 2007 to 183[3] by the end of 2011, according to World Bank figures. Mass privatisation transactions through stock exchanges initially helped countries to reach a high number of listed companies. However, there has been a downward trend due to delisting of many of these companies and lack of new listings.

The size of corporate bond markets in Eurasian countries is even smaller than the stock markets. There are active bond markets in Azerbaijan, Belarus, Kazakhstan, Mongolia and Ukraine but most concentrate on government bonds rather than serving as a source for private sector financing. For example, in Kazakhstan, government bonds accounted for nearly 84% of total trade volume in the bond market in 2010. Similarly, in Azerbaijan, the corporate bond market covers only 13% of total trade volume.

Institutional investors do not play a major role in the domestic capital markets of most Eurasian countries, with the possible exception of Kazakhstan and Ukraine. Pension funds and life insurance companies, both domestic and foreign, have the potential to play a stronger role as they do in some other emerging markets. However, due to their conservative nature, foreign pension funds are unlikely to invest in regional financial

markets, and more time is required for people to understand and participate in life insurance systems in the region (Kitamura, 2005). So far, only in Kazakhstan and Ukraine, institutional investors, mostly local domestic pension funds, have been active in the financial markets. In Ukraine, 108 non-state pension funds were registered in 2009, with about a half million participants. Their assets mostly consisted of bank deposits and cash (42.8%) together with government and corporate bonds (36.2%), but they also have some investments in Ukrainian stocks (8.8%) (OECD, 2009a).

Capital market regulatory framework

The introduction of securities regulations and the establishment of capital market authorities started in the mid-1990s, as part of Eurasian countries' transition to a market economy. In some countries, securities regulators have been structured as independent state bodies (Azerbaijan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Ukraine and Uzbekistan); while in others their functions are consolidated under Central Banks (Armenia, Georgia and Kazakhstan) or relevant Ministries (Belarus, Turkmenistan).

Similar to the stock exchange industry, there have been recent significant developments in the capital market regulatory environment. For instance, the liquidation of the Armenian Securities Commission and transfer of its regulatory functions to the Central Bank in 2006 was followed by the demutualisation of the Armenian Stock Exchange. Georgia has also unified capital market authority with the insurance regulator under the Central Bank. On the other hand, in Kazakhstan, the seven-year old Financial Supervision Agency and the four-year old Agency of Regional Financial Centre of Almaty were consolidated under the National Bank in 2011. In Ukraine, the regulatory framework regarding the National Securities and Stock Market Commission's status, composition and appointment of the commissioner was amended in 2011.

Regulatory independence

As one of the twelve key standards designated by the Financial Stability Board for sound financial systems, the IOSCO *Objectives and Principles of Securities Regulation* state that capital market regulators should be operationally independent and accountable in the exercise of their functions and powers. Moreover, the OECD Principles recommend that regulators should have the authority, integrity and resources to fulfil their duties in a professional and objective manner. However, the IOSCO Objectives and the OECD Principles do not specify whether regulatory authorities need to be independent state bodies. Rather, more important than the particular form is whether these institutions have operational independence, and whether decision making is independent and taken in the public interest.

The EBRD conducted a securities markets legislative assessment project in 2007 for all regional countries, including assessments of the independence of regulators. According to this assessment, regulatory authorities from all three types of organisational models have been assessed to review how the law seeks to ensure their operational independence when exercising their respective functions and powers. Only three countries' authorities, Belarus, Tajikistan and Uzbekistan, do not have such a requirement in law. The Belarus Securities Department under the Ministry of Finance is commented to be significantly influenced by the Ministry and other influential state authorities. Tajik and Uzbek legislation do not explicitly require the independence of regulatory authorities.

The independence of the heads of regulatory agencies and commissioners is equally a concern. In the 2012 OECD survey most heads of regulators were appointed by presidential decree (Azerbaijan, Belarus, and Ukraine) or a prime minister (Kyrgyzstan) sometimes with the approval of parliament. This seems to correspond to practice in developed countries. While the appointment itself is clearly at the prerogative of elected officials, developed countries often seek to augment the independence of commissioners by prohibiting their dismissal by the appointer.

Such a safeguard is not visible in Eurasia where dismissal of agency heads and commissioners is possible at the discretion of the appointer in all countries that responded to the survey. On the other hand, both Belarus and Ukraine specify that such dismissal is not possible for reasons related to policy. Other factors that are supposed to encourage independence are restrictions on the ability of the agency head or commissioners to hold other offices in government, restrictions on the ability of the agency head or commissioners to accept jobs in the capital markets after the completion of their terms, and the protection of the regulator from wanton overturning of its decisions. In all of the respondent countries regulatory bodies, agency heads or commissioners are not allowed to hold other offices in government. In Azerbaijan, according to the Constitution, agency heads and commissioners are prohibited from holding other offices in government. Only Ukraine restricts the agency head/commissioners from accepting work in the capital markets after their term expires (for a period of one year). As far as decision-making is concerned, none of the surveyed countries permit the overturning of decisions made by the regulatory authority in areas where the regulator has exclusive competency.

Regulators in the region were also surveyed regarding their financial and operational independence. In most countries the government is the source of the regulator’s funding, with two regulators being funded by levies on regulated firms (Armenia and Moldova). In only two cases (Armenia and Moldova) was the regulator able to exercise exclusive control over its own budget once it had been appropriated, although in the case of Moldova, the budget is also subject to the approval of Parliament and may be amended. In most countries (Azerbaijan, Belarus, Kyrgyzstan, Tajikistan and Ukraine) control over the regulator’s budget was shared between the regulatory authority and government.

With respect to the regulator’s internal organisation, such issues are decided by the regulator in four out of seven cases (Armenia, Kyrgyzstan, Moldova, and Ukraine). In three out of seven cases (Azerbaijan, Belarus and Tajikistan) issues of internal organisation are decided by the regulator in cooperation with the government. In no case is it determined exclusively by government. Personnel policies seem to be an area where government does get involved. In only two of seven respondents (Armenia, Moldova) were personnel decisions taken exclusively by the regulator. In the remaining cases, such decisions were taken cooperatively.

Taken together, these indicators suggest that at least some rules are in place and that regulators enjoy some level of independence with respect to policy, financial and operational decisions. However, feedback from the EBRD’s 2007 assessment project also suggests that the picture is more nuanced and that in some countries the state involves itself fairly actively in the work of the regulator. Thus, the findings of the OECD survey need to be supplemented by further discussions to ascertain the degree to which regulators do enjoy needed independence and the extent to which the intent of law is reflected in practice.

Institutions that promote better corporate governance practices

Regulators, principally securities exchange commissions, are the main institutions that promote better corporate governance practices in the region. But there are also others including central banks and ministries. In Uzbekistan local business schools were cited as important promoters of better practice. In a few countries, NGOs have been active in trying to promote better corporate governance such as, for example, the Corporate Governance Development Centre in Mongolia, the Ukraine Corporate Governance Association and the Financial Institutions Association of Kazakhstan. Institutes of directors are clearly rare. The International Finance Corporation of the World Bank Group was also recognised as an important outside force for promoting good governance throughout the region. With respect to legal institutions, most respondents have no special courts to adjudicate corporate governance issues. This is usually done by high courts dedicated to adjudicating economic issues or issues related to company law.

While there may be a number of stakeholders actively promoting the governance agenda, the survey also showed that it is uncommon for government and other bodies to address corporate governance issues in a co-ordinated fashion. Where co-ordinating bodies do occur (Kyrgyz Republic and Ukraine) they reside within the securities exchange regulatory body. The question arises with respect to the extent to which governance reform efforts might not be facilitated by a more co-ordinated approach or, at a minimum, by more formal information-sharing meetings and a more inclusive policy dialogue.

International and regional organisations are also important promoters of good governance and are valuable sources of information and practice (e.g. OECD, IFC, EBRD, ADB, FEAS, etc.). In addition, a number of Eurasian regulators are regular members of IOSCO[4], although none of them have signed IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information* (MMoU). The MMoU establishes international standards for co-operation and information exchange for enforcement purposes amongst its signatory securities regulators. The lack of Eurasian signatories to this international agreement may be seen as a weakness of the regional authorities' international co-operation and enforcement capacity. On the other hand, Armenia, Kazakhstan and Mongolia's commitments to seek "the legal authority necessary to enable them to become full signatories" show the rising interest in international co-operation.

Information disclosure

One of the fundamental underpinnings of good corporate governance is transparency and disclosure. Investors may accept a company's governance choices even when they do not correspond to the investor's view of best practice. However, investors will uniformly insist upon transparency with respect to the company's policies and choices in order to inform their investment decision. Only good information allows them to assess the potential risks. The simple absence of information generates information risk. The absence of information or information risk is inevitably factored into any pricing decision.

Disclosure practices have improved significantly in Eurasia. Among the respondents to the OECD survey, all countries require listed companies to publish audited annual reports. Six out of seven countries also require the immediate reporting of price-sensitive information, a requirement that is typically associated with the most developed financial

markets. Furthermore, six out of eight require the disclosure of quarterly financial statements (the two that do not are Moldova and Tajikistan). No country has legal requirements for semi-annual reports though some stock exchanges appear to do so in addition to law.

According to the OECD survey, the information that is required in annual reports generally compares well with world-class disclosure requirements. The great preponderance of countries require the essential components of a good annual report.

The areas where there are clear weaknesses are the disclosure of management discussion and analysis, which is mandatory only in Armenia and Uzbekistan. In addition, a report by the board on past and future operations was required in only half the cases (Azerbaijan, Belarus, Tajikistan and Uzbekistan). It is no coincidence that both of these items are important items of non-financial disclosure.

Table 3.4 Information required in a listed company annual report

Information required	Frequency	Exceptions
(a) General information on the company	6 of 8 require	Armenia, Tajikistan
(b) Audited annual financial statements	All require	
(c) Financial status of the company	6 of 8 require	Armenia, Tajikistan
(d) Directors' report on past and future operations	4 of 8 require	Armenia, Kyrgyzstan, Moldova, Ukraine
(e) Consolidated financial reports	5 of 8 require	Azerbaijan,[1] Belarus, Tajikistan
(f) Information on corporate governance	7 of 8 require	Tajikistan
(g) Management Discussion & Analysis	2 of 8 require	Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine
(h) Shares held by the controlling shareholder (including indirect shares)	6 of 8	Ukraine, Tajikistan
(i) Share ownership (as of the closing date)	6 of 8	Belarus, Tajikistan
(h) Significant related party transaction (s)	6 of 8	Belarus, Tajikistan[2]

Notes: 1. Consolidated financial statements are required only in the financial industry.
2. Tajikistan reports full compliance with IFRS but does not report requiring related party transaction disclosure in annual reports. This presents an inconsistency. Disclosure of related party transactions are required under IFRS (IAS 24) raising questions regarding the degree of IFRS compliance.

Source: OECD 2012 Survey of Eurasian Regulators. Regulators responded from: Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan.

While financial reporting practices seem to have improved, non-financial disclosure appears to have lagged. Corporate governance disclosure is required in seven of eight countries (Tajikistan does not require such disclosure). However, key elements of non-financial disclosure are missing. Only two countries (Kyrgyzstan and Ukraine) require disclosure of the education and professional experience of board members and key executives. Likewise, the disclosure of executive remuneration either individually or in the aggregate is comparatively rare occurring only in Kyrgyzstan and Ukraine. A more in-depth review of non-financial reporting requirements in Eurasian countries may be in order, in particular, as compared to the OECD *Principles of Corporate Governance* disclosure recommendations and the more detailed UNCTAD *Guidance on Good Practices in Corporate Governance Disclosure*.

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Table 3.5 Non-financial disclosure requirements

Non-financial disclosure	Frequency	Exceptions
(a) Corporate governance structures and practices	6 of 8 require	Azerbaijan, Uzbekistan
(b) Education and professional experience of directors and key executives	2 of 8 require	Only Kyrgyzstan and Ukraine require
(c) Total remuneration of directors and key executives	1 of 8 requires	Only Kyrgyzstan requires
(d) Individual remuneration of directors and key executives	2 of 8 require	Only Kyrgyzstan and Ukraine require
(e) Deviations from corporate governance codes	4 of 8 require	Only Armenia, Kyrgyzstan, Tajikistan and Ukraine require

Source: OECD 2012 Survey of Eurasian Regulators. Regulators responded from: Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan.

Finally, disclosure of compliance with codes of corporate governance appears weak. While six of eight countries have corporate governance codes that have been endorsed by a stock exchange, (Kyrgyzstan and Uzbekistan do not) only four countries require disclosure of compliance with their code. The relative scarcity of disclosure requirements for code compliance may emanate from the fact that some Eurasian countries consider their codes to be mandatory. The implication is that if they are mandatory then codes do not rely upon disclosure to the markets for enforcement. Rather, enforcement is done directly by the regulator.

Some countries may have relied on corporate governance codes as a quick way of raising corporate governance standards without having to undergo a fundamental and time-consuming overhaul of company law. As such, many requirements that should be included in basic regulation may, in some cases, be found in voluntary codes. Overall, there may be cause for concern regarding the role of codes versus the role of law and how both law and codes are being enforced.

Box 3.1 Public disclosure platforms in the region

Ukraine - With several market places for securities, a central public disclosure system for use by investors in stocks and corporate bonds is particularly important. The Ukrainian securities regulator, the NSSMC, has developed the Electronic System for Comprehensive Information Disclosure (ESCRIN) as a web-based electronic disclosure platform. All Ukrainian listed companies and issuers of corporate bonds are required to disclose their ad hoc information, quarterly and annual reports via the system from the beginning of 2011. It is a free of charge service provided by the Ukrainian government.

Most Eurasian countries impose penalties for non-compliance with disclosure requirements that range from warnings and fines to a suspension of trading and eventually delisting (Armenia and Ukraine's PFTS cannot). Fines can be as little as USD 20 for individual offenders in Kyrgyzstan to approximately USD 2 000 in Ukraine and a maximum of USD 10 000 for repeat offenses. It is worth considering whether the level of fines has any dissuasive effect, particularly for large listed companies. Five out of nine exchanges have delisted companies for non-compliance with rules. Whether delistings are really sanctions on operating companies for non-compliance or whether they are more of an administrative delisting of non-operational companies remains to be ascertained.

Adopting the key standards designated by the Financial Stability Board (FSB) as necessary for the proper functioning of capital markets (IFRS, ISAs, IOSCO principles, the IOSCO MMoU and the OECD Principles among others) would support compliance of the national securities market frameworks with international standards, help develop Eurasian capital markets and increase their credibility among international investors.[5]

With respect to financial reporting standards, four of six responding countries report full compliance with IFRS. According to the 2012 OECD survey, Belarus does not comply and Moldova reports that it is in transition. In spite of this generally positive assessment, full compliance is only visible in the largest and most advanced listed companies, often those with dual listings, and is not generalizable to others, according to a 2011 study by Price Waterhouse Coopers.[6]

In some countries out-dated translations and/or incomplete versions of IFRS are accepted (PWC, 2011). While the broad adoption of IFRS is an important indicator of the quality of financial reporting, the way in which these standards are implemented in practice is the critical factor. The quality of financial reporting will ultimately depend upon capital market authorities' commitment and enforcement capacities.

In terms of the assurance services provided for financial reporting, all countries responding to the OECD survey require an external audit of listed company financial statements. All countries require certification or training of auditors and all reported having adopted ethics codes for the accounting and audit profession, including most recently in Moldova in 2012. Ukraine reported that the ethics code is that of the International Ethics Standards Board for Accountants (IESBA), which is recognized as the global standard of best practice. There is, however, little data to describe the capacities of external auditors or if external audit is conducted in compliance with ISA, which is the global standard for audit and one of the key standards identified by the FSB.

In most cases, requirements for the appointment of the external auditor appear to adhere to best practice in that the external auditor is approved by shareholder vote at the AGM. Certainly, the official reporting relationship to the board and accountability to the AGM are visible in law. However, there is insufficient information to substantiate the notion that boards or the AGM are attentive to questions regarding the quality of the external audit and, in particular, the independence of the external auditor.

In five out of the seven responding countries a ministry of finance exercises oversight over the accounting profession, and accounting and audit standards. Ministries of finance have traditionally exercised this role since all accounting was tax accounting before the transition. Tax accounting is of overriding importance because it serves as the tool with which the state calculates taxes and collects revenues. With the introduction of financial reporting for markets, ministries of finance have continued their traditional standard-setting and oversight role albeit with greater input from the accounting and audit profession. Local chambers of auditors have not generally stepped into the self-regulatory role that they have in more developed markets.

Accounting and audit reform is a challenging and complex process. Engagement has occurred at the country level with many countries reporting significant advances in the statutory framework, accounting and audit standards, and professional practices. However, in practice, the production of a fully IFRS compliant statement audited in full compliance with ISA still represents a major challenge. Detailed analyses of the accounting and audit framework, as well as practices have been done in the context of the World Bank's ROSC programme (Reports on the Observance of Standards and Codes).[7]

The ROSCs also provide recommendations for reform. These should be consulted for a more in-depth discussion of reporting-related issues.

Stock exchanges in Eurasia

Apart from Tajikistan and Turkmenistan, all Eurasian countries have organised stock markets, on which mostly corporate and government bonds and derivatives are also being traded. Furthermore, in Uzbekistan, a trade platform for OTC transactions, Elsis Savdo, has been functioning since 2000.

Since 1993 when the first demutualisation of an exchange occurred in Sweden, there has been an on-going global trend towards demutualisation, listing on their own markets and consolidation as the main characteristics of the stock exchange industry. In addition to these structural changes, new information technologies and financial instruments have increased the competition among stock exchanges at the international level (OECD, 2009b). As of 2006, 11 of the 39 members of the World Federation of Exchanges were demutualised, and another 11 were listed (WFE, 2006).

In Eurasia, three main features have determined the effect of these trends on local stock exchanges: first, nearly all stock exchanges in the region were established in the mid-90s after the dissolution of the Soviet Union. Amid an international trend towards demutualisation and listing, in most Eurasian countries, stock exchanges were established as private companies. Unlike in other developing markets, there are only three state-owned stock exchanges in the region (see Table 3.6 below for details). Among these, the Mongolian Stock Exchange is slated for privatisation according to parliamentary resolutions. In preparation for privatisation, the London Stock Exchange Group was selected as an international partner to assist in bringing the exchange up to the level of international standards.

Moreover, exchanges which started their activities as mutual organisations have been demutualised during the 2000s. The Kyrgyz Stock Exchange was demutualised in 2000, and the Armenian Stock Exchange was demutualised in 2007 and shortly thereafter became a subsidiary of the NASDAQ OMX Group. However, member brokerage firms and banks have the majority of the shares of some exchanges categorised as privately held companies, like the Baku Stock Exchange.

Second, the transition and capital market development strategy of each country has had significant effects on their stock exchanges. In particular, the Ukrainian case mostly differs from other countries. Apart from Ukraine, all countries[8] have one organised stock market, but in Ukraine, there are ten licensed stock exchanges. The largest stock exchange in terms of trade volume, PFTS[9], was established as an electronic trade system in 1997, and after a long period further to its application, has recently been granted exchange status. The oldest stock exchange, the Ukrainian Stock Exchange, is a not-for-profit company. Perspectiva, the other important exchange, and Ukrainian Exchange are both privately held companies. Apart from these exchanges, the remaining ones are mostly defined as “dormant” and “pocket” exchanges, which contribute to poor corporate governance and rent-seeking behaviour, and provide a place for market manipulation. Considering the need of Ukrainian markets, a consolidation of these dormant stock exchanges through voluntary mergers or repeal of licences by the capital market authority was recommended by a USAID study completed in 2006 (Smith, 2006).

Table 3.6 Stock exchange landscape in Eurasia

Country	Stock Exchange	Establishment	Ownership Structure	N° of Listed Companies (End of 2011)	Trade Volume (Stock million USD)
Armenia	Nasdaq OMX	2000	Privately-held	12	0.5
Azerbaijan	Baku Stock Exchange	2000	Privately-held	2 [1]	1 245[1]
Belarus	Belarusian Currency and Stock Exchange	1998	State-Owned Company	1 901*	92.9*
Georgia	Georgian Stock Exchange	2000	Privately-held	135	1.5
Kazakhstan	Kazakhstan Stock Exchange	1993	Privately-held[2]	63	1 089
Kyrgyz Rep.	Kyrgyz Stock Exchange	1994	Privately-held	34	3.3
Moldova	Moldovan Stock Exchange	1994	Privately-held	12*	20.7*
Mongolia	Mongolian Stock Exchange	1991	State-Owned Company	332	45.8
Ukraine[3]	PFTS Stock Exchange	1997	Privately-held	668	262.98
	Ukrainian Exchange	2008	Privately-held	248	4 563.74
	Ukrainian Stock Exchange	1991	Not-for-Profit Company	117	1.47
	Perspectiva Stock Exchange	2006	Privately-held	108	4 966.21
Uzbekistan	Tashkent Republican Stock Exchange	1994	Public Institution[4]	68*	38.8*

Notes: * Values are for the year 2010.

1. Source: Azerbaijan State Committee for Securities 2011 data. Azerbaijan has 2 listed companies on the first tier of its exchange and 622 companies listed on the third tier known as pre-listed companies in 2011, up from 423 in 2010. Trade volume figures are for both tiers.
2. The largest shareholder of KASE is Centras Credit LTD with 16.79% followed by the Central Bank with 13.75%.
3. Figures from Ukraine NSSMC are provided for the four largest Ukraine exchanges out of 10 total.
4. Public institution refers to a non-commercialised state-owned exchange that is organised as a state agency.

Source: World Bank, National stock exchanges, FEAS

Finally, due to the low level of capital market development and the desire to maintain the national identity of stock exchanges, most Eurasian countries have opted out of the global consolidation trend. As mentioned above, demutualisation of the Armenian Stock Exchange in 2007 and the Swedish exchange operator OMX AB's acquisition in 2008 was the first example of cross-border consolidation. One other example is Russian-owned MICEX's acquisition of a majority stake in the Ukrainian PFTS exchange. Moreover, the strategic partnership agreement signed between the Mongolian Stock Exchange and London Stock Exchange, and the Uzbek Republican Stock Exchange's co-operation with Korea Exchange on trading platforms are other forms of international integration of Eurasian exchanges. The Kyrgyz Stock Exchange's introduction of a new trading system developed by KASE and KASE's share acquisition in this exchange is an early example of regional co-operation, as is the presence of the Istanbul Stock Exchange in the stock exchanges of Azerbaijan and Kyrgyzstan.

In general, markets and international standard-setters have established that clearing and settlement periods for stock exchanges should be between T+1 and T+7[10]. However, as shown in Annex B, in some Eurasian markets (Armenia, Azerbaijan, Belarus and Kazakhstan), the settlement period remains outside this range at T+0. T+0 settlement systems typically involve stock being deposited prior to a trade taking place. This can be

a barrier to investment for firms that are accustomed to longer settlement cycles and is sometimes blamed for low liquidity levels. Along with market infrastructure weaknesses, existing investment restrictions on foreign investors in some cases limit the participation of foreign institutional investors in these markets.

As noted above, the OECD contacted stock exchanges in all Eurasian countries in the context of the development of this report. Nine exchanges responded to requests for information. Responses were received from Armenia, Azerbaijan, Kazakhstan, Georgia, Moldova, Mongolia and three exchanges in the Ukraine (PFTS, Perspectiva and the Ukrainian Exchange).[11]

One of the areas on which exchanges were questioned was the governance of the exchange and the degree to which exchanges are able to act independently and with operational autonomy. Both Georgia and Mongolia reported that their exchanges had self-regulatory organisation (SRO) status. In Mongolia, the stock exchange is a state-owned company, which is usually not considered an SRO. However, the Mongolian exchange appears to be moving clearly in this direction by adopting a law regarding the privatisation of the stock exchange. More typically, stock exchanges are regulated by a dedicated securities markets regulator or a central bank that exercises oversight over the exchange and the securities markets. Apart from this case, the responses to the questionnaire suggest that states do not simultaneously exercise regulatory and operational functions. Nevertheless, other types of conflicts of interest can arise.

For example, in Kazakhstan there is a potential source of conflict of interest when KASE board members are simultaneously KASE market participants. The presence of the central bank on the KASE board of directors is aimed at keeping these conflicts in check. A similar conflict was noted in Georgia where the Bank of Georgia (a private bank, not the central bank) comprises a significant part of the stock exchange turnover while at the same time having a subsidiary brokerage company that is one of the largest intermediaries on the market.

In all cases, responding stock exchanges employ the governance structures that are typical of joint stock companies and stock exchanges in more developed capital markets. These include a general meeting, a board, and top management (executives). Executives are appointed by boards to which they report. In all cases, the relationship between the exchange and the securities market regulator is defined and formalised by law. In some cases the influence of the regulator is via a state representative on the board and on individual exchange committees such as is in the case of KASE in Kazakhstan.

The role of the stock exchange in shaping the governance of listed companies varies. Without doubt the main tool at the disposal of the stock exchange is the listing requirements. Exchanges also track disclosure and compliance, and have it in their power to apply penalties. Other softer ways of influencing the governance of listed companies are seminars and workshops (Azerbaijan, Georgia and Mongolia), input into capital markets legislation and regulation (KASE), the creation of websites for the dissemination of information, conducting evaluations of company websites, research, and the conduct of contests and competitions. Only one out of eight stock exchanges (Armenia) described having a specific programme dedicated to advancing corporate governance. Despite the absence of formal programmes, respondents assessed themselves as actively pursuing and promoting better governance practices.

Eight out of 11 countries reported having corporate governance codes for listed companies.[12] The ones that do not are Georgia, Kyrgyzstan and Uzbekistan, though there

is a code for banks in Georgia. Five out of eight codes are mandatory. However, the questionnaire responses leave open questions regarding what "voluntary" and "mandatory" mean. A comply or explain code may be considered voluntary in that compliance is up to the company. However, it can also be considered mandatory in the sense that disclosure of compliance (or non-compliance) is mandatory. Voluntary codes were reported in Belarus, Moldova and Tajikistan as well as two of the Ukrainian exchanges (PFTS and Perspectiva.) Mandatory codes were reported in Azerbaijan, Kazakhstan, Mongolia and at the Ukrainian Exchange. The code in Armenia is described as a mandatory comply and explain.

In practice, governance codes and guidelines (even when voluntary) are implemented through the listing rules. In Mongolia, the exchange is empowered to collect and disseminate companies' disclosures and reports on an on-going basis for compliance purposes. In Kazakhstan companies are required to present their own governance codes as part of the listing process. Though exchanges enforce codes, none of the stock exchanges were issuing bodies of their national code. Five exchanges were actively involved in the elaboration of the code. This seems to indicate that exchanges are not the driving force behind codification efforts even if they may be a key to their implementation. Increasingly, exchanges and regulators are considering ways to both track and encourage code compliance through the use of scorecards. The IFC has been active in promoting corporate governance scorecards throughout the region. Considering the investment in codes in the region, it may be worth assessing what their value has been and impact on corporate governance and capital market development.

All of the responding exchanges reported having multiple listing tiers. Six out of nine exchanges reported that corporate governance practices were a factor used to distinguish between the tiers. Only two exchanges (PFTS and Ukrainian Exchange) envisage using differential listing requirements to attract SMEs. The experience with SME listings has been mixed in developed markets. The feedback regarding special SME listing appears to be muted among the group of Eurasian respondents.

Shareholder rights and shareholder participation in governance

Basic shareholder rights are well established throughout the region in the legal and regulatory framework, and are described in greater detail below. However, an important contextual consideration for the exercise of these rights is whether there are shareholders who are sufficiently informed and active enough to make use of these rights. In most developed markets and in a number of emerging markets in other regions, institutional investors, particularly pension funds, are seen as the most likely candidates to exercise such rights in the interests of minority shareholders, for example to elect independent directors or to help ensure that the controlling shareholder and the board is acting in the company's interest, rather than in the interests of the controller or parties related to the controller. However, within the Eurasian region, only in Kazakhstan were institutional investors mentioned as playing an important role in the capital markets.

The virtual absence of institutional investors in most of the respondent countries indicates that one of the key goals set by policy makers is not being achieved. The absence of institutional investors translates, obviously, into a loss of liquidity. However, in addition to money, institutional investors bring vibrancy and know-how to the markets. For example, in Kazakhstan institutional investors assisted in the revision of market legislation during the 2008 financial crisis which resulted in strengthened requirements for corporate governance. Pension funds and insurance companies ultimately played an

active role in stabilizing the Kazakh financial market. In future, a number of countries may wish to consider pension reforms to encourage greater participation of institutional investors.

The existence and protection of shareholder rights is considered an essential condition for attracting institutional and foreign investors in support of capital market development. Some progress has been made in this regard, but gaps also remain. Six out of nine exchanges reported that they had listing requirements related to the protection of shareholder rights (PFTS in Ukraine and Moldova did not). In terms of meeting notice, the number of days given before a shareholder meeting ranged from a low of 20 days in Tajikistan to a high of 45 days in Azerbaijan and Kyrgyzstan. Most are from 20 to 30 days, well within what could be considered good practice in developed capital markets. The information included in the meeting notice typically includes the date, time, and place of the meeting, the agenda and procedures. These too seem to correspond with normal practice in developed markets. Thresholds for requesting the convening of an extraordinary meeting of shareholders range from 10% to 25% of voting shares with the most commonly cited figure being 10%. The legal minimum quorum requirements range from 50% to two-thirds of voting shares with most specifying either 50 or 60%.

Voting rights among survey respondents correspond well with best practice in developed markets. The two significant discrepancies are with respect to proxy voting and pre-emptive rights. In all countries that responded to the OECD survey, shareholders had the right to vote by proxy. However only three of eight allowed voting by mail, only one (Armenia) allowed voting by telephone or videoconference, and none allowed voting by e-mail or other electronic means. Furthermore, pre-emptive rights (the right of existing shareholders to participate in any capital increase, precluding the company from selling new shares on favourable terms to only certain buyers) were reported as available in four out of seven countries (see Table 3.7 below for details). Pre-emptive rights are of fundamental importance to investors. If the attraction of foreign institutional investors is a goal, then pre-emptive rights and proxy voting requirements will need to be strengthened.

The counting of votes at shareholder meetings is in almost all cases done by counting commissions. Seven of eight countries reported having counting commissions (information provided by Uzbekistan was inconclusive). Counting commissions generally have a minimum of three people, and exclude management, although in Moldova only one person is elected to exercise the function of counting commission if less than 50 shareholders participate in the general meeting. In some cases, the role of the counting commission may be delegated to the registrar. Shareholders in all respondent countries are allowed to directly nominate board members to the board of directors. In five out of eight countries there were specific thresholds for nominating board members. Thresholds range from 1% of total shares outstanding in Uzbekistan to 10% in Armenia, with the most commonly cited threshold being 2%. Such thresholds appear to be in line with the practices of developed capital markets.

In all countries responding to the survey, shareholders were able to place items on the agenda of the shareholders meeting and make shareholder proposals. The percentage threshold of share ownership needed to make a shareholder proposal ranges from 1% in Kyrgyzstan and Uzbekistan to 5% in Ukraine with the most frequent threshold being 2%. In no country are there any items that are restricted from being put on the agenda.

Table 3.7 Shareholder right to vote on key issues

Voting rights	Frequency	Exception(s)	% vote required for approval
(a) Appointment of director(s)	8 out of 8 allow		Simple majority
(b) Removal of director(s) without cause	7 out of 8 allow	Tajikistan	Simple majority
(c) Removal of director(s) with cause	8 out of 8 allow		Simple majority
(d) Appointment of internal auditor(s)	7 out of 8 allow	Uzbekistan	Simple majority
(e) Removal of internal auditors	7 out of 8 allow	Uzbekistan	Simple majority
(f) Endorse the contract between the company and external auditor	7 out of 8 allow	Belarus	Simple majority
(g) Request termination of contract between the company and external auditor	7 out of 8 allow	Armenia	Simple majority
(h) Authorizing shares	6 out of 7 allow	Tajikistan	2/3 or ¾ supermajority
(i) Issuing shares	6 out of 8 allow	Armenia Tajikistan	2/3 or ¾ supermajority
(j) Is the pre-emptive right the default rule?	4 out of 7	Azerbaijan[1] Belarus Uzbekistan	N/A
If so, can the existing shareholders vote for non-application?	2 out of 4 allow	Yes in Armenia Yes in Tajikistan	N/A
(k) Amendments to company articles, charters, bylaws or statutes	All		2/3 or ¾ supermajority
(l) Remuneration of board members	All		Simple majority
(m) Major corporate transaction (acquisitions, disposals, mergers, takeovers)	All		2/3 or ¾ supermajority
(n) Transaction(s) with related parties that are material	All		2/3 or ¾ supermajority
(o) Changes to company business or objectives	7 out of 8 allow	Armenia	2/3 or ¾ supermajority

Notes: 1. Changes have been made in Azerbaijan to legislation to make the pre-emptive right a default rule and have been sent to government for approval.

Source: OECD 2012 Survey of Eurasian Regulators. Regulators responded from: Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan.

One potential protection absent from the shareholder protection frameworks of all responding Eurasian countries is the use of voting caps for majority or controlling shareholders on any specific items at shareholder meetings. Voting caps are typically considered a protection for minority investors who might not be able to exercise any influence on issues that are of key concern to them. Detractors suggest that voting caps deviate from the principal of one-share-one vote and shareholder representation in direct proportion to share ownership.

Shareholder redress is another important issue. Shareholders throughout the region are able to seek redress if their rights are violated.

Table 3.8 Shareholder redress

Type of legal redress available to shareholders	Frequency	Exceptions
(a) Derivative Action	7 out of 8 permit	Ukraine
(b) Direct individual action	All permit	
(c) Class Action	7 0f 7l permit (Armenia did not reply)	
(d) Through the regulator acting on shareholder behalf	4 out of 8 permit	Armenia, Belarus, Tajikistan, Ukraine

Source: OECD 2012 Survey of Eurasian Regulators. Regulators responded from: Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan.

In addition to the above, six out of eight respondents permit minority shareholders to inspect the books and records of the company (Armenia, and Belarus do not). In the case of Ukraine the right to inspect is interpreted as a right to audit and is reserved to shareholders holding 10% of the company's shares and with the consent of the executive or the shareholders' meeting. Such audit is to be paid for by the minority shareholder.

Among the countries surveyed, all make insider trading illegal and provide for civil liabilities to offenders. Six of the seven respondents report fines for insider trading that range from USD 5 000 to USD 12 000. In Ukraine repeat offenders can be fined up to 300% of the gains generated from the insider trading transaction. Two out of six respondents reported the possibility of imprisonment for insider trading (Belarus and Azerbaijan) with sentences of 2 and 10 years respectively. However, no data were obtained on actual cases of successful prosecution against insider trading or other abuse of privileged information. The credibility of enforcement capacity against market manipulation is a key issue and vulnerability for the building of investor confidence in Eurasian markets, due to the greater ease with which share values can be manipulated in illiquid markets such as those in Eurasia.

The effectiveness of the regulatory framework for preventing abuse of related party transactions is considered to be a particularly important indicator of how effectively minority shareholders' rights are addressed. All respondent countries require disclosure of related party transactions (though, according to Table 3.8 above, not all require disclosure in the annual report). In about half of the surveyed countries thresholds for related party transaction disclosure are set. In some countries the thresholds are denominated as a nominal amount while in others the threshold is expressed in terms of a percentage of total assets. Here a low of 2% is cited in Armenia and a high of 30% in Tajikistan. A 30% threshold could be considered too high because it would effectively allow a major portion of corporate assets to be disposed of without triggering any disclosure.

In all cases (eight of eight countries) related party transactions must be approved by the board. Thresholds range from a low of 5% of total corporate assets in Azerbaijan to a high of 50% of assets in Kyrgyzstan. In most cases the general shareholders meeting can approve related party transactions once they exceed these thresholds. In either event, 50% of total company assets may set an unreasonably high threshold given that transactions of such size would likely result in a fundamental change to the nature of the business.

While the survey questionnaire did not address whether related party board members must abstain from voting on transactions in which they are involved, Moldova's regulator noted that its regulations require board members with an interest in a related party transaction to abstain from the decision. The issue of board voting on related party transactions and the particular role that independent board members might have in overseeing related party transactions may merit further consideration, requiring greater regulatory oversight, in particular given the history of related party abuses that occurred during mass privatization in some countries.

The responsibilities of the board

The minimum number of board members is specified in five of the respondent countries (Armenia, Azerbaijan, Kyrgyzstan, Moldova and Uzbekistan). Most set the minimum at three. Kyrgyzstan Armenia and Uzbekistan have a maximum board size of 11, 11 and 15 members respectively. Most often best practice suggests that smaller boards are better. However, boards can be too small as well. Clearly if a best practice board is to have a variety of experience and talents, if boards are to have the capacity for objective and independent judgement, and if boards are supposed to have specialised committees, then a board at the small end of the spectrum will not be able to deliver. The OECD survey focused on legal requirements; public information on the actual size of boards in the Eurasia region is not readily available.

Only Uzbekistan requires labour representatives on boards. Cumulative voting for the election of board members is permitted in all respondent jurisdictions with the exception of Azerbaijan where changes to legislation to permit cumulative voting have been sent to the government for approval. Of those reporting the right to cumulative voting, most (6) also indicate that cumulative voting is commonly used in practice. Five countries (Azerbaijan, Belarus, Kyrgyzstan, Moldova and Tajikistan) report term limits for board members. These range from one to four years. To the extent that term limits are not in place in the other countries, this may be an area requiring regulatory attention. While some countries have no limitation for the renewal, limits on renewals can serve to prevent the entrenchment of board members in other countries

Another area in which some limits may be called for is in the number of boards on which board members may serve. At present only Moldova limits its board members in the number of board positions they may hold (in this case to five). Excessive board memberships may not be as much of a problem in Eurasia as they are in some more developed capital markets. Furthermore, any potential regulation should avoid any action that might unduly diminish the potential pool of board members, in particular, independent board members. This being said, the problem of excessive memberships can emerge in future and may warrant attention.

With respect to board meetings, five out of seven respondents require quarterly meetings, i.e. four board meetings per year. Belarus has no direct requirement but can be understood to have a single meeting minimum because the board is required to elect the chairman of the board annually. For the group of countries as a whole, four meetings per year appear to be the commonly fixed minimum. None of the countries reported any limitations on the appointment of non-residents or foreigners to the boards of listed companies, and seven out of eight reported requirements to separate the position of the chairman of the board from the position of the CEO.

Table 3.9 Requirements on boards to vote and decide on specific issues

Boards are legally required to decide on:	Frequency	Exceptions
(a) Appointment and compensation of senior management	5 of 7 require	Belarus, Uzbekistan
(b) Review and adoption of budgets and financial statements	5 of 7 require	Ukraine, Uzbekistan
(c) Review and adoption of strategic plans	5 of 7 require	Belarus, Ukraine
(d) Major transactions outside the ordinary course of business	5 of 7 require	Armenia, Belarus
(e) Changes to the capital structure	3 of 8 require	Armenia, Azerbaijan, Belarus, Moldova, Ukraine
(f) Organization and running of shareholder meetings	All require	
(g) Process of disclosure and communications	4 of 7 require	Armenia, Belarus, Ukraine
(h) The company's risk policy	4 of 7 require	Belarus, Moldova, Ukraine
(i) Transactions with related parties	All require	

Source: OECD 2012 Survey of Eurasian Regulators. Regulators responded from: Armenia, Azerbaijan, Belarus, Kyrgyzstan, Moldova, Tajikistan, Ukraine and Uzbekistan.

The above table lists the minimum responsibilities of a board in a developed market jurisdiction. The OECD survey showed gaps between what boards are legally required to do in most developed markets and what they are expected to do in the Eurasia region. These findings may be cause for concern because: 1) boards are widely considered to be the principal tool for effecting good governance; 2) the findings suggest that the basic functions of the board are not well reflected in law; and 3) this also suggests that boards may not understand or fulfil their expected roles in practice. Concerns regarding the professionalism of boards have been corroborated both through the World Bank corporate governance ROSCs (even if dated) and anecdotal evidence.

With respect to the board committees that are required by law, the audit committee is the most prevalent being required in five out of seven countries that provided information (Kyrgyzstan and Uzbekistan do not). There is, however, concern regarding the use of "audit commissions" or "revision commissions".[13] These are a feature of companies in the former Soviet Union and elsewhere and are not true committees of the board. They are in fact composed of outsiders (not board members) who bear no ultimate responsibility for the performance of the enterprise.

The use of remuneration and nominations committees is comparatively rare. Mongolia and Ukraine stand out as the only countries that require all three. It appears that at times board committees are established purely to comply with legal requirements. The survey was not able to provide information on whether board committees are actually functional, or whether they are established purely for compliance reasons. Nor did the survey provide insight into the quality of their work.

Independent board members are not generally required (Armenia, Azerbaijan, Mongolia and Ukraine do). Azerbaijan and Ukraine set specific minimum numbers at one-third and 25% of the board respectively. In Mongolia recent changes to the company law require for the first time that the board be composed of one-third of independent

directors and that an independent member chair the audit committee. Armenia, Azerbaijan and Belarus report having definitions of board member independence embedded in law, regulation and/or listing requirements. With respect to the definitions of independence, in most cases they make reference to parties related to management and to shareholders, but less to employees of affiliated companies or individuals at companies having significant dealings with the subject company.

While the feedback from the respondents was not voluminous, there is cause to question whether current definitions of independence are sufficiently comprehensive and up to best practice in developed markets. A new consideration of definitions of independence must, of course, be put into the context of recent trends in developed markets to focus on a board member's capacity for objective judgement rather than a mechanistic application of checklist definitions. This is particularly true in countries where the pool of qualified candidates for board memberships may be limited and where perfectly qualified individuals may be rejected based upon a technicality.

State-owned enterprises and capital markets

Raising funds and increasing the economic efficiency of state-owned enterprises (SOEs) have been considered the main objectives of governments for privatisation. The development of national stock markets through public offerings has also been a significant factor influencing privatisation initiatives (Meggission and Boutchkova, 2000). Indeed, widespread privatisation transactions during the mid-1990s through stock markets provided the initial steps toward capital market development in the region.

However, actual developments fell somewhat short of expectations. According to studies, privatisation did not make a significant contribution to capital market development especially in Central Asian economies (Conrad, 2008). One of the reasons may be that a significant part of the state-owned assets were withheld from flotation. In addition, inadequate attention may have been paid to privatisation techniques that would have better taken into account shareholder/market expectations and supported the development of stock markets. This being said, the potential to use SOEs as a tool to further encourage capital markets still exists as a substantial number of enterprises remains under state ownership in many Eurasian countries.

During the last decade, the USD 11.7 billion worth of privatisation transactions in the region have not had significant effects on stock market development. The exception is Kazakhstan where companies such as Kazakhtelecom, BTA Bank, KazMunaiGas EP, Kazakhstan Mortgage Company, and Mangistau Electricity Distribution Network Company were listed on the exchange.

The largest ten privatisation transactions represent 73% of total transactions between 2000 and 2008. The use of direct sales, auctions or tender methods for most of these transactions meant that they tended to lead to concentrated ownership rather than wide share ownership within local capital markets.

Table 3.10 Privatisation transactions in Eurasia region, 2000-2008 (millions, USD)

Armenia	196
Azerbaijan	191
Belarus	328
Georgia	1 822
Kazakhstan	3 039
Kyrgyz Republic	2
Moldova	46
Tajikistan	1
Ukraine	5 924
Uzbekistan	71
Total	**11 620**

Note: The Database covers data on the sale price of privatisation transactions of over USD 1 million.
Source: World Bank Privatisation Database.

Significant recent developments in Kazakhstan's privatisation plan, called the "People's IPO Programme," appear to be a starting point for a new phase of efforts to use SOE IPOs to support capital market development in the region. According to the programme presented to the Government by Kazakh's "national welfare fund" Samruk-Kazyna, some of the largest SOEs' shares will be listed on KASE between 2012 and 2015. State oil transportation company KazTransOil will be the first company to be listed on the exchange with a 5-15% free-float ratio. The second phase of the programme will include national grid company KEGOC, the national airline Air Astana, the gas transportation company KazTransGas, shipping company Kazmortransflot and the state power asset management company Samruk-Energo. The third phase in 2014 will include Kazakhstan Temir Zholy and KazTemirtrans. Kazatamprom and Kazmunaigaz will be privatized in 2015.

Table 3.11 Ten largest privatisation transactions in Eurasia region (2000-2008)

Country	Year	Sector	Name	Amount in US$ (in millions)
Ukraine	2005	Competitive	Kryvorizhstal	4 800
Kazakhstan	2006	Energy	KazMunaiGas	2 300
Belarus	2008	Infrastructure	BeST	300
Kazakhstan	2000	Infrastructure	Ekibastuz Power Station 2	300
Georgia	2007	Financial	Building-constructions, Tbilisi	182
Azerbaijan	2008	Infrastructure	Azercell Telecom BV	180
Kazakhstan	2003	Energy	SNPS-Aktobemunaigaz	150
Georgia	2008	Infrastructure	Poti Sea Port Development	145
Ukraine	2004	Primary	Krasnodonvugillia	145

Source: World Bank Privatisation Database

Mongolia has also proposed an IPO programme that will feature retention of 51% of certain companies by the state, approximately one-third ownership by private shareholders and 10% ownership by the public and companies. However, this led to some people establishing companies simply for the purpose of obtaining partial ownership of state-owned companies, and so the government dropped the idea of providing ownership to the companies. However, the government is continuing to plan for an IPO programme.

In addition to Kazakhstan and Mongolia, the OECD survey indicates that Armenia, the Ukraine Exchange and Ukraine's PFTS have listed SOEs. These are the only exchanges to report any future plans to privatise SOEs through exchange listing.

Notes

1. FTSE categorises markets as Developed, Emerging, Secondary Emerging and Frontier, with the Frontier Index, currently covering 25 countries, established to signal the first step to being covered by an index. FTSE note on Kazakhstan: "FTSE placed Kazakhstan on the Watch List for admission to Frontier status in September 2008. FTSE continues constructive engagement with officials at the Kazakhstan Stock Exchange. One of the key outstanding issues requires reform of the T+0 settlement cycle to international standards." (FTSE, 2011).
2. The largest stock market in the region, Kazakhstan was the 47th largest market capitalisation as percent of GDP out of 97 economies in the world at the end of 2010 (World Bank Development Indicators). http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS
3. The number of companies in Ukraine for the year 2011 is 233 according to Ukraine NSSMC data.
4. Armenia, Kazakhstan, Kyrgyz Republic, Mongolia, Ukraine and Uzbekistan securities regulators are the regular members of the IOSCO. According to the IOSCO website list, the Kazakhstan Financial Supervision Agency which was consolidated under National Bank by a Presidential Decree dated April 2011 is the member authority from Kazakhstan.
5. FSB Key Standards for Sound Financial Systems can be found at the following web site: http://www.financialstabilityboard.org/cos/key_standards.htm
6. IFRS is required in Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic, and Mongolia; and permitted in Uzbekistan. Local translation is in use in Georgia and Moldova for listed companies (PWC, 2011). All listed companies, banks and insurance companies will be required to prepare their financial statements according to IFRS from the beginning of 2012.
7. Reasonably up-to-date Accounting and Audit ROSCs exist for many of the countries: Armenia (2008), Azerbaijan (2006), Belarus (2009), Georgia (2007), Kazakhstan (2007), Kyrgyz Republic (2008), Moldova (2004), Mongolia (2008), Turkmenistan (2009), and Ukraine (2002).
8. Moldova has two licenced stock exchange but one of them (Chisinau Stock Exchange) was not yet functioning as of the end of 2012.
9. The largest stock exchange of Russian Federation, the MICEX acquired the 50%+1 share of the PFTS in 2010.

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10. For instance, one of the criteria to be calculated in the FTSE Frontier Index is having a clearing and settlement period shorter than T+7 and greater than T+1. FTSE indicates this as one of the market infrastructure elements required by international institutional investors.

11. There are 10 stock exchanges in Ukraine. PFTS, Ukrainian Exchange, and Perspectiva control 98% of the market volume. PFTS is under the control of Russian Micex.

12. These data combine responses from the regulator and exchange surveys along with supplementary research.

13. Audit commissions are described in the EBRD's Corporate Governance Legislation Project (conducted principally in 2007). Subsequent EBRD reports including EBRD Southeast Europe (SEE) Bank assessments suggest that such commissions persist and are viewed locally as equivalent to a board audit committee.

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Chapter 4

Where to from here? Overall assessment

The 2012 OECD survey asked respondents to identify the challenges that Eurasian exchanges and regulators face in developing their markets in order to identify remedies and potential actions. Survey respondents were able to clearly describe the weaknesses and also the strengths within their respective markets. While each country operates under different circumstances, some of the strengths and many of the weaknesses are shared.

Table 4.1 Strengths and weakness in Eurasian capital markets

Key Strengths	Key weaknesses
➢ Established legal and regulatory frameworks even if some are in need of refinement	➢ Imperfections in the legal framework
➢ Some countries reported a significant number of market participants	➢ Limited number of market participants
➢ Growing and in some cases strong infrastructure	➢ Lack of infrastructure or insufficient development therein
➢ Emerging pension funds	➢ Local investment is limited to government bonds
➢ Presence of foreign operators such as NASDAQ OMX	➢ Low market capitalisation and liquidity
	➢ Limited fiduciary culture within boards and low awareness of capital markets among businesses and population
	➢ Low financial literacy
	➢ Disclosure and enforcement

Regulators and stock exchanges tend to assess strengths and weaknesses somewhat differently. Regulators are most likely to cite the need to improve regulation to bring it better in line with international standards. They also cite the need for better enforcement and implementation. Often mentioned is the need for greater co-operation with international organisations and donors. Exchanges on the other hand tend to cite the need for a better supply of companies and promotion of demand. Liquidity from investors is their main concern. Developing new instruments and stock exchange infrastructure is also mentioned.

Good corporate governance is recognised as an important part of the answer. Significantly, only one of the nine exchanges responding to the survey (PFTS) believes that a tightening of corporate governance standards and tougher enforcement would discourage local listings. Similarly, only PFTS believes that local companies would delist

or be dissuaded from going public if the exchange would raise its corporate governance requirements. This may be taken as a sign that good governance need not damage the local market. What seems to be important in judging the correct level of governance requirements is the ability of local enterprises to gradually adapt and comply.

Nor do exchanges feel that they compete based upon corporate governance requirements. This does not mean that there is no competition between exchanges; six out of nine exchanges feel that there is competition for listings with other regional exchanges and/or exchanges outside of the region. It does, however, suggest that the basis upon which exchanges compete is not regulatory or listing requirements. Much more likely competition is based on factors such as offering, market liquidity and the trading platform.

Good governance is recognised as an important factor but not a sufficient factor in the development of capital markets. Reforms need to be pursued simultaneously in a great number of areas for the capital markets to expand and flourish. Pension reform is expected to give impetus to the capital markets. Regional consolidation is also considered an important factor. Investors do not want to have to learn and obey a very large number of different and possibly contradictory rules and regulations. In fact, investors typically militate for an approach that is as standardised as possible. Almost all of the exchanges responding to the OECD survey supported harmonisation of listing and other requirements to the maximum extent. The one that did not felt that differentiation might be a source of competitive advantage.

Chapter 5

Conclusions and recommendations

Creating liquid and vibrant capital markets

The status of Eurasian markets: Representatives of Eurasian regulatory institutions, stock exchanges and other participants to the Eurasia Group on Corporate Governance for Capital Market Development share a belief in the importance of liquid and vibrant capital markets as a key ingredient for economic growth in the region. They also consider good corporate governance to be a critical factor to underpin such growth. However, the Eurasian capital markets have yet to reach a level sufficient to perform the key functions of: 1) providing an attractive alternative to bank funding; or 2) offering a secondary market in ownership. Capital markets remain underdeveloped with low capitalization and liquidity levels.

Developing overall strategies for capital market growth and the role of corporate governance: While good governance is recognized as an important factor in the development of capital markets, it is not a sufficient factor. Governments, regulators, stock exchanges and relevant stakeholders in the market need to take into account many factors in developing an overall strategy for capital market growth. Capital markets are systems. A variety of conditions need to exist for the system to work. Thus, reforms need to be pursued simultaneously in a number of areas for the markets to expand and flourish.

Institutional investors: The absence of liquidity is one of the principal stumbling blocks for Eurasian capital markets. The virtual absence of institutional investors in most if not all of the countries indicates that one of the key policy goals is not being achieved. Governments should actively facilitate the development of the institutional sector in Eurasian capital markets through pension reform, insurance companies, and investment funds. Domestic institutional investors are equally as important as foreigners. A strong presence of local investors is sometimes viewed as a prerequisite for foreign investors, because the locals ensure stable market conditions.

The role of corporate bond markets: Many companies do not like the loss of control associated with share issues. As a result, a first step to developing share markets is to stimulate the corporate bond market. International Financial Institutions should consider channelling money to companies in the form of bonds rather than in the form of bank lending. This could have a major effect on market development and prepare companies for eventual listing. While recognising that IFIs are generally minority shareholders and therefore do not exert overall control, IFIs are encouraged to promote better governance practices through their roles as shareholders, and through the board members that they elect.

Incentives: In order to encourage capital market development, attention needs to be paid to incentives. Until now, markets have been markets for corporate control rather than markets for cash. There is a need to attract companies in need of cash who are willing to undertake public offerings. Furthermore, stock exchanges are principally venues for trading; there is a need to pay greater attention to the role of market intermediaries such as investment bankers who bring IPOs to market. IFIs may play a role in encouraging local IPOs and the use of investment bankers as market intermediaries in cases where it makes good business sense for the company and development of local markets. Tax incentives may also be an important tool to encourage listings.

Disincentives to listing: Insisting on better governance need not be a disincentive for listing. Only one of nine Eurasian exchanges believes that a tightening of governance standards and tougher enforcement would discourage local listings. What seems to be important in judging the correct level of governance requirements is the ability of local enterprises to adapt and comply. Corporate governance requirements need to be ratcheted up over time as the market grows.

Educating market participants: The public is still largely unaware of the role of capital markets in the economy and how companies can access the capital markets. General financial training needs to improve, and awareness-raising and education is needed for issuers and investors. Universities have a role to play in building a wider understanding of corporate governance and capital market issues through their courses and possible sponsorship of corporate governance institutes, director training and research on these issues and their relevance to Eurasian markets. Online tools for training and discussion forums should also be developed. The role of the media needs to be explored in educating the public on the function of the capital markets. Institutes of directors also play an important role in sensitizing the business community to issues of good governance.

Enhancing the effectiveness of regulators and protection of shareholder rights

Enforcement: In some cases more mandatory rules are required. In others, the problem is less with the rules than it is with the enforcement of existing requirements. One of the areas that requires attention is better enforcement of disclosure.

Shareholder rights: The legal rights that determine shareholder participation in the affairs of the company appear to be largely in line with international practice, although it is not clear how effectively these are enforced. Two areas in particular that might merit some concern are proxy voting and pre-emptive rights, neither of which is as present in law as other shareholder rights. Some countries and their companies need to reconsider the legal requirements found in standard articles of incorporation; they are the fundament of good governance and may not be up-to-date with current good practice. A third issue that is important for minority shareholder rights is related party transactions, covered in more detail under the next section on disclosure, but which also involves issues related to review and approval processes.

Striking the balance: Excessive or opaque regulation dampens markets. On the other hand, a well-regulated capital market gives confidence to issuers and investors alike. There is a balance that needs to be struck, backed by a sound business case for how well-regulated capital markets can help companies to grow and profit. Countries must take care to avoid regulatory barriers that prevent growth. Markets need to be liberalized and open and avoid excessive regulation. While excessive regulation is a drag on market

development, the basic regulation that protects investors and issuers must be in place and must be enforced.

Regulatory independence: Various measures have been put in place to provide regulators with independence in setting policy. Independence can be seen through the regulator's ability to control their own budgets, in their ability to take operational decisions and hire staff. But there are doubts regarding the validity of these indicators. The 2012 Survey was unable to ascertain the degree to which regulators enjoy needed independence and the extent to which measures designed to promote independence work in practice. Further study may be required in this area.

Fines and penalties: Most Eurasian countries impose penalties for non-compliance with disclosure requirements that range from warnings and fines to a suspension of trading and eventual delisting. The level of fines, however, appears low and reports of delisting often have more to do with removing defunct companies from listing than imposing penalties. There is no evidence that fines and other penalties have a dissuasive effect. Regulators and exchanges should examine their fines and penalties to see if they are having their intended effect.

Enhancing the enforcement of corporate governance codes: The enforcement of governance codes by regulators and exchanges as well as the uptake of codes within companies appear to be weak. Companies find little incentive to comply with codes, and experience has shown that voluntary approaches are not always effective in encouraging better governance. One method of improving compliance is for regulators to enhance compliance monitoring. Another way is to make certain essential elements of codes are mandatory.

The role of stock exchanges

The infant industries argument: Most exchanges in the region are privately owned. But, private ownership has not translated automatically or directly into success. Government ownership may be a way of achieving crucial government support in early stages of market development, if the government is able to credibly demonstrate its commitment to high standards, non-intervention and a level playing field for all market participants. Government ownership was an important factor in the success of the Warsaw and Istanbul exchanges. The eventual privatization of a successful exchange may be part of the government's commitment from the beginning.

The independence of exchanges: Most Eurasian exchanges report that they operate independently and are able to engage in decision-making independent of government intervention. None report conflicts of interest with the state. On the other hand potential conflicts of interest can exist when private owners are simultaneously listed. Such conflicts of interest need to be scrutinized and exchanges must have structures and policies in place to manage them.

International collaboration: There is a global trend towards international consolidation of stock exchanges. Three of the biggest international players in the Eurasian region are the London Stock Exchange, NASDAQ OMX and Russia's MICEX. International collaboration can bring significant advantages to local exchanges including access to technology, financial and intellectual capital, standards and policies, and above all credibility. Consolidation and partnership are viewed positively, even if they are not a guarantee for success. Exchanges should explore such international partnerships to enhance their own capacity.

Incentives for staying local: A local listing helps companies gain experience with listing rules, develop a capital markets culture and prepare them for foreign listing. In the long run, there may be a danger that local companies will move most of their trading out. It was suggested that countries consider a minimum percentage of equity that must remain on the local exchange when companies pursue dual listings. Incentives should be developed for staying on local markets.

Enforcement of listing requirements: Stock exchanges have an obligation to enforce listing requirements seriously. If the stock exchange does not enforce, it damages the credibility and reputation of the markets. Thus, unless the stock exchange has enforcement capacity, more mandatory rules may not work and may even damage the stock exchange's credibility.

Explaining the benefits: There is a need to explain to a wide public the function of capital markets and the impact that governance has on markets and company performance. The utility of good governance is still not fully apparent to many companies. Initiatives need to show companies the benefits and business case for good governance. Programmes such as the IFC's corporate governance scorecard project can help to demonstrate how to apply codes and good governance to the benefit of companies.

SME listings: Many Eurasian SMEs need capital and are potential users of the capital markets. Different listing requirements have been suggested to cater to SMEs. Exchanges should examine the needs of SMEs and how these might be met by through an SME tier. Regulators and stock exchanges may need to adapt their rules to the ability of the SME to comply.

Improving transparency and disclosure

Accounting and audit standards: All of the countries in the region have engaged in significant reforms in the area of accounting and audit. International Financial Reporting Standards (IFRS) and International Standards of Accounting (ISA) are the benchmark standards, and enabling statutory reforms have been made. The profession is also in evolution as are professional accounting bodies. Nevertheless, it appears that there are significant differences in the quality of the financial reports of locally-listed companies compared to companies which have dual listings on major foreign exchanges. Convergence with international standards in practice should continue to be a top priority.

Accounting and audit institutions and processes: With respect to audit, there are indications that external audit services are of varying quality and that the independence of external auditors is not ensured. Local chambers of auditors have not generally been able to step into the self-regulatory role as effectively as they have in more developed markets. Governments need to perform their duties in licensing and regulating the audit process and overseeing the accounting and audit profession in a more credible and efficient manner.

World Bank ROSCs on accounting and audit exist for almost all of the countries in the Eurasia region. The ROSCs contain detailed analyses of the reporting framework and detailed recommendations for improvement. ROSCs are important guidance for governments and the accounting and audit profession. Securities markets regulators and stock exchange officials should also consult the ROSCs in order to identify their role and contribute to a concerted reform effort.

Non-financial disclosure: While the information required in annual reports generally compares well with world-class disclosure requirements, it focuses on financial disclosure. Some of the key areas in which non-financial disclosure need to be strengthened are: 1) corporate governance disclosures; 2) education and backgrounds of board members and executives; 3) the remuneration policies of companies including at minimum aggregated information on board and executive compensation; and 4) compliance with and deviations from national governance codes. Countries need to draw upon recognized international reference points such as the OECD Principles, securities markets standards of IOSCO and UNCTAD guidance on governance disclosure.

Related party transactions: Related party transactions, their monitoring and their disclosure are important issues in all Eurasian countries, due to the potential to favour controlling shareholders' interests at the expense of minority shareholders. A number of issues bear consideration including: the disclosure of related party transactions in the annual report as required by IAS 24; whether the threshold for disclosure as required by IAS 24 is sufficiently low to reveal conflicts of interest; whether the thresholds in legislation are sufficiently low; and whether company governance structures and policies are sufficient to prevent abusive related party transactions or to ensure that they occur at arm's length and in a transparent manner. In addition, laws make no mention regarding whether related party board members must recuse themselves from voting on transactions in which they are involved. Nor is there any mention of the particular role that independent board members might have in overseeing related party transactions. Both issues merit further consideration, and may be areas where greater regulatory attention is required.

More professional boards of directors

The roles and responsibilities of the board: Boards are legally required to fulfil certain functions. These functions and responsibilities are typically laid out in law. In some cases the legal requirements of boards fall short of what is expected in developed capital markets. These findings are cause for concern because: 1) boards are considered to be the principal tool for affecting good governance; 2) the basic functions of the board are not well reflected in law; and 3) boards may not understand or fulfil their expected roles in practice. Legal requirements of boards need to be updated in some cases. This should be accompanied by efforts to increase understanding of the boards' purpose, the link between corporate governance and achievement of a company's business strategy, as well as better enforcement of legal and regulatory requirements.

Board practices: There are clear indications that board practices need to improve. Concerns regarding the professionalism of boards have been corroborated both through the World Bank corporate governance ROSCs and much anecdotal evidence. However, board professionalism should not be misinterpreted to mean micro-management of the day-to-day operations of the company, but rather to ensure the skills and capacities to effectively address such important board functions as reviewing strategy, resources, risk and oversight of management. Boards need to improve in virtually all of the areas typically covered in codes of best practice. What constitutes good board practice needs to be better communicated through a concerted effort of exchanges, regulators, institutes of directors, donors and the markets. Codes of ethics also provide a useful reference to reinforce board integrity. Boards need to make a better effort to inform themselves of governance issues and should, at a minimum, put corporate governance on the board agenda for discussion.

Board member independence: The concept of independence on boards appears to have made limited inroads. Some Eurasian laws set a minimum number of independent board members, but such requirements also pose a risk of focusing excessive attention on the formalistic requirements for board independence rather than seeking out professionally competent directors with a capacity to exercise objective and independent judgement regardless of their affiliations. There is little information on whether independent board members are having an impact on board deliberations, and whether insiders and shareholders appreciate their value. The number of qualified candidates is also limited. More training is required for potential board candidates to prepare them to act as independent directors. A director's pool or data base with directors certified to have completed training may also be useful. The exchange of independent directors between countries within the Eurasian region is another way to generate a supply of independent directors since linguistic and cultural background may be shared. NGOs/IODs may be contacted to suggest independent board members to companies.

Audit (or revision) commissions: Revision commissions share some of the responsibilities of an audit committee, but are constituted by non-board members. Some Eurasian countries view revision commissions as equivalent to the audit committees typically suggested in codes of best practice. Audit commissions are no substitute for audit committees. Revision commissions ultimately owe no duty of loyalty or care to the company. Boards should establish audit committees that are constituted exclusively of board members, while also maintaining the authority to make use of outside expert advisors when necessary. Ideally such committees would be fully staffed by independent board members.

State-owned enterprises and the capital markets

State-owned Enterprise Listing: There has been a re-emergence of interest in partial listings of state-owned enterprises (SOEs) in some Eurasian countries. Plans for such initiatives exist; however, progress is halting. As is usually the case, even partial privatization is a politically sensitive issue. Such listings could benefit Eurasian countries and their capital markets, but not in the way that it was done before. SOE listings if handled effectively and equitably, accompanied by high corporate governance standards, are still considered as one of the best opportunities to develop the critical mass necessary for markets to grow. Listings can also be the most transparent and safe way of gradually privatizing SOEs. Public share sales are a proven technique that can be highly effective, especially if done in limited tranches.

SOE governance: The governance of SOEs in many countries requires attention. Some of the classic problems associated with SOE governance are inefficient operations due to the greater importance attributed to social and political outcomes than economic outcomes. Furthermore, SOE boards are often subject to patronage and state owners generally have limited capacity to exercise strong shareholder oversight. Governments should assess their governance practices with a view towards enhancing SOE performance. A key reform may be to create special shareholder oversight units within the state to help the state in the exercise of its shareholder duties. Improvements in governance hold the promise of greater efficiency and may improve the returns to the state in the event of a future listing or privatization.

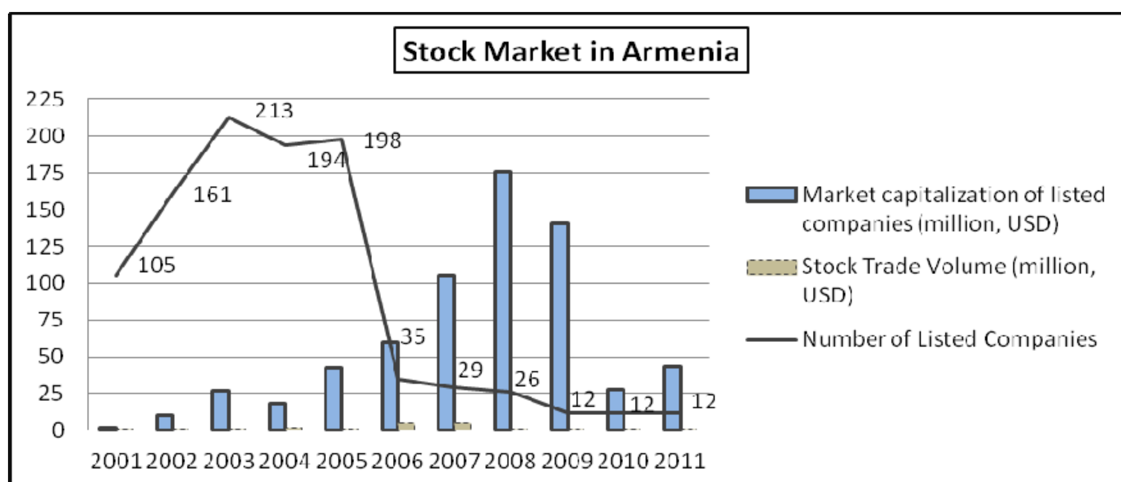
The role of international financial institutions and other donors

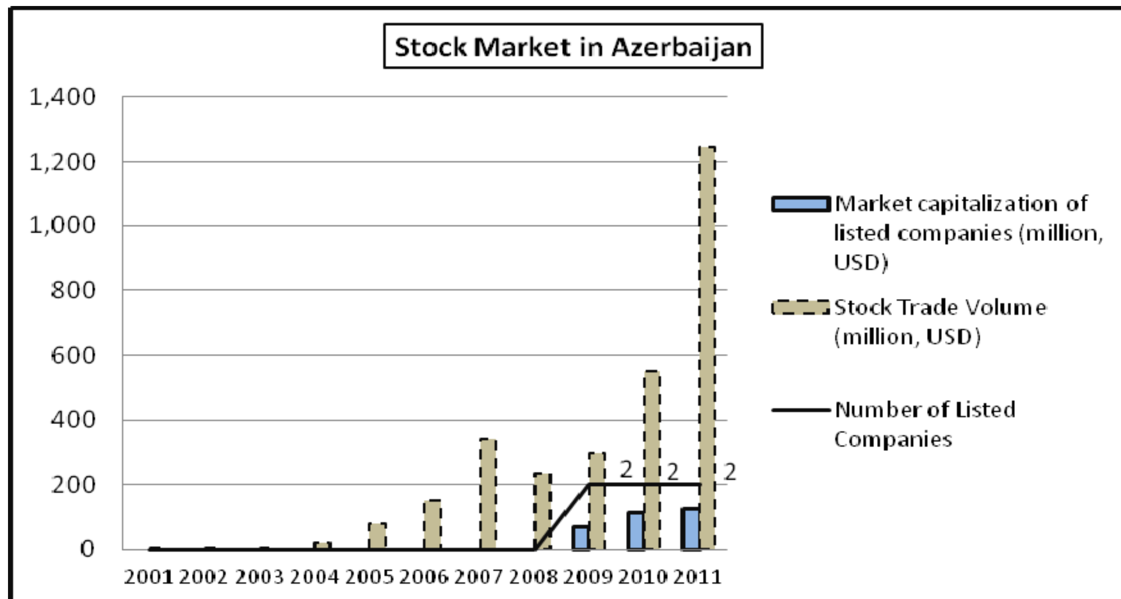
Co-ordinated promotion of good governance: Better coordination of reform efforts is a shared goal but is sometimes lacking in practice. At a minimum, information-sharing should be enhanced between the various institutions that promote governance reform. Regular meetings to exchange information should take place that include international and regional organisations such as the OECD, IFC, EBRD, ADB, and FEAS as well as institutions such as the Turkish Capital Markets Board and the Istanbul Stock Exchange. The Eurasia Group also welcomes the Development Finance Institutions' 2011 initiative to adopt a Corporate Governance Development Framework, signed by 29 DFIs including the IFC, ADB and EBRD, establishing an agreed framework for integrating corporate governance criteria into investment operations involving both lending and equity participation in companies.[1]

1. See http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Corporate+Governance/CG+Development+Framework/

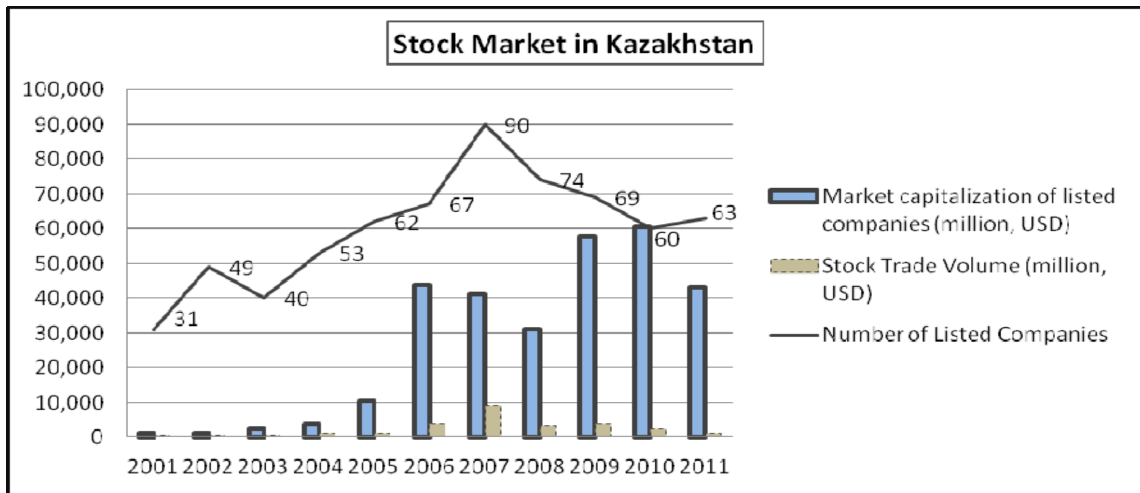
Annex A

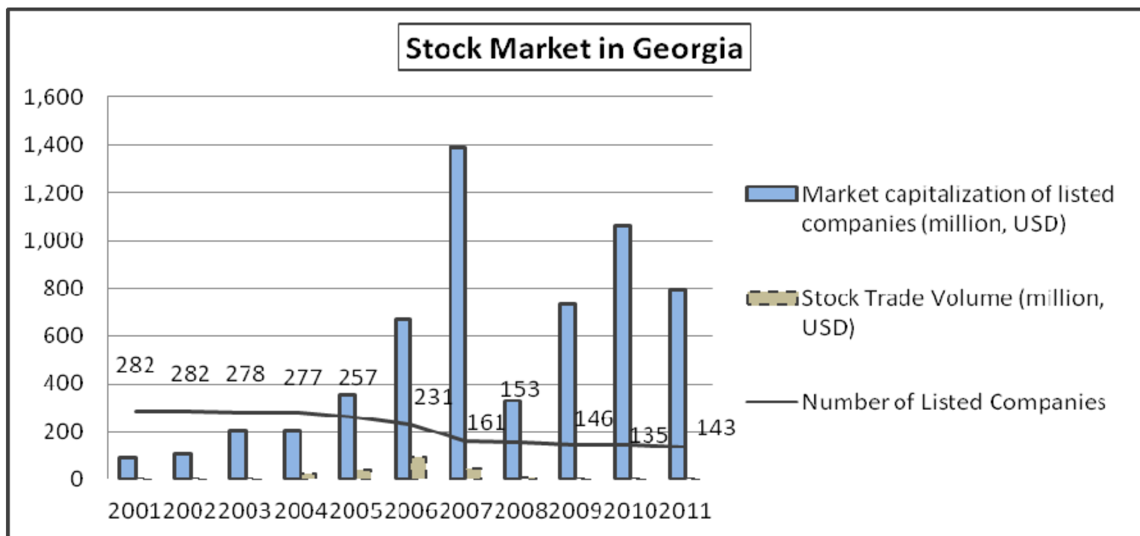
Stock markets in Eurasia

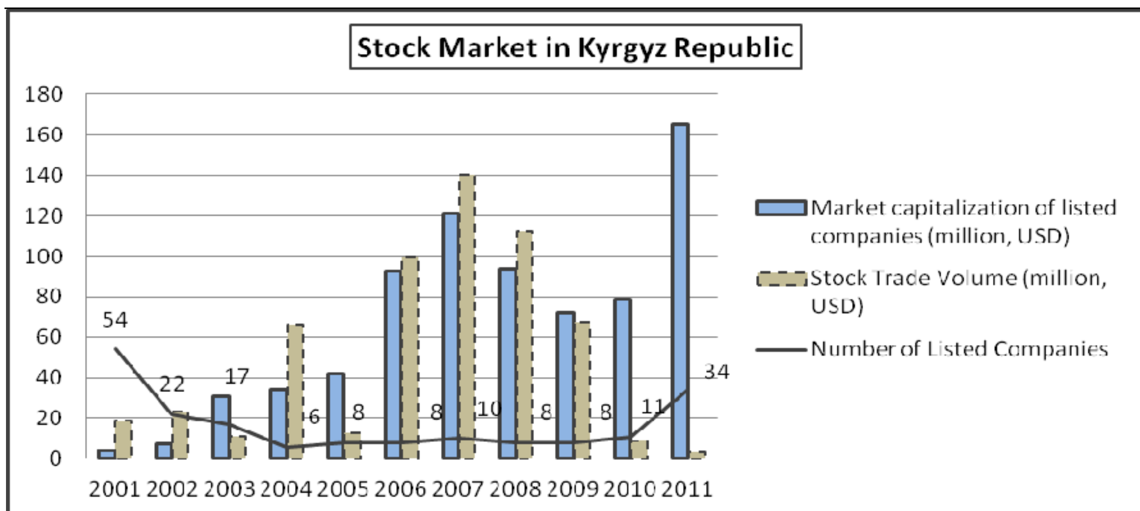


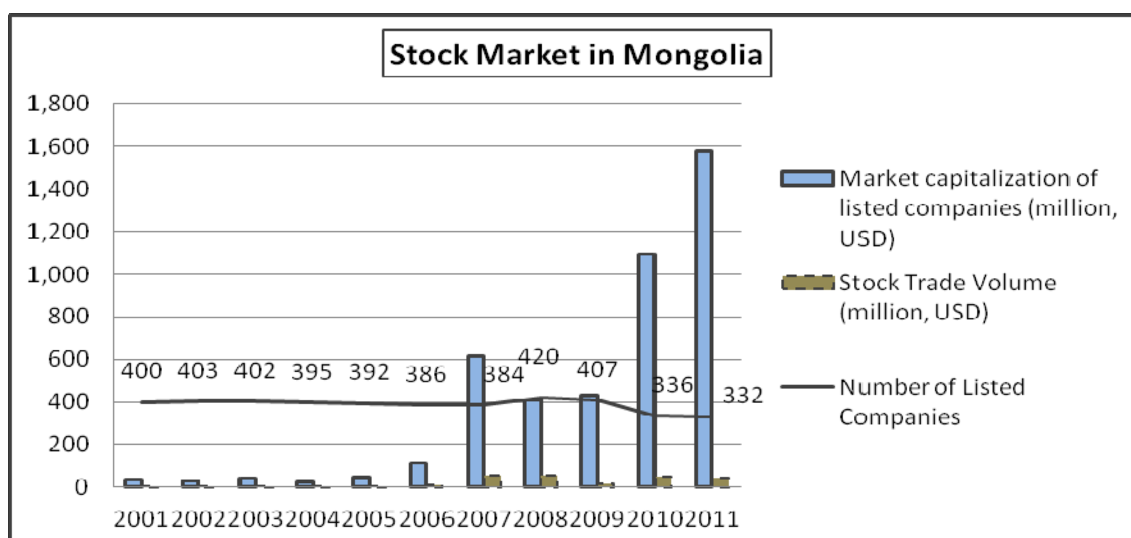


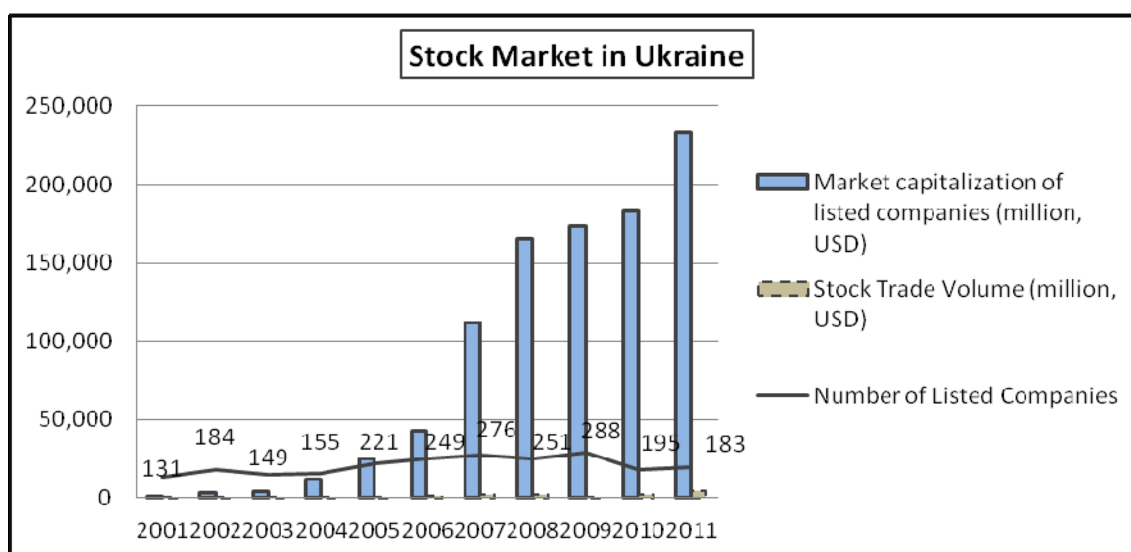
Note: Stock trade volume figures include third tier listed companies (known as pre-listed companies). Other Azerbaijan data are for first tier listed companies only.

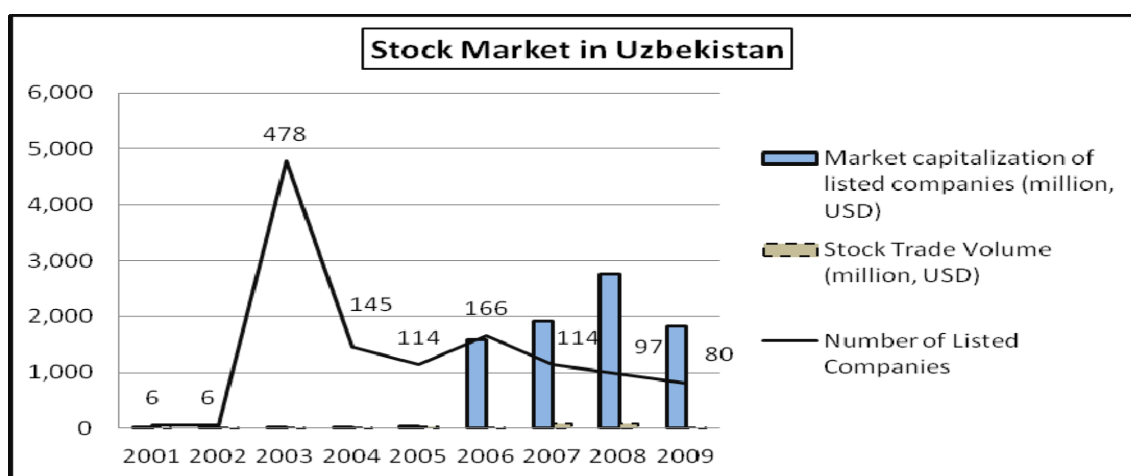

Stock Market in Kazakhstan
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
31
49
40
53
62
67
90
74
69
60
63
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Market capitalization of listed companies (million, USD)
Stock Trade Volume (million, USD)
Number of Listed Companies


Stock Market in Georgia
1,600
1,400
1,200
1,000
800
600
400
200
0
282
282
278
277
257
231
161
153
146
135
143
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Market capitalization of listed companies (million, USD)
Stock Trade Volume (million, USD)
Number of Listed Companies


Stock Market in Kyrgyz Republic
180
160
140
120
100
80
60
40
20
0
54
22
17
6
8
8
10
8
8
11
34
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Market capitalization of listed companies (million, USD)
Stock Trade Volume (million, USD)
Number of Listed Companies







Source: Based on data from World Bank, FEAS and national stock exchanges.

Annex B

Stock exchange infrastructure in Eurasia

Country	Stock Exchange	Instruments	Central Depository	Settlement Period	Restriction to Foreign Investors
Armenia	Nasdaq OMX	Stocks, Corporate Bonds, Government Bonds, Repo, Foreign Currency, Interbank Credit	Yes	T+0	No
Azerbaijan	Baku Stock Exchange	Treasury Bonds, Central Bank Notes, Stocks, Corporate Bonds, Repo	Yes	T+0	No
Belarus	Belarusian Currency and Stock Exchange	Stock, Currency, Futures	Yes	T+0	No
Georgia	Georgian Stock Exchange	Stocks	Yes	T+1	No
Kazakhstan	Kazakhstan Stock Exchange	Stocks, Bonds, Foreign Exchange, Derivatives, State Securities	Yes	T+0	No
Kyrgyz Rep.	Kyrgyz Stock Exchange	Stocks, Bonds, Treasury Bills	Yes	T+3	No
Moldova	Moldovan Stock Exchange	Stocks	Yes	T+3	No
Mongolia	Mongolian Stock Exchange	Stocks, Government and Company Bonds	Yes	T+1	No
Ukraine	Ukrainian Exchange	Stocks, Bonds, Options	Yes	T+5	Yes
Uzbekistan	Tashkent Republican Stock Exchange	Stocks	Yes	T+5	Yes

Source: Federation of Eurasian Stock Exchanges and country survey responses.

Annex C

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Corporate Governance

Capital Markets in Eurasia

TWO DECADES OF REFORM

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