



صندوق النقد العربي
ARAB MONETARY FUND

Guiding principles for Supervisory Authorities Handling Crises Implications on the Capital Markets in the Arab Countries

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Introduction

The world is witnessing the development of the outbreak of the Corona virus (COVID-19) and its implications on the economies and the financial markets. The global financial markets have been greatly impacted by the pandemic, recently reflected by the large fluctuations in the volume of transactions and indicators of the financial markets. This has posed a challenge for the decision makers on how to handle these implications and provide the necessary protection for stock market dealers. Since the financial markets are considered to be the mirror that reflects the economic situation, these markets were naturally affected by the negative expectations of all economic sectors, due to the fallout of this pandemic. Although there are some differences, this scene represents a state of crises that the world has seen in the past and is expected to replicate in the future, which casts a shadow on financial markets.

Based on the general purposes of Securities Commissions, consisting mainly in providing a proper investment environment, protecting investors' rights, establishing the foundations for sound market operations, promoting an environment that attracts investors, providing the means and systems and issuing rules that guarantee the efficiency and transparency of these markets, Securities Commissions in the Arab World have established a set of procedures and measures, with the aim of addressing negative implications of economic crisis left by the pandemic on their financial markets. Efforts also focused on accelerating the transition to digital financial services, encouraging the construction and development of electronic trading platforms, with a special focus on reinforcing disclosure policies and strengthening financial infrastructure to enhance the safety and efficiency of financial market transactions.

In light of the above, and in the framework of the Arab Monetary Fund's effort to achieve one of its objectives of developing the financial sector, and in line with the existing cooperation with the Arab Markets and Securities Commissions, and to monitor sound practices, this guide has been published to support Supervisory Authorities in the Arab region to handle COVID-19 crises implications on the Capital Markets in order to maintain the continuity of their operations. The guide is a model of the best practices adopted in the Global financial markets, as well as the Arab markets. It is also considered as a dynamic document, that can be improved in line with the objectives of the supervisory authorities to achieve stability and efficiency in operating Arab Capital markets.

Guiding principles for Supervisory Authorities Handling Crises Implications on the Capital Markets in the Arab Countries

Principle (1)

Directing the Securities Commission's policies and procedures to stimulate the investment environment and its attractiveness while maintaining the integrity and continuity of the work of the listed companies, ensuring the rights and protection of investors and preventing markets from incurring excessive losses from panic and high levels of uncertainty during a crisis period.

Principle (2)

Establishing a permanent crisis management committee with extensive tasks and responsibilities as an important component of Securities Commission governance structure, to deal with the current crisis and any emerging future crises. Tasks include taking the necessary measures and actions to support the integrity of the financial market's operations. This committee represents a connecting body for cooperation with other crisis management committees that would be established by other national official regulators, such as the central bank.

Principle (3)

Considering temporary measures to regulate dividends in coordination with relevant stakeholders during the crisis period, in a way that leads to join efforts to support economic and financial stability and protect the rights of all parties.

Principle (4)

Considering suspension of disbursement of bonuses to the Board of Directors' members and its subcommittees in coordination with relevant stakeholders in periods of crisis and take any further appropriate additional measures that enhance confidence in the Capital markets.

Principle (5)

Reviewing requests of listed companies to increase their capital by issuing new shares and subscription rights, and considering the possibility of postponing such request, as deemed appropriate.

Principle (6)

Advising stakeholders to consider whether to proceed or to postpone the privatization of any companies during the crisis period, in accordance with the market conditions.

Principle (7)

Encouraging companies operating in the same or similar sectors to merge in order to maintain their continuity and competitiveness, especially those whose financial conditions have been adversely affected by the crisis.

Principle (8)

Coordinating with the concerned parties to review and adjust, as necessary, the daily fluctuations of the stock market with the aim of protecting the market from these fluctuations until the situation improves.

Principle (9)

Establishing controls that enable Capital market Authority to suspend transactions for a certain period (during trading day), in the event of a decline in the price index by a percentage that exceeds the limit determined by market regulators, in coordination with all relevant concerned entities.

Principle (10)

Considering adjustment of number of daily trading hours for a specific period, as necessary in coordination with relevant Capital market entities in order to ensure that market continuity is highly efficient.

Principle (11)

Considering the possibility of postponing the collection of penalties imposed on listed companies during periods of crisis, provided that they are collected after the end of the crisis.

Principle (12)

Reviewing the impact of short selling on the functioning of the market, and takes the necessary measures, as needed, to make adjustments, until the conditions improve.

Principle (13)

Licensing, activating and promoting market-makers is essential in balancing market operations.

Principle (14)

Facilitating the procedures for listed companies to purchase their shares in the event of decline in prices to a record levels (treasury shares), in coordination with the concerned supervisory authorities of financial and banking institutions as well as listed companies.

Principle (15)

Issuing, in coordination with the relevant authorities, circulars and instructions regulating listed companies in order to take the necessary actions to ensure continuity of operations during the crisis period.

Principle (16)

Directing the listed companies to hold general meetings on time and online, and to take advantage of the technological innovations that enable shareholders to participate in its deliberations and vote on the decisions. The listed companies should take the necessary action to facilitate the shareholders' participation.

Principle (17)

Encouraging brokerage and financial services companies to open digital investment portfolios to facilitate transactions processes and reduce administrative costs.

Principle (18)

Consulting with brokerage and financial services companies on reviewing the list of commission, to ensure their suitability during the crisis period, and to encourage dealers to continue checking and reviewing the trading commissions.

Principle (19)

Advising tax authorities during times of crisis, to consider reviewing securities taxes, including profit taxes, and to amend the regulation, as needed, to encourage the capital market sector.

Principle (20)

Consulting with the Central Bank on the suitability of rescheduling the payments of bank loans due by listed companies without additional costs.

Principle (21)

Consulting with the Central Bank and relevant supervisory authorities, to consider during the crisis, establishing a dedicated fund to provide financial support with appropriate terms to the economic sectors of the most affected listed companies.

Principle (22)

Stressing the importance of the role of the Board of Directors of listed companies in implementing governance principles, especially those related to disclosure and transparency during the crisis period and beyond, ensuring the provision of accurate and timely information on the impact of the crisis on the listed company, especially on financial position, as well as the forecasted impact of the crisis on the company to ensure the protection of investors and dealers.

Principle (23)

Reviewing, in coordination with the relevant regulatory and supervisory authorities, the regulatory framework for the issuance and participation in medium and long-term government securities in local currencies such as bonds, instruments, etc. The Securities Commission should extend the publication of secondary market operations prices for such securities and publish indicative prices in the event of non-activity of the secondary market, which shall serve to activate the trading of these securities in light of the challenges of resorting to foreign markets during the crisis.

Principle (24)

Working to diversify and expand the investor base in government securities, by developing regulations and infrastructure that facilitate attracting new segments of investors other than banks, such as individuals and pension funds. It also aims to promote awareness of these tools and their methods of trading and how to evaluate and price them to make them accessible to all.

Principle (25)

Releasing instructions governing the rules and procedures of financial infrastructure systems in issuing, trading, clearing, settlement and custody of securities, to ensure reduction of operational risks and the safety and efficiency of these systems as well as their ability to cope with the implication of the crisis, especially in the areas of cyber-security and combatting electronic financial crimes.

Principle (26)

Promoting a digital transformation in the activities of the Arab Capital markets by encouraging the adoption of new technologies that enhance the efficiency of securities, clearing and the instant payment and settlement of transactions.

Principle (27)

Examining the possibility of establishing customized stock trading platforms for small and medium-sized enterprises as well as Start-ups, on appropriate terms, to help provide funding sources for these companies.

Principle (28)

Working in collaboration with relevant financial regulatory and supervisory authorities to strengthen alternative financing schemes by developing regulations that suit the different maturity stages of alternative finance products in the local market, focusing on consumer protection, strengthening financial infrastructure and coordinating the development of legislation on services associated with alternative financing tools such as online payments, digital portfolios, open transactions applications, and others.

Principle (29)

laying down plans, instructions and procedures that encourage innovation in the field of financial market solutions, services and products in coordination with relevant financial supervisory and regulatory authorities

Principle (30)

Adopting an action plan to prepare for the post-crisis period, in terms of timing and progression in the suspension of the tools and mitigation measures taken, the rapid resume of the economic cycle and the maximization of the recovery effect.

Principle (31)

Working during the crisis to intensify coordination and cooperation with relevant supervisory authorities internally and externally, with the aim of exchanging experiences and information on how to deal with the crisis and its implications and ensure coordination on the taken actions.

Principle (32)

Working to strengthen financial awareness and community outreach during crises, in order to mitigate the negative effects of speculation, and to coordinate with relevant supervisory authorities to continuously reassure investors. This process should enjoy credibility and transparency, thereby boosting the confidence of investors and all dealers in the supervisory authorities and Capital markets during times of crisis.